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Annual Securities Report

The 107th Business Term (Fiscal 2022)
From April 1, 2022 to March 31, 2023

DAIFUKU

DAIFUKU CO., LTD.

Contents

[Cover page]

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Part 1. Company Information

I. Overview of the Company

1. Key Financial Data

(1) Key financial data of the Daifuku Group

Fiscal year		103rd	104th	105th	106th	107th
Fiscal year ended		March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Net sales	(million yen)	459,486	443,694	473,902	512,268	601,922
Ordinary income	(million yen)	55,842	40,976	45,846	51,253	59,759
Net income attributable to shareholders of the parent company	(million yen)	39,567	28,063	32,390	35,877	41,248
Comprehensive income	(million yen)	40,800	25,627	33,345	46,368	53,556
Net assets	(million yen)	222,885	237,356	262,012	292,059	332,323
Total assets	(million yen)	409,982	410,887	445,456	483,322	551,552
Net assets per share	(yen)	579.40	616.76	680.02	769.13	878.24
Net income per share	(yen)	104.85	74.32	85.71	94.90	109.11
Diluted net income per share	(yen)	–	–	–	–	–
Equity ratio	(%)	53.3	56.7	57.7	60.2	60.2
Return on equity	(%)	19.5	12.4	13.2	13.1	13.2
Price-earnings ratio	(times)	18.3	30.7	42.2	30.9	22.4
Cash flows from operating activities	(million yen)	8,559	13,706	38,229	56,691	20,034
Cash flows from investing activities	(million yen)	5,937	(14,791)	(6,132)	(9,828)	(11,874)
Cash flows from financing activities	(million yen)	(6,893)	(18,354)	(8,932)	(27,550)	(30,187)
Cash and cash equivalents at end of year	(million yen)	90,903	70,883	94,079	118,672	102,389
Number of employees	(persons)	9,857	10,863	11,697	12,436	13,020

Notes:
1. The number of employees represents the number of persons actually working at the Group.
2. Diluted net income per share is not recorded, as dilutive shares do not exist.
3. The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the 106th fiscal year. Key financial data from the 106th fiscal year onward reflect these accounting standards.
4. The Company conducted a three-for-one split of its common stock effective April 1, 2023. Net assets per share and net income per share are calculated, assuming that the stock split was conducted at the beginning of the 103rd fiscal year.

(2) Key financial data of Daifuku Co., Ltd.

Fiscal year		103rd	104th	105th	106th	107th
Fiscal year ended		March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Net sales	(million yen)	246,790	243,400	239,592	266,460	290,278
Ordinary income	(million yen)	39,026	30,400	36,811	39,831	45,543
Net income	(million yen)	33,760	18,699	26,039	28,652	34,053
Common stock	(million yen)	31,865	31,865	31,865	31,865	31,865
Total number of shares issued	(thousand shares)	379,830	379,830	379,830	379,830	379,830
Net assets	(million yen)	179,719	186,021	204,574	221,919	244,570
Total assets	(million yen)	278,695	277,107	301,560	330,068	349,892
Net assets per share	(yen)	476.15	492.49	541.18	587.01	646.91
Dividend per share	(yen)	90.00	75.00	80.00	90.00	110.00
[Interim dividend per share included above]	(yen)	[30.00]	[30.00]	[30.00]	[35.00]	[40.00]
Net income per share	(yen)	89.46	49.52	68.91	75.79	90.08
Diluted net income per share	(yen)	–	–	–	–	–
Equity ratio	(%)	64.5	67.1	67.8	67.2	69.9
Return on equity	(%)	20.1	10.2	13.3	13.4	14.6
Price-earnings ratio	(times)	21.5	46.1	52.4	38.7	27.1
Payout ratio	(%)	33.5	50.5	38.7	39.6	40.7
Number of employees	(persons)	2,772	2,928	3,042	3,202	3,375
[Average number of temporary employees not included above]	(persons)	[375]	[428]	[449]	[432]	[381]
Total shareholder return	(%)	91.8	110.1	174.0	143.2	122.0
[Benchmark: TOPIX Total Return Index]	(%)	[95.0]	[85.9]	[122.1]	[124.6]	[131.8]
Highest share price	(yen)	6,430	7,300	13,500	11,550	2,459 [8,820]
Lowest share price	(yen)	4,290	4,560	6,340	7,410	2,412 [6,090]

Notes: 1. The number of employees represents the number of persons actually working at the Company.
2. Diluted net income per share is not recorded, as dilutive shares do not exist.
3. The highest and lowest share prices are quoted prices on the Tokyo Stock Exchange Prime Market on and after April 4, 2022, and on the First Section of the Tokyo Stock Exchange on and before April 3, 2022.
4. The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the 106th fiscal year. Key financial data from the 106th fiscal year onward reflect these accounting standards.
5. The Company conducted a three-for-one split of its common stock effective April 1, 2023. Therefore, the total number of shares issued, net assets per share, and net income per share are calculated, assuming that the stock split was conducted at the beginning of the 103rd fiscal year, while the dividend per share is calculated based on the number of shares before the stock split. The highest and lowest share prices for the 107th fiscal year are stated after ex-rights due to the stock split, and the highest and lowest share prices before the stock split are shown in brackets.

2. History

Month/Year	Summary
May 1937	Founded as Sakaguchi Kikai Seisakusho Ltd. with 300,000 yen in capital.
July 1939	Establishes the Mitejima Factory (now Osaka Headquarters location).
May 1941	Kanematsu Shoten (now Kanematsu Corporation) joins the Company's management.
March 1944	Changes Company name to Kanematsu Kiko Co., Ltd. Establishes Tokyo Sales Office (now Tokyo Head Office).
March 1945	Establishes the Fukuchiyama Factory (located in Fukuchiyama City, Kyoto).
August 1947	Changes Company name to Daifuku Machinery Works Co., Ltd.
October 1953	Separates the Fukuchiyama Factory to establish Fukuchiyama Daifuku Machinery Works Co., Ltd.
April 1957	Sells Fukuchiyama Daifuku Machinery Works Co., Ltd.
October 1961	Listed on the Second Section of the Osaka Securities Exchange.
July 1962	Listed on the Second Section of the Tokyo Stock Exchange.
January 1963	Inaugurates the Komaki Plant (now Komaki Works).
October 1968	Listed on the Second Section of the Nagoya Stock Exchange.
August 1969	Listed on the First Section of the Tokyo, Osaka and Nagoya Stock Exchanges.
April 1975	Establishes Contec Co., Ltd.
April 1975	Inaugurates the Hino Plant (now Shiga Works).
February 1983	Establishes Daifuku U.S.A. Inc. (now Daifuku America Corporation).
May 1984	Changes Company name to Daifuku Co., Ltd.
May 1985	Establishes Daifuku Canada Inc.
January 1986	Establishes Daifuku Mechatronics (Singapore) Pte. Ltd.
May 1991	Establishes Daifuku (Thailand) Limited.
January 1993	Establishes a Taiwan-based subsidiary (now Taiwan Daifuku Co., Ltd.).
June 1994	Opens a material handling and logistics demo center, *Hini Arata Kan*, within the Shiga Works.
	Establishes Daifuku (Malaysia) Sdn. Bhd.
February 1995	Acquires shares of Taiwan-based Pioneer Automation Co., Ltd. (Daifuku Pioneer Co., Ltd. in April 1996, Taiwan Daifuku Co., Ltd. in July 2004) to make it a subsidiary.
April 1995	Establishes Clean Factomation, Inc. in South Korea.
	Establishes P.T. Daifuku Indonesia.
December 1996	Establishes Daifuku Magic Technology Corporation (now Daifuku Plusmore Co., Ltd.).
April 1997	Establishes ATS Co., Ltd. (now Daifuku Korea Co., Ltd.).
February 1999	Establishes Daifuku Business Service Corporation.
March 1999	Relocates the Osaka Plant functions to the Shiga Works.
March 2000	Establishes Daifuku Unix Corporation by merging two Japanese affiliates Daifuku Magic Technology Corporation and Unix Corporation.
March 2002	Establishes Daifuku (Shanghai) Ltd. (now Daifuku (China) Co., Ltd.).
March 2003	Establishes Daifuku Qubica Ltd. (Daifuku QubicaAMF Co., Ltd. in December 2006, acquiring shares of QubicaAMF Worldwide LLC) (now Daifuku Plusmore Co., Ltd.).
April 2004	Acquires the material handling business from Kito Corporation.
June 2004	Delisted from the First Section of the Nagoya Stock Exchange.
April 2005	Establishes Daifuku Manufacturing Expert Co., Ltd. (now Daifuku Manufacturing Technology Co., Ltd.).
July 2005	Establishes Daifuku Carwash-Machine (Shanghai) Ltd. (now Daifuku (China) Manufacturing Co., Ltd.).
August 2005	Establishes Taiwan Daifuku Co., Ltd.
September 2005	Establishes Jiangsu Daifuku Rixin Automation Co., Ltd. (now Daifuku (China) Automation Co., Ltd.).
October 2005	Establishes Daifuku India Private Limited.
October 2006	Relocates the Komaki Plant (now Komaki Works) functions to the Shiga Works.
March 2007	Contec Co., Ltd. listed on the Second Section of the Tokyo Stock Exchange.
December 2007	Acquires shares of U.S.-based Jervis B. Webb Company to make it a subsidiary.
January 2008	Integrates two affiliates in Taiwan leading to Taiwan Daifuku.
	Acquires shares of Osaka Machinery Works Co., Ltd. to make it a subsidiary (absorbed by Daifuku Manufacturing Technology in March 2011).
April 2009	Establishes Daifuku Plusmore Co., Ltd. by merging two Japanese affiliates, Daifuku QubicaAMF Co., Ltd. and Daifuku Unix Corporation.

Month/Year	Summary
January 2011	Acquires the car wash machine business from YASUI Corporation. Establishes Daifuku Webb Holding Company (now Daifuku North America Holding Company) in the U.S. to oversee two affiliates, Daifuku America Corporation and Jervis B. Webb Company.
March 2011	Establishes Daifuku Manufacturing Technology Co., Ltd. by merging two Japanese affiliates, Daifuku Manufacturing Expert and Osaka Machinery Works.
April 2011	Acquires shares of Logan Teleflex (UK) Ltd. (now Daifuku Logan Ltd.) to make it a subsidiary.
April 2012	Acquires the cleanroom material handling system service business from Hitachi Plant Technologies, Ltd. Acquires shares of Iwasaki Seisakusho Co., Ltd. to make it a subsidiary.
August 2012	Acquires shares of South Korea-based Hallim Machinery Co., Ltd. to make it a subsidiary.
November 2012	Daifuku Webb Holding Company (now Daifuku North America Holding Company) acquires shares of Elite Holding Company (now Elite Line Services, Inc.) to make it a subsidiary. Establishes Daifuku (Suzhou) Cleanroom Automation Co., Ltd. in China.
January 2013	Establishes Daifuku de México, S.A. de C.V.
July 2013	Delisted from the First Section of the Osaka Securities Exchange, in line with the integration of cash equity market of Osaka Securities Exchange into the Tokyo Stock Exchange.
October 2013	Daifuku Webb Holding Company (now Daifuku North America Holding Company) acquires shares of Wynright Corporation to make it a subsidiary.
November 2013	Begins operations of the Daifuku Shiga Mega Solar within the Shiga Works.
December 2014	Acquires shares of New Zealand-based BCS Group Limited (now Daifuku Oceania Limited) to make it a subsidiary.
December 2017	Establishes Daifuku Europe GmbH in Germany.
April 2019	Acquires shares of India-based Vega Conveyors and Automation Private Limited (now Daifuku Intralogistics India Private Limited) to make it a subsidiary.
June 2019	Acquires shares of Netherlands-based Scarabee Aviation Group B.V. to make it a subsidiary.
August 2019	Establishes Daifuku Intralogistics Vietnam Company Limited.
March, 2022	Conducts a public tender offer for the listed subsidiary Contec Co., Ltd. (delisted from the Tokyo Stock Exchange in April 2022).
April 2022	Listed on the Prime Market of the Tokyo Stock Exchange, shifting from the First Section, along with a change in the market classification.
December 2022	Vega Conveyors and Automation Private Limited changes its name to Daifuku Intralogistics India Private Limited.

3. Description of Business

The following outlines the main business of the Daifuku Group and the position of Group companies in relation to our business.

Daifuku Co., Ltd.

Daifuku Co., Ltd. engages primarily in manufacturing and sales of material handling systems and equipment, and car wash machines.

The Company purchases the electronics to be incorporated into its products from the Contec Co., Ltd., and entrusts the designing and manufacturing of logistics systems to consolidated companies in Japan, such as Daifuku Manufacturing Technology Co., Ltd.

Other consolidated companies, including companies in Daifuku North America Holding Company and Clean Factomation, Inc., combine the components of material handling systems delivered by the Company and other parts locally produced or procured to sell, install and provide after-sales services.

Contec Co., Ltd. and its subsidiaries

Contec Co., Ltd. and its consolidated companies develop, manufacture and sell personal computer peripheral devices, industrial computers and network equipment.

Daifuku North America Holding Company and its subsidiaries

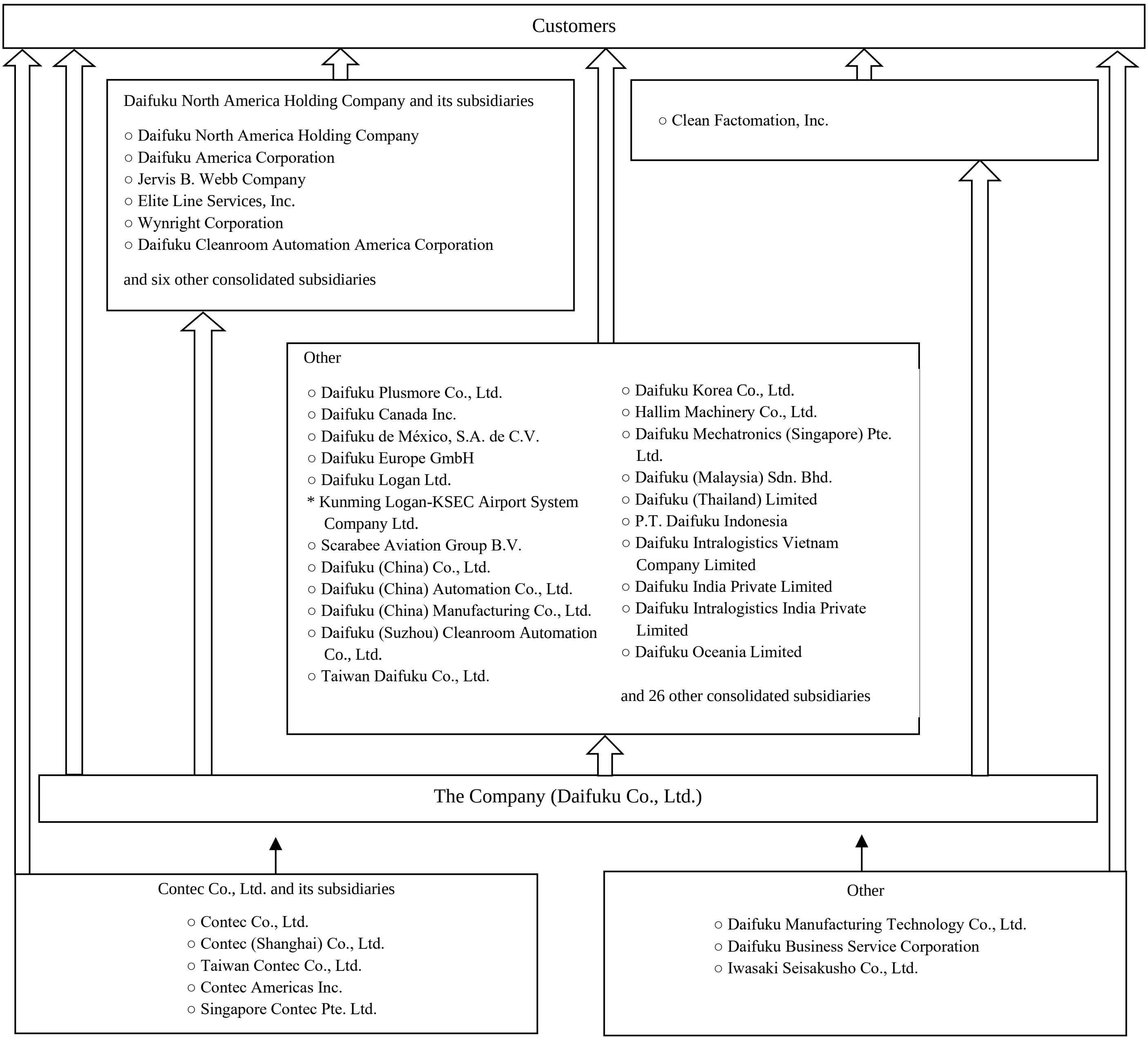
Daifuku North America Holding Company and its consolidated companies manufacture and sell material handling systems and equipment mainly in North America.

Clean Factomation, Inc.

Clean Factomation, Inc. provides cleanroom transport systems mainly to semiconductor manufacturers in South Korea.

The following diagram illustrates the structure of our business.

Business Diagram



→ Flow of consignment (e. g. installation, production, and manufacturing)

⇨ Flow of products

○ Consolidated subsidiaries

* Equity-method affiliate

4. Subsidiaries and Other Affiliated Entities

Consolidated subsidiaries

Name	Address	Common stock	Principal business	Daifuku's percentage of voting rights (%)	Concurrent appointments of officers	Loans	Business transactions with the Company	Remarks
Contec Co., Ltd.	Nishiyodogawa-ku, Osaka, Japan	JPY 450 million	Manufacturing and sales of electronics, etc.	100.0	–	Yes	Manufacturing the Company's electronic components	Note 1
Daifuku North America Holding Company	Michigan, U.S.A.	USD 2,010	A holding company with operating companies that manufacture and sell logistics systems, etc.	100.0	1	No	Manufacturing and sales of the Company's products	
Daifuku Canada Inc.	Ontario, Canada	CAD 400 thousand	Sales of logistics systems, etc.	100.0	–	No	Sales of the Company's products	
Daifuku Europe GmbH	Moenchengladbach, Germany	EUR 500 thousand	Sales of logistics systems, etc.	100.0	–	No	Sales of the Company's products	
Daifuku Mechatronics (Singapore) Pte. Ltd.	Techplace, Singapore	SGD 500 thousand	Sales of logistics systems, etc.	100.0	1	No	Sales of the Company's products	
Daifuku (Thailand) Limited	Sriracha, Thailand	THB 152,700 thousand	Manufacturing and sales of logistics systems, etc.	100.0	–	No	Manufacturing and sales of the Company's products	
Daifuku Korea Co., Ltd.	Incheon Metropolitan City, South Korea	KRW 11,100,000 thousand	Manufacturing and sales of logistics systems, etc.	100.0	–	No	Manufacturing and sales of the Company's products	
Clean Factomation, Inc.	Hwaseong, Gyeonggi, South Korea	KRW 3,000,000 thousand	Manufacturing and sales of logistics systems, etc.	100.0	1	No	Manufacturing and sales of the Company's products	
Daifuku (China) Co., Ltd.	Shanghai, China	CNY 112,482 thousand	Sales of logistics systems, etc.	100.0	1	No	Sales of the Company's products	
Daifuku (China) Automation Co., Ltd.	Changshu, Jiangsu, China	CNY 267,353 thousand	Manufacturing and sales of logistics systems, etc.	100.0 [44.5]	2	No	Manufacturing and sales of the Company's products	Notes 2 and 3
Daifuku (China) Manufacturing Co., Ltd.	Shanghai, China	CNY 66,333 thousand	Manufacturing and sales of logistics systems, etc.	100.0 [51.0]	1	No	Manufacturing and sales of the Company's products	Note 2
Daifuku (Suzhou) Cleanroom Automation Co., Ltd.	Suzhou, Jiangsu, China	CNY 122,842 thousand	Manufacturing and sales of logistics systems, etc.	100.0	2	No	Manufacturing and sales of the Company's products	
Taiwan Daifuku Co., Ltd.	Tainan, Taiwan	TWD 200,000 thousand	Manufacturing and sales of logistics systems, etc.	100.0	1	No	Manufacturing and sales of the Company's products	
Daifuku Oceania Limited	Auckland, New Zealand	NZD 5,711 thousand	Manufacturing and sales of logistics systems, etc.	100.0	–	Yes	Manufacturing and sales of the Company's products	
54 other companies								

Notes: 1. Contec Co., Ltd. became a wholly-owned subsidiary of the Company after the Company acquired all of its shares on May 6, 2022.
2. The figure in brackets in the "Percentage of voting rights" column shows the percentage of the voting rights the Company holds indirectly, which is included in the figure without brackets.
3. Is a specified subsidiary.
4. In addition to consolidated subsidiaries, the Company has one equity-method affiliate, which is not included in the above as the investment is considered not significant.

5. Employees

(1) Information about consolidated companies

As of March 31, 2023

Segment	Number of employees
Daifuku Co., Ltd.	3,375
Contec Co., Ltd. and its subsidiaries	519
Daifuku North America Holding Company and its subsidiaries	4,755
Clean Factomation, Inc.	919
Other	3,452
Total	13,020

Note: The number of employees represents the number of persons actually working.

(2) Information about reporting company

As of March 31, 2023

Number of employees	Average age	Average years of service	Average annual salary (yen)
3,375 [381]	41.0	15.0	7,712,196

Notes: 1. The number of employees represents the number of persons actually working at the Company.
2. Average annual salary includes bonuses and extra wages.
3. The figure shown in bracket in the number of employees indicates the annual average number of temporary employees for the period, not included in the figure outside the bracket.
4. Temporary employees include those working under a fixed-term employment, and excludes staff dispatched from other companies.
5. We cannot obtain birth dates and other information of some employees at overseas branches. Thus, they are excluded from the population for the calculation of average age.

(3) Labor union

The Group has Daifuku Union that was organized in February 1948. As of March 31, 2023, the union has 2,789 members.

Labor and management have maintained an extremely good relationship since the organization, working together for the development of the Group’s business.

(4) Percentage of female employees in management positions, percentage of male employees taking childcare leave, and differences in wages between male and female employees

		As of April 1, 2023	Year ended March 2023			
		Percentage of female employees in management positions (Note 1)	Percentage of male employees taking childcare leave, etc. (Note 2)	Disparity in wages between men and women (Note 1)		
				All employees	Of which regular employees	Of which non-regular employees
i. Reporting company	Daifuku Co., Ltd.	4.1%	44%	68.8%	76.5%	49.9%
ii. Consolidated subsidiary	Contec Co., Ltd.	4.7%	100%	64.5%	74.3%	54.5%

Notes: 1. The percentages are calculated based on the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64, 2015).
2. Based on the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76, 1991), the percentages show those of workers who took childcare leave and leave for childcare purposes as defined in Article 71-4, Item 2 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ministry of Labour Ordinance No. 25, 1991).

II. Overview of Business

1. Management Policy, Management Environment, and Issues to Address

All forward-looking statements herein represent the Group's views as of the filing date of the Annual Securities Report.

(1) Management policy

To meet the needs of the times such as changes in the business environment and social environment, digital transformation, and sustainability management, we revised our management philosophy to "Automation that Inspires" on October 1, 2021. We aim to inspire society and enhance well-being through our core competence—automated material handling technology—while transforming the value we provide to customers with our material handling technologies for storage, transport, and sorting/picking.

Under the three-year business plan "Value Transformation 2023" ("business plan") that started in April 2021, based on major changes in the environment surrounding the Group, such as the new normal and expanding global automation needs, we are promoting DX^2 (DX Squared)*.

*DX^2 (DX Squared) = Digital Transformation × Daifuku Transformation

In addition to promoting Digital Transformation (DX), Daifuku itself will also be revolutionized (Daifuku Transformation) to transform the value provided to our customers and other stakeholders.

The management targets for the fiscal year ending March 31, 2024, the final year of the business plan, are as follows. Consolidated net sales are expected to increase only slightly due to a decrease in the ratio of sales recorded in the next fiscal year as a result of a longer lead time for delivery, despite an increase in the order backlog received at the end of the previous fiscal year. Operating margin is also expected to decrease due to the effects of inflation and rising labor costs. Figures in parentheses below are the results for the fiscal year ended March 31, 2023.

- Consolidated net sales: 605.0 billion yen (601.9 billion yen)
- Operating margin: 9.0% (9.8%)
- ROE (return on equity): 10% or higher (13.2%)
- Consolidated dividend payout ratio:
  30% or more on a three-year average from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2024 (33.6%)

Furthermore, the Group positions the business plan and the Sustainability Action Plan as the cornerstones of its management strategy and will contribute to the realization of a sustainable society through its business activities. In terms of the environment, in the Daifuku Environmental Vision 2050 revised in May 2023, we aim to realize a world where our material handling systems have zero environmental impact by 2050, and we have established three crucial issue areas and environmental targets to achieve by 2030. Please refer to the Company's statements, "Daifuku Announces New Three-Year Business Plan and Related Items" announced on February 5, 2021 and "Notice of Revision of the Management Targets for the Three-Year Business Plan, Value Transformation 2023" announced on May 13, 2022 for details on the business plan; and "Formulation of Daifuku Environmental Vision 2050" announced on February 5, 2021 for Daifuku Environmental Vision 2050, and "Formulation of the Sustainability Action Plan" announced in Japanese on April 1, 2021 for Sustainability Action Plan, on the following pages.

https://www.daifuku.com/ir/assets/0205_2.pdf

https://www.daifuku.com/ir/assets/20220513_01e.pdf

https://www.daifuku.com/sustainability/assets/20230512_01e.pdf

https://www.daifuku.com/jp/sustainability/news/2021/0401_01/

Figure: Concept of the three-year business plan Value Transformation 2023

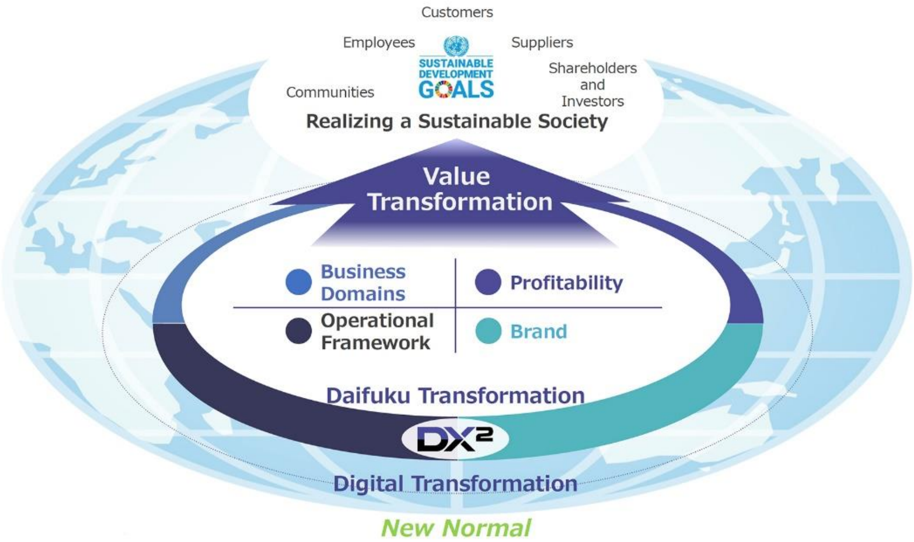
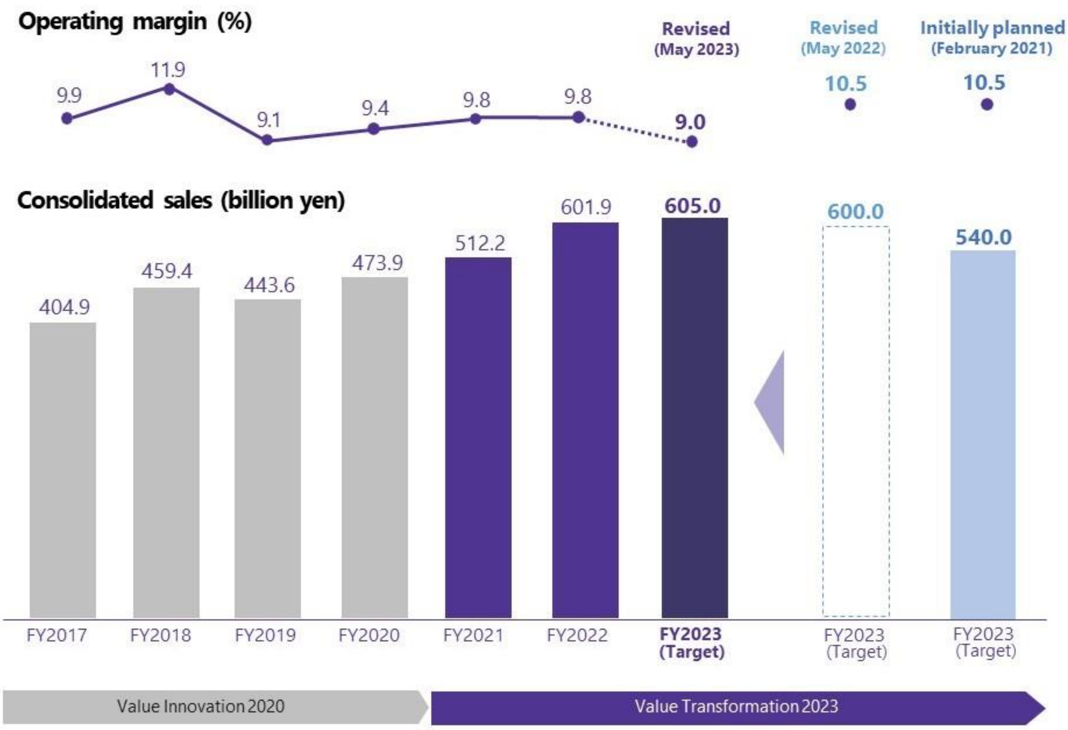


Figure: Target for the final year of Value Transformation 2023



(2) Management environment

i. Business environment

The outlook for the industry as a whole is uncertain due to factors including global inflation, rising labor costs, and concerns about a slowdown in the U.S. and European economies. In this situation, our customers are facing major changes in their business environment, including the expansion of e-commerce, progress to digitalization, shift to electric vehicles, and smarter airports, as well as the social issue of labor shortages. For this reason, we are confident that expectations for “smart logistics” we provide will continue to grow.

ii. Competitive environment

With the expansion of the material handling market, emerging competitors from China and other countries have been entering and growing, joining the traditional Western competitors, and competition is expected to intensify in the future. We will succeed in this highly competitive environment by taking advantage of the Group’s strength: providing the best systems globally using its integrated framework that encompasses everything from consulting and manufacturing to installation and after-sales service, together with its extensive lineup of both products and services, including in-house developed software.

(3) Business and financial issues to address with priority

In regard to the business portfolio that forms the basis of the business plan, we aim for continuous corporate development in the global market with our four core businesses, (i) intralogistics systems, (ii) cleanroom systems, (iii) automotive systems, and (iv) airport systems as before.

In the fiscal year ended March 31, 2023, to increase profitability and drive the growth of the entire Group, we

- enhanced profitability by re-examining and reforming the business structure;
- established a growth strategy through the development of advanced technology and new businesses; and
- further increased the productivity through the acceleration of DX promotion.

Steady results are being achieved in cleanroom systems, where cost reduction efforts have been underway since the fiscal year ended March 31, 2022, referencing the production innovation methods for intralogistics systems that have already been proven. In addition, profitability of airport systems improved as a result of changes in the structure of subsidiaries in Europe. In the fiscal year ending March 31, 2024, we will work on structural reforms to accelerate the increase of profitability of non-Japan subsidiaries in particular.

With regard to the development of advanced technology and new businesses, for which we have newly appointed a responsible officer and have been working, we will focus on human resource development with AI (artificial intelligence) as the theme for advanced technology. To identify new businesses, we will move into the stage of narrowing down themes and core business units.

In addition, concrete results have been achieved with regard to DX, using AI for engineering and design efficiency and safety measures. We will continue to promote the use of AI in the areas of information system and operational reform as well, at the initiative of DX Division.

During the fiscal year ended March 31, 2023, the Group’s non-Japan sales ratio was about 67%. With respect to increasing production capacity and localizing production toward further sales boost and sustainable growth, a new plant in North America (Jervis B. Webb Company) started operation, while the production capacity was strengthened in China (Daifuku (Suzhou) Cleanroom Automation Co., Ltd.), India (Daifuku Intralogistics India Private Limited), and South Korea (Clean Factomation, Inc.) in the fiscal year ended March 31, 2023. In the future, we will proceed with redevelopment including increase in the production capacity in Japan (Shiga Works) as well.

Also, “sustainability,” “compliance,” “corporate governance,” and “safety” continue to be important issues.

i. Sustainability management

The Group positions the business plan and the Sustainability Action Plan as the cornerstones of its business strategy. The Sustainability Committee, chaired by the President and CEO, was established in April 2020 as an organization to promote sustainability management, and its efforts are reported to the Board of Directors as appropriate.

The Sustainability Action Plan sets five themes in line with the SDGs (Sustainable Development Goals): “Contribute to a smart society,” “Maintain and improve the quality of products and services,” “Enhance operational framework,” “Respect human dignity,” and “Contribute to the environment through our business.” Together with identifying 18 material issues associated with each theme, it summarizes a three-year action plan.

Prior to this, we disclosed the analysis results of climate change risks and opportunities based on the TCFD Recommendations in 2020. In October 2021, we formulated and announced “Daifuku Group Human Rights Policy” in accordance with the United Nations Guiding Principles on Business and Human Rights.

In November 2022, Shiga Works, the Group’s largest core factory, switched all electricity used within the Works, to renewable energy sources including the mega solar power. This will reduce CO_2 emissions in Japan by about 60% of the Scope 1 and 2 emissions in Japan (about 16% international).

The main revisions of the Daifuku Environmental Vision 2050, as of May 12, 2023, are as follows: (1) we have raised our reduction target of CO_2 emissions in Scope 1 and 2 for 2030 from “25% or more” to “50.4%” compared to fiscal 2018, to meet the 1.5°C global warming limit required by the Paris Agreement, (2) we have set new targets for water resources and biodiversity conservation, as well as for awareness-raising activities.

For investment in human capital, we have adopted various human resources management systems and are striving to develop and promote human resources from a global and diverse perspective.

ii. Thorough compliance and strengthening of Group governance

Compliance is a prerequisite for all business activities. Rather than being satisfied with just following the law, through education and training, we will thoroughly ensure and instill the idea that the present and the future of the Group rest on high ethical standards and responsible behaviors of each and every one of us, on a global basis. We will also transform our business structure to the one where fraud cannot occur.

Regarding corporate governance, four (4) out of nine (9) directors have been elected as outside directors in the fiscal year ended March 31, 2023, and with individuals with experience in corporate management; specialists in finance, accounting, and the law; those with experience outside of Japan; and the appointment of women, diversity of the Board of Directors is ensured.

In addition, we established the Risk Management and Governance Office (now Governance Promotion Department) in April 2021, and the Risk Management Committee, chaired by the CEO, in April 2022. Furthermore, effective April 2023, we established new C-suite roles for our chief officers to strengthen governance and speed up decision-making.

C-suite roles are described below.

- Chief Financial Officer
- Chief Human Resources Officer
- Chief Information Officer
- Chief Production Officer: renamed from Production Officer
- Chief Technology Officer: renamed from Advanced Technology & New Business Development Officer

iii. Full enforcement of “safety-above-all culture*”

In creating a work environment where each and every employee can maximize their performance, ensuring the life, health, and safety of employees, their families, customers, and business partners is of the utmost priority. We will spread and instill awareness that safety shall not be given a relative priority such as ‘first’ or ‘second,’ but it is absolute and exclusive, globally, and will continue to strive to eradicate disasters and unsafe acts across the Group.

* Japanese term, *anzen senichi*, (hereinbefore translated into ”safety-above-all-culture”) is a registered trademark of FURUKAWA CO., LTD.

2. Sustainability Policies and Initiatives

The Group's sustainability policies and initiatives are as follows.

Forward-looking statements in the text are based on the Group's judgement as of the end of the fiscal year ended March 31, 2023. Actual results may differ significantly due to a variety of factors.

(1) General sustainability disclosure

The Group aims to achieve a sustainable society and enhance corporate value in accordance with the Group Code of Conduct, which is based on the company creed, "Hini Arata," and our management philosophy, "Automation that Inspires." In putting our sustainable management to practice, we assented to and signed the United Nations Global Compact (UNGC), which encompasses ten principles across the four fields of human rights, labour, environment, and anti-corruption; we are also working to achieve the Sustainable Development Goals adopted by the UN. Moreover, the Group positions the three-year business plan and the Sustainability Action Plan as the cornerstones of its management strategy, and we strive to achieve both social and economic value through our business activities.

The Group focuses on environmental, social, governance (ESG), and sustainability evaluation from outside the Company as well as direct dialogue with investors. We are continuously working to make improvements and enhance our initiatives through the PDCA (plan-do-check-act) cycle by using external evaluations.

For more information on external evaluations, please refer to the following page:

Evaluation from Outside the Company

https://www.daifuku.com/sustainability/external-evaluation/

i. Governance

The Company has established the Sustainability Committee, which presents agendas on sustainability management, provides reports, and gives information to the Board of Directors as appropriate. The Committee is chaired by the CEO, and its members include business heads, general managers, related executive officers, and others. The Committee meetings were held five times during the fiscal year ended March 31, 2023. At the Committee, the CEO gives instructions on action policies and the execution of plans in response to various ESG issues related to the environment and human rights. After a briefing from the Committee, the Board of Directors determines any necessary measures. We have established the Environmental Management Subcommittee and the Human Rights and Supply Chain Subcommittee under the jurisdiction of the Sustainability Committee, and we are working to materialize specific measures for each theme.

We established the Risk Management Committee in April 2022 for the purpose of managing significant risks that affect the achievement of the Group's management goals. The Committee is chaired by the CEO, and its members include business heads, general managers, related executive officers, and others. Committee meetings were held three times during the fiscal year ended March 31, 2023. Amid rapid changes in the business environment surrounding the Group, we have established this independent committee that integrates Groupwide risk management activities to build a stronger management system that supports swift decision-making and strong risk-taking. The Committee reports important risk-related issues to the Board of Directors as appropriate.

ii. Risk management

The Company identifies the material issues (materiality) taking into account risks and opportunities related to sustainability. We review materiality in accordance with the timing of the formulation of the Group's three-year business plan, taking into account changes in the business environment and social trends. Eighteen materiality aspects were identified in 2021, and we have incorporated these into the Sustainability Action Plan, a three-year (from the fiscal year ended March 31, 2022, to the fiscal year ending March 31, 2024) action plan, and the entire Group is addressing each issue. The Sustainability Committee oversees the progress of these initiatives.

The Company also conducts risk assessments for the entire Group on a regular basis. We specifically target risks that may affect the achievement of the Group's management targets. The Risk Management Committee reviews and implements necessary measures for any significant risks, which are identified in an effort to minimize the possibility of such risks and any damage caused by them before they manifest. In the event of an emergency, the business continuity plan (BCP) promotion system is in place to respond to crises after risks have emerged. The BCP promotion system works with the Risk Management Committee to consider and prepare for crises starting from normal operations. When faced with a crisis such as a large-scale disaster, we will quickly establish a system and take initial actions to prevent secondary disasters, placing the highest priority on human lives. For more information, please refer to the following page:

Risk Management

https://www.daifuku.com/sustainability/governance/risk-management/

iii. Strategy

1) Sustainability Action Plan

The Sustainability Action Plan sets five themes: “contribute to a smart society,” “maintain and improve the quality of products and services,” “enhance operational framework,” “respect human dignity,” and “contribute to the environment through our business.” It also establishes three-year targets and action plans for materiality related to each of these themes. We will contribute to the achievement of the SDGs through the efforts of all of our employees towards materiality in all facets of our business. We aim to achieve a sustainable society and improve our corporate value.

