

Consolidated Financial Index 5-year Summary

(Units: millions of yen)

Fiscal year	FY2012	FY2013	FY2014	FY2015	FY2016
Net sales	148,902	154,828	149,526	149,856	171,401
Domestic Beverage Business	131,671	130,400	124,597	124,192	144,902
International Beverage Business					
Pharmaceutical-Related Business	10,612	10,154	9,603	8,548	8,526
Food Business	6,617	14,273	15,325	17,115	17,972
Cost of sales	67,976	70,553	67,553	68,859	81,947
Gross profits	80,925	84,275	81,972	80,996	89,454
SG&A expenses	72,990	78,270	76,798	76,008	85,596
Operating income	7,934	6,004	5,174	4,988	3,857
Ordinary income	7,725	5,962	4,470	4,262	3,741
Net income attributable to owners of parent	4,410	3,712	2,322	2,347	3,269
Main SG&A expenses (consolidated)					
Shipping costs	4,213	4,607	4,588	4,803	6,572
Advertising costs	6,167	6,697	5,963	5,096	6,190
Sales promotion costs	21,101	23,203	23,126	24,128	26,368
Salary and other allowances	11,526	11,281	11,006	11,143	11,893
Equipment					
Capital expenditure	16,833	14,376	12,261	10,681	10,100
Depreciation expenses	11,202	12,080	12,343	11,704	12,611
End of fiscal year					
Total assets	140,487	146,479	147,894	163,697	163,870
Net assets	79,097	82,554	84,734	85,181	85,693
Number of employees (persons)	2,916	2,770	2,767	2,887	3,602
Cash flow					
Cash flow from operating activities	16,491	14,764	13,959	14,603	15,309
Cash flow from investing activities	(6,704)	(16,580)	3,734	(8,090)	(20,560)
Cash flow from financing activities	(219)	(469)	(2,561)	12,412	(9,445)
Cash and cash equivalent at end of year	29,051	26,874	42,020	60,898	46,120
Financial index					
Gross profit margin (%)	54.3	54.4	54.8	54.0	52.2
Operating margin (%)	5.3	3.9	3.5	3.3	2.3
Profit margin on net sales (%)	3.0	2.4	1.6	1.6	1.9
Total asset turnover (times)	1.1	1.1	1.0	0.9	1.0
Inventory turnover (times)	24.1	24.1	22.0	21.0	22.2
Capital adequacy ratio (%)	55.1	55.1	56.0	50.8	51.3
Return on equity (%)	5.9	4.7	2.8	2.8	3.9
Information per share					
Earnings per share (yen)	266.22	224.08	140.16	141.68	197.34
Book value per share (yen)	4,670.18	4,872.53	4,999.88	5,022.16	5,075.31
Dividend per share (yen)	60	60	60	60	60
Dividend payout ratio (%)	22.5	26.8	42.8	42.3	30.4
Shares					
Numbers of shares outstanding (thousands)	16,568	16,568	16,568	16,568	16,568

Overview of Business Results, etc.

1. Performance

In the current consolidated accounting period (January 21, 2016 – January 20, 2017), net sales in DyDo Group Holdings, Inc. were 171,401 million yen (a 14.4% increase over the previous consolidated fiscal year). Operating income was 3,857 million yen (down 22.7% year-on-year), while ordinary income was 3,741 million yen (down 12.2% year-on-year). In spite of this drop, the net income attributable to the owners of the parent was 3,269 million yen (up 39.3% year-on-year).

2. Sales and Income

(1) Net Sales

Net sales were 171,401 million yen (a 14.4% increase year-on-year). The sales volume increased in our core Domestic Beverage Business by 4.1% year-on-year, and the sales of our five subsidiaries in the International Beverage Business (four in Turkey and one in Malaysia), included in the consolidated accounting, accounted for a significant revenue growth of 16,457 million yen.

(2) Operating Income

Operating income for this fiscal year was 3,857 million yen (down 22.7% year-on-year).

Gross profit margin increased significantly, due to the effects of increased sales volume and cost of sales reductions in the Domestic Beverage Business. However, operating income decreased due to investments made in the future calculated as one-time costs in the current fiscal year—costs associated with the development of IoT-enabled vending machines (484 million yen); efforts to control logistical costs that are expected to rise (620 million yen); and costs related to the acquisition of beverage businesses in Turkey (249 million yen). In the International Beverage Business, the effect of ongoing devaluation of the lira in Turkey is another factor in the tough situation.

(3) Net Income Attributable to Owners of Parent

This fiscal year, there was a gain of 494 million yen on negative goodwill from the acquisition of our Turkish beverage businesses and an extraordinary gain of 433 million yen from the sale of stock of subsidiaries and affiliates. Factoring in these two gains, the net income attributable to the shareholders of the parent company was 3,269 million yen (an increase of 39.3% year-on-year).

3. Performance by Segment

(1) Beverage Sales Division (Domestic Beverage Business/International Beverage Business)

In the beverage industry this fiscal year, sales were strong and up from the previous year thanks to good weather that prompted strong demand for thirst-quenching drinks such as mineral water, and the steady performance of coffee in bottle-shaped cans.

Every company in the industry is working on an earnings improvement plan, which often includes focusing on a flagship brand or rearranging product lines and containers. The earnings environment remains as tough as ever, and to improve corporate value over the medium and long term calls for earnings structure reforms in order to become more responsive to changing times.

