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Independent Outside Director
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Taking on Challenges to Realize Sustainable Growth

The shift to a holding company system has improved Board discussions

Takamatsu With the shift to a holding company system in January 2017 and the transfer of authority to our operating companies, the topics for discussion at Board of Directors' meetings have been narrowed down, allowing for greater depth of discussion. In particular, I feel there have been more meaningful discussions on investments for future growth and the monitoring of our businesses outside of Japan.

Inoue After becoming a holding company, discussions at the Board of Directors' meetings became focused solely on matters of company-wide importance. This created time to discuss group management, and the quality of the discussions improved a great deal. However, with regard to possible new investments, I think the company needs to have a clearer vision of what is meant by success, together with a stronger focus on returns on investment.

Mori I feel it is important, when engaging in new businesses, not merely to seek short-term profits, but to give weight to the nurturing of the business from a long-term perspective. At the same time, it is important to remain aware of the criteria for deciding when to pull out of an investment, and to do so when necessary. Thoroughly monitoring investments is one of the key functions of the Board of Directors.

Inoue The business in Turkey we acquired in February 2016 was the company's first real international business venture, so the employees engaged in the business didn't know what they didn't know, as they say. Nonetheless, in January 2017, the year following our acquisition, the company identified the key issues to focus on, which

enabled a clarification of applicable policy and key performance indicators. Such KPIs have led to monthly reports for checking on progress; the quality of monitoring has improved greatly, as well.

Engaging in the healthcare sector for future growth

Mori We have identified the growing healthcare sector as an area for investment, but other corporate groups have a big head start and the investments required are very high. I think we need to take a different approach than the major players if we want to succeed in healthcare. I would like to hear the president's thoughts on what specific areas in the healthcare sector are our focus and what the long-term growth strategy looks like.

Takamatsu I feel that interest in health is trending both domestically and globally. Considering our current businesses, the most accessible field would be preventive medicine. In March, we announced our entry into the orphan drug business, believing that this opening move is an important one for obtaining knowledge related to health and pharmaceuticals. We will work to develop products that cross over conventional drink, food, and pharmaceutical categories, and will cultivate healthcare-related markets that aim to extend healthy life expectancy so as to tap them as a major source of future revenue.

Inoue I believe this field is a good fit for the company, which started out in the pharmaceuticals business. It will be necessary to maintain a long-term perspective on this business, first investing to acquire know-how, then setting up a solid policy to nurture the pharmaceuticals business over the long term.

Using dialogues with stakeholders to guide strategy

Takamatsu With the narrowing down of topics of discussion for the holding company's Board of Directors, the content of reports related to dialogue with shareholders and investors became more substantial.

Inoue Institutional investors are professionals who measure investment efficiency, so talking with them is extremely valuable for us to gain objectivity toward investments. A lot can also be learned from their analysis as specialists with regard to the business climate of the industry or markets, and so on. This can help in building a long-term strategy for the company.

Mori When you shift the focus to other stakeholders, not only shareholders and investors, you also realize how important it is to listen to consumers. Expanding the dialogue with consumers is vital if we want to continue bringing out products that customers desire in each business area.

The importance of investing in human resources

Takamatsu These days, the stock market has again been placing importance on investing in human resources, and I agree that personnel are a vital focus for the company's management. Particularly urgent issues for us are establishing a personnel training system and building a pleasant work environment for employees. Wages and compensation are important, naturally, but we also need to put effort into cultivating skilled personnel, making work meaningful and easy to engage in, and supporting a balance between their work and private lives.

Inoue Employees working in our new business areas may require talents that cannot be carried over from current work duties. Capable personnel can be put in charge of an area of business that is not too large so they can have a good overview. That way, their talents can be developed by training them in how to devise strategies and utilize PDCA cycles. The key to doing this would be to educate such personnel ahead of time in both operational and financial aspects of the business. With sound knowledge in both areas, it becomes possible to translate vision into strategy and, further, write a business plan for setting goals, getting the management cycle going.

Takamatsu It is necessary to create a training system that enables personnel to carry out the full process of going from vision to business strategy, to creating a concrete business plan.

Adapt to change with the times and grow along with people and society

Takamatsu I would like to ask about two things—what issues we need to address to achieve sustainable growth

as a group and what the role of the Board of Directors should be.

Mori The system of governance that unifies over 20 group subsidiaries, both consolidated and non-consolidated, is very important. Today, each subsidiary needs to take responsibility for its own business execution and have its own auditing system, but it is the holding company's responsibility to guide the building of that system and to check on it. Ensuring that it functions well will connect to our group's growth strategy.

Inoue Looking to future business expansion, I think it's necessary to create several mainstays for our business portfolio to aim for growth over time. The Domestic Beverage Business is a core business and the base of the corporate group that continuously generates cash to invest elsewhere. DyDo has 280,000 vending machines throughout Japan that serve as "retail outlets." These need to be utilized to supply safe, trustworthy products without wasting energy or resources. By extension, we have to carry out business that is both people-friendly and good for society. As greater energy efficiency is pursued, we predict that the number of vending machines in the industry overall will decline. Anticipating this development, taking action to enhance the appeal of the company's own "retail outlets" and to survive in the marketplace will also contribute to social sustainability.

Mori In the Domestic Beverage Business, our 280,000 vending machines quietly hold great potential as social infrastructure. I look forward to seeing the company innovate ahead of other companies by using the vending machines not only for selling beverages, but in connection with new businesses to generate new value.

Takamatsu While it is important for a company's lasting business continuity to genuinely excel at one thing, it is also vital that the company change in tune with the times.

Our group has up to this point been sustained by the revenue from the Domestic Beverage Business. Healthcare, a sector in which we are expanding our efforts, is a social issue, and more fundamentally an issue that affects every individual. Our solid efforts in solving problems in this domain is a way for us to contribute to society.

The fabric of society is changing greatly due to global warming, the depletion of natural resources, the evolution of technology and other significant factors. While sometimes such changes create obstacles, we can also turn them into opportunities. I will make sure that the DyDo Group adapts flexibly to a changing environment and prepares for what is to come, in order to achieve high growth.

Basic Approach to Corporate Governance

Basic Approach to Corporate Governance

“DyDo Group strives to achieve happiness and prosperity together with people and society as a whole. To realize this, we will continue our dynamic efforts to take on new challenges.”

This Group Philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group’s mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium to long term.

