

Integrating Sustainability & Innovation

Annual Report 2016
Year ended March 31, 2016

DAIFUKU CO.,LTD.
www.daifuku.com

Global No. 1

Material Handling System

Total Solutions

Company Creed

日新

Hini Arata

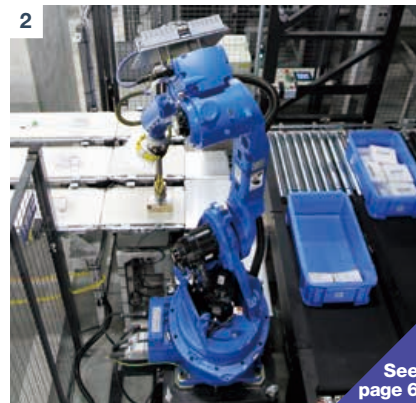
Today we are doing better than we were yesterday. Tomorrow we will be growing ahead of where we are today.



Consolidated Net Sales
336.1 billion yen

Operating Income
20.8 billion yen

Sales in the World
No.1



See page 6

Non-Japan Sales Ratio

66%

Service Sales Ratio

27%

ROE

11.6%



- 1 Mahindra & Mahindra Ltd. (India)
- 2 Toho Pharmaceutical Co., Ltd. (Japan)
- 3 LOTTE Confectionery Co., Ltd. (South Korea)
- 4 Melbourne Airport (Australia)
- 5 Cheng Loong Corporation (Taiwan)
- 6 Dongfeng Honda Automobile Co., Ltd. (China)
- 7 Shihoro Potato Facilities (Japan)



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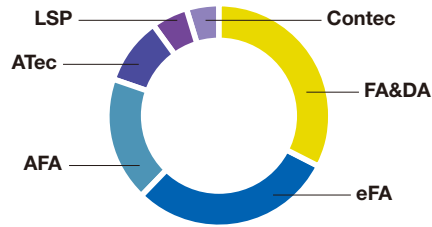
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Profile

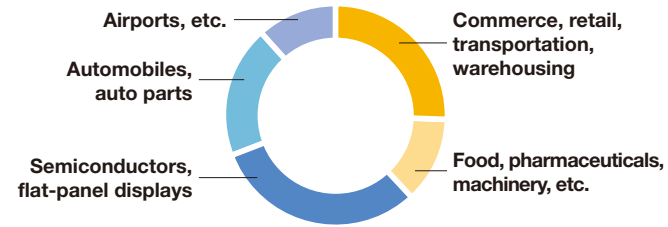
Since its founding in Japan in 1937, the Daifuku Group has established a long track record in material handling spanning a wide variety of sectors. Having aspired toward globalization from early on, Daifuku today operates in 22 countries and regions and is the world's top material handling systems manufacturer. Featuring an integrated approach from consulting to engineering, design, manufacturing, sales, installation, and after-sales services, Daifuku's comprehensive business structure is one of its unique strengths.

Under Value Innovation 2017, a four-year business plan that commenced in April 2013 with the key words of "innovation" and "solutions," Daifuku seeks to become more responsive to the needs of its customers and society, while maintaining its core material handling business. Daifuku is evolving into a top-class Value Innovator that can offer the optimal and best solutions to help its customers gain a competitive edge.

Consolidated sales by business (FY2015)



Consolidated sales by industry (FY2015)



Manufacturing and Distribution Systems

FA&DA
Factory & Distribution Automation

Provides systems to distributors and manufacturers in wide-ranging sectors. This business is actively developing into global markets and is focusing on capturing growth opportunities in Asia. Sales were also enhanced in North America through M&A.



Cleanroom Production Line Systems

eFA
e-Factory Automation

Provides systems to semiconductor and flat-panel display factories. About 90% of sales are recorded outside of Japan, including Asia and North America. With the core factory in Japan, local production has been growing in South Korea, China, and Taiwan.



Automobile Production Line Systems

AFA
Automotive Factory Automation

Provides systems for automobile production processes worldwide, mainly for Japanese, U.S., Chinese, and South Korean automakers. The system conveys car bodies between each assembly line process at automobile factories. In particular, sales of the service business, including upgrades of existing factories, are strong.



Airport Technologies

ATec

Provides a broad range of automated systems for airports, including baggage handling systems, automated baggage check-in systems, baggage screening systems, and software and controls. This business responds to demand for building new airports in emerging countries, as well as upgrades, services, and operations for airport facilities in the West.



Lifestyle Products

LSP

Provides mainly car wash machines to gas stations and automobile dealers. With production in Japan, South Korea, and China, this business boasts top shares in the Japanese and South Korean markets. The business enhances eco-friendly functions, including saving water and using plant-based liquid detergents.



Electronics

Contec

Provides high-end industrial personal computers, controllers used in medical devices, computers built in digital signage, and measuring/control systems for solar facilities through Daifuku's subsidiary Contec Co., Ltd.

Financial highlights

	Million yen		%	U.S. thousand dollars
	FY2015	FY2014		
For the Year				
Orders received	¥359,427	¥305,567	17.6%	\$3,189,520
Net sales	336,184	267,284	25.8	2,983,265
Operating income	20,878	14,883	40.3	185,275
Net income attributable to shareholders of the parent company	13,652	9,810	39.2	121,152
Capital investment	4,210	7,532	(44.1)	37,364
R&D expenditures	7,009	6,945	0.9	62,199
Cash Flows				
Cash flows from operating activities	¥ 7,206	¥ 6,295	14.5%	\$ 63,952
Cash flows from investing activities	(2,099)	(5,846)	64.1	(18,628)
Free cash flows	5,107	448	1,038.6	45,323
Cash flows from financing activities	(8,702)	(509)	(1,609.0)	(77,224)
At Year-End				
Total assets	¥296,055	¥271,011	9.2%	\$2,627,167
Working capital	99,293	91,187	8.9	881,117
Net assets	130,116	111,521	16.7	1,154,642
Amounts per Share of Common Stock				
Net income per share (Yen and U.S. dollars)	¥ 118.72	¥ 88.59	34.0%	\$ 1.05
Net assets per share (Yen and U.S. dollars)	1,044.40	972.75	7.4	9.26
Cash dividends per share (Yen and U.S. dollars)	30.00	22.00	36.4	0.26
Ratios				
Operating income/net sales	6.2%	5.6%	+0.6pt	
Net income/net sales	4.1	3.7	+0.4pt	
Return on shareholders' equity (ROE)	11.6	9.6	+2.0pt	
Shareholders' equity/total assets	42.9	39.8	+3.1pt	

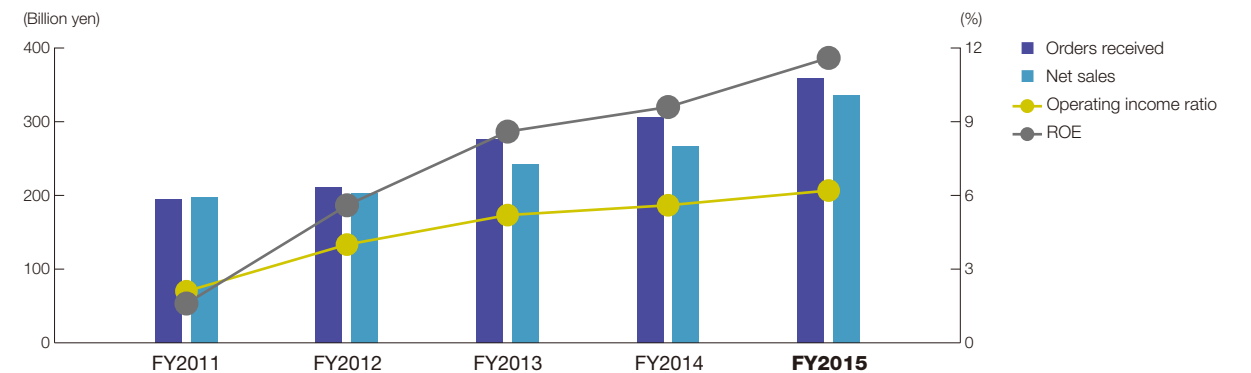
Notes: 1. Details are described in "Financial Section" from page 30.
 A PDF version containing notes to the financial statements is available on our website: www.daifuku.com/ir/library/annualreport
 2. The U.S. dollar amounts in this annual report are translated from Japanese yen for convenience only, at the rate of ¥112.69 = U.S.\$1.00, on the Tokyo Foreign Exchange Market on March 31, 2016.
 3. The amount of "Capital investment" in FY2014 includes goodwill generated from acquisition of shares in overseas companies.

Non-financial highlights

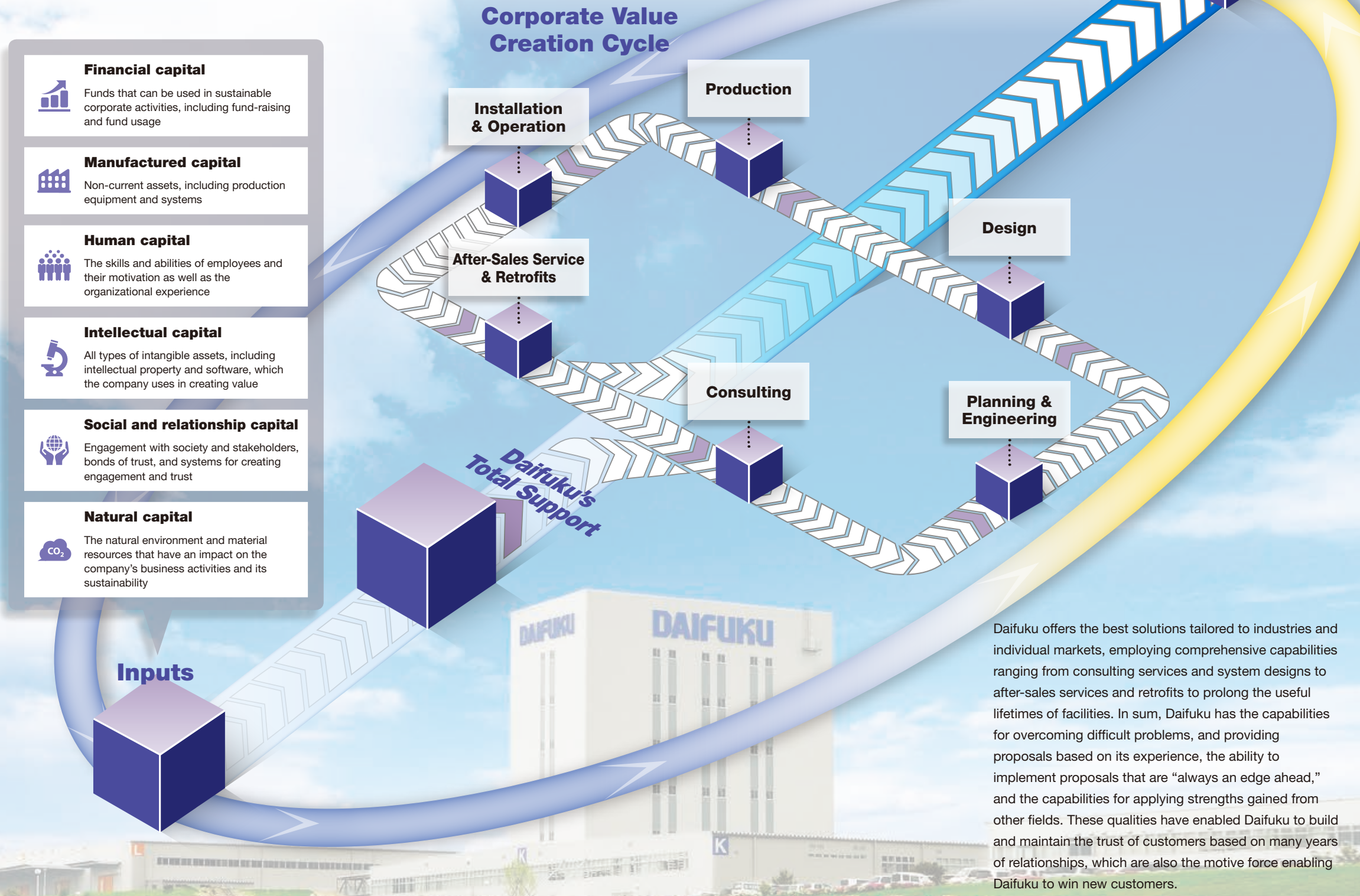
	FY2015	FY2014	Change
Employees	7,835	7,746	1.1%
Water usage (m ³)*	135,519	136,801	(0.9)
Emission and transfer volume of chemical substances related to PRTR Law (kg)*	32,133	21,218	51.4
Waste generated (t)*	5,073	4,020	26.1
Recycling rate (%)*	98.3	99.2	-0.9pt

* Figures for Japan only

Consolidated financial data



Daifuku is achieving sustained increases in corporate value by providing the optimal and best solutions to customers in virtually all industries and business fields.



- Financial capital**
Funds that can be used in sustainable corporate activities, including fund-raising and fund usage
- Manufactured capital**
Non-current assets, including production equipment and systems
- Human capital**
The skills and abilities of employees and their motivation as well as the organizational experience
- Intellectual capital**
All types of intangible assets, including intellectual property and software, which the company uses in creating value
- Social and relationship capital**
Engagement with society and stakeholders, bonds of trust, and systems for creating engagement and trust
- Natural capital**
The natural environment and material resources that have an impact on the company's business activities and its sustainability

- Financial capital**
 - Generation of free cash flows to finance investments for growth
 - Creation of a sound and strong financial position
- Manufactured capital**
 - Production of high-value-added products
 - Global network of factories and offices
- Human capital**
 - Optimization of human resources at the global level
 - Development of a group of motivated and energetic professionals
- Intellectual capital**
 - Creation of a strong DAIFUKU brand through increasing added value for customers
 - R&D and sophisticated problem-solving capabilities based on accumulated intellectual capital, etc.
- Social and relationship capital**
 - Strengthening relationships with stakeholders
- Natural capital**
 - Reducing the load on and preserving the earth's environment
 - Preservation of biodiversity

Net sales ¥336.1 billion	Operating income ¥20.8 billion	Non-Japan sales ¥221.9 billion
Service sales ¥92.3 billion	Capital investment ¥4.2 billion	Major production sites 18 locations
Employees 7,835	R&D expenditures ¥7.0 billion	Number of patents held 2,773
Suppliers in Japan 1,545 companies	Certified Daifuku Eco-Products 29 products	Reduction in CO ₂ emission volume due to products and services 33,367 tons CO ₂ /year

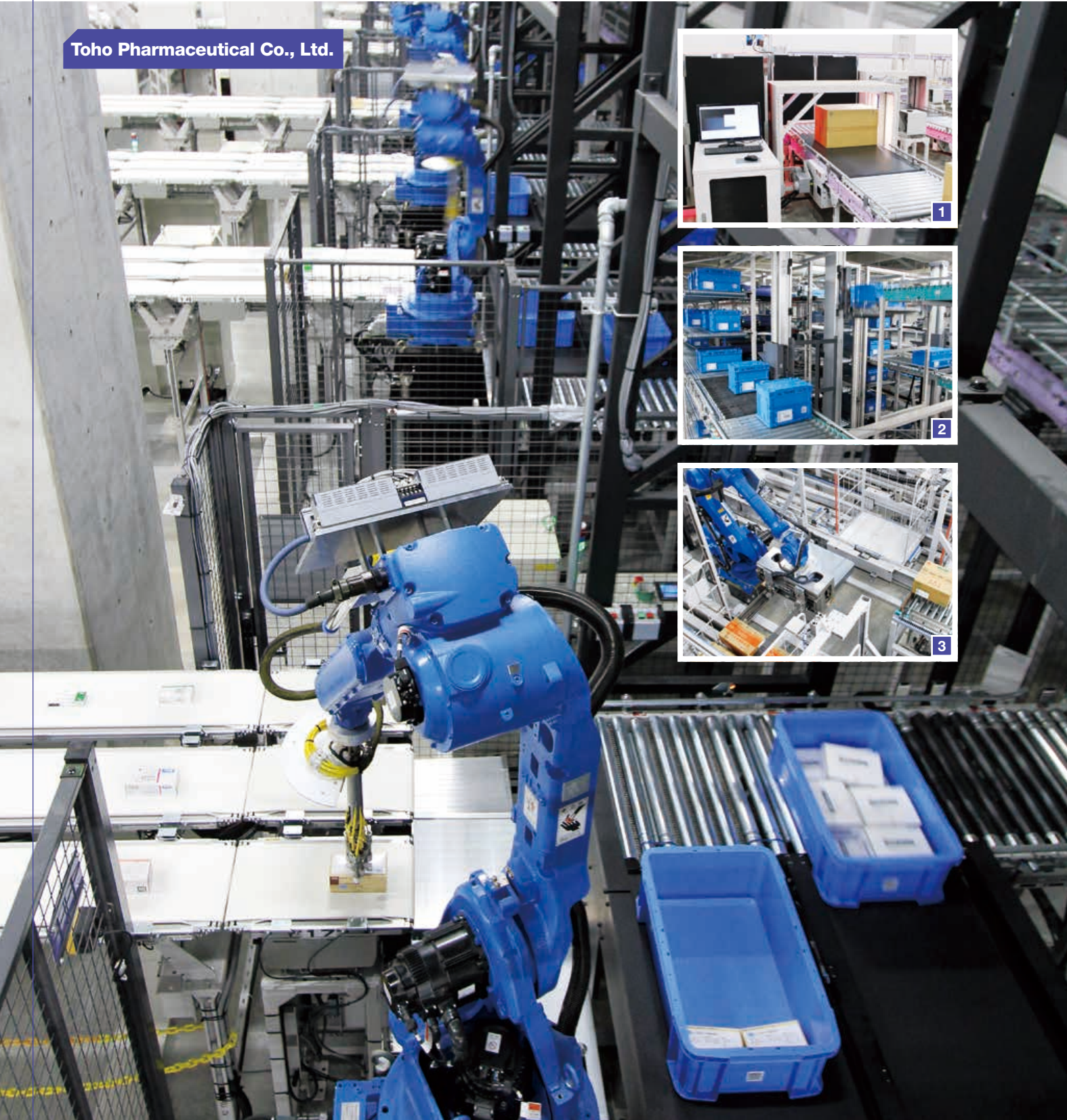
(As of March 31, 2016)

Daifuku offers the best solutions tailored to industries and individual markets, employing comprehensive capabilities ranging from consulting services and system designs to after-sales services and retrofits to prolong the useful lifetimes of facilities. In sum, Daifuku has the capabilities for overcoming difficult problems, and providing proposals based on its experience, the ability to implement proposals that are "always an edge ahead," and the capabilities for applying strengths gained from other fields. These qualities have enabled Daifuku to build and maintain the trust of customers based on many years of relationships, which are also the motive force enabling Daifuku to win new customers.

