DAIFUKU

Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 [Japan GAAP]

Prepared in accordance with accounting principles generally accepted in Japan

Translated from the original Japanese-language document

May 11, 2018

Daifuku Co., Ltd.
Stock code: 6383, First Section of Tokyo Stock Exchange
URL: www.daifuku.com/jp
Representative: Hiroshi Geshiro, President and CEO
Contact: Tsukasa Saito, General Manager of Finance & Accounting Division
Tel: +81-6-6472-1261

Scheduled date of general meeting of shareholders: June 22, 2018
Scheduled date of commencing dividend payment: June 25, 2018
Scheduled date for filing financial statements: June 25, 2018
Earnings supplementary materials: Yes
Earnings presentation: Yes (for institutional investors and securities analysts)

Note: Figures are rounded down to the nearest one million yen.

1. Consolidated Financial Results for Fiscal 2017

(April 1, 2017 - March 31, 2018)

(1) Operating results

(Figures in percentages denote the year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal 2017	**404,925**	**26.2**	**39,924**	**72.8**	**41,105**	**73.0**	**29,008**	**73.2**
Fiscal 2016	320,825	(4.6)	23,099	10.6	23,760	8.0	16,746	22.7

Note: Comprehensive income

Fiscal 2017: 33,433 million yen (108.4 %)

Fiscal 2016: 16,046 million yen (106.2 %)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal 2017	**235.62**	—	**17.7**	**12.1**	**9.9**
Fiscal 2016	137.58	—	12.6	7.9	7.2

Reference: Equity in earnings of affiliates during the period
Fiscal 2017: 734 million yen
Fiscal 2016: 567 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Fiscal 2017	**373,712**	**191,474**	**50.3**	**1,493.69**
Fiscal 2016	303,540	142,340	45.8	1,142.14

Reference: Shareholders' equity
Fiscal 2017: 187,878 million yen
Fiscal 2016: 139,092 million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, end of year
	Million yen	Million yen	Million yen	Million yen
Fiscal 2017	**10,755**	**(4,857)**	**13,444**	**85,152**
Fiscal 2016	26,683	(5,393)	(4,404)	64,790

2. Dividends

	Dividend per share					Total cash dividends (annual)	Dividends payout (consolidated)	Net assets dividend ratio (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal 2016	—	12.00	—	30.00	42.00	5,118	30.5	3.8
Fiscal 2017	—	25.00	—	45.00	70.00	8,710	29.7	5.3
Fiscal 2018 (forecast)	—	**25.00**	—	**50.00**	**75.00**		—	

3. Consolidated Earnings Forecast for the Fiscal 2018

(April 1, 2018- March 31, 2019)

(Figures in percentage denote the year-on-year change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim	210,000	14.0	21,000	25.7	21,600	23.9	21,000	71.7	166.96
Full-year	460,000	13.6	46,000	15.2	46,700	13.6	31,500	8.6	250.44

Notes:

(1) Changes in significant subsidiaries that affected the scope of consolidation during the fiscal year: None

(2) Changes in accounting policies, accounting estimates, and restatement

1) Changes in accounting standards associated with the revisions of accounting standards: None
2) Other changes: None
3) Changes in accounting estimates: None
4) Restatement: None

(3) Number of shares issued (Common stock)

1) Number of shares issued including treasury stock at the end of the period

Fiscal 2017:	**126,610,077 shares**
Fiscal 2016:	123,610,077 shares

2) Number of treasury stock at the end of the period

Fiscal 2017:	**828,727 shares**
Fiscal 2016:	1,827,904 shares

3) Average number of shares during the period

Fiscal 2017:	**123,115,953 shares**
Fiscal 2016:	121,726,169 shares

Note: For the number of shares, which is the basis for the calculation of net income per share, please see "Per Share Information" on page 31. The number of treasury stock at the end of the fiscal year ended March 31, 2018 included 87,600 shares owned by the Board Benefit Trust (BBT). The number of treasury stock at the end of the fiscal year ended March 2017, included 90,000 shares owned by the BBT.

These consolidated financial statements are not subject to audit through the certified public accountant or an auditing company.

Disclaimer

The business forecasts contained in this document are based on information available to management at the present time and certain assumptions judged to be rational. As such, actual sales and income may differ from this forecast due to uncertain factors present in the forecast or future changes in business circumstances. For the business forecasts, please see 1-(5) "Outlook for the fiscal year ending March 31, 2019."

Earnings supplementary materials are available at the TDnet and our website: www.daifuku.com/ir.

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1. Operating Results and Financial Review

(1) Operating results

During the fiscal year under review, the global economy saw signs of recovery gathering momentum in key Western economies and in China, as well as in emerging countries. The Japanese economy also continued to expand moderately, mainly on the strength of solid capital investment driven by strong corporate earnings.

The Daifuku Group's mainstay material handling systems experienced an increase in the introduction of large and sophisticated automated systems in distribution centers along with the rapid expansion of the e-commerce market, and continued to enjoy investments in systems at new factories of semiconductors and flat-panel display (FPD) and organic light-emitting diode (OLED) panels associated with the advance of the Internet of Things (IoT) and artificial intelligence (AI), as well as high-definition panels.

Amid these economic and business conditions, the operating results of the Daifuku Group achieved new record highs in terms of orders, sales and income during the fiscal year under review.

Orders were particularly strong, driven by robust capital investment in the semiconductor and FPD sectors in East Asia, as well as large and active investments in e-commerce distribution centers across the globe, together with favorable orders for systems for automobile factories and airports. Daifuku is the unrivaled material handling system provider and integrator, which offers optimum solutions to customers across a broad array of sectors. Its extensive product lineup, ability to provide proposals that promptly respond to customer needs, deploying operations around the world and completing tasks for large projects, as well as its strength in after-sales services are all decisive factors in winning orders.

Sales were positive, underpinned by the high level of orders. With increased production capacity due to continued capital investment and increased supply capacity to meet rapidly increasing demand in cooperation among Group companies worldwide, the Group was able to achieve growth in sales.

As a consequence, the Group received orders of 487,976 million yen, up 36.9% from the previous fiscal year and recorded sales of 404,925 million yen, up 26.2%.