Our core business is our Domestic Beverage Business and, as more than 80% of those sales come from vending machines in local communities, it is fair to say that our products are familiar parts of consumers’ everyday lives. Moreover, our

operations are conducted under a “fables management” system, which means we have no plants of our own and instead outsource work in close cooperation with producers and distributors nationwide to make and deliver products. We concentrate our resources on more specific roles, such as product planning and development and vending machine operations. We have about 280,000 vending machines around Japan, which are maintained by DyDo Group employees and the “Kyoekai” (special vending machine operators that handle DyDo products).

It is a rather unique business model that depends on the trust of our stakeholders. As such, we believe “happiness and prosperity together with people and society as a whole” is our duty, and the overriding objective of our business activities. To that end, our “dynamic efforts” are founded on a bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

● Ongoing Improvements to Corporate Governance

	Pre-2012	2012	2013	2014	2015	2016	2017	2018
Business expansion		June, Tarami became a subsidiary	December, Started Russian vending machine business		December, Entered the Malaysian beverage market	February, Entered the Turkish beverage market	Announced entry into the orphan drug business	March
President				Appointment of Tomiya Takamatsu as President				
Group structure							Transition to holding company structure	
Revitalizing the Board of Directors and strengthening its functions		Introduction of an corporate officer system			Review of the scope of authority	Transfer of authority to group companies		
		Number of members on the Board of Directors as determined in the Articles of Incorporation: 9 or fewer			Number of members on the Board of Directors as determined in the Articles of Incorporation: 7 or fewer			
Improving the effectiveness of the Board of Directors					Evaluation of the effectiveness of the Board of Directors	Introduction of a performance-based incentive program	Disclosure of a summary of the evaluation results	
Outside directors				Appointment of two outside directors		Outside directors as one-third of all directors (2 of 6)		
Corporate philosophy	1984: Formulation of DyDo DRINCO Corporate Mind (company philosophy)			Formulation of a new Group Philosophy, Vision, and Slogan			Formulation of the Basic Approach to Corporate Governance	

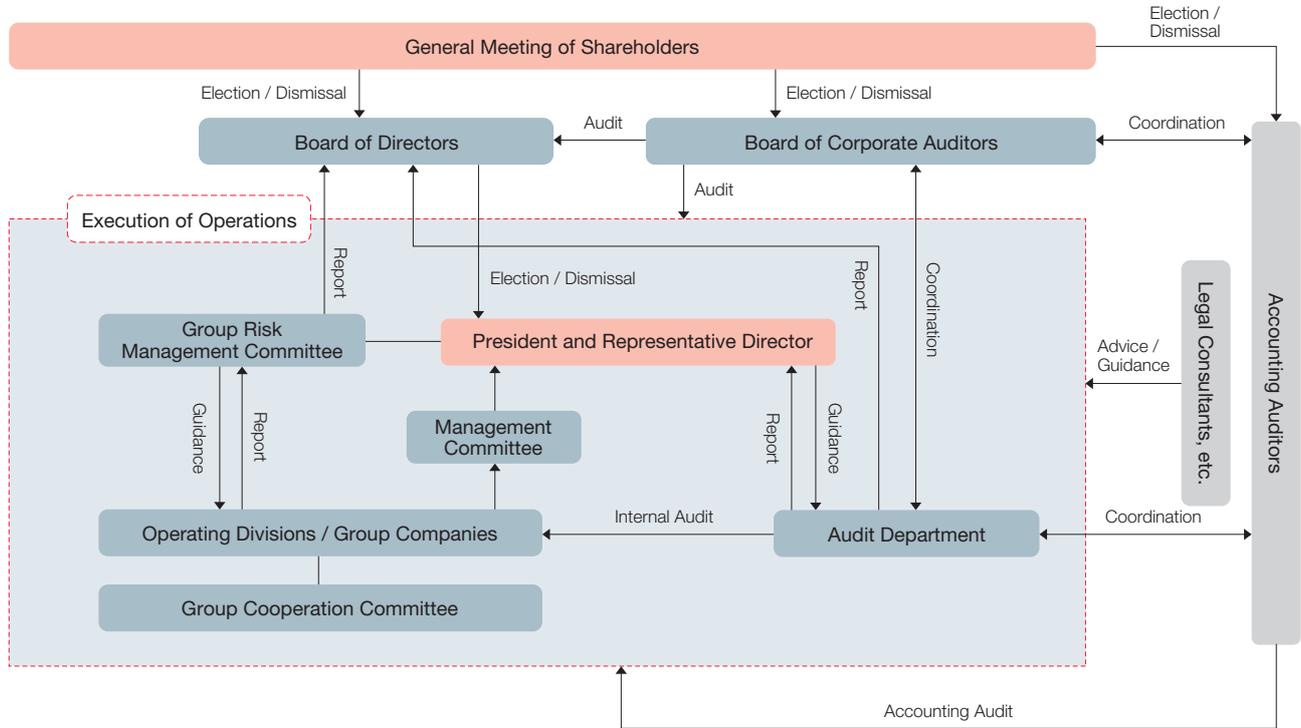
Demonstrating Commitment to the Group Philosophy, Vision, and Slogan

Amid dramatic changes in the environment surrounding the Domestic Beverage Business that is our core business, in 2014 we established a new Group Philosophy, Vision, and Slogan with the aim of achieving sustained growth in the future through teamwork by all of our group employees. To make this a reality, we are actively working to create opportunities for executive and employee dialogue, and to put in place a human resources policy and system.

■ Creating Opportunities for Dialogue between Executives and Employees

After establishing the Group Philosophy, Group Vision and Slogan, the president visited all of our business sites around Japan to share with employees the background and purpose behind them. He discussed the role of each department and what their future initiatives would be. The president continued to visit business sites and discuss matters with employees on a regular basis through the DyDo Offsite Meetings or through the study sessions that focus on younger employees. By explaining the roles expected of them depending on their job or level, and by sharing awareness of issues or future goals, we are raising morale and fomenting the spirit of taking on challenges, as found in the Group Philosophy.

Outline of Our Corporate Governance System



(as of April 13, 2018)

Organizational structure	Company with <i>Kansayaku</i> board	Corporate officer system	Yes
Number of directors as defined in the Articles of Incorporation	7 or fewer	Number of auditors as defined in the Articles of Incorporation	4 or fewer
Term of directors as defined in the Articles of Incorporation	1 year	Term of auditors as defined in the Articles of Incorporation	4 years
Number of directors	6 (of which 2 are independent outside directors)	Number of auditors	4 (of which 3 are outside auditors)

	Directors	Auditors	Corporate Officers	Presidents of Major Subsidiaries*1	Roles
Board of Directors	●	●	●*2		Discusses/decides management strategy and other important matters, and oversees execution of the duties of directors, and execution of the operations of each group company.
Board of Corporate Auditors		●			Receives reports, discusses, and makes decisions on important matters relating to auditing, and audits execution of the duties of directors.
Management Committee	○	○	●		Formulates policy and plans for overall execution of management, and carries out tasks including investigations, research, planning, management, communication, and coordination.
Group Cooperation Committee	○	○	●	●	Shares important matters in the group, and carries out tasks such as reporting the management situation from each subsidiary.
Group Risk Management Committee	○	○	●	●	Identifies and evaluates company-wide risks, formulates counter-measures, and conducts checks and improvement of overall risk management.

