Outline of SEVENFARM Business

17.4.26
Ito Yokado Co., Ltd.  Fruits and Vegetable Department
CMD  Masahiko KURUHARA
1. Rapid change of environment

- Trend of harm households and population engaged in farming

<table>
<thead>
<tr>
<th></th>
<th>1965</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>No. of farm households</td>
<td>5,660</td>
<td>2,530</td>
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<tr>
<td>Ratio of full-time FH</td>
<td>58.3%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Population engaged in farming</td>
<td>11,519</td>
<td>2,390 (2014)</td>
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<tr>
<td>Of which over 65 years old</td>
<td>22%</td>
<td>63%</td>
</tr>
</tbody>
</table>

- Trend of abandoned farmland

<table>
<thead>
<tr>
<th>Year</th>
<th>Abandoned farmland area (10 thousand ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>13.5</td>
</tr>
<tr>
<td>1990</td>
<td>21.7</td>
</tr>
<tr>
<td>1995</td>
<td>24.4</td>
</tr>
<tr>
<td>2000</td>
<td>34.3</td>
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<tr>
<td>2005</td>
<td>38.6</td>
</tr>
<tr>
<td>2010</td>
<td>40</td>
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</tbody>
</table>

1965-2010:
- Serials: 55.3% decrease after 1965
- General foods: 79.3% decrease after 1965
- Vegetable: 80% 59% 43%
- Fruit: 80% 59% 43%

【Major changes in agricultural industry】
- Decrease of farmers/aging
- Increase of abandoned farmland
- Decrease in food self-sufficiency ratio

Need to support agriculture as a national policy in revision of farmland law, fostering core producers and in the field of increasing food self-sufficiency ratio.
“Act together aiming for more enrichment of agriculture and foods”

Ito Yokado will further act more deeply together with production area, local communities and intermediate distributors by sharing information more closely to overcome the coming difficult era.

Our relationship with production are and intermediate distributors are not as competitors but as partners for co-existence.

We will exchange information of short-term and long-term changes among 3 stakeholders by mutually respecting different positions each other in order to flexibly respond to any changes of domestic and external environment as well as changes of tastes of our customers.
IV. Introduction of Activities of Ito Yokado Co., Ltd.

2. Activities pushed by Ito Yokado

《Present distribution of farm products》

Present distribution of farm products
「Production＝Production area」
「Distribution＝wholesaler」
「Sales＝Retailer」 Existence of division of functions
Less direct exchange of information and information is available mainly through intermediate distributors and each stakeholder conducts business based on available information in their environment.

《IY》

「Unity in production, distribution and sales」「Co-existence」
Through frequent exchange of information, we grasp short and long-term changes as early as possible.
We develop commodities together in unity, we will promptly respond to change of environment and needs of customers.

Local

Production
Production areas

Distribution
Wholesalers

Sales
Retailers

Customers

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Ito Yokado is implementing various projects jointly with distributors in production areas and the representative projects are those 5 projects as mentioned below. By promoting these projects, we will contribute to vitalization of Japanese agriculture.

**Case 1: SEVENFARM**
IY participates in production sites and engages in farming together with producers. Through Seven-Farms we will promote vitalization of local communities and food education.

**Case 2: Sweets King**
Based on the concept of the commodity “Tasty fruits is the best sweets”, we categorize the tastes of fruits by 6 elements. It is PB to be developed together with distributors in production areas to supply promised tastes to our customers.

**Case 3: Direct-sale in production area/local transaction**
Creation of a new style local consumption of local products through cooperation between producers and stores. By promoting understanding of customers for local agriculture to improve loyalty.

**Case 4: Traceable fruits and vegetable**
Indicates sketch and name of each producer in the package. By using IT, information of the production area is provided to customers. Producer can become main cast for providing safety of commodities to customers.

**Case 5: Distribution center specified for fruits and vegetable**
The system to retain freshness by using distribution center specified for fruits and vegetable. The project to establish cold chain with appropriate temperature zone for fruits and vegetable and to reduce distribution costs by improving efficiency.
V. Introduction of SEVENFARM

1. Objectives of SEVENFARM

① “Promote recycle use”

+ 

② “Support agriculture”

In order to realize these 2 objectives effectively, we developed and adopted SEVENFARM project and we are developing this project.

However, the most important people for us are Japanese consumers or local customers. Therefore, we would like to promote exchange with customers through SEVENFARM, accumulate know-how of agriculture and distribution through agricultural production works in order to improve our services.
V. Introduction of SEVENFARM

2. "Challenge for recycle"

Recycle use of food gavages as a resource

Revision of food gavage recycle law in 2007
The commitment ratios of recycle use of food gavages for each type of food industries were set up as a target.

