

**ANNUAL REPORT 2007**

Year ended March 31, 2007

**DAIFUKU**  
Material Handling and Beyond

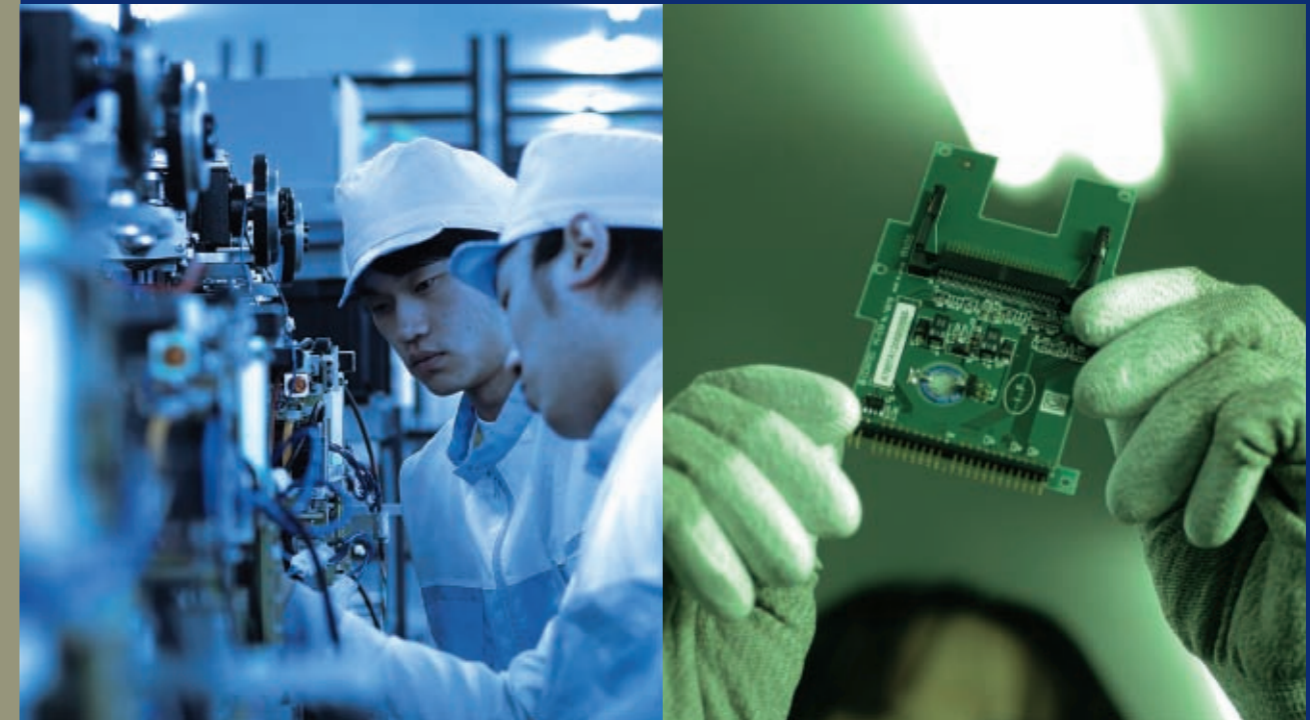


**70th** Anniversary  
DAIFUKU CO., LTD.

Celebrating 70 years of innovative material handling

Daifuku:

# Material Handling and Beyond



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On the cover: The R&D Tower (Shiga Works) proudly reaches a height of 45m

### Daifuku Delivers:

## Unique Technologies, Products and Systems

Fully intent on becoming, both in name and reality, the world's best material handling systems manufacturer, Daifuku develops and deploys unique technologies, products and systems on a global basis.

### Daifuku Dominates:

## A World Leader in Net Sales

Daifuku's production bases and sales offices encompass 18 countries and net sales of its principal products rank among the highest in the world in its industry.

### Daifuku Drives:

## Toward More Than 50% Non-Japan Sales

Having drawn up its new Three-Year Business Plan, Daifuku is targeting annual net sales of 250,000 million yen, a ratio of non-Japan sales to net sales of more than 50% and an operating income margin of more than 10%.

### Cautionary Statement with Respect to Forward-Looking Statements

The strategies, beliefs and plans related to future business performance as described in this annual report are not established facts. They are business prospects based on the assumptions and beliefs of the management team judging from the most current information, and, therefore, these prospects are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include 1) consumer trends and economic conditions in the Company's operating environment, 2) the effect of yen exchange rates on sales, assets and liabilities denominated in U.S. dollars and other currencies and 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions. Moreover, there are other factors that may adversely affect the Company's performance.

## Financial Highlights

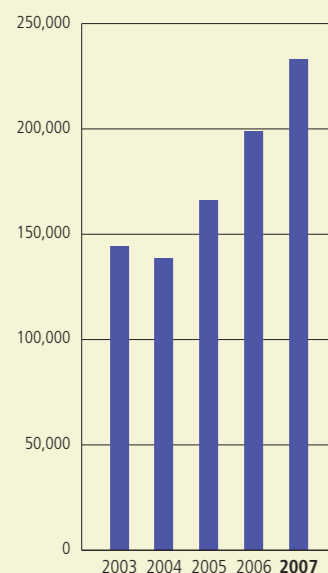
Daifuku Co., Ltd. and consolidated subsidiaries  
Years ended March 31, 2007 and 2006

	2007	2006	2007
	Millions of yen		Thousands of U.S. dollars
<b>For the Year</b>			
Orders received	¥236,246	¥221,133	\$2,000,559
Net sales	232,704	198,811	1,970,563
Operating income	18,837	16,517	159,511
Net income	11,382	10,253	96,385
Net income per share (Yen and U.S. dollars)	100.50	92.20	0.85
Cash dividends per share (Yen and U.S. dollars)	25.00	18.00	0.21
Capital investment	8,281	5,236	70,121
R&D expenditures	7,564	7,629	64,054
<b>At Year-End</b>			
Total assets	¥195,016	¥181,990	\$1,651,410
Working capital	60,351	52,249	511,058
Net assets	80,718	68,882	683,523
Number of employees	4,702	4,109	
<b>Ratios</b>			
Operating income/sales	8.1%	8.3%	
Net income/sales	4.9	5.2	
Return on shareholders' equity (ROE)	15.6	16.8	
Shareholders' equity/total assets	39.6	37.8	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥118.09 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2007.