Income surpassed the year-ago figure, reflecting significantly increased earnings strength from higher sales and cost cutting by the parent company, Daifuku Co., Ltd. Income at Group companies in East Asia, which handles systems for the semiconductor and FPD sectors, was also strong.

Consequently, the Group posted operating income of 39,924 million yen, up 72.8% from a year earlier, and ordinary income of 41,105 million yen, up 73.0%. Net income attributable to shareholders of the parent company was 29,008 million yen, up 73.2%. ROE rose from 12.6% in the previous fiscal year, to 17.7%. This reflected an improvement in both the return on sales and the total asset turnover (from 5.2% to 7.2% and from 1.07 to 1.20, respectively).

The fiscal year under review is the first year of Value Innovation 2020, the four-year medium-term business plan with the fiscal year ending March 31, 2021 as the final year. The progress rate in targets for the final year was very high, as described below. In particular, income achieved the target value.

- Net sales: 420,000 million yen → 404,925 million yen
- Operating margin: 8% → 9.9%
- ROE: Consistently above 10% → 17.7%
- Non-Japan sales ratio: 70% → 67%

The average exchange rate used for transactions with the Group during the fiscal year under review was 112.04 yen to the U.S. dollar, compared with an exchange rate of 109.45 yen for the same period of the previous fiscal year. As a result of the depreciation of the yen, sales increased in value by about 5,970 million yen, compared with the year-ago period, and operating income increased in value by about 360 million yen. Orders received during the fiscal year under review increased about 7,050 million yen due to the impact of exchange rates above, and the impact of foreign currency translation differences among others on the order backlog at the end of the previous fiscal year increased about 17,680 million yen.

The biggest management initiative during the fiscal year under review was financing with a capital increase through a public offering of shares, or the enhancement of shareholders' equity, for the first time in 45 years. The Company raised 22,465 million yen from the market and will use the proceeds to increase production capacity in Japan and the United States, the renewal of software and the construction of a headquarters administration building, among other things. With this, the Company will secure the supply capacity it needs to meet robust demand and aim to increase profitability with economies of scale at factories in the United States.

The Company provides investors with investment opportunities such as this and rewards them for their investment by preventing earnings per share from diluting through the increased earnings strength to enable the share price to rise, as well as by increasing dividends. The issuer rating given by Rating and Investment Information, Inc. was raised from "A" (A minus) to "A" (single A) in October 2017, reflecting the increased earnings strength and the enhanced shareholders' equity in recent years, and the Company has set its sights on further improvements in the future.

Orders from and sales to outside customers are presented as segment orders and sales, and net income attributable to shareholders of the parent company is recorded as segment income. For more details about segments, please see "Segment information" below.

Daifuku Co., Ltd.

Orders were favorable, mainly due to the significant increase in exports in systems for semiconductor and FPD factories in East Asia and North America, the increased number of large projects for systems for distributors in Japan, and the Company's highly acclaimed proposals. In automobile production line systems, orders remained firm, mainly for production re-building and development, services and small upgrade projects in Japan.

Sales increased steadily by expanding production capacity in response to the strong increase in orders, including short lead-time projects for semiconductor and FPD factories, as well as by exercising comprehensive strength, including with partner companies, in procurement, manufacturing and installations.

Income rose significantly, mainly attributable to the increased sales and reduced costs.

As a result, the Company recorded orders of 215,934 million yen, up 26.2% from the previous fiscal year, sales of 186,983 million yen, up 28.2%, and segment income of 25,205 million yen, up 89.3%.

Contec Co., Ltd. and its subsidiaries

- Industrial computers

In the Japanese market, sales of industrial computers remained strong, mainly for the semiconductor production equipment sector. In the medical device sector in the United States, however, sales declined on cautious trends emerging in new capital investment.

- Measuring and control boards

Sales of measuring and control boards for production facilities and wireless LANs for distributor's store facilities were steady, along with the increased capital investment by companies.

- Solution products

While sales of automobile-related systems rose, sales of photovoltaic measurement systems declined, associated with a fall in purchase prices of renewable energy.

As a result, Contec posted orders of 16,466 million yen, up 5.4% from the previous fiscal year, sales of 15,716 million yen, up 1.7%, and segment income of 910 million yen, up 26.1%.

Daifuku North America Holding Company and its subsidiaries and affiliates

Orders were favorable in systems for semiconductor manufacturers and airports. Orders for systems for semiconductor manufacturers were significantly higher than initially expected. Compared with airports in Europe, baggage handling systems used at airports in North America are noticeably aging. Accordingly, investment in facility upgrades is expected to continue for some time. In systems for manufacturers and distributors, results reflected capital investment concentrating on the e-commerce and transportation sectors and decreased investment from customers in other sectors. Meanwhile, the operation & maintenance service business for distribution centers was growing. Orders for automobile production line systems remained firm.

Sales grew favorably, underpinned by strong orders.

Income fell, reflecting deteriorated profitability in certain large projects for distributors.

As a result, Daifuku North America achieved orders of 110,441 million yen, up 24.3% from the previous fiscal year, sales of 99,775 million yen, up 26.2%, and segment income of 2,884 million yen, down 18.4%.

Daifuku Plusmore Co., Ltd.

Daifuku Plusmore mainly provides sales and services for car wash machines in Japan. Sales ended almost as initially planned, remaining firm thanks to solid sales of machines for car service stations on the back of subsidies from the government and steady demand from the automotive aftermarket sectors, such as dealers.

Sales of the Sliding Bubble, a space-saving foam car wash system for drive-through car wash machines for car service stations, were strong, backed by an effect that has earned high marks among drivers. Daifuku Plusmore also launched the Camion Custom, a truck and bus wash machine that will be of some help in improving the labor environment for truck and bus drivers.

As a result, Daifuku Plusmore reported orders of 11,074 million yen, down 2.2% from the previous fiscal year, sales of 10,778 million yen, down 6.0%, and segment income of 99 million yen, down 12.2%.

Other

The Daifuku Group has a total of 53 consolidated subsidiaries and affiliates worldwide. The Other segment includes all other Group companies, excluding the aforementioned Contec and its subsidiaries, Daifuku North America and its subsidiaries and affiliates, and Daifuku Plusmore.