【Recycle ratio of food gavages by IY】
Achieved the target of 45% at the end of Fiscal 2012 (end of February)!

We are promoting feasible schemes to pursue the social responsibility as private enterprise. Also, in addition to promote recycle use, we are making efforts to reduce food gavages in the process of distribution and sales.

<Changes in recycle ratio of food gavages by IY>

※The ratios after 2008 were calculated by using the calculation method adopted in the Food Gavage Recycle Law

<table>
<thead>
<tr>
<th>Year</th>
<th>Recycle ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>24.7%</td>
</tr>
<tr>
<td>2008</td>
<td>26.5%</td>
</tr>
<tr>
<td>2009</td>
<td>31.4%</td>
</tr>
<tr>
<td>2010</td>
<td>36.7%</td>
</tr>
<tr>
<td>2011</td>
<td>39.4%</td>
</tr>
<tr>
<td>2012</td>
<td>45.2%</td>
</tr>
<tr>
<td>2013</td>
<td>47.5%</td>
</tr>
<tr>
<td>2014</td>
<td>50.2%</td>
</tr>
<tr>
<td>2015 (end of Feb. 2016)</td>
<td>52.4%</td>
</tr>
</tbody>
</table>

Achievement in 2008
Recycle ratio 26.5%

Achievement in 2015 (end of Feb. 2016)
Recycle ratio 52.4%
We wish supporting agriculture!

“We will not enter into agriculture but we rather wish supporting vitalization of Japanese agriculture.” We will make efficient and highly productive agricultural system together with producers.

We will promote environmental conservation by reducing generation of CO2 by tackling with Recycle Type Agriculture!!
V. Introduction of SEVENFARM

4. Brief history of SEVENFARM

(2008)
August: Establishment of SEVENFARM Tomisato Co., Ltd
September: First Agricultural Tour was conducted in Tomisato
October: Second Agricultural Tour was conducted in Tomisato

(2009)
March: Third Agricultural Tour was conducted in Tomisato
November: SEVENFARM Tomisato obtained JGAP Certificate
November: SEVENFARM Tomisato was introduced in the Agricultural Fair of “Agro-innovation 2009”
December: Agricultural Fair “Eco Products 2009” introduced SEVENFARM/ Sewing experience was conducted

(2010)
May: Experience of harvest was conducted in Tomisato by Eco-Pro Scheme
July: SEVENFARM Co. Ltd was established
September: SEVENFARM Tsukuba was established
October: SEVENFARM Miura was established
October: SEVENFARM Fukaya was established

(2011)
March: SEVENFARM Miura started shipping products
July: SEVENFARM Fukaya started shipping products

(2012)
January: SEVENFARM Hokkaido was established
April: SEVENFARM Tokai was established
July: Received GAP Promotion Award
October: SEVENFARM Tokyo was established

(2013)
May: SEVENFARM Niigata was established
July: SEVENFARM Shonan was established

(2014)
May: SEVENFARM Choshi was established
March: Received Agricultural Minister’s Award as Excellent Enterprise of Food Industries

(2015)
July: SEVENFARM Niigata City was established
V. Introduction of SEVENFARM

- SEVENFARM was expanded to 11 Bases and Total Cultivation area was expanded to 200ha.
- The priority task from now on is expanding cultivation area and development of marketing channel at each base.

Outline of SEVENFARM Co. Ltd.

- Establishment: July 2010
- Address: Chiyoda-ku Tokyo
- Business: Planning/administration/operation of each base of SEVENFARM, Quality control and others

The types of incorporation of SEVENFARM at different bases were divided into 2 types of Agricultural Production Incorporation and Business Company Types. Each base is selecting the most suitable type.
Ⅵ. SEVENFARM Tomisato Co., Ltd

Outline of SEVENFARM Tomisato

Establishment: August 2008
Location: Tomisato City Chiba Prefecture
Farmland: 4.1 ha
Production: Consigned to President (member of JA Tomisato)
Land: Incorporation rented land of the president

The First In Japan

Establishment of Incorporation

SEVENFARM Tomisato Co.

