



# **ITOEN** INTEGRATED REPORT 2018



We love Nature

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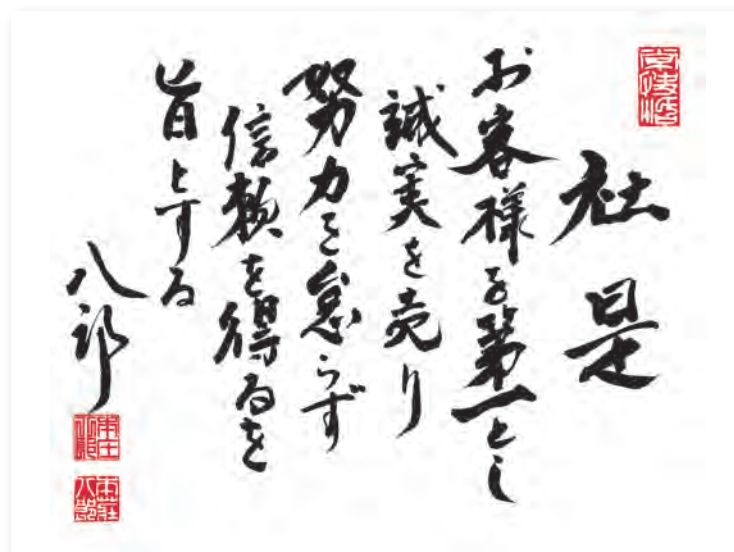
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## Definition of “our” customers

- Consumers
- Shareholders
- Retailers
- Suppliers
- Financial institutions
- Local communities

## **ITO EN** Group’s management principle

# “Always Putting the Customer First”

“Always Putting the Customer First” is the ITO EN Group’s management principle, representing the fact that the foundation of business management at ITO EN is our commitment to placing importance on each and every customer.

We regard everyone involved with the ITO EN Group as our customer. Customers mean consumers, retailers, suppliers, shareholders, financial institutions and local communities and we earnestly strive to address our customers’ needs through the opinions and requests we receive, and by always using the perspective of our customers as the foundation of our management strategies.

At the ITO EN Group, we currently have a long-term vision of aiming to become a “Global Tea Company.”

To achieve this objective, we commit ourselves to further growth through the concerted efforts of all of our employees in Japan and overseas by such means as strengthening the domestic profit base, improving the collective brand capabilities of the Group, and creating synergy, as well as expanding overseas business and establishing new growth areas.

Hachiro Honjo, Chairman of the Board and CEO

Daisuke Honjo, President

## TOP MESSAGE

President  
ITO EN, LTD.

*Daisuke Honjo*

# Aiming for Sustainable Corporate Growth

## Becoming a good, global company and spreading Japanese food culture and technology

### From Japan's No.1 tea manufacturer to "Global Tea Company"

The ITO EN Group entered the beverage business in 1980 with the development and launch of the world's first canned oolong tea, a sugar-free, tea-based beverage. Working based on our product development concept of "natural, healthy, safe, well-designed and delicious" and paying particular attention to our raw materials, we have introduced numerous innovations and solidified our foundation as Japan's No. 1 tea company; with a central focus on leaf tea, *matcha* (powdered green tea) and tea-based drink products.

Moving forward, the ITO EN Group will continue working together with all of its stakeholders—including consumers, shareholders, retailers, suppliers, financial institutions, local communities and Group employees—to resolve social issues through its business operations and increase its corporate value, based on its management principle of "Always Putting the Customer First."

Over half a century has now passed since our initial founding. Looking ahead, we will seek to achieve long-term sustainable growth, with a view to becoming a "Global Tea Company," and aim to be a company that continues to be needed by society for the next 100 or 200 years.

### Financial highlights (consolidated)

		Units	Fiscal 2017 (actual)	Fiscal 2018 (planned)
<b>Net sales</b>		(100 million yen)	4,947	5,078
<b>Gross profit</b>		(100 million yen)	2,339	2,396
<b>Operating income</b>		(100 million yen)	220	230
<b>Ordinary income</b>		(100 million yen)	214	225
Management indicators	<b>Gross profit ratio</b>	(%)	47.3	47.2
	<b>Operating income ratio</b>	(%)	4.5	4.5
	<b>ROE</b>	(%)	9.0	9.5
	<b>Total return ratio</b>	(%)	48.5	40% or higher

## 1 REVIEW

### Review of fiscal 2017

In terms of the social environment, competition in the beverage industry is intensifying further, owing to factors such as Japan's declining birth rate, population aging, and a continuing strong-rooted trend towards budget-mindedness amongst consumers.

Fiscal 2017 marked the first year of our new medium- to long-term management plan, and during the year we strengthened our efforts further in terms of both product development and sales activities, aiming to improve profitability with a view to achieving sustainable growth.

In terms of consolidated business results for the fiscal year ended April 2018, ITO EN posted net sales of 494,793 million yen (up 4.0% year on year), operating income of 22,043 million yen (up 1.2%), and ordinary income of 21,441 million yen (down 0.4%). Profit attributable to owners of parent stood at 12,553 million yen (down 8.3%).

## 2 VISION

### Aligning our thoughts with a view to achieving our medium- to long-term management plan, and challenging ourselves to achieve record profits

Fiscal 2018 is the second year of our medium- to long-term management plan. We regard this year as a stage to aim for further growth and record profits, and are continuing to work together as a team, with the ultimate goal of achieving our long-term vision of becoming a "Global Tea Company", and with a priority focus on the following four key areas.

First, the Group is seeking to further enhance its domestic operations. In addition to intensifying its sales visits to existing customers and working to secure more new customers, ITO EN will also seek to bolster sales of its main brands, focusing primarily on *Oi Ocha*, with the aim of increasing its market share.

It will also aim to increase and diversify its core business operations, such as by expanding the number of its brands with annual sales in excess of 10 million cases from four to six, and continue working to increase profit ratios by improving profitability and increasing productivity.

Second, the Group is bolstering the development and expansion of its overseas business operations. With a central focus on the North American and Chinese markets, ITO EN will seek to achieve double-digit growth by bolstering sales of leaf tea (tea bag) and *matcha* products, centering around the ITO EN global brand.

The Group has set itself the target of securing the No. 1 market share for green tea both in Japan and overseas, and is seeking to expand and increase group synergies by collaborating with overseas Group companies in order to accomplish this.

Third, the Group is working to enhance the level of its ROE-based corporate management, and will aim to achieve a higher total return ratio by continuing in its efforts to improve profitability and capital efficiency.

Fourth, the Group is promoting a policy of sustainable business management, with a conscious emphasis on CSR and CSV (creating shared value). In addition to conducting CSR activities utilizing its world-standard core business operations, the Group will also implement CSV initiatives, with the aim of simultaneously resolving social problems and accomplishing new achievements through its business activities.

Through these efforts, as it heads towards its goal of becoming a "Global Tea Company", the Group will aim to achieve the following numerical targets by the fiscal year

ending April 2022: consolidated net sales of 600 billion yen or more, a return on equity (ROE) of 10% or higher, and a total return ratio of 40% or higher.

## 3 INNOVATION

### Refining our strengths and attempting to deliver new innovations

In its flagship green tea business, ITO EN has built its own unique single value chain system encompassing everything from product planning and development to procurement, production and logistics, sales and distribution. By working in cooperation with stakeholders to resolve social issues, we create value through our business operations at each and every one of these stages.

In product planning and development, the Group is responding to the global increase in health-oriented attitudes by driving the development of health-conscious products. Sugar-free products account for approximately 70% of all ITO EN drink product sales, including tea-based beverages, and we are making effective use of this advantage in strengthening our strategy of proposing healthy lifestyle choices.

The Group is also enhancing its R&D capabilities. In a triple joint R&D effort between ITO EN, SHIMADZU CORPORATION and the University of Tsukuba venture company MCBI (Molecular and Clinical Bioinformatics) Inc., we will be conducting clinical trials on patients with mild cognitive impairment (MCI)—the stage prior to the onset of actual dementia—in order to evaluate the effects of *matcha* in curbing the decline of cognitive functions. Through this research project, we will aim to contribute to preventing dementia, which is becoming a serious social problem.

In procurement, the Group is continuing its efforts in the Tea-Producing Region Development Project, working together with tea farmers and public administrative agencies to develop efficient, large-scale tea plantations and support the growing of tea; a vital raw ingredient for the Group's operations. We have also commenced various initiatives in the field of environmental conservational agriculture, and are promoting efficient farm management, such as in the effective utilization of tea plucking machines in the harvesting of raw materials for *Aojiru* (Green Juice) during the agricultural off-season for tea in certain regions.

In production, the Group has made effective use of its unique Used Tea Leaves Recycling System. In 2018, in a joint effort with sports equipment and sportswear manufacturer MIZUNO Corporation, ITO EN developed the Field Chip "Greentea" filler material for synthetic turf; the composition of which includes used tea leaves produced as a byproduct during the manufacture of *Oi Ocha*. The filler has the effect of suppressing increases in surface temperature, and is expected to be introduced at recreation grounds at sports facilities, and see use in an even wider range of locations in the future.

Moving forward, we will continue to refine our strengths at all stages of our entire value chain, and attempt to deliver new innovations as we work to tackle various social problems.

## 4 CHALLENGE

### Expanding opportunities and decreasing risks

#### ■ Expanding business opportunities

Due to factors such as the global increase in health-oriented attitudes, the Japanese food boom and the growing popularity of *matcha*, export volumes of green tea have

increased by almost triple over the past 10 years. Moreover, according to forecasts by the FAO (the Food and Agriculture Organization of the United Nations), global green tea trading volumes are predicted to increase by 310,000 tons over a 10-year period (starting in 2013).

As a leading tea company, the ITO EN Group regards these developments as a favorable opportunity, and is seeking to technologically refine its tea and *matcha* products, and deliver them to the world as a prime example of Japanese lifestyle culture. We will also continue to propose new appeal, value and ways of enjoying tea, and to communicate the health-promoting benefits of tea.

By deploying our products in a unique way, made possible only by leveraging the raw materials procurement capabilities and manufacturing technological capabilities of ITO EN, we will aim to further increase the brand value of *Oi Ocha*, and to achieve our medium-term annual sales target of 100 million cases.

With regard to our overseas operations, in addition to bolstering sales by adopting a unified label design and localized language labelling for *Oi Ocha*, we will also seek to expand our overseas business by strengthening deployment of our global *ITO EN MATCHA GREEN TEA* brand, which was launched in 2015.

Looking ahead, the ITO EN Group will aim to further establish its brand—evolving from “Japanese tea company ITO EN” into “international brand ITO EN”—in order to become more widely recognized as synonymous with Japanese tea, and to propose healthy and enriched lifestyles to customers around the world by making maximum effective use of its strengths both in Japan and overseas.

**■ Enhancing risk management**

It is also necessary for the Group to develop a business model that is capable of responding to various risks as we seek to establish a solid foundation for our domestic business operations and expand globally.

As a response to raw material procurement risks due to declining food self-sufficiency ratio and other domestic agricultural issues, ITO EN is advancing its Tea-Producing Region Development Project (new tea plantation business): utilizing abandoned farmland to develop new large-scale tea plantations in collaboration with tea farmers and public administrative agencies in order to maintain stable procurement of high-quality raw materials (crude tea, etc.) in Japan. A similar initiative is also underway in Australia.

ITO EN response to market and competition-related risks is through customer service, with a central focus on route sales. We are working to provide products that match the specific needs of customers and making frequent, finely tuned sales visits, in order to combat risks such as falling prices and intense competition over market share.

We will also seek to develop our risk management framework and take appropriate risk management measures against various risks relating to issues such as compliance, information security, quality, the environment, asset preservation, disasters and accidents.

**5 SUSTAINABILITY**

**Aiming to achieve sustainable growth based on ESG**

From as early as fiscal 2011, the ITO EN Group had introduced the ISO26000 international standard, and has since utilized it in promoting CSR through its core business operations. From amongst the seven core subjects of this international standard, the Group has identified three priority themes where it can make effective use of its strengths: the environment, consumer issues and community involvement and development; and is working to implement CSV (i.e.

creating shared value) in these areas through its business operations.

In working towards the realization of a sustainable society, and also in aiming to achieve long-term sustainable growth as a company, there are growing needs and expectations to tackle ESG (environment, social, governance) issues.

ITO EN accurately regards environmental and social issues based on global standards such as the Sustainable Development Goals (SDGs) and the Paris Agreement, and is advancing its ESG initiatives by seizing opportunities and working to reduce risks with regard to these issues, and taking a thorough approach to corporate governance.

In particular, in the value chain for our flagship green tea business, which encompasses all stages from tea plantation to used tea leaves, we are creating value in terms of both environmental and social aspects by working in cooperation with stakeholders to resolve various social issues.

In December 2017, our efforts to create value across our entire value chain with a view to achieving the SDGs led to us being awarded the special award SDGs Partnership Award at the first Japan SDGs Awards (organized by the SDGs Promotion Headquarters, headed by the Prime Minister of Japan).

We regard the receipt of this award as recognition of our stance emphasizing partnerships with stakeholders through initiatives such as our Tea-Producing Region Development Project (new tea plantation business), our Used Tea Leaves Recycling System, and various other initiatives implemented by ITO EN thus far.

Encouraged by this social recognition of its efforts, moving forward, the ITO EN Group will continue working towards its goal of becoming a “Global Tea Company”, and aim to achieve sustainable growth as a company from a long term perspective, for at least the next 100 or 200 years, with an optimal balance between both financial and non-financial aspects, while of course maintaining the prerequisite of stable profits.

Creating value with a view to achieving SDGs



Japan SDGs Awards presentation ceremony



## To people reading our Integrated Report for the first time:

Key terms relating to sustainable growth are explained in an easily understandable form in the following glossary. Please refer to it when reading this report.

### Glossary of Terms

- 1 CSR (Corporate Social Responsibility):** The concept of companies fulfilling their social responsibilities by responding appropriately to the needs and expectations of all stakeholders through their core business operations, in order to gain the trust and confidence of society, rather than simply pursuing profits for their own benefit.
- 2 ISO26000:** An international standard concerning the social responsibilities of organizations, published in 2010 by the ISO (International Organization for Standardization). The standard defines seven principles of social responsibility (accountability, transparency, ethical behavior, respect for stakeholder interests, respect for the rule of law, respect for international norm of behavior, and respect for human rights) and seven core subjects (organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development).
- 3 CSV (Creating Shared Value):** The concept of aiming to simultaneously resolve social and economic issues through a company's business activities. The concept has been advocated primarily by Michael E. Porter, a professor at Harvard Business School.
- 4 SDGs (Sustainable Development Goals):** The 2030 Agenda (formally "Transforming our World: The 2030 Agenda for Sustainable Development") was adopted at the United Nations Sustainable Development Summit in 2015. The Agenda includes a declaration and a set of specific goals, constituting a plan of action for people, planet and prosperity. The goals raised in the Agenda are referred to as the Sustainable Development Goals (SDGs), and consist of 17 Goals and 169 targets.
- 5 Corporate Governance Code:** Japan's Corporate Governance Code is a list of behavioral norms that should be observed by listed companies, compiled by Japan's Financial Services Agency and Tokyo Stock Exchange, Inc. It covers issues such as the rights of shareholders, the roles and responsibilities of a company's board of directors, and remuneration for corporate officers. Although the code is not legally enforceable, listed companies are expected either to implement the code's principles, or (when they do not) to explain the reasons why, based on the "comply or explain" principle.
- 6 Inbound:** In Japan, the term "inbound" usually refers to foreign nationals visiting Japan on vacation, or to foreign tourists in Japan.
- 7 GPIF (Government Pension Investment Fund):** The GPIF is the organization that manages and operates the investment of pension fund reserves for the national and employees' pension schemes. The organization currently operates a total asset value of 156 trillion yen, one of the world's largest-scale pension funds (as of the end of fiscal 2017).
- 8 Paris Agreement:** An international agreement on climate change between multiple countries, adopted at the 2015 United Nations Climate Change Conference (COP 21; the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change). The Agreement lists various goals, including the aim of limiting average global temperature increase to below 2° C compared to pre-industrial revolution levels, and further, to below 1.5° C.
- 9 Value chain:** The concept of regarding the series of business activity processes from procurement to manufacturing, logistics, marketing, sales and after-sale services not simply as a collection of processes, but as a chain of value.
- 10 Supply chain:** The series of business activity processes from procurement to manufacturing, logistics, marketing and sales, until the product reaches the consumer.
- 11 Work-life balance:** The concept of finding a harmonious balance between "work" and "life outside of work," which includes childcare, nursing care for elderly relatives, hobbies, learning, rest and recreation, and activities in the local community, and finding more enriched ways of working and living.
- 12 PDCA:** A methodology for continuously improving business activities through a repetitive cycle of steps; usually referred to as Plan, Do (implement), Check (evaluate) and Action (improve).
- 13 KPI (Key Performance Indicator):** Key indicators (such as customer satisfaction) for evaluating performance in achieving business targets.

# Aiming to Become a 100-Year Company



**Daisuke Honjo,**  
President, ITO EN, LTD.



**Yoshitsugu Minagawa,**

Ex-Vice-Minister of Agriculture, Forestry and Fisheries  
Ministry of Agriculture, Forestry and Fisheries of Japan  
Sumitomo Forestry Co., Ltd. Statutory Auditor (outside)  
Japan Countryside Stay Association  
Director Vice-Chairman

## 1. Strengths and Resources

**Minagawa:** With the global boom of interest in Japanese cuisine triggered by the addition of *washoku* (traditional dietary cultures of the Japanese) to the UNESCO's Intangible Cultural Heritage of Humanity list, along with the more general increase in health-oriented attitudes, Japanese dietary culture is gaining more and more attention around the world. When I visit countries such as India, Sri Lanka, China and Russia by taking an opportunity of mutual exchange and research in the fields of agriculture and agricultural policy overseas, I experience the foreign dietary cultures of these countries. This has enabled me to feel and appreciate the spread of tea culture first-hand. Green tea has an inseparable relationship with *washoku*, wouldn't you agree? What is ITO EN's thinking with regard to the development of its overseas business operations, considering that the world is now focusing its attention on the health value of green tea?

**Honjo:** At ITO EN, we want to propose healthy and enriched dietary lifestyles to customers around the world through our leaf tea and beverage products, based on our concept for product development of "natural, healthy, safe, well-designed and delicious." Against the background of the global boom in Japanese dietary staples such as *washoku* and *matcha*, sugar-free tea beverages are also gaining attention in the United States and other overseas countries. We plan to develop our overseas business operations with a primary focus on *Oi Ocha* and other sugar-free tea beverages and expand our raw material procurement network. In terms of R&D, we are planning to conduct clinical trials to evaluate the effects of consuming *matcha* in suppressing the decline of cognitive functions, and contribute in various other ways to the prevention of dementia, which is becoming a serious social problem.

Our activities to promote Japanese culture through Japanese tea—such as our tea culture seminars with multi-lingual support, run by our ITO EN TEA TASTERS, and our ITO EN *Oi Ocha* New Haiku Contest, in which we also accept entries from overseas entrants—are also leading to an increase in our market share through the delivery of unique added value.

ITO EN is aiming to become a "Global Tea Company." As the leading company in Japanese tea, we want to communicate the new appeal, health benefits and other value offered by tea to people not only in Japan but also overseas, and to contribute to spreading and passing on Japanese culture.

**Minagawa:** I think it's really wonderful that your company is recognizing its resources and utilizing its unique strengths to engage in activities for passing Japanese culture on to the next generation. I myself have also been involved—through agriculture—in regional revitalization as a development approach matching the particular characteristics of each local region. Making effective use of these particular characteristics is an important element of regional revitalization, but I think that the same applies with companies, too. The Tea Tasters that you just mentioned are a form of human resources development unique to ITO EN, aren't they?

**Honjo:** The Tea Taster System was originally started as an internal scheme, but in 2017 it was certified by the Ministry of Health, Labour and Welfare (MHLW) based on its Business Skill Test System. By training Tea Tasters, we have created a team of tea professionals, skilled in ITO EN's primary business of tea, who are engaging in activities to promote Japanese tea culture and various other activities nationwide, and thereby contributing to our sales promotion efforts. In recent times, the custom of making tea using a teapot is becoming quite scarce, and the leaf



tea market is also shrinking accordingly. While tea bags and other convenience products are popular, we are also bolstering activities to revitalize the market through the efforts of our tea tasters, with the aim of expanding the Japanese leaf tea market. We will also continue to communicate the appeal and attraction of tea to consumers, such as by holding instore Dai-Cha-Kai (demonstration sales and tasting events of green tea).

Another of our strengths is in supplying our products to all corners of Japan through our community-based route sales system, and in identifying customer needs in the field and reflecting them in our daily sales activities. We are also utilizing the community-based nature of our activities to participate in environmental and cultural conservation activities in local communities, such as through our “Making Japan Beautiful Through Tea” Project, also leading to learning opportunities for our employees. To me, human resources are the most important thing, so moving forward we will continue to further enhance our HR development efforts.

## 2. Strengthening the Sustainable Value Chain of our Tea-Producing Region Development Project

**Minagawa:** As someone who has been involved in agriculture and agricultural policy for many years, I am very interested in ITO EN’s tea-producing operations. Japanese agriculture is facing a heap of problems, including population aging and a decline in the numbers of farmers and other agricultural workers. Japan started out as an agricultural country, and subsequently developed into an industrial nation, and I think that now it is in the midst of reshaping itself towards the economic society of the future. As it does so, I think that there are major, expanding possibilities for agriculture and agricultural village communities, such as in the shift towards sextiary (or “sixth-order”) industry. Please tell me your ideas about the development of your Tea-Producing Region Development Project in view of these background factors.

**Honjo:** Tea-producing areas are facing the same problems as Japanese agriculture in general. ITO EN launched its Tea-Producing Region Development Project as an initiative aimed at achieving sustainability for the Japanese tea industry. As a basic rule, our products are derived from natural ingredients. In this project, everything—from the creation of the plantations themselves to the cultivation of tea for our raw ingredients—is done in collaboration with tea farmers and local governments. For the communities in which the new plantations are created, there are accumulative effects from the construction of crude tea factories and the establishment of experimental research laboratories, and local companies, also leading to the creation of new jobs and employment opportunities, and providing solutions to other social issues such as the elimination of abandoned farmland. Additionally, by establishing our own unique value chain—from tea plantations to used tea leaves—through the use of IT solutions and environmental conservational agriculture, we are also achieving the creation of shared value through our core business operations.

**Minagawa:** With the difficult situation of population decline in rural regions, we often hear people talking about the concept of “city, people and job creation.” Jobs are necessary to ensure that people continue living in local communities. I have focused my attention on countryside stay (or “farm stay”) initiatives, with a core focus on achieving a massive reflux of inbound visitors to these rural regions, and agricultural content that will enable us to offer them new discoveries and feelings of fulfillment. Ensuring that people will remain in these local communities to the very end and guaranteeing sustainability requires industries that do not “run away” and abandon these regions. ITO EN’s Tea-Producing Region Development Project achieves the realization of sextiary (or “sixth-order”) industry in local communities, and I think it is a good example in which not only ITO EN but also the local governments, tea farmers and other stakeholders on the agricultural side have succeeded as a result of clear business strategies, careful preparation and continuous hard work and efforts. The resolution of Japanese agricultural problems in various communities as a result of companies participating in and

supporting agricultural business generates profits—and various other benefits—for members of those communities, for the tea farmers, and for the companies themselves. In this way, it could be said that ITO EN is building a truly win-win-win relationship for all involved. Perhaps we could even say that the Tea-Producing Region Development Project is a true display of ITO EN’s stance of not running away and abandoning these regions. I hope to see even further expansion and advancement of this project in the future.

**Honjo:** Thank you very much. As part of the Tea-Producing Region Development Project (new tea plantation business), one of our Group companies is providing guidance on creation of new tea plantations and tea cultivation and processing crude tea in Victoria, Australia; which has seasons that are opposite to those in Japan. They are applying techniques from our Japanese operations in producing raw ingredients mainly for products to be sold overseas.

In Japan, we are working continuously to develop new domestic demand and solidify our foundation. At the same time, since—as we mentioned earlier—we are in the midst of a global *matcha* boom, we are also continuing to build our production capabilities for producing overseas-oriented *matcha* products, and engaging in proactive R&D and information-communicating efforts with regard to the health benefits of these products.

## 3. Expectations for ITO EN and Handling ESG Issues

**Minagawa:** Listening to what you’ve said so far, I feel that ITO EN is responding flexibly to the changes and needs of the times, without losing focus on its fundamental root concept. It is the companies that continue to secure the support of society that continue to survive in the long term. The roots of the forestry and housing company with which I am involved lie in initiatives to restore mountain environments through tree-planting activities in regions devastated by mining development activities from the Edo Period onwards. It was precisely these efforts made by our forerunners, with the aim of resolving the social issues of the time, which led to the robust support enjoyed by the company to this day. I feel that this story shares some points in common with ITO EN’s business model.

There is a current trend towards increasing demands for sustainability and appropriate handling of ESG (environment, social, governance) issues. Today, it is companies that not only focus on their own economic activities but also contribute to the environment (E) and society (S), and work to enhance their corporate governance (G)—while making sufficient use of the insights of outside directors and auditors—which are securing the support of society. It is the truly trustworthy companies. Please tell me your thoughts on responding to ESG.

**Honjo:** Since the time of our initial founding, our corporate credo at ITO EN has been “to put the customer first, make integrity our stock in trade, spare no effort, and earn the confidence and trust of society.” We have worked at a grass-roots level to make improvements and devise innovative approaches, with regard to all of our customers, by constantly considering “what customers are still now dissatisfied with.” I talk about aiming to achieve “sustainable growth” on an everyday basis. By pursuing our mission as a company that is needed by society, and as a good neighbor and partner, we seek to achieve long-term sustainable growth through initiatives to resolve various social issues and to create new value. I believe that it is by continuing to implement what is now referred to as “response to ESG” since the time of our initial founding that we have managed to survive for over 50 years in business.

I believe that by engaging in ESG initiatives—including HR development efforts such as the Business Skill test on ITO EN TEA TASTER, ITO EN Business College and ITO EN Graduate School, and forming management teams composed of diverse human resources—we can spontaneously strengthen our corporate standing, continue to achieve sustainable growth, and remain a company that is needed by society.

Looking ahead, the ITO EN Group will aim to further establish its brand—evolving from “Japanese tea company ITO EN” into “international brand ITO EN”—in order to become more widely recognized as synonymous with Japanese tea, by making maximum effective use of its strengths both in Japan and overseas.

# The ITO EN Value Creation Story

## Creating Value Based on “Always Putting the Customer First”

Value Perspective

Group management principle “Always Putting the Customer First”







### Business Model

#### Inputs

→ See p.11

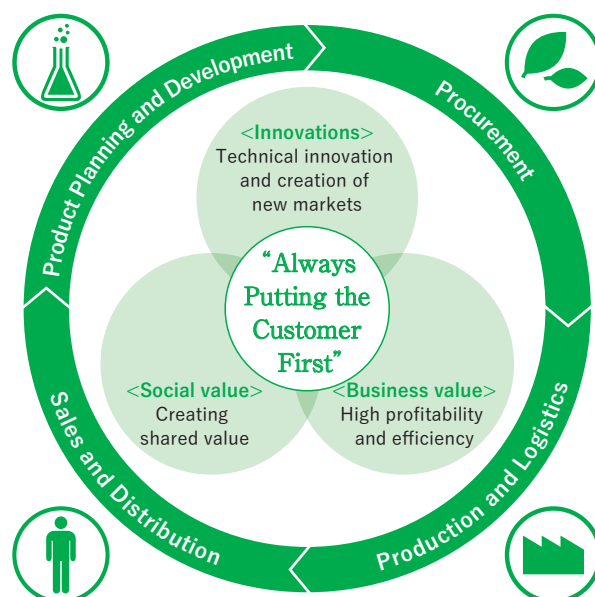
#### Sources of competitive advantage

ITO EN is improving and enhancing its competitive advantage through various types of management capital, in order to make maximum effective use of its business model.

