

Consolidated Financial Results

Under Japanese Standards for the Second Quarter of the fiscal year ending April 30, 2018 (Unaudited)

Scheduled filing date of quarterly report: December 8, 2017

Scheduled date of commencement of dividend payment: January 15, 2018

Supplementary documents for quarterly results: Yes

Quarterly results presentation (for institutional investors and analysts): Yes

(Figures are rounded down to million yen.)

1. Consolidated Performance for the Second Quarter of the Fiscal Year Ending April 30, 2018 (May 1, 2017 - October 31, 2017)

(1) Consolidated Results of Operations – cumulative

(% indicates year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen		Million yen		Million yen		Million yen	
10/31/2017	265,883	3.0%	14,496	1.2%	14,603	7.9%	9,246	3.6%
10/31/2016	258,083	2.1%	14,324	43.0%	13,531	37.5%	8,923	56.4%

Note: Comprehensive income 10/31/2017: 10,398 million yen (52.0%) 10/31/2016: 6,840 million yen (12.0%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
10/31/2017	74.11	73.92
10/31/2016	71.27	71.09

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

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	
10/31/2017	304,256	144,315	47.1%
4/30/2017	302,405	136,709	44.8%

Reference: Shareholders' equity 10/31/2017: 143,192 million yen 4/30/2017: 135,520 million yen.

2. Dividends

	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
4/30/2017	—	20.00	—	20.00	40.00
4/30/2018	—	20.00	—	—	—
4/30/2018 (Forecast)	—	—	—	20.00	40.00

Note: Revision to the most recently disclosed dividend forecast: None

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

3. Forecasted Consolidated Results for the Fiscal Year Ending April 30, 2018 (May 1, 2017 - April 30, 2018)

(% indicates year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen		Million yen		Million yen		Million yen		Yen
4/30/2018	492,500	3.5%	22,600	3.8%	22,000	2.2%	14,000	2.2%	111.55

Note: Revision to the most recently disclosed operation results forecast: None

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

Notes

(1) Significant changes in subsidiaries during the period

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

(2) Application of special accounting methods in preparation for quarterly consolidated financial statements: Yes

Note: Application of simplified accounting and specific for preparing the quarterly consolidated financial statements.

(3) Changes in accounting policies, changes in accounting estimates, and restatements

i. Changes in accounting policies associated with in accounting standards: None

ii. Changes in accounting policies other than i. above: None

iii. Changes in accounting estimates: None

iv. Restatements: None

(4) Numbers of outstanding shares (Common Stock)

i. Number of outstanding shares (including treasury stock)	10/31/2017	89,212,380 shares	4/30/2017	89,212,380 shares
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ii. Number of treasury stock	10/31/2017	504,689 shares	4/30/2017	519,379 shares
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iii. Average number of shares during the period	10/31/2017	88,699,004 shares	10/31/2016	88,677,462 shares
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Note: The above "Number of outstanding shares" pertains to common stock. For "Number of outstanding shares" for Class-A Preferred Stock, refer to "Reference" below.

*Note: The consolidated financial result for the Second Quarter of the Fiscal Year Ending April 30, 2018 is not subject to quarterly review procedures.

*Note: Request for appropriate use of the business outlook and other special remarks

Forward-looking statements in this document, including forecasts, are based on information available to management at the time of the announcement, which management assumes to be reasonable. Therefore, our company does not guarantee the achievement of forecasts and other forward-looking statements. Because of variable factors, actual results may differ from the forecast figures.

For the basis of presumption of the forecasted operation results and the notes on its use, refer to "1. Qualitative Information Regarding Consolidated Financial Results for This Quarter, (3) Explanations Regarding Forecasts for Consolidated Results and Future Outlook" on page 3 in the Attachments.