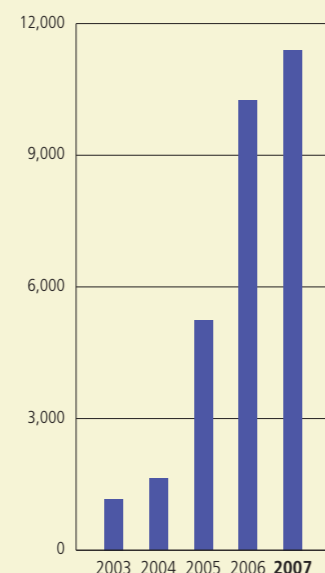
**Net Sales**

(Millions of yen)



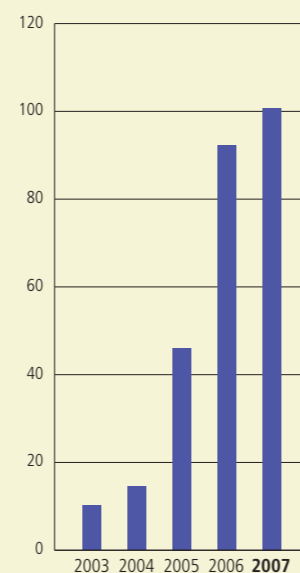
**Net Income**

(Millions of yen)



**Net Income per Share**

(Yen)



## A Message from the CEO

### Fiscal 2006 Performance Overview

During fiscal 2006, ended March 31, 2007, the Daifuku Group's consolidated performance continued to display very favorable trends, with record highs in orders received, net sales and profits.

An expanding global economy continued to propel robust capital expenditure in industry worldwide. Daifuku Co., Ltd. unerringly capitalized on the ripe opportunities that this situation offered, resulting in orders received increasing 6.8% compared with the previous fiscal year, to 236,246 million yen. Daifuku recorded particularly strong sales in its mainstay Logistics Systems businesses, including Factory Automation and Distribution Automation (FA&DA) operations, transport, storage, sorting and picking systems for distribution centers and factories for Japan-based IT, food, beverage, pharmaceutical and other manufacturers as well as physical distribution operators; e-Factory Automation (eFA) operations, cleanroom transport and storage systems for the electronics industry in Japan and the rest of Asia; and Automotive Factory Automation (AFA) operations and conveyor systems for automakers in Japan and overseas.

Thanks to the spirited performance in the Logistics Systems segment, net sales climbed a significant 17.0% year on year, to 232,704 million yen.

Operating income totaled 18,837 million yen and net income 11,382 million yen, reflecting double-digit rises from fiscal 2005 of 14.0% and 11.0%, respectively. In addition to the increase in productivity associated with the surge in orders received, this improvement in earnings reflected the thorough implementation of cost-management measures, including enhanced project management for large-scale contracts; the reduction of variable costs through the expansion of global production in optimal locations and raising of procurement ratios in overseas markets; overall cost reductions brought about by leveraging new IT-driven production control systems; and strong partnerships with affiliates and subsidiaries in Asian countries.



President and CEO Katsumi Takeuchi

### Overview of the Previous Three-Year Business Plan

Daifuku successfully conducted management under the Three-Year Business Plan that came to end during the fiscal year under review, prioritizing three main areas: ensuring profitability, strengthening Daifuku's financial base and improving cash flow. The favorable external environment was a contributing factor during the course of the plan; as a result, Daifuku achieved an operating income margin of 8.1%, a return on equity (ROE) of 15.6% and a debt-to-equity ratio of less than 0.5 times. These achievements put us on a strong footing for moving forward with capital investment and R&D as well as for securing the production capabilities and space needed to handle orders received of up to 250 billion yen. We are thus well prepared for sustainable growth.

### New Three-Year Business Plan

Building on its achievements under the previous plan, Daifuku drew up a new Three-Year Business Plan, *Jump up for 2010*, which commenced in April 2007. Under this new plan, Daifuku fully intends to become, in both name and reality, the undisputed leader of the material handling industry.

The plan presupposes a flat market environment over the next three years, with favorable factors in domestic and overseas trends, while aiming for a sustained growth track and placing particular emphasis on the following efforts.

### Drive toward a Non-Japan Sales Ratio of More Than 50%

Over the next three years, in the face of a mature home market, Daifuku will further consolidate its operating base by enhancing its facility retrofit and after-market businesses. In the meantime, to keep the Daifuku Group as a whole moving along a continuous growth track, the key will be to expand sales in high-growth overseas markets. Therefore, the target is to increase the ratio of non-Japan sales to net sales from the 44.5% achieved in fiscal 2006 to more than 50%.

Achieving this target will require market development in the BRICs (Brazil, Russia, India, China), which are displaying marked economic growth, and throughout Asia. Daifuku will endeavor to improve the operations of global subsidiaries and factories as well as to accelerate efforts to promote procurement and production in optimal locations worldwide.

Japanese automakers, which form Daifuku's main customer base, are expected to expand production to the "Next 11," a group of countries that includes Vietnam and Indonesia, in addition to the BRICs. It is anticipated that semiconductor and LCD manufacturers will also set up production bases in China.

In light of these moves, business activities will be conducted under the new Three-Year Business Plan with a view to newly establishing Daifuku production bases in China to handle business involving general factories and distribution centers as well as to meet the needs of semiconductor and LCD manufacturers.

## New Three-Year Business Plan Targets *Jump up for 2010*

(Billions of yen, %)

	Fiscal 2006 Results	Fiscal 2009 Targets
Net sales	¥232.7	¥250.0
Non-Japan sales ratio	44.5%	50.0%
Operating income	¥ 18.8	¥ 25.0
Operating income margin	8.1%	10.0%

The expansion of globally based affiliated companies and sales branches will center on automakers in the BRICs and Next 11. In addition, we will cultivate the U.S. and European markets through exports of Daifuku products from Japan as well as by increasing local procurement capabilities.