 <b>Financial capital</b> <ul style="list-style-type: none"> <li>Financial management integrated with business model</li> </ul>	ROE (FY4/2018) <b>9.0%</b>
 <b>Manufacturing capital</b> <ul style="list-style-type: none"> <li>Fables management in cooperation with manufacturing subcontractors</li> <li>Sales bases nationwide</li> </ul>	Number of sales bases (Japan) <b>198</b>
 <b>Intellectual capital</b> <ul style="list-style-type: none"> <li>Brand strength</li> <li>Cultivation of optimum raw materials according to diverse products</li> <li>Mechanism for internal feedback of market information (Voice System for internal proposals)</li> </ul>	Number of internal proposals <b>14,421</b>
 <b>Human capital</b> <ul style="list-style-type: none"> <li>Route sales</li> <li>Professional team of Tea Tasters</li> <li>Penetration of awareness of “Always Putting the Customer First” and “Still Now”</li> </ul>	Number of sales personnel <b>Approx. 3,500</b> Number of Tea Taster certificate holders <b>2,160</b> (as of May 2018)
 <b>Social and relationship capital</b> <ul style="list-style-type: none"> <li>Raw material procurement capability with scale advantage</li> <li>Collaboration and network with related parties</li> </ul>	Percentage of crude tea in Japan handled by ITO EN <b>Approx. 25%</b>
 <b>Natural capital</b> <ul style="list-style-type: none"> <li>Quality improvement of tea leaves and stable procurement of raw materials based on the Tea-Producing Region Development Project</li> </ul>	Production volume and plantation area in the Tea-Producing Region Development Project <b>5,405 tons</b> <b>1,401 ha</b>

#### Value Chain for Building a Competitive Advantage

ITO EN establishes CSV-type business operations based on unique innovations, social value and business value.



Stable revenues structure, competitive advantage and unique business

Operations based on CSR, CSV & ESG management initiatives and the ISO26000 standard

KPIs / materialities identified and set in collaboration with stakeholders



Foundation that underpins

ITO EN aims to improve its corporate value continuously in the long term, with a view to becoming a sustainable company. In the utilization of its management capital thus far, ITO EN has refined its strengths and generated various types of innovation. Looking ahead, it will continue working to create value towards the achievement of its medium- to long-term goals through further enhancement of its corporate governance and collaboration with its stakeholders.

\*This story presents an overall image of this report. Details are displayed on the pages shown. Please refer to them in conjunction with the content on this page.

The word “customer” refers to consumers, shareholders, retailers, suppliers, financial institutions and local communities. (→See p.2)



# The ITO EN Value Creation Story

## Value Chain for Building a Competitive Advantage

**E** : Environmental value   **S** : Social value   **G** : Governance

### Product Planning and Development

→ See p.15

#### Sources of competitive advantage

**Product Development Capabilities (FOSHU, etc.)**

- Product differentiation through high added-value products
- Voice System (internal proposal system)

**A Wide Range of Products**

- Expansion of the beverage market and flexible response to consumer needs

**Patent and Trademark Strategies**

- Differentiation from other firms' products, improved brand power (measures against damage to brand) and ensured competitiveness

#### Value created

- Provide health value to a wide range of customers S
- Provide beverages that cater to diverse needs S

Value for ITO EN

Market creation, innovation

### Sales and Distribution

→ See p.21

#### Sources of competitive advantage

**Route Sales & Operation of Retail Stores**

- Securing new customers and strengthening relationships with existing customers
- Community-based sales

**The Tea Taster System**

- Revitalization of the green tea market, enhanced sales and distribution capabilities through ITO EN tea professionals (qualified ITO EN Tea Taster)

**Oi Ocha New Haiku Contest**

**“Making Japan Beautiful Through Tea” Project**

- Increase sales and market share through added value

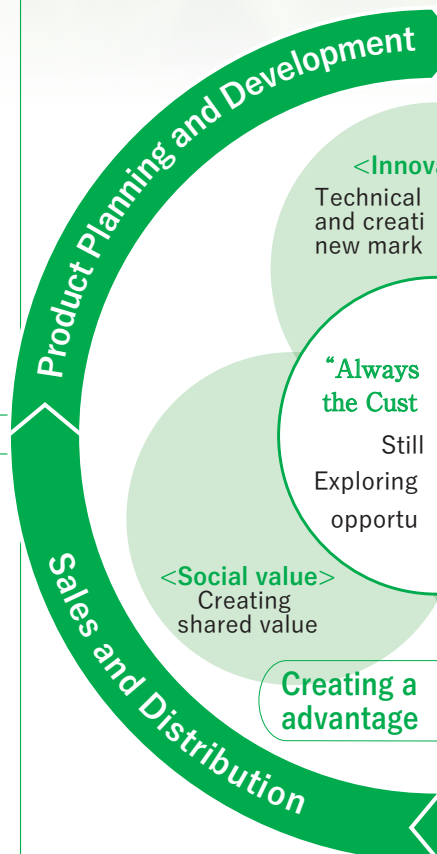
#### Value created

- Provide tea culture knowledge to customers S
- Spread and pass on Japanese traditions and tea culture, and utilization in education S
- Promote environmental conservation activities E
- Promote environmentally-friendly lifestyles E

Value for ITO EN

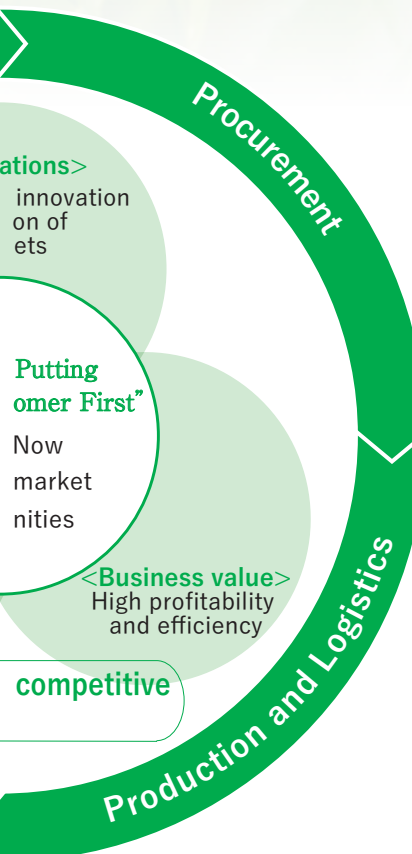
Market creation, economic value creation

## Foundation that underpins creation of value



In all of its business operations, from product planning and development to procurement, production, logistics, sales and distribution, ITO EN creates value not only for itself but also in terms of environmental and social aspects, forming a circular chain of value. We are also enhancing our corporate governance, as the foundation for this value chain. By working in conjunction with stakeholders, the value chain generates further chains of value, and acts as the source of ITO EN's competitive advantage towards achieving sustainable growth.

\*In the following diagrams, environmental value, social value and governance-related aspects at each stage of the value chain are represented using the letters **E**, **S** and **G**.



## Procurement → See p.17

### Sources of competitive advantage

**High Capability to Procure Crude Tea**

- Stable, high-quality raw ingredient procurement capabilities with the advantage of large-scale operations

**The Tea-Producing Region Development Project**

- Increased quality of crude tea
- Stable procurement of raw ingredients



### Value created

- Sustainable agriculture and creation of jobs **S**
- Environmental conservational agriculture **E**

**Value for ITO EN**  
Procurement of distinctive raw materials achieved through collaboration and at low cost

## Production and Logistics → See p.19

### Sources of competitive advantage

**Fables Method**

- Reduces capital investment costs
- Enables adjustment of production volumes to match demand

**NS System**

- Enables product differentiation and cost reduction through high quality

**Used Tea Leaves Recycling System**

- Achieves cost reductions through conservation of resources and recycling
- Enables effective utilization of the effects of tea

**Quality Control System**

- Increases brand value

**Block Production and Logistics Systems**

- Reduces logistics costs and enables speedy supply of products
- Enables construction of an eco-conscious logistics network



### Value created

- Stability of management for production outsourcing partners **S**
- Safety and peace of mind for consumers **S**
- Sustainable use of resources **E**

**Value for ITO EN**  
Establishment of safe and secure production systems achieved at low cost

Corporate governance, risk management, compliance, supply chain management, respect for human rights, human resources management, finance management



# The ITO EN Value Creation Story

## Medium- to Long-Term Management Plan

Utilizing its value chain for building a competitive advantage, ITO EN aims to achieve its long-term vision of becoming a good, global company that spreads Japanese dietary culture and technology to the world. To that end, ITO EN has formulated—and is now implementing—a medium- to long-term management plan leading up to the fiscal year ending April 2022.

### External Environment & Strengths

#### External environment (social trends)

- Decline in birth rate, aging population, and decrease in population size
- Diversification of lifestyles and values
- Diversification of sales and purchasing channels (e.g. online shopping)
- Workstyle reforms and shift towards AI
- Increase in global demand for tea
- Climate change and environmental problems
- Decline of Japanese agriculture
- Increase in requirement for CSR/ ESG-based management
- Increase in inbound tourism

#### ITO EN's Strengths

- Value chain for building a competitive advantage
  - High capability to procure crude tea
  - Route sales, etc.

### Major Risks and Opportunities

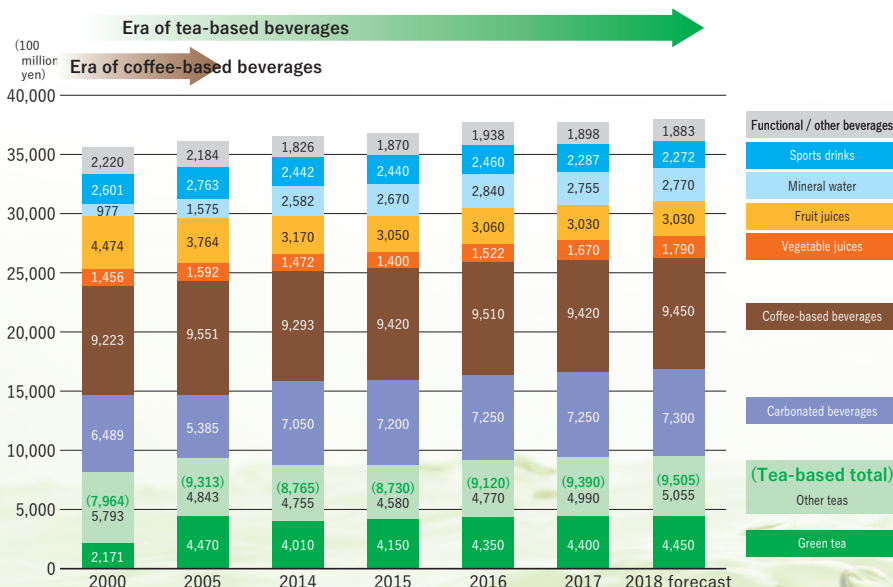
#### Risks

- Maturation of the Japanese beverage market and intensifying competition over price
- Change in customer needs
- Change in sales routes
- Soaring price of raw materials due to increase in global demand and effects of climate change, etc.

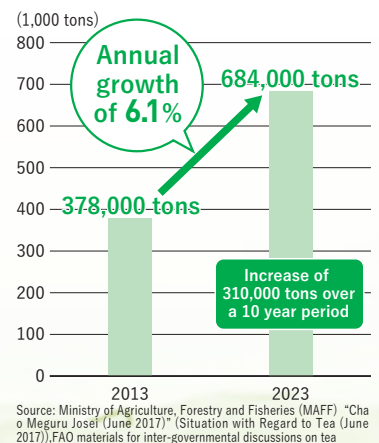
#### Opportunities

- Expansion of overseas green tea market
- Diversification of Japanese (domestic) beverage market
- Increase in health-oriented attitudes in the beverage market
- Global *matcha* (green powdered tea) boom

▼ Change in the Japanese (domestic) beverage market (year, monetary amount)



▼ Global green tea trading volume forecast (FAO predictions)



Source: Ministry of Agriculture, Forestry and Fisheries (MAFF) "Cha o Meguru Josei (June 2017)" "Situation with Regard to Tea (June 2017)", FAO materials for inter-governmental discussions on tea

Source: ITO EN

## Long-term vision

Become a good,  
global company that  
spreads Japanese  
dietary culture and  
technology to the world

FY4/2022

Consolidated net sales : 600 billion yen

ROE : 10.0% or more

Total return ratio : 40.0% or more

Ratio of overseas sales to total sales : 10%

## Medium- to Long-Term Management Plan (FY4/2018 – 4/2022)

### I. Towards a Global Tea Company

#### ● *Oi Ocha*

#### Annual sales target: 100 million cases

- Strengthen brand strategy for *Oi Ocha*, which is increasing its market share as the no. 1 green tea beverage brand
- Propose unchanging value and new value with the changing of the times, and enhance product lineup
- Bolster research efforts and communication of information regarding the health value and functional properties of Japanese tea and *matcha*

#### ● Leaf tea

#### Overwhelming no.1 domestic share

- Enhance capabilities to propose ways of making and enjoying tea and delivering the value of Japanese tea to match various lifestyle situations (develop new users, including generations who do not own a teapot)
- Strengthen existing sales routes and develop new sales routes
- Bolster production and technology development capabilities
- Enhance training for human resources (ITO EN TEA TASTER) to cater to overseas-customer needs
- Strengthen both digital and real points of contact with customers
- Open flagship shop in FY4/2020

#### ● Overseas strategy

#### Achieve 10% of total sales

- Establish ITO EN as a global brand
- Bolster overseas operations by adopting unified label designs and localized language labelling
- Deploy products according to area characteristics

#### ● Procurement

#### Enhance sustainable value chain

- Increase added value through Tea-Producing Region Development Project, and proactively expand contracted growing of raw ingredients for leaf tea products
- Achieve stable supply and reduce cost prices for *matcha* by building production capabilities, contracted growing and internalizing production
- Make further effective use of production locations in Australia and China as locations for procuring raw materials for overseas-oriented products

### II. Second Core Business and Strengthening Revenue Base

- Develop barley tea business into a second core business

#### Secure overwhelming no.1 share in the caffeine-free market

- Procure domestically-produced barley, grow barley through agricultural business

- Develop coffee business

#### Implement vertically-integrated business operations

- Implement vertically-integrated business operations based on green tea business
- Receive raw beans and expertise from DLTC (Distant Lands Trading Co.)

- Develop vegetable juice business

#### Enhance Aojiru (green juice) product lineup

- Create new value through proprietary production methods and product development
- Improve product value through health-benefit research and PR/promotion initiatives
- Expand the Tea-Producing Region Development Project to vegetable raw ingredients

### III. Strengthening Management Base: Financial Strategy

- Strengthen financial standing
- Create operating cash flow of 170 billion yen over a 5-year period
- Make capital investments towards a “Global Tea Company”

- Invest over 10 billion yen over a 5-year period

### IV. Strengthening Management Base: CSV Management Initiatives

- Engage in CSR/CSV activities and respond to ESG
- Reduce impact on the natural environment, conduct Japanese tea enlightenment activities, enhance corporate governance, etc.



# Product Planning and Development



Employees at ITO EN engaging in product planning and development  
(From left) Tetsuya Yasuda, Brand Manager; Koichi Kuramochi; Hiroko Yano; Osamu Aizawa, Brand Manager



An ITO EN employee engaged in prototyping  
Daisuke Mizuochi, 2nd Production Development Department

## Processes for Creating Shared Value (CSV)

## Sustainable brand creation

### <Innovations>

- Day-to-day collaboration between company departments and divisions leads to accurate reflection of customer voices in product planning and development
- Voice System (internal proposals) enables all employees to make suggestions for new products, etc.
- Product planning and development is backed by academic/scientific findings through fundamental research
- On-target patent and trademark strategies

### <Social Value> Value offered to consumers

- Provision of highly-original products based on customer viewpoints, as can be seen in ITO EN's creation of many "industry first" products
- Provision of safe, natural, healthy products that avoid use of artificial additives as much as possible
- Provision of delicious, well-designed products that match the needs of the customers who will actually purchase them (in terms of gender, age, etc.)
- Evocation of demand through extensive product lineups

### <Business Value> Securing sustainable profits

- Differentiation from other firms through product development capabilities
- Enhancement of brand power
- Securing high market share

## Product planning, development and research to match customer needs

ITO EN Conducts product planning and development initiatives in line with customer needs, based on five essential concept for product development. Our products must be: natural, healthy, safe, delicious, and well-designed. ITO EN also has an employee voice scheme (Voice System for internal proposals), where employees can suggest product ideas, and a mechanism for reflecting the opinions of customers received by our customer consultations office into actual product development. We also aim to offer health-oriented value by paying care and consideration to nutritional aspects of product design. We are responding to the global increase in health-oriented attitudes by driving the development of health-conscious products, and sugar-free products account now for approximately 70% of all ITO EN drink product sales, including tea-based beverages.

In light of the recent increase in health awareness, we have been conducting a program of strategic research into the health-promoting properties of green tea, with a particular focus on the functional properties of the chemical catechin. Our strategy in this area is to use this basic research as a foundation for devising on-target patent strategies, and perfect our initiatives by creating technologies that are unique to ITO EN. To that end we have established a department specializing in patent and trademark strategies in order to link this basic research with our R&D efforts to develop unique and inimitable blending and production technologies; backed by our unique knowhow, and patent superiority not only in terms of numbers but also high-quality patents.



One of our FOSHU products  
Futatsunohataraki Catechin Ryokucha

Using these research and development capabilities, ITO EN created and launched *Oi Ocha Koicha* (strong-tasting green tea), which contains twice the amount of catechin of ordinary *Oi Ocha Ryokucha* (green tea), and other health-oriented products such as those in the *Futatsunohataraki Catechin Ryokucha* Series, targeting people who are concerned about their body fat and cholesterol levels. The *Futatsunohataraki Catechin Ryokucha* series and other products have been approved as Food for Specified Health Use (FOSHU)\*1 products.

Food with Function Claims\*2 is another target field in which ITO EN is advancing its research and development activities, offering greater value to customers. We will continue to develop FOSHU and Food with Function Claims products aside from green tea based on these R&D efforts.

\*1 Food for Specified Health Use (FOSHU): An application for FOSHU labelling is made for each product, for approval by the Secretary General of the Consumer Affairs Agency. FOSHU refers to any food that is approved to make specific health claims on the food label.

\*2 Food with Function Claims: Food products for which notice has been given to the Consumer Affairs Agency regarding functional claims displayed on product packaging based on scientific basis, at the business operator's own liability.

Customer opinions and needs received by the customer consultations office (FY2017)

46,410

Number of employee suggestions made based on the Voice System (FY2017)

14,421

### Creating products based on a broad range of opinions

ITO EN's product development is specialized towards soft drinks that make use of naturally-sourced raw materials, with a primary focus on tea-based beverages. Through our products, we provide health value to a wide range of people.

Looking back over the history of product development at ITO EN, we have sought to achieve innovations to meet the needs of customers according to any given time, as represented by the world's first canned oolong tea and canned green tea; both created by ITO EN. By bringing these innovations to fruition as commercial products we have created new value.

### ■ Creating value through packaging

ITO EN is also challenging itself to create new markets by catering to "Still Now" needs (i.e. things that still do not exist but customers wish they had) with its packaging, such as by launching microwave-friendly products that cater to a wide range of customer needs to drink products in three different temperature ranges: warmed, refrigerated, and at room temperature.



One of ITO EN's microwave-friendly products



## Creating value utilizing local specialty products and through synergies with affiliate companies

In product development utilizing local regional specialty products, we create value by developing a combination of both nationwide deployment products and limited regional products, which offer consumers a premium feel of being “locally produced for local consumption.” In its

collaborations with affiliate companies, ITO EN utilizes synergy effects through strategic investment and links them to the creation of new brands; such as in the development of a bottle-type canned coffee in collaboration with Tully’s Coffee Japan Co., Ltd.

## Creating value with product packaging

ITO EN’s mega brand *Oi Ocha* also functions as a form of advertising media, in that displaying information on its packaging leads to increased levels of recognition nationwide. The utilization of this packaging is a method that has been built up by ITO EN over many years, such as with the ITO EN *Oi Ocha* New Haiku Contest, which has now been running for over 29 years. In spring 2018, we called for entries from the general public based on the theme of “Springtime Love.” Chosen entries were displayed on a special blooming sakura (cherry blossom) edition of our

*Oi Ocha* packaging as part of our “*Oi Ocha* Springtime Love Sakura Haiku” campaign. These kinds of methods—utilizing intellectual property—in creating its products enable ITO EN to draw social empathy by introducing aspects of Japanese culture (such as cherry blossoms) according to the particular season, leading to unrivaled social value and business value.



2018 *Oi Ocha* bottle with blooming cherry blossom packaging

Product Planning and Development

Procurement

Production and Logistics

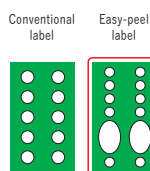
Sales and Distribution

## Appropriate labelling and displaying of information, etc.

ITO EN endeavors to ensure appropriate and easily-understandable labelling on its product packaging and in the informational content displayed in its advertisements, etc., in accordance with relevant laws and standards of conduct. In particular, we were pioneers in proactively displaying the production locations of raw materials on our products, ahead of other companies.

Additionally, we also pay care and consideration to our product lifecycles, such as by applying easy-peel labels with our containers. Through joint efforts with material manufacturers, we have also developed a new fresh-cut bottle design to maintain our high standards of freshness

### Easy-peel labels



Packaging labels adopted for use on *Oi Ocha* and other flagship products adopt an easy-peel design, in which the size of the perforated holes and the intervals between them have been adjusted to make the labels easy to peel off and remove. We are also promoting the adoption of PET plastic bottle caps and can pull-tops that are easy to open, even for consumers with weak hand strength.

in our green tea by protecting it from light, which is a major cause of degradation. These bottles are used as the containers for *Oi Ocha* green tea.

## TOPICS

### Research to create health value

#### Clinical trials to validate the effects of *matcha* in preventing dementia

In a triple joint R&D effort with SHIMADZU CORPORATION and the University of Tsukuba venture company MCBI (Molecular and Clinical Bioinformatics) Inc., ITO EN has agreed to conduct clinical trials on patients with mild cognitive impairment (MCI)—the stage prior to the onset of actual dementia—in order to evaluate the effects of *matcha* in curbing the decline of cognitive functions. Through this research project, by showing that the consumption of *matcha* can clearly be seen to suppress the decline of cognitive functions, ITO EN will aim to contribute to preventing dementia, which is becoming a serious social problem.

#### Clinical trials to verify the effect of continuous consumption of black vinegar beverages in reducing feelings of fatigue after exercise

ITO EN has verified through human clinical trials that drinking black vinegar beverages continuously helps to reduce feelings of fatigue after exercise. In recent years, due to increased interest in its health value, people wishing to reduce feelings of tiredness and fatigue in their daily lives and after exercise, have begun to drink diluted vinegar as a beverage. Looking ahead, ITO EN will continue to advance its research into the mechanism behind the fatigue-reducing effects verified as a result of these trials, and to make various proposals explaining the health value of black vinegar and fruit vinegar-based beverages; and suggesting ways of utilizing them in consumers’ everyday lives.

## Commitment

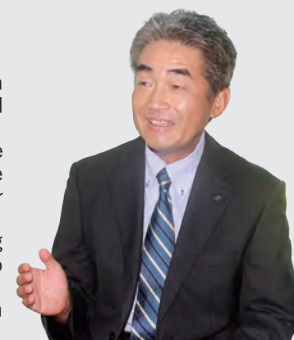
### Hitoshi Kinugasa, General Manager of Central Research Institute

ITO EN’s R&D policy is based on its five essential product development concepts. At the Central Research Institute, we engage in research utilizing a wide range of cutting-edge technologies to create new and original products, with a primary focus on creating products that are “healthy” and “delicious.”

We regard healthiness in particular as being important to increase product value, from the perspective of delivering dietary lifestyles as a response to the issue of population aging in the future. We will advance product development of Food for Specified Health Use and Food with Function Claims by making use of our research results.

Furthermore, by scientifically uncovering the elements that constitute delicious taste, and making proposals for new situations to consume our drinks, we believe that it will become possible for people to enjoy even more delicious eating and drinking experiences in the future.

Moving forward, I would like ITO EN to continue communicating the latest information to the world with regard to the healthiness of green tea and various other beverages, and food in general.





# Procurement



New tea plantation business (Kitsuki, Oita Prefecture)

## Processes for Creating Shared Value (CSV) Sustainable agricultural model



S Social benefits			E Environmental benefits
Case study analysis			<ul style="list-style-type: none"> <li>• Environmental conservational agriculture through appropriate fertilizer application, etc.</li> </ul>
<ul style="list-style-type: none"> <li>• Working hours Dependent on field conditions, but have been reduced by mechanization</li> </ul>	<ul style="list-style-type: none"> <li>• Average worker age: 52.2 (Miyakonojo, Miyazaki Prefecture) * Average age for core agricultural workers: 66.6 (Source: Ministry of Agriculture, Forestry and Fisheries)</li> </ul>	<ul style="list-style-type: none"> <li>• Jobs created: 52 (Miyakonojo, Miyazaki Prefecture) * Includes jobs at crude tea factories.</li> </ul>	

## High Capability to Procure Crude Tea

The core of the ITO EN green tea business, its mainstay business, lies in the procurement of crude tea leaves. ITO EN has a competitive advantage in the market as it already handles approximately one quarter of Japan's crude tea production. In order to ensure even greater stability and consistency in our procurement of high-quality crude tea, we have been developing the Tea-Producing Region Development Project, in which we collaborate with tea farmers and local governments for a portion of our procurement needs. This initiative encompasses cultivation under contract with individual tea farmers, and new tea plantation business, which have been making use of abandoned farmland, etc., to grow tea by redeveloping and cultivating fields to create large-scale tea plantations since 2001.

New tea plantation business projects are currently underway in seven districts in five prefectures; namely Miyazaki, Oita, Kagoshima, Nagasaki and Saga. In Saga, where the project commenced in 2017, an agricultural enterprise—established by a local company that conducts transportation and warehouse business operations in northern Kyushu—is operating plantations and crude tea factories. A local regional bank became the first investor in Saga Prefecture by funding this enterprise via an agricultural fund supporting the expansion of agricultural production and growth of agricultural business operations in the region. The funds are being allocated to expanding plantations by making use of abandoned farmland, and purchasing related

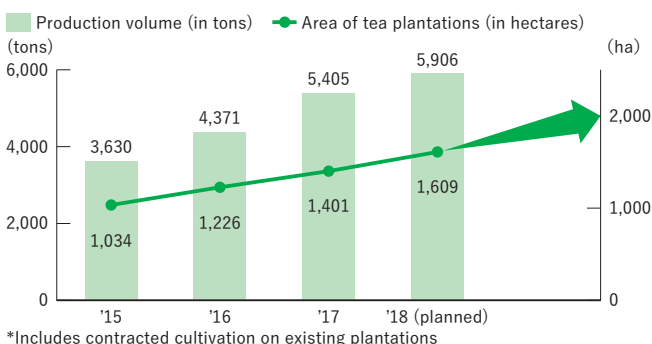


Plantation in Tara, Saga Prefecture

machinery and so on.

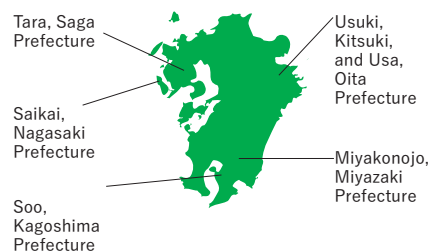
As of 2017, the combined area of new tea plantations and contract cultivation covered a total of 1,401 hectares (995 hectares for contract cultivation areas and 406 hectares for new tea plantations). We are expanding these areas with the aim of achieving a scale of 2,000 hectares in the future.

