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Toward Continuous Growth in Cash Flow

Taking Up the Challenge of Creating New Vending Machine Value



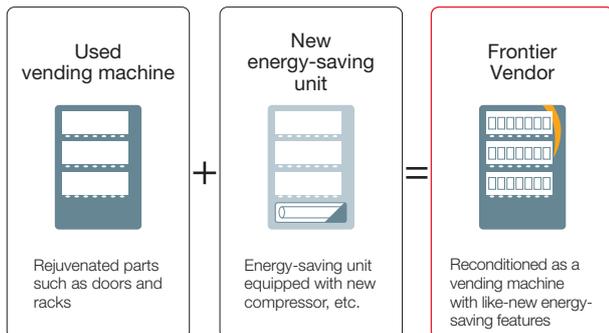
The ability to stably generate cash in our core Domestic Beverage Business is a major strength of our group. Going forward, we will strive to produce capital for further growth of our group, and to achieve that we will greatly reduce fixed costs by using technical innovations for lowering the environmental impact of vending machines, and allocate the cost savings from those efforts to aggressive IoT investment aimed at an increase in per-machine sales. In this way, we will meet the challenge of business model innovation and continuous growth in cash flow.

Step 1

Efforts to Reduce Environmental Impact

As a specific effort to reduce the environmental impact of vending machines, we are working to extend the lifespan of each machine. A vending machine is composed of multiple parts, with external cabinet parts constantly in contact with the outside environment as well as internal parts such as those for cooling and heating and shelves for loading drinks, and the speed of wear differs for each. Thus, at DyDo DRINCO, we inspect and disassemble vending machines which have finished their conventional lifespans, and, by combining old parts such as rejuvenated doors and racks with the latest energy-saving units, bring them back to life as machines with like-new energy-saving features. We call these vending machines which realize this extended lifespan "Frontier Vendors," and they simultaneously reduce both environmental impact and costs.

Concept of Vending Machine Reconditioning



Step 2

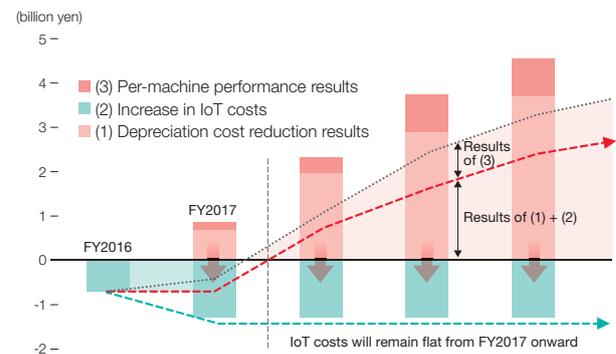
Continuous Growth of Cash Flow

In addition to lengthening the lifespan of existing vending machines, we are working to reduce fixed costs, while maintaining the same number of machines in use, by reducing procurement costs for new machines.

Capital expenditure for the Domestic Beverage Business in FY2016 was 6.8 billion yen, a drop of 2.5 billion yen from the previous year. Through these efforts we will steadily reduce depreciation costs for vending machines every year over the five years* from FY2016 to FY2020. By allocating the savings from these efforts to aggressive IoT investment, we expect to achieve an increase in per-machine sales and steady improvement every year in profit.

*Years of depreciation for vending machines: 5 years

Improvement in Profit in the Domestic Beverage Business (Compared to FY2015)