### Securing an Operating Income Margin of More Than 10%

To achieve an operating income margin of more than 10%, Daifuku will continue putting priority on measures implemented under the previous plan, which aimed to increase productivity in the volume of orders received; implement thorough cost-management measures for large-scale contracts through a project manager system; reduce variable costs by promoting global production in optimal locations and raising procurement ratios in overseas markets; reduce overall costs by leveraging new IT-driven production control systems; and build strong partnerships with global subsidiaries.

With regard to new sources of profit, Daifuku has plans in place to:

1. expand facility retrofit and aftermarket businesses by leveraging its wealth of customer contacts;
2. develop new products in domains peripheral to its mainstay products and diversify models; and
3. penetrate fields that have heretofore generated little business and customer bases where marketing has been insufficient.

Also being comprehensively addressed from the medium- to long-term perspective are:

4. proactive efforts to shorten lead time, answer demands for cost reductions, maintain environmental responsiveness and implement measures to address the declining birthrate and the aging population; and
5. effective staff training that addresses the generational shift in the Japan-based workforce and the increasing number of employees around the world.

## Achievements under the Previous Three-Year Business Plan

(Billions of yen, %)

	Fiscal 2006 Targets	Fiscal 2006 Results
Net sales	¥170.0	¥232.7
Operating income	¥ 12.0	¥ 18.8
Operating income margin	7.0%	8.1%
ROE	10.0%	15.6%



Using control techniques that represent a world first, the Synchronized System is equipped with two stacker cranes on a single aisle.

#### Consistently Conducting World-Leading R&D

The Daifuku Group engages in the development of new systems and products to provide the best as well as an optimal and extensive range of logistics systems in line with the key concepts of “transport,” “storage” and “sorting.” In fiscal 2006, using our proprietary control technologies, we developed the “Synchronized System,” an ultrahigh-throughput mini load Automated Storage/Retrieval System (AS/RS) equipped with two stacker cranes operating in the same aisle. The system was displayed to high visitor acclaim at LOGIS-TECH TOKYO 2006, one of the world’s major material handling exhibitions. Also developed were hoist-type assembly line systems for automobile production and software for transport systems that can provide significant improvements in semiconductor manufacturing productivity.

Being aware of its social responsibility—covering everything from economic issues to environmental activities—the Group strives to ensure that quality, the environment and safety are all taken into consideration in the course of system and product development.

Furthermore, regardless of the business environment, Daifuku believes it is vital to maintain R&D costs at a level equivalent to no less than 4% to 5% of non-consolidated net sales. The new Three-Year Business Plan calls for investment in R&D to be maintained at a minimum of 5% of non-consolidated net sales as development is conducted into next-generation technologies, such as distribution center line systems utilizing IC tags, products that focus more on environmental and safety responsiveness, products for facility retrofits, and in the LCD and semiconductor fields.

#### Globalization of Human Resources Training

Along with the current overhauling of production capabilities to ensure Daifuku’s ability to handle up to 250 billion yen a year in orders, an urgent issue for the Company is to secure the essential personnel to ensure its future *monozukuri* (craftsmanship) capabilities, especially to train global staff. At present, we maintain production bases in five countries (including Japan) and one region and work to share with our global staff the spirit of “Daifuku-ism” from an earlier stage of their

employment. As a Group, Daifuku is constantly considering how best to provide its customers throughout the world with standardized quality and systems. As part of these efforts, 24 staff were selected from overseas production bases to compete in a “World Skills Competition” held in November 2006. By expanding the transnational training programs, Daifuku is endeavoring to both train personnel and create new technologies.

#### Improving Corporate Value

##### Implementing Our Basic Management Philosophy and Pursuing Greater Transparency

Daifuku adheres to a prioritized management philosophy of contributing to industrial development by supplying optimal material handling systems to a global market. If we steadily implement this philosophy, we will provide value for all of our stakeholders and be constantly working to improve corporate value. Therefore, under the new Three-Year Business Plan, Daifuku will step up efforts aimed at creating robust profitability, soundness and growth potential.

These efforts entail transparency, the sustainment of an acute sense of ethics as well as complete sincerity—values we believe to be justifiably held in high esteem—to gain and maintain the trust of stakeholders, including shareholders. For this reason, every effort will be made to provide proactive and timely explanations of major managerial developments and plans on

an ongoing basis. In addition, IR activities will be further upgraded and expanded on an ongoing basis.

#### Returns to Shareholders

As a matter of policy, Daifuku prioritizes management that produces results and the return of profits to shareholders. In keeping with this policy, the distribution of dividends incorporates a dividend policy based on the consolidated net income as recorded two years before. As performance showed an upward trend during the year under review, an interim dividend of 10 yen per share was followed by a year-end dividend of 15 yen (including 4 yen to mark the Company’s 70th anniversary), making a total annual dividend of 25 yen per share. These payments represent an increase in dividends for the third successive fiscal period. Retained earnings serve as an internal reserve for future growth-oriented investment funds and Daifuku’s endeavors to improve its corporate value. The total annual dividend for the current fiscal year is also expected to be 25 yen per share.

#### Organizing Internal Controls

Daifuku is accelerating the pace of its global business expansion and, among the robust corporate qualities it seeks to establish, regards the setting up of a global internal control system to cover the entire Daifuku Group to be a matter of urgency.

#### Daifuku’s Preventive Measures to Guard against the Large-Scale Acquisitions of Company Shares (Takeover Defense Measures)

As previously announced, with the approval of its General Meeting of Shareholders, in June 2006 Daifuku introduced preventive measures (effective for three years) to guard against any large-scale acquisition of the Company’s shares.

In the event of a purchase offer from inappropriate parties or persons (the “Acquirer(s)”) with regard to 20% or more of the Company’s shares, Daifuku shall request that the Acquirer(s) submit statements attesting to the purpose and content of as well as other relevant information pertaining to the acquisition proposal. Upon receipt of this information, a

Special Committee, consisting of two outside experts and three external auditors, shall judge whether the proposed acquisition would be detrimental to Daifuku’s corporate value and the common interests of its shareholders, and offer its advice regarding gratis new share warrants to the Board of Directors. While offering its advice, the Special Committee shall maintain oversight to ensure that the Board of Directors does not arbitrarily implement measures to prevent share acquisitions. The Board of Directors shall provide the basis of its shareholder-centered response.