### Progress of the Tea-Producing Region Development Project



Long-term target 2,000ha

### New Tea Plantation Business Areas



## Creating value with the Tea-Producing Region Development Project

As part of our Tea-Producing Region Development Project, we provide tea farmers with expertise and cultivation technology support, including mechanization and IT solutions, and form full crop volume purchasing contracts. This, combined with the construction of traceability systems\*1 that meet consumer requirements for safety and security, enables ITO EN to achieve unrivaled results in the field of crude tea procurement.

ITO EN also encourages the agricultural enterprises and contracted farmers from whom it procures its raw ingredients to obtain JGAP certification (a standard for food safety and environmental conservation) in line with the ITO EN Group Procurement Policy. For green tea, we aim to achieve a 90% certification rate in 2018.

ITO EN's Tea-Producing Region Development Project (new tea plantation business) has the business benefits of reducing costs and ensuring stability in the procurement of high-quality crude tea. For tea farmers and agricultural enterprises, these projects help to solve farm management stability issues by agreeing to purchase all of their crops, and resolve other issues such as the shortage of successors. They also have the added benefits of reducing working hours and creating jobs. For the communities in which the new plantations are created, accumulative effects from the construction of crude tea factories and the establishment of experimental research laboratories and companies supplying agricultural materials, etc., also lead to the creation of new jobs and employment opportunities. These projects are also providing solutions to Japanese agricultural issues such as the elimination of



KAYANONOUSAN Agricultural union corporation (Oita Prefecture)



(From left) Hitomi Toshima, Representative Director of Hinarien Co., Inc. an agricultural production enterprise in Oita Prefecture, and Fuyuhito Sekita of ITO EN's Agricultural Technology Department

abandoned farmland and the improvement of food self-sufficiency, and achieving the realization of sustainable, environmental conservational agriculture through the use of IT solutions and optimal fertilizer-application technologies.

The Tea-Producing Region Development Project is also in line with government policies, such as the transformation of agriculture into a growth industry through intensification and upscaling, and conversion into a sextiary (or "sixth-order") industry through the creation of added value.

\*1 Traceability system: A food traceability system enables the movement of any food product to be traced and/or followed by documenting each aspect of food handling, and so forth. In the event of an incident, the food traceability system can facilitate the smooth and efficient recall of the food product(s) in question and aid investigators in determining the cause of the incident.

Product Planning and Development

Procurement

Production and Logistics

Sales and Distribution

## Sustainable agricultural model

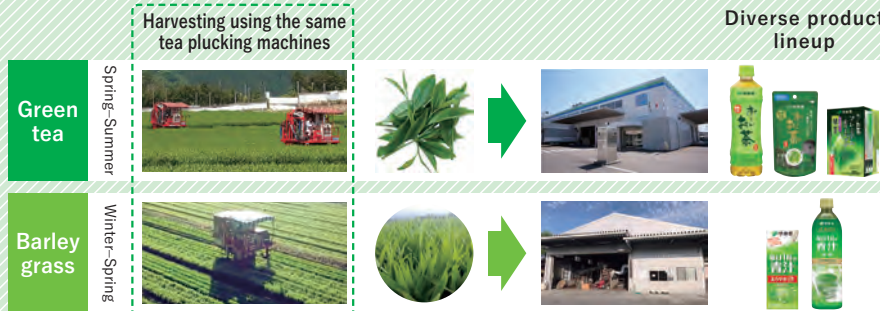
The Tea-Producing Region Development Project combines intellectual capital in the form of optimal raw ingredient cultivation know-how and traceability with innovation in the form of its full crop volume purchasing scheme. With this project, ITO EN has established a sustainable agricultural model which offers value for consumers through the provision of a diverse range of products using optimal raw ingredients, creates environmental and social value through the application of environmental conservational agriculture, and also has business value such as

reducing the costs of crude tea procurement.

This value creation process has led to ITO EN receiving positive media recognition, such as in its selection by Fortune magazine (September 1, 2016 edition), and being awarded various prizes, including the Nikkei Social Initiative Award (Business Category, 2015) and the Porter Prize.

### TOPICS Increasing efficiency in farm management

In certain tea-producing regions, ITO EN is also engaged in farming operations together with agricultural production enterprises for the production of vegetable raw ingredients. By growing barley grass, a raw ingredient for *Aojiru* (Green Juice), harvesting it using tea plucking machines and making effective use of crude tea factories to process it during the agricultural off-season for tea, we are promoting efficient farm management, also leading to the creation of more jobs throughout the year.



## Commitment | Masahiko Arai, General Manager, Agricultural Technology Department

The new tea plantations element of our Tea-Producing Region Development Project was launched in 2001, as an initiative aimed at resolving various issues being faced by tea-producing regions (in the same way as Japanese agriculture as a whole), such as aging of agricultural workers, shortage of successors and the decrease in size of tea plantation areas. The project began in Miyazaki Prefecture, and with the addition of Saga Prefecture in 2017 new tea plantation business projects are currently underway in seven districts in five prefectures, with a primary focus on the Kyushu region. By producing raw ingredients for *Aojiru* (Green Juice) in addition to green tea, we are seeking to achieve even greater productivity and efficiency in these projects. Providing farmers with expertise enables low-cost management through mechanization and the use of IT solutions, and forming full crop volume purchasing contracts allows us to promote stable tea plantation management that achieves a balance between both productivity and environmental conservation. Through collaboration with various partners including tea farmers, agricultural production enterprises, local government agencies, experimental research laboratories and local companies, these projects also lead to the creation of new jobs and employment opportunities. We are also encouraging tea farmers to obtain MAFF-recommended GAP (Good Agricultural Practice) certification, which is granted to farms engaging in food safety and environmental conservation initiatives. Moving forward, as a "Global Tea Company", we would also like to encourage farmers to obtain worldwide "Global GAP" certification as needed. As a leading tea company in Japan, we will also continue working hard to help resolve the problems faced by Japanese agriculture, by developing further initiatives with a view to achieving sustainability in the domestic tea industry.





# Production and Logistics



Production process

## Processes for Creating Shared Value (CSV)

## Sustainable advanced production and logistics systems

### <Innovations>

- Fables method: beverage production is outsourced to external partners
- Block-based production and logistics scheme: the country is divided into five blocks and beverages are manufactured at outsourced partner plants in each of the five blocks that are close to the actual consumption zones
- NS System: enables the use of lighter containers (bottles) and makes it possible to bottle beverages at room temperature

### <Social Value>

- Distribution of production locations ensures continuity of supply in the event of a disaster
- Ensures safety, reliability and fine quality
- Reduction in CO<sub>2</sub> emissions due to logistics system
- Reduction in amount of resources used in containers

### <Business Value>

- Reduction in capital investment costs
- Slim-line balance sheet
- Reduction in logistics costs
- Reduction in cost of materials for containers

### S Social benefits

- Sensory testing personnel in ITO EN testing team framework: at least 20 personnel, etc.
- Number of quality assurance meetings (joint meetings together with outsourcing partners and other stakeholders) held: 13 (FY2017)  
\*Includes ITO EN Group quality assurance meetings

### E Environmental benefits

- Foodstuffs recycling rate: 96.0% (FY2017)
- Reduction in group-wide CO<sub>2</sub> emissions: -25.9% (actual results for FY2017, comparison with FY2009)

## Supply chain management

ITO EN has adopted a fables method\*<sup>1</sup> of production. While we still handle the initial processes of heating and blending the crude tea leaves that we procure to manufacture the raw ingredients for our products, we outsource the subsequent tea brewing, extraction and bottling processes to contracted beverage production companies (except in Okinawa). In this way, we have achieved a more efficient business model that enables us to reduce capital investment costs, adjust our production volume according to the level of actual demand, and build optimal production lines by taking advantage of the distinctive characteristics of our outsourcing partners.

The ITO EN Group has established policies on procurement and quality management, and is working in collaboration with its stakeholders (including outsourced beverage producers) to establish a supply framework that pays due care and consideration to both environmental and social aspects. Our procurement policy sets guidelines for the pursuit of quality, safety and peace of mind, fairness in procurement, and consideration for human rights, labor and the environment. Our quality management policy dictates rules for the provision of safe and reliable products, compliance with applicable laws and ordinances, and for ensuring safety of products utilizing international standards. On the quality management front, ITO EN has built a Quality Management System with ISO9001 international standard certification (obtained in 2002), with our Shizuoka Sagara Factory obtaining FSSC22000 certification in November 2013. Our products are only

manufactured in factories that satisfy ITO EN quality management standards, and we thoroughly ensure safety and security in the manufacture of our products by holding regular quality assurance meetings. In our logistics operations, too, we have constructed an effective supply chain management system in collaboration with our outsourcing partner companies; working to thoroughly ensure safety and security by conducting regular assessments and audits of our outsourcing partners (with respect to checklist items stipulated by ITO EN regarding areas such as transportation and storage) and holding regular meetings to share essential information.



An Oi Ocha production line

\*<sup>1</sup> Fables method: A method of production without owning a factory or fabrication plant.

## Innovation through collaboration

Collaborations between ITO EN, outsourced tea beverage producers and beverage container manufacturers generate innovations that lead to the creation of new value, as well as various economic benefits.

The NS\*<sup>2</sup> System—which was developed in collaboration with Toyo Seikan Co., Ltd.—is a bottle cleaning method that does not use sterilizing agents, but instead uses heated water to fill and wash bottles at room temperature. This method not only maintains a high level of quality but also minimizes environmental impact by reducing the amount of water and energy used, and has led to the adoption of more environmentally-conscious PET plastic bottles.

\*<sup>2</sup> NS: Non-Sterilant, or not using any sterilizer.

### Environmentally-conscious PET plastic bottle

- Cap** — Approx. 13% lighter than the previous design  
Weight: 2.6g
- Bottle** — Approx. 30% lighter than the previous design  
500ml PET plastic bottle (conversion)  
Weight: 19g
- Label** — Approx. 40–50% thinner than the previous design  
Thickness: 20 micrometers 9g



## Comprehensive quality control system

As a company that handles food products, the ITO EN Group recognizes quality and safety as being of the utmost importance in terms of its responsibility to customers.

We have established a rigorous quality control system encompassing all aspects of production from product design, raw ingredients and packaging materials to production and distribution, and are working hard to guarantee the safety of our products.

In order to control and ensure the quality of our raw ingredients and products, ITO EN work to ascertain actual conditions at production locations, conduct agrochemical residue testing and product sample testing (including radiation measurement testing), and disclose details of the regions producing our raw ingredients.

### ▼ ITO EN's Quality Management (Main Tests and Inspections)

Raw Ingredients	Beverage raw ingredients	<ul style="list-style-type: none"> <li>● Sensory testing (shape, color and shine, aroma, water color testing)</li> <li>● Microorganism testing</li> <li>● Scientific testing (constituent analysis, etc.)</li> <li>● Agrochemical residue testing</li> <li>● Radioactive substance testing</li> </ul>
	Water	<ul style="list-style-type: none"> <li>● Water quality testing</li> <li>● Radioactive substance testing</li> </ul>
Products	Tests conducted by ITO EN and outsourced production plants	<ul style="list-style-type: none"> <li>● Sensory testing (shape, color and shine, aroma, water color testing)</li> <li>● Microorganism testing</li> <li>● Scientific testing (constituent analysis, etc.)</li> <li>● Radioactive substance testing</li> </ul>

## Thorough care and consideration for the environment and reduction of CO<sub>2</sub> emissions

ITO EN also promotes initiatives based on the 3R's<sup>\*3</sup>, and recycling of foodstuff residues produced during its production processes.

In terms of its logistics operations, ITO EN has created an efficient logistics system by dividing Japan into five manageable blocks, and has sought to reduce CO<sub>2</sub> emissions and introduce energy-saving measures; which has also had the added benefit of reducing costs. In 2018, ITO EN was awarded a Logistics Environment Special Award at the 19th Logistics Environment Awards, in recognition of significant reductions in its CO<sub>2</sub> emissions, achieved by switching a portion of its land-based logistics operations (which

originally made use of long-distance trucks to deliver its products) over to seaborne transportation.

Meanwhile, the Sales Division has implemented thorough inventory management and outsourced recycling of all empty containers by suitable recycling contractors. ITO EN also carries out regular on-site checks of all contractors in accordance with applicable laws and ordinances. For details, please refer to the Environment pages (p.41-42).

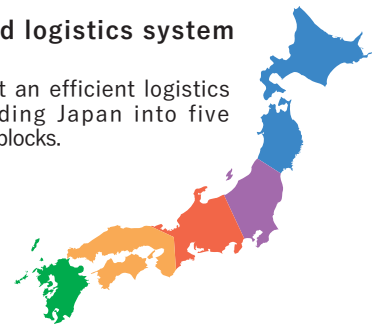
<sup>\*3</sup> The 3R's: Reduce, Reuse and Recycle.

### ▼ Cooperation with industry bodies

ITO EN is a member of the Japan Soft Drink Association (JSDA). JSDA is a participant in the Japan Business Federation (Keidanren)'s Voluntary Action Plan on the Environment. As a preventive measure against global warming, the soft drink industry is making a concerted effort to achieve the goal of a 10% reduction in unit CO<sub>2</sub> emissions (in comparison with FY1990 levels) by FY2020.

### ▼ Block-based logistics system

ITO EN has built an efficient logistics system by dividing Japan into five manageable area blocks.



## TOPICS

### Acceptance of factory tours at Shizuoka Sagara Factory

At ITO EN's Shizuoka Sagara Factory—situated in the famous tea-producing city of Makinohara, Shizuoka—visitors can take observational tours to see the packaging lines that produce ITO EN's packed green tea, and the roasting processes for coffee beans used in Tully's Coffee products; as well as the adjacent Central Research Institute, where they can observe the quality control systems that ensure deliciousness, safety and peace of mind in ITO EN products. The tour also presents case studies of various environmentally-conscious ITO EN initiatives, such as the Used Tea Leaves Recycling System. In FY2017, 178 factory tours were conducted. In addition to being open to customers and other members of the general public, factory tours are also utilized in social studies visits for elementary and junior high school students, and are helping to achieve a wider understanding of ITO EN's initiatives.



Scene from a factory tour

## Commitment

### Nobuyuki Sakashita, Managing Executive Officer and Manager of Production Division

By adopting a fables method, we have been able to build a network utilizing our relationships with the best, most suitable partner companies. Moreover, by establishing ITO EN Group procurement and quality management policies, and through cooperation with stakeholders (including outsourcing partners), we are enhancing our supply chain management activities with consideration for both environmental and social aspects. Also, by ensuring traceability, we have constructed a thorough quality control system covering all aspects of our business, from the raw ingredient stages up until our products reach consumers. These kinds of collaborative efforts in cooperation with our stakeholders are generating various innovations, including our fables block production method, and the development of our NS System and environmentally-conscious PET plastic bottles. Additionally, we are also offering increased business value through cost reduction, increased value for consumers by ensuring quality and offering flexible and resilient supply capabilities, and increased value for society by improving environmental value through the reduction of CO<sub>2</sub> emissions and amounts of resources used. Looking ahead, we will continue to build a stronger, more sustainable business model based on demands for response to ESG.





# Sales and Distribution



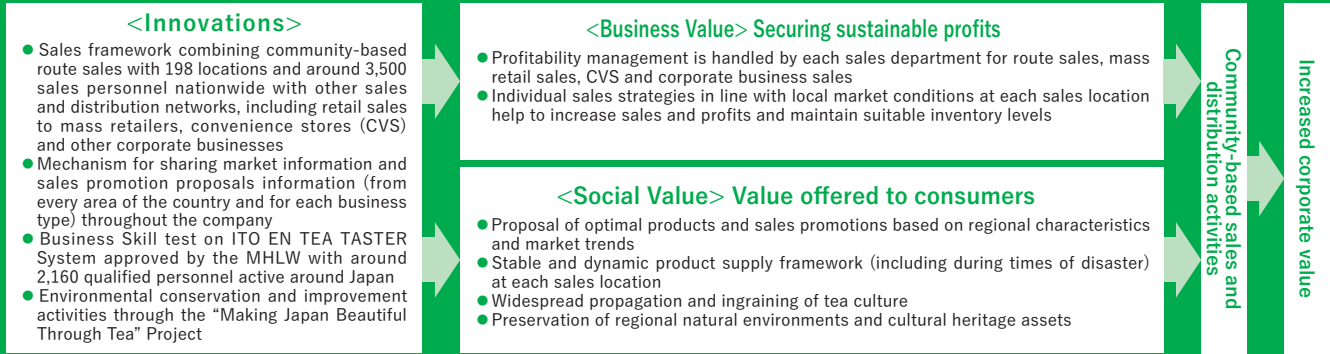
Fumiya Koizumi, Omiya Branch



Misako Hayashi, Section Chief, Section Chief, 1st Mass Retailer Sales Department

## Processes for Creating Shared Value (CSV)

## Community-based sales and distribution activities



S Social benefits
<ul style="list-style-type: none"> <li>● Number of activities conducted by qualified Tea Taster to spread knowledge about how to make tea and tea-related culture: 1,872 sessions (FY2017)</li> </ul>
<ul style="list-style-type: none"> <li>● Number of disaster response-ready vending machines: 11,890 units (FY2017)</li> </ul>

E Environmental benefits	
<ul style="list-style-type: none"> <li>● Amount donated through the "Making Japan Beautiful Through Tea" Project: 31.85 million yen* (FY2017)</li> </ul>	<ul style="list-style-type: none"> <li>● Percentage of low-pollution vehicles introduced as sales vehicles: 97.1% (FY2017)</li> </ul>
<ul style="list-style-type: none"> <li>● Number of customers participating in environmental conversation activities through the "Making Japan Beautiful Through Tea" Project: Approx. 2,700* (FY2017)</li> </ul>	<ul style="list-style-type: none"> <li>● Percentage of heat pump type vending machines installed: 89.3% (FY2017)</li> </ul>

\*Includes the "Making Lake Biwa Beautiful Through Tea" project.

## A sales network with an intimate understanding of customer needs

The source of ITO EN's marketing power is in its community-based route sales system\*. The system is comprised of approximately 3,500 sales personnel, who handle everything from product explanations to business negotiations and deliveries themselves. Valuing opportunities for direct contact with customers and providing a finely-tuned service catering to the various types of retail businesses is the key to our sales activities. The advantage of this system is that it enables us to gather and understand market information from a perspective that is closer to the customer's point of view, and to make use of up-to-date information obtained directly from the field.

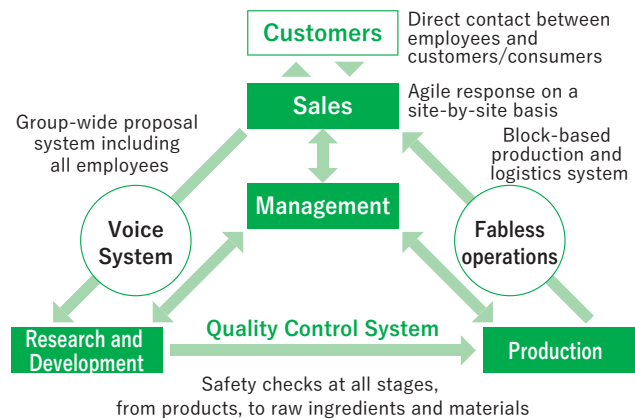
Utilizing various combinations of a diverse range of product lineups and product sizes developed using our product development capabilities, our sales persons in each region conduct effective sales operations across all areas of Japan; catering to the customer needs for easier product purchasing.

In addition to route sales, we have also established an effective framework that enables finely-tuned business negotiations to cater to the needs of various types of retailer, including corporate business sales to major companies and distribution-based sales to convenience stores (CVS) and supermarket chains.

Another of ITO EN's advantages is that our Retail Division has established specialist stores at locations such as department stores and airports, enabling real-time market information collected at these locations to be fed back into our product development activities and so on. (There are currently 169 such stores nationwide.)

By connecting directly and strengthening contact with customers in this way, ITO EN is engaging in community-based sales activities that enable it to make the most optimal proposals in actual stores and selling spaces.

### ▼ Integrated internal system from raw ingredients to products



Season-specific sales floor proposals



Nihombashi "Wa no Cha" ("Japanese Tea") ITO EN, inside Nihombashi Mitsukoshi Main Store

\*Route sales system: A sales system whereby ITO EN provides its products and services directly to customers. By adopting this system, ITO EN connects directly with customers, and engages in community-based sales activities with close ties to members of local communities.

## Creating shared value (CSV) in local communities

As a community-based company, ITO EN works to create value together with local communities through its core business. We have formulated the ITO EN Basic Promotion Policy for City, People and Job Creation, and are working to tackle social issues by implementing CSR and CSV activities leveraging our core business operations. Tea professionals who have gained qualifications through our Business Skill test on ITO EN TEA TASTER System serve tea at Dai-Cha-Kai (demonstration sales and tasting events of green tea) held at mass retailers, contributing to sales promotion.

Our “Making Japan Beautiful Through Tea” and “Making Lake Biwa Beautiful Through Tea” Projects are both initiatives related to our core business that support the conservation of nature (including water) and Japanese culture. In 2015, ITO EN received the Japan Water Prize’s Minister of Economy, Trade and Industry Award, increasing the level of nationwide recognition for these projects and solidifying their status as assets to our community-based sales activities in the future. They are developing into a foundation for marketing activities that enable us to make maximum effective use of the strengths of our nationwide network of sales offices while at the same time contributing



“Making Japan Beautiful Through Tea” and “Making Lake Biwa Beautiful Through Tea” Projects (cooperative partners in all 47 prefectures). Through these initiatives, ITO EN donates a portion of all *Oi Ocha* beverage product sales to the environmental conversation and development activities around Japan. ITO EN employees also participate in these conversation and development activities. For more details, please visit ► <http://www.itoen.co.jp/kirei/>

to the resolution of local community issues.

Vending machines represent an important sales route for ITO EN, and we are currently engaged in efforts to raise the level of revenues per machine, with an emphasis on securing prime locations. In addition to ensuring thorough care and consideration for the environment in terms of machine technology aspects, we are also seeking to differentiate ourselves from other firms by placing vending machines—in collaboration with our

stakeholders—that are equipped to continue running even in the event of a disaster; and vending machines that contribute to society, from perspectives such as communities and human rights. ITO EN is anticipating the diversification of payment methods towards 2020. As a first attempt utilizing FinTech (financial technology, a fusion of IT and finance) in Japan, we have developed vending machines that support multiple methods of payment. Through initiatives such as this, we are seeking to further improve the convenience and quality of our services for customers, with a view to the future internationalization of our society.



Vending machine for donations to Ogyaa Donation Foundation

For more details, please visit ► <http://www.itoen.co.jp/csr/community/vender01/>



A vending machine supporting multiple payment methods

Product Planning and Development

Procurement

Production and Logistics

Sales and Distribution

### TOPICS

#### Customer service roleplaying contests

ITO EN holds customer service roleplaying contests for retail sales division sales personnel, in which employees compete by displaying their customer service skills. These contests seek to make employees better qualified to deliver customer service, with the aim of training hospitality specialists. In addition to basic customer service skills displayed through mock performances, employees are also awarded for their wrapping and other skills. This leads to an increase in employee motivation towards the goal of improving their skills, which they seek to refine on a day-to-day basis, and further improvements in their selling capabilities.

#### Partnership agreement formed with the Japanese Red Cross Society

ITO EN is an advocate of the Japanese Red Cross Society’s “Never Forget” project, and is engaged in continuous initiatives aimed at increasing awareness towards preventing and reducing disasters through its community-based sales activities.

In March 2018, ITO EN signed a partnership agreement with the Japanese Red Cross Society and launched a new program of support for the Society’s disaster prevention education projects in communities throughout Japan, through the sale of healthy tea-based beverages\*.

\*Products displaying the Japanese Red Cross Society supporter’s logo



Scene from a contest



Partnership ceremony (Right) Yoshiharu Otsuka, Vice President of the Japanese Red Cross Society (Left) Daisuke Honjo, President of ITO EN

## Commitment | Shusuke Honjo, Executive Vice President and Representative Director

ITO EN’s route sales system has the strength of a community-based presence. Its integrated sales activities encompass direct visits to sales by approximately 3,500 sales persons from 198 sales bases nationwide, sales negotiations, and the planning of sales floors. By carrying out thorough direct visits, we are working to build stronger relationships with customers, and to enable us to cater to a diverse range of needs. Moreover, sales promotion activities carried out by our team of tea professionals—our ITO EN TEA TASTERs—help to spread the appeal and attraction of tea, and our Voice System receives more than 14,000 employee proposals annually. These systems indicate how we at ITO EN always value the opinions of our customers. As a community-based company, we are also striving to resolve social problems through our core business operations by working in collaboration with local communities and stakeholders; such as through the “Making Japan Beautiful Through Tea” Project, and the installation of vending machines that contribute to society in various ways.

Moving forward, we are seeking both to improve our services for Japanese domestic customers, and to deliver greater convenience and to expand and enhance our range of services for foreign visitors to Japan (numbers of which are expected to increase as we head towards 2020). We will also continue to contribute widely in terms of both social and environmental aspects.





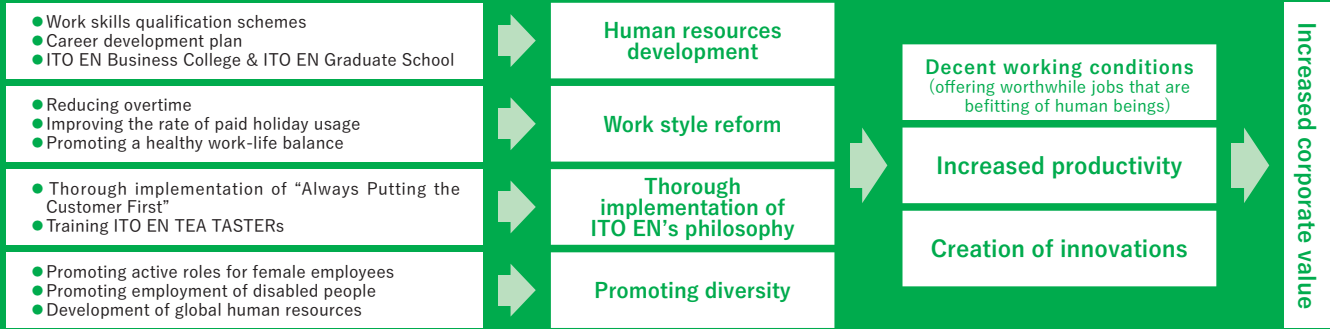
# Foundation



An ITO EN Business College seminar

An explanation of how to make and serve tea to foreign-based clients (in English)  
Yumji Takeda, Group Leader, T2020 Promotion Department

## Human Resources Management



### S Social benefits

- Number of qualified ITO EN TEA TASTERS: 2,160 (as of May 2018)

- Number of graduates from ITO EN Business College & ITO EN Graduate School: 718 (FY2017)

- Employment rate for people with disabilities: 2.07% (FY2017)

In addition to corporate governance, the foundation that underpins ITO EN's creation of value also includes other elements such as respect for human rights, human resources management, and finance management. Our initiatives concerning human rights and human resources management are as follows.

## Initiatives concerning respect for human rights

The ITO EN Group has established an ITO EN Group CSR Charter and Code of Behavior, which sets forth key principles such as not discriminating on the basis of gender, age, ethnicity, race, religion, beliefs, or disabilities; and is working to ensure that these principles are thoroughly

ingrained in (and carried out by) its employees. Additionally, through initiatives focusing on respect for human rights through its business activities, ITO EN also seeks to raise employee awareness and understanding with regard to human rights in local communities.