Message

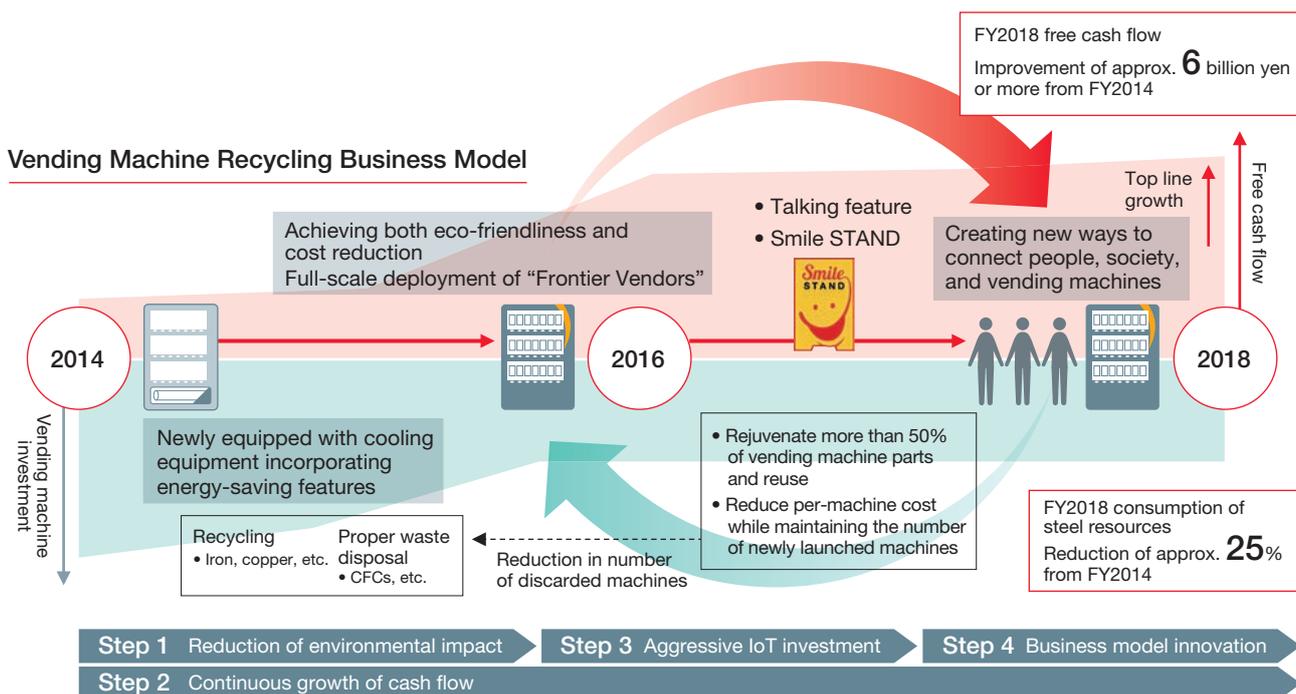
Aiming for Customers to Equate DyDo with Vending Machines

Vending machines are an important asset for our Domestic Beverage Business, which is our core business, and most of our capital investment goes into vending machines. We have introduced a number of unique and novel types of vending machines to date, including vending machines with a roulette feature for winning an extra drink for free, vending machines that talk, and vending machines that allow consumers to collect points. At present we are taking measures to make vending machines more eco-friendly, including vastly reducing the procurement costs per machine and lengthening their lifespans. These are innovative efforts that only a company like DyDo could accomplish, as vending machines are part of our core business. We aim to further heighten the appeal of our vending machines, maximizing their value, with the aim of getting customers to equate DyDo with vending machines.



Takanori Nakashima
 Director, Executive Officer
 Director of Vending Machine Sales Division and General Manager of Vending Machine Sales Planning Department
 DyDo DRINCO, Inc.

Vending Machine Recycling Business Model



Step 3 Toward Creation of New Vending Machine Value

Through aggressive IoT investment, DyDo DRINCO is strongly promoting efforts to enter the platform business using vending machines and strives to maximize the value of the vending machines which are a major asset of our group.

In 2016, we started a service using the "DyDo Smile STAND" smartphone app, and we are working to retain consumers by featuring content such as point exchange services and games that are popular among the younger generation. As the next step, we will go beyond simple sales promotion measures and transition from vending machines where people just buy drinks to machines which are bases for disseminating information, and thereby create "a new way for consumers and vending machines to interact." This will be achieved by using app users' purchasing data for marketing, and eventually making 150,000 of our vending machines nationwide into IoT platforms. As for the vending machine market, which has been regarded as a mature market for a long time, at DyDo DRINCO we are

working to continuously grow our cash flow by breaking out of the existing framework, innovating our vending machine business model, and creating new value as social infrastructure.

Step 4 Vending Machines as Social Infrastructure

Vending machines already function as social infrastructure, providing drinks 24 hours a day, 365 days a year, but we are looking at providing services to make the lives of our customers richer in a wide range of fields, beyond just the sale of drinks, through innovation in our vending machine business model. Going forward, we will accelerate these efforts to make vending machines an essential part of social infrastructure.

Message

Using Our Vending Machine Network to Further Distinguish DyDo

The vending machine channel is our primary, core channel for our Domestic Beverage Business. To date we have created many unique features that distinguish our vending machines from those of other companies. We have continued innovating further, releasing the "Smile STAND" smartphone app and service that turns a vending machine from a simple drink dispenser into an information center. We currently provide a point system for electronically collecting points that can be used for a variety of services, and now we are promoting the downloading of this app to make more services available, aiming to increase the fun and excitement of our vending machines. In the future we plan to utilize this network of vending machines to develop other businesses. This will allow us to create new value and further distinguish our vending machines from those of other companies.