FA&DA

Industry ▶ **Pharmaceutical Wholesaling**
 Solution ▶ **Innovative Logistics Systems Using Robotics Technology**

Toho Pharmaceutical Co., Ltd.



Daifuku built state-of-the-art logistics systems by fusing robotics technologies. These systems attained 99.99999%, or “seven nines” accuracy, the highest in the industry.



This station groups items assembled for delivery by destination.

As a systems integrator, Daifuku offers logistics systems that meet customers' real needs in virtually all fields. At the large-scale distribution center “TBC Saitama” (provisional name) of Toho Pharmaceutical Co., Ltd., a pharmaceutical wholesaler, major themes in systems design were not only efficiently handling shipments of a large number of items in small lots, but also introducing robots that would reduce labor inputs, as labor becomes increasingly scarce in the years ahead. Daifuku worked with its customer to develop and deliver state-of-the-art logistics systems that make use of robots. Case picking by robots, with some exceptions, is 100% automated from delivery to the distribution center to shipments. In addition, Daifuku went beyond this accomplishment to use robots for piece picking from a large number of items, a step which was previously thought to be too difficult.

Moreover, Daifuku expanded the scope of automation by integrating computer systems with its various automated storage and retrieval systems (AS/RSs). As a result, the number of personnel was reduced by half compared to distribution centers of the same size, and productivity was doubled, while accuracy of shipments attained the highest level of 99.99999%, described as “seven nines.”

Accurate Management of Pharmaceutical Products

Pharmaceuticals received from manufacturers are automatically inventoried and managed by lot based on bar-code information or data from automatic word recognition equipment. These systems enable both the reduction of labor inputs and increased traceability of about 30,000 pharmaceutical items. (Photo 1)

Automated Through to Shipments

Products to be shipped are matched and loaded into collapsible totes, and then placed on a conveyor. Next, they are temporarily stored on the Shuttle Rack mini load AS/RS for shipments. They are then retrieved in the delivery vehicle in the reverse order that they will be delivered in, to increase the efficiency of removing cases at the point of delivery. The totes for shipment are loaded automatically on roll box pallets. (Photo 2) Meanwhile, cases of various shapes and sizes are transported by an automatic palletizing robot, which then palletizes them in an optimal manner quickly onto roll box pallets. (Photo 3)

Go to see Daifuku products and case studies
 Corporate Site: Solutions ▶ www.daifuku.com/solution
 Logistics Solutions Site ▶ www.daifuku-logisticsolutions.com/en

eFA

Industry ▶ **Smart Mobility**

Solution ▶ **Wireless Charging System**

More than 20 Years of Experience in Wireless Power Supply Systems

Daifuku's transport and storage systems that use HID* noncontact power supply technology are safe and dustless and are suited to cleanroom environments. Daifuku has delivered more than 10,000 such systems for production lines in the semiconductor sector where they are operating non-stop for 24 hours a day and 365 days a year, as well as in automobile production lines.

* HID: High-efficiency inductive power distribution

Expansion into Wireless Charging Technology

In addition to its conventional plant business, Daifuku has launched a device business that makes use of noncontact power supply technology. In February 2016, with the cooperation of Komatsu Forklift Japan Ltd., Daifuku commercialized a wireless battery charging system for electric forklifts using its new technology called the D-PAD (the first system of its kind in the world according to Daifuku's own research and is patent-pending). The system realizes a high level of transmission efficiency and

reduces damage and accidents due to contact failure of electric plugs.

(Photos 1 and 2)

Going forward, Daifuku will focus on developing technology for detecting foreign objects and workers as well as work to develop systems with improved and longer transmission capabilities to enhance the quality and functionality of its D-PAD technology, improve their cost performance, and expand applications in a wide range of industries. Efforts are also being focused on identifying new markets that will make the smart mobility society a reality.



Overhead monorail system Cleanway using HID for semiconductor factories

AFA

Industry ▶ **Automobiles**

Solution ▶ **Introducing New Approaches for Both Equipment and Maintenance**



Overhead FDS chainless conveyor system on the assembly line of Honda de Mexico, S.A. de C.V.

The Daifuku Group has a strong record for installing systems for automobile production lines around the world, principally to Japanese and U.S. automakers. These systems include not only conveyor systems for transporting car bodies from one work process to another but also automated guided vehicles. For example, Magna T.E.A.M. Systems Inc., which manufactures SUVs on a subcontracting basis, makes use of the SmartCart automatic guided cart, one of the main products of U.S. Daifuku Group company Jervis B. Webb Company. (Photo 1)

Applying the Internet of Things (IoT) in Manufacturing Fields

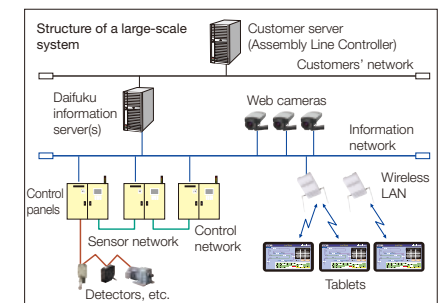
In the field of automobile production line systems, one of the key factors in determining equipment utilization rates is maintenance. As a new mode of human

machine interface (HMI), Daifuku has developed a mobile system that uses a tablet terminal (see below right). Through the use of wireless LANs, this new system provides information on the status of utilization in real time, reports abnormal displays, and monitors input/output status. Moreover, it can maintain systems through remote operations and provide information on when to replace parts with limited lifetimes and other preventive maintenance-related information.

In addition, the tablet terminal can read the QR codes located at each operating point and become a multipurpose tool that operates those points, thus making it possible to design operation control boxes located on the production line substantially smaller and simpler. Also, another strength of this tablet terminal system is that it can play a role in explosion-proof and other environments

where it is not possible to install control panels.

The system provides necessary information, such as machine design drawings, anytime, anywhere, and in portable form, thus making it possible for work in collaboration with the workplace through a computer terminal. These system capabilities enhance conditions in the workplaces of Daifuku's customers and are expected to increase the convenience of operations.



Go to see Daifuku products and case studies

Corporate Site: Solutions

www.daifuku.com/solution/cleanroom
www.daifuku.com/solution/wirelesspower

Go to see Daifuku products and case studies

Corporate Site: Solutions

www.daifuku.com/solution/automotive

ATec

Industry ▶ Airports

Solution ▶ **New Concept of Mobile Inspection Technology Improves Ergonomics**



Five Group companies—BCS Group, Daifuku Logan Ltd., Elite Line Services, Inc., Jervis B. Webb, and Logan Teleflex, Inc.—exhibit jointly at Passenger Terminal EXPO 2016 (Cologne, Germany).

The Daifuku Group has provided a new product to avoid workplace accidents at airports, realizing the integration of humans and machines with its ergonomics approach.

TSA's Challenge

The Transportation Security Administration (TSA), an agency of the U.S. Department of Homeland Security with authority over the security of the traveling public, deploys security officers for more than 450 commercial airports and provides 100% screening of all checked baggage for explosives. For over a decade, the TSA has experienced growing ergonomics issues from workers lifting heavy bags from and to the conveyor systems within the Checked Baggage Resolution Areas (CBRAs). This was connected to increased claims from workers who had back injuries.

MIT Benefits

Jervis B. Webb Company developed the Mobile Inspection Table (MIT), a first of its kind, to address the issues the TSA was facing. The MIT uses Automatic Guided Cart technology, which Jervis B. Webb has been providing in other industries for more than 15 years.

The groundbreaking MIT, also known as a collaborative robot, or "cobot," offers a goods-to-person ergonomics approach within the CBRA. The traditional belt conveyors and static search tables in the CBRAs will be replaced with MITs. Bags are automatically loaded on the MIT and delivered to a security officer. This cobot technology allows the security officer to search the bag directly on top of the MIT, thereby eliminating injuries caused by lifting, twisting, or turning. **(Photo 1)**

The MIT is highly sought after because of the increased ergonomics, elimination of lifting injuries by TSA employees, flexibility, quick installation time, and direct tracking as well as adheres 100% to the latest Planning Guidelines and Design Standards for Checked Baggage Inspection Systems standards. The integration of the technology with Jervis B. Webb's baggage handling control system, WebbView, and the Sym3 software and controls package of BCS Group Limited enables mobile access based dashboard functionality, as well as consolidated data gathering. **(Photo 2)**

Detroit Metropolitan Airport and Orlando International Airport are the first airports receiving this MIT cobot technology in 2016 where Cleveland Hopkins International Airport and many more will follow. Looking ahead, the MIT will be shown at many trade shows globally to expand the MIT business.

Go to see Daifuku products and case studies
 Corporate Site: Solutions www.daifuku.com/solution
 ATec Website daifukuattec.com

LSP

Industry ▶ Automobile Service Stations

Solution ▶ **Double-Action I.B.S.***

Cleans Even Hard-to-Reach Places

In November 2015, Daifuku launched its FABRICA drive-through car wash machine equipped with the new double-action I.B.S. (patent pending in Japan). This is the only unit in the industry with inclined and separate side brushes. By designing the side brushes with an incline, the machine can clean the underside of the rear spoiler, which conventional brushes had difficulty in reaching, when washing the rear of the vehicle. **(Photo 1)** In addition, FABRICA is equipped with brushes that can operate separately at differing heights on the right

and left according to different vehicle heights, enabling it to wash a wide range of vehicles.

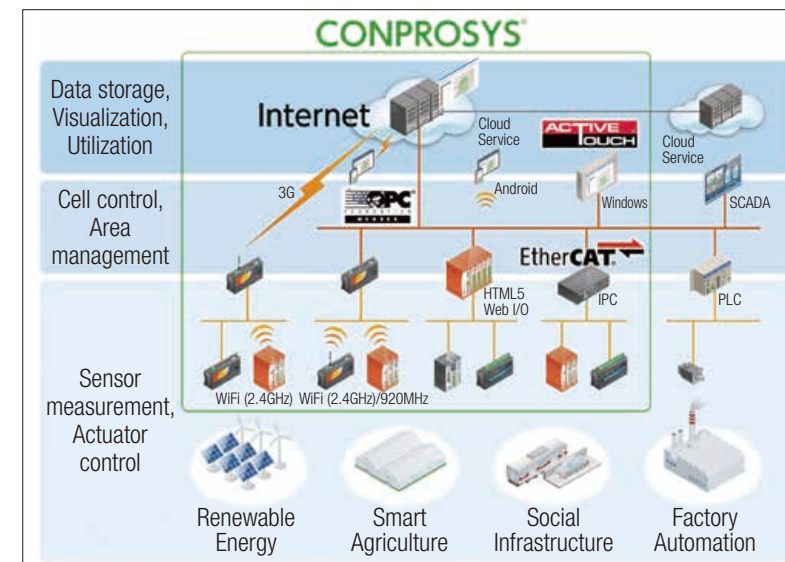
FABRICA has a number of additional options, including functions for adjusting the volume of water for cleaning the underside of the vehicle and a roll jet wheel washing function using high-pressure water



ejection. For customers who have demanding car wash requirements, FABRICA is a high-value-added washing machine. As FABRICA is expected to win a high evaluation in the market, Daifuku is working to expand sales.

* I.B.S.: Incline touch brushing system

Go to see Daifuku products and case studies
 Corporate Site: Solutions www.daifuku.com/solution/carwash



Responding to the Rapid Expansion in the M2M/IoT Market

Daifuku subsidiary Contec Co., Ltd., has developed its CONPROSYS device cloud service to provide M2M/IoT solutions, and global marketing of this service began in May 2015. This service is a combination of intelligent IoT devices with various telecommunication functions incorporated into firmware, M2M controllers that can connect in a wide range of combinations with various control equipment, and cloud services and software for data collection. Contec is expanding sales of this system

to a wide range of fields as a package for remote monitoring for use, first, in factory automation (FA) applications, and then for social infrastructure, renewable energy, and agricultural IT applications.

During fiscal 2015, Contec developed 26 products in the CONPROSYS series and plans to develop 24 more products in fiscal 2016, with the aim to achieve 50 products in total. CONPROSYS draws on Contec's strengths developed for more than 30 years as a leader in the PC-based electronic measuring and FA control markets, as it has offered remote

Contec

Industry ▶ M2M/IoT*

Solution ▶ **Simple, Convenient, Easy-to-Use Device Cloud Service**

monitoring packages for photovoltaic facilities and social infrastructure.

The Daifuku Group is pursuing the development of simple, convenient, and easy-to-use products and services for the M2M/IoT market, which is expanding in terms of applications and industries, and is actively working to increase the value added of its product and service offerings.

* M2M: Machine to Machine, IoT: Internet of Things

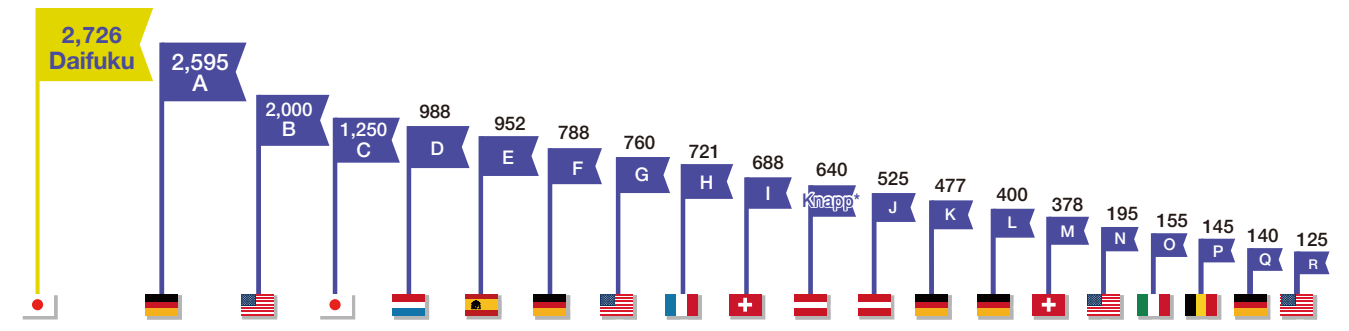


Go to see Contec products and case studies
 CONTEC Website www.contec.com

The Daifuku Group is actively expanding into global markets and today operates in production and sales in **22 countries and regions**. During fiscal 2015, the **non-Japan sales ratio** accounted for **66%** to total net sales.

