

Value Innovation for the Next Stage



**Daifuku Report
2019**





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Editorial Policy

This report presents a brief summary of material information particularly relevant to the Daifuku Group's value creation in line with international frameworks, including IIRC*, and GRI** standards. See the Company website for more detailed information: www.daifuku.com

The report covers 56 companies, including the parent company, 53 consolidated subsidiaries and one equity-method affiliates (as of March 31, 2019).
*IIRC: International Integrated Reporting Council
**GRI: Global Reporting Initiative

Period covered

Fiscal 2018 (April 2018 to March 2019)
Whenever it is appropriate to include historical background information and data or recent examples, reporting may include matters outside this time period.

Front cover design

Through this report, Daifuku communicates past, current and future efforts to provide value to society. With specific focus on the future, we use one of our currently running corporate advertisements, which highlights our stance of "we go where customer needs are headed." We will continue to embrace and flexibly respond to changing logistic needs.

To Our Stakeholders



Akio Tanaka
Chairman

Hiroshi Geshiro
President and CEO

Sound and sustainable growth by providing the best solutions

Since its founding in 1937, Daifuku has been providing its customers worldwide with the best solutions, as a manufacturer and system integrator of a comprehensive range of material handling systems.

Now, the emergence of e-commerce has given rise to new lifestyle needs and a fresh sense of value and brought about significant structural change in the flow of commerce and logistics. As a result, material handling systems are becoming the linchpin of logistics and have attracted attention as a key component of social infrastructure.

Daifuku seizes on these changes and treats them as a business opportunity. By leveraging our technology and knowhow cultivated over many years, we will continue to respond to the diversified and sophisticated logistical requirements of our customers.

In doing so, we are targeting further growth by reflecting the views and demands from all of our stakeholders in our management.



Chairman



President and CEO

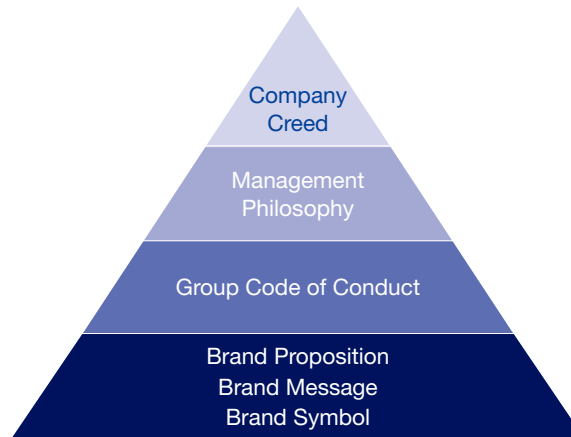
Corporate Policy

Company Creed



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

Corporate Policies Structure



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.

Group Code of Conduct

This Group Code of Conduct defines the fundamental principles we (all directors, officers and employees of the Daifuku Group) should follow in order to realize the Daifuku Group company creed and management philosophy.

In performing our duties as members of the Daifuku Group, we act faithfully in accordance with this Code under the following Basic Stance.

Basic Stance

- We will act in accordance with applicable laws, rules, regulations, social norms and ethics.
- We will place safety as a major premise in all aspects of our business activities.
- We will remain committed to the creed of “Hini Arata” as we take on new challenges and make changes for the better.

Our Business

As a manufacturer and system integrator of material handling systems, Daifuku has been offering its solutions to respond to the challenges of customers in a wide range of industries.

Manufacturing and Distribution Systems

FA&DA

Factory & Distribution Automation



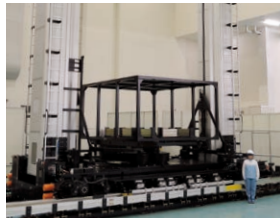
Provides storage, transport, sorting and picking systems to distributors and manufacturers in wide-ranging sectors, including e-commerce.

Details on pages 24-25

Cleanroom Production Line Systems

eFA

Electronics Factory Automation



Provides cleanroom storage and transport systems to semiconductor and flat-panel display factories essential for smartphones and tablet terminals.

Details on pages 26-27

Automobile Production Line Systems

AFA

Automotive Factory Automation



Provides automobile production line systems to automakers worldwide, centered around Japanese companies. The systems convey car bodies through the entire manufacturing process, such as press, weld, paint, and assembly.

Details on pages 28-29

Airport Technologies

ATec



Provides a broad range of automated systems for airports, including baggage handling systems, to maintain safety, efficiency, and reliability.

Details on pages 30-31

Car Wash Machines

AWT

Auto Washing Technologies



Provides car wash machines and related equipment for service stations, car dealers, and self-service car washes.

Details on page 32

Electronics

Contec



Provides high-end industrial personal computers, circuit boards for measurement control, and network-related products through Daifuku's subsidiary Contec Co., Ltd.

Details on page 33

Our Growth History

Creating material handling innovations for more than 80 years

As a comprehensive manufacturer of material handling systems and equipment, Daifuku has been contributing to the modernization of material handling by constantly striving to move ahead of the times and catering to customer needs.



Japan's first passenger automobile factory

Motorization as the road to fortune and dramatic growth

After World War II, the motorization of Japan gathered momentum. Kenjiro Masuda, the then president of Daifuku, believed that "Conveyors will no longer be simply for carrying objects from one place to another. They will be systematized and gain increasingly advanced functions. Although they do not sell well at present, the day when they will be needed is sure to come." He had faith that the company fortunes lay in conveyors for automobile factories. After forming a technical partnership with Jervis B. Webb Company (hereinafter, "Webb") of the U.S. in 1957, Daifuku received successive orders for large projects, leading to dramatic growth.



The first delivered Rackbuil system

The "living" warehouse brings a distribution revolution

In the 1960s, the amount of cargo began to exceed the handling capacity of delivery centers and it became common to see cargo piled up. Daifuku, which had begun to explore new fields, developed the Rackbuil, a pioneering automated warehousing technology, with the first system delivered in 1966. As a "moving, living warehouse," the Rackbuil was considered a revolutionary system that changed the warehouse concept, cementing its position as a key component in production lines and as a mainstay Daifuku product.



Transport system for semiconductor factories

Providing quality products and services in response to growing material handling needs

The 1980s saw a rapid increase in demand for cleanroom transport systems for semiconductor factories, resulting from the spread of personal computers. Continually developed over the years, the systems cater to needs of customers seeking state-of-the-art systems.

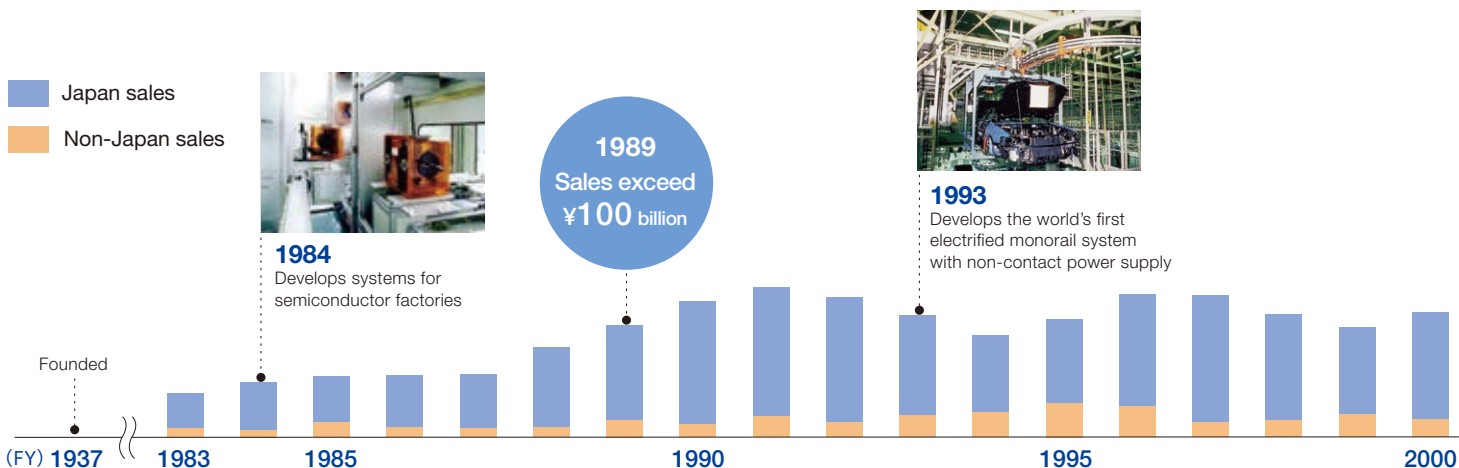
In 2002, Daifuku received an order for a fifth-generation LCD panel transport and storage system from a South Korean manufacturer for the first time. This system later evolved into a transport system for glass substrates for large-screen TVs. Since 2015, China has been experiencing a construction boom in cleanroom facilities.



Automated sorters in a distribution center

Since 2000, the individualization and diversification of consumption and the trend toward high-mix, low-volume handling accelerated in the logistics field has led to the rapid spread of convenience stores and home delivery services. Manufacturers and wholesalers were faced with a growing need for material handling systems for high-mix, small-lot, high-frequency deliveries. In the storage field, growing awareness of food safety and security led to demand for freezing technologies, temperature control in cold chain, traceability enabled by the use of RFID^{*1}, hygiene control according to HACCP^{*2}, and other developments.

^{*1} Radio Frequency Identification
^{*2} Hazard Analysis and Critical Control Point



Material handling technologies are now essential for society. Daifuku's technologies are applied to a wide range of sectors and contribute to such areas as factory automation for semiconductors, flat-panel displays, automobiles, and other manufacturers; laborsaving at distribution centers; and streamlining of airport operations.

Global increase in the movement of people and goods

In 2007, Webb joined the Daifuku Group through M&A, enabling Daifuku to enter the airport sector. Since then, by working closely with affiliates in Europe, Oceania, and the U.S., Daifuku has achieved growth primarily in non-Japan markets. In 2018, Daifuku received its first order in Japan and is steadily building a domestic track record.

In recent years, airport and in-flight security has been strengthened all over the world, which has resulted in strict security checks of passengers and baggage. In addition, in parallel with year-on-year air traveler increases, airports now seek to become "smart airports" that provide automated passenger procedures and quicker security checks, enabled by self-baggage-check-in systems, and entry and exit inspections based on facial recognition, among other means.



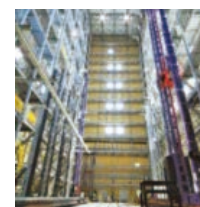
Self-service baggage check-in system

Society supported by non-stop logistics

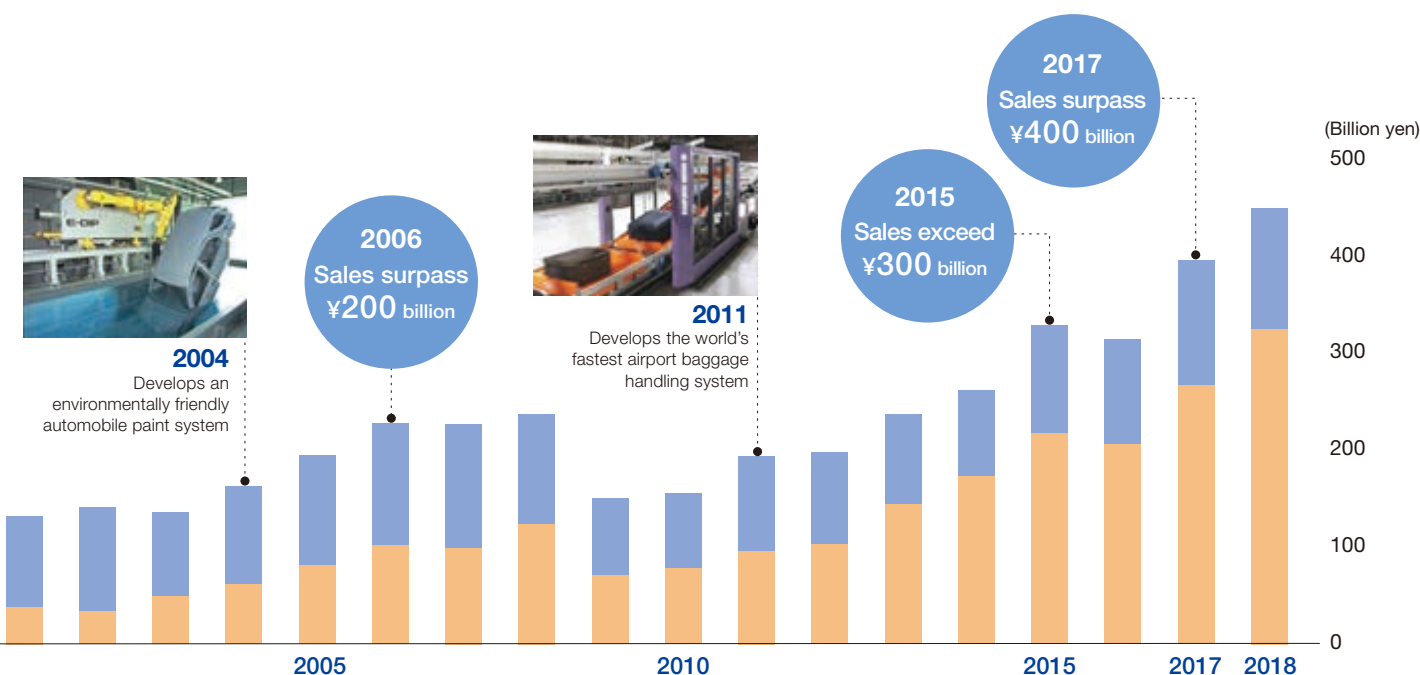
Labor shortages due to the declining birthrate and aging population are a serious problem in every industry. Daifuku helps customers improve their productivity by automating distribution centers.

At present, companies are facing challenges related to how to ensure non-stop logistics, which serve as a social infrastructure, and how to restore them quickly if they do stop. Daifuku supports the stable operation of customers' facilities with its System Support Center providing support around the clock all year round, and with preventive maintenance and regular inspections of their logistics systems.

After the 1995 Great Hanshin-Awaji Earthquake, supply chain and logistics disruptions caused by natural disasters began to be recognized as a major risk for society. Daifuku promotes the seismic isolation of logistics facilities and implements earthquake countermeasures for automated warehouses to help customers resume their business activities quickly in emergency situations.



Daifuku's own sway-control technology developed at its high-rise testing tower within the Shiga Works



CEO Message



Hiroshi Geshiro
President and CEO

Creating New Value in Response to
Our Customers' Logistics Needs

Daifuku and changes in the business environment

Our business environment has seen tumultuous change in recent years owing to globalization and its effects; increasing movement of people and goods, technological innovations such as IoT (Internet of things), ICT (information and communications technology), and AI (artificial intelligence), and changes in distribution modes. Logistics are also changing quickly in response to social change, and companies are being compelled to develop and provide new logistics solutions. Much is expected of Daifuku as well. Although the hurdles we must clear are high and challenging, we see that the material handling market is growing quickly, providing business opportunities for Daifuku.

Review of fiscal 2018

Consolidated results for fiscal 2018 are as follows: Orders increased 3.2% year on year to 503.3 billion yen, net sales rose 13.5% to 459.4 billion yen, operating income grew 37.0% to 54.6 billion yen, and net income attributable to shareholders of the parent company was up 36.4% to 39.5 billion yen. This period, we achieved new record highs in terms of orders, net sales, and operating income, with an ROE of 19.5% (17.7% in the previous period).

Among the factors contributing to increased orders were robust capital investment in the semiconductor sector in East Asia and North America, large investments underpinned by e-commerce in Japan, and demand for the upgrading of airport baggage handling systems in North America.

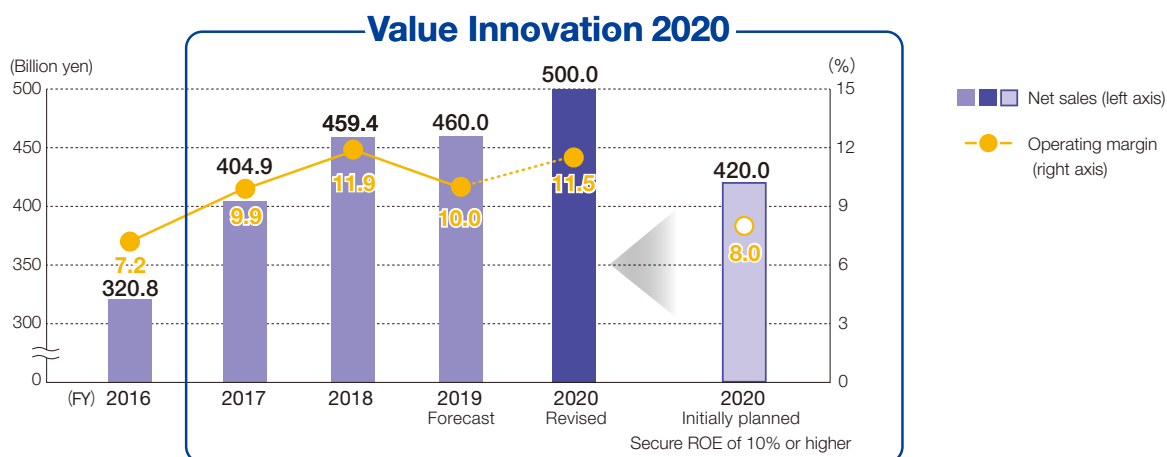
We have also succeeded with efforts to bolster our production framework in recent years, which allows us to accommodate a rapidly rising order volume and achieve significant sales growth.

Operating income also grew substantially, reflecting rising non-consolidated sales and greater productivity as well as the improved performance at consolidated subsidiaries dealing in semiconductors, flat-panel display (FPD) technologies, and OLED solutions.

Progress with the Value Innovation 2020 medium-term business plan

In 2017, Daifuku established the Value Innovation 2020 medium-term business plan in which we created a set of management targets for fiscal 2020 as a way station to achieve our goals for the future. Since we achieved our initial targets in fiscal 2018—well ahead of the final year of the plan—we have re-examined our key performance indicators (see figure below).

Management targets



CEO Message

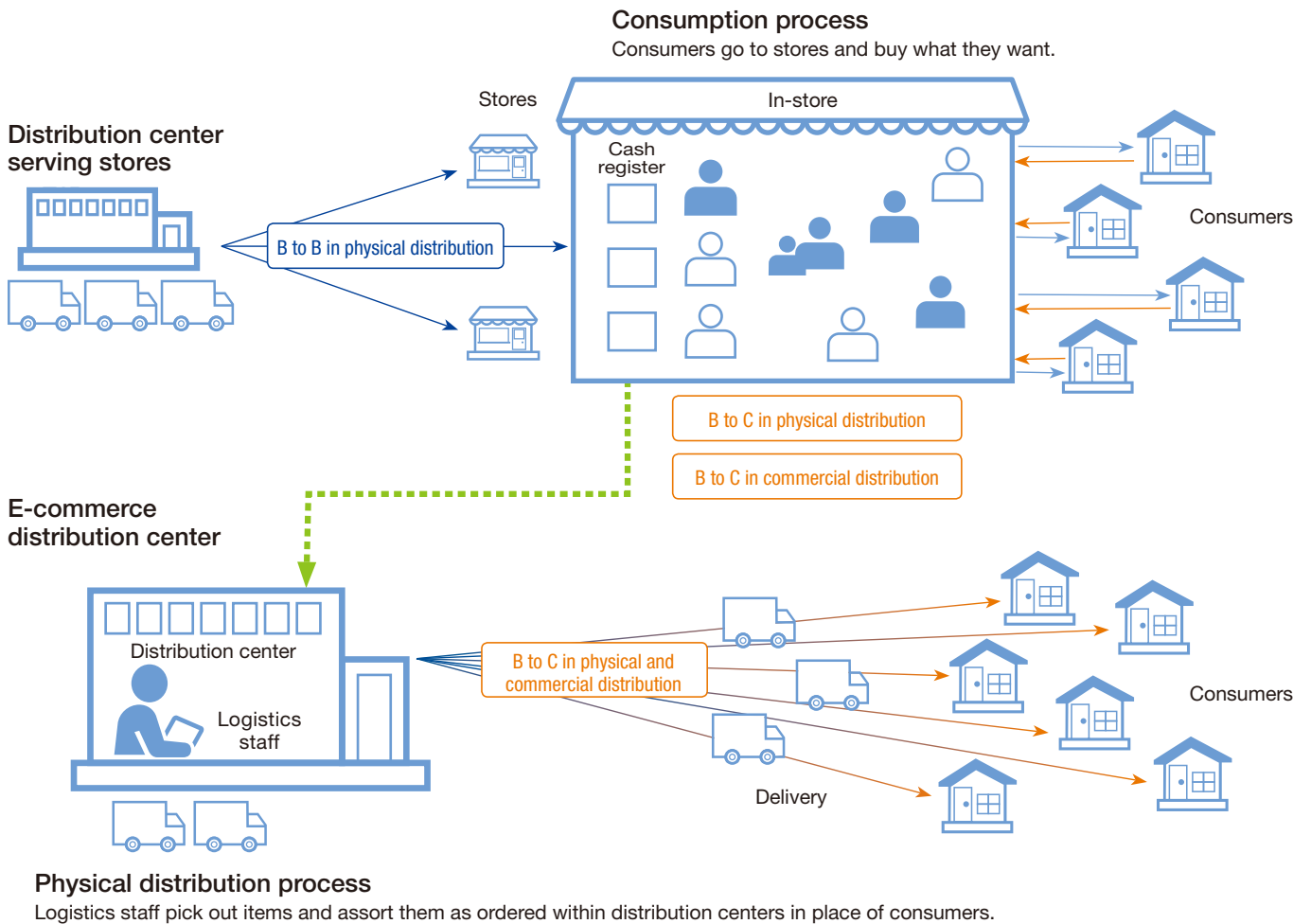
Priority measures

1. Provide smart logistics for customers
2. Establish Airport Technologies as the fourth core business
3. Pursue the best combination of localization and globalization

In e-commerce, a rapidly growing market, both commercial and physical distribution channels are “B to C (business to consumer).” Commercial distribution serving stores such as supermarkets is “B to B to C.” For physical distribution, distribution centers conduct “B to B” while consumers conduct “B to C.” Distribution centers for retail supply products directly to stores (B to B), and consumers pick up the products in the stores and put them in shopping carts (B to C). At e-commerce distribution centers, this process has been replaced by logistics staff picking out ordered items (B to C). When this consumer behavior at stores is replaced by work done at distribution centers, logistics workloads balloon and it becomes extremely difficult to find sufficient personnel to handle the work. Partially as a result of workforce shortages in recent years, there has been a dramatic increase in demand for laborsaving and automation at e-commerce B to C distribution centers. It is now commonplace in e-commerce for products to arrive at consumers’ doorsteps on the day they are ordered or on the following day. Consequently, the distribution centers that ship these products out are required to have systems that either will not stop working—or will quickly recover if they do stop working—and are robust like other social infrastructure such as public transportation, water, power, gas and other lifelines. Daifuku will continue to develop products and systems for customers in a diverse array of sectors, providing them with Smart Logistics worthy of social infrastructure status.

The Airport Technologies business saw orders nearly double between fiscal 2016 and 2018, and it continues to emerge as our fourth core business. While we have to date mostly operated this business in North America, Europe, Asia (excluding Japan), and Oceania, we began taking orders for systems for airports in Japan for the first time in fiscal 2018. Going forward, we will expand the business from conventional baggage handling systems to include software with high-growth potential, and smart airport self-service solutions.

Our non-Japan sales ratio was 72% in fiscal 2018, and we now have business facilities in 26 countries and regions. We are focusing on both globalization and localization and achieving self-reliance in sales, production, installation, and service in close connection with local communities. Investment in localized production is an area of particular focus, and in fiscal 2018 we completed an extension on a production facility in South Korea. With the aim to bolster production capacity, in fiscal 2019, along with the construction of new factories in the U.S., China, and Thailand, we acquired a material handling system manufacturer in India.