*1 DyDo DRINCO, Inc., DAIDO Pharmaceutical Corporation, Tarami Corporation
 *2 Corporate officers who are not also directors participate as observers

● All persons concerned
 ○ Only full-time members

Evaluation of the Effectiveness of the Board of Directors

To verify that the Board of Directors is carrying out its duties effectively, and to strengthen its functioning, we have been appraising the Board of Directors using the following analysis and evaluation method.

Analysis and Evaluation Method

In order to analyze and evaluate the effectiveness of the Board of Directors, all directors and auditors conduct a questionnaire-based self-evaluation, accompanied by individual interviews with the secretariat of the Board of Directors. At the Board of Directors meeting held afterwards, the directors analyze the results of their self-evaluation, share their understanding of current issues, and engage in constructive discussions of topics such as efforts going forward to realize a more effective Board of Directors.

Evaluation Items

The self-evaluation survey form included items addressing the following major topics so that respondents could review how the Board of Directors deliberated and dealt with issues identified through its effectiveness evaluation during the previous year:

- (1) Agenda management and operations of the Board of Directors following the transition to a holding company structure
- (2) Composition of the Board of Directors in light of the development of the company's overseas business and the expansion of its business domain
- (3) Future issues based on the Corporate Governance Code

Reference: Issues identified last year

Future issues to address in order to boost the effectiveness of the Board of Directors

(as announced March 15, 2017)

1. With regard to the composition of the Board of Directors, we will appoint an even more diverse range of personnel as we push forward with our management strategy to accelerate business development overseas and expand our fields of business.
2. With regard to the agenda of the meeting of the Board of Directors, we will refine discussion items and further deepen constructive discussion regarding the major direction of our corporate strategy as part of our group management, and decide how best to handle risk amidst the increasing requirements of our overseas business operations.
3. With regard to the operation of the Board of Directors, there is room for improvement in the way in which information is provided to external directors, the way in which time is allocated for discussion of matters according to their relative importance, and the way in which materials are provided and explained.

Overview of Analysis/Evaluation Results for FY2017

On the basis of the outcome of discussions regarding the analysis of the results of the self-evaluation surveys, the Board of Directors of the company came to the conclusion that “the Board of Directors is functioning effectively.”

Status of improvements to agenda management and operations of the Board of Directors

- Directors indicated that the agenda brought before the Board of Directors was sufficiently selective and appropriate for a holding company. In particular, they noted that the Board worked to address the following:
 - (1) Deliberation related to new business domain expansion
 - (2) Monitoring of the International Beverage Business
 - (3) Report on dialogues with shareholders and investors

Number of items raised at Board meetings

	New businesses	International beverage businesses	IR activities	Times the Board met
FY 2016	6	18	6	17
FY 2017	11	13	13	17

- Concerning the provision of information to external directors and external auditors, directors cited significant improvements, noting that access has been improved with the introduction of a security system.
- Concerning the provision of adequate explanatory material in advance and the setting aside of sufficient discussion time based on the importance of agenda items, directors found steady improvement, although some issues remain.
- Directors indicated that discussion of important items takes place in a manner that respects the views of external directors and external auditors. They noted that agenda items considered to be particularly important to the group's future are handled in an appropriate manner, for example by putting off decisions until the next meeting so as to avoid making hasty conclusions.

Challenges for the Future

- (1) With regard to the composition of the Board, we will find members with expertise in the healthcare domain in accordance with the company's management strategy.
- (2) With regard to the provision of information to external directors and auditors, we will work to provide more information sooner.
- (3) With regard to deliberations involving investments, we will push for enhanced explanation of associated risks and returns and clarification of the criteria that would prompt the company to pull the investment in question.
- (4) With regard to risk management in the International Beverage Business, we will undertake additional initiatives, for example to raise the awareness of local employees.

Future Efforts

Going forward, the Board of Directors will deepen discussions related to the overall direction of the company's management strategy while working to address the following topics in order to achieve sustained growth of the group:

- (1) Important issues related to the sustainability of the vending machine business model
- (2) Vision for the group's overall business portfolio
- (3) Approach to human resources investment to facilitate implementation of the company's growth strategy

Executive Compensation

The group has designed and implemented an executive compensation system so that the remuneration system for directors can contribute to the sustainable growth of the group and improvement of its medium- to long-term corporate value.

Director Compensation Format

The remuneration of directors consists of basic compensation and bonuses, and the level of individual basic compensation is set according to their responsibilities. With regard to bonuses, the amount is determined according to their performance during the fiscal year.

● FY2017 Executive compensation, etc.

Millions of yen

	Total compensation	Total compensation divided by type			Number of those applicable
		Basic compensation	Bonus	Retirement benefits	
Directors*	139	112	10	16	6
Auditors*	13	13	0	—	1
Outside directors	22	22	—	—	5

*Excluding outside directors and outside auditors

■ Performance-Based Incentive System

With the shift to the holding company structure on January 21, 2017, we introduced a performance-based incentive system^{*1} aimed at heightening awareness of the importance of improving performance and the need to contribute to greater corporate value. It is a system through which executives are rewarded with shares in the company commensurate with performance.

Targeted Positions

Directors^{*2} and corporate officers of the companies listed below:

- DyDo Group Holdings, Inc.
- DyDo DRINCO, Inc.
- DAIDO Pharmaceutical Corporation
- Tarami Corporation

Method for Calculating the Number of Shares Awarded

Points are awarded according to the individual's position and performance achievement level in each business year. The points are then converted into shares at the rate of one share of holding company common stock per point.

Number of shares to be paid = basic points according to position × performance correlation coefficient

The performance correlation coefficient is set^{*3} according to numbers disclosed in the Financial Report: percentage achievement of targets for forecast consolidated operating profit and consolidated net sales for the start of each business year.

^{*1} Incentives from the performance-based incentive system are paid separately from the compensation limit for directors.