Sustainability Vision

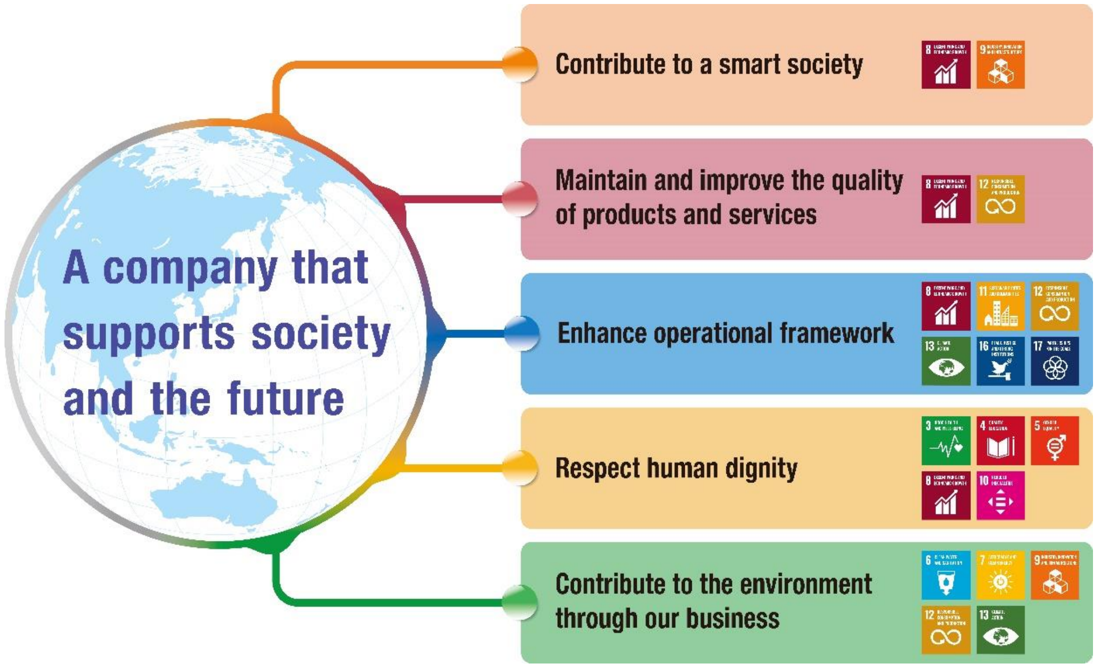


Table: Daifuku Sustainability Action Plan

Themes	Aspirations for 2030	Materiality	2030 Goals	SDGs	KPIs (Key Performance Indicators)
Contribute to a smart society	Provide products and services, and develop new technology to solve social challenges	Promote innovative technological development and invention	Innovate to create new value for the distribution system		i. Innovation investment amount*1 ii. Patent registrations (cumulative total)
		Develop new business domains	Expand the realm of business using business strategy (including M&A and alliances)		Penetration into new markets and new business conditions; commercialization of new products
		Cater to customer needs through smart logistics	Use cutting-edge technology to improve efficiency and automate to create value for customers		Introduction of cutting-edge technology to products and services
Maintain and improve the quality of products and services	Build and maintain systems that provide reliable, safe and high-quality products	Optimize production through globalization	Achieve global optimized production		New and expanded production sites to achieve production in optimal conditions; other countermeasures
		Pursue product quality and safety	Earn customer trust in product quality and safety		i. Number of serious accidents related to product or system safety*2 ii. Rate of ISO 9001 global multi-site certification*3 in production sites iii. Number of employees who obtain safety assessor credentials*4
Enhance operational framework	Carry out both business operations and social responsibility	Strengthen governance	Further strengthen the Group governance system	—	i. Improving the effectiveness of the Board of Directors ii. Enhancing internal perceptions iii. Carrying out sound internal audits
		Ensure compliance	Eliminate serious cases of corruption		Carrying out anti-corruption training
		Manage risk	Implement Group risk management, including at global subsidiaries		Implementing countermeasures against major risks
		Ensure responsible procurement in the supply chain	Implement global CSR procurement		Establishing a CSR procurement system and expanding the range of operations
		Strengthen information security	Thoroughly implement and continue operation of internal global standards	—	i. Number of global information security education sessions ii. Number of global e-mail training sessions
		Ensure transparent information disclosure and strategic communication	Strengthen stakeholder engagement		i. Number of dialogue meetings held with shareholders and investors*5 ii. Enhancing communication with stakeholders

Themes	Aspirations for 2030	Materiality	2030 Goals	SDGs	KPIs (Key Performance Indicators)
Respect human dignity	Seek to provide peace of mind and comfort to people	Protect employee safety and health	Eliminate labor accidents and major accidents in operations		i. Frequency rate: Japan (global) ii. Severity rate: Japan (global) iii. Number of occupational safety and health trainees iv. Number of serious accidents[*6]
		Achieve diversity and inclusion	Create an environment where a diverse human resources can be active		i. Number of female managers ii. Employment rate of people with disabilities iii. Paternity leave acquisition rate
		Create a workplace environment that motivates employees	Achieve a workplace environment where employees experience comfort, health and prosperity		i. Paid leave acquisition rate ii. Maintaining high rate of stress check testing iii. Holding events to encourage mental and physical health
		Cultivate human resources	Provide opportunities for growth according to the individual's career ambitions		i. Strengthening education for managerial employees and candidates ii. Developing training using online resources and promoting autonomous learning
		Respect human rights	Respect the human rights of all people involved in our business		i. Promotion of workplace understanding of human rights ii. Carrying out due diligence for human rights
Contribute to the environment through our business[*7]	Make efforts in all workplaces and regions that reduce our burden on the global environment	Keep business operations environmentally friendly	Enhance measures to reduce environmental footprint, such as in climate change and resource depletion		i. Daifuku's total CO_2 emissions reduction rate (compared to FY2018) ii. Participation rate in CO_2 emissions reduction programs[*8] throughout the supply chain iii. Recycling rate of waste
		Expand environmentally friendly products and services	Maximize value for customers through being environmentally friendly		i. Avoided CO_2 emissions[*9] ii. Sales ratio of environmentally friendly properties[*10] iii. Recyclability rate for new products

*1: R&D expenses + Digital Transformation (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 dialogue meetings were held"

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

*7: The KPIs for "contribute to the environment through our business" will be changed to match the fiscal 2023 KPIs for the Daifuku Vision 2050. For details, please refer to the following section: iv. Metrics and targets

*8: Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO_2 emissions at suppliers

*9: CO_2 emissions produced from our products and services provided to our customers are subtracted from the CO_2 emissions produced from our products and services in fiscal 2011−the base year for environmental performance.

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

2) Daifuku Environmental Vision 2050

Under our management philosophy “Automation that Inspires,” we are committed to creating a society in which the people of the world can lead fulfilling and enriched lives. To achieve that, it is a fundamental prerequisite to protect a healthy global environment, and addressing climate change and other environmental challenges is a crucial management issue. The Group formulated the Daifuku Environmental Vision 2050, a new environmental vision looking toward 2050, in February 2021. In May 2023, we revised this vision to meet the demands of society at a higher level and further clarify our vision. In the new vision, we have set a goal to realize a world where material handling systems have zero environmental impact by 2050 and established three crucial issue areas: 1) addressing climate change, 2) promoting resource recycling, and 3) coexisting with nature. The Group will fulfill its responsibilities as a corporation throughout the entire supply chain, and we will strive to realize this vision with an eye toward the future society we wish to create. Please refer to the figure and table below for details.

We plan to formulate a specific roadmap to achieve our targets. The Sustainability Committee, chaired by the CEO, will manage the progress of initiatives and report important matters to the Board of Directors.

Figure: Daifuku Environmental Vision 2050 (revised in May 2023)

* Natural capital refers to the natural stock of resources (plants, animals, air, water, soil, minerals, etc.) that combine to yield benefits to people. Businesses and society are expected to use this capital in a sustainable manner. Although these resources are being eroded by climate change, improving their sustainability will lead to the absorption of greenhouse gases and the mitigation of natural disasters.

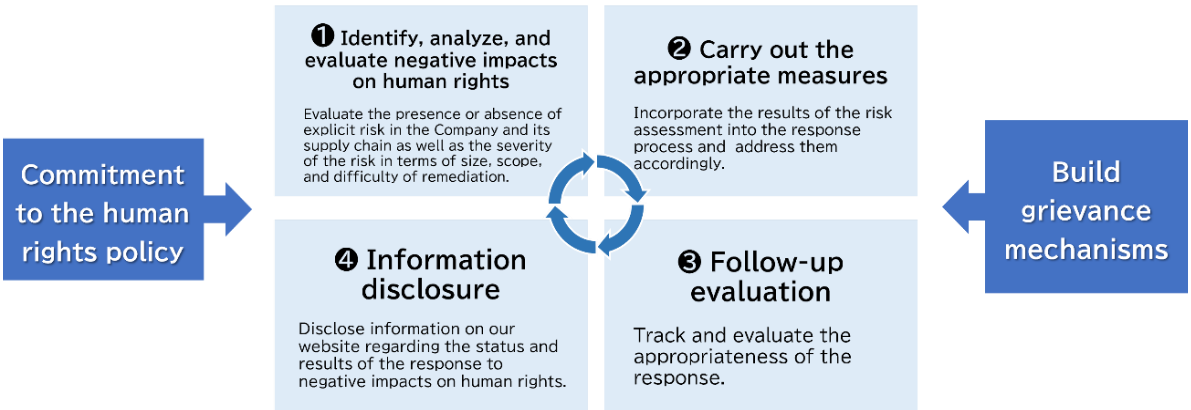
Table: Crucial issue areas to be addressed by Daifuku (revised in May 2023)

Three Crucial Issue Areas	
Addressing climate change	Goal: Cutting net CO_2 emissions to zero in the supply chain We will reduce net CO_2 emissions from our business operations throughout our supply chain to zero by developing and providing products and services that contribute to the creation of a decarbonized society, using energy efficiently and introducing renewable energy at our Group sites and suppliers.
Promoting resource recycling	Goal: Achieving a recycling-based supply We will endeavor to reduce the amount of water and other resources we use. We will also contribute to the formation of a recycling-based society by extending the service life of our products, minimizing the amount of waste generated at our production sites, and expanding the recycling of used products and parts.
Coexisting with nature	Goal: Zero negative impact on natural capital We will strive to sustainably use ecosystem services and conserve biodiversity based on an understanding of the impact of our business activities on the global environment. We will minimize negative impacts on natural capital such as air, water, and soil, and, together with our stakeholders, coexist in harmony with nature.

3) Human rights due diligence initiatives

In October 2021, we formulated the Daifuku Group Human Rights Policy in accordance with the United Nations Guiding Principles on Business and Human Rights. Since the fiscal year ended March 31, 2023, we have been working on building and operating a system to identify, analyze, and evaluate negative impacts on human rights related to our overall business activities, including our supply chain, and to correct, mitigate, and prevent such impacts. We have also included risk assessments for the ongoing implementation of human rights due diligence. In the fiscal year ended March 31, 2023, for our first initiative of human rights due diligence, we conducted a human rights risk assessment (potential risk assessment) to evaluate any negative impacts on human rights and identify any human rights issues. From these results, we identified domestic foreign workers in the supply chain, including contractors, and workers at raw material suppliers as high-priority human rights issues that must be addressed by the Group. We will conduct interviews within our supply chain and take appropriate and effective remedial measures when negative impacts on human rights or facilitating factors come to light.

Figure: Human rights due diligence process



For more information, please refer to the following page:
Human Rights
https://www.daifuku.com/sustainability/society/human-rights/

iv. Metrics and targets

1) Sustainability Action Plan

In the Sustainability Action Plan, we set KPIs for each materiality and set targets for the period from the fiscal year ended March 31, 2022, to the fiscal year ending March 31, 2024. The KPIs related to the theme "contribute to the environment through our business" will be changed from the fiscal year ending March 31, 2024, to align with those in the revised Daifuku Environmental Vision 2050. For more information, please refer to the following section: 2) Daifuku Environmental Vision 2050. Results for the fiscal year ended March 31, 2023, are scheduled to be disclosed on our website in August 2023. For more information, please refer to the following pages:

Sustainability Action Plan
https://www.daifuku.com/sustainability/management/plan/
FY2021 Achievements of the Sustainability Action Plan
https://www.daifuku.com/sustainability/assets/pdf/management/plan/actionplan_results_2021.pdf

Table: Sustainability Action Plan KPIs and targets

<table>
<tr><th rowspan="2">Themes</th><th rowspan="2">Materiality</th><th rowspan="2">Key Performance Indicators (KPIs)</th><th rowspan="2">Scope</th><th colspan="3">Targets</th></tr>
<tr><th>FY2021</th><th>FY2022</th><th>FY2023</th></tr>
<tr><td rowspan="4">Contribute to a smart society</td><td rowspan="2">Promote innovative technological development and invention</td><td>① Innovation investment amount (*1)</td><td rowspan="2">Global</td><td>① 15 billion yen</td><td>① 15 billion yen</td><td>① 15 billion yen</td></tr>
<tr><td>② Patent registrations (cumulative total)</td><td>② 3,600 patents</td><td>② 3,800 patents</td><td>② 4,100 patents</td></tr>
<tr><td>Develop new business domains</td><td>Penetration into new markets and new business conditions; commercialization of new products</td><td>Global</td><td colspan="3">• Development through collaborative research with universities and companies
• Provide new automated solutions
• Cultivate new customers, expand business area globally
• Expand service business</td></tr>
<tr><td>Cater to customer needs through smart logistics</td><td>Introduction of cutting-edge technology to products and services</td><td>Global</td><td colspan="3">• Use wireless and 5G technology and rechargeable batteries
• Introduce high-efficiency systems and predictive maintenance systems using AI technology
• Reduce energy consumption with more sophisticated power supply equipment
• Make maintenance services more efficient with the use of IoT</td></tr>
<tr><td rowspan="2">Maintain and improve the quality of products and services</td><td>Optimize production through globalization</td><td>New and expanded production sites to achieve production in optimal conditions; other countermeasures</td><td>Global</td><td colspan="3">• Build a procurement network globally and share production technology
• Strengthen ability to respond at global subsidiaries (in sales through production and service)
• Optimally distribute production through consolidation and in-sourcing</td></tr>
<tr><td>Pursue product quality and safety</td><td>① Number of serious accidents related to product or system safety (*2)
② Rate of ISO 9001 global multi-site certification (*3) in production sites
③ Number of employees who obtain safety assessor credentials (*4)</td><td>①② Global
③Japan</td><td>① 0 occurrences
② 60%
③ 160 people</td><td>① 0 occurrences
② 60%
③ 190 people</td><td>① 0 occurrences
② 65%
③ 220 people</td></tr>
</table>

<table>
<tr><th rowspan="2">Themes</th><th rowspan="2">Materiality</th><th rowspan="2">Key Performance Indicators (KPIs)</th><th rowspan="2">Scope</th><th colspan="3">Targets</th></tr>
<tr><th>FY2021</th><th>FY2022</th><th>FY2023</th></tr>
<tr><td rowspan="7">Enhance operational framework</td><td>Strengthen governance</td><td>① Improving the effectiveness of the Board of Directors
② Enhancing internal perceptions
③ Carrying out sound internal audits</td><td>Global</td><td colspan="3">① Carry out efforts to improve effectiveness
② Implement measures to propagate the Group Code of Conduct globally
③ Carry out internal audits in Japanese business units and global subsidiaries (total 300 cases, 3 years) and maintain compliance with internal evaluations</td></tr>
<tr><td>Ensure compliance</td><td>Carrying out anti-corruption training</td><td>Global</td><td colspan="3">Carry out training and follow-ups for Japanese and global parties with authority to accept and place orders</td></tr>
<tr><td>Manage risk</td><td>Implementing countermeasures against major risks</td><td>Global</td><td colspan="3">• Carry out regular risk assessments
• Form a risk management policy and spread awareness of it
• Implement significant risk countermeasures
• Carry out risk response training</td></tr>
<tr><td>Ensure responsible procurement in the supply chain</td><td>Establishing a CSR procurement system and expanding the range of operations</td><td>Global</td><td colspan="3">Review CSR Procurement Standards and formulate new guidelines to be applied in Japan and abroad</td></tr>
<tr><td>Strengthen information security</td><td>① Number of global information security education sessions
② Number of global e-mail training sessions</td><td>Global</td><td>① 2 sessions
② 3 sessions</td><td>① 4 sessions
② 4 sessions</td><td>① 4 sessions + follow-up training
② 4 sessions</td></tr>
<tr><td rowspan="2">Ensure transparent information disclosure and strategic communication</td><td>① Number of dialogue meetings held with shareholders and investors (*5)</td><td rowspan="2">① Global
②Japan</td><td>① 370 meetings (ESG-related: 10 meetings)</td><td>① 1,200 companies (ESG-related: 20 companies)</td><td>① 1,200 companies (ESG-related: 20 companies)</td></tr>
<tr><td>② Enhancing communication with stakeholders</td><td colspan="3">②
• Implement measures to promote the brand based on the renewal of Hini Arata Kan
• Carry out events for science and engineering students
• Get employees to participate in social contribution activities</td></tr>
</table>

Themes	Materiality	Key Performance Indicators (KPIs)	Scope	Targets FY2021	FY2022	FY2023
Respect human dignity	Protect employee safety and health	① Frequency rate: Japan (global) ② Severity rate: Japan (global) ③ Number of occupational safety and health trainees ④ Number of serious accidents (*6)	Global	① 0.4 (0.9) ② 0.02 (0.03) ③ 1,500 trainees ④ 0 accidents	① 0.4 (0.8) ② 0.01 (0.02) ③ 1,600 trainees ④ 0 accidents	① 0.3 (0.6) ② 0.01 (0.02) ③ 1,700 trainees ④ 0 accidents
	Achieve diversity and inclusion	① Number of female managers ② Employment rate of people with disabilities ③ Paternity leave acquisition rate	Japan	① 19 people ② 2.3% ③ 5%	① 25 people ② 2.3% ③ 8%	① 31 people ② Over 2.3% ③ 20% (50%) (*7)
	Create a workplace environment that motivates employees	① Paid leave acquisition rate ② Maintaining high rate of stress check testing	Japan	① 73% ② 96%	① 76% ② 96%	① 80% ② Over 96%
		③ Holding events to encourage mental and physical health		③ Continue events centered on main facilities		
	Cultivate human resources	① Strengthening education for managerial employees and candidates ② Developing training using online resources and promoting autonomous learning	Japan	① Provide education according to the qualities of candidates up for promotion ② Establish an on-demand library for training and education		
	Respect human rights	① Promotion of workplace understanding of human rights ② Carrying out due diligence for human rights	Global	① Carry out human rights training for Group employees ② Formulate policies and carry out due diligence for human rights and ensure wide-spread human rights knowledge inside and outside the Company		
Contribute to the environment through our business	Keep business operations environmentally friendly	① Daifuku's total CO_2 emissions reduction rate (compared to FY2018) ② Participation rate in CO_2 emissions reduction programs (*8) throughout the supply chain ③ Recycling rate of waste (*9)	①③ Global ②Japan	① 2.5% reduction ② 32% ③ Survey global sites; establish goals	① 5.0% reduction ② 34% ③ 99%	The KPIs and targets for fiscal 2023 have been changed to align with the revised Daifuku Environmental Vision 2050. Please refer to the table below for details.
	Expand environmentally friendly products and services	① Avoided CO_2 emissions (*10) ② Sales ratio of environmentally friendly properties (*11) ③ Recyclability rate for new products	Global	① 30,000 t-CO_2 ② 43% ③ 90%	① 60,000 t-CO_2 ② 46% ③ 90%	

*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 dialogue meetings were held"
*6: Accidental deaths occurring during work at Daifuku (labor accidents)
*7: The number in parentheses () is based on the amendment to the Child Care and Family Care Leave Act
*8: Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO_2 emissions at suppliers
*9: Excluding North American locations
*10: CO_2 emissions produced from our products and services provided to our customers are subtracted from the CO_2 emissions produced from our products and services in fiscal2011, the base year for environmental performance.
*11: Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

2) Daifuku Environmental Vision 2050

In revising the Daifuku Environmental Vision 2050, we also reviewed our targets for 2030, setting the CO_2 emission reduction target to help achieve the 1.5°C global warming limit required by the Paris Agreement and setting new targets for water resources and biodiversity conservation. In order to respond to constantly changing social trends and the business environment, we periodically review our targets and adjust them, as necessary. As for the 2030 environmental targets related to addressing climate change, we have submitted our targets to the Science Based Targets (SBT) initiative, which requires companies to set science-based greenhouse gas emission reduction goals. We aim to receive approval from the SBTi by the end of the fiscal year ending March 31, 2024.

Table: Environmental targets for 2030

Crucial Issue Areas	Key Performance Indicators (KPIs)	FY2023 (targets) (note 1)	FY2030 (targets)
Addressing climate change	Daifuku CO_2 emissions (Scopes 1 + 2)	21.0% reduction compared to FY2018	50.4% reduction compared to FY2018
	CO_2 emissions from purchased goods and services (Scope 3 Category 1)	Begin operations of CO2 emission reduction programs throughout the supply chain (note 2)	30% reduction compared to FY2018 (note 3)
	CO_2 emissions from the use of sold products (Scope 3 Category 11)	12.5% reduction compared to FY2018	
Promoting resource recycling	Landfill disposal rate	Japan: Less than 1% Global: Less than 5%	Less than 1%
	Water use intensity (note 4)	12.5% reduction compared to FY2018	30% reduction compared to FY2018
Coexisting with nature	Rate of implementation of biodiversity conservation activities at major sites (note 5)	• Create a list of conservation activities. • Conduct Groupwide awareness activities.	100%
	Sustainability Action (note 6) total annual number of participants	12,000 people	30,000 people

Notes: 1. Sustainability Action Plan targets for the fiscal year ending March 31, 2024
2. Our framework for initiatives to reduce CO_2 emissions at suppliers (e.g., sharing of targets and support for reduction measures)
3. Scope 3 Category 1 and Category 11 combined target
4. Water consumption (1,000 m3) divided by net sales (100 million yen)
5. Sites with 100 or more employees
6. Daifuku's unique program for sustainability awareness and training among employees

For more information on other ESG-related data, please refer to the following page:
ESG Data
https://www.daifuku.com/sustainability/esg-data/

(2) Disclosure associated with climate change

The Group announced the results of its analysis of climate-related risks and opportunities based on TCFD recommendations in 2020. Subsequently, we changed our climate-related metrics and targets in accordance with the revision of the Daifuku Environmental Vision 2050 that occurred in May 2023. We will accelerate more specific efforts to address climate change and further respond to TCFD recommendations. For more information on TCFD-based disclosures (governance, strategy, risk management, metrics and targets) and climate-related data, please refer to the following page. CO_2 emissions for the fiscal year ended March 31, 2023 are scheduled to be disclosed in August 2023.

Climate Change
https://www.daifuku.com/sustainability/environment/climate-change/

Scenario analysis

We performed an analysis on the risks and opportunities related to climate change based on two scenarios: 1) a temperature increase of 4°C during the 21st century (a predicted result if the world continues to emit greenhouse gases at the current level), and 2) a temperature increase of less than 1.5°C (if regulations on greenhouse gas emissions are rapidly strengthened). The results were that although typhoons and floods in scenario 1 and carbon taxation in scenario 2 may reduce profits by 560 million yen (as of June 2020) and increase business costs, in both scenarios, the demand for products and services is expected to grow faster than costs due to increased investment in automation and a growing need for environmentally friendly products.

Table: Risks and opportunities related to climate change (as of June 2020)

Scenario 2050	Event			Impact	Daifuku's preparations
Physical scenario (increase of 4°C)	Risk	Acute	Increase in heavy rains (flooding)	Damages to incoming and outgoing goods and equipment, shutdown of factories, etc.	Ensure purchases from two companies; regular review of the business continuity plan
		Chronic	Rise of annual average temperature	Risk of employees experiencing heat stroke in factories and other facilities due to high temperatures in summer	Improvement in work environment, development of infrastructure
	Opportunity	Physical	Growing demand for cold chain, e-commerce, and labor conservation from customers due to rising temperatures	Growing demand for in-house products and services for cold chain, e-commerce, and labor conservation	Development of a production framework in Southeast Asia in response to rising demand
Transition scenario (increase of 1.5°C)		Transition	Growing demand for improved efficiency (energy conservation) from customers due to tightened regulations on CO_2 emissions	Ability to respond to changes in customer demand (increased demand for products and services that help customers reduce CO_2 emissions)	Enable customers to reduce their CO_2 emissions with Daifuku Eco-Products
	Risk	Policies, legal restrictions	Tightened regulations on CO_2 emissions	Increase in procurement and operating costs due to carbon taxation ==> If global CO_2 emissions are approx. 40,000 tons (as in FY2018) and the carbon price is 14,000 yen/t-CO_2 (in 2040), the total amount would be 560 million yen per year.	Promotion of reduction of our CO_2 emissions ・ Global energy management ・ Introduction of renewable energy equipment ・ Replacement of energy conservation equipment

i. Transition risk countermeasures

We will focus on the development and sales of environmentally friendly products (83 products as of May 2023) in response to further increases in customers' needs for reducing environmental impact in logistics and production. In addition, to promote decarbonization in our business operations, we are conducting surveys and developing plans for the introduction of renewable energy at our major global production sites.

ii. Physical risk countermeasures

In a risk assessment conducted throughout the entire Group, we identified natural disasters including typhoons and floods as severe risks that have significant impact. To improve the effectiveness of our business continuity plan, including throughout the supply chain, we have analyzed the degree of business impact and reviewed the organizational structure of each business unit. We have also made efforts to mitigate the risk of suspended supply by diversifying production sites, purchasing key components from two suppliers, and other measures. Moreover, at production, installation, and service sites, we are striving to continuously improve the work environment to protect against higher temperatures and ensure thorough safety and health management.

(3) Human capital strategies, metrics, and targets

i. Strategy

We are promoting the employment of diverse human resources based on our management philosophy and the development of an environment where each employee is able to work actively with a sense of job satisfaction and ease of work. Under the three-year business plan, with the themes of adopting diverse human resources management systems and creating a global corporate culture, we are working to develop and promote human resources and improve employee engagement.

Table: Priority measures for human resource development

Priority measures	Description
Prerequisite program for candidates for managerial positions	To promote the systematic development and autonomous learning of candidates for general manager positions, section manager positions, and assistant manager positions, e-learning on business skills and knowledge is required to receive a recommendation for management supervision positions.
New business leader program	To train executive candidates at an early stage, the program is based on a business school MBA program for assistant managers. From the fiscal year ended March 31, 2022, a special female recommendation quota has been established.
Trainee program	1. Language Trainee Program: Study abroad at an overseas university after training in Japan 2. Business Trainee System: Staff from global offices work at the head office in Japan and receive on-the-job training
Renewal of e-learning system	The e-learning management system was renewed in the fiscal year ended March 31, 2023 and has been expanded to global Group companies.

ii. Metrics and targets

Based on the human capital strategy, we are developing systematic and focused measures. The metrics and targets are linked to the Sustainability Action Plan. They are set from the perspectives of employee engagement, diversity and inclusion, and workplace environment improvement as follows.

Table: Metrics and targets

Metrics	Results from FY2021	Results from FY2022	Targets for FY2023	Remarks
Employee Engagement Survey	Job satisfaction: 56% Ease of work: 51% (percentage of positive responses)	—	—	FY2021: implemented for domestic Group companies FY2023: to be implemented for global Group companies FY2024: to be implemented for domestic and global Group companies
Number of female managers	20 people	26 people	31 people	—
Employment rate of people with disabilities	2.54%	2.48%	Over 2.3%	Legally mandated rate for the period from FY2021to FY2023: 2.3%
Maintaining high rate of stress check testing	97%	99%	Over 96%	—

iii. Target initiatives

1) Employee engagement

We define employee engagement as being satisfied with one's job, feeling an ease of work, and achieving a career in which employees and the Company can grow together, and we aim to improve each of these elements. During the fiscal year ended March 31, 2022, the domestic Group conducted an engagement survey and found areas of strength, such as being customer oriented and trusting management, while inter-organizational collaboration and support for individual employee career development were identified as challenges. We will work to improve employee engagement through a combination of Companywide cross-sectional measures and improvement efforts in individual workplaces. In addition, in order for the Group to continue to grow globally, it is important for us to share and develop the corporate culture and values that we have built up and cherished over the years. We plan to conduct an overseas group engagement survey in the fiscal year ending March 31, 2024, and we are working to foster corporate culture throughout the Group.

2) Number of female managers

In December 2021, we raised our target for the number of female managers set in the Plan of Action for General Employers pursuant to the Act on the Promotion of Women's Participation and Advancement in the Workplace, and we are further strengthening our efforts to promote women to management positions. Every year, we conduct a Diversity and Work-Life Management Advancement Program and a Female Employee Development Session as part of the training of newly appointed managers, and we have created an environment to foster female managers by setting special recommendation slots for women in the New Business Leader Program for the purpose of cultivating executive candidates. These initiatives are intended to increase the base of female management candidates by making employees aware of career paths to management positions and providing them with opportunities to improve their skills.

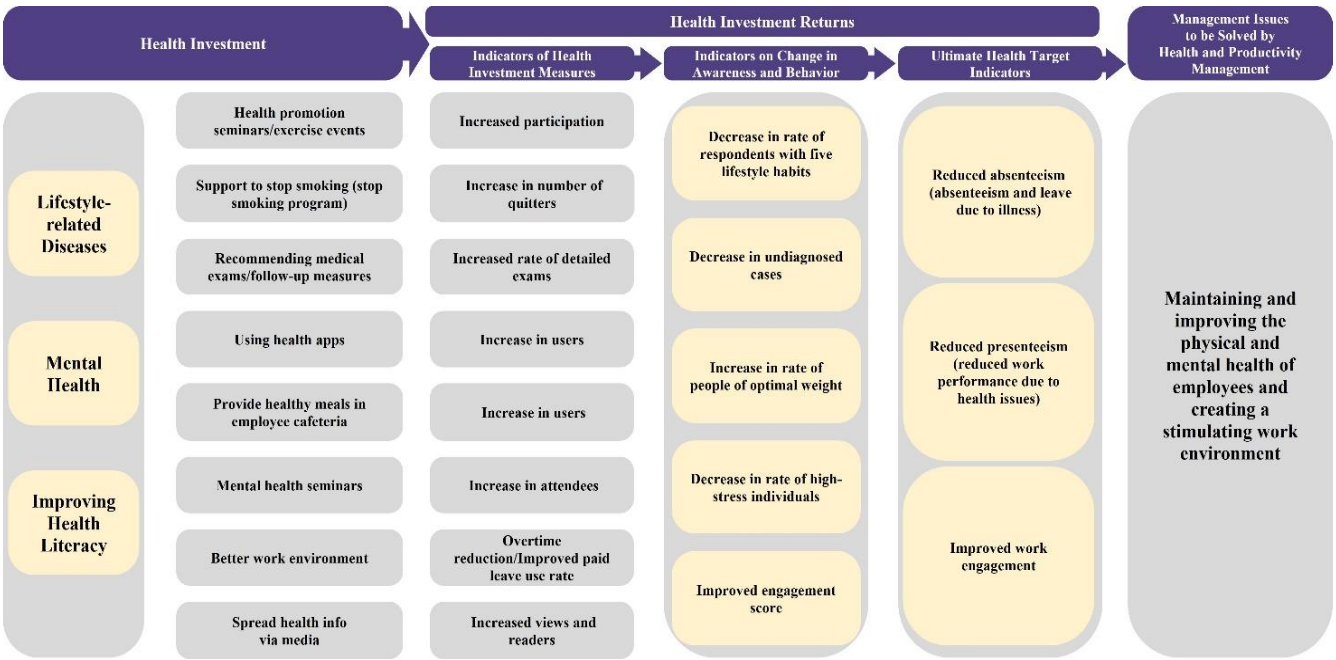
3) Activities of employees with disabilities

The Business Service Group, which is part of Shiga Works, regularly recruits people with disabilities in cooperation with the Public Employment Security Office, employment advisors, and school personnel, etc. We have established our own training programs to develop human resources so that each individual can demonstrate their capabilities and continue to work in a rewarding way. By assessing aptitude through practical training over a period of about five years after joining the Company, and by improving job skills in stages, we generate human resources who can play an active role in production and other fields in each of our business units.

4) Promotion of health and productivity management

The Group has identified health issues, and we are implementing a variety of measures after visualizing the means and specific initiatives to solve them. In terms of lifestyle improvement and disease prevention, we set KPIs and aim to achieve our targets.

Figure: Strategy map of health and productivity management



Please refer to the following page for our policy on the development of our internal environment, including ensuring diversity of human resources, and policy on the development of human resources.

Status of our efforts regarding each principle of the Corporate Governance Code (See inside the document below.)

https://www.daifuku.com/ir/assets/pdf/policy/governance/governance_policy_initiative_e_2.pdf

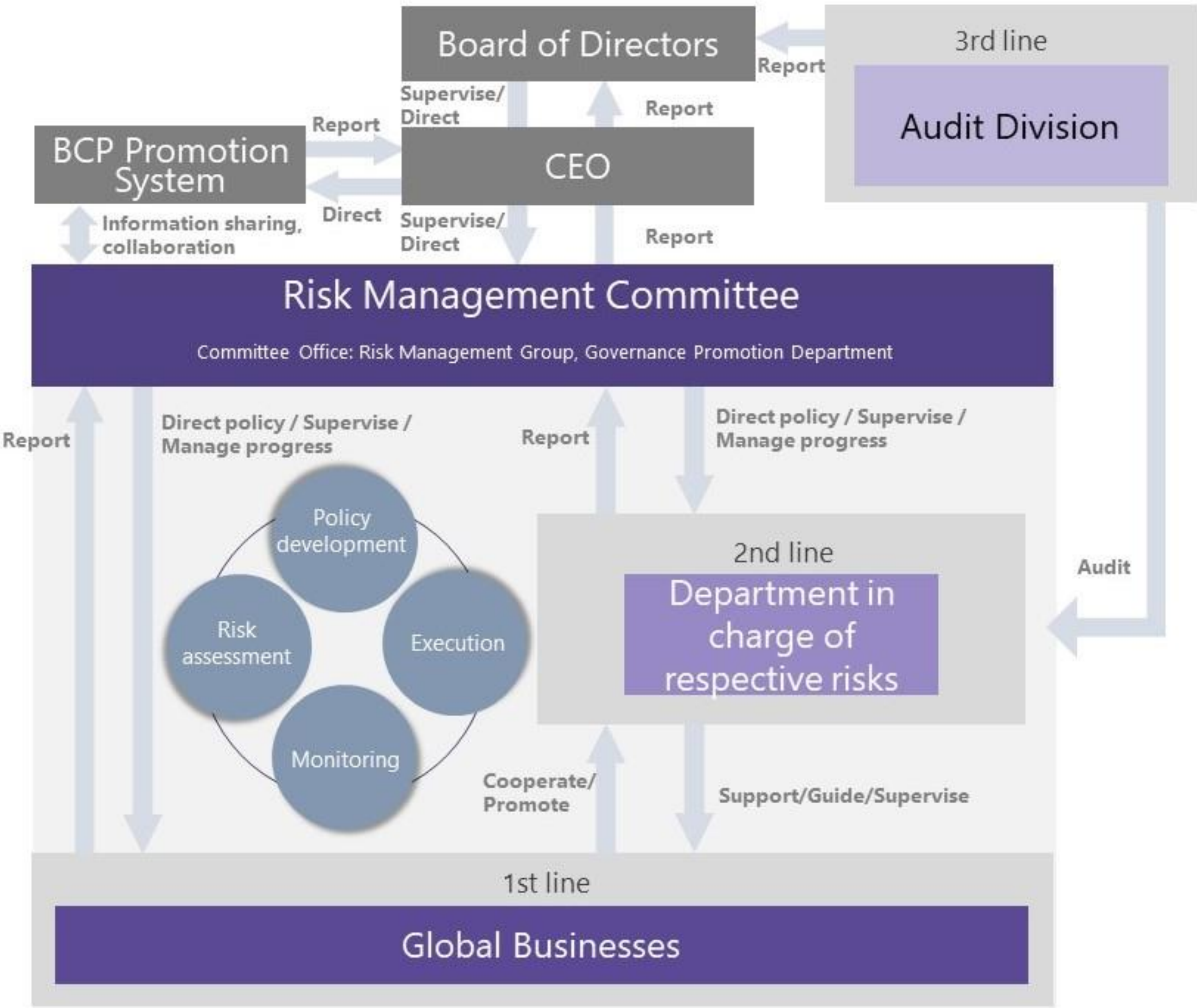
3. Business Risks

All forward-looking statements herein represent the Group's views as of the filing date of the Annual Securities Report.

(1) Risk management system

With the CEO as the chief executive officer, the Group has established a risk management system based on a three-line model as shown below (Figure 1). The Corporate Functions and other units in charge of risk management (2nd line) support, provide, and supervise the risk management conducted by the Global Businesses (1st line), which are responsible for implementing the risk response. In addition, the Audit Division (3rd line) inspects the risk management initiatives of the 1st and 2nd lines.

Figure 1: Risk management system



The Group has established the Risk Management Committee, chaired by the CEO, and comprised of global business heads, division managers, and responsible persons of the Safety and Health Management Division, the Corporate Functions, and other units. The Committee is intended to monitor, give instructions to respond to, and manage the progress of these initiatives from a companywide perspective and is responsible for the matters listed below. The Committee is scheduled to meet several times a year and met three times in the fiscal year ended March 31, 2023. The Committee reports to the Board of Directors on the status of the Committee's initiatives and other matters, as necessary.

i. Matters under the jurisdiction of the Risk Management Committee

1) Planning and formulation of the risk management system and the development of related regulations
2) Selection of severe risks based on the results of risk assessments (risks that should be prioritized and managed across the organization led by management)
3) Determination, direction, progress management, and monitoring of the severe risk response policy
4) Implementation of an annual review and feedback of results
5) Sharing various information to raise awareness of risks and determining and giving instructions on policies for conducting education and training on the importance, approach, and methods of other risk management

ii. Management systems for normal times and for emergencies

In the Group's risk management system in normal times, the Risk Management Committee conducts the activities described in i. above to minimize the possibility and damage of risks before they materialize.

If a risk materializes and a situation requires crisis response, we will promptly transition to a BCP promotion structure.

We will conduct an initial response consisting of detection, communication, and response, followed by damage management and recovery response while assessing whether or not operations can be continued. Under this system, the BCP Group of the Operation Administration Department serves as the secretariat and not only responds to risks after they materialize, but also makes efforts to prepare in advance during normal times.

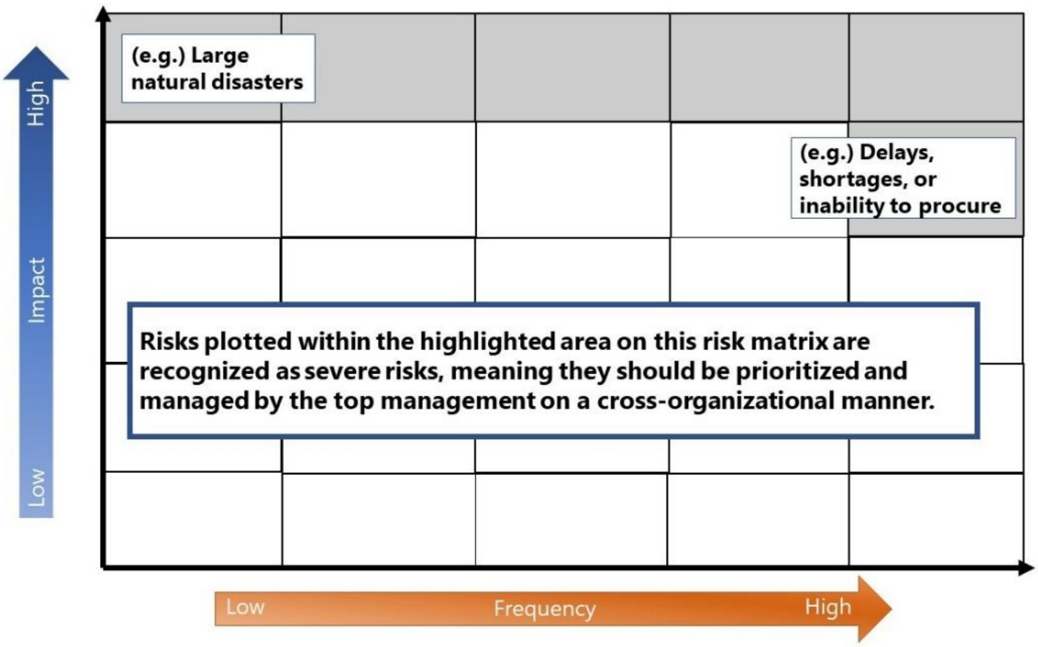
(2) Identifying risks and addressing key risks

i. Risk assessment

In accordance with the Risk Management Rules, the Group regularly conducts risk assessments for management, business units, and Japanese and overseas subsidiaries. The next risk assessment is scheduled to be conducted in the fiscal year ending March 31, 2024.

Crucial risk factors that significantly affect the business activities of the Group are extracted and assessed based on two assessment axes of frequency and impact. Based on the assessment results, we add specialized knowledge from external organizations based on interviews with the Group and create a matrix of risks (Figure 2). The Committee determines which risks should be prioritized (severe risks).

Figure 2: Risk matrix



ii. Key risks and countermeasures

According to the results of a risk assessment and other data, the following items are the current risks that we recognize as having the potential to significantly affect the Group's management performance. However, this is not an exhaustive list of all the risks facing the Group, and there are unforeseeable risks in addition to those described here. All forward-looking statements herein represent the Group's views as of the filing date of the Annual Securities Report.

1) Risks associated with changes in business environment

Risk item	- Rising raw material and logistics costs, delay in delivery of raw materials
Description	The main products manufactured and provided by the Group are logistics systems consisting of a wide variety of parts and materials. Stagnation or failure in the procurement of parts and materials may lead to delays in the production of our products, construction work, and provision of services. Recently, global shortages of semiconductors and other parts, rising energy and raw material prices, and disruptions in logistics networks have been increasing. The Group will consider rising prices, procurement difficulties, and other factors thoroughly in the management of costs and delivery dates, and will make every effort to minimize these impacts on future projects by confirming the terms of contracts and other details when receiving orders. However, these and other factors may affect business results beyond our expectations.
Countermeasures	In the fiscal year ended March 31, 2023, we formed a cross-divisional working group headed by the director in charge of production to share information and facilitate the exchange of parts to address procurement-related risks made more difficult by the Shanghai lockdown. In April 2023, we established a new unit responsible for the overall management of the supply chain to strengthen its measures.

Risk item	- Economic crisis and business fluctuation - Loss of important customers - Changes in the market environment
Description	The Group's main products are logistics systems and other facilities, and economic fluctuations and, by extension, customers' capital investment trends have a significant impact on sales. In particular, the electronics industry, centered on the semiconductor and LCD industries, accounts for the largest portion of the Group's net sales along with those for the commercial and retail industries. However, the trends of capital investment in this industry change quickly over short periods due to their extremely high speed of innovation, and furthermore, geopolitical risks have recently been increasing. These and other factors may affect business results beyond our expectations.
Countermeasures	We pay close attention to the needs and trends of our customers' industries and strive to flexibly reflect them in our business plans.

2) Risks related to governance of affiliates

Risk item	- Scandals involving Group companies - Inadequate management of subsidiaries
Description	The Group has grown rapidly, and subsidiaries and employees have increased accordingly. In the fiscal year ended March 31, 2023, the Group had 68 consolidated subsidiaries and 13,020 employees. Among these, the number of employees of the consolidated non-Japan subsidiaries was 9,059 (69.6%). Under this expanded framework, our Japanese and overseas subsidiaries may not be well managed. At the same time, fraud and scandals or organizational management failure may lead to a decline in social credibility, affecting business results beyond our expectations.
Countermeasures	The Group sets forth guidelines for actions to be taken as officers and employees of the Group in the Group Code of Conduct. We also prepared a compliance guidebook in multiple languages that explains the Group Code of Conduct in an easy-to-understand manner for officers and employees to spread compliance awareness throughout the Group through training and e-learning programs.

3) Risks associated with human resources

Risk item	- Education for successors (officers and executives) and human resource development - Securing human resources and employee turnover - Shortage of employees (working staff)
Description	We believe that the education of successors and the development of personnel for the next generation are important for the sustainable development of the Group. Conversely, amid the global labor shortage, there is a concern that the shortage of engineers and skilled personnel will become more serious in the material handling system sector due to the growth of e-commerce. The Group recognizes a decline in competitiveness due to a shortage of personnel with expertise or skills as a risk. The manifestation of these risks could result in a loss of continuity in business operations, technological and technical expertise, and superiority, and may affect business results beyond our expectations.
Countermeasures	The Group will establish a systematic training system intended to train successors (officers and executives) through clarifying key positions, identifying Groupwide competencies (required behavior and attitude), and other measures. From the fiscal year ending March 31, 2024, we are revising our personnel system to shift to the personnel system based on roles (responsibilities) and results to build a system that enables employees to grow autonomously and take on the challenge of working with vigor and enthusiasm. In addition, through measures such as conducting an engagement survey (a survey on job satisfaction and ease of work), we are working to improve the job satisfaction and ease of work of our employees and to create an environment that enables employees and the Company to achieve mutual growth in their careers.

4) Reputation risks

Risk item	- Media criticism and harmful rumors - Failure to respond to media - Failure in advertising and promotion
Description	The expansion of our corporate scale has gradually increased the Group’s social recognition, and we are gaining exposure in mass media and on social media. This has increased the reputation risks (damage caused by rumors) in the event of the spread of misinformation or infelicities in news reports and advertising. In particular, the lack of understanding of human rights and environmental issues is viewed extremely harshly by society, and more prompt and responsible responses are required. Therefore, the manifestation of these risks could lead to a decline in the Group’s brand image and social credibility, which may affect business results beyond our expectations.
Countermeasures	We are working to strengthen our measures by conducting media training for officers in anticipation of press conferences and preparing various manuals in the event of a situation requiring a media response. We are also developing guidelines that indicate points to note when using social media.