To cope with such a situation, at DyDo we began to take on the challenge of creating corporate value for the next generation based on a business strategy that we implemented in FY2016.

As measures to bring innovation to the vending machine business model we are promoting environmental considerations by lengthening the lifespan of vending machines. We are also vastly reducing the procurement costs per machine. In these ways we are working to fundamentally reform the fixed cost structure.

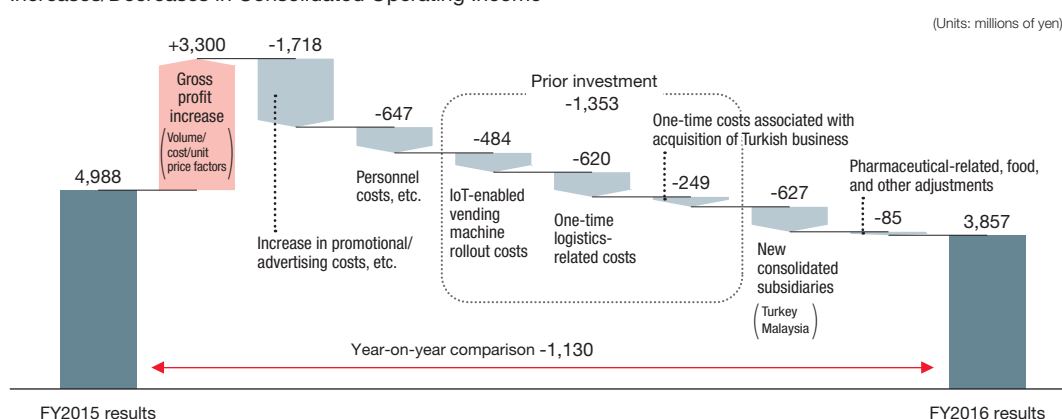
Also, the new “Smile STAND” service began its full-scale rollout in September 2016. This platform creates a new kind of value for vending machines by offering “a new way for consumers and vending machines to interact.”

In the area of products, to boost the DyDo Blend brand strength we are aiming to win the support of young people who will make up the premium market segment for consumption in the future. Toward that end we released DyDo Blend UMAMI Blend to become a new standard for canned coffee, and through a tie-up with Kirin Beverage Co., Ltd. began a mutual product placement tie-up using each other’s vending machines. In April, we began placing two products from the DyDo Blend series in Kirin Beverage vending machines to expand points of contact with customers.

DyDo also released three products in the Supervised by the World’s Top Barista* series, which has been popular for its authentic taste, to provide choices for different drinking situations—Rich, Low-sugar Blend (Nomigotae no Hitotoki), Aromatic, Low-sugar Blend (Saigo Made Tsuzuku Hojun na Jikan), and Black. We expanded the miu brand line of mineral water products made with deep-seawater minerals; released the

*Pete Licata, 14th World Barista Championship winner

FY2016 Year-on-Year Comparison of Factors Driving Increases/Decreases in Consolidated Operating Income



Waka-Gokochi series of fruit-flavored drinks made from fruits from each of Japan's four seasons that offer a feeling of relaxation; released the Twin Sensation series of carbonated drinks that combines soda jelly and nata de coco that you "shake and enjoy." We also adjusted the product lines in vending machines depending on their location to reach a broader base of customers.

This fiscal year, with strong sales of the Supervised by the World's Top Barista^{*1} series of bottle-shaped can coffee and the release of our first beverage with a functional claim, "Calolimit" Blended Tea, developed jointly with Fancl Health Science^{*2}, our domestic sales volume grew, contributing to a rise in income.

We also aggressively invested in advertising and sales promotion to further strengthen the DyDo Blend brand, rolled out IoT-enabled vending machines, and carried out measures to reduce fixed costs of vending machine channels in the future and control rising logistics costs. Internationally, we focused on laying the foundation for robust future growth by converting the four beverage companies in Turkey and one beverage company in Malaysia into consolidated subsidiaries, and establishing new strategic bases in Islamic countries.

Resulting from the above, net sales in the Beverage Sales Division were 144,902 million yen (up 16.7% year-on-year), with a segment profit of 2,700 million yen (down 27.9% year-on-year).

(2) OEM Beverage Production Division (Pharmaceutical-Related Business)

DAIDO Pharmaceutical Corporation, the OEM beverage production division, engages in research and development of a variety of drinkable preparations such as health and beauty tonics, with a focus on pharmaceuticals. The division's production system is set up to manufacture products to meet the needs of customers; it employs rigorous quality control to ensure safe, reliable products.

In recent years the core segment for nutritional drinks has been aging and the needs of women, the core segment for beauty tonics, are diversifying. These factors have reduced the drinkable preparation market, and market conditions are become tougher.

In such circumstances, DAIDO Pharmaceutical Corporation, holding an overwhelming share of the market as a contract manufacturer, has been working to maintain and expand its safe and reliable production system, develop solutions-based sales at the organizational level along with original solution proposal materials, improve production efficiency, and strengthen cost competitiveness.

In this fiscal year, the drinkable preparation market shrank, which reduced orders for existing nutritional drink products, but orders were solid for beauty drink products for overseas export.

Resulting from the above, net sales in the OEM Beverage Production Division were 8,526 million yen (down 0.3% year-on-year), with a segment profit of 944 million yen (down 3.6% year-on-year).