^{*2} Excluding outside directors and Chairman of the Board, who are in positions independent from business execution

^{*3} FY2018, the final year of the "Challenge the Next Stage" mid-term business plan, is also considered in performance with regard to how well plan objectives are being achieved.

Internal Control and Compliance

We have established a Fundamental Policy Regarding the Building of Internal Control Systems and Compliance Action Guidelines, and are pursuing sound corporate practices together with compliance initiatives.

Internal Control System

At the DyDo Group, by executing the duties of the directors in compliance with the law and the Articles of Incorporation and by pursuing sound and efficient work, we have established a Fundamental Policy Regarding the Building of Internal Control Systems based on the Companies Act and its enforcement regulations.

Based on this policy, group companies have established and operate an internal control system: our Internal Auditing Department coordinates with the manager in charge of internal auditing at each group company, and we use effective visiting audits and other means based on an annual auditing plan to determine whether or not business is being executed properly and efficiently. Also, to further increase the credibility of financial reports, we comply with internal control and assessment regulations for financial reporting that are based on the Financial Instruments and Exchange Act. We put into writing the status of the internal control at major business locations, along with the process leading to the preparation of financial statements, and carry out evaluations and ongoing improvements on a consolidated basis.

■ Establishment of Compliance Action Guidelines

Sharing our Group Philosophy and Group Vision as our ideal structure, to realize this we have established Compliance Action Guidelines as important matters that should be adhered to from a compliance perspective.

■ Efforts to Improve Compliance Awareness

In order to improve the compliance awareness of employees, DyDo DRINCO conducts compliance training focused on new employees, provides learning opportunities through e-learning, and periodically issues the *Compliance Tsushin* newsletter introducing examples of compliance in familiar situations in an easy-to-understand format using illustrations.

Business Risks

At the DyDo Group, we have identified various risks or obstacles to achieving our management strategy goals, based on our Group Philosophy, and are implementing counter-measures to avoid these risks or to minimize their effects. Below we have listed some examples of factors which may exert a negative influence on our management performance or financial situation as of the end of fiscal 2017.

1. Securing and Developing Personnel

Risk

A diverse range of personnel with high-level expertise and experience is needed to strengthen and expand our business outside of Japan and to make forays into new business domains, two aspects of the group's growth strategy. We will also need to secure and develop personnel on an ongoing basis to support the nationwide operation of our vending machines and our manufacturing plants, such as in our pharmaceutical-related and food businesses.

In today's Japanese business climate, changes are taking place in the labor market, such as a declining labor force due to a declining birthrate and an aging population, and the diversification of values and working style needs. In such a climate, should we find it difficult to secure suitable personnel on an ongoing basis, it could affect the group's business performance and financial situation.

Risk mitigation

To minimize these risks, the group is taking stronger measures to secure and develop personnel. We are also establishing various systems and improving work efficiencies to ensure that we keep our personnel, including efforts to transform working styles.

For details on personnel development, see [P 14](#) [P 16](#) [P 17](#) [P 42](#)

2. The Management and Control of Overseas Subsidiaries

Risk

The group has positioned the full-scale expansion of international business as part of our medium-term growth strategy. We have set up overseas beverage subsidiaries in Turkey, Malaysia, Russia, and China as strategic bases for significant growth in the future.

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. If business development is impeded by unforeseen problems that arise, or if such problems make it difficult to recover our investment or hinder other activities, it could affect the group's business performance and financial situation.

Risk mitigation

To minimize these risks, the group has set up an operational management and risk management system whereby overseas beverage subsidiaries are under the direct management and control of the holding company. We are also strengthening and developing the international beverage business and working to create synergies with the domestic beverage business to achieve significant growth.

For details on the International Beverage Business, see [P 31](#) [P 32](#)

3. Corporate Takeovers and Business/Capital Alliances

Risk

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 such things as 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.

Risk mitigation

To minimize such risks, the group transitioned to a holding company system, which establishes a framework for responding flexibly to the expansion of business domains and further enhancing the functions of the Board of Directors based on its evaluated effectiveness. In these and other ways we are taking measures to continuously improve corporate governance.

For details on the evaluation of the effectiveness of the Board of Directors, see [P 37](#)

4. Focus and Reliance on the Vending Machine Channel

Risk

The core business of the group is the domestic beverage business. Our corporate growth has paralleled the spread of vending machines in Japan over time. By establishing localized sales activities, we have built a high-quality operational system and nationwide network of approximately 280,000 vending machines. In this consolidated fiscal year, the vending machine channel accounted for 83.1% of domestic beverage sales, far above the average for the industry.

Price stability and sales stability are relatively high for vending machines compared to other sales channels, and stable cash flow can be secured with profitable canned coffee as the main product. In recent years, however, the total number of vending machines has begun to decline in the market overall, and sales per vending machines are on a downward trend due to the spread of low-price sales and an increase in sales through convenience stores and other convenient sales outlets. These developments could affect the group's business results and financial situation.

Risk mitigation

To minimize such risks, the group will promote initiatives such as optimizing product lineups and installing vending machines in locations where stable sales can be expected, such as inside company offices, while at the same time reforming the fixed cost structure in the vending machine channel and developing IoT vending machines. Through such measures we are working to revitalize the vending machine business model.

For details on reform of the vending machine business model, see



5. Market Competition in the Beverage Industry

Risk

In the domestic soft drink industry market, with the impact of the declining birthrate and aging population, which will only continue to intensify in the future, it is difficult to expect major growth in the medium to long term. Companies in the industry are placing a priority on profits, concentrating on strategic brands and revamping their products and containers. However, we are seeing a trend toward lower prices as consumption becomes polarized; mergers and consolidation in the distribution chain require stronger negotiating in the area of sales promotion; highly competitive private brands are emerging. There is also intensifying competition in the drugstore industry. These factors mean that the selling price of beverages is not going up, and we can already see an increase in sales promotion expenses for maintaining and expanding product shipping to stores.

In addition, companies throughout the industry are coming out with all kinds of new concepts for products and container designs in response to diversifying customer needs. Failure to respond adequately to changes in this competitive marketplace, including pricing and other marketing strategies, could affect the group's business performance and financial situation.

Risk mitigation

To minimize these risks, the group is working to further strengthen the appeal of the DyDo Blend brand, which has provided authentic flavor, with no added aromas, since its launch in 1975. Through measures such as developing innovative products that respond to diversifying needs, we will continue to work to increase the appeal of our products.