Daifuku growth enablers

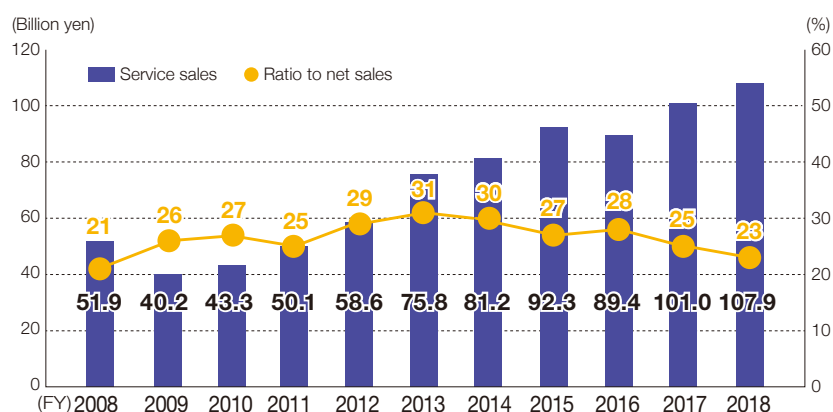
The Daifuku strengths that boost customers' competitive edge

Daifuku has been the material handling industry sales leader for five years running (according to the U.S. trade magazine *Modern Materials Handling*). Total sales among the journal's 20 highest ranked companies have risen 34% over the past five years, indicating market growth. Now, with new players from emerging nations entering the market along with the established Western manufacturers, competition is intensifying.

CEO Message

Our strength lies in our in-house development of hardware and software, and our comprehensive support system for customers that includes consulting, system building, production, installation, and maintenance. We will establish these strengths at a global level toward achieving further success amid fierce market competition.

For the systems we deliver, in addition to providing maintenance services, we develop equipment comprising state-of-the-art electronic parts and make replacements whenever parts go out of production, even after many years of use. This support system ensures stable operation for customers using Daifuku products. Although ensuring stable operation and repaying the trust placed in us is a big responsibility, it has provided Daifuku with a large number of assets and customers. Services are a major part of our business, accounting for more than 20% of total sales (see figure below).



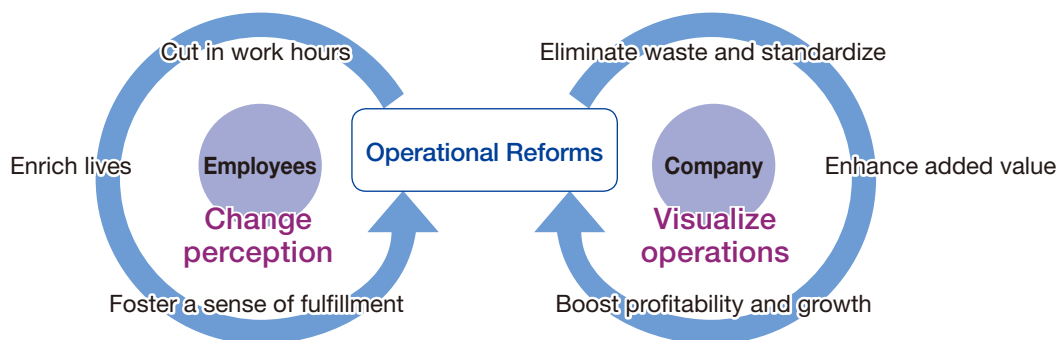
Promoting greater social sustainability

Recent years have seen calls for a greater focus on governance, the environment, and society. In fiscal 2019, Daifuku established an 11-member Board of Directors, four of whom are outside directors, and built the Audit Division that aims to strengthen internal control and is led by an officer with extensive auditing experience. Going forward, we will continue to construct a well-balanced corporate governance structure with an eye to even more transparent management. In addition, to increase the effectiveness of our internal whistleblowing system, we expanded the system to allow whistleblowing from partner companies as well as Group companies. Future efforts will focus on achieving an ever higher standard in fairness and ethics while building a more open corporate culture.

Since 2011, Daifuku has contributed to society through an environmental certification program for its products, which aims at energy and resource conservation, as well as pollution control. We are now taking this a step further—starting last fiscal year, we have been carrying out an environmental management strategy aimed at decarbonizing society and achieving the SDGs (Sustainable Development Goals). As part of these efforts, in May 2019 we declared our support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations. In the future, we plan to disclose non-financial information within the framework of the TCFD recommendations.

For our customers, we would like our systems to help solve their challenges and improve their corporate value, including resolving workforce shortages they confront and answering their smart logistics needs.

Daifuku provides opportunities to its production personnel, who are seldom able to see firsthand how they are involved in Daifuku's businesses, to go and see the systems used at customer sites and hear from users directly. By learning how our systems benefit the customers' business and contribute to society, I believe they gain a sense of the value in their work. We will continue to build environments that motivate our employees. We are also "visualizing business operations" to create environments where employees will feel the extent of their contribution to business performance and the personal growth they are achieving. I believe that a change in mindset will see employees naturally improve their own productivity, which will also support our goal towards achieving work-life balance (see figure below).



Daifuku sees safety as the greatest value for its employees and partners. "Safety first" means prioritizing safety over delivery time and cost, yet it can become the second or third priority when under pressure. However, safety should be above all—never to be compromised, no matter what. To internalize this "safety above all" culture, as part of concerted efforts to stamp out accidents, I personally head out to Daifuku workplaces to encourage safe work methods and processes.

For our shareholders, we position the strengthening of our governance structure and shareholder return as our key issues alongside achieving sustainable corporate growth. With regard to shareholder return, we have increased dividends for six years in a row since fiscal 2013 and will continue to build an increasingly stable revenue base in the years ahead. Also, with the goal of achieving management characterized by a high level of fairness and transparency, we will go beyond timely disclosure rules and actively disclose information deemed useful for acquiring a better understanding of the Company.

As a Value Innovator, Daifuku will continue supporting logistics value creation for customers in a diverse range of industries and business types while contributing to social progress. We look forward to your continued understanding and support in these endeavors.

CFO Message



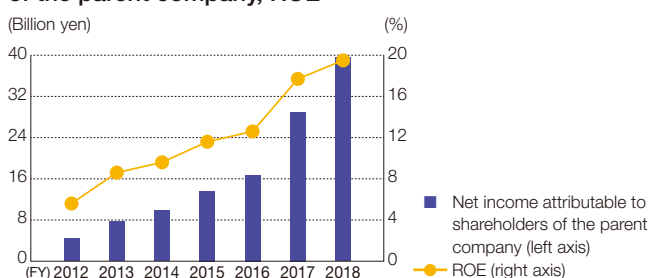
Building on its sound financial foundation, Daifuku is committed to balancing proactive investment with shareholder returns

Mikio Inohara

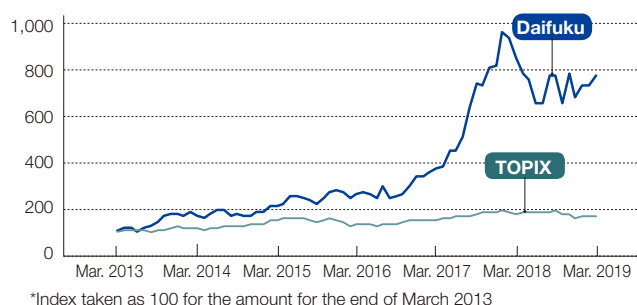
Executive Vice President
CFO and CRO

As far as operating results are concerned, the Daifuku Group achieved new record highs in terms of orders received, net sales and earnings in fiscal 2018 (year ended March 31, 2019), the second year of its medium-term business plan. Moreover, the Group witnessed a further year-on-year improvement in its return on shareholders' equity (ROE) from 17.7% to 19.5%. This largely reflected the upswing in its ratio of net income to net sales from 7.2% to 8.6%. With increases in cash dividends and the Company's stock price, Daifuku's total shareholder return (TSR), which came in at 471.3%, substantially outperformed the Tokyo Stock Price Index (TOPIX) average of 147.1%.

Net income attributable to shareholders of the parent company, ROE



TSR*



Basic views on financial condition and strategy

Building on its stable financial foundation, Daifuku works diligently to maintain an ROE of 10% or higher. In principle, we undertake investments with the aim of expanding our business further while returning profits to shareholders in line with growth. Taking into consideration our basic views on the Group's financial condition and strategy, every effort is made to maximize corporate value.

With respect to its financial condition, Daifuku conducted a public offering in December 2017 while undertaking the disposition of treasury stock. In addition to expanding our global production capacity, we were successful in boosting net assets and securing a rock-solid debt-to-equity (D/E) ratio of 0.2 or lower. Naturally, we also maintain a flexible financial strategy and look to temporarily increase borrowings, should the need arise to undertake capital expenditures, M&A, development and other growth investments.

Currently, Daifuku has obtained an "A" corporate rating. Moving forward, we will pursue various initiatives including the further accumulation of new assets in a bid to boost the Company's evaluation even higher.

ROE and capital efficiency

While there are various perspectives toward the coefficients used to calculate capital cost, Daifuku does not disclose specific details. Suffice it to say, the Company's basic approach is to ensure that its ROE is more than sufficient to cover capital costs in all cases. As a result, we are confident that our capital efficiency remains sound.

At each monthly meeting, the Board of Directors assesses the status of the Group's net operating assets. We believe that such stringent oversight is helping raise our operating margin and total asset turnover while improving ROE on an ongoing basis.

Promoting global cash flow management

As a Group that operates in 26 countries and regions, Daifuku recognizes the critical need to monitor opportunities and risks from a global perspective to engage in prudent financial management. With this in mind, we are optimizing cash flows on a global basis by minimizing net operating assets. Considering our operating environment, including changes in accounting standards worldwide, we also work to strengthen internal controls in connection with financial statements as an important element of our financial strategy.

Investments for further growth

Daifuku continues to exhibit a growth trajectory and as such is committed to forward-looking investment. In addition to our core factory, the Shiga Works, we are currently expanding production capabilities for systems for manufacturers and distributors in mainstay countries, such as the U.S. and China. While we remain confident in our production capability to achieve our net sales target of 500 billion yen in the final fiscal year of the medium-term business plan, we plan to undertake expenditures geared toward further growth based on a number of factors such as regional and business-specific demand.

We recognize the importance of the role R&D will play in providing new solutions. Moreover, our efforts to pursue M&As in the future will be critical in our ability to quickly gain access to AI-based image processing, robotic arms, and other cutting-edge technologies.

Certainly, a 10% operating margin is rather high for a "plant equipment supplier" such as ourselves. To pursue an even higher margin, we need to modify our business portfolio. Accordingly, we are placing considerable emphasis on cultivating and nurturing the devices business where lead times are short and margins are high despite limited sales volumes. This includes the electronic devices handled by Contec Co., Ltd., car wash machines, non-contact charging systems derived from cleanroom transport systems, and airport self-service baggage check-in systems.

Strong operating results spur record dividends per share

In addition to reporting unprecedented levels of net sales as well as operating, ordinary and net income, Daifuku set its annual dividend at a record high of 90 yen per share (interim dividend of 30 yen per share) for fiscal 2018 as a part of efforts to return profits to shareholders.

With an annual dividend payout ratio target of 30%, the Company will continue to provide adequate returns to its shareholders while at the same time enhancing its corporate value through ongoing business growth.

The balance of Daifuku's cash on hand and in banks ballooned as of the end of fiscal 2018 (March 31, 2019), because the Company is yet to fully utilize the proceeds procured from the public offering conducted in fiscal 2017. We plan to undertake a record high 16.7 billion yen in capital expenditures during fiscal 2019.

My aspirations as CFO

Although temporary in nature, Daifuku's market capitalization came in at 1 trillion yen in 2018. While totaling 9,857 as of the end of fiscal 2018, the Group's workforce is projected to exceed 10,000 during fiscal 2019. Clearly, we are entering a new phase as a company.

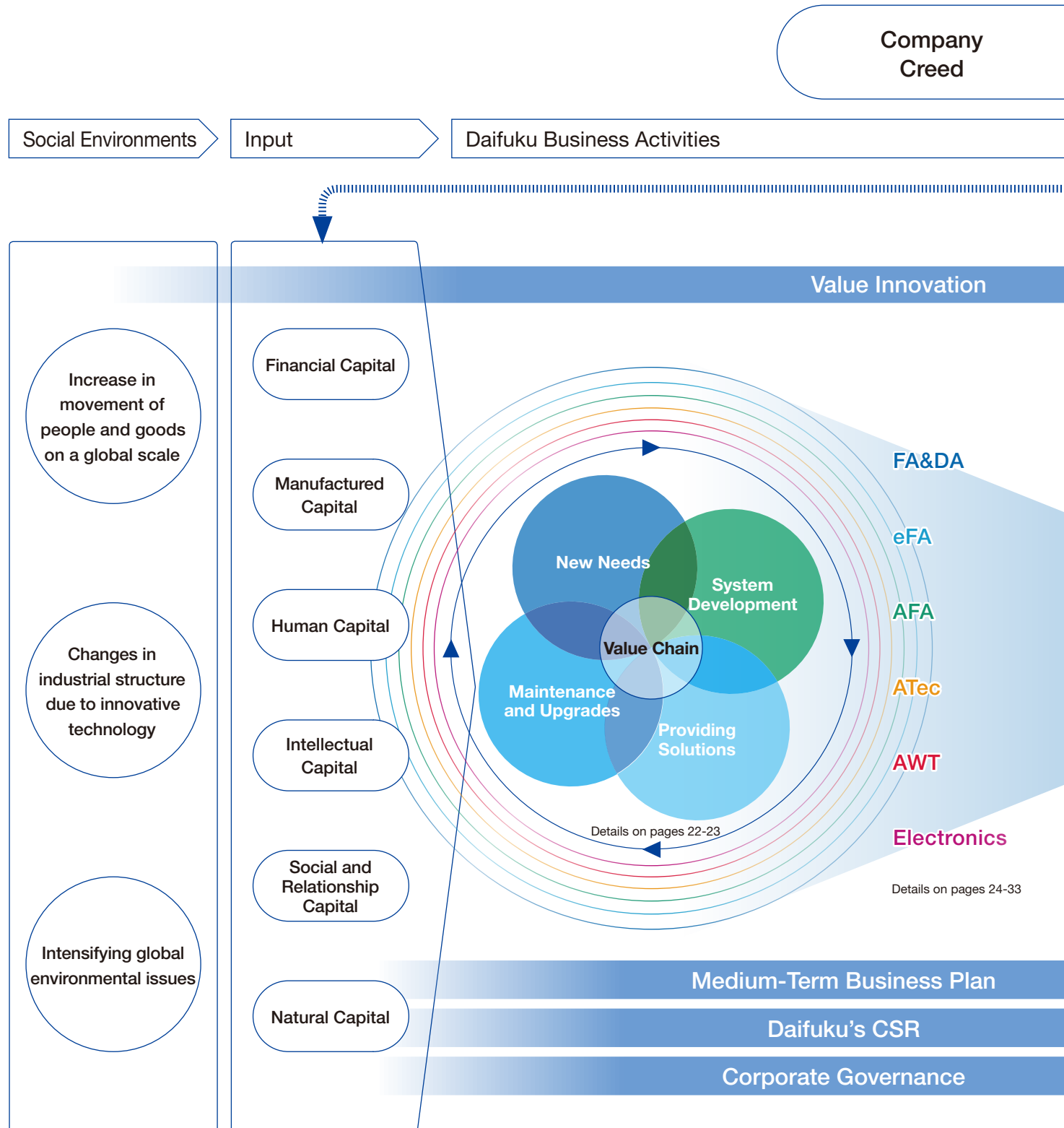
Cognizant of the current harsh employment environment and difficulties in attracting human resources, we recognize the importance of investment. In addition to establishing a comfortable workplace environment that allows diverse employees to excel, we will improve office productivity by introducing robotic process automation.

We announced our assent to the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. In my concurrent roles as Chief Risk Officer (CRO), I will spearhead efforts to analyze the opportunities and risks that climate change provides and imposes on our global business and promote the disclosure of information in line with the TCFD recommendations framework.

Daifuku will continue to strengthen its corporate governance and compliance functions, further reinforce engagement not only with investors and shareholders, but also with various stakeholders and work to enhance corporate value.

Daifuku Value Creation Model

Daifuku seeks to streamline logistics and, as a material handling systems manufacturer and integrator, has been able to achieve significant growth. Under our company creed Hini Arata, we aim to be a Value Innovator enhancing the competitiveness of our customers and, in tandem with contributing to the development of society, take up the challenge to enhance our corporate value.



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Output

Outcome



Details on pages 20-21

Providing the best solutions to give our customers a competitive edge

Economic Value

Financial

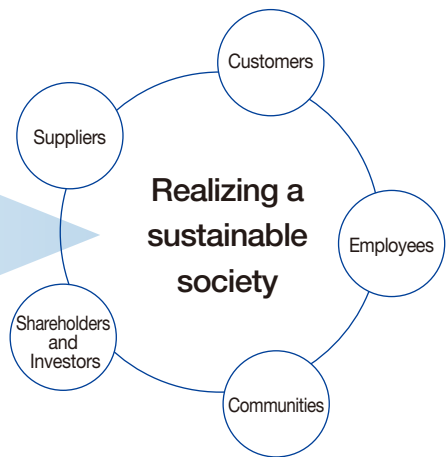
- Increase sales
- Raise operating margin
- Secure ROE of 10% or higher
- Enhance corporate value by investing in business growth while continuing to boost net income

Non-Financial

For details, see our website:

www.daifuku.com/sustainability/management/plan

Social Value



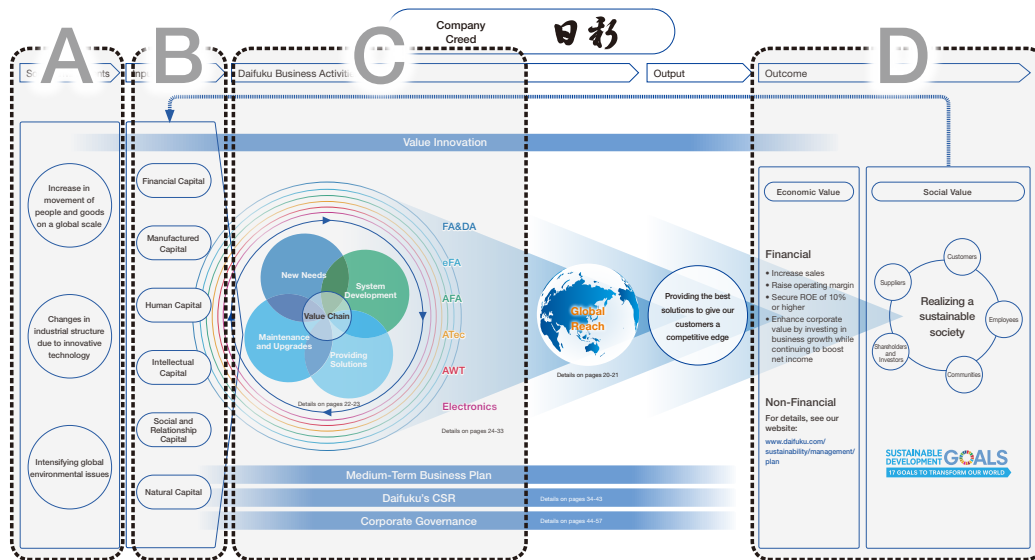
Details on pages 34-43

Details on pages 44-57

Co-Creating New Value

Daifuku Value Creation Model

This section provides details on each element of the value creation model found on pages 16-17.



A Social Environments

Increase in movement of people and goods on a global scale

- Expansion of e-commerce
- Growth of worldwide air passengers
- Economic growth in developing countries

Changes in industrial structure due to innovative technology

- Expansion of digital economy with the use of IoT^{*1}, ICT^{*2}, AI^{*3}, and big data
- Introduction of robotics technology

*1 Internet of Things

*2 Information and Communications Technology

*3 Artificial Intelligence

Intensifying global environmental issues

- Climate change
- Global warming

B Input

Financial Capital

Strong financial foundation for sustainable corporate activities

- Consolidated net assets: 222.8 billion yen

Manufactured Capital

Production bases to provide quality products in effective and stable manner

- Major production sites: 20
- Capital investment: 7.9 billion yen

Human Capital

Global and diverse human resources that revitalize an organization

- Employees: 9,857 (of which, 6,459 outside Japan)

Intellectual Capital

Our long-established wealth of experience, expertise, leading-edge technology and knowhow

- Patents held: 3,068
- R&D expenses: 8.6 billion yen

Social and Relationship Capital

Systems to develop bonds of trust with stakeholders

- Global locations: 26 countries and regions
- Visitors to Hini Arata Kan demo center: 27,977

Natural Capital

Conserving natural resources to maintain a sustainable society

- Certified Daifuku Eco-Products: 54

Each figure is based on fiscal 2018 results.

C Daifuku Business Activities

Value Innovation

We aim to evolve into a top-class Value Innovator that provides the best solutions for customers by capitalizing on our experience and technologies we have accumulated as a comprehensive manufacturer and integrator of material handling systems.

Value Chain

Daifuku creates values for its customers as well as itself with a global framework, encompassing consulting, system design, production, installation, and after-sales services to ensure long-term stable operations, and retrofits.

Our Business

Daifuku conducts business by industry with the aim of providing the best solutions to customers.

Medium-Term Business Plan

Based on an awareness that we hold a growing social responsibility, Daifuku sets the medium-term business plan, Value Innovation 2020, which started in fiscal 2017 and will end in fiscal 2020, to achieve sound and sustainable growth.

Daifuku's CSR

Daifuku believes the basic principles of CSR are to build a symbiotic relationship with its stakeholders and to practice the corporate policies structure through its corporate activities.

Corporate Governance

Daifuku strives to enhance its corporate governance with the aim of ensuring its sustainable growth and creating its medium- to long-term corporate value. As an indicator for this commitment, Daifuku has established the Daifuku Corporate Governance Guidelines as the guidepost for its activities, under which it shall continue to improve the effectiveness of its corporate governance in keeping with the spirit of the Company Creed and Management Philosophy.

D Outcome

Economic Value

Financial

- Net sales: 459.4 billion yen
- Operating margin: 11.9%
- ROE: 19.5%

Non-Financial

- Waste recycling rates (Japan): 95.9%
- CO₂ reduction contribution from products and services: 63,326 tons of CO₂ per year

For details, see our website:

www.daifuku.com/sustainability/esg-data

Each figure is based on fiscal 2018 results.

Social Value

Realizing a sustainable society

- Provide high quality products and services
- Strengthen risk management
- Nurture relationships of trust with our suppliers
- Respect human dignity (human rights, labor practices, safety, health)
- Create good relations with regional communities
- Contribute to the environment through corporate activities



Global Reach

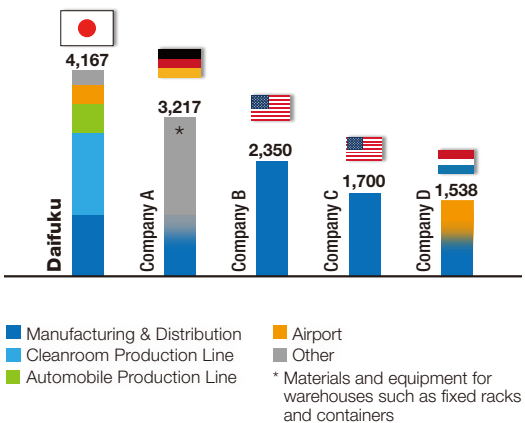
Since 2000, through its M&A activities, Daifuku has expanded its business scope and development into global markets. Anticipating change moving forward, we will continue to target sustainable growth by ensuring optimal procurement and production worldwide and maintaining a balance between globalization and localization.