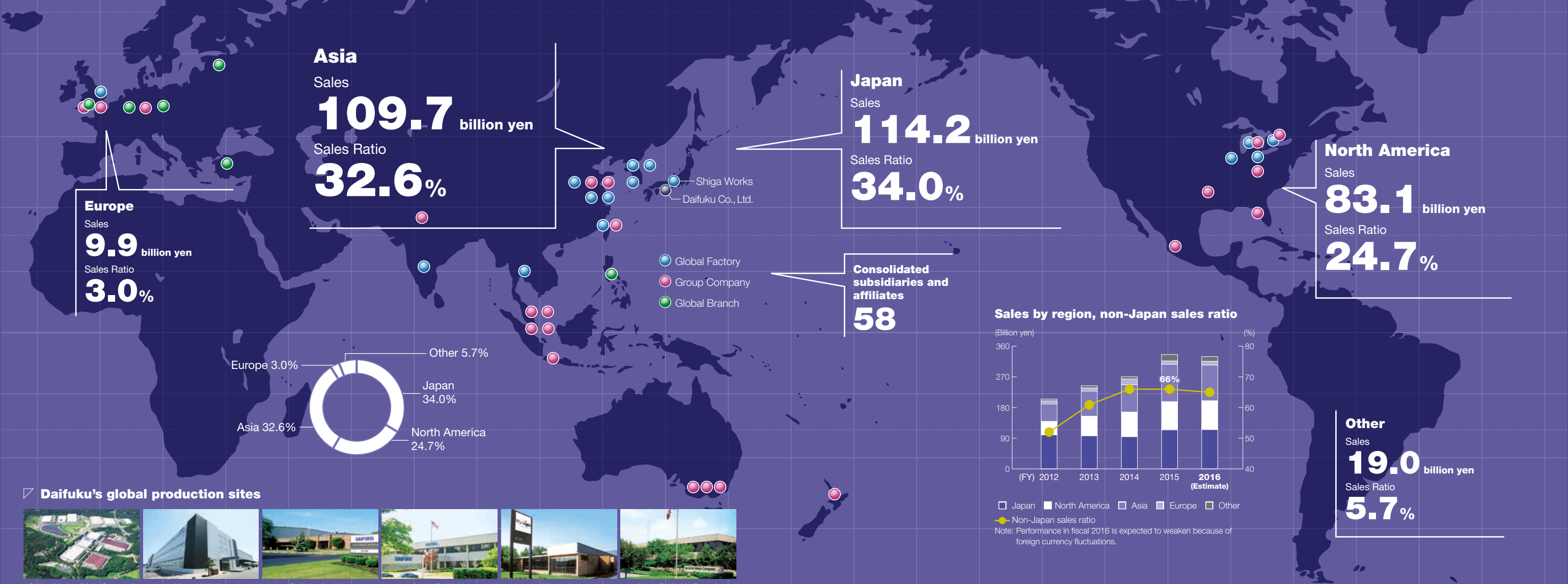
Top 20 worldwide materials handling systems suppliers 2015

(Net Sales, U.S. million dollars)

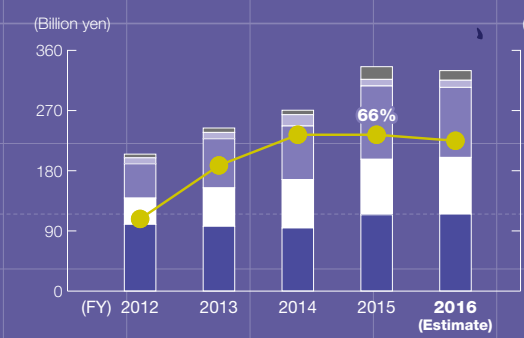


Source: Modern Materials Handling - May 2016
* Equity-method affiliate since July 2012

FY2015 sales by region, ratio to total net sales



Sales by region, non-Japan sales ratio

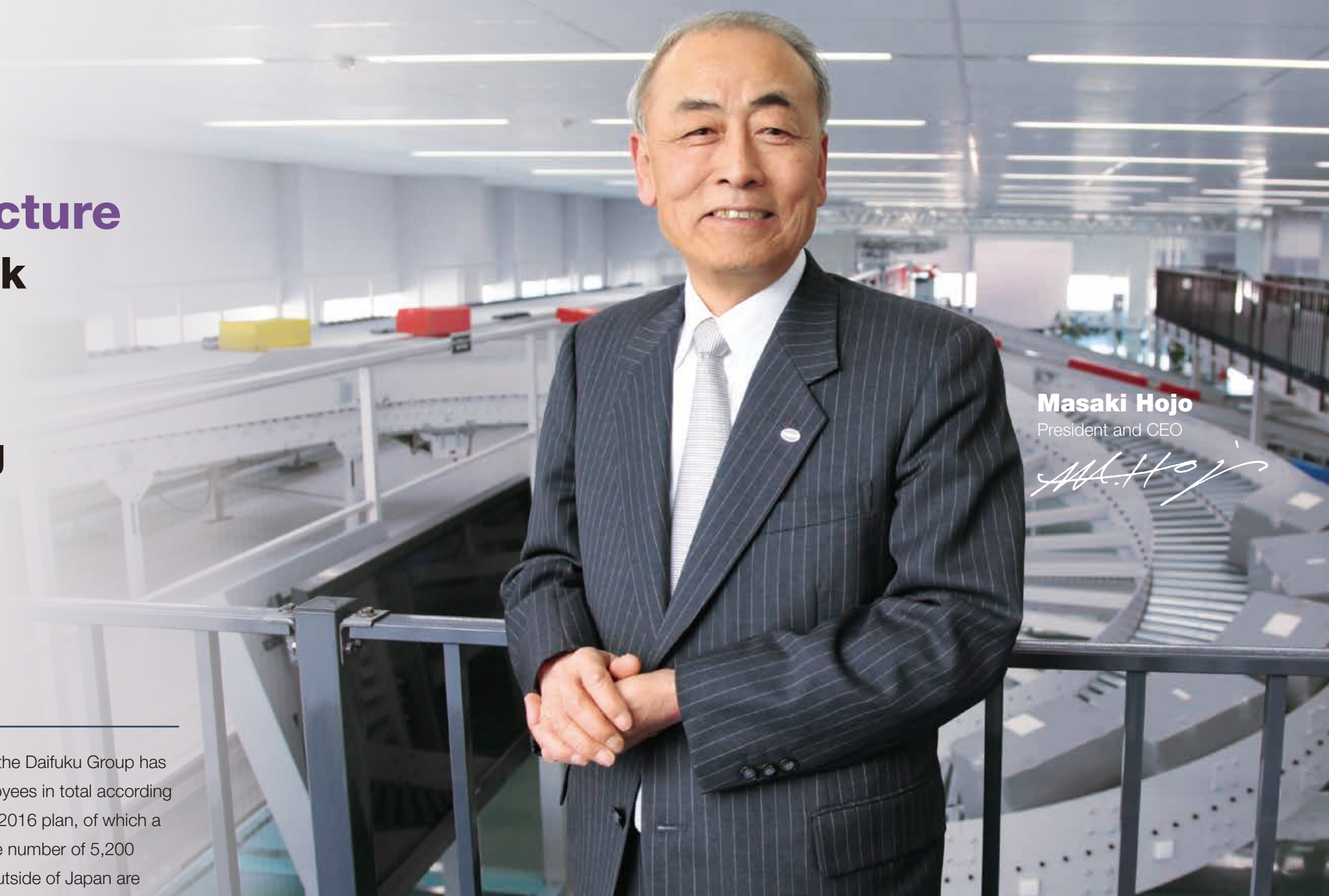


Note: Performance in fiscal 2016 is expected to weaken because of foreign currency fluctuations.

Daifuku's global production sites



We aim to establish a Smart Distribution Infrastructure that goes beyond the framework of existing logistics systems and respond to increasingly sophisticated material handling system needs.



Masaki Hojo
President and CEO

Performance in Fiscal 2015
In fiscal 2015, ended March 31, 2016, we reported our sixth consecutive year of growth in net sales and net income and set new records for sales and operating income

Consolidated orders in fiscal 2015 rose 17.6% from the previous fiscal year, to 359.4 billion yen. Net sales increased 25.8%, to 336.1 billion yen, and operating income was up 40.3%, to 20.8 billion yen. Net income attributable to shareholders of the parent company rose 39.2%, to 13.6 billion yen. Sales were almost at the 340 billion yen

targeted in our revised four-year business plan and operating income was at a historically high level.

The factor leading to robust growth in performance in recent years has been the expansion in non-Japan sales, which account for 66% of total net sales. In fiscal 2015, orders received from customers in the semiconductor and flat-panel display (FPD) sectors, particularly in Asia, rose to a new record high. In response to needs for sophisticated, customized, made-in-Japan high-end systems, our core factory in Japan has supplied top-quality core products.

Meanwhile, the Daifuku Group has 8,600 employees in total according to the fiscal 2016 plan, of which a considerable number of 5,200 personnel outside of Japan are providing services in their home markets.

In the semiconductor, FPD, and automobile sectors, our customers are overwhelmingly from outside of Japan; however, in the case of general manufacturing and distribution, 56% of our customers are in Japan, and demand from them is expanding further. This is one of the factors that makes Daifuku strong against the stresses of currency fluctuations. Our

business has not been hollowed out at our home ground and we are continuing to steadily introduce innovations. Also, outside of Japan, we have structured frameworks that provide not only services but are also strong in sales, production, and installations, based on deep roots in the local markets.

Performance in fiscal 2015

	Billion yen		%
	FY2015	FY2014	
Orders received	¥359.4	¥305.5	17.6%
Net sales	336.1	267.2	25.8
Operating income	20.8	14.8	40.3
Net income attributable to shareholders of the parent company	13.6	9.8	39.2

**Daifuku's Strategic Directions
Going Forward**

Evolving into Smart

Distribution Infrastructure

We do not view our robust performance during fiscal 2015 as a temporary event because it is supported by strong business underpinnings.

It has become very easy for consumers to purchase goods via the Internet. Within the new e-commerce business model, the importance of our business activities is expanding by leaps and bounds. As the social presence of logistics and distribution companies, which are responsible for timely shipments of goods from delivery centers and reliable delivery of them to their customers, is rising, distribution is taking its place as a new infrastructure lifeline along with water, electric power, and gas. When we say “logistics,” “distribution,” and “material handling,” only a limited number of people understand their meaning. For the past few years, I have spent much time considering how to explain what we do and reached the conclusion that the most-appropriate way of describing it is to say we are part of a new infrastructure. Even with manufacturing, describing the assembly line that conveys car bodies in automobile factories as a main highway fits this narrative well. The best phrase to express this would be Smart Distribution Infrastructure.

I believe Daifuku has an advantage in this field because we decided very early that the era of just moving things with conveyors was over and started tackling the challenge of developing the new e-commerce market.

**Performance and Strategy
by Region**

**Performance in Asia is robust,
and we are aiming for further
growth in the Americas and
Europe**

Daifuku's non-Japan sales during fiscal 2015 amounted to 221.9 billion yen, an increase of 25.7% over the previous fiscal year. This represented 66% of overall net sales. By region, the largest amount of sales was in Asia, where production centers for semiconductors and FPDs are concentrated.

On the other hand, there are no local distribution-related companies that are working to develop Smart Distribution Infrastructure. Even in South Korea, Taiwan, and China, distribution system solutions are spreading from Japan.

In China, we began to provide automated warehouses for factories and distribution centers in the pharmaceutical, food and beverage sectors, and then expanded to retailers and e-commerce in the distribution sector. Since China's population and land area are large, we believe it will become an even larger market. To enable consumers in China to “get their products

tomorrow, or even today” on a large-scale basis, it will be necessary to create a distribution infrastructure on a far greater scale than in South Korea and Taiwan.

In Thailand, Indonesia, Singapore, and Malaysia, new orders showed little growth, reflecting the unstable economic situation there, but the number of automated warehouses for food and beverages is increasing, and a promising future is expected. Recently, in Myanmar, we have provided the first-ever automated warehouse for a government pharmaceutical company.

In the United States, business conditions and the economic situation are favorable. We have been developing our position in North America, centered around conveyor systems for automobile production lines for many years, but we believe there is still room for further growth in systems for distributors. We will place increased emphasis on this area, expand volume, and strive to increase our market share.

In the European market, our principal businesses are providing services for systems for manufacturers and distributors and systems used in airports. Our equity-method affiliate in Austria, Knapp AG, is very strong in providing systems for the pharmaceutical, cosmetics, and other sectors and offering picking solutions for small items. By substantially deepening our

collaboration with this company, we will be working to strengthen our presence also in Europe where competition is intensifying.

**Issues to Be Addressed
and Approaches**

**Improving profitability
and raising technological
capabilities through M&A**

The initial target committed to in the four-year business plan for the operating income to net sales ratio was 7%. In fiscal 2015, we reached 6.2%, and, for the current year in progress, we are expecting to attain 6.4%; however, we will still strive to reach the 7% target.

Regarding issues to be addressed, we believe it will be important to place emphasis on achieving a balance among three types of activities: new large projects, small- to medium-sized projects, and services as an integral part of projects.

The merits of undertaking large projects are that the volume of

production will increase and our overall factory utilization rates will rise, bringing an increase in gross profit. However, for large projects, competitors will also enter the bidding, and price competition will become more intense; this may lead to a decline in profitability. Accordingly, it is vital for us to achieve a balance with small- to medium-sized projects where we can expect stable earnings and large-scale business undertakings.

Meeting with customers to gain a good understanding of their requests and then providing our solutions with appropriate in-depth content require time and money. Improving our organization, training personnel, raising awareness of Daifuku in the market, building networks for sales, installation and services, and other activities take a certain level of investments for future growth. For this reason, we will be more careful not to be overly concerned with increasing short-term profitability.

With respect to M&A, we will focus on M&A deals that have merits for technological reasons and on collaboration with universities. For example, in the field of robotics, picking up pieces individually requires sophisticated sensing technology. Robot manufacturers do a good job down to the arm of their robots, but, when hand and fingertip movements are necessary, they do not have sufficient understanding. In M&A deals, one approach would be looking for technology that can instantaneously identify products by shape, size, weight, and speed of the flow, and then transmitting this information to robots' hand(s) and fingertips.

Close to 30 years ago, we conducted joint research with the University of Auckland in New Zealand. This led to the development of the world's first electrified monorail system using noncontact power supply. As this technology is maintenance-free, it

Recent M&A, business alliance, and capital participation arrangements

Company Name*1	Year of Acquisition	Objectives
Jervis B. Webb Company	2007	Overall business expansion in North America, entry into the airport field
Knapp AG*2	2010	Future keystone of European operations
Logan Teleflex Group	2011	Strengthening technology in airport-related systems
Wynright Corporation	2013	Expansion of business for distributors in North America
BCS Group Limited	2014	Strengthening airport-related systems in Asia-Pacific

*1 Company name as of arrangement date
*2 Business alliance and capital participation

is in use for conveyance between processes in automobile factories. Also, it is used for transport systems in clean rooms in the manufacturing of semiconductors, FPDs, and other items. Based on the knowledge gained from this collaborative R&D, this past spring, we launched the “D-PAD” wireless charging system for electric forklifts. Similarly, our subsidiary BCS Group Limited in New Zealand has very unique software, and by combining this with the know-how of another company, BCS is showing strong in performing upgrades. In addition, DTx Inc. (now Contec DTx Inc.), a U.S. company acquired by our subsidiary Contec Co., Ltd., has developed a unique presence in the medical device field.

We believe that continuously creating new products and identifying new businesses through combining different technologies will enable us to offer smart solutions for our customers.

Aiming for Sustained Growth Contributing to society through initiatives to achieve “healthy growth”

Daifuku operates its business activities based on its management philosophy of “Provide the best solutions to benefit the global markets and the development of society.” Looking ahead, we are striving to achieve healthy, sustainable growth by aiming to be a company that is trusted by all its stakeholders.

In recent years, institutional investors, especially in Europe, have placed greater emphasis on “ESG” (environment, society, and governance) criteria. These investors are requesting greater transparency in management, corporate governance, initiatives related to the natural environment, and evidence of social contributions. If we think in depth about “healthy,” it boils down to ESG. Smart Distribution Infrastructure is a concept that goes well when tied to ESG.

Regarding the natural environment, we at Daifuku are aware of the need to reduce our environmental footprint, including from our customers and other stakeholders. Daifuku’s products and services are used not only in Japan but widely around the world, and we believe this provides us with opportunities to make major contributions. Expanding the range of our eco-friendly products is one example of our initiatives.

For corporate governance, we go through the PDCA (Plan, Do, Check, and Act) cycle with the main objective of improving the effectiveness of our corporate governance and have established Daifuku Corporate Governance Guidelines. To strengthen the independence and objectivity of our Board of Directors in matters such as the nomination of the management team and its remuneration as well as

accountability of management, we have formed an Advisory Committee that is chaired by an outside director. We receive timely advice and recommendations from our outside directors and Audit & Supervisory Board members, including information and points of view that we cannot obtain internally. For the internal management team, which tends to focus mainly on the business matters they are responsible for, this information is extremely valuable.

Financial Strategy and Allocation of Income Aiming for a well-balanced allocation between return to shareholders and investment for future development

In allocating income, we believe that achieving a good balance between paying dividends to shareholders and making investment for future growth is important. Under the four-year business plan Value Innovation 2017 also, we are aiming for a dividend payout ratio of 30% and levels of investment that will continue to increase Daifuku’s corporate value. Based on this allocation policy, we set dividends for fiscal 2015 at 30 yen per share. In fiscal 2016, we are planning to pay a dividend of 35 yen per share, including a 5 yen commemorative dividend to mark the 80th anniversary of Daifuku’s founding. In addition, going forward, as another means of returning

income to shareholders, we may consider purchases of treasury shares from the market.

From the perspective of strengthening our financial position, we are placing emphasis on increasing the balance of Daifuku’s net assets to prepare for investments in future growth. We will still insist on reaching a 7% operating income to net sales ratio with the aim to raise our bond rating from the current single A minus, while increasing trust in our corporate bonds. Through continuing these initiatives to increase the attractiveness of Daifuku to investors, I believe Daifuku’s stock will be naturally included in the JPX-Nikkei Index 400.

Thoughts on Management Our philosophy of being partners with our customers

Daifuku is a company that has been brought up and grown through transactions with the very top tier of companies in a wide range of industries. We have responded to the exacting requests of our customers for safety, quality, delivery, and costs and have been able to maintain sustained business relationships for the long term. This is a strength that has sustained Daifuku over the years and is one of our greatest assets. I believe we have a responsibility to listen earnestly and sincerely to the expectations of our customers, even as their requirements have changed from era to era, and



respond appropriately. Our company creed is *Hini Arata*, which means, “Today we are doing better than we were yesterday. Tomorrow we will be growing ahead of where we are today.” Daifuku’s philosophy is to advance and grow with our customers. Regardless of the era, this has always been true and will remain unchanged.

Based on our business philosophy, which is founded on advancing and growing with our customers and with Group companies and non-Group

companies, we will continue to fuse their unique technologies and information networks with Daifuku’s technology to provide the very best solutions to our customers in all industries and fields. Thereby, we will continue to contribute to the livelihood of customers and to society. We look forward to your continuing support.

Masaki Hojo
President and CEO
Daifuku Co., Ltd.



