Chapter 1 Value Creation Story

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Input capitals Page 24

iii Financial		Manufactur	red	iii Human		intellectual		Social and relationship
Net assets Net income	292.0 billion yen 35.8 billion yen	Production sites	26 (10 countries and regions)	Employees	12,436 (non-consolidated: 3,202,	Innovation investment (R&D expenses + DX investn	13.0 billion yen nent amount)	Major suppliers 700 or more* (non * Annual transaction value of more than
Corporate credit rating (Rat	A by R&I, as of December 2021)	Capital investment	11.5 billion yen	Japan subsic Designers/Engineers	955 (non-consolidated)	Patents held	3,726	Extensive installation records for 75 yea entered the material handling business
				Field engineers	797 (non-consolidated)			

-consolidated) 10 million yen

irs since we



Amount of energy used Amount of water used

770,790 GJ 207,253 m³

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Daifuku's Value Chain

Daifuku's value chain is a long-term business model that has been constructed for generations by personnel from customers and from Daifuku. For example, automated warehouse systems have a very long service life, but over 30 years, social and business circumstances change markedly and customers have new needs. The end of a cycle marks the start of the process for capturing those new needs. We will enhance value chain management to continually increase our capacity to develop systems and to provide solutions on the basis of experience and expertise to maintain our world-class competitiveness.



New needs and system development



Using changes in society as business opportunities

With the spread of smartphones and expansion of their applications, increased data traffic (see Chart 1) have sharply boosted semiconductor demand. In addition, the market is demanding semiconductors with greater performance, together with miniaturization. The semiconductor industry has seen business circumstances change dramatically in a short period of time. Only companies capable of meeting the new needs arising from these social changes can win new business.



Service revenues support innovation

Offering of services to customers is an important part of Daifuku's value chain in two respects. First, it helps us maintain relationships of trust with customers. Second, it is a stock business based on our ample track record of delivering systems for a long period of time. Chart 2 shows that service sales accounts for around 25% of our total sales. They help us secure stable revenues.



Offering of solutions

What customers want from material handling systems is a reduction in the total time required from planning to start-up and the reliability that allows for the systems to operate without interruption. To meet these needs, we offer products and services that integrate consulting and engineering, design and manufacturing, as well as installation and after-sales services. In consulting and engineering, we listen to customers to identify their needs. In design and manufacturing, we incorporate their wishes into products and solutions.

Consulting and engineering for providing best solutions

We have been working consistently to upgrade our consulting and engineering functions. Collecting data and deeply analyzing which material handling systems are best suited to individual customers, we reach best solutions. What customers expect from us is not the hardware itself but knowledge, including how to use it. They study the flow of goods from the perspectives of production and overall logistics. We offer solutions based on a management perspective. This is, in other words, an overall perspective encompassing procurement, production, logistics and sales, rather than a narrow focus on delivery operations. These proposals earn high marks from customers (see Figure 1).

Figure 1 Elements considered in system design

Business environment

- Logistics cost
- Investable amount
- Future plans
- Organizational structure

Load to be handled

- State and properties of goods
- Shape, size and weight of goods
- Level of commodity management
- Unit load and shape of containers



External conditions

- Characteristics of the industry
- Characteristics unique to the company
- Market changes
- Delivery conditions
- Transport conditions

Internal conditions

- Problems involved in the current state
- Issues to be solved
- Handling volume and forecast
- Level of urgency
- Response to changes



recolutions

Daifuku seeks to enrich its product lineup to offer systems best suited to the needs of customers running different types of business. We create our mainstay products independently to put the entire system under our control. That allows us to shorten the start-up time and achieve high reliability.

Aiming to satisfy diverse needs and attain standardization

Extensive lineup

Offering of solutions-Dedication to manufacturing

While many manufacturers specialize in specific models and domains, Daifuku offers a full range of storing, conveying, sorting and picking solutions.