For details on increasing product appeal, see P 29 P 30

6. Procurement of Ingredients and Materials

Risk

A wide range of ingredients and materials are used to produce the group's products. One of those, coffee beans, is a staple ingredient in the domestic beverage business, and its procurement cost is affected by fluctuations in both international commodity prices and exchange rates. Other raw materials and resources are also affected by price fluctuations. Particularly with the international beverage business in Turkey, some materials are procured in a foreign currency denomination, so fluctuations in the Turkish lira exchange rate can affect procurement costs. Rises in the cost of ingredients and materials lead to higher manufacturing costs and sometimes these costs cannot be passed on through the sales price due to market conditions, and this could affect the group's business performance and financial situation.

Risk mitigation

To minimize these risks, the group contracts with domestic roasting companies for coffee beans at a market price with a view toward the future and aims to stabilize procurement prices. For other materials we are also promoting cost optimization through procurement strategies.

For details on the procurement of safe and secure raw materials, see P 29

7. Production System and Quality Control System

Risk To provide safe, high-quality products, the group has a system in place to implement thorough quality control and freshness management. In the domestic beverage business, we take every step through to product planning and then outsource manufacturing to factories outside the group based on our specifications. We maintain safe, secure manufacturing and shipping through a strict management and inspection system at both our end and at subcontracting factories.

The group has not experienced any serious accidents or litigation concerning food safety, quality control, or improper product labeling. However, if such a case were to occur in the future such as in which there was product contamination, or in which a product with defective quality or improper labeling was distributed, such an occurrence could affect the group's business performance and financial situation.

Risk mitigation To minimize these risks, in our domestic beverage business, the group conducts quality assurance audits every year of subcontracting factories that carry out manufacturing. The audits improve safety and quality and build trust. Meanwhile, in the pharmaceutical-related and food businesses we have our own factories. For these factories we are aiming to further improve quality by acquiring the international ISO 9001 certification for quality management systems and the international FSSC 22000 certification for food safety management systems.

For details on quality improvements at affiliated plants, see **P 30**

8. Other Risks

Risk In addition to the above, risks also exist that are attributable to external factors such as changes in economic conditions, weather and natural disasters, laws and regulations, and the management of environmental problems such as climate change and resource depletion. Other risks include those related to customer information management and compliance. Such additional risks could affect the group's business performance and financial situation.

Response To avoid these risks, or minimize their effects, we are strengthening our risk management system. We need to improve the group's ability to forecast risks, and to strengthen the counter-measures we have against such risks. To better do this, every year we produce a "risk map," which analyses the degree of likelihood of risks and the influence they could potentially have. Through this, we are promoting a risk management style that can identify and deal with serious risks that result from business climate change.

Risk Management

Our Group Risk Management Committee identifies important risks that may have a serious impact on the group and formulates counter-measures. It also evaluates the effectiveness of those counter-measures and the adequacy of risk management, and indicates necessary improvements to be made to strengthen risk management throughout the group.



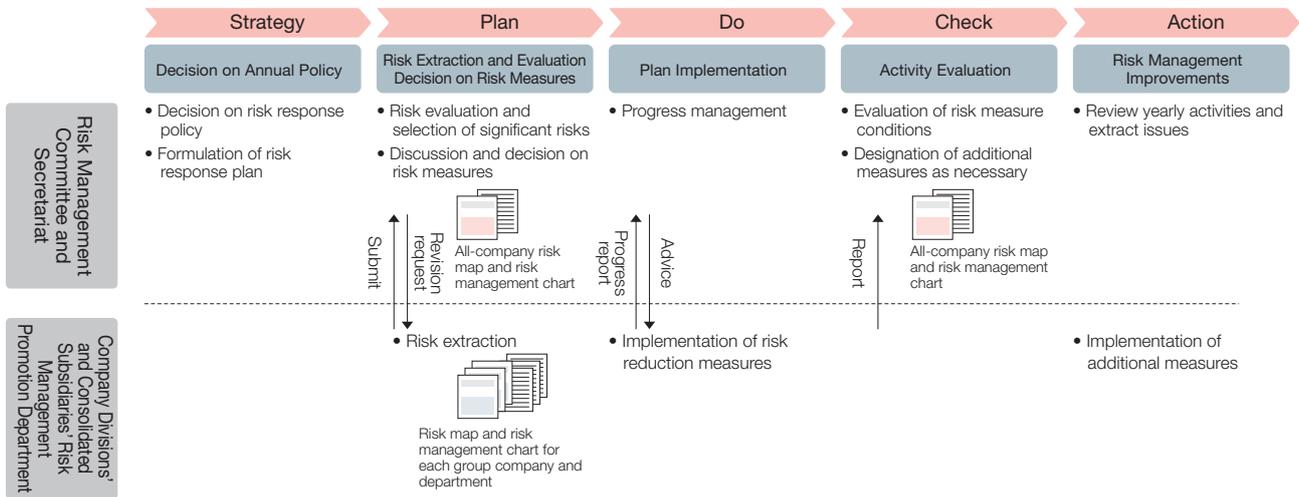
Future Issues for Strengthening Risk Management

The risks surrounding our group are constantly changing—against a backdrop of accelerating overseas expansion, broadening of our fields of business, amendment of laws and regulations, changes in social conditions, and other trends—and these risks are expected to diversify even further in the future.

To achieve sustainable growth under such circumstances, it is important that we further step up collaboration between group companies and strengthen the group risk management system, ascertain risk from a medium- to long-term perspective, and implement counter-measures from an early stage.

In FY2018, the final year of our "Challenge the Next Stage" mid-term business plan, we will consider and assess risks from a medium- to long-term perspective to formulate our long-term vision and next mid-term business plan, while striving to identify risks taking into account evaluations from diverse stakeholders.

Risk Management Yearly Activity Scheme



Plan

At the Group Risk Management Committee meeting held in May 2017, based on the direction of the group's recent growth strategy and the shortage of labor of late in the logistics industry in Japan, it was determined that risks related to securing and training personnel are growing, and this matter was selected as a special focus for risk reduction.

Do

Considering the decline in the working age population in Japan and the growth of online sales, we foresee the competition for human resources intensifying, well beyond our own industry. To secure the personnel we need for our vending machine operations and reduce the associated risk, we are working to enhance employee benefits and improve operational efficiency.

• Enhancing Benefits

We have introduced a system to subsidize the cost of acquiring a semi medium-sized motor vehicle driver's license—a new class of license needed to drive route vehicles used in our vending machine operations, based on the March 2017 revision of Japan's licensing system. We have also begun a system to lend a company-owned house or apartment to employees who are transferred.

