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FY2014 Financial Highlights Materials for Management Policy Information Session

Challenge

Next Stage

February 27, 2015

DyDo DRINCO, Incorporated

(First Section of the Tokyo Stock Exchange: 2590)

Introduction

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- The beverages industry stands at a major turning point
- The sales volume of the beverages industry overall for 2014 fell year on year
- Sluggish consumer spending, unsettled climate, struggling vending machine sales
- The drive to lower prices has sped up due to the poor sales
- The entire industry is shifting to lower profit structures thanks to high raw material prices and sales promotion costs

- Instead of following with the low-price strategies, we will open up new strategies to win in the vending machine business
- Steps to expand new business areas will gain greater speed

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1. FY2014 Financial Highlights FY2015 Earnings Forecast

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(1) Overview of consolidated financial highlights for FY2014

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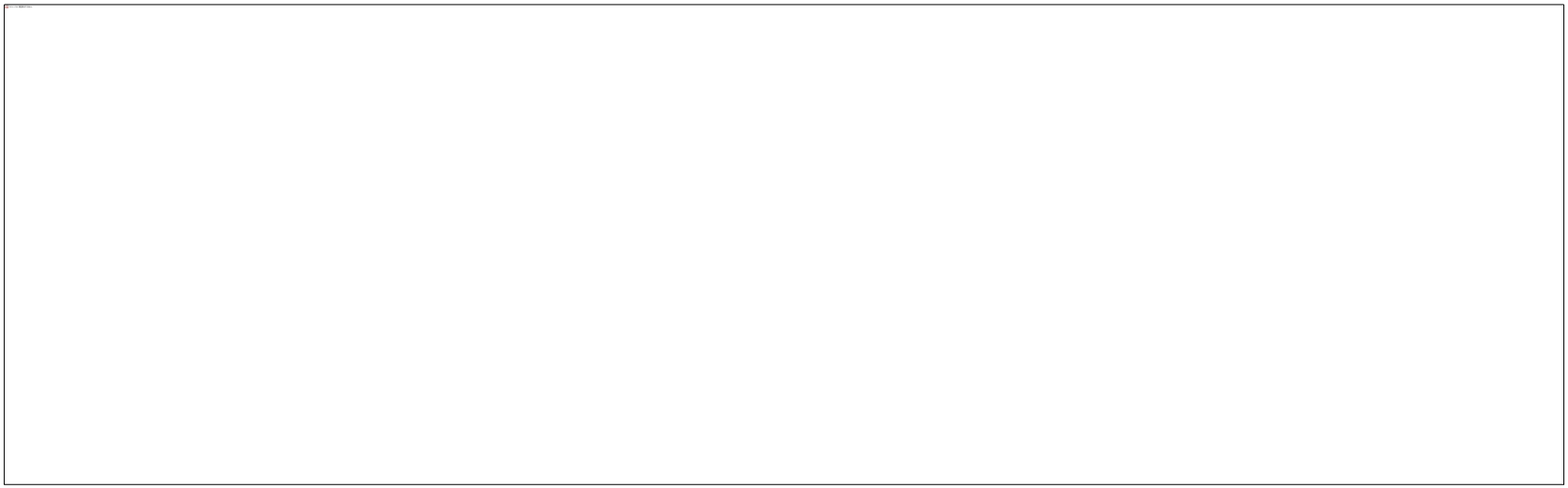
- Consolidated performance was heavily affected by changes in the external environment
- Operating income maintained a level on par with the initial plan, despite the harsh environment
- Due to investment loss on equity method, ordinary net income and current net income were below the plan

(Millions of yen)



EPS	224.08 yen	140.16 yen	(37.5%)	(83.92 yen)
Dividend per share	60 yen	60 yen	0.0%	-

Note: Investment loss on equity method for FY2014: JPY763M. FY2013: JPY46M

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(2) Causes for increased / decreased operating income in FY2014 consolidated financial information

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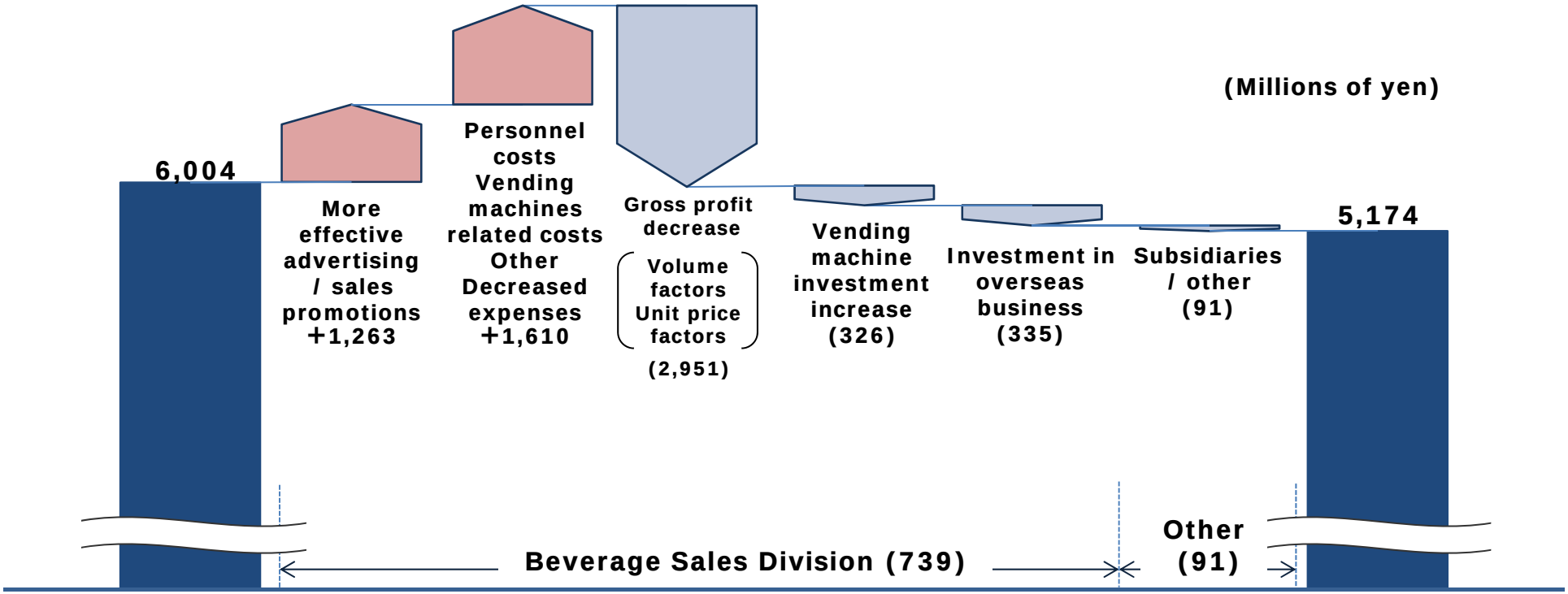
- Sales volume of the Beverages Sales Division fell 6%, sales unit prices improved
- Cost control e.g. effective advertising promotion, and contracting general expenses
- The Food Production and Sales Division maintained operating income virtually the same as the previous year



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(3) Overview of FY2015 full-year earnings forecast

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- Consolidated net sales are expected to increase 1% year-on-year
- The high price of raw materials such as coffee beans will have a high impact on income
- Equity method investment losses were temporary only for the previous fiscal year; current net income will increase 16.3%

(Millions of yen)

	FY2014 result		FY2015 Forecast			
		Component ratio		Component ratio	Difference (%)	Difference (amount)
Net sales	149,526	100.0%	151,000	100.0%	1.0%	1,474
Operating income	5,174	3.5%	4,500	3.0%	(13.0%)	(674)
Ordinary income	4,470	3.0%	4,400	2.9%	(1.6%)	(70)
Current net income	2,322	1.6%	2,700	1.8%	16.3%	378
EPS	140.16 yen		162.98 yen		16.3%	22.82 yen
Dividend per share	60 yen		60 yen		0.0%	-

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(4) FY2015 full-year earnings forecast: Causes for increasing / decreasing operating income