Daifuku's full-scale exhibition center for material handling and logistics systems, Hini Arata Kan

In a related development, the responsibility for consolidating internal control systems remains stipulated in the Corporation Law enacted in Japan in 2006. The maintenance of an internal control system for financial reporting, based on the Financial Products Exchange Law, will be obligated from April 2008. In April 2007, Daifuku established Internal Control operations. The aim of this initiative is fourfold, to: entrench comprehensive internal control awareness campaigns; create control environments; recognize and assess internal risks; and appropriately respond, or alternatively put in place or manage, a response to the need for internal control in every company within the Daifuku Group worldwide. The Business Continuity Plan (BCP) Division comes under the purview of this function, which gathers information on the risks that corporations are facing and formulates plans to ensure business continuity, aiming for healthy management with no unforeseen circumstances. Through the Internal Control Promotion Office, which is under the CFO of administration operations, Daifuku will endeavor to maintain trust as well as the soundness and accuracy of its financial reporting.

*"Material Handling and Beyond" Explained*

In the spring of 2007, on the 70th anniversary of its foundation, Daifuku devised its new corporate slogan, "Material Handling and Beyond." Looking back over 70 years of history, Daifuku has made "material handling" its core business and the foundation of its unshakeable corporate stance, a foundation from which it will be expanding into a variety of business domains. The words "and Beyond" carry a two-fold meaning: our determination to diversify into a variety of fields and the notion of increasing our capabilities far into the future by providing the means to move things and thereby being a company that provides people with excitement and satisfaction.

We respectfully ask for the support of all our stakeholders, including shareholders and investors, as we enter the next phase in Daifuku's history.

June 2007

Katsumi Takeuchi  
President and CEO

Special Feature:

*Jump up for 2010*

**Key Tasks under Daifuku's Three-Year Business Plan**

Develop Overseas

Task 1

# Growth Markets

Establish Procurement and Production Systems in

Task 2

# Optimal Locations Worldwide

Task 3

Aim for

# Sustained Growth

# Develop Overseas Growth Markets



### Basic Strategy:

Capitalize on ripe opportunities in such growth markets as the BRICs to achieve a non-Japan sales ratio of more than 50%

Under the new Three-Year Business Plan, overseas business constitutes the Daifuku Group's growth engine. We are thus taking action to fully develop high-growth markets overseas, focusing particularly on BRIC countries in addition to markets elsewhere in Asia, where we are enhancing our bases. The following are some of these activities.



Jiangsu Daifuku Rixin Automation Co., Ltd., a Daifuku manufacturing subsidiary in China

### Action 1: Set up a branch office in Russia under the direct control of Daifuku Co., Ltd. in response to penetration of the Russian market by Japanese automakers

The Daifuku Group made specific plans to develop the market in Russia—one of the BRICs—and opened a directly managed sales and service branch office in St. Petersburg in December 2006. In response to the expansion of Japanese automakers, which are building factories in China and Russia in rapid succession, Daifuku is developing a marketing and after-sales service model customized for each country.



Opening ceremony held at DCS

### Action 2: Established a car-washing machine production base in Shanghai to develop the market in this field

With the aim of selling to the Chinese market and establishing a global car-washing machine manufacturing structure, a factory was built on the outskirts of Shanghai and commenced operations as Daifuku Carwash-Machine (Shanghai) Ltd. (DCS). Private automobile ownership is becoming widespread in China. Due to the sheer force of numbers, the need for automated rather than manual car-washing is growing, particularly in the upper-income bracket. There are plans under way to strengthen Daifuku's presence in China to meet this market need, based on offering highly functional, high-quality products that are markedly different from those made by Chinese makers.



Daifuku exhibited at ProMAT2007, which was held in Chicago, the United States

### Action 3: Participated in trade exhibitions in the United States and Germany; increased awareness levels among industry's top makers

Having set out to develop the logistics system business market for the general manufacturing and distribution industries, Daifuku has enjoyed a long-standing presence at high-profile trade exhibitions in both these countries. The two most recent events in which it participated were ProMAT2007, North America's largest material handling exhibition, held in Chicago, the United States in January, and LogiMAT2007, held in Stuttgart, Germany, in February. At both events, Daifuku exhibited its cutting-edge automated warehouse system, driving home the message of the Group's collective strength and technological expertise. We aim to leave no stone unturned in the search for potential customers.

# Task 2

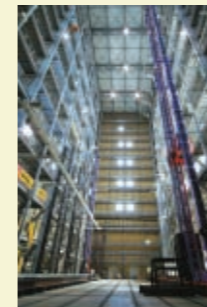
## Establish Procurement and Production Systems in Optimal Locations Worldwide



### Basic Strategy:

Accelerate overseas business expansion by providing global optimal systems, with the Shiga Works as the core factory

In order to expand non-Japan sales, in addition to supplying products from Japan, it will be necessary to increase local procurement while stepping up global procurement and production in optimal locations. Therefore, we are working to position the Shiga Works as a global core factory and enhance operations at local affiliates and overseas plants.



R&D Tower (Shiga Works)

### Action 1: Transferred production functions to consolidate the majority of factories in Japan at the Shiga Works

With the completion of two new buildings in October 2006, the Shiga Works became one of the world's largest material handling systems and equipment production bases, boasting a total of 11 factories on its premises. Making full use of the latest machine tools to augment productivity, the 45-meter-high R&D tower undertakes the testing of such equipment as automated warehouse stacker cranes. The Shiga Works not only develops and produces Daifuku's mainstay products and parts, it also provides guidance, collaboration and major components as the core production site of the Group worldwide.