Katsuji Kasai
 Director, Executive Officer
 General Manager of
 Corporate Strategy
 Department
 DyDo DRINCO, Inc.

Carefully Selected Coffee Beans and Pursuit of the Perfect Blend Striving to be the Top Canned Coffee Brand



Strengthening the DyDo Blend Brand

DyDo Blend was developed using carefully selected coffee beans and through meticulous attention to blending techniques, and we continue our pursuit to bring out the natural taste of coffee and pride ourselves on being a canned coffee without flavoring agents. The brand value of DyDo Blend and the support of our customers over the long term are the sources of the stable cash flow of our group. Going forward, we will further improve the brand strength of DyDo Blend, a major asset of our group, and strive to be the top brand in the canned coffee category.



Expanding Sales Channels for the DyDo Blend Brand

In recent years, due to the acceleration of store openings by café chains and the popularization of brewed coffee at convenience stores, the trend in overall coffee consumption in Japan has been increasing. The customer base has broadened to women and young consumers, and styles of coffee drinking have diversified. Against this backdrop, canned coffee culture has changed. On top of the previous style where men drank coffee quickly for refreshment during breaks at work, customers now also want to be able to cap their coffee, and drink it slowly over a longer period of time. In 2014, we began sales of slightly sweetened coffee with added milk in a bottle-shaped can. This was an effort to broaden a market with many sugar-free black coffees.

A program of mutual sales of products in vending machines with Kirin Beverage Co., Ltd., started in April 2016, is helping to improve product brand strength by expanding sales channels for the DyDo Blend brand and increasing points of

contact with customers. We will further improve product appeal within vending machines by broadening the products subject to the FY2017 mutual vending machine sales to the two bottle-shaped can coffees in the DyDo Blend, Supervised by the World's Top Barista* Series.



*Pete Licata, 14th World Barista Championship winner

Working Toward Securing Younger Consumers

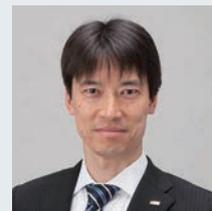
In the canned coffee market, bottle-shaped cans are in a growing trend, but SOT* cans still remain the premium market segment. DyDo DRINCO is also launching products for the younger segment in this genre in order to cultivate core future consumers of canned coffee. DyDo Blend UMAMI Blend, which went on sale in February 2016, is a product which brings out the "UMAMI" (savory flavor) of coffee, by using not only the coffee bean but also the flesh of the coffee fruit, and adding the faint sweetness of the fruit to the richness of the bean. In FY2016, we conducted some trials among young consumers, and in transitioning to FY2017, we will newly launch a sweetened black iced coffee, and adopt a new package design highlighting the "UMAMI." In this way, we will step up to the challenge of acquiring more young consumers, and expand the market for canned coffee by revitalizing the SOT can.



*SOT (Stay-on-Tab): Cans frequently used for coffee, juice and other beverages in which the tab remains attached to the can after opening

Message Aiming to be the Top Brand in Canned Coffee

DyDo Blend is a blend of more than five types of coffee beans that produce a delicious taste without the use of any flavoring agents. It is the brand that embodies our spirit of challenge. Coffee beans come in many varieties and from many different regions. Combined with varying degrees of roasting, there are infinite possibilities for producing a tasty coffee. Because of our advanced blending technologies, we are able to go the extra mile to find tastes that suit our customers' needs over time. Since the release of our Supervised by the World's Top Barista* series and our UMAMI Blend, we have steadily been gaining new customers. As customers acquire a better understanding of the value of the blend, we hope to expand our fan base for the DyDo Blend brand to make it the top brand in canned coffee.



Akito Nakai

Executive Officer
Deputy Director of Marketing
Division and General Manager
of Marketing Department
DyDo DRINCO, Inc.

*Pete Licata, 14th World Barista Championship winner

Moving into the International Market with its High Growth Potential

Realizing Sustained Growth by Strengthening **DyDo** and Nurturing International Business

Our group is accelerating expansion into the international market, with its high growth potential, in order to realize sustained growth. In the Islamic region, which we have been targeting since the formulation of our current mid-term business plan, we acquired strategic bases in Malaysia in the east in December 2015, and in Turkey in the west in February 2016. We are strengthening and nurturing our international business in order to achieve dramatic top line growth.