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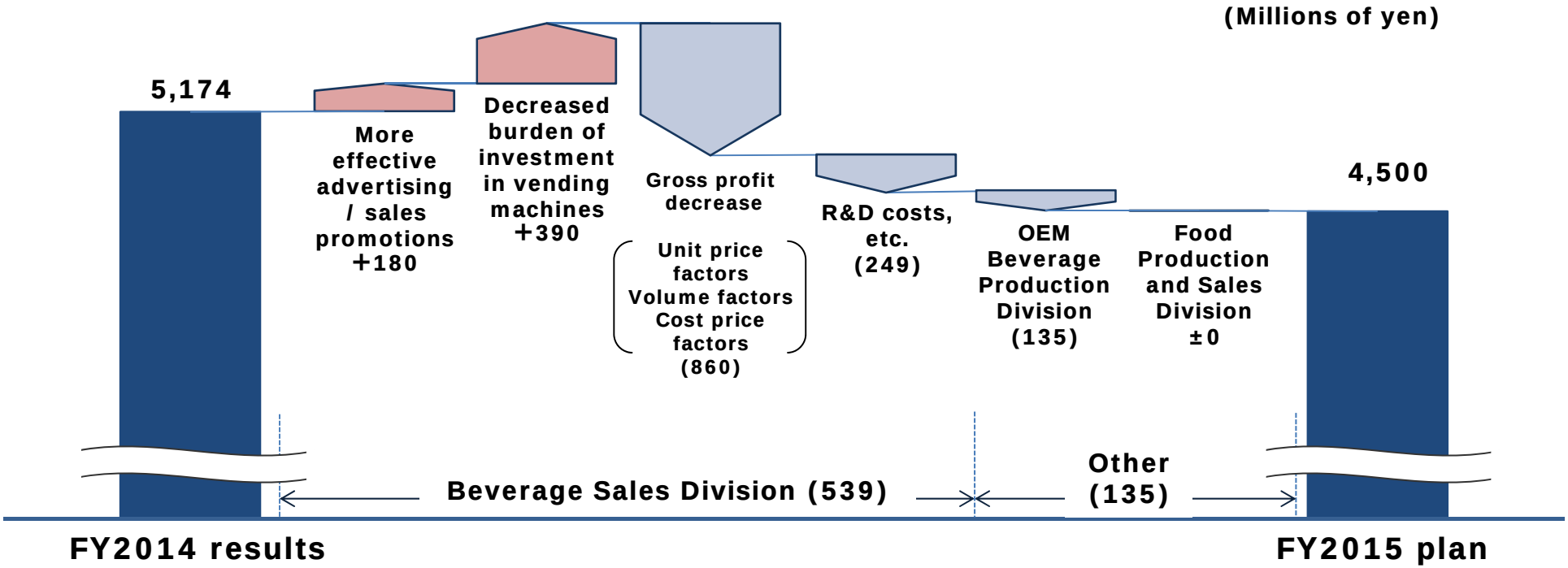
- Beverage Sales Division has a gross loss of approx. JPY860M due to high costs (Assuming sales volume 0.5% down year-on-year)
- The OEM Beverage Production Division is affected by the high price of container materials
- The Food Production and Sales Division maintained operating income virtually the same as the previous fiscal year



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2. The Business Model of DyDo Group

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(1) Group Philosophy / Vision / Slogan Formulation

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DyDo Group corporate philosophy

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

DyDo Group corporate vision

Together with customers	Offering high quality products, adding a surprise to deliver “distinctive DyDo” taste and wellness to customers.
Together with society	“All DyDo” product development and corporate activities involved in the group is committed to build rich and vibrant society.
Together with future generations	Creating “DyDo standards” for the upcoming next generations. To go beyond current framework and values.
Together with people	Endless “DyDo challenging spirit” to bring happiness to all people through our group activities.

Group Slogan

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Offering delicious products
for the sound mind and body

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(2) The Business Model of DyDo Group

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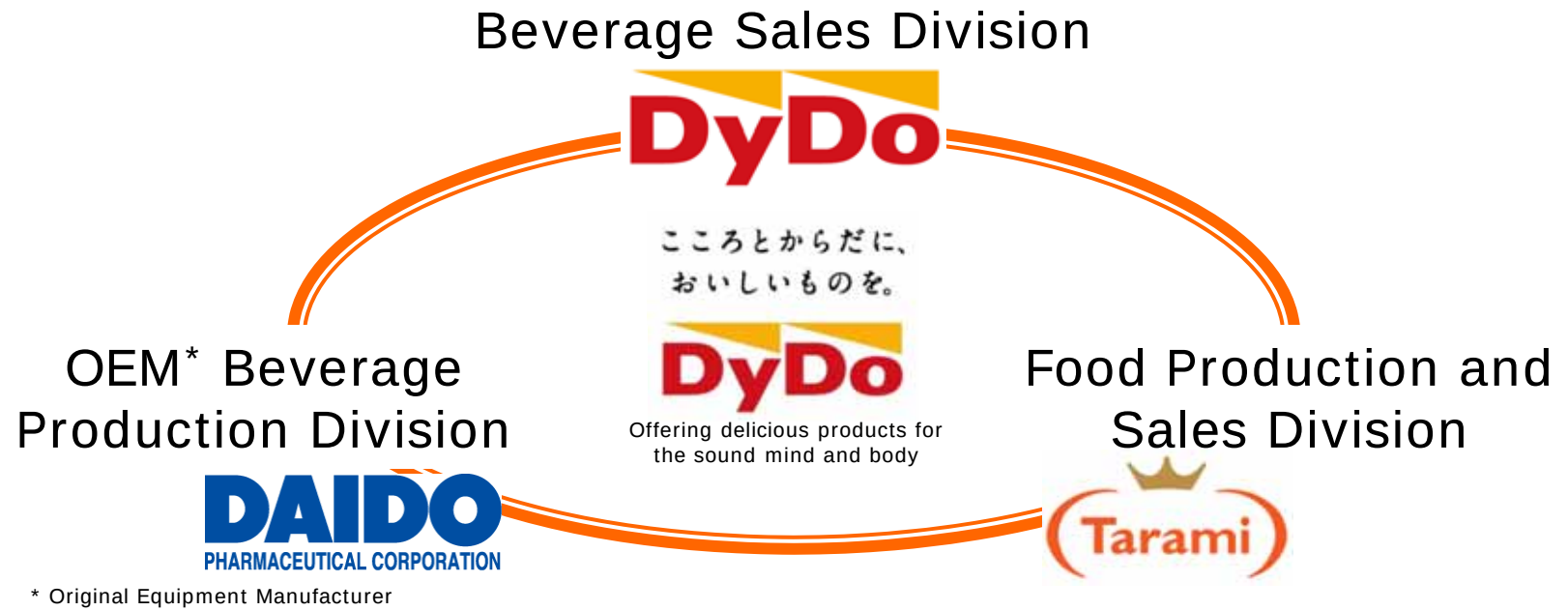
◆ DyDo Group Three Main Divisions
—Forming an independent business model—

The DyDo Group's slogan is "Offering delicious products for the sound mind and body," under which it seeks to bring deliciousness and healthiness only DyDo can provide to customers, together with wonder and high quality.



* Original Equipment Manufacturer

Forming a strong financial footing based on steady cash flow

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(3) Key features / strengths of DyDo DRINCO

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◆ Blend is Beautiful.

—Persistent pursuit of blends and tireless challenge—

The core of DyDo DRINCO: the desire to bring happiness and wonder.





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(3) Key features / strengths of DyDo DRINCO

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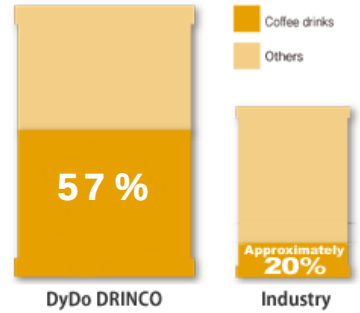
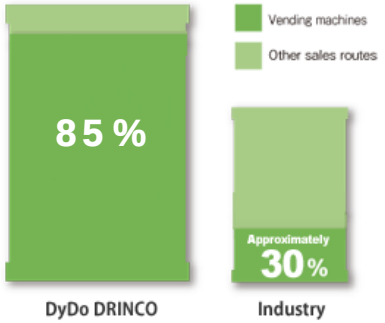
◆ Securing steady profit with coffee × vending machines

Canned Coffee sales account for more than 50% of DyDo Drink company sales.