Inside TDC

### Action 2: Strengthened production bases in Asia (for semiconductors, flat-panel displays, and automobile production lines for Japanese companies)

Taiwan Daifuku Co., Ltd. (TDC), which manufactures systems for semiconductor and flat-panel display (FPD) production lines, established Plants No. 1 and No. 2 and switched to local production. In China, Jiangsu Daifuku Rixin Automation commenced operations in January 2007, manufacturing automobile production line systems to meet the needs of China's burgeoning automotive industry. To increase productivity, Daifuku (Thailand) Ltd. expanded its car assembly and painting system manufacturing facilities and ATS Co., Ltd. in South Korea completed the refurbishment of its facilities and extended its truck loading bay.



ISO certification checks at Daifuku America Corporation

### Action 3: Began obtaining ISO certification for global production bases

Daifuku is committed to the development and manufacture of products and systems that embody the key slogan "S. Q. C. D. E. (Safety, Quality, Cost, Delivery and Ecology)." Non-Japan production bases are continuing concerted activities aimed at acquiring certification for the ISO global standard, a benchmark for these criteria. In the fiscal year under review, MIMATS Co., Ltd. in South Korea was awarded ISO 9001 and ISO 14001 certifications in rapid succession, while Jiangsu Daifuku Rixin Automation in China and Daifuku Thailand both obtained ISO 9001 certification.



# Task 3

ized System

システム

DAIFUKU

Aim for

# Sustained Growth



### Basic Strategy:

#### Strengthen business to ensure medium- to long-term growth

Ensuring the Daifuku Group's steady growth over the medium to long term entails the strengthening and nurturing of activities that should augment overseas businesses as they develop into new profit sources.



The replacement of stacker cranes is expected to create demand for AS/RSs.

#### Action 1: Strengthen aftermarket service business, which is projected to account for 25% of consolidated sales

Periodic maintenance is necessary to ensure the reliable operation of logistics systems. From its earliest days, Daifuku has focused on its service operations, proposing after-sales service that enables it to form closer relationships with its customers and establishing a network in Japan of more than 50 Automated Retrieval/Storage System (AS/RS) service offices that cover a wide variety of customer fields. Future plans call for Daifuku to maximize sales around the 5,800 AS/RSs in Japan that are due for retrofitting.



Developing the global brand QubicaAMF in the Japanese market

#### Action 2: Bowling business expansion by amicable M&A

Daifuku's bowling business expanded in the wake of M&A activity in December 2006, when an agreement was signed with the company group headed by QubicaAMF Worldwide S.a.r.l.—well-known for its AMF brand—to exclusively distribute QubicaAMF brand bowling alley equipment and related products in Japan. Upon the acquisition of 75% of QubicaAMF's wholly owned Japanese subsidiary, a new company, Daifuku QubicaAMF Co., Ltd., commenced operations.



Members of Contec's senior management celebrate the company's listing on the Second Section of the Tokyo Stock Exchange.

#### Action 3: Publicly listed Contec Co., Ltd., with the aim of strengthening development and human resources training and enlarging its global markets

On March 14, 2007, Contec became the first Daifuku subsidiary to list on the Second Section of the Tokyo Stock Exchange. Established in 1975 to produce electronic control devices for automated warehouses, Contec is currently developing business in three areas in the field of electronic devices for FA system-related controls: Devices & Components; Solutions & Service; and Electronic Manufacturing & Service (EMS). Through its tripolar development and production system—covering Japan, Taiwan and China—Contec is focusing on offering global standard products.

## Performance by Business Segment



(Millions of yen)

	Logistics Systems	Electronics	Other
Orders received	214,054	10,519	11,673
Net sales (Sales to outside customers)	209,155	11,548	12,001
Operating income (Before adjustments and eliminations)	23,938	968	677
Capital expenditure (Before adjustments and eliminations)	5,700	356	485

### Logistics Systems

During the fiscal year under review, Daifuku recorded particularly strong sales in its mainstay Logistics Systems businesses, including Factory Automation and Distribution Automation (FA&DA) operations, transport, storage, sorting and picking systems for distribution centers and factories for Japan-based IT, food, beverage, pharmaceutical and other manufacturers as well as physical distribution operators; e-Factory Automation (eFA) operations, cleanroom transport and storage systems for the electronics industry in Japan and the rest of Asia; and Automotive Factory Automation (AFA) operations and conveyor systems for automakers in Japan and overseas.

Accordingly, orders in the Logistics Systems business rose 9.2% from the previous fiscal year to 214,054 million yen while net sales increased 19.9% to 209,155 million yen and operating income grew 21.4% to 23,938 million yen.

#### Net Sales

**¥209,155** Million

#### Operating Income

**¥23,938** Million

### Electronics

The Electronics business recorded steady sales performances for industrial automation equipment, such as interface boards primarily used to monitor production lines; CPU-related products, such as industrial computers and terminals mainly for measurement; and CPU boards as well as original equipment manufacturing (OEM) and original design manufacturing (ODM) equipment. In addition, we deployed specialized products related to built-in applications for networking equipment delivered to the distribution industry.

As a result, orders in the Electronics business dropped 23.9% year on year to 10,519 million yen, net sales were down 13.1% to 11,548 million yen and operating income fell 6.1% to 968 million yen.

#### Net Sales

**¥11,548** Million

#### Operating Income

**¥968** Million

### Other

Orders for mainstay car-washing machines, including the Waxmor Twinthru Speed one-way, drive-through machine for self-service locations, remained buoyant. However, sales competition remained intense and, in terms of profit, planning suffered a setback.

Against the backdrop of an aging Japanese population, the numbers of wheelchair lifts delivered for mounting on the rear of care vehicles maintained the high levels of the previous fiscal period.

Consequently, while orders in the Other business increased 3.7% in comparison with the previous fiscal year to 11,673 million yen, and sales grew 7.9% to 12,001 million yen, operating income dropped 41.8% to 677 million yen.

#### Net Sales

**¥12,001** Million

#### Operating Income

**¥677** Million

## Principal Businesses and Products

### Logistics Systems



#### Automotive Factory Automation (AFA)

The AFA business develops, manufactures and sells a comprehensive lineup of conveyor systems for automobile production lines. Since releasing its first chain conveyor systems in 1957, Daifuku has been accumulating a wealth of expertise. Today, Daifuku boasts a leading share of the global market for conveyor systems for automobile factories, as many automobile manufacturers across the globe—including the Big Three, the three largest U.S. automobile manufacturers—use its conveyor systems.