(3) Food Production and Sales Division (Food Business)

Tarami Corporation, our Food Production and Sales Division, is the leader in the fruit jelly market. It has been growing every year, but we aim to change the business model to achieve sustained profits even as costs continue to rise, making "changing ourselves through the customer's viewpoint" our slogan. We want to carry out structural reforms from production to sales as we speed up this change in thinking.

Based on a fundamental policy of continuing to create a wide

range of delightful and inspiring products to meet the multifaceted needs of customers, to supply dessert jellies that feel affordable and provide further added value that raises customer satisfaction, Tarami released the Torokeru Ajwai series of dessert jellies that bring out the tasty flavor of the fruit, and the Koi Shibori series that provides the rich taste of fruit juice from the original fruit. These products are aimed at further penetration in the convenience store and mass retailer markets.

This fiscal year, the introduction of new products and the acquisition of new business deals increased earnings. While efforts to reform the earnings structure were carried out company-wide, rising costs still suppressed earnings.

Resulting from the above, net sales in the Food Production and Sales Division were 17,972 million yen (up 5.0% year-on-year), with a segment profit of 212 million yen (down 18.4% year-on-year).

4. Forecast for the Next Fiscal Year (January 21, 2017 – January 20, 2018)

In the next fiscal year we will be working to achieve the following:

- (1) Continuing to expand cash flow in the Domestic Beverage Business
- (2) Establishing a foundation for the International Beverage Business and improving its profitability
- (3) Embracing the challenge of expanding our business domains

(1) Continuing to Expand Cash Flow in the Domestic Beverage Business

We are revamping vending machine procurement methods and extending the lifespan of vending machines by making effective use of secondhand parts. These efforts have helped us to maintain the quantity of vending machines we have in operation while vastly lowering per-unit procurement costs. For the future, we plan to network together 150,000 vending machines nationwide to create new value by turning vending machines into information centers. Whereas vending machines were once merely for buying drinks, we aim to develop new businesses using them as an IoT platform.

On the product front, we will continue to place products in Kirin Beverage Co., Ltd. vending machines through a mutual product placement tie-up. In the spring of 2017, in Kirin Beverage machines we began selling the same two bottle-shaped cans of coffee in the DyDo Blend Supervised by the World's Top Barista^{*1} series to increase the appeal at the vending machine and further raise brand recognition and sales effectiveness. In our vending machines we are selling two products from Kirin Beverage—"Gogo no Kocho" Milk Tea and Mets Cola. These products, especially in the summer, are expected to boost sales per machine.

In addition, we are renewing DyDo Blend UMAMI Blend, released last year, and are also releasing UMAMI Blend THE ICE, a new flavor of sweetened black iced coffee, to enhance the UMAMI brand. By so doing we aim to win over consumers in the youth segment and activate the high-volume stay-on-tab can market to further revitalize the canned coffee market.

(2) Establishing a Foundation for the International Beverage Business and Improving its Profitability

For the next fiscal year in our business in Turkey, we will aim to strengthen our sales system by increasing the adoption and introduction rate at retail outlets, thereby improving the existence value of our brand. At the same time, we will streamline sales promotion costs by focusing on certain selected brands, and make

production and distribution more efficient by restructuring our production centers. These measures are designed to boost earnings.

In our business in Malaysia, using the sales channels of our joint venture Mamee-Double Decker (M) Sdn. Bhd., we will focus on chilled beverages, which have a relatively high profit margin, thereby increasing the overall volume of business and improving profitability.

(3) Embracing the Challenge of Expanding our Business Domains

To adapt to a business climate in which major changes are taking place and to bring about sustained growth in profits for the group with greater capital efficiency, the need to effectively utilize the retained earnings we have built up to date and secure a foothold in new business areas with high earnings and growth potential, such as healthcare, is also an issue of great importance. With the shift to a holding company system, we have created a more agile organizational structure capable of handling M&A actions internally, so we can now move aggressively on these issues going forward.

(4) Performance Review

As a result of these activities, net sales for the next fiscal year are estimated to be 175,500 million yen (up 2.4% year-on-year).

Operating income is estimated to be 5,300 million yen (up 37.4% year-on-year).

In the Domestic Beverage Business, efforts to maintain and improve net sales per vending machine, combined with the placement of two products in the DyDo Blend Supervised by the World's Top Barista*1 series in Kirin Beverage vending machines, estimates are for an increase in sales volume of 0.2% year-on-year, with a gross profit increase of 790 million yen over the previous year.

On the costs front, we have been revamping vending machine procurement methods, making effective use of secondhand parts, and extending the lifespan of vending machines to lower the fixed costs for vending machines by 660 million yen. We are using these funds to roll out IoT-enabled vending machines and build a foundation for future growth. In the International Beverage Business we have been working to strengthen our sales system and have developed products using know-how built in Japan. These efforts are expected to improve earnings in Turkey and Malaysia by 790 million yen in total.

Based on the above, ordinary income is expected to be 5,200 million yen (up 39.0% year-on-year). Net income attributable to the owners of the parent company this fiscal year is estimated to be

3,000 million yen (down 8.2% year-on-year), due to negative goodwill from the acquisition of our Turkish beverage businesses and resolution of extraordinary gains from the sale of stock of subsidiaries and affiliates.