Out from the coffee and beverage market in Japan, coffee is 20%

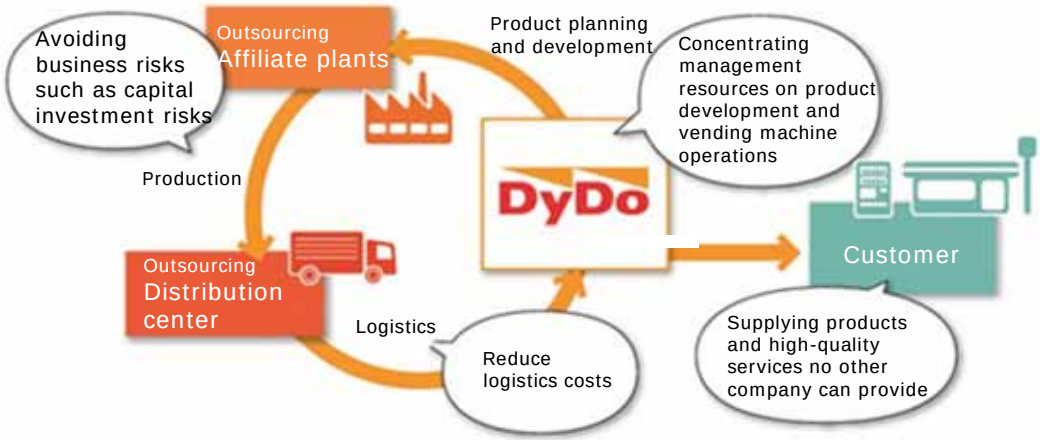
Vending Machine Sales account for 90% of Sales

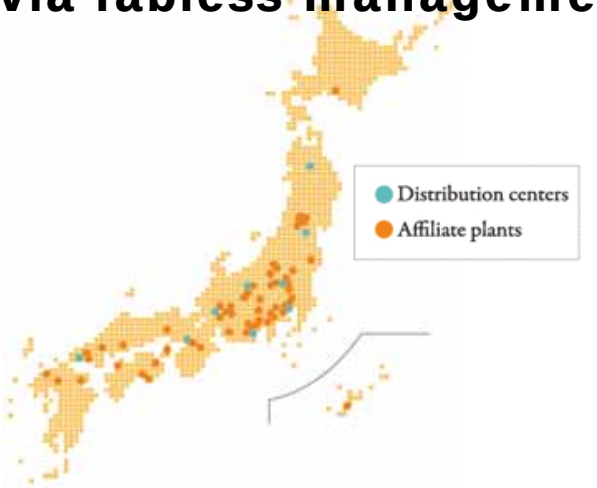


The Vending machine business market in Japan is 30%

* Our track record:
Percentage at 3rd quarter, FY2014

◆ Effective use of management resources via fabless management





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(4) Key features / strengths of DAIDO PHARMACEUTICAL CORPORATION

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DAIDO PHARMACEUTICAL CORPORATION

- Developing OEM business through initiatives in researching, developing, manufacturing drinkable preparations
- Maintaining high profitability as a corporation with a leading industry share involved in the development of approx. 50 products annually, from drugs / quasi-drugs to beverages
- Maintaining / strengthening a safe / secure production structure and aiming to push forward as the No.1 commission manufacturer







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(5) Key features / strengths of Tarami

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Tarami

- **Making it a full subsidiary in June 2012, contributing to consolidated performance as one of the three mainstays of the Group**
- **Maintaining a top share in the fruit dessert jelly market through our powerful recognition level and brand strength**
- **Building a firm position in the fruit dessert jelly market in the future, and orienting ourselves toward exploring higher added value products, new markets and sales channels**



Note: to be released Mar 1



Note: to be released Mar 1







Note: to be released Apr 1









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(6) To new growth based on the stable financial foundation

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◆ Status of the consolidated balance sheet (as of Jan 20, 2015)

Financial assets	JPY72.7B	Liabilities with Interest	JPY20.5B
		Trade payables	JPY16.2B
		Accounts payable	JPY11.0B
		Other liabilities	JPY15.4B
Trade receivables	JPY13.7B	Net assets	JPY84.7B
Inventory assets	JPY7.3B		
Other assets	JPY54.1B		