Yoshiaki Ozawa
Outside Director

Noboru Kashiwagi
Outside Director

Increasing the transparency of management and managing companies in the interest of all stakeholders will realize sustainable corporate growth.

It has been one year since Japan's Corporate Governance Code went into effect. The operating environment for corporate governance is changing. Could you please tell us what points you are emphasizing the most as outside directors?

Ozawa: I believe the most important thing about corporate governance is increasing transparency as a corporation and not creating hidden barriers that impair communication. If companies have strong barriers between divisions, it is difficult to do internal checks on the activities of sections protected by these walls, and they may even become a cause of fraud.

Kashiwagi: Most cases of corporate fraud in Japan take place without ever being noticed by the board of directors. That means that ensuring transparency by way of efficient and good communication is very

important. To be sure that corporate governance is really working, the tone at the top encouraging good communication is very important.

Ozawa: One failure case of this is an incident in a Japanese company that involved corporate governance, where improper behavior was the fault of the organization, while the individuals involved did not benefit in any way. All types of organizations are operated by people; therefore, to introduce Japan's Corporate Governance Code effectively, it will be necessary to take account of unique circumstances that exist in Japan.

Kashiwagi: Many corporate frauds arose because there are people who take the instructions of top management and their bosses too seriously. This puts strong pressure on these people to carry out by any means the instructions, and, in many cases, may lead to corporate frauds.

As you pointed out, we have to keep Japan's characteristic circumstances in mind when considering about corporate governance. From the perspective of the board of directors, what do you think is different in Japan, compared with the United States, for example?

Ozawa: Japan's Corporate Governance Code assumes that the board of directors will play a supervisory role. Under this governance model, the role of the board of directors is to specialize in supervising management. This is an organizational structure similar to governance in the United States. Under another governance model, the role of the board of directors is more "managerial," and it specializes mainly in making decisions about the business strategies.

Kashiwagi: In case of the type of "a Company with an Audit & Supervisory Board" under the Japanese law, the board must make the decisions on important managerial matters, such as "disposing and purchasing of major company assets" and "incurring large liabilities." Japanese companies of this type have necessarily adopted the management-type board of directors. Since Daifuku is a company with the Audit & Supervisory Board, in this sense, we can say that its Board of Directors adopts the management model of directors.

Ozawa: Under the management model, the board of directors is required to steer the company toward sustainable growth in corporate value. Today, though, after the Corporate Governance Code has gone into effect, the next topic we should discuss is whether or not it is a good idea to continue to maintain the management model.

Kashiwagi: However, the monitoring model and the management model are not necessarily incompatible. If we maintain the management model, but delegate as much authority as possible to executive directors while the outside directors monitor their performance, I believe this approach will combine the best features of the two models. In any case, an important part of the role of outside directors is to prevent the management from sacrificing the company's interest for their own benefit. When the outside directors perform these monitoring functions to prevent such conflict of interest, they will benefit investors and other stakeholders.



Taking into account what we have discussed so far, regarding recent activities, could you please give us some of your thoughts on the atmosphere in Daifuku's Board of Directors and establishment of an Advisory Committee?

Kashiwagi: Daifuku's Board of Directors adopts the management type of governance model as explained above, by operation of law. For example, the Board decides such matters as issuing convertible bonds and M&A. Since the outside directors have joined the Board, the atmosphere in the meetings has been consistently free and open, and we engage in active discussions.

Ozawa: President Hojo has listened carefully to what people said in the Board meetings, and I believe that this creates an atmosphere where it is easy to express our opinions. I feel that the attitude of top management plays a big role in while the atmosphere of Daifuku is created.

Kashiwagi: From a corporate governance point of view, Daifuku has newly formed an Advisory Committee, and we have been appointed as members. Our roles include checking on whether the process for selecting management is transparent and appropriate. Also, the Committee oversees the compensation level of directors.

Ozawa: It is very important that the outside directors, as members of the Advisory Committee, participate in the process of selecting directors. This is because they have an awareness of persons within the Company and the perspectives of persons outside the Company. For example, this means they will not select a candidate who has a special interest in the Company and its directors.

The outside directors can now act as advisors for the next generation of candidates for the management team, but, from a different perspective, this should act as a filter and prevent incorrect personnel choices. As a last point, since the roles of the Board of Directors are under discussion, how do you view your roles as outside directors of Daifuku?



Ozawa: In Japan, the situations of accounting and laws differ from those in other countries. Since Japan has some unique cultural and business practices, it is not sufficient to apply discussions related to corporate governance overseas directly to Japan. We, as outside directors, must be aware that we need to gain an in-depth understanding of corporate governance, and, based on this understanding, perform our duties as supervisors of the overall management of the Company.

Kashiwagi: As one of the roles performed by outside directors, we are expected to look after the interests of all stakeholders. From the perspective of outside stakeholders, an important role of the outside directors is to ensure that directors are working for all the stakeholders and for the purpose of increasing the long- and medium-term value of the Company. To realize sustained growth, we must be aware of the need to maintain good relationships with all stakeholders, including shareholders and institutional investors, employees, customers, and the community. The greatest assets of companies are their human resources. We must employ highly capable human resources, regardless of gender and nationality, and put them into places that will enable them to contribute to the best of their capabilities.

Since Daifuku is placing a high priority on promoting diversity, we look forward to seeing the results. Thank you for participating in our discussion today.

Principal Initiatives

The Daifuku Group strives to fulfill its corporate governance responsibility with the aim of ensuring the sustained growth of the Group and creating its medium- to long-term corporate value, based on the key tenets of its management philosophy: “provide the best solutions to benefit the global markets and the development of society” and “focus on healthy, growth-driven global

management under a diverse and positive corporate culture.”

To develop further as a global corporate entity, the Group believes that it is important to act in accordance with the spirit of Japan’s Corporate Governance Code. The Group aims to continuously improve the effectiveness of its corporate governance by implementing the PDCA (Plan, Do, Check, and Act) cycle of corporate governance.

Corporate Governance Structure

Board of Directors

The main roles and responsibilities of the Board of Directors shall be to establish the Company’s management philosophy, etc. to determine the strategic direction. It shall undertake constructive discussions about specific management policies, management plans, and other aspects. Daifuku’s Board of Directors consists of 10 directors, including two outside directors. The directors’ term of office is one year, and each Board member’s mandate is reviewed yearly at the General Meeting of Shareholders. The Board of Directors’ regular meetings are held once a month, while extraordinary meetings are held as needed (six times in the fiscal year ended March 31, 2016).

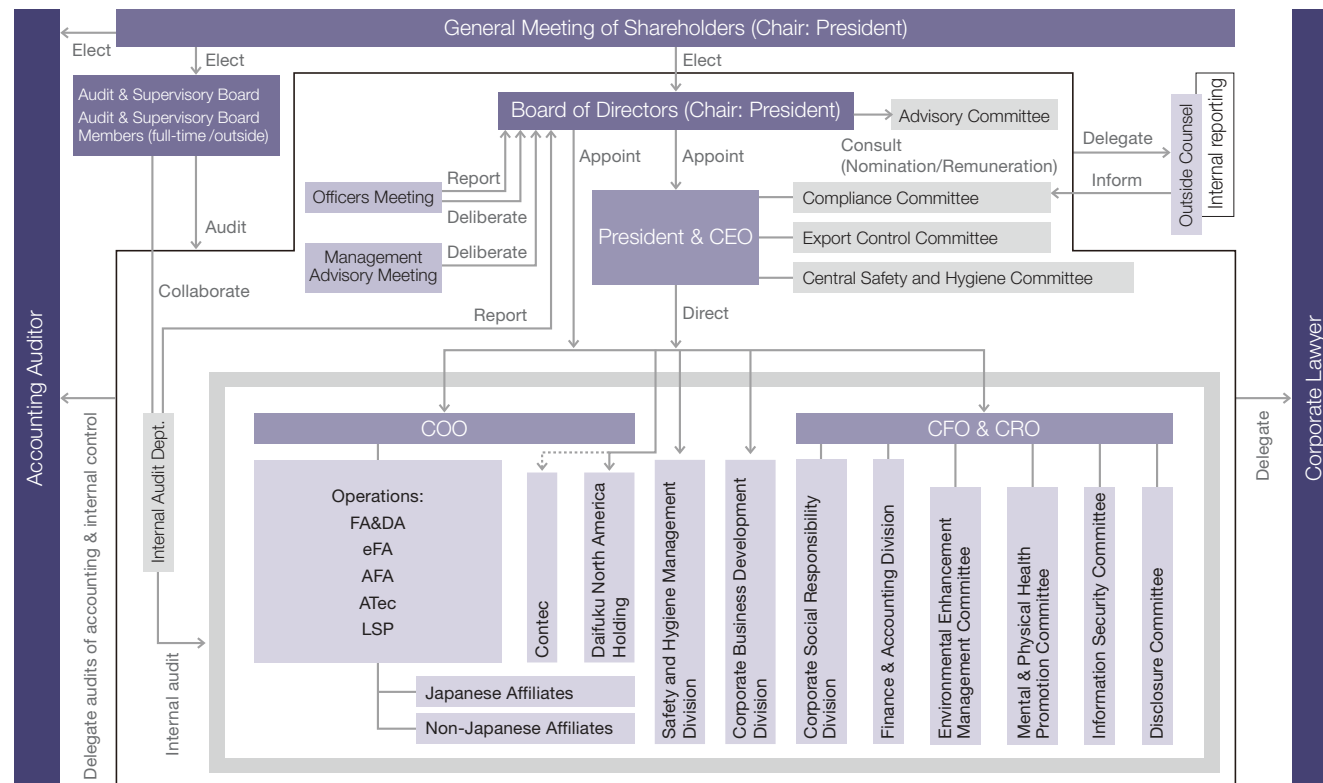
Daifuku adopts a corporate officer system to accelerate management decision making on business execution and strengthen supervising functions of

Initiative for Strengthening Corporate Governance Structure

From 2015 to 2016, Daifuku has implemented the following:

- Establishment of the Advisory Committee for nomination and remuneration
- Formulation of independence standards of outside directors and outside members of the Audit & Supervisory Board
- Addition of one independent outside director, amounting to two
- Review of cross-shareholdings and clarification of voting rights standards
- Establishment of Daifuku Corporate Governance Guidelines
- Implementation of evaluation of the Board of Directors’ effectiveness and disclosure of the results overview
- Introduction of the board benefit trust plan as a remuneration system linked to the results

Corporate governance structure



Activity of outside directors and outside members of the Audit & Supervisory Board

	Name	Independent officer	Board meeting attendance	Activity
Outside directors	Noboru Kashiwagi	✓	Board of Directors: Regular: 12/12 times Special: 6/6 times Management Advisory Meeting: 4/4 times	Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate legal affairs and international trade laws.
	Yoshiaki Ozawa	✓	Board of Directors: Regular: 11/12 times Special: 6/6 times Management Advisory Meeting: 4/4 times	Provides expert advice and recommendations to the Board of Directors based on his extensive knowledge in finance and accounting and experience working outside of Japan.
Outside members of the Audit & Supervisory Board	Isao Kitamoto	✓	Board of Directors: Regular: 12/12 times Special: 6/6 times Audit & Supervisory Board: 7/7 times	Provides insightful advice and recommendations as a journalist to the Boards, based on extensive experience working outside of Japan.
	Hiroyuki Torii	✓	Board of Directors: Regular: 12/12 times Special: 6/6 times Audit & Supervisory Board: 7/7 times	Provides insightful advice and recommendations as a journalist to the Boards, based on a wealth of knowledge in the science and technology fields.
	Ryosuke Aihara	✓	(Elected in June 2016)	A lawyer who specializes in corporate governance and compliance and is expected to provide advice and recommendations from a professional perspective.

the Board of Directors. The Board of Directors delegates matters other than important matters defined in the Rules of the Board of Directors to the management team, i.e., directors and corporate officers.

System to complement functions of the Board of Directors

Daifuku has an optional Advisory Committee to deliberate on the nomination and/or appointment of management team members and the remuneration of management. The Advisory Committee is comprised of representative directors and outside directors, and meets at least three times a year. The Advisory Committee is chaired by one of the outside directors to ensure its independence and objectivity.

With the introduction of the corporate officer system, Daifuku holds officers’ meetings, with all members of the management team and full-time members of the Audit & Supervisory Board attending and participating in deliberations on the content of business execution.

The Management Advisory Meeting is held to confer important management matters. With directors and full-time members of the Audit & Supervisory Board in attendance, this meeting also seeks the opinions of external specialists on an as-needed basis.

In addition, to make more-effective use of outside officers, meetings of outside officers, the representative directors, and full-time members of the Audit & Supervisory Board are held on a regular basis.

Audit & Supervisory Board

Daifuku maintains an Audit & Supervisory Board made up of five Audit & Supervisory Board members, three of whom are elected from outside the Company. The Audit & Supervisory Board meetings were held on seven occasions during the fiscal year ended March 31, 2016.

Audit & Supervisory Board members and the Audit & Supervisory Board shall fulfill their duties by stipulating and promoting the effective applications of the Rules of the Audit & Supervisory Board, with regard to the audit of directors’ fulfillment of duties, decisions over resolutions to be submitted to the General Meeting of Shareholders regarding election/dismissal and non-reappointment of the accounting auditor, and others, with due attention to their fiduciary responsibilities to shareholders and with an aim for sustainable growth and medium- and long-term improvement of the corporate value.

Audit & Supervisory Board members conduct audit and supervisory activities in accordance with audit plans formulated at the beginning of the fiscal year. In the course of their duties, Audit & Supervisory

Board members attend key meetings, including Board of Directors’ meetings and officers’ meetings, and visit to monitor financial activities at various operating divisions in factories, sales offices, and Group companies. To promote coordination and effectiveness in auditing, Audit & Supervisory Board members exchange information and conduct business audits in coordination with the Internal Audit Department, which is independent of the regular business operations, and, together with accounting auditors, make inspection visits, exchange opinions about audit plans and results, and attend evaluation tests of internal control systems.

Outside directors and outside members of the Audit & Supervisory Board

Two outside directors provide insightful advice and recommendations to the Board of Directors based on their abundant experience and extensive knowledge in international trade laws, corporate legal affairs, finance, and accounting.

Three outside members of the Audit & Supervisory Board bring diverse perspectives to the Audit & Supervisory Board by exchanging opinions with the full-time members of the Audit & Supervisory Board attending Board of Directors’ meetings, and gathering information.

To clarify the independence of officers, Daifuku meets the provisions provided by stock exchanges and formulates its own requirements of independence. Two outside directors and three outside members of the Audit & Supervisory Board meet the requirements of independence, and the Tokyo Stock Exchange has been notified that they are independent officers.

Board Member Remuneration

At Daifuku's June 2016 General Meeting of Shareholders, a resolution was passed limiting the total annual remuneration of directors (excluding the salaries of staff)

to 700 million yen, and that of Audit & Supervisory Board members to 110 million yen. Director and the Audit & Supervisory Board member remuneration in fiscal 2015 is as shown in the following table. No individual received total remuneration on a consolidated basis of 100 million yen or more, nor did any individual outside officer receive remuneration as a director or Audit & Supervisory Board member from Daifuku's subsidiaries besides that shown in the table.

At the General Meeting of Shareholders held in June 2016, the introduction of the board benefit trust system for the

business-performance based remuneration within the scope of the aforementioned 700 million yen for internal directors and corporate officers was approved. Additional remuneration based on business performance will be deliberated by the Advisory Committee and decided at the Board of Directors' meeting according to the achievement of the management target committed in the medium-term business plan in addition to the level of business achievement in each fiscal year.

Operation Status of Systems to Secure Business Appropriateness

Compliance

1) Daifuku created a database to accumulate information on case studies regarding compliance from other companies and has been communicating with officers and employees through the database on a regular basis.

- 2) At meetings of the Compliance Committee, which comprises directors and corporate officers, Daifuku reviewed the recent scandals of other companies and discussed what the Company should learn from these cases and strove to raise compliance awareness of the management team.
- 3) Daifuku set October as the Month of Compliance and promoted activities to raise employees' compliance awareness through posting relevant articles on in-house newsletters and announcement posters within factories and offices.

Risk management framework

- 1) For natural disaster risks, such as earthquakes, winds and floods, lightning, fires, and new flu strains, Daifuku continues to develop business continuity plans, manuals and procedures preparation, and training sessions and drills on crises management and disaster prevention.
- 2) Daifuku built a system to share information on situations during disasters related to buildings/facilities, infrastructure, customers, etc. within the Group. Daifuku implemented training to use an individual's safety confirmation system for officers and employees on a regular basis. Daifuku also introduced a system to confirm suppliers' operations to quickly understand their situations during disasters.
- 3) Daifuku reviewed its information security related rules, considering that information security is becoming greater challenges for the Company. In addition, the Company provided all employees with e-learning and e-mail based training to raise their awareness of information security.

Audits by the Audit & Supervisory Board members

- 1) Audit & Supervisory Board members conducted audit and supervisory activities in accordance with audit plans formulated at the beginning of the fiscal year. In the course of their duties, Audit & Supervisory Board members attended key meetings, including Board of Directors' meetings, and visited to monitor financial activities at various operating divisions in factories, sales offices, and Group companies.
- 2) Audit & Supervisory Board members participated in evaluation tests of developments and operations of the internal control system held in Japan and accompanied audits of inventories, non-Japanese affiliates, factories, and installation sites, and assessed the effectiveness of these tests and audits.
- 3) To enhance the effectiveness of auditing, Audit & Supervisory Board members communicated with representative directors, outside directors, members of the Internal Audit Department, and accounting auditors through exchanging opinions.