5. Analysis of Financial Situation

(1) Assets, Liabilities, and Net Assets

At the end of this fiscal year our total assets were up 172 million yen from the previous year to 163,870 million yen.

Cash and deposits declined due to the stock acquisition of our Turkish beverage companies, but the goodwill on the books increased the intangible fixed assets. With the businesses becoming consolidated, inventory assets and fixed assets increased. Liabilities decreased 339 million yen from the end of the previous year to 78,176 million yen, due to an increase in accounts payable and decrease in interest-bearing debt.

Net assets increased 512 million yen from the end of the previous year to 85,693 million yen, due to a decrease in currency translation adjustments, an increase in earned surplus, and an increase in valuation gains on other marketable securities.

(2) Cash Flow

At the end of this fiscal year, our cash and cash equivalent (hereafter, "cash") decreased 14,777 million yen from the end of the previous year to 46,120 million yen.

Cash flows and their contributing factors this fiscal year are as follows.

1. Cash flow from operating activities

Income before income taxes and other adjustments was 4,784 million yen (up 943 million yen year-on-year), and with an increase in accounts payable, cash provided by operating activities was 15,309 million yen (compared to an income of 14,603 million yen in the previous year).

2. Cash flow from investing activities

Due to expenditures from the stock acquisition of our Turkish subsidiaries, etc., there was a cash outflow from investing activities of 20,560 million yen (compared to an outflow of 8,090 million yen in the previous year).

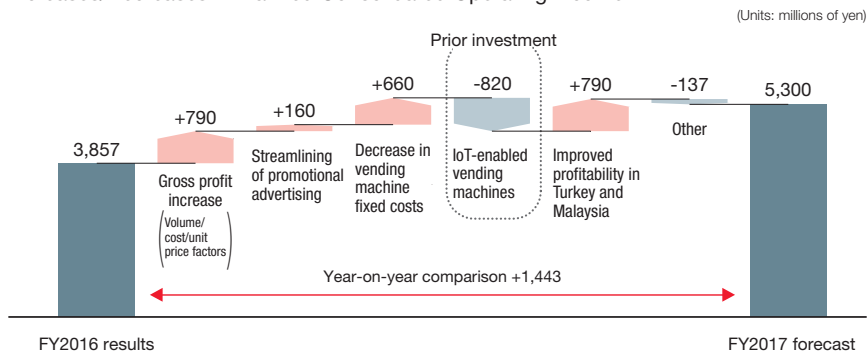
3. Cash flow from financing activities

Resulting from the repayment of long-term debt and lease obligations, etc., there was a cash outflow of 9,445 million yen (compared to an inflow of 12,412 million yen in the previous year).

*1 Pete Licata, 14th World Barista Championship winner

*2 Acquired from Fancl Corporation on April 1, 2017

FY2017 Year-on-Year Comparison of Factors Driving Increases/Decreases in Planned Consolidated Operating Income



Consolidated Financial Statement

Consolidated Balance Sheets

(Units: millions of yen)

	Consolidated Results as of January 20, 2016	Consolidated Results as of January 20, 2017
Assets		
Current assets		
Cash and deposits	60,294	48,113
Notes and accounts receivable	14,580	17,955
Securities	16,494	12,100
Merchandise and finished goods	5,550	5,621
Work in process	10	17
Raw materials and supplies	1,415	2,830
Prepaid expenses	701	692
Accounts receivable	1,330	2,812
Deferred tax assets	999	701
Other	454	770
Allowance for doubtful accounts	(35)	(36)
Total current assets	101,797	91,578
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,857	5,898
Machinery, equipment, and vehicles, net	1,329	3,494
Tools, furniture, and fixtures, net	20,570	19,059
Land	3,843	4,381
Lease assets, net	4,135	3,128
Construction in progress	—	273
Total property, plant and equipment	33,737	36,236
Intangible assets		
Goodwill	5,407	7,188
Other	5,431	7,413
Total intangible assets	10,838	14,602
Investments and other assets		
Investment securities	12,215	15,440
Long-term prepaid expenses	495	525
Lease and guarantee deposits	1,854	1,998
Net defined benefit assets	1,488	2,098
Deferred tax assets	153	339
Other	1,134	1,069
Allowance for doubtful accounts	(16)	(18)
Total investments and other assets	17,324	21,454
Total non-current assets	61,900	72,292
Total assets	163,697	163,870

(Units: millions of yen)

	Consolidated Results as of January 20, 2016	Consolidated Results as of January 20, 2017
Liabilities		
Current liabilities		
Notes and accounts payable – trade	17,664	19,908
Current portion of long-term loans payable	7,997	6,935
Lease obligations	1,937	1,477
Accounts payable	9,852	11,158
Income taxes payable	1,031	776
Accrued expenses	1,754	1,947
Provision for bonuses	1,032	1,112
Asset retirement obligations	7	—
Deferred tax liabilities	—	21
Other	1,755	1,170
Total current liabilities	43,032	44,508
Non-current liabilities		
Bonds payable	15,000	15,000
Long-term loans payable	13,661	10,193
Lease obligations	2,167	1,642
Long-term guarantee deposited	2,382	2,489
Net defined benefit liability	205	402
Provision for directors' retirement benefits	174	178
Asset retirement obligations	162	158
Deferred tax liabilities	1,619	3,494
Other	110	110
Total non-current liabilities	35,483	33,668
Total liabilities	78,516	78,176
Net assets		
Shareholders' equity		
Capital stock	1,924	1,924
Capital surplus	1,464	1,084
Retained earnings	79,076	80,835
Treasury stock	(4)	(4)
Total shareholders' equity	82,460	83,840
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	924	3,292
Deferred gains or losses on hedges	(455)	228
Foreign currency translation adjustment	383	(3,420)
Remeasurements of defined benefit plans	(112)	140
Total accumulated other comprehensive income	740	241
Non-controlling interests	1,979	1,611
Total net assets	85,181	85,693
Total liabilities and net assets	163,697	163,870