Expanding business scope through M&A (From 2000 onwards)



Top 5 worldwide material handling systems suppliers 2018

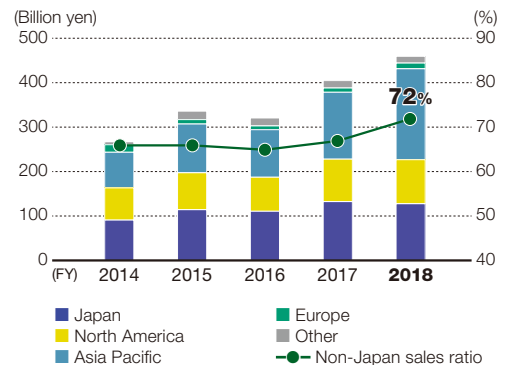
Net sales (U.S million dollars)

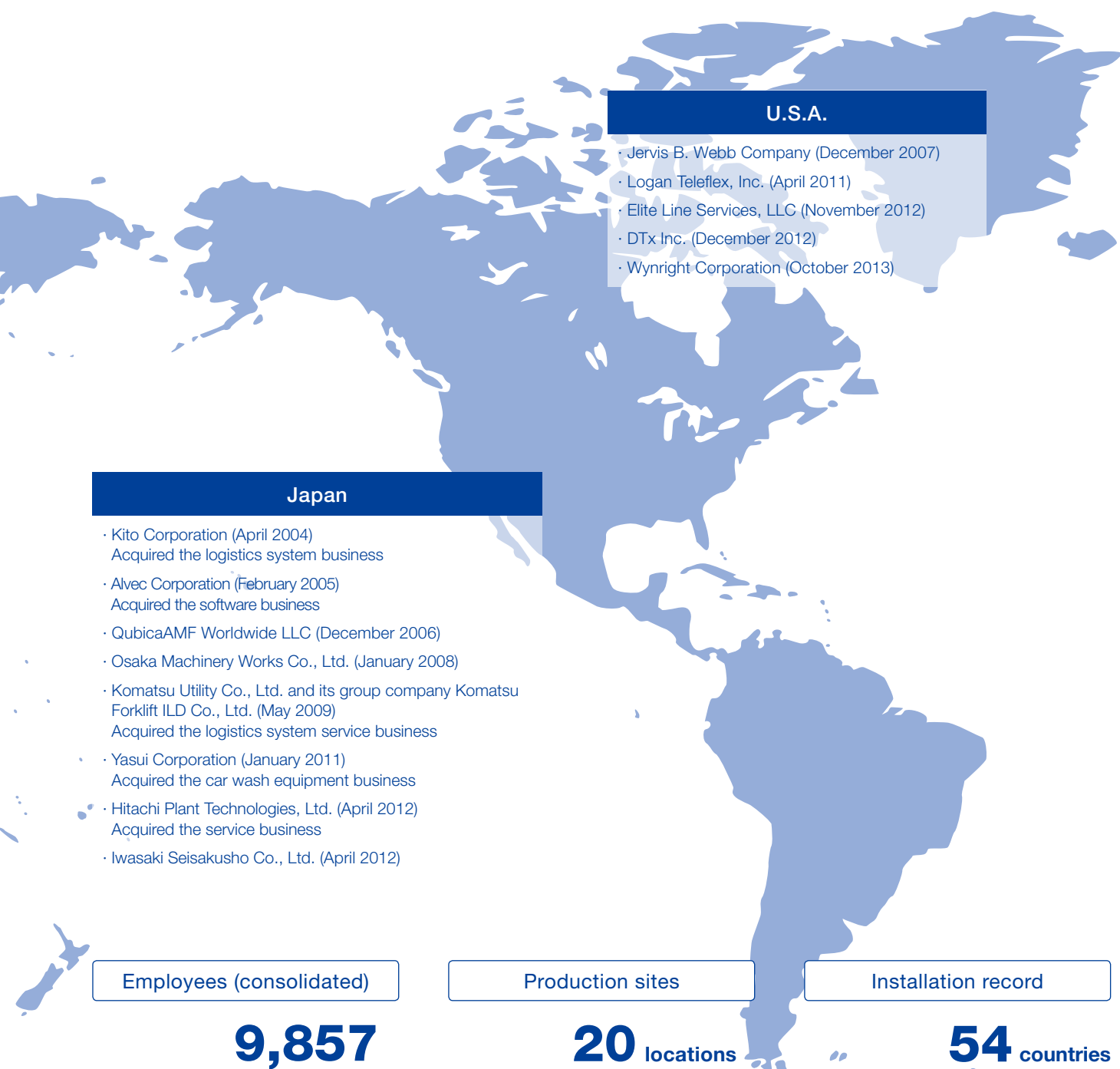


Source: *Modern Material Handling* – May 2019

Note: Excluding Daifuku, data for the remaining four companies is calculated from published materials

Sales by region





U.S.A.

- Jervis B. Webb Company (December 2007)
- Logan Teleflex, Inc. (April 2011)
- Elite Line Services, LLC (November 2012)
- DTx Inc. (December 2012)
- Wynright Corporation (October 2013)

Japan

- Kito Corporation (April 2004)
Acquired the logistics system business
- Alvec Corporation (February 2005)
Acquired the software business
- QubicaAMF Worldwide LLC (December 2006)
- Osaka Machinery Works Co., Ltd. (January 2008)
- Komatsu Utility Co., Ltd. and its group company Komatsu Forklift ILD Co., Ltd. (May 2009)
Acquired the logistics system service business
- Yasui Corporation (January 2011)
Acquired the car wash equipment business
- Hitachi Plant Technologies, Ltd. (April 2012)
Acquired the service business
- Iwasaki Seisakusho Co., Ltd. (April 2012)

Employees (consolidated)

9,857

(Up 664 year on year)



Employees
outside Japan
6,459

(Up 523 year on year)

Along with expansion in our global network, we have optimized the use of our diverse range of human resources.

(FY2018)

Production sites

20 locations



To respond to rising global demand, we are expanding our production framework.

(As of September 2019)

Installation record

54 countries



We have sites in 26 countries and regions to receive orders from a broad range of customers world-wide.

(FY2018)

Our Competitive Strength

With an array of solutions through its framework spanning consulting to after-sales service, Daifuku boasts a wealth of manufacturing and system integration experience, quickly responding to needs that include designing systems with complex requirements and making on-site adjustments when problems occur. We will continue our efforts aimed at maintaining our position as a Value Innovator that provides customers with the best solutions.

Consulting

In deploying logistics systems and equipment, it is important to strike a balance among functions, capacities, and costs from receiving through storage, transport, sorting, and shipping. We also draft plans that take into account expandability and flexibility after the systems go into operation.

To satisfy our customers' needs, we calculate the equipment volume and operational capacities they will need, determine optimal layouts, calculate costs, and ensure we see increased orders.

Planning and Engineering

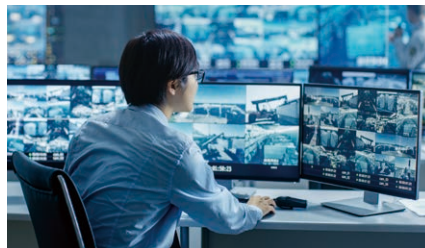
In addition to control functions and software for the equipment itself, we design products with an eye to achieving overall system balance, which includes construction and electrical considerations. To ensure they will not fail, we develop and design systems by taking into account all possible problems that could occur.

Design and Production

To achieve the best production, we have factories in Japan, North America, Asia, Oceania, and Europe. Each of these regions practices sound quality management, allowing us to reliably supply our products. Since each of our businesses is managed on a global level, we are able to distribute production volume efficiently among each region, even in high-load situations. If capacity utilization rate and manufacturing proficiency rise at each factory, so too will profitability.

Rapid product development using 3D technologies

3D development and design using virtual technologies allows us to eliminate the need for using actual equipment in testing and redesign processes. In conventional cases, when testing the strengths of equipment and components for each system, we used to calculate manually for all items, even down to bolts. Instead, with virtual testing, we are now able to faithfully reproduce the complex stresses on equipment under conditions that involve different materials. This allows for more reliable product development in shorter time frames.



Pre-ship testing to eliminate waste

The Sym3 3D software enables us to perform virtual tests to determine whether control software is functioning throughout an entire system, which in turn allows for the highest possible degree of finish for the overall system before it is shipped. At a site, we used to prepare 1,000 cases to send down a sorting conveyor for a test, but as it took only a few minutes to complete the test, the volume of data available for analyzing was limited. With Sym3, we now run an unlimited number of tests, which helps cut down on the workloads involved in processes from installation to operation at worksites.

Installation and Operation

We have a dedicated installation division staffed by highly experienced engineers who handle equipment, installation, trial run arrangements, and operation.



After-Sales Service

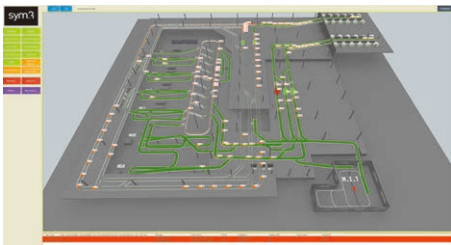
We have built an after-sales service structure to ensure stable operations of equipment after delivery. By providing a wide range of services including not only regular inspections but also everything from upgrades to equipment retrofits, we are building trust with our customers.

- | | |
|------------------------------|----------------------------|
| Periodic inspections | Remote maintenance |
| System maintenance contracts | Prediction/Forecast system |
| Safety skills training | On-site services |
| Facility services | Upgrades |
| Troubleshooting | Retrofits |
| Parts supply | |

Towards achieving systems that will not fail

When equipment fails, systems with built-in cameras and sensors allow us to monitor equipment online and remotely identify problem areas and determine the causes of problems based on sensor data logs. As this eliminates the need for equipment designers to go out into the field, we minimize the time needed for equipment reinstatement.

By visualizing maintenance data for entire systems using IoT technologies, we analyze and parse data and work to make proper preventive maintenance possible. We will continue to develop services and maintenance using state-of-the-art technologies to further offer best solutions.



Our Business

FA&DA

Factory & Distribution Automation



Manufacturing and Distribution Systems

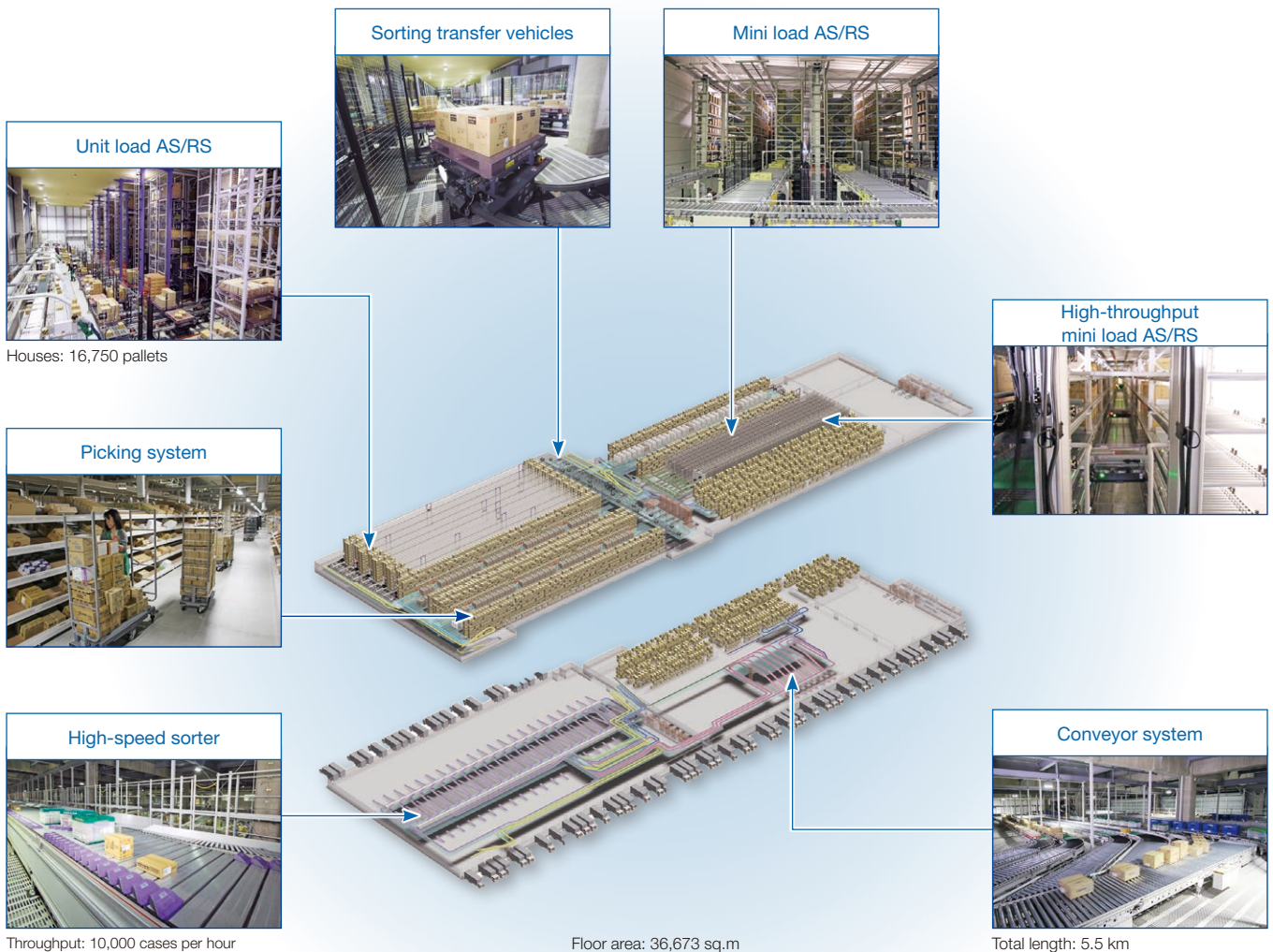
Daifuku provides storage, transport, sorting, and picking systems to manufacturers, including the food, pharmaceutical and machinery sectors, for their factories and to distributors for their delivery centers. We offer optimum logistics solutions comprising products selected from an extensive lineup to meet customers' needs.



Kanji Anno
Managing Officer
Factory & Distribution Automation

Labor-saving distribution center

The unit load automated storage and retrieval system (AS/RS), mini load AS/RS, picking system, high-speed automated sorting system and other equipment in this center are all Daifuku products, which control the flow of goods from receiving to shipping. We combine products and software that suit different customer needs to achieve labor saving and efficiency improvement.

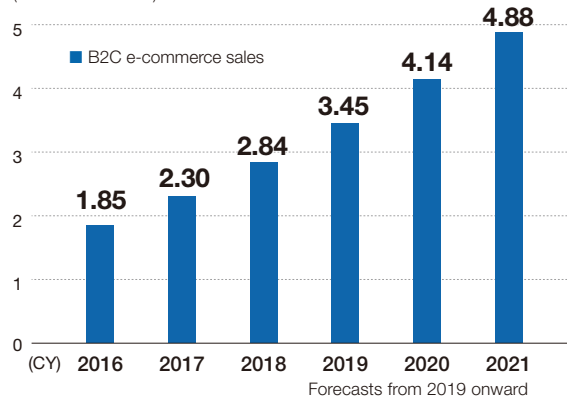


Market environment

The worldwide e-commerce market had a scale of 2.84 trillion U.S. dollars as of 2018, and is expected to grow at a double-digit pace on a year-on-year basis until 2021, according to Japan's Ministry of Economy, Trade and Industry. E-commerce delivery centers need to have a high throughput to meet their function of delivering a very large number of items to numerous consumers with high speed and high precision. Accordingly, systems are becoming larger and larger. An increasing number of distributors that run retail stores are moving into e-commerce, resulting in a need to streamline their logistic operations in response to a rise in physical distribution volume. In addition, it is now vital to address labor shortages and curtailed working hours in the distribution and manufacturing sectors. To this end, automation and unmanned operation are essential.

Global B2C e-commerce market

(Trillion U.S. dollars)



Source: eMarketer, November 2018

(Travel and event tickets excluded)

Source: Ministry of Economy, Trade and Industry

Initiatives

Daifuku's technical strategy focuses on the development of fully automated material handling in distribution centers and factories. To meet strong demand from customers to provide robots for picking and other processes, we are working to steadily expand the scope of automation Daifuku can provide.

In pursuing our regional strategy, we will localize our technologies and products developed in Japan at the technology levels required at different locations. We will enhance production frameworks in the U.S., China, South Korea, Thailand and India in an effort to succeed in a fiercely competitive market. A U.S.-based subsidiary has commenced construction of a new plant—slated for completion at the end of 2019—to increase overall production capacity and ratio of local production. In April 2019, we also acquired an India-based material handling system manufacturer. We will build up not only our technical capabilities and cost competitiveness, but also our sales strength towards cultivating customers within all the regions we operate.

With respect to services, we will provide Smart Logistics. With enhanced operational quality based on the introduction of IoT, AI and other cutting-edge technologies, the smart logistics system features speed, accuracy, uninterrupted operation and instant recovery from unexpected failure. Systems incorporating these features are sought by customers.

Global production sites



Our Business

eFA

Electronics Factory Automation



Cleanroom Production Line Systems

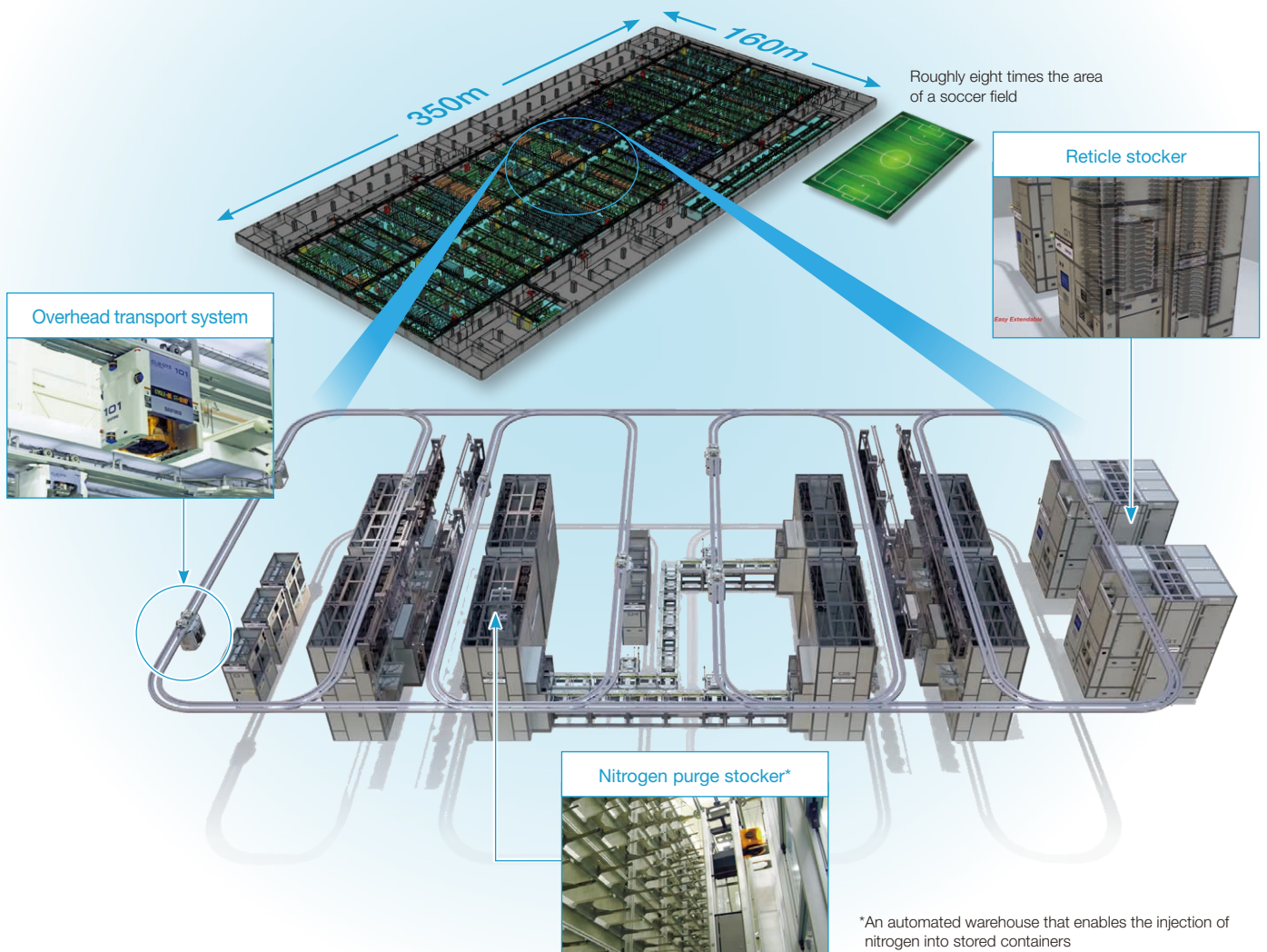
Daifuku provides storage and transport systems designed exclusively for clean rooms to factories manufacturing semiconductors, flat-panel displays (FPDs), and organic light emitting displays (OLEDs). With cutting-edge technologies suited to miniaturization of semiconductors and production of larger-sized FPDs and OLEDs, we hold a large market share.



Seiji Sato
Director and Managing Officer
Electronics Factory Automation

State-of-the-art semiconductor factory

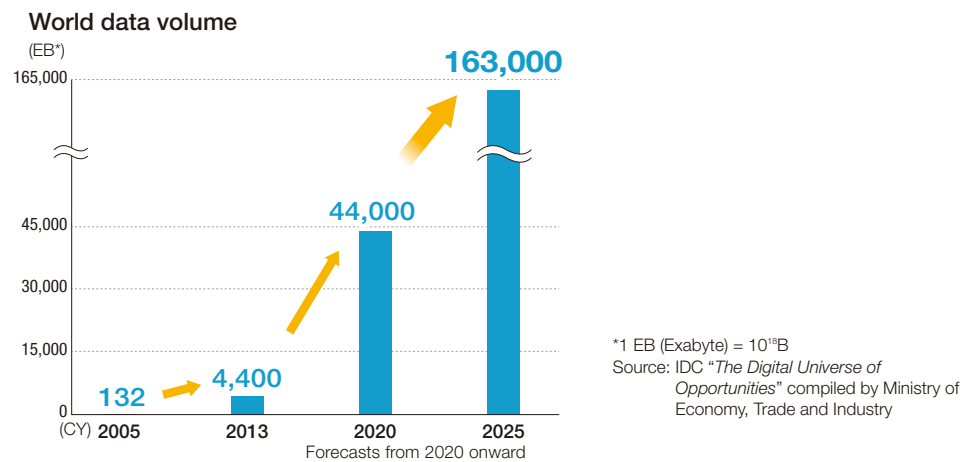
A semiconductor factory performs many hundreds of manufacturing processes. A large factory has interbay rail tracks with a total length of 10 km on the ceiling of the clean room as well as hundreds of wafer transport vehicles in operation 24/7. Wafers in process require very careful handling. As semiconductors are becoming finer, lower vibration levels are needed. Software for managing vehicle operations according to production plans is also becoming increasingly advanced and sophisticated.



Market environment

Since the 2008 global financial crisis, demand for storage and transport systems for semiconductor factories has been on the rise along with growing construction of cutting-edge facilities. Particularly since 2017, demand surged chiefly among customers producing semiconductor memory, following massive growth in data volume across the globe. Even if there is a short-term downturn arising from U.S.-China trade tensions, advances in artificial intelligence (AI), fifth-generation (5G) mobile communication systems and automatic driving technologies means that state-of-the-art semiconductors will be needed in enormous quantities and that demand will continue to expand in the medium- and long-term future.

Demand for systems for FPD and OLED factories is expected to temporarily slow after intensive construction of a series of large FPD factories that started in China in 2017. Meanwhile demand for OLEDs, which are increasingly used on smartphones, is set to continuously rise given that investments in them are gathering pace in China in place of FPDs.