Outside Japan, major subsidiaries include Daifuku (China) Co., Ltd. in China; Taiwan Daifuku Co., Ltd. in Taiwan; Daifuku Korea Co., Ltd. and Clean Factomation, Inc. in South Korea; and Daifuku (Thailand) Ltd. in Thailand, which primarily manufacture and sell material handling systems and equipment. Each of these companies plays a global role in optimizing the local production and procurement framework of the Group, while also increasing its exports.

In China, inquiries have been brisk from distributors, including the e-commerce sector, and Daifuku (China) Manufacturing Co., Ltd. received an order for its largest ever project. In automobile-related sectors, the company received an order from a lithium-ion battery factory for the first time, reflecting the policy of shifting to eco-friendly electric vehicles, in addition to vigorous capital investment in production lines by Japanese automakers and the manufacturers of parts including sheets. In systems for FPD factories, while demand for OLED was rising, TV panels were growing in size, and Daifuku (Suzhou) Cleanroom Automation Co., Ltd. continued to receive strong orders, including large projects. Under China's national policy of promoting domestic production, orders for systems for semiconductor factories also started to increase.

In Taiwan, orders for and sales of systems for semiconductor and FPD factories remained firm.

In South Korea, orders for systems for semiconductor factories were strong, reflecting active demand in the semiconductor sector. The government's policy of improving the employment rate and halving the number of non-regular employees is expected to accelerate the equipment automation of companies. Along with increased demand for tunnel-type car wash machines due to the prohibition of cash washing at home, Hallim Machinery Co., Ltd., which manufactures and sells car wash machines, expanded supply capacity by relocating to a new factory.

In ASEAN countries and India, capital investment in systems for manufacturers, including the food, miscellaneous daily goods, and pharmaceutical sectors, is rising. In particular, demand from the frozen-food sector is growing rapidly. Group companies operating in each region have been striving to meet these needs. Daifuku Thailand has been proceeding with the local production of automated warehouses, etc. and has won a large order from a mass retailer. In India, Daifuku India Private Limited is now working with sectors other than automobiles, installing its conveyor system at a construction manufacturer's assembly shop.

New Zealand-based BCS Group Limited is enhancing its global airport technology business by collaborating with other Group companies.

As a result, the segment recorded orders of 134,059 million yen, up 92.7% from the previous fiscal year, sales of 95,755 million yen, up 39.2%, and segment income of 4,737 million yen, up 107.1%.

(2) Financial position

Assets, liabilities and net assets

Total assets at the end of the fiscal year under review stood at 373,712 million yen, an increase of 70,171 million yen from the end of the previous fiscal year. The result principally reflected an increase of 39,095 million yen in notes and accounts receivable and unbilled receivables and an increase of 20,358 million yen in cash on hand and in banks.

Total liabilities at the end of the fiscal year under review were 182,237 million yen, a rise of 21,038 million from the end of the previous fiscal year. Primary factors included increases of 6,139 million yen in notes and accounts payable and construction contracts payable and 9,121 million yen in income taxes payable.

Net assets at the end of the fiscal year under review were 191,474 million yen, an increase of 49,133 million yen from the end of the previous fiscal year. This was mainly attributable to increases of 16,849 million yen in common stock and 22,305 million yen in retained earnings.

(3) Cash flows

Cash and cash equivalents at the end of the fiscal year under review increased 20,361 million yen from the end of the previous fiscal year, to 85,152 million yen, compared with 64,790 million yen in the same period of the previous fiscal year.

Individual cash flows in the fiscal year under review and contributing factors were as follows.

Cash flows from operating activities

Cash provided by operating activities totaled 10,755 million yen, compared with cash provided of 26,683 million yen in the same period of the previous fiscal year. This primarily reflected income before income taxes of 41,059 million yen and an increase in notes and accounts payable of 9,464 million yen, offsetting an increase in notes and accounts receivables of 37,923 million yen and an increase in inventories of 4,155 million yen.

Cash flows from investing activities

Cash used in investing activities was 4,857 million yen, compared with cash used of 5,393 million yen in the same period of the previous fiscal year. Major factors included 5,675 million yen for payments for the purchase of property, plant and equipment, outweighing proceeds of 740 million yen from sales of property, plant and equipment.

Cash flows from financing activities

Cash provided by financing activities was 13,444 million yen, compared with cash used of 4,404 million yen in the same period of the previous fiscal year, mainly attributable to proceeds of 16,697 million yen from issuance of common shares, offsetting payment of cash dividends of 6,695 million yen.

<Reference> Changes in cash flow indicators

	FY ended March 2014	FY ended March 2015	FY ended March 2016	FY ended March 2017	FY ended March 2018
Equity ratio (%)	38.8	39.8	42.9	45.8	50.3
Equity ratio based on market capitalization (%)	56.6	64.9	77.9	111.3	214.4
Ratio of interest-bearing liabilities to cash flows (Year)	2.8	9.6	5.7	1.5	3.5
Interest coverage ratio (Times)	23.9	12.9	14.4	64.8	28.9

Equity ratio: (Net assets − Non-controlling interests − Equity warrants)/Total assets

Equity ratio based on market capitalization: Market capitalization of shares/Total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities/Operating cash flows

Instant coverage ratio: Cash flows/Interest paid

(Note 1) The above indicators are calculated based on the figures in the consolidated financial statements.

(Note 2) Market capitalization is calculated based on the following formula: Closing price of shares at the end of the period × Number of shares issued at the end of the period (excluding treasury stock)

(Note 3) Operating cash flows are used for cash flows.

(Note 4) Interest-bearing liabilities are all liabilities recorded in the consolidated balance sheets that pay interest.

(Note 5) Additionally, interest paid is the amount of interest paid in the consolidated statements of cash flows.

(4) Basic policy for dividends for the fiscal year under review and the following fiscal year

Daifuku regards the return of profits to shareholders as its most important management task and has adopted a performance-based policy for cash dividends based on consolidated net income, with the aim of achieving additional profit distribution to shareholders. We appropriate the remaining surplus to internal reserves for future growth.