Consolidated Profit and Loss Statements

(Units: millions of yen)

	Consolidated Results for FY2015 (From January 21, 2015 to January 20, 2016)	Consolidated Results for FY2016 (From January 21, 2016 to January 20, 2017)
Net sales	149,856	171,401
Cost of sales	68,859	81,947
Gross profit	80,996	89,454
Selling general and administrative expenses	76,008	85,596
Operating income	4,988	3,857
Non-operating income		
Interest income	142	213
Share of profit of entities accounted for using equity method	—	131
Rebate income	47	35
Other	240	470
Total non-operating income	430	851
Non-operating expenses		
Interest expenses	455	457
Share of loss of entities accounted for using equity method	399	—
Foreign exchange losses	0	172
Other	302	337
Total non-operating expenses	1,156	967
Ordinary income	4,262	3,741
Extraordinary income		
Gain on sales of investment securities	—	132
Gain on sales of investments in capital of subsidiaries and associates	—	433
Gain on bargain purchase	—	494
Total extraordinary income	—	1,060
Extraordinary expenses		
Impairment loss	311	17
Loss on valuation of investment securities	109	—
Total extraordinary expenses	421	17
Income before income taxes	3,841	4,784
Income taxes – current	1,714	1,419
Income taxes – deferred	(291)	213
Total income taxes	1,422	1,633
Net income	2,418	3,151
Net income or loss attributable to non-controlling interests	71	(117)
Net income attributable to owners of parent	2,347	3,269

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Consolidated Results for FY2015 (From January 21, 2015 to January 20, 2016)	Consolidated Results for FY2016 (From January 21, 2016 to January 20, 2017)
Net income	2,418	3,151
Other comprehensive income		
Valuation difference on available-for-sale securities	(188)	2,370
Deferred gains or losses on hedges	(482)	683
Foreign currency translation adjustment	(134)	(3,461)
Remeasurements of defined benefit plans, net of tax	(45)	252
Shares of other comprehensive income of entities accounted for using equity method	(53)	(622)
Total other comprehensive income	(904)	(775)
Comprehensive income	1,513	2,375
(Breakdown)		
Comprehensive income attributable to owners of parent	1,439	2,770
Comprehensive income attributable to non-controlling interests	73	(394)

Consolidated Statement of Changes in Equity

Consolidated Results for FY2015 (From January 21, 2015 to January 20, 2016)

(Units: millions of yen)

	Shareholders' equity					Non-controlling interest	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at the beginning of current period	1,924	1,464	77,800	(4)	81,184		
Cumulative effects of changes in accounting policies			(76)		(76)		
Restated balance	1,924	1,464	77,723	(4)	81,107		
Changes of items during the period							
Dividends of surplus			(994)		(994)		
Net income attributable to owners of parent			2,347		2,347		
Purchase of treasury shares				(0)	(0)		
Net changes of items other than shareholders' equity							
Total changes of items during the period	—	—	1,353	(0)	1,353		
Balance at the end of current period	1,924	1,464	79,076	(4)	82,460		

	Accumulated other comprehensive income					Non-controlling interest	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurement of defined benefit plans, net of tax	Total accumulated other comprehensive income		
Balance at the beginning of current period	1,108	27	578	(66)	1,647	1,901	84,734
Cumulative effects of changes in accounting policies							(76)
Restated balance	1,108	27	578	(66)	1,647	1,901	84,657
Changes of items during the period							
Dividends of surplus							(994)
Net income attributable to owners of parent							2,347
Purchase of treasury shares							(0)
Net changes of items other than shareholders' equity	(184)	(482)	(195)	(45)	(907)	78	(829)
Total changes of items during the period	(184)	(482)	(195)	(45)	(907)	78	524
Balance at the end of current period	924	(455)	383	(112)	740	1,979	85,181

Consolidated Results for FY2016 (From January 21, 2016 to January 20, 2017)

(Units: millions of yen)

	Shareholders' equity					Non-controlling interest	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at the beginning of current period	1,924	1,464	79,076	(4)	82,460		
Cumulative effects of changes in accounting policies			(345)		(345)		
Restated balance	1,924	1,464	78,731	(4)	82,115		
Changes of items during the period							
Dividends of surplus			(994)		(994)		
Net income attributable to owners of parent			3,269		3,269		
Change in scope of equity-method coverage			(170)		(170)		
Gain on change in equity involving transactions of non-controlling-interest shareholders			(379)		(379)		
Net changes of items other than shareholders' equity							
Total changes of items during the period	—	(379)	2,104	—	1,724		
Balance at the end of current period	1,924	1,084	80,835	(4)	83,840		