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Challenge

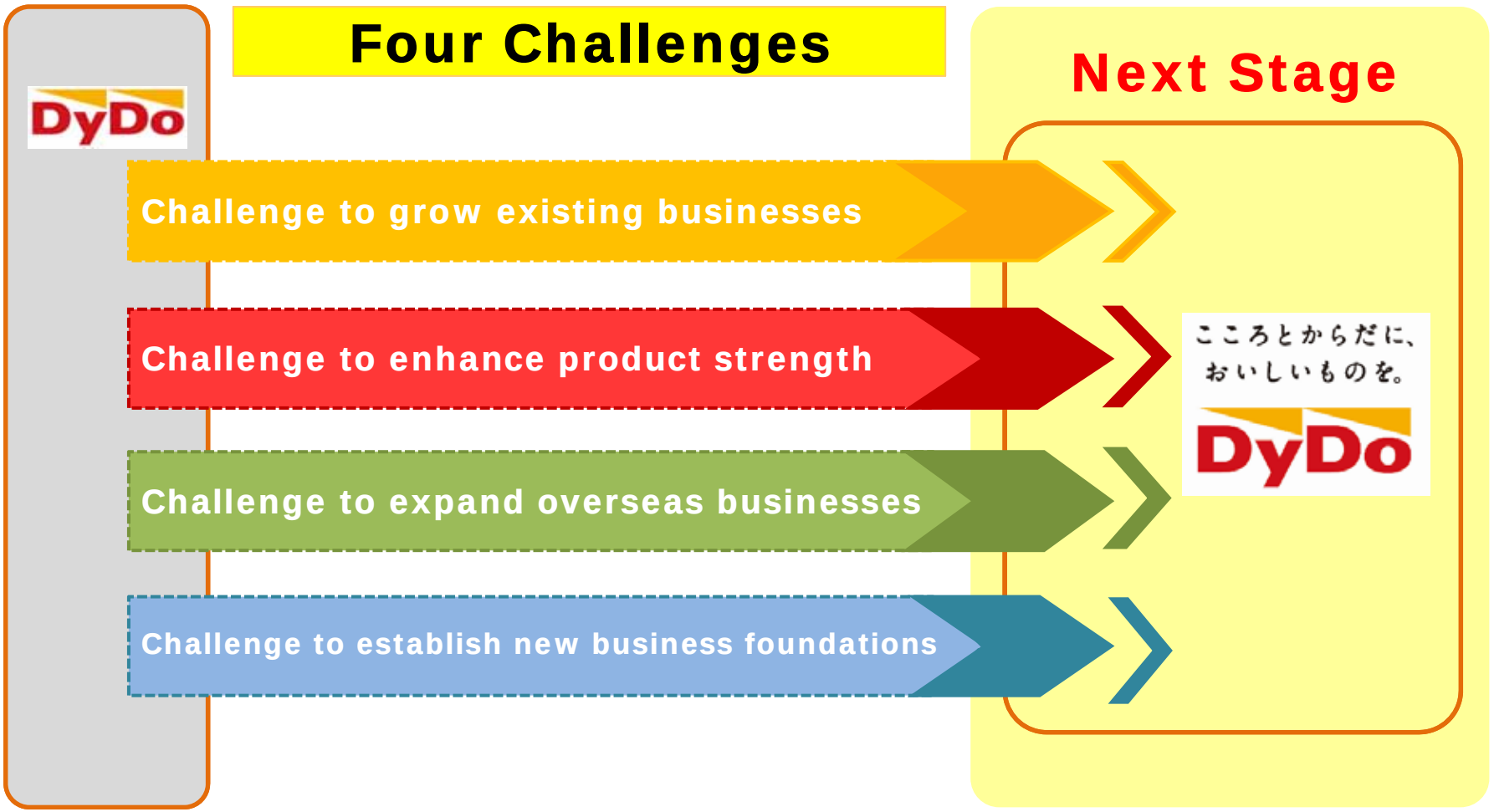
3. Mid-term Business Plan

Next Stage

- Challenge the Next Stage -

(1) Four challenges in pursuit of growth

Next Stage



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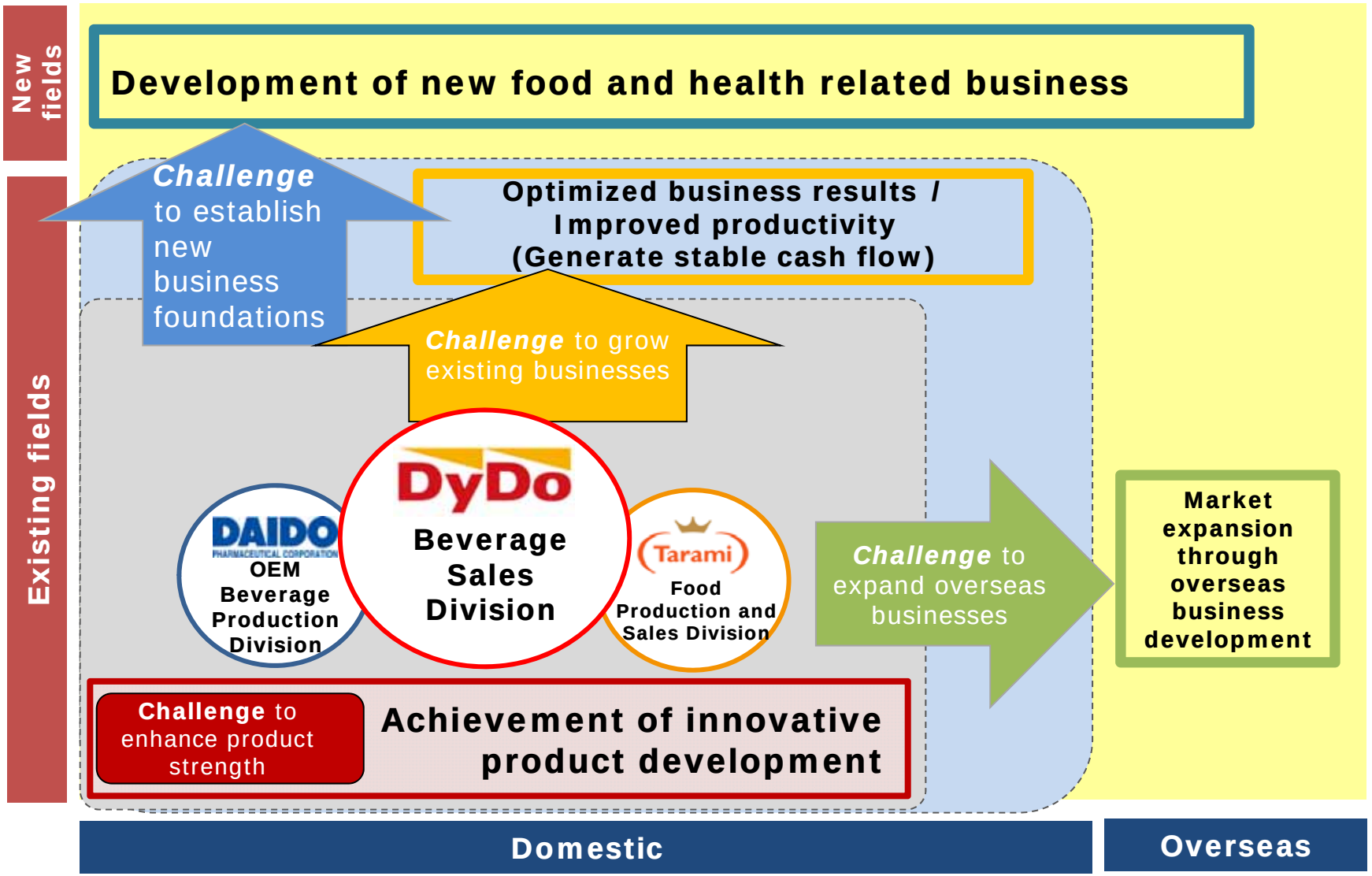
(2) Directions of our growth strategy

Next Stage



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(3) Mid-term Business Plan

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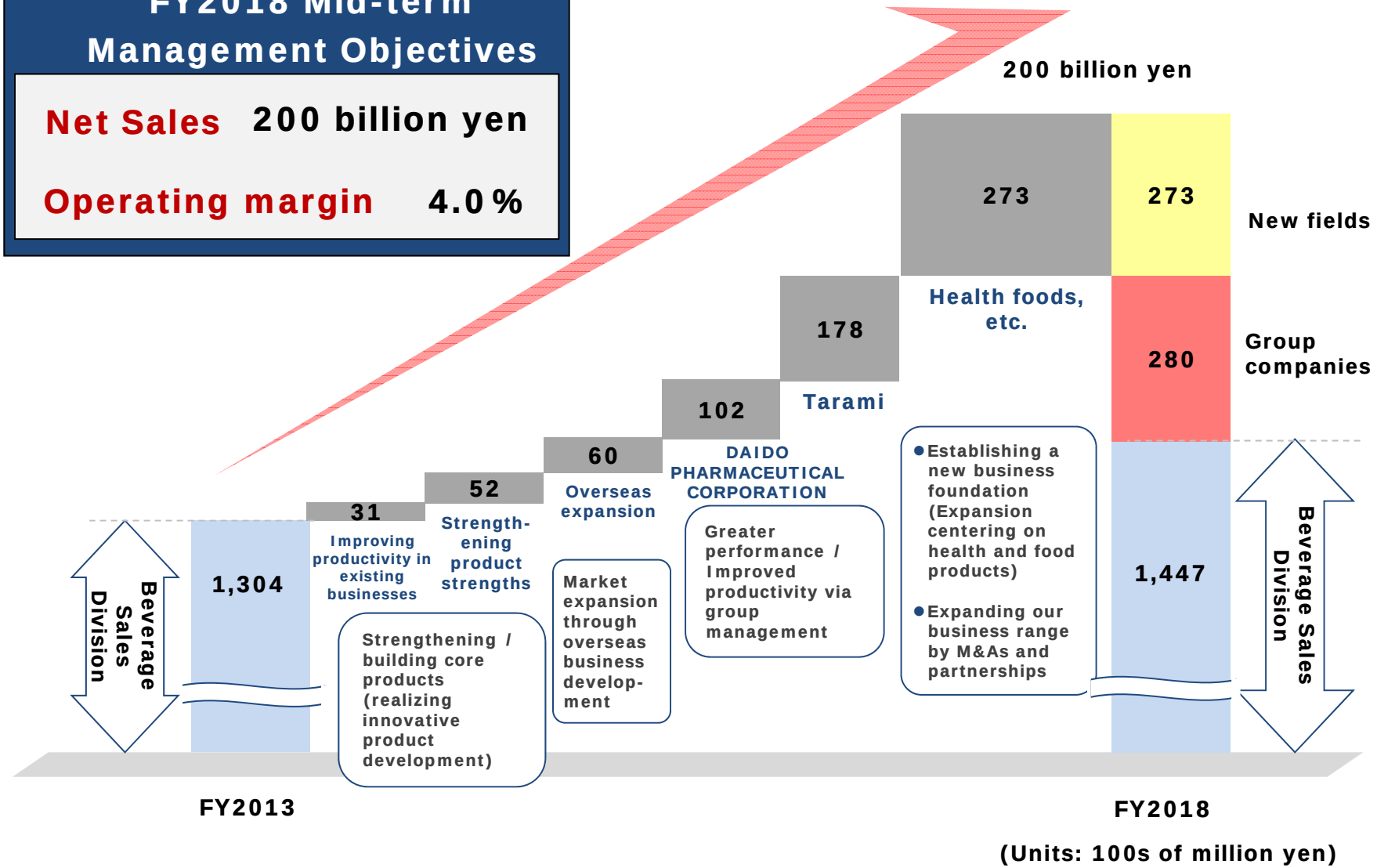
FY2018 Mid-term Management Objectives

Net Sales	200 billion yen
Operating margin	4.0%



(Units: 100s of million yen)

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4. Summary of FY2014 and Future Initiatives

Challenge

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(1) FY2014 outcomes and issues

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Challenge to grow existing businesses

Outcomes

- Flexibly handling price revisions following consumption tax hikes
- Higher gross income margin via improved sales unit prices

Issues

- Providing added value without descending into a price war
- Cost-cutting throughout the supply chain

Challenge to enhance product strength

Outcomes

- Enhanced lineup of bottle cans to meet changing consumer trends
- Put challenging products onto the market to gain a new customer segment

Issues

- Develop surprising new products to acquire a wider customer base
- Expand lineup to take into account regional particularities

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(1) FY2014 outcomes and issues

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Challenge to expand overseas businesses

Outcomes

- Start expanding business in Russia
- Capital and business tie-up with Taiwan TCI
  Preparing to establish Tarami Indonesia

Issues

- Full-scale overseas expansion using the special characteristics of each business
- Pursue the possibility of business expansion into new regions

Challenge to establish new business foundations

Outcomes

- Start full-scale surveying / examination toward M&As
- Steadily expand online sales of health care products

Issues

- Establish a new business portfolio in the food and health sector
- Establish a high earnings and high growth business platform to improve capital efficiency

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(2) Overview by business divisions

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DyDo Beverage Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

	FY2013 results	FY2014 results			FY2015 full-year earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	130,400	124,597	(4.4%)	(5,802)	125,500	0.7%	902
Operating income	4,578	3,839	(16.2%)	(739)	3,300	(14.0%)	▲539

FY2014 summary

- Improved sales unit prices by price revisions
- Affected by sluggish consumer spending, unsettled climate, impact of low-price strategies by competitors



FY2015 policy

- Reinforce the foundations of the core vending machine business
- Develop sales strategies matching regional characteristics, reinforce coordination with vending machine operators
- Expand resealable product lineup e.g. bottle cans
- Realize a product lineup matched to the local region
- Continue to promote expansion of vending machines in Russia



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(2) Overview by business divisions

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ドリンク剤の受託製造 DAIDO PHARMACEUTICAL CORPORATION

OEM Beverage Production Division

*Figures prior to consolidated adjustment

(Millions of yen)