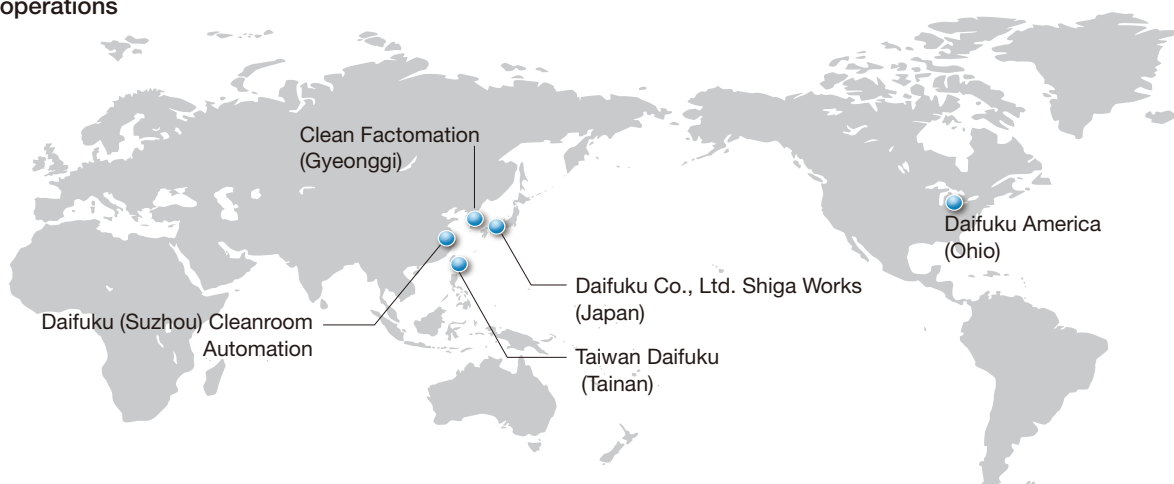


Initiatives

We are now receiving orders for the Green HID* System. Along with a 23% lower power consumption than the conventional model, the Green HID provides low vibration and high cleanliness, decisive factors in cleanroom environments. We will focus our development on creating non-stop systems that incorporate failure diagnosis and self recovery based on IoT and AI technologies. In recent years, we have received a series of supplier awards from our principal customers. We will continue to improve quality by enhancing a cross-sectional quality management system covering design, production and installation teams and move further ahead with shortening of delivery time and cost reduction, taking advantage of our production system between our four production sites in Japan, China, Taiwan, and South Korea.

*HID: High efficiency inductive power distribution (technology)

Global operations



Our Business

AFA

Automotive Factory Automation



Automobile Production Line Systems

Centered on Japanese companies, Daifuku provides automakers with systems for automobile production lines worldwide, including the U.S., China, South Korea, Thailand, and countries in Latin America and Europe. The systems convey car bodies through the entire manufacturing process, including press, weld, paint, and assembly.

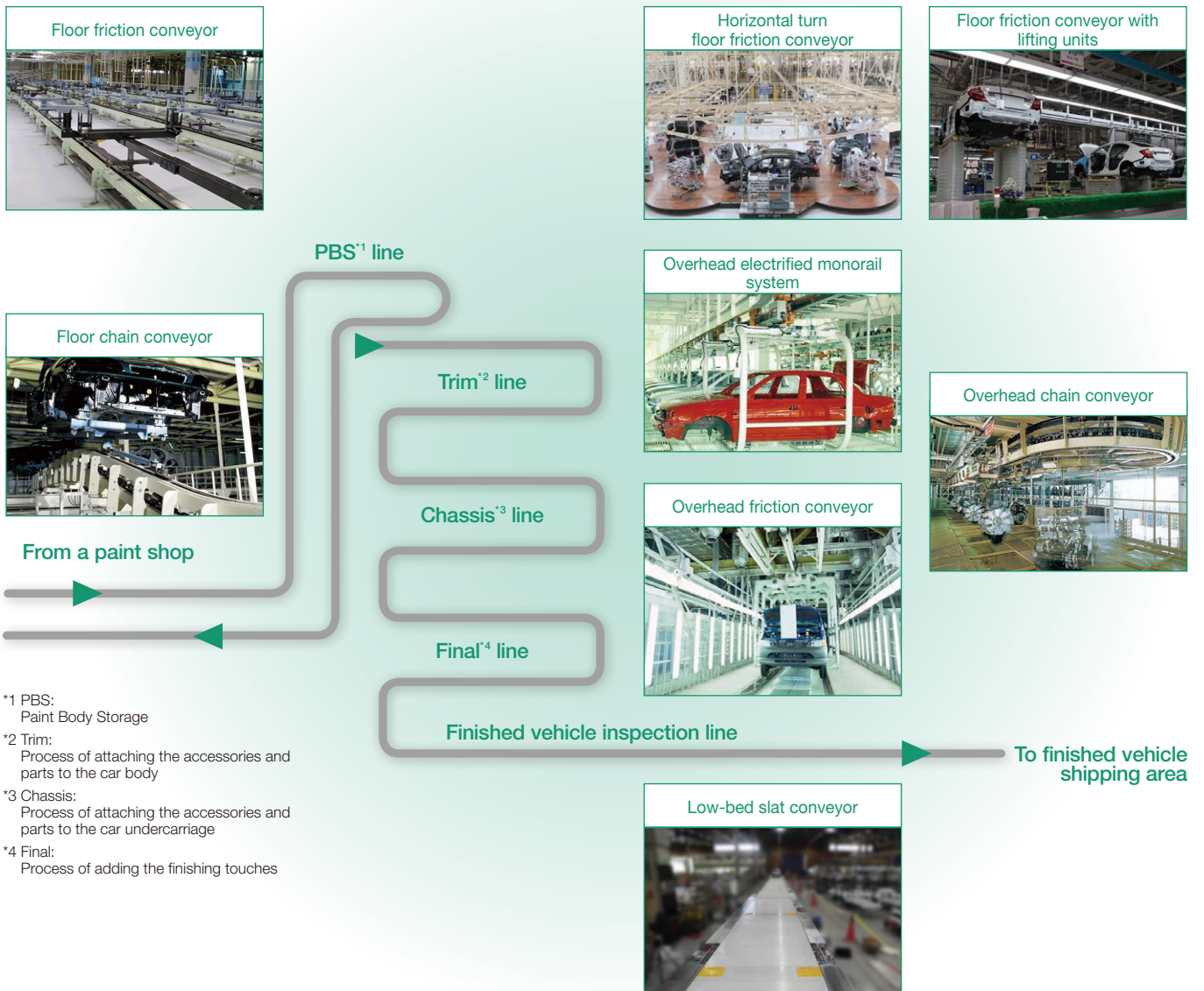


Hidenori Iwamoto

Director and Managing officer
Automotive Factory Automation

Car body conveyor system in an automotive assembly shop

Our technologies have been introduced to all processes within automotive assembly shops. The systems are ergonomically designed to ensure ease of working and safety, with the ability to adjust the body height according to the work process as one example of this.



*1 PBS:
Paint Body Storage

*2 Trim:
Process of attaching the accessories and parts to the car body

*3 Chassis:
Process of attaching the accessories and parts to the car undercarriage

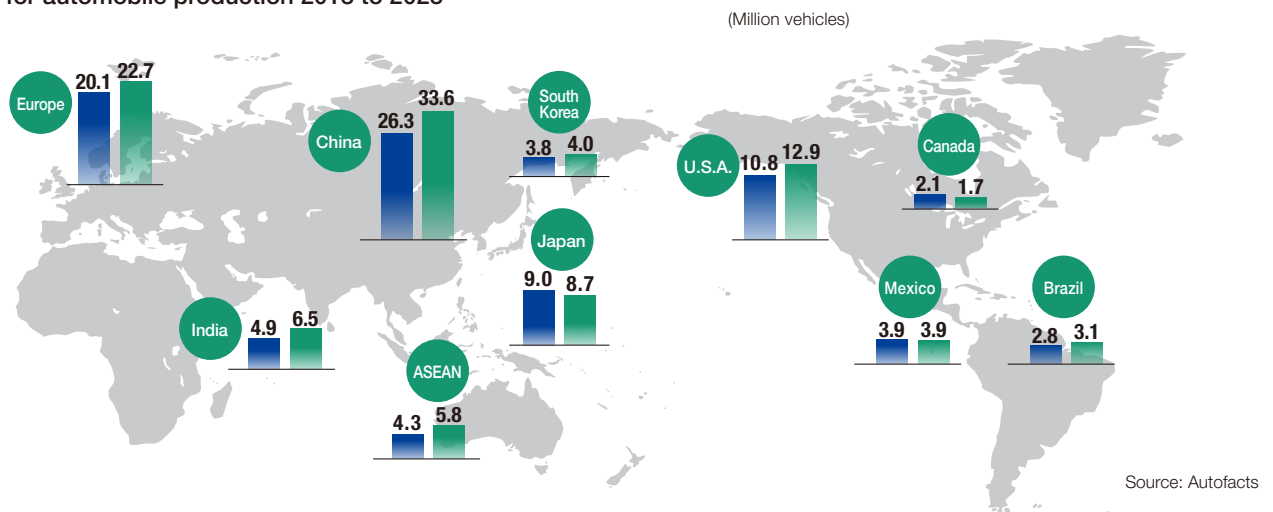
*4 Final:
Process of adding the finishing touches

Market environment

The global automobile market sold at least 95 million vehicles in 2018, according to the International Organization of Motor Vehicle Manufacturers. The sales figure in China, the world's largest market, accounted for around one third of the global total figure. Production volumes are expected to rise significantly in the next five years (see diagram below). While uncertainty surrounding Brexit as well as the trade conflict between the U.S. and China raise concern, demand in emerging economies with high growth potential, especially in India, ASEAN countries and Africa, is promising.

Meanwhile, the automotive industry is said to be in the midst of a once-in-a-century period of transformation. Based on the key concept of CASE, (Connected, Autonomous, Shared, and Electric), major automakers including Japanese and European car giants have announced a shift in direction towards becoming mobility providers, through which they are adopting related business models.

Outlook for automobile production 2018 to 2023

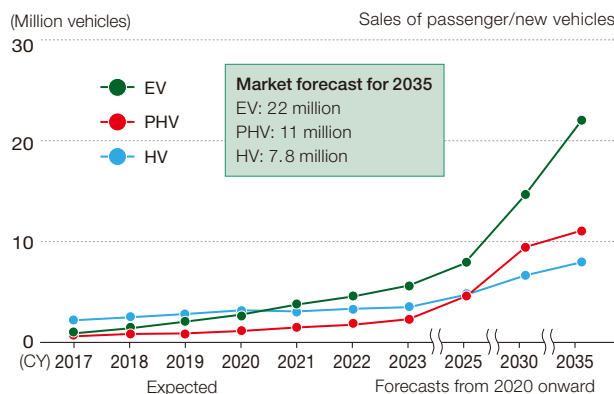


Initiatives

Customers are facing wide-ranging issues in addition to the conventional competition in terms of production and sales. To adapt to the shift towards environmentally friendly plug-in hybrid vehicles (PHVs); electric vehicles (EVs); IT-based automotive control technologies; automatic driving technologies; connected cars; and ride sharing, they are revising their strategies for growth. We regard the changes in automobile production arising from this trend as business opportunities, and we are thus offering systems for diversification and labor saving in production and stepping up engineering for process planning. We will continue to offer a comprehensive package of solutions ranging from production planning to system supply to help customers increase their advantage.

In this business, after-sales services such as upgrades and maintenance of existing facilities are also a key element, contributing at least 45% of segment sales. We will maintain our long-standing relationships of trust with customers to win repeated orders for a long time into the future. We will introduce facility charts for assets delivered worldwide in a bid to promote our preventive maintenance services to customers.

World market for EV, PHV, and HV



Source: Fuji Keizai Marketing Research and Consulting Group

Our Business

ATec



Airport Technologies

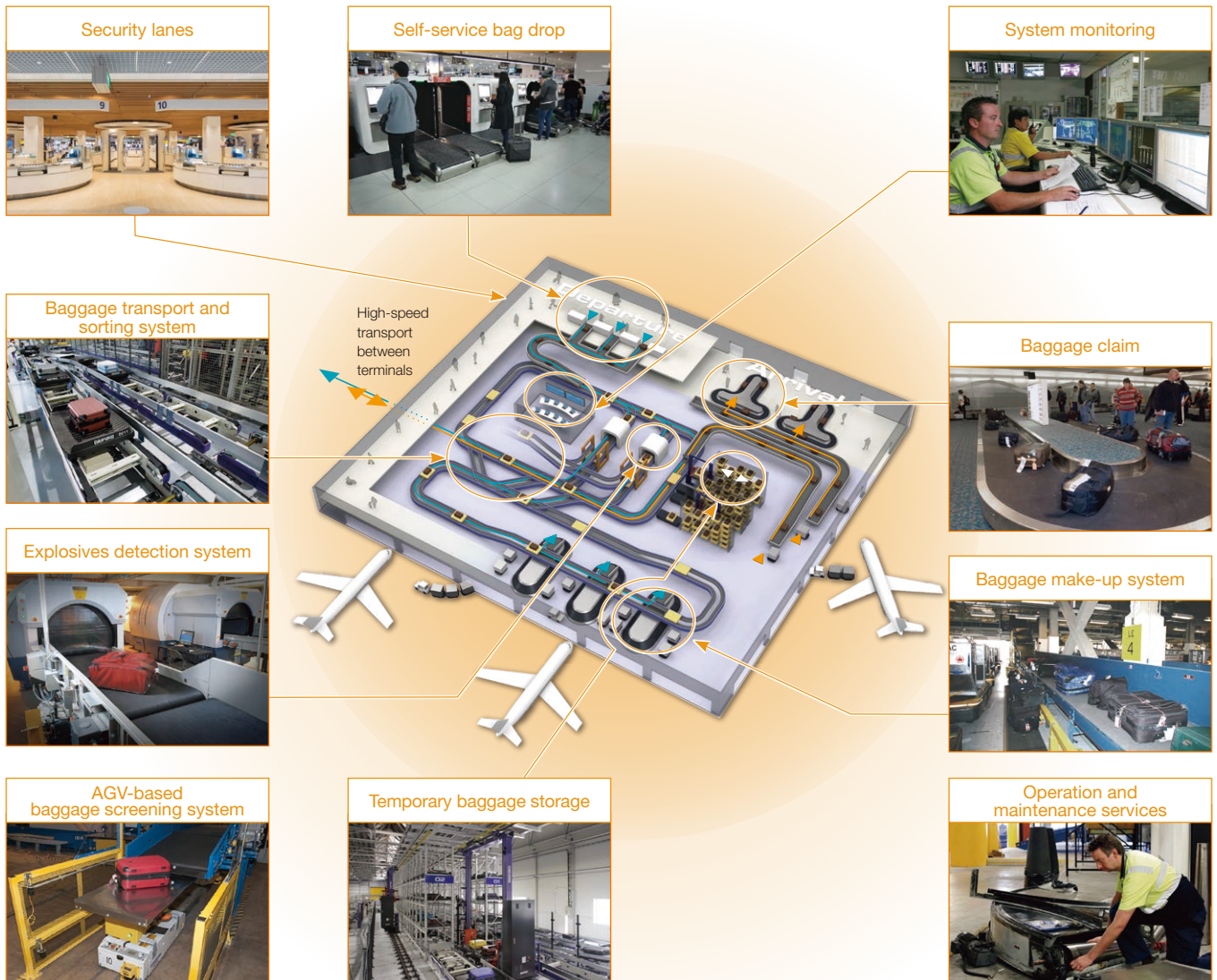
Daifuku provides a wide range of systems primarily for baggage handling lines, including self-service baggage check-in systems, security systems and airport facility monitoring systems, to airports around the world. Its subsidiaries in North America, Europe and Oceania work as one to operate this business.



Shuichi Honda
Director and Senior Managing Officer
Airport Technologies

Solutions for airports

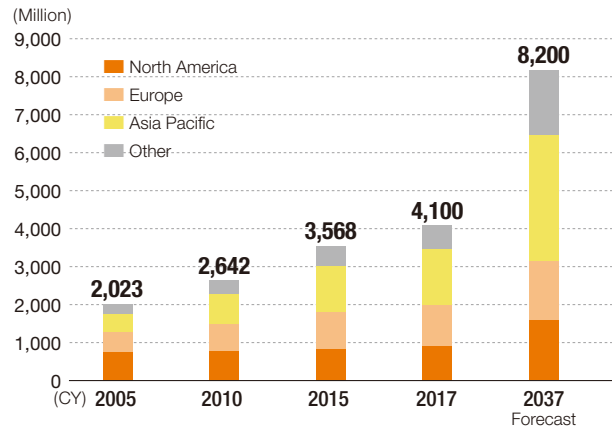
In addition to material handling systems, such as baggage check-in, transport, sorting and temporary storage systems, we provide operation and maintenance services in airports. Better prepared for tougher baggage inspection standards, we also offer systems for monitoring baggage in transit and mobile inspection tables based on automatic guided vehicles (AGVs) incorporating ergonomic technologies for greater inspection efficiency in baggage inspection.



Market environment

The number of air passengers around the world reached 4.1 billion in 2017 and is forecast to rise to 8.2 billion by 2037, according to the International Air Transport Association (IATA). This growth in air passenger numbers and a shift to smart airports with enhanced safety, security, and convenience for passengers represents a business opportunity. One example can be found in moves to cut the waiting time required for airport procedures. IATA's Fast Travel program places an emphasis on self-service processes to be performed by passengers. The air industry seeks an airport baggage handling system that integrates passenger and baggage information to boost the efficiency of airport operations and increase passenger satisfaction.

Global air traveler forecast



Source: Based on data from Japan Data Communications Association (JADC) and IATA

Initiatives

Since active capital investment is anticipated over the medium and long terms, we will boost sales capabilities to increase both sales volume and income.

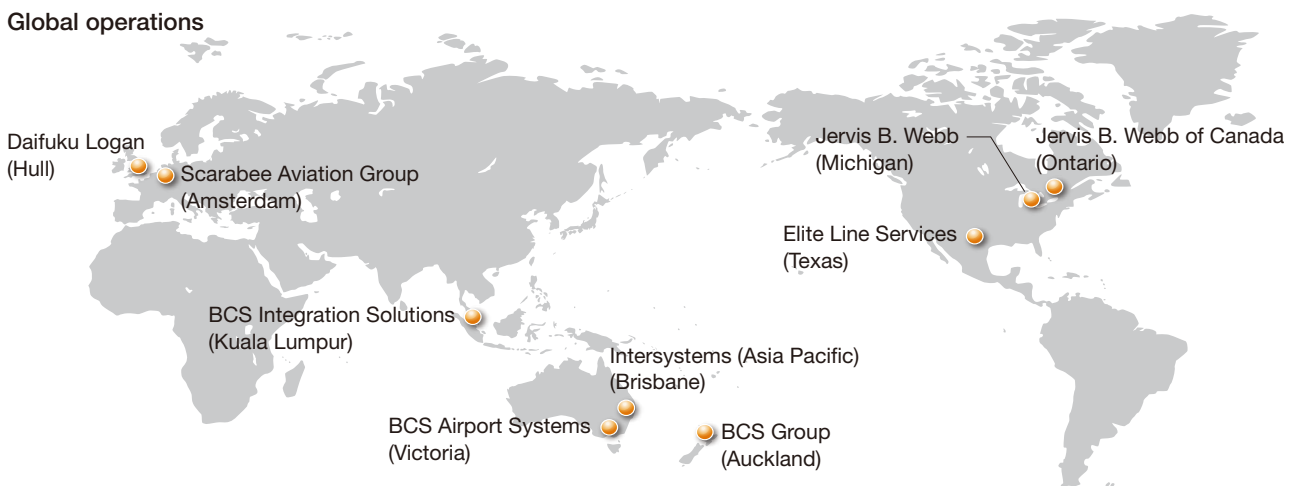
North America is the biggest market for the Daifuku Group, with brisk demand for the upgrading of aging facilities. We will enhance training on installation and construction quality and risk management for engineers and project managers.

In Asia and Oceania, airport terminals are being expanded and there is growing demand for smart airport technologies, such as self-service bag drops (SBDs) that shorten check-in process times and achieve labor savings. With a short delivery lead time, SBDs have high earnings potential.

In Europe, the European Commission is toughening its baggage inspection standards. Airports must meet the standards by 2020 in the United Kingdom and by 2022 on the Continent. We are stepping up sales efforts to capture such demand arising from the stricter security regulations.

Going forward, in addition to our operations in existing hardware-centered businesses, we are going to expand our Airport Technologies business through our recent entry into the growing markets of airport security systems, integrated information systems and other digital related businesses. Through collaboration between all our airport-related affiliates around the world, we will bolster our global competitiveness. Capitalizing on the technologies and knowledge that we have developed as a leading supplier of systems for airports, we will continue to provide a broad array of automated systems that contribute to airport safety, efficiency, and accuracy.

Global operations



Our Business

AWT

Auto Washing Technologies



Car Wash Machines

Daifuku provides car wash machines and related equipment mainly for service stations, car dealers, and self-service car washes. We command the largest market share in Japan and South Korea.



Akihiko Nishimura
Corporate Officer
Auto Washing Technologies

Market environment

We have more than 40 years of history in the development and production of car wash machines. Our customer base has expanded from service stations to car dealers, garages and other players in the car aftermarket and to transporters. The number of service stations is on the decline from a medium- and long-term perspective, while automobile ownership in Japan remains on a moderate upward trend. Car wash demand is expected to be firm.

In the automotive aftermarket industry, there is growing demand for labor saving to deal with the shortage of automobile mechanics at a time of brisk new car sales. We anticipate an increase in demand for new car wash machines to replace existing machines.

The transport industry faces a driver shortage issue, from which we are receiving a growing number of inquiries for newly released large vehicle wash machines, since they are considered to help improve drivers' working environment.



A drive-through car wash machine with a foam wash system

Initiatives

Our car wash machines boast not only excellent cleaning and drying performance but also environmental features such as reduced water consumption and use of plant-based detergent.

We have developed a compact car wash machine with the industry's shortest rail length of 6.7 meters. We will work to boost its sales to service stations and car dealers in urban areas that conventionally find it difficult to introduce any car wash machines due to space restraints, as well as to the car rental industry where the number of vehicles owned is increasing in response to the rise in inbound tourism.

In addition, we recently introduced a drying system for large vehicle wash machines to the market. Primarily targeting buses, the system uses wide spot nozzles that efficiently remove water droplets from windows. Sales efforts are underway to promote this system to bus companies.

With Japan's largest number of service sites and the industry's first call center, we are improving our service structure. We will propose detailed services for, and the replacement of, existing car wash machines and will push ahead with sales expansion of high value-added coating products.

Contec

Electronics

Contec Co., Ltd. is an internal business venture spun off from Daifuku in 1975. On the basis of electronic devices that have been embedded into material handling systems, it offers high-end industrial computers, circuit boards for measurement control and network-related products.



Akira Ikari
President and CEO
Contec Co., Ltd.

Market environment

Industrial computers are familiar to people involved in manufacturing since they are used for control of different equipment in factories and built in to industrial machinery. As the moves towards technologies for Industry 4.0 and the use of IoT gather momentum, demand for industrial computers is on the rise. Not confined to applications for factory automation and process automation, the market is expanding to such domains as the environment, energy, medical services, distribution, airport security and social infrastructure. There is a worldwide call for the introduction of IoT technologies and for the visualization of everything in factories and offices for the purpose of productivity improvement in different operations. Accordingly, the CONPROSYS Series, an array of easy-to-introduce remote monitoring and maintenance systems, is increasingly being adopted.



CONPROSYS Series

Initiatives

Contec embarked on its initiatives in the machine-to-machine (M2M) and IoT solution business from an early stage, on the basis of its three long-nurtured core technologies, namely industrial computers, measurement control and networking. It already serves the Japanese market by offering remote monitoring systems and cloud services that combine its IoT devices. Going forward, Contec will strengthen marketing of electronic devices and products outside Japan and will make swift efforts to develop new technologies in an aim to maintain stable growth. Sales of Contec's industrial computers have been soaring in the U.S. for medical equipment and for airport security applications. The company will seek to continue this sales expansion.

Under a management philosophy of contributing to society through original technologies and products, Contec will strive to improve its business performance and its corporate value.

Daifuku's CSR

To respond to the social issues of “human rights, labor, environment, and anti-corruption” that global companies are expected to address, in April 2014 Daifuku announced its commitment, Daifuku's CSR, which outlines the responsibilities that must be met, the approach and plan for action. In this commitment, Daifuku specifies six initiative themes to be prioritized for social responsibilities.