Internal production

We develop and manufacture mainstay products completely independently. We thus meet customers' expectations to a high degree in terms of delivery time, cost and long-term stable operation.

Balance with profitability

To achieve what is described above, manufacturing items and specifications will inevitably be diverse. A mechanism for reducing costs and generating profits at factories by making combined use of standardized parts is taking root in some of our businesses. As a result, the ratio of net income in Daifuku's non-consolidated reportable segments rose from 9.1% in fiscal 2016 to 12.7% in fiscal 2020. We will continue to extend this effort across the whole Daifuku Group to continue increasing profitability.

Design requirements for automated warehouse systems

Operating environment: General, clean, refrigeration, or hazardous materials

● Load profile: Pallet, bucket(tote), cardboard box, or special items (long items, drums, metal molds, etc.)

Throughput: Standard or high

Installation requirements: Integrated with building, indoor installation, clearance under beam, and vibration resistance

Standard specifications of a mini load automated

warehouse system



Answering various needs of customers

Distributor A

"We have constructed a center that can be readily adapted to changes in shipping patterns in addition to the standardization of operations and labor saving."

Household goods manufacturer B

"The logistics process no longer requires human labor at night. That is helpful to workstyle reforms. We realize that it was a major effect."

Maintenance and upgrades

Service business as a bridge to the next generation Daifuku's products work for many years. During this period, maintenance services are indispensable, such as troubleshooting and replacement of parts that have deteriorated or broken or for which the warranty period has expired (see Figure 2). We also conduct capacity enhancement and other modification associated with changes in customers' business environments (see Figure 3). Our services are so highly regarded that customers keep adopting our products at the time of replacing their systems. On those occasions, we learn of new needs and that may lead to the development of new technologies.



Figure 3

 Many overtime work hours due to insufficient equipment capacity

• Frequent failure of aged equipment

· Concern about maintenance due to expiration of the computer and parts maintenance period

· Difficulty in using equipment after a change in products

or work details

Switch to Daifuku **Eco-Products** offering greater energy and resource efficiency

reduced by up to 10%.

Japanese automakers may occasionally carry out large-scale remodeling without stopping their production lines. Although requiring advanced project management skills, this reduces resource waste by making use of existing facilities. Similar methods can be seen in systems for airports.

Figure 4 Daifuku's stacker crane "S/R Machine" (R-L10)

The S/R Machine (Model: R-L10) is a stacker crane that performs storage and retrieval on a palletby-pallet basis. It carries a maximum load of 1 ton to a maximum height of 15 meters. With a lower-weight frame and a premium efficiency motor mounted as standard, it has reduced power consumption by 8% from that of the conventional model. It also conserves resources by cutting the number of parts by 10% after a review of the frame structure and the reduction of wiring.

It is also possible to extend the service life while improving performance by replacing certain components. For example, when retrofitting the automated warehouse systems we delivered, its racks can be continuously used, which enables effective use of steel materials. With reduced weight and energy consumption, the latest stacker crane introduced falls under the category of Daifuku Eco-Products. It is expected to produce an effect of cutting CO₂ emissions. The stacker crane in Figure 4 incorporates revisions to the frame structure and adopts a premium efficiency motor as standard. Its power consumption is up to 6% lower than that of the conventional model, while its CO₂ emissions and energy consumption are



See, learn and get hints at Hini Arata Kan

Hini Arata Kan is one of the world's largest hands-on demo centers for material handling and logistics. Daifuku invested around 4.0 billion yen in building this facility on the premises of its Shiga Works, which is around 20,000 square meters in size. The center commenced operation in June 1994. The decision to build it was made during fiscal 1993, when our net sales stood at 111.1 billion yen and operating income at 2.6 billion yen.