• Improving Operational Efficiency

We are promoting improvements in operational efficiency by reconsidering pre-existing vending machines, and through the practical application of IT based on their per-machine revenue.

By enhancing benefits and improving operational efficiency, we have been able to ensure an increase in the number of personnel in our operations workforce by approximately 80 from the previous fiscal year and reduce overtime work per person by 9 hours per month.

The group has continued to grow through the expansion of

our domestic vending machine business over the years, but we will not be able to achieve sustainable growth in the future unless we can formulate and implement a management strategy that is able to respond to changing times. We are therefore working to train executives of the next generation and acquire personnel with high-level expertise and experience, thereby reducing such risk.

• Training Executives of the Next Generation

DyDo DRINCO runs DyDo Innovation Academy, a long-term training program for middle management-level employees to help them to become executives who will lead the company to sustained growth and development in the future. Programs that combine off-the-job and on-the-job training are used to build problem-solving skills and the abilities needed to overcome challenges, while strengthening leadership and enhancing business literacy.

DyDo Innovation Academy participants: 133 people

• Acquiring Personnel with High-Level Expertise and Experience

In order to acquire talented individuals who can have an immediate impact on the execution of our growth strategy, we will take a direct recruiting approach on top of conventional recruiting methods, identifying the personnel the company has greatest need for based on human resource databases.

Check/Action

The Group Risk Management Committee meeting held in November 2017 confirmed that these efforts had indeed been effective to some degree and had reduced risk. We recognize the importance for the future of retaining personnel to handle operations, and to implement an enhanced personnel system that promotes a range of working styles, revitalizing the organization by supporting employees to study and maintain good health.

Promoting Constructive Dialogue with Improved Information Disclosure

At the DyDo Group, we believe that constructive dialogue with shareholders, investors, and other stakeholders, and reflection of their views in our business administration, are conducive to sustained growth and improved corporate value over the medium to long term. To that end, proactive IR interaction with stakeholders, based on transparency, fairness and a long-term focus is imperative.

Improving Fair Access to Information

We are working to upgrade the tools we use for information disclosure purposes to meet the demands of investors. In particular, our website is an important vehicle for promoting fair access to information for all stakeholders. For instance, following the presentation of financial results to institutional investors, we will strive to post the handouts and video footage of the meeting, as well as transcripts, questions and answers, and outlines of other information deemed useful for individuals to make informed investment decisions. Moreover, English versions of almost all materials (with the exception of statutory materials required to be released under Japanese law, and video footage) will be released simultaneously with Japanese versions to ensure fair access to investors overseas.

Improving Publishing of Comprehensive Disclosure

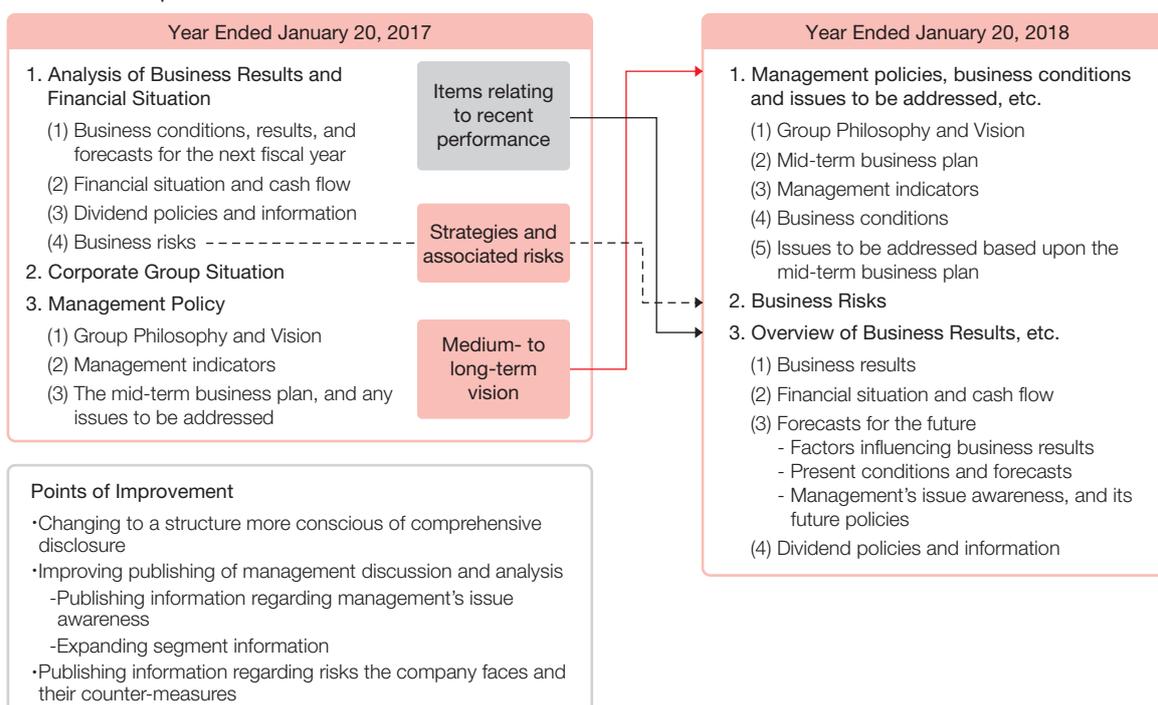
In the interests of driving sustained growth and medium- to long-term improvement of corporate value, we believe it is important to disclose information in a more comprehensive manner by framing the latest facts and figures within the context of the broader narrative of the company, from our founding principles through to our vision of the future.

Given the greater leeway afforded by the *Reviewing "Kessan Tanshin" [Financial Report] for More Efficient Information Disclosure Aimed at Promoting Dialogue* document released by the Tokyo Stock Exchange on February 19, 2016, we have begun to review the contents of our Financial Report, starting with those of the year ended January 2018. Consequently, summaries are now structured to explain recent performance within a medium- to long-range context, for instance by including our corporate philosophy and vision, and the path we took to reach them; as well as our progress in carrying out our mid-term business plan, challenges identified in doing so, and strategies for overcoming those challenges.

When explaining each item, we also include charts and other visual aids to ensure information is instinctively understandable, as well as more segment-specific information. In this way, we strive to raise the quality of information we disclose without compromising speed of disclosure.

We are determined to offer information proactively and beyond mere legal requirements in order to promote valuable dialogue and enable informed investment decisions.