In addition, Daifuku has linked these themes to the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs), which were adopted by the United Nations in September 2015. We, as the Daifuku Group, have incorporated these into our medium-term CSR Action Plan.

“A company that supports society and the future”











To achieve this desire, we are engaging in the themes outlined below.

- Provide high quality products and services
- Strengthen risk management
- Nurture relationships of trust with our suppliers



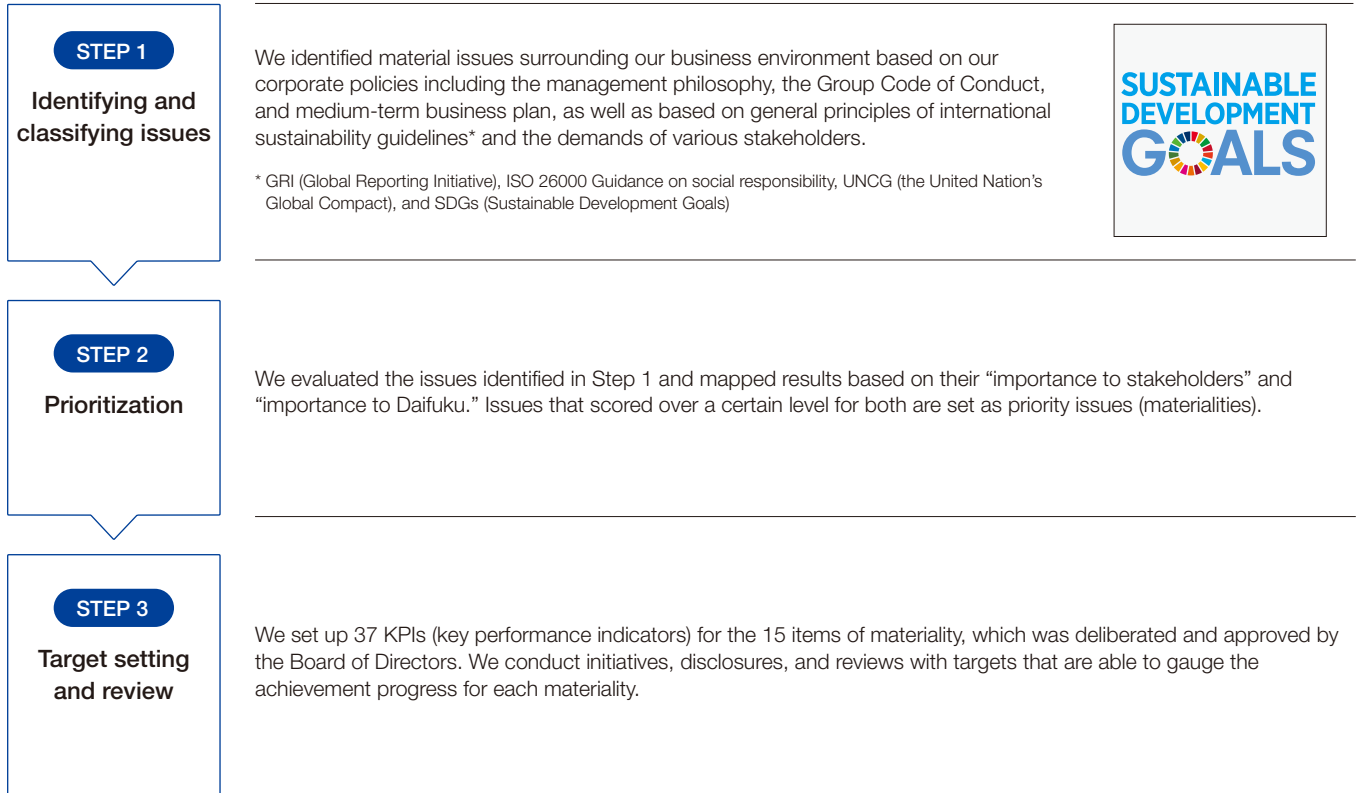
- Respect human dignity (human rights, labor practices, safety, health)
- Create good relations with communities
- Contribute to the environment through corporate activities

CSR action plan

Initiatives	Materiality*	Related SDGs
Provide high quality products and services	<ul style="list-style-type: none"> ◎ Maintain and improve product quality to satisfy customer needs around the world ◎ Strengthen technological development platform 	 
Strengthen risk management	<ul style="list-style-type: none"> ◎ Ensure compliance and prevent corruption ◎ Promote and strengthen information security measures ◎ Continue expanding business continuity management 	 
Nurture relationships of trust with our suppliers	<ul style="list-style-type: none"> ◎ Promote CSR procurement in the supply chain 	 
Respect human dignity (human rights, labor practices, safety and health)	<ul style="list-style-type: none"> ◎ Eliminate workplace accidents and serious accidents ◎ Promote diversity ◎ Create a comfortable workplace environment ◎ Promote human resource development 	    
Create good relationships with communities	<ul style="list-style-type: none"> ◎ Encourage communication with shareholders and investors ◎ Encourage communication with local communities and society at large, and social contribution activities 	
Contribute to the environment through corporate activities	<ul style="list-style-type: none"> ◎ Promote environmentally friendly activities in business operations ◎ Expand environmentally friendly products and services ◎ Strengthen environmental management platform 	     

* Materiality: Issues that should have the highest priority as they significantly impact the environment, society and governance or stakeholder evaluation and decision making

Determining CSR materiality and process



www.daifuku.com/sustainability



For details, see the following pages:

- CSR Management
www.daifuku.com/sustainability/management/principles
- ESG Data
www.daifuku.com/sustainability/esg-data
- CSR Action Plan
www.daifuku.com/sustainability/management/plan
- CSR Action
www.daifuku.com/sustainability/action
- Environmentally Friendly Products and Services
www.daifuku.com/sustainability/action/environment/product
- Evaluation from Outside the Company
www.daifuku.com/sustainability/external-evaluation

Daifuku's CSR

Provide high quality products and services



Basic stance

Since its founding in 1937, Daifuku has been involved with material handling. We have developed material handling systems and equipment for storage, transport, sorting, and picking, tailored to a variety of fields and industries to provide the best solutions.

Our business environment is expected to keep growing in line with globally expanding logistics-related investments from the e-commerce sector; increasing demand for automation and longer facilities; and use of capital investment to resolve labor shortages and increase productivity. We believe it is vital to consistently improve the quality of products and systems we provide to society to ensure safety by thorough compliance with related laws, regulations and guidelines, and to have appropriate countermeasures in place to provide a sincere response to any unexpected issues arising. We therefore uphold the following as our management philosophy, "Provide the best solutions to benefit the global markets and the development of society."

Promotion framework

In accordance with the ISO 9001 Quality Management System regulated by ISO (International Organization for Standardization), the pursuit of customer satisfaction is our fundamental policy and we guarantee the quality at every stage of planning, sales, design, manufacturing, installation and after-sales service.

Daifuku conducts quality management system initiatives based on top management reviews of the quality assurance system, which is linked with feedback from business operation management reviews that evaluate the achievements of each business operation and implement nonconformity corrective measures. In addition, as a companywide management review, the president evaluates and makes judgments on the necessity for changes in the quality management system by reviewing the progress made in achieving our product quality goals with the aim to strive for continuous improvements.

Initiatives

Handing down techniques and skills

Daifuku provides various sessions and on-the-job training to develop global personnel and facilitate the sharing of techniques and skills of experienced personnel with junior employees. We also strive to sustain and improve the necessary techniques for manufacturing, such as welding and assembly, by regularly holding tests under the skill evaluation program. A total of 514 personnel are qualified as of June 2019.

Comment from an engineer

The Engineering Department studies system layouts and operation approaches in view of customers' requests and needs to give them high value-added proposals. Its quality-related efforts include 3D layout creation at the planning stage, the verification of workability with the use of virtual reality, and verification of capacity through simulation. These actions are aimed at testing systems in advance. We will continue our efforts to provide high quality systems that satisfy customers.



Takeshi Nakanishi
Assistant Manager
System Planning
Engineering Division
FA&DA Operations

For details, see our website:

www.daifuku.com/sustainability/action/quality



Strengthen risk management

Basic stance

It is vital to manage the risks associated with the globalization of business with the aim to fulfill social responsibilities towards stakeholders. In accordance with its management policies and Group Code of Conduct, Daifuku strives to build a global corporate culture that is resilient in emergencies, by sharing information about corporate risks across its Group to address all business risk responses and minimize the impact on corporate management.

Promotion framework

Daifuku implements cross-organizational risk management measures through the Human Resources and General Affairs Division, which is under the control of the Chief Risk Officer (CRO). Under its risk management rules, the related divisions take measures to mitigate risks and minimize impact from the occurring risks according to the level of criticality.

For natural disaster risks, such as earthquakes, winds and floods, lightning, fires and new flu strains, we develop business continuity plans (BCPs). The Information Security Committee focuses on risks related to the Group's information security. The Compliance Committee, which is chaired by the president, addresses law violation risks with the potential for high impact. In addition, we formulated our Group Code of Conduct to ensure legal compliance, fairness and ethics.

In recent years, as a countermeasure against the global risk of potential law violations, we have established basic rules detailing specific measures and procedures to comply with competition and bribery laws. We also distribute messages from the president conveying the importance of compliance to all employees.

Initiatives

Whistle-blowing system

To enhance the effectiveness of our internal reporting (whistle-blower) system, we revised the system with new internal rules in April 2018. The new framework provides two separate channels—internal contact and external independent contact—that accept reporting from whistle-blowers. Anonymous reporting is available, and staff members worldwide can use their own language for reporting. The president delivered a message about the updated system, where a whistle-blower is able to report at ease at every corner of the Group.

Comment from a BCP manager

On the basis of activities that address natural disaster risks and CSR efforts, we engage in business continuity management activities compliant with the ISO 22301 standards to achieve the best possible business continuation in the event of a major earthquake or other disaster. In the wake of an earthquake at seismic intensity 5 or higher on the JMA scale, we check the safety of employees and gather information on damage at our sites and business partners and share such information among all personnel concerned. We quickly collaborate with different departments to ensure an initial response system with the aim of business continuity.



Tetsuya Nitta
Manager
BCP Promotion
General Affairs
Department

For details, see our website:

www.daifuku.com/sustainability/action/riskmanagement

Daifuku's CSR

Nurture relationships of trust with our suppliers



Basic stance

As globalization progresses and economic activities are intricately linked to each other, we need to take social responsibility for not only our products and services, but also our supply chains. Daifuku's Group Code of Conduct stipulates our trading policy and regulates the compliance of all our executives and employees. Under the Code, we share the Basic Procurement Policy revised during fiscal 2017 with our suppliers to manage supply chains in a responsible manner along with our CSR procurement standards.

Promotion framework

This initiative is promoted mainly by the administrative division under the CFO & CRO and procurement personnel of each business operation. We take measures to share our procurement policies with our suppliers by visiting them based on the results of their self-evaluation of CSR related items.

Through our cross-sectional organization called the Production Compliance Committee, we also provide lectures regarding statutory compliance in the fields of production and procurement for persons engaged in procurement. We also hold sessions to exchange information and share our policies with our suppliers.

Initiatives

Supplier Operations Verification System

We are using a system to confirm the operational status of our suppliers in an emergency as part of a scheme to strengthen our business continuity plan. In the event of an emergency, this system confirms damage status of suppliers and safety of personnel by e-mail. We use this system with the aim of ensuring quick recovery and return to normal operations of the whole supply chain by sharing information quickly and accurately.

Health and safety seminars for top management

Daifuku holds annual seminars with the aim to eradicate workplace accidents in the whole supply chain. At the seminar held in November 2018, we invited the heads of 156 major suppliers and shared policies and information on safety at Daifuku and suppliers. We reconfirmed the importance of safety and health management and enhancement.

Comment from a procurement manager

In April 2017, we revised our Basic Procurement Policy and drew up CSR Procurement Standards. The Group's CSR Action Plan has set a goal of visiting a total of 80% of our suppliers in 2020. We are working to make CSR better understood by business partners and to share information through visits and interviews. In doing so, we seek to build relationships based on mutual trust.



Manabu Yamamoto
Associate Manager
Business Administration
Department

For details, see our website:

www.daifuku.com/sustainability/action/supplier

Respect human dignity (human rights, labor practices, safety, health)



Basic stance

Human rights, labor practices

As stated in its management philosophy, “Focus on healthy, growth-driven global management under a diverse and positive corporate culture,” Daifuku regards its employees as forming the basis of management. Responding to changes in the social environment outside the Company, we will promote diversity.

Safety

Based on its slogan, “Safety is at the foundation of corporate sustainability and supersedes everything,” Daifuku conducts intensive safety training and risk assessment of machinery equipment and work procedures with the aim of eradicating workplace accidents.

Health

Placing the physical and mental health of employees as important issues, Daifuku adopted its Health Management Declaration covering the entire Group in April 2018. We strive to create a more stimulating and comfortable work environment through various health promotion measures and events.

Promotion framework

Human rights, labor practices

In April 2017, we set up the Work-Style Reform Committee with the aim of promoting diversity and achieving employees’ work-life balance. We will provide a work environment suitable for diverse human resources and improve productivity.

Safety

The Central Safety and Health Committee, directly led by the president, strives to ensure Group-wide safety management framework and eradicate workplace accidents through its regional safety and health committees and various task forces related installation, production, and procurement. With the aim of passing on a corporate culture that for years has focused on safety, Daifuku has obtained occupational safety and health management system certification, OHSAS 18001, at its major sites.

Health

In 2006, Daifuku established a cross-sectional organization, the Mental and Physical Health Promotion Committee. In cooperation with industrial doctors, public health nurse, and the health insurance association, we plan and conduct health promotion measures and events.

Initiatives

Surveys of employee awareness

We conduct surveys of employee awareness to find the current state of employees and the Company, as well as clarify issues that need to be addressed. These surveys are anonymous questionnaires that deal with the experiences of employees (satisfaction, workload, and the potential of the Company) and their perspectives on the Company’s current state (work, working environment, their superiors, and the overall company). Based on these results, we give feedback to executives and employees, which then leads to initiatives for creating a workplace where they are able to work actively, and where the organization is invigorated.

Comment from an event organizer

The Mental and Physical Health Promotion Committee organizes events aimed at recovering from mental and physical fatigue, improving lifestyles, overcoming a lack of exercise, improving communication, and other related events. Participants’ comments such as remarking on their success in losing weight and the pleasure they take in the social gathering after the event help plan future events. By holding a wide range of events, the Committee will help not only existing employees but also those who retired to enjoy good health.



Noriko Ichimi
Organizer
Mental and Physical
Health Promotion
Committee

For details, see our website:

www.daifuku.com/sustainability/action/employee

Daifuku's CSR

Create good relations with communities



Basic stance

Communication with communities

Daifuku has a number of sites and offices around the world where it conducts business operations, including production and sales. Building good relations with communities at each site is a key goal for Daifuku and is essential to maximize our business activities. Accordingly, we strive to proactively communicate with communities through volunteer activities and collaboration with various organizations, while taking into account the cultures and legal requirements unique to each country and region.

Communication with shareholders and investors

Promoting constructive dialogue with our shareholders and investors through our investor relations (IR) activities has significant implications for Daifuku's sustainable growth and the medium- to long-term improvement of the corporate value. In accordance with Japan's Corporate Governance Code stipulated by the Tokyo Stock Exchange, we formulated the Daifuku Corporate Governance Guidelines in May 2016. Based on these guidelines, we strive to secure the rights and equal treatment of shareholders and enhance dialogue with them.

Promotion framework

Communication with communities

In the CSR Action Plan (FY2017-FY2020) announced in April 2017, we included the number of Daifuku Group participants in social contribution activities as a new KPI (key performance indicator). In Japan, we will continue our social contribution by collaborating with communities through initiatives led by the General Affairs Department and the Environmental Enhancement Management Committee.

Communication with shareholders and investors

The Disclosure Committee chaired by the CFO discloses information based on laws and regulations, while the Investor Relations (IR) Department mainly conducts other information disclosure and dialogue in cooperation with relevant departments. For individual shareholders and investors, we provide site tours, participate in IR fairs, and conduct briefing sessions through securities companies. Another goal of these events is to raise awareness of Daifuku among the public and consumers.

Initiatives

Local procurement and employment

Daifuku believes that one of the activities that contributes to the local economy is to procure in the vicinity of its operating area. We are dedicated to the growth of communities through our procurement in the area of the Shiga Works and other regions. With regard to hiring as well, we actively seek out talent in the vicinity of our sites and provide employment opportunities. We will continue to contribute to the vitalization and advancement of regional economies through local procurement and employment.

Comment from an event organizer

We provide CSR activities that are readily available to employees at the Shiga Works. For fiscal 2019, we launched a regional revitalization team project to organize events with local communities and for making local specialties known to employees. We hope that these initiatives will help employees learn about the region. We will continue to actively collaborate with schools and associations to help revitalize the region.



Hitomi Yasuda
Assistant Manager
General Affairs
Department

For details, see our website:

www.daifuku.com/sustainability/action/communing

Contribute to the environment through corporate activities



Basic stance

The most profound risk to our business continuity comes from global environmental issues, including climate change and biodiversity. At the same time, we recognize that solving such issues also presents business opportunities for us. In the Daifuku Environmental Vision 2020 formulated in 2011, we are stating, “We strive to be environmentally aware in every business activity, including consistently developing and providing material handling systems with low environmental impact.”

As the three priority measures to achieve this vision, we promise to: “Promote environmentally friendly activities in business operations,” “Increase the number of environmentally friendly products and services,” and “Enhance the foundations for environmental management.” We have set up targets for each measure to be achieved by 2020.

Promotion framework

Toward achieving the targets of the Daifuku Environmental Vision 2020, we have set up the Environment Enhancement Management Committee, led by the CEO and the CFO and comprising heads of all operations, the Committee is the highest decision-making body on environmental management issues across the Group. The Committee shares information on progress achieved toward the annual environmental targets and issues and makes discussions, while the top management directs initiatives and planning. The Committee members report these initiatives to employees across the Group and our suppliers.

Initiatives

Daifuku Eco-Products certification program

Since 2012, Daifuku has been operating an in-house program to rate and certify the energy and environmental design of its own products. Under the program, we rate every product manufactured within the Group in terms of energy saving, recyclable, lightweight, long life, resource saving, water conservation, low noise, water pollution prevention, and harmful substance reduction. As of June 2019, we have 54 certified products that meet a certain standard as Daifuku Eco-Products.

Daifuku Eco-Action program

In 2012, Daifuku established its Eco-Action program, which rewards eco-points for environmental activities undertaken by employees in a bid to foster an environmental mindset. With a variety of ecological activities provided in each region, a total of 6,458 employees participated in volunteer activities and environmental learning events. Eco-points gained by employees can be exchanged for green goods and other rewards. In addition, we donate an amount equivalent to the total points gained by them to external organizations.

Comment from an event organizer

My duty is planning and operation under the Daifuku Eco-Action program. For the purpose of building employees’ environmental awareness, we organize a nature observation event in a field belonging to the Company, Christmas tree making, an eco-quiz and an environmental focused photo competition. We are also involved in efforts to remove invasive species and in reed cutting organized by outside organizations at Lake Biwa. We are thus actively engaged in environmental conservation activities in neighboring areas as well. We will continue to enrich our environmental education through the program.



Junko Miyoshi
Organizer
Environmental
Enhancement
Management Committee

For details, see our website:

www.daifuku.com/sustainability/action/environment

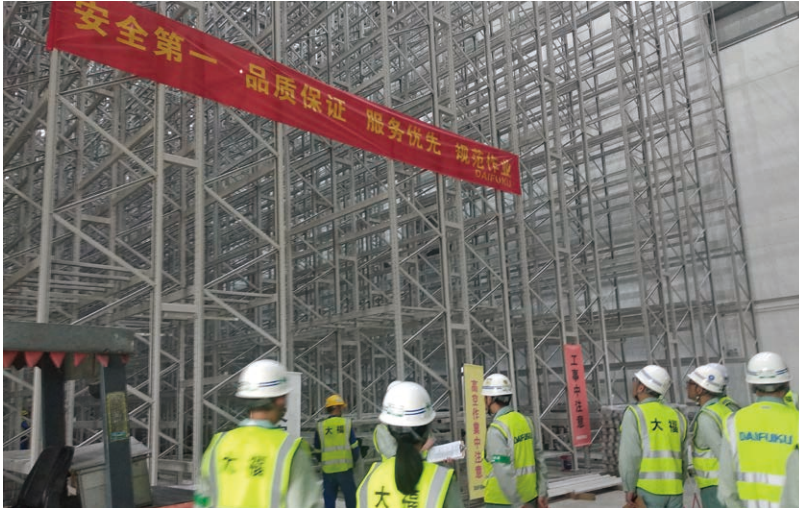
Daifuku's CSR

Global activities

Joint safety patrol by three affiliates [China]

In May 2019, 12 executive members from Daifuku (China) Co., Ltd., Daifuku (China) Manufacturing Co., Ltd., and Daifuku (China) Automation Co., Ltd. conducted a joint safety patrol of NGK Ceramics Suzhou Co., Ltd. (a manufacturing subsidiary of NGK Insulators, Ltd.), where an automated warehouse was being installed. With the aim of raising the safety awareness of all personnel through safety patrols by management members, this patrol is to be conducted at each site and factory twice a year. On the day of the patrol, after receiving a briefing on the installation work, the executive members patrolled a site, where around 30 personnel

worked, and gave guidance on points needing improvement. At a follow-up meeting after the patrol, they shared a range of views and information on working more safely.



Safety Award granted by Toronto Pearson Airport [Canada]

In April 2019, 20 personnel from the Airport Service Division of Jervis B. Webb Company of Canada, Ltd. (Webb Canada), who work full-time at Toronto Pearson International Airport, were granted the Safety Award by the Greater Toronto Airports Authority, which operates the airport. Seven of them were granted the Tier-3 award in recognition for their notable activities or major initiatives promoting changes in processes, culture, and behaviors, which had a significant impact on the company and the airport overall. Thirteen received the Tier-2 award in recognition of their safety measures that had an influence on passengers, co-workers,

and a specific area in the airport. At Jervis B. Webb Company (the parent company of Webb Canada), a culture of pointing out unsafe behaviors to each other across different fields has taken root. Jervis B. Webb is also committed to raising safety awareness among employees and making use of cross-functional teamwork. At its Safety and Health Committee, the company takes preventive safety measures and analyzes fundamental causes of problems.



Safety Performance Award from occupational safety and health authority [U.K.]

In May 2019, Daifuku Logan Ltd. received the 2018 Safety Performance Award from the Humberside Occupational Health & Safety Group, an occupational safety and health authority of Yorkshire and Humberside area of the United Kingdom, for the second consecutive year. Daifuku Logan achieved zero accidents last year based on its in-house initiative, the Zero Accident Strategy. This strategy is aimed at eliminating accidents by creating a comfortable workplace. Initiatives such as *setting clear standards for workplace safety, taking actions promptly to solve safety issues, and promoting understanding internally* are adopted under the strategy. The company will strive to achieve further improvement.



Donation of relief goods to hurricane victims [U.S.A.]

In October 2018, Hurricane Michael made landfall in the South of the U.S., where it killed many people and severely damaged buildings. At Elite Line Services, Inc., staff brought relief goods for victims and donated them to the Dove Church in Southport, Florida in December. Relief goods donated by the company included more than 400 disaster blankets; 144 sets of cleaning tools; pillows and toiletries; and clothes and shoes for men, women, and children. The total amount of goods exceeded 6,000 lbs. (2,700 kg), and they were delivered to more than 600 households.



Efforts to reduce plastic waste [Canada]

In July 2019, Webb Canada set a goal of reducing plastic waste by discontinuing beverages in plastic bottles. To achieve this, the company's factory in Hamilton introduced a sensor-controlled water dispenser and distributed stainless-steel water flasks to all employees. The water-dispensing station is equipped with a high-performance compressor and is designed to save energy. It also has a water supply indicator, which prevents water from being wasted by spillage.