- RAMRUN® series electrified monorail system
- FDS® (Flexible Drive System) chainless conveyor system
- Other chain conveyor systems
- All types of engine testing systems



#### Factory Automation & Distribution Automation (FA&DA)

The FA&DA business develops, manufactures and sells a complete range of storage systems, including Automated Storage/Retrieval Systems (AS/RSs), high-speed sorting and picking systems, and other material handling (MH) equipment for factories and distribution centers. Our systems optimize overall supply chains and are used in all types of industry at home and overseas, including the electronics, food, pharmaceutical, distribution and retail industries.

- Storage systems such as AS/RSs
- Conveyor systems and automatic guided vehicles (AGVs)
- Sorting and picking systems
- MH equipment
- Software for distribution center management systems and AS/RS inventory management computers



#### e-Factory Automation (eFA)

The eFA business is centered on the development, manufacture and sale of cleanroom transport and storage systems, which are essential for the production of semiconductors and flat-panel displays (FPDs). Our systems have brought about improved production efficiency and reduced manufacturing costs while enabling small-lot production and are highly regarded worldwide. Having broken into the semiconductor field when production first began in earnest, Daifuku now has a market share of more than 40%.

- Transport and storage systems for semiconductor production cleanrooms
- Transport and storage systems for FPD production cleanrooms
- Transport and storage systems for the production of other electronic components

### Electronics



The Electronics business centers on Group company Contec Co., Ltd., which is developing a global framework. This business focuses on the development, production and sale of PCs for FA use, interface boards and LAN-related equipment for the construction of computer networks used in a wide variety of manufacturing fields, MH control equipment and remote monitoring as well as control systems.

- Distributed monitoring and control systems
- Industrial computers and interface boards
- LAN-related equipment
- Logistics system controllers

### Car-Washing Machines and Specialized Equipment



The car-washing machine sales subsidiary Daifuku Unix Corporation has a business structure integrating operations that range from development to after-sales service in this product area, leading the industry with its high-quality, advanced products that anticipate market needs.

Leveraging its technologies and expertise in MH and logistics systems, Daifuku supplies products for use in public facilities, such as automated transport systems for the surgical instruments used in hospitals, automated storage for libraries and multilevel bicycle parking systems. We are developing business in fields ranging from bowling alleys to wheelchair lifts for care vehicles.

- Car-washing machines (gate-type, tunnel type, and one-way drive-through car-washing machines)
- Peripheral products for car washes
- Transport and storage systems for medical equipment
- Machines for bowling alleys and automatic scoring systems
- Multilevel bicycle parking systems
- Wheelchair lifts for care vehicles



## Non-Japan Net Sales

Non-Japan net sales for the past two consolidated fiscal years are as follows:

### Fiscal year under review (April 1, 2006 to March 31, 2007)

(Millions of yen)

	North America	Asia	Other	Total
Non-Japan net sales	¥15,986	¥75,331	¥12,306	¥103,622
Consolidated net sales	—	—	—	232,704
Ratio of non-Japan sales to consolidated net sales (%)	6.9%	32.4%	5.3%	44.5%

Notes: 1. Geographic segment breakdown by regional proximity

2. The main countries and regions in the geographic segments are:

- (1) North America United States/Canada
- (2) Asia Singapore/Indonesia/Thailand/Taiwan/South Korea/China
- (3) Other United Kingdom/Spain/Russia/Sweden

3. Non-Japan net sales include exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.

### Previous fiscal year (April 1, 2005 to March 31, 2006)

(Millions of yen)

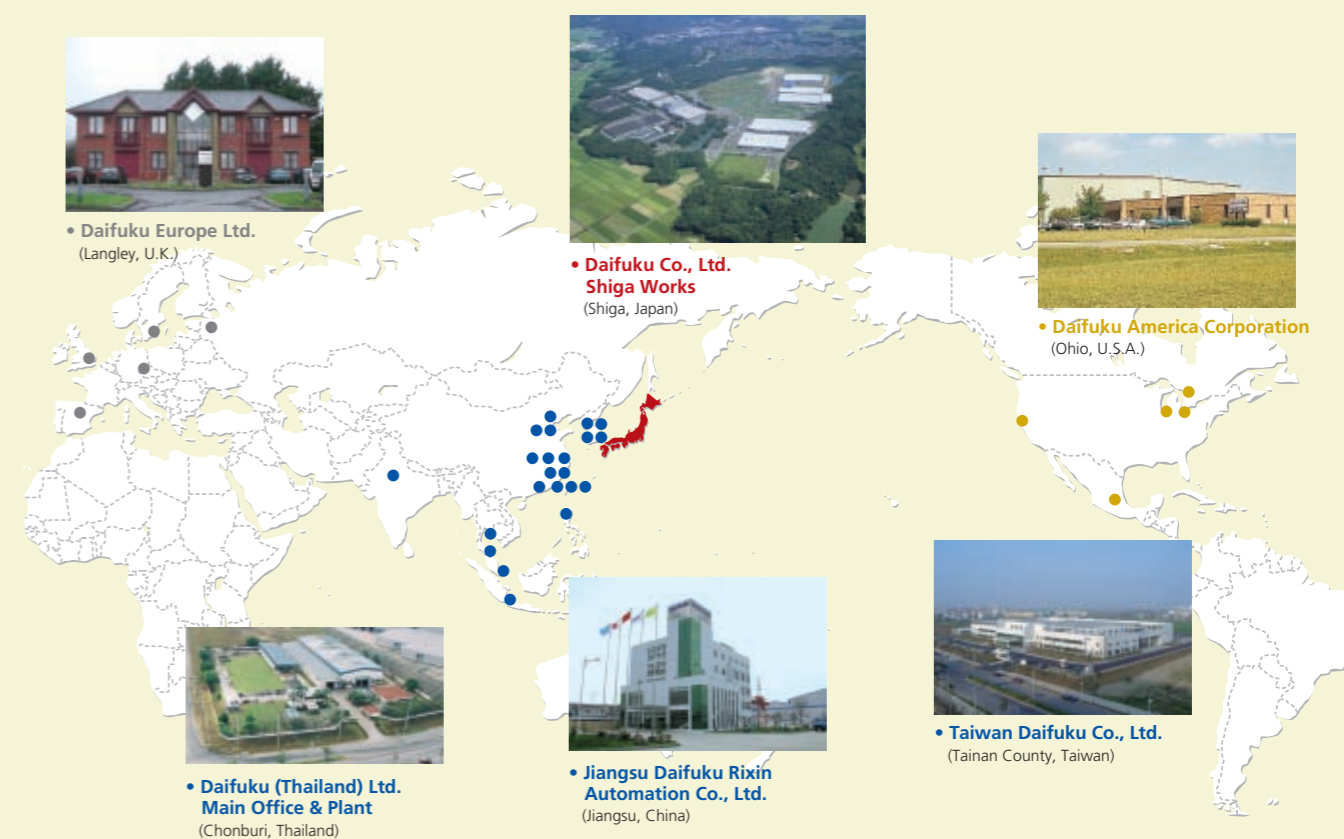
	North America	Asia	Other	Total
Non-Japan net sales	¥19,717	¥54,850	¥8,199	¥82,766
Consolidated net sales	—	—	—	198,811
Ratio of non-Japan sales to consolidated net sales (%)	9.9%	27.6%	4.1%	41.6%