Under its four-year medium-term business plan, Value Innovation 2020, Daifuku aims to achieve a dividend payout ratio of 30% and increase its corporate value through investment in growth.

For the fiscal year ended March 31, 2018, Daifuku paid an interim dividend of 25 yen per share, and the Board of Directors passed a resolution to pay a year-end dividend of 45 yen per share at a meeting held on May 11, 2018, for an annual dividend of 70 yen per share.

With respect to dividends for the fiscal year ending March 31, 2019, the Company plans to pay an annual dividend of 75 yen (an interim dividend of 25 yen per share and a year-end dividend of 50 yen), taking into consideration the earnings forecast for the fiscal year ending March 31, 2019 and the basic policy described above.

(5) Outlook for the fiscal year ending March 31, 2019

Given the initiatives above, Daifuku has made the following earnings forecasts for the fiscal year ending March 31, 2019, with the expectation of sustainable growth.

Consolidated earnings forecast for the fiscal year ending March 31, 2019

Orders received	490 billion yen	(up 0.4% year-on-year)
Net sales	460 billion yen	(up 13.6% year-on-year)
Operating income	46.0 billion yen	(up 15.2% year-on-year)
Ordinary income	46.7 billion yen	(up 13.6% year-on-year)
Net income attributable to shareholders of the parent company	31.5 billion yen	(up 8.6% year-on-year)

This forecast is based on the following economy and business environments.

Impact from currency exchange

The actual exchange rate of 112.04 yen to the U.S. dollar was used for the results of the fiscal year under review. An estimated rate of 107 yen per dollar is used in preparing the plan for the next fiscal year. Given the effect of the appreciated yen, decreases of about 8,870 million yen in orders, about 2,470 million yen in net sales and about 150 million yen in operating income are factored in.

Orders received

The distribution sector, including e-commerce, and semiconductor and FPD factories, where systems are becoming more sophisticated and growing in size, are still highly motivated to make capital investments.

Given that capital investments are also solid in automobile factories and airports, the environment for orders is expected to remain generally favorable.

Net sales

Based on the abundant order backlog, net sales are likely to reach a new record high. The key point to make a connection between the favorable order environment and performance numbers is supply capacity, and the Company is moving ahead with increases to its production capacity in Japan and the United States using proceeds from the capital increase through a public offering at the end of 2017, following China where the Company has already completed the expansion and relocation of factories.

Operating income

The operating margin, which was 7% in the fiscal year ended March 31, 2017, has ended with a number close to 10% in the fiscal year ended March 31, 2018. The Company will strive to further improve profitability.

This forecast represents the judgment of the Company based on information presently available. Actual results may differ materially from forecasts due to various uncertainties, including economic and competitive conditions worldwide as well as various risk factors.

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2. Management Policy

(1) Basic management policy and medium- and long-term goals

Daifuku celebrated the 80th anniversary of its founding on May 20, 2017. During this time, Daifuku has been seeking innovative ways to enhance its corporate value every day, as stated in its company creed (*Hini Arata*, or progressing every day). In addition, Daifuku has grown in recent years to become a manufacturer and systems integrator vying for a leading positions within the material handling field, as a result of consistently seeking to achieve sustainable growth based on its medium-term business plans.

In the four-year medium-term business plan, Value Innovation 2020, which started in April 2017, the Company positions the period of the plan as a midway point, with its eyes on further growth, by discussing what the Company should be 10 years from now, as well as in the four years up to the fiscal year ending March 31, 2021.

Daifuku took on the following management philosophy in Value Innovation 2020.

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.

Targets for the fiscal year ending March 31, 2021 are as follows. The numbers in parentheses are results in the fiscal year ended March 31, 2018.

- Consolidated net sales: 420,000 million yen (404,925 million yen)
- Operating margin: 8% (9.9%)
- ROE: 10% or higher (17.7%)
- Non-Japan sales ratio: 70% (67%)

(2) Management environment

1) Business environment

Looking at the business environment of the Group, structural reforms in industries where its customers operate are serving as a spur. Currently, the Group is in a privileged situation, given the rapid growth of e-commerce, a digital revolution including IoT, automated driving of automobiles, a shift to electric vehicles and a rapid increase in air travelers. By providing these customers with the optimum and best solutions, the Group will contribute to the healthy and sustainable growth of the Company and ultimately society.

2) Competitive environment

The Group has maintained its position as the world leader in terms of net sales for the fourth consecutive year (an article in May 2018 of the Modern Materials Handling in the United States).

Daifuku’s strengths include a wide range of customer segments unrivalled in the industry, including the manufacturing and distribution sectors, semiconductor and FPD factories, automobile factories, and airports, and the comprehensive strength of having a product lineup tailored to these industries and factories. The Group will build an even more solid position going forward with "reforms with a sense of speed."

3) Globalization

The non-Japan sales ratio of the Group has reached 67%. With non-Japanese subsidiaries increasingly important, localization that promotes the locally oriented management of non-Japanese subsidiaries and globalization that increases benefits from collaboration and the brand power of the Group as a whole – in other words, Group governance that effectively balances a centrifugal force with a centripetal force – is becoming increasingly vital.

In terms of the centrifugal force, non-Japanese subsidiaries will promote sales, production, installation, and service activities rooted in their respective areas, using the power delegated to them. In terms of centripetal force, we will strive to build the Daifuku brand and foster a sense of unity in the Group, including non-Japanese subsidiaries that have joined the Group, particularly those through M&A. We will also work on the cultivation of global human resources across the Group.

(3) Challenges to address

Based on the medium-term management strategies, Daifuku strives to enhance its corporate value. For the major four challenges, the Company achieved the results described below from its efforts in the fiscal year ended March 31, 2018.

1) Provision of smart logistics demanded by customers

- We have strengthened development, with the aim of "providing logistics systems that are fast and accurate, will not stop, and quickly recover even if they came to a stop" and "reducing logistics costs, shortening the logistics time and improving logistics quality and environment in all processes from development to maintenance."
- We received orders for distribution centers that are becoming larger, faster, more precise and more complex worldwide and delivered them.

2) Establishment of Airport Technologies business as the fourth core business

- Orders increased significantly mainly in North America where we captured demand for the retrofit of systems for airports.