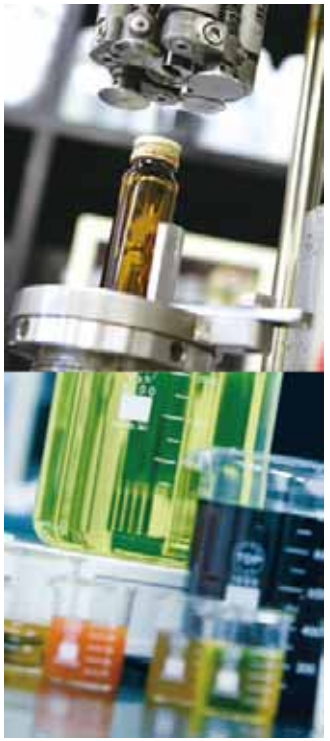
	FY2013 results	FY2014 results			FY2015 full-year earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	10,857	10,220	(5.9%)	(636)	10,100	(1.2%)	(120)
Operating income	1,227	1,135	(7.5%)	(91)	1,000	(12.0%)	(135)

FY2014 summary

- In terms of income, a soft landing with figures above the initial plan
- Changes in OEM product portfolio due to changing market environment
- Certain level of outcome in lowering manufacturing costs

FY2015 policy

- Maintain and strengthen a safe and reliable production structure
- Reduce costs by promoting efficiency
- Construct a foundation for the future by strengthening development and solutions capabilities
- Build cooperative relationship with Taiwan TCI to take on the challenge of overseas expansion



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(2) Overview by business divisions

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Food Production and Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

	FY2013 results	FY2014 results			FY2015 full-year earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	14,299	15,360	7.4%	1,060	16,100	4.8%	739
Operating income	609	614	0.9%	5	620	0.9%	5

FY2014 summary

- Steady outcomes in sales, with a slight increase in income
- Further penetration into convenience stores
- Increasing overseas exports

FY2015 policy

- Focus strength on building an earnings structure and business foundation to realize ongoing growth
- Coping with high raw material prices via procurement strategies / production strategies
- Revise the product structure by introducing high added value products
- Try to carve out a new market by launching business in Indonesia



Note: to be released Mar 1

Note: to be released Apr 1

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(3) Challenge to grow existing businesses

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Toward providing added value without getting involved in a price war

- **Optimizing the vending machine column based on analysis data***
- **Expand product lineup to realize column optimization for each location**
- **Launch of future vending machine project**





* **Optimization of vending machine column:**
Optimizing the product lineup to be sold in vending machines suited to the sales characteristics of their installation location

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Toward cost-cutting throughout the supply chain

- Optimization of procurement strategies
- Optimization of sales promotion costs
- Optimization of operations by introducing new systems







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(4) Challenge to enhance product strength

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"DyDo Blend - supervised by the world's top barista"

The latest evolution of canned coffee to match drinking styles

- The latest taste innovations to match drinking styles
- Raise global sense of values by package renewal



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(4) Challenge to enhance product strength

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"DyDo Blend Frothy Premium"

A premium-style smooth and frothy canned coffee, just by shaking it

- Users shake the cans to enjoy a smooth, frothy taste sensation
- Premium espresso-extracted coffee with milk in a fine froth
- Pursuing the premium in taste under the supervision of the world's top barista



[The frothing mechanism]
Combining the negative pressure inside the can, controlling the optimum head space and our own unique manufacturing technology for the contents, each shake captures air into bubbles and scatters them, to form a fine froth



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(4) Challenge to enhance product strength

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Driving vending machines to their peak by enhancing the miu brand



Enhancing the Wakagokochi brand by communication measures



Enhancing differentiated products to build up a regular customer base

- Enhance series name visibility to build up the two texture-taste series
- Differentiation to make people aware they have unique flavors
- Visibility of the content characteristics of "shake to drink"



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(5) Challenge to expand overseas businesses

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◆ **Starting to install vending machines in Moscow / Russia**





DyDo vending machine inside the Aero Express station from Sheremetyevo International Airport, Russia's second-largest airport, to the central city.



Subway



Bus terminal



Gas station



Train station



Cinema

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(5) Challenge to expand overseas businesses

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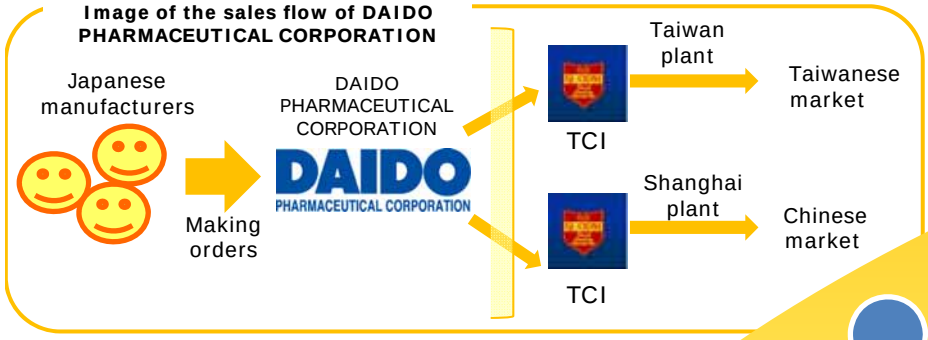
DAIDO PHARMACEUTICAL CORPORATION

Tie-up with TCI of Taiwan

TCI is engaged in R&D, manufacturing and sales based on the three core businesses of functional drinks, dietary supplements and skincare products. Functional drinks make up 54% of its lase, dietary supplements 32%, and skincare products 14%. It has the top share for an OEM of dietary supplements and skincare products in Taiwan. Based on its strengths in new materials and high production technology, it supplies diverse products to 28 countries or more worldwide.



April 2014
DAIDO PHARMACEUTICAL CORPORATION and TCI are progressively cooperating and deliberating over technical support contracts and commission manufacturing for the health food and drinks sector, as well as cooperating for manufacturing and sales of health foods and drinks to subsidiaries of Japanese companies as customers. Both companies have agreed to develop new markets together.

December 2014
The DyDo Group made a 15% investment in TCI, making it an equity method affiliate.
DyDo DRINCO's president, Tomiya Takamatsu, is appointed as a director.

We will take our cooperative relationship to the next stage, to build growth opportunities in China and ASEAN via Taiwan's growing company, TCI.

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(5) Challenge to expand overseas businesses

Next Stage

Joint venture company in Indonesia
Establishment of PT. Tarami Aeternit Food

Tarami has established a joint venture with PT Aeternit Prima Mandiri under Indonesian law to expand production and sales of fruit jellies, such as the Tarami brand.

Aternit International (AI)

Holding company of Keong

100%

PT.Keong Nusantara Abadi (Keong)

- Manufacture and sale of nata de coco, aloe, jellies and drinks, and of canned escargot
- Biggest manufacturers of nata de coco in the Republic of Indonesia

80%

Kanematsu Corporation

20%

Firm providing diverse products and services in a wide range of segments

PT Aeternit Prima Mandiri (APM)

Special purpose company aiming at investment in TAF

51%

Tarami

49%

PT. Tarami Aeternit Food (TAF)

The aim is to sell inside Indonesia and to surrounding countries (ASEAN, etc.)



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◆Approach to M&As and alliances

	Japan	Overseas
Growth of existing businesses Beverage Sales Division OEM Beverage Production Division Food Production and Sales Division	Each division must make express their uniqueness to raise earnings.	Seek out partners to develop business in new regions and build excellent relationships. Establish joint ventures, bear in mind use of M&As.
Establish a new business foundation in the food and health sector	We will aim to establish a new business portfolio to cover gaps in our existing businesses. For M&As, focus on profitability and growth, to improve capital efficiency.	---

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(7) On capital policy and returns to shareholders

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Returns to shareholders

Realizing sustainable, profitable growth

Effective use of capital

Establishing a new business foundation via strategic investment

Maintaining fiscal soundness

Improving cash creation capacity in existing businesses

	Basic approach
Effective use of capital	• Internal reserves are given priority in appropriation for strategic business investment for sustained income / growth and improving capital efficiency
Maintaining fiscal soundness	• Improve stable cash creation capacity via existing businesses • Maintain financial foundation enabling ongoing strategic business investment
Returns to Shareholders	• Continue to maintain stable dividends despite the severe earnings environment • Aim to realize ongoing income / growth for mid-term increased dividends

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(8) Realizing sustainable growth