5) Natural disaster risks

Risk item	- Large-scale natural disasters
Description	The occurrence of large-scale natural disasters such as earthquakes, typhoons, and tsunamis is a risk that could suspend corporate activities due to the disruption of lifelines or difficulty of commute. If a disaster is far larger (a Nankai Trough Earthquake, an extremely large typhoon, etc.), it may affect business results beyond our expectations.
Countermeasures	The Group has conducted a natural disaster hazard survey for each site. During the fiscal year ended March 31, 2023, we responded to the results of the disaster hazard survey at Shiga Works and those of the earthquake risk survey at the Osaka Headquarters and Komaki Works. We also conducted drills and training such as safety confirmation and formulated response plans in chronological order (timeline) at the occurrence, as well as increasing emergency stockpile as measures against large-scale disasters. In addition, we conduct business consequence analyses, reviews of the system table of each business unit, and other measures as necessary to improve the effectiveness of the existing business continuity plan (BCP). We make efforts to minimize the damages of large-scale natural disasters and to reduce their consequences through these initiatives.

6) Risks of cyberattacks and information leaks

Risk item	- Cyberattacks - Information leaks due to internal fraud
Description	Information is one of the four major management resources along with human resources, goods, and capital. Recently, awareness of threats of information risks are significantly increasing on a global scale. An increasing number of information leaks caused by cyberattacks and internal fraud may affect business results beyond our expectations.
Countermeasures	The Group established the Information Security Committee in 2004 to enhance information security measures in a groupwide manner. We administer the Computer Security Incident Response Team (CSIRT), an organization that is centered on the Information Security Committee and deals with computer security incidents such as information leaks by cyberattacks. This will enable the Group to identify the possible scope of cyberattacks and damage, take first-response measures to prevent the spread of damage, investigate preventive measures of recurrence, and conduct employee education and drills on a regular basis. However, the techniques and skills to obtain and use information illegally are becoming more cunning, and it may be impossible to prevent all of them.

4. Management's Discussion and Analysis of Financial Position, Operating Results, and Cash Flows

(1) Operating results and financial review

During the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023), the business environment surrounding the Daifuku Group continued to see a high level of investment in the logistics and semiconductor-related sectors. In addition, demand has also emerged due to the accelerating shift to electric vehicles and the recovery in passenger traffic at airports. Nonetheless, the overall economic environment remained uncertain due to inflation, supply chain disruptions, and concerns about a slowdown in the U.S. and European economies.

In this economic and business environment, the Daifuku Group saw year-on-year increases in orders in all businesses. In particular, orders for cleanroom systems and airport systems remained strong. Sales were generally robust, driven by cleanroom systems and airport systems underpinned by an extensive order backlog from the end of the previous fiscal year, although some projects were affected by factors such as the longer time required to procure materials and components.

Specifically, the Group received orders of 737,475 million yen, up 25.2% from the same period the previous fiscal year, and recorded sales of 601,922 million yen, up 17.5%.

Income was affected by factors such as rising raw material and labor costs. However, due to the increased sales, the Group posted operating income of 58,854 million yen, up 17.1% from the same period the previous fiscal year, and ordinary income of 59,759 million yen, up 16.6%. Net income attributable to shareholders of the parent company was 41,248 million yen, up 15.0%.

Orders received, net sales, operating income, ordinary income, and net income attributable to shareholders of the parent company all reached new record highs.

The average exchange rates used for transactions during the fiscal year ended March 31, 2023 were 132.09 yen to the U.S. dollar (110.39 yen in the previous fiscal year), 19.50 yen to the Chinese yuan (17.13 yen), and 0.1020 yen to the Korean won (0.0963 yen). As a result of exchange rate fluctuations, orders increased in value by about 71.3 billion yen, sales by about 41.5 billion yen, and operating income by about 2.2 billion yen, respectively, compared with the previous fiscal year.

For the fiscal year ending March 31, 2024, we forecast orders received of 630.0 billion yen, net sales of 605.0 billion yen, operating income of 54.5 billion yen, ordinary income of 55.5 billion yen, net income attributable to shareholders of the parent company of 40.5 billion yen, and operating margin on sales of 9.0%, reflecting a decrease in orders received due to temporary restraint of semiconductor-related investments and the effects of inflation and rising labor costs.

In this economic and business environment, the Group will work to increase sales by steadily linking the trend towards automation, which is accelerating due to labor shortages, to orders, and will continue to increase profitability and productivity by promoting digital transformation (DX). In addition, the Group will aim to contribute to realizing a sustainable society and increase its corporate value.

The exchange rates of 133.45 yen to the U.S. dollar (132.09 yen of the actual rate in the fiscal year ended March 2023), 19.43 yen to the Chinese yuan (19.50 yen), and 0.1041 yen to the Korean won (0.1020 yen) are assumed in preparing the plan for the fiscal year ending March 31, 2024. No significant impact from the exchange rates is factored into forecasts.

The above forecast is calculated mainly in consideration of prospects on the progress of the ordered projects, degrees of likelihood and timing of prospective projects, or progress of the projects during the year, and represents the judgement of the Company based on information presently available. However, actual results may differ materially from forecasts due to various uncertainties, including customers' trends and competitive conditions worldwide as well as various risk factors described in 3. Business Risks.

Results in the fiscal year ended March 31, 2023

Orders received	737,475 million yen	(Previous fiscal year:	589,069 million yen	Up 25.2% YoY)
Net sales	601,922 million yen	(Previous fiscal year:	512,268 million yen	Up 17.5% YoY)
Operating income	58,854 million yen	(Previous fiscal year:	50,252 million yen	Up 17.1% YoY)
Ordinary income	59,759 million yen	(Previous fiscal year:	51,253 million yen	Up 16.6% YoY)
Net income attributable to shareholders of the parent company	41,248 million yen	(Previous fiscal year:	35,877 million yen	Up 15.0% YoY)
Comprehensive income	53,556 million yen	(Previous fiscal year:	46,368 million yen	Up 15.5% YoY)

Described below are results by reportable segment. Orders from and sales to external customers are presented as segment orders and sales, and net income attributable to shareholders of the parent company is recorded as segment income.

Of the Group, Japanese companies such as Daifuku Co., Ltd. and Contec Co., Ltd. close their books on March 31. Most non-Japan subsidiaries close their books on December 31; accordingly, their status during the period from January to December 2022 is shown.

Figure: Results by reportable segment

Daifuku: Orders and sales saw positive growth in all businesses.

Daifuku North America: Orders grew in all areas. Sales remained favorable, underpinned by an order backlog from the previous fiscal year.

Clean Factomation: Orders and net sales increased year on year due to the vigorous investment of semiconductor manufacturers.

(Billion yen)

	Orders (Orders from external customers)			Net sales (Sales to external customers)			Segment income (Net income attributable to shareholders of the parent company)		
	FY2021	FY2022	Y/Y change	FY2021	FY2022	Y/Y change	FY2021	FY2022	Y/Y change
Daifuku	262.4	**293.1**	30.6	225.0	**238.8**	13.7	28.6	**34.0**	5.4
Contec	19.6	**19.2**	(0.3)	15.7	**18.6**	2.8	1.2	**0.9**	(0.2)
Daifuku North America*1	135.1	**211.0**	75.8	140.4	**158.7**	18.2	7.5	**6.1**	(1.3)
Clean Factomation*2	36.7	**48.1**	11.3	28.6	**42.6**	14.0	2.0	**2.9**	0.8
Other	134.9	**165.8**	30.8	104.8	**140.9**	36.0	3.7	**5.6**	1.9
Consolidated adjustments and other	–	**–**	–	(2.5)	**2.0**	4.6	(7.3)	**(8.5)**	(1.2)
Total (adjusted)	589.0	**737.4**	148.4	512.2	**601.9**	89.6	35.8	**41.2**	5.3

*1 Daifuku North America Holding Company

*2 Clean Factomation, Inc.

i. Daifuku Co., Ltd.

Orders and sales saw positive growth in all businesses.

Segment income rose along with increased sales, despite the impact of rising raw material and other costs.

As a result, the Company recorded orders of 293,125 million yen, up 11.7% from the previous fiscal year, sales of 238,855 million yen, up 6.1%, and segment income of 34,053 million yen, up 18.8%.

ii. Contec Co., Ltd. and its subsidiaries

In the Japanese market, sales of industrial computers and IoT devices, including measuring and control boards, increased, reflecting a recovery in industry-wide capital investment. However, segment income fell, reflecting rising prices in materials and components.

As a result, Contec posted orders of 19,292 million yen, down 1.6% from the previous fiscal year, sales of 18,604 million yen, up 17.8%, and segment income of 988 million yen, down 19.6%.

iii. Daifuku North America Holding Company and its subsidiaries

Orders increased in all businesses. In particular, automobile systems and airport systems remained strong. Sales were favorable, underpinned by an order backlog from the previous fiscal year.

Segment income declined, reflecting rising labor costs.

As a result, Daifuku North America achieved orders of 211,047 million yen, up 56.1% from the previous fiscal year, sales of 158,769 million yen, up 13.0%, and segment income of 6,184 million yen, down 17.6%.

iv. Clean Factomation, Inc.

Orders, sales, and segment income increased from the year-ago results, as South Korea's semiconductor manufacturers have made robust investments.

As a result, Clean Factomation posted orders of 48,177 million yen, up 31.0% from the previous fiscal year, sales of 42,694 million yen, up 48.9%, and segment income of 2,961 million yen, up 41.2%.

v. Other

The Group has a total of 68 consolidated subsidiaries worldwide. The Other segment includes all consolidated subsidiaries excluding the aforementioned Contec and its subsidiaries, Daifuku North America and its subsidiaries, and Clean Factomation. These companies manufacture, sell, install, and service material handling systems, car wash machines, and other equipment. The status of major subsidiaries is as follows.

Japan subsidiaries

Daifuku Plusmore Co., Ltd. provides car wash machines and related services. Sales volume was strong due to the government subsidy policies for customers and reached a record high for the fiscal year under review.

Non-Japan subsidiaries

The Group has production sites for material handling systems in China, Taiwan, South Korea, Thailand, India, and other regions, which also provide sales, installations and services, playing a role in the optimal local production and procurement framework.

In addition, the Group has subsidiaries in the regions of North and Central America, Asia, Europe, and Oceania, which provide sales, installations and services.

Orders and sales remained strong, driven by cleanroom systems in Asia. Segment income increased significantly from the previous fiscal year.

As a result, the segment reported orders of 165,832 million yen, up 22.8% from the previous fiscal year, sales of 140,914 million yen, up 34.4%, and segment income of 5,635 million yen, up 51.0%.

See Figure: Orders and sales by industry and Figure: Orders and sales by destination for details by business or destination.

Figure: Orders and sales by industry

Automobile, auto parts, and airport: Orders and sales in North America grew significantly.

Electronics: Capital investment by semiconductor manufacturers continued in Asia.

(Billion yen)

Industry	Orders					Sales				
	FY2021		FY2022		Y/Y change	FY2021		FY2022		Y/Y change
	Orders	Composition	Orders	Composition		Sales	Composition	Sales	Composition	
Automobile, auto parts	57.5	9.8%	**89.7**	**12.2%**	32.2	59.0	11.5%	**65.4**	**10.9%**	6.4
Electronics	233.4	39.6%	**271.4**	**36.8%**	37.9	151.3	29.4%	**215.7**	**36.0%**	64.3
Commerce, retail	156.9	26.6%	**187.9**	**25.5%**	31.0	155.1	30.1%	**160.9**	**26.8%**	5.7
Transportation, warehousing	30.6	5.2%	**28.8**	**3.9%**	(1.8)	32.8	6.4%	**30.4**	**5.1%**	(2.4)
Machinery	8.0	1.4%	**11.5**	**1.6%**	3.5	11.5	2.2%	**10.3**	**1.7%**	(1.2)
Chemicals, pharmaceuticals	22.2	3.8%	**33.0**	**4.5%**	10.8	17.6	3.4%	**24.6**	**4.1%**	7.0
Food	16.1	2.7%	**17.2**	**2.3%**	1.0	20.0	3.9%	**15.7**	**2.6%**	(4.3)
Iron, steel, nonferrous metals	5.2	0.9%	**5.4**	**0.7%**	0.2	3.5	0.7%	**4.8**	**0.8%**	1.2
Precision equipment, printing, office equipment	5.4	0.9%	**6.1**	**0.8%**	0.6	6.2	1.2%	**6.4**	**1.1%**	0.1
Airport	33.2	5.7%	**62.3**	**8.4%**	29.0	43.7	8.5%	**46.1**	**7.7%**	2.4
Other	20.0	3.4%	**23.7**	**3.3%**	3.6	13.6	2.7%	**19.0**	**3.2%**	5.4
Consolidated adjustments and other	–	–	**–**	**–**	–	(2.5)	–	**2.0**	**–**	4.6
Total	589.0	100.0%	**737.4**	**100.0%**	148.4	512.2	100.0%	**601.9**	**100.0%**	89.6

Figure: Orders and sales by destination

Japan: Orders and sales were driven by cleanroom systems.

North America: Orders grew in all business areas. In particular, automobile systems and airport systems were strong. Sales remained favorable, underpinned by an order backlog from the previous fiscal year.

Asia: Orders and sales were driven by cleanroom systems.

(Billion yen)

Region	Orders					Sales				
	FY2021		FY2022		Y/Y change	FY2021		FY2022		Y/Y change
	Orders	Composition	Orders	Composition		Sales	Composition	Sales	Composition	
Japan	220.5	37.4%	**231.4**	**31.4%**	10.9	182.7	35.5%	**197.2**	**32.9%**	14.4
Non- Japan	368.5	62.6%	**506.0**	**68.6%**	137.4	332.0	64.5%	**402.5**	**67.1%**	70.4
North America	131.1	22.3%	**200.5**	**27.2%**	69.3	136.7	26.6%	**152.1**	**25.4%**	15.4
Asia	204.6	34.8%	**255.3**	**34.6%**	50.6	164.3	31.8%	**210.2**	**35.1%**	45.9
China	63.1	10.7%	**94.2**	**12.8%**	31.0	57.2	11.1%	**60.8**	**10.2%**	3.6
South Korea	57.8	9.8%	**60.7**	**8.2%**	2.9	46.5	9.0%	**60.0**	**10.0%**	13.5
Taiwan	56.5	9.6%	**68.4**	**9.3%**	11.8	49.0	9.5%	**58.7**	**9.8%**	9.6
Other	27.1	4.6%	**31.8**	**4.3%**	4.7	11.4	2.2%	**30.5**	**5.1%**	19.0
Europe	17.6	3.0%	**15.6**	**2.1%**	(1.9)	15.8	3.1%	**17.2**	**2.9%**	1.4
Latin America	3.0	0.5%	**12.6**	**1.7%**	9.6	5.2	1.0%	**6.2**	**1.0%**	1.0
Other	12.0	2.0%	**21.7**	**3.0%**	9.7	9.9	2.0%	**16.6**	**2.7%**	6.6
Consolidated adjustments and other	–	–	**–**	**–**	–	(2.5)	–	**2.0**	**–**	4.6
Total	589.0	100.0%	**737.4**	**100.0%**	148.4	512.2	100.0%	**601.9**	**100.0%**	89.6

(2) Financial position

Assets at the end of the fiscal year ended March 31, 2023 stood at 551,552 million yen, an increase of 68,229 million yen from the end of the previous fiscal year. The result principally reflected an increase of 41,161 million yen in notes receivable, accounts receivable from completed construction contracts and other, and contract assets, in addition to an increase of 15,393 million yen in raw materials and supplies.

Liabilities at the end of the fiscal year ended March 31, 2023 amounted to 219,228 million yen, an increase of 27,965 million yen from the end of the previous fiscal year. This was mainly attributable to an increase of 23,219 million yen in contract liabilities.

Net assets at the end of the fiscal year ended March 31, 2023 were 332,323 million yen, an increase of 40,264 million yen from the end of the previous fiscal year. This was mainly attributable to increases of 29,266 million yen in retained earnings and 11,677 million yen in foreign currency translation adjustments.

(3) Cash flows

Cash and cash equivalents at the end of the fiscal year ended March 31, 2023 decreased 16,282 million yen from the end of the previous fiscal year, to 102,389 million yen.

Cash flows from operating activities

Cash provided by operating activities totaled 20,034 million yen (56,691 million yen in cash provided in the year-ago period). This was mainly attributable to 55,052 million yen in income before income taxes, an increase of 31,693 million yen in notes and accounts receivables and contract assets.

Cash flows from investing activities

Cash used in investing activities was 11,874 million yen (9,828 million yen in cash used in the year-ago period). Major factors included an outlay of 13,716 million yen for payments for the purchase of property, plant and equipment.

Cash flows from financing activities

Cash used in financing activities was 30,187 million yen (27,550 million yen in cash used in the year-ago period). Major factors included cash dividends of 11,982 million yen and repayment of long-term borrowings of 15,900 million yen.

Indicators for consolidated cash flows are as below:

	Year ended March 2022	Year ended March 2023
Equity ratio (%)	60.2	60.2
Equity ratio based on market capitalization (%)	229.2	167.5
Ratio of interest-bearing liabilities to cash flows (Year)	0.5	0.6
Interest coverage ratio (Times)	140.1	64.7

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

Notes:
1. The above indicators are calculated based on the figures in the consolidated financial statements.
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)
3. Operating cash flows are used for cash flows.
4. Interest-bearing liabilities are short-term borrowings and long-term borrowings recorded in the consolidated balance sheets that pay interest.
5. Additionally, interest paid is the amount of interest paid in the consolidated statements of cash flows.
6. The Company conducted a three-for-one split of its common stock effective April 1, 2023. The equity ratio based on market capitalization is calculated, assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2022.

(4) Capital resources and liquidity of funds

i. Basic views of financial strategy

The Group has a basic policy for financial strategy to maintain its strong financial position and high capital efficiency at the same time, and to increase its corporate value by appropriately raising and allocating funds.

To maintain the strong financial position, the Group will keep an equity-to-asset ratio of at least 50% and an issuer credit rating of “A” or higher (rated by Rating and Investment Information, Inc. (R&I)), and strengthen its risk resistance.

At the same time, on condition that the Group has a sufficient ability to repay debts due to operating cash flows, the Group will reduce the capital cost and improve the capital efficiency by borrowing from financial institutions or issuing corporate bonds under strict financial discipline.

ii. Views on distribution of management resource

The Group has set the amount of about 1.5- to 2.0-month net sales as the appropriate level of cash and deposit at hand required for stable business operation, and considers the excessive amount as an additional distributable management resource. The Group will distribute this resource to help increase its corporate value. The Group regards the return of profits to shareholders to be one of its most important matters. Regarding the provision of dividends from surplus funds and with a view to returning more profits to shareholders, the Company intends to incorporate a performance-linked dividend policy based on consolidated net income and will allocate the remaining surplus as retained earnings to investment funds for boosting future growth.

The Group will proactively promote investment, such as capital investment and investment for research and development (R&D), for growth to help increase its corporate value. The investment is expected to amount to a total of 83.9 billion yen in the current three-year business plan (the total for three years from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2024).

iii. Description of demand for funds

Major demands for funds are variable costs, such as costs for purchase, processing, and assembly of raw materials and parts for production, and fixed costs such as an indirect manufacturing cost, a sales cost, and a general administrative cost.

Major costs included in the fixed cost are personnel expenses, outsourcing costs for work at the Group sites, outsourcing costs for design, R&D expenditures, and lease expenses.

iv. Capital procurement

The Group effectively uses internal and external funds to secure a stable amount necessary for the maintenance and expansion of its business. The Group companies in Japan use a distribution system to increase the efficiency of their fund operation. In the system, surplus funds are collected by the Company, and then distributed to Group companies that are in short of funds. The Group also obtained credit ratings to maintain and enhance a stable ability of external capital procurement. The Group is rated “A” in issuer credit rating by R&I as of the filing date of the Annual Securities Report. On the other hand, the Group has kept a good business relationship with its major partner financial institutions, and also has strong financial position. This proves that the Group can procure operating funds and investment funds necessary for maintenance, expansion, and operation of its business without any problem. The Group sets commitment lines of 30.0 billion yen with financial institutions in Japan to secure a capital procurement measure for emergencies.

(5) Significant accounting estimates and assumptions used for such estimation

The Group’s consolidated financial statements are prepared in accordance with generally accepted accounting principles in Japan. While the Group uses estimates and assumptions that could affect the reported amounts of assets, liabilities, income and expenses in preparing the consolidated financial statements, the figures based on these estimates and assumptions may differ from the actual results.

Of the accounting estimates and assumptions used to prepare the consolidated financial statements, those of significance are described in “Item 5. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes on consolidated financial statements, Significant accounting estimates” and “Item 5. Financial Information, 2. Non-consolidated Financial Statements, etc., (1) Notes on non-consolidated financial statements, Significant accounting estimates.”

(6) Results of production, orders received, and sales

i. Production

The results of production by segment for the fiscal year ended March 31, 2023 are as follows:

Segment	Amount (million yen)	YoY change (%)
Daifuku Co., Ltd.	295,425	12.0
Contec Co., Ltd. and its subsidiaries	37,805	42.0
Daifuku North America Holding Company and its subsidiaries	137,129	11.7
Clean Factomation, Inc.	35,518	74.9
Other	107,810	41.1
Total	613,689	20.4

Notes: 1. The amounts are based on selling prices.
2. "Other" represents Japanese and overseas subsidiaries that are not included in reportable segments.

ii. Orders received

The results of orders received by segment for the fiscal year ended March 31, 2023 are as follows:

Segment	Orders (million yen)	YoY change (%)	Order backlog (million yen)	YoY change (%)
Daifuku Co., Ltd.	293,125	11.7	245,691	28.4
Contec Co., Ltd. and its subsidiaries	19,292	(1.6)	8,147	9.2
Daifuku North America Holding Company and its subsidiaries	211,047	56.1	164,315	46.7
Clean Factomation, Inc.	48,177	31.0	27,130	25.3
Other	165,832	22.8	142,150	19.1
Total	737,475	25.2	587,435	30.0

Notes: 1. Intersegment transactions are offset.
2. "Other" represents Japanese and overseas subsidiaries and adjustments for consolidation that are not included in reportable segments.

iii. Sales

The results of sales by segment for the fiscal year ended March 31, 2023 are as follows:

Segment	Amount (million yen)	YoY change (%)
Daifuku Co., Ltd.	238,855	6.1
Contec Co., Ltd. and its subsidiaries	18,604	17.8
Daifuku North America Holding Company and its subsidiaries	158,769	13.0
Clean Factomation, Inc.	42,694	48.9
Other	142,998	39.8
Total	601,922	17.5

Notes: 1. Intersegment transactions are offset.
2. "Other" represents Japanese and overseas subsidiaries and adjustments for consolidation that are not included in reportable segments.

(7) Analysis and discussion on the status of operating results, etc. from the management's view

Views, analysis and discussion on the status of operating results, etc. of the Group from the management's point of view are as below.

All forward-looking statements herein represent the Group's views as of the filing date of the Annual Securities Report.

i. Views, analysis and discussion on the status of operating results, etc. of the fiscal year ended March 31, 2023

In the fiscal year ended March 31, 2023, orders increased significantly by 25.2%, and sales also increased by 17.5%, underpinned by an extensive order backlog from the end of the previous fiscal year. Operating income, ordinary income, and net income attributable to shareholders of the parent increased to 17.1%, 16.6%, and 15.0% respectively, reaching new record highs.

The major impact on the results was the continued vigorous investment in intralogistics systems for manufacturers and distributors in Japan and North America as well as growth in systems for semiconductor and flat-panel display sectors in Asia. In particular, the semiconductor industry became active due to the progress in digitalization and aggressive investment continued. We will focus on improving profitability by cost reduction, while managing risks carefully.

Orders and sales for airport systems were also strong due to the emergence of demand associated with a recovery in use of airports in the post-covid world.

Sales for automotive systems of systems were also strong, especially in North America, due to the accelerated shift to EVs.

Please refer to the sections, "(1) Operating results and financial review" for details on the analysis of the operating results of the Group, and "1. Management Policy, Management Environment, and Issues to Address" for details on issue analysis, future measures, etc.

ii. Objective indicators and other factors to evaluate the achievement of management policy/management strategy and management targets

In its three-year business plan "Value Transformation 2023" which started from the fiscal year ended March 31, 2022, the Group set consolidated net sales of 600.0 billion yen as one of its management targets for the final year of the plan, the fiscal year ending March 31, 2024. The Group achieved consolidated net sales of 601.9 billion yen for the fiscal year ended March 31, 2023, one year ahead of our target, thanks to strong performance in our four core businesses (logistics systems for manufacturers and distributors, cleanroom systems for semiconductor and flat-panel display sectors, automotive systems, and airport systems). We are targeting consolidated net sales of 605.0 billion yen for the fiscal year ending March 31, 2024, as our four core businesses are expected to continue to perform at high levels.

On the other hand, the operating margin for the fiscal year ended March 31, 2023 was 9.8%, compared with the target of 10.5% for the final fiscal year. The forecast for the fiscal year ending March 31, 2024 is 9.0%, which will unfortunately fall short of our target, partly due to cost increases of raw material and labor costs.

The ROE for the fiscal year ended March 31, 2023 was 13.2% while the target in "Value Transformation 2023" is 10% or more. We expect to secure ROE of 10% or more for the fiscal year ending March 31, 2024.

(8) Future management policies

The top management of the Group is planning the best management policy possible based on the current business environment and the available information.

In the profit structure of the Group, Daifuku earns the majority of the net income attributable to shareholders of the parent company ((1) Operating results and financial review, Figure: Results by reportable segment). The issues of the Group are to increase the earning power of the segments other than Daifuku, especially the companies outside of Japan, as well as to further increase the profitability of Daifuku.

Furthermore, as described in "Item 1. Overview of the Company, 3. Description of Business," production and sales of material handling systems, the main business of the Group, are conducted through close coordination by the companies in the Group. Thus, groupwide initiatives are crucial. For details, please refer to the following section: 1. Management Policy, Management Environment, and Issues to Address, (1) Management policy

5. Material Contracts, etc.

Not applicable

6. Research and Development (R&D) Activities

The Group develops new systems and products of machinery and equipment with storage, transport, and sorting/picking functions, as well as electronic devices that support those machinery and equipment. Now companies are required to take greater social responsibility to cover environmental and social activities as well as economic activities. We are developing systems and products that are environmentally friendly and safety-oriented.

The total amount of R&D expenditures that the Group paid is 10,496 million yen in the fiscal year ended March 31, 2023.

The expenditures by reportable segment are described below.

(Million yen)

Segment	Year ended March 2022	Year ended March 2023
Daifuku Co., Ltd.	8,504	8,260
Contec Co., Ltd. and its subsidiaries	1,014	970
Daifuku North America Holding Company and its subsidiaries	529	671
Clean Factomation, Inc.	283	253
Other	404	340
Total	10,735	10,496

R&D activities by reportable segment are described below.

(1) Daifuku Co., Ltd.

i. Intralogistics systems for manufacturers and distributors

Daifuku has started sales of Sorting Transfer Robot-L, an automated pallet transport vehicle, for cargo handling in automated warehouses and inter-process transport. This product eliminates the need for fixed equipment such as rails and conveyors, thus saving resources and shortening installation time, as well as providing flexibility to accommodate layout changes such as increasing the number of vehicles.

The Company also started sales of Robot Vehicles to pick high-mix, low-volume products more efficiently. Automated guided vehicles (AGVs) with stacking and transfer functions circle between shelves, collecting multiple buckets, and transporting them to a Quick Pick Station.

ii. Cleanroom systems for semiconductor and flat-panel display production lines

For the semiconductor sector, the Company ongoingly develops transport and storage systems for the most advanced circuit line width of two to three nanometers. The Company is continuing to improve hardware to maximize the capacity of the entire factory by enabling more efficient transport and storage without stopping 24 hours a day, 365 days a year, and lowering power consumption as much as possible. In the software field, the Company is developing systems that generate both reliability and efficiency by introducing artificial intelligence into the control system.

Automation is also advancing in the packaging sector, a so-called back-end process. The Company is developing new transport and storage systems to provide a larger lineup of products, preparing for a large number of items to be transported.

iii. Automotive systems for automobile production lines

To respond flexibly to the dramatic transformation in the automobile industry represented by Connected, Autonomous/Automated, Shared, and Electric (CASE), the Company is developing a conveyor system that addresses the change of automobile production process more easily than the conventional one.

The Company also enhanced its product capabilities by improving conveyors for the completed vehicle inspection lines to increase the allowable weight. In addition, it continues to research and develop elemental technologies to realize more advanced automated facilities.

iv. Airport systems

A newly installed baggage handling system for domestic flights at Kansai Airport, Japan, began operation in September 2022.

A total of 261 AGV units developed for use in checked-in baggage inspection lines have been delivered, adopted at eight airports in North America. In addition, the Company has obtained certification for Smart Security Lanes from the U.S. Transportation Security Administration.

v. Car wash machines

The Company is the first car wash machine manufacturer to develop “Smart Support for Car Wash Machines,” which enables remote monitoring and support by connecting the car wash machine and a call center through a network. This system is incorporated as standard in the latest drive-through car wash machines Treus and Cordia.

The Company is also developing new models for full-service service stations to further conserve power and water.

The total amount of R&D expenditures that the Company paid for i. to v. described above and other is 8,260 million yen.

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

For the industrial computer sector, Contec has developed Box Computer BX-M2510 and started selling it in March 2023. New technology to radiate heat generated in a computer when performing advanced processing has expanded the temperature range. In addition to image inspection equipment for factory automation and information terminals that support the stable operation of social infrastructure, Contec aims to expand sales to a wide range of sectors such as medical equipment and security.

For the IoT device sector, Contec has developed FXE5000, an embedded wireless LAN based on the concept of “pursuing a wireless LAN that never runs out” and started receiving orders in February 2023. Communication over two wireless connections (duplex link) ensures a stable connection even if one connection is lost. This product is suitable for integration into equipment requiring high reliability, such as AGVs and medical equipment in semiconductor manufacturing, food factories, and distribution centers.

The amount of R&D expenditures that Contec paid is 970 million yen.

(3) Daifuku North America Holding Company and its subsidiaries

Daifuku North America focuses on developing picking and sorting systems in the intralogistics systems business.

For the automotive systems business, it continues to expand its lineup of quieter products and improve its Power Roller Bed system, for which there is strong demand at paint shops.

The total amount of R&D expenditures that Daifuku North America paid is 671 million yen.

(4) Clean Factomation, Inc.

Clean Factomation develops more efficient nitrogen pure storage systems and transport and storage equipment for the back-end packaging sector to meet the needs of their customers who are semiconductor manufacturers in South Korea.

It also provides renewal development of systems that have been delivered in the past.

The total amount of R&D expenditures that Clean Factomation paid is 253 million yen.

III. Information about Facilities

1. Overview of Capital Expenditures

The Group's capital investment during the fiscal year ended March 31, 2023 totaled 16,811 million yen, which included maintenance and upgrades of production facilities of Daifuku Co., Ltd. and the enhancement of production facilities at non-Japan subsidiaries including North America.

The above-mentioned capital investment was implemented on a self-financing basis.

2. Major Facilities

Major facilities of the Group are as follows.

(1) Reporting company

As of March 31, 2023

Office (location)	Segment	Description of facilities	Carrying amount (million yen)						Number of employees
			Buildings and structures	Machinery and vehicles	Land (area: 1,000 m^2)	Leased assets	Other	Total	
Headquarters and Osaka Branch (Nishiyodogawa-ku, Osaka)	Daifuku Co., Ltd.	Headquarters and other facilities	3,129	0	1,277 [10]	9	154	4,571	513
Tokyo Head Office and Tokyo Branch (Minato-ku, Tokyo)	Daifuku Co., Ltd.	Headquarters and other facilities	232	1	– [–]	23	22	278	408
Shiga Works (Hino-cho, Gamo-gun, Shiga)	Daifuku Co., Ltd.	Facilities for production, R&D and other	7,439	4,461	3,991 [1,160]	580	1,436	17,909	1,487
Komaki Works (Komaki, Aichi)	Daifuku Co., Ltd.	Other facilities	248	2	77 [53]	19	49	397	329
Tokai Branch (Toyota, Aichi)	Daifuku Co., Ltd.	Other facilities	167	7	53 [2]	–	6	236	62
Chugoku Branch (Kaita-cho, Aki-gun, Hiroshima)	Daifuku Co., Ltd.	Other facilities	41	0	3 [1]	–	0	46	15
Fujisawa Branch (Fujisawa, Kanagawa)	Daifuku Co., Ltd.	Other facilities	47	3	242 [5]	3	1	297	25
Mie Works (Kameyama, Mie)	Daifuku Co., Ltd.	Other facilities	24	0	122 [2]	–	3	149	13

Notes: 1. "Other" column under the carrying amount represents the aggregate of tools and fixtures and construction in progress, etc.

2. In addition to the above, the Group rents/leases following major facilities.

As of March 31, 2023

Office (location)	Segment	Description of facilities	Land (area: 1,000 m^2)	Annual rent/ lease payment (million yen)
Tokyo Head Office and Tokyo Branch (Minato-ku, Tokyo)	Daifuku Co., Ltd.	Headquarters Other facilities (rent)	–	519
Shiga Works (Hino-cho, Gamo-gun, Shiga)	Daifuku Co., Ltd.	Facilities for production and other (lease)	–	200
Komaki Works (Komaki, Aichi)	Daifuku Co., Ltd.	Other facilities (rent)	–	140

(2) Subsidiaries in Japan

As of March 31, 2023

Company name	Office (location)	Segment	Description of facilities	Carrying amount (million yen)						Number of employees
				Buildings and structures	Machinery and vehicles	Land (area: 1,000 m^2)	Leased assets	Other	Total	
Contec Co., Ltd.	Headquarters (Nishiyodogawa-ku, Osaka), five sales offices and one factory	Contec Co., Ltd. and its subsidiaries	Facilities for production and other	507	99	1,389 [13]	2	66	2,066	335

Note: "Other" column under the carrying amount represents the aggregate of tools and fixtures and construction in progress, etc.

(3) Subsidiaries outside Japan

As of March 31, 2023

Company name	Office (location)	Segment	Description of facilities	Carrying amount (million yen)						Number of employees
				Buildings and structures	Machinery and vehicles	Land (area: 1,000 m^2)	Leased assets	Other	Total	
Daifuku North America Holding Company	U.S. Factories (Michigan, etc., U.S.A.)	Daifuku North America Holding Company and its subsidiaries	Production facilities, etc.	8,316	3,462	1,530 [560]	–	4,638	17,947	4,755
Clean Factomation, Inc.	South Korea Factory (Asan-si, South Korea)	Clean Factomation, Inc.	Production facilities, etc.	295	48	348 [33]	–	2,237	2,929	919
Daifuku (Thailand) Limited	Thailand Factory (Chonburi, Thailand)	Other	Production facilities, etc.	768	150	365 [61]	–	435	1,719	405
Hallim Machinery Co., Ltd.	South Korea Factory (Hwaseong, Gyeonggi, South Korea)	Other	Production facilities, etc.	502	37	499 [10]	–	43	1,083	112
Daifuku Korea Co., Ltd.	South Korea Factory (Incheon Metropolitan City, South Korea)	Other	Production facilities, etc.	789	6	233 [7]	–	26	1,055	110
Daifuku (China) Automation Co., Ltd.	China Factory (Changshu, Jiangsu, China)	Other	Production facilities, etc.	1,353	309	– [–]	–	169	1,832	417
Taiwan Daifuku Co., Ltd.	Taiwan Factory (Tainan, Taiwan)	Other	Production facilities, etc.	308	303	– [–]	–	415	1,026	340
Daifuku (China) Manufacturing Co., Ltd.	China Factory (Shanghai, China)	Other	Production facilities, etc.	–	172	– [–]	–	872	1,044	341
Daifuku (Suzhou) Cleanroom Automation Co., Ltd.	China Factory (Suzhou, Jiangsu, China)	Other	Production facilities, etc.	92	1,219	– [–]	–	2,022	3,335	240

Notes: 1. "Other" column under the carrying amount represents the aggregate of tools and fixtures, right-of-use assets and construction in progress, etc.

2. Figures for Daifuku North America Holding Company are consolidated figures of the company and its subsidiaries.

3. Planned Additions, Retirements, and Other Changes of Facilities

There are no significant planned additions, retirements, and other changes of facilities as of March 31, 2023.

IV. Information about Reporting Company

1. Company's Shares, etc.

(1) Total number of shares

i. Authorized shares

Type	Total number of shares authorized to be issued (shares)
Common stock	250,000,000
Total	250,000,000

Note: In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company amended the Articles of Incorporation as of April 1, 2023 in connection with a stock split. As a result, the total number of shares authorized to be issued has increased by 500,000,000 to 750,000,000.

ii. Issued shares

Type	Number of issued shares as of fiscal year end (March 31, 2023) (shares)	Number of issued shares as of filing date (June 26, 2023) (shares)	Name of financial instruments exchange on which securities are listed or authorized financial instruments business association to which securities are registered	Description
Common stock	126,610,077	379,830,231	Tokyo Stock Exchange Prime Market	The number of shares constituting one unit is 100 shares.
Total	126,610,077	379,830,231	–	–

Note: In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The total number of shares issued has, as a result, increased by 253,220,154 shares to 379,830,231 shares.

(2) Share warrants

i. Stock option plans

Not applicable

ii. Rights plans

Not applicable

iii. Share warrants for other uses

Not applicable

(3) Exercises of moving strike convertible bonds, etc.

Not applicable

(4) Changes in number of issued shares, share capital, etc.

Date	Changes in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Changes in share capital (million yen)	Balance of share capital (million yen)	Changes in legal capital surplus (million yen)	Balance of legal capital surplus (million yen)
December 27, 2017 Note 1	520,000	126,610,077	2,920	31,865	–	8,998

Notes: 1. Third-party allotment (capital increase through third-party allotment in relation to the offering by way of over-allotment)
Issue price: 5,858 yen
Amount capitalized: 5,616.4 yen
Allotted to: Mizuho Securities Co., Ltd.

2. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The total number of shares issued has, as a result, increased by 253,220,154 shares to 379,830,231 shares. The above-mentioned changes in total number of issued shares and balance of total number of issued shares are based on the total number of shares issued before the stock split. There is no change in capital and legal capital surplus.

(5) Shareholding by shareholder category

As of March 31, 2023

Category	Shareholding status (number of shares constituting one unit: 100 shares)								Shares less than one unit (shares)
	National and local governments	Financial institutions	Financial service providers	Other corporations	Foreign investors, etc.		Individuals and other	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	1	96	35	438	718	62	23,489	24,839	–
Number of shares held (units)	20	476,148	24,890	75,936	529,208	223	158,307	1,264,732	136,877
Percentage of shareholdings (%)	0.00	37.65	1.97	6.00	41.84	0.02	12.52	100.00	–

Notes: 1. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The above-mentioned shareholding by shareholder category is based on the number of shares before the stock split.

2. Of the 487,535 shares of treasury stock, 4,875 units are included in "Individuals and other," and 35 shares are included in "Shares less than one unit."

(6) Major shareholders

As of March 31, 2023

Name	Address	Number of shares held (thousand shares)	Percentage of shares held to the total number of issued shares (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	18,152	14.39
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	8,706	6.90
Mizuho Bank, Ltd.	1-5-5 Otemachi, Chiyoda-ku, Tokyo	4,117	3.26
Sumitomo Mitsui Banking Corporation	1-1-2 Marunouchi, Chiyoda-ku, Tokyo	3,060	2.43
Daifuku Supplier Shareholder Association	3-2-11 Mitejima, Nishiyodogawa-ku, Osaka	3,014	2.39
MUFG Bank, Ltd.	2-7-1 Marunouchi, Chiyoda-ku, Tokyo	2,875	2.28
Nippon Life Insurance Company	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	2,745	2.18
Chuo-Nittochi Co., Ltd.	1-4-1 Kasumigaseki, Chiyoda-ku, Tokyo	2,690	2.13
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS (Standing proxy: Custody Business Department, Tokyo Branch, the Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1 Nihombashi, Chuo-ku, Tokyo)	2,678	2.12
PICTET AND CIE (EUROPE) SA, LUXEMBOURG REF: UCITS (Standing proxy: MUFG Bank, Ltd.)	15A AVENUE J.F. KENNEDY, 1855 LUXEMBOURG, LUXEMBOURG (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	2,241	1.78
Total	–	50,284	39.87

Notes: 1. Of the above shares held, number of shares related to trust activities are as follows:

The Master Trust Bank of Japan, Ltd. (Trust Account)	18,152 thousand shares
Custody Bank of Japan, Ltd. (Trust Account)	8,706 thousand shares

2. In addition to the above, the Company has 487 thousand shares of treasury stock (0.39% of issued shares). Also, 103 thousand shares of the Company's shares are held by the Custody Bank of Japan, Ltd. (Trust Account E) as Board Benefit Trust (BBT). The 103 thousand shares are recognized as treasury stock in the consolidated and non-consolidated financial statements as of March 31, 2023, but are not included in the above mentioned 487 thousand shares of treasury stock.

3. Mitsubishi UFJ Financial Group, Inc. and two other companies have filed the Change Report of the Statement of Large-Volume Holdings (No. 12) on June 6, 2022. These companies are not included in the above list of major shareholders because we were unable to confirm the actual number of shares held as of March 31, 2023. The detail of the Change Report is as follows:

Name	Address	Number of shares held (thousand shares)	Percentage of shares held to the total number of issued shares (%)
Mitsubishi UFJ Financial Group, Inc. and two other	2-7-1 Marunouchi, Chiyoda-ku, Tokyo	8,559	6.76

4. Sumitomo Mitsui Trust Bank, Limited and two other companies have filed the Change Report of the Statement of Large-Volume Holdings (No. 5) on September 22, 2022. These companies are not included in the above list of major shareholders because we were unable to confirm the actual number of shares held as of March 31, 2023. The detail of the Change Report is as follows:

Name	Address	Number of shares held (thousand shares)	Percentage of shares held to the total number of issued shares (%)
Sumitomo Mitsui Trust Bank, Limited and two other	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	8,026	6.34

5. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The above-mentioned major shareholders are based on the total number of shares before the stock split.

(7) Voting rights

i. Issued shares

As of March 31, 2023

Category	Number of shares	Number of voting rights	Description
Shares with no voting rights	–	–	–
Shares with restricted voting rights (treasury stock, etc.)	–	–	–
Shares with restricted voting rights (other)	–	–	–
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 487,500	–	–
Shares with full voting rights (other)	Common stock 125,985,700	1,259,857	–
Shares less than one unit	Common stock 136,877	–	Shares less than one unit (100 shares)
Total number of shares issued	126,610,077	–	–
Voting rights held by all shareholders	–	1,259,857	–

Notes: 1. Thirty-five (35) shares of treasury stock are included in shares less than one unit.
2. "Shares with full voting rights (other)" includes 103,700 shares (1,037 voting rights) of the Company's stock held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets of Board Benefit Trust (BBT) as of March 31, 2023.
3. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The above-mentioned issued shares are based on the number of shares before the stock split.

ii. Treasury stock, etc.