● Financial Report Results Structure



● Dialogue with Shareholders and Investors

			2014	2015	2016	2017	2018
Institutional investors (including shareholders)	Financial results briefings	times held	2	2	2	2	2*
	Small meetings	times held	3	4	5	3	3*
	Individual meetings	times held	151	173	191	181	Approx. 200*
	Business briefings or factory tours	times held	0	0	0	1	0*
Individual investors	Briefings for individual investors	times held	1	15	16	17	17*
		where the President attended	0	0	0	1	1*
		total participants	52	1,316	1,206	1,821	—
Shareholders	General Meeting of shareholders	participants	740	692	684	732	791
	Business briefings or factory tours	times held	0	0	0	1	2*
	Percentage that responded to questionnaires (average)		10.7	15.7	13.5	13.0	—
	Number of shareholders at the end of the period		23,511	24,980	25,088	29,626	—

*denotes scheduled meetings

Constructive Dialogue with Institutional Investors

Institutional investors are not just potential shareholders, but are also a source of objective insights on how to raise corporate value in the medium to long term. For that reason, we seek forward-looking dialogue with such investors via financial results briefings and small meetings attended by the president, and individual meetings held by our IR team. Feedback received from institutional investors is then shared with the board of directors at monthly meetings.

Moreover, we began publishing an Integrated Report in May 2017 as a means for institutional investors to better understand DyDo Group. Reading the Integrated Report in advance of face-to-face meetings will give investors advance knowledge of our philosophy, business model, and strategies, paving the way for more focused discussion aimed at raising corporate value.

We will continue to expand our platforms for dialogue and our suite of tools for promoting these, and we look forward to incorporating the insights gleaned from interaction with institutional investors into our management strategies so as to boost growth.

● Feedback from Institutional Investor Dialogue in FY2017

Reported on		Summary
2017	April 13	Securing and developing personnel; responding to work style reforms
	June 16	Financial strategy and KPIs
	August 4	The Integrated Report as a vehicle for dialogue with investors
	September 15	Long-term vision
	October 16	Evaluation of the DyDo Group and upcoming challenges
2018	January 15	The importance of ESG and investing in intangible assets

Constructive Dialogue with Individual Investors and Shareholders

Because our business is directly linked to consumers, we value the input of individual investors as a direct line to consumer sentiment—a source of unvarnished feedback from “fans” aimed at promoting sustained growth. For that reason, we have a range of initiatives in place aimed at increasing the number of individual investors, such as corporate seminars held nationwide and shareholder benefits that double as vehicles for announcing products.

For our shareholders, we publish *DyDo Challenge Tsushin*, a Japanese-language newsletter, and deliver both it and separate “shareholder benefit” items twice a year, each of which contains a questionnaire for shareholders to fill out (response rate for our autumn 2017 edition: 13.0%). The opinions and views received in the questionnaire are fed back to the appropriate department and used to inform future practices regarding publishing and other contact with individual shareholders and investors.

Elsewhere, we held a meeting—attended by the president—in August 2017 for individual investors in the Tokyo metropolitan area who would find it difficult to attend our General Meetings of Shareholders in Osaka, home to our head office, as well as a tour of DAIDO Pharmaceutical’s plant in November that year. In this way, we are seeking to increase opportunities for dialogue.

Moreover, starting in 2018, the individual investor questionnaire will poll respondents on their views of our role in society. Individual investors and shareholders are the most immediate customers of our products, and we vow to take heed of what they have to say so that we may pursue mutual prosperity alongside all of our stakeholders.

Management

Board of Directors



President and Representative Director

Tomiya Takamatsu

Profile

Apr. 2004 Joined the company
 Apr. 2008 Appointed Director
 Apr. 2009 Appointed Managing Director
 Mar. 2010 Appointed Executive Director
 Apr. 2012 Appointed Vice President and Director
 Apr. 2014 Appointed President and Representative Director (his current position)

Reason for Appointment

Since his appointment to the position of president in April 2014, Mr. Takamatsu has demonstrated strong leadership by managing the company with swift, bold decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision.

He has been steadily working to address challenges geared to achieving dramatic growth in the future which has involved strengthening the Group's management by shifting to a holding company structure, working toward radical reforms to the vending machine business model, and securing new strategic bases overseas. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.



Chairman and Director

Tomihiro Takamatsu

Profile

Mar. 1971 Joined DAIDO Pharmaceutical Corporation
 Jan. 1975 Appointed Managing Director following the company's establishment
 May 1984 Appointed Executive Director
 Jun. 1990 Appointed Vice President and Director
 Apr. 1992 Appointed Vice President and Representative Director
 Apr. 1994 Appointed President and Representative Director
 Apr. 2014 Appointed Chairman and Director (his current position)

Reason for Appointment

Having guided the company as its president for 20 years, Mr. Takamatsu brings a wealth of experience as well as a proven track record to the table. In his current position as Chairman and Director, he fulfills a range of roles as appropriate, including strengthening the foundation of the group's management in areas such as governance, deciding important issues, and overseeing execution of business operations. In addition, he has worked tirelessly to revitalize the local communities in which the company does business by orchestrating its community service activities over many years. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.



Director and Corporate Officer

Naoki Tonokatsu

Profile

Mar. 1986 Joined the company
 Jan. 2011 Appointed General Manager of the Financial Affairs Department
 Mar. 2013 Appointed Corporate Officer and Division Director of the Administrative Division
 Jan. 2014 Appointed Corporate Officer and Division Director of the Finance Division
 Jan. 2017 Appointed Corporate Officer and General Manager of the Finance Department
 Apr. 2017 Appointed Director, Corporate Officer, and General Manager of the Finance Department (his current position)

Reason for Appointment

Mr. Tonokatsu has many years of experience and a proven track record in finance. He fulfills duties central to procuring funds, etc., for achieving the mid-term business plan. Currently, as the Director, Corporate Officer, and General Manager of the Finance Department, he is putting effort into sound company management such as by building a solid structure for the entire Group's financial base and contributing to improving profitability. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.



Director and Corporate Officer

Naoyuki Nishiyama

Profile

Mar. 1988 Joined the company
 Jan. 2014 Appointed General Manager of the Corporate Strategy Department
 Feb. 2014 Appointed General Manager of the Corporate Strategy Department and General Manager of the International Business Department
 Mar. 2015 Appointed Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the International Business Department
 Jan. 2016 Appointed Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the Strategic Investment Department
 Jan. 2017 Appointed Corporate Officer and General Manager of the Corporate Strategy Department
 Apr. 2017 Appointed Director, Corporate Officer, and General Manager of the Corporate Strategy Department (his current position)

Reason for Appointment

Mr. Nishiyama has broad experience and a proven track record across a wide range of operational areas encompassing the company's overall management, including corporate strategy, strategic investment, and international business. Currently, he is leading Group companies as the Director, Corporate Officer, and General Manager of the Corporate Strategy Department and is pursuing initiatives to expand into new business domains. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.