The center showcases 54 models of mainstay material handling systems and equipment, including automated storage and retrieval systems (AS/RSs), automatic guided vehicles, automated sorting systems and other cutting-edge logistics systems. Dedicated staff give explanations in Japanese, English, Chinese and Korean so that visitors can better understand operation systems and logistics facilities. The



center also offers visitors hands-on experience using actual advanced technologies and systems. It displays examples of delivery and how systems are used on-site on a large monitor to propose best solutions in the hope that they will provide visitors with hints to solving their problems.

It also has a space for displaying motors, sensors, image recognition systems and other components of material handling systems with the help of 26 suppliers. Equipped with theater rooms, large and small meeting rooms and a restaurant, it is used not only for business discussions with customers but also more broadly for staff development in corporate training and for field trips by local elementary schoolchildren. While serving as a venue for in-house learning, sharing and understanding our company creed of Hini Arata, after which the facility was named, the center is designed to achieve harmonious coexistence with the community.

Always showcasing cutting-edge equipment

Hini Arata Kan was closed to the public starting March 2020 because of the COVID-19 pandemic. During this time, it underwent its first large renovation since its opening, with an approximate capital investment of 1.3 billion yen. It then re-opened on June 1, 2022. With the recent renovation, the center now displays the latest material handling systems and equipment we independently developed and manufactured to meet customers' needs for digitalization and unmanned operation. The center welcomes visitors keen to view our advanced technologies and systems.



Intralogistics The center demonstrates a collection of products that we developed to lead nextgeneration logistics.



Cleanroom A theater is set up in the area of real systems for semiconductor factories. Using virtual reality, it takes the audience inside the factory, access to which is normally unavailable.



Automotive

The center displays a conveyor system and a collaborative robot on the automobile assembly line. The platform offers a bird'seye view of their dynamic movements.



Airport

An airport system enabling the realization of a smart airport is on display. A sequence of processes from baggage check-in to baggage claim is explained.

Offering original solutions

Products on display have two operation modes: demo mode and test mode. Customers can bring in their actual products to check out our systems in the test mode. For example, they can put fragile items such as rice crackers, other snacks and bottled products in the case to check if they are damaged at the time of storage and transport in the AS/RS. The operation speed is adjustable so that customers can simulate their operations. This is Daifuku's edge, and is based on the independent development of products and on the presence of both design and manufacturing teams at the Shiga Works. From the perspective of uninterruptible logistics, our sales team, together with the design team, propose ways to avert trouble.

In the client consultation area on the first floor, there is a remote system for real-time communication with a 24/7 call center for supporting system we deliver in Japan. That allows visitors to have a simulated experience of remote maintenance and support after delivery.

Hini Arata Kan is not merely an exhibition site. It is a place where we work together with customers to solve their problems. This is our unique sales model that differentiates us from our competition.

VOICE

Aspiring to be a demo center that satisfies customers around the world



Yasuhiro Kato General Manager of Hini Arata Kan

Hini Arata Kan has to date welcomed about 500,000 visitors from 90 countries and regions. Going forward, it will not confine itself to the role of one of the world's largest hands-on demo centers; it will also play a role as an open space for harmonious coexistence with the community. Capitalizing on my roughly 35 years of sales experience, I will aspire for the facility to provide the best solutions to customers. We would be delighted to welcome you to Hini Arata Kan.

For details, see our website: ww.daifuku.com/showroom/hiniaratakan

Demo center that operates CO₂-emission free

Since 2014, Hini Arata Kan and its shuttle buses have been operating CO2-emission free by completely offsetting CO₂ emissions* from the center and 1.5 kg-CO₂ per visitor. For visitors who participate in this action, we have prepared commemorative postcards made from thinned wood at the Shiga Works.

* CO₂ associated with the consumption of electric power and liquefied petroleum gas (LPG) for operation of the demo center and emitted from the consumption of diesel oil, including biodiesel oil, serving as fuel for shuttle buses





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Materiality

Basic stance

In February 2021, with the aim of achieving both the sustained growth of our business and the sustainable society envisioned by the SDGs, Daifuku reviewed and re-identified materiality* (the material issues) that make up the core for all of our CSR activities that we identified in June 2014.