As of March 31, 2023

Name of shareholder	Address of shareholder	Number of shares held under own name	Number of shares held under the name of other	Total number of shares held	Percentage of shares held to the total number of issued shares (%)
(Treasury stock) Daifuku Co., Ltd.	3-2-11 Mitejima, Nishiyodogawa-ku, Osaka, Japan	487,500	–	487,500	0.39
Total	–	487,500	–	487,500	0.39

Notes: 1. In addition to the above, 103,700 shares are recognized as treasury stock in the consolidated and non-consolidated financial statements. This reflects the accounting treatment that recognizes the Company and the Custody Bank of Japan, Ltd. (Trust Account E) (hereinafter "Trust Account") as a single entity under BBT plan, requiring for an entry that treats the Company's stock transferred to the Trust Account as treasury stock.
2. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The above-mentioned treasury stock, etc. is based on the number of shares before the stock split.

(8) Share ownership plan for Directors and other Officers and employees

Share ownership plan for officers

i. Outline of share ownership plan for officers

On August 26, 2016, the Company introduced Board Benefit Trust (BBT) plan (the "Plan") as equity compensation scheme, based on the resolution passed at the 100th Ordinary General Meeting of Shareholders held on June 24, 2016 and the Board of Directors meeting that followed.

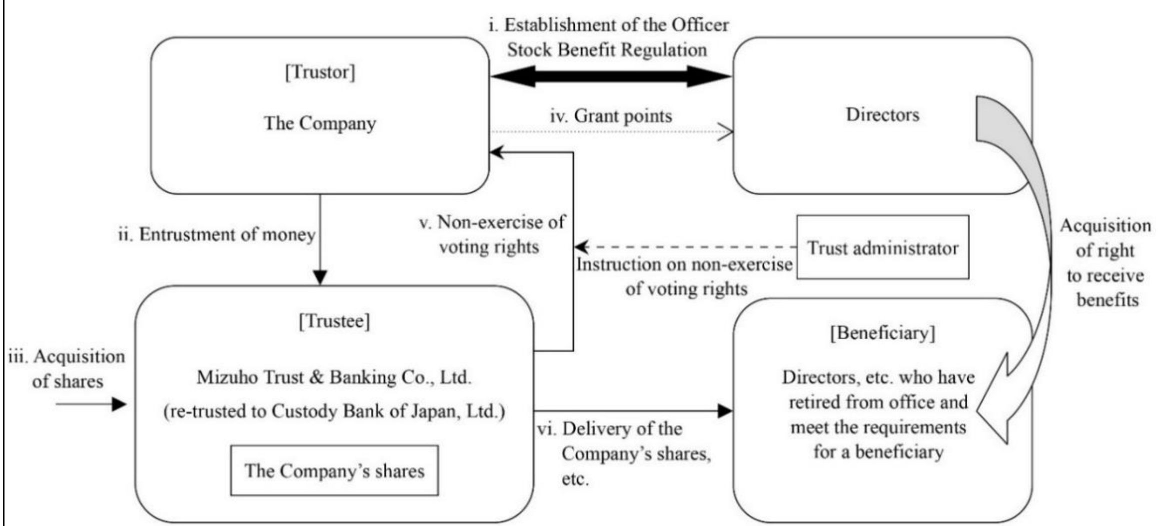
The Plan covers directors and corporate officers of the Company (excluding outside directors) ("Directors, etc.") and intends to further clarify the linkage of the remuneration with the Company's business performance as well as its stock value, which enables Directors, etc. to share not only the benefit of increase in stock value but also the risk of decrease in stock value with shareholders. By doing so, it is expected to motivate Directors, etc. to contribute to improving the Company's business performance in the medium and long terms and boosting corporate value.

The Plan is a performance-linked equity compensation scheme, under which the Company's stock is acquired through a trust (hereinafter a trust set up under the Plan is referred to as the "Trust") using the funds contributed by the Company, and distributed to Directors, etc. through the Trust in accordance with the Company's Officer Stock Benefit Regulations. The Company's shares, etc. are provided to Directors, etc., in principle, upon their retirement.

A resolution to make an additional contribution for the continuation of the Plan was passed at the Board of Director's meeting held on November 8, 2019. Treasury stock was disposed through third-party allotment on November 25, 2019.

The scheme of the Plan is as follows.

Overview of Board Benefit Trust (BBT)



i. Resolution regarding officers' remuneration under the Plan was passed at the 100th Ordinary General Meeting of Shareholders, and the Company established the Officer Stock Benefit Regulation within the framework approved at the meeting.
ii. The Company entrusts money within the amount approved at the meeting mentioned in "i".
iii. Using the money entrusted under "ii", the Trust acquires the Company's shares either from stock market or by underwriting the disposition of the Company's treasury stock.
iv. The Company grants points to Directors, etc. based on the Company's Officer Stock Benefit Regulation.
v. In accordance with the instructions from the independent trust administrator, the Trust will not exercise the voting rights attached to the Company's shares in the Trust's account.
vi. The Trust distributes the Company's shares to retired Directors, etc. who meet the beneficiary requirements set forth in the Officer Stock Benefit Regulation (the "Beneficiaries"), based on the points granted to them. Provided, however, if the Directors, etc. meet the requirements stipulated separately in the Officer Stock Benefit Regulation, they shall receive a certain portion of the points granted in cash in lieu of the Company's shares, in the amount converted using the market price of the Company's shares as of their retirement date.

ii. The total number of shares to be acquired by the Trust

The total number of shares to be acquired by the Trust is 180,000 shares.

90,000 shares on August 26, 2016

90,000 shares on November 25, 2019 (additional contribution)

Shares to be acquired going forward are undecided.

iii. Persons eligible to receive beneficiary rights and other rights under the Plan

Retired Directors, etc. who satisfy the beneficiary requirements stipulated in the Officer Stock Benefit Regulation.

2. Acquisition and Disposal of Treasury Stock

Class of shares, etc.: Acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution of General Meeting of Shareholders

Not applicable

(2) Acquisition by resolution of Board of Directors meeting

Not applicable

(3) Acquisition not based on resolution of General Meeting of Shareholders or Board of Directors meeting

Category	Number of shares	Total value (yen)
Treasury stock acquired during the fiscal year ended March 31, 2023	1,250	9,335,010
Treasury stock acquired during the current period (from April 1, 2023 to the filing date of this Annual Securities Report)	772	1,919,736

Notes: 1. Shares acquired by purchase of shares less that one unit during the period from June 1, 2023 to the filing date of this Annual Securities Report are not included in treasury stock acquired during the current period.

2. Shares acquired through the Custody Bank of Japan, Ltd. (Trust Account E) are not included in treasury stock acquired.

3. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. As a result, the number of treasury shares acquired during the fiscal year ended March 31, 2023 is stated as the figure before the stock split, and the number of treasury shares acquired during the current period is stated as the number of shares after the stock split.

(4) Disposal of acquired treasury stock and number of treasury stock held

Category	Fiscal year ended March 31, 2023		Current period (from April 1, 2023 to the filing date of this Annual Securities Report)	
	Number of shares	Total amount disposed (yen)	Number of shares	Total amount disposed (yen)
Acquired treasury stock offered to subscribers for subscription	–	–	–	–
Acquired treasury stock canceled	–	–	–	–
Acquired treasury stock transferred for merger, share exchange, share delivery or company split	–	–	–	–
Other (sale due to the request for purchase of shares less than one unit of shares)	85	78,676	–	–
Treasury stock held	487,535	–	1,463,377	–

Notes: 1. Shares acquired due to purchase or sales of shares less than one unit of shares during the period from June 1, 2023 to the filing date of this Annual Securities Report are not included in the other (sale due to the request for purchase of shares less than one unit of shares) and treasury stock held during the current period.

2. The amount of treasury stock disposed shown above does not include 2,800 shares (2,800 shares for the fiscal year ended March 31, 2023, 0 for the current period) distributed from the Custody Bank of Japan, Ltd. (Trust Account E) to the Beneficiaries based on the Officer Stock Benefit Regulation established by the Company. The treasury stock held does not include shares held by the Custody Bank of Japan, Ltd. (Trust Account E) (103,700 shares for the fiscal year ended March 31, 2023, 311,100 shares as of the end of the current period).

3. In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. As a result, the number of treasury shares in the fiscal year ended March 31, 2023 is stated as the figure before the stock split, and the number of treasury shares in the current period is stated as the number of shares after the stock split.

3. Dividend Policy

The Company regards the return of profits to shareholders as its most important management matter. Regarding the provision of dividends from surplus funds and with a view to returning more profits to shareholders, the Company intends to incorporate a performance-linked dividend policy based on net income attributable to shareholders of the parent company and will allocate the remaining surplus as retained earnings to investment funds for boosting future growth.

As part of our Value Transformation 2023 three-year business plan that began in April 2021, we aim to increase corporate value through growth investments and achieve a consolidated payout ratio of 30% or higher.

Our basic policy on dividends from surplus is to make two payments annually, interim dividend and year-end dividend. Decision making body for dividends is the Board of Directors for both interim and year-end.

Based on this policy, for the year ended March 31, 2023, the Board of Directors has decided at the meeting held on May 12, 2023 to make the annual dividend payment of 110 yen per share (interim dividend of 40 yen and year-end dividend of 70 yen), an increase of 5 yen from our initial plan. The Company conducted a three-for-one split of its common stock effective April 1, 2023. For the fiscal year ended March 31, 2023, it will be implemented based on the number of shares before the stock split.

Furthermore, to enable us to flexibly pay dividends from any surplus funds, our Articles of Incorporation stipulate that the Board of Directors may determine the dividend to be paid from surplus funds without requiring a resolution from the General Meeting of Shareholders regarding matters stipulated in Article 459, Paragraph 1 of the Companies Act (The determination of articles that permit the Board of Directors to decide dividend payments from surplus funds), except when otherwise provided for in separate laws or regulations, and that the record date for dividends from surplus funds will be September 30 and March 31.

Dividends of surplus whose record date falls within the year ended March 31, 2023 are as follows:

Resolution date	Aggregate dividends (million yen)	Dividend per share (yen)
Resolved by the Board of Directors on November 8, 2022	5,044	40
Resolved by the Board of Directors on May 12, 2023	8,828	70

Note: In accordance with the resolution of the Board of Directors meeting held on February 9, 2023, the Company conducted a three-for-one split of its common stock effective April 1, 2023. The above figures show the actual dividend amount before such a stock split.

4. Corporate Governance

(1) Overview of corporate governance

i. Basic stance on corporate governance

The Group (collectively referring to the Company and its subsidiaries; hereinafter the same applies) actively strives to enhance its corporate governance with the aim of ensuring the sustained growth of the Group and increasing corporate value over the medium to long term. The Group's corporate governance system is established based on the following basic stance:

(i) Company Creed, Management Philosophy, Group Code of Conduct

The Group will achieve sustainable growth of its corporate value and fulfill its corporate social responsibility based on its company creed and management philosophy. The Group's management philosophy, "Automation that Inspires" incorporates our determination that we aim to create a sustainable society that delivers prosperity and enhance well-being, protects environment and human rights through our core competence—automated material handling technology.

Company Creed

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

Management Philosophy

Automation that Inspires
Inspire society, deliver prosperity and enhance well-being through our core competence—automated material handling technology.
We will

1. strive to realize a sustainable society that minimizes burdens on people and the environment, respects human rights, and encourages responsible manufacturing.
2. work together with customers around the world to create optimal smart logistics solutions that incorporate innovative technologies.
3. ensure a fair and open corporate culture that respects diversity and allows each individual to excel. Further, we will strengthen our fundamental management practices globally to have a high level of transparency.

In addition, we have established the Group Code of Conduct that defines the fundamental principles we (all directors, officers and employees of the Daifuku Group) should follow with the aim of realizing the Group's company creed and management philosophy. In 2021, we published the Compliance Guidebook that explains the Group Code of Conduct in an easy-to-understand manner. Since then, we have been conducting Groupwide awareness activities to foster a sense of unity.

Group Code of Conduct

In performing our duties as members of the Daifuku Group, we act faithfully in accordance with the Group Code of Conduct 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.

For more information, please refer to the following page:
Group Code of Conduct
https://www.daifuku.com/company/philosophy/#sec03

(ii) Daifuku Group's basic policy for corporate governance

The Group has clarified "Daifuku Group's Basic Policy for Corporate Governance" (hereinafter the "Policy") and summarized the status of the initiatives the Group is taking on all the 83 items of the Japan's Corporate Governance Code revised in 2021. The Policy is created as a reorganization of the conventional Daifuku Corporate Governance Guidelines and begins with our basic approach to corporate governance, organizes the specific response status in code order, and introduces reference points for securities reports and the Daifuku Report as integrated reporting.

For more information, please refer to the following page:
Daifuku Group's Basic Policy for Corporate Governance and Disclosure Based on the Principles of Japan's Corporate Governance Code
https://www.daifuku.com/ir/policy/governance/

ii. Enhancement of the corporate governance system

In recent years, we have implemented measures for enhancement of corporate governance system focusing on the following:

Since the Board of Directors is both a place for important decision-making and monitoring decision-making, the Company places importance on the diversity of the Board of Directors so that important matters can be examined from various perspectives. As a result of such effort, ten (10) members now compose the Board of Directors, including five (5) inside directors and five (5) outside directors (including one (1) female director and one (1) foreign director) elected at the Ordinary General Meeting of Shareholders held on June 23, 2023. Outside directors account for 50%, and female directors and foreign directors account for 10% of the Board of Directors.

Structure of the Board of Directors

	June 2019	June 2020	June 2021	June 2022	June 2023
Number of directors (number and percentage of outside directors)	11 (4, 36%)	8 (4, 50%)	9 (4, 44%)	9 (4, 44%)	10 (5, 50%)
Number of female directors (percentage)	1 (9%)	1 (13%)	1 (11%)	1 (11%)	1 (10%)
Number of foreign directors (percentage)	– (–%)	– (–%)	– (–%)	– (–%)	1 (10%)

In addition, main points of the Corporate Governance Code required by the Tokyo Stock Exchange and the Company's response status ("▶" indicates the Company's response) are as follows.

(i) Enhancing board independence

a. Ensure that at least one-third of directors are independent outside directors

▶ 50% (5 out of 10)

b. Establish a nomination committee and remuneration committee (independent outside directors appointed as the majority of the committee)

▶ We have established a voluntary Advisory Committee (nomination/remuneration). In the fiscal year ended March 31, 2023, the Committee comprised four (4) outside directors and one (1) representative director, and was chaired by one of these outside directors.

c. Disclose a skill matrix of board members conforming to the company's business strategy

▶ We have disclosed a skill matrix. For more information, please refer to the following section: iii. Overview of the corporate governance system and reasons for adoption of the system, (iii) Matters pertaining to corporate governance, a. Directors and the Board of Directors

d. Appoint independent directors having managerial experiences at other companies

▶ Appointed three (3) persons.

(ii) Ensuring diversity in the core human resources of the company

Results of ensuring diversity in managerial positions by promoting women, foreign nationals, and career recruitment

Ensuring diversity		Results	Time
Women	Number of female managers	31	As of April 1, 2023
Foreign nationals	Foreign nationality ratio of regular hires	13.5%	
	Number of foreign managers	4	
Mid-career professionals	Career recruitment ratio	42.7%	
	Career recruitment ratio for assistant managers	41.1%	
	Career recruitment ratio for managers	31.5%	

We will continue to recruit various talents.

(iii) Dealing with sustainability issues

a. Enhance the quality and quantity of climate-related disclosure based on the TCFD recommendations or equivalent international disclosure frameworks

▶ In 2019, we expressed our assent to the TCFD recommendations.

▶ In 2020, we disclosed information on the impact of climate change risks and opportunities on our business activities, profits, etc.

b. Develop a basic policy on sustainability and disclose our initiatives

▶ In 2021, we announced the Sustainability Action Plan.

▶ In 2021, we announced Daifuku Environmental Vision 2050 (issue areas and targets by 2030).

▶ In 2021, we formulated the Daifuku Group Human Rights Policy.

▶ In 2023, we revised the Daifuku Environmental Vision 2050.

For more information, please refer to the following section: 2. Sustainability Policies and Initiatives

(iv) Main issues other than the above

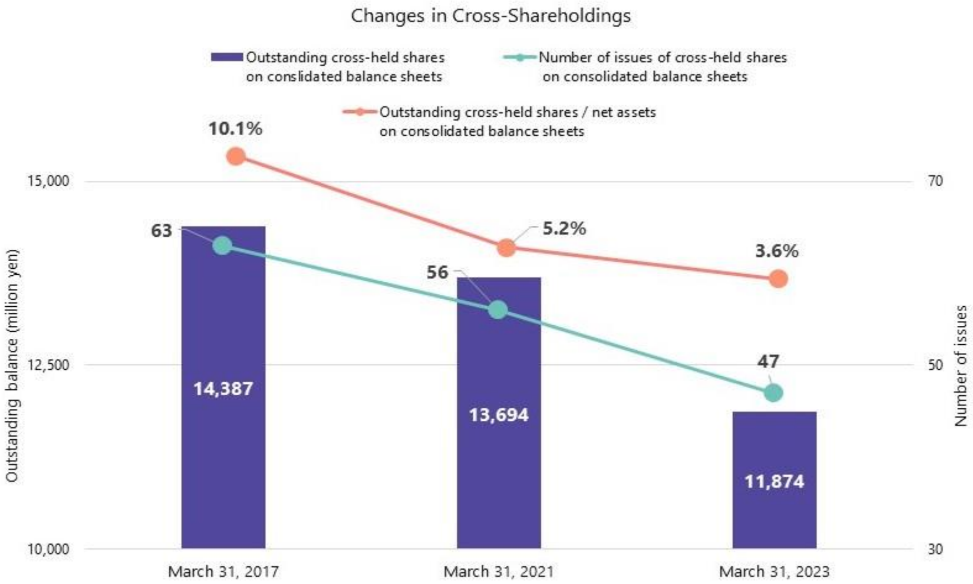
a. Promote the use of electronic voting platforms and disclose in English

▶ We have already been using the Electronic Voting Platform. We disclose timely disclosures, financial statements (earnings announcements), financial results briefing materials (earnings presentations), convening notices, annual securities reports, corporate governance reports, Daifuku Report, etc. in English.

b. Cross-shareholdings on consolidated balance sheets

Our basic policy is to reduce cross-shareholdings. We clarified our policy that we would no longer hold new shares for strategic purposes, and that shares, which the Board of Directors regards as having no significance through its examination, would be sold. As of March 31, 2023, the amount of cross-shareholdings recorded on the consolidated balance sheets was 11,874 million yen, accounting for 3.6% of net assets, and is on a downward trend. For more information, please refer to the following section: (5) Shareholdings

Figure: Status of cross-shareholdings on consolidated balance sheets



Notes: 1. March 31, 2017: The final year of the four-year business plan Value Innovation 2017

2. March 31, 2021: The final year of the four-year business plan Value Innovation 2020

iii. Overview of the corporate governance system and reasons for adoption of the system

(i) Overview of the corporate governance system

Daifuku is a company with an Audit & Supervisory Board. The Company enhances its corporate governance framework to oversee and supervise business execution by developing a Board of Directors consisting of ten (10) members, including five (5) independent outside directors, and the Audit & Supervisory Board consisting of four (4) members, three (3) of whom are elected from outside the Company. More than one-third of the Board of Directors are independent outside directors. The composition indicates that the Company considers diversity. To supplement the functions of the Board of Directors, the Company has an Advisory Committee, which deliberates on the nomination, election and dismissal, and the remuneration of the management team members. In addition, to encourage rapid operational decision-making, the Company has introduced a corporate officer system.

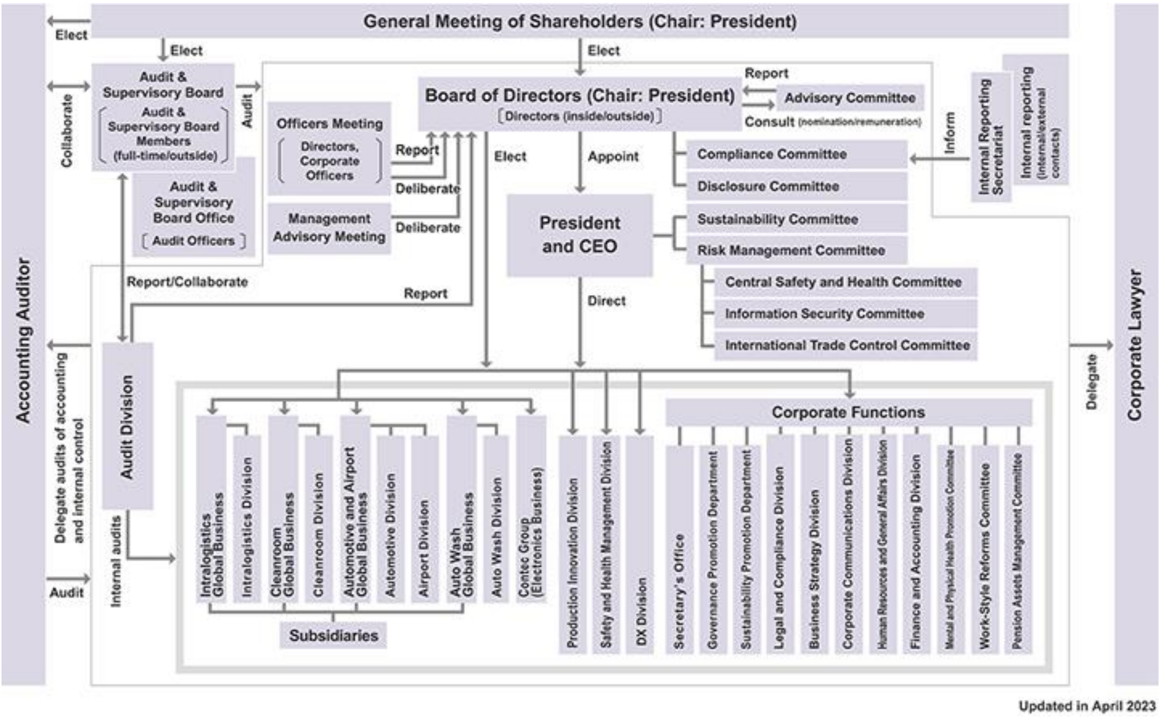
Audit & Supervisory Board members, together with the Audit & Supervisory Board Office, further strengthen cooperation between the Audit Division and the accounting auditor to deepen and streamline audit work. The Company has also introduced an audit officer system to strengthen auditing functions. To enhance the effectiveness of audits conducted by Audit & Supervisory Board members and the Audit & Supervisory Board, the Company has established the Audit & Supervisory Board Office to assist with the duties of Audit & Supervisory Board members and appointed an audit officer of the same rank as a corporate officer as the general manager of the Office.

The CEO directs each Global Business and the Corporate Functions and identifies and addresses issues common to the entire Group through the committees under the direct control of the CEO.

(ii) Reasons for adoption of the current corporate governance system

The Company is a company with an Audit & Supervisory Board. Under this basic structure, the Group has flexibly introduced and expanded systems to enhance management transparency and the management monitoring and supervision functions. We believe that the current corporate governance system is appropriate in terms of the workforce and business scale of the Group and that we meet the expectations of shareholders, who entrust management to us.

Corporate governance structure



(iii) Matters pertaining to corporate governance

Basic overview of corporate organizations

a. Directors and the Board of Directors

Daifuku's Board of Directors makes decisions on important matters stipulated in the Rules of the Board of Directors, such as the determination of management policies, management plans, and the corporate governance system. The Board delegates matters other than these important matters to directors and corporate officers. The Board of Directors meetings are attended by all directors with a one-year term of office and all Audit & Supervisory Board members, with managing officers and an audit officer joining as observers. The CEO serves as the chair of the Board of Directors. The Company holds regular monthly meetings of the Board of Directors, with extraordinary meetings convened, as necessary. In the fiscal year ended March 31, 2023, the Company held extraordinary meetings of the Board of Directors on five occasions.

The five (5) independent outside directors provide insightful advice and recommendations to the Board of Directors based on their abundant experience in, and extensive knowledge of, corporate operations, corporate legal affairs, accounting, ESG, etc. from a global perspective. They also ensure the transparency of management and supervise business execution by the inside directors.

Number of Board of Directors meetings attended

<table>
<tr><th>Title</th><th>Name</th><th>Number of meetings attended</th></tr>
<tr><td>President and CEO</td><td>Hiroshi Geshiro</td><td rowspan="9">17/17 times</td></tr>
<tr><td rowspan="4">Directors</td><td>Seiji Sato</td></tr>
<tr><td>Toshiaki Hayashi</td></tr>
<tr><td>Hiroshi Nobuta</td></tr>
<tr><td>Shuichi Honda</td></tr>
<tr><td rowspan="4">Outside Directors</td><td>Yoshiaki Ozawa</td></tr>
<tr><td>Mineo Sakai</td></tr>
<tr><td>Kaku Kato</td></tr>
<tr><td>Keiko Kaneko</td></tr>
<tr><td rowspan="2">Audit & Supervisory Board Members (full-time)</td><td>Yoshihisa Kimura</td><td>5/5 times</td></tr>
<tr><td>Tsukasa Saito</td><td>12/12 times</td></tr>
<tr><td rowspan="3">Audit & Supervisory Board Members (outside)</td><td>Ryosuke Aihara</td><td>16/17 times</td></tr>
<tr><td>Tsukasa Miyajima</td><td rowspan="2">17/17 times</td></tr>
<tr><td>Nobuo Wada</td></tr>
</table>

Notes: 1. Mr. Yoshihisa Kimura resigned from office at the conclusion of the ordinary general meeting of shareholders held on June 24, 2022.

2. Mr. Tsukasa Saito assumed the office of Audit & Supervisory Board Member (full-time) at the conclusion of the ordinary general meeting of shareholders held on June 24, 2022.

Main agenda for Board of Directors meetings

- Matters to be resolved: annual business plans and budgets, stock splits, personnel changes of directors, appointment of corporate officers and division of their duties, new recruitment plans, approval of financial statements (earnings announcements) and annual securities reports, etc.
- Matters to be reported: progress and results of the business plan, activities of advisory committees, status of cross-shareholdings, status of internal audits, status of sustainability initiatives, status of voting rights executed at the General Meeting of Shareholders and results of analysis, etc.

The Board of Directors consists of human resources who “work together with customers around the world to create optimal smart logistics solutions that incorporate innovative technologies” and “excel.” The Board of Directors identifies the skills that it should prepare in the medium to long term through the formulation of the management philosophy and three- or four-year business plans. In addition, the Board of Directors continues to consider diversity and size, including gender, internationality, work experience, and age.

Skill matrix of the Board of Directors

Skills of the Board of Directors as of the filing date of the Annual Securities Report are as follows:

Name	Expertise/Experience							Diversity			
	Corporate management	Technology	Finance, accounting	Legal affairs, risk management	Sales, marketing	Global	Environment, society, governance	Independence	Gender	Age	Major career
Hiroshi Geshiro	✓			✓	✓	✓	✓		M	65	The Group
Seiji Sato	✓				✓	✓			M	63	The Group
Toshiaki Hayashi	✓	✓				✓			M	64	The Group
Hiroshi Nobuta	✓	✓				✓			M	63	The Group
Hideaki Takubo	✓		✓	✓		✓	✓		M	62	The Group
Yoshiaki Ozawa			✓			✓	✓	✓	M	69	Accounting firm, university; outside member of the audit & supervisory board and substitute director (audit & supervisory committee member) of enterprises
Mineo Sakai	✓		✓			✓	✓	✓	M	72	Trading company, IT company
Kaku Kato	✓			✓		✓	✓	✓	M	68	Trading company, energy-related company, university
Keiko Kaneko				✓		✓	✓	✓	F	55	Trading company, university, law firm; statutory auditor and external statutory auditor of enterprises
Gideon Franklin	✓		✓			✓	✓	✓	M	60	Finance, M&A, corporate management; outside director of enterprises

Notes: 1. In Expertise/Experience, up to five skills of individuals are marked with "✓".
2. The above list does not represent all of the knowledge, experience, and abilities of individuals.
3. The age is at the nearest birthday as of the conclusion of the general meeting of shareholders held on June 23, 2023.

Evaluation of the Board of Directors' effectiveness

The Company regularly examines the structure and operational status of the Board of Directors and evaluates its effectiveness. The Company works to continuously strengthen functions and improve effectiveness by addressing issues identified from the evaluation results.

In the effectiveness evaluation conducted in the fiscal year ended March 31, 2023 as well, the Company ensures objectivity and independence of the effectiveness evaluation by obtaining support from an external evaluation body at key points in the process, such as conducting questionnaires and interviews and analyzing survey results.

A summary of the methods and results of the Board of Directors' effectiveness evaluation is provided below.

Method: - Anonymous questionnaire for all directors and Audit & Supervisory Board members
- Interviews with one (1) inside director and all Audit & Supervisory Board members

Survey items: (1) Composition of the Board of Directors, (2) Operation of the Board of Directors, (3) Discussions at the Board of Directors, (4) The Board of Directors' monitoring function, (5) Training, (6) Dialogues with shareholders and investors, (7) Subjects' own actions, and (8) Operation of the Advisory Committee

Measures to improve effectiveness and analysis of evaluation results

As a result of reviewing the results of the questionnaire and interview reports, it was confirmed that the Board of Directors is functioning effectively in general.

A. With regard to “training requisite to officers,” which had been an issue since the previous year, the Company worked to enhance training opportunities by utilizing lectures by outside experts and seminars by external agencies. As a result, the results of the questionnaire also showed significant improvement.
B. With regard to “sharing the details of discussions at the Advisory Committee,” the Company reported to the Board of Directors on the status of holding the Advisory Committee meetings, issues and other matters. As a result, the results of the questionnaire also showed improvement. Since it is recognized that the Board of Directors should be proactively involved in succession planning and candidate development for the CEO and other executives, the Company will continue to examine the appropriate timing and scope of sharing the details of discussions.
C. With regard to “diversity in the structure of the Board of Directors,” which was mentioned as a point to be improved in the future, the Company continues to examine it from a medium- to long-term perspective. There was a request for continued examination of the current structure in this effectiveness evaluation, although there are no problems with it.
D. It was highly evaluated that the Board of Directors discussed and revised the details of “appropriate supervision of director nominations based on the skills matrix and other factors.” The Company will continue to deepen discussions on the ideal form of the Board of Directors and the necessary structure based on its management strategy.

Recognition of issues and future initiatives
A. “Ensuring diversity in the core human resources” was newly recognized as an issue. The Company will appropriately discuss and supervise the implementation of necessary initiatives, such as rebuilding the female leader training program and creating a comfortable work environment to secure diverse human resources.
B. In light of several opinions requesting continued diversity in the structure of the Board of Directors, the Company will deepen concrete examination of the training and appointment of female candidates and non-Japanese candidates.
C. One of the issues to be addressed is how the Board of Directors should be involved with respect to the Group’s overall business portfolio. The Company will aim to develop a more sophisticated management system necessary for more strategic discussions.

b. Advisory Committee

The Company has established a voluntary Advisory Committee to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors regarding the nomination, dismissal, and the remuneration of directors and corporate officers. Specifically:

- The Advisory Committee consists of three or more members, including one or more representative directors and one or more outside directors, and meets three times or more a year. During the fiscal year ended March 31, 2023, all four (4) outside directors and one (1) representative director served on the Committee and met seven times (four times for nomination and three times for remuneration).
- An outside director serves as the chair of the Advisory Committee to secure the independence and objectivity of the Committee
- Remuneration for the management team is resolved by the Board of Directors following reviews and reports by the Advisory Committee based on the remuneration evaluation criteria.
- The Advisory Committee examines matters such as the formulation of a succession plan, the identification of the qualities required for a successor, and the appointment and evaluation of successor candidates, and report its findings to the Board of Directors.
- The CEO is appointed by resolution of the Board of Directors following examination by the Advisory Committee based on objective criteria taking the qualities of candidates into consideration.
- If, for example, the incumbent CEO comes to lack the qualities of a CEO he or she possessed at the time of election, the CEO will be removed by resolution of the Board of Directors following examination by the Advisory Committee based on objective criteria.

Number of Advisory Committee meetings attended

Role	Name	Type of officer	Number of meetings attended
Chair	Yoshiaki Ozawa	Outside Directors	7/7 times
Members	Mineo Sakai		
	Kaku Kato		
	Keiko Kaneko		
	Hiroshi Geshiro	Representative Director	

Main agenda for Advisory Committee meetings
- Nomination matters: personnel matters for the General Meeting of Shareholders, personnel matters for officers, corporate governance structure, etc.
- Remuneration matters: evaluation of remuneration for officers, evaluation of performance bonuses for officers and Board

Benefit Trust (BBT), verification of levels of remuneration for officers, etc.

c. Other bodies, etc.

The Management Advisory Meeting is held to confer on important management matters. With all directors and Audit & Supervisory Board members in attendance, this meeting also seeks the opinions of related corporate officers, audit officers, executives, and external specialists on an as-needed basis. The Management Advisory Meeting is convened by the CEO as appropriate. In the fiscal year ended March 31, 2023, the Management Advisory Meeting met two times.

In addition, the Company has introduced a corporate officer system for the purposes of the following:

- Accelerate decision-making on business execution through a reduction in the number of directors and further revitalize the Board of Directors by promoting more rigorous deliberations.
- Engage in functional and efficient business operations by broadly promoting employees with knowledge of business operations to serve as corporate officers and execute business based on the authority bestowed upon them by the Board.

The Company holds officers meetings to review and formulate the matters to be discussed by the Board of Directors as stipulated in the Rules of the Board of Directors and reports the matters stipulated in the Rules of the Officers Meeting. The officers meeting consists of all directors and all corporate officers. It is held with the attendance of Audit & Supervisory Board members and an audit officer. The meetings are held every month in conjunction with scheduled Board of Directors meetings.

The Audit Division, which is independent of the Company’s lines of business execution, verifies and evaluates the development and operation status of the internal control system from multiple points of view, including compliance with relevant legislation and internal regulations, risk management, ensuring of the appropriateness and efficiency of management operations, and ensuring of the reliability of financial reporting, assuming a role to encourage improvement.

For more information on Audit & Supervisory Board members and meetings, please refer to the following section: (3) Audits

The Company considers that a transition to a company with an audit and supervisory committee or a company with a nomination committee is an issue that we should examine in the future.

d. Various committees

The Company has set up the Compliance Committee and the Disclosure Committee, which are directly controlled by the Board of Directors, the Sustainability Committee and the Risk Management Committee, which are directly controlled by the CEO, and the Central Safety and Health Committee, the Information Security Committee, and the International Trade Control Committee, which are directly controlled by the Risk Management Committee. In addition, the Company has set up the Mental and Physical Health Promotion Committee, the Work-Style Reforms Committee, and the Pension Assets Management Committee, all of which are under the control of the Corporate Functions unit.

Committee Name	Activities
Compliance Committee	The committee consists of all directors and corporate officers and works to strengthen compliance in the entire Group by the committee members' sharing potential or newly emerging issues related to compliance, examining measures and systems to resolve and settle such issues, and reflecting the results of the examination in their respective responsible organizations.
Disclosure Committee	The committee works to develop and enhance the timely disclosure system to timely disclose appropriate information in accordance with the Financial Instruments and Exchange Act and other related laws and regulations.
Sustainability Committee	To meet increasing demands to address a wider range of ESG (environment, society, governance), SDGs, and other social issues, the committee encourages initiatives to widely contribute to society as a decision-making body for simple and smooth management for ESG-related issues that Group faces.
Risk Management Committee	The committee promotes Groupwide risk management activities for significant risks that would significantly affect the Group's corporate activities, and works to design countermeasures for risks and develop and enhance policies, regulations, systems, etc. based on significant risks identified and assessed through risk assessments regularly conducted.
Central Safety and Health Committee	The committee promotes and makes employees aware of efforts for compliance with relevant laws and regulations, elimination of industrial accidents and transport disasters as the Group's supreme deliberative body for safety and health control matters.
Information Security Committee	The committee establishes and revises regulations and reviews and implements measures for information security to ensure and maintain information security risk management for the entire Group based on its understanding of potential information security risks inside and outside the Group. Upon occurrence of an incident, the committee will promptly respond in cooperation with relevant units.
International Trade Control Committee	The committee develops and enhances systems for managing compliance in international transactions to ensure the compliance with laws, standards and regulations (including those for security) related to import, export, intermediate trade, and other general international transactions.
Mental and Physical Health Promotion Committee	Mental and physical health issues are becoming more and more prominent in society against the background of changes in the industrial structure and qualitative changes in workplaces. To prevent employees' mental and physical illness, the committee promotes Groupwide activities with the aim of promoting employees' health.
Work-Style Reforms Committee	The committee promotes work-style reforms in the entire Group to achieve employees' work-life balance and improve productivity as measures to address issues such as a demographic shift and harmful effects from long working hours, and promotion of taking advantage of diversified human resources.
Pension Assets Management Committee	The committee provides appropriate advice to a pension assets manager and other who are responsible for executing duties related to the management and investment of pension assets, with respect to important matters to manage the Company's defined benefit pension plan assets safely and effectively.

iv. Other matters regarding corporate governance

(i) Status of development of an internal control system

The following describes the content of decisions taken by the Board of Directors regarding the internal control system to ensure the appropriateness of business operations for the fiscal year ending March 31, 2024.

System to ensure appropriateness of business operations, etc.

a. System to ensure that the performance of duties by the directors and employees complies with laws and regulations and the Articles of Incorporation of the Company

i) The directors take the lead in observing the Group Code of Conduct, which aims for compliance with laws and regulations, the Articles of Incorporation of the Company, the internal rules and regulations, and social norms, and strive to achieve a thorough understanding of the Code within the Company.

ii) The Company has established the Compliance Committee consisting of all directors and corporate officers with the aim to ensure compliance with laws and regulations in its corporate activities and to raise and improve awareness of fairness and morality.

iii) The Audit Division, which is independent of the Company's lines of business execution, conducts audits of the status of adherence to laws and regulations, the Articles of Incorporation of the Company and the internal rules and regulations.

iv) The Company develops and operates a whistleblowing system for the early detection of risks associated with corporate activities and the prevention of material problems.

v) In addition to the above, the Company has established and operates various committees for the purpose of solving important issues within the Group in a cross-organizational manner.

b. System for the storage and management of information related to the execution of duties by the directors

The Company properly stores and manages the minutes of general shareholders' meetings and meetings of the Board of Directors, and records, etc. related to the execution of duties by the directors in accordance with the Document Management Rules and other internal rules and regulations.

c. Rules and regulations and other systems concerning the management of the risk of losses

i) For the timely and appropriate control of risks that may affect the achievement of management goals of the Group, the Company develops policies, regulations, and systems, while the Risk Management Committee promotes overall risk management activities for significant risks that affect corporate activities.

ii) The Company develops a business continuity plan (BCP) promotion system in preparation for an emergency, implement preventive measures, education, training, etc., and promotes regular inspections of BCP and correction of deficiencies.

iii) The Company establishes regulations concerning information security that stipulate the systems necessary for the maintenance and management of information security, functions and authorities of organizations for the promotion of information security and methods of handling information assets, thereby promoting the protection of information assets owned by the Group.

d. System to ensure the efficient execution of duties by the directors

i) The Board of Directors formulates management objectives and plans, etc. of the entire Group to be shared by the officers and employees and seeks to instill them throughout the Group.

ii) The Company has introduced a corporate officer system. Management functions are separated into two: the management decision-making and supervision functions of the Board of Directors and the business execution functions of corporate officers. Corporate officers formulate specific goals and measures for their own units in light of the management objectives determined by the Board of Directors and execute operations to achieve those goals.

e. System to ensure the appropriateness of business operations of the corporate group comprising the Company and its subsidiaries

i) In accordance with the Group Code of Conduct shared by the Group, officers and employees of the Group comply with relevant laws, the Articles of Incorporation of the Company, internal regulations, and social norms to act with integrity.

ii) In accordance with the Group Governance Rules, the Company shall elect officers in charge of subsidiaries and ensure the appropriateness of the business operations of the entire Group by providing instructions, advice, etc. through these officers on all aspects of the management of its subsidiaries in Japan and overseas.

iii) Standing in a position that is independent from the business execution lines, the Audit Division conducts audits of the status of the development and operation of internal control systems in the Group.

iv) In accordance with laws and regulations, the Company and the entire Group take a resolute attitude toward antisocial forces and groups that threaten the order and safety of civil society. In addition, we will strive to develop and disseminate anti-bribery regulations, etc. in response to compliance risk on a global level.

f. Matters related to employees who should assist with the duties of the Audit & Supervisory Board members, matters related to the independence of the employees from the directors, and matters related to ensuring the effectiveness of instructions issued to the employees

i) The Company has established an Audit & Supervisory Board Office staffed with employees assigned to assist with the duties of Audit & Supervisory Board members.

ii) The Company respects the opinions of Audit & Supervisory Board members when making personnel decisions relating to the Audit & Supervisory Board Office and the Audit Division. The Company also considers the independence of the Audit & Supervisory Board Office as part of its endeavor to ensure the effectiveness of instructions given to Audit & Supervisory Board Office employees.

g. System to enable directors and employees of the Company and its subsidiaries to submit reports to Audit & Supervisory Board members, and a system to ensure any person who has submitted a report is not treated disadvantageously as a result

i) Directors and employees of the Company and its subsidiaries shall report the following matters to the Audit & Supervisory Board members:

(i) Matters that may cause significant damage to the Group

(ii) Important matters pertaining to business circumstances on a monthly basis

(iii) Important matters relating to the status of internal audits and risk management

(iv) Serious violations of laws or the Articles of Incorporation of the Company

(v) Other significant compliance-related matters

ii) The Group shall not tolerate any disadvantageous treatment of individual directors and employees who provide reports or information to Audit & Supervisory Board members as a result of that reporting.

iii) Members of the Audit & Supervisory Board, the Audit & Supervisory Board Office, and the Audit Division shall participate in the meetings of subsidiaries' board of directors and other important meetings for the purpose of collecting information and ensuring effective audits.

h. Other systems to ensure the effective execution of audits by Audit & Supervisory Board members

i) In accordance with the auditing standards of the Audit & Supervisory Board members, Audit & Supervisory Board members hold regular meetings with the Company's representative directors and outside directors to exchange opinions on important audit-related issues.

ii) Audit & Supervisory Board members shall receive regular reports from the Audit Division on audit plans and results and request investigations, as necessary.

iii) Audit & Supervisory Board members shall direct the Audit & Supervisory Board Office to enhance the effectiveness of audits and ensure the smooth execution of audit duties.

iv) Audit & Supervisory Board members and the Audit & Supervisory Board shall meet regularly with the accounting auditor to maintain close contact and conduct effective and efficient audits.

v) The Audit & Supervisory Board may ask the Company to pay in advance or reimburse any necessary expenses relating to the use of legal or accounting experts in the course of conducting audits.