Independent Outside Director

Shinji Mori

Profile

Apr. 1972 Joined the Legal Training and Research Institute of Japan
 Apr. 1974 Appointed as a judge on the Yokohama District Court
 Apr. 1986 Appointed as a judge on the Kyoto District Court
 Apr. 1989 Registered as a member of the Osaka Bar Association
 Apr. 2001 Appointed Corporate Auditor of the company
 Apr. 2014 Appointed Director of the company (his current position)

Reason for Appointment

Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for four years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Important Concurrent Posts

Outside Corporate Auditor at Osaka Soda Co., Ltd.
 Auditor at Credit Guarantee Corporation of Osaka



Independent Outside Director

Masataka Inoue

Profile

Apr. 1978 Joined Nakano Vinegar Co., Ltd.
 Jul. 2005 Appointed Director at Mizkan Group Corporation
 May 2007 Appointed Managing Director at Mizkan Group Corporation
 Oct. 2009 Appointed Standing Auditor at Mizkan Group Corporation
 Mar. 2011 Appointed Divisional Manager in charge of the Management Auditing Office at Mizkan Group Corporation
 Mar. 2014 Appointed Divisional Manager in charge of the Business Planning Division at Mizkan Holdings Co., Ltd.
 Mar. 2016 Left Mizkan Holdings Co., Ltd.
 Apr. 2016 Appointed Director of the company (his current position)

Reason for Appointment

Mr. Inoue has a wealth of knowledge and overseas experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&A and overseas subsidiaries, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting with respect to his viewpoint on risk and returns in the course of deliberations concerning such management issues of the Company as accelerated development of the Company's business overseas and expanding into new business domains, and otherwise offering advice and suggestions from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Corporate Auditors



Standing Corporate Auditor
Kazuyoshi Hasegawa

Profile

Mar. 1980 Joined the company
 Mar. 1996 Appointed Branch Manager of the Chiba Office
 Jan. 2006 Appointed General Manager of the General Affairs Department
 Mar. 2010 Appointed General Manager of the Area Distribution Sales Department
 Mar. 2012 Appointed General Manager of No. 3 Corporate Sales Department
 Jan. 2015 Appointed Chief Manager of the Corporate Sales Department
 Apr. 2015 Appointed Corporate Auditor (his current position)



Outside Corporate Auditor
Taizo Yoshida

Profile

Jan. 1979 Registered as licensed tax accountant
 Feb. 1979 Opened Yoshida Tax Accountant Office
 Apr. 1999 Appointed Corporate Auditor of the company (his current position)

Reason for Appointment

In light of his many years of experience as an accountant, his advanced level of specialized knowledge in finance and accounting, and his extensive knowledge in the field, we consider Mr. Yoshida to be capable of overseeing the Company's auditing operations with a high level of independence and from a broad, overarching perspective.



Outside Corporate Auditor
Hiroshi Matsumoto

Profile

Feb. 1984 Registered as licensed tax accountant
 Apr. 1984 Opened Hiroshi Matsumoto Tax Accountant Office
 Apr. 1992 Appointed Corporate Auditor of the company
 Apr. 2007 Retired from position of Corporate Auditor
 Apr. 2007 Appointed Advisor
 Apr. 2011 Retired from position of Advisor
 Apr. 2011 Appointed Corporate Auditor (his current position)

Reason for Appointment

In light of his many years of experience as an accountant, his advanced level of specialized knowledge in finance and accounting, and his extensive knowledge in the field, we consider Mr. Matsumoto to be capable of overseeing the Company's auditing operations with a high level of independence and from a broad, overarching perspective.



Outside Corporate Auditor
Sachie Kato

Profile

Apr. 1969 Joined the Legal Training and Research Institute
 Apr. 1971 Appointed Public Prosecutor at the Tokyo District Public Prosecutors Office
 May 1974 Registered as a member of the Osaka Bar Association
 Apr. 2014 Appointed Corporate Auditor of the company (her current position)

Reason for Appointment

In light of her many years of experience as an attorney, her high level of discernment as a specialist in the law, her contribution to resolving a range of legal issues faced by multiple corporations, and her deep insight into corporate management, we consider Ms. Kato to be capable of overseeing the Company's auditing operations with a high level of independence and from a broad, overarching perspective.

Important Concurrent Posts

Outside Director of Yamazen Corporation
 Outside Director of Hisaka Works, Ltd.

Corporate Officers

Corporate Officer and General Manager of the Corporate Communication Department

Naokazu Hasegawa

Corporate Officer and General Manager of the HR & General Affairs Department

Akikazu Hamanaka

Corporate Officer and General Manager of the International Business Management Department

Mamoru Mitamura

Independence Standards and Qualification for Independent Directors

We have established the following standards to govern the independence of independent outside directors:

1. He or she may not be a director (except as an outside director), auditor (except as an outside auditor), corporate officer, or employee of the DyDo Group.
2. He or she may not count the DyDo Group as a major business partner or be a director, auditor, corporate officer, or employee of company that counts the DyDo Group as a major business partner.
3. He or she may not be a major business partner of the DyDo Group or a director, auditor, corporate officer, or employee of a major business partner of the DyDo Group.
4. He or she may not be a consultant, accounting specialist, or legal specialist who receives a large amount of money or other assets apart from officer compensation from the DyDo Group.
5. He or she may not be a trustee, director, auditor, corporate officer, or employee of an organization that receives donations or subsidies in excess of a certain amount from the DyDo Group.
6. He or she must not have fallen under the statuses described in (1) through (5) above at any time during the last three years.
7. He or she must not be a family member of an individual who falls under any of the statuses described in (1) through (5) above. (However, in the case of employees described in [1], the restriction is limited to employees in key roles.)

*In this context, the DyDo Group would be considered a major business partner if the entity's payments or receipts for transactions with the Group totaled 2% or more of its total annual consolidated sales during the last business year.

*In this context, "a large amount of money" refers to payments averaging 10 million yen or more per year over the last three years (for individuals) or payments averaging 2% or more of the organization's total consolidated sales over the last three business years (for organizations).

*In this context, a family member is a relative within the second degree of kinship, or a cohabitant relative.

*In this context, an employee in a key role is an employee with the rank of general manager or above.

*In this context, "a certain amount" refers to an annual average of 10 million yen over the last three business years, or 30% of the organization's average annual expenditures, whichever is larger.