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.

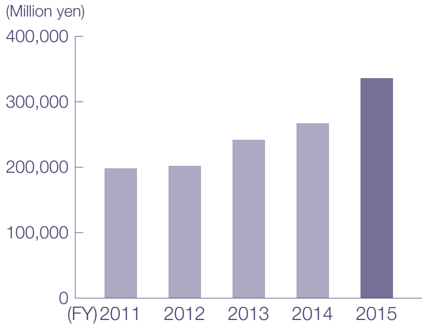
Orders remained favorable in major regions and core sectors, such as distribution, food, and pharmaceuticals in Japan, other Asian regions, and North America, semiconductors and flat-panel displays (FPDs) in Japan and other Asian regions, and automobiles in North America. In Europe, demand for capital 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.

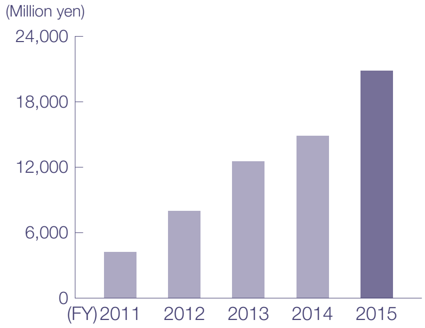
Consequently, the Group posted operating income of 20,878 million yen, up 40.3% from a year earlier. Net income attributable to shareholders of the parent company was 13,652 million yen, up 39.2%. This was mainly due to the favorable results, despite an extraordinary loss from the review of non-current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

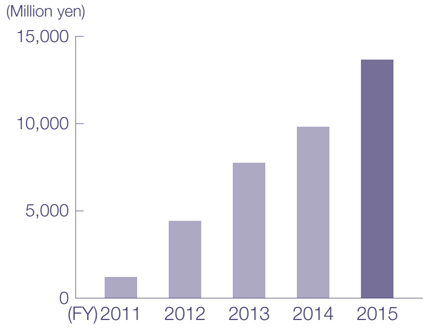
Net Sales



Operating Income



Net Income Attributable to Shareholders of the Parent Company



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

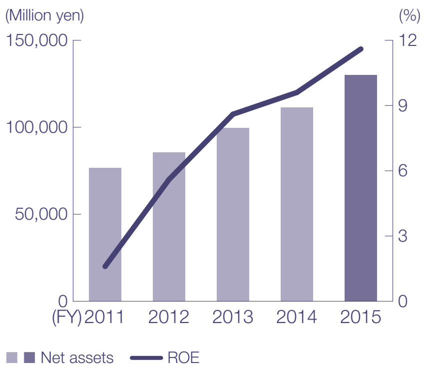
In systems for manufacturers and distributors, orders remained firm, bolstered by large projects for the confectionery, online industrial supply, transportation, and other sectors.

In systems for semiconductor manufacturers, business remained firm.

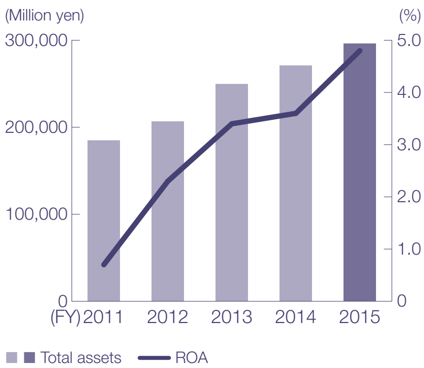
In automobile production line systems, Daifuku North America received multiple large orders for new automobile paint line systems for an American automaker and achieved further cost improvements, mainly for continued orders from Japanese automakers. This business has grown to a substantial revenue stream 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

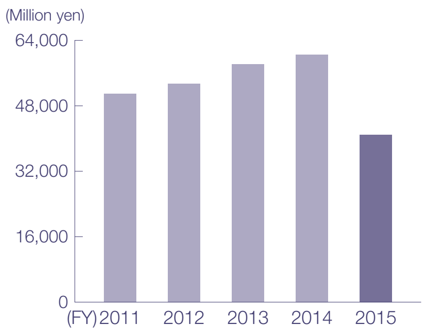
Net Assets and ROE



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.)