Initiatives in Turkey

Our business in Turkey, where we entered through M&A of a local company in 2016, has the sales scope to become the core of our group's international business. In FY2016, the first fiscal year of our move into Turkey, our operations were affected by the sudden weakening of the lira, particularly from the fourth quarter, and prices of imported raw materials such as PET bottles soared, resulting in a major impact on our business results. In the current environment, severe conditions will likely continue, but the Turkish market has an extremely high percentage of young people as a fraction of the total population, and the population will likely increase further in the future. Therefore our view remains unchanged that this is a promising market where we can anticipate growth over the medium to long term.

Under these conditions, we are working this term to strengthen our sales system and focus on core brands, and thereby raise the distribution rate, improve the existence value of our brand in the market, and boost the efficiency of sales promotion through brand concentration and selection. In terms of manufacturing, we have finished relocating our fruit juice production lines to CSD*¹ plants in the north and south so we can efficiently cover a broad area of the country, and we are starting operations with a system allowing greater efficiency of production and distribution through improvement in the operating rate of plants.

Furthermore, in the medium to long term, we are aiming for growth outpacing the market by creating new drink categories in Turkey. While the Turkish people are accustomed to drinking beverages such as coffee and black tea, the current beverage market in Turkey is made up of comparatively simple

categories such as water, cola, carbonated drinks, and fruit juices, and RTD*² beverages such as coffee and black tea are almost never commercialized. For this reason, we believe there is high future potential for market growth, a higher rate of valuable drinks, and creation of new drink categories. By deploying products exploiting the know-how our group has cultivated in Japan, we will strive for growth outpacing the market, and take up challenges with an eye toward expanding into the EU region in the future with Turkey as our base.

*1 CSD: Carbonated Soft Drinks

*2 RTD: Ready-to-Drink, beverages that can be drunk as-is soon after opening the lid

Plant Locations and Products Produced

Akyazi

Products: CSD, fruit juice, iced tea



Message

Bringing High DyDo Standards to Overseas Markets

Our International Beverage Business is growing in importance, becoming critical to further corporate development. While sales and profit growth outside of Japan are important, we also consider it our mission to communicate the excellence of DyDo and get customers to resonate with DyDo's principles in their quest for high-quality beverages. There is a strong interest in health in the countries where our group companies sell beverages—Russia (Moscow), Turkey, and Malaysia—and there is a growing cultural trend toward safe and reliable products. By getting people to recognize DyDo's high standards, we can grow along with our distributors. Toward that end we are making every effort to boost the presence of DyDo's overseas business in the group as a whole.



Mamoru Mitamura

Executive Officer
General Manager of
International Business
Management Department
DyDo Group Holdings, Inc.

As a First-rate Contract Manufacturer of Drinkable Preparations Providing Not Only Safe but Reliable Products



Strict Quality Control and Quality Assurance Systems that Earn the Trust of Business Partners

DAIDO Pharmaceutical Corporation is engaged in the OEM (contract manufacturing) business for drinkable preparations, and as a top-class contract manufacturer, we are highly regarded by the major pharmaceutical, cosmetics, and health food manufacturers which are our business partners. This is due to our outstanding development capabilities, safe and secure production system, our quality control system for ensuring high product quality, and our quality assurance system for ensuring manufacturing quality before and during the manufacturing process. Naturally, we maintain the required high levels of quality, and our stance of maintaining and improving quality beyond requirements helps us to earn the complete trust of our business partners.

Earning the Trust of Business Partners with Reliability that Exceeds Safety

Thorough quality control begins with the water that is the raw material of our drinkable preparations. Our plants are sited at locations with a good natural environment and we use high-quality groundwater. In the process of turning this groundwater into purified water, we perform quality inspections three times per day based on our unique inspection chart. In this and other ways, we ensure total commitment to the safety of the raw materials we use. In addition, we perform stringent quality control of raw materials through quantitative testing of components as well as microbial testing of each received lot to check for contamination.

In manufacturing, we ensure the trust of business partners in terms of quality control through the acquisition of certification according to the ISO 9001 international standard for quality management systems, and the FSSC 22000 international standard for food safety management systems. A clean environment is maintained by regularly inspecting for suspended particles in each plant, and we actively promote adoption of the latest equipment for high safety, such as non-contact equipment for filling containers on production lines. In addition to these technical improvements, we keep a strict eye on everything relating to product quality, such as improvement of work clothing and work rules, and we are always working to ensure a higher level of quality.



Furthermore, we carry out component testing of manufactured pharmaceuticals and quasi-drugs, working hard to ensure their effectiveness and safety, and we place all products in a liquid storage room, so follow-up evaluation can be done in the unlikely event of an incident for a fail-safe system.