Internal audits

The Internal Audit Department implemented audits for the Company and other Group companies worldwide, based on the initial audit plan formulated at the beginning of the fiscal year. With respect to the results of audits, an internal audit report was fed back to the audited divisions and submitted to representative directors and relevant officers, including full-time members of the Audit & Supervisory Board.

Consequently, in its fiscal 2015 internal control report, based on the Financial Instruments and Exchange Act of Japan, Daifuku once again evaluated its internal

control systems over financial reporting as effective.

Information Disclosure and IR Activities

The Group aims to realize fair, highly transparent management by being proactive in information provision other than statutory disclosure, not to mention disclosing information appropriately in accordance with legislation.

Daifuku has the Disclosure Committee to ensure the timely disclosure of financial results, information related to corporate decisions, and information related to the occurrence of material facts and defines processes by each case.

For its shareholders and investors, Daifuku conducts timely and appropriate disclosure of information through its IR (Investor Relations) Department. For security analysts and institutional investors, the Company conducts IR activities, such as quarterly results briefings, additional company information sessions as needed, and conference calls, and responds to individual requests for information through the department.

For individual investors, Daifuku broadly pursues transparency through tours of its facilities, various IR events and publications, and timely information disclosure on its website.



Hini Arata Kan tour for shareholders

Remuneration for Board members

(amount paid in the fiscal year ended March 31, 2016)

Category	Number of individuals	Remuneration
Directors (Outside directors)	14 (2)	452 million yen (28 million yen)
Audit & Supervisory Board members (Outside members)	5 (3)	90 million yen (30 million yen)
Total (Outside officer total)	19 (5)	543 million yen (58 million yen)

Note: The above table includes directors who retired as of the June 2015 General Meeting of Shareholders.

Effectiveness of Governance

Corporate governance guidelines

In May 2016, Daifuku established its Corporate Governance Guidelines to enhance and strengthen its corporate governance structure. The Company strives to improve the effectiveness of corporate governance by implementing the PDCA cycle continuously. The guidelines comprise the following:

- I. General Provisions
- II. Relationship with Shareholders
- III. Appropriate Cooperation with Stakeholders Other Than Shareholders
- IV. Ensuring Appropriate Information Disclosure and Transparency
- V. Corporate Governance Structure

For further information on "Daifuku Corporate Governance Guidelines," see Daifuku's website: www.daifuku.com/ir/policy/governance/guideline

Evaluation of the Board of Directors' effectiveness

The effectiveness of the Board of Directors was evaluated, with the results assessed by outside directors and reported at a meeting of the Board of Directors. Daifuku will strive to improve effectiveness continuously through the PDCA cycle.

Cross-shareholding strategy

Daifuku has established strong relationships with customers through the delivery of products and after-sales

services. Considering these relationships, the Company examines the economic rationality of cross-shareholdings and decides whether to retain them. The Company will decide on the exercise of voting rights individually, considering the medium- to long-term shareholder value of the companies whose shares Daifuku holds and whether the shareholdings will contribute to improving the Company's corporate value.



The Daifuku Group believes that the basic principles of CSR are to build a symbiotic relationship with its stakeholders and to practice the Group's Corporate Policies Structure through its corporate activities.

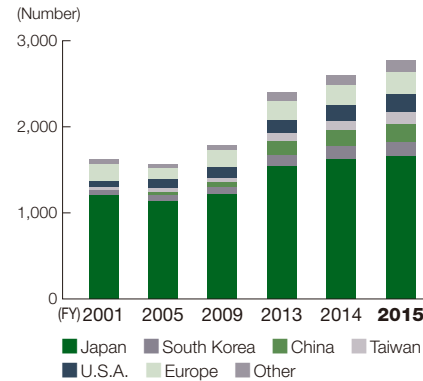
Quality Initiative

Daifuku has established its Rules on Inventions and Designs. Under these rules, the Company actively promotes patent applications and the acquisition of rights with a special focus on newly developed products. The progress of globalization has resulted in an increased number of patent applications made outside of Japan in recent years. Every year, Daifuku presents in-house innovation awards to patent-pending inventions awaiting patent registration. This award

program recognizes outstanding products and technologies on a timely basis in accordance with internal and external evaluations.

During fiscal 2015, The Daifuku Innovation Awards Grand Prize for fiscal 2015 was given to three products: new rack cross-section, SPDR (Spider), and the display panel WASH TOUCH II for car wash machines. The Innovation Award was given to three additional products, for a total of 32 inventors.

Patents registered by region



President Hojo conducting safety patrol at factory site during summer installations

Workplace Safety

Based on the concept that safety is its ultimate priority, Daifuku has moved the Central Environment, Safety & Hygiene Committee under the direct control of the president and will strive to eradicate workplace accidents. With the aim of passing on a corporate culture that for years has focused on safety, identifying

undiscovered risks, and securing intrinsic safety, Daifuku obtains several occupational safety and health management system certifications, such as OHSAS 18001 and the JISHA method, at its major sites. Also, the Company encourages these management systems across the Group worldwide.

Relationships of Trust with Suppliers

In fiscal 2003, Daifuku established a superior supplier recognition program and launched the Supplier Quality Development (S.Q.D.) Award system to commend outstanding goods-related suppliers, which provide components (including fabrication), designing, and

installations. In fiscal 2015, from among a total of 188 companies, the Company presented the S.Q.D. Award to six companies. Daifuku held a health and safety seminar for top management from 130 suppliers, calling for the cooperation of partners to realize zero accidents.



S.Q.D. Award recipients

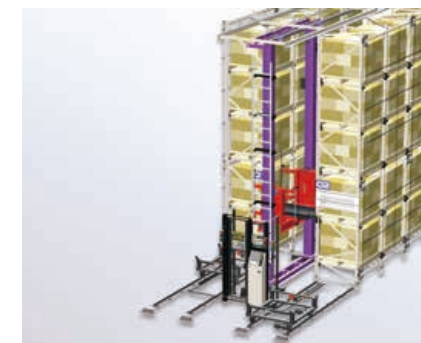
Relationship with Communities

Daifuku, as a good corporate citizen, aims to be a company that contributes to the development of both the economy and society by proactively conducting community-based activities. As part of its community contribution activities, Daifuku participates in cleanup activities, ties up with communities after natural disasters,

and implements site tours for its factories and the Daifuku Mega Solar power plant within the Shiga Works. In fiscal 2015, Daifuku Korea Co., Ltd. and Clean Factomation, Inc. co-sponsored the Japan-Korea Festival 10th Anniversary in Seoul.



Participating in the Japan-Korea Festival in Seoul



S/R machine (Model R-L10) reduced power consumption by 8% and the number of parts used by 10% from conventional models.

Environmental Initiatives

Since November 2012, Daifuku has been operating an in-house program to rate and certify the energy and environmental design of its own products. We rate every product manufactured within the Daifuku Group in terms of: energy saving, recyclable, lightweight, long life, resource saving, water saving, low noise, clean water preservation, and harmful substance(s) reduced.

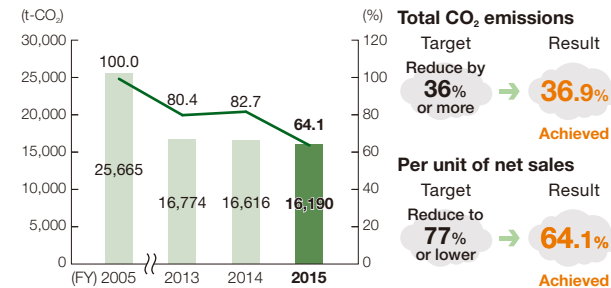
Products that meet a certain standard are certified as a Daifuku Eco-Product. During fiscal 2015, eight more products were added to the lineup of certified Daifuku Eco-Products, amounting to 29 certified products. In addition, centering on its core factory, Shiga Works, Daifuku takes steps to save energy and resources, introduce renewable energy, preserve biodiversity, reduce environmental impact, and build relationships with communities.

Fiscal 2015 Environmental Action Plans and Results

Daifuku sets forth its targets and action plans for global warming prevention, resource saving, biodiversity conservation, green procurement, Daifuku Eco-Products certification, CO₂ reduction contribution, environmental education, and environmental management framework.

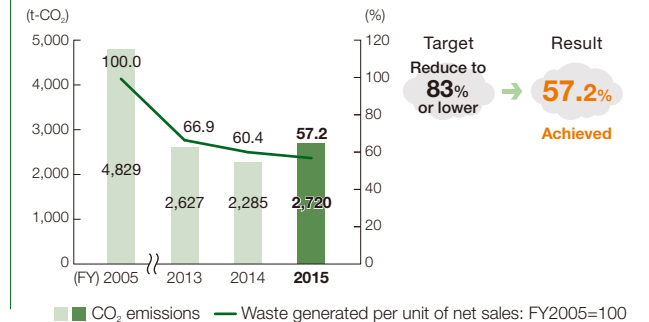
Carbon dioxide (CO₂) emissions from business activities

Scope: Japan (factories and offices) / control index: units of CO₂ emissions compared to FY2005



CO₂ emissions from transportation

Scope: Japan (product transport) / control index: units of CO₂ emissions compared to FY2005



For more details on Daifuku's CSR activities, please refer to Daifuku's CSR Report or our website:

www.daifuku.com/sustainability/report
www.daifuku.com/sustainability

Directors, Auditors, and Officers

(As of June 24, 2016)

Directors



Masaki Hojo
President and CEO

Apr. 1971 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Jun. 1998 Director, member of the Board
Apr. 2000 President of Daifuku America Corporation
Apr. 2004 Representative Director (to present)
Senior Managing Director
Chief Operating Officer (COO) of Business Support Management
COO of Overseas Business Management
President of Daifuku Canada Inc.
Apr. 2006 Executive Vice President
Apr. 2007 COO of AFA Operations
General Manager of AFA Operations
Dec. 2007 Chairman and Co-CEO of Jervis B. Webb Company, an affiliate of Daifuku Co., Ltd.
Apr. 2008 President and Co-CEO
COO of Webb Business
Jan. 2011 Chairman and Co-CEO of Daifuku Webb Holding Company (now Daifuku North America Holding Company)
Apr. 2012 President and CEO (to present)
COO of Production Control
COO of Service Control



Akio Tanaka
Executive Vice President
and COO

Apr. 1973 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Jul. 2004 Administration Officer with director status
Jun. 2006 Director, member of the Board
General Manager of the Sales Division under FA&DA Operations
Jun. 2011 Director, Managing Officer
Apr. 2012 Director, Senior Managing Officer
Chief Operating Officer (COO) of FA&DA Operations
Apr. 2013 Representative Director (to present)
Senior Managing Director
Apr. 2014 Executive Vice President (to present)
COO of all business operations (to present)



Mikio Inohara
Executive Vice President
CFO and CRO

Apr. 1969 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Jul. 2004 Administration Officer with director status
Jun. 2005 Director, member of the Board
General Manager of the Business Support Operations
Apr. 2008 General Manager of Finance and Accounting Division
Apr. 2010 Chief Financial Officer
Jun. 2011 Director, Managing Officer
Apr. 2012 Representative Director (to present)
Senior Managing Director
Apr. 2013 Chief Financial and Risk Officer (CFO and CRO) (to present)
Apr. 2014 Executive Vice President (to present)



Yoshiyuki Nakashima
Director
Chairman of Daifuku
(China) Co., Ltd.

Apr. 1980 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Jul. 2008 Administration Officer with director status
Jun. 2010 Director, member of the Board
General Manager of the Corporate Social Responsibility Division
Jun. 2011 Managing Officer
Apr. 2012 General Manager of the Business Continuity Plan Promotion Division
Apr. 2013 Chairman of Daifuku (China) Co., Ltd. (to present)
Jun. 2015 Director, Managing Officer (to present)



Seiji Sato
Director
e-Factory Automation

Apr. 1983 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Apr. 2008 General Manager of the Semiconductor Division under eFA Operations (to present)
Jun. 2010 Director, member of the Board
Jun. 2011 Managing Officer
Apr. 2015 General Manager of eFA Global Operations (to present)
General Manager of eFA Operations (to present)
Jun. 2015 Director, Managing Officer (to present)



Hiroshi Geshiro
Director
Factory & Distribution
Automation

Apr. 1983 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Apr. 2012 Corporate Officer
General Manager of the Sales Division under FA&DA Operations
Apr. 2014 Managing Officer
General Manager of FA&DA (Global) Operations (to present)
Apr. 2015 General Manager of FA&DA Operations (to present)
Jun. 2015 Director, member of the Board,
Managing Officer (to present)
Apr. 2016 General Manager of International Division under FA&DA Operations (to present)



Shuichi Honda
Director
Corporate Business
Development and Airport
Technologies

Apr. 1979 Joined The Dai-Ichi Kangyo Bank, Limited (now Mizuho Financial Group, Inc.)
Mar. 2006 Executive Officer of Mizuho Corporate Bank, Ltd.
Jun. 2011 Became Managing Director of Mizuho Corporate Bank, Ltd.
Apr. 2012 Joined Daifuku Co., Ltd. as a corporate advisor
Jun. 2013 Director, member of the Board, Managing Officer
Chief Operating Officer of Corporate Affairs
Apr. 2014 Director, Senior Managing Officer (to present)
Apr. 2015 General Manager of Corporate Business Development Division (to present)
General Manager of ABH Global Operations
Apr. 2016 General Manager of ATec Global Operations (to present)



Hidenori Iwamoto
Director
Automotive Factory
Automation

Apr. 1981 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Apr. 2007 President of Daifuku Canada Inc.
Apr. 2009 General Manager of the Sales Division under AFA Operations
Jun. 2010 Director, member of the Board
Jun. 2011 Managing Officer
Jun. 2014 Director, Managing Officer (to present)
General Manager of AFA (Global) Operations (to present)
Apr. 2015 General Manager of AFA Operations under AFA Global Operations (to present)
General Manager of the Sales Division under AFA Operations



Noboru Kashiwagi
Outside Director
Independent Officer

Apr. 1965 Joined Mitsubishi Corporation
Jan. 1984 Worked as assistant manager of legal affairs department at Mitsubishi Corporation (Americas)
Aug. 1993 Became professor at the Institute of Business Law and Comparative Law and Politics of the University of Tokyo
Jun. 2003 Professor emeritus at the University of Tokyo (to present)
Apr. 2004 Professor at Graduate School of Law of Chuo University
Jun. 2011 Director of the Foundation for Civil Dispute Resolution Research Funds (to present)
Jun. 2012 Outside Director of Daifuku Co., Ltd. (to present)
Aug. 2015 Chair of the New National Stadium Project Process Investigation Panel



Yoshiaki Ozawa
Outside Director
Independent Officer

Jul. 1978 Joined PricewaterhouseCoopers (PwC) Osaka Office
Aug. 1982 Registered as a Japanese certified public accountant (CPA)
Oct. 1985 Worked at Coopers & Lybrand New York Office
Jul. 1990 Registered as a U.S. CPA (New York)
Jan. 2008 Senior partner of PwC Aarata
Apr. 2012 Professor of Business Administration at St. Andrew's University (to present)
Sep. 2012 Left PwC Aarata
Jun. 2014 Outside Director of Daifuku Co., Ltd. (to present)

Auditors



Tatsujiro Kurosaka
Audit & Supervisory Board
Member

Apr. 1978 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Apr. 2005 Became Manager of the Logistics Systems Sales Group of the Sales Division, under FA&DA Operations
Apr. 2012 Senior Assistant to the President
Jun. 2012 Audit & Supervisory Board Member (to present)



Yoshihisa Kimura
Audit & Supervisory Board
Member

Apr. 1982 Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
Apr. 2003 Became Manager of the Osaka Group of the Accounting Department
Apr. 2006 General Manager of the Finance and Accounting Department
Apr. 2012 Corporate Officer
General Manager of the Finance and Accounting Division
Apr. 2014 Assistant to CFO and CRO
Jun. 2014 Audit & Supervisory Board Member (to present)



Isao Kitamoto
Audit & Supervisory Board
Member (outside)
Independent Officer

Apr. 1966 Joined Japan Broadcasting Corporation (NHK) as Program Director of News Department
Jun. 1991 Bureau Chief of NHK Paris Bureau
Jun. 1995 Managing Director of NHK Enterprises 21 Inc.
Oct. 1999 Executive Managing Director of NHK International, Inc.
Jun. 2007 Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)
May 2008 Executive Producer of NHK Enterprises, Inc.
Dec. 2008 Special Adviser of Japan International Broadcasting Inc. (to present)



Hiroyuki Torii
Audit & Supervisory Board
Member (outside)
Independent Officer

Apr. 1969 Joined Nikkei Inc.
Apr. 1987 Editorial Writer of Nikkei Inc.
Director of Research Department of Nikkei Research Institute of Industry and Markets
Jan. 2002 Affiliate Professor of Research Center for Advanced Science and Technology of the University of Tokyo
Apr. 2002 Professor of Research Laboratory for Nuclear Reactor of Tokyo Institute of Technology
Sep. 2008 JST Project Senior Officer, Japan Science and Technology Agency (to present)
Jun. 2010 Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)



Ryosuke Aihara
Audit & Supervisory Board
Member (outside)
Independent Officer

Apr. 1977 Registered as an attorney, belonging to Daini Tokyo Bar Association (to present)
Joined Mori Sogo Law Office (now Mori Hamada & Matsumoto)
Jan. 1982 Partner of Mori Hamada & Matsumoto Law Office
Apr. 2004 Professor at Graduate School of Law of the University of Tokyo
Apr. 2007 Adjunct Lecturer at Graduate School of Law of the University of Tokyo
Jun. 2015 Outside Member of the Auditor & Supervisory Board of Nippon Shuppan Hanbai Inc. (to present)
Mar. 2016 Left Mori Hamada & Matsumoto Law Office
Apr. 2016 Representative of Aihara Law Office (to present)
Jun. 2016 Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)

Officers

Managing Officers

Akira Ikari

Lifestyle Products
President of Daifuku Plusmore Co., Ltd.