Reference

(1) Earnings per share – Class-A Preferred Stock (May 1, 2017 – October 31, 2017)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
10/31/2017	79.11	78.92
10/31/2016	76.27	76.09

(2) Dividends – Class-A Preferred Stock

	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
4/30/2017	—	25.00	—	25.00	50.00
4/30/2018	—	25.00	—	—	—
4/30/2018 (Forecast)	—	—	—	25.00	50.00

Note: Revision to the most recently disclosed dividend forecast: None

(3) Earnings per share – Class-A Preferred Stock in Forecasted Consolidated Operation Results

	Earnings per share (Consolidated)
	Yen
4/30/2018	121.55

Note: Revision to the most recently disclosed operation results forecast: None

(4) Number of outstanding shares – Class-A Preferred Stock

i. Number of outstanding shares (including treasury stock)	10/31/2017	34,246,962 shares	4/30/2017	34,246,962 shares
ii. Number of treasury stock	10/31/2017	464,508 shares	4/30/2017	459,928 shares
iii. Average number of shares during the period	10/31/2017	33,784,288 shares	10/31/2016	34,135,053 shares

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1. Qualitative Information Regarding Consolidated Financial Results for This Quarter

(1) Explanations Regarding Consolidated Results of Operations

During the first half of the fiscal year ending April 30, 2018 (May 1, 2017–October 31, 2017), the Japanese economy has continued a trend of gradual recovery trend in part due to the improvement in corporate earnings and the employment/income environment, although attention needs to be given to the impact of uncertainty in overseas economies and fluctuations in finance and capital markets.

In the beverage industry, there are signs of recovery in the consumers' mind and confidence, although the sales competition between the companies is increasing and the management environment continues to be tough.

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

As a result, ITO EN recorded consolidated net sales of 265,883 million yen, up 3.0% year on year, operating income of 14,496 million yen, up 1.2%, ordinary income of 14,603 million yen, up 7.9%, and profit attributable to owners of parent of 9,246 million yen, up 3.6%.

Net sales	265,883 million yen, up 3.0%
Operating income	14,496 million yen, up 1.2%
Ordinary income	14,603 million yen, up 7.9%
Profit attributable to owners of parent	9,246 million yen, up 3.6%

Performance by each of the business segments were as follows.

<Tea Leaves and Beverages Business>

Domestic business, in the tea leaf products category, the company broadcast a television commercial for a leaf (tea bag) product for the first time in 30 years to convey the various ways of enjoying Japanese tea bags. Furthermore, the Company established October 1 as “*Japanese Tea Day*” to mark the day *Toyotomi Hideyoshi* held a grand tea ceremony in the *Kitano Tenmangu Shrine* in Kyoto, spreading the tea culture to many people. On this day, the Company’s employees and others held “*Kantan Wakuwaku Dai-Cha-Kai*” (demonstration sales and tasting events of green tea) in mass retailer stores nationwide to convey the various flavors of tea and ways to enjoy it. Through such activities, we aim to further stimulate the Japanese tea leaf market.

In the beverage products category, in relation to the mainstay product “*Oi Ocha*” (green tea), focusing more on the freshness, we have brought out more of the mild taste and aroma by extracting only the *umami* and sweetness of green tea leaves. Particularly in the Kyushu area, we are working to realize stable and high-quality green tea leaves’ raw materials, made in Japan procurement by aggressively utilizing idle agricultural land to create large-scale tea plantations under management optimized for large-scaled tea plantations balancing productivity and environmental preservation. From this year, we also began operations in Saga Prefecture (Tara District). ITO EN has increased the prescribed amount for preparing “*Oi Ocha Senyo Chayou*”—which cultivated by paying special attention to aroma through the “Tea-producing region development project”—in order to pursue the original fragrance and flavors in teas served from the traditional Japanese teapot “*Kyusu*,” along with continuing to further enhance the value of the “*Oi Ocha*” brand.

In the Japanese Tea, Healthy Tea and Chinese Tea category, “*Kenko Mineral Mugicha*” (healthy mineral barley tea), the best-selling non-caffeinated tea product year-round, has been selling well, as a tasty beverage that supplements minerals and prevents dehydration.

In the coffee beverages category, the “*TULLY’S COFFEE*” brand series continues to be popular as a product that leads the bottle-canned coffee market.

We will continue our efforts to improve the profitability by strengthening sales mainstay brands, making further cost cuts, bolstering control of advertising, sales and marketing expenses while being mindful of their cost benefits, and strengthening management of business results by area, amid the harsh business environment surrounding sales activities.

Chichiyasu Company has continued the development of its active sales of milk and yogurt products, mainly in Hiroshima Prefecture, and it is expanding its brand synergies through a joint development with ITO EN. In addition, with its robust sales channels in western Japan, NEOS Corporation has been continuously adding to its foundation for boosting the profitability of the Group’s vending machine business.