In our quality control, we create an environment for assuring product quality, and we ensure manufacturing quality at all stages from pre-manufacturing to the manufacturing stage and post-shipment. We strictly examine everything relating to quality, and provide reliability exceeding product safety to our business partners.

Message from the Top

Building High-quality Plants that Assure Brand Owners who Commission Production to DyDo

From the time of DyDo's founding in 1956 to the present day, we have constantly strived to ensure the safety and reliability of our products. As one of the top contract manufacturers of drinkable preparations in the industry, we have set our sights on building the highest quality plants in the industry so that brand owners feel assured when commissioning production.

Amidst growing consumer awareness toward health and beauty, we consider it our mission to help build a rich, vibrant society. As a drinkable preparations manufacturer with a high level of expertise, we strive to improve our product development system for quick response to customers' needs, strengthen our quality control and quality assurance systems, and further expand our production system to supply safe products in a timely manner.

The drinkable preparations market is at a major turning point, with consumer needs diversifying and the core user segment for nutritional drinks aging. The challenge for management is to recognize that new needs will emerge particularly as such change occurs in the marketplace. We see this as an opportunity and will utilize our assets to generate new value as we endeavor to build a solid business foundation for the future.



Yutaka Takahashi

President and Representative Director
DAIDO Pharmaceutical Corporation

Quickly Bringing Products with High Added Value to Market Maintaining the No. 1 Market Share by an Overwhelming Margin



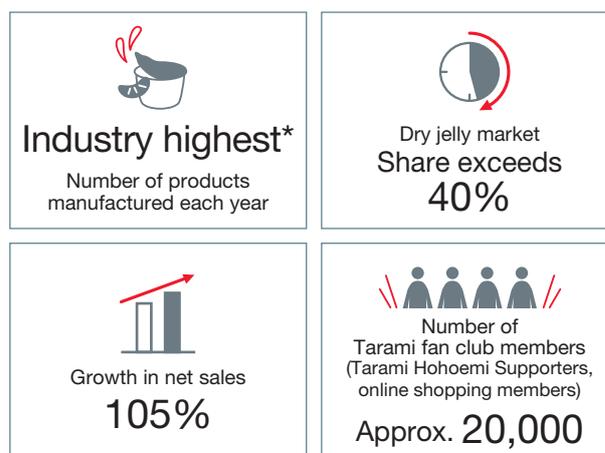
We Continue to Propose Ways to Enjoy Fruit that Suit the Needs of the Times

One of the mottos which Tarami cherishes as part of its corporate philosophy is “two-way communication between customer needs and product seeds.” Product development responsive to customer needs that change with the times begins by listening carefully to the views of consumers and retailers, and actively perceiving trends and tastes regarding fruit ingredients.

On the other hand, “seeds” refers to “seeds of ideas” accumulated in-house at Tarami. At Tarami, we carry out research and development every day in pursuit of new ingredients and textures. Naturally, we research fruits from around the world as ingredients, and our developers seek out new possibilities by taste testing any sort of food product which uses fruit. Precisely because we accumulate these ideas, we can speedily realize commercialization when signs appear that a new trend is surfacing in customer tastes.

Even if we have “seeds” (of ideas), these won’t result in sales if there are no customer needs, and in the opposite case, the customer will not be satisfied. Therefore, we are always aware of these two directions, and we believe the most important thing is continuing to create new products which generate surprise and wonder. Going forward, Tarami will market healthy

jellies which emphasize health and beauty aspects, and work to expand the fruit jelly domain. As the top brand, we will continue to create products which generate customer surprise and wonder.



*Compiled by DyDo Group

Message from the Top

Changing Ourselves through the Customer’s Viewpoint, Changing Ourselves through Innovation

Conditions continue to be severe in the food industry due to rising raw material and distribution costs, a shrinking market due to Japan’s decreasing population, and other factors. In particular, we have recently made various efforts with competitors, and competition is intensifying further.

Against this backdrop, we believe that a corporate structure resistant to environmental changes and risks, and a response with a sense of speed in all situations, will help us continue stable and sustained growth, and we have worked to reform our internal structure and mindset. In order to transition early to a business model which continuously generates profits, we feel it is essential to take on challenges from all directions to improve the added value of our products.

To achieve that, we have adopted “changing ourselves through the customer’s viewpoint, changing ourselves through innovation” as the foundation of our growth strategy, and made that into a common understanding and motto within the company. Working as a company-wide team, we strive for innovation, and through superior technological capabilities and techniques for making products more cheaply, we work to differentiate ourselves from competing products, and improve our brand value.



Masayuki Yao

President and
Representative Director
Tarami Corporation