Ito Yokado

Selection of personnel

President

Cooperation Trast

Selection of representative

Investment Ratio 25%

JA Tomisato City

Investment Support establishment

※The rest of 50% was invested by president (Owner of farmland)
Transaction methods

【Roles】
- Planned production
- President controls production
- Developing packaging and shipping methods

SEVENFARM collects products of cooperating producers and ship to IY

【Roles】
- Selling at stores
- Procurement from SEVENFARM and supply of commodities

Commodities are collected in Collection Center of JA together with SEVENFARM and cooperating producers

【Roles】
- Farm guidance to producers
- Account settlement (JA Bank)
- Provide Infrastructure for distribution

Adopting organizational structure which all stakeholders can work with the original business fields ⇒ One of the reasons for making profits at early stage!
By supporting independence of the son of the producer, the director of SEVENFARM Niigata and by collaborating with Niigata City as special zone, The new SEVENFARM will promote new activities of production guidance, guidance on shipping plan for further contribution to local communities and local networking together with administration.
The producers group was shipping their products based on contract base. As the establishment of SEVENFARM as turning point, the group paid share capital and started with 8 producers. Now, there are 11 producers in the SEVENFARM Miura.
Ⅶ. Outline of SEVENFARM Miura

《Compost Manure Center》

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</thead>
<tbody>
<tr>
<td>Cabbage</td>
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<td>Pumpkin</td>
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<tr>
<td>Sweet Corn</td>
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<tr>
<td>Broccoli</td>
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</tbody>
</table>

Name of company: Futami Co., Ltd
Name of factory: Futami Recycle Center

Location of IY Stores:

- Kawasaki City
- Yokohama City
- Yokosuka City
- Hiratsuka City

○ Nagai Organic Farming Study Group ⇒ Production of agricultural products (11 producers)
○ Yokohama Market Center ⇒ Dispatch and receive orders, Accounting, cashier
○ Ito Yokado ⇒ Sales of agricultural products
Commodities harvested are all shipped by using holding type plastic containers. As buyer was IY, in Miura area, shipping by containers was started as pioneer. Also, in the processing factory of the wholesale market which is located closely to the Fruits and Vegetable Center of SEVENFARM, cut vegetables are packaged and shipped. The Block slice of pumpkin is gaining popular from customers as it is easy to use.
A new finding is possible by looking production site from the view point of marketing!

By having an experience of agricultural works which is very rare chance, it is possible to feel difficulties of agriculture or actual situation of agriculture. Also, by looking production site from the view point of marketing, the new scheme will be implemented.

① Training of employees as partners

● By having an experience of agricultural works which is very rare chance, it is possible to feel difficulties of agriculture or actual situation of agriculture. It is good opportunity for employees to work by having an affection to the products itselfs in addition to knowledge on commodities or production areas.
Activities of SEVENFARM

2. Selling out of grading standard products

We sell out of grading standard products which are not sold in the markets by giving explanation on the reasons to the customers in the stores. Also, we utilize bad shaped products which are usually disposed effectively by making vegetable pickles. We are supplying products, which are not possible to sell in the ordinary methods to customers by giving additional values.

Ito Yokado will be mediator between actual situation of production sites and voices of customers and transfer to the both of them, thereby we will make new schemes to benefit both of them!
Ⅷ. Activities of SEVENFARM

2. Exchange with local communities and food education

● SEVENFARM Niigata appealed their activities in the class of social studies of elementary school, working experiment of junior high school and exhibition of “Health and welfare fair” held in Toki Messe in November. The SEVENFARM Niigata City which was established recently is promoting the same kind of social contribution in collaboration with administration.
"Juzen Egg-plant" as a special product of Niigata Pref. is commercialized and sold at IY stores in Niigata Pref.

By the establishment of SEVENFARM Niigata City this time, we will examine supplying commodities to SEJ (Seven Eleven Japan) in Niigata Pref.

Last year, we achieved receiving 30,000 orders in the stores of major cities.

### VIII. Activities of SEVENFARM

#### 3. Starting supply of commodities within IY Group

**《Supplying pickled vegetable as Deli Foods》**

<table>
<thead>
<tr>
<th>SEVENFARM</th>
<th>Size 7</th>
<th>Size 8</th>
<th>Size 9</th>
<th>Size 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomisato</td>
<td>Komatsuna</td>
<td>Komatsuna</td>
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</tr>
<tr>
<td></td>
<td>Kitaakari</td>
<td>Kitaakari</td>
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<tr>
<td></td>
<td>Radish</td>
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<tr>
<td>Tsukuba</td>
<td>Leek</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Baby Leaf</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Pak Choi</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miura</td>
<td>Sliced Pumpkin</td>
<td>Sliced Pumpkin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hokkaido</td>
<td>Block cut pumpkin</td>
<td>Block Pumpkin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hokkaido</td>
<td>Broccoli</td>
<td></td>
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<tr>
<td></td>
<td>Mixed size tomato</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Fukaya</td>
<td>Okra</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Niigata</td>
<td></td>
<td></td>
<td></td>
<td>Young Soybean</td>
</tr>
</tbody>
</table>
6 - 3. Activities of SEVENFARM