## Human resources development and creating a comfortable working environment

The ones that actually implement the ITO EN Group's management principle of "Always Putting the Customer First," generate growth and create innovation are the Group's human resources. At ITO EN, we are advancing a system of human resources management that enables us to cater to diverse working styles, create a worker-friendly working environment (i.e. decent working conditions and work-life balance), and implement human resources development and employee health management.

In terms of our personnel system, we evaluate and reward our employees based on performance. In order to promote a healthy work-life balance and implement work style reform, major indicators such as overtime, rate of paid holiday usage and support for next-generation development are checked at monthly executive boards, and linked on to improvements by other organizational structures such as our Personnel System Improvement Committee.

In terms of human resources development, we have built an education and training system that develops employees' abilities, established our own self-improvement system known as ITO EN Business College & ITO EN Graduate School, and are investing our energies into the development of human resources who will play key roles



in the next generation of business management. So far, these schemes have produced over 10,000 graduates. We have also established the Business Skill test on ITO EN TEA TASTER System to aid in the training and development of tea professionals (see pages 25-26), and are working to develop global human resources through our overseas training scheme.

### Support schemes for major events in employees' lives

In FY2017, ITO EN launched the Family Support System to facilitate comprehensive support for ITO EN employees and their families during major life events through various support schemes, including work support, welfare benefit support and salary support schemes. We are also seeking to improve our working environment to enable employees to continue working with peace of mind, through the introduction of various new schemes; including a work-at-home scheme aimed at employees subjected to various constraints due to reasons such as childcare and nursing care commitments, a reserve annual paid leave scheme that enables employees to make use of lost (or expired) annual holiday leave as reserve paid leave in case of unforeseen circumstances in childcare and nursing care, and a leave of absence scheme aimed at employees wishing to undergo fertility treatment.



## Health & safety and employee health initiatives

ITO EN makes every possible effort with regard to employee health and safety, working towards a goal of zero work-related accidents. In addition to holding meetings of our group-wide Health & Safety Committee, which formulates group-wide policies and goals, individual sales locations also hold their own health/hygiene committee and health & safety committee meetings to discuss (and advise the company regarding) measures for maintaining and improving employee health, educating employees regarding health and safety-related issues, and preventing possible danger.

In terms of health-related initiatives, we are working proactively to create workplace environments that will enable all employees to work in a healthy and active manner; such as by conducting regular health checks and stress checks that go beyond the legal requirements, and creating various support systems that include gynecological examinations for female employees, and treatment to help employees quit smoking.

In February 2018, in view of these efforts, ITO EN was recognized under the large-scale enterprise category of the 2018 Certified Health and Productivity Management Organization Recognition Program ("White 500").



## Initiatives to promote diversity

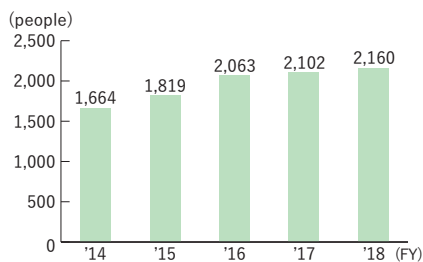
We are also investing our energies into promoting workplace diversity, and have taken concrete action to do so. In its action plan based on the newly adopted Act of Promotion of Women's Participation and Advancement in the Workplace (April 1, 2016 - April 30, 2019), ITO EN set three goals; for implementing educational training for female employees and other employees to involve them in business activities, enhancing interpersonal networks between fellow female employees, and reducing overall overtime hours by 10%.

With respect to employment of people with disabilities, too, ITO EN has recruited in excess of the standard hiring rate, and is working to create workplaces that will enable them to work easily and continuously based on an understanding of their own particular aptitudes and competencies. At the same time, we are working to promote greater understanding amongst employees.

## Creating a system to enable employees to work until the age of 70 (reemployment scheme)

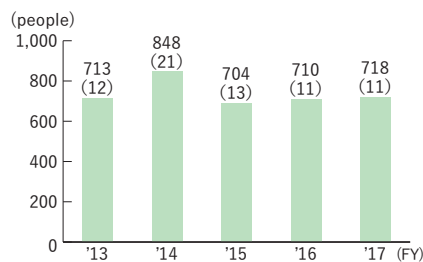
Although ITO EN had already established a reemployment scheme that enabled employees to work for a maximum further five years after mandatory retirement, as of FY2017, we have revised the scheme to enable employees to work until the age of 70, with the aim of revitalizing the company as a whole and improving productivity. In this way, we are driving the creation of a system that will enable employees to work in a healthy and active manner up to the age of 70, by creating an environment that allows them to make maximum effective use of the experience, knowledge and expertise developed over the course of their careers, in a variety of workplaces.

### Number of qualified ITO EN TEA TASTERS



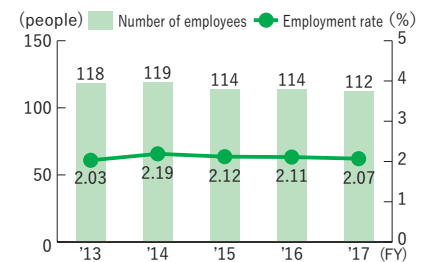
\*Numbers of qualification holders quoted for each fiscal year are figures for May.

### Number of ITO EN Business College & ITO EN Graduate School graduates



\*Figures in brackets are numbers of ITO EN Graduate School graduates.

### Numbers and employment rate for people with disabilities



\*Numbers of employees quoted for each fiscal year are figures for the end of March. Employment rates are for April - March.

## TOPICS

### 「Team88 (Team Happa)」

Team88 (pronounced "Team Happa" meaning "Team Leaves" in Japanese) is an internal cross-group project team composed of female employees. It was established based on the concept of "valuing the traditional Japanese spirit of *Wa* and communicating the appeal of tea to people around the world." The team engages in a wide range of activities, including communicating the appeal and attraction of tea in multiple languages, organizing hands-on tea-related experience events, and conducting research into foreign tourists.



A tea experience event aimed at foreign visitors to Japan

## Commitment

### Atsushi Hirata, Managing Executive Officer and Manager of Administration Division

I believe that people are a company's greatest strength. In Japanese we use the word *jinzai*, meaning "human resources," but I prefer to use a different character to write the word, because I think of them more as "human assets" or "treasure." For a company, people should be a form of treasure, and our mission is to find the right way of polishing that treasure until it shines. In its personnel system, ITO EN advocates the concept of evaluating its employees based on merit. Under no circumstances, factors such as academic background, gender, nationality or age reflect upon an employee's opportunities to engage in certain work or receive education or training, or bear any relation to evaluations of work performance. As a basic rule, equal chances are given to every individual employee, and evaluations are conducted fairly.

Based on this philosophy, we are working to improve our workplace environments to enable us to improve productivity and create innovation, by driving HR development and promoting the creation of workplaces in which it is easy for employees to work. By providing attractive workplace environments for human assets with not only sound business knowledge but also a good understanding of ITO EN's way of thinking, we want to produce human resources who grow and develop continuously.

While we are already working at a grass-roots level to systemize schemes to support employee diversity and a diverse range of workstyle, moving forward, we will also continue to enhance our HR management even further, in order to enable each and every one of our employees to work healthily and energetically.



# The Value Created by TEA TASTERs

As ITO EN works towards its aim of becoming a “Global Tea Company”, the Group has high expectations for its TEA TASTERs, as professionals making an active contribution in all areas of the tea-related value chain; from product planning and development, procurement, production and logistics, to sales and distribution. ITO EN considers human resources to be the foundation for competitiveness. Our TEA TASTERs are a true source of that competitiveness, and play an important role in aiming for sustainable growth for the future.

## About the ITO EN TEA TASTER System

ITO EN’s TEA TASTER System is an in-house business skill test system that has been in operation since 1994, with the objectives of instilling employees of “tea-company ITO EN” with a high level of tea-related knowledge, and conducting tea-related enlightenment activities both inside and outside the company. Candidates wishing to obtain the qualification participate in a skill test held once annually, with successful candidates being determined by a strict screening process. The test involves academic content, tea tasting and oral recitation, and requires a wide range of skills and knowledge on topics from tea culture to how to make great-tasting tea. The system was certified by the

Ministry of Health, Labour and Welfare (MHLW) as an approved business skill test”, becoming the first in-house business skill test to be certified after the 2016 certification system revision.

As of May 2018, there are a total of 2,160 TEA TASTER qualification holders, conducting tea culture enlightenment activities at various locations throughout Japan. As a representative example of their efforts, in FY2017 TEA TASTERs held a total of 1,872 events, including Dai-Cha-Kai (demonstration sales and tasting events of green tea) and seminars on how to prepare delicious Japanese green tea.

### ▼TEA TASTER qualifications (from Grade 1 to Grade 3)

Grade levels	Grade	Knowledge & skills (tea tasting)				Number of qualification holders
		Green tea	Chinese tea	Black tea	Tea ceremony	
	Grade 1	○	○	○	○	17
	Grade 2	○	○	○	—	311
	Grade 3	○	—	—	—	1,832
	Total					2,160

(As of May 2018)



Scene from a seminar on how to prepare delicious Japanese green tea

### ■TEA TASTER Grade 1 qualification holders: professionals with advanced tea-related knowledge and skills

TEA TASTER Grade 1 qualification holders are tea professionals with advanced wide-ranging tea-related knowledge and skills, who have also acquired an understanding of traditional Japanese culture and manners, such as the tea ceremony. They act as brand ambassadors and missionaries, implementing the Group’s

management principle of “Always Putting the Customer First” and spreading the appeal of tea and ITO EN’s strengths by communicating information widely both within the Group and externally.



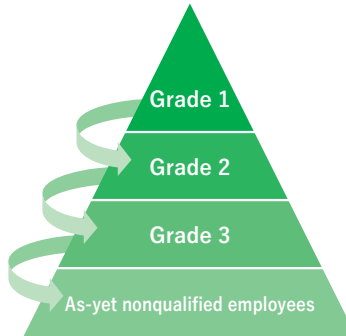
(Back row, from left to right) Mitsumasa Shida, Deputy Chief of General Manager, Marketing Division; Minoru Suzuki, Deputy General Manager, CSR/ESG Promotion Department; Yasuhiro Ogawa, Sales Promotion Department; Ikutaro Mochizuki, Section Chief, 1st Production Department; Toshiki Sakurai, GII, 1st Production Department; Osamu Aizawa, Brand Manager, Marketing Department; Tetsuya Kobayashi, General Manager, Sales Promotion Department; Tatsuya Yoshida, Brand Manager, Marketing Department  
 (Middle row, from left to right) Shoko Tanaka, Marketing Department; Yasutaka Yokomichi, Section Chief, Purchase Department; Toshiya Asahi, Section Chief, Purchase Department; Taizan Nakamura, Sales Promotion Department  
 (Front row, from left to right) Takashi Ai, Chief, Marketing Department; Yoshie Inoue, Group Leader, Sales Promotion Department; Yumiko Hamada, International Business Promotion Department; Noriko Hirogami, Assistant Section Chief, Sales Promotion Department; Hiroaki Muramatsu, Agricultural Technology Department

## Seeking to improve knowledge and skills

Training for TEA TASTER qualification holders involves tiered training with the objective of improving knowledge and skills required for their respective qualifications, and educational training that seeks to develop the next generation of TEA TASTERS.



Grade 2 TEA TASTERS educating Grade 3 TEA TASTERS

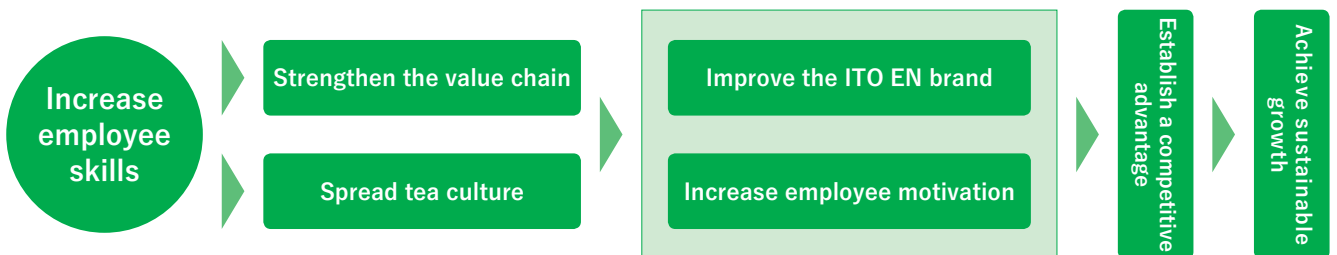


A group training session for Grade 2 TEA TASTERS

## Benefits of the TEA TASTER System

Improving the level of employees' skills through the Tea Taster System is strengthening ITO EN's value chain and helping to spread and popularize tea culture on a wider scale. The knowledge and skills that employees gain as TEA TASTERS are utilized in their daily work duties, creating value in the various areas of the value chain, resulting in a stronger and more robust value chain overall. Moreover, the contact made with customers through activities to spread tea culture not only enables us to propose ideas for enriching customers' dietary lifestyles, but also to ascertain their needs and utilize that information in creating better products.

These initiatives generate beneficial effects such as strengthening the ITO EN brand, increasing employee motivation, and establishing a competitive advantage, and also lead to further sustainable growth.



### \*MHLW-approved Business Skill Tests

The MHLW Business Skill Test certification system is based on the Human Resources Development Promotion Act (Act No. 64 of 1969), which aims to develop and improve the skills of workers as required to perform their jobs. The Minister of Health, Labour and Welfare certifies in-house tests or examinations established by employers to test the occupational skills of workers whom they employ, and to encourage workers to improve their skills.

Business Skill Test approved by MHLW logo



### Example usages of the Business Skill Test approved by MHLW logo

#### Badges



#### Business card



Skilled Professional on ITO EN TEA TASTER Grade I  
Business Skill Test approved by MHLW

# Always Putting the Customer First

## 《Always Putting the Customer First》

All employees unite as “Team ITO EN” to pursue our management principle of “Always Putting the Customer First.” At ITO EN, with the aim of promoting an understanding of marketing for employees, we have prepared the following interpretation of a sale that is to be shared and practiced by our employees.

### Five marketing functions

1. Marketing research ..... Know your customer
2. Merchandising ..... Attend to the customer’s wants and needs
3. Sales ..... Provide service to the customer
4. Sales promotion ..... Attract the customer
5. Advertising ..... Communicate with the customer

## 《Concept for product development》



At ITO EN, we value natural blessings and continue to provide their delicious flavors to customers in the form of beverages.

With the aim of single-mindedly serving our customers and adding elegance and health to people’s daily lives, we continue to take on the challenge of creating “natural,” “healthy,” “safe,” “well-designed,” and “delicious” products, and pursue new possibilities.

## The spirit of “STILL NOW”

At ITO EN, we want to cater to the expectations of customers through our products and services. Working based on our keyword “STILL NOW,” we are constantly considering the problem of “what customers are still now dissatisfied with.” This is the central concept in implementing our management principle of “Always Putting the Customer First.” We also utilize the stream of requests and points of dissatisfaction submitted to us via our sales personnel in product development efforts.

# Oi Ocha's History of Technological Innovation and New Market Creation

In 1984, ITO EN invented the world's first canned green tea, ahead of other firms in the industry, and began developing the green tea beverage market. Since then, we have continued to deliver *Oi Ocha* to our customers, along with several "world-first" and "industry-first" technological innovations.

The source of these lies in our particular attention to the authentic flavor and aroma of green tea, and our wish to deliver relaxation and smiles to every customer who drinks *Oi Ocha*.

'66



The Frontier Tea Corporation, ITO EN's predecessor, launched packaged green tea. In 1969, the corporate name was changed to ITO EN. (The above photograph shows the products with the new corporate name).

'79



Signed a contract with the China National Native Produce and Animal By-Products Import and Export Corporation, a Chinese company, to become the first company to import oolong tea into Japan.

'80



Launched the world's first canned oolong tea.

'84



Invented the world's first canned *Sencha* (green tea) beverage. (The product was launched in 1985.)

'89



Launched the *Oi Ocha* brand. Started the *Oi Ocha* New Haiku Contest.

### The T-N (Tea and Natural) Blow Process (1984)

- Achieved improved quality by removing oxygen during the filling and capping production stage.

'90



Launched the world's first green tea beverage in PET containers (1.5 liter).

'96



Obtained a patent for technology known as the "Natural Clear" production method.

'00



Launched products in heatable PET containers.

'11



*Oi Ocha Ryokucha* (Green Tea) received the 2011 Good Design-Long Life Design Award (hosted by the Japan Institute of Design Promotion).

'16



Launched microwaveable products

### The Natural Clear Production Method (1996)

- A micro-filter made from natural materials is used for fine filtration.
- The clear color of green tea is preserved and the formation of sediment in tea is prevented.

### Joint development of heatable PET containers (2000)

- High performance containers with improved quality preservation characteristics compared to conventional PET containers.
- Selection of crude tea ingredients and a brewing method suited to warm beverages.

### Introduce Green tea beverages in eco-friendly PET containers (from 2010)

- Reduced the weight of the PET containers by around 30% compared with the previous one.
- Room-temperature aseptic filling method that does not use a sterilizer to sterilize PET containers.

'18



Launched *Oi Ocha Shinryoku*

'19

30th anniversary of the launch of *Oi Ocha*

Medium-term goal: Annual sales of 100 million cases

Towards a "Global Tea Company"

ITO EN will continue to move forward together with tea, and take on new challenges with the aim of becoming a "Global Tea Company."

# Establishment of the *ITO EN* Brand

—The challenge of becoming a “Global Tea Company” —

By applying the “From Tea Plantations to Used Tea Leaves” business model that it has developed in Japan on a global scale, the ITO EN Group aims to become a “world-class tea producer,” providing new value to customers and society through its ITO EN brand, encouraging healthier, more enriched dietary lifestyles, and promoting them as a feature of Cool Japan.

## Overseas brand strategy

Strengthening and expanding the global brand

- 「*Oi Ocha*」
- MATCHA GREEN TEA

Bolstering sales of leaf tea

Deploying products that cater to regional characteristics



Fujian New Oolong Drink Co., Ltd., which is engaged in the manufacture, export, and sales of beverages

We are undertaking the development of our business in China and Southeast Asia to establish business foundations in those markets.

China

Japan



A scene showing the new tea plantation business



Certificate of appreciation issued by the Australian government and the Australian Trade Commission in April 2010 for ITO EN's technology of developing products using green tea produced in Australia

The Tea-Producing Region Development Project (new tea plantation business) in Victoria, Australia, and a crude tea factory.

Southeast Asia

Australia

### ▼ *Oi Ocha* around the world



China



Hong Kong



Taiwan



Korea



Australia



Singapore



Thailand



Indonesia



North America

## TOPICS

### Increasing popularity of *matcha* (powdered green tea) amongst inbound consumers and expanding exports

As a means of appealing to inbound tourists and consumers, ITO EN has established a Japanese-style café named *Saryo* ITO EN at Tokyo Haneda Airport and Fukuoka Airport, along with specialist tea shops at other locations such as Narita International Airport and New Chitose Airport to provide rigorously selected ITO EN green tea and *matcha* in a traditional-feeling Japanese space. Foreign language speaking store clerks are posted at these stores to cater to non-Japanese speaking customers, and are working to raise brand recognition and increase sales by instilling visitors with the image that green tea and *matcha* are synonymous with Japan's ITO EN. ITO EN is working not only to increase domestic sales through its response to inbound demand, but also to link these activities on to a further increase in already accelerating global exports by advancing the development of its overseas operations.



*Saryo* ITO EN café inside Fukuoka Airport's International Passenger Terminal



ITO EN store inside New Chitose Airport's International Passenger Terminal

# MATCHA GREEN TEA



Tea bags geared towards the Chinese market



Tea bags



Powdered tea



ITO EN exhibited at the first "JAPAN'S FOOD" EXPORT FAIR\*.

\*Japan's largest trade show dedicated exclusively to food product exports. All manner of food product manufacturers and export-related companies (from those dealing in agricultural and fishing produce to sweets and confectionaries, beverages and processed food products) exhibit at the show and engage in business negotiations with food product buyers from around the world.



## America

Sales of *Oi Ocha* and other sugar-free beverages are growing, driven by increased health awareness in the United States and the registration of *washoku* (Japanese cuisine) by UNESCO on its list of Intangible Cultural Heritage of Humanity in December 2013. Sales of tea leaf products have also been strong, thanks to *matcha* (powdered green tea).

# From *ITO EN* in Japan to *ITO EN* around the world

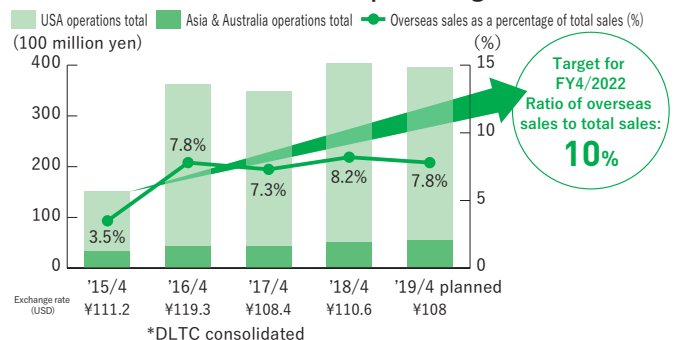
## ▼ Increasing variations of *Oi Ocha* brand (in North America)



## ▼ Progress in overseas expansion

United States	Hawaii (1987-)
	New York (2001-)
China	Fujian (1987-)
	Zhejiang (1994-)
	Shanghai (2012-)
Oceania	Australia (1994-)
Southeast Asia	Southeast Asia (2012-) (Singapore, Thailand, etc.)

## ▼ Overseas business sales and percentage of total sales



# Oi Ocha: 30 Years as a Well-Loved Brand

—In Pursuit of Sustainable Products—

*Oi Ocha* is a beverage that is now well known not only in Japan but around the world. Domestic recognition of *Oi Ocha* has reached 99.5%, and it has grown into a brand that is well and widely loved by consumers. In February 2019, *Oi Ocha* marks the 30th anniversary of its launch. Moving forward, we will continue to identify customer needs and lifestyle changes, and to deliver new innovations, with the aim of ensuring that *Oi Ocha* remains a product that is constantly in line with the needs and wishes of customers.

## *Oi Ocha* in figures

**No.1**  
Tea beverage  
brand\*1

**30 years**  
The *Oi Ocha* logo has remained unchanged since it was created by Japanese calligraphy master Kakyō Adachi 30 years ago.

Percentage  
recognition rate of  
*Oi Ocha* in Japan  
**99.5%**\*2



**70** cut lines  
to preserve freshness!  
New fresh-cut bottle design  
The new bottle design features 70 finely cut lines in the top section that protect the tea from external light, which causes degradation. The undulations cause diffuse reflection of light, helping to preserve the delicious taste of the tea.

ITO EN handles  
approx.  
**25%**  
of all crude tea  
in Japan

Market share  
**33%**\*1

Made using  
**100%**  
domestically  
produced  
tea leaves

\*1 According to research conducted by ITO EN (January–December 2017)  
\*2 According to research conducted by ITO EN (Internet research; N=3,832; September 2017)

### Launch of *Oi Ocha Shinryoku*

The fresh and refreshing flavor is like taking a deep breath, but in a drink.

In May 2018, ITO EN launched *Oi Ocha Shinryoku*, a new tea beverage aimed at women and younger people, based on the concept of “a deep breath in a drink.” The design projects a vivid golden-transparent yet turquoise coloring and adopts a new bottle shape which is both comfortable and also conveniently sized, and fits easily inside a bag. The “stress-free” flavor and transparent-feeling design have earned the drink support, primarily amongst women in their 20s and 30s.





# Spreading the Deliciousness and Enjoyment of Tea

—Revitalizing the green leaf tea & *matcha* (powdered green tea) markets—

ITO EN is utilizing its strengths in the field of tea to spread the deliciousness and enjoyment of tea and expand new markets. With regard to green leaf tea and *matcha*, the Group is driving initiatives to communicate the value of these products, and let more people learn about the appeal and attraction of tea.

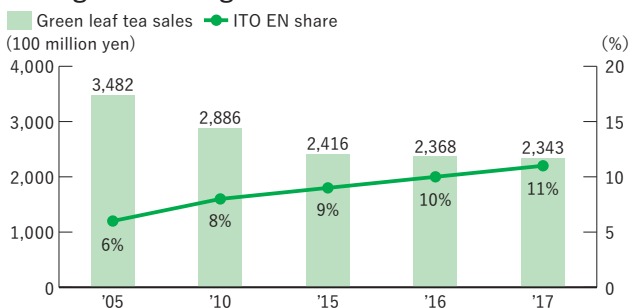
## Revitalizing the Domestic Green Leaf Tea Market

In recent years, the number of opportunities to make tea using a traditional teapot have become few and far between, and the green leaf tea market has shrunk drastically as a result. Amidst this decline, the market for easy and convenient products such as tea bags and instant tea continues to grow, and at ITO EN too, products in this category are driving the expansion of our market share. Based on these consumer inclinations, we are seeking to

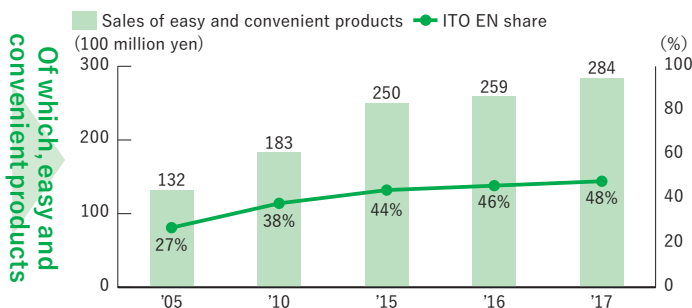
further improve the quality of our easy and convenient products and enhance our product lineup.

At the same time, we are also contributing to the revitalization of the green leaf tea market through unique initiatives of the kind only possible at ITO EN, in order to spread the enjoyment and appeal of making tea using a teapot, which is a part of Japanese traditional and lifestyle culture.

### ▼ Progress in the green leaf tea market



Source: ITO EN, Market: January–December, ITO EN: May–April



### ■ Market revitalization initiatives

#### Holding Dai-Cha-Kai (demonstration sales and tasting events of green tea) events to popularize and enlighten people about tea

ITO EN communicates the deliciousness and enjoyment of tea in various ways to match various lifestyle situations, such as by holding Dai-Cha-Kai run by ITO EN TEA TASTERS in stores across Japan.

ITO EN has also established a commemorative day—*Nihoncha no hi* (Japanese Green Tea Day)\*<sup>1</sup>—on October 1 of each year, in honor of the day when Hideyoshi Toyotomi (a prominent figure in Japanese history, known for unifying Japan at the end of the Warring States period) spread tea to many people in Japan by holding a Dai-Cha-Kai of his own at Kitano Tenmangu shrine in Kyoto. ITO EN employees hold Waku Waku Dai-Cha-Kai events (“waku waku” means exciting) simultaneously at mass retailers nationwide to commemorate the day.

\*<sup>1</sup> *Nihoncha no hi* (Japanese Green Tea Day): established in 2002 by the Japan Anniversary Association



A Waku Waku Dai-Cha-Kai event

#### ITO EN sales floor planning

In addition to leaf and teabag-type products, ITO EN also offers other easy and convenient products, such as powder type tea, made using the spray drying\*<sup>2</sup> production method, which dissolves readily in both cold and hot water. Handling both leaf and bottled drink products enables ITO EN to propose unique sales floor planning ideas.

\*<sup>2</sup> Spray drying: A manufacturing method whereby extracted liquid tea is concentrated and then dispersed as a fine mist, before being dried rapidly using hot air and granulated into powder.



Oi Ocha Japanese Green Tea with Kyoto Uji Matcha  
Combined launch of bottled drink, leaf tea and tea bag products

#### Developing “The Perfect Teapot”

In order to raise the level of the green leaf tea and *matcha* markets, ITO EN runs campaigns in which customers who purchase certain products will definitely receive an “The Perfect Teapot”<sup>\*3</sup> developed by ITO EN. (For details of the timing of these campaigns, please consult our website, etc.)