Reference: Overview of the operational status of systems to ensure the appropriateness of business operations for the fiscal year ended March 31, 2023

a. System to ensure that the performance of duties by the directors and employees complies with laws and regulations and the Articles of Incorporation of the Company

i) To ensure that all officers and employees of the Group are fully aware of the Group Code of Conduct, the Company has prepared the Compliance Guidebook that clearly explains the Group Code of Conduct in several languages and made it accessible. The Guidebook explains the Group's approach to compliance as well as specific cases. It contains a message from the top management that compliance refers not only to legal compliance but also social norms and other ethical issues. The Company has made various efforts such as providing training to instill the approach in all officers and employees.

ii) In the fiscal year ended March 31, 2023, the Company provided an expert lecture and held discussion between employees on the theme of "power harassment" in October that is designated as a month for compliance awareness, and distributed the contents of such lecture and discussion on the Company intranet.

iii) In the internal audits to ensure the appropriateness of business operations, the Audit Division coordinates with the Audit & Supervisory Board members to objectively verify and assess the status of compliance with laws and regulations, the Articles of Incorporation of the Company, and internal rules and regulations, and provides instruction and advice to the audited units. We also used remote audits, etc. to carry out these efforts without delay.

iv) We have adopted a whistleblowing system to accept reports via two routes, one internal and one external route. The system's main features include the ability to submit reports anonymously and to report in eight different languages from different sites around the world. We also operate a personnel consultation office that accepts consultations on personnel matters, in addition to the whistleblowing system. In the fiscal year ended March 31, 2023, the Company continued activities to promote the use of the system by making efforts such as preparation of posters as well as reviewing the system reflecting the revised Whistleblower Protection Act.

v) The Company has committee organizations to promote companywide efforts. In the fiscal year ended March 31, 2023, the Company newly established the "Risk Management Committee." The Committee determines how to address significant risks that affect the achievement of the Group's management goals and manages the progress of addressing the risks. In addition, we operate the Sustainability Committee that promotes activities to address a wider range of ESG (environment, society, governance), SDGs, and other social issues and to respond to requests regarding such issues. In the fiscal year ended March 31, 2023, the Committee discussed how to deal with carbon neutrality and managed the progress of the Sustainability Action Plan and other efforts. Including these Committees, all ten Committees take the leadership of companywide efforts.

b. System for the storage and management of information related to the execution of duties by the directors

Directors store and manage the documents (including electromagnetic records) together with related materials in accordance with the Document Management Rules and other internal rules and regulations.

c. Rules and regulations and other systems concerning the management of the risk of losses

i) The Risk Management Committee is chaired by CEO, and comprised of global business heads, division managers, and responsible persons of the Safety and Health Management Division, the Corporate Functions, and other units. In the fiscal year ended March 31, 2023, the Committee met three times and actively discussed how to address significant risks concerning management and challenges regarding such risks.

ii) Material handling systems are indispensable for daily lives and industrial activities as social infrastructure. If the facilities delivered to our customers are damaged by a natural disaster or other events, the Company responds to such damage as soon as possible by taking measures such as restoring the facilities. The Company has established and operates a BCP to quickly respond to disasters in the event of a disaster, and regularly conducts first-response drills at all Group companies in Japan, including officers' seats to raise awareness of business continuity and ensure that all officers and employees are fully familiar with the first-response.

iii) The Information Security Committee is taking the lead in appropriately operating the rules and regulations related to information security. To strengthen awareness of security issues, we conduct e-learning for officers and employees as well as targeted email training.

d. System to ensure the efficient execution of duties by the directors

i) The Board of Directors discusses how to instill broad awareness and achieve the Company's three- or four-year business plans. In addition, the CEO explains management policies through internal newsletters and videos transmitted on the Company intranet for the entire Group in Japan and overseas.

ii) The Company appropriately operates this system by narrowing down the agenda items to be discussed at meetings of the Board of Directors and by delegating certain decision-making authority to those in charge of executive functions, based on the Rules of the Board of Directors and the Rules on the Delegation of Authority.

e. System to ensure the appropriateness of business operations of the corporate group comprising the Company and its subsidiaries

i) Translated versions of the Group Code of Conduct are distributed to officers and employees of subsidiaries in Japan and overseas, and the officers of the subsidiaries convey the spirit of the code.

ii) Based on the Group Governance Rules that clarifies the governance system of the entire Group, the officer in charge of the subsidiary makes swift and decisive decisions and executions at the subsidiary while maintaining an appropriate level of supervision by the Board of Directors, and operations for appropriate business are secured.

iii) In the internal audits to ensure the appropriateness of the Group's business operations, the Audit Division objectively verifies and assesses the status of development and operation of an internal control system, and provides instruction and advice to the audited units while coordinating with the internal audit units, Audit & Supervisory Board members and audit firms of companies of the Group.

In the fiscal year ended March 31, 2023, we continued to improve the efficiency of operations overall by using digitalization (remote audits, digitization of vouchers, etc.).

iv) The Group has established policies for responding to organized crime groupings and other antisocial forces in the Group Code of Conduct, and ensures that all Group officers and employees are fully aware of those policies. In terms of anti-bribery measures, the Group has established and is implementing regulations for both providing and receiving entertainment and gifts. The Group is committed to strengthening its anti-corruption efforts by engaging in sound and transparent transactions Groupwide.

f. Matters related to employees who should assist with the duties of the Audit & Supervisory Board members, matters related to the independence of the employees from the directors, and matters related to ensuring the effectiveness of instructions issued to the employees

i) To enhance the effectiveness of audits conducted by Audit & Supervisory Board members, the Company has established the Audit & Supervisory Board Office to assist with the duties of Audit & Supervisory Board members.

ii) The Audit Division, which operates independently from the business execution line, and the accounting and legal units under the Corporate Functions, will also play an auxiliary role in assisting the performance of Audit & Supervisory Board members' duties as part of our drive to enhance our auditing functions.

g. System to enable directors and employees of the Company and its subsidiaries to submit reports to Audit & Supervisory Board members, and a system to ensure any person who has submitted a report is not treated disadvantageously as a result

i) If directors or employees of the Company or its subsidiaries discover any matters with the possibility of causing significant damage to the Group, important matters related to monthly business conditions, important matters related to the status of internal audits and risk management, material violations of laws and regulations or the Articles of Incorporation of the Company, other important compliance matters, such matters will be reported to Audit & Supervisory Board members by the person who discovered the facts or the person in charge to whom the facts were reported.

ii) We respond appropriately to any reports or information provided to Audit & Supervisory Board members based on our commitment to protect the providers of information.

iii) Members of the Audit & Supervisory Board, the Audit & Supervisory Board Office, and the Audit Division shall participate in the meetings of subsidiaries' board of directors and other important meetings, receive reports from directors or employees of subsidiaries, and voice opinions, as necessary.

h. Other systems to ensure the effective execution of audits by Audit & Supervisory Board members

i) The Audit & Supervisory Board held meetings with representative directors and outside directors on important auditing issues three times during the fiscal year ended March 31, 2023 to deepen mutual recognition of the issues in question.

ii) Full-time Audit & Supervisory Board members attend regular auditors' meetings held by the Audit Division, etc., and share information on received reports on audit plans and results from the Audit Division.

iii) The Audit & Supervisory Board Office, under the direction of Audit & Supervisory Board members, assists with audit duties and conducts business relating to the Audit & Supervisory Board. It also strives to improve the effectiveness of audits conducted by Audit & Supervisory Board members by obtaining more information from the Audit Division and other employees as well as subsidiaries.

iv) The Audit & Supervisory Board deepens cooperation by holding periodic meetings for the accounting auditor to convey its audit plans and the quality of audits and for quarterly reviews and year-end reports on audit results, as well as special meetings when required.

v) When Audit & Supervisory Board members request the Company to cover any costs relating to the conducting of audits, the Company pays those expenses requested by Audit & Supervisory Board members in full.

(ii) Status of development of a risk management system

Under the direction of the CEO, we develop and promote risk management measures across the Group. The Company has established a Risk Management Committee for the purpose of timely and appropriate management of risks that affect the achievement of the Group's management goals. The Risk Management Committee regularly conducts Groupwide risk assessments, including subsidiaries in Japan and overseas, in normal times, identifies significant risks of the Group, and decides response policies (countermeasures) for those risks. Following those measures, the Committee checks the progress and promotes planned efforts.

For emergencies, the Company has separately developed a business continuity plan (BCP) promotion system to address a crisis after it becomes apparent. Under the BCP promotion system, the Company has established a system to address any crises and the processes for preparation before occurrence of a crisis and for actions against the crises, based on which the Company provides regular training. Furthermore, with the aim of enhancing the effectiveness of the BCP, we are proceeding with education for disaster prevention and crisis management through e-learning, safety confirmation training for employees, supplier operations verification training to ensure quick recovery and return to normal operations of the whole supply chain, and enhancement of disaster prevention equipment.

For more information, please refer to the following section: II. Overview of Business, 3. Business Risks

(iii) Status of development of a system to ensure the appropriateness of business operations of the Company's subsidiaries

As stated in "(i) Status of development of an internal control system" and "(ii) Status of development of a risk management system," the Company has developed an internal control system and a risk management system in which its subsidiaries are covered.

The Company has also established the Group Governance Rules that apply to subsidiaries in Japan and overseas. In accordance with those rules, the Company has appointed officers in charge of subsidiaries and has developed a system under which the officers report and apply for approval of important matters to the Company's Board of Directors on behalf of the subsidiaries they are responsible for.

v. Related party transactions

With respect to a conflict-of-interest transaction between a director and the Group, the director shall seek prior approval for the transaction from the Board of Directors and report it to the Board of Directors even after the fact. If a director enters into a transaction with a major shareholder, the director shall report an important transaction to the Board of Directors for discussion.

vi. Decision-making body of dividends from surplus

To enable us to flexibly pay dividends from any surplus funds, our Articles of Incorporation stipulate that the Board of Directors may determine the dividend to be paid from surplus funds without requiring a resolution at the General Meeting of Shareholders with respect to matters stipulated in Article 459, Paragraph 1 of the Companies Act unless otherwise provided for by laws and regulations.

vii. Limitation of liability

Under Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with outside directors and outside members of the Audit & Supervisory Board to limit their liability provided for in Article 423, Paragraph 1 of the Companies Act. The maximum amount of liability for damages under the agreement is an amount stipulated in laws and regulations. The agreement will be applied only if outside directors or outside members of the Audit & Supervisory Board have acted in good faith and without gross negligence in performing the duties that have caused the liability.

viii. Matters relating to liability insurance contracts for company officers

The Company has concluded a directors and officers liability insurance contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act. Under the insurance contract, damages and legal fees, etc. incurred by the insured as a result of claims for damages arising from any acts (including inaction) committed in the insured's capacity as officer, etc. of a business enterprise shall be covered.

However, any damage to officers themselves who intentionally committed criminal acts such as bribery or other illegal acts will not be compensated to ensure the appropriateness of officers' execution of duties is not compromised. The persons covered under this insurance contract are the Company's directors, Audit & Supervisory Board members, corporate officers, audit officers, and officers serving at Japanese subsidiaries. The insurance premiums for all insured persons are paid by the Company and the individual Japanese subsidiaries concerned.

ix. Number of directors

The Company's Articles of Incorporation stipulate that the number of the Company's Directors shall be not more than 25.

x. Election of directors

The Company's Articles of Incorporation stipulate that resolution for election of directors shall require a majority of the votes of shareholders present at a general meeting of shareholders, where the shareholders holding at least one-third of the voting rights of shareholders who are entitled to exercise their voting rights are present, and shall not be by cumulative voting.

xi. Requirements for special resolution at the general meeting of shareholders

The Company's Articles of Incorporation stipulate that special resolutions at the general meetings of shareholders prescribed in Article 309, paragraph 2 of the Companies Act shall require at least two-thirds of the votes of shareholders present at the general meeting of shareholders, where the shareholders holding at least one-third of the voting rights of shareholders who are entitled to exercise their voting rights are present. The purpose of this stipulation is to ensure smooth operation of general meetings of shareholders by relaxing the quorum requirements for special resolutions at general meetings of shareholders.

(2) Officers

i. Directors and other officers

Male: 13, Female: 1 (Ratio of female officers over the total number of officers: 7.1%)

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
President and CEO	Hiroshi Geshiro	June 13, 1958	April 1983 April 2012 April 2014 April 2015 June 2015 April 2016 April 2018	Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.) Corporate Officer General Manager of the Sales Division, FA&DA Operations Managing Officer General Manager of FA&DA Global Operations General Manager of FA&DA Operations Director, member of the board Managing Officer General Manager of the International Division, FA&DA Operations President and CEO (to present)	Note 4	36
Director Senior Managing Officer Cleanroom Global Business Head	Seiji Sato	January 15, 1960	April 1983 April 2008 June 2010 June 2011 April 2015 June 2015 April 2020 April 2023	Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.) General Manager of the Semiconductor Division, eFA Operations Director, member of the board Managing Officer with an introduction of corporate officer system General Manager of eFA Global Operations General Manager of eFA Operations Director, member of the board Managing Officer Cleanroom Global Business Head (to present) Cleanroom Division Manager Director, Senior Managing Officer (to present) President and CEO of Daifuku North America Holding Company (to present)	Note 4	129
Director Managing Officer Chief Officer of Shiga Works Safety and Health Management Division Manager	Toshiaki Hayashi	November 17, 1958	April 1981 April 2013 April 2016 April 2020 June 2020 April 2021 April 2022 April 2023	Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.) Corporate Officer General Manager of the Production Division, AFA Operations Chairman of Daifuku (China) Automation Co., Ltd. Managing Officer Automotive Global Business Head Automotive Division Manager Director, member of the board Managing Officer (to present) Automotive and Airport Global Business Head Chief Officer of Shiga Works (to present) Safety and Health Management Division Manager (to present)	Note 4	11

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Director Managing Officer Intralogistics Global Business Head	Hiroshi Nobuta	March 1, 1960	April 1982 April 2007 April 2012 April 2013 April 2019 April 2020 April 2021 June 2021	Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.) General Manager of the Engineering Department, Production Division, FA&DA Operations Corporate Officer General Manager of the Project Management Division, FA&DA Operations Executive Vice President of Daifuku North America Holding Company Managing Officer General Manager of the International Division, FA&DA Operations Intralogistics Division Manager General Manager of the International Operations, Intralogistics Division Intralogistics Global Business Head (to present) Director, member of the board Managing Officer (to present)	Note 4	24
Director Managing Officer Chief Human Resources Officer Corporate Functions Head	Hideaki Takubo	August 27, 1960	April 1984 April 2006 April 2013 April 2015 April 2017 April 2019 April 2021 April 2023 June 2023	Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.) Manager of the Secretary's Office President of Daifuku (China) Co., Ltd. General Manager of the Global Business Development Department, Corporate Business Development Division General Manager of the Human Resources and General Affairs Division, Corporate Affairs Operations Corporate Officer Managing Officer Corporate Functions Head (to present) Chief Human Resources Officer (to present) Director, member of the board Managing Officer (to present)	Note 4	19

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Director	Yoshiaki Ozawa	May 31, 1954	July 1978	Joined PricewaterhouseCoopers (PwC) Osaka Office	Note 4	—
			October 1979	Joined Chuo Accounting Corporation Osaka Office		
			August 1982	Registered as a Japanese certified public accountant (CPA)		
			October 1985	Worked at Coopers & Lybrand New York Office		
			July 1990	Registered as a U.S. CPA (New York)		
			July 1995	Senior partner, Chuo Shinko Audit Corporation		
			July 2005	National director overseeing Japanese clients in the U.S. at the PwC New York Office		
			July 2007	Joined PwC Aarata		
			January 2008	Senior partner, PwC Aarata		
			April 2009	Specially-appointed professor, Kansai University School of Accountancy		
			April 2012	Professor of Faculty of Business Administration, St. Andrew's University (to present)		
			September 2012	Left PwC Aarata		
			June 2014	Outside Director of Daifuku Co., Ltd. (to present)		
			April 2018	Director of Career Center, St. Andrew's University		
			June 2018	Outside Audit & Supervisory Board Member, Daido Life Insurance Company (to present)		
			June 2019	Substitute Director (Audit and Supervisory Committee Member), Sakai Heavy Industries, Ltd.		
			April 2020	Dean of Graduate School of Business Administration, St. Andrew's University		
			December 2021	Representative Director, Andrew Partners Co., Ltd. (to present)		
			March 2022	Obtained a PhD in Commerce from Kwansei Gakuin University		

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Director	Mineo Sakai	May 13, 1951	April 1974	Joined Kanematsu-Gosho, Ltd. (now Kanematsu Corporation)	Note 4	—
			April 1997	General Manager of Finance Department, Kanematsu Corporation		
			April 2004	Corporate Officer, General Manager of Finance and Accounting Department, Kanematsu Corporation		
			June 2004	Director, member of the board of Kanematsu Electronics Ltd.		
			June 2005	Managing Director, Kanematsu Electronics Ltd.		
			April 2008	Executive Vice President, 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.		
			April 2018	Audit & Supervisory Board Member, KEL Technical Service Ltd.		
			April 2018	Audit & Supervisory Board Member, Nippon Office Systems Ltd.		
			April 2018	Audit & Supervisory Board Member, i-NOS Corporation		
			June 2018	Outside Director of Daifuku Co., Ltd. (to present)		
			June 2019	Adviser, Kanematsu Electronics Ltd.		
Director	Kaku Kato	October 24, 1954	April 1978	Joined Mitsui & Co., Ltd.	Note 4	—
			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.		
			June 2019	Outside Director of Daifuku Co., Ltd. (to present)		
			April 2020	Visiting Professor of Faculty of Law and Politics, Rikkyo University		

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Director	Keiko Kaneko	November 11, 1967	April 1991 April 1999 April 1999 January 2007 April 2007 November 2012 November 2012 June 2013 June 2019	Joined Mitsubishi Corporation Registered as an attorney, belonging to Daini Tokyo Bar Association Joined Anderson Mori & Tomotsune Partner, Anderson Mori & Tomotsune (to present) Visiting Associate Professor of Graduate School of Law, the University of Tokyo External Statutory Auditor, Fast Retailing Co., Ltd. (to present) Statutory Auditor, UNIQLO Co., Ltd. (to present) External Statutory Auditor, The Asahi Shimbun Company (to present) Outside Director of Daifuku Co., Ltd. (to present)	Note 4	―
Director	Gideon Franklin	June 28, 1962	September 1984 October 1986 January 1993 February 1994 January 2004 July 2006 November 2007 August 2013 June 2019 April 2021 March 2022 June 2023	Joined Cazenove (now JP Morgan Chase & Co.) Joined UBS Phillips & Drew (now UBS AG) Director, Schweizerische Bankgesellschaft (Deutschland) AG (now UBS Europe SE) Managing Director, Morgan Stanley Group Inc (now Morgan Stanley) Outside Director, Culham Prints and Drawings Ltd President, Gideon Franklin Limited Managing Director, Mizuho International plc CEO, Gideon Franklin Limited (to present) Outside Director, MCJ Co., Ltd. (to present) CEO, Culham Prints and Drawings Ltd (to present) Outside Director, UMI Technology Holdings PLC (to present) Outside Director of Daifuku Co., Ltd. (to present)	Note 4	―
Audit & Supervisory Board Member (full-time)	Tsukasa Saito	March 4, 1964	April 1986 April 2007 April 2010 January 2013 April 2014 April 2020 April 2022 June 2022	Joined Daifuku Co., Ltd. General Manager of the China's Affiliate Management Division Director and President of Daifuku (China) Co., Ltd. General Manager of the Finance Department, Finance and Accounting Division, Corporate Affairs General Manager of the Finance and Accounting Division, Corporate Affairs Audit Officer General Manager of the Audit & Supervisory Board Office Audit Officer, Assigned to the Audit & Supervisory Board Audit & Supervisory Board Member (to present)	Note 6	13

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Audit & Supervisory Board Member	Ryosuke Aihara	March 15, 1952	April 1977 January 1982 April 2004 April 2007 June 2015 April 2016 June 2016	Registered as an attorney, belonging to Daini Tokyo Bar Association (to present) Joined Mori Sogo Law Office (now Mori Hamada & Matsumoto) Partner, Mori Hamada & Matsumoto Law Office Professor of Graduate School of Law, the University of Tokyo Adjunct Lecturer of Graduate School of Law, the University of Tokyo Outside Member of the Audit & Supervisory Board, Nippon Shuppan Hanbai Inc. Representative, Aihara Law Office (to present) Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)	Note 5	–
Audit & Supervisory Board Member	Tsukasa Miyajima	August 23, 1950	April 1980 April 1990 April 2003 April 2004 March 2009 October 2013 June 2014 June 2014 June 2015 April 2016 April 2016 June 2018	Full-time lecturer at Faculty of Law, Keio University Professor of Law, Keio University Registered as an attorney, belonging to Daini Tokyo Bar Association (to present) Professor, Keio University Law School Outside Director, Hulic Co., Ltd. (to present) Chairman of the Asset Disposition Council of Japan Railway Construction, Transport and Technology Agency (to present) Outside Director, Dai Nippon Printing Co., Ltd. (to present) Audit & Supervisory Board Member (outside), Mikuni Corporation (to present) Outside Director, Mitsui Sumitomo Insurance Co., Ltd. Professor emeritus, Keio University (to present) Professor of Law, Asahi University and its Graduate School (to present) Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)	Note 6	–

Position in the Company	Name	Date of birth	Career summary		Term of office	Number of the company's shares held (thousand shares)
Audit & Supervisory Board Member	Nobuo Wada	March 17, 1953	April 1980	Encouraging Researcher of Japan Society for the Promotion of Science	Note 7	—
			March 1981	Research Associate of Faculty of Science, Hokkaido University		
			December 1989	Associate Professor of College of Arts and Sciences, the University of Tokyo		
			April 1994	Assistant Professor of Graduate School of Arts and Sciences, Department of Basic Science, the University of Tokyo		
			April 2001	Professor of Graduate School of Science, Division of Material Science (Physics), Nagoya University		
			April 2018	Emeritus Professor (to present) and Adjunct Lecturer, Nagoya University		
			June 2019	Audit & Supervisory Board Member (outside) of Daifuku Co., Ltd. (to present)		
Total						238

Notes: 1. Directors Yoshiaki Ozawa, Mineo Sakai, Kaku Kato, Keiko Kaneko, and Gideon Franklin are from outside the Company.
2. Audit & Supervisory Board members Ryosuke Aihara, Tsukasa Miyajima, and Nobuo Wada are from outside the Company.
3. Each of Directors Yoshiaki Ozawa, Mineo Sakai, Kaku Kato, and Gideon Franklin, and Audit & Supervisory Board members Ryosuke Aihara, Tsukasa Miyajima, and Nobuo Wada has been designated and notified as independent officers in accordance with the rules of the Tokyo Stock Exchange.
4. The terms of office of Directors are from the conclusion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2023 through the conclusion of the ordinary general meeting of shareholders for the fiscal year ending March 31, 2024.
5. The term of office of Audit & Supervisory Board member Ryosuke Aihara is from the conclusion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2020 through the conclusion of the ordinary general meeting of shareholders for the fiscal year ending March 31, 2024.
6. The terms of office of Audit & Supervisory Board members Tsukasa Saito and Tsukasa Miyajima are from the conclusion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2022 through the conclusion of the ordinary general meeting of shareholders for the fiscal year ending March 31, 2026.
7. The term of office of Audit & Supervisory Board member Nobuo Wada is from the conclusion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2023 through the conclusion of the ordinary general meeting of shareholders for the fiscal year ending March 31, 2027.
8. The Company conducted a three-for-one split of its common stock effective April 1, 2023. The above-mentioned number of shares held is based on the total number of shares after the stock split.

[Reference] Corporate officers and audit officers who do not concurrently serve as directors

Corporate Officers

Position in the Company	Name	Position in the Company	Name
Senior Managing Officer Chief Production Officer Chief Information Officer Production Innovation Division Manager DX Division Manager	Yasuhisa Mishina	Managing Officer Chief Financial Officer Deputy Corporate Functions Head Finance and Accounting Division Manager	Tetsuya Hibi
Managing Officer Chairman of Daifuku (China) Co., Ltd.	Akihiko Kishida	Corporate Officer CEO of Daifuku Oceania Limited	Hiroaki Kita
Managing Officer Auto Wash Global Business Head Auto Wash Division Manager President of Daifuku Plusmore Co., Ltd.	Yoshiyuki Horiba	Corporate Officer General Manager of Installation and Service Operations, Intralogistics Division	Seiji Yamamoto
Managing Officer Automotive and Airport Global Business Head Airport Division Manager	Takaya Uemoto	Corporate Officer General Manager of Domestic Market Business Unit, Automotive Division	Tsutomu Maeda
Managing Officer Chief Technology Officer General Manager of Engineering Operations, Intralogistics Division	Takuya Gondoh	Corporate Officer Cleanroom Division Manager General Manager of Production Operations, Cleanroom Division	Tomoaki Terai
Managing Officer Deputy Automotive and Airport Global Business Head Automotive Division Manager General Manager of Sales and Service Business Strategy Operations, Automotive Division	Akihiko Nishimura	Corporate Officer Deputy Cleanroom Division Manager General Manager of Sales Operations, Cleanroom Division Chief Officer of Komaki Works	Atsushi Sonoda
Managing Officer Intralogistics Division Manager General Manager of Sales Operations, Intralogistics Division	Norihito Toriya	Corporate Officer Corporate Communications Division Manager	Hirobumi Akiba

Audit Officer

Position in the Company	Name
Audit Officer General Manager of Audit & Supervisory Board Office	Toshikatsu Takahashi

Notes: 1. The Company has introduced a corporate officer system for the purposes of further accelerating and revitalizing business decision-making by the Board of Directors and promoting functional and efficient business operations by delegating the authority to employees with knowledge of business operations to execute business.

2. To enhance the effectiveness of audits conducted by Audit & Supervisory Board members, the Company established the Audit & Supervisory Board Office to assist with the duties of Audit & Supervisory Board members, with the audit officer serving as the general manager of the Office.

ii. Outside directors and outside members of the Audit & Supervisory Board

The Company has five (5) outside directors and three (3) outside members of the Audit & Supervisory Board.

(i) Personal, capital or business relationships or any other conflicts of interests between outside directors or outside members of the Audit & Supervisory Board and the Company

There are no significant conflicts of interest between outside directors or outside members of the Audit & Supervisory Board and the Company.

(ii) Functions and roles of outside directors or outside members of the Audit & Supervisory Board in the Company's corporate governance

a. Outside directors

Outside Director Yoshiaki Ozawa has considerable knowledge in financial and accounting matters and experience of working abroad. He is also engaged in research mainly on "how evidence should function in financial statements audit" as a university professor of accounting. He offers advice and counsel to the Company from a professional viewpoint.

Outside Director Mineo Sakai has a thorough knowledge of corporate management gained through his experience such as serving as Chairman and CEO of Kanematsu Electronics Ltd., and offers advice and counsel on general business management.

Outside Director Kaku Kato has abundant experience and extensive knowledge in corporate management gained through his experience such as serving as Managing Officer of Mitsui & Co., Ltd. and Managing Executive Officer of Mitsui Oil Exploration Co., Ltd., and offers advice and counsel to secure the transparency of management and enhance the monitoring and supervision thereof from viewpoints of safety and ESG (environment, society, governance) as well as compliance and internal control.

Outside Director Keiko Kaneko has experience working at a trading company and as an associate professor of a graduate school. As a lawyer, she is currently extensively involved in areas such as business merger, acquisition and split, daily transactions and management of business enterprises, labor disputes, and regulations in the fields of natural resources, automobiles, pharmaceutical affairs and food. She offers advice and counsel to secure the transparency of management and enhance the monitoring and supervision thereof from a professional viewpoint.

Outside Director Gideon Franklin has abundant experience and extensive knowledge in corporate management as an analyst, M&A advisor, and management executive in international financial institutions and other organizations.

As stated above, the outside directors contribute to further revitalization of the Board of Directors, securing of the transparency of management and enhancement of the supervisory function over management by offering advice and counsel from their professional viewpoints based on their abundant experience and extensive knowledge.

b. Audit & Supervisory Board members (outside)

Audit & Supervisory Board Member (outside) Ryosuke Aihara is a lawyer who has been specialized in corporate governance and compliance for many years. He offers advice and counsel on general business management to secure the legality of management and enhance the monitoring and auditing functions over management from a professional viewpoint as a lawyer.

Audit & Supervisory Board Member (outside) Tsukasa Miyajima is a university professor specializing in legal affairs and offers advice and counsel to secure the transparency of management and enhance the monitoring and auditing functions over management based on his deep insight and extensive experience as an academic expert and a legal specialist.

Audit & Supervisory Board Member (outside) Nobuo Wada has served as a university professor specializing in experiment study of condensed-matter physics for many years. He offers advice and counsel to secure the transparency of management and enhance the monitoring and auditing functions over management based on his deep insight and extensive experience as an academic expert.

As stated above, the outside members of the Audit & Supervisory Board contribute to securing the transparency of management and enhancing the monitoring and auditing functions over management by timely offering appropriate advice and counsel based on their abundant experience and extensive knowledge.

(iii) Views on appointment of outside directors and outside members of the Audit & Supervisory Board

As stated in (ii) above, the Company's outside directors and outside members of the Audit & Supervisory Board have corporate management experience and knowledge in the fields of law, accounting, business management and science, composing a well-balanced personnel organization with a good diversity.

In appointing outside directors and outside members of the Audit & Supervisory Board, the Company requires them to meet the requirements for the independence standards stipulated by the Company with reference to the principles of the Corporate Governance Code as well as the Companies Act. The Company considers that the independence of the aforementioned eight (8) outside directors and outside members of the Audit & Supervisory Board is sufficiently ensured, and has designated and registered the seven of them excluding Ms. Keiko Kaneko as independent officers with the Tokyo Stock Exchange. The Company has not designated Ms. Keiko Kaneko as an independent officer in line with the policy of the law firm to which Ms. Kaneko belongs.

The Company has set up an Advisory Committee that is chaired by an outside director as a non-compulsory body. Regarding the policy and process of electing nominees for outside directors and outside members of the Audit & Supervisory Board, the Company submits the names of qualified persons who would be able to fulfil the duties considering their personality and knowledge to the Advisory Committee as those who assume the fiduciary responsibility entrusted by the shareholders, and the Board of Directors designates them as nominees.

(iv) Mutual cooperation between outside directors and outside members of the Audit & Supervisory Board in supervision and audits, internal audits, audits by Audit & Supervisory Board members and accounting audits, and a relationship with the internal control division

Outside directors receive report from the Audit Division at meetings of the Board of Directors on the results of monitoring of the status of development and operation of the Group's internal control system and the status of internal audits, etc., and offer advice and counsel to the accounting auditor and the manager of the Audit Division, etc., if necessary.

Outside members of the Audit & Supervisory Board receive report from the Audit Division at meetings of the Board of Directors as do outside directors, and also receive report from the full-time Audit & Supervisory Board member on the content of audit activities and exchange opinions at meetings of the Audit & Supervisory Board, etc. They also exchange opinions with the accounting auditor and the manager of the Audit Division, etc. and offer advice and counsel, if necessary.

(Independence standards for outside directors and outside members of the Audit & Supervisory Board)

At Daifuku, outside directors and outside members of the Audit & Supervisory Board are considered independent if they do not fall under any of Articles 1 to 5 below.

Article 1

A person who falls or fell under any of the following in the last three years:

1) A person who executes business of a company, etc. that is a key customer of Daifuku or whose key business partner is Daifuku (*1)
2) A lawyer who belongs to a law firm that has concluded an advisory contract with Daifuku or its subsidiary and who was actually in charge of legal business for Daifuku, a certified public accountant (or a certified tax accountant) who was an accounting auditor or accounting adviser of Daifuku or its subsidiary, or an employee, partner, or staff member who belongs to an auditing firm (or tax accountant corporation) that is an accounting auditor or accounting adviser of Daifuku or its subsidiary and who was actually in charge of the auditing service for Daifuku
3) A lawyer, certified public accountant, or certified tax accountant, if not applicable to the above item 2, who provides specialized services, etc. to Daifuku by receiving a large amount (*2) of money or assets other than remuneration for an officer, directly from the company
4) An officer or employee of a company, etc. that is a major shareholder (*3) of Daifuku

Article 2

An officer or employee of Daifuku's subsidiary or a person who held such a position during the ten years before being appointed as such status

Article 3

An executive board member or any other person who executes business of an organization that receives donations or grants exceeding a certain amount (*4) from Daifuku (such as a public interest incorporated foundation, a public interest incorporated association, or a non-profit corporation)

Article 4

The spouse or a relative within the second degree of relationship of a person who falls under any of Articles 1 to 3 above, or a relative living together with such a person

Article 5

A person who does not fall under any of Articles 1 to 4 above, but who is deemed likely to have a virtual conflict of interest with Daifuku due to their relationship with the company

Notes:

*1: A customer from whom Daifuku received payment of at least 2% of the amount of Daifuku's annual consolidated net sales in the most recent fiscal year, or a business partner who received payment from Daifuku of at least 2% of the amount of its annual consolidated net sales in the most recent fiscal year

*2: The annual average for the last three years of 10 million yen or more

*3: A shareholder with 10% or more of the voting rights

*4: The annual average for the last three years of 10 million yen or more, or 30% of the average total annual expenditure of the organization, whichever is larger

(3) Audits

i. Audits by the Audit & Supervisory Board members

(i) Organization, composition and procedures of audits by the Audit & Supervisory Board members

The Company maintains an Audit & Supervisory Board comprising four (4) Audit & Supervisory Board members, three (3) of whom are elected from outside the Company, with the remaining member a full-time member from inside the Company.

Mr. Tsukasa Saito, a full-time member of the Audit & Supervisory Board, has abundant practical experience in finance and accounting and a high level of knowledge in the accounting and financial fields.

In addition, to enhance the effectiveness of audits by Audit & Supervisory Board members, the Audit & Supervisory Board Office consisting of two full-time staff members has been established as a system to assist with the duties of Audit & Supervisory Board members and the Audit & Supervisory Board, and an audit officer serves concurrently as the general manager of the Office.

With an awareness of their fiduciary responsibilities to shareholders and with a view to continuous corporate growth and medium- and long-term improvement in corporate value, Audit & Supervisory Board members and the Audit & Supervisory Board carry out auditing activities for fulfilling their duties, including auditing of directors' execution of duties, auditing of the internal control system, and assessment of the appropriateness of auditing conducted by the accounting auditor, in accordance with the Rules of the Audit & Supervisory Board, the Standards for Company Auditor Audit, and the Standards on Audit Concerning the Internal Control System.

(ii) Status of activities of Audit & Supervisory Board members and the Audit & Supervisory Board

Audit & Supervisory Board meetings were held nine times in the fiscal year ended March 31, 2023. The attendance of each Audit & Supervisory Board member is as follows:

Title	Name	Expertise	Number of meetings attended
Audit & Supervisory Board Members (full-time)	Yoshihisa Kimura	Finance, accounting	2/2 times
	Tsukasa Saito		7/7 times
Audit & Supervisory Board Members (outside)	Ryosuke Aihara	Law	9/9 times
	Tsukasa Miyajima	Legal science	
	Nobuo Wada	Science	

Notes: 1. Mr. Yoshihisa Kimura resigned from office at the conclusion of the ordinary general meeting of shareholders held on June 24, 2022.

2. Mr. Tsukasa Saito assumed the office of Audit & Supervisory Board Member at the conclusion of the ordinary general meeting of shareholders held on June 24, 2022.

Main agenda for Audit & Supervisory Board meetings

- Resolution (13 items) Audit plans, reappointment of accounting auditors, consent to audit compensation for accounting auditors, audit reports by the Audit & Supervisory Board, consent to proposals for election of Audit & Supervisory Board members, etc.
- Reporting (27 items) Reports on the activities of full-time Audit & Supervisory Board members and the Audit & Supervisory Board Office, reports on the implementation of audits, reports on the results of on-site audits of business units, audit plans of the Audit Division, etc.
- Deliberations and discussions (6 items) Draft audit reports of Audit & Supervisory Board members and the Audit & Supervisory Board, response to the revision of the Code of Ethics for accounting auditors, etc.

Major priority audit items for the fiscal year ended March 31, 2023 audited by the Audit & Supervisory Board were the status of the initiatives to implement management policies, the status of the sustainability initiatives, the status of operation of the risk management system. The Audit & Supervisory Board holds regular meetings with representative directors and outside directors to deepen mutual recognition and relationships of trust by exchanging opinions on issues related to management and audits.

The full-time Audit & Supervisory Board member conducts audit activities in accordance with the audit plan formulated at the beginning of the fiscal year. In the course of their duties, the full-time Audit & Supervisory Board member attends key meetings, including Board of Directors meetings, officers meetings, business units' meetings and various committees' meetings, interviews directors, managers from business units, the Corporate Functions, and other units on business operations and risk management, audits major non-Japan subsidiaries, obtains an audit plan and reports on quarterly reviews and audit results from the accounting auditor. The Audit & Supervisory Board also works to increase the effectiveness of audits by exchanging information with the Audit Division, Legal Department, Governance Promotion Department, and other divisions and functions, as well as by sharing information and exchanging opinions with subsidiaries' Audit & Supervisory Board members at a liaison meeting for the Group's Audit & Supervisory Board members.

Part-time outside members of the Audit & Supervisory Board attend meetings of the Board of Directors and express their opinions as necessary based on their professional viewpoints and abundant experience. They also voluntarily attend officers meetings, etc. and deepen their understanding of management issues and the status of business operations. In addition, they obtain an audit plan and report on quarterly reviews and audit results from the accounting auditor to assess the appropriateness of audit by the accounting auditor.

ii. Internal audit

(i) Organization, composition and procedures of internal audits

The Audit Division consisting of 28 dedicated staff members, which is independent of the Company's lines of business execution, develops and operates the internal audit system, verifies and evaluates the development and operation status of the internal control system from the perspectives of compliance with relevant legislation and internal regulations, risk management, ensuring of the appropriateness and efficiency of management operations, ensuring of the reliability of financial reporting, protection of company assets, etc., and encourages the improvement of the internal control system. At the same time, the Audit Division evaluates and reports on the internal control system (J-SOX).

(ii) Mutual cooperation among internal auditors, Audit & Supervisory Board Members and accounting auditors in auditing, and relationships with the internal control division

Audit & Supervisory Board members and the Audit Division work in collaboration from an initial stage to plan and carry out individual audits and mutually raise audit effectiveness by reflecting information including their audit performance, individual results of audited units, and views shared at regular auditors' meetings, etc. in their audit practices on a timely manner.

Audit & Supervisory Board members exchange opinions by receiving explanations of the audit plan and reports of quarterly reviews and audit results from the accounting auditor. The Audit Division is also present at the audit results report meeting. In addition, Audit & Supervisory Board members undertake mutual cooperation with the accounting auditor by exchanging opinions when accompanying them on inventory inspections, on-site audits of installation sites, and overseas on-site audits.

The Audit Division conducts internal control system (J-SOX) assessment tests effectively by having regular and as-needed meetings with the accounting auditor to share views and information. Audit & Supervisory Board members are also present at the assessment tests and audit the effectiveness of the tests. In addition, the Audit Division has established a system for reporting to the Board of Directors and the Audit & Supervisory Board and reports on internal control, as necessary. In addition, to ensure the effectiveness of internal audits, the division has established essential matters related to internal audits in the Rules of Internal Audits to ensure independence from other business execution units. The division conducts internal audits appropriately based on an annual audit plan.

iii. Accounting audits

(i) Name of audit firm

PricewaterhouseCoopers Aarata LLC

(ii) Years of continuous auditing

From the fiscal year ended March 31, 2008

The Company has continued to engage PricewaterhouseCoopers Aarata LLC to conduct audits from the fiscal year ended March 31, 2008.

For the period from fiscal years ended March 31, 1969 to 2007, Chuo Audit Corporation (to the fiscal year ended March 31, 1999), Chuo Aoyama Audit Corporation (from fiscal years ended March 31, 2000 to 2006), and Misuzu Audit Corporation (fiscal year ended March 31, 2007), all of which formed part of the PwC group, were engaged in audit of the Group.

(iii) Certified public accountants who executed the audit duties

Designated limited liability Partner Engagement Partner Kengo Yamamoto (one year of continuous audit service)
Designated limited liability Partner Engagement Partner Kazuyuki Kitano (five years of continuous audit service)

(iv) Composition of assistants of audit engagement

Four (4) Japanese certified public accountants (CPAs) and ten other staff members

(v) Policy and reasons for appointing audit firm

The Company has appointed PricewaterhouseCoopers Aarata LLC, a member firm of the PwC network that is globally expanded as its accounting auditor since it believes that the firm is qualified based on its comprehensive evaluation of the firm in terms of the firm's profile, quality control, independence, etc., and the evaluation criteria of accounting auditors established by the Company.

In addition, the Company has established the following policies on dismissal or non-reappointment of accounting auditors.

The Audit & Supervisory Board shall dismiss the accounting auditor if it is found to fall under any of the items stipulated in Article 340, Paragraph 1 of the Companies Act, based on the consent of all members. If such an event occurs, the members selected by the Audit & Supervisory Board will explain the details of the decision and the reasons thereof at the first general meeting of shareholders to be held following the dismissal. The Audit & Supervisory Board can also decide a proposal for submission to the general meeting of shareholders to dismiss or not reappoint an accounting auditor if, as a result of a comprehensive evaluation based on the Company's evaluation standards for accounting auditors, it is deemed necessary to change the accounting auditor due to any factors that might hinder the accounting auditor's ability to execute its duties or to further enhance the appropriateness of the audit. The Board of Directors shall submit the proposal to the general meeting of shareholders based on that decision.

The Company has reappointed PricewaterhouseCoopers Aarata LLC based on the Audit & Supervisory Board's judgement that no events of dismissal or non-reappointment has occurred with respect to the firm.

(vi) Evaluation of accounting auditor by Audit & Supervisory Board members and the Audit & Supervisory Board

The Company's Audit & Supervisory Board members and the Audit & Supervisory Board evaluate accounting auditors based on the evaluation criteria of accounting auditors.

Audit & Supervisory Board members and the Audit & Supervisory Board obtain from the accounting auditor an audit plan, report on quarterly reviews and audit results, information on a system to ensure the appropriateness of performance of duties of the accounting auditor, information on measures to ensure the independence, the results of inspection by external agencies. At the same time, the full-time Audit & Supervisory Board member closely communicates with the accounting auditor mainly by providing cooperation in inventory inspections, on-site audits of installation sites, overseas on-site audits, and internal control system (J-SOX) assessment tests. Through these auditing activities, the Company recognizes that PricewaterhouseCoopers Aarata LLC is qualified as its accounting auditor and their method and results of audit are appropriate based on its comprehensive evaluation of their quality control, the independence of the audit team, the level of audit fees, communication with corporate managers, cooperation with the internal audit unit and overseas network firms.

iv. Details of audit fees, etc.

(i) Audit fees paid to auditing certified public accountants, etc.

Category	FY2021		FY2022	
	Fees for audit certification services (million yen)	Fees for non-audit services (million yen)	Fees for audit certification services (million yen)	Fees for non-audit services (million yen)
Reporting company	89	66	90	64
Consolidated subsidiaries	36	–	27	–
Total	125	66	117	64

Non-audit services for the Company and its consolidated subsidiaries were services other than those prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act, including "advice on the application of International Financial Reporting Standards (IFRS)" for fiscal years ended March 31, 2022 and 2023.

