

Consolidated Financial Results

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

Scheduled filing date of quarterly report: March 13, 2018

Scheduled date of commencement of dividend payment: -

Supplementary documents for quarterly results: Yes

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

(Figures are rounded down to million yen.)

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

(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	%
1/31/2018	376,371	3.2%	16,312	-5.9%	15,846	-9.8%	8,949	-22.6%
1/31/2017	364,618	2.5%	17,329	45.6%	17,575	51.4%	11,564	68.4%

Note: Comprehensive income 1/31/2018: 10,196 million yen (-21.2%) 1/31/2017: 12,934 million yen (84.3%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
1/31/2018	71.69	71.51
1/31/2017	92.77	92.54

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	
1/31/2018	288,135	141,512	48.7%
4/30/2017	302,405	136,709	44.8%

Reference: Shareholders' equity 1/31/2018: 140,397 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	492,800	3.6%	22,000	1.0%	20,900	-2.9%	12,350	-9.8%	98.07

Note: Revision to the most recently disclosed operation results forecast: Yes

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: For details, refer to “2. Quarterly Consolidated Financial Statements and Main Notes, (3) Notes to Quarterly Consolidated Financial Statements” on page 8 in the Attachments.

(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) Number of outstanding shares (Common Stock)

i. Number of outstanding shares (including treasury stock)	1/31/2018	89,212,380 shares	4/30/2017	89,212,380 shares
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ii. Number of treasury stock	1/31/2018	501,542 shares	4/30/2017	519,379 shares
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iii. Average number of shares during the period	1/31/2018	88,702,763 shares	1/31/2017	88,680,982 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 Third 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 – January 31, 2018)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
1/31/2018	76.69	76.51
1/31/2017	97.77	97.54

(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	108.07

Note: Revision to the most recently disclosed operation results forecast: Yes

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

i. Number of outstanding shares (including treasury stock)	1/31/2018	34,246,962 shares	4/30/2017	34,246,962 shares
ii. Number of treasury stock	1/31/2018	466,763 shares	4/30/2017	459,928 shares
iii. Average number of shares during the period	1/31/2018	33,783,347 shares	1/31/2017	34,134,222 shares

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1. Qualitative Information Regarding Consolidated Financial Results for This Quarter

(1) Explanations Regarding Consolidated Results of Operations

During the Third quarter of the fiscal year ending April 30, 2018 (May 1, 2017– January 31, 2018), the Japanese economy has continued a trend of gradual recovery in part due to the employment/income environment and the effect of various policies, although attention needs to be given to the impact of uncertainty in overseas economies and fluctuations in the 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 376,371 million yen, up 3.2% year on year, operating income of 16,312 million yen, down 5.9%, ordinary income of 15,846 million yen, down 9.8%, and profit attributable to owners of parent of 8,949 million yen, down 22.6%.

Net sales	376,371 million yen, up 3.2%
Operating income	16,312 million yen, down 5.9%
Ordinary income	15,846 million yen, down 9.8%
Profit attributable to owners of parent	8,949 million yen, down 22.6%

Performance by each of the business segments were as follows.

<Tea Leaves and Beverages Business>

Domestic business, in the Tea Leaf products category, we hold “*Dai-Cha-Kai*” (green tea demonstration sales and tasting events) by “*Cha-Shi*” (experts in blending green tea) who have obtained “*ITO EN Tea Taster*” certification approved by the Ministry of Health, Labour and Welfare at stores all over Japan to communicate the delicious flavor of tea and how to enjoy it. We also actively communicate how to enjoy tea at specialty stores, including opening directly-managed shops where Japan’s traditional tea culture can be experienced that connect commercial tea farmers with customers and have a selection of single-origin (single variety/single producer) teas, including choice tea leaves (green tea, black tea and oolong tea) from all over Japan. 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), we will expand seasonal limited “*Sakura* (cherry blossoms) package” this spring. We will introduce “*Sakura*” (cherry blossoms) which is the symbol of spring of Japan and “*Local pride*” of each prefecture through “*Oi Ocha*” and will continue to improve further brand value in the future.

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

We had already transitioned to providing the month and year for “best before” dates on some products, and in January of this year, we expanded the number of products and will continue to gradually transition to this format. Through this effort, around 80% of all our items now display the month and year. We expect this to lead to enhanced productivity as a result of improved operational efficiency, including reduced environmental burden through the reduction of CO2 emissions associated with reduced food waste and improved logistical efficiency as well as reduced numbers of lots to manage at stores and warehouses and less required storage space.