ITO EN's “The Perfect Teapot”

Through the functional beauty of this “The Perfect Teapot,” ITO EN is proposing the flavor and culture of Japanese tea attainable using a traditional teapot to members of the younger generation.

\*<sup>3</sup> The Perfect Teapot: In addition to its stylish appearance, ITO EN's *kyusu* (traditional Japanese teapot) design considers everyday usability, including not only ease of holding and pouring but also ease of washing and hygiene, such as through the adoption of a detachable strainer. The teapot's intelligent and functional design ensures that it dries easily when placed upside down after washing (due to the flow of air through it), as well as being dishwasher-ready. It also offers excellent resistance to hot and cold temperatures, and high robustness, making it very unlikely to crack or break. The adoption of a transparent polymer material which offers exceptional glass-like transparency, high safety (due to the absence of any endocrine disruptors), and chemical-resistant properties that enables the use of bleach and other such cleaning agents mean that the teapot can also be used by elderly people and children with peace of mind.

## Giving the *matcha* market a boost

Due to background factors such as UNESCO’s addition of *washoku* (traditional dietary cultures of the Japanese) to its Intangible World Heritage of Humanity list (in 2013) and an increase in the number of inbound visitors to Japan, interest in Japanese food culture and Japanese tea is increasing both domestically and overseas. In particular, overseas demand is growing, and export volumes are increasing, with a primary focus on *matcha* (powdered green tea).

*Matcha* is a part of traditional Japanese food culture upon which Japan prides itself around the world, and which has gained recognition for its compatibility with various foods, delicious taste, and health benefits. Products containing *matcha* (such as leaf tea, sweets

and confectionaries) are also popular in the domestic market amongst visiting tourists as gifts and souvenirs to take home with them.

ITO EN handles over 25% of all crude tea produced domestically in Japan, and has established a framework for catering to globally-increasing demand for *matcha* by commencing operation of a dedicated *matcha* production plant at its Shizuoka Sagara Factory as of 2016. In addition to boosting the *matcha* market with a wide range of products, including truly authentic *matcha*, we are also working to raise our level of recognition; making Japanese tea and *matcha* synonymous with Japan’s ITO EN.

### Responding to various forms of demand

**Otemae**  
(for tea ceremony use)



High-quality *matcha* for otemae (tea ceremony use)



Home use, etc.



**“Japanese-style café” Saryo ITO EN**

ITO EN has opened 10 Japanese-style cafés where customers can experience traditional Japanese tea culture. The cafés offer a menu with various items made using *matcha*.

### Proposing ways of enjoying *matcha*



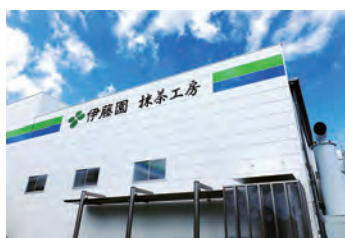
Employees serve tea in a traditional manner





Organizing “Experience drawing pictures on *matcha*” where participants can become casually accustomed with tea culture.

Revitalizing the *matcha* market



### A dedicated *matcha* production plant

ITO EN's *Matcha Kobo* (dedicated *matcha* production plant) was constructed and opened on the premises of its Shizuoka Sagara Factory in June 2016. The factory caters to increasing demand for *matcha*.




### Tea café chain in North America

The “Matcha LOVE” café chain (operated by ITO EN (North America) Inc.) offers a menu focused specifically on *matcha* items. The chain currently has five locations, including those in the New York suburbs, California and Hawaii. The cafés have developed a good reputation for their *matcha* ice cream and other desserts.

### Expanding ITO EN *Matcha*

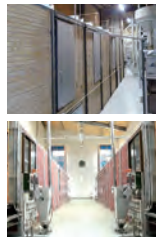
Developing *matcha*-growing regions (contracted tea farmers)



ITO EN is expanding contracted cultivation of *matcha* raw ingredients (*tencha*\*) in areas such as the Kyoto and Kagoshima prefectures.

\**Tencha*: Tea that has been dried without being kneaded. The tea leaves are steamed then dried, but without being kneaded. The fine flecks of tea that remain after removing the stems and leaf veins are referred to as *tencha*.


### Unique clean processing facilities




ITO EN's processing facilities utilize proprietary technologies to process raw ingredients into good-quality *matcha* characterized by its bright green coloring and rich flavor.

In light of increasing health-oriented attitudes and the global *matcha* boom, ITO EN sales volumes of *matcha* to overseas buyers have

## tripled in 3 years



High-quality, bright green color



Expanding overseas sales, primarily in the USA

# Creating value with barley tea



In addition to its health benefits, barley tea creates additional value as a caffeine-free tea beverage, offering safety and peace of mind for consumers.

## Creating health value

### Hydration and appropriate mineral replenishment

ITO EN proposes barley tea as an ideal drink not only for combatting the midsummer heat, but also for mineral replenishment when playing sports, and hydration (fluid replacement) during the wintertime, when we are prone to become dehydrated.

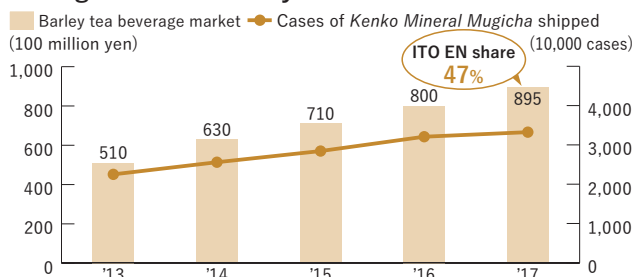
The barley tea beverage market is continuing to grow, and sales of *Kenko Mineral Mugicha*\* (Healthy Mineral Barley Tea) are growing along with it, currently enjoying a 47% market share as

the No.1 caffeine-free tea beverage (in terms of quantity sold).

Meanwhile, the market scale of the barley tea leaf tea market is progressing at around 16 billion yen. ITO EN has also been a pioneer in this market, such as with the development of products containing various minerals, and currently holds a 43% market share, focused primarily around teabags, instant tea, and other easy and convenient products.

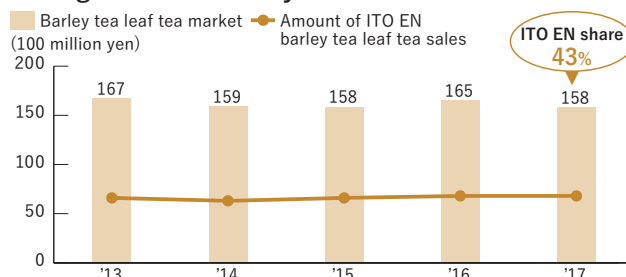
\*The word "mineral" in *Kenko Mineral Mugicha* refers to the minerals phosphorus, manganese and sodium.

### Progress in the barley tea market



Source: ITO EN, Market: January–December, ITO EN: May–April

### Progress in the barley tea leaf tea market



Source: ITO EN, Market: January–December, ITO EN: May–April

### Quality management for safety and peace of mind

As a "Specifications for Infant Foods applied\*" food product, *Kenko Mineral Mugicha* is a product that can be drunk by babies and all members of the family in safety and peace of mind. ITO EN uses a thorough quality management system, which enables the results of radioactive materials inspection measurements to be verified via the QR code displayed on the product itself.

*Kenko Mineral Mugicha* is also a caffeine-free product, and is recommended for pregnant women, breastfeeding mothers, small children and other people with concerns about their caffeine intake. It can also be drunk with peace of mind for hydration both before bed and after waking up.

As such, for ITO EN, barley tea offers a means of developing new customer demographics, while for consumers it caters to caffeine-free beverage needs, offering safety and peace of mind. In this way it creates shared value, which in turn generates new added value.

\*Specifications for Infant Foods applied: In the new standard on limits for radioactive materials in food formulated by the Ministry of Health, Labour and Welfare (MHLW), food products with Specifications for Infant Foods applied are subject to tougher standard values than general foods.



## TOPICS

### Atsui Machi Summit (Hot City Summit) × Kenko Mineral Mugicha

In June 2018, the 5th *Atsui Machi* Summit in Shibuya was held in Shibuya, Tokyo. Representatives from four cities that have recorded the hottest temperatures in Japan (Shimanto in Kochi Prefecture, Kumagaya in Saitama Prefecture, Tajimi in Gifu Prefecture, and Yamagata in Yamagata Prefecture) came together with the support of the Ministry of the Environment, as well as the cities themselves and their respective prefectures. ITO EN also participated in the summit as a cosponsor. Through *Kenko Mineral Mugicha*, we are working together with the four cities—which are leading cities in terms of measures for combatting heat—to devise more countermeasures against the heat of the Japanese summer.

In addition to *Kenko Mineral Mugicha* being approved as the official drink for the *Atsui Machi* Summit, it has also been approved as the official drink for the Kumagaya's COOL SHARE KUMAGAYA initiative, which aims to achieve the best anti-heat measures in Japan, and as Tajimi's official drink for combatting hot weather conditions.



Scenes from the *Atsui Machi* Summit

### FOODEX Gourmet Beauty Grand Prix Award Winner (Mom's Love Category)

*Kenko Mineral Mugicha* Instant Barley Tea was awarded a prize in the "Mom's Love" category of the FOODEX Gourmet Beauty Grand Prix 2017. FOODEX is a major food-related event, where female consumers choose the food and drink products that they would like to buy and eat (or drink), with "gourmet beauties" and buyers acting as judges. In addition to the consumer's and seller's perspectives, *Kenko Mineral Mugicha* was also chosen from a mother's unique perspective.



# Creating value with vegetable beverages



Carrotfield

With its vegetable beverages, ITO EN is creating both environmental and social value at every stage of the value chain.

## Catering to health-conscious consumers

The history of ITO EN's vegetable beverages is also one of innovation. In 1992, ITO EN began catering to the needs of health-conscious consumers with the launch of its carrot based *Jujitsu Yasai* (vegetable and fruit mix juice). Since then, we have continued to create new value with our vegetable-based beverages. On the raw ingredient procurement front, in 1999, we launched a program of carrot research in search of the tastiest, most nutritious and most ideal carrots for use in our vegetable beverages. As a result of the comparative cultivation and processing evaluation of around 50 different varieties of carrot, we eventually selected the *Shui* variety (in 2006).

We also pay particular attention not only to our raw ingredients but also to our production processes. Using our proprietary Natural Sweetness Production Method\*, which also improves absorption of  $\beta$ -Carotene, we draw out the natural sweetness and bright coloring of our carrots to create delicious easily-drinkable beverages.

ITO EN has also expanded its use of contracted cultivation for the raw ingredients in its vegetable beverages to include other vegetables aside from carrots, such as mulukhiyah (moroheiya) and spinach; which are used as raw ingredients in our *Jujitsu*

*Yasai* and *Ichinichibun no Yasai* (A daily worth of vegetables).

We are also responding to the increase in health-oriented attitudes such as by developing FOSHU-certified vegetable beverages products. We have also ensured traceability in the raw ingredients used in our vegetable beverages, including those produced overseas.

In this way, through value created through our value chain, we deliver nutritious, safe and delicious products to our customers.

\*Natural Sweetness Production Method: First, the carrot tops are removed, and the carrots are peeled. The grassy smell is removed, and the carrots are then blanched (boiled) and finely grated to remove the "scummy" constituents, leaving the natural sweetness of the carrots. (Method Patent No. 3771919)

### ▼ Main raw ingredient carrot variety

#### "Shui"

The three distinctive features of the *Shui* carrots are that they (1) contain around 1.5 times the amount of  $\beta$ -Carotene contained in typical carrots, (2) are around 1.1-1.3 times sweeter, and (3) contain minimal amounts of scum. *Shui* carrots have also been recognized by specialists, such as in their selection in First Place in the "Carrots - Raw and Steamed" category at the 5th Japan Vegetable Sommelier Association Summit—a gathering of vegetable experts—in 2011.



## Expanding the *aojiru* (green juice) market and making it an everyday drink

In recent years, the *aojiru* market is displaying significant growth, with many people revising their opinions of the drink not only for its health-promoting benefits, but also with regard to its deliciousness and drinkability. Consumer demographics are expanding, primarily amongst younger people, and *aojiru* is starting to become an everyday drink. The *Mainichi Ippai no Aojiru* ("one glass of green juice a day") series has been received favorably since its launch in 2012 for its delicious taste, and is leading the market; growing to No. 1\* in the *aojiru* beverage category in terms of sales quantity.

Moving forward, we will continue to invest our energies into expanding

the *aojiru* beverage market further, and creating more lifestyle scenes and situations in which *aojiru* beverages are consumed.

\*Sales between January and December 2017 (according to research conducted by ITO EN).

### ▼ Barley grass used in *aojiru*, and the Tea-Producing Region Development Project

By growing barley grass (a raw ingredient for *aojiru*) during the agricultural off-season for tea in certain tea-producing regions, we are promoting effective utilization of tea plucking machines and other resources, and ensuring greater stability of employment for workers throughout the year.

## Sustainable production and consumption

Working in collaboration with its partner companies, ITO EN has developed a brick-shaped aluminum-free paper pack-type drink container (commonly referred to as an eco-container) for its vegetable-based beverages that adopts an environmentally-friendly film lining. This container leads to the creation of new value, for ITO EN in terms of reducing costs by saving energy and resources, and for wider society through the widespread popularization of products that are better for the environment (refer to page 41). ITO EN also promotes voluntary display of production regions for its raw ingredients. We also participate in the Nutrition Day and Nutrition Week initiatives established by the Japan Dietetic Association (JDA), and communicate the nutritional value of

our *Ichinichibun no Yasai* (A daily worth of vegetables) through appealing to customers in-store and educating them on dietary matters.

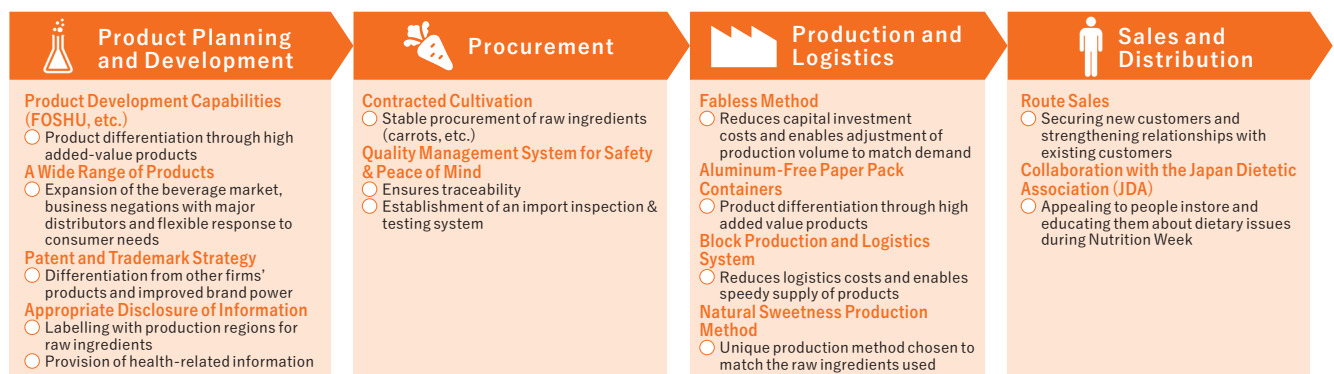
In order to cater to the further increase in customers' health-oriented attitudes and awareness of safety and peace of mind over food, we are developing our own unique products based on the principle of consuming sufficient vegetable nutrients, and paying particular attention to our raw materials and production processes.



たのしく食べる、カラダよろこぶ

8/4 栄養の日 8/1-7 栄養習慣

### ▼ Creating value through our vegetable-related value chain





With its coffee beverages, ITO EN is creating both environmental and social value at every stage by utilizing group synergies.

## Creating new value with coffee

In the coffee beverages field, ITO EN has created a new drink format in the form of TULLY'S COFFEE brand bottle-type canned coffee, in collaboration with Group company Tully's Coffee Japan Co., Ltd. (Tully's Coffee Japan). In order to cater to the diversification of drinking situations we have also launched new products, such as the coffee beverage industry's first microwaveable PET bottle product. We are linking initiatives such as this to an expansion in consumer demographics, including

the younger generation of coffee drinkers; with total cumulative sales for the TULLY'S COFFEE brand exceeding 100 million cases as of April 2018. This has led to the creation of new shared value for Tully's Coffee Japan in terms of increased recognition, and for consumers by the creation of new added value through the delivery of authentic coffee shop flavor in the coffee beverage format.

## Efforts towards building a coffee value chain

Operating primarily in the United States, ITO EN Group company Distant Lands Trading Co. (DLTC) engages in all coffee business processes from cultivation to sales. By purchasing a portion of its raw ingredients from DLTC and using them in its products, ITO EN is pursuing group synergies with DLTC. DLTC is also promoting sustainable production with care and consideration for environmental, social and economic aspects, such as by obtaining Rainforest Alliance certification for a portion of its proprietary plantations and coffee bean selection plants.



"Rainforest Alliance Certified" signboard at a DLTC plantation



## Initiatives at Tully's Coffee shops

Tully's Coffee Japan contributes to the development of picture book authors with its Picture Book Awards contest, holds picture book story-time classes at some of its coffee shops, and donates a portion of picture book sales to educational support programs for children in developing countries run by Save the Children Japan (an NGO that helps children around the world).

Tully's Coffee Japan also recycles used coffee beans from its stores for use in business cards and envelopes, and uses environmentally friendly silverskin-composition paper napkins (made using the skin of the coffee beans themselves, also called silverskin or chaff\*) in its stores.

\*Silverskin/chaff: the thin skin of the raw coffee beans that is removed during the roasting process.

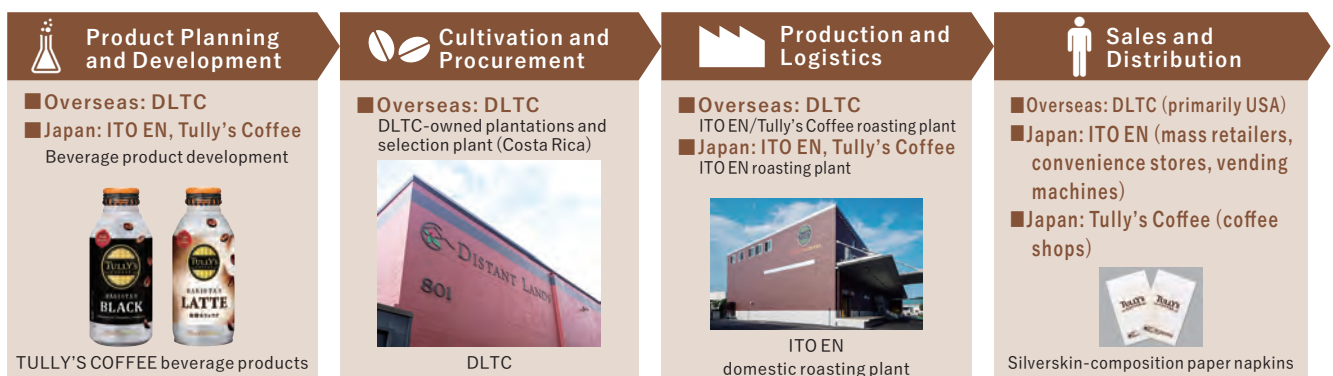


Picture Book Awards contest



A Tully's Coffee store

## Creating value through our coffee value chain



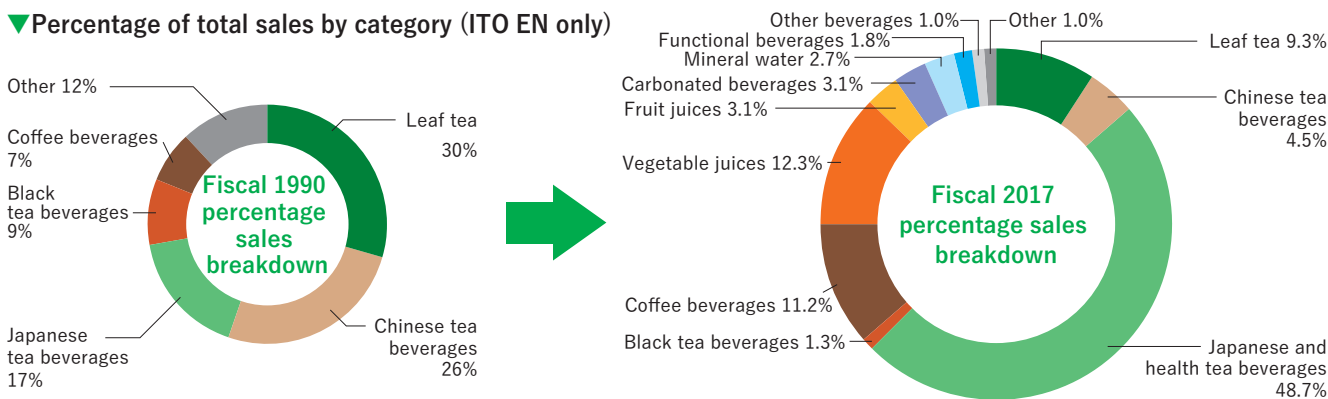
# Developing Brands as a Comprehensive Beverage Manufacturer

—Proposing healthy and fulfilling lifestyles through beverages—

Under the management principle of “Always Putting the Customer First,” we aim to deliver the value of tea—including traditions and cutting-edge technology—to customers around the world, and to make lifestyle proposals as a “Global Tea Company,” our long-term vision.

To this end, we will work to establish ourselves as a comprehensive beverage company in Japan offering mainly tea leaf and beverage products (drinks), and seek to achieve sustainable growth by creating synergies in the Group.

## ▼ Percentage of total sales by category (ITO EN only)



## Brand strategy

1. Bolster sales of flagship brands, with a central focus on *Oi Ocha*
2. Expand linked sales of tea leaf products and drinks

### ▼ Flagship Drink Brands

<b>Oi Ocha</b>	Increase market share with full product lineup	<b>Kenko Mineral Mugicha</b>	Develop consumer appeal about caffeine-free and mineral content
<b>TULLY'S COFFEE</b>	Further enhance and strengthen brand with expanded product lineup	<b>Ichinichibun no Yasai (A daily worth of vegetables)</b>	Encourage drinking and enhance consumer appeal about nutritional value

1990

Launched green tea in PET plastic bottle



### ▼ Leaf Tea Products

<b>Leaf tea</b>	Increase demand with tea awareness-raising activities	<b>Tea bags</b>	Encourage introduction by developing more varieties	<b>Instant tea</b>	Cater to changing lifestyles
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For details about brands, please refer to the following site.  
<http://www.itoen.co.jp/brand/>

1989

Launched the *Oi Ocha* brand



1966

The Frontier Tea Corporation, ITO EN's predecessor, launched packaged green tea. In 1969, the corporate name was changed to ITO EN.

1980

Launched canned oolong tea



1985

Launched canned green tea

'66

'70

'80

'90

### Green tea brands

*Oi Ocha*, etc.



### Barley tea brands

*Kenko Mineral Mugicha*, etc.



### Coffee brands

TULLY'S COFFEE, etc.

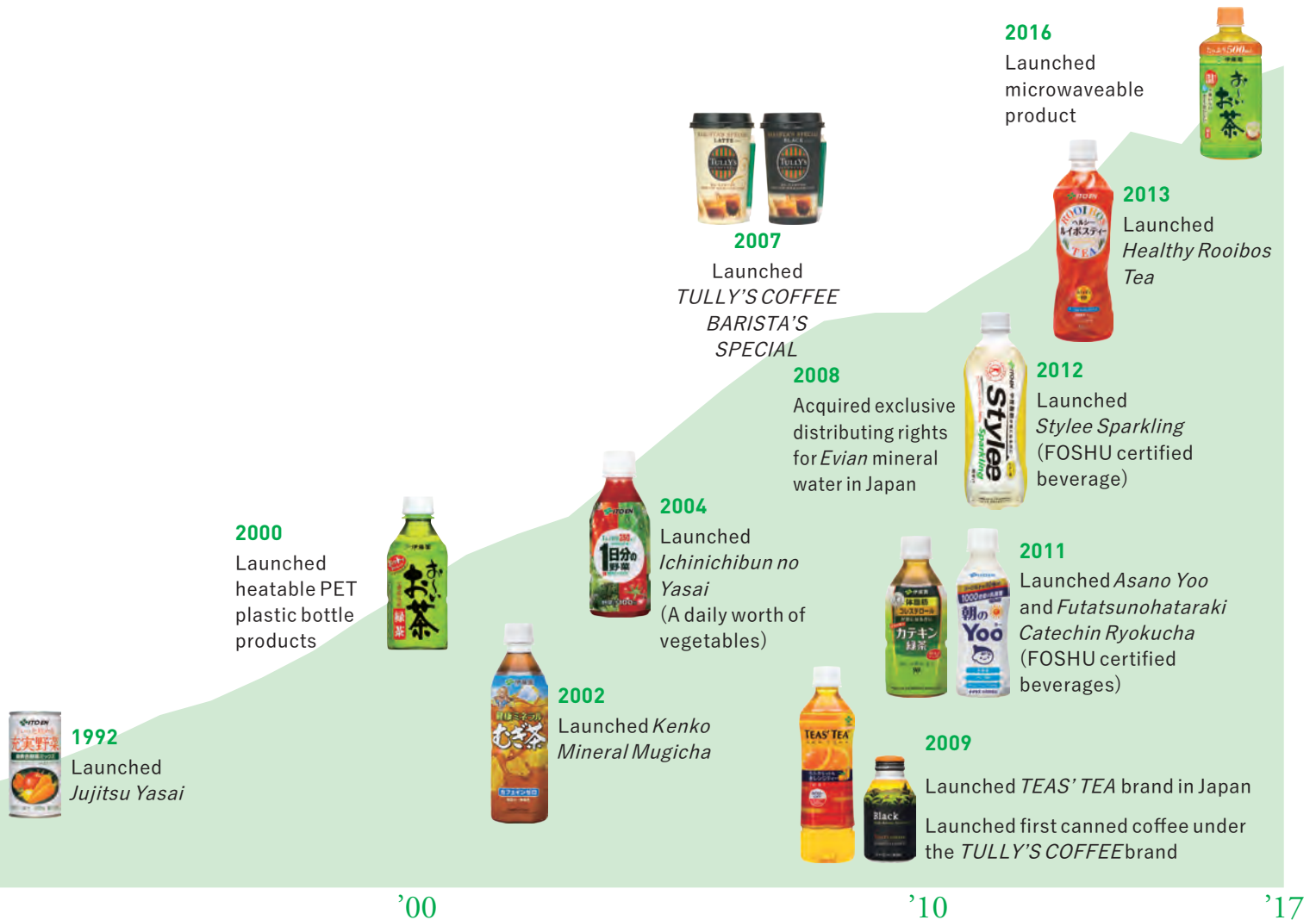


## Commitment | Mitsuo Yashiro, Executive Managing Director

In order to achieve continuous sustainable growth, I believe that there are three keywords that we must observe. Expressed in terms of traditional Japanese language, they are: *fueki-ryuko* (constancy and change), *sampo-yoshi* (three-way satisfaction for buyers, sellers and society) and *ichigo-ichie* (treasuring one's encounters with people as once-in-a-lifetime occurrences). I think that *fueki-ryuko*, constancy and change, is an important and essential concept in marketing and branding. In other words, it is important for us to protect and maintain things such as our core values and principles, and not to change them; while at the same time changing our methods flexibly to match the needs of the times. For example, while we must not change our management principle of "Always Putting the Customer First" or our fundamental product domain, we must continue to optimize our products and services to match the times. If we neglect to do that, then we fall into a state of outdatedness.