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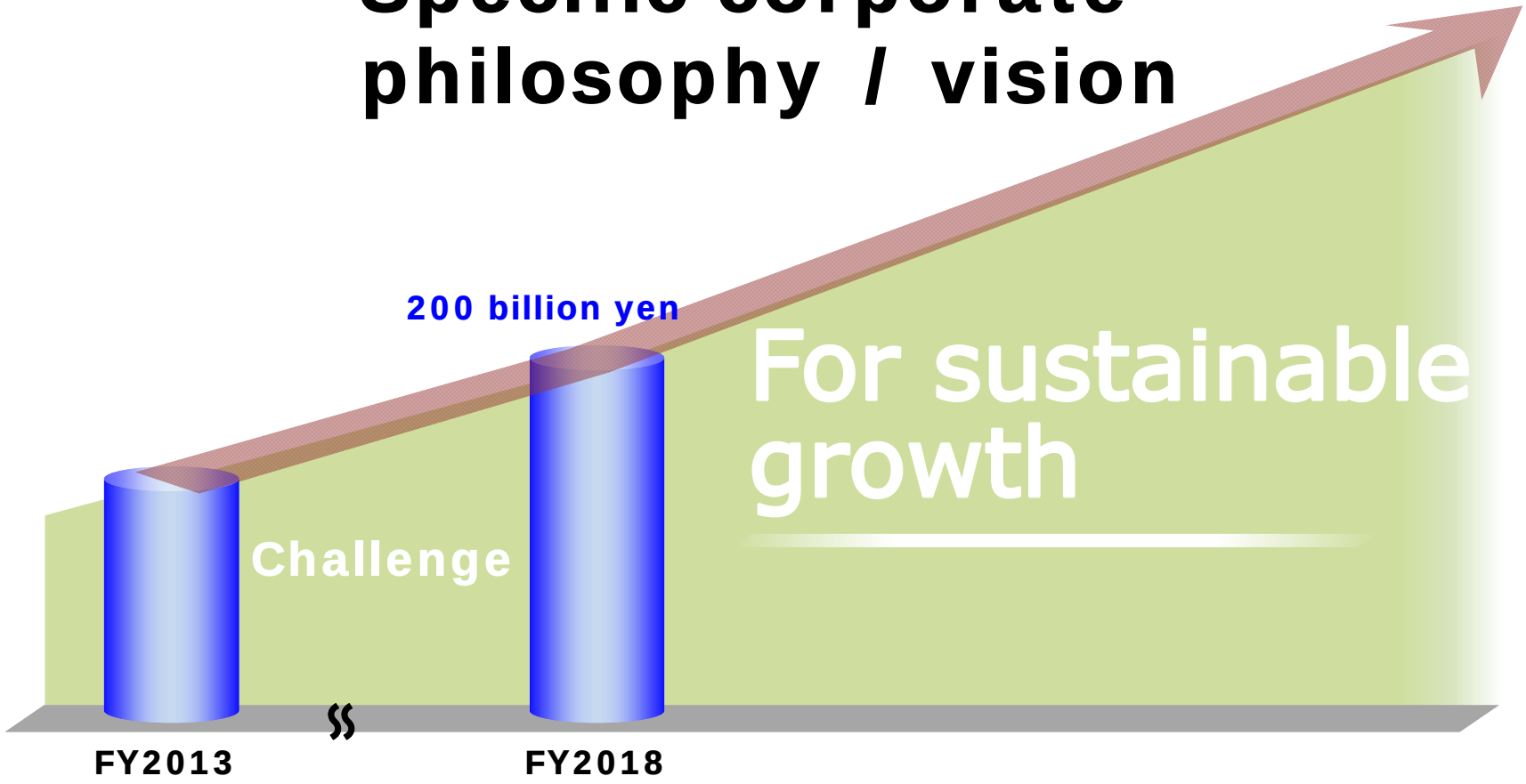
Specific corporate philosophy / vision



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APPENDIX

Challenge

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FY2015 first half earnings forecast

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- An especially severe situation is expected in terms of income for the first half of FY2015
- The high raw materials prices will heavily impact on all the business divisions
- The first half sales volume for the Beverages Sales Division is expected to fall 2%

(Millions of yen)

	FY2014 first half performance		FY2015 first half earnings forecast			
		Component ratio		Component ratio	Difference (%)	Difference (amount)
Net sales	75,759	50.7%	75,700	50.1%	(0.1%)	(59)
Operating income	2,471	1.7%	1,450	1.0%	(41.3%)	(1,021)
Ordinary income	2,383	1.6%	1,350	0.9%	(43.3%)	(1,033)
Quarterly net income	1,174	0.8%	700	0.5%	(40.4%)	(474)
EPS	70.89 yen		42.25 yen		(40.4%)	(28.64 yen)
Dividend per share	30 yen		30 yen		0.0%	-

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Causes for increasing / decreasing operating income in the cumulative second quarter period

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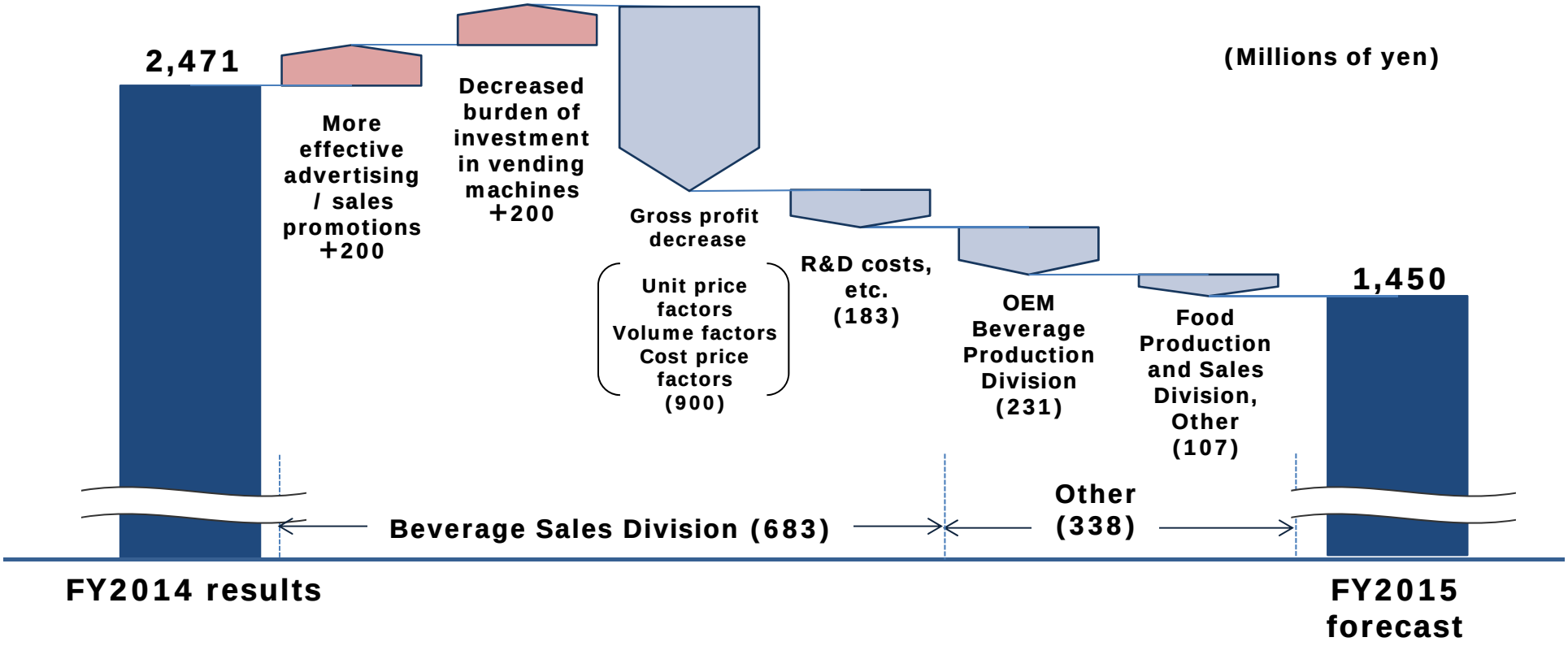
- The Beverage Sales Division is expected to be impacted by high costs and decreased sales
- The OEM Beverage Production Division will suffer a rebound from the boost in orders for the first half in the previous year
- The Food Production and Sales Division will have increased earnings but be affected by high imported raw material prices



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FY2015 first half earnings forecast by segments

Next Stage

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Beverage Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

	First Half FY2013 Performance	First Half FY2014 Performance			FY2015 first half earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	64,802	62,685	(3.3%)	(2,117)	62,400	(0.5%)	(285)
Operating income	1,731	1,423	(17.8%)	(308)	740	(48.0%)	(683)

OEM Beverage Production Division

*Figures prior to consolidated adjustment

(Millions of yen)

	First Half FY2013 Performance	First Half FY2014 Performance			FY2015 first half earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	5,728	5,531	(3.4%)	(196)	5,050	(8.7%)	(481)
Operating income	700	711	1.4%	10	480	(32.5%)	(231)

Food Production and Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

	First Half FY2013 Performance	First Half FY2014 Performance			FY2015 first half earnings forecast		
			Difference (%)	Difference (amount)		Difference (%)	Difference (amount)
Net sales	7,520	7,929	5.4%	408	8,500	7.2%	570
Operating income	523	556	6.4%	33	390	(30.0%)	(166)

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(Reference Materials)

Challenge

Next Stage

Pursuit of Sustained Growth
- ESG Initiatives -

(1) CSR basic policy

Next Stage

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Based on the DyDo Group philosophy of striving to achieve happiness and prosperity together with people and society as a whole, we incorporate the voices of our stakeholders into our management and contribute to the realization of a plentiful and vital society.