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 346,936 million yen, up 2.8% year on year, and operating income of 13,875 million yen, down 7.5%.

<Restaurant Business>

As for Tully's Coffee Japan Co., Ltd., "Irish Latte" has performed well in its eighth year. The tea beverages products also performed well, with "Strawberry Royal Milk Tea" being especially popular. Also, food items such as "Ball Park Hot Dog" and "Classic Pancake" are also popular.

In addition, new coffee shop openings have been smooth with the total number of coffee shops at present being 696. 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 24,624 million yen, up 7.5% year on year, and operating income of 2,707 million yen, up 2.1%.

<Others>

The Others recorded net sales of 4,810 million yen, up 11.5% year on year, and operating income of 675 million yen, up 9.5%.

(2) Explanations Regarding Consolidated Financial Position

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

<Assets>

Total assets at the end of January 31, 2018 stood at 288,135 million yen, decreased by 14,270 million yen from the previous fiscal year. These changes in total assets mainly reflected decreases of 3,104 million yen in "Cash and deposits," 7,517 million yen in "Notes and accounts receivable-trade" and 4,114 million yen in "Other" of Current assets by the decrease of the accounts receivable.

<Liabilities>

Liabilities at the end of January 31, 2018 stood at 146,623 million yen, decreased by 19,073 million yen from the previous fiscal year. These changes in liabilities mainly reflected decreases of 8,773 million yen in "Notes and accounts payable-trade," 2,106 million yen in "Income taxes payable" and 4,292 million yen in "Lease obligations."

<Net assets>

Net assets at the end of January 31, 2018 stood at 141,512 million yen, increased by 4,802 million yen from the previous fiscal year. The major changes of the net assets were an increase of 8,949 million yen in "Retained earnings" due to "Profit attributable to owners of parent" and a decrease of 5,237 million yen due to "Dividends from surplus."

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

During the Third quarter of the fiscal year ending April 30, 2018 (May 1, 2017– January 31, 2018), the Company faced sluggish sales due to the effects of bad weather such as nationwide low temperatures and heavy snowfall, and recorded valuation losses on foreign currency assets owned due to the rapid appreciation of the yen. In addition, the Company posted additional income taxes of 749 million yen, mainly as a result of remeasurement of deferred tax assets and deferred tax liabilities at subsidiaries in the United States following the passing of tax reform legislation on December 22, 2017. As a result of the impact of these developments, the Company has revised its full-year consolidated results forecasts announced on June 1, 2017 as described below.

The dividend forecast will remain unchanged from the previously announced forecast.

Revision to Consolidated Results Forecasts for the Fiscal Year Ending April 30, 2018 (May 1, 2017 - April 30, 2018)

(Unit: million yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share (yen) (Common Stock)	Earnings per share (yen) (Class-A Preferred Stock)
Previous forecasts (A)	492,500	22,600	22,000	14,000	111.55	121.55
Revised forecasts (B)	492,800	22,000	20,900	12,350	98.07	108.07
Differences (B-A)	300	-600	-1,100	-1,650	—	—
Changes (%)	0.1	-2.7	-5.0	-11.8	—	—
(Reference) Previous year (ended April 30, 2017)	475,866	21,774	21,524	13,693	108.77	118.73

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

As of January 31, 2018 and April 30, 2017

	Million yen	
	4/30/2017	1/31/2018
Assets		
Current assets:		
Cash and deposits	64,202	61,098
Notes and accounts receivable - trade	54,677	47,159
Merchandise and finished goods	30,718	30,196
Raw materials and supplies	7,181	7,979
Other	17,978	13,864
Allowance for doubtful accounts	(99)	(68)
Total current assets	174,657	160,229
Non-current assets:		
Property, plant and equipment;		
Buildings and structures, net	20,987	21,208
Land	21,587	21,791
Lease assets, net	27,889	24,618
Other, net	12,574	16,821
Subtotal	83,039	84,440
Intangible assets:		
Goodwill	18,371	17,067
Other	6,082	5,340
Subtotal	24,454	22,408
Investments and other assets:		
Other	20,540	21,339
Allowance for doubtful accounts	(285)	(283)
Subtotal	20,254	21,056
Total non-current assets	127,748	127,905
Total assets	302,405	288,135
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	33,061	24,288
Short-term loans payable	2,364	2,224
Lease obligations	8,995	7,459
Accrued expenses	25,297	23,319
Income taxes payable	4,490	2,383
Provision for bonuses	3,549	1,768
Other	3,802	4,283
Total current liabilities	81,560	65,727
Non-current liabilities:		
Bonds payable	10,000	10,000
Long-term loans payable	47,433	46,315
Lease obligations	13,468	10,710
Net defined benefit liability	9,455	9,848
Other	3,778	4,020
Total non-current liabilities	84,135	80,895
Total liabilities	165,696	146,623