I also think that individuality, in other words "originality" is becoming increasingly important. What I mean by this is that we must not imitate others, but continue to further pursue our product development concepts of "natural, healthy, safe, well-designed and delicious," and to build a unique and unrivaled position for ourselves. Although, we must also not become self-satisfied. I believe that we can only become a truly sustainable company by many customers recognizing ITO EN as a good, safe, natural, healthy and trustworthy brand.

We live in an age that demands authenticity, legitimacy and consistency between our assertions and actions; an age where our past experiences of success no longer apply. We must continue to attempt new challenges, in the spirit of *fueki-ryuko*.



### Vegetable brands

*Ichinichibun no Yasai* (A daily worth of vegetables), *Jujitsu Yasai*, etc.



### Other products



### Leaf tea products

*Oi Ocha* series, premium teabags, etc.



# External recognition

All aspects of ITO EN's activities, including its business management in general, from procurement to distribution, have gained external recognition (the following table shows the honors received in the past few years). It is our understanding that these honors are linked to recognition of our activities with respect to the various aspects of ESG (i.e. environment, social and governance).

	Category	Awards
Overall	Overall management	● Porter Prize (2013)
	Continuous improvement of CSR activities	● Japan SDGs Award (Special Award "SDGs Partnership Award") (2017) ● Environmental Communication Award (Outstanding Performance Award) (2018, 2016, 2015)
	Overseas diffusion	● Prize of the Minister of Agriculture, Forestry and Fisheries for the Overseas Promotion of Japanese Food (2013)
Procurement	The Tea-Producing Region Development Project	● Prize of the Minister of Agriculture, Forestry and Fisheries in the Leading Companies in Food Industry Award (2016) ● Nikkei Social Initiative Award for the Corporate Sector (2015) ● Grand Prize for Research and Development (New Technology Sector) in the Food Action Nippon Award (2013)
Production and Logistics	New eco-friendly beverage carton	● Prize of the Minister of the Environment in the Global Environment Grand Prize Award (2016) ● Prize of the Minister of Agriculture, Forestry and Fisheries for the 3Rs (Reduce, Reuse, and Recycle) for Promoters of the 3Rs (2014)
	NS System	● Environmental Performance Award (Outstanding Performance Award) (2015) ● Prize of the Director-General of the Food Industry Affairs Bureau, Ministry of Agriculture, Forestry and Fisheries in the Food Industry Mottainai Award (2015)
	Modal shift	● Special Award at the Logistics Environment Awards (2018) ● Eco-Ship Modal Shift Award for Outstanding Business Operators by the Japanese Ministry of Land, Infrastructure and Transport (MLIT) (2017)
Product Planning and Development	Used Tea Leaves Recycling System	● Prize of the Minister of Agriculture, Forestry and Fisheries for the 3Rs (Reduce, Reuse, and Recycle) for Promoters of the 3Rs (2013) ● Prize of the Minister of the Environment in the Global Environment Grand Prize Award (2011)
Sales and Distribution	"Making Lake Biwa Beautiful Through Tea" and "Making Japan Beautiful Through Tea"	● Prize of the Excellence Award of The Japan Awards for Biodiversity (2015) ● Prize of the Minister of Economy, Trade and Industry in the Japan Water Prize Award (2015)
	<i>Oi Ocha</i> New Haiku Contest	● Encouragement Prize of the Review Board of the Ministry of Education, Culture, Sports, Science and Technology for the Recognition of Enterprises for Their Support of Young People's Activities (2015)
	<i>KEEP IN MY BOTTLE</i> <sup>*1</sup>	● Gold Prize in the FOODEX Gourmet Beauty Grand Prix (Drinks Category) (2018) <Cereal Tea was also awarded the Buyer's Special Prize>
	<i>Kenko Mineral Mugicha Instant Barley Tea</i>	● Grand Prize in the FOODEX Gourmet Beauty Grand Prix (Mom's Love Category) (2017)
	<i>Relax Peach</i> 500ml	● Gold Prize in the FOODEX Gourmet Beauty Grand Prix (Drinks Category) (2017)
	<i>Rooibos Tea</i> 500ml	● Gold Prize in the FOODEX Gourmet Beauty Grand Prix (2014)

\*Year in parentheses indicates the year the award was received.

\*1 *KEEP IN MY BOTTLE*: jasmine tea (7 bags), cereal tea (7 bags), premium rooibos tea (7 bags), rooibos and herb tea (7 bags)

In June 2017, ITO EN was selected as a constituent of the MSCI Japan ESG Select Leaders Index, which is one of the three indexes selected by GPIF<sup>\*2</sup> for ESG investment, and has continued to be selected in 2018.

\*2 GPIF: Government Pension Investment Fund

# CSR Grand Prize in-house award scheme

The CSR Grand Prize is an in-house award scheme, established in fiscal 2011 with the aims of raising employee awareness of CSR issues, improving employee motivation and enhancing teamwork abilities through CSR activities and strengthening trusting relationships with customers. The scheme awards exceptional examples of CSR activities, as a mechanism for recognizing social contribution activities and other CSR initiatives. To accompany ITO EN being awarded the special award "SDGs Partnership Award" at the Japan SDGs Awards, in fiscal 2017, the CSR Grand Prize has been renamed as the SDGs Grand Prize.

## FY2017 SDGs Grand Prize

**Collaboration through the signing of a comprehensive agreement:  
Creating shared value together with Kochi Prefecture**

● Prize winners: Kochi Prefecture Comprehensive Agreement Team

In October 2017, the team formed an agreement with Kochi Prefecture on collaboration and cooperation with respect to promoting regional creation, based on the SDGs. The prize was awarded in recognition of the team creating a foundation for collaboration in a wide range of fields and its efforts towards sustainable city planning; such as contributions to achieving compound local revitalization, such as through the development and sale of products utilizing local specialty produce, and the holding of "beyond2020 Program" certified Japanese Tea Culture Seminars at Kochi Castle and Kochi Park.



The agreement signing ceremony (Left) Masanao Ozaki, Governor of Kochi Prefecture (Right) Shusuke Honjo, Executive Vice President and Representative Director, ITO EN

## FY2017 SDGs Special Award

**Collaboration with a diverse range of stakeholders:  
Sustainable community activities in Yamaguchi Prefecture**

● Prize winners:  
Yamaguchi Prefecture Community Activities Team

In its "Fushinokawa river estuary and tideland nature regeneration activities," the team participated in conservation activities to preserve the habitat of the endangered Japanese horseshoe crab, and to preserve and regenerate the growth of Japanese littleneck clams. The prize was awarded in recognition of the team's integrated implementation and advancement with regard to social issues such as by expanding relations through participating continuously in biodiversity conservation activities and other local community activities organized by a council (administrated by Yamaguchi Prefecture and various local municipalities), and linking them to participation in city planning through the spread of Japanese tea and tea culture.



Conservation activities to preserve the habitat of Japanese littleneck clams

For more details, please refer to the following link.  
▶ <http://www.itoen.co.jp/csr/grandprize/>



# Creating value through culture

~ITO EN *Oi Ocha* New Haiku Contest and Washoku Japan Initiatives~

## ITO EN *Oi Ocha* New Haiku Contest

ITO EN *Oi Ocha* New Haiku Contest was started in 1989, which marked the 300th anniversary of Japanese poet Matsuo Basho's poetic travel diary "*Oku no Hosomichi*" (Narrow Road to the Interior). The previous year, contemporary poet Machi Tawara's *Salad Anniversary* poetry collection had sold 2.6 million copies. It was a time when interest in traditional short-form literature was on the rise, a sign of popularization could be felt. However, since there were virtually no opportunities for writers to exhibit their own works, ITO EN decided to create the contest and use its *Oi Ocha* products as a medium for poets to exhibit their works. The contest is called the "New Haiku" contest because it encourages entrants to express their own thoughts and feelings using the basic 5-7-5 rhythm using their own unique expressive means, without becoming overly hung-up on strict rules such as seasonal expressions, and excessive or insufficient numbers of characters. Fiscal 2018 marked the 29th session of the contest, with a record number of entries (approximately 1.95 million), including entries from 55 overseas countries. The total cumulative number of haiku entries received has now exceeded 33.7 million entries.

From the momentous 30th session of the contest, which starts in November 2018, we will be establishing a new "Tota Kaneko Prize" as an award to carry on the last wishes of the late poet Tota Kaneko.

### Simultaneously achieving cultural promotion and brand strategy

Around 90% of the entries received by the ITO EN *Oi Ocha* New Haiku Contest come from schools and other educational institutions. Some Japanese schools even make use of English haiku as teaching materials for the purpose of improving students' English language ability.

Winning entries to the contest are displayed on *Oi Ocha* product packaging. This is a form of CSV (creating

shared value) by utilizing our packaging as a medium for announcing these works of poetry. For ITO EN, this poetry gives added value to its main brand, *Oi Ocha*; for entrants, it provides an opportunity to display their works to the world; for consumers, it enables them to experience haiku culture through tea; and for society, it contributes to the passing on of traditional culture.

The New Haiku Contest also enjoys the backing of various supporters, including government agencies such as the Ministry of Education, Culture, Sports, Science and Technology (MEXT), and in 2017 became certified as part of the government's beyond2020 Program.



29th awards ceremony



### 「The beyond2020 Program」

ITO EN *Oi Ocha* New Haiku Contest has been approved and certified as part of the Japanese government's beyond2020 Program; a cultural program contributing to the creation of pride-worthy legacies for the next generation, with a view to 2020 (the year of the Tokyo Olympic and Paralympic Games) and beyond. It is a nationwide, unified government initiative, complete with its distinctive logo. (The program is run by the Cabinet Secretariat, Headquarters for the Promotion of the Tokyo Olympic and Paralympic Games at the Prime Minister's Office.)

## Activities to protect and continue *washoku* culture

ITO EN has participated in Washoku Japan since its establishment in 2015, and is working to popularize and enlighten people about *washoku* (traditional dietary cultures of the Japanese) through tea culture.

### Visiting lessons on tea aimed at the next generation

Washoku Japan conducts visiting lessons on *washoku*, given by companies, organizations and individual members, as food education activities aimed at educating the children who will play active roles in the next generation. Japanese tea is an important beverage that has traditionally been served together with Japanese food, and plays a major part in the dietary lifestyles of Japanese people, as a key element of *washoku* culture.

As one part of these food education activities, qualified ITO EN TEA TASTERS visit preschools, elementary schools, junior high schools and other educational facilities and act as lecturers giving visiting lessons on tea, and conducting activities to carry on the traditions of Japanese tea, which plays an important part in *washoku* culture.

### Scientific validation and announcement of findings on the affinity between *washoku* and Japanese tea

The compatibility of green tea with Japanese food is well known through subjective experience. However, since there was little scientific basis for the claim, ITO EN has engaged in research

to investigate the issue.

In February 2018, ITO EN participated in a meeting of Washoku Japan's subcommittee for popularization and enlightenment, held as part of the organization's activities for the continuation of *washoku* culture. At the meeting, ITO EN announced results on Japanese tea and its ability to accentuate the "umami" (or "savory" taste) of Japanese cuisine, with a key focus on the compatibility of green tea with Japanese food.

ITO EN has scientifically determined the compatibility of green tea with a variety of *washoku* dishes. Systemizing our findings is enabling us to appeal to consumers both in Japan and overseas about the high compatibility of green tea with traditional Japanese food, and to make new proposals for ways of enjoying green tea.



A visiting lesson given by an ITO EN TEA TASTER

### Washoku Japan

Washoku Japan is an organization established when the application was made for *washoku* (traditional dietary cultures of the Japanese) to be included in the UNESCO Intangible World Heritage of Humanity list. It conducts activities for the passing on of *washoku* culture to the next generation, and sharing its values amongst all citizens.





# Environment

The ITO EN Group strongly recognizes preserving the global environment, passing it down to the next generation and ensuring sustainability as important responsibilities. The Group therefore sets environmental targets and conducts various activities based on its Environmental Policy.



A "reed cutting" hands-on experience event held in FY2017 as part of the "Making Lake Biwa Beautiful Through Tea" Project

## Environmental management

The ITO EN Group operates an environmental management system based on the ISO14001 standard and supported by its Environmental Policy, and conducts continuous environmental activities. So far, we have obtained (ISO) certification at all ITO EN business locations, as well as a portion of our affiliate companies. ITO EN have also integrated our former Environmental Committee into our CSR/ESG Promotion Committee, which now also formulates responses to social-environmental compound issues and deliberates on the state of progress of environmental policies, environmental targets and activities, under the supervision of the Executive Board.

### Response to environmental laws and regulations

ITO EN verifies observance of laws and regulations at all of its business locations every year, using legal regulation registers. We also undergo audits and on-site checks, conducted by our Legal and Intellectual Property Department, Internal Auditing Department and the ISO administrative office.

We are also introducing electronic manifest management systems at our sales locations, and working to ensure thorough observance of laws and regulations and improve work efficiency with regard to waste and waste disposal-related duties.

### Environmentally-conscious sales activities

Working under a unified sales policy determined by our head office, our regional sales offices carry out sales activities in line with local market trends, seeking to maximize sales and profits through activities contributing to local communities and the environment (including the "Making Lake Biwa Beautiful Through Tea" Project) while at the same time paying care and consideration to the environment, such as by introducing eco-drive/low-pollution vehicles and proposing the installation of environmentally-conscious vending machines.

### System / organizational framework

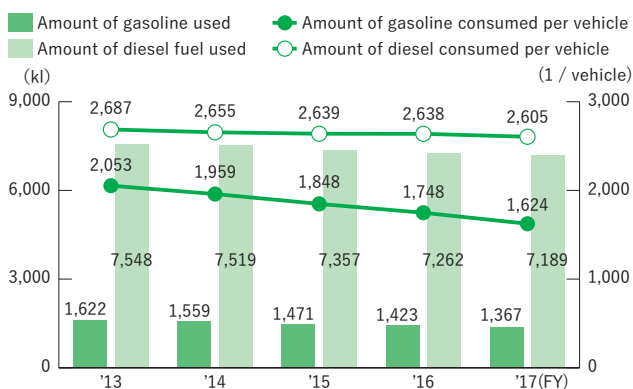
ITO EN's CSR/ESG Promotion Committee ascertains the actual state of environmental issues such as climate change, energy, waste and water resources, deliberates on directionalities and countermeasures with regard to those issues as environmental KPIs (environmental targets), and reports the results to the company's senior management (Board of Directors and/or Executive Board). Additionally, corporate officers responsible for CSR (including the environment) manage and supervise CSR and environmental issues.



For details of environmental goals, please refer to the following link.

▶ <https://www.itoen.co.jp/csr/environment/>

### Progress in vehicle fuel consumption volumes



## Initiatives to resolve the issues of marine garbage and marine microplastics

The problems of marine garbage and marine microplastics are currently gaining global concern. ITO EN, too, recognizes them as a serious social issue. As one aspect of our efforts to tackle this issue, as part of the "Making Japan Beautiful Through Tea" Project, in addition to making donations to local municipalities, we are also participating proactively in coastline and river cleanup

activities nationwide.

We also conduct enlightenment activities to help prevent dispersal of garbage, such as by supporting NPOs and awarding organizations engaged in outstanding cleanup activities via industry bodies.

## Development of environmentally-conscious paper containers for vegetable beverages

Working in collaboration with Nippon Paper Industries Co., Ltd. and TOPPAN PRINTING CO., LTD., ITO EN succeeded in developing the beverage industry's first brick-shaped aluminum-free paper pack-type drink container (commonly referred to as an eco-container). The container adopts an environmentally-friendly film in place of the aluminum lining used in conventional aluminum-type boxes.

Conventionally, paper beverage containers have used aluminum foil coatings to enable long-term storage of beverages at room temperature. However, since separating this aluminum foil from the paper packaging requires special processing, recycling of these containers had not advanced to a sufficient extent. The development of this new eco-container has enabled both long-term storage of beverages at room temperature and recycling in the same way as paper milk cartons.

The development has led to the receipt of seven awards giving recognition for a wide range of aspects, including environmental, lifestyle, recycling-based society and universal design aspects.

Moving forward, we will continue to expand the range of product types and sales areas where these excellent environmentally-conscious containers are utilized.

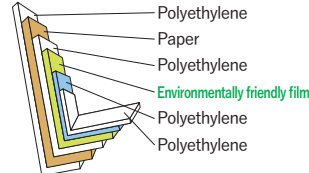


Environmentally-friendly eco-containers  
**Can be recycled in the same way as milk cartons**



Eco-container (200ml paper pack products)

【Cross-section diagram】



Enables long-term storage at room temperature

In recent years, customer awareness with regard to the environment is increasing. As a new initiative, ITO EN has adopted **recyclable eco-containers** that do not contain aluminum foil materials.

### Our eco-containers have been well received in numerous directions.

- Prize of the Minister of the Environment in the Global Environment Grand Prize Award (2016)
- Prize of the Director-General of the Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry in the Japan Packaging Competition (2015)
- Green Purchasing Award (Judges' Honorable-Mention Award) (2015)
- Prize of the Minister of Agriculture, Forestry and Fisheries for the 3Rs (Reduce, Reuse, and Recycle) for Promoters of the 3Rs (2014)
- Japan Packaging Contest (Drink Packaging Category Prize) (2014)
- IAUD Award (Prize Winner) (2014)
- Eco Products Awards (Eco Products Awards Promotion Committee Chairman's Prize, Award for Excellence) (2014)

# Used Tea Leaves Recycling System: turning used tea leaves into resources

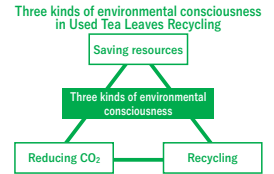
## Used Tea Leaves Recycling System

Large volumes of used tea leaves are discharged each year in the production of *Oi Ocha* and our other tea-based beverages (approximately 59,200 tons in fiscal 2017).

Although much of this is used by farmers as fertilizer and animal feed, used tea leaves still contain large quantities of catechin and other active ingredients contained in green tea, and offer various useful functionality, including antibacterial and deodorizing properties. ITO EN not only utilizes used tea leaves for these functional properties, but also as an alternative raw material in place of other limited resources. Through our Used Tea Leaves Recycling System, we are working with the purpose of making useful use of used tea leaves in familiar everyday products. In the past, there was a problem in that the used tea leaves discharged from our factories contained large amounts of moisture, and were therefore prone to putrefaction. By successfully developing techniques for curbing the putrefaction of used tea leaves containing moisture, and enabling transportation and storage at room temperature, the drying process that was originally needed in order to transform the used tea leaves into useable raw materials has now become unnecessary; minimizing consumption of fuel needed to dry the leaves, as well as the CO<sub>2</sub> generated during the combustion of those fuels.

## Collaboration with partner companies

Products containing used tea leaves created through the Used Tea Leaves Recycling System developed through collaborative efforts with partner companies now number around 100 varieties, including paper products, plastic resins and building materials. As one example, cardboard containing recycled tea leaves is used in the cardboard boxes for *Oi Ocha*, with a shipping volume of around 56 million cases per year. The incorporation of used tea leaves into the composition has led to a reduction in the amount of paper raw materials used, and can be expected to achieve reductions in production costs, in addition to contributing in terms of both environmental and social aspects.



Cardboard box made using used tea leaves



Envelopes made using used tea leaves



Bench made using used tea leaves

Environment

## TOPICS

### Creating high added-value products exploiting the distinctive properties of tea

#### ● Vending machine equipped with used tea leaf composition sheet

Working in collaboration with ONE WILL Co., Ltd. and Sunlock Co., Ltd.—which possess basic patented technology for producing diatomite sheeting—Ito EN has developed used tea leaf composition sheeting, which has antibacterial and deodorizing effects, and is also effective in mitigating the urban heat island effect. We are promoting their installation in both indoors, in locations such as hospitals, and outdoors where there is a need to consider the environment and scenery.



In addition to the antibacterial and deodorizing effects derived from the active ingredients in green tea, ITO EN's used tea leaf composition sheet is also effective in mitigating the urban heat island effect due to its uneven surface and micropores.



#### ● ITO EN × MIZUNO Field Chip “Greentea”

ITO EN's philosophies match those of sports equipment and sportswear manufacturer MIZUNO Corporation with regard to developing products that are conscious of the global environment, and endeavoring to reduce and recycle waste, and together the two companies have advanced the joint development of technologies utilizing used tea leaves in the field of sports. Together, ITO EN and MIZUNO have developed the Field Chip “Greentea” filler material for synthetic turf, the composition of which includes used tea leaves. The filler has the effect of suppressing increases in surface temperature, and was developed to enable children and athletes to use artificial sports fields with greater peace of mind.

A single artificial soccer pitch using Field Chip “Greentea” utilizes used tea leaves equivalent to approximately 430,000 525ml-sized PET plastic bottles of *Oi Ocha*. Field Chip “Greentea” can suppress increases in surface temperature by approximately 7 °C more than in comparison with conventional black rubber chip filler materials.

In May, the material was introduced at the outdoor sports plaza at MIZUNO SPORTS PLAZA Senju in Tokyo; and is now being sold by MIZUNO nationwide.



## Commitment

Hikari Kato, General Manager, 1st Production Development Department

The ITO EN Group carries out environmental governance based on environmental goals set in accordance with our Environmental Policy. As a means of achieving these goals, we operate an ISO14001 Environmental Management System, and conduct monitoring of various environmental aspects. One of ITO EN's unique initiatives within that system is the Used Tea Leaves Recycling System. We have been engaged in efforts to recycle our used tea leaves since the year 2000, and have developed various products, such as *tatami* floor mats made using used tea leaves. In 2018, in joint development with MIZUNO Corporation, we developed filler chips for artificial turf that can suppress increases in surface temperature. In this way, we are cooperating with partners in other industries to utilize our used tea leaves in various industrial products. Additionally, the expansion of drinking situations where customers consume *Kenko Mineral Mugicha* has also enabled us to obtain a stable supply of large volumes of used barley tea leaves throughout the year. As with our recycling of ordinary used tea leaves, we are advancing a program of technology development to build a Barley tea Used Tea Leaves Recycling System that will support sustainable growth and reduce environmental impact.

Meanwhile, the world is focusing its attention on the impact of marine microplastics on marine ecosystems. ITO EN uses large amounts of plastic, such as in its PET plastic bottles and packaging materials for its leaf tea products, and we are working to bolster our recycling efforts in accordance with legal regulations on containers and packaging. We are also encouraging our affiliate companies to develop new environmentally-conscious materials.

Moving forward, the ITO EN Group will continue its efforts in environmental education and conservation in order to help create a sustainable society, and seek to expand the ITO EN brand's mind share.





# Corporate Governance

Corporate Governance

## Corporate Governance Policy

Under the management principle of “Always Putting the Customer First,” ITO EN provides in the ITO EN Group Founding Charter that “the ITO EN Group has developed the basics for management to continually grow and develop as an enterprise and enhance corporate value: cooperate with its stakeholders, including the government, local communities, consumers, shareholders, retailers, suppliers, and financial institutions, and fulfill its corporate social responsibility (CSR).”

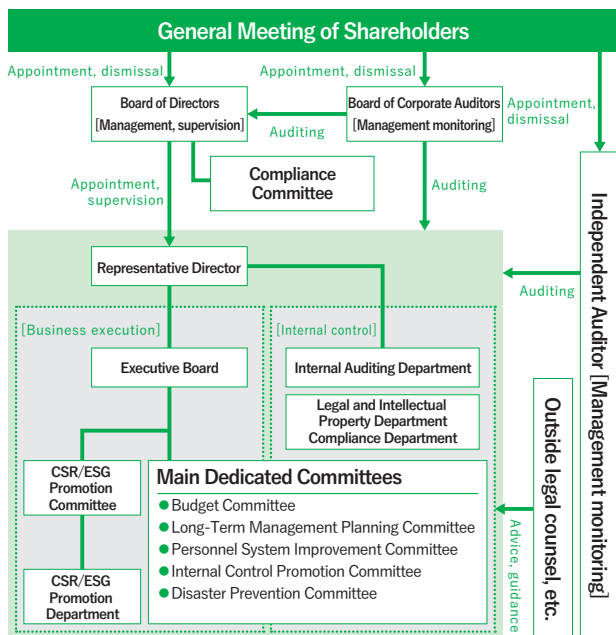
The management principle above is the basic concept of ITO EN’s corporate ethics and the foundation that supports our corporate governance. Based on this principle, every officer and employee of ITO EN is active in promoting concerted efforts to achieve a sustainable society in line with the interests of all stakeholders, and strives to repay their trust.

In addition, to conduct appropriate corporate governance, a Board of Corporate Auditors system has been adopted and our corporate auditors check and audit business conditions, the decision-making process, and other matters regarding the respective representative directors, the directors in charge, and the employees of ITO EN Group companies. Internal and outside corporate auditors attend every meeting of the Board of Directors, offering fair and impartial advice and audit opinions on overall corporate affairs and each item of business, and audit business execution by the directors in accordance with the audit policy stipulated by the Board of Corporate Auditors.

ITO EN has established and disclosed the ITO EN Corporate Governance Guidelines to convey its basic approach to and policy on corporate governance. The major items are as follows:

- Management principle and the basic approach to corporate governance
- Corporate governance system
- Response for protecting the interests of stakeholders

## Outline of Corporate Governance System



### Board of Directors

Meetings of the Board of Directors are generally held monthly to discuss and determine the basic policy and strategy for management and other important matters.

The Board of Directors consists of 11 directors, including two outside directors who are in charge of supervising and checking the execution of duties from an independent position.

### Board of Corporate Auditors

Meetings of the Board of Corporate Auditors are generally held monthly to discuss and determine the important matters relating to audits and share information on the status of audits conducted, the recognition of issues, etc. and exchange opinions, among other tasks.

The Board of Corporate Auditors consists of one standing corporate auditor and three part-time corporate auditors (all of whom are outside corporate auditors). The corporate auditors mainly conduct audits of the legality of the directors’ business execution by attending important meetings such as those of the Board of Directors, perusing important documents, conducting visiting audits of departments executing business and expressing opinions as necessary.

### Contribution by Independent Officers to Board of Directors and Board of Corporate Auditors

ITO EN has increased the number of its outside officers to strengthen the function of management supervision. The main requirement for the appointment of outside directors and outside corporate auditors is independence. These outside officers fulfill their functions for audit and supervision from an objective and independent perspective, thereby contributing to the achievement of sound corporate governance.

#### Independent officers

Category	Name	Contribution
Outside directors	Morikazu Taguchi	Expressing opinions based on his expert knowledge of legal affairs from an objective and technical perspective as an outside director
	Yuichi Usui	Expressing opinions based on his broad-ranging insight and his diverse experiences as both a police officer and a business manager, from a practical perspective as an outside director
Outside Audit & Supervisory Board Members	Yoshiaki Takasawa	Expressing opinions based on his deep insight concerning corporate legal affairs developed through his experience as an attorney from an independent and objective perspective as an outside corporate auditor
	Yutaka Tanaka	Expressing opinions based on his deep insight concerning tax affairs developed through his experience as a licensed tax accountant from an independent and objective perspective as an outside corporate auditor
	Masahiro Nagasawa	Expressing opinions based on his deep insight concerning accounting developed through his experience as an accountant from an independent and objective perspective as an outside corporate auditor

\* Those five above have been registered as independent officers with the Tokyo Stock Exchange.

#### State of attendance by independent officers at board meetings

Category	Name	Board of Directors meeting	Board of Corporate Auditors meeting
Director	Hirokazu Uchiki	8 times / 14 times	—
Director	Morikazu Taguchi	14 times / 14 times	—
Auditor	Yoshiaki Takasawa	14 times / 14 times	15 times / 15 times
Auditor	Yutaka Tanaka	14 times / 14 times	15 times / 15 times
Auditor	Masahiro Nagasawa	14 times / 14 times	15 times / 15 times

\* Hirokazu Uchiki’s absence was due to recovery from illness.