Tadashi Kimura

Factory & Distribution Automation Installation & Services

Kanji Anno

Factory & Distribution Automation Production, International

Corporate Officers

Ken Sasaki

Safety and Hygiene Management
Chief Officer of Shiga Works

Hiroshi Nobuta

Executive Vice President of Daifuku
North America Holding Company

Yoshiyuki Horiba

e-Factory Automation (Flat-Panel Displays)

Akihiko Kishida

Automotive Factory Automation Global Sales,
Production

Toshiaki Hayashi

Chairman of Daifuku (China) Automation Co., Ltd.

Takaya Uemoto

Automotive Factory Automation Production

Akihiko Nishimura

Airport Technologies
President and CEO of Daifuku North America Holding Company

Yoshihisa Ichinose

Corporate Social Responsibility
Chief Officer of Komaki Works

Takuya Gondo

Factory & Distribution Automation Engineering

Yasuhisa Mishina

Factory & Distribution Automation Production

Hiroaki Kita

Chairman of Daifuku (China) Manufacturing Co., Ltd.

Eleven-Year Summary

 Daifuku Co., Ltd. and consolidated subsidiaries
 Years ended March 31, 2006 to 2016

	(Million yen and U.S. thousand dollars)											
	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
For the Year												
Net sales	¥ 336,184	\$2,983,265	¥267,284	¥241,811	¥202,337	¥198,052	¥159,263	¥154,208	¥242,182	¥231,619	¥232,703	¥198,811
Cost of sales	272,832	2,421,092	215,641	194,974	165,340	165,505	131,639	128,195	195,430	182,260	186,991	159,312
Selling, general and administrative expenses	42,472	376,896	36,759	34,279	28,986	28,328	25,897	25,932	31,736	28,680	26,876	22,982
Operating income	20,878	185,275	14,883	12,556	8,010	4,217	1,726	80	15,015	20,677	18,837	16,517
Income before income taxes	20,650	183,248	15,211	12,137	7,316	3,129	703	862	13,956	20,592	18,356	16,741
Net income attributable to shareholders of the parent company	13,652	121,152	9,810	7,740	4,439	1,223	269	1,018	7,851	11,893	11,382	10,253
Net income per share (Yen and U.S. dollars)	¥ 118.72	\$ 1.05	¥ 88.59	¥ 69.96	¥ 40.12	¥ 11.05	¥ 2.43	¥ 9.20	¥ 70.29	¥ 105.05	¥ 100.50	¥ 92.20
Cash dividends per share (Yen and U.S. dollars)	30.00	0.26	22.00	18.00	15.00	15.00	15.00	20.00	26.00	26.00	25.00	18.00
Capital investment	¥ 4,210	\$ 37,364	¥ 7,532	¥ 10,446	¥ 7,687	¥ 2,393	¥ 3,221	¥ 2,280	¥ 4,613	¥ 4,071	¥ 8,281	¥ 5,236
Depreciation	4,587	40,708	4,157	3,821	3,332	3,612	3,577	3,679	3,930	3,401	2,886	2,271
R&D expenditures	7,009	62,199	6,945	7,490	6,855	6,484	6,370	6,075	8,018	6,964	7,564	7,629
At Year-End												
Total assets	¥ 296,055	\$2,627,167	¥271,011	¥249,531	¥206,875	¥185,049	¥163,388	¥165,430	¥194,727	¥222,386	¥195,016	¥181,990
Working capital	99,293	881,117	91,187	87,070	45,832	61,943	65,908	66,265	75,087	64,840	60,351	52,249
Interest-bearing liabilities	40,904	362,980	60,547	58,144	53,385	51,010	40,912	45,295	55,417	33,559	33,764	33,856
Net assets	130,116	1,154,642	111,521	99,690	85,685	76,618	77,714	81,295	82,810	88,709	80,718	68,882
Net assets per share (Yen and U.S. dollars)	¥1,044.40	\$ 9.26	¥ 972.75	¥ 875.14	¥ 754.98	¥ 674.72	¥ 683.39	¥ 716.07	¥ 718.68	¥ 746.59	¥ 682.01	¥ 608.12
Number of employees	7,835		7,746	7,349	6,678	5,617	5,209	5,395	5,660	5,663	4,702	4,109
Ratios												
Operating income/net sales	6.2%		5.6%	5.2%	4.0%	2.1%	1.1%	0.1%	6.2%	8.9%	8.1%	8.3%
Income before income taxes and net sales	6.1		5.7	5.0	3.6	1.6	0.4	0.6	5.8	8.9	7.9	8.4
Net income/net sales	4.1		3.7	3.2	2.2	0.6	0.2	0.7	3.2	5.1	4.9	5.2
Return on shareholders' equity (ROE)	11.6		9.6	8.6	5.6	1.6	0.3	1.3	9.6	14.7	15.6	16.8
Shareholders' equity/total assets	42.9		39.8	38.8	40.4	40.3	46.3	47.9	40.9	38.0	39.6	37.8

Notes: 1. The amount of "Capital investment" in the years ended March 31, 2015, 2014, and 2013 includes goodwill generated from acquisition of shares in overseas companies.
 2. The U.S. dollar amounts in this annual report are translated from Japanese yen for convenience only, at the rate of ¥112.69 = U.S.\$1.00, on the Tokyo Foreign Exchange Market on March 31, 2016.
 3. In the calculation of net assets per share, the amount of non-controlling interests is subtracted from the amount of net assets in accordance with the above guidelines.
 4. In the calculation of shareholders' equity/total assets ratio and ROE, shareholders' equity represents the amount of net assets less non-controlling interests.

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Operating and Financial Review

Scope of Consolidation and Number of Employees

In fiscal 2015, the year ended March 31, 2016, the total number of consolidated subsidiaries and affiliates decreased by 3 to 58 because of absorption-type mergers and liquidations. On a consolidated basis, Daifuku Co., Ltd. and its consolidated subsidiaries and affiliates had 7,835 employees as of the fiscal year-end.

Analysis of Operating Results

During fiscal 2015, the global economy benefited from a moderate recovery in the United States and other developed nations, while facing negative factors in the wake of the slowdown in economic growth in China and other emerging countries, declining prices of oil and other commodities, and increased geopolitical risks.

The Japanese economy has continued its moderate recovery, underpinned by increased investment in factory upgrades aiming at streamlining and labor-saving in the manufacturing sector while the distribution and service sectors have enjoyed improved business sentiment thanks to stronger e-commerce and inbound tourism. Since the beginning of 2016, however, economic uncertainty has been growing given a stronger yen and lower stock prices.

Mainstay material handling systems of the Daifuku Group ("the Group") have growth potential, since logistics-related investments from the e-commerce sector are expanding globally, demand for automation and larger facilities is increasing, and capital investment is being used to resolve labor shortages and increase productivity.

Amid these conditions, the operating results of the Group made steady progress, with record orders, sales, operating income, ordinary income, and net income attributable to shareholders of the parent company, which

resulted in increased sales and profits being achieved for the sixth year in a row.

Orders remained favorable in major regions and core sectors, such as distribution, food, and pharmaceuticals in Japan, other Asian regions, and North America, semiconductors and flat-panel displays (FPDs) in Japan and other Asian regions, and automobiles in North America. In Europe, demand for capital investment for airports, which had been sluggish for years, has rebounded. The Group won a series of large orders for systems used in airports. Sales were positive, underpinned by strong order volumes. Specifically, the Group received orders of 359,427 million yen, increasing 17.6% from a year earlier, and recorded net sales of 336,184 million yen, an increase of 25.8%.

Income significantly surpassed the year-ago figure, reflecting the increased profitability generated by increased sales and cost improvements by the parent company, Daifuku Co., Ltd., and the increased sales of Asian subsidiaries.

Consequently, the Group posted operating income of 20,878 million yen, up 40.3% from a year earlier. Net income attributable to shareholders of the parent company was 13,652 million yen, up 39.2%. This was mainly due to the favorable results, despite an extraordinary loss from the review of non-current assets in Japan and overseas.

Results by reportable segment are described below. Orders from and sales to outside customers are presented as segment orders and sales, and quarterly net income attributable to shareholders of the parent company is recorded as segment income. Daifuku Plusmore Co., Ltd., which was previously included in Other, was reclassified as a reportable segment due to its increased quantitative significance from the first quarter.

Operating Results by Segment

(1) Daifuku Co., Ltd.

In our mainstay systems for manufacturers and distributors, both orders and sales for large projects remained steady in the distribution sectors, including e-commerce and supermarkets and in the warehousing, pharmaceutical, food, and electrical equipment sectors. These orders included some projects that anticipate social trends, such as a pharmaceutical wholesaler's large distribution center, which features extensive use of robots and B2B online stores that sell dental health materials and laboratory tools.

In addition, orders and sales of systems for semiconductor and FPD factories increased significantly, mainly in Japan and other Asian regions.

In automobile production line systems, orders for services and small upgrade projects remained firm in Japan, while customers are increasingly investing in new factories outside of Japan.

Profits benefited from further cost improvements in production and installations, higher sales volume, and demand for services.

As a result, the Company recorded orders of 142,135 million yen, up 3.7% from the previous fiscal year, net sales of 144,989 million yen, up 26.0%, and segment income of 8,462 million yen, up 20.2%.

(2) Contec Co., Ltd. and its subsidiaries

In the industrial computer business in the Japanese market, sales of products for the electronics-related sector remained unfavorable; however, sales of products for the semiconductor manufacturing equipment sector rebounded partially during the fourth quarter. In the U.S. market, sales of industrial-use computers for the medical device sector remained solid.

In measuring and control boards, sales for manufacturing facilities in Japan declined compared with the previous year, reflecting the impact of the levelling off of corporate capital investment.

In networking products, Contec strove to identify new markets by expanding sales of wireless LAN products for educational institutions.

Among solution products, sales of photovoltaic data measuring systems were down, reflecting the impact from changes in the photovoltaic market environment.

As a result, Contec posted orders of 14,762 million yen, down 4.0% from the previous fiscal year, net sales of 15,155 million yen, up 3.6%, and segment income of 589 million yen, down 30.3%.

(3) Daifuku North America Holding Company and its subsidiaries and affiliates

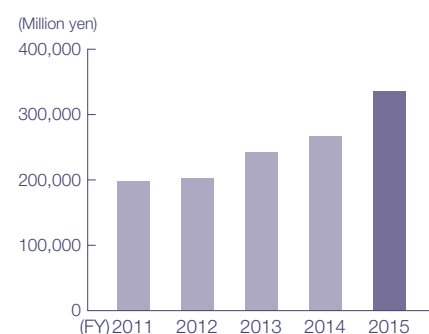
In systems for manufacturers and distributors, orders remained firm, bolstered by large projects for the confectionery, online industrial supply, transportation, and other sectors.

In systems for semiconductor manufacturers, business remained firm.

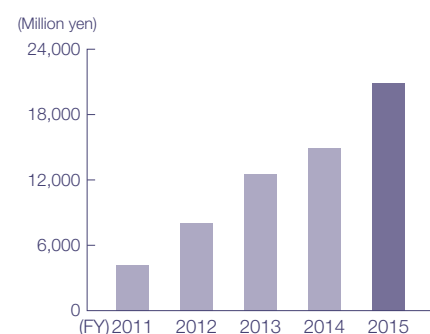
In automobile production line systems, Daifuku North America received multiple large orders for new automobile paint line systems for an American automaker and achieved further cost improvements, mainly for continued orders from Japanese automakers. This business has grown to a substantial revenue stream in North America. Earnings benefited from solid sales of automatic guided carts for parts supply used in automobile factories.

In systems for airports, planned orders and sales fell below the initial plan of the fiscal year, mainly due to delayed orders for large projects. However, earnings

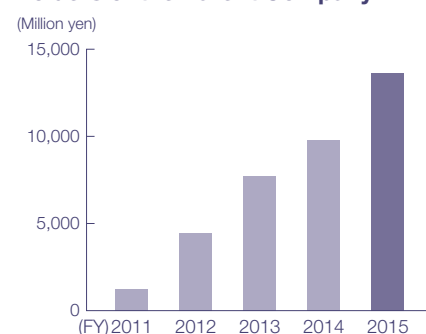
Net Sales



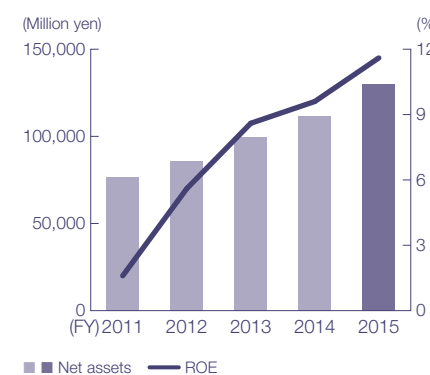
Operating Income



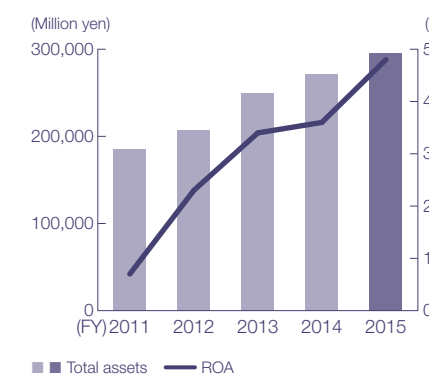
Net Income Attributable to Shareholders of the Parent Company



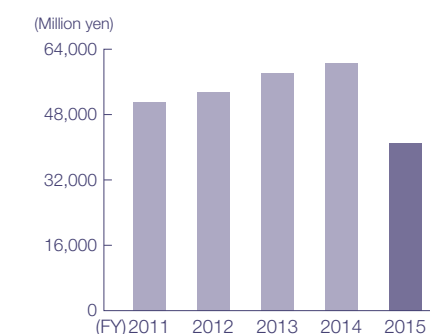
Net Assets and ROE



Total Assets and ROA



Interest-Bearing Liabilities



capacity is rising significantly, underpinned by the termination of unprofitable projects and cost improvements, and growth should turn positive for fiscal 2016.

Earnings were affected by the amortization of goodwill associated with a U.S. company that joined the Group through M&A, which was reflected in Daifuku North America's results.

As a result, Daifuku North America achieved orders of 95,713 million yen, up 26.4% from the previous fiscal year, net sales of 77,066 million yen, up 0.7%, and segment income of 1,503 million yen, down 3.3%.

(4) Daifuku Plusmore Co., Ltd.

Daifuku Plusmore mainly sells car wash machines and bowling-related products and provides rental roll box pallets in Japan. Sales of car wash machines for car service stations remained steady, underpinned by demand for upgrades of aging machines and subsidies operated by Japan's Agency for Natural Resources and Energy's business stabilization and support operations. Daifuku Plusmore consequently achieved record annual unit sales.

As a result, Daifuku Plusmore reported orders of 12,387 million yen, up 19.7% from the previous fiscal year, net sales of 12,284 million yen, up 18.3%, and segment income of 143 million yen, up 117.0%.

(5) Other

The Other segment includes all other Daifuku Group companies, excluding the aforementioned Contec and Daifuku North America group companies and Daifuku Plusmore. As of March 31, 2016, the Group had 58 consolidated subsidiaries and affiliates in total located worldwide.

Outside Japan, major subsidiaries primarily sell and manufacture material handling systems and equipment. Each of these companies plays a global role in optimizing the local production and procurement framework of the Group.

In China, since the economic situation has been shifting from exporting to domestic demand, with a concurrent move from manufacturing to service-oriented sectors, usage of material handling systems is rising rapidly in the food, pharmaceutical, and distribution sectors. In 2015, in the Company's manufacturing and distribution systems and systems for automobile assembly lines, Daifuku reorganized its three Chinese subsidiaries and affiliates to integrate their production and sales division and is working toward expansion. Each of these companies has its own operations divided by business.

In systems for FPD factories, under China's policy of becoming the world's No. 1 in FPD production in fiscal 2017, orders and sales increased significantly. In automobile production line systems, orders for conveyors and automatic guided vehicles for Euro-American automobile factories remained firm.

In Taiwan, business performance improved significantly, with large orders for systems for semiconductor and FPD factories and systems for the distribution centers of online stores.

In South Korea, orders from semiconductor manufacturers, work on projects to upgrade automobile production lines, and sales of car wash machines were steady.

Due to unfavorable business sentiment in ASEAN countries, orders grew at a sluggish pace at subsidiaries in Thailand, Singapore, Indonesia, and Malaysia. In consideration of ASEAN's potential, however, these subsidiaries will continue strengthening their local operating frameworks, including production, sales, services, and information infrastructure, to receive orders for automobile production lines that need to upgrade or replace their facilities, as well as to meet demand for low-temperature logistics in the food and beverage sectors.

In Europe, service business for systems for manufacturers and distributors remained steady. Daifuku Logan Ltd., which handles systems and technologies for airports, posted expenses incurred in the company's structural reforms, but showed improved performance after winning large orders in the U.K. and France during the fourth quarter.