* Issues that need to be addressed as top priorities, as they have a significant influence on the environment, society and governance or the evaluation and decision-making of stakeholders.

Determination process

STEP 1	1 ESG evaluative analysis:
Identifying and	We have compiled evaluation results by multiple global ESG evaluation bodies, and assessed both the expectations of our primary stakeholders and the issues and strengths.
classifying issues	Impact analysis: We have examined the risks and opportunities in our value chain, and classified the impacts to the management of our actions toward the world in 2030 as envisioned by the SDGs.

1 Extracting candidates:

Materiality candidates were extracted from the results of Step1 by 10 project appointees from each business unit and the Corporate Functions unit.

2 Impact evaluation by issue:

STEP 2 Identifying materiality

Regarding these materiality candidates, five outside experts (investors, university professors, NGO experts), three of our customers, and four of our outside directors evaluated the degree of impact on stakeholders and the degree of impact on Daifuku business.

3 Identifying materiality:

Based on the impact evaluation results by multiple individuals, low-priority issues were excluded, new issues added, and a draft materiality list identified.

STEP 3 Confirming adequacy

The identified materiality list was deliberated (verification and review of the adequacy of the selected issues) and approved by the Sustainability Committee, chaired by the CEO, and the Board of Directors.

Evaluation results

We conducted an evaluation of the materiality candidates extracted by the internal project team according to the following methods, and identified 18 materiality aspects.

Degree of impact on stakeholders (vertical axis) from a positive and negative perspective through our initiatives for each issue.

each issue.



Degree of impact on Daifuku business



We evaluated stakeholder expectations and demands as well as the degree of impact

Degree of impact on Daifuku business (horizontal axis)

We evaluated compatibility with our business policy and strategy, impact on the business index, and from a perspective on risk and opportunity to our reputation for

sure and Strengthen governance Ensure compliance Manage risk Pursue product quality and safety Strengthen information security Cultivate human resources Protect employee safety and health acts and Promote innovative technological development and invention e supply Cater to customer needs through smart logistics Develop new business domains Create a workplace environment that motivates employees Keep business operations environmentally friendly Friendly		Highest priority issues ODetermined materiality
Incts and Promote innovative technological development and invention Cater to customer needs through smart logistics Develop new business domains Create a workplace environment that motivates employees Keep business operations environmentally friendly 	sure and	 Strengthen governance Ensure compliance Manage risk Pursue product quality and safety Strengthen information security Cultivate human resources Protect employee safety and health
	icts and supply ition	 Promote innovative technological development and invention Cater to customer needs through smart logistics Develop new business domains Create a workplace environment that motivates employees Keep business operations environmentally friendly
		Viah

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Sustainability Action Plan

A company that supports society and the future

The Daifuku Group newly formulated the Sustainability Action Plan (FY2021–2023) after reviewing the materiality we have worked on until fiscal 2020 in its CSR Action Plan and based on the five themes given precedence in its initiatives. We place great importance on contributing through our business with the aim of achieving both sustainable management growth and the realization of a sustainable society that the SDGs aim for.

See pages Page 67 – Page 79 for the 2021 results.

*1 R&D expenses + DX investment amount

- *2 Accidents caused by the malfunction of our products or systems leading to death or serious illness/injury during operations (injury or illness requiring 30 days or more of treatment)

*3 Carrying out reviews based on unified standards under the same schedule and certification authority, and obtaining and maintaining certification *4 Credentials meant chiefly for designers that certify knowledge and abilities in the field of safety based on international safety standards *5 In fiscal 2022, KPI changed to: "Number of companies with which dialog meetings were held"

- *6 Accidental deaths occurring during work at Daifuku (labor accidents)

*7 Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO2 emissions at suppliers *8 CO2 emissions produced from our products/services provided to our customers are subtracted from the CO2 emissions produced from our products/services in

fiscal 2011—the base year for environmental performance.