Notes: 1. Geographic segment breakdown by regional proximity

2. The main countries and regions in the geographic segments are:

- (1) North America United States/Canada
- (2) Asia Singapore/Malaysia/Thailand/Taiwan/South Korea/China
- (3) Other United Kingdom/Ireland/Sweden

3. Non-Japan net sales include exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.



## Corporate Governance

Daifuku adheres to a two-fold management philosophy: first, to contribute to the development of industries by supplying optimal material handling systems and related products to the global market and second, in line with this, to improve corporate value and ensure high growth potential backed by a sound business approach and robust profitability. Under this philosophy, Daifuku prioritizes compliance and sincerity, promotes transparent management and endeavors to contribute to society, including its shareholders, in the execution of its business affairs.

### Daifuku's Company Structure: Board of Directors and Board of Auditors

Daifuku's Board of Directors, which currently consists of 18 directors, is chaired by the president. Board of Directors' meetings are held monthly, and extraordinary meetings when deemed necessary to accelerate management decision making. Key management matters are deliberated on by the Management Advisory Committee, which is made up of senior Daifuku executives, specifically, those of managing director status and above, and external specialists. This committee met five times during the fiscal year under review. Throughout the one-year term of their tenures under this structure, directors are held accountable for their actions. Daifuku has a policy of not appointing external directors, relying instead on external audits (see below) and advice from external specialists to ensure transparency and fairness in its management.

Daifuku has five corporate auditors, three of whom were appointed from outside the Company, and holds regular Board of Auditors' meetings for audit inspections (10 times during the fiscal year under review). Corporate auditors attend and have a voice in key meetings, including Board of Directors' meetings, and supervise directors' performances through audits of the Company's business bases and

subsidiaries, performed either in person or through question-and-answer sessions. The corporate auditors closely liaise and exchange information with their accounting counterparts to ensure audit effectiveness. All three external corporate auditors boast a wealth of experience in the corporate management as well as the legal fields and offer fairness and objectivity from their wide-ranging perspectives and experience as corporate auditors.

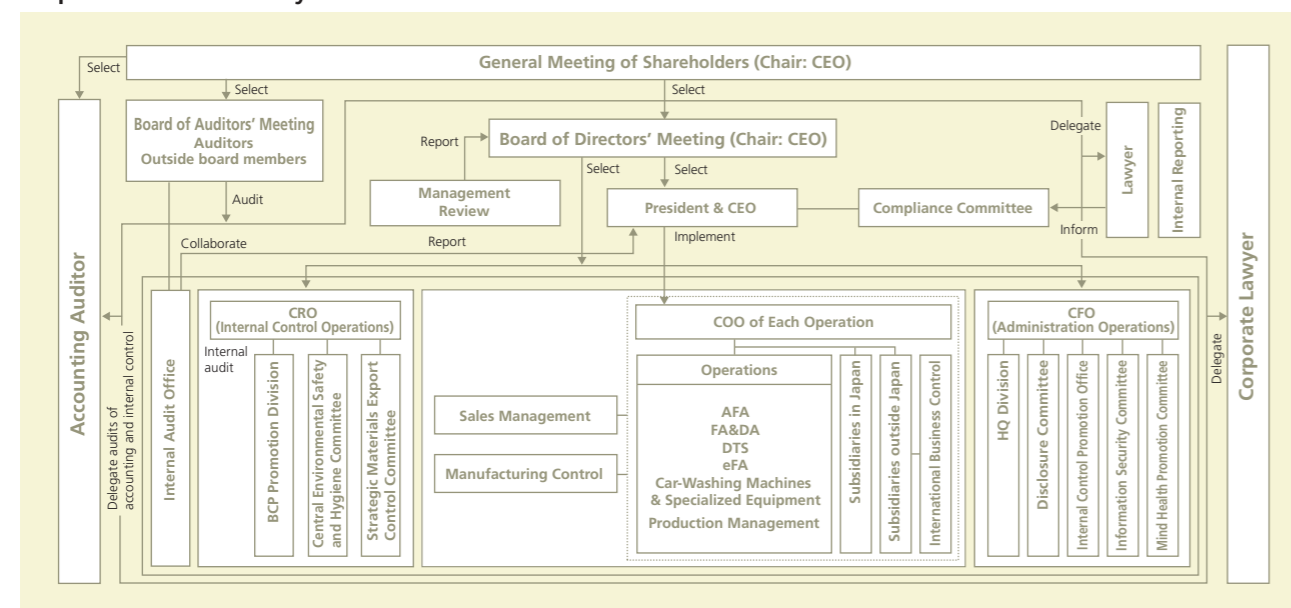
### Ensuring Corporate Transparency: Internal Control System Upgrades

Daifuku has prioritized its internal control system, which includes compliance and risk management, to maximize the effectiveness of corporate governance.