3) Launch of new businesses and a new business model

- We began selling the D-PAD, a wireless battery charging system based on the know-how of transport systems inside the clean rooms of semiconductor and FDP factories.

4) Faster response to requests from society and customers

- Daifuku was selected among the issues included in the 2018 Health & Productivity Stock Selection as a company engaging in a health and productivity management program that focuses on and strategically carries out efforts with regard to its employees' health from a management perspective (sponsored by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange).

- The Company received a high evaluation (A-) from CDP, an international NPO that evaluates efforts for climate change issues.
- The Company used an external organization in evaluating the effectiveness of its Board of Directors and perception study (interview about the medium-term business plans and investor relations activities).

In the fiscal year ending March 31, 2019, Daifuku will also work on a "corporate pension," a new social demand, in addition to the unchanging fundamental themes of "safety first" and "strengthening compliance." Specifically,

(1) Full-enforcement of "safety first" across the Group

We will vigorously work to eradicate accidents through the concerted efforts of the Group as a company-wide effort with a strong commitment that "safety is the only thing that cannot be compared with anything else."

(2) Strengthening compliance

Review of the whistle-blowing system

The Company will accept whistle-blowing also at an independent external hotline service window accommodating eight languages and ensuring anonymity.

(3) Fulfillment of function as an asset owner for corporate pensions

The Company will strive to promote the safe and efficient asset management of the Daifuku defined benefit pension plan by establishing the Pension Asset Management Committee.

Daifuku will strive to contribute to the healthy and sustainable growth of the Company and ultimately society through the resolution of these issues.

3. Basic Stance on Selecting Accounting Standards

Daifuku has adopted Japan GAAP.

With regard to the adoption of the International Financial Reporting Standards (IFRS), the Company will properly address the issue by taking into consideration the accounting standards adopted by other companies in Japan.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

(Million yen)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)
ASSETS		
Current assets:		
Cash on hand and in banks	64,802	85,160
Notes and accounts receivable and unbilled receivables	124,005	163,101
Merchandise and finished goods	4,910	5,084
Costs incurred on uncompleted construction contracts and other	8,860	10,657
Raw materials and supplies	9,086	11,296
Deferred tax assets	3,429	4,988
Other current assets	7,489	10,915
Allowance for doubtful accounts	(116)	(128)
Total current assets	222,468	291,076
Non-current assets:		
Property, plant and equipment		
Buildings and structures, net	13,344	15,091
Machinery and vehicles, net	4,040	4,411
Tools and fixtures, net	1,455	1,768
Land	12,041	11,800
Other, net	2,704	2,179
Total property, plant and equipment	33,586	35,252
Intangible assets		
Software	3,244	3,208
Goodwill	9,882	8,794
Other	2,304	2,035
Total intangible assets	15,430	14,037
Investments and other assets		
Investments in securities	21,260	23,976
Long-term loans	147	140
Assets for retirement benefits	2,628	3,967
Deferred tax assets	4,865	2,077
Other	3,285	3,319
Allowance for doubtful accounts	(132)	(136)
Total investments and other assets	32,054	33,345
Total non-current assets	81,071	82,635
Total assets	303,540	373,712

(Million yen)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)
LIABILITIES		
Current liabilities:		
Notes and accounts payable and construction contracts payable	40,311	46,450
Electronically recorded obligations – operating	18,806	22,826
Short-term borrowings and current portion of long-term borrowings	21,647	17,267
Current portion of bonds	—	2,700
Income taxes payable	1,239	10,360
Advances received on uncompleted construction contracts and other	26,313	28,298
Provision for losses on construction contracts	863	562
Other current liabilities	16,885	20,342
Total current liabilities	126,067	148,809
Non-current liabilities:		
Bonds	2,700	—
Long-term borrowings	15,422	18,000
Deferred tax liabilities	619	1,210
Liabilities for retirement benefits	13,486	11,656
Negative goodwill	59	—
Other non-current liabilities	2,843	2,562
Total non-current liabilities	35,132	33,428
Total liabilities	161,199	182,237
NET ASSETS		
Shareholders' equity:		
Common stock	15,016	31,865
Capital surplus	15,915	20,717
Retained earnings	107,349	129,654
Treasury stock	(1,586)	(782)
Total shareholders' equity	136,694	181,454
Accumulated other comprehensive income:		
Net unrealized gain on securities	4,290	5,358
Deferred gain (loss) on hedges	(5)	34
Foreign currency translation adjustments	5,102	6,360
Accumulated adjustments on retirement benefits	(6,989)	(5,328)
Total accumulated other comprehensive income	2,398	6,424
Non-controlling interests:	3,247	3,595
Total net assets	142,340	191,474
Total liabilities and net assets	303,540	373,712

(2) Consolidated statements of income and comprehensive income

(Million yen)

	FY2016 (April 1, 2016 - March 31, 2017)	FY2017 (April 1, 2017 - March 31, 2018)
Net sales	320,825	404,925
Cost of sales	256,417	321,836
Gross profit	64,407	83,089
Selling, general and administrative expenses:		
Selling expenses	16,652	18,336
General and administrative expenses	24,655	24,828
Total selling, general and administrative expenses	41,308	43,164
Operating income	23,099	39,924
Other income:		
Interest income	158	223
Dividend income	376	388
Amortization of negative goodwill	59	59
Equity in earnings of affiliates	567	734
Land and house rental revenue	234	241
Miscellaneous income	270	243
Total other income	1,667	1,891
Other expenses:		
Interest expenses	415	373
Foreign exchange loss	456	73
Stock delivery expenses	—	151
Other	134	112
Total other expenses	1,006	711
Ordinary income	23,760	41,105
Extraordinary income:		
Gain on sales of property, plant and equipment	494	96
Gain on business transfer	—	43
Other	37	1
Total extraordinary income	532	141
Extraordinary loss:		
Loss on sales of property, plant and equipment	28	46
Loss on disposal of property, plant and equipment	94	135
Loss on liquidation of subsidiaries and affiliates	198	—
Other	29	5
Total extraordinary loss	350	187
Income before income taxes and minority interests	23,942	41,059
Income taxes - current	5,447	11,675
Income taxes - deferred	1,459	28
Total income taxes	6,906	11,704
Net income	17,035	29,355
Net income attributable to:		
Shareholders of the parent company	16,746	29,008
Non-controlling interests	288	346