Corporate Governance

The Daifuku Group strives to enhance its corporate governance with the aim of ensuring the sustained growth of the Group and creating its medium- to long-term corporate value.

Number of directors



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

Board meeting attendance



Daifuku prepares a year-round schedule for Board meetings and agenda. The Company conducts a functioning operation by holding the meetings in a planned manner.

Outside officers rate

(Directors, Audit & Supervisory Board members)



Daifuku holds meetings among outside officers, representative directors, and full-time Audit & Supervisory Board members on a regular basis to leverage the outside officers to an effective advantage.

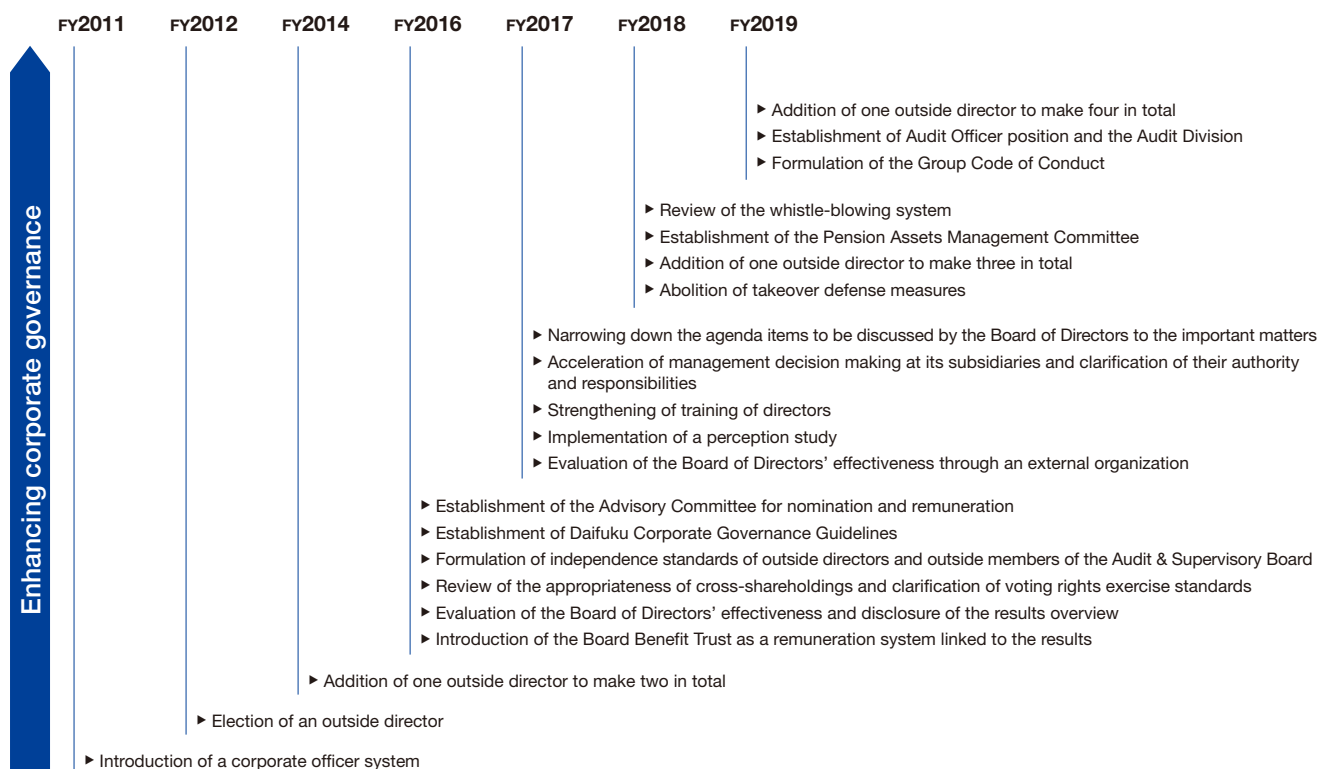
Principal initiatives

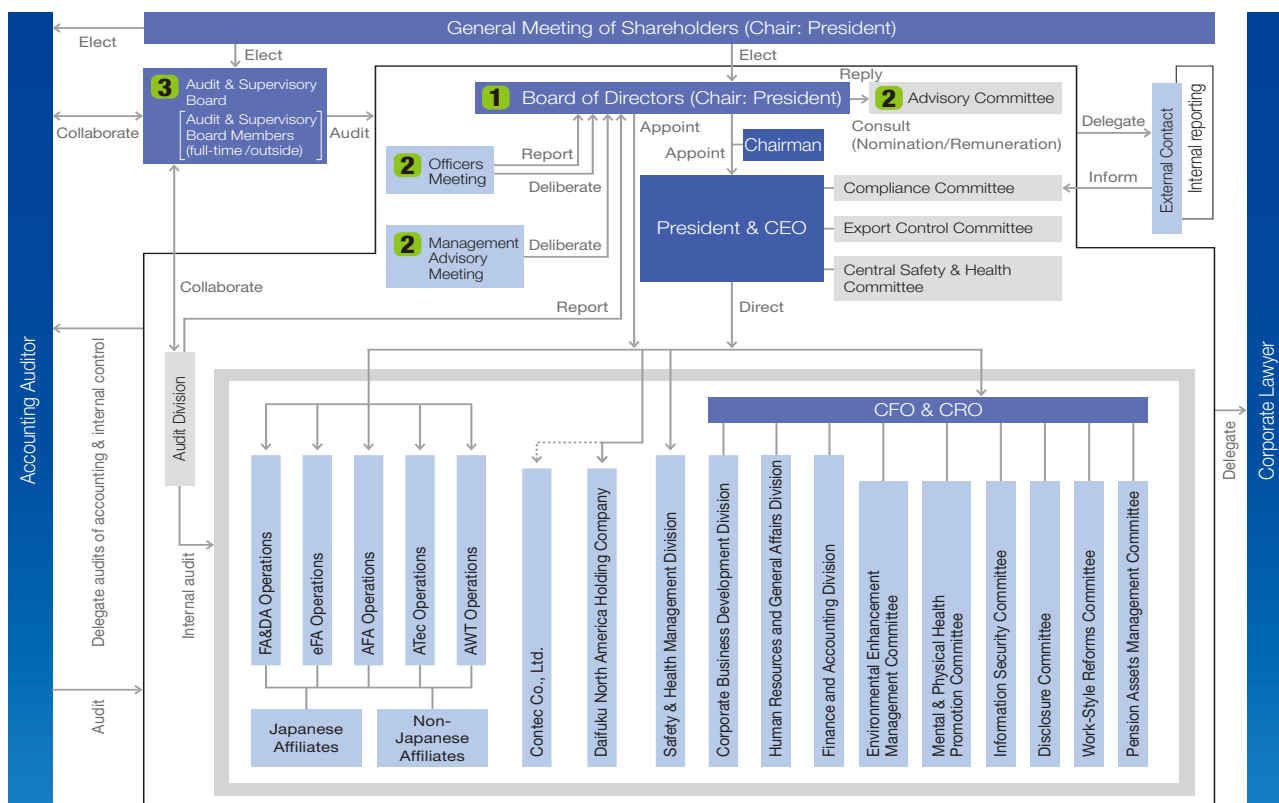
Daifuku enhances its corporate governance framework by developing the Board of Directors of 11 members, including four outside directors, and the Audit & Supervisory Board consisting of five members, three of whom are elected from outside the Company. The Company believes that the management oversight/supervision system functions sufficiently through the close collaboration of the two Boards. In addition, the Company has introduced the corporate officer system to encourage rapid decision making on business execution.

The Company acknowledges that a firm internal control system will make corporate governance more workable, thereby leading to enhanced corporate credibility in addition to efficient and effective operations, and will seek to ensure compliance with laws and regulations, risk management, secured assets, and credible financial reporting.

As a guidepost for fulfilling its corporate governance, the Company has established the Daifuku Corporate Governance Guidelines based on Japan's Corporate Governance Code.

The evolution of corporate governance





1 Board of Directors

The main roles and responsibilities of the Board of Directors shall be to establish Daifuku’s management philosophy, etc. to determine the strategic direction. It shall undertake constructive discussions about specific management policies, management plans, and other aspects.

2 System to complement functions of the Board of Directors

Advisory Committee	<p>Daifuku has established a voluntary Advisory Committee to deliberate on the nomination, election/dismissal, and the remuneration of directors and corporate officers. The Advisory Committee is comprised of representative directors and outside directors, and meets at least three times a year. The Committee is chaired by one of the outside directors to ensure its independence and objectivity.</p> <p>The Committee shall examine the remuneration of management team and report its findings to the Board of Directors.</p> <p>The Committee shall examine matters such as the proposal of a succession plan, the identification of the qualities required for a successor, and the selection and evaluation of successor candidates, and report its findings to the Board of Directors.</p> <p>The Committee shall examine the election/dismissal of the CEO based on objective criteria and report its findings to the Board of Directors.</p>
Officers Meeting	<p>Daifuku adopts a corporate officer system to accelerate management decision making on business execution and strengthen supervising functions of 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.</p> <p>With the introduction of the corporate officer system, Daifuku holds officers meetings with all members of the management team, full-time Audit and Supervisory Board members, an audit officer, etc. attending and participating in deliberations on the content of business execution.</p>
Management Advisory Meeting	<p>The Management Advisory Meeting is held on a timely basis to confer important management matters, with directors and Audit & Supervisory Board members in attendance. This meeting also seeks the opinions of external specialists on an as-needed basis.</p>

3 Audit & Supervisory Board

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, Audit Standards, and Standards on Audit Concerning the Internal Control System, with regard to audit of directors’ fulfillment of duties, decisions over resolutions to be submitted to the Ordinary 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 and the Audit & Supervisory Board strive to ensure the effectiveness of audits by strengthening cooperation among the Audit Division and the accounting auditor; actively sharing information and exchanging opinions with the outside directors.

Corporate Governance

Diverse matrix of the Board of Directors

	Independent (outside officers)	Corporate management	Industry insight	International experience	Expertise	Gender*
Akio Tanaka		√	√			M
Hiroshi Geshiro		√	√	√		M
Mikio Inohara		√	√		Finance/Accounting	M
Shuichi Honda		√ (Bank)	√	√		M
Hidenori Iwamoto		√	√	√		M
Yoshiyuki Nakashima		√	√	√	HR/General affairs	M
Seiji Sato		√	√	√		M
Yoshiaki Ozawa	√			√	Finance/Accounting	M
Mineo Sakai	√	√ (IT)		√	Finance/Accounting	M
Kaku Kato	√	√ (Trading/Energy)		√	Legal	M
Keiko Kaneko	√				Legal	F

*M: Male, F: Female

Activity of outside directors and outside Audit & Supervisory Board members

	Name	Board meeting attendance	Activity
Outside directors	Yoshiaki Ozawa	Board of Directors: Regular: 12/12 times Special: 6/6 times Management Advisory Meeting: 3/3 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.
	Mineo Sakai	Board of Directors: Regular: 9/9 times Special: 4/4 times Management Advisory Meeting: 2/2 times (Assumed office in June 2018)	Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate management.
	Kaku Kato	(Assumed office in June 2019)	Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate management also in terms of safety, ESG (environment, society, governance), compliance and internal control.
	Keiko Kaneko	(Assumed office in June 2019)	Provides insightful advice and recommendations to the Board of Directors based on her abundant experience and extensive knowledge in corporate legal affairs, also from her professional standpoint as a lawyer.
Outside Audit & Supervisory Board members	Ryosuke Aihara	Board of Directors: Regular: 12/12 times Special: 6/6 times Audit & Supervisory Board: 6/6 times	Provides expert advice and recommendations to the Boards, as a lawyer.
	Tsukasa Miyajima	Board of Directors: Regular: 9/9 times Special: 4/4 times Audit & Supervisory Board: 4/4 times (Assumed office in June 2018)	Provides insightful advice and recommendations as a university professor specializing in legal affairs to the Boards, based on extensive experience as a legal expert.
	Nobuo Wada	(Assumed office in June 2019)	Provides insightful advice and recommendations as a university professor specializing in condensed matter physics to the Boards, based on extensive experience as an academic expert.

Performance-linked remuneration system for Board members

Remuneration for officers of Daifuku consists of the following three types; the base salary that reflects their roles and responsibilities, a bonus (short-term performance-based compensation) that reflects their performance results, and the performance-based equity compensation that reflects a medium- to long-term improvement in business performance and the shareholder value.

Performance-based remuneration and other compensation

	Performance-linked remuneration		Other
Title	Bonus	Board Benefit Trust, a performance-linked equity compensation	Base salary
Covering	Internal directors of the Board, full-time members of the Audit & Supervisory Board	Internal directors	All officers
Index	Growth rate of operating income (target from quantitative aspect)	- Each FY: Achievement of performance target (net income amount and ratio) - Achievement of medium-term business plan: Each targets of net sales, operation income, ROE in the Value Innovation 2020 (April 2017 - March 2021)	—

The basic policy on the determination of remuneration for each position is to make a fair evaluation of all three types of compensation based on the evaluation criteria set by the Company, using factors according to qualification and job title. When setting the remuneration level and determining individual remuneration, we secure objectivity, transparency and reasonability by reference to trends in remuneration outside the Company and through deliberations at the Advisory Committee.

The Board of Directors is empowered to determine amounts of remuneration, etc. of officers and the policy on determining calculation methods. The remuneration for the management team is resolved by the Board of Directors after the Advisory Committee has examined it based on remuneration evaluation criteria and made a report, and then determination of amounts of such remuneration, etc. is left again to President and CEO Hiroshi Geshiro within the evaluation criteria. The remuneration for Audit & Supervisory Board members will be determined by the Audit & Supervisory Board after the Advisory Committee has examined it based on remuneration evaluation criteria and made a report.

In the policy on the determination of the payment ratio of the performance-based and other compensation, the payment ratio is not fixed but varies according to the business performance for the fiscal year because we mainly use net sales and operating income as indicators to create a system to easily reflect the performance-based results. The reason why we have adopted these indicators is that they represent the results of all the officers and employees making a concerted effort.

Remunerations for Board members (FY2018)

	Number of individuals	Amounts paid
Directors (excluding outside directors)	8	Total remuneration of 613 million yen (Base salary: 281 million yen, bonus: 305 million yen, the Board Benefit Trust: 26 million yen)
Audit & Supervisory Board members (excluding outside members)	2	Total remuneration of 79 million yen (Base salary: 50 million yen, bonus: 29 million yen)
Outside officers	7	Total remuneration of 71 million yen (Base salary: 71 million yen)

Disclosure of individual directors' remuneration

Name	Total remuneration
Akio Tanaka	129 million yen
Hiroshi Geshiro	129 million yen
Mikio Inohara	103 million yen

Note: The listing of the total of consolidated remuneration, etc. is restricted to persons with 100 million yen or more.

Initiatives for strengthening corporate governance structure

Evaluation of the Board of Directors' effectiveness

Regarding the evaluation of the Board of Directors' effectiveness, Daifuku has a basic policy of striving to improve its effectiveness by continuously implementing the PDCA cycle. In fiscal 2018, the Company used an external organization, in the same manner as the previous fiscal year, for evaluation of the Board of Directors' effectiveness to ensure anonymity and collect more impartial opinions. The results were analyzed and compared with other companies. Compared to the last time, total average fell slightly, with comments from the external organization, including "We found the increased awareness for corporate governance, which is a positive trend."

1. Evaluation method

Step 1: The Company conducted a blank questionnaire survey of directors and Audit & Supervisory Board members concerning the Board of Directors' effectiveness (through the external organization).

Step 2: The results of the survey were analyzed at regular meetings of representative directors, outside directors, and Audit & Supervisory Board members, and the evaluation was reported at a meeting of the Board of Directors.

2. Evaluation results

Comprehensive evaluation

- Several positive opinions were expressed such as, "the current management system is appropriate." All members shared the agenda rationale and priority issues such as "the composition of the board of directors" and "development and operation of the successor plan." We were able to establish an environment that facilitates open discussion and efficient management.
- Compared to the other companies, most of the items won higher points than average. The items that won lower points than the average included the prior preparation efforts made by directors themselves, which were seen as a matter of awareness level.

Issues

- In relation to "training suitable for directors/auditors," a number of frank opinions were raised, and new issues became clear.
- Regarding the issue of "early distribution of materials" that was taken up in past surveys, it was recognized that although at a lower level compared to other companies, we would continue to consider even earlier distribution and promote active participation and thorough discussions.

Cross-shareholding strategy

- Daifuku reviews the appropriateness of its cross-shareholdings and reports the result at the meeting of Board of Directors once a year.

Shares of other listed companies held by Daifuku, including those held as cross-shareholdings, shall be kept to the minimum necessary or reduced, in principle. On the other hand, Daifuku has established a firm relationship of trust with its customers through after-sales services as well as the delivery of products. Circumstances including these trade relations shall also be taken into consideration when the economic rationale of cross-shareholdings, such as market capitalization, book value, transaction amounts, dividends, ROE, and risk of shareholdings, is examined. The shares, which the Board of Directors regards as having no significance, shall be sold on a timely basis.

Corporate Governance

With respect to the voting rights as to cross-shareholdings, assessments shall be made individually by the Chief Financial Officer (CFO) by attaching importance to the medium- to long-term improvement of the corporate value of each cross-shareholding partner. At the time of the assessment, special attention shall be paid to whether the cross-shareholding partner has been tarnished by scandals or has committed an antisocial act. If the cross-shareholding partner should be involved in such circumstances, its managerial approach to improvement shall be scrutinized. Audit reports concerning such partner shall also be scrutinized.

- When a cross-shareholder indicates its intention to sell the Company’s shares, the Company shall not hinder the sale of the cross-held shares.
- At the April 2019 meeting of Board of Directors, the Company reviewed the appropriateness of its cross-shareholdings held at the end of fiscal 2018. During fiscal 2018, the Company sold one issue, which resulted in 13.8 billion yen on the balance sheet as its cross-shareholdings. The Board will decide to sell some of its holdings on a timely basis, checking stock prices, etc.

Establishment of the Audit Division

In April 2019, Daifuku established the Audit Division comprising 19 full-time staff and appointed an Audit Officer, who is on the same level as a Corporate Officer, as a general manager of the division. The Audit Officer attends board meetings and other important meetings. The Audit Officer also reviews the development and operation of the internal control system and promotes improvement from a position independent of executives, considering a variety of issues, including compliance with applicable laws and regulations, risk management, ensuring appropriate and efficient business management, and ensuring the reliability of financial reports.

Formulation of the Group Code of Conduct

With the aim to realize the Group company creed and management philosophy, Daifuku reviewed its existing corporate code of conduct and, in April 2019, newly established its Group Code of Conduct that defines the fundamental principles we (all directors, officers and employees of the Group) should follow. The BRAND PASSPORT, which introduces the code of conduct and Daifuku’s corporate policies structure, is distributed to all associates within the Group.



DAIFUKU BRAND PASSPORT

Review of the whistle-blowing system

During fiscal 2018, Daifuku revised its internal reporting (whistle-blower) system to increase its effectiveness. The new system features anonymous reporting and in eight languages, so that every associate of the Group (including partner companies) is able to report in their own languages.

Business entertainment and gift-giving

Daifuku strives to improve compliance awareness of all associates through the Group Code of Conduct, etc.

- We will comply with applicable laws, rules and regulations in each country and region, act according to social ethics and ensure transparency in respect of entertainment and gift-giving with customers, business partners and other stakeholders.
- We will not provide entertainment or carry out gift-giving to domestic and/or international public officials to obtain improper business advantages.

Dialogue with shareholders (investor relations activities)

To contribute to sustainable growth and the increase of corporate value over the medium-to-long term for the Group, Daifuku promotes constructive dialogue with its shareholders. The Company conducts timely and appropriate disclosure of information through the Investor Relations (IR) Department. In addition, the Company broadly pursues transparency through information disclosure on its website.

FY2018 results	
Ordinary General Meeting of Shareholders	Attendees: 119 Voting rate: 81%
For institutional investors	Results briefings: Held 4 times Global IR tour: 3 times Meetings with investors: 395 times
Briefings for individual investors	Held: 3 times Participants: 617
Site tour for shareholders	Participants: 159 Satisfaction level: 97%

CFO cited in “Best CFOs” list in major U.S. financial magazine

In May 2019, Daifuku was selected by Institutional Investor, one of the world’s leading U.S. financial information publications, as one of the highly ranked “Honored Companies” in “The 2019 All-Japan Executive Team” in the Engineering & Machinery sector. Daifuku’s Mikio Inohara, Executive Vice President and CFO, took second place in the “Best CFOs” category of this sector for the second year in a row.

Risk Management

Risk information

Daifuku recognizes the following items as risks that could have a significant impact on its business activities. The Company takes measures to mitigate and minimize each risk; however, it believes that these incidents have the potential to impact the Group's performance, should they occur.

Risks covered by the CFO and CRO (Chief Risk Officer)

1. Major disruption to production	4. Labor relations issues	7. Securing of human resources
2. Impact of natural disasters and intentional threats, war, acts of terrorism, strikes, disease, etc.	5. Joint ventures	8. Customer/Supplier credit risk
3. Environmental problems	6. Intellectual property rights	9. Information management
10. Global business development	(1) Unexpected changes to each country's laws and regulations (2) Changes in the social, political, and economic situation, or deterioration in public safety (3) Disruption to transportation/electric power infrastructure (4) Currency exchange restrictions and fluctuations (5) Tax system changes (6) Taxation by transfer price (7) Trade protection regulations (8) Customer credit risk by different commercial practices (9) Different employment systems and social insurance systems (10) Changes in the labor environment, difficulties in recruiting/retaining personnel (11) Outbreaks of disease	

Risks covered by each of global business operations

1. Impacts of conditions in the markets related to semiconductors and flat-panel displays, as well as automobiles
2. Price competition
3. Product quality issues
4. Risk related to the development of new products/technologies
5. Increase in raw material prices
6. Increasing project scale

The number of projects with high-value orders is increasing in systems for distribution centers and semiconductor/flat-panel display factories. The Group's financial results may be affected by the timing of orders recorded, along with how efficiently all aspects of projects are managed.

Risk management framework

To develop an appropriate risk management system to address anticipated risks that have a significant impact on the Group's businesses, the executive vice president acts as CRO, overseeing the Human Resources and General Affairs Division, which develops and promotes countermeasures.

Daifuku conducts risk assessments across the Group every year. Also, the Company sets in advance the frameworks for responding to emergency situations.

Information disclosure on corporate governance

Daifuku Corporate Governance Guidelines
www.daifuku.com/ir/policy/governance/guideline

Corporate Governance Report
www.daifuku.com/ir/policy/governance

Notice of General Meeting of Shareholders
www.daifuku.com/ir/stock/shareholders

Message from Outside Directors



Yoshiaki Ozawa
(Assumed office in June 2014)

Serving as a sounding board in an effort to help maintain sustainable growth

My field of expertise is accounting. Following my 35 years working for audit firms as a certified public accountant, including six years in New York, I have spent the last seven years as a professor in the business management department of a university. I am now serving my sixth year as an outside director of Daifuku. I feel that Daifuku prioritizes its customers and never forgets the goal of challenging tomorrow under its company creed of Hini Arata.

Ever since listed companies became subject to Japan's Corporate Governance Code in 2015, importance has come to be placed on corporate governance and this concept rapidly became a mainstay of companies in Japan. Although many listed companies in Japan conduct governance in compliance with this Code, it is important for these companies to evolve so that they can rapidly make decisions to address the drastically changing corporate environment.

I feel that today Daifuku is ahead of other listed companies because it upgrades its governance structure every year. The remaining challenges, however, include the ability to make decisions more quickly regarding new capital investments and M&As as a means of addressing the drastically changing global environment.