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

For the beverage products, ITO EN (North America) INC. steadily increased sales of unsweetened tea beverages such as “*Oi Ocha*” driven by the global boom of Japanese food and *matcha* green tea as well as the increasing health-conscious trend. In addition, Distant Lands Trading Co., which engages in the entire process from cultivation to sales of coffee beans, mainly in the U.S., will continue to pursue synergies through measures such as sales of our Group’s products to its main customers, namely food

service chain operators.

As a result of these activities, the Tea Leaves and Beverages Business recorded net sales of 246,564 million yen, up 2.6% year on year, and operating income of 12,948 million yen, up 0.9%.

<Restaurant Business>

Tully's Coffee Japan Co., Ltd. released "Caramel Pumpkin Latte," a Seasonal Drink Product. The espresso beverages do show satisfactory sales performances. Also, delicatessen items such as pasta, and pancake items are also popular.

In addition, new coffee shop openings have been smooth with the total number of coffee shops at present being 692. Further brand enhancement as a specialty coffee shop will be achieved through revitalization, such as renovating existing stores and strengthening store competitiveness, and active ongoing investment.

As a result of these activities, the Restaurant Business recorded net sales of 15,918 million yen, up 6.6% year on year, and operating income of 1,655 million yen, down 2.1%.

<Others>

The Others recorded net sales of 3,399 million yen, up 18.3% year on year, and operating income of 520 million yen, up 20.9%.

(2) Explanations Regarding Consolidated Financial Position

The following is a consolidated financial position for the Second quarter of the fiscal year ending April 30, 2018.

<Assets>

Total assets at the end of October 31, 2017 stood at 304,256 million yen, increased by 1,850 million yen from the previous fiscal year. These changes in total assets mainly reflected increases of 953 million yen in "Notes and accounts receivable-trade," 3,208 million yen in "Other, net" of Property, plant and equipment by the acquisition of the vending machine, and a decrease of 2,204 million yen in "Cash and deposits."

<Liabilities>

Liabilities at the end of October 31, 2017 stood at 159,940 million yen, decreased by 5,755 million yen from the previous fiscal year. These changes in liabilities mainly reflected an increase of 862 million yen in "Accrued expenses," and a decreases of 5,290 million yen in "Notes and accounts payable-trade," 2,949 million yen in "Lease obligations."

<Net assets>

Net assets at the end of October 31, 2017 stood at 144,315 million yen, increased by 7,605 million yen from the previous fiscal year. The major changes of the net assets were an increase of 9,246 million yen in "Retained earnings" due to "Profit attributable to owners of parent," and a decrease of 2,618 million yen due to "Dividends from surplus."

<Cash flows from operating activities>

Net cash inflows from operating activities totaled 11,246 million yen (compared with 15,817 million yen inflow in the same period of the previous fiscal year). The major factors affecting this were increases due to profit before income taxes of 14,376 million yen and depreciation and amortization of 6,523 million yen and decreases due to a 1,190 million yen increase in inventories and a 5,328 million yen decrease in notes and accounts payable-trade.

<Cash flows from investing activities>

Net cash outflows from investing activities were 5,774 million yen (compared with 4,405 million yen outflow in the same period of the previous fiscal year). The major factors of cash outflows were 5,109 million yen for capital investment.

<Cash flows from financing activities>

Net cash outflows from financing activities were 8,107 million yen (compared with 8,136 million yen outflow in the same period of the previous fiscal year). The major factors of cash outflows were repayments of finance lease obligations totaling 4,625 million yen and dividends paid totaling 2,617 million yen.

As a result, cash and cash equivalents at the end of the second quarter of the fiscal year ending April 30, 2018 amounted to 61,771 million yen, decreased by 2,430 million yen from the end of previous fiscal year.