*9 Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

	Themes	Aspirations for 2030	Materiality				Key Performance Indicator (KPIs)		
_	memes		materiality		2030 Goals	SDGs		Scope	FY2021
			Promote innovative technological development and invention	▶ Page 67	Innovate to create new value for the distribution system	8 M	 Innovation investment amount^{*1} Patent registrations (cumulative total) 	Global	 15 billion yen 3,600 patents
Contribute to a smart society	Contribute to a smart society	Provide products and services, and develop new technology to solve social challenges	Develop new business domains	▶ Page 68	Expand realm of business using business strategy (including M&A and alliances)	Securitor	Penetration into new markets and new business conditions; commercialization of new products	Global	Collaborative rese Provide new autor Develop new custo Expand service bu
			Cater to customer needs through smart logistics	▶ Page 68	Use cutting-edge technology to improve efficiency and automate to create value for customers	8:00:00 8	Introduction of cutting-edge technology to products/services	Global	 Use wireless/5G te Introduce high-eff Reduce energy con Make maintenance
<u>الم</u>	Maintain and improve	Build and maintain systems that provide reliable, safe and high-quality products	Optimize production through globalization	▶ Page 69	Achieve global optimized production	8 mmm 2	New/Expanded production sites to achieve production in optimal conditions; and other countermeasures	Global	 Build a procureme Strengthen ability Optimally distribu
۳ ۳	products and services		Pursue product quality and safety	▶ Page 69	Earn customer trust in product quality and safety		 Number of serious accidents related to product/system safety*2 Rate of ISO 9001 global multi-site certification*3 in production sites Number of employees who obtain safety assessor credentials*4 	1 2 Global 3 Japan	1 0 occurrences 2 60% 3 160 people
			Strengthen governance	▶Page 70	Further strengthen Group governance system	_	 Improving effectiveness of the Board of Directors Enhancing internal perceptions Carrying out sound internal audits 	Global	 Carry out efforts Implement meas Carry out internal 3 years) and mair
			Ensure compliance	▶ Page 70	Eliminate serious cases of corruption		Carrying out anti-corruption training	Global	Carry out training an
Enhance operational framework	Enhance operational	Carry out both business operations and social responsibility	Manage risk	▶ Page 70	Implement Group risk management, including non-Japan subsidiaries		Implementing countermeasures against major risks	Global	Carry out regular i Form risk manage Implement import Carry out risk resp
	framework		Ensure responsible procurement in the supply chain	▶ Page 71	Implement global CSR procurement		Establishing a CSR procurement system and expand range of operations	Global	Review CSR Procure
			Strengthen information security	▶ Page 71	Thoroughly implement internal global standards and continued operations	_	 Number of global information security education sessions Number of global e-mail training sessions 	Global	1 2 sessions 2 3 sessions
			Ensure transparent information disclosure and strategic communication	▶ Page 71	Strengthen stakeholder engagement	17 mmm ***	 Number of dialog meetings held with shareholders and investors⁺⁵ Enhancing communication with stakeholders 	1 Global 2 Japan	 370 meetings (ESG-related: 10 r Carry out events contribution activities
			Protect employee safety and health	▶ Page 72	Eliminate labor accidents and major accidents in operations	3 mm. /√∲	 Frequency rate: Japan (non-Japan) Severity rate: Japan (non-Japan) Number of occupational safety and health trainees Number of serious accidents*6 	Global	1 0.4 (0.9) 2 0.02 (0.03) 3 1,500 trainees 4 0 accidents
Respect human dignity			Achieve diversity and inclusion	▶ Page 72	Create an environment where a diversity of human resources can remain active	5 © [™] €	 Number of female managers Employment rate of people with disabilities Paternity leave acquisition rate 	Japan	1 19 people 2 2.3% 3 5%
	Seek to provide peace of mind and comfort to people	Create a workplace environment that motivates employees	▶ Page 73	Achieve a workplace environment where employees experience comfort, health and prosperity	3 mm/s. 	 Paid leave acquisition rate Maintaining high rate of stress check testing Holding events to encourage mental and physical health 	Japan	1 73% 2 96% 3 Continued events	
			Cultivate human resources	▶Page 74	Provide opportunities for growth according to the individual's career ambitions	4 min. Mi	 Strengthening education for managerial employees and candidates Developing training using online resources and promoting autonomous learning 	Japan	 Provide educatio Establish on-dem
			Respect human rights	▶ Page 75	Respect human rights of all people involved in our business	8 min 19 min M	 Promotion of workplace understanding of human rights Carrying out due diligence for human rights 	Global	 Carry out human Formulate policie human rights kno
	Contribute to the environment through	Make efforts in the workplaces and in all regions that reduce our	Keep business operations environmentally friendly	▶ Page 77	Enhance measures to reduce environmental footprint, such as in climate change and resource depletion	6 antan 7 mm 7 mm 8	 Daifuku's total CO₂ emissions reduction rate (over FY2018) Participation rate in CO₂ emissions reduction programs^{*7} throughout the supply chain Recycling rate of waste 	1 3 Global 2 Japan	 2.5% reduction 32% 3 Survey global site establish goals
w our business	burden on the global environment	Expand environmentally friendly products and services	▶ Page 78	Maximize value for customers through being environmentally friendly	7 mmr 9 mmr 12 mm	 Avoided CO₂ emissions*⁸ Sales ratio of projects that include environmentally friendly products*⁹ Recyclability rate for new products 	Global	1 30,000 t-CO ₂ 2 43% 3 90%	