Meanwhile, I feel that the challenge for us as outside directors is to increase the number of impartial proposals that leverage our individual expertise as third parties in the Board of Directors. The role (function) required of outside directors is to offer advice for supervising the overall management, supervising conflicts of interest, and improving management efficiency. Against this backdrop, I hope to better fulfill my advisory function. Although this advisory function includes offering advice regarding strategies and decision-making, as well as improving the corporate image, I also hope to fulfill the role of providing expertise and serving as a sounding board for managers. Going forward, Daifuku will need to enhance its management framework to further improve profitability as a means of maintaining sustainable growth, so I will also provide advice in this area.

Profile

July 1978	Joined PricewaterhouseCoopers (PwC) Osaka Office
August 1982	Registered as a Japanese certified public accountant (CPA)
July 1990	Registered as a U.S. CPA (New York)
July 1995	Senior partner, Chuo Shinko Audit Corporation
July 2005	Worked at the PwC New York Office as the national director overseeing Japanese clients in the U.S.
January 2008	Senior partner, PwC Aarata
April 2012	Professor at St. Andrew's University (to present)
June 2018	Outside Audit & Supervisory Board Member, Daido Life Insurance Company (to present)



Mineo Sakai
(Assumed office in June 2018)

Deepening my understanding of Daifuku's business and fulfilling my supervisory function from an objective standpoint

At Kanematsu-Gosho, I was primarily involved in financial and accounting affairs. At Kanematsu Electronics, where I am currently employed, I have spent my time and energy on unifying the corporate culture and values, defining the core competencies of our business domains, and creating synergy.

As a comprehensive material handling systems manufacturer, I recognize that Daifuku is involved in supporting logistics innovation on a global scale. The material handling systems provided by Daifuku also hold a high potential to be used in new business domains, so its range of customers is likely to expand further. If Daifuku addresses the logistics requirements of its customers by leveraging the technology and knowhow it has cultivated over the years, I expect to see sustainable growth.

Moreover, actively incorporating health management, SDGs (Sustainable Development Goals), and other aspects of ESG (Environmental, Society, Governance) into its management and by understanding and recognizing the responsibilities placed upon global corporations in terms of meeting the challenges faced by society, and creating and publicizing Daifuku's CSR action guidelines, all of which contribute to enhancing the corporate brand.

I highly regard Daifuku's Board of Directors meetings and officers meetings for conducting open, natural discussions, and for working towards a greater level of diversity that keeps ahead of the needs of the times.

The U.S.-China trade conflict, export controls on semiconductor materials to South Korea, and other issues hold the risk of having a particularly large impact on the e-Factory business going forward, so I feel it is necessary to enhance monitoring in the monthly business reporting.

Although aggressive growth investments are essential, I feel there will be some situations that require Daifuku to adjust course. Likewise, it is vital to always maintain a balance between investments for expanding business and risk control. I recognize that offering proposals regarding course adjustments in these situations is one of my duties as an outside director. Meanwhile, I hope to further deepen my understanding of Daifuku's business and fulfill my supervisory function from an objective standpoint in order to contribute to safeguarding the profits of shareholders and investors.

Profile

April 1974	Joined Kanematsu-Gosho, Ltd. (now Kanematsu Corporation)
April 1997	General Manager of Finance Department, Kanematsu Corporation
June 2004	Director, member of the board of Kanematsu Electronics Ltd.
April 2014	Chairman, Kanematsu Electronics Ltd.
April 2016	Chairman and CEO, Kanematsu Electronics Ltd.
April 2018	Director and Senior Adviser, Kanematsu Electronics Ltd.
June 2019	Adviser, Kanematsu Electronics Ltd. (to present)

Message from Outside Directors



Kaku Kato
(Newly assumed office in June 2019)

Verifying with an impartial eye to help enhance corporate governance

For the 37 years since I joined Mitsui & Co., Ltd., including my time working outside of Japan, I had been involved in legal and internal auditing affairs. At Mitsui Oil Exploration Co., Ltd., I was also involved in fields with which I had been unfamiliar until that time, such as HSE (Health, Safety and Environment) and mining laws. During this time, I also feel that I took the initiative on advocating the importance of compliance and corporate governance, which has become a matter of course today. Although we also faced major lawsuits, incidents, and scandals, I am proud to say that my colleagues at the time and I were able to resolve these challenges to the satisfaction of all parties.

My impression of Daifuku is of a very serious, down-to-earth company. On the other hand, I feel that the management team is candid and presents a friendly atmosphere.

In terms of corporate governance, my impression is that Daifuku has established and operates an extremely robust framework. However, this must continuously be updated and further upgraded in light of the situation as the environment changes over time and business expands. While leveraging and extending the expertise Daifuku has cultivated over the years, it is important to continuously verify that these systems have not fallen behind the times and have not become nonsensical in the eyes of the world.

I believe that my role to observe Daifuku from the outside lies first and foremost in this verification function. As I further deepen my understanding and fondness for Daifuku, I hope to build an even stronger relationship with the Company, while at the same time always keeping an impartial eye on the company and maintaining an appropriate distance. Further, I hope to serve as an outside director whose comments are viewed as encouraging, and that my presence has helped avoid mistakes.

Profile

April 1978	Joined Mitsui & Co., Ltd.
April 2008	General Manager of Legal Division, Mitsui & Co., Ltd.
April 2011	Associate Officer; General Manager of Legal Division, Mitsui & Co., Ltd.
April 2012	Managing Officer; General Manager of Internal Auditing Division, Mitsui & Co., Ltd.
April 2015	Executive Officer; Chief Compliance Officer (CCO) and in charge of Corporate Governance, Health, Safety and Environment (HSE), Mitsui Oil Exploration Co., Ltd.
June 2016	Managing Executive Officer; CCO and in charge of Corporate Governance, Human Resources & General Affairs, HSE, Mitsui Oil Exploration Co., Ltd.
June 2018	Adviser, Mitsui Oil Exploration Co., Ltd. (to present)



Keiko Kaneko
(Newly assumed office in June 2019)

Pre-emptying any potential issues to ensure the Company's world-class status

On a daily basis, as a lawyer specialized in corporate affairs, I support business acquisitions, mergers, and splits, draw up business agreements, and handle scandals and crisis. In cases where I handle corporate scandals and crisis, I must make decisions that take into consideration many factors as we strive to minimize damage to the company amidst a situation that changes hourly, which certainly can be stressful.

I am impressed by Daifuku's sincerity, and I believe that Japan can boast about the Company to the world because it has become recognized worldwide for quality. My impression after assuming office is that the employees are hardworking and sincere and that the business is even more global than I had imagined.

One of the most emphasized roles of outside directors is halting initiative that turn out to be problematic for the Company. However, I would say one fundamental duty is protecting companies by highlighting areas of potential risk before they hinder sustainable growth. Accordingly, I believe my role is to consider the situation and act together with the company, all while remaining one-step apart.

Although Daifuku's business is quintessentially global, there tends to be a high level of homogeneity, and because of this, some ideas may be widely accepted as the norm within the Company. However, from my role as an outside director, I will provide an outside and rational perspective to point out any instances where I consider there is not fully plausible judgement. That said, judgement and reasoning is subjective, therefore I must be objective and evaluate my own views and ideas as I fulfill my duties.

Profile

April 1991	Joined Mitsubishi Corporation
April 1999	Registered as an attorney, belonging to Daini Tokyo Bar Association
April 1999	Joined Anderson Mori & Tomotsune
January 2007	Partner, Anderson Mori & Tomotsune (to present)
April 2007	Visiting Associate Professor at Graduate School of Law of the University of Tokyo
November 2012	External Statutory Auditor, Fast Retailing Co., Ltd. (to present)
November 2012	Statutory Auditor, UNIQLO Co., Ltd. (to present)
June 2013	External Statutory Auditor, The Asahi Shimbun Company (to present)

Directors, Auditors, and Officers (As of June 21, 2019)

Directors



Akio Tanaka
Chairman

Akio Tanaka has accumulated a wealth of knowledge and experience, primarily in the mainstay manufacturing and distribution systems business. As executive vice president and COO since 2014, he has overseen the Daifuku Group's businesses and proactively promoted production and structural reforms aimed at fundamentally bolstering profitability. In 2018, he became the Group's chairman and will focus his efforts on completing structural reforms, with an eye, in particular, on improving the work-life balance of employees.



Hiroshi Geshiro
President and CEO

Hiroshi Geshiro has abundant experience in the mainstay manufacturing and distribution systems business, mainly in sales worldwide. He has held division-wide responsibility as the head of the aforementioned business since 2014. In particular, he has led business development in the distribution sector, with a proven track record and a wide range of hands-on experience in a number of different industries. In 2018, he became the Group's president and CEO.



Mikio Inohara
Executive Vice President
CFO and CRO

Mikio Inohara has extensive knowledge in the fields of accounting and finance. As an executive vice president and the Group's CFO, and CRO since 2014, he has been working to increase corporate value and manage risk, as well as focusing on investor relations activities.



Shuichi Honda
Director
Senior Managing Officer
Airport Technologies

Shuichi Honda promotes globalized management based on his international knowledge and involvement in managing a Japanese megabank, while serving as the head of the airport technologies business, which is composed mainly of non-Japan subsidiaries.



Hidenori Iwamoto
Director
Managing Officer
Automotive Factory
Automation

Hidenori Iwamoto's career centers on the sales of the automobile production line systems business, and he has management experience and a strong track record in a non-Japan subsidiary.



Yoshiyuki Nakashima

Director
Managing Officer
Chairman of Daifuku (China)
Co., Ltd.

Yoshiyuki Nakashima has an abundance of experience and a proven track record, particularly in human resources and general affairs. He serves as the chairman of a subsidiary in China, the third-largest market for the Group after Japan and the U.S.



Seiji Sato

Director
Managing Officer
Electronics Factory
Automation

Seiji Sato has a wide range of experience and knowledge in semiconductor and flat-panel display production line systems, as well as management experience in a non-Japan subsidiary.



Yoshiaki Ozawa

Outside Director

Yoshiaki Ozawa has ample experience as a certified public accountant, keen insights into accounting, and a wealth of experience in business, including working outside of Japan. He is a university professor focusing in business analysis. He has been an outside director at Daifuku since 2014.



Mineo Sakai

Outside Director

Mineo Sakai has a strong track record and extensive experience in corporate management, including serving as CEO and chairman of a leading IT company. He has been an outside director at Daifuku since 2018.



Kaku Kato

Outside Director

Kaku Kato has abundant experience and extensive knowledge in corporation management also in terms of safety, environment, society, and corporate governance and a wealth of non-Japan experience. He has been an outside director at Daifuku since 2019.



Keiko Kaneko

Outside Director

Keiko Kaneko has abundant experience and extensive knowledge in corporate legal affairs as a legal specialist and has experienced working at a trading company and as an associate professor of a graduate school. She has been an outside director at Daifuku since 2019.

Auditors



Tatsujiro Kurosaka
Audit & Supervisory Board
Member

Tatsujiro Kurosaka has a wealth of insight and experience in the sales field of the mainstay manufacturing and distribution systems, which follows the Group's entire business. He has been a member of the Audit & Supervisory Board since 2012.



Yoshihisa Kimura
Audit & Supervisory Board
Member

Yoshihisa Kimura has deep insight and extensive non-Japan experience, mainly in the field of accounting and finance. He has been a member of the Audit & Supervisory Board since 2014.



Ryosuke Aihara
Audit and Supervisory Board
Member (outside)

Ryosuke Aihara, as a legal specialist, has a wealth of experience and deep insight into corporate governance and compliance. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2016.



Tsukasa Miyajima
Audit and Supervisory Board
Member (outside)

Tsukasa Miyajima is a university professor specializing in legal affairs and, as an academic expert and a legal specialist, has extensive experience and deep insight. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2018.



Nobuo Wada
Audit and Supervisory Board
Member (outside)

Nobuo Wada has long been a university professor majoring in experimental research into condensed matter physics and has deep insight and extensive experience as an academic expert. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2019.

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Kanji Anno

Factory & Distribution Automation

Akihiko Kishida

Automotive Factory Automation
Production

Yoshiyuki Horiba

Electronics Factory Automation
Field Engineering & Services
Chief Officer of Komaki Works

Hiroshi Nobuta

Factory & Distribution Automation
International

Corporate Officers

Toshiaki Hayashi

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

Takaya Uemoto

Airport Technologies
President and CEO of Daifuku North America Holding Company

Akihiko Nishimura

Auto Washing Technologies
President of Daifuku Plusmore Co., Ltd.

Takuya Gondo

Factory & Distribution Automation
Engineering

Yasuhisa Mishina

Factory & Distribution Automation
Production

Hiroaki Kita

Safety and Health Management
Chief Officer of Shiga Works

Norihito Toriya

Factory & Distribution Automation
Sales

Hideaki Takubo

Human Resources and General Affairs

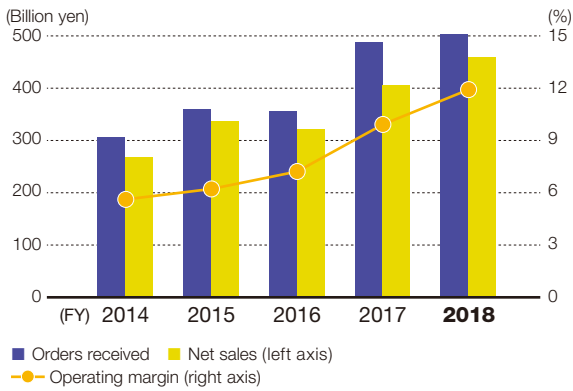
Audit Officer

Yoshihisa Ichinose

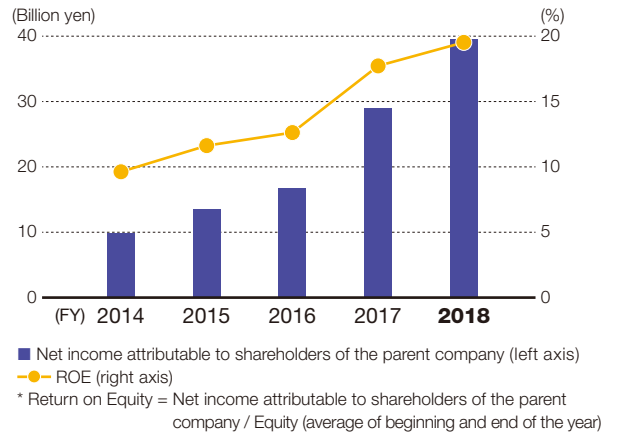
Audit

Key Performance Indicators

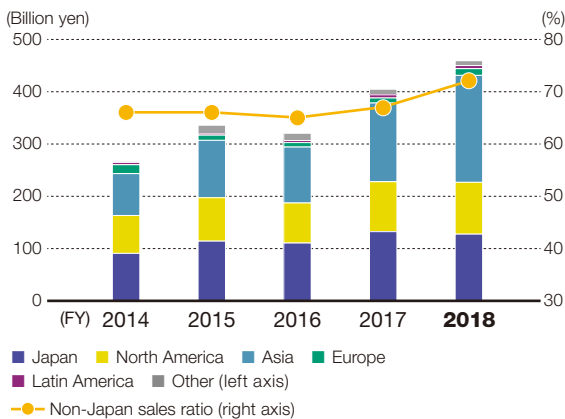
Orders received, net sales, operating margin



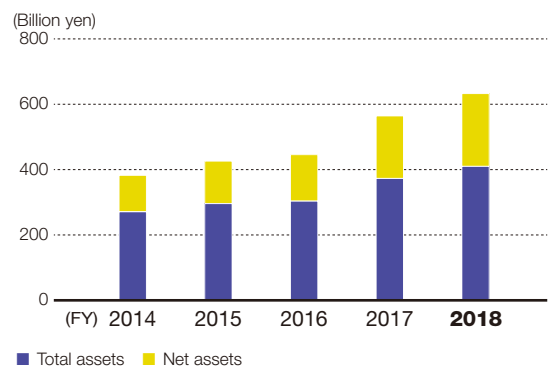
Net income attributable to shareholders of the parent company, ROE*



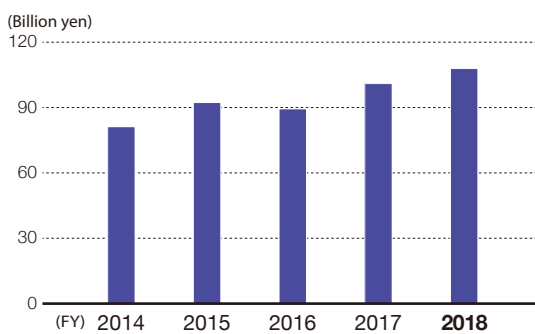
Sales by region



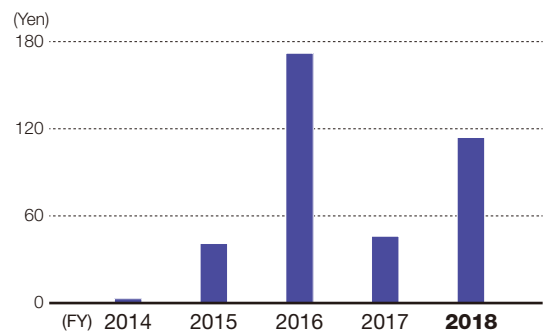
Assets



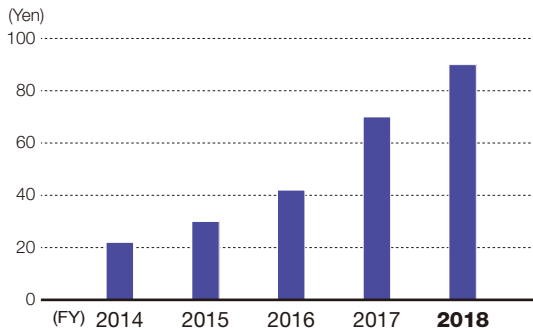
Service sales



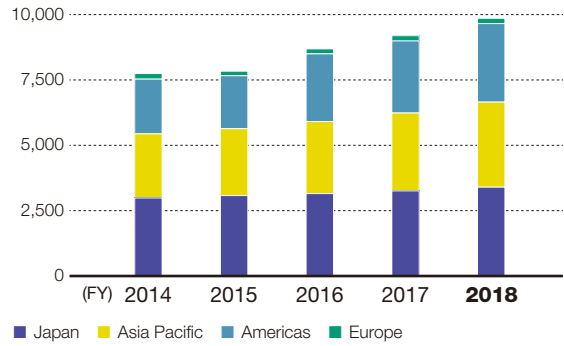
Free cash flow per share



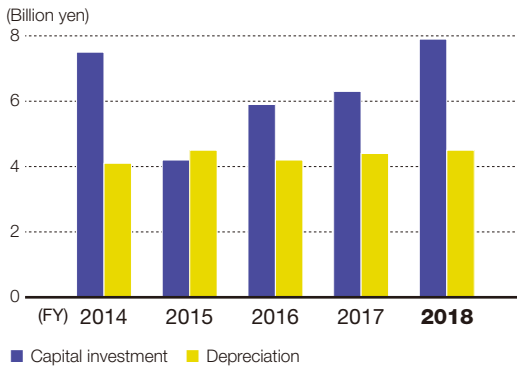
Cash dividends per share



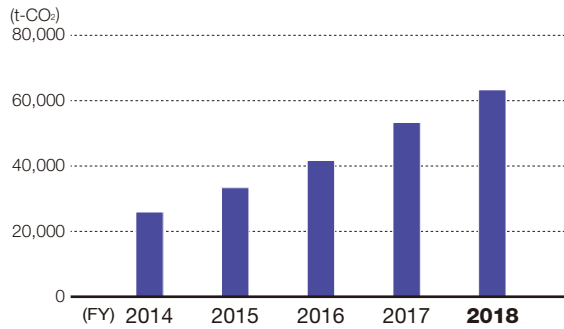
Employees by region



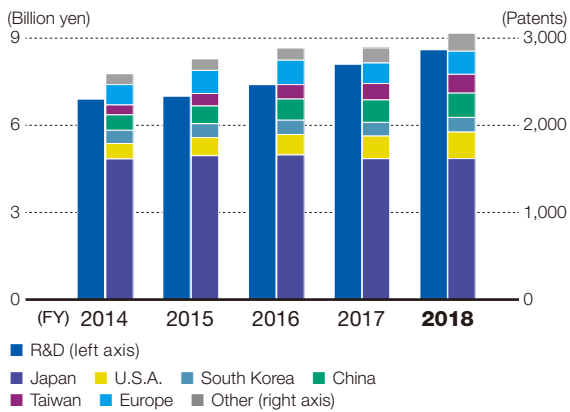
Capital investment, depreciation



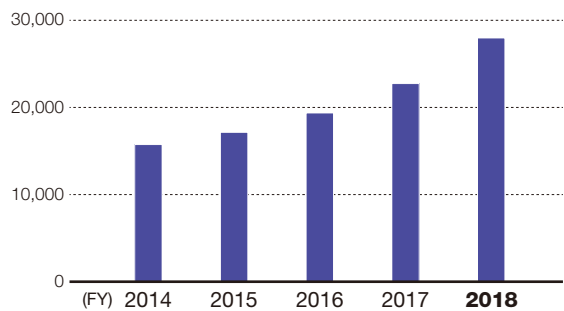
CO₂ reduction contribution (products and services)



R&D, patents held by region



Visitors to Hini Arata Kan demo center



Eleven-Year Financial Summary

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2009 to 2019

(Million yen)	Jump Up for 2010		Material
	2009	2010	2011
For the Year			
Net sales	¥242,182	¥154,208	¥159,263
Cost of sales	195,430	128,195	131,639
Gross profit	46,752	26,012	27,623
Selling, general and administrative expenses	31,736	25,932	25,897
Operating income	15,015	80	1,726
Income before income taxes	13,956	862	703
Net income attributable to shareholders of the parent company	7,851	1,018	269
Capital investment	4,613	2,280	3,221
Depreciation	3,930	3,679	3,577
R&D	8,018	6,075	6,370
Cash Flows			
Cash flows from operating activities	¥ (8,425)	¥ 20,921	¥ 11,417
Cash flows from investing activities	(6,900)	(7,303)	(3,616)
Free cash flows	(15,325)	13,617	7,801
Cash flows from financing activities	16,189	(11,321)	(6,056)
At Year-End			
Total assets	¥194,727	¥165,430	¥163,388
Working capital	75,087	66,265	65,908
Interest-bearing liabilities	55,417	45,295	40,912
Net assets	82,810	81,295	77,714
Shareholders' equity	85,727	83,852	82,454
Number of employees	5,660	5,395	5,209
Amounts per Share of Common Stock			
Net income per share (Yen)	¥ 70.29	¥ 9.20	¥ 2.43
Net assets per share (Yen)	718.68	716.07	683.39
Cash dividends per share (Yen)	26.00	20.00	15.00
Ratios			
Operating income/net sales	6.2%	0.1%	1.1%
Income before income taxes/net sales	5.8	0.6	0.4
Net income/net sales	3.2	0.7	0.2
Return on shareholders' equity (ROE)	9.6	1.3	0.3
Total assets turnover (Times)	1.2	0.9	1.0
Shareholders' equity/total assets	40.9	47.9	46.3
D/E ratio	0.70	0.57	0.54

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. 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.
3. In the calculation of shareholders' equity/total assets ratio and ROE, shareholders' equity represents the amount of net assets less non-controlling interests (average of beginning and end of year).
4. D/E ratio=Interest-bearing liabilities/(Net assets – Non-controlling interests – Bonds with stock acquisition rights)
5. A PDF version containing notes to the financial statement is available on our website: www.daifuku.com/ir/library/annualreport