	Accumulated other comprehensive income					Non-controlling interest	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurement of defined benefit plans, net of tax	Total accumulated other comprehensive income		
Balance at the beginning of current period	924	(455)	383	(112)	740	1,979	85,181
Cumulative effects of changes in accounting policies							(345)
Restated balance	924	(455)	383	(112)	740	1,979	84,836
Changes of items during the period							
Dividends of surplus							(994)
Net income attributable to owners of parent							3,269
Change in scope of equity-method coverage							(170)
Gain on change in equity involving transactions of non-controlling-interest shareholders							(379)
Net changes of items other than shareholders' equity	2,367	683	(3,803)	252	(498)	(367)	(866)
Total changes of items during the period	2,367	683	(3,803)	252	(498)	(367)	857
Balance at the end of current period	3,292	228	(3,420)	140	241	1,611	85,693

Consolidated Statement of Cash Flows

(Units: millions of yen)

	Consolidated Results for FY2015 (From January 21, 2015 to January 20, 2016)	Consolidated Results for FY2016 (From January 21, 2016 to January 20, 2017)
Cash flows from operating activities		
Income before income taxes	3,841	4,784
Depreciation	11,704	12,611
Amortization of goodwill	306	480
Increase (decrease) in provision for directors' retirement benefits	4	4
Increase (decrease) in provision for doubtful accounts	2	4
Increase (decrease) in provision for bonuses	14	80
Interest and dividend income	(174)	(246)
Interest expenses	455	457
Share of (profit) loss of entities accounted for using equity method	399	(131)
Impairment loss	311	17
Gain on bargain purchase	—	(494)
Loss (gain) on sales of investment securities	—	(132)
Loss (gain) on valuation of investment securities	109	—
Loss (gain) on sales of investments in capital of subsidiaries and associates	—	(433)
Decrease (increase) in notes and accounts receivable – trade	(644)	(1,673)
Decrease (increase) in inventories	343	(372)
Increase (decrease) in notes and accounts payable – trade	1,245	1,179
Increase (decrease) in accounts payable – other	(499)	1,672
Decrease (increase) in other assets	(690)	(965)
Increase (decrease) in other liabilities	(7)	320
Subtotal	16,724	17,162
Interest and dividend income received	204	314
Interest expenses paid	(444)	(453)
Income taxes paid	(1,881)	(1,713)
Net cash provided by operating activities	14,603	15,309
Cash flows from investing activities		
Payments into time deposits	(7,089)	(10,264)
Proceeds from withdrawal of time deposits	9,972	6,993
Purchase of securities	(9,582)	(6,100)
Proceeds from sales and redemption of securities	11,884	11,485
Purchase of property, plant and equipment and intangible assets	(9,797)	(8,447)
Proceeds from sales of property, plant and equipment	0	371
Purchase of investment securities	(2,872)	(1,255)
Proceeds from sales and redemption of investment securities	2,105	1,083
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(400)	(14,671)
Proceeds from sales of investments in capital of subsidiaries and associates	—	300
Purchase of shares of subsidiaries and associates	(2,244)	—
Other	(65)	(57)
Net cash used in investing activities	(8,090)	(20,560)
Cash flow from financing activities		
Proceeds from long-term loans payable	8,100	3,951
Repayment of long-term loans payable	(6,950)	(8,372)
Repayment of lease obligations	(2,689)	(2,077)
Proceeds from issuance of bonds	15,000	—
Cash dividends paid	(994)	(994)
Dividends paid to non-controlling interests	(52)	(52)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(1,900)
Purchase of treasury shares	(0)	—
Net cash provided by (used in) financing activities	12,412	(9,445)
Effect of exchange rate change on cash and cash equivalents	(46)	(81)
Net increase (decrease) in cash and cash equivalents	18,878	(14,777)
Cash and cash equivalent at the beginning of period	42,020	60,898
Cash and cash equivalent at the end of period	60,898	46,120

Segment Information

Consolidated Results for FY2015 (From January 21, 2015 to January 20, 2016)

(Units: millions of yen)

	Reporting segments				Adjustments* ¹	Consolidated financial statement amount recorded* ²
	Beverage Sales Division	OEM Beverage Production Division	Food Production and Sales Division	Total		
Net sales						
Sales to external customers	124,192	8,548	17,115	149,856	—	149,856
Internal sales or transfers between segments	—	578	39	618	(618)	—
Total	124,192	9,126	17,155	150,474	(618)	149,856
Segment profit	3,745	979	259	4,985	2	4,988
Segment assets	145,737	13,568	17,537	176,843	(13,145)	163,697
Other items						
Depreciation	10,657	459	587	11,704	—	11,704
Amortization of goodwill	—	—	306	306	—	306
Gain on bargain purchase	—	—	—	—	—	—
Impairment loss	311	—	—	311	—	311
Amount invested in entities accounted for using equity method	499	—	—	499	5,046	5,546
Increase in property, plant and equipment, and intangible non-current assets	10,404	298	599	11,302	—	11,302

Notes

- The adjustment of 2 million yen posted in segment income consists of the elimination of 1 million yen in transactions among segments and a 1 million yen adjustment in wholesale inventory.
The adjustment in segment assets figure of negative 13,145 million yen consists of the elimination of 13,379 million yen in transactions among segments, a 20 million yen adjustment loss in wholesale inventory, a 366 million yen investment in entities accounted for using equity method, and a 112 million yen adjustment loss in net defined benefit assets.
The 5,046 million yen adjustment for investments in entities accounted for using equity method is an investment in entities accounted for using equity method not belonging to reportable segments.
- Segment profit is adjusted by taking into account operating profit in consolidated profit and loss statements.