(ii) Audit fees paid to the same network (the PwC group) to which certified public accountants, etc. belong (excluding fees specified in (i) above)

Category	FY2021		FY2022	
	Fees for audit certification services (million yen)	Fees for non-audit services (million yen)	Fees for audit certification services (million yen)	Fees for non-audit services (million yen)
Reporting company	138	44	152	82
Consolidated subsidiaries	241	136	299	223
Total	379	180	451	305

Non-audit services for the Company and its consolidated subsidiaries were tax-related services, etc.

(iii) Other important information on audit fees

There is no important information to be reported on fees for audit certification services paid by some consolidated subsidiaries of the Company in fiscal years ended March 31, 2022 and 2023 to auditing certified public accountants, etc. who belong to a network other than the network to which the certified public accountants, etc. engaged by the Company belong.

(iv) Policy on determination of audit fees

The Company determines audit fees for auditing certified public accountants, etc. based on its comprehensive review on the appropriateness and reasonableness of the number of days required for the audit and the members engaged in the audit, taking into account matters such as the Company's business scale and business nature.

(v) Reasons for the Audit & Supervisory Board's consent to fees, etc. for the accounting auditor

The Audit & Supervisory Board consents, in accordance with Article 399, Paragraph 1 of the Companies Act, to the amount of fees, etc. for the accounting auditor proposed by the representative director because it determines that the amount of fees, etc. is appropriate following confirmation and examination of the content of the accounting auditor's audit plan, plans for the amount of time required for audits and results of the previous fiscal year's audit, past trends of audit fees paid by the Company and other companies, and the level of performance of duties by the accounting auditor.

(4) Remuneration for officers

i. Items relating to remuneration, etc.

Name	Basic remuneration	Performance-linked remuneration	
		Bonus	Non-monetary remuneration, “Board Benefit Trust (BBT)”
Target recipients	All officers	Inside directors and Audit & Supervisory Board member (full-time)	Inside directors
Indicator for performance-linked remuneration	–	The remuneration is funded by a certain proportion of consolidated net income for each year and determined based on the recipient’s qualifications and position and the results of quantitative and qualitative assessments of the area for which the recipient is responsible.	・ Degree of achievement in each fiscal year: Degree of achievement of performance targets (consolidated net income amount and margin) ・ Degree of achievement of a three-year business plan: Achievement of targets for net sales, operating income, ROE, etc. in the “Value Transformation 2023” (from April 2021 through March 2024)

(i) Basic remuneration

Basic remuneration is determined based on fixed remuneration for executive remuneration by position. The remuneration level is determined based on a comprehensive consideration of qualifications, position, and company performance.

(ii) Performance-linked remuneration—Bonus

Bonuses, which serve as short-term performance-linked remuneration for directors, are funded by a certain proportion of consolidated net income for each fiscal year, allocated as a basic component that corresponds to an officer’s qualifications and position and an evaluation component that reflect performance, and distributed once a year at a fixed time. We selected consolidated net income as the indicator for determining bonuses because it depicts the result of unified efforts made by all officers and employees. When calculating bonuses, we determine the “basic component factor” based on qualification and job title, and the “performance-linked evaluation component factor” based on quantitative (profit growth) and qualitative aspects. In terms of the method of calculations, the basic component constitutes approximately 80% of the allocation and the performance-linked evaluation component constitutes approximately 20%. The performance-linked evaluation component is calculated based on the evaluation of individual performance. The actual results for consolidated net income, a bonus indicator, are described in “I. Overview of the Company, 1. Key Financial Data.”

(iii) Performance-linked remuneration—non-monetary remuneration, “BBT”

The BBT, a performance-linked equity remuneration scheme, is a system to further clarify the linkage of the officers’ remuneration and the Company’s business performance as well as its stock value, which enables officers to share the benefit of increase in stock value and the risk of decrease in stock value with shareholders. By doing so, it is expected to motivate officers to contribute to boosting corporate value in the medium and long terms. Under this system, eligible officers are granted points calculated by multiplying standard points set for each position by coefficients between 0.0 and 1.0 (four levels) determined based on the degree of achievement of each business year target and the three- or four-year business plan targets. The Company’s stocks and money are paid according to the accumulated points at the time of retirement. The degree of achievement in a fiscal year is calculated based on the ratios of the consolidated net income amount and margin to the initial targets in the fiscal year. The degree of achievement in the three- or four-year business plan is calculated based on the latest management targets (including net sales, operating income, ROE targets) announced by the end of the previous fiscal year. We selected the degree of achievement in the business plan as the indicator for determining the BBT because it depicts medium- and long-term business results. We also selected the degree of achievement of consolidated net income amount and margin for the same reason as that of selecting the performance indicator for bonuses. For the fiscal year ended March 31, 2023, consolidated net income amount was calculated based on the initial schedule and the expected value announced in February 2023, and the amount achieved the initial schedule, whereas margin was slightly lower than the initial schedule. No results of achievement of the business plan have been obtained since the period of the business plan has not been completed.

The status of delivery of shares for the fiscal year ended March 31, 2023 is as follows:

Category	Number of shares	Target recipients
Directors (excluding outside directors)	– shares	– persons
Corporate Officers	2,700 shares	1 person
Total	2,700 shares	1 person

Notes: 1. We have established a rule to provide corporate officers with equity remuneration when they reach the age of 60.
2. There were no provision to a corporate officer who concurrently served as a director.

ii. Matters relating to the policy on determination of remuneration, etc. for individual directors

(i) How we determine the policy

The Company has established the policy on determination of remuneration, etc. for individual directors by a resolution of the Board of Directors through consideration and reporting by the Advisory Committee that is chaired by an outside director and consists of three or more members including one or more representative directors and one or more outside directors, and the majority of members are outside directors to enhance the transparency and fairness of judgement. Details of the policy are stipulated in related internal rules approved by an approval resolution at a Board of Directors meeting.

(ii) Overview of the policy

The annual amount of remuneration for directors is set to be 700 million yen or less. The basic policy is to pay remuneration for directors in accordance with related internal rules so that the level of remuneration is appropriate for the roles and duties of directors. Specifically, the remuneration for directors consists of basic remuneration (fixed remuneration), a bonus (short-term performance-linked remuneration that is fluctuated based on performance), and medium- to long-term performance-linked equity remuneration, BBT. The ratio of each remuneration is not fixed because the link between the Company’s results and stock value is reflected in remuneration. The Company determines the ratio, taking into consideration the levels at other companies based on survey by an external professional body and reports from the Advisory Committee. Outside directors are not eligible for bonuses and BBT from the standpoint of their functions and independence.

To determine annual remuneration for directors, the total amount of basic remuneration and bonuses is resolved at a Board of Directors meeting following verification by the Advisory Committee whether it is reasonable based on levels at other comparable companies and through deliberations and reporting by the Advisory Committee. For the fiscal year ended March 31, 2023, the Advisory Committee for remuneration consisted of all four (4) outside directors and one (1) representative director, and met three times in April and November 2022, and March 2023. For more information on the Advisory Committee, please refer to the following section: 4. Corporate Governance, (1) Overview of corporate governance, iii. Overview of the corporate governance system and reasons for adoption of the system, (iii) Matters pertaining to corporate governance, b. Advisory Committee

iii. Matters relating to determination on remuneration, etc. for officers by provisions in the Articles of Incorporation or resolutions of the General Meeting of Shareholders

At the Ordinary General Meeting of Shareholders held on June 29, 2006, the Company determined that the total amount of remuneration for directors should be capped at 700 million yen per annum and the total amount of remuneration for Audit & Supervisory Board members should be capped at 110 million yen per annum. As of the conclusion of the resolution, the Company had 18 directors and five (5) Audit & Supervisory Board members.

At the Ordinary General Meeting of Shareholders held on June 24, 2016, the Company introduced BBT and resolved that the total number of points granted to directors and corporate officers for three fiscal years be up to 140,000 points (out of which 80,000 points are for directors, and out of 140,000 shares of the Company’s common stock, 80,000 shares are for directors). The Company had ten (10) directors when the resolution was made at such Meeting. Excluding two (2) outside directors, eight (8) directors were covered by the BBT scheme.

iv. Matters relating to the delegation of authority regarding determination of remuneration, etc. for individual directors

President and CEO Hiroshi Geshiro has been delegated to determine the amount of remuneration for individual directors for the fiscal year ended March 31, 2023 in accordance with related internal rules. The delegated authority includes determining the monthly allocation of basic remuneration for each director and the allocation of the performance-linked remuneration (bonus and BBT) based on the evaluation of performance for each director. The authority has been delegated to the President and CEO because the President and CEO is in the most suitable position for evaluating each director’s roles and responsibilities while maintaining an overview of results for the entire Company.

To ensure that the delegated authority is exercised properly, the President and CEO determines the amount of remuneration for each director in line with the opinions of the Advisory Committee. The Board of Directors judged the details of individual remuneration, etc., for directors were in line with the policy on determination of remuneration, etc. for individual directors because the President and CEO determined the details of remuneration, etc., respecting the Advisory Committee’s opinion deliberated in line with “ii. Matters relating to the policy on determination of remuneration, etc. for individual directors, (ii) Overview of the policy” described above.

v. Remuneration, etc. for officers for the fiscal year ended March 31, 2023

Remuneration by type of officers

Type of officer	Total remuneration (million yen)	Total remuneration, etc. by type (million yen)			Number of target officers
		Basic remuneration	Performance-linked remuneration		
			Bonus	Non-monetary remuneration	
Directors (excluding outside directors)	516	213	241	61	5
Audit & Supervisory Board members (excluding outside members of the Audit & Supervisory Board)	46	21	24	–	2
Outside Directors	60	60	–	–	4
Audit & Supervisory Board Members (outside)	30	30	–	–	3

Those who received 100 million yen or more of consolidated remuneration in total

Name	Total consolidated remuneration (million yen)	Type of officer	Company classification	Total consolidated remuneration, etc. by type (million yen)		
				Basic remuneration	Performance-linked remuneration	
					Bonus	Non-monetary remuneration
Hiroshi Geshiro	170	Director	Reporting company	59	95	16
Shuichi Honda	123	Director	Reporting company	66	37	19

Notes: 1. This table only lists those who received 100 million yen or more of consolidated remuneration in total.

2. Mr. Shuichi Honda’s principal place of residence and execution is in the United States. For income tax, the Company adjusts the tax amount as necessary to ensure consistency of tax burden with residents of the relevant country, and the amount of tax, etc. incurred as a result of such measures is included in the amount of basic remuneration.

vi. Overview of the details and method for determining Audit & Supervisory Board members’ remuneration

By unanimous agreement of all Audit & Supervisory Board members at the time of enactment of the Internal Rules on Executive Remuneration and Bonus for Officers, the remuneration of Audit & Supervisory Board members is capped at the annual remuneration total for Audit & Supervisory Board members of 110 million yen approved at the general meeting of shareholders held on June 29, 2006. The basic policy is to pay remuneration in accordance with the Internal Rules on Executive Remuneration and Bonus for Officers, which determine the remuneration standards established with unanimous agreement of all Audit & Supervisory Board members at the time of enactment of the rules. In addition, remuneration for Audit & Supervisory Board members is determined in consultation with the Audit & Supervisory Board each business year. Outside Audit & Supervisory Board members shall only receive basic remuneration in view of their duties.

vii. Significant employee salaries of directors and Audit & Supervisory Board members serving concurrently as employees

Not applicable

(5) Shareholdings

i. Standards for and views on classification of investment shares

The Company classifies investment shares as those held for purposes of pure investment and those held for purposes other than pure investment. The Company holds shares not for purposes of pure investment as part of asset management, but solely for purposes other than pure investment, such as reinforcement of business or transactional relationships.

When the Company holds shares for purposes other than pure investment, it keeps in mind that the shareholding will contribute to developing a relationship of trust with the issuer of the shares in the medium to long term and to improving the Company's business results and the common benefit of shareholders.

Since approximately 25% of the Group's net sales come from service business, it is important to create a relationship of trust with the counterparty to a transaction in the medium to long term to maintain and increase net sales. Moreover, there have been more cases where newly received orders for large-scale projects continue to develop based on such relationship of trust. Based on these reasons, the formation of a medium- to long-term partnership is a critical business strategy.

Therefore, as stated "ii. Investment shares held for purposes other than pure investment, the Company checks governance and risks of the counterparties through exercising voting rights each year as well as examining economic rationality.

ii. Investment shares held for purposes other than pure investment

(i) Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual issues

The policy on shareholding is defined in the Disclosure Based on the Principles of Japan's Corporate Governance Code as follows:

"Our basic policy is to limit shareholdings, including shares held as cross-shareholdings, to the minimum necessary and to reduce them, and the Board of Directors confirms the status of individual holdings every year. In principle, we will no longer hold new shares for strategic purposes. The Company 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 will 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. Shares, which the Board of Directors regards as having no significance, will be sold on a timely basis. With respect to the voting rights attached to cross-shareholdings, we will make decisions individually with an emphasis on improving the corporate value of the cross-shareholding partners over the medium to long term. At the time of the assessment, special attention will be paid to whether the cross-shareholding partner has been tarnished by scandals or has committed an antisocial act. If the cross-shareholding partner has been involved in such circumstances, its managerial approach to improvement shall be scrutinized. Audit reports concerning that 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."

With respect to the shares held as of March 31, 2023, the Board of Directors discussed "examination of whether to continue to hold shares as cross-shareholdings, and investigation based on the standard of exercising voting rights" and approved the holding of the shares at its meeting held on April 26, 2023.

In the fiscal year ended March 31, 2023, the Company reduced the holding of 11 issues of shares, including three issues of shares sold entirely. The Company will decide to sell some issues of shares flexibly, keeping a close watch on the prices of the shares. The shares held by the Company are steadily being reduced as shown in the table, Status of cross-shareholdings on consolidated balance sheets, below.

Table: Status of cross-shareholdings on consolidated balance sheets

Year ended	March 2017	March 2021	March 2023
Number of issues of cross-held shares on consolidated balance sheets	63 issues	56 issues	47 issues
Outstanding cross-held shares on consolidated balance sheets	14,387 million yen	13,694 million yen	11,874 million yen
Outstanding cross-held shares/net assets on consolidated balance sheets	10.1%	5.2%	3.6%

Notes: 1. Fiscal year ended March 31, 2017: The final year of the four-year business plan Value Innovation 2017

2. Fiscal year ended March 31, 2021: The final year of the four-year business plan Value Innovation 2020

With respect to the voting rights attached to cross-shareholdings, CEO and CFO will make decisions individually with an emphasis on improving the corporate value of the cross-shareholding partners over the medium to long term. When making a judgement, special attention will be paid to whether the cross-shareholding partner has been tarnished by corporate scandals or has committed an antisocial act. If the cross-shareholding partner were to be involved in such circumstances, the partner's management improvement measures and audit reports shall be scrutinized.

(ii) Number of issues and carrying amount

	Number of issues	Total carrying amount (million yen)
Unlisted shares	6	343
Shares other than unlisted shares	37	11,198

Issues whose number of shares increased during the fiscal year ended March 31, 2023

	Number of Issues	Total acquisition cost associated with an increase in the number of shares (million yen)	Reasons for the increase in the number of shares
Unlisted shares	–	–	
Shares other than unlisted shares	6	28	An increase due to additional purchases of the six issues with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds the shares of the six issues through their supplier shareholding associations.

Issues whose number of shares decreased during the fiscal year ended March 31, 2023

	Number of Issues	Total sales proceeds associated with a decrease in the number of shares (million yen)
Unlisted shares	–	–
Shares other than unlisted shares	11	1,983

(iii) Number and carrying amount of specified investment shares and deemed holdings of investment shares by issue

a. Specified investment shares

Issue	FY2022 (as of March 31, 2023)	FY2021 (as of March 31, 2022)	Purposes of holding, outline of business alliance, etc., quantitative effect of holding, and reasons for increase in the number of shares	Ownership of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Carrying amount (million yen)	Carrying amount (million yen)		
Toyota Motor Corporation	1,613,950	1,613,950	The Company has delivered automotive systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	3,034	3,587		
Mizuho Financial Group, Inc.	413,052	697,052	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions and to collect domestic and international information.	Yes
	775	1,092		
Sumitomo Mitsui Financial Group, Inc.	138,828	185,028	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions and to collect domestic and international information.	Yes
	735	722		
Iwatani Corporation	124,800	124,800	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of the Company's products.	Yes
	722	645		
Sangetsu Corporation	302,400	302,400	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	675	462		
Mitsubishi UFJ Financial Group, Inc.	739,880	986,480	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions and to collect domestic and international information.	Yes
	627	750		
NICHIDEN Corporation	312,732	309,508	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of the Company's products and sale of the Company's products to the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association.	Yes
	595	667		
Nihon Parkerizing Co., Ltd.	518,000	518,000	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of car wash machines.	Yes
	513	482		
AZ-COM MARUWA Holdings Inc.	232,000	232,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	461	260		
YAMAZEN CORPORATION	277,500	274,381	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of the Company's products and sale of the Company's products to the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association. The Company withdrew from its supplier shareholding association in December 2022.	Yes
	282	259		

Issue	FY2022 (as of March 31, 2023) Number of shares (shares) / Carrying amount (million yen)	FY2021 (as of March 31, 2022) Number of shares (shares) / Carrying amount (million yen)	Purposes of holding, outline of business alliance, etc., quantitative effect of holding, and reasons for increase in the number of shares	Ownership of the Company's shares
Chilled & Frozen Logistics Holdings Co., Ltd.	196,166	191,279	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association.	Yes
	248	230		
TACHIBANA ELETECH CO., LTD.	123,769	123,769	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of the Company's products and sale of the Company's products to the company.	Yes
	246	203		
Obayashi Corporation	233,000	733,000	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as delivery of logistics systems, etc. and construction of buildings for the Company.	Yes
	236	659		
NIKKISO CO., LTD.	237,000	237,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	222	217		
Honda Motor Co., Ltd.	60,000	60,000	The Company has delivered automotive systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	210	209		
THE SHIGA BANK, LTD.	76,000	76,000	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions and to collect local information of the Shiga area where the Company's major site is located.	Yes
	203	168		
TAKUMA CO., LTD.	123,000	123,000	The Company has procured goods for logistics systems, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	163	175		
SATO SHOJI CORPORATI ON	111,500	111,500	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of car wash machines.	Yes
	158	128		
TAKARA HOLDINGS INC.	123,000	123,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	125	135		
Mitsubishi Pencil Co., Ltd.	74,000	74,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	120	93		
Nissan Motor Co., Ltd.	224,200	224,200	The Company has delivered automotive systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	112	122		

Issue	FY2022 (as of March 31, 2023) Number of shares (shares) / Carrying amount (million yen)	FY2021 (as of March 31, 2022) Number of shares (shares) / Carrying amount (million yen)	Purposes of holding, outline of business alliance, etc., quantitative effect of holding, and reasons for increase in the number of shares	Ownership of the Company's shares
YUASA TRADING CO., LTD.	29,239	27,719	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company in transactions such as procurement of parts supplied by the company necessary for production of the Company's products and sale of the Company's products to the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association.	Yes
	110	80		
Hamakyorex Co., Ltd.	33,633	32,287	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association.	No
	108	92		
Makino Milling Machine Co., Ltd.	22,000	22,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	106	85		
Mazda Motor Corporation	60,000	60,000	The Company has delivered automotive systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	73	54		
SUMCO CORPORATION	28,681	26,702	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company. The number of shares increased due to additional purchases with the contributions made in each month in a fixed amount and by reinvestment of dividends received since the Company holds shares in the company through its supplier shareholding association.	No
	56	54		
Sumitomo Mitsui Trust Holdings, Inc.	10,853	14,453	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions.	Yes
	49	57		
NISSIN SHOJI CO., LTD.	50,000	50,000	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for sale of car wash machines.	Yes
	45	44		
Toppan Inc.	15,000	15,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	39	32		
Fujicco Co., Ltd.	18,295	18,295	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	33	35		
ICHINEN HOLDINGS CO., LTD.	26,458	26,458	The Company receives lease and rental services from the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	Yes
	33	34		
ITOCHU-SHOKUHIN Co., Ltd.	4,000	4,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	20	19		

Issue	FY2022 (as of March 31, 2023)	FY2021 (as of March 31, 2022)	Purposes of holding, outline of business alliance, etc., quantitative effect of holding, and reasons for increase in the number of shares	Ownership of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Carrying amount (million yen)	Carrying amount (million yen)		
Resona Holdings, Inc.	27,645	36,845	The Company continues to hold shares in the company to maintain and strengthen a good business relationship with the company for financial transactions.	Yes
	17	19		
Nitori Holdings Co., Ltd.	800	800	The Company has delivered logistics systems, etc., and continues to hold shares in the company to maintain and strengthen a good business relationship with the company and to collect domestic and international information.	No
	12	12		
MEGMILK SNOW BRAND Co., Ltd.	5,000	5,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	8	9		
LINTEC Corporation	3,000	3,000	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	6	7		
K.R.S. Corporation	2,200	2,200	The Company has delivered logistics systems, etc. to the company, and continues to hold shares in the company to maintain and strengthen a good business relationship with the company.	No
	2	2		
Taikisha Ltd.	–	107,000	–	Yes
	–	325		
TACHI-S CO., LTD.	–	32,500	–	No
	–	32		
Dai Nippon Printing Co., Ltd.	–	5,000	–	No
	–	14		

Note: It is difficult to individually specify the quantitative effect of holding, and reasons for an increase in the number of shares held for each fiscal year because the Company holds the shares based on the assumption of engaging in medium- to long-term transactions with the business partners, including after-sales services and renewal, and it becomes more important to keep trade secrets and confidential information in confidence due to an increase in the number of long-term projects in which the business partners' business strategies are involved. The Company's business strategies are based in our value chain from system development, provision of solutions, maintenance and renewal of solutions to commercialization and productization of new needs. It is hence important to maintain transactions in a medium to long term.

The rationale for shareholding is verified each year as set forth in "ii. Investment shares held for purposes other than pure investment, (i) Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual issues" mentioned above.

b. Deemed shareholdings

Not applicable

iii. Investment shares held for pure investment

Not applicable

V. Financial Information

1. Basis for Preparation of Consolidated and Non-consolidated Financial Statements
   (1) The consolidated financial statements of Daifuku Co., Ltd. (the “Company”) are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).

   (2) The non-consolidated financial statements of the Company are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter the “Regulation on Financial Statements.”)
   The Company falls under a special company submitting financial statements and prepares its financial statements pursuant to the provision of Article 127 of the Regulation on Financial Statements.

2. Audit Certificate
   The Company’s consolidated and non-consolidated financial statements for the fiscal year from April 1, 2022 to March 31, 2023 were audited by PricewaterhouseCoopers Aarata LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special Measures to Ensure the Appropriateness of Consolidated Financial Statements, etc.
   As special measures to ensure the appropriateness of the consolidated financial statements, etc., the Company joins the Financial Accounting Standards Foundation and participates in seminars, etc., to understand accounting standards properly and establish a system that allows the Company to adapt to changes in accounting standards appropriately.

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

i. Consolidated balance sheets

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
ASSETS		
Current assets		
Cash on hand and in banks	118,769	102,746
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	*1 208,915	*1 250,076
Merchandise and finished goods	7,045	8,674
Costs incurred on uncompleted construction contracts and other	*4 11,430	*4 19,211
Raw materials and supplies	22,778	38,171
Other	13,148	15,320
Allowance for doubtful accounts	(777)	(1,058)
Total current assets	381,310	433,144
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	22,734	25,601
Machinery and vehicles, net	7,799	10,590
Tools and fixtures, net	2,602	2,654
Land	12,496	12,871
Other, net	9,583	13,319
Total property, plant and equipment	*2 55,215	*2 65,037
Intangible assets		
Software	5,077	5,565
Goodwill	3,956	3,804
Other	1,687	2,084
Total intangible assets	10,720	11,454
Investments and other assets		
Investments in securities	*3 13,322	*3 12,265
Long-term loans	44	45
Assets for retirement benefits	9,002	9,038
Deferred tax assets	10,082	15,873
Other	3,627	4,693
Allowance for doubtful accounts	(3)	(0)
Total investments and other assets	36,076	41,916
Total non-current assets	102,012	118,408
Total assets	483,322	551,552

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable and construction contracts payable	48,046	63,581
Electronically recorded obligations - operating	28,084	30,503
Short-term borrowings and current portion of long-term borrowings	22,449	10,359
Income taxes payable	7,252	6,088
Contract liabilities	40,682	63,901
Provision for losses on construction contracts	*4 711	*4 451
Other	26,419	27,929
Total current liabilities	173,645	202,816
Non-current liabilities		
Long-term borrowings	3,907	1,100
Deferred tax liabilities	802	698
Liabilities for retirement benefits	7,494	7,431
Other reserves	327	432
Other	5,086	6,749
Total non-current liabilities	17,617	16,412
Total liabilities	191,263	219,228
NET ASSETS		
Shareholders' equity		
Common stock	31,865	31,865
Capital surplus	20,691	20,397
Retained earnings	227,609	256,876
Treasury stock	(901)	(899)
Total shareholders' equity	279,264	308,240
Accumulated other comprehensive income		
Net unrealized gain (loss) on securities	4,107	4,075
Deferred gain (loss) on hedges	(637)	3
Foreign currency translation adjustments	8,380	20,058
Accumulated adjustments on retirement benefits	(344)	(353)
Total accumulated other comprehensive income	11,504	23,783
Non-controlling interests	1,289	299
Total net assets	292,059	332,323
Total liabilities and net assets	483,322	551,552

The accompanying notes are an integral part of these financial statements.

ii. Consolidated statements of income and comprehensive income

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net sales	512,268	601,922
Cost of sales	*1, 2 417,968	*1, 2 492,123
Gross profit	94,299	109,799
Selling, general and administrative expenses		
Selling expenses	*3 15,162	*3 18,066
General and administrative expenses	*1, 3 28,883	*1, 3 32,878
Total selling, general and administrative expenses	44,046	50,944
Operating income	50,252	58,854
Other income		
Interest income	346	646
Dividend income	384	436
Land and house rental revenue	227	276
Other	1,065	445
Total other income	2,023	1,806
Other expenses		
Interest expenses	352	320
Foreign exchange losses	279	320
Other	391	259
Total other expenses	1,022	900
Ordinary income	51,253	59,759
Extraordinary income		
Gain on sales of property, plant and equipment	*4 7	*4 99
Gain on sales of investments in securities	234	943
Insurance claim income	215	68
Other	24	107
Total extraordinary income	481	1,219
Extraordinary loss		
Loss on sales of property, plant and equipment	*5 0	*5 6
Loss on disposal of property, plant and equipment	*6 300	*6 505
Value-added tax and other for a prior period	–	*7 2,078
Impairment loss	–	*8 819
Settlement payments	–	*9 2,400
Other	456	117
Total extraordinary loss	756	5,926
Income before income taxes	50,978	55,052
Income taxes - current	14,032	19,404
Income taxes - deferred	501	(5,606)
Total income taxes	14,534	13,797
Net income	36,444	41,255
Net income attributable to:		
Shareholders of the parent company	35,877	41,248
Non-controlling interests	566	7

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Other comprehensive income		
Net unrealized gain (loss) on securities	(267)	(31)
Deferred gain (loss) on hedges	(375)	640
Foreign currency translation adjustments	9,974	11,685
Retirement benefits reserves adjustments	553	(8)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	39	13
Total other comprehensive income (loss)	*10 9,924	*10 12,300
Comprehensive income	46,368	53,556
Comprehensive income (loss) attributable to:		
Shareholders of the parent company	45,604	53,527
Non-controlling interests	764	29

The accompanying notes are an integral part of these financial statements.

iii. Consolidated statements of changes in net assets

FY2021 (April 1, 2021–March 31, 2022)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	31,865	21,980	202,377	(941)	255,282
Cumulative effects of changes in accounting policies			(3)		(3)
Restated balance	31,865	21,980	202,374	(941)	255,278
Changes of items during the period					
Cash dividends			(10,720)		(10,720)
Net income attributable to shareholders of the parent company			35,877		35,877
Purchase of treasury stock				(14)	(14)
Disposal of treasury stock				54	54
Change in scope of consolidation			77		77
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity		(1,288)			(1,288)
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	(1,288)	25,235	39	23,985
Balance at end of year	31,865	20,691	227,609	(901)	279,264

	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 beginning of year	4,376	(260)	(1,425)	(912)	1,778	4,952	262,012
Cumulative effects of changes in accounting policies							(3)
Restated balance	4,376	(260)	(1,425)	(912)	1,778	4,952	262,009
Changes of items during the period							
Cash dividends							(10,720)
Net income attributable to shareholders of the parent company							35,877
Purchase of treasury stock							(14)
Disposal of treasury stock							54
Change in scope of consolidation							77
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity						(4,322)	(5,611)
Net changes of items other than shareholders' equity	(269)	(377)	9,805	567	9,726	660	10,386
Total changes of items during the period	(269)	(377)	9,805	567	9,726	(3,662)	30,050
Balance at end of year	4,107	(637)	8,380	(344)	11,504	1,289	292,059

FY2022 (April 1, 2022–March 31, 2023)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	31,865	20,691	227,609	(901)	279,264
Cumulative effects of changes in accounting policies					–
Restated balance	31,865	20,691	227,609	(901)	279,264
Changes of items during the period					
Cash dividends			(11,981)		(11,981)
Net income attributable to shareholders of the parent company			41,248		41,248
Purchase of treasury stock				(9)	(9)
Disposal of treasury stock		0		11	12
Change in scope of consolidation					–
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity		(294)			(294)
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	(293)	29,266	2	28,975
Balance at end of year	31,865	20,397	256,876	(899)	308,240

	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 beginning of year	4,107	(637)	8,380	(344)	11,504	1,289	292,059
Cumulative effects of changes in accounting policies							–
Restated balance	4,107	(637)	8,380	(344)	11,504	1,289	292,059
Changes of items during the period							
Cash dividends							(11,981)
Net income attributable to shareholders of the parent company							41,248
Purchase of treasury stock							(9)
Disposal of treasury stock							12
Change in scope of consolidation							–
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity						(1,019)	(1,313)
Net changes of items other than shareholders' equity	(31)	640	11,677	(8)	12,278	29	12,308
Total changes of items during the period	(31)	640	11,677	(8)	12,278	(989)	40,264
Balance at end of year	4,075	3	20,058	(353)	23,783	299	332,323

The accompanying notes are an integral part of these financial statements.

iv. Consolidated statements of cash flows

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Cash flows from operating activities		
Income before income taxes	50,978	55,052
Depreciation	7,326	8,522
Amortization of goodwill	639	711
Interest and dividend income	(731)	(1,083)
Interest expenses	352	320
Impairment loss	–	819
Loss (gain) on sales of investments in securities	(234)	(943)
Loss (gain) on disposal or sales of property, plant and equipment	292	406
Decrease (increase) in notes and accounts receivables and contract assets	12,775	(31,693)
Decrease (increase) in inventories	(3,510)	(22,812)
Increase (decrease) in notes and accounts payable	7,464	10,375
Increase (decrease) in contract liabilities	3,796	19,988
Other	(6,463)	325
Subtotal	72,686	39,988
Interest and dividend received	729	1,075
Interest paid	(404)	(309)
Income taxes refund (paid)	(17,146)	(21,075)
Other	826	355
Net cash provided by (used in) operating activities	56,691	20,034
Cash flows from investing activities		
Investments in time deposits	(3)	(272)
Proceeds from refund of time deposits	1	16
Payments for purchase of property, plant and equipment	(10,461)	(13,716)
Proceeds from sales of property, plant and equipment	53	232
Payments for purchase of investments in securities	(29)	(32)
Proceeds from sales of investments in securities	625	2,019
Collection of loans receivable	15	–
Other	(29)	(121)
Net cash provided by (used in) investing activities	(9,828)	(11,874)
Cash flows from financing activities		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(5,683)	(1,285)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	152	–
Increase (decrease) in short-term borrowings, net	(8,320)	774
Proceeds from long-term borrowings	131	–
Repayment of long-term borrowings	(1,647)	(15,900)
Proceeds from disposal of treasury stock	38	0
Payments for purchase of treasury stock	(14)	(9)
Payments of cash dividends	(10,720)	(11,982)
Other	(1,486)	(1,785)
Net cash provided by (used in) financing activities	(27,550)	(30,187)
Effect of exchange rate change on cash and cash equivalents	4,868	5,744
Net increase (decrease) in cash and cash equivalents	24,180	(16,282)
Cash and cash equivalents at beginning of year	94,079	118,672

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	412	–
Cash and cash equivalents at end of year	*1 118,672	*1 102,389

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

Significant accounting policies for preparation of consolidated financial statements

1. Scope of consolidation

Consolidated subsidiaries

Number of consolidated subsidiaries: 68

Names of major consolidated subsidiaries are omitted as they are listed in “I. Overview of the Company, 4. Subsidiaries and Other Affiliated Entities.”

2. Application of the equity method

Number of affiliates accounted for using the equity method: 1

Name of the affiliate

- Kunming Logan-KSEC Airport System Company Ltd.

As the balance sheet date of the equity-method affiliate differs from the consolidated balance sheet date, it is consolidated using the financial statements as fiscal year ending December 31.

3. Fiscal years of consolidated subsidiaries

Consolidated subsidiaries whose balance sheet date differs from the consolidated balance sheet date are as follows:

Companies with a balance sheet dated December 31

Daifuku North America Holding Company
Daifuku Canada Inc.
Daifuku Europe GmbH
Daifuku Mechatronics (Singapore) Pte. Ltd.
Daifuku (Thailand) Limited
Daifuku Korea Co., Ltd.
Clean Factomation, Inc.
Daifuku Oceania Limited
Daifuku (China) Co., Ltd.
Daifuku (China) Automation Co., Ltd.
Daifuku (China) Manufacturing Co., Ltd.
Daifuku (Suzhou) Cleanroom Automation Co., Ltd.
Taiwan Daifuku Co., Ltd.
48 other companies

These subsidiaries are consolidated using the financial statements prepared as of December 31, 2022, with necessary adjustments for significant transactions arising between that balance sheet date and the consolidated balance sheet date of March 31, 2023.

4. Accounting policies

(1) Valuation standards and methods for significant assets

i. Securities

(i) Shares of subsidiaries and affiliates

Stated at cost using the moving-average method.

(ii) Other securities

Securities other than shares, etc. that do not have a market price

Stated at fair value (with any unrealized gain or loss being recognized directly in net assets and the cost of securities sold being determined using the moving-average method).

Shares, etc. that do not have a market price

Stated at cost using the moving-average method.

ii. Derivatives

Stated at fair value.

iii. Inventories

(i) Merchandise and finished goods

Primarily stated at cost using the moving-average method (a method in which book value is written down based on any decline in profitability).

(ii) Costs incurred on uncompleted construction contracts and other

Primarily stated at cost using the job order cost method (a method in which book value is written down based on any decline in profitability).

(iii) Raw materials and supplies

Primarily stated at cost using the moving-average method (a method in which book value is written down based on any decline in profitability).

(2) Depreciation and amortization methods for significant depreciable assets

i. Property, plant and equipment (excluding leased assets)

The Company and its Japanese consolidated subsidiaries principally use the declining-balance method, while its non-Japan consolidated subsidiaries principally use the straight-line method. However, buildings (except for facilities attached to buildings) acquired by the Company and its Japanese consolidated subsidiaries on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

The Company and its Japanese consolidated subsidiaries determine useful lives and residual values according to the same standards set out in the Corporation Tax Act of Japan.

ii. Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method. Amortization of software for internal use is computed using the straight-line method over the estimated in-house working life of five years.

iii. Leased assets

(i) Leased assets in finance lease transactions that transfer ownership

Depreciated using the same method as the non-current assets in the Company's possession.

(ii) Leased assets in finance lease transactions that do not transfer ownership

Depreciated using the straight-line method over the lease term, which represents the expected useful life, to zero residual value (or the guaranteed residual value under a residual value guarantee).

(3) Accounting policy for significant provisions

i. Allowance for doubtful accounts

To prepare for losses on uncollectible receivables, the Company and its Japanese consolidated subsidiaries provide allowances for doubtful accounts based on historical default rates with respect to receivables, and specific allowances for doubtful trade receivables and advances at estimated amounts considered to be uncollectible after reviewing individual collectability. In consolidated subsidiaries, allowances are provided mainly for specific receivables at estimated amounts considered to be uncollectible after reviewing their collectability.

ii. Provision for losses on construction contracts

Provision for losses on construction contracts is provided based on estimated amounts of losses from uncompleted construction contracts as of the end of the fiscal year.

(4) Accounting method for retirement benefits

i. Allocation method of projected retirement benefits to periods of services

In calculating the retirement benefit obligations, the benefit formula method is used to allocate projected retirement benefits for the year ended March 31, 2023.

ii. Amortization methods of prior service costs and actuarial gains and losses

Prior service costs are amortized on a straight-line basis over a certain period within the average remaining service years of the employees (five years) from the time such liability arose.

The actuarial gains and losses are amortized on a straight-line basis (except some consolidated subsidiaries adopting the declining-balance method) over a certain period within the average remaining service years of the employees (five years) from the next fiscal year after such gain or loss occurs.

(5) Accounting policy for significant revenues and expenses

i. Nature of goods and services and timing of satisfaction of performance obligations

(i) Manufacture and sale of logistics systems and equipment, etc.

The Group is engaged in the manufacture and construction of logistics systems and equipment in accordance with specifications individually specified by customers in contracts.

Performance obligations under the contract are deemed to be satisfied over time, because the systems and equipment to be manufactured under the contract cannot be diverted to another use and the Group has an enforceable right to receive consideration for work completed. Accordingly, revenue from the contract is recognized based on the progress towards complete satisfaction of the performance obligations as of the end of the fiscal year, if such progress can be reasonably measured.

The progress towards complete satisfaction of the performance obligations is measured by the cost-to-cost method, i.e., costs incurred during the fiscal year ended March 31, 2023 relative to the estimated total cost to complete the work, as the cost of products installed and labor costs incurred for the work are considered proportional to the increase in assets controlled by the customer.

The estimated total cost is reviewed on an ongoing basis based on relevant information including the track record of similar projects in the past, since it is subject to change with the progress of construction and other factors.

If the progress towards complete satisfaction of the performance obligations may not be measured reasonably, but the costs incurred in satisfying the performance obligations are expected to be recovered, the cost recovery method is applied.

(ii) Manufacture and sale of electronics, car wash machines, replacement parts, etc.

The Group manufactures and sells electronics, such as industrial personal computers and interface boards, car wash machines, replacement parts for material handling systems and equipment, and other products.

Revenue from products that require installation upon delivery to customers is recognized when the product has been installed at the location designated by the customer, as this is the point in time at which the customer is deemed to have obtained control of the product and thereby the performance obligation is satisfied. That is, at that point in time, the legal title to and physical possession of the products and the significant risks and rewards of ownership of the products are deemed to have been transferred to the customer and thereby the Group is entitled to receive consideration for the transaction from the customer.

Revenue from products that do not require installation upon delivery to customers is recognized when the product has arrived at the customer, when the product has been accepted by the customer, or when the product has been delivered to the location designated by the customer under the terms and conditions of trade and other matters, as this is the point in time at which the customer is deemed to have obtained control of the product and thereby the performance obligation is satisfied. That is, at that point in time, the legal title to and physical possession of the products and the significant risks and rewards of ownership of the products are deemed to have been transferred to the customer and thereby the Group is entitled to receive consideration for the transaction from the customer.

(iii) Maintenance services after sales of products

The Group provides maintenance services, such as product maintenance and periodic inspections during a certain period of time after products are sold, or product repairs and inspections that are individually requested by customers.

Performance obligations for maintenance services rendered over a certain period of time are satisfied during the contract period over time, and revenue is recognized evenly over the contract period.

Performance obligations for maintenance services ordered individually by customers are satisfied by completing the service, such as repairs and inspections, and therefore revenue is recognized upon completion of the work.

In principle, the Group has not entered into any transactions as an agent.

ii. Determining transaction prices

Transaction prices are measured at the consideration promised in contracts with customers. There are no significant contracts or significant variable consideration related to returns.

iii. Payment terms

Consideration for manufacture and sale of logistics systems, etc. is received before or after the completion of products under the payment terms stipulated in contracts. Consideration for other transactions is received after the satisfaction of performance obligations under the payment terms stipulated in contracts. As consideration for the transactions does not contain any significant financing component, there are no contracts with customers in which consideration is adjusted for the effects of such component.

iv. Determining the amount of transaction prices allocated to performance obligations

Certain contracts provided by the Group are multiple-element transactions involving the sale of logistics systems and equipment, the sale of replacement parts, maintenance services, or product warranties.

To allocate the transaction price of multiple-element transactions to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract is determined, and the transaction price is allocated in proportion to those stand-alone selling prices.

If the stand-alone selling price of a good or service is not directly observable, it is determined, depending on the nature of transactions, mainly by estimating the cost and adding a margin for that good or service or by referring to the total transaction price of multiple-element transactions less the sum of the stand-alone selling prices of the other goods or services.

(6) Accounting policy for translating significant foreign currency assets and liabilities into Japanese yen

Accounts receivable and payable denominated in foreign currencies are translated into Japanese yen at year-end exchange rates. Resulting gains and losses are charged or credited to income for the period. The balance sheet accounts of the non-Japan subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates. Revenue and expense accounts of the non-Japan consolidated subsidiaries and affiliates are translated into Japanese yen at the average exchange rates for the year. The translation differences in Japanese yen arising from the use of different rates are recorded as "foreign currency translation adjustments" and "non-controlling interests" in the consolidated balance sheets.

(7) Method of significant hedge accounting

i. Method of hedge accounting

The deferred hedge accounting is primarily adopted. The exceptional treatment is applied to interest rate swaps that qualify for the exceptional treatment.

The allocation treatment is applied to forward exchange contracts and currency swaps that qualify for the allocation treatment.

ii. Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied are as follows:

Hedging instruments	Hedged items
Forward exchange contracts	Receivables and payables denominated in foreign currencies and future transactions denominated in foreign currencies
Currency swaps	Borrowings denominated in foreign currencies
Interest rate swaps	Borrowings

iii. Hedging policy

The risk of fluctuations in exchange rates and interest rates is principally hedged in accordance with the Company's internal rules.

iv. Method for assessing hedge effectiveness

The effectiveness of each hedge transaction for hedging instruments and hedged items is assessed at the end of every fiscal year. However, the assessment of hedging effectiveness for hedged assets and liabilities or derivatives is omitted since the hedge is expected to be highly effective where the critical terms of the hedging instruments (start date, end date, principal amount, interest rate) are identical.

v. Other risk management practices related to hedge accounting

The execution and management of hedge transactions are carried out by the finance department with approval from the authorized personnel to hedge fluctuation risk of currency rates and interest rates in accordance with internal regulations that provide transaction and authorization limits.

(8) Amortization of goodwill

Goodwill is amortized on a straight-line basis over its estimated useful life, which is the period in which cashflows are expected to be generated from the investment. However, in case of immaterial goodwill, it is expensed in the year of acquisition.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments with a maturity of three months or less from the date of acquisition, which are readily convertible into cash and exposed to only an insignificant risk of fluctuation in value.