(3) Explanations Regarding Forecasts for Consolidated Results and Future Outlook

As for the consolidated business outlook for full fiscal year, considering the financial results of the second quarter of the current fiscal year and the managerial environment, no change has been made without reviewing.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

As of October 31, 2017 and April 30, 2017

	Million yen	
	4/30/2017	10/31/2017
Assets		
Current assets:		
Cash and deposits	64,202	61,998
Notes and accounts receivable - trade	54,677	55,630
Merchandise and finished goods	30,718	31,303
Raw materials and supplies	7,181	7,859
Other	17,978	18,407
Allowance for doubtful accounts	(99)	(61)
Total current assets	174,657	175,138
Non-current assets:		
Property, plant and equipment;		
Buildings and structures, net	20,987	21,241
Land	21,587	21,616
Lease assets, net	27,889	26,060
Other, net	12,574	15,783
Subtotal	83,039	84,702
Intangible assets:		
Goodwill	18,371	17,517
Other	6,082	5,643
Subtotal	24,454	23,160
Investments and other assets:		
Other	20,540	21,539
Allowance for doubtful accounts	(285)	(285)
Subtotal	20,254	21,254
Total non-current assets	127,748	129,117
Total assets	302,405	304,256
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	33,061	27,771
Short-term loans payable	2,364	2,465
Lease obligations	8,995	7,952
Accrued expenses	25,297	26,160
Income taxes payable	4,490	5,292
Provision for bonuses	3,549	3,461
Other	3,802	4,827
Total current liabilities	81,560	77,931
Non-current liabilities:		
Bonds payable	10,000	10,000
Long-term loans payable	47,433	46,689
Lease obligations	13,468	11,560
Net defined benefit liability	9,455	9,693
Other	3,778	4,065
Total non-current liabilities	84,135	82,009
Total liabilities	165,696	159,940

Quarterly Consolidated Balance Sheets - Continued

	Million yen	
	4/30/2017	10/31/2017
Net assets		
Shareholders' equity:		
Capital stock	19,912	19,912
Capital surplus	18,644	18,641
Retained earnings	102,750	109,378
Treasury stock	(1,983)	(1,961)
Total shareholders' equity	139,323	145,969
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,133	2,893
Deferred gains or losses on hedges	—	0
Revaluation reserve for land	(6,053)	(6,053)
Foreign currency translation adjustment	747	953
Remeasurements of defined benefit plans	(629)	(571)
Total accumulated other comprehensive income	(3,802)	(2,777)
Subscription rights to shares	66	68
Non-controlling interests	1,122	1,054
Total net assets	136,709	144,315
Total liabilities and net assets	302,405	304,256

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

From May 1, 2017 to October 31, 2017

Quarterly Consolidated Statement of Income [Second quarter period]

	Million yen	
	10/31/2016	10/31/2017
Net sales	258,083	265,883
Cost of sales	136,886	139,644
Gross profit	121,196	126,238
Selling, general and administrative expenses	106,871	111,742
Operating income	14,324	14,496
Non-operating income:		
Interest income	21	25
Dividend income from securities	40	42
Foreign exchange gains	—	217
Equity income from an unconsolidated subsidiary and affiliates	52	81
Other	291	287
Total non-operating income	406	654
Non-operating expenses:		
Interest expense	463	355
Foreign exchange losses	556	—
Other	180	191
Total non-operating expense	1,200	547
Ordinary income	13,531	14,603
Extraordinary gains:		
Gain on sales of fixed assets	10	8
Gain on donation of fixed assets	—	23
Gain on sales of investment securities	—	0
Other	0	0
Total extraordinary gains	10	33
Extraordinary losses:		
Loss on abandonment of fixed assets	14	22
Loss on sales of investment securities	0	—
Loss on valuation of investment securities	0	—
Impairment loss	141	237
Loss on disaster	32	—
Other	3	—
Total extraordinary losses	192	260
Income before income taxes	13,349	14,376
Total income taxes	4,258	5,026
Net income	9,090	9,349
Profit attributable to non-controlling interests	167	103
Profit attributable to owners of parent	8,923	9,246

Quarterly Consolidated Statement of Comprehensive Income [Second quarter period]

	Million yen	
	10/31/2016	10/31/2017
Profit	9,090	9,349
Other comprehensive income:		
Valuation difference on available-for-sale securities	(50)	694
Deferred gains or losses on hedges	45	0
Foreign currency translation adjustment	(2,281)	230
Remeasurements of defined benefit plans, net of tax	66	58
Share of other comprehensive income of entities accounted for using equity method	(30)	64
Other comprehensive income	(2,250)	1,049
Comprehensive income	6,840	10,398
(Breakdown)		
Comprehensive income attributable to owners of parent	6,755	10,271
Comprehensive income attributable to non-controlling interests	84	127

(3) Quarterly Consolidated Statements of Cash Flows [Second quarter period]