Consolidated Results for FY2016 (From January 21, 2016 to January 20, 2017)

(Units: millions of yen)

	Reporting segments				Adjustments* ¹	Consolidated financial statement amount recorded* ²
	Beverage Sales Division	OEM Beverage Production Division	Food Production and Sales Division	Total		
Net sales						
Sales to external customers	144,902	8,526	17,972	171,401	—	171,401
Internal sales or transfers between segments	—	541	41	583	(583)	—
Total	144,902	9,068	18,013	171,984	(583)	171,401
Segment profit	2,700	944	212	3,857	0	3,857
Segment assets	144,255	14,880	17,395	176,530	(12,660)	163,870
Other items						
Depreciation	11,548	430	632	12,611	—	12,611
Amortization of goodwill	182	—	298	480	—	480
Gain on bargain purchase	494	—	—	494	—	494
Impairment loss	17	—	—	17	—	17
Amount invested in entities accounted for using equity method	142	—	—	142	2,395	2,538
Increase in property, plant and equipment, and intangible non-current assets	14,187	423	742	15,353	—	15,353

Notes

- The adjustment of 0 million yen posted in segment income consists of the elimination of 0 million yen in transactions among segments and a 0 million yen adjustment in wholesale inventory.
The adjustment in segment assets figure of negative 12,660 million yen consists of the elimination of 12,984 million yen in transactions among segments, a 22 million yen adjustment loss in wholesale inventory, a 137 million yen investment in entities accounted for using equity method, and a 209 million yen adjustment in net defined benefit assets.
The 2,395 million yen adjustment for investments in entities accounted for using equity method is an investment in entities accounted for using equity method not belonging to reportable segments.
- Segment profit is adjusted by taking into account operating profit in consolidated profit and loss statements.

Business Risks

The risks that could potentially have a major influence on matters such as the group's operational results and financial situation are listed below. Please note that the items listed below relating to future matters were decided by the DyDo Group at the end of this consolidated fiscal year, and risks such as those relating to business are not limited to the following.

1. Domestic Economic Situation

Because the DyDo Group carries out business in Japan, domestic economic conditions, business trends, the financial landscape, and trends in consumer spending that are in turn influenced by these conditions could have an impact on the group's business performance and financial situation.

The Japanese government plans to further raise the consumption tax in October 2019. The effect that this policy will have on the domestic economic situation and on business trends is as yet unclear, but possible lower demand and downward price pressure caused by stagnant consumer spending could have an impact on the group's business performance and financial situation.

2. Market Competition in the Beverage Industry

The market environment in the Domestic Beverage Business, which is the group's mainstay business, has changed significantly in recent years. Diversifying consumer preferences have led to a polarization of consumption, with high value-added products on one side and pressure to lower pricing on the other.

In addition, consolidation and mergers in the distribution chain have led to the development of private brands, which have greater negotiating leverage and competitiveness in sales promotion activities. Against this background, the marketing and price battles among competing companies for share of sales in the beverage industry are intensifying, and sales promotion costs are rising for placing new products with retailers, on top of rising costs related to securing locations for vending machines.

Moving forward, we will try to flexibly predict market trends and put effort into developing attractive products in response to diversifying consumer preferences. Also, to achieve cost optimization throughout the supply chain, we will test effectiveness and control budgets thoroughly to maintain the optimal ratio of sales promotion costs to sales, but if these strategies are insufficient to meet the changes in the market environment, we could see an impact on the group's business performance and financial situation.

3. Focus on Sales in the Vending Machine Channel and Reliance on Coffee Beverages for Sales

The group has been built on the foundation of canned coffee sales through vending machines. In this consolidated fiscal year, within the beverage sales division (domestic), vending machine sales accounted for 83.7% of sales, with coffee drinks comprising 56.1% of beverages sold. Both of these figures are far above the average for the industry.

However, the vending machine market is already considerably mature, and sales per vending machine are on a downward trend, since there has been no increase in the total number of vending machines in the market overall in recent years while the number of convenience stores has been increasing, and more vending machines are selling drinks at lower prices. Another source of competition for coffee drinks that has emerged is the brewed

coffee that has recently become commonplace at convenience stores.

We will continue to develop highly competitive vending machines and attractive product lines to suit the characteristics of vending machine locations, while adding other soft drinks to our coffee drinks to enhance our product line. If we are unable to supply attractive products and vending machines that win the support of customers, however, our sales could be impacted, resulting in lower revenue and business performance.

4. Procurement of Ingredients and Materials

A wide range of ingredients and materials are used to produce the group's products, among them coffee beans, which are a staple ingredient subject to international commodity prices and exchange rate fluctuations. The group contracts with domestic roasters at a market price with a view toward the future and aims to stabilize procurement prices, but if we are unable to manage long-term price fluctuations that exceed the scope of our estimates, the group's business performance and financial situation could be affected.

Regarding the effects of price fluctuations, which is the same with other raw materials and resources, if a sudden rise in demand occurs for a certain raw material or resource and the group is unable to procure the amount needed to make our products, a sales opportunity loss may result for the products that use those materials or resources.

In addition, rises in the cost of ingredients and materials lead to higher manufacturing costs. Sometimes these costs cannot be passed on through the sales price due to market conditions, and this could impact the group's business performance and financial situation.