(Million yen)

	FY2016 (April 1, 2016 - March 31, 2017)	FY2017 (April 1, 2017 - March 31, 2018)
Other comprehensive income		
Net unrealized gain on securities	1,096	1,097
Deferred gain (loss) on hedges	(42)	26
Foreign currency translation adjustments	(2,290)	1,154
Adjustments on retirement benefits	641	1,701
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(394)	97
Total other comprehensive income (loss)	(989)	4,078
Comprehensive income:	16,046	33,433
Comprehensive income attributable to:		
Shareholders of the parent company	15,761	33,034
Non-controlling interests	284	399

(3) Consolidated statements of changes in net assets

FY2016 (April 1, 2016 - March 31, 2017)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	15,016	15,794	94,501	(1,642)	123,669
Changes of items during the period					
Cash dividends			(3,898)		(3,898)
Issuance of new shares					—
Net income attributable to shareholders of the parent company			16,746		16,746
Purchase of treasury stock				(185)	(185)
Disposal of treasury stock		107		242	350
Change in treasury shares of parent arising from transactions with non-controlling shareholders		12			12
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	120	12,848	56	13,025
Balance at the end of the period	15,016	15,915	107,349	(1,586)	136,694

	Accumulated other comprehensive income						
	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Accumulated adjustments on retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	3,206	22	7,730	(7,576)	3,383	3,063	130,116
Changes of items during the period							
Cash dividends							(3,898)
Issuance of new shares							—
Net income attributable to shareholders of the parent company							16,746
Purchase of treasury stock							(185)
Disposal of treasury stock							350
Change in treasury shares of parent arising from transactions with non-controlling shareholders							12
Net changes of items other than shareholders' equity	1,083	(28)	(2,628)	587	(985)	184	(801)
Total changes of items during the period	1,083	(28)	(2,628)	587	(985)	184	12,224
Balance at the end of the period	4,290	(5)	5,102	(6,989)	2,398	3,247	142,340

FY2017 (April 1, 2017 - March 31, 2018)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	15,016	15,915	107,349	(1,586)	136,694
Changes of items during the period					
Cash dividends			(6,702)		(6,702)
Issuance of new shares	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					
Total changes of items during the period	16,849	4,802	22,305	803	44,760
Balance at the end of the period	31,865	20,717	129,654	(782)	181,454

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	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		
Balance at the beginning of the period	4,290	(5)	5,102	(6,989)	2,398	3,247	142,340
Changes of items during the period							
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
Total changes of items during the period	1,067	39	1,258	1,660	4,025	347	49,133
Balance at the end of the period	5,358	34	6,360	(5,328)	6,424	3,595	191,474

(4) Consolidated statements of cash flows

(Million yen)

	FY2016 (April 1, 2016 - March 31, 2017)	FY2017 (April 1, 2017 - March 31, 2018)
Cash flows from operating activities:		
Income before income taxes and minority interests	23,942	41,059
Depreciation	4,202	4,419
Amortization of goodwill	924	943
Amortization of negative goodwill	(59)	(59)
Interest and dividend income	(534)	(612)
Interest expenses	415	373
Gain (loss) on disposal or sales of property, plant and equipment	(371)	82
Decrease (increase) in notes and accounts receivable	3,984	(37,923)
Decrease (increase) in inventories	(1,147)	(4,155)
Increase (decrease) in notes and accounts payable	2,855	9,464
Increase (decrease) in advances received on uncompleted construction contracts	4,038	(4,462)
Other, net	(473)	4,533
Subtotal	37,775	13,661
Interest and dividend income received	532	610
Interest paid	(411)	(372)
Income taxes refund (paid)	(11,373)	(3,493)
Other, net	161	350
Net cash provided by operating activities	26,683	10,755
Cash flows from investing activities:		
Investments in time deposits	(3)	(0)
Proceeds from refund of time deposits	86	3
Payments for purchase of property, plant and equipment	(6,399)	(5,675)
Proceeds from sales of property, plant and equipment	1,121	740
Payments for purchase of investments in securities	(24)	(24)
Collection of loans receivable	5	10
Other, net	(180)	88
Net cash used in investing activities	(5,393)	(4,857)

(Million yen)

	FY2016 (April 1, 2016 - March 31, 2017)	FY2017 (April 1, 2017 - March 31, 2018)
Cash flows from financing activities:		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(35)	(0)
Increase (decrease) in short-term borrowings, net	67	(1,400)
Proceeds from long-term borrowings	928	15,100
Repayment of long-term borrowings	(1,363)	(15,605)
Proceeds from issuance of shares	—	16,697
Proceeds from disposal of treasury stock	169	5,621
Payments for purchase of treasury stock	(5)	(15)
Payments of cash dividends	(3,896)	(6,695)
Other, net	(268)	(256)
Net cash provided by (used in) financing activities	(4,404)	13,444
Effect of exchange rate change on cash and cash equivalents	(1,179)	1,018
Net increase (decrease) in cash and cash equivalents	15,706	20,361
Cash and cash equivalents at beginning of year	49,084	64,790
Cash and cash equivalents at end of year	64,790	85,152

(5) Notes on consolidated financial statements

Note on going concern assumption

Not applicable

Additional information

The Company has introduced the board benefit trust (BBT) system for its directors and corporate officers (hereinafter "Directors, etc.")

By introduction of the plan, we aim to further clarify the relativity of the remuneration for our directors, etc., our business performance, and the stock value and to enhance their motivation to contribute to improvement of our business performance in the medium and long term and to boosting corporate value by sharing not only the benefit of rising stock value but also the risks of a decline in stock prices with our shareholders.