In the case of compliance, Daifuku has established a Compliance Committee, chaired by the president and including all the Company's directors. In addition, the Company plans timely improvements, such as formulating a Code of Conduct for the Daifuku Group and implementing staff training activities. Daifuku's executive vice-president, as a chief risk management officer, is in charge of risk management matters, which entails maintaining and managing a comprehensive companywide system that recognizes, evaluates and provides suitable responses to risks through the corporate management. In the current fiscal year, with a view to upgrading internal controls related to financial reporting as part of the Company's obligations ahead of its public listing in Japan from April 2008, the Internal Control Department is being reformed as the Internal Control Promotion Office under the chief financial officer. This will contribute greatly to the reliability of Daifuku's financial reporting.

Daifuku has established a Disclosure Committee, chaired by the managing director of business and financial management, to ensure the timely disclosure of information.

### Corporate Governance System Chart



## Corporate Social Responsibility (CSR) Activities

In keeping with the basic guidelines contained in the Company's Code of Conduct, Daifuku "shows high regard for its stakeholders—including shareholders, customers, companies with which it has a cooperative relationship and its employees—and builds sound and positive relationships." Amid wide-ranging corporate social responsibility demands that have extended beyond economic concerns to encompass environmental and social activities, Daifuku engages in a variety of CSR activities. The overriding aim of these activities is to nurture closer relationships with its stakeholders in every field and to become an even more trusted company.

### Environmental Conservation Activities

Daifuku's management policies address the themes of "establishing a framework that supplies safe and environmentally conscious products and systems" and the undertaking of activities that show concern for the global environment from every aspect. Specifically, in 1999 Daifuku formulated its fundamental "Environmental Conservation Principles and Policies" as a platform for its global efforts to conserve resources and prevent the deterioration of the environment. Having distributed Environmental Policy Cards to all Daifuku Group staff, Daifuku goes to great lengths to publicize its achievements every year. In addition, to develop globally the Daifuku Environmental Management System that is in place at its six major bases in Japan, including the ISO 14001-certified Shiga Works and Komaki Works, Daifuku has started to provide production bases throughout the world with assistance in obtaining ISO 9001 and 14001 certification.

Amid these comprehensive undertakings, Daifuku emphasizes its basic responsibilities as a manufacturer, particularly in the development of environmentally conscious products and the green procurement of raw materials. For more details on Daifuku's environmental conservation activities, please refer to the English-language version of *Daifuku's Social & Environmental Report*, which is available on our website at: [www.daifuku.com/csr/environment/report\\_index.htm](http://www.daifuku.com/csr/environment/report_index.htm)

### Social Activities

On the corporate level, Daifuku has devised wide-ranging social activities ranging from risk assessments that provide customers with sought-after product safety to "comprehensive occupational health and safety management" that prioritizes all matters regarding safety and "the creation of a pleasant and productive work environment" that respects the rights of employees and other related parties.

At the regional and international levels, as a good corporate citizen, Daifuku engages positively in social activities, such as the cleanup of areas around production sites and offering internships to overseas students.

New activities were undertaken, including the donation (in May 2007) of care vehicles equipped with Daifuku wheelchair lifts, as part of the Company's 70th anniversary celebrations and the holding (in November 2006) of a world congress for an in-Company skill competition with global human resources training as its aim.

### 70th Anniversary Celebrations

Daifuku celebrated the 70th anniversary of its establishment in May 2007. As part of the celebrations, we donated a care vehicle equipped with a wheelchair lift to each of three care facilities in the vicinity of the Shiga Works. Not limited to the 70th anniversary, such donations will continue in the years to come.



Donated to a care facility, the vehicle is in constant use.

# Directors and Corporate Auditors

(As of June 30, 2007)

## Directors



**Katsumi Takeuchi**  
President and CEO



**Haruyoshi Amakusa**  
Executive Vice President  
CRO  
BCP Promotion Division,  
Internal Control  
Operations



**Masaki Hojo**  
Executive Vice President  
COO and General  
Manager  
AFA Operations



**Fumio Kobayashi**  
Executive Vice President  
COO of Sales and  
Marketing Operations  
COO of FA&DA  
Operations



**Yutaka Hirai**  
Executive Vice President  
COO and General  
Manager  
eFA Operations



**Hifumi Katsuragi**  
Managing Director  
COO of Production Operations  
General Manager of  
Production Management  
Division  
Chief Officer of Shiga Works



**Seiki Kakinuma**  
Managing Director  
COO and General Manager  
Car-Washing Machine and  
Specialized Equipment  
Operations



**Masayoshi Inoue**  
Managing Director  
CFO  
COO of Global  
Management



**Shigeyoshi Fujita**  
Managing Director  
General Manager of  
Production Division,  
AFA Operations



**Masayoshi Tanaka**  
Managing Director  
General Manager of  
Semiconductor Division,  
eFA Operations



**Shinji Hayasaka**  
Managing Director  
General Manager of  
FA&DA Operations



**Katsuhiko Kawano**  
Managing Director  
General Manager of  
Technology Service  
Division,  
AFA Operations



**Takahiro Taniguchi**  
Managing Director  
General Manager of  
DTS Operations  
Chief Officer of Komaki  
Works

**Junichi Koizumi**  
Director and Advisor

**Mikio Inohara**  
Director  
COO of Corporate  
Affairs

**Susumu Moriya**  
Director  
General Manager of  
FPD Division,  
eFA Operations

**Takashi Hiramoto**  
Director  
General Manager of  
Production Division,  
FA&DA Operations

**Akio Tanaka**  
Director  
General Manager of  
Sales and Marketing  
Division,  
FA&DA Operations

**Hiroyoshi Takeda**  
Director  
Deputy General Manager  
of Production Division,  
AFA Operations

## Corporate Auditors

**Yukio Ozaki**  
**Setsuo Idehara**  
**Haruyasu Uchida**  
**Yukio Rinbara**  
**Isao Kitamoto**