5. Production System

We carry out product planning for most of the soft drinks that the group sells, and production may be outsourced to multiple beverage manufacturers based on the specifications. We contract with beverage manufacturers in various parts of Japan to mitigate the risk of an unanticipated situation with outsourcing contractors. This is a mutual backup system, but there is never a perfect guarantee. A natural disaster might occur that affects production, and if outsourcing contractors cannot make products in sufficient volume, our business performance and financial situation could be affected.

6. Weather and Natural Disasters

Demand for the soft drinks and drinkable preparations sold by the group is affected by the weather and daily temperatures. Abnormal weather patterns such as cool summers and warm winters in particular slow sales and can impact our business performance and financial situation.

The occurrence of a large-scale natural disaster such as an earthquake or typhoon would require measures such as repairing or scrapping damaged vending machines, procuring replacements and reinforcing their installation. The costs incurred would likely affect our business performance and financial situation.

7. Legal Regulations, etc.

Our business is subject to various legal regulations, such as the Food Sanitation Act, Pharmaceutical and Medical Device Act, the

Act against Unjustifiable Premiums and Misleading Representations, and laws related to the environment and recycling. The group has systems in place to comply with all legal regulations, but if an event occurs that exceeds these limitations, or if regulations become stricter and there is a rise in costs required for compliance, these things could affect our business performance and financial situation.

8. Management of Customer Information

The group possesses an immense amount of customer information from route sales, online and mail-order shopping, other sales transactions, and from sales promotion activities that include consumer campaigns. The group manages the personal information of customers and outsources some management to external management companies.

Our management system for handling this personal information is secure, but in the future if an incident were to occur in which some information were to leak, trust in the group would be breached, which could affect our business performance and financial situation.

9. Food Safety and Quality Control

The group has a robust system in place to perform quality control and freshness control to supply safe, high-quality products.

The group has never suffered any major incidents or been sued regarding food safety, quality control, or improperly labeled products. However, if in the future an incident were to occur in which a product has been distributed that is contaminated with foreign matter or has quality or improper labeling issues, the group's business performance and financial situation could be affected.

10. Changes in the Market Value of Securities

The group invests in securities based on a stance that focuses on safe, sound management of investments, but deteriorating markets can cause market value to drop or the need to book an impairment loss due to loss of trust in an investment. In such cases, the group's business performance and financial situation could be affected.

11. Securing and Developing Personnel

The running of the group's business operations relies heavily on our personnel, and it is essential to secure and develop personnel on a continuing basis who are capable of taking actions that are also mutually beneficial for our customers and other stakeholders.

The operation of our approximately 280,000 vending machines throughout Japan relies heavily on the direct efforts of group employees and the special vending machine operators who make up the "Kyoeikai." A smooth-running operations system that includes the Kyoeikai is necessary to keep vending machines in good condition at all times and to ensure that an optimal selection of products is chosen to suit the location of the vending machine. In today's business climate, and with changes taking place in the employment market, if it becomes difficult to secure suitable personnel and maintain a properly functioning operations system, that could affect the group's business performance and financial situation.

Additionally, a diverse range of personnel with high-level expertise and experience will be needed to strengthen and expand our business outside of Japan and to make forays into

new business domains. If it becomes difficult to secure well-qualified personnel due to increased competition in attracting talented personnel, this could affect the group's business performance and financial situation.

12. International Business Development

The group has positioned the expansion of international business development as part of our medium-term growth strategy. A wide range of risks are involved, however, including differences from country to country in laws and systems, politics, economies, social conditions, cultures, religions, and business practices, not to mention exchange rate fluctuations. We conduct detailed surveys of our target markets and fully assess the risks involved in international business development, but if business development is impeded by unforeseen problems that arise or the inability to cope with these risks, or if it becomes difficult to recover our investment, the group's business performance and financial situation may be affected.

Because the financial statements of our international subsidiaries must be converted into Japanese yen when producing consolidated statements, exchange rate fluctuations could affect the group's business performance and financial situation.

13. Corporate Takeovers and Business/Capital Alliances

The group has positioned new business development related to "food and health" as part of our medium-term growth strategy. Corporate acquisitions and strategic investments such as business and capital tie-ups are effective means of accelerating business expansion, and we are constantly looking into these possibilities. However, when effective investment opportunities cannot be found or the initially anticipated benefits from a strategic investment do not emerge, the group's business performance and financial situation may be affected. Also, when entering new business domains and new markets through a corporate acquisition, etc., new risks may emerge that are unique to that particular business and market.

For every corporate acquisition we conduct detailed investigations of the business plans, financial details, and contractual relationships of the target company, and fully assess the risks involved, but if unforeseen problems arise or the business development does not go according to plan, it may become necessary to record an impairment of goodwill, which could affect the group's business performance and financial situation.

14. Other Risks

Other than the risks mentioned above that may occur as we carry out our group's business activities, a variety of risks, such as those relating to the handling of environmental problems or compliance, could affect the group's business performance and financial situation. In order to avoid and minimize the impact of the above risks, the group is strengthening its risk management system.

Through the visualization of the potential risks associated with our group, and in order to strengthen measures which minimize the impact of risks when they occur, every year we create a "risk map" which analyzes the impact of the said risks and the likelihood of their occurrence. We are promoting our risk management system through the identification of major risks and the adoption of measures that respond to changes in the environment.