	Targets	
	FY2022	FY2023
1 15 billion 2 3,800 pat	yen ents	 15 billion yen 4,000 patents
earch with universities and mated solutions omers, expand business a	companies rea globally	
isiness		
ech and rechargeable bath ficiency systems and predi nsumption with more sop es services more efficient v ent network globally and s v to respond at non-Japan	eries ctive maintenance s histicated power sup vith use of IoT hare production tec subsidiaries (in sale	hystems using Al tech oply equipment hnology s, production/service)
1 0 occurre 2 60% 3 190 peop	nces	1 0 occurrences 2 65% 3 220 people
to improve effectiveness sures to propagate the Gro I audits in Japanese busine ntain compliance with inte	up Code of Conduct ess units and non-Jap ernal evaluations	globally pan subsidiaries (total 300 cases,
nd follow-ups for Japanese a	nd global parties with	n authority to accept/place orders
risk assessments ement policy and spread a tant risk countermeasures ponse training	wareness of it	
ment Standards and formu	late new guidelines t	o be applied in Japan and abroad
1 4 session 2 4 session	5	 4 sessions + education follow-up training 4 sessions
meetings) 1,200 con (ESG-rela	npanies ted: 20 companies)	1,200 companies (ESG-related: 20 companies)
for science and engineeri ivities	ng students; get emp	ployees to participate in social
1 0.4 (0.8) 2 0.01 (0.02 3 1,600 trai 4 0 acciden) nees ts	1 0.3 (0.6) 2 0.01 (0.02) 3 1,700 trainees 4 0 accidents
1 25 people 2 2.3% 3 8%	!	1 30 people 2 2.3% 3 10%
1 76% 2 96%		1 80% 2 96%
s centered on main faciliti	es	
on according to the qualition nand library for training ar	es of candidates up f nd education	or promotion
rights training for Group es and carry out due dilige owledge inside and outsid	employees ince for human right le the Company	s and ensure wide-spread
res; 1 5.0% redu 2 34% 3 99%	uction	1 7.5% reduction 2 36% 3 99%
1 60,000 t-C 2 46% 3 90%	:O ₂	1 90,000 t-CO ₂ 2 49% 3 90%

For details, see our website:

www.daifuku.com/sustainability/management/plan