To our customers "Always adding a dash of surprise to high quality!"

Bringing wonder and joy along with safety and reassurance.

To our employees "Dynamic work with all the joy of achievement!"

Encouraging communication within the company and developing human resources able to handle challenges.

To our trading partners "Taking the challenge together of achieving the next growth stage!"

Sharing our management vision and strategy to deepen the relationship of trust with our business partners.

To society "Keeping dear the ties between people and society!"

Contributing to the invigoration of society through our business and community activities.

To our shareholders "Constantly lifting the value of the corporation!"

Realizing steady returns through a sound governance structure.

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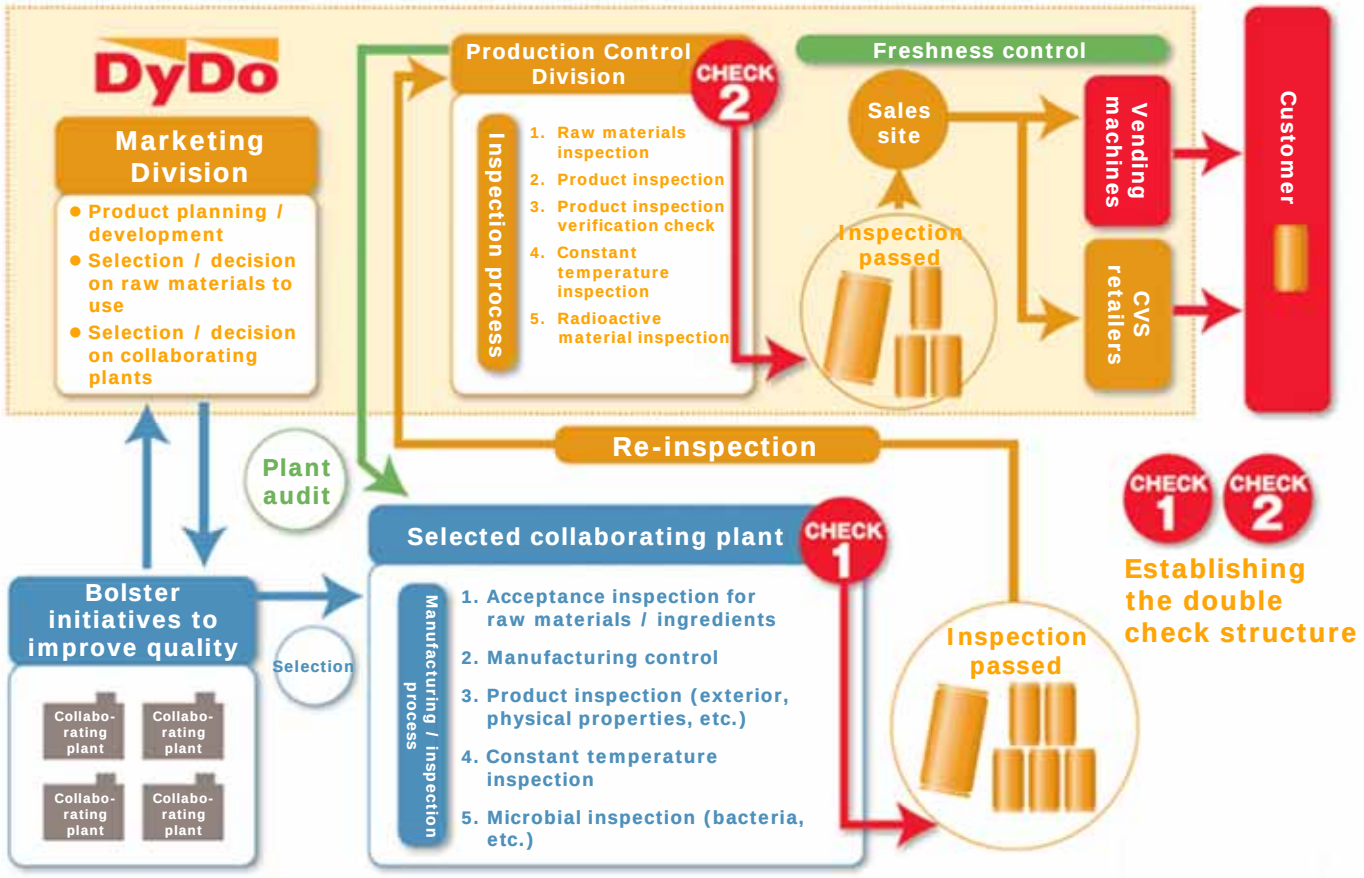
◆ Double check structure at the manufacturing stage

■ Double check structure to ensure food safety (flow chart)



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(3) Initiatives for the environment

◆ Initiatives for the environment - actively introducing eco-friendly vending machines

Actively introducing eco-friendly vending machines with high energy savings easy on the environment, focusing on expanding vending machine network supported by local communities and customers



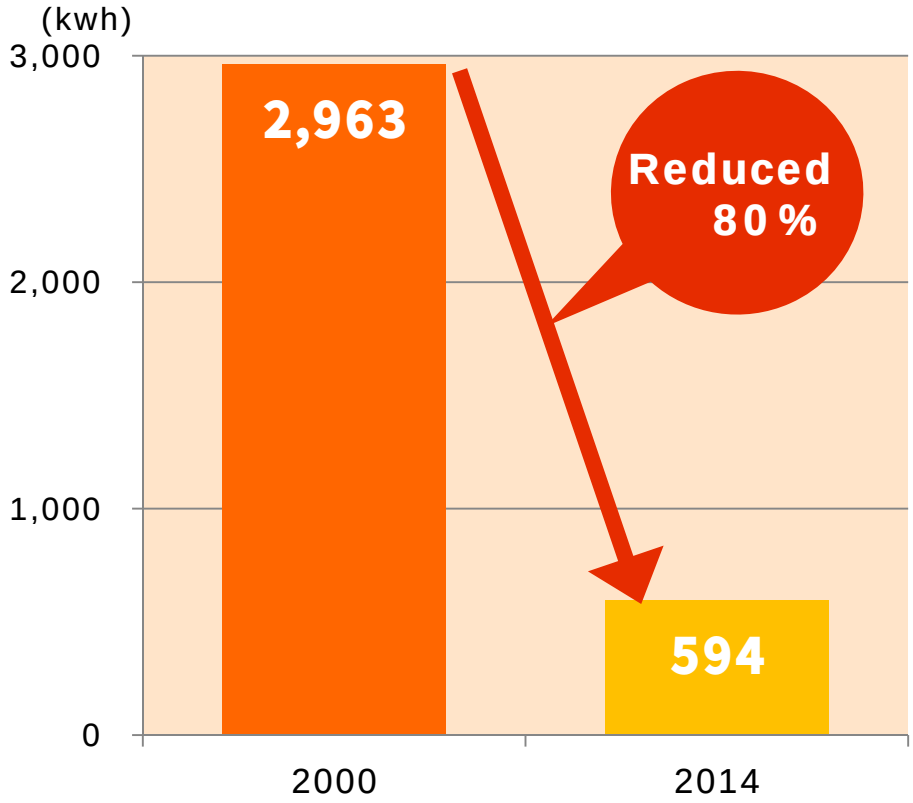
LED lighting



Heat pump vending machine



● Annual electricity consumption per DyDo vending machine



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(4) Initiatives for the region and society