1. Outline of the transaction

   The plan is a stock compensation plan linked directly to its business performance by acquiring its stock through the trust using the funds that the Company contributes (hereinafter referred to as "the trust") and providing remuneration for the Directors, etc. through the trust, in accordance with the stock compensation regulations for its officers. The remuneration is the Company's shares and the monies equivalent to the amount obtained by converting the Company's shares at a market price as of the retirement date. The Company's shares to be acquired by the trust this time are treasury shares held by the Company that are allotted through private placement. As a general rule, our stocks are provided for our directors, etc., upon retirement.

   The Company follows the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30, March 26, 2015) with respect to accounting for the trust agreement.

2. The Company's shares still held by the Trust

   The Company records the shares of the Company, which are held by the Trust and yet to be sold to the Shareholding Association, as treasury stock in net assets, using the book value (excluding incidental expenses) in the Trust. The book value and the number of the treasury stock were ¥175 million and 87 thousand shares, respectively, for the year ended March 31, 2018.

Segment information

1. Overview of reportable segments

   Reportable segments comprise components for which discrete financial information is available, which the Board of Directors review regularly to determine the allocation of management resources and assess operating results.

   The Daifuku Group manufactures and sells material handling systems, car wash machines, industrial personal computers, interface boards, and other equipment in Japan and overseas. Each company within the Group conducts manufacturing and sales activities based on its roles as an independent management unit.

   There are four reportable segments: Daifuku Co., Ltd., the core company dealing in material handling systems and equipment, and car wash machines; the Contec group (Contec Co., Ltd. and its subsidiaries), the core company group engaging in the manufacture and sale of industrial personal computers, interface boards, and other equipment in Japan and overseas; the Daifuku North America group (Daifuku North America Holding Company and its subsidiaries and affiliates), and Daifuku Plusmore Co., Ltd.

   In addition to the manufacture and sale of material handling systems and equipment and car wash machines in Japan as the core company of the Daifuku Group, Daifuku Co., Ltd. develops and supplies key components to companies around the world. Overseas subsidiaries assemble material handling system components supplied by Daifuku Co., Ltd. with locally manufactured or purchased materials, sell the products, and perform installation work as well as after-sales services. Daifuku North America Holding Company is a U.S. subsidiary that is responsible for key business activities, primarily in North America, with a significant volume of sales. It manufactures and sells leading airport baggage handling systems on its own as part of its material handling systems.

2. Methods of calculating the amount of net sales, income or losses, assets, liabilities and other items by reportable segment

   The method of accounting for the reported business segments is based on the principles and procedures of accounting policies adopted for preparing consolidated financial statements.

3. Information on the amount of net sales, income or losses, assets, liabilities and other items by reportable segment

Fiscal year under review (April 1, 2017 - March 31, 2018)

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Daifuku Plusmore	Subtotal		
Net sales							
Sales to outside customers	186,983	15,716	99,775	10,778	313,254	95,755	409,010
Intersegment sales or transfers	36,283	9,751	433	0	46,469	15,125	61,595
Total	223,267	25,468	100,208	10,779	359,724	110,881	470,605
Segment income	25,205	910	2,884	99	29,100	4,737	33,837
Segment assets	257,754	21,304	55,873	3,732	338,664	82,496	421,160
Segment liabilities	101,459	12,061	30,962	2,344	146,827	48,154	194,982
Other							
Depreciation	2,641	282	776	12	3,712	707	4,419
Amortization of goodwill	109	135	595	106	947	—	947
Interest income	29	2	51	14	98	167	265
Interest expenses	208	39	9	—	257	157	415
Extraordinary income	50	0	126	45	223	467	690
(Gain on sales of property, plant and equipment)	(0)	(0)	(126)	(1)	(129)	(465)	(594)
Extraordinary loss	197	4	40	0	243	34	277
(Loss on sales of property, plant and equipment)	(—)	(—)	(25)	(—)	(25)	(3)	(29)
(Loss on disposal of property, plant and equipment)	(106)	(4)	(15)	(0)	(125)	(10)	(135)
Income tax expenses	8,551	366	1,588	68	10,575	1,442	12,018
Investments in equity-method affiliates	5,193	—	—	—	5,193	177	5,370
Increase in property, plant and equipment and intangible assets	2,600	384	1,716	39	4,740	1,618	6,359

* "Other" represents an operating segment comprising subsidiaries that are not in reportable segments.

4. Differences between total amounts for reportable segments and the reported amount in the consolidated financial statements and main details of the differences (matters relating to difference reconsideration)

(Million yen)

Net sales	Fiscal year ended March 31, 2018
Reportable segments total	359,724
Segment net sales classified in “Other”	110,881
Elimination of intersegment transactions	-61,595
Adjustment for consolidation of sales on the percentage-of-completion basis	-689
Other adjustment for consolidation	-3,395
Net sales in consolidated financial statements	404,925

(Million yen)

Segment income	Fiscal year ended March 31, 2018
Reportable segments total	29,100
Segment income classified in “Other”	4,737
Elimination of dividends from affiliates	-4,037
Other adjustment for consolidation	-791
Net income in consolidated financial statements	29,008

(Million yen)

Segment assets	Fiscal year ended March 31, 2018
Reportable segments total	338,664
Segment assets classified in “Other”	82,496
Elimination of investment securities in affiliates in consolidation process	-43,493
Elimination of intercompany receivables	-23,381
Other adjustment for consolidation	19,426
Total assets in consolidated financial statements	373,712

(Million yen)

Segment liabilities	Fiscal year ended March 31, 2018
Reportable segments total	146,827
Segment liabilities classified in “Other”	48,154
Elimination of intercompany payables	-23,381
Other adjustments for consolidation	10,636
Total liabilities in consolidated financial statements	182,237

(Million yen)

Other	Reportable segments total	Other	Adjustment	Consolidated total
Depreciation	3,712	707	―	4,419
Amortization of goodwill	947	―	-4	943
Interest income	98	167	-41	223
Amortization of negative goodwill	―	―	59	59
Interest expenses	257	157	-41	373
Gain (loss) on investments accounted for under equity method	―	―	734	734
Extraordinary income	223	467	-549	141
(Gain on sales of property, plant and equipment)	(129)	(465)	(-498)	(96)
Extraordinary loss	243	34	-90	187
(Loss on sales of property, plant and equipment)	(25)	(3)	(17)	(46)
(Loss on disposal of property, plant and equipment)	(125)	(10)	(―)	(135)
Income taxes	10,575	1,442	-313	11,704
Investments in equity-method affiliates	5,193	177	2,496	7,866
Increase in property, plant and equipment and intangible assets	4,740	1,618	-10	6,348

Note: The main items in the adjustment above are as follows.