## Evaluation of the effectiveness of the Board of Directors

ITO EN has been analyzing and evaluating the effectiveness of the Board of Directors annually since fiscal 2015 in an effort to improve the Board's functionality. Our analysis and evaluation of the effectiveness of the Board of Directors for fiscal 2017 was as follows.

### <Fiscal 2017>

A questionnaire and interviews were conducted for the purpose of improving the functionality of the Board of Directors. The results were discussed at a board meeting.

#### 1. Surveys conducted

- (1) Survey period: March–April 2018
- (2) Subjects: All directors and corporate auditors
- (3) Survey procedure:
  - (i) Self-assessment by questionnaire
  - (ii) Individual interviews based on the results of the questionnaire
  - (iii) Tabulation and analysis of questionnaire and interview results
  - (iv) Validation of collected results at a Board of Directors meeting

#### 2. Content evaluated

- (1) Structure and membership of the Board of Directors
- (2) Roles and responsibilities of the Board of Directors
- (3) State of operation of the Board of Directors
- (4) Decision-making and methods of deliberation
- (5) Relationship with shareholders, etc.

#### 3. Results of evaluation

- It was verified that the Board of Directors is functioning satisfactorily in making management judgments and supervising management, in terms of its size, structure, qualifications and operational methods.
- With regard to discussions, it was verified that the Board of Directors engages in free, unrestricted and constructive discussions, with the full participation of both inside and outside directors.
- In terms of issues to be addressed, the opinion was raised that in

order to respond to changes in the business environment there is a need for the Board to constantly review and revise its medium to long-term vision and how it supervises the execution of duties, and to further deepen the level of its discussions. Another opinion raised was that there is a need to further increase and enhance the sharing of management information, and to enhance reporting on the state of execution of individual business operations and projects.

#### 4. Future efforts

As a result of discussing the opinions and recommendations from each of its directors and corporate auditors, the Board of Directors recognizes the following items as issues to be addressed moving forward, and will endeavor to maintain and improve its effectiveness.

- State of supervision of management and execution of duties
- Further increase, expansion and expedience of sharing of management information
- Review and revision of criteria for selecting items for deliberation
- Clarification of items to be reported

## Remuneration for corporate officers

### (1) Policy for determination of amounts of remuneration, for corporate officers

Remuneration for directors at ITO EN consists of fixed monthly remuneration and performance-linked remuneration, while remuneration for auditors consists solely of fixed monthly remuneration. Bonuses and retirement benefits for corporate officers were abolished in July 2002.

Fixed monthly remuneration is determined according to position, within the scope of remuneration agreed by resolution of the General Meeting of Shareholders.

With regard to performance-linked remuneration, ITO EN has introduced a performance-linked remuneration stock options scheme. Amounts of stock options granted to each director are determined by strict evaluations of individual performance.

### (2) Amounts of remuneration for corporate officers

Total amounts of remuneration, total amounts by remuneration type, and numbers of recipient officers (for fiscal 2017) by corporate officer category are as follows.

### ▼ Total amounts of remuneration, total amounts by remuneration type, and numbers of recipient officers by corporate officer category submitted by submitting companies

Officer category	Total amount of remunerations, etc. (million yen)	Total amount of remunerations, etc., by type (million yen)				Number of recipient officers (people)
		Fixed remunerations	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	744	668	75	—	—	17
Corporate auditors (excluding outside corporate auditors)	12	12	—	—	—	1
Outside officers	60	60	—	—	—	5
Total	817	741	75	—	—	23

## ■ Developing top-level management

ITO EN seeks to develop top-level management personnel with an emphasis on refining multifaceted management senses, such as by selecting future top-level managers from amongst senior management personnel and allowing them to gain experience in management at Group companies from an early stage.

## ■ Developing the next-generation of leaders

ITO EN is focusing its energies into the development of human resources who will play active roles in management for the next generation, and has established a “Management Problem Solving Course” to enable future leaders to acquire the skills needed in order to recognize and solve medium to long-term management problems from a company/group-wide perspective. The scheme was launched in 2009, and courses are held throughout the year, with around 15 participants chosen to participate each year. In the final session of the course, participants are evaluated by senior management personnel, as a means of nurturing them into potential senior management candidates for the next generation.

## ■ Compliance

ITO EN established the Compliance Committee and the Compliance Department on May 1, 2004 and stipulated “legal compliance” as our basic management policy, and declared our intention to aim for “the ITO EN Group: a model of corporate compliance.”

ITO EN Group Compliance “Guidelines for Code of Behavior” are distributed to all officers and employees of the ITO EN Group to ensure full legal compliance. They encompass a series of initiatives for compliance including the Code of Conduct based on the principles of the ITO EN

## ■ Executive officer scheme

ITO EN has introduced an executive officer scheme, through which it is endeavoring to achieve swifter decision making and enhance supervisory functionality with regard to management by the Board of Directors, and to enhance the system for implementation of management plans by clarifying the responsibilities and authority of officers with regard to execution of duties.

As of August 2018, we are seeking to enhance our organizational structure for the execution of duties by changing the contractual relationship between the company and its executive officers (from an employment-type contract to a delegation-type contract), and by further clarifying the responsibilities and authority of officers with regard to execution of duties.

Funding Charter and the Code of Behavior specifying the detailed provisions.

With these initiatives, the ITO EN Group strives to enhance its compliance including the prevention of corruption such as bribery, develop a whistle-blowing system and provide comprehensive compliance education. We take strict measures against compliance violations.



Please visit the website below to see the ITO EN Corporate Governance Guidelines.

▶ [http://www.itoen.co.jp/files/user/pdf/csr/governance/corporate\\_governance\\_guideline.pdf](http://www.itoen.co.jp/files/user/pdf/csr/governance/corporate_governance_guideline.pdf)

For details about corporate governance, please see the report on corporate governance.

▶ <http://www2.tse.or.jp/disc/25930/140120180724484107.pdf>

For the “Guidelines for Code of Behavior” (Code of Conduct and the ITO EN Group’s compliance system, etc.), please see this site.

▶ [http://www.itoen.co.jp/eng/csr/pdf/sus/sus\\_3.pdf](http://www.itoen.co.jp/eng/csr/pdf/sus/sus_3.pdf)

## ■ Commitment

**Shunji Hashimoto,**

**Executive Vice President with responsibility for internal control, compliance, production division and logistics division**

Today, in working to achieve long-term sustainable growth, companies are expected to work not only to tackle environmental and social issues, but also to enhance their corporate governance. The ITO EN Group is working to enhance its compliance framework, as a foundation for supporting the improvement of its corporate value with respect to governance. Each and every single Group employee must maintain a high-degree of awareness with regard to compliance issues, to observe and adhere to established norms in their actions, and endeavor to gain the trust of customers.

Moreover, I would like us to link this to the early discovery and/or prevention of problems and swift response to problematic issues by respecting human rights and placing importance on day-to-day communication.



## ■ Fair business practices

The ITO EN Group works to thoroughly ensure sound procurement and transactions, and to ensure fair transactions with manufacturing subcontractors and fair competition.

### ● Supply chain management

We have established the ITO EN Group Procurement Policy for procurement paying consideration to social and environmental aspects. Through this policy, we are strengthening our supply chain management in cooperation with various stakeholders.

### ● Protection of intellectual property

The ITO EN Group respects the intellectual property rights of other companies, and makes active use of its own rights.



For details regarding the recommendation issued by the Fair Trade Commission pursuant to the Act Against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and our efforts to prevent future reoccurrences, please refer to the following link.

▶ <https://www.itoen.co.jp/whatsnew/detail.php?id=25074>



# Comprehensive risk management

The ITO EN Group has approached risk management by establishing a department in charge of risks, formulating regulations and guidelines, and building a cross-organizational risk management system to deal with risks accurately and appropriately.

The Group is managing risks by developing a system for dealing accurately with risks from the standpoints of (1) compliance, (2) information security, (3) quality and the environment, (4) property preservation and (5) disaster

and accident. ITO EN has also put in place the Compliance Committee, the Safety and Health Committee and the Disaster Prevention Committee, etc.

Additionally, as risk management strategy based on business continuity planning (BCP), ITO EN also strengthens its ability to achieve business continuity by distributing BCP manuals to each department to instill greater awareness of BCP.

## Development of an internal control system

Based on the "Basic Policy on Internal Control Systems" resolved at the meeting of the Board of Directors in May 2006, the ITO EN Group has built an internal control system for the purpose of increasing the transparency of its business operations, further increasing their effectiveness and efficiency, increasing the reliability of its financial reporting, promoting compliance with laws and regulations, and protecting its assets.

## Relationship between risk management and ESG

With growing demands from stakeholders for appropriate response to ESG issues, many problems will arise if we are unable to respond appropriately. To deal with these issues promptly, we undertake fine management in accordance with the actual conditions by providing a variety of regular training.



# Stakeholder Engagement

## Shareholder dialogues

The Finance and Accounting Department is in charge of communications with the shareholders of ITO EN. The method of response is to be considered together with the President and the directors in charge, among other officers, in order to take the appropriate actions. In addition, regular meetings are held across the border between the Public Relations Department and the Finance and Accounting Department to express opinions based on each department's professional perspective and take cooperative actions for the disclosure of and accounting for the settlement of accounts and other matters to improve communications with shareholders.

We make efforts to ensure timely and appropriate information disclosure to shareholders through active information communication via financial results briefings and our website so that they can deepen their understanding of our management strategy and business environment. In addition, at the meeting of the Board of Directors held after the announcement of the settlement of accounts, the opinions of the shareholders and analysts are shared in order to be actively utilized when reviewing the management strategy and for any other purposes.

We also conduct surveys of substantial shareholders as necessary to gain an understanding of the shareholder structure.

## Promotion of IR activities

ITO EN has established a Finance and Investor Relations Section under its Finance and Accounting Department. The section is controlled by the Management Division, with top-level management personnel taking a leading role in order to promote proactive and agile IR activities. As for information communication and disclosure, from the perspective of fairness, the consolidated financial results and non-consolidated financial results and materials for the financial results briefing (IR reference) are posted on the website promptly after the announcement of the financial results for the full fiscal year and the six-month period so that individual investors, analysts and institutional investors who

are unable to attend the financial results briefing can access these reference materials.

Additionally, ITO EN Integrated Reports, performance reports, monthly sales results, news releases, securities reports, convocation notices for the General Meetings of Shareholders and other disclosure information are published to provide a variety of tools that investors can use to deepen their understanding. Consideration is also given to foreign investors by providing English versions of the financial results, the materials for the financial results briefing (IR reference), part of news releases and ITO EN Integrated Reports.

## Stakeholder dialogues

ITO EN places an emphasis on communication with stakeholders and reflects a wide range of opinions in its management, received through stakeholder dialogues with experts, dialogues with consumers and representatives from consumer organizations, and questionnaire surveys of consumers.

### ▼ Outline of main stakeholder dialogues in FY2017

#### ● 1st Stakeholder dialogue

Date: November 20, 2017 (ITO EN head office)

Theme:

"Towards becoming a culture-based nation: expectations for ITO EN"

Attending stakeholder(s): Masanori Aoyagi

#### ● 2nd Stakeholder dialogue

Date: February 22, 2018 (ITO EN head office)

Theme:

"About ESG: getting familiar with ITO EN's ESG"

Attending stakeholder(s): Kunio Ito

For more details, please refer to the following website.  
▶ <https://www.itoen.co.jp/csr/stakeholder/>



# Sustainability Management

## Building a sustainability management system utilizing the ISO26000 international standard

In driving CSR initiatives through its core business operations as part of activities based on its management principle of “Always Putting the Customer First,” the ITO EN Group utilizes the ISO26000 international standard as a compass, and has established seven key themes in

line with the standard’s core subjects: organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development.

## Response to ESG

The correspondent relationship between these seven score subjects and ESG issues is roughly as shown in the figure on the left-hand side below. Essentially, the central “organizational governance” portion corresponds to G (governance). The “environment” portion corresponds to E (environment), and the remaining five areas correspond to S (social).

The material ESG issues shown on the right-hand page (entitled “Major ITO EN targets (KPIs) and material ESG issues”) were identified in accordance with the opinions of stakeholders, based on the “seven core subjects and issues associated with them” as shown on the right-hand side below.

### ISO 26000 the seven core subjects and issues associated with them



- 1. Organizational governance**
- 2. Human rights**
  - (1) Due diligence
  - (2) Human rights risk situations
  - (3) Avoidance of complicity
  - (4) Resolving grievances
  - (5) Discrimination and vulnerable groups
  - (6) Civil and political rights
  - (7) Economic, social and cultural rights
  - (8) Fundamental principles and rights at work
- 3. Labor practices**
  - (1) Employment and employment relationships
  - (2) Conditions of work and social protection
  - (3) Social dialogue
  - (4) Health and safety at work
  - (5) Human development and training in the workplace
- 4. The environment**
  - (1) Prevention of pollution
  - (2) Sustainable resource use
  - (3) Climate change mitigation and adaptation
  - (4) Protection of the environment, biodiversity and restoration of natural habitats
- 5. Fair operating practices**
  - (1) Anti-corruption
  - (2) Responsible political involvement
  - (3) Fair competition
  - (4) Promoting social responsibility in the value chain
  - (5) Respect for property rights
- 6. Consumer issues**
  - (1) Fair marketing, factual and unbiased information and fair contractual practices
  - (2) Protecting consumers’ health and safety
  - (3) Sustainable consumption
  - (4) Consumer service, support, and complaint and dispute resolution
  - (5) Consumer data protection and privacy
  - (6) Access to essential services
  - (7) Education and awareness
- 7. Community involvement and development**
  - (1) Community involvement
  - (2) Education and culture
  - (3) Employment creation and skills development
  - (4) Technology development and access
  - (5) Wealth and income creation
  - (6) Health
  - (7) Social investment

Source: ISO26000 2010 Guidance on Social Responsibility

Furthermore, by setting three of the seven core subjects in which ITO EN can leverage its strengths most effectively—the environment, consumers, and community issues—as priority management themes, and approaching them as priority issues, the Group is creating shared value (CSV) with the aim of simultaneously resolving social problems and generating economic value.

These key themes were selected according to the process described below, under the heading “Process for identifying key themes (materialities).”

With these key themes as a central focus, as shown in the right-hand page, we have also selected major targets for ITO EN (KPIs) necessary in order to tackle each of the material ESG issues. These

KPIs were selected according to the process described below, under the heading “Process for setting key performance indicators (KPIs) based on ESG issues.” We manage progress and improve upon these KPIs using a PDCA cycle.

Utilizing global standards such as these, the ITO EN Group has established the Group CSR Charter and Basic CSR Promotion Policy (amongst other policies), and is seeking to further advance the systemization of its CSR activities. As part of the system for driving these efforts, in 2017, we reorganized the CSR Promotion Committee into the CSR/ESG Promotion Committee, which is chaired by the President. The committee continues to tackle issues both within and outside of the company.



For details of the ITO EN Group CSR Charter and Basic CSR Promotion Policy, please refer to the following site.  
<http://www.itoen.co.jp/csr/csrpolicy/>

### <Process for identifying key themes (materialities)>

- Step 1** Ascertain expectations of society, sort through and clarify roles and responsibilities of the ITO EN Group
- Step 2** Hold stakeholder dialogues
- Step 3** Formulate Basic CSR Promotion Policy and select KPIs

In April 2012, following the steps shown on the left, we selected “the environment” “consumer issues” and “community” as our key themes. In 2015, we held a stakeholder dialogue for the purpose of materiality review, and confirmed social needs and the effectiveness of our task/issue setting. Looking ahead, we will continue working to ensure that the ITO EN Group can fulfill its roles and responsibilities through ongoing dialogues with our stakeholders.

### <Process for setting key performance indicators (KPIs) based on ESG issues>

- (1) Review of the CSR system of ISO26000 in comparison with ESG**
  - “Organizational governance” in the seven core subjects is the cornerstone of all issues, and it is designated as G. “Fair operating practices,” “human rights,” “labor practices,” “consumer issues” and “community involvement and development” are designated as S, and “the environment” is E.
- (2) Consideration of the degree of materiality of issues**
  - We undertake a series of reviews on the degree of materiality of issues by listening to the opinions of stakeholders and various experts.
- (3) Determination at the CSR/ESG Promotion Committee and the Executive Board**
  - The CSR/ESG Promotion Committee and the Executive Board set target KPIs for the issues identified in Step (2).
  - When choosing and setting KPIs, we refer to the major relevant SDG issues.
- (4) Improvement through the PDCA cycle**
  - We manage progress and improve upon the KPIs set in Step (3) using a PDCA cycle.



# Major targets for ITO EN (KPIs) and material ESG issues



"Major related SDGs" lists representative SDG goals associated with each core subject. For more details, please refer to the following site.  
<http://www.itoen.co.jp/csr/>

ESG	Seven core subjects	Material ESG issues	Major targets for ITO EN (KPIs)	Major related SDGs		
G Governance	Organizational governance	Corporate governance	Corporate governance			
			Internal control			
		Sustainability management (management of the CSR and SDGs Basic Promotion Policies and their penetration throughout the company)				
	Risk management	Holding stakeholder dialogues				
		IR activities (communicating with shareholders)				
		Holding risk-related committees in response to changes in social situations				
	Compliance	BCP management				
		Data security and protection of privacy				
	S Social	Fair operating practices	Adherence to fair trade		Compliance with trade-related laws and regulations and their penetration throughout the company	
			Supply chain management		Procurement of raw materials and supply chain management (supply chain management based on the ITO EN Group Quality Control Policy/Procurement Policy)	
Human rights		Respect for human rights	Respect for human rights Development and facilitation of a promotion system for human rights educational activities and the provision of education on harassment			
Labor practices		Personnel affairs and welfare program	Response to the revised work style reform system Utilization of the welfare program and the next-generation development support system			
		Health and safety of employees	Strengthening of efforts to reduce work hours and promote the acquisition of paid leave Development of a safe working environment			
		Human resources development	Acquisition of human resources, prevention of resignations, and human resources development Development of ITO EN Tea Taster qualification holders			
		Diversity	Promoting diversity, equality in the working environment, and active roles of women Enhancement of the system for employing and supporting persons with disabilities			
Consumer issues (●)		Quality and safety of products	Toughening of quality control			
			Ensuring product safety			
			Promoting efforts to introduce JGAP			
	Promotion of health value (health and nutrients)	Health-related studies Development and enhancement of food and beverages that contribute to health Patent and trademark strategy				
	Product packaging and appropriate information disclosure	Development of eco-friendly containers Appropriate product information disclosure				
	Affordability of products	Utilization of sales networks by sales channel and strengthening of retailers (enhancement of points of contact with customers by using tea)				
Community involvement and development (●)	Community and human rights issues	Promotion of vending machines that make a contribution to human rights issues (vending machines to make Ogyaa Donations and support victims of crime, etc.)				
	Community and community activities	Implementation of regional revitalization activities in accordance with the ITO EN Basic Policy for Promotion of the Development of Communities, Human Resources and Jobs Participation in and development of activities for cultural programs				
		Utilization of the ITO EN Tea Taster business skill test certification (programs for the promotion of tea culture) Strengthening of relationships with local communities				
	Community and industrial development	Increasing annual production volume of the Tea-Producing Region Development Project (new tea plantation business) Strengthening of collaboration with agricultural production corporations				
	Community and the environment and culture	Engaging in activities under the "Making Japan Beautiful Through Tea" Project				
	Earthquake reconstruction assistance for communities	Continuation of assistance to earthquake-affected areas and strengthening of relationships with afflicted municipalities				
E Environmental	Climate change and prevention of air pollution	Reduction of greenhouse gas emissions and CO <sub>2</sub> emissions of all companies				
		Increasing the percentage of heat pump vending machines Improvement of fuel consumption of vehicles				
	Promotion of energy savings	Reduction of power usage of all companies				
		Management of energy at the time of production and reduction of energy consumed by beverage manufacturing plants Management of energy at the time of transportation, improvement of the block production ratio, and modal shift				
	Conservation of biodiversity	Monitoring in the Tea-Producing Region Development Project				
	Water management	Management of water consumption and wastewater at the time of production (enhancement of information gathering on water usage at our plants and the plants of outsourcing partners)				
Waste and recycling	Management of waste and improvement of the recycling rate for food products Promoting the recycling of used tea leaves					

\*Core subjects marked with a (●) are key themes for ITO EN.



# <Strengthening our financial foundation> Financial summary and financial management

Currently the ITO EN Group is targeting an ROE of at least 10% for the management index in its medium-to long term management plan.

As the background to this, compensation based on executives' performance and linked to the business performance of the company was emphasized in the aftermath of the collapse of the bubble economy in the 1990s, with the aim of clarifying the management responsibilities of officers and enhancing corporate governance. In July 2002, ITO EN discontinued the system for providing retirement allowance

and bonuses to its officers and introduced the stock option system as compensation linked to business performance in April 2004.

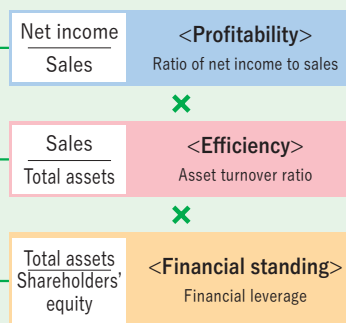
In the above process, seven management indices were calculated and chosen: growth (net sales), profitability (operating income and EPS), efficiency (ROE and ROA), cash earning capacity (operating cash flow) and return to shareholders (total return ratio). ITO EN maintains an awareness of these indices in carrying out its business activities. For example, the essence of ITO EN's ROE is shown in the following chart.

## ITO EN's ROE-based corporate management and financial tree comprising of profitability, efficiency, and financial standing (Conceptual diagram)

Medium-to long term management plan

Return on equity  
ROE =  
10% or higher

Breakdown



Main business model seen from financial aspects

- Cost cutting through the Tea-Producing Region Development Project and contract cultivation with farmers
- Efficient management of fixed expenses through emphasis on community-based sales system of route sales
- High asset turnover based on fables method production
- Slim balance sheet management
- Simultaneous pursuit of maintaining a sound financial standing and stable dividend
- Seeking an appropriate level of capital structure with an awareness of capital efficiency

### ■ Pursuing profitability from raw material procurement to marketing

ITO EN prides itself on handling over 25% of the total volume of all crude tea produced in Japan, and possesses high-level capabilities for the procurement of raw ingredients. Procurement of crude tea through such means as the Tea-Producing Region Development Project is the starting point for our value chain, and it is contributing to the enhancement of profitability and stability. In this way, contributions to profitability start right from the cost level, achieving high gross profit ratio.

Flexible adjustment of production volumes according to demand, use of optimal production lines according to the strengths of the packers, benefitting from the fruits of technical innovations generated from competition among the packers and other aspects are making it possible for us to achieve highly efficient value chain management, contributing to enhanced profitability at the variable cost level.

Moreover, we have established a business model in which customers' voices are directly captured by approximately 3,500 sales persons, mainly in route sales from the 198 sales bases across the country and used for marketing purposes.

### ■ Pursuit of efficiency through a slim balance sheet management

ITO EN controls fixed asset investment by relying on the fables method, whereby capital expenditures are kept within depreciation, in order to strengthen its financial standing.

### ■ Keeping a balance for both capital efficiency and financial soundness

Based on the method of managing profits and losses, and balance sheets by utilizing its strengths, ITO EN maintains financial soundness, while securing adequate funds to achieve a total return ratio\* of at least 40% as well as its credit rating. Retained earnings and cash are controlled at appropriate levels, enabling the allocation of funds (as appropriate) for M&A and other strategic investments aimed at achieving future growth. Our capital policies, as part of ROE management measures, are based on the process for seeking an appropriate capital structure that also takes capital efficiency into account.

\*Total return ratio: The sum total of dividend payouts and treasury stock purchases divided by net income for the current fiscal year (given as a percentage)

## Commitment | Minoru Watanabe, Executive Vice President

### Financial management integrated with a unique business model to enhance ESG value

In recent years, ESG investment, an investment method for pursuing earnings in consideration not only of financial information but also of non-financial information, including environmental, social, and governance information, has a strong presence in asset management worldwide and is attracting attention in Japan. ITO EN uses financial management that harnesses its strengths in each aspect of the value chain and aims to become a company that will be able to permanently create innovations to meet consumer needs, while maintaining a profit level in consideration of the cost of equity capital.

## Key financial indicators (over the past 5 years) (consolidated)



For more details of financial data, please refer to the following site.  
[http://www.itoen.co.jp/finance\\_ir/library/](http://www.itoen.co.jp/finance_ir/library/)

	(Units)	FY4/2014	FY4/2015	FY4/2016	FY4/2017	FY4/2018
<b>P/L</b>						
Net sales	(million yen)	437,755	430,541	465,579	475,866	494,793
Year-on-year	(%)	+8.4	-1.6	+8.1	+2.2	+4.0
<b>Details of main sales</b>						
Non-consolidated	(million yen)	363,461	353,754	365,276	371,831	383,212
Total of overseas businesses	(million yen)	12,565	15,181	36,180	34,863	40,362
Tully's Coffee	(million yen)	23,865	26,036	27,751	30,268	32,589
Chichiyasu	(million yen)	12,750	13,186	13,890	14,621	14,398
Cost rate	(%)	51.6	51.8	53.0	52.5	52.7
Selling, general and administrative expenses	(million yen)	190,703	196,016	201,574	204,395	211,939
Sales ratio	(%)	43.6	45.5	43.3	43.0	42.8
Operating income	(million yen)	21,100	11,393	17,243	21,774	22,043
Profit ratio	(%)	4.8	2.6	3.7	4.6	4.5
<b>Details of main profits</b>						
Non-consolidated	(million yen)	16,060	6,478	11,934	15,646	15,394
Total of overseas businesses	(million yen)	659	307	1,856	2,225	2,619
Tully's Coffee	(million yen)	3,178	3,572	2,879	3,130	3,250
Chichiyasu	(million yen)	217	87	253	300	305
Ordinary income	(million yen)	20,518	11,229	15,074	21,524	21,441
Profit ratio	(%)	4.7	2.6	3.2	4.5	4.3
Extraordinary income	(million yen)	419	49	205	53	75
Extraordinary losses	(million yen)	303	386	353	854	526
Profit attributable to owners of parent	(million yen)	12,096	7,292	8,615	13,693	12,553
Profit ratio	(%)	2.8	1.7	1.9	2.9	2.5
<b>B/S</b>						
Total assets	(million yen)	258,820	285,947	287,702	302,405	301,180
Current assets	(million yen)	139,807	153,597	159,517	174,657	173,798
Cash and deposits	(million yen)	46,412	48,922	53,259	64,202	61,664
Accounts receivable	(million yen)	46,923	51,512	53,553	54,677	58,083
Non-current assets	(million yen)	119,012	132,350	128,185	127,748	127,382
Property, plant and equipment	(million yen)	79,326	80,115	81,018	83,039	84,822
Intangible assets	(million yen)	22,600	34,042	27,154	24,454	21,588
Total liabilities	(million yen)	138,310	158,185	160,486	165,696	157,429
Current liabilities	(million yen)	80,440	76,038	100,756	81,560	77,187
Non-current liabilities	(million yen)	57,870	82,146	59,729	84,135	80,241
Net assets	(million yen)	120,509	127,761	127,215	136,709	143,750
Retained earnings	(million yen)	87,812	90,949	94,311	102,750	110,066
Current ratio	(%)	173.8	202.0	158.3	214.1	225.1
Equity ratio	(%)	46.3	44.4	43.9	44.8	47.3
Liability ratio	(%)	115.5	124.7	127.2	122.3	110.4
<b>Statement of cash flows</b>						
Net cash from operating activities	(million yen)	24,300	17,751	30,085	27,098	25,322
Cash flows from investing activities	(million yen)	-4,598	-9,242	-8,150	-8,243	-11,359
Free cash flow	(million yen)	19,702	8,509	21,935	18,854	13,962
Cash flows from financing activities	(million yen)	-18,147	-4,835	-18,018	-8,012	-16,639
Amount of capital investment	(million yen)	4,889	3,732	8,603	8,135	11,062
Depreciation	(million yen)	15,140	15,653	16,075	12,469	13,222
Depreciation of goodwill	(million yen)	1,332	1,326	1,824	1,765	1,819
<b>Other</b>						
ROE	(%)	10.4	5.9	6.8	10.5	9.0
ROA	(%)	4.8	2.7	3.0	4.6	4.2
PER (Common stock)	(times)	22.8	44.0	49.9	37.1	43.8
PER (Preferred stock)	(times)	16.2	28.9	24.3	17.7	21.0
PBR (Common stock)	(times)	2.2	2.4	3.3	3.7	3.7
PBR (Preferred stock)	(times)	1.8	1.9	1.8	1.9	2.0
EPS (Common stock)	(yen)	95.77	56.60	67.37	108.77	99.79
EPS (Preferred stock)	(yen)	105.77	66.60	77.37	118.73	109.75
BPS (Common stock)	(yen)	974.36	1031.19	1,026.26	1,105.09	1,165.80
BPS (Preferred stock)	(yen)	979.36	1036.19	1,031.26	1,110.09	1,170.80
Dividend per share (Common stock)	(yen)	39.0	40.0	40.0	40.0	40.0
Dividend per share (Preferred stock)	(yen)	49.0	50.0	50.0	50.0	50.0
Total return ratio	(%)	42.6	72.3	61.2	43.5	48.5
Ratio of foreign shareholders	(%)	13.3	14.3	17.7	19.1	20.63
Outstanding shares	(thousand shares)	123,459	123,459	123,459	123,459	123,459
Common stock	(thousand shares)	89,212	89,212	89,212	89,212	89,212
Preferred stock	(thousand shares)	34,246	34,246	34,246	34,246	34,246
Year-end stock price (Ex-rights adjusted)	(yen)	2,185	2,490	3,360	4,040	4,370



# List of Officers

As of September 1, 2018

## Chairman of the Board and CEO

### Hachiro Honjo

Aug. 1964 Established Japan Family Service Co., Ltd. Director  
 Aug. 1966 Established Frontier Tea Corporation (The company name was changed to ITO EN, LTD. in May 1969) Director  
 May. 1978 Executive Vice President  
 Apr. 1987 Executive Vice President and Representative Director  
 May. 1988 President  
 May. 2009 Chairman of the Board and CEO (current post)

Hachiro Honjo exhibits strong leadership, drawing on his extensive experience and proven track record gained through his many years of managing the ITO EN Group as its founder.