Handling and Beyond		Value Innovation 2017				Value Innovation 2020		
2012	2013	2014	2015	2016	2017	2018	2019	
¥198,052	¥202,337	¥241,811	¥267,284	¥ 336,184	¥ 320,825	¥ 404,925	¥459,486	
165,505	165,340	194,974	215,641	272,832	256,417	321,836	358,230	
32,546	36,996	46,836	51,642	63,351	64,407	83,089	101,255	
28,328	28,986	34,279	36,759	42,472	41,308	43,164	46,574	
4,217	8,010	12,556	14,883	20,878	23,099	39,924	54,681	
3,129	7,316	12,137	15,211	20,650	23,942	41,059	55,329	
1,223	4,439	7,740	9,810	13,652	16,746	29,008	39,567	
2,393	7,687	10,446	7,532	4,210	5,905	6,348	7,920	
3,612	3,332	3,821	4,157	4,587	4,202	4,419	4,598	
6,484	6,855	7,490	6,945	7,009	7,489	8,123	8,615	
¥ (5,187)	¥ 15,666	¥ 20,447	¥ 6,295	¥ 7,206	¥ 26,683	¥ 11,497	¥ 8,559	
(4,039)	(13,649)	(7,372)	(5,846)	(2,099)	(5,393)	(5,600)	5,937	
(9,227)	2,016	13,074	448	5,107	21,289	5,897	14,496	
7,709	88	1,045	(509)	(8,702)	(4,404)	13,444	(6,893)	
¥185,049	¥206,875	¥249,531	¥271,011	¥ 296,055	¥ 303,540	¥ 373,013	¥409,982	
61,943	45,832	87,070	91,187	99,293	96,401	137,298	170,277	
51,010	53,385	58,144	60,547	40,904	39,770	37,967	40,001	
76,618	85,685	99,690	111,521	130,116	142,340	191,474	222,885	
82,013	84,486	90,652	98,469	123,669	136,694	181,454	214,656	
5,617	6,678	7,349	7,746	7,835	8,689	9,193	9,857	
¥ 11.05	¥ 40.12	¥ 69.96	¥ 88.59	¥ 118.72	¥ 137.58	¥ 235.62	¥ 314.54	
674.72	754.98	875.14	972.75	1,044.40	1,142.14	1,493.69	1,738.20	
15.00	15.00	18.00	22.00	30.00	42.00	70.00	90.00	
2.1%	4.0%	5.2%	5.6%	6.2%	7.2%	9.9%	11.9%	
1.6	3.6	5.0	5.7	6.1	7.5	10.1	12.0	
0.6	2.2	3.2	3.7	4.1	5.2	7.2	8.6	
1.6	5.6	8.6	9.6	11.6	12.6	17.7	19.5	
1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	
40.3	40.4	38.8	39.8	42.9	45.8	50.4	53.3	
0.68	0.64	0.60	0.56	0.32	0.29	0.20	0.18	

Consolidated Balance Sheets

Daifuku Co., Ltd. and consolidated subsidiaries
March 31, 2019 and 2018

	(Million yen)	
	March 31	
ASSETS	2019	2018
Current assets:		
Cash on hand and in banks	¥ 90,916	¥ 85,160
Notes and accounts receivable and unbilled receivables	191,867	163,101
Merchandise and finished goods	5,497	5,084
Costs incurred on uncompleted construction contracts and other	14,074	10,657
Raw materials and supplies	14,634	11,296
Other current assets	9,475	10,915
Less: allowance for doubtful accounts	(226)	(128)
Total current assets	326,239	286,088
Non-current assets:		
Property, plant and equipment :		
Buildings and structures, net	15,041	15,091
Machinery and vehicles, net	4,379	4,411
Tools and fixtures, net	1,915	1,768
Land	12,162	11,800
Other, net	3,522	2,179
Total property, plant and equipment	37,020	35,252
Intangible assets:		
Software	3,425	3,208
Goodwill	7,561	8,794
Other	1,473	2,035
Total intangible assets	12,460	14,037
Investments and other assets:		
Investments in securities	15,341	23,976
Long-term loans	145	140
Assets for retirement benefits	4,932	3,967
Deferred tax assets	10,529	6,367
Other	3,510	3,319
Less: allowance for doubtful accounts	(198)	(136)
Total investments and other assets	34,262	37,635
Total non-current assets	83,742	86,925
Total assets	¥409,982	¥373,013

	(Million yen)	
	March 31	
LIABILITIES	2019	2018
Current liabilities:		
Notes and accounts payable and construction contracts payable	¥ 47,883	¥ 46,450
Electronically recorded obligations - operating	23,915	22,826
Short-term borrowings and current portion of long-term borrowings	19,431	17,267
Current portion of bonds	—	2,700
Income taxes payable	13,388	10,360
Advances received on uncompleted construction contracts and other	29,245	28,298
Provision for losses on construction contracts	317	562
Other current liabilities	21,779	20,322
Total current liabilities	155,961	148,789
Non-current liabilities:		
Long-term borrowings	20,569	18,000
Deferred tax liabilities	485	531
Liabilities for retirement benefits	7,459	11,656
Other non-current liabilities	2,620	2,562
Total non-current liabilities	31,135	32,749
Total liabilities	187,097	181,539
NET ASSETS		
Shareholders' equity :		
Common stock:		
Authorized—250,000,000 shares		
Issued—126,610,077 shares	31,865	31,865
Capital surplus	21,518	20,717
Retained earnings	162,722	129,654
Less: treasury stock, at cost—March 31, 2019—795,986 shares	(1,449)	(782)
March 31, 2018—828,727 shares		
Total shareholders' equity	214,656	181,454
Accumulated other comprehensive income:		
Net unrealized gain (loss) on securities	4,554	5,358
Deferred gain (loss) on hedges	(20)	34
Foreign currency translation adjustments	2,003	6,360
Accumulated adjustments on retirement benefits	(2,505)	(5,328)
Total accumulated other comprehensive income	4,032	6,424
Non-controlling interests		
Non-controlling interests	4,195	3,595
Total net assets	222,885	191,474
Total liabilities and net assets	¥409,982	¥373,013

Consolidated Statements of Income and Comprehensive Income

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2019 and 2018

	(Million yen)	
	2019	March 31 2018
Net sales	¥459,486	¥404,925
Cost of sales	358,230	321,836
Gross profit	101,255	83,089
Selling expenses	18,878	18,336
General and administrative expenses	27,696	24,828
Total selling, general and administrative expenses	46,574	43,164
Operating income	54,681	39,924
Other income:		
Interest income	547	223
Dividend income	417	388
Equity in earnings of affiliates	172	734
Land and house rental revenue	243	241
Other	456	303
Total other income	1,836	1,891
Other expenses:		
Interest expenses	469	373
Other	206	337
Total other expenses	675	711
Ordinary income	55,842	41,105
Extraordinary income:		
Gain on sales of property, plant and equipment	27	96
Gain on sales of shares in affiliates	6,948	—
Other	523	45
Total extraordinary income	7,499	141
Extraordinary loss:		
Retirement benefit expenses	6,897	—
Loss on sales of property, plant and equipment	92	46
Loss on disposal of property, plant and equipment	215	135
Impairment loss	807	—
Other	—	5
Total extraordinary loss	8,012	187
Income before income taxes	55,329	41,059
Income taxes		
Current	20,218	11,675
Deferred	(5,077)	28
Total income taxes	15,140	11,704
Net income	40,188	29,355
(Net income attributable to:)		
Shareholders of the parent company	39,567	29,008
Non-controlling interests	620	346
Other comprehensive income		
Net unrealized gain (loss) on securities	(693)	1,097
Deferred gain (loss) on hedges	(55)	26
Foreign currency translation adjustments	(3,321)	1,154
Retirement benefits reserves adjustments	5,760	1,701
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(1,078)	97
Total other comprehensive income (loss)	611	4,078
Comprehensive income	¥ 40,800	¥ 33,433
(Comprehensive income attributable to:)		
Shareholders of the parent company	¥ 40,116	¥ 33,034
Non-controlling interests	683	399
		(Yen)
Net income per share	¥314.54	¥235.62
Cash dividends per share	90.00	70.00

Consolidated Statements of Changes in Net Assets

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2019 and 2018

	Number of shares of common stock (Thousands)	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
		(Million yen)				
Balance at March 31, 2017	123,610	¥15,016	¥15,915	¥107,349	¥(1,586)	¥136,694
Cumulative effects of changes in accounting policies	—	—	—	—	—	—
Restated balance	123,610	¥15,016	¥15,915	¥107,349	¥(1,586)	¥136,694
Cash dividends	—	—	—	(6,702)	—	(6,702)
Issuance of new shares	3,000	16,849	—	—	—	16,849
Net income attributable to shareholders of the parent company	—	—	—	29,008	—	29,008
Purchase of treasury stock	—	—	—	—	(15)	(15)
Disposal of treasury stock	—	—	4,802	—	819	5,621
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(0)	—	—	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2018	126,610	¥31,865	¥20,717	¥129,654	¥ (782)	¥181,454
Cumulative effects of changes in accounting policies	—	—	—	2,940	—	2,940
Restated balance	126,610	¥31,865	¥20,717	¥132,595	¥ (782)	¥184,394
Cash dividends	—	—	—	(9,440)	—	(9,440)
Issuance of new shares	—	—	—	—	—	—
Net income attributable to shareholders of the parent company	—	—	—	39,567	—	39,567
Purchase of treasury stock	—	—	—	—	(957)	(957)
Disposal of treasury stock	—	—	804	—	290	1,094
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(3)	—	—	(3)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2019	126,610	¥31,865	¥21,518	¥162,722	¥(1,449)	¥214,656

	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, 2017	¥4,290	¥ (5)	¥5,102	¥(6,989)	¥2,398	¥3,247	¥142,340
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—
Restated balance	¥4,290	¥ (5)	¥5,102	¥(6,989)	¥2,398	¥3,247	¥142,340
Cash dividends	—	—	—	—	—	—	(6,702)
Issuance of new shares	—	—	—	—	—	—	16,849
Net income attributable to shareholders of the parent company	—	—	—	—	—	—	29,008
Purchase of treasury stock	—	—	—	—	—	—	(15)
Disposal of treasury stock	—	—	—	—	—	—	5,621
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	1,067	39	1,258	1,660	4,025	347	4,373
Balance at March 31, 2018	¥5,358	¥ 34	¥6,360	¥(5,328)	¥6,424	¥3,595	¥191,474
Cumulative effects of changes in accounting policies	—	—	—	(2,940)	(2,940)	—	—
Restated balance	¥5,358	¥ 34	¥6,360	¥(8,268)	¥3,484	¥3,595	¥191,474
Cash dividends	—	—	—	—	—	—	(9,440)
Issuance of new shares	—	—	—	—	—	—	—
Net income attributable to shareholders of the parent company	—	—	—	—	—	—	39,567
Purchase of treasury stock	—	—	—	—	—	—	(957)
Disposal of treasury stock	—	—	—	—	—	—	1,094
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	(3)
Net changes of items other than shareholders' equity	(803)	(54)	(4,356)	5,763	548	600	1,148
Balance at March 31, 2019	¥4,554	¥(20)	¥2,003	¥(2,505)	¥4,032	¥4,195	¥222,885

Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2019 and 2018

	(Million yen)	
	March 31	
	2019	2018
Cash flows from operating activities:		
Income before income taxes	¥55,329	¥41,059
Adjustments for:		
Depreciation	4,598	4,419
Impairment loss	807	—
Retirement benefit expenses	6,897	—
Loss (gain) on sales of shares in affiliates	(6,948)	—
Amortization of goodwill	927	943
Amortization of negative goodwill	—	(59)
Interest and dividend income	(964)	(612)
Interest expenses	469	373
Loss (gain) on disposal or sales of property, plant and equipment	281	82
Decrease (increase) in notes and accounts receivable	(32,172)	(37,923)
Decrease (increase) in inventories	(7,509)	(4,155)
Increase (decrease) in notes and accounts payable	4,052	9,464
Increase (decrease) in advances received on uncompleted construction contracts	4,279	(4,462)
Other, net	(6,371)	5,275
Subtotal	23,674	14,403
Interest and dividend received	964	610
Interest paid	(423)	(372)
Income taxes refund (paid)	(16,278)	(3,493)
Other, net	622	350
Net cash provided by (used in) operating activities	8,559	11,497
Cash flows from investing activities:		
Investments in time deposits	(4)	(0)
Proceeds from refund of time deposits	—	3
Payments for purchase of property, plant and equipment	(7,744)	(6,417)
Proceeds from sales of property, plant and equipment	102	740
Payments for purchase of investments in securities	(33)	(24)
Collection of loans receivable	6	10
Proceeds from sales of shares in affiliates	13,223	—
Other, net	387	88
Net cash provided by (used in) investing activities	5,937	(5,600)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings, net	12,844	(1,400)
Proceeds from long-term borrowings	5,188	15,100
Repayment of long-term borrowings	(12,639)	(15,605)
Redemption of bonds	(2,700)	—
Proceeds from issuance of new shares	—	16,697
Proceeds from disposal of treasury stock	1,088	5,621
Payments for purchase of treasury stock	(957)	(15)
Payments of cash dividends	(9,428)	(6,695)
Other, net	(290)	(256)
Net cash provided by (used in) financing activities	(6,893)	13,444
Effect of exchange rate change on cash and cash equivalents	(1,851)	1,018
Net increase (decrease) in cash and cash equivalents	5,751	20,361
Cash and cash equivalents at beginning of year	85,152	64,790
Cash and cash equivalents at end of year	¥90,903	¥85,152

Non-Financial Highlights

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

Environment	Value Innovation 2017			Value Innovation 2020	
	2015	2016	2017	2018	2019
CO ₂ emissions (t-CO ₂)					
Japan	16,616	16,190	15,034	15,154	13,212
Non-Japan	20,700	20,148	24,563	25,332	25,846
CO ₂ reduction contribution from environmentally friendly products (t-CO ₂)	25,694	33,367	41,689	53,327	63,326
Water usage (m ³)					
Japan	136,801	135,519	125,991	123,587	123,129
Non-Japan	91,762	98,522	102,160	90,113	90,056
Emission and transfer volume of chemical substances related to PRTR Law (kg)*1	18,691	30,010	21,180	28,576	28,765
Waste generated (t)**2	968	1,244	1,083	1,147	1,051
Recycling rate (%)**2	96.7	93.0	94.4	94.4	95.9

*1 Shiga Works

**2 Figures for Japan only

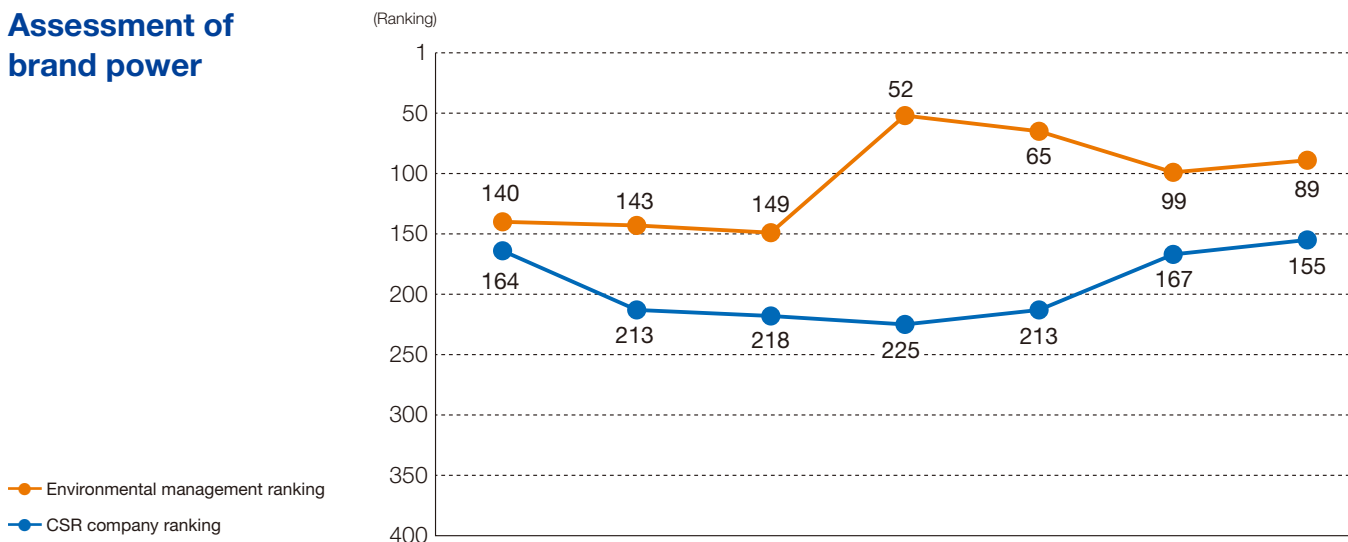
Employees	Value Innovation 2017			Value Innovation 2020	
	2015	2016	2017	2018	2019
Total	7,746	7,835	8,689	9,193	9,857
Japan	2,986	3,077	3,153	3,257	3,398
Asia Pacific	2,453	2,558	2,758	2,978	3,254
Americas	2,093	2,027	2,587	2,759	3,004
Europe	214	173	191	199	201

For details, see our website:

www.daifuku.com/sustainability/esg-data

Evaluations by Third Parties

Assessment of brand power



(FY)	2012	2013	2014	2015	2016	2017	2018
JPX 400 rank Tokyo Stock Exchange					Selected	Selected	Selected
R&I rating Rating and Investment Information, Inc.	A-	A-	A-	A-	A-	A	A
Environmental management ranking Nikkei, Inc.	140	143	149	52	65	99	89
CSR company ranking TOYO KEIZAI INC.	164	213	218	225	213	167	155

External evaluation

Inclusion in global stock indexes

Name	Evaluator	Evaluation
MSCI ESG Ratings	MSCI Inc.	AA
FTSE4Good Index Series FTSE Blossom Japan Index	FTSE Russell	Selected stock
SNAM Sustainability Index	Sompo Japan Nipponkoa Asset Management	Selected stock
Healthy Management Stock	METI, Tokyo Stock Exchange	Selected stock



Evaluations by international CSR rating organizations

Name	Evaluator	Evaluation
CDP Climate Change 2018	CDP	A-



Company Data and Stock Information (As of March 31, 2019)

Company name	Daifuku Co., Ltd.
Established	May 20, 1937
Paid-in capital	31,865.3 million yen
Employees	9,857 (consolidated)
Ratings	Rating and Investment Information, Inc. (R&I) Long-term: A (single A) [Stable] Short-term: a-1 (a-one)

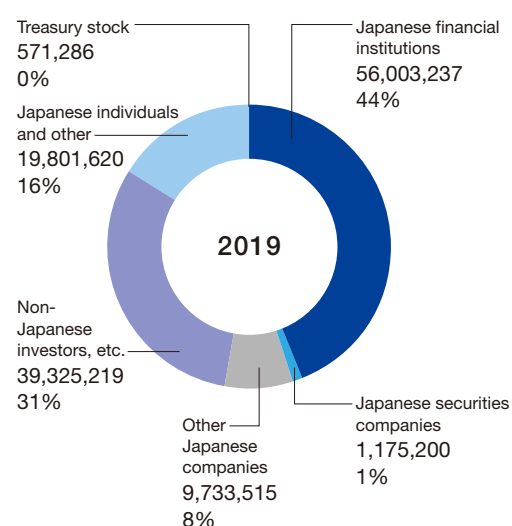
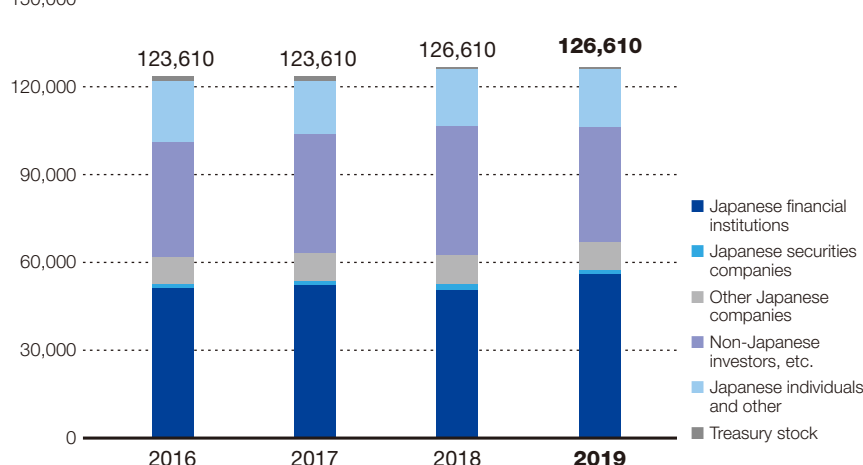
Number of authorized shares	250,000,000 shares
Total number of shares issued	126,610,077 shares
Number of shareholders	30,033
General meeting of shareholders	June
Stock exchange listing	First Section of Tokyo Stock Exchange
Stock transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-5-33 Kitahama, Chuo-ku, Osaka

Major shareholders (As of March 31, 2019)

Name	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (trust account)	11,987	9.51
The Master Trust Bank of Japan, Ltd. (trust account)	8,393	6.66
Mizuho Bank, Ltd.	5,490	4.36
Sumitomo Mitsui Banking Corporation	4,080	3.24
MUFG Bank, Ltd.	3,833	3.04
Daifuku Supplier Shareholder Association	3,609	2.86
Pictet and Cie (Europe) SA, Luxembourg Ref: UCITS	3,242	2.57
Nippon Tochi-Tatemono Co., Ltd.	3,207	2.55
Nippon Life Insurance Company	2,745	2.18
Japan Trustee Services Bank, Ltd. (trust account 5)	2,159	1.71

Distribution of shareholders (As of March 31)

(Thousands of shares)



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 Daifuku Group'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 Group's performance.

For further information, please contact: dfk_ir@ha.daifuku.co.jp

Global Network

(As of September 2019)

Europe	Asia
Daifuku Europe Ltd.	Daifuku (China) Co., Ltd.
Daifuku Europe GmbH	Daifuku (China) Manufacturing Co., Ltd.
Jervis B. Webb Company, Ltd.	Daifuku (China) Automation Co., Ltd.
Daifuku Logan Ltd.	Daifuku (Suzhou) Cleanroom Automation Co., Ltd.
Daifuku Self Services Technologies AS	Daifuku (Shanghai) Co., Ltd.
Scarabee Aviation Group B.V.	Daifuku India Private Limited
	ForgePro India Private Limited
	Vega Conveyors and Automation Private Limited
	P.T. Daifuku Indonesia
	Daifuku Korea Co., Ltd.
	Clean Factomation, Inc.
	Hallim Machinery Co., Ltd.
	Daifuku (Malaysia) Sdn. Bhd.
	BCS Integration Solutions Sdn. Bhd.
	Daifuku Mechatronics (Singapore) Pte. Ltd.
	Singapore Contec Pte. Ltd.
	Taiwan Daifuku Co., Ltd.
	Taiwan Contec Co., Ltd.
	Daifuku (Thailand) Ltd.
	Daifuku Intralogistics Vietnam Co., Ltd.

Main production sites



Shiga Works
(Main Campus)



Komaki Works



Daifuku America



Jervis B. Webb (U.S.A.)



Wynright (U.S.A.)



Daifuku Korea



Clean Factomation
(South Korea)



Hallim Machinery
(South Korea)



Taiwan Daifuku



Taiwan Contec

Japan

Daifuku Co., Ltd.
Headquarters (Osaka)
Tokyo Head Office
Shiga Works
Komaki Works

Contec Co., Ltd.

Daifuku Plusmore Co., Ltd.

Daifuku Business Service Corporation

Daifuku Manufacturing Technology Co., Ltd.

Iwasaki Seisakusho Co., Ltd.

Americas

Daifuku North America Holding Company

Daifuku America Corporation

Jervis B. Webb Company

Elite Line Services, Inc.

Wynright Corporation

Logan Teleflex, Inc.

Contec Americas Inc.

Daifuku Canada Inc.

Jervis B. Webb Company of Canada, Ltd.

Daifuku Airport Technologies Canada Inc.

Daifuku de México, S.A. de C.V.

Oceania

BCS Group Limited

BCS Airport Systems Pty Limited

BCS Logistics Solutions Pty Limited

BCS Infrastructure Support Pty Limited

Intersystems (Asia Pacific) Pty Limited



Jervis B. Webb of Canada



Contec Americas



Daifuku (China) Automation



Daifuku (China) Manufacturing



Daifuku (Suzhou) Cleanroom Automation



Daifuku Singapore



Daifuku Thailand



Daifuku Logan (U.K.)



BCS Integration Solutions (Malaysia)



Vega Conveyors and Automation (India)

DAIFUKU CO., LTD.

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