Significant accounting estimates

1. Revenue recognition for construction contracts

(1) Amounts recorded in the consolidated financial statements

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net sales of construction contracts in which performance obligations are satisfied over time	374,278	432,383
Provision for losses on construction contracts	711	451

(2) Method of calculation and primary assumptions

Revenue is recognized based on the progress towards complete satisfaction of the performance obligations as of the end of the fiscal year if such progress can be reasonably measured. The progress towards complete satisfaction of the performance obligations is measured by costs incurred during the fiscal year ended March 31, 2023 relative to the estimated total cost to complete the work (the input method).

The estimated total cost is reviewed for each project at the end of the fiscal year based on the track record of past construction projects by taking conditions unique to the individual project into consideration in line with the agreed-upon specifications in the contract with a customer.

However, the Group's long-term contracts are distinct in terms of specifications, construction periods and other details. Therefore, the estimate of total cost for such contracts requires management judgement based on the past track record and is complex, especially for large long-term contracts. Accordingly, the estimated total cost may differ from the actual result due to unforeseen events such as changes in specifications during construction at the request of a customer, fluctuations in cost of labor per man-hour and price of materials and equipment, and additional costs incurred for modifications during construction.

To provide for potential losses on uncompleted construction contracts, provision for losses on construction contracts is recorded based on an amount of estimated losses as of the end of the fiscal year. In case any unforeseen event may cause the estimated total cost to differ from the actual total cost, the event will have an impact on provision for losses on construction contracts.

2. Impairment of property, plant and equipment and intangible assets

(1) Amounts recorded in the consolidated balance sheets

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Total of property, plant and equipment and intangible assets	65,936	76,491

(2) Method of calculation and primary assumptions

For the non-current asset group that has an impairment indicator, the Group recognized an impairment loss by reducing the carrying amount to its recoverable amount if the sum of the future undiscounted cash flows expected to be generated from the use of the assets is less than its carrying amount.

Based on information available at the end of the fiscal year, identification of an impairment indicator or recognition and measurement of an impairment loss is reasonably determined. If there are changes on conditions or assumptions used for the estimate such as a business plan or a management environment, the possibility exists that an impairment of the assets may become necessary.

Changes in accounting policies

Adoption of ASC 842 Leases

From the beginning of the fiscal year ended March 31, 2023, subsidiaries in North America that report under US GAAP apply ASC 842 Leases. As a result of the adoption of this accounting standard, the lessee in subsidiaries in North America recognize assets and liabilities for all leases on the consolidated balance sheets.

With the adoption of this accounting standard, in accordance with transition provisions, the right-of-use assets and lease liabilities are recognized at the beginning of the fiscal year ended March 31, 2023.

As a result, at the beginning of the fiscal year ended March 31, 2023, right-of-use assets included in "other" under "property, plant and equipment" increased 1,514 million yen, lease obligations included in "other" under "current liabilities" increased 449 million yen, and lease obligations included in "other" under "non-current liabilities" increased 1,127 million yen. The impact of the above changes in earnings for the fiscal year ended March 31, 2023 is not material.

Changes in presentation

"Subsidy income," which was previously presented under "other income" in the consolidated statements of income and comprehensive income, "tender offer related expenses," which was previously presented under "other expenses," and "extra retirement payments" and "loss on liquidation of affiliates," which were previously presented under "extraordinary loss," are included in "other" from the fiscal year ended March 31, 2023, due to decrease in their monetary significance. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

Accordingly, 645 million yen presented as "subsidy income" and 419 million yen presented as "other," both under "other income" in the previous fiscal year's consolidated statements of income and comprehensive income, have been reclassified into "other" in the amount of 1,065 million yen; 275 million yen presented as "tender offer related expenses" and 116 million yen presented as "other," both under "other expenses," have been reclassified into "other" in the amount of 391 million yen; 278 million yen presented as "extra retirement payments," 143 million yen presented as "loss on liquidation of affiliates" and 33 million yen presented as "other," all under "extraordinary loss," have been reclassified into "other" in the amount of 456 million yen.

Additional information

Board Benefit Trust (BBT)

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

The plan further clarifies the linkage of the remuneration for Directors, etc. with the Company's business performance as well as its stock value, which enables Directors, etc. to share the benefit of increase in stock value and the risk of decrease in stock value with shareholders. It is expected to motivate Directors, etc. to contribute to improving the Company's business performance in the medium and long terms and boosting corporate value.

(1) Outline of the transaction

The system is a stock compensation plan linked directly to the Company's business performance, under which the Company's shares are acquired through the trust using the funds that the Company contributes (hereinafter "the Trust") and remuneration is provided to the Directors, etc. through the Trust, in accordance with the stock compensation regulation for officers stipulated by the Company. The remuneration is the Company's shares (equivalent to points accrued based on titles and target achievement) and the monetary payment (equivalent to the amount obtained by converting the Company's shares at a market price as of the retirement date). As a general rule, the shares are provided to the 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 Practical Issues Task Force 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 its shares remaining in the Trust as treasury stock in net assets at the book value (excluding incidental expenses) of the Trust.

Book value and number of shares of treasury stock

455 million yen and 319 thousand shares for the fiscal year ended March 31, 2022

443 million yen and 311 thousand shares for the fiscal year ended March 31, 2023

Note: The Company conducted a three-for-one split of its common stock effective April 1, 2023. The number of treasury stock for the fiscal years ended March 31, 2022 and 2023 shown above is the number after taking the stock split into consideration.

Consolidated balance sheets

*1 Details of notes receivable, accounts receivable from completed construction contracts and other, and contract assets

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Notes receivable	3,436 million yen	4,776 million yen
Electronically recorded monetary claims - operating	7,632	8,380
Accounts receivable from completed construction contracts and other	89,563	113,981
Contract assets	108,282	122,938
Total	208,915	250,076

*2 Accumulated depreciation of property, plant and equipment

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Accumulated depreciation of property, plant and equipment	63,018 million yen	68,457 million yen

*3 Investments in securities of non-consolidated subsidiaries and affiliates

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Investments in securities (equity securities)	357 million yen	391 million yen

*4 Presentation of inventories and provision for losses on construction contracts

Inventories related to construction contracts with probable loss and provision for losses on construction contracts are both presented without being offset.

Amounts of inventories for which provision for losses on construction contracts is provided

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Costs incurred on uncompleted construction contracts and other	35 million yen	30 million yen

Consolidated statements of income and comprehensive income

*1 R&D expenditures included in general and administrative expenses and manufacturing costs are as follows:

FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
10,735 million yen	10,496 million yen

*2 Provision for losses on construction contracts included in cost of sales is as follows:

FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
344 million yen	(283) million yen

*3 Major items of selling, general and administrative expenses and their amounts are as follows:

Major items of selling expenses

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Sales commissions	637 million yen	945 million yen
Advertising	216	300
Outsourcing	586	587
Salaries and bonuses	8,229	8,855
Retirement benefit expenses	208	242
Welfare	1,396	1,546
Travel and transportation	664	1,032
Rent	332	364
Depreciation	284	461

Major items of general and administrative expenses

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Outsourcing	3,469	million yen	4,235	million yen
Directors' remuneration	1,028		1,032	
Salaries and bonuses	12,202		13,969	
Retirement benefit expenses	411		347	
Welfare	1,895		2,042	
Depreciation	2,571		2,772	
R&D	3,626		4,005	

*4 Major items of gain on sales of property, plant and equipment are as follows:

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Buildings	–	million yen	49	million yen
Machinery and equipment	0		43	
Vehicles	6		4	

*5 Major items of loss on sales of property, plant and equipment are as follows:

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Machinery and equipment	–	million yen	4	million yen
Tools and fixtures	0		0	

*6 Major items of loss on disposal of property, plant and equipment are as follows:

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Buildings	96	million yen	326	million yen
Structures	7		5	
Machinery and equipment	81		107	
Tools and fixtures	13		7	
Leased assets	100		5	
Software	1		2	

*7 Value-added tax and other for a prior period recorded in the fiscal year ended March 31, 2023 represents the taxes incurred in the current year as a result of a tax audit related to prior years by tax authorities outside of Japan which were completed in the current year.

*8 The Group recognized an impairment loss for the following assets.
In the fiscal year ended March 31, 2023, the Group reviewed the recoverability of assets held by Daifuku (China) Automation Co., Ltd., and identified that the recoverable amount was lower than the carrying amount. Accordingly, the Group reduced the carrying amount to its recoverable amount and recorded the reduction of 819 million yen as an impairment loss under extraordinary loss.

Major items of the impairment loss are buildings of 509 million yen, machinery and equipment of 114 million yen, and leased assets of 100 million yen.

These are operating assets, and the recoverable amount was measured at value in use calculated using a discount rate of 13.5%.

*9 Settlement package recorded in the fiscal year ended March 31, 2023 mainly relates to construction projects for customers of affiliates.

*10 Reclassification adjustments and tax effects related to other comprehensive income

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net unrealized gain (loss) on securities:		
Amount arising during the period	(129)	896
Reclassification adjustment	(236)	(943)
Pretax amount	(365)	(47)
Tax effect	98	15
Net unrealized gain (loss) on securities	(267)	(31)
Deferred gain (loss) on hedges:		
Amount arising during the period	(673)	366
Reclassification adjustment	141	546
Pretax amount	(531)	913
Tax effect	156	(272)
Deferred gain (loss) on hedges	(375)	640
Foreign currency translation adjustments:		
Amount arising during the period	9,974	11,730
Reclassification adjustment	–	(44)
Foreign currency translation adjustments	9,974	11,685
Retirement benefits reserves adjustments		
Amount arising during the period	396	(274)
Reclassification adjustment	151	55
Pretax amount	547	(218)
Tax effect	5	210
Retirement benefits reserves adjustments	553	(8)
Share of other comprehensive income of affiliates accounted for using the equity method:		
Amount arising during the period	39	13
Reclassification adjustment	–	–
Share of other comprehensive income of affiliates accounted for using the equity method	39	13
Total other comprehensive income	9,924	12,300

Consolidated statements of changes in net assets

FY2021 (April 1, 2021–March 31, 2022)

1. Matters regarding issued shares

Class of shares	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Common stock (thousand shares)	126,610	–	–	126,610

2. Matters regarding treasury stock

Class of shares	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Common stock (shares)	604,068	1,502	12,700	592,870

Notes: 1. Overview of reasons for change

Details of increases in the number of treasury stock are as follows:

Increase due to the repurchase of less-than-a-unit shares: 1,502 shares

Details of decreases in the number of treasury stock are as follows:

Decrease due to the disposal from Custody Bank of Japan, Ltd. (trust account E) under the Board Benefit Trust (BBT): 12,700 shares

2. The number of treasury stock includes the number of the Company's common stock held by Custody Bank of Japan, Ltd. (trust account E).

The details are as follows:

Custody Bank of Japan, Ltd. (trust account E)

As of April 1, 2021: 119,200 shares

As of March 31, 2022: 106,500 shares

3. Matters regarding share warrants

Not applicable

4. Matters regarding dividends

(1) Dividends paid

Resolution adopted	Class of shares	Aggregate dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting on May 11, 2021	Common stock	6,306	50	March 31, 2021	June 28, 2021
Board of Directors meeting on November 5, 2021	Common stock	4,414	35	September 30, 2021	December 3, 2021

Notes: 1. Aggregate dividends resolved at the Board of Directors meeting on May 11, 2021 include dividends of 5 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program and dividends of 0 million yen on the Company's shares (treasury stock) held by the E-Ship Trust in The Nomura Trust and Banking Co., Ltd. under the E-Ship program.

2. Aggregate dividends resolved at the Board of Directors meeting on November 5, 2021 include dividends of 3 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program.

(2) Dividends with a record date during the fiscal year, but an effective date in the following fiscal year

Resolution adopted	Class of shares	Source of dividends	Aggregate dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting on May 13, 2022	Common stock	Retained earnings	6,936	55	March 31, 2022	June 27, 2022

Note: Aggregate dividends include dividends of 5 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program.

FY2022 (April 1, 2022–March 31, 2023)

1. Matters regarding issued shares

Class of shares	As of April 1, 2022	Increase	Decrease	As of March 31, 2023
Common stock (thousand shares)	126,610	–	–	126,610

2. Matters regarding treasury stock

Class of shares	As of April 1, 2022	Increase	Decrease	As of March 31, 2023
Common stock (shares)	592,870	1,250	2,885	591,235

Notes: 1 Overview of reasons for change

Details of increases in the number of treasury stock are as follows:

Increase due to the repurchase of less-than-a-unit shares: 1,250 shares

Details of decreases in the number of treasury stock are as follows:

Decrease due to the sale of less-than-a-unit shares: 85 shares

Decrease due to the disposal from Custody Bank of Japan, Ltd. (trust account E) under the Board Benefit Trust (BBT): 2,800 shares

2. The number of treasury stock includes the number of the Company’s common stock held by Custody Bank of Japan, Ltd. (trust account E).

The details are as follows:

Custody Bank of Japan, Ltd. (trust account E)

As of April 1, 2022: 106,500 shares

As of March 31, 2023: 103,700 shares

3. The Company conducted a three-for-one split of its common stock effective April 1, 2023. The number of shares of common stock shown above is the number of shares before the stock split.

3. Matters regarding share warrants

Not applicable

4. Matters regarding dividends

(1) Dividends paid

Resolution adopted	Class of shares	Aggregate dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting on May 13, 2022	Common stock	6,936	55	March 31, 2022	June 27, 2022
Board of Directors meeting on November 8, 2022	Common stock	5,044	40	September 30, 2022	December 5, 2022

Notes: 1. Aggregate dividends resolved at the Board of Directors meeting on May 13, 2022 include dividends of 5 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program.

2. Aggregate dividends resolved at the Board of Directors meeting on November 8, 2022 include dividends of 4 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program.

(2) Dividends with a record date during the fiscal year, but an effective date in the following fiscal year

Resolution adopted	Class of shares	Source of dividends	Aggregate dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting on May 12, 2023	Common stock	Retained earnings	8,828	70	March 31, 2023	June 26, 2023

Notes: 1. Aggregate dividends include dividends of 7 million yen on the Company's shares (treasury stock) held by the BBT in Custody Bank of Japan, Ltd. (trust account E) under the BBT program.

2. The Company conducted a three-for-one split of its common stock effective April 1, 2023. The above information shows the actual dividend amount before the stock split.

Consolidated statements of cash flows

*1 The components of cash and cash equivalents as of March 31, 2023 and 2022 were as follows:

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Cash on hand and in banks	118,769 million yen	102,746 million yen
Time deposits with original maturities exceeding three months	(96)	(357)
Cash and cash equivalents	118,672	102,389

Leases

Operating leases

As a lessee

Future lease payments for non-cancellable leases

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Due within one year	551	16
Due after one year	1,272	23
Total	1,824	39

Financial instruments

1. Status of financial instruments

(1) Policy for financial instruments

In consideration of capital investment plans to operate the manufacturing and sales activities principally of material handling systems and equipment, the Group raises necessary funds mainly through bank borrowings or issuance of bonds, while short-term working capital is raised by bank borrowings. Temporary cash surpluses, if any, are invested in low risk short-term financial instruments. The Group uses derivatives for the purpose of hedging the risk of foreign currency exchange rate fluctuations related to foreign currency-denominated trade receivables and payables and the interest rate fluctuation risk associated with interest expenses on borrowings, and does not engage in speculative transactions as its policy.

(2) Types of financial instruments, related risks and management thereof

Trade receivables (“notes receivable, accounts receivable from completed construction contracts and other, and contract assets”) are exposed to customer credit risks. The Group manages such risks by following its credit control regulations. As a rule, when entering a transaction with a new customer, the Group carefully makes credit decisions, after which the sales administration of each operating division monitors the customer’s condition periodically. The Group is then able to identify at an early stage and mitigate the risks resulting from a downturn of the financial situations, by managing each customer’s due dates and outstanding balances. Trade receivables denominated in foreign currencies are exposed to the risk of foreign currency exchange rate fluctuations, but such risk is hedged principally by using forward exchange contracts. Investments in securities, mainly consisting of equity securities of customers and suppliers with whom the Group has business relationships, are exposed to the risk of market price fluctuations. With respect to such risk, the Group periodically monitors market prices of the securities, financial conditions and other information of the issuers.

Trade payables (“notes and accounts payable and construction contracts payable” and “electronically recorded obligations - operating”) are mostly due within one year. Trade payables include foreign currency-denominated amounts related to overseas construction work and, as such, are exposed to currency exchange rate fluctuation risk. However, the balance of these accounts consistently stays within the outstanding total amount of foreign currency-denominated trade accounts receivable. Short-term borrowings are used for raising funds mainly for working capital, while long-term borrowings and corporate bonds are funding primarily for capital investment. Borrowings with variable interest rates (floating-rate borrowings) are exposed to the interest rate fluctuation risk. However, with regard to the long-term floating-rate borrowings, the Group uses interest rate swap transactions to fix the rate of future interest expenses as a hedge against the interest rate fluctuation risk. Trade payables, borrowings and corporate bonds are all exposed to liquidity risk at the time of debt settlement. The Group manages such risk by timely preparing cash management plans, as well as by flexibly adjusting liquidity on hand through the use of lending commitment lines from several financial institutions.

The finance department executes derivative transactions and conducts relevant administrative procedures (such as bookkeeping and confirmation of transaction balances with the counterparties) in accordance with the Group’s internal derivative control regulations including transaction authorization and administrative structure. The Group enters into derivative transactions only with highly creditworthy financial institutions. For information regarding hedge accounting, such as hedging instruments, hedged items, hedging policy and method for assessing hedge effectiveness, see “(7) Method of significant hedge accounting” described previously under “4. Accounting policies.”

(3) Supplementary explanation concerning fair values of financial instruments

The fair values of financial instruments include values based on the market price, and reasonably calculated values in cases where market price is not readily available. In the calculation of such values, variable factors are also taken into consideration, and, therefore, the values calculated may vary if different factors or assumptions are employed. The contract amounts and other information provided in “Derivative transactions” are not necessarily indicative of the amounts of the actual market risk involved in derivative transactions.

2. Fair value of financial instruments

The balance sheet carrying amount and fair value of financial instruments and their differences are as follows.

"Cash on hand and in banks" are deposits, "short-term borrowings and current portion of long-term borrowings" are due within one year, and "notes and accounts payable and construction contracts payable" and "electronically recorded obligations - operating" are settled in a short period of time. Accordingly, since the fair value of those financial instruments approximates their carrying amount, they are omitted.

FY2021 (as of March 31, 2022)

	Carrying amount on consolidated balance sheets (million yen)	Fair value (million yen)	Difference (million yen)
(1) Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	208,915	208,787	(128)
(2) Investments in securities			
Other securities	12,413	12,413	–
Total assets	221,328	221,200	(128)
Long-term borrowings	3,907	3,891	(16)
Total liabilities	3,907	3,891	(16)
Derivative transactions (*)	(905)	(905)	–

(*) Receivables and payables resulted from derivative transactions are presented in net amount. The amounts in parentheses indicate net payables.

FY2022 (as of March 31, 2023)

	Carrying amount on consolidated balance sheets (million yen)	Fair value (million yen)	Difference (million yen)
(1) Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	250,076	249,473	(603)
(2) Investments in securities			
Other securities	11,323	11,323	–
Total assets	261,399	260,796	(603)
Long-term borrowings	1,100	1,086	13
Total liabilities	1,100	1,086	13
Derivative transactions (*)	8	8	–

(*) Receivables and payables resulted from derivative transactions are presented in net amount. The amounts in parentheses indicate net payables.

Notes: 1. The carrying amount on the consolidated balance sheets of shares, etc. that do not have a market price

(Million yen)

Category	March 31, 2022	March 31, 2023
Unlisted securities	909	942

As these securities have no quoted market prices, they are excluded from "Assets (2) Investments in securities." The unlisted securities include the investments in non-consolidated subsidiaries and affiliates, amounting to 357 million yen and 391 million yen as of March 31, 2022 and 2023, respectively.

2. The expected settlement subsequent to the consolidated balance sheet date for monetary receivables and investments in securities with maturity dates

FY2021 (as of March 31, 2022)

(Million yen)

	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years
Cash on hand and in banks	118,769	–	–	–
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	206,584	2,330	–	–
Total	325,353	2,330	–	–

FY2022 (as of March 31, 2023)

(Million yen)

	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years
Cash on hand and in banks	102,746	–	–	–
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	248,918	1,158	–	–
Total	351,665	1,158	–	–

3. The expected redemption subsequent to the consolidated balance sheet date for long-term borrowings and other interest-bearing liabilities

FY2021 (as of March 31, 2022)

(Million yen)

	Due within 1 year	Due after 1 year and within 2 years	Due after 2 years and within 3 years	Due after 3 years and within 4 years	Due after 4 years and within 5 years	Due after 5 years
Short-term borrowings	6,519	–	–	–	–	–
Long-term borrowings	15,929	2,700	1,000	–	207	–
Total	22,449	2,700	1,000	–	207	–

FY2022 (as of March 31, 2023)

(Million yen)

	Due within 1 year	Due after 1 year and within 2 years	Due after 2 years and within 3 years	Due after 3 years and within 4 years	Due after 4 years and within 5 years	Due after 5 years
Short-term borrowings	7,659	–	–	–	–	–
Long-term borrowings	2,700	1,000	–	100	–	–
Total	10,359	1,000	–	100	–	–

3. The breakdown for each level of fair value of financial instruments and other disclosures

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at fair value

FY2021 (as of March 31, 2022)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Securities and investments in securities				
Other securities				
Investments in securities	12,413	–	–	12,413
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total assets	12,413	–	–	12,413
Derivative transactions				
Currency-related	–	905	–	905
Interest-related	–	–	–	–
Total liabilities	–	905	–	905

FY2022 (as of March 31, 2023)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Securities and investments in securities				
Other securities				
Investments in securities	11,323	–	–	11,323
Derivative transactions				
Currency-related	–	8	–	8
Interest-related	–	–	–	–
Total assets	11,323	8	–	11,331
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total liabilities	–	–	–	–

(2) Financial instruments other than those measured at fair value

FY2021 (as of March 31, 2022)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	–	208,787	–	208,787
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total assets	–	208,787	–	208,787
Long-term borrowings	–	3,891	–	3,891
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total liabilities	–	3,891	–	3,891

FY2022 (as of March 31, 2023)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	–	249,473	–	249,473
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total assets	–	249,473	–	249,473
Long-term borrowings	–	1,086	–	1,086
Derivative transactions				
Currency-related	–	–	–	–
Interest-related	–	–	–	–
Total liabilities	–	1,086	–	1,086

Note: A description of the valuation techniques and inputs used in the fair value measurements

Securities and investments in securities

Listed equity securities are valued using quoted prices. As listed equity securities are traded in active markets, their fair value is classified as Level 1.

Derivative transactions

The fair value of interest rate swaps and forward exchange contracts is measured using the discounted cash flow method based on observable inputs quoted by counterparty financial institutions, such as interest rates and exchange rates, and is classified as Level 2.

Notes receivable, accounts receivable from completed construction contracts and other, and contract assets

The fair value of these items is measured using the discounted cash flow method based on the amount of receivables, period to maturity and an interest rate reflecting credit risk, for each receivable categorized by a specified period, and is classified as Level 2.

Long-term borrowings

The fair value of these items is measured using the discounted cash flow method based on the sum of principal and interest, remaining maturities and an interest rate reflecting credit risk, and is classified as Level 2.

Securities

1. Held-to-maturity debt securities

Description is omitted due to immateriality.

2. Other securities

FY2021 (as of March 31, 2022)

	Type	Carrying amount on consolidated balance sheets (million yen)	Acquisition cost (million yen)	Difference (million yen)
Securities whose carrying amount on the consolidated balance sheets exceeds the acquisition cost	(1) Equity securities	11,984	6,064	5,920
	(2) Debt securities			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	11,984	6,064	5,920
Securities whose carrying amount on the consolidated balance sheets does not exceed the acquisition cost	(1) Equity securities	980	1,029	(49)
	(2) Debt securities			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	980	1,029	(49)
Total		12,964	7,094	5,870

Notes: 1. The acquisition costs in the above table represent carrying amounts after impairment adjustment.

2. The Group recorded impairment losses of 2 million yen for the fiscal year ended March 31, 2022. In general, the Group recognizes an impairment loss when the fair value of the security decreases by 50% or more from its acquisition cost as it is deemed as a significant decline.

Furthermore, the Group recognizes an impairment loss when the fair value of the security continuously decreases for two years by 40% or more and below 50% from the acquisition cost.

FY2022 (as of March 31, 2023)

	Type	Carrying amount on consolidated balance sheets (million yen)	Acquisition cost (million yen)	Difference (million yen)
Securities whose carrying amount on the consolidated balance sheets exceeds the acquisition cost	(1) Equity securities	11,323	5,499	5,823
	(2) Debt securities			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	11,323	5,499	5,823
Securities whose carrying amount on the consolidated balance sheets does not exceed the acquisition cost	(1) Equity securities	551	551	–
	(2) Debt securities			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	551	551	–
Total		11,874	6,051	5,823

Notes: 1. The acquisition costs in the above table represent carrying amounts after impairment adjustment.
2. The Group did not record an impairment loss for the fiscal year ended March 31, 2023. In general, the Group recognizes an impairment loss when the fair value of the security decreases by 50% or more from its acquisition cost as it is deemed as a significant decline.
Furthermore, the Group recognizes an impairment loss when the fair value of the security continuously decreases for two years by 40% or more and below 50% from the acquisition cost.

3. Held-to-maturity debt securities sold during the fiscal years ended March 31, 2022 and 2023

Not applicable

4. Other securities sold during the fiscal years ended March 31, 2022 and 2023

FY2021 (April 1, 2021–March 31, 2022)

Type	Sale value (million yen)	Gain on sales (million yen)	Loss on sales (million yen)
Equity securities	634	234	–

FY2022 (April 1, 2022–March 31, 2023)

Type	Sale value (million yen)	Gain on sales (million yen)	Loss on sales (million yen)
Equity securities	2,019	943	–

Derivative transactions

1. Derivative transactions to which hedge accounting is not applied

FY2021 (as of March 31, 2022)

Not applicable

FY2022 (as of March 31, 2023)

Category	Type	Contract amount (million yen)	Contract amount due after one year (million yen)	Fair value (million yen)	Gain (loss) on valuation (million yen)
Non-market transactions	Forward exchange contracts				
	Sell				
	USD	16	–	1	1
	EUR	48	–	1	1
Total		65	–	3	3

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related

FY2021 (as of March 31, 2022)

(Million yen)

Method of hedge accounting	Category of derivative transactions	Major hedged items	Contract amount	Of which due after one year	Fair value
Principal method	Forward exchange contracts				
	Sell				
	USD	Accounts receivable (future transaction)	3,135	–	(208)
	CAD	Accounts receivable (future transaction)	146	–	12
	KRW	Accounts receivable (future transaction)	3,979	–	(226)
	THB	Accounts receivable (future transaction)	598	–	(37)
	CNY	Accounts receivable (future transaction)	1,771	–	(138)
	TWD	Accounts receivable (future transaction)	791	–	(59)
	SGD	Accounts receivable (future transaction)	103	–	(8)
	AUD	Accounts receivable (future transaction)	188	–	(85)
	EUR	Accounts receivable (future transaction)	2,615	–	(124)
	INR	Accounts receivable (future transaction)	40	–	(3)
	IDR	Accounts receivable (future transaction)	180	–	(16)
	Buy				
	THB	Accounts payable (future transaction)	(87)	–	5
	TWD	Accounts payable (future transaction)	(25)	–	1
	USD	Accounts payable (future transaction)	(611)	–	27
	CNY	Accounts payable (future transaction)	(161)	–	12
	EUR	Accounts payable (future transaction)	(1,438)	–	(55)
Allocation treatment of forward exchange contracts, etc.	Forward exchange contracts				
	Sell				
	USD	Accounts receivable	3,922	–	(*1)
	KRW	Accounts receivable	2,448	–	
	TWD	Accounts receivable	478	–	
	CNY	Accounts receivable	2,140	–	
	THB	Accounts receivable	264	–	
	INR	Accounts receivable	36	–	
	EUR	Accounts receivable	21	–	
	IDR	Accounts receivable	1	–	
	Buy				
	THB	Accounts payable	(25)	–	(*1)
	Currency swaps				
	USD	Long-term borrowings	3,000	–	(*2)
Total			23,516	–	(905)

(*1) Forward exchange contracts with the allocation treatment are accounted for together with the major hedged items of "notes receivable, accounts receivable from completed construction contracts and other, and contract assets" and "notes and accounts payable and construction contracts payable." Therefore, the fair value of forward exchange contracts is included in the fair value of those hedged items.

(*2) Currency swaps with the allocation treatment are accounted for together with the major hedged item of "long-term borrowings." Therefore, the fair value of currency swaps is included in the fair value of "long-term borrowings."

FY2022 (as of March 31, 2023)

(Million yen)

Method of hedge accounting	Category of derivative transactions	Major hedged items	Contract amount	Of which due after one year	Fair value
Principal method	Forward exchange contracts				
	Sell				
	USD	Accounts receivable (future transaction)	2,501	–	53
	KRW	Accounts receivable (future transaction)	2,184	–	(16)
	THB	Accounts receivable (future transaction)	270	–	(9)
	CNY	Accounts receivable (future transaction)	1,286	–	(7)
	TWD	Accounts receivable (future transaction)	385	–	(4)
	SGD	Accounts receivable (future transaction)	73	–	(0)
	EUR	Accounts receivable (future transaction)	3,061	–	(56)
	INR	Accounts receivable (future transaction)	87	–	0
	IDR	Accounts receivable (future transaction)	35	–	(2)
	Buy				
	THB	Accounts payable (future transaction)	(43)	–	0
	JPY	Accounts payable (future transaction)	(282)	–	13
	USD	Accounts payable (future transaction)	(404)	–	(30)
	CNY	Accounts payable (future transaction)	(1,749)	–	26
	EUR	Accounts payable (future transaction)	(850)	–	39
Allocation treatment of forward exchange contracts, etc.	Forward exchange contracts				(*1)
	Sell				
	USD	Accounts receivable	3,570	–	
	KRW	Accounts receivable	1,599	–	
	TWD	Accounts receivable	257	–	
	CNY	Accounts receivable	787	–	
	THB	Accounts receivable	758	–	
	SGD	Accounts receivable	146	–	
	INR	Accounts receivable	29	–	
	EUR	Accounts receivable	643	–	
	IDR	Accounts receivable	37	–	
Total			14,386	–	5

(*1) Forward exchange contracts with the allocation treatment are accounted for together with the major hedged items of “notes receivable, accounts receivable from completed construction contracts and other, and contract assets” and “notes and accounts payable and construction contracts payable.” Therefore, the fair value of forward exchange contracts is included in the fair value of those hedged items.

(2) Interest-related

FY2021 (as of March 31, 2022)

(Million yen)

Method of hedge accounting	Category of derivative transactions	Major hedged item	Contract amount	Of which due after one year	Fair value	Method of measuring fair value
Exceptional treatment of interest rate swaps	Interest rate swaps Fixed payment/ Variable receipt	Long-term borrowings	8,700	–	(*)	
Total			8,700	–	–	

(*) Interest rate swaps with the exceptional treatment are accounted for together with the major hedged item of “long-term borrowings.” Therefore, the fair value of interest rate swaps is included in the fair value of “long-term borrowings.”

FY2022 (as of March 31, 2023)

Not applicable

Retirement benefits

1. Overview of retirement benefit plans adopted

The Company and its Japanese consolidated subsidiaries have lump-sum severance indemnity plans, defined contribution plans, and a hybrid type of pension plans (cash balance plans). In addition, the Company has established a retirement benefit trust.

Certain non-Japan consolidated subsidiaries have defined contribution plans as well as defined benefit plans.

In defined benefit plans of certain consolidated subsidiaries, liabilities for retirement benefits and retirement benefit expenses are calculated using the simplified method.

The cash balance plan is the Group's defined benefit pension plan, which was established by the Company and its Japanese consolidated subsidiaries. This pension plan is a multiple employer plan. Notes for the retirement benefits based on the multiple employer plan are included in the notes for the retirement benefits based on defined benefit plans.

2. Defined benefit plans (including multi-employer corporate pension plans)

(1) Movements in retirement benefit obligations (excluding the plans using the simplified method)

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Balance at beginning of year	37,077	37,846
Service cost	1,293	1,284
Interest cost	246	303
Accrued actuarial gains and losses	(346)	(2,347)
Payments for retirement benefits	(1,806)	(1,894)
Foreign currency translation adjustments	1,377	1,405
Other*	4	(5,873)
Balance at end of year	37,846	30,723

*The "Other" includes a decrease of 5,876 million yen associated with a buyout of the defined benefit pension plan of our consolidated subsidiary, Jervis B. Webb Company.

(2) Movements in plan assets (excluding the plans using the simplified method)

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Balance at beginning of year	37,378	39,660
Expected return on plan assets	1,407	1,217
Accrued actuarial gains and losses	125	(3,509)
Employer contributions	493	437
Payments for retirement benefits	(1,134)	(1,166)
Foreign currency translation adjustments	1,327	1,423
Other*	63	(5,873)
Balance at end of year	39,660	32,189

*The "Other" includes a decrease of 5,876 million yen associated with a buyout of the defined benefit pension plan of our consolidated subsidiary, Jervis B. Webb Company.

(3) Movements in liabilities for retirement benefits in the plans using the simplified method

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Balance at beginning of year	271	339
Retirement benefit expenses	553	895
Payments for retirement benefits	(41)	(28)
Contributions to the plans	(378)	(1,112)
Foreign currency translation adjustments	(8)	(37)
Other	(57)	(81)
Balance at end of year	339	(25)

(4) Reconciliation of retirement benefit obligations and plan assets at the end of the year to liabilities for retirement benefits and assets for retirement benefits on the consolidated balance sheets

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Retirement benefit obligations in funded plans	40,628	34,313
Plan assets	(43,326)	(37,031)
	(2,698)	(2,718)
Retirement benefit obligations in unfunded plans	1,225	1,226
Other	(33)	(114)
Net liabilities and assets on consolidated balance sheets	(1,507)	(1,606)
Liabilities for retirement benefits	7,494	7,431
Assets for retirement benefits	(9,002)	(9,038)
Net liabilities and assets on consolidated balance sheets	(1,507)	(1,606)

Note: The plans using the simplified method are included.

(5) Details of retirement benefit expenses

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Service cost	1,293	1,284
Interest cost	246	303
Expected return on plan assets	(1,407)	(1,217)
Amortization of actuarial gains and losses	156	80
Retirement benefit expenses using the simplified method	553	895
Other	(10)	(62)
Retirement benefit expenses on defined benefit plans	833	1,283

(6) Retirement benefits reserves adjustments

Details of retirement benefits reserves adjustments before tax effect are as follows:

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Actuarial gains and losses	(547)	218
Total	(547)	218

(7) Accumulated adjustments on retirement benefits

Details of accumulated adjustments on retirement benefits before tax effect are as follows:

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Unrecognized actuarial gains and losses	365	584
Total	365	584

(8) Matters regarding plan assets

i. Major components of plan assets

Percentages of each major category of the plan assets are as follows:

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Equity securities	26%	28%
Debt securities	42%	38%
General accounts at life insurance	12%	14%
Cash on hand and in banks	16%	17%
Other	4%	3%
Total	100%	100%

Note: The retirement benefit trust set up for the corporate pension plans represents 14% and 16% of the total plan assets as of March 31, 2022 and 2023, respectively.

ii. Determination procedure of expected long-term rate of return on plan assets

To determine the expected long-term rate of return on plan assets, the Group considers the current and forecast allocation of plan assets and the current and expected long-term rates of return on the diverse assets that compose the plan assets.

(9) Assumptions for actuarial calculations

Major assumptions for actuarial calculations as of the end of the fiscal year

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Discount rate	0.075%–7.5%	0.075%–7.36%
Expected long-term rate of return on plan assets	1.0%–6.15%	1.0%–7.00%

Note: The Group does not use the expected rate of increase in salary for calculating retirement benefit obligation, mainly attributable to the adoption of a point-based plan.

3. Defined contribution plans

The amount of contributions required under the defined contribution plans of the Company and its consolidated subsidiaries as of March 31, 2022 and 2023 were 1,258 million yen and 1,436 million yen, respectively.

Stock options, etc.

Not applicable

Tax effect accounting

1. Significant components of deferred tax assets and liabilities

	FY2021 (as of March 31, 2022)		FY2022 (as of March 31, 2023)	
Deferred tax assets:				
Experimentation and research expenses	3,642	million yen	9,349	million yen
Accrued expenses	3,462		3,350	
Unrealized profit on inventories	124		143	
Liabilities for retirement benefits	1,787		1,688	
Loss carried forward	2,447		2,501	
Unrealized gain on sales of property, plant and equipment	597		597	
Loss on valuation of investments in securities	15		10	
Excess depreciation	82		94	
Accrued business tax	355		306	
Foreign tax credit carried forward	–		1,022	
Other	2,748		2,261	
Subtotal deferred tax assets	15,264		21,327	
Valuation allowance	(1,827)		(2,103)	
Offset against deferred tax liabilities	(3,354)		(3,350)	
Total deferred tax assets	10,082		15,873	
Deferred tax liabilities:				
Net unrealized gain on assets of consolidated subsidiaries	652		636	
Reserve for tax purpose reduction entry of non-current assets	126		124	
Net unrealized gain (loss) on securities	1,743		1,728	
Retained profit	1,136		1,151	
Other	497		408	
Subtotal deferred tax liabilities	4,157		4,049	
Offset against deferred tax assets	(3,354)		(3,350)	
Total deferred tax liabilities	802		698	

Changes in presentation

"Provision for losses on construction contracts," which was previously presented separately under "deferred tax assets" is included in "other" from the fiscal year ended March 31, 2023, due to decrease in its monetary significance.

Accordingly, 98 million yen presented as "provision for losses on construction contracts" and 2,650 million yen presented as "other," both under "deferred tax assets" in the previous fiscal year, have been reclassified into "other" in the amount of 2,748 million yen.

2. Reconciliation between the statutory tax rate and the effective tax rate after applying tax effect accounting

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Statutory tax rate	30.6%	30.6%
Adjustments:		
Permanent difference arising from non-deductible expenses (e.g., entertainment expenses)	0.5%	0.4%
Taxation on per capita basis	0.2%	0.2%
Increase in valuation allowance	0.9%	(0.9)%
Tax rate difference applied to non-Japan subsidiaries	(1.6)%	(2.2)%
Amortization of goodwill	0.1%	0.1%
Tax effects on retained profit of non-Japan subsidiaries	0.7%	0.0%
Tax credit	(3.0)%	(3.4)%
Other	0.1%	0.3%
Effective tax rate after applying tax effect accounting	28.5%	25.1%

Revenue recognition

There are four reportable segments in the Group: Daifuku Co., Ltd.; Contec Co., Ltd. and its subsidiaries (Contec); Daifuku North America Holding Company and its subsidiaries (Daifuku North America); and Clean Factomation, Inc. Revenue is disaggregated by industry and destination for each reportable segment.

For details regarding reportable segments, see Segment Information described later.

1. Information of disaggregated revenue from contracts with customers

FY2021 (April 1, 2021–March 31, 2022)

(1) Disaggregation information by industry

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Automobile, auto parts	19,075	165	17,447	–	36,687	22,351	59,039
Electronics	67,935	1,361	19,298	28,671	117,267	34,112	151,379
Commerce, retail	67,805	7,662	57,052	–	132,519	22,612	155,132
Transportation, warehousing	21,356	85	7,872	–	29,314	3,552	32,867
Machinery	9,111	930	229	–	10,270	1,307	11,578
Chemicals, pharmaceuticals	10,507	4,193	32	–	14,732	2,875	17,608
Food	14,714	0	2,147	–	16,862	3,223	20,085
Iron, steel, nonferrous metals	3,395	16	12	–	3,423	100	3,524
Precision equipment, printing, office equipment	2,880	1,041	5	–	3,927	2,351	6,279
Airport	1,776	131	30,740	–	32,648	11,108	43,757
Other	6,498	209	5,637	–	12,344	1,269	13,614
Sales to external customers	225,057	15,798	140,473	28,671	410,001	104,865	514,867
Other adjustments for consolidation	–	–	–	–	–	–	(2,598)
Net sales in consolidated financial statements	–	–	–	–	–	–	512,268

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

(2) Disaggregation information by destination

(Million yen)

			Reportable segments					Other*	Total
			Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Japan			160,986	9,646	30	–	170,663	12,118	182,781
Non- Japan			64,071	6,151	140,443	28,671	239,337	92,747	332,085
	North America		999	4,793	127,452	14	133,260	3,502	136,762
	Asia		60,577	1,117	699	28,657	91,051	73,274	164,326
		China	18,836	601	111	1,362	20,911	36,365	57,276
		South Korea	9,833	164	–	27,295	37,292	9,292	46,585
		Taiwan	31,254	185	–	–	31,440	17,617	49,057
		Other	653	165	587	–	1,406	9,999	11,406
	Europe		2,168	230	8,706	–	11,105	4,711	15,816
	Latin America		54	2	2,946	–	3,003	2,208	5,212
	Other		270	6	638	–	916	9,051	9,967
Sales to external customers			225,057	15,798	140,473	28,671	410,001	104,865	514,867
Other adjustments for consolidation			–	–	–	–	–	–	(2,598)
Net sales in consolidated financial statements			–	–	–	–	–	–	512,268

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

(3) Disaggregation information by timing of revenue recognition

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Performance obligations satisfied at a point in time	47,209	12,423	13,719	793	74,146	23,647	97,793
Performance obligations satisfied over time	177,847	3,374	126,754	27,878	335,854	81,218	417,073
Sales to external customers	225,057	15,798	140,473	28,671	410,001	104,865	514,867
Other adjustments for consolidation	–	–	–	–	–	–	(2,598)
Net sales in consolidated financial statements	–	–	–	–	–	–	512,268

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

FY2022 (April 1, 2022–March 31, 2023)

(1) Disaggregation information by industry

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Automobile, auto parts	22,332	215	26,856	–	49,404	16,077	65,482
Electronics	84,104	1,397	23,631	42,694	151,828	63,906	215,734
Commerce, retail	68,188	8,092	61,823	–	138,104	22,824	160,929
Transportation, warehousing	15,585	114	6,281	–	21,981	8,456	30,437
Machinery	7,508	985	565	–	9,059	1,298	10,358
Chemicals, pharmaceuticals	14,581	5,829	12	–	20,423	4,204	24,628
Food	7,274	2	1,948	–	9,225	6,512	15,737
Iron, steel, nonferrous metals	4,182	2	16	–	4,201	614	4,815
Precision equipment, printing, office equipment	3,312	1,197	5	–	4,515	1,955	6,470
Airport	3,684	536	29,288	–	33,509	12,670	46,180
Other	8,101	230	8,340	–	16,672	2,391	19,063
Sales to external customers	238,855	18,604	158,769	42,694	458,924	140,914	599,838
Other adjustments for consolidation	–	–	–	–	–	–	2,084
Net sales in consolidated financial statements	–	–	–	–	–	–	601,922

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

(2) Disaggregation information by destination

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Japan	172,174	10,285	–	–	182,460	14,816	197,276
Non- Japan	66,681	8,318	158,769	42,694	276,464	126,097	402,561
North America	1,287	6,744	141,065	12	149,109	3,080	152,190
Asia	59,166	1,243	2,872	42,682	105,964	104,262	210,226
China	17,023	649	152	1,631	19,456	41,438	60,895
South Korea	11,103	163	5	41,050	52,323	7,766	60,089
Taiwan	28,606	203	–	–	28,809	29,931	58,740
Other	2,432	228	2,714	–	5,375	25,125	30,500
Europe	718	330	10,147	–	11,196	6,101	17,298
Latin America	705	0	4,201	–	4,907	1,320	6,228
Other	4,803	–	482	–	5,285	11,331	16,617
Sales to external customers	238,855	18,604	158,769	42,694	458,924	140,914	599,838
Other adjustments for consolidation	–	–	–	–	–	–	2,084
Net sales in consolidated financial statements	–	–	–	–	–	–	601,922

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

(3) Disaggregation information by timing of revenue recognition

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Performance obligations satisfied at a point in time	49,190	13,016	14,101	1,151	77,459	31,702	109,161
Performance obligations satisfied over time	189,665	5,588	144,667	41,543	381,465	109,211	490,676
Sales to external customers	238,855	18,604	158,769	42,694	458,924	140,914	599,838
Other adjustments for consolidation	–	–	–	–	–	–	2,084
Net sales in consolidated financial statements	–	–	–	–	–	–	601,922

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

2. Basic information in understanding revenue

The information is as presented in “4. Accounting policies, (5) Accounting policy for significant revenues and expenses” under Significant accounting policies for preparation of consolidated financial statements.