Quarterly Consolidated Balance Sheets - Continued

	Million yen	
	4/30/2017	1/31/2018
Net assets		
Shareholders' equity:		
Capital stock	19,912	19,912
Capital surplus	18,644	18,645
Retained earnings	102,750	106,463
Treasury stock	(1,983)	(1,959)
Total shareholders' equity	139,323	143,061
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,133	2,925
Revaluation reserve for land	(6,053)	(6,053)
Foreign currency translation adjustment	747	1,006
Remeasurements of defined benefit plans	(629)	(542)
Total accumulated other comprehensive income	(3,802)	(2,663)
Subscription rights to shares	66	79
Non-controlling interests	1,122	1,034
Total net assets	136,709	141,512
Total liabilities and net assets	302,405	288,135

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

From May 1, 2017 to January 31, 2018

Quarterly Consolidated Statement of Income [Third quarter period]

	Million yen	
	1/31/2017	1/31/2018
Net sales	364,618	376,371
Cost of sales	192,621	198,485
Gross profit	171,997	177,885
Selling, general and administrative expenses	154,667	161,572
Operating income	17,329	16,312
Non-operating income:		
Interest income	36	54
Dividend income from securities	65	68
Foreign exchange gains	573	—
Equity income from an unconsolidated subsidiary and affiliates	72	120
Other	444	437
Total non-operating income	1,192	680
Non-operating expenses:		
Interest expense	683	512
Foreign exchange losses	—	348
Other	262	285
Total non-operating expense	946	1,147
Ordinary income	17,575	15,846
Extraordinary gains:		
Gain on sales of fixed assets	11	9
Gain on donation of fixed assets	12	23
Gain on sales of investment securities	20	0
Other	—	0
Total extraordinary gains	44	33
Extraordinary losses:		
Loss on abandonment of fixed assets	18	38
Loss on sales of investment securities	0	—
Loss on valuation of investment securities	0	—
Impairment loss	150	237
Other	6	1
Total extraordinary losses	175	278
Income before income taxes	17,443	15,600
Total income taxes	5,719	6,579
Net income	11,724	9,021
Profit attributable to non-controlling interests	159	71
Profit attributable to owners of parent	11,564	8,949

Quarterly Consolidated Statement of Comprehensive Income [Third quarter period]

	Million yen	
	1/31/2017	1/31/2018
Net income	11,724	9,021
Other comprehensive income:		
Valuation difference on available-for-sale securities	286	676
Deferred gains or losses on hedges	45	—
Foreign currency translation adjustment	783	291
Remeasurements of defined benefit plans, net of tax	99	87
Share of other comprehensive income of entities accounted for using equity method	(3)	119
Other comprehensive income	1,210	1,175
Comprehensive income	12,934	10,196
(Breakdown)		
Comprehensive income attributable to owners of parent	12,795	10,089
Comprehensive income attributable to non-controlling interests	138	107

(3) 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 Third 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 Third quarter of the previous fiscal year ended April 30, 2017 (May 1, 2016 – January 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	337,404	22,900	4,314	364,618	—	364,618
(2) Intersegment	296	14	1,945	2,255	(2,255)	—
Total net sales	337,700	22,914	6,259	366,874	(2,255)	364,618
Segment profits (losses)	15,006	2,651	616	18,274	(945)	17,329

Notes: i. The segment profits (losses) adjustment includes (1,107) million yen in amortization of goodwill and 161 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 Third quarter of the fiscal year ending April 30, 2018 (May 1, 2017 – January 31, 2018)

(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	346,936	24,624	4,810	376,371	—	376,371
(2) Intersegment	291	16	2,260	2,569	(2,569)	—
Total net sales	347,228	24,640	7,071	378,940	(2,569)	376,371
Segment profits (losses)	13,875	2,707	675	17,258	(945)	16,312

Notes: i. The segment profits (losses) adjustment includes (1,124) million yen in amortization of goodwill and 179 million yen in intersegment transactions.

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