Next Stage

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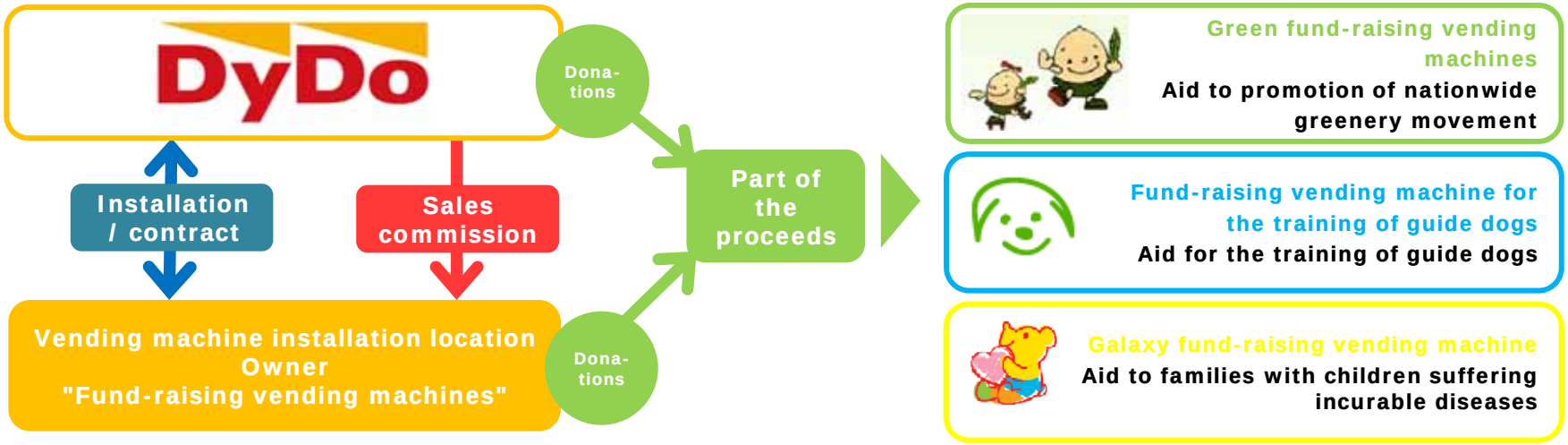
Aid agreement with the local governments in case of an emergency







Initiatives for society - fund-raising via vending machines



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(4) Initiatives for the region and society

Next Stage

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◆ Contributing to society using the Local Community Contribution Fund

➢ Ongoing aid for the Great East Japan Earthquake



➢ Support from vending machines to the Kizuna Tohoku recovery donations





➢ Cultural support in school education e.g. street dancing



➢ Aiding lack of exercise for children in Fukushima



➢ Support to Nippon Matsuri Network NPO

DyDo DRINCO joins the Nippon Matsuri Network NPO (Non-Profit Organization)

NPO(特定非営利活動法人)
日本の祭りネットワーク
Nippon Matsuri Network

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◆ Company-wide initiative DyDo DRINCO "Japanese Festivals"



Supporting festivals throughout Japan.

Supporting festivals in 34 locations nationwide in 2015 to help invigorate and form community bonds through festivals





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(4) Initiatives for the region and society

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◆ Contributing to society using the Local Community Contribution Fund

➢ High school cooking contest

"The true hometown taste! Shoku no Koshien: A Competition for the Ultimate Dish!" - supporting the fostering of the next generation to be active in food

Professional chefs give lessons to high school students learning about agriculture, fisheries and commerce. This teaches them the value of agriculture / fisheries through food while helping the high school students with their dreams and invigorating the local community, bringing places around Japan to life.



With the cooperation of the Shoku no Koshien Association, after holding heats in seven areas nationwide in August 2014, specially selected professional chefs from each area will be sent to the high schools going to the final. By giving the students special training to polish their chosen menus for the final, we are supporting this system for the nationwide competition to further refine the creativity of high school students.
We will again support the development of future generations in FY2015.







Members of the Gifu Prefectural Gujo High School team that achieved a great win in the third Umaimon Koshien (a tasty dish tournament)

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(5) Corporate governance

Next Stage

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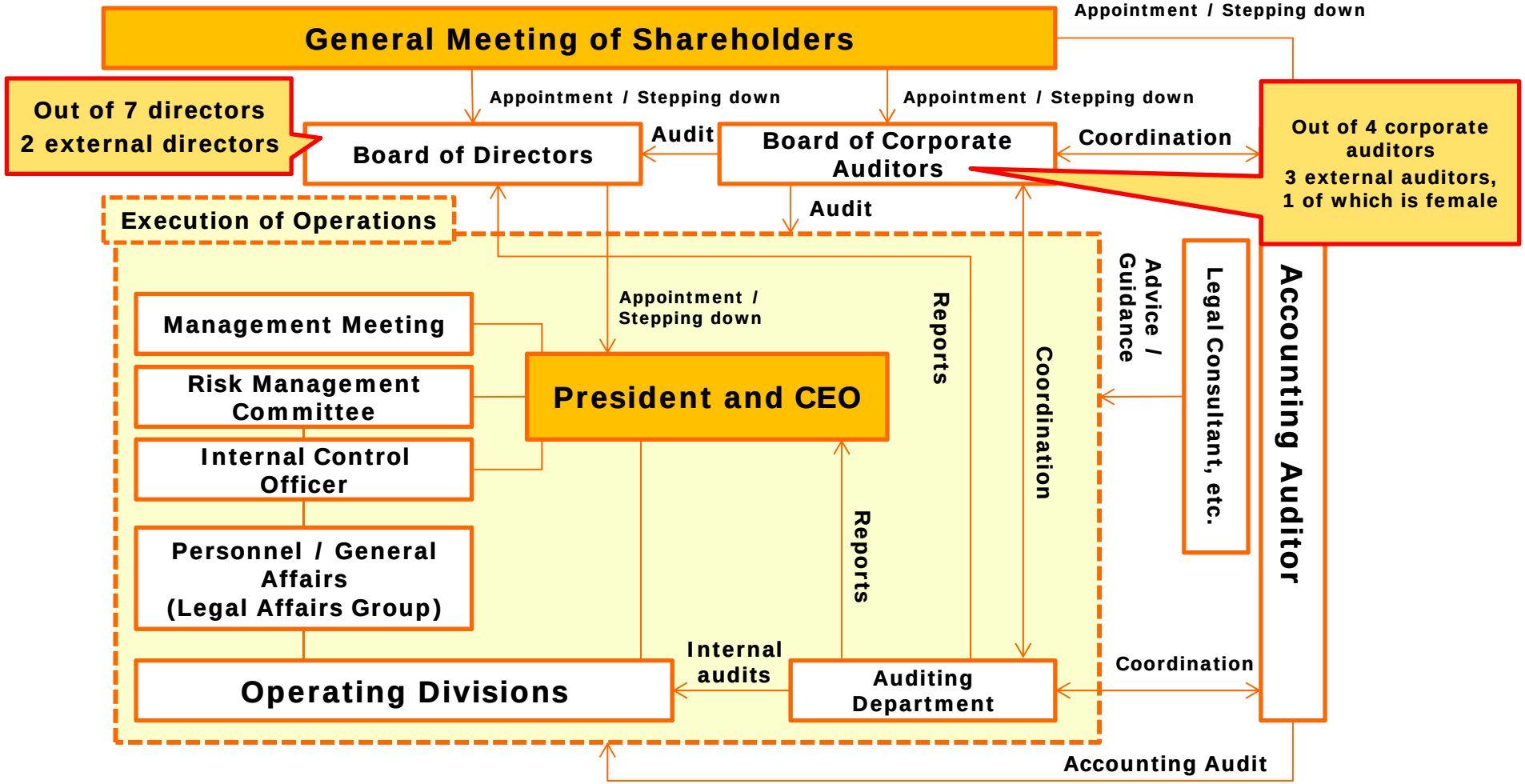
Our company takes as its fundamental approach to corporate governance as to undertake sound corporate activities and thorough compliance, and to improve the transparency and efficiency of our management, to build smooth relations with all the stakeholders involved with us, including customers, employees, trading partners, local communities and shareholders, and strive to maximize our corporate value.



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(6) Dialog with stakeholders

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◆ Actively creating opportunities for dialog with our stakeholders

To shareholders and investors

We hold information sessions for individual investors and for institutional investors.
From FY2014 we have actively sought out opportunities for small or individual meetings, ensuring full chances for dialog with our investors.





To our trading partners

We maintain daily communication as well as regular information sessions to create even better partnerships, based on mutual trust with our trading partners.





To our employees

Our top-level executives visit sites nationwide to promote dialog with our employees. By talking directly with the top-level executives, we aim to build a workplace environment open to communication and allowing people to express themselves freely.



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(7) Returns to shareholders: Special shareholder benefits

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Sending gift packs of our products worth 3,000 yen to shareholders owning 100 or more of our shares

Twice a year

(Allocation base date: January 20, July 20)



Sample image of set to our current shareholder, as of July 20th, 2014

No. 1 spot in popularity ranking selected by readers for shareholder preferential treatment for 2015 edition useful information on shareholder preferential treatment*



* Issued by Nomura IR, November 2014

Total ranking of shareholder preferential treatment

2nd place in total for the 5th year running

Ranking	Company name
1	**McDonald's Holdings Japan**
2	**DyDo DRINCO**
3	**Nissin Holdings**

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(8) Communication with shareholders

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◆ Twice a year we issue the DyDo Challenge, an online newsletter to our shareholders —Full two-way communication with shareholders

◆ The DyDo Challenge newsletter - the name was chosen by openly asking for ideas from the shareholders



◆ Explaining the financial information in Q&A style



◆ Feedback each item of shareholder questionnaire results



◆ Corner for answering questions from shareholders

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Challenge

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