4. Obtained JGAP Certificate

● SEVENFARM adopted and strongly practiced the concept of GAP for supplying safe and reliable foods.
● Aiming at further stabilization of safety of agricultural products and proper management of farms, SEVENFARM Tomisato obtained JGAP certification in November 2009 followed by SEVENFARM in Ibaraki, Hokkaido and Miura. Each SEVENFARM will obtain J-GAP certificate from now on.
● We will introduce PDCA Cycle of management control intentionally in the production site for improving production and management system continuously.

<Development in both hard and soft (Making manual and rules)>

By obtaining GAP certificate by own farm of Ito Yokado, we will contribute to enhance awareness and wishes of neighbor producers for obtaining GAP.

Our products based on J-GAP will be the base of procurement of food ingredients to be used for foods for players village in Tokyo Olympic Game in 2020 and as an indicator of safe and reliable foods, our products will gain attentions from now on.
The scheme of SEVENFARM by Ito Yokado was highly evaluated and we received『GAP Dissemination Award in 2012』『Excellent Food Enterprise Award, Minister’s Award of Agriculture in 2014』!

We will further promote dissemination of GAP and contribute to environmental conservation!!

<Introduce GAP by TVCM>

<GAP Dissemination Award>

<Awarding ceremony of GAP dissemination>

<Awarding ceremony for Excellent enterprise>

<Visit of Mr. Koizumi member of parliament>
X. Merits of SEVENFARM Project

Merits for producers

- **Securing stable transaction (Income)**
  Sales is promised and stable transaction is possible

- **Sales of commodities by production indices are possible**
  It is possible to change sales methods according to the production results whether it is good or bad.
  Damage of disease and insects ⇒ Sell out of grade products, little quantity ⇒ sell with consultation

- **Reduction of distribution costs**
  Delivering products to neighbor IY stores to reduce distribution costs and as it is almost direct sale, it is possible to reduce middle margin of distribution.

- **Obtaining on time marketing information**
  It is possible to grasp movement of consumption of customers timely. The information on what products are to be produced and available grading standards.

- **Supporting young generations to enter agriculture**
  As peoples attention is very high, a chance of young generations to enter into agriculture will be increased.
  Also, as company is supporting agriculture, we can help employment of young farmers in agriculture.

Merits for Ito Yokado

- **Improving recycle ratio**
  By realizing commitments of recycle ratio of food gavage as resources (45%) we will pursue the social responsibility.

- **Improve loyalty for IY through contribution to local community**
  We will promote vitalization of regional agriculture through SEVENFARM and also promote exchanges with local community through experimental harvest tour for local residents. Through expanding such contribution to local community, it will be possible to enhance loyalty for IY.

- **Education of employees**
  Employees of IY can increase knowledge by participating farming works in SEVENFARM.

- **Finding a new approach for developing commodities**
  By joining the production site, it would be possible to find a new way of approach for developing new commodities.

- **Obtaining fresh products**
  It is possible to supply fresh seasonal vegetable delivered directly from the SEVENFARM located close to the store.

- **Reduction of distribution costs**
Ito Yokado as a retailing company can exchange information more closely by participating in the production site. We can find our own way of approach to agricultural production as a position of retailer and we would like to engage in agriculture for local community and local customers by caching change of environment promptly. Ito Yokado would like to support agriculture rather than enter into agriculture directly. That is our thought. Also, SEVENFARM is used as “a place of exchange in the local community” and as “a place of food education”, we will promote exchange with local residents as activities of IY as a base for a new scheme. Through these activities we wish to help vitalization of a whole local community.

ⅩⅠ Our objectives to be realized through SEVENFARM

Development of local community ⇒ for local customers
Development of Japanese Agriculture ⇒ For Japanese customers
Establishment of new bases

1. By adopting new bases, management of farms will be more efficient and quick response will be possible.
2. By adopting new bases, we can reduce costs, personnel, expand scale of management and strengthen the scheme for CRS (Common Reporting Standard).

※The reform of existing companies will be promoted by coordinating with shareholders and local administrations.