From May 1, 2017 to October 31, 2017

	Million yen	
	10/31/2016	10/31/2017
Cash flows from operating activities:		
Profit before income taxes	13,349	14,376
Depreciation and amortization	6,063	6,523
Impairment loss	141	237
Amortization of goodwill	874	889
Increase (decrease) in provision for bonuses for employees	320	(87)
Increase (decrease) in net defined benefit liability	322	322
Interest and dividend income	(61)	(68)
Interest expenses	463	355
Loss (gain) on foreign currency translation	544	(230)
Loss (gain) on valuation of investments securities	0	—
Decrease (increase) in notes and accounts receivable – trade	(1,388)	(880)
Decrease (increase) in inventories	389	(1,190)
Decrease (increase) in other current assets	1,321	(44)
Increase (decrease) in notes and accounts payable-trade	(3,697)	(5,328)
Increase (decrease) in consumption tax payable	(605)	323
Increase (decrease) in other current liabilities	1,930	651
Other	70	(188)
Subtotal	20,038	15,660
Interest and dividend income received in cash	55	71
Interest expenses paid in cash	(464)	(357)
Income taxes paid in cash	(3,811)	(4,128)
Net cash flows from operating activities	15,817	11,246
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets	(4,469)	(5,109)
Decrease (increase) in other investments	64	(664)
Net cash flows from investing activities	(4,405)	(5,774)
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	56	117
Repayment of long-term loans payable	(185)	(766)
Purchase of treasury stock	(7)	(10)
Proceeds from sales of treasury stock	0	0
Repayment of finance lease obligations	(5,291)	(4,625)
Dividends paid	(2,622)	(2,617)
Cash dividends paid to minority shareholders	(75)	(195)
Other	(10)	(9)
Net cash flows from financing activities	(8,136)	(8,107)
Effect of exchange rate fluctuation on cash and cash equivalents	(509)	203
Net increase (decrease) in cash and cash equivalents	2,766	(2,430)
Cash and cash equivalents at beginning of period	53,259	64,202
Cash and cash equivalents at end of period	56,026	61,771

(4) Notes to Quarterly Consolidated Financial Statements

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

Not applicable.

(Note Regarding Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods in Preparation for Quarterly Consolidated Financial Statements)

(Calculation of income taxes)

The effective tax rate after the application of deferred tax accounting to the profit before income taxes for the consolidated fiscal year including the Second quarter under review is reasonably estimated, and the tax expenses are calculated by multiplying net income before income taxes by this estimated effective tax rate.

(Segment Information, etc.)

Information regarding amounts of sales and profits or losses by reporting segment.

I . For the Second quarter of the previous fiscal year ended April 30, 2017 (May 1, 2016 – October 31, 2016)

(Figures are rounded down to million yen.)

	Reporting Segment				Adjustment	Amount on Consolidated Statements of Operations
	Tea leaves /Beverages Business	Restaurant Business	Others	Total		
Net sales:						
(1) Outside	240,279	14,928	2,875	258,083	—	258,083
(2) Intersegment	194	9	1,333	1,536	(1,536)	—
Total net sales	240,474	14,937	4,208	259,620	(1,536)	258,083
Segment profits (losses)	12,833	1,691	430	14,955	(630)	14,324

Notes: i. The segment profits (losses) adjustment includes (735) million yen in amortization of goodwill and 104 million yen in intersegment transactions.

ii. Segment profits are adjusted to the operating income figure on the Quarterly Consolidated Statements of Income.

II . For the Second quarter of the fiscal year ending April 30, 2018 (May 1, 2017 – October 31, 2017)

(Figures are rounded down to million yen.)

	Reporting Segment				Adjustment	Amount on Consolidated Statements of Operations
	Tea leaves /Beverages Business	Restaurant Business	Others	Total		
Net sales:						
(1) Outside	246,564	15,918	3,399	265,883	—	265,883
(2) Intersegment	193	9	1,536	1,740	(1,740)	—
Total net sales	246,758	15,928	4,936	267,624	(1,740)	265,883
Segment profits (losses)	12,948	1,655	520	15,124	(628)	14,496

Notes: i. The segment profits (losses) adjustment includes (748) million yen in amortization of goodwill and 119 million yen in intersegment transactions.

ii. Segment profits are adjusted to the operating income figure on the Quarterly Consolidated Statements of Income.