## President

### Daisuke Honjo

Apr. 1987 Joined ITO EN  
 Jul. 1990 Director  
 May. 1997 Managing Director  
 May. 2000 Executive Managing Director  
 Jul. 2002 Executive Vice President and Representative Director  
 May. 2009 President (current post)

Since his appointment as President, Daisuke Honjo has continued to direct the management of ITO EN by making effective use of his extensive experience and insight.

## Executive Vice President and Representative Director

### Shusuke Honjo

Apr. 1994 Joined ITO EN  
 Jul. 2003 Director  
 May. 2005 Managing Director  
 May. 2008 Executive Managing Director  
 May. 2010 Executive Vice President  
 Aug. 2014 Executive Vice President and Representative Director (current post)

Shusuke Honjo has continued to lead the Sales Division for many years, and offers extensive experience and insights into all aspects of corporate management.

## Executive Vice President

### Shunji Hashimoto

Jan. 1970 Joined ITO EN  
 Jul. 1990 Director  
 May. 1994 Managing Director  
 May. 1997 Executive Managing Director  
 May. 2000 Executive Vice President (current post)

Shunji Hashimoto manages mainly the Production and Logistics Divisions, and offers extensive experience and knowledge in the areas of purchasing, R&D, quality control, and logistics.

## Executive Vice President

### Minoru Watanabe

Jul. 1976 Joined ITO EN  
 Jul. 1996 Director  
 May. 2001 Managing Director  
 May. 2003 Executive Managing Director  
 May. 2008 Executive Vice President (current post)

Minoru Watanabe manages mainly the Administration Division, and offers extensive experience and knowledge in the areas of finance, personnel & general affairs, and overseas operations.

## Executive Managing Director

### Mitsuo Yashiro

Apr. 1978 Joined ITO EN  
 Jul. 1992 Director  
 May. 2001 Managing Director  
 May. 2010 Executive Managing Director (current post)

Mitsuo Yashiro manages mainly the Marketing Division, and offers extensive experience and knowledge in the areas of product development and R&D.

## Managing Director

### Yoshihisa Nakano

Mar. 1989 Joined ITO EN  
 Jul. 2010 Director  
 May. 2014 Managing Director (current post)

Yoshihisa Nakano has so far managed the Sales and Personnel & General Affairs Divisions. With respect to the Sales Division, he offers knowledge and experience in various sales formats, including community sales, mass retail and convenience stores.

## Managing Director

### Shigeru Kamiya

Mar. 1982 Joined ITO EN  
 Jul. 2014 Director  
 May. 2016 Managing Director (current post)

Shigeru Kamiya manages mainly the Sales Division. So far he has driven sales proactively through channels such as convenience stores and mass retailers, and is making strong efforts to strengthen relationships with these clients.

## Director

### Yosuke Jay Oceanbright Honjo

Mar. 1992 Joined ITO EN  
 Jul. 2002 Director (current post)

Yosuke Jay Oceanbright Honjo manages all operations in the United States as CEO. He has made strong efforts to enable the Group to further global business management, from the time of its initial expansion into the mainland of United States, from beginning at New York.

## Managing Executive Officer

Fujitsugu Soma	General Manager of Northern and Eastern Kanto Area Sales Division
Shuji Nakagomi	General Manager of Logistics Division
Kenichiro Ishizaka	General Manager of Specialized Sales Division
Hideki Yoshida	General Manager of Chugoku, Shikoku and Kyushu Area Sales Division
Atsushi Hirata	General Manager of Administration Division
Nobuyuki Sakashita	General Manager of Production Division
Motohiko Takuma	Deputy Chief of General Manager's of Production Division
Takeshi Saito	General Manager of Chubu Area Sales Division

## Executive Officer

Katsumi Asano	General Manager of Internal Auditing Department
Minoru Shirai	General Manager of Shizuoka Sagara Factory
Jun Kawasaki	General Manager of Kansai Area Sales Division
Nozomi Kishi	Executive Officer National Distribution Sales Division Deputy Director
Hiroya Okano	General Manager of Hokkaido and Tohoku Area Sales Division
Hisashi Ishida	Deputy Chief of General Manager's of Administration Division (with responsibility for Communication Group) and General Manager of CSR/ ESG Promotion Department

### Outside Director

#### Morikazu Taguchi

Apr. 1975 Full-Time Lecturer of Faculty of Law, Aichi Gakuin University  
 Jan. 1984 Professor of Faculty of Law, Aichi Gakuin University  
 Apr. 1995 Professor of School of Law, Waseda University  
 Apr. 2004 Professor of Waseda Law School, Waseda University  
 Jul. 2013 Outside Director of ITO EN (current post)  
 Apr. 2014 Professor Emeritus of Waseda University (current post)

Morikazu Taguchi possesses expert knowledge and various experiences accumulated over many years in legal studies

### Outside Director

#### Yuichi Usui

Oct. 1976 Joined Metropolitan Police Department  
 Feb. 1994 Deputy Chief of the 7th Antiriot Squad, Metropolitan Police Department  
 Oct. 2005 General Manager of the 2nd Personnel Section, Metropolitan Police Department  
 Feb. 2010 General Manager of Regional Department, Metropolitan Police Department  
 Apr. 2011 Joined YAMATO TRANSPORT CO.,LTD.as General Manager of Human Resources and Administration  
 Apr. 2012 Executive Officer and General Manager of CSR Promotion,YAMATO TRANSPORT CO.,LTD.  
 Apr. 2014 Managing Executive Officer of YAMATO TRANSPORT CO.,LTD.  
 Apr. 2015 Director and Managing Executive Officer of YAMATO TRANSPORT CO.,LTD.  
 Apr. 2018 Member of the Board,YAMATO TRANSPORT CO.,LTD.  
 Jun. 2018 Representative of Usui Firm(current post)  
 Jul. 2018 Outside Director of ITO EN (current post)

Yuichi Usui possesses extensive experience and broad-ranging insights gained through his many years as a police officer. He has also had direct involvement in corporate management at a logistics company, and has accumulated a diverse range of knowledge and experience.

### Standing Corporate Auditor

#### Minoru Takahashi

Apr. 1973 Joined Saitama Bank, Ltd.  
 Mar. 2002 Executive Officer, Daiwa Bank Holdings, Inc. (now Resona Holdings, Inc.)  
 Apr. 2006 Executive Officer, PENTAX Corporation (now HOYA CORPORATION)  
 Apr. 2007 Joined ITO EN  
 May. 2007 Manager of the Internal Control Office  
 May. 2008 Manager of the Internal Audit Office  
 Jul. 2011 Standing Corporate Auditor, ITO EN (current post)

Minoru Takahashi possesses extensive experience and broad-ranging knowledge gained through his career at financial institutions. At ITO EN, he has also served as Manager of the Internal Control Office and Manager of the Internal Audit Office, and has an intimate knowledge of the Group's corporate management activities.

### Outside Audit & Supervisory Board Member

#### Yoshiaki Takasawa

Apr. 1959 Entered the Legal Training and Research Institute of the Supreme Court of Japan  
 Apr. 1961 Judge of Kanazawa District Court  
 Apr. 1964 Judge of Amagasaki Branch, Kobe District Court  
 Apr. 1967 Judge of Osaka District Court  
 Apr. 1971 Retired as Judge and registered as Attorney  
 Apr. 1971 Established Yoshiaki Takasawa Law Firm, Representative of the firm (current post)  
 Jul. 1991 Outside Audit & Supervisory Board Member of ITO EN (current post)

Yoshiaki Takasawa possesses expert insights, broad-ranging knowledge and experiences as an attorney

### Outside Audit & Supervisory Board Member

#### Yutaka Tanaka

Apr. 1966 Entered the Sapporo Regional Taxation Bureau  
 Jul. 2003 District Director, Tokyo Ueno Tax Office  
 Jul. 2006 Director-General, Takamatsu National Tax Tribunal  
 Jul. 2007 Attached to the Commissioner's Secretariat, National Tax Agency  
 Aug. 2007 Head of Tanaka Tax Certified Accountant Office (current post)  
 Jul. 2013 Outside Audit & Supervisory Board Member of ITO EN (current post)

Yutaka Tanaka possesses expert insights, broad-ranging knowledge and experiences as a tax attorney

### Outside Audit & Supervisory Board Member

#### Masahiro Nagasawa

Oct. 1981 Joined Price Waterhouse (now PricewaterhouseCoopers Aarata LLC)  
 Apr. 1984 Joined Shinwa Audit Corporation (now KPMG AZSA LLC)  
 Aug. 2002 Representative Partner, Asahi Audit Corporation (now KPMG AZSA LLC)  
 Jul. 2012 Representative, Nagasawa CPA Firm (current post)  
 Jul. 2013 Outside Audit & Supervisory Board Member of ITO EN (current post)  
 May. 2014 Outside Audit & Supervisory Board Member of Tokyo Individualized Educational Institute, Inc. (current post)

Masahiro Nagasawa possesses expert insights, broad-ranging knowledge and experiences as a certified public accountant

## Messages from Outside Directors and an Outside Audit & Supervisory Board Member

### Outside Director

#### Morikazu Taguchi

Developing and improving corporate governance and compliance is important not only in terms of ensuring soundness in corporate management, but also in terms of improving management efficiency. ITO EN's Board of Directors debates enthusiastically with regard to this point, but in order to do so requires gathering of sufficient information with regard to the company's current situation. Gathering sufficient information is dependent on the prerequisite of ITO EN's management principle being sufficiently instilled in its employees. The more massive an organization becomes, the more necessary it becomes for this information to be shared in an interactive and bi-directional manner, and there is a growing need for transparency in corporate management.

As an outside director, it is my aim to consider issues such as the state of management and execution of duties and methods for the conveyance and gathering of information from an external perspective, and to link that to the enhancement of corporate governance and compliance.

Being an individual consumer as well as an outside director, I will also endeavor to communicate the image and reputation of ITO EN in society to the Board of Directors.

### Outside Director

#### Yuichi Usui

I was appointed as an outside director in July, spending my career thus far serving as a police officer, and as a member of management at a logistics company.

I believe that in order for a company to achieve continuous and sustainable growth it is important to invest efforts into CSR, working on the fundamental basis of observing and upholding the law. Contributing to society will lead to consumers, suppliers and various other stakeholders understanding and supporting ITO EN in the future.

Meanwhile, in terms of corporate management, it is important to advance business operations with an awareness of rationalization and streamlining to improve efficiency. In corporate governance, there is an emphasis on diversity with regard to the membership of the company's Board of Directors and so on. I believe that an important factor in the development of any company is to look at things from multiple aspects, rather than just one.

One of ITO EN's strengths is that it handles Japanese tea, which is both one of Japan's representative beverages and also part of Japanese culture itself, and that it is also investing its energies into communicating tea culture to the world. I hope to make effective use of my experience in contributing to ITO EN, so that the employees responsible for its operations can continue to work in a lively and energetic manner.

### Outside Audit & Supervisory Board Member

#### Yoshiaki Takasawa

In recent years, companies' corporate governance is the focus of much attention. Two key background factors behind this are the "streamlining of management" and the "legitimacy of management." The former of these involves maintaining and improving corporate value, in other words, the question of what should be done in order to generate appropriate profits. The latter involves making efforts as to what is necessary in order to ensure the survival of the company itself. In other words, it is the issue of so-called "compliance."

Although recently there are few companies falling in bankruptcy due to lack of funding, we see many cases of companies coming under criticism from society and disappearing from the economic world due to compliance-related problems. From this it is clear to see that compliance—in other words the problem of legitimacy or legality—is an extremely important issue. It is necessary for each and every one of us to thoroughly understand the laws and regulations relating to our own work, and to ensure that we observe and adhere to them.



# Introduction of Main Group Companies

As of April 30, 2018

The ITO EN Group's main Group companies in Japan and overseas are shown below. The Group aims to make maximum effective use of its strengths while working under its management principle of "Always Putting the Customer First."

## Domestic

- Tully's Coffee Japan Co., Ltd.
- Chichiyasu Company
- OKINAWA ITO EN, LTD.
- ITO EN · ITOCHU MINERAL WATERS CO., LTD.
- NEOS Corporation
- GREEN VALUE CO., LTD.
- ITO EN SANGYO, LTD.
- ITO EN KANSAI CHAGYO, LTD.

For detailed information on major Group companies, please refer to the following site.  
▶ <http://www.itoen.co.jp/company/group/>

## Overseas

- United States**
  - ITO EN (North America) INC.
  - ITO EN (Hawaii) LLC.
  - Mason Distributors, Inc.
  - Distant Lands Trading Co.
- Australia**
  - ITO EN AUSTRALIA PTY. LIMITED
- Singapore**
  - ITO EN Asia Pacific Holdings Pte. Ltd.
  - ITO EN Singapore Pte. Ltd.
- China**
  - Fujian New Oolong Drink Co., Ltd.
  - ITO EN BEVERAGE(SHANGHAI), LTD.
- Indonesia**
  - PT ITO EN ULTRAJAYA WHOLESAL
- Thailand**
  - ITO EN (Thailand) Co., Ltd.

## Group Company Topics

### ■ Tully's Coffee Japan Co., Ltd.

▶ <http://www.tullys.co.jp>

As a specialty coffee shop chain, Tully's Coffee manages eateries and develops its franchise.

- Proactive store opening in favorable locations
- Total number of shops: 706

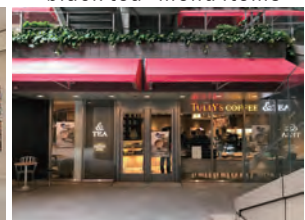
Opened 700th commemorative stores in East and West Japan



Tully's Coffee Enoden Railway Enoshima Station branch



Hana Noren Tully's Coffee Namba Grand Kagetsu shop



Tully's Coffee & TEA Roppongi 1-chome branch

Opened second "& TEA" concept shop with enhanced range of "black tea" menu items

### ■ Chichiyasu Company

▶ <http://www.chichiyasu.com/>

Chichiyasu Company engages mainly in the manufacture and sale of yoghurt, milk and other dairy products.

- Opened "CHICHI YASU" antenna shop in April 2017
- Set June 1 (the date of the company's founding) as the birthday of the Chichiyasu mascot character Chibo, and registered the day as "Chibo Day (Chichiyasu Day)" with the Japan Anniversary Association
- Established a Chichiyasu fan site and Chibo Supporter's Club "365ni Chibo" (meaning "Chibo 365 days a year")



"CHICHI YASU" antenna shop (Nishi-ku, Hiroshima, Hiroshima Prefecture)



Established "Chibo Day (Chichiyasu Day)" on June 1

### ■ ITO EN (North America) INC.

▶ <http://www.itoen.com>

ITO EN (North America) sells the "Oi Ocha" and TEAS' TEA series of products, etc. and has also introduced Japanese food culture centered around Japanese tea.

- Synergy with Distant Lands Trading Co., which engages in the entire process from the cultivation of coffee to sales
- Selling MATCHA GREEN TEA, taking advantage of health consciousness and the matcha boom



Matcha LOVE tea shop chain

## Status of major consolidated subsidiaries

(units: 100 million yen)

	Results in FY2017		Forecast for FY2018	
	Net sales	Operating income	Net sales	Operating income
Businesses in the US*	351(317,650 thousand dollars)	20(18,253 thousand dollars)	340(315,230 thousand dollars)	20(18,660 thousand dollars)
Tully's Coffee Japan Co., Ltd.	325	32	343	32
Chichiyasu Company	143	3	151	3
Exchange rate (US dollars)	FY2017 110.6 yen		FY2018 108.0 yen	

\*Includes ITO EN (North America) INC. and ITO EN (Hawaii) LLC



# Company Outline

As of April 30, 2018

## Company Profile

<b>Company name</b>	<b>ITO EN, LTD.</b>
<b>Head office</b>	47-10, Honmachi 3-chome, Shibuya-ku, Tokyo
<b>Established</b>	August 22, 1966
<b>Capital</b>	19,912,300,000 yen
<b>Number of employees</b>	5,475 persons
<b>URL</b>	http://www.itoen.co.jp
<b>Branches, sales offices and local offices</b>	198 offices in 30 areas throughout Japan
<b>Shops/stores</b>	169 stores nationwide
<b>Factories</b>	Shizuoka Sagara Factory (21, Mekami, Makinohara-shi, Shizuoka) Kobe Factory (5-4-2, Mitsugaoka, Nishi-ku, Kobe-shi, Hyogo) Hamaoka Factory (3406-4, Niino, Omaezaki-shi, Shizuoka) Fukushima Factory (1-2-9, Araitaka, Fukushima-shi, Fukushima) Okinawa Nago Factory (112, Isagawa, Nago-shi, Okinawa) Central Research Institute (21, Mekami, Makinohara-shi, Shizuoka)
<b>Research Institute</b>	Central Research Institute (21, Mekami, Makinohara-shi, Shizuoka)

## Shares and Shareholders

Total number of authorized shares:	200,000,000 shares
Total number of issued shares	▶ Common stock: 89,212,380 shares ▶ Preferred stock: 34,246,962 shares
Number of shareholders	▶ Common stock: 55,288 persons ▶ Preferred stock: 65,845 persons

### Major shareholders

Common stock

Name of shareholder	Number of shares owned (1,000 shares)	Shareholding ratio (%)
Green Core Co., Ltd.	17,403	19.51
State Street Bank and Trust Company 505223	7,790	8.73
Honjo International Scholarship Foundation	5,200	5.83
The Master Trust Bank of Japan, Ltd. (trust account)	3,109	3.48
Japan Trustee Services Bank, Ltd. (trust account 9)	2,564	2.87
Hachiro Honjo	2,446	2.74
ITO EN Employees' Shareholding Association	2,317	2.60
Toyo Seikan Group Holdings, Ltd.	1,955	2.19
Resona Bank, Limited	1,933	2.17
Japan Trustee Services Bank, Ltd. (trust account 5)	1,275	1.43

## Preferred stock

Preferred stock can receive dividends of profits preferentially compared to common stock.

### Overview

	Preferred stock	Common stock
Security code	25935	2593
Voting rights	None (Note 1)	Available
Dividends	Preferred dividend Amount of common dividend × 125% (Note 2) Any accrued amount is accumulated.	Common dividend Not accumulated
Right to receive distributions of residual assets	Equal with common stock (Note 3)	—
Conversion rights into common stock	No conversion right based on shareholder's intention (Note 4)	—
Share unit	100 shares	—
Shareholder special benefit plan	Available	—

(Note 1) In some cases, voting rights are available.

(Note 2) The first decimal place is rounded up to the nearest whole number. The lower limit is 15 yen. Even when no dividend is paid for common stock, 15 yen per share is paid for preferred stock.

(Note 3) If any accrued amount is accumulated, the shortfall in the payment is paid to the shareholders of preferred stock before the payment for common stock.

(Note 4) In the specific cases shown below, the Company may obtain preferred stock in exchange for common stock at the ratio of 1:1.

[Specific cases]

1. Merger in which the Company becomes an extinct company and share exchange and share transfer in which the Company becomes a wholly owned subsidiary (except those implemented by the Company alone).
2. When, due to a tender offer for the Company's common stock, the shareholding ratio of the tender offeror exceeds 50%.
3. When the listing of the preferred stock of the Company is abolished.

## Company History

Year	Month	Overview
1966	Aug.	Established Frontier Tea Corporation, ITO EN's predecessor, in Shizuoka-shi, Shizuoka.
1969	May	Changed the Company's name to ITO EN, LTD.
1972	Feb.	Introduced a high-speed automatic packaging machine manufactured by Industrial Gesellschaft in Switzerland. Developed vacuum packing technology to preserve the freshness of tea leaves.
1974	May	Constructed Shizuoka Sagara Factory in Sagaracho, Haibara-gun (now Makinohara-shi), Shizuoka. Consolidated production capabilities.
1979	Aug.	Signed a distribution agency agreement with China National Native Produce and Animal By-products Import and Export Corporation to import oolong tea for the first time in Japan, and began selling oolong tea.
1980	Sep.	Developed Canned Oolong Tea and began selling it in some areas.
1985	Feb.	Began selling the world's first Canned Green Tea.
1987	Jul.	Established ITO EN (USA) INC. (now ITO EN (Hawaii) LLC) in Hawaii, USA as the first step in overseas expansion.
1989	Feb.	Changed the name of Canned Green Tea products to <i>Oi Ocha</i> .
1990	Mar.	Released the world's first PET bottled green tea beverage ( <i>Oi Ocha</i> Green Tea, 1.5L).
1992	May	Made shares available for public purchase.
	Sep.	Released <i>Jujitsu Yasai</i> .
1994	Sep.	Established ITO EN AUSTRALIA PTY. LIMITED in Australia.
1996	Sep.	Became a listed company on the Second Section of the Tokyo Stock Exchange.
1998	Oct.	Stock advanced to the First Section of the Tokyo Stock Exchange.
2000	Oct.	Released the industry's first hot drinks in heatable PET bottles.
2001	May	Established the consolidated subsidiary ITO EN (North America) INC. in the mainland United States.
	May	Released <i>Oi Ocha Koi Aji</i> and <i>Ichinichibun no Yasai</i> (A daily worth of vegetables).
2004	Oct.	Built a new crude tea leaf plant and commenced production at ITO EN AUSTRALIA PTY. LIMITED
	Jun.	Obtained shares of Mason Distributors, Inc. (based in Florida, USA), which engages in the nutritional supplement business in order to strengthen the business in North America.
2006	Oct.	Made FoodX Globe Co., Ltd. (now Tully's Coffee Japan Co., Ltd.), which operates the Tully's Coffee chain, a consolidated subsidiary in order to expand the coffee business.
2007	Sep.	Stock listed as Class 1 preferred stock on the First Section of the Tokyo Stock Exchange.
2008	Mar.	Concluded an exclusive distributor contract for the sale of Evian natural mineral water in Japan with the DANONE Group (headquartered in France).
2010	Feb.	Established GREEN VALUE CO., LTD., which engages in the maintenance and procurement of automated vending machines.
2011	May	Made Chichiyasu Company a consolidated subsidiary in order to strengthen the dairy product business.
	Jun.	Established ITO EN Asia Pacific Holdings Pte. Ltd. in Singapore.
2012	Sep.	Established ITO EN BEVERAGE (SHANGHAI), Ltd. in China.
	Oct.	Opened a representative office in Vietnam. Made NEOS Corporation a consolidated subsidiary.
2013	May	Established ITO EN (Thailand) Co., Ltd. in Thailand.
	Jul.	Established PT ITO EN ULTRAJAYA WHOLESALE in Indonesia.
2015	Feb.	ITO EN (North America) INC. obtained 100% of the shares of Distant Lands Trading Co., Inc., which is involved in the cultivation and sale of coffee beans mainly in the United States.
2016	Jun.	Constructed <i>Matcha Kobo</i> (a dedicated <i>matcha</i> production plant) on the site of Shizuoka Sagara Factory.
	Sep.	Constructed Kobe Factory in Kobe-shi, Hyogo.
	Mar.	Received Ministry of Health, Labour and Welfare (MHLW) approval for the Business Skill test on ITO EN TEA TASTER.
2017	Jun.	ITO EN <i>Oi Ocha</i> New Haiku Contest certified by the Japanese government's beyond2020 Program.

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## About ITO EN Integrated Report 2018

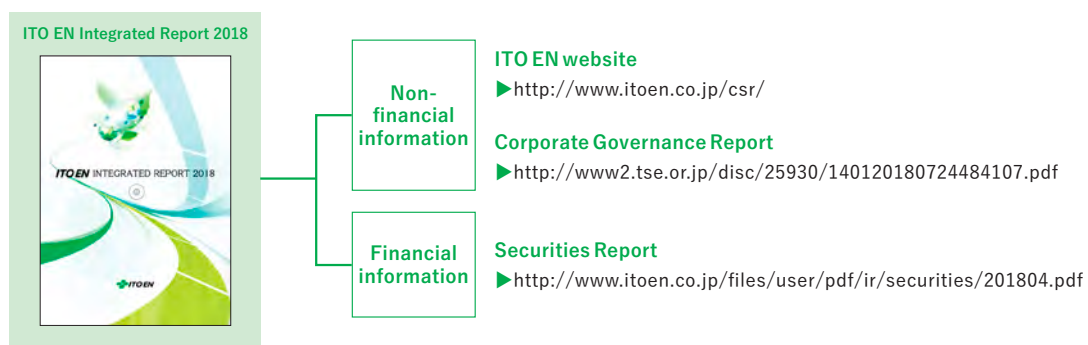
The ITO EN Integrated Report 2018 is issued as an integrated report with our financial and non-financial information in a single document. Additionally, we communicate information from multiple viewpoints via various other reports and websites as shown below, to enable all stakeholders to gain a greater understanding of ITO EN and its activities. This report focuses primarily on activities during fiscal 2017 (May 1, 2017 to April 30, 2018), but also includes details of selected ongoing initiatives and more recent activities. The professional affiliations and official positions of the stakeholders that are introduced in this report are current as of the time of their activities.

[Date of publication]

October 2018

### Disclaimer

This report contains statements of plans and strategies, as well as performance estimates and forecasts regarding the future of the ITO EN Group. These statements are forward-looking statements based on Group assumptions and beliefs that reflect the information available at the time.



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For further information on ITO EN Integrated Report 2018.

**ITO EN, LTD.**

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Tokyo, Japan 151-8550

<http://www.itoen-global.com/>