Sales reported by BCS Group Limited, which handles systems and technologies for airports in Oceania and Asia, remained firm. Looking ahead, BCS will collaborate with Daifuku Logan in Europe and expand sales by supplying rising demand for automated check-in systems.

Consequently, the segment recorded orders of 94,428 million yen, up 40.7% from the previous fiscal year, net sales of 81,792 million yen, up 50.8%, and segment income of 3,233 million yen, down 20.4%.

Earnings

During fiscal 2015, because of the previously mentioned factors, the Group posted net sales of 336,184 million yen, up 25.8% from the previous year. The Group's gross profit ratio decreased 0.5 percentage point, to 18.8%, mainly due to provisions to reserves for losses on construction; on the one hand, the profitability of the parent company

was high and sales increased at subsidiaries in the rest of Asia. In addition, the ratio of selling, general and administrative expenses improved 1.2 percentage points over the previous fiscal year, to 12.6%.

As a result, operating income rose 40.3%, to 20,878 million yen. Although there were some extraordinary losses due to revaluation of non-current assets in Japan and overseas, net income attributable to shareholders of the parent company amounted to 13,652 million yen, an increase of 39.2% year on year. The effective income tax rate for fiscal 2015 was 33.2%.

As a consequence, net income per share rose from 88.59 yen per share in the previous fiscal year, to 118.72 yen in fiscal 2015.

Financial Position

Assets, liabilities, and net assets

Total assets at the end of fiscal 2015 stood at 296,055 million yen, an increase of 25,043 million yen from the end of the previous fiscal year. The result principally reflected an increase of 26,618 million yen in notes and accounts receivable and unbilled receivables.

Total liabilities at the end of fiscal 2015 amounted to 165,938 million yen, an increase of 6,448 million yen from the end of the previous fiscal year. Primary factors included increases of 6,442 million yen in electronically recorded obligations, 4,708 million yen in income taxes payable, and 9,633 million yen in other current liabilities such as excess charges for uncompleted construction and advances received, offset by a decrease of 15,093 million yen in yen convertible bonds with stock acquisition rights due 2017.

Net assets at the end of fiscal 2015 were 130,116 million yen, an increase of 18,594 million yen from the end of the previous fiscal year. This was mainly attributable to an increase of 10,874 million yen in retained earnings, as well as increases of 6,555 million yen in capital surplus and 6,992 million yen in paid-in capital or common stock with the proceeds from the issuance of new shares following the exercise of stock acquisition rights mentioned above. Daifuku issued convertible bonds with stock acquisition rights in October 2013 as a pillar of the financial strategy described in its current four-year business plan, with the objective of converting the bonds into shares by October 2017. As its stock price has been favorable since then, the Company was able to boost its capital before the bond

maturity date of October 2, 2017. The ratio of shareholders' equity to total assets stood at 42.9% at fiscal year-end and the return on equity (ROE) was 11.6%.

Cash flows

Cash and cash equivalents at the end of fiscal 2015 decreased 4,996 million yen from the end of the previous fiscal year, to 49,084 million yen, compared with 54,081 million yen in the same period of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities totaled 7,206 million yen, compared with cash provided of 6,295 million yen in the same period of the previous fiscal year. This primarily reflected 20,650 million yen in income before income taxes and non-controlling interests, an increase of 11,964 million yen in notes and accounts payable as well as depreciation of 4,587 million yen, offsetting an increase of 28,060 million yen in notes and accounts receivable.

Cash flows from investing activities

Net cash used in investing activities was 2,099 million yen, compared with cash used of 5,846 million yen in the same period of the previous fiscal year. Major factors included an outlay of 3,158 million yen for the payments for purchase of property, plant and equipment.

As a result, free cash flow for fiscal 2015 amounted to 5,107 million yen, compared with 449 million yen in the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities was 8,702 million yen, compared with cash used of 509 million yen in the same period of the previous fiscal year. Major factors were repayments of 4,232 million yen in interest-bearing liabilities, a dividend payment of 2,794 million yen, and payments totaling 1,556 million yen for the acquisition of shares in subsidiaries that did not affect the scope of consolidation.

Basic policy regarding dividends for fiscal 2015 and 2016

Daifuku regards the return of profits to shareholders as its most important management task and has adopted a performance-based policy for cash dividends based on consolidated net income (net income attributable to

shareholders of the parent company), with the aim of achieving additional profit distribution to shareholders. The Company appropriates the remaining surplus to internal reserves for future growth. During fiscal 2015, the Company mainly implemented maintenance and renewal work on various factory equipment at its Shiga Works.

Under its four-year business plan, Value Innovation 2017, Daifuku aims to achieve a dividend payout ratio of 30% and increase its corporate value through investment in growth.

For fiscal 2015, Daifuku paid an interim dividend of 10 yen per share, and the Board of Directors passed a resolution to pay a year-end dividend of 20 yen per share at a meeting held on May 12, 2016, making the annual dividend 30 yen per share.

With respect to dividends for fiscal 2016, the Company plans to pay an annual dividend of 35 yen per share (an interim dividend of 12 yen per share and a year-end dividend of 18 yen as common dividends, plus a commemorative dividend of 5 yen to mark its 80th anniversary), taking into consideration the earnings forecast for fiscal 2016 and the basic policy described above.

Management Policy

Basic management policy for the Group

Daifuku has grown to become a manufacturer and systems integrator vying for the No. 1 or No. 2 positions within the material handling field, as a result of consistently seeking to achieve sustainable growth based on its medium-term business plans. For fiscal 2015, the Group maintained its top world ranking in sales in the material handling industry, according to the May 2016 issue of the U.S. magazine *Modern Materials Handling*.

The Group is seeking innovative ways to enhance its corporate value every day, as stated in its company creed (*Hini Arata*, or progressing every day). In the four-year business plan, Value Innovation 2017, which covers fiscal 2013 to 2016, the Group adopts the following management philosophy:

1. Provide the best solutions to benefit the global markets and the development of society.
2. Focus on healthy, growth-driven global management under a diverse and positive corporate culture.

Under the four-year business plan, the Group aims to evolve into a top-class Value Innovator that provides the

best solutions for customers worldwide by capitalizing on the experience and technologies it has accumulated as a comprehensive manufacturer and integrator of material handling systems.

The Group achieved its initial sales target in the four-year business plan ahead of schedule. The Group also achieved its initial target for the non-Japan sales ratio to total sales of 60%. In fiscal 2015, the non-Japan sales ratio stood at 66%. The e-commerce business, which is growing globally, has also become a new key to driving the Group's growth.

The Group's challenges now are improving profitability and achieving sustainable growth in the medium to long term.

The next profitability target to achieve is an operating income ratio of 7%, its initial target. In fiscal 2016, the Group aims to maximize its income ratio, thereby raising the baseline for the next medium-term business plan.

The Group has three objectives:

- 1) Shore up non-Japanese affiliates where profitability is lower than in Japan
- 2) Further improve profitability in Japan
- 3) Expand after-sales services through application of the IoT (Internet of Things)

Of non-Japanese affiliates, Wynright Corporation, which has impressive sales in North America, will work to expand its product lineup for the general manufacturers and distributors and to reduce the cost of manufacturing by raising the ratio of in-house production. The Group has been manufacturing and selling airport baggage handling systems focusing on hardware at non-Japanese affiliates. However, the Group will expand the scope of its business to provide Airport Technologies (ATec), which integrate O&M (operation and maintenance), software, and the automatic check-in system.

In Japan, Daifuku will further promote structural reform for purchases and in-house production and quality improvement.

In the IoT field, subsidiary Contec developed and launched CONPROSYS, an M2M* and IoT solution series in the fiscal year ended March 31, 2016. The development of cloud computing and communications technology has made the remote monitoring of infrastructure and the preventive maintenance of plants possible at low prices. Against this backdrop, CONPROSYS integrates different manufacturers' sensors and machines having different

communication methods and data formats and links them to high-order systems.

* M2M: Machine to Machine

Since 2004, Daifuku has been providing DREMOS, a remote monitoring and preventive maintenance system for its logistics systems, as an after-sales service. To add value to products and services, the Company will encourage the use of the IoT.

To achieve sustainable growth in the medium to long term, our challenge is developing and identifying new products and new businesses. To meet that challenge, the Company is strengthening its device business as well as its plant business. In February 2016, in a world first, Daifuku put into practical use a wireless battery charging system for electric forklifts, D-PAD.

Daifuku will consider introducing core technologies for innovation, including the IoT, devices, and software, from outside sources. M&A will remain part of the Company's management strategy to complement its existing businesses and enhance its corporate value.

Business-Related Risks

The main items that the Group recognizes as risks and responds to as such are as follows. Some of the content of this section constitutes forward-looking statements. Accordingly, please note that these statements have been made based on judgments of the Group as of June 27, 2016.

Risks covered by the Chief Financial Officer and Chief Risk Officer

- (1) Major disruptions in production (damage to facilities, etc.)
- (2) Impact of natural disasters and intentional threats, war, acts of terrorism, strikes, disease, etc.
- (3) Environmental problems
- (4) Labor relations issues (deterioration in the employee-management relationship, outbreak of industrial disputes, etc.)
- (5) Joint ventures (deterioration in management policy at joint venture partner(s), deterioration in management environment, etc.)
- (6) Risk related to intellectual property (IP) rights (failure to obtain the license for use of the third-party IP rights/royalty demands; third-party allegations of IP right

infringement(s); lack of protection of Daifuku IP rights in certain countries and regions outside of Japan, etc.)

- (7) Securing of personnel (recruitment and retention of competent personnel; difficulties in training human resources, etc.)
- (8) Customer/Supplier credit risk (customer/supplier doubtful accounts/bad debts, etc.)
- (9) Information management (leakage of important and/or personal information to outside the Company; use for purposes other than that intended, etc.)
- (10) Risk related to global business development (changes to each country's laws and regulations; changes in the social, political, and economic situation; deterioration in public safety, disruption to transportation/electric power infrastructure; currency exchange restrictions and fluctuations; tax system changes; taxation by transfer price; trade protection regulations; customer credit risk from different commercial practices; different employment/social insurance systems; changes in the labor environment; difficulties in recruiting/retaining personnel; outbreaks of disease, etc.)

Risks covered by the Chief Operating Officer

- (1) Impacts of conditions in the markets related to semiconductors and flat-panel displays, as well as automobiles (changes in demand/capital investment trends, etc.)
- (2) Price competition (pressure on profits due to fierce price competition, etc.)
- (3) Product quality issues (product defects/failures, quality claims/complaints, etc.)
- (4) Risk related to the development of new products/technologies (mismatch between new products/technologies and market needs; rival developments from competitors; absence of IP right protection; breach of another company's IP rights; emergence of new alternative technology products from other companies, etc.)
- (5) Increase in raw material prices (sharp increase in prices for raw materials and components, product shortages, supply instability, etc.)

Risks covered by the Compliance Committee

Compliance-related risks (trouble or losses caused by director/employee failure to observe laws, regulations, standards, internal regulations, policies, etc.)

Consolidated Balance Sheets

Daifuku Co., Ltd. and consolidated subsidiaries
March 31, 2016 and 2015

	(Million yen)		(U.S. thousand dollars) (Note 6)
	2016	2015	March 31
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 9 and 28)	¥ 49,187	¥ 54,202	\$ 436,487
Notes and accounts receivable and unbilled receivables (Note 9)	103,264	76,645	916,356
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 9)	28,033	19,414	248,769
Merchandise and finished goods	3,629	3,561	32,209
Costs incurred on uncompleted construction contracts and other (Note 8)	7,092	8,990	62,934
Raw materials and supplies	11,370	11,980	100,902
Deferred tax assets (Note 27)	4,501	2,810	39,947
Other current assets	7,390	7,574	65,586
Less: allowance for doubtful accounts	(146)	(137)	(1,300)
Total current assets	214,324	185,041	1,901,894
Non-current assets:			
Property, plant and equipment (Notes 7 and 13):			
Buildings and structures, net	13,954	14,754	123,826
Machinery and vehicles, net	3,336	3,507	29,608
Tools and fixtures, net	1,487	1,830	13,198
Land	11,881	12,018	105,436
Other, net	2,221	2,562	19,716
Total property, plant and equipment	32,881	34,673	291,786
Intangible assets:			
Software	3,152	3,100	27,971
Goodwill	11,181	12,905	99,219
Other	2,739	3,040	24,312
Total intangible assets	17,072	19,045	151,503
Investments and other assets:			
Investments in securities (Notes 9, 10, and 11)	19,571	21,728	173,672
Long-term loans	135	125	1,198
Assets for retirement benefits (Note 14)	1,600	643	14,204
Deferred tax assets (Note 27)	6,642	6,130	58,945
Other	3,952	3,752	35,073
Less: allowance for doubtful accounts	(125)	(129)	(1,111)
Total investments and other assets	31,776	32,251	281,983
Total non-current assets	81,731	85,970	725,273
Total assets	¥296,055	¥271,011	\$2,627,167

The accompanying notes are an integral part of these statements.

	(Million yen)		(U.S. thousand dollars) (Note 6)
	2016	2015	March 31
LIABILITIES			
Current liabilities:			
Notes and accounts payable and construction contracts payable (Note 9)	¥ 40,696	¥ 36,568	\$ 361,136
Electronically recorded obligations-operating (Note 9)	17,270	10,827	153,253
Short-term borrowings and current portion of long-term borrowings (Notes 9 and 12)	8,702	12,904	77,228
Income taxes payable	5,919	1,210	52,525
Provision for losses on construction contracts (Notes 8 and 20)	971	505	8,621
Other current liabilities (Note 12)	41,471	31,837	368,012
Total current liabilities	115,031	93,853	1,020,777
Non-current liabilities:			
Bonds (Notes 9 and 12)	2,700	2,700	23,959
Bonds with stock acquisition rights (Notes 9 and 12)	—	15,093	—
Long-term borrowings (Notes 9 and 12)	29,501	29,849	261,792
Deferred tax liabilities (Note 27)	1,048	1,580	9,301
Liabilities for retirement benefits (Note 14)	14,500	12,142	128,679
Negative goodwill	119	179	1,063
Other non-current liabilities (Note 12)	3,037	4,091	26,950
Total non-current liabilities	50,907	65,636	451,748
Total liabilities	165,938	159,490	1,472,525
Contingent liabilities (Note 16)			
NET ASSETS			
Shareholders' equity (Notes 5 and 18):			
Common stock:			
Authorized—250,000,000 shares			
Issued—123,610,077 shares	15,016	8,024	133,251
Capital surplus	15,794	9,239	140,158
Retained earnings	94,501	83,626	838,593
Less: treasury stock, at cost—March 31, 2016—1,958,836 shares	(1,642)	(2,419)	(14,575)
March 31, 2015—2,853,707 shares			
Total shareholders' equity	123,669	98,469	1,097,428
Accumulated other comprehensive income:			
Net unrealized gain on securities	3,206	4,639	28,457
Deferred gain (loss) on hedges	22	(72)	199
Foreign currency translation adjustments	7,730	10,542	68,600
Accumulated adjustments on retirement benefits (Note 14)	(7,576)	(5,781)	(67,232)
Total accumulated other comprehensive income	3,383	9,327	30,025
Non-controlling interests			
Non-controlling interests	3,063	3,723	27,188
Total net assets	130,116	111,521	1,154,642
Total liabilities and net assets	¥296,055	¥271,011	\$2,627,167

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Comprehensive Income

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	(Million yen)		(U.S. thousand dollars) (Note 6)
	March 31		March 31
	2016	2015	2016
Net sales	¥336,184	¥267,284	\$2,983,265
Cost of sales (Notes 20 and 21)	272,832	215,641	2,421,092
Gross profit	63,351	51,642	562,172
Selling expenses (Note 19)	18,812	17,729	166,939
General and administrative expenses (Notes 19 and 21)	23,660	19,029	209,957
Total selling, general and administrative expenses	42,472	36,759	376,896
Operating income	20,878	14,883	185,275
Other income:			
Interest income	189	169	1,680
Dividend income	363	304	3,224
Foreign exchange gain	101	177	903
Amortization of negative goodwill	59	59	531
Equity in earnings of affiliates (Note 4)	503	113	4,470
Land and house rental revenue	227	173	2,019
Refunded foreign taxes	—	168	—
Miscellaneous income	329	303	2,926
Total other income	1,775	1,470	15,756
Other expenses:			
Interest expenses	498	463	4,426
Miscellaneous expenses	159	107	1,418
Total other expenses	658	570	5,845
Ordinary income	21,995	15,783	195,187
Extraordinary income:			
Gain on sales of property, plant and equipment (Note 23)	168	167	1,495
Gain on sales of investments in securities	374	300	3,321
Other	0	9	0
Total extraordinary income	542	477	4,818
Extraordinary loss:			
Loss on sales of property, plant and equipment (Note 24)	76	36	676
Loss on disposal of property, plant and equipment (Note 22)	590	138	5,238
Impairment loss (Note 26)	540	457	4,797
Loss on liquidation of subsidiaries and affiliates	—	160	—
Special retirement benefits	113	125	1,008
Environmental expenditures	528	—	4,685
Other	39	130	350
Total extraordinary loss	1,888	1,049	16,757
Income before income taxes	20,650	15,211	183,248
Income taxes (Note 27)			
Current	8,094	3,139	71,826
Deferred	(1,380)	1,904	(12,248)
Total income taxes	6,713	5,043	59,578
Net income	13,936	10,168	123,670
(Net income attributable to:)			
Shareholders of the parent company	13,652	9,810	121,152
Non-controlling interests	283	357	2,518
Other comprehensive income (Note 25)			
Net unrealized gain (loss) on securities	(1,487)	1,541	(13,198)
Deferred gain (loss) on hedges	85	(6)	758
Foreign currency translation adjustments	(2,710)	5,959	(24,053)
Retirement benefits reserves adjustment	(1,886)	(3,500)	(16,736)
Share of other comprehensive loss of affiliates accounted for using the equity method	(157)	(562)	(1,397)
Total other comprehensive income	(6,155)	3,431	(54,627)
Comprehensive income (Note 25)	¥ 7,780	¥ 13,599	\$ 69,042
(Comprehensive income attributable to:)			
Shareholders of the parent company	¥ 7,708	¥ 12,948	\$ 68,403
Non-controlling interests	72	650	639
		(Yen)	(U.S. dollars)
Net income per share (Note 32)	¥118.72	¥88.59	\$1.05
Cash dividends per share	30.00	22.00	0.26