An adjustment of 2,496 million yen in investments in equity-method affiliates during the fiscal year under review was mainly due to foreign currency translation adjustments included in shares in affiliates.

Related information

Fiscal year under review (April 1, 2017 - March 31, 2018)

1. Information by product and service

(Million yen)

	Logistics Systems	Electronics	Other	Total
Net sales to outside customers	372,340	15,714	16,871	404,925

2. Information by geographic area

Net sales

(Million yen)

Japan	U. S. A.	China	South Korea	Other	Total
132,468	88,700	72,560	50,841	60,355	404,925

Note: Sales are classified into countries or regions based on the location of customers.

Per Share information

(Yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net assets per share	1,142.14	1,493.69
Net income per share	137.58	235.62

Notes:

1. Diluted net income per share is not recorded, as dilutive shares do not exist.

2. The shares of Daifuku remaining in the BBT trust which are recorded as treasury stock under equity capital are included in the treasury stock to be deducted in calculation of the average number of shares during the year for the purpose of calculation of the net income per share, and are also included in the number of treasury stock to be deducted from the aggregate number of issued shares as of the end of the fiscal year for the purpose of calculation of the net assets per share. The average number of shares of treasury stock deducted during the fiscal year for the purpose of calculation of the net income per share was 87,600 shares for the year ended March 31, 2018. The number of shares of treasury stock deducted as of shares of treasury stock as of the year for calculation of the net assets per share is 87,600 shares for the year ended March 31, 2018.

3. The basis for the calculation of net income per share and diluted net income per share was as shown in the table below.

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net income per share		
Net income attributable to shareholders of the parent company (million yen)	16,746	29,008
Amount not attributable to holders of common stock (million yen)	—	—
Net income attributable to shareholders of the parent company (million yen)	16,746	29,008
Weighted average number of common stock issued and outstanding during the year (thousand shares)	121,726	123,115

4. The basis for the calculation of net assets per share is as shown in the table below.

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Total net assets (million yen)	142,340	191,474
Amount deducted from total net assets (million yen)	3,247	3,595
(Of which, non-controlling interests) (million yen)	(3,247)	(3,595)
Total net assets attributable to common stock at fiscal year-end (million yen)	139,092	187,878
Number of common stock issued and outstanding at fiscal year-end for the purpose of calculation of net assets per share (thousand shares)	121,782	125,781

Major subsequent events

Sales of stock in significant subsidiaries and affiliates

(1) Date

May 11, 2018 (signing date of the share transfer agreement)

(2) Details

Daifuku has decided to transfer all of its shares in KNAPP AG ("KNAPP"), an equity-method affiliate, at its board meeting held today. After the closing of the transfer, KNAPP will be excluded from its equity-method affiliates. After the closing of the transfer, Knapp will be excluded from its equity-method affiliates.

1. Reason for the share transfer

   Daifuku has decided the share transfer as a course of its global management strategies.

2. Outline of the equity-method affiliate

   [1] Name: KNAPP AG

   [2] Address: Hart bei Graz, Austria

   [3] Representative: Mr. Gerald Hofer, CEO

   [4] Business: Manufacturing and sales of material handling systems

   [5] Business relation with Daifuku: Purchase of goods

   [6] Fiscal year: Beginning on April 1 and ending on March 31

   [7] Share capital: €5,000,000-

3. Outline of the share transfer

   [1] Number of shares transferred: 1,500,000 shares (the share of voting rights: 30.00%)

   Counterparties of the transfer: 1,417,241 shares (the share of voting rights: 28.34%)

   Bartenstein Holding GmbH, a private group of industrial companies in Austria

   82,759 shares (the share of voting rights: 1.66%):

   Dr. Herbert Knapp, one of the family members and shareholders of KNAPP

   [2] Signing date of the share transfer agreement: May 11, 2018

   [3] Closing date: Late May 2018 (scheduled)

   Price: Not to be disclosed due to confidentiality obligation in the share transfer agreements with the counterparties

[4] Number of shares after closing: None

(3) Expected impact on earnings

As a result of the share transfer, approximately 8 billion yen on the non-consolidated financial statements and approximately 7 billion yen on the consolidated financial statements will be booked as extraordinary income from gain on sales of shares in affiliates in this fiscal year ending March 31, 2019.

In addition, the impact from this extraordinary income has been already taken into account on its consolidated earnings forecast of the fiscal year ending March 2019 separately announced today.

Changes in Officers

(Effective June 22, 2018)

1. Changes in representatives

   Not applicable

2. Candidates for new directors

   Mineo Sakai

   Director (outside)

   Current: Director and Senior Advisor of Kanematsu Electronics Ltd.
   Audit & Supervisory Board Member of KEL Technical Service Ltd.
   Audit & Supervisory Board Member of Nippon Office Systems Ltd.
   Audit & Supervisory Board Member of i-NOS Corporation

   Mr. Mineo Sakai is a candidate for an outside director as stipulated in Article 2, Item 15 of the Companies Act.

3. Directors to retire

   Masaki Hojo

   Director and Senior Advisor

4. Candidates for new audit & supervisory board members

   Tsukasa Miyajima

   Audit & Supervisory Board Member (outside)

   Current: Professor emeritus at Keio University
   Professor at Graduate School of Law of Asahi University
   Chairman of the Asset Disposition Council of Japan Railway Construction, Transport and Technology Agency
   Outside Director of Hulic Co., Ltd.
   Outside Director of Dai Nippon Printing Co., Ltd.
   Audit & Supervisory Board Member (outside) of Mikuni Corporation
   Outside Director of Mitsui Sumitomo Insurance Co., Ltd.

   Mr. Tsukasa Miyajima is a candidate for an outside auditor as stipulated in Article 2, Item 16 of the Companies Act.

5. Audit & supervisory board members to retire

   Hiroyuki Torii

   Audit & Supervisory Board Member (outside)