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	Number of shares of common stock (Thousands)	Shareholders' equity					Total shareholders' equity (Million yen)
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total	
						shareholders' equity	
Balance at March 31, 2014	113,671	¥ 8,024	¥ 9,239	¥76,009	¥(2,620)	¥ 90,652	
Cumulative effects of changes in accounting policies	—	—	—	28	—	28	
Restated balance	113,671	¥ 8,024	¥ 9,239	¥76,038	¥(2,620)	¥ 90,680	
Conversion of the convertible bonds with stock acquisition rights	—	—	—	—	—	—	
Cash dividends	—	—	—	(2,221)	—	(2,221)	
Net income attributable to shareholders of the parent company	—	—	—	9,810	—	9,810	
Purchase of treasury stock	—	—	—	—	(5)	(5)	
Disposal of treasury stock	—	—	0	—	206	206	
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	(1)	—	(1)	
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	
Net changes of items other than shareholders' equity	—	—	—	—	—	—	
Balance at March 31, 2015	113,671	¥ 8,024	¥ 9,239	¥83,626	¥(2,419)	¥ 98,469	
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	
Restated balance	113,671	¥ 8,024	¥ 9,239	¥83,626	¥(2,419)	¥ 98,469	
Conversion of the convertible bonds with stock acquisition rights	9,938	6,992	7,455	—	621	15,069	
Cash dividends	—	—	—	(2,777)	—	(2,777)	
Net income attributable to shareholders of the parent company	—	—	—	13,652	—	13,652	
Purchase of treasury stock	—	—	—	—	(6)	(6)	
Disposal of treasury stock	—	—	0	—	161	161	
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	—	—	—	
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(900)	—	—	(900)	
Net changes of items other than shareholders' equity	—	—	—	—	—	—	
Balance at March 31, 2016	123,610	¥15,016	¥15,794	¥94,501	¥(1,642)	¥123,669	
	Accumulated other comprehensive income						
	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Accumulated adjustments on retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets (Million yen)
Balance at March 31, 2014	¥3,102	¥(29)	¥ 5,310	¥(2,194)	¥6,189	¥2,848	¥ 99,690
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	28
Restated balance	¥3,102	¥(29)	¥ 5,310	¥(2,194)	¥6,189	¥2,848	¥ 99,718
Conversion of the convertible bonds with stock acquisition rights	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	—	—	(2,221)
Net income attributable to shareholders of the parent company	—	—	—	—	—	—	9,810
Purchase of treasury stock	—	—	—	—	—	—	(5)
Disposal of treasury stock	—	—	—	—	—	—	206
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	—	—	—	(1)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	1,536	(42)	5,231	(3,587)	3,138	875	4,013
Balance at March 31, 2015	¥4,639	¥(72)	¥10,542	¥(5,781)	¥9,327	¥3,723	¥111,521
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—
Restated balance	¥4,639	¥(72)	¥10,542	¥(5,781)	¥9,327	¥3,723	¥111,521
Conversion of the convertible bonds with stock acquisition rights	—	—	—	—	—	—	15,069
Cash dividends	—	—	—	—	—	—	(2,777)
Net income attributable to shareholders of the parent company	—	—	—	—	—	—	13,652
Purchase of treasury stock	—	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	—	—	—	—	161
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	(900)
Net changes of items other than shareholders' equity	(1,432)	94	(2,811)	(1,794)	(5,944)	(660)	(6,604)
Balance at March 31, 2016	¥3,206	¥ 22	¥ 7,730	¥(7,576)	¥3,383	¥3,063	¥130,116

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (Continued)

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	Number of shares of common stock (Thousands)	Shareholders' equity					Total shareholders' equity
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	(U.S. thousand dollars) (Note 6)	
Balance at March 31, 2015	113,671	\$ 71,204	\$ 81,988	\$742,089	\$(21,469)	\$ 873,812	
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	
Restated balance	113,671	\$ 71,204	\$ 81,988	\$742,089	\$(21,469)	\$ 873,812	
Conversion of the convertible bonds with stock acquisition rights	9,938	62,047	66,158	—	5,516	133,722	
Cash dividends	—	—	—	(24,648)	—	(24,648)	
Net income attributable to shareholders of the parent company	—	—	—	121,152	—	121,152	
Purchase of treasury stock	—	—	—	—	(57)	(57)	
Disposal of treasury stock	—	—	0	—	1,435	1,436	
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	—	—	—	
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(7,989)	—	—	(7,989)	
Net changes of items other than shareholders' equity	—	—	—	—	—	—	
Balance at March 31, 2016	123,610	\$133,251	\$140,158	\$838,593	\$(14,575)	\$1,097,428	

	Accumulated other comprehensive income						
	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Accumulated adjustments on retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2015	\$41,169	\$(639)	\$93,551	\$(51,306)	\$82,774	\$33,046	\$ 989,633
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—
Restated balance	\$41,169	\$(639)	\$93,551	\$(51,306)	\$82,774	\$33,046	\$ 989,633
Conversion of the convertible bonds with stock acquisition rights	—	—	—	—	—	—	133,722
Cash dividends	—	—	—	—	—	—	(24,648)
Net income attributable to shareholders of the parent company	—	—	—	—	—	—	121,152
Purchase of treasury stock	—	—	—	—	—	—	(57)
Disposal of treasury stock	—	—	—	—	—	—	1,436
Decrease due to acquisition of shares in subsidiaries and affiliates	—	—	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	(7,989)
Net changes of items other than shareholders' equity	(12,711)	839	(24,950)	(15,925)	(52,748)	(5,857)	(58,606)
Balance at March 31, 2016	\$28,457	\$ 199	\$68,600	\$(67,232)	\$30,025	\$27,188	\$1,154,642

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	(Million yen)		(U.S. thousand dollars) (Note 6)
	March 31		March 31
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥20,650	¥15,211	\$183,248
Adjustments for:			
Depreciation	4,587	4,157	40,708
Impairment loss	540	457	4,797
Amortization of goodwill	1,038	914	9,215
Amortization of negative goodwill	(59)	(59)	(531)
Interest and dividend income	(552)	(474)	(4,905)
Interest expenses	498	463	4,426
Loss on disposal or sales of property, plant and equipment	497	7	4,416
(Increase) decrease in notes and accounts receivable	(28,060)	2,624	(249,006)
Decrease (increase) in inventories	2,189	(2,686)	19,432
Increase (decrease) in notes and accounts payable	11,964	(3,657)	106,168
Increase (decrease) in advances received on uncompleted construction	349	(645)	3,105
Other, net	(3,608)	(3,185)	(32,024)
Subtotal	10,035	13,127	89,052
Interest and dividend received	554	473	4,921
Interest paid	(501)	(486)	(4,446)
Income taxes paid	(3,032)	(7,021)	(26,912)
Other, net	150	202	1,337
Net cash provided by operating activities	7,206	6,295	63,952
Cash flows from investing activities:			
Acquisition of shares in newly consolidated subsidiaries	—	(3,140)	—
Investments in time deposits	(96)	(91)	(852)
Proceeds from refund of time deposits	107	263	954
Payments for purchase of property, plant and equipment	(3,158)	(3,666)	(28,025)
Proceeds from sales of property, plant and equipment	280	253	2,485
Payments for purchase of investments in securities	(22)	(227)	(199)
Payments for acquisition of shares in subsidiaries and affiliates	—	(121)	—
Collection of loans receivable	4	4	37
Other, net	785	878	6,971
Net cash used in investing activities	(2,099)	(5,846)	(18,628)
Cash flows from financing activities:			
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,556)	—	(13,810)
(Decrease) increase in short-term borrowings, net	(1,156)	834	(10,264)
Proceeds from long-term borrowings	1,841	1,512	16,342
Repayment of long-term borrowings	(4,917)	(592)	(43,637)
Proceeds from disposal of treasury stock	161	206	1,436
Payments for purchase of treasury stock	(6)	(5)	(57)
Payments of cash dividends	(2,794)	(2,218)	(24,799)
Other, net	(274)	(245)	(2,433)
Net cash used in financing activities	(8,702)	(509)	(77,224)
Effect of exchange rate change on cash and cash equivalents	(1,401)	2,170	(12,439)
Net (decrease) increase in cash and cash equivalents	(4,996)	2,109	(44,340)
Cash and cash equivalents at beginning of year	54,081	51,852	479,909
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	119	—
Cash and cash equivalents at end of year (Note 28)	¥49,084	¥54,081	\$435,569

The accompanying notes are an integral part of these statements.

Daifuku Global Network

(As of July 1, 2016)

Americas

Daifuku North America Holding Company

Farmington Hills, MI, U.S.A.

Daifuku America Corporation

Main Office & Plant: Reynoldsburg, OH, U.S.A.

Other Offices: Arizona, Austin, Indiana, Kentucky, Michigan, Tennessee

Jervis B. Webb Company

World Headquarters: Farmington Hills, MI, U.S.A.

Boyne City Manufacturing Plant: Boyne City, MI, U.S.A.

Carlisle Forging Plant: Carlisle, SC, U.S.A.

Harbor Springs Manufacturing Plant: Harbor Springs, MI, U.S.A.

Elite Line Services, Inc.

Carrollton, TX, U.S.A.

Wynright Corporation

World Headquarters: Elk Grove, IL, U.S.A.

Other Offices: California, Florida, Indiana, Kentucky, Michigan, Utah

Other Plants: Illinois, New Hampshire, Texas

Logan Teleflex, Inc.

Louisville, KY, U.S.A.

Contec DTx Inc.

Melbourne, FL, U.S.A.

Daifuku Canada Inc.

Mississauga, Ontario, Canada

Jervis B. Webb Company of Canada, Ltd.

Hamilton, Ontario, Canada

Daifuku de México, S.A. de C.V.

Querétaro, Qro., México

Europe

Daifuku Europe Ltd.

Main Office: Milton Keynes, U.K.

Germany Branch: Moenchengladbach, Germany

Sweden Branch: Astorp, Sweden

Jervis B. Webb Company, Ltd.

Milton Keynes, U.K.

Daifuku Logan Ltd.

Main Office: Hull, U.K.

France Branch: Ivry-sur-Seine, France

South East Sales and Service Office: Reigate, U.K.

Asia Pacific

BCS Airport Systems Pty Limited

Hallam, VIC, Australia

BCS Logistics Solutions Pty Limited

Hallam, VIC, Australia

BCS Infrastructure Support Pty Limited

Hallam, VIC, Australia

Daifuku (China) Co., Ltd.

Shanghai, China

Daifuku (China) Manufacturing Co., Ltd.

Main Office: Shanghai, China

Shenzhen Branch: Shenzhen, China

Hongqiao Office: Shanghai, China

Daifuku (China) Automation Co., Ltd.

Main Office: Changshu, Jiangsu, China

Other Branches: Beijing, Guangzhou, Shanghai, Tianjin, Wuhan

Other Offices: Changchun, Chongqing, Fuzhou, Nansha, TEDA

Zhengzhou

Daifuku (Suzhou) Cleanroom Automation Co., Ltd.

Suzhou, Jiangsu, China

Contec (Shanghai) Co., Ltd.

Main Office: Shanghai, China

Beijing Branch Office: Beijing, China

Daifuku India Private Limited

Main Office: Haryana, India

Bangalore Office: Bangalore, India

ForgePro India Private Limited

Bangalore, India

P.T. Daifuku Indonesia

Main Office: Jakarta, Indonesia

Deltamas Office: Bekasi, Indonesia

Daifuku Korea Co., Ltd.

Main Office / R&D Center: Incheon, Korea

Plant: Incheon, Korea

Clean Factomation, Inc.

Main Office: Gyeonggi-do, Korea

Asan Plant: Chungcheongnam-do, Korea

Hallim Machinery Co., Ltd.

Gyeonggi-do, Korea

Daifuku (Malaysia) Sdn. Bhd.

Selangor D.E., Malaysia

BCS Integration Solutions Sdn. Bhd.

Kuala Lumpur, Malaysia

BCS Group Limited

Auckland, New Zealand

Daifuku Mechatronics (Singapore) Pte. Ltd.

Techplace I, Singapore

Singapore Contec Pte. Ltd.

Techplace I, Singapore

Taiwan Daifuku Co., Ltd.

Main Office & Plant: Tainan, Taiwan

Hsinchu Branch: Hsinchu, Taiwan

Taichung Plant: Taichung, Taiwan

Taiwan Contec Co., Ltd.

Xinbei, Taiwan

Daifuku (Thailand) Ltd.

Main Office & Plant: Chonburi, Thailand

Bangkok Office: Bangkok, Thailand

Ban Pho Office: Cha Cheng Sao, Thailand

Pinthong Plant: Chonburi, Thailand

Corporate Data

(As of March 31, 2016)

Company name	Daifuku Co., Ltd.
Established	May 20, 1937
Paid-in capital	15,016.1 million yen
Employees	7,835 (consolidated)
Ratings	Rating and Investment Information, Inc. (R&I) Long-term: A- (single A minus) Short-term: a-1 (a - one)

Principal Locations

Headquarters	3-2-11 Mitejima, Nishiyodogawa-ku Osaka 555-0012 Japan Tel: 81-6-6472-1261 Fax: 81-6-6476-2561
Tokyo Head Office*	2-14-5 Shiba, Minato-ku, Tokyo 105-0014 Japan Tel: 81-3-3456-2231 Fax: 81-3-3456-2258
Shiga Works	1225 Nakazajji, Hino-cho, Gamo-gun Shiga 529-1692 Japan Tel: 81-748-53-0321 Fax: 81-748-52-2963
Komaki Works	4-103 Komakihara, Komaki-shi Aichi 485-8653 Japan Tel: 81-568-74-1500 Fax: 81-568-74-1600

* We plan to relocate in September 2016.

14FL, Shiodome-Shibarikyū Building, 1-2-3 Kaigan, Minato-ku, Tokyo

Global Branches

Czech	Tolarova 317, 533 51 Pardubice, Czech Republic Tel: 420-466-053-810 Fax: 420-466-053-816
Germany	Luerriper Strasse 52, D-41065 Moenchengladbach, Germany Tel: 49-2161-49-695-0 Fax: 49-2161-49-695-20
Philippines	30FL, Burgundy Corporate Tower 252 Sen. Gil Puyat Ave., Makati City 1200 Philippines Tel: 63-2-884-2778 Fax: 63-2-884-2789
St. Petersburg (Russia)	Business Center Ligovskiy 266, Office 3.6 266/V, Ligovskiy Pr., St. Petersburg 196084 Russia Tel: 7-812-458-7336 Fax: 7-812-458-7331
Istanbul (Turkey)	Gülbahar Mah. Cemal Sahir Sokak, Urfalı is Hanı No: 10 Kat: 1 Gayrettepe - Sisli, Istanbul, Turkey Tel: 90-212-213-9393 Fax: 90-212-213-9394
UK	Unit 5, Dunfermline Court, Kingston Milton Keynes MK10 0BY U.K. Tel: 44-1908-288-780 Fax: 44-1908-288-781

Subsidiaries and Affiliates in Japan

Contec Co., Ltd.

Contec Software Development Co., Ltd.

Daifuku Business Service Corporation

Daifuku Manufacturing Technology Co., Ltd.

Daifuku Plusmore Co., Ltd.

Daifuku Renace Co., Ltd.

Hiniaratakan Corporation

Iwasaki Seisakusho Co., Ltd.

Investor Information

(As of March 31, 2016)

Number of authorized shares	250,000,000 shares
Total number of shares issued	123,610,077 shares
Number of shareholders	14,743
General meeting of shareholders	June
Stock exchange listing	First Section of Tokyo Stock Exchange
Stock transfer agent	Sumitomo Mitsui Trust Bank, Limited Transfer Agent Department 4-5-33 Kitahama, Chuo-ku, Osaka

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (trust account)	10,263	8.30
The Master Trust Bank of Japan, Ltd. (trust account)	8,536	6.91
Mizuho Bank, Ltd.	5,490	4.44
Sumitomo Mitsui Banking Corporation	4,080	3.30
Daifuku Supplier Shareholder Association	3,899	3.15
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,833	3.10
Nippon Tochi-Tatemono Co., Ltd.	3,207	2.59
Nippon Life Insurance Company	2,745	2.22
Daifuku Employees' Shareholding Association	1,829	1.48
Daifuku Co., Ltd.	1,825	1.48

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 at the time this report was prepared, 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;
3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions;
and 4) the impact of natural disasters and intentional threats, war, acts of terrorism, strikes, and/or plagues. Moreover, there are other factors that may adversely affect the Company's performance.

For further information, please contact:

dfk_ir@ha.daifuku.co.jp