3. The information regarding the relationship between the satisfaction of performance obligations under contracts with customers and cash flows arising from such contracts as well as the amount and timing of revenue expected to be recognized from contracts with customers existing at the end of the current consolidated fiscal year in the next consolidated fiscal year

FY2021 (April 1, 2021–March 31, 2022)

(1) Balances of contract assets, contract liabilities, etc.

The balances of receivables, contract assets, and contract liabilities from contracts with customers are as follows. Receivables and contract assets from contracts with customers are included in “notes receivable, accounts receivable from completed construction contracts and other, and contract assets” on the consolidated balance sheets.

(Million yen)

	Balance at beginning of year	Balance at end of year
Receivables from contracts with customers	125,347	100,633
Contract assets	86,559	108,282
Contract liabilities	34,263	40,682

Contract assets primarily relate to construction contracts for manufacture and sale of logistics systems, etc. They represent the right to consideration received with conditions other than the passage of time, in exchange for the satisfied portion of performance obligations measured based on the progress as of the end of the reporting period. Once the right to consideration becomes unconditional, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to payments received in advance of performance under construction contracts, and are reversed upon recognition of revenue.

Revenue recognized in the fiscal year ended March 31, 2022 that was included in the balance of contract liabilities at the beginning of the fiscal year was 33,459 million yen.

The amount of revenue recognized in the fiscal year ended March 31, 2022 from performance obligations that were satisfied (or partially satisfied) in previous periods (mainly changes in transaction price) is immaterial.

(2) Remaining performance obligations

The transaction price allocated to the remaining performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2022 and the time frame the amount is expected to be recognized as revenue are as follows:

(Million yen)

	As of March 31, 2022
Within one year	270,197
After one year	133,612
Total	403,809

FY2022 (April 1, 2022–March 31, 2023)

(1) Balances of contract assets, contract liabilities, etc.

The balances of receivables, contract assets, and contract liabilities from contracts with customers are as follows. Receivables and contract assets from contracts with customers are included in “notes receivable, accounts receivable from completed construction contracts and other, and contract assets” on the consolidated balance sheets.

(Million yen)

	Balance at beginning of year	Balance at end of year
Receivables from contracts with customers	100,633	127,138
Contract assets	108,282	122,938
Contract liabilities	40,682	63,901

Contract assets primarily relate to construction contracts for manufacture and sale of logistics systems, etc. They represent the right to consideration received with conditions other than the passage of time, in exchange for the satisfied portion of performance obligations measured based on the progress as of the end of the reporting period. Once the right to consideration becomes unconditional, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to payments received in advance of performance under construction contracts, and are reversed upon recognition of revenue.

Revenue recognized in the fiscal year ended March 31, 2023 that was included in the balance of contract liabilities at the beginning of the fiscal year was 39,804 million yen.

The amount of revenue recognized in the fiscal year ended March 31, 2023 from performance obligations that were satisfied (or partially satisfied) in previous periods (mainly changes in transaction price) is immaterial.

(2) Remaining performance obligations

The transaction price allocated to the remaining performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2023 and the time frame the amount is expected to be recognized as revenue are as follows:

(Million yen)

	As of March 31, 2023
Within one year	409,727
After one year	127,448
Total	537,175

Segment information, etc.

Segment information

1. Overview of reportable segments

Reportable segments comprise components for which discrete financial information is available, and which the Board of Directors reviews 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; 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; Daifuku North America Holding Company and its subsidiaries, the U.S. company group that is responsible for key business activities, primarily in North America, with a significant volume of sales; and Clean Factomation, Inc., the company providing semiconductor manufacturers with cleanroom transport systems mainly in South Korea.

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 operating segments is the same as that described in Significant accounting policies for preparation of consolidated financial statements. Intersegment sales or transfers are determined based on the prevailing market price.

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

FY2021 (April 1, 2021–March 31, 2022)

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Net sales							
Sales to external customers	225,057	15,798	140,473	28,671	410,001	104,865	514,867
Intersegment sales or transfers	41,403	10,451	505	2,005	54,366	8,809	63,176
Total	266,460	26,249	140,979	30,677	464,367	113,675	578,043
Segment income (loss)	28,652	1,229	7,505	2,097	39,485	3,732	43,217
Segment assets	330,068	26,151	93,094	22,587	471,901	112,323	584,225
Segment liabilities	108,148	12,247	34,422	11,753	166,572	62,309	228,881
Other							
Depreciation	3,508	495	846	351	5,201	2,125	7,326
Amortization of goodwill	33	133	589	–	756	0	756
Interest income	10	1	31	145	188	209	397
Interest expenses	91	19	5	3	120	280	401
Extraordinary income	249	8	217	0	476	285	762
Gain on sales of property, plant and equipment	*0*	–	*2*	*0*	*2*	*5*	*7*
Gain on sales of investments in securities	*225*	*8*	–	–	*234*	–	*234*
Extraordinary loss	927	14	9	0	951	514	1,466
Loss on sales of property, plant and equipment	–	–	–	–	–	*0*	*0*
Loss on disposal of property, plant and equipment	*212*	*14*	*3*	*0*	*230*	*69*	*300*
Income tax expenses	10,502	509	729	623	12,364	1,895	14,260
Increase in property, plant and equipment and intangible assets	5,674	379	2,198	413	8,666	2,899	11,565

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the reportable segments.

FY2022 (April 1, 2022–March 31, 2023)

(Million yen)

	Reportable segments					Other*	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal		
Net sales							
Sales to external customers	238,855	18,604	158,769	42,694	458,924	140,914	599,838
Intersegment sales or transfers	51,423	13,850	684	3,379	69,337	15,892	85,229
Total	290,278	32,454	159,453	46,073	528,261	156,806	685,068
Segment income (loss)	34,053	988	6,184	2,961	44,187	5,635	49,822
Segment assets	349,892	31,048	122,275	32,182	535,399	134,327	669,726
Segment liabilities	105,322	16,792	52,537	18,535	193,187	77,865	271,053
Other							
Depreciation	3,877	473	1,079	477	5,907	2,614	8,522
Amortization of goodwill	0	160	700	–	860	–	860
Interest income	62	1	123	222	409	394	804
Interest expenses	90	54	4	4	155	323	478
Extraordinary income	954	15	125	0	1,094	41	1,136
Gain on sales of property, plant and equipment	–	–	*93*	*0*	*93*	*5*	*98*
Gain on sales of investments in securities	*928*	*15*	–	–	*943*	–	*943*
Extraordinary loss	2,365	9	3,907	140	6,422	1,004	7,427
Loss on sales of property, plant and equipment	*0*	–	*1*	–	*1*	*4*	*6*
Loss on disposal of property, plant and equipment	*270*	*9*	*56*	*140*	*476*	*28*	*505*
Value-added tax and other for a prior period	*2,078*	–	–	–	*2,078*	–	*2,078*
Impairment loss	–	–	–	–	–	*819*	*819*
Settlement package	–	–	*2,400*	–	*2,400*	–	*2,400*
Retirement benefit expenses	–	–	*1,450*	–	*1,450*	–	*1,450*
Income tax expenses	10,079	442	(52)	880	11,350	2,359	13,709
Increase in property, plant and equipment and intangible assets	4,935	250	4,047	1,962	11,195	5,649	16,845

*The “Other” segment is an operating segment comprising subsidiaries that are not included in the 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 reconciliation)

(Million yen)

Net sales	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Reportable segments total	464,367	528,261
Segment net sales classified in “Other”	113,675	156,806
Elimination of intersegment transactions	(63,176)	(85,229)
Other adjustments for consolidation	(2,598)	2,084
Net sales in consolidated financial statements	512,268	601,922

(Million yen)

Income	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Reportable segments total	39,485	44,187
Segment income classified in “Other”	3,732	5,635
Elimination of dividends from affiliates	(6,492)	(10,146)
Other adjustments for consolidation	(846)	1,572
Net income attributable to shareholders of the parent company in consolidated financial statements	35,877	41,248

(Million yen)

Assets	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Reportable segments total	471,901	535,399
Segment assets classified in “Other”	112,323	134,327
Elimination of investment securities in affiliates in consolidation process	(58,031)	(59,490)
Elimination of intercompany receivables	(38,754)	(53,214)
Other adjustments for consolidation	(4,117)	(5,470)
Total assets in consolidated financial statements	483,322	551,552

(Million yen)

Liabilities	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Reportable segments total	166,572	193,187
Segment liabilities classified in “Other”	62,309	77,865
Elimination of intercompany payables	(38,754)	(53,214)
Other adjustments for consolidation	1,135	1,389
Total liabilities in consolidated financial statements	191,263	219,228

(Million yen)

Other items	Reportable segments total		Other		Adjustment		Consolidated total	
	FY2021	FY2022	FY2021	FY2022	FY2021	FY2022	FY2021	FY2022
Depreciation	5,201	5,907	2,125	2,614	0	–	7,326	8,522
Amortization of goodwill	756	860	0	–	(117)	(149)	639	711
Interest income	188	409	209	394	(51)	(157)	346	646
Interest expenses	120	155	280	323	(49)	(158)	352	320
Extraordinary income	476	1,094	285	41	(280)	83	481	1,219
Gain on sales of property, plant and equipment	*2*	*93*	*5*	*5*	*0*	*1*	*7*	*99*
Gain on sales of investments in securities	*234*	*943*	–	–	–	–	*234*	*943*
Extraordinary loss	951	6,422	514	1,004	(709)	(1,500)	756	5,926
Loss on sales of property, plant and equipment	–	*1*	*0*	*4*	–	–	*0*	*6*
Loss on disposal of property, plant and equipment	*230*	*476*	*69*	*28*	–	*0*	*300*	*505*
Value-added tax and other for a prior period	–	*2,078*	–	–	–	–	–	*2,078*
Impairment loss	–	–	–	*819*	–	–	–	*819*
Settlement package	–	*2,400*	–	–	–	–	–	*2,400*
Retirement benefit expenses	–	*1,450*	–	–	–	*(1,450)*	–	–
Income tax expenses	12,364	11,350	1,895	2,359	274	87	14,534	13,797
Increase in property, plant and equipment and intangible assets	8,666	11,195	2,899	5,649	–	(34)	11,565	16,811

Note: Main items in the adjustment above are as follows:
Retirement benefit expenses of minus 1,450 million yen mainly reflect actuarial adjustments of retirement benefit expenses.

Related information

FY2021 (April 1, 2021–March 31, 2022)

1. Information by product and service

(Million yen)

	Logistics systems	Electronics	Other	Total
Sales to external customers	480,667	15,738	15,862	512,268

2. Information by geographic area

(1) Net sales

(Million yen)

Japan	U.S.A.	China	South Korea	Other	Adjustment	Total
182,781	131,782	57,276	46,585	96,440	(2,598)	512,268

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

(2) Property, plant and equipment

(Million yen)

Japan	U.S.A.	Other	Total
29,247	11,902	14,064	55,215

3. Information by major customers

It is omitted because no individual external customers represent 10% or more of the net sales reported in the consolidated statements of income and comprehensive income.

FY2022 (April 1, 2022–March 31, 2023)

1. Information by product and service

(Million yen)

	Logistics systems	Electronics	Other	Total
Sales to external customers	562,068	18,672	21,181	601,922

2. Information by geographic area

(1) Net sales

(Million yen)

Japan	U.S.A.	China	South Korea	Other	Adjustment	Total
197,276	146,969	60,895	60,089	134,607	2,084	601,922

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

(2) Property, plant and equipment

(Million yen)

Japan	U.S.A.	Other	Total
29,523	17,570	17,943	65,037

3. Information by major customers

It is omitted because no individual external customers represent 10% or more of the net sales reported in the consolidated statements of income and comprehensive income.

Information about impairment loss of property, plant and equipment and intangible assets by reportable segment

FY2021 (April 1, 2021–March 31, 2022)

Not applicable

FY2022 (April 1, 2022–March 31, 2023)

The Group recognized an impairment loss of property, plant and equipment in the Other segment. The impairment loss amounted to 819 million yen in the fiscal year ended March 31, 2023. For more information, see "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Consolidated statements of income and comprehensive income *8."

Information about the amount of amortization and unamortized balance of goodwill by reportable segment

FY2021 (April 1, 2021–March 31, 2022)

(Million yen)

	Reportable segments					Other	Elimination or corporate	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal			
Ending balance of goodwill	0	836	1,830	–	2,666	609	680	3,956

Note: Information about amortization of goodwill is omitted because such information is disclosed in segment information.

FY2022 (April 1, 2022–March 31, 2023)

(Million yen)

	Reportable segments					Other	Elimination or corporate	Total
	Daifuku	Contec	Daifuku North America	Clean Factomation	Subtotal			
Ending balance of goodwill	–	803	1,407	–	2,211	651	941	3,804

Note: Information about amortization of goodwill is omitted because such information is disclosed in segment information.

Information about gain on new negative goodwill by reportable segment

Not applicable

Information about related parties

Not applicable

Per share information

(Yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net assets per share	769.13	878.24
Net income per share	94.90	109.11

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

2. The Company conducted a three-for-one split of its common stock effective April 1, 2023. Net assets per share and net income per share are calculated, assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2022.

3. The shares of the Company remaining in the BBT, which are recorded as treasury stock under shareholders' equity, are included in the treasury stock to be deducted in the calculation of the average number of shares during the year for the purpose of calculation of 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 year for the purpose of calculation of net assets per share. The average number of shares of treasury stock deducted during the year for the purpose of calculation of net income per share is 323 thousand shares for the year ended March 31, 2022 and 315 thousand shares for the year ended March 31, 2023 for the BBT. The number of shares of treasury stock deducted at the end of the year for the purpose of calculating net assets per share is 319 thousand shares for the year ended March 31, 2022 and 311 thousand shares for the year ended March 31, 2023 for the BBT.

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

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net income per share (yen)		
Net income attributable to shareholders of the parent company (million yen)	35,877	41,248
Amount not attributable to shareholders of common stock (million yen)	–	–
Net income attributable to shareholders of the parent company related to common stock (million yen)	35,877	41,248
Weighted average number of common stock issued and outstanding during the year (thousand shares)	378,049	378,053

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

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Total net assets (million yen)	292,059	332,323
Amount deducted from total net assets (million yen)	1,289	299
Of which, non-controlling interests (million yen)	*1,289*	*299*
Total net assets attributable to common stock at fiscal year-end (million yen)	290,769	332,023
Number of common stock issued and outstanding at fiscal year-end for the purpose of calculation of net assets per share (thousand shares)	378,051	378,056

Subsequent events

Stock split and partial amendment to the Articles of Incorporation

Based on the resolution of the Board of Directors meeting held on February 9, 2023, the Company approved a stock split and a partial amendment to the Articles of Incorporation in connection with the stock split effective April 1, 2023.

(1) Purpose of the stock split

The stock split aims to expand the Company's investor base by lowering the investment unit price and making stock ownership more accessible to investors.

(2) Outline of the stock split

i. Stock split method

Each share of Daifuku's common stock owned by shareholders listed or recorded in the final shareholder registry as of March 31, 2023 was split into three shares.

ii. Increase in number of shares as a result of stock split

Total number of shares issued before the stock split:	126,610,077 shares
Increase in the number of shares as a result of the stock split:	253,220,154 shares
Total number of shares issued following the stock split:	379,830,231 shares
Total number of authorized shares following the stock split:	750,000,000 shares

iii. Schedule for stock split

Public notice of the record date:	March 15, 2023
Record date	March 31, 2023
Effective date	April 1, 2023

iv. Effect on per share information

The effect of the stock split is stated in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Per share information."

(3) Partial amendment to Articles of Incorporation

i. Reason for amendment

In line with the stock split, Daifuku amended a related provision of its Articles of Incorporation effective April 1, 2023, by a resolution of the Board of Directors pursuant to Article 184, Paragraph 2 of the Companies Act.

ii. Details of amendment

The total number of authorized shares stipulated in Article 6 of the Articles of Incorporation was amended, as follows. (Changes are underlined.)

Before	Amended
Article 6. (Total Number of Authorized Shares) The total number of shares authorized to be issued by the Company shall be <u>two hundred fifty million (250,000,000)</u>.	Article 6. (Total Number of Authorized Shares) The total number of shares authorized to be issued by the Company shall be <u>seven hundred fifty million (750,000,000)</u>.

(4) Other

i. Change in the amount of stated capital

The amount of stated capital remains unchanged as a result of the stock split.

ii. Dividends

The dividend information is provided in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Consolidated statements of changes in net assets."

v. Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable

Annexed consolidated detailed schedule of borrowings

Category	Balance at beginning of FY2022 (million yen)	Balance at end of FY2022 (million yen)	Average interest rate (%)	Payment due
Short-term borrowings	6,519	7,659	2.3	–
Current portion of long-term borrowings	15,929	2,700	0.5	–
Current portion of lease liabilities	1,175	2,059	3.7	–
Long-term borrowings (excluding current portion)	3,907	1,100	0.5	2024 to 2026
Lease liabilities (excluding current portion)	3,013	4,154	2.7	2024 to 2064
Total	30,544	17,674	–	–

Notes: 1. "Average interest rate" represents the weighted-average rate applicable to the balance at the end of the fiscal year ended March 31, 2023.

2. The repayment schedule within five years after the consolidated balance sheet date of long-term borrowings and lease liabilities (excluding the current portion) is as follows:

(Million yen)

Category	Due after 1 year and within 2 years	Due after 2 years and within 3 years	Due after 3 years and within 4 years	Due after 4 years and within 5 years
Long-term borrowings	1,000	–	100	–
Lease liabilities	1,439	1,096	481	289

3. To secure timely and efficient financing of working capital, the Group has entered into a credit facility agreement with six banks that provide lines of credit up to 30,000 million yen in total.

Annexed consolidated detailed schedule of asset retirement obligations

Since the amounts of asset retirement obligations as of April 1, 2022 and March 31, 2023 were less than 1% of the total liabilities and net assets as of April 1, 2022 and March 31, 2023, asset retirement obligations details have been omitted.

(2) Other

Quarterly results for the fiscal year ended March 31, 2023

		First three months	First six months	First nine months	Fiscal year ended March 31, 2023
Net sales	(million yen)	130,211	277,782	435,689	601,922
Income before income taxes	(million yen)	8,461	22,919	39,106	55,052
Net income attributable to shareholders of the parent company	(million yen)	5,835	17,013	28,763	41,248
Net income per share	(yen)	15.43	45.00	76.08	109.11

		First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	(yen)	15.43	29.57	31.08	33.02

Note: The Company conducted a three-for-one split of its common stock effective April 1, 2023. Net income per share is calculated, assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2023.

2. Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

i. Non-consolidated balance sheets

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
ASSETS		
Current assets		
Cash on hand and in banks	50,824	31,109
Notes receivable	*2 1,328	*2 727
Electronically recorded monetary claims - operating	5,470	5,755
Accounts receivable from completed construction contracts and contract assets	*2 117,975	*2 132,693
Accounts receivable	*2 13,598	*2 17,699
Merchandise and finished goods	72	57
Costs incurred on uncompleted construction contracts and other	5,760	9,932
Raw materials and supplies	12,423	20,688
Prepaid expenses	1,847	2,607
Short-term loans receivable	15	16
Short-term loans receivable from affiliates	*2 991	*2 7,038
Accounts receivable - other	*2 4,588	*2 4,499
Other	3,565	2,096
Allowance for doubtful accounts	(263)	(446)
Total current assets	218,198	234,475
Non-current assets		
Property, plant and equipment		
Buildings	11,166	10,811
Structures	940	1,080
Machinery and equipment	3,509	4,507
Vehicles	1	2
Tools and fixtures	954	921
Land	7,995	7,995
Leased assets	833	700
Construction in progress	1,098	816
Total property, plant and equipment	26,499	26,836
Intangible assets		
Software	3,027	3,527
Software in progress	327	435
Other	41	0
Total intangible assets	3,396	3,963

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Investments and other assets		
Investments in securities	12,631	11,542
Shares in affiliates	49,923	51,382
Investments in capital of affiliates	6,225	6,225
Long-term loans	6	6
Long-term loans receivable from employees	33	37
Long-term prepaid expenses	164	826
Prepaid pension costs	6,057	6,734
Deferred tax assets	5,563	6,410
Leasehold and guarantee deposits	768	819
Other	602	632
Allowance for doubtful accounts	(3)	–
Total investments and other assets	81,973	84,617
Total non-current assets	111,870	115,417
Total assets	330,068	349,892
LIABILITIES		
Current liabilities		
Electronically recorded obligations - operating	26,500	28,083
Accounts payable	*2 21,027	*2 20,481
Construction contracts payable	*2 2,200	*2 1,863
Short-term borrowings	*2 2,197	*2 2,621
Current portion of long-term borrowings	15,100	2,700
Lease liabilities	173	167
Accounts payable - other	2,522	2,613
Accrued expenses	*2 7,824	*2 8,534
Income taxes payable	5,859	3,509
Contract liabilities	13,455	27,085
Provision for losses on construction contracts	304	66
Other	*2 1,499	*2 866
Total current liabilities	98,664	98,593
Non-current liabilities		
Long-term borrowings	3,800	1,100
Lease liabilities	660	533
Long-term accounts payable - other	11	14
Provision for retirement benefits	4,541	4,481
Other reserves	278	371
Other	192	228
Total non-current liabilities	9,483	6,728
Total liabilities	108,148	105,322

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
NET ASSETS		
Shareholders' equity		
Common stock	31,865	31,865
Capital surplus		
Legal capital surplus	8,998	8,998
Other capital surplus	13,877	13,877
Total capital surplus	22,876	22,876
Retained earnings		
Legal retained earnings	112	112
Other retained earnings		
Reserve for dividends	7,000	7,000
Reserve for tax purpose reduction entry of non-current assets	294	289
General reserve	30,000	30,000
Retained earnings brought forward	127,211	149,287
Total retained earnings	164,618	186,690
Treasury stock	(901)	(899)
Total shareholders' equity	218,458	240,532
Valuation and translation adjustments		
Net unrealized gain (loss) on securities	4,078	4,035
Deferred gain (loss) on hedges	(616)	1
Total valuation and translation adjustments	3,461	4,037
Total net assets	221,919	244,570
Total liabilities and net assets	330,068	349,892

The accompanying notes are an integral part of these financial statements.

ii. Non-consolidated statements of income

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net sales	*1 266,460	*1 290,278
Cost of sales		
Beginning finished goods inventory	33	72
Cost of products manufactured	*1 214,835	*1 234,407
Total	214,869	234,480
Ending finished goods inventory	72	57
Loss on abandonment of inventories	1,377	87
Cost of finished goods sold	216,173	234,509
Total cost of sales	216,173	234,509
Gross profit	50,286	55,769
Selling, general and administrative expenses	*2 17,465	*2 20,420
Operating income	32,821	35,349
Other income		
Interest income	*1 10	*1 62
Dividend income	*1 6,870	*1 10,530
Land and house rental revenue	*1 202	*1 202
Other	*1 163	*1 110
Total other income	7,247	10,905
Other expenses		
Interest expenses	*1 91	*1 90
Foreign exchange losses	111	617
Other	33	3
Total other expenses	237	711
Ordinary income	39,831	45,543
Extraordinary income		
Gain on sales of investments in securities	225	928
Other	24	25
Total extraordinary income	249	954
Extraordinary loss		
Value-added tax and other for a prior period	–	*3 2,078
Loss on valuation of shares in affiliates	*4 699	–
Loss on disposal of property, plant and equipment	212	270
Other	15	16
Total extraordinary loss	927	2,365
Income before income taxes	39,154	44,132
Income taxes - current	10,398	11,178
Income taxes - deferred	103	(1,099)
Total income taxes	10,502	10,079
Net income	28,652	34,053

The accompanying notes are an integral part of these financial statements.

iii. Non-consolidated statements of changes in net assets

FY2021 (April 1, 2021–March 31, 2022)

(Million yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of year	31,865	8,998	13,877	22,876
Changes of items during the period				
Cash dividends				
Net income				
Reversal of reserve for tax purpose reduction entry of non-current assets				
Purchase of treasury stock				
Disposal of treasury stock				
Net changes of items other than shareholders' equity				
Total changes of items during the period	–	–	–	–
Balance at end of year	31,865	8,998	13,877	22,876

	Shareholders' equity						
	Retained earnings						Treasury stock
	Legal retained earnings	Other retained earnings				Total retained earnings	
		Reserve for dividends	Reserve for tax purpose reduction entry of non-current assets	General reserve	Retained earnings brought forward		
Balance at beginning of year	112	7,000	300	30,000	109,274	146,686	(941)
Changes of items during the period							
Cash dividends					(10,720)	(10,720)	
Net income					28,652	28,652	
Reversal of reserve for tax purpose reduction entry of non-current assets			(5)		5	–	
Purchase of treasury stock							(14)
Disposal of treasury stock							54
Net changes of items other than shareholders' equity							
Total changes of items during the period	–	–	(5)	–	17,937	17,931	39
Balance at end of year	112	7,000	294	30,000	127,211	164,618	(901)

	Shareholders' equity	Valuation and translation adjustments			Total net assets
	Total shareholders' equity	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Total valuation and translation adjustments	
Balance at beginning of year	200,486	4,349	(262)	4,087	204,574
Changes of items during the period					
Cash dividends	(10,720)				(10,720)
Net income	28,652				28,652
Reversal of reserve for tax purpose reduction entry of non-current assets	–				–
Purchase of treasury stock	(14)				(14)
Disposal of treasury stock	54				54
Net changes of items other than shareholders' equity		(271)	(354)	(625)	(625)
Total changes of items during the period	17,971	(271)	(354)	(625)	17,345
Balance at end of year	218,458	4,078	(616)	3,461	221,919

FY2022 (April 1, 2022–March 31, 2023)

(Million yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of year	31,865	8,998	13,877	22,876
Changes of items during the period				
Cash dividends				
Net income				
Reversal of reserve for tax purpose reduction entry of non-current assets				
Purchase of treasury stock				
Disposal of treasury stock			0	0
Net changes of items other than shareholders' equity				
Total changes of items during the period	–	–	0	0
Balance at end of year	31,865	8,998	13,877	22,876

	Shareholders' equity						
	Retained earnings						Treasury stock
	Legal retained earnings	Other retained earnings				Total retained earnings	
		Reserve for dividends	Reserve for tax purpose reduction entry of non-current assets	General reserve	Retained earnings brought forward		
Balance at beginning of year	112	7,000	294	30,000	127,211	164,618	(901)
Changes of items during the period							
Cash dividends					(11,981)	(11,981)	
Net income					34,053	34,053	
Reversal of reserve for tax purpose reduction entry of non-current assets			(5)		5	–	
Purchase of treasury stock							(9)
Disposal of treasury stock							11
Net changes of items other than shareholders' equity							
Total changes of items during the period	–	–	(5)	–	22,076	22,071	2
Balance at end of year	112	7,000	289	30,000	149,287	186,690	(899)

	Shareholders' equity	Valuation and translation adjustments			Total net assets
	Total shareholders' equity	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Total valuation and translation adjustments	
Balance at beginning of year	218,458	4,078	(616)	3,461	221,919
Changes of items during the period					
Cash dividends	(11,981)				(11,981)
Net income	34,053				34,053
Reversal of reserve for tax purpose reduction entry of non-current assets	–				–
Purchase of treasury stock	(9)				(9)
Disposal of treasury stock	12				12
Net changes of items other than shareholders' equity		(42)	618	575	575
Total changes of items during the period	22,074	(42)	618	575	22,650
Balance at end of year	240,532	4,035	1	4,037	244,570

The accompanying notes are an integral part of these financial statements.

Notes to the Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and methods for securities

(1) Shares of subsidiaries and affiliates

Stated at cost using the moving-average method.

(2) Other securities

i. Securities other than shares, etc. that do not have a market price

Stated at fair value (with any unrealized gain or loss being recognized directly in net assets and the cost of securities sold being determined using the moving-average method).

ii. Shares, etc. that do not have a market price

Stated at cost using the moving-average method.

2. Valuation standards and methods for derivatives

Stated at fair value.

3. Valuation standards and methods for inventories

(1) Merchandise and finished goods

Primarily stated at cost using the moving-average method (a method in which book value is written down based on any decline in profitability).

(2) Costs incurred on uncompleted construction contracts and other

Primarily stated at cost using the job order cost method (a method in which book value is written down based on any decline in profitability).

(3) Raw materials and supplies

Primarily stated at cost using the moving-average method (a method in which book value is written down based on any decline in profitability).

4. Accounting policy for depreciation of non-current assets

(1) Property, plant and equipment (excluding leased assets)

Depreciated using the declining-balance method; provided, however, buildings (except for facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

Useful lives and residual values are determined according to the same standards set out in the Corporation Tax Act of Japan.

(2) Intangible assets (excluding leased assets)

Software for internal use

Amortized over a period of five years during which it is expected to be available for use internally.

Goodwill

Amortized on a straight-line basis over the period in which cashflows are expected to be generated from the investment. Immaterial goodwill is fully expensed in the year of acquisition.

Other than the above

Amortized on a straight-line basis.

(3) Leased assets

i. Leased assets in finance lease transactions that transfer ownership

Depreciated using the same method as the non-current assets in the Company’s possession.

ii. Leased assets in finance lease transactions that do not transfer ownership

Depreciated using the straight-line method over the lease term, which represents the expected useful life, to zero residual value (or the guaranteed residual value under a residual value guarantee).

(4) Long-term prepaid expenses

Amortized on a straight-line basis.

5. Accounting policy for allowances and provisions

(1) Allowance for doubtful accounts

To provide for potential credit losses on receivables, allowance for doubtful accounts is recorded at an amount of estimated uncollectible receivables calculated based on the historical rate of credit loss for general receivables and determined in consideration of collectability of individual receivables for doubtful accounts and certain other receivables.

(2) Allowance for investment loss

To provide for potential losses on investments to affiliates, etc., allowance for investment loss is recorded at an amount deemed necessary in consideration of financial position, etc.

(3) Provision for retirement benefits

To provide for employees' retirement benefits, provision for retirement benefits is recorded based on estimate retirement benefit obligations and plan assets as of the end of the fiscal year ended March 31, 2023.

Prior service costs are prorated over a certain number of years (five years) within the average remaining service period of employees at the time of recognition.

Actuarial gains and losses are amortized using the straight-line method over a certain number of years (five years) within the average remaining service period of employees at the time of recognition from the fiscal year following the respective fiscal year of recognition.

Treatment of unrecognized actuarial gains and losses and unrecognized prior service costs on non-consolidated balance sheets are different from that for consolidated balance sheets.

(4) Provision for losses on construction contracts

To provide for potential future losses on uncompleted construction contracts, provision for losses on construction contracts is recorded based on an amount of estimated losses as of the end of the fiscal year.

6. Accounting policy for revenues and expenses

(1) Nature of goods and services and timing of satisfaction of performance obligations

i. Manufacture and sale of logistics systems and equipment, etc.

The Company is engaged in the manufacture and construction of logistics systems and equipment in accordance with specifications individually specified by customers in contracts.

Performance obligations under the contract are deemed to be satisfied over time, because the systems and equipment to be manufactured under the contract cannot be diverted to another use and the Company has an enforceable right to receive consideration for work completed. Accordingly, revenue from the contract is recognized based on the progress towards complete satisfaction of the performance obligations as of the end of the fiscal year, if such progress can be reasonably measured.

The progress towards complete satisfaction of the performance obligations is measured by the cost-to-cost method, i.e., costs incurred during the fiscal year ended March 31, 2023 relative to the estimated total cost to complete the work, as the cost of products installed and labor costs incurred for the work are considered proportional to the increase in assets controlled by the customer.

The estimated total cost is reviewed on an ongoing basis based on relevant information including the track record of similar projects in the past, since it is subject to change with the progress of installation and other factors.

If the progress towards complete satisfaction of the performance obligations may not be measured reasonably, but the costs incurred in satisfying the performance obligations are expected to be recovered, the cost recovery method is applied.

ii. Manufacture and sale of car wash machines and replacement parts, etc.

The Company engages in manufacturing and sales of replacement parts, etc. of car wash machines and material handling systems and equipment.

Revenue from products that require installation upon delivery to customers is recognized when the product has been installed at the location designated by the customer, as this is the point in time at which the customer is deemed to have obtained control of the product and thereby the performance obligation is satisfied. That is, at that point in time, the legal title to and physical possession of the products and the significant risks and rewards of ownership of the products are deemed to have been transferred to the customer and thereby the Company is entitled to receive consideration for the transaction from the customer.

Revenue from products that do not require installation upon delivery to customers is recognized when the product has been delivered to the location designated by the customer, as this is the point in time at which the customer is deemed to have obtained control of the product and thereby the performance obligation is satisfied. That is, at that point in time, the legal title to and physical possession of the products and the significant risks and rewards of ownership of the products are deemed to have been transferred to the customer and thereby the Company is entitled to receive consideration for the transaction from the customer.

iii. Maintenance services after sales of products

The Company provides maintenance services, such as product maintenance and periodic inspections during a certain period of time after products are sold, or product repairs and inspections that are individually requested by customers.

Performance obligations for maintenance services rendered over a certain period of time are satisfied during the contract period over time, and revenue is recognized evenly over the contract period.

Performance obligations for maintenance services ordered individually by customers are satisfied by completing the service, such as repairs and inspections, and therefore revenue is recognized upon completion of the work.

In principle, the Company has not entered into any transactions as an agent.

(2) Determining transaction prices

Transaction prices are measured at the consideration promised in contracts with customers. There are no significant contracts or significant variable consideration related to returns.

(3) Payment terms

Consideration for manufacture and sale of logistics systems, etc. is received before or after the completion of products under the payment terms stipulated in contracts. Consideration for other transactions is received after the satisfaction of performance obligations under the payment terms stipulated in contracts. As consideration for the transactions does not contain any significant financing component, there are no contracts with customers in which consideration is adjusted for the effects of such component.

(4) Determining the amount of transaction prices allocated to performance obligations

Certain contracts provided by the Company are multiple-element transactions involving the sale of logistics systems and equipment, the sale of replacement parts, maintenance services, or product warranties.

To allocate the transaction price of multiple-element transactions to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract is determined, and the transaction price is allocated in proportion to those stand-alone selling prices.

If the stand-alone selling price of a good or service is not directly observable, it is determined, depending on the nature of transactions, mainly by estimating the cost and adding a margin for that good or service or by referring to the total transaction price of multiple-element transactions less the sum of the stand-alone selling prices of the other goods or services.

7. Method of hedge accounting

(1) Method of hedge accounting

The deferred hedge accounting is primarily adopted. The exceptional treatment is applied to interest rate swaps that qualify for the exceptional treatment.

The allocation treatment is applied to forward exchange contracts and currency swaps that qualify for the allocation treatment.

(2) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied are as follows:

Hedging instruments	Hedged items
Forward exchange contracts	Receivables and payables denominated in foreign currencies and future transactions denominated in foreign currencies
Currency swaps	Borrowings denominated in foreign currencies
Interest rate swaps	Borrowings

(3) Hedging policy

The risk of fluctuations in exchange rates and interest rates is principally hedged in accordance with the Company’s internal rules.

(4) Method for assessing hedge effectiveness

The effectiveness of each hedge transaction for hedging instruments and hedged items is assessed at the end of every fiscal year. However, the assessment of hedging effectiveness for hedged assets and liabilities or derivatives is omitted since the hedge is expected to be highly effective where the critical terms of the hedging instruments (start date, end date, principal amount, interest rate) are identical.

(5) Other risk management practices related to hedge accounting

The execution and management of hedge transactions are carried out by the finance department with approval from the authorized personnel to hedge fluctuation risk of currency rates and interest rates in accordance with internal regulations that provide transaction and authorization limits.

Significant accounting estimates

1. Revenue recognition for construction contracts

(1) Amounts recorded in the non-consolidated financial statements

(Million yen)

	FY2021 (April 1, 2021–March 31, 2022)	FY2022 (April 1, 2022–March 31, 2023)
Net sales of construction contracts in which performance obligations are satisfied over time	198,432	214,066
Provision for losses on construction contracts	304	66

(2) Method of calculation and primary assumptions

Revenue is recognized based on the progress towards complete satisfaction of the performance obligations as of the end of the fiscal year, if such progress can be reasonably measured. The progress towards complete satisfaction of the performance obligations is measured by costs incurred during the fiscal year ended March 31, 2023 relative to the estimated total cost to complete the work (the input method).

The estimated total cost is reviewed for each project at the end of the fiscal year based on the track record of past construction projects by taking conditions unique to the individual project into consideration in line with the agreed-upon specifications in the contract with a customer.

However, the Company's long-term contracts are distinct in terms of specifications, construction periods and other details. Therefore, the estimate of total cost for such contracts requires management judgement based on the past track record and is complex, especially for large long-term contracts. Accordingly, the estimated total cost may differ from the actual result due to unforeseen events such as changes in specifications during construction at the request of a customer, fluctuations in cost of labor per man-hour and price of materials and equipment, and additional costs incurred for modifications during construction.

To provide for potential losses on uncompleted construction contracts, provision for losses on construction contracts is recorded based on an amount of estimated losses as of the end of the fiscal year ended March 31, 2023. In case any unforeseen event may cause the estimated total cost to differ from the actual total cost, the event will have an impact on provision for losses on construction contracts.

2. Impairment of shares in affiliates, etc. (including investments in capital of affiliates)

(1) Amount recorded in the non-consolidated balance sheets

(Million yen)

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Total shares and investments in capital of affiliates	56,149	57,608

(2) Method of calculation and primary assumptions

If the actual value of shares in affiliates, etc. decreases by 50% or more compared to the acquisition cost, the Company assesses the recoverability of actual value based on the business plan.

When there are changes in conditions and assumptions the Company used to develop accounting estimates, such as changes in business plan or management environment, and if such shares are determined as not recoverable, impairment may need to be recognized for shares in affiliates, etc.

Additional information

Board Benefit Trust (BBT)

The note disclosure is omitted as the same information is provided in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Additional information."

Non-consolidated balance sheets

1. Guarantee obligations

The Company provides debt guarantees to borrowings from financial institutions, made by the following subsidiaries and affiliates.

	FY2021 (as of March 31, 2022)		FY2022 (as of March 31, 2023)	
Taiwan Daifuku Co., Ltd.	–	million yen	9,198	million yen
Daifuku (Thailand) Limited	1,472		2,346	
Daifuku Korea Co., Ltd.	3,309		1,286	
Other	273		291	
Total	5,054		13,121	

*2. Assets and liabilities against subsidiaries and affiliates

	FY2021 (as of March 31, 2022)		FY2022 (as of March 31, 2023)	
Short-term monetary receivables from subsidiaries and affiliates	27,152	million yen	40,009	million yen
Short-term monetary payables to subsidiaries and affiliates	6,191		6,338	

Non-consolidated statements of income

*1. Transactions with subsidiaries and affiliates

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Net sales	41,403	million yen	51,423	million yen
Purchases	21,584		28,111	
Non-operating transactions	6,543		10,216	

*2. Major items of selling, general and administrative expenses and their amounts and approximate composition are as follows:

	FY2021 (April 1, 2021–March 31, 2022)		FY2022 (April 1, 2022–March 31, 2023)	
Directors' remuneration	592	million yen	653	million yen
Salaries and bonuses	7,745		8,174	
Retirement benefit expenses	147		175	
Legal welfare expenses	1,465		1,594	
Experimentation and research expenses	1,908		2,259	
Travel and transportation	515		858	
Commissions	2,576		2,963	
Rent	872		891	
Depreciation	1,104		1,211	
Provision of allowance for doubtful accounts	(151)		179	
Approximate composition:				
Selling expenses	36	%	37	%
General and administrative expenses	64	%	63	%

*3. Value-added tax and other for a prior period

The note disclosure is omitted as the same information is provided in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Consolidated statements of income and comprehensive income."

*4. Loss on valuation of shares in affiliates

Loss on valuation of shares in affiliates is due to an impairment loss of investments in non-Japan affiliates.

Securities

Shares of subsidiaries and affiliates

FY2021 (as of March 31, 2022)

Category	Carrying amount (million yen)	Fair value (million yen)	Difference (million yen)
Shares of subsidiaries	6,200	16,400	10,200
Shares of affiliates	–	–	–

Note: The carrying amount of shares that do not have a market price and not included in the above.

Category	Carrying amount (million yen)
(1) Shares of subsidiaries	43,722
(2) Shares of affiliates	–
Total	43,722

FY2022 (as of March 31, 2023)

The fair values of shares of subsidiaries and affiliates are not provided because such shares do not have a market price.

The carrying amounts of shares of subsidiaries and affiliates that do not have a market price are as follows:

Category	Carrying amount (million yen)
(1) Shares of subsidiaries	51,382
(2) Shares of affiliates	–
Total	51,382

Note: Our subsidiary Contec Co., Ltd. became a wholly owned subsidiary and was delisted on April 28, 2022. Accordingly, for the fiscal year ended March 31, 2023, its shares are included in (1) Shares of subsidiaries that do not have a market price.

Tax effect accounting

1. Significant components of deferred tax assets and liabilities

	FY2021 (as of March 31, 2022)		FY2022 (as of March 31, 2023)	
Deferred tax assets:				
Experimentation and research expenses	2,422	million yen	2,793	million yen
Accrued expenses	2,081		2,240	
Provision for retirement benefits	1,309		1,083	
Loss on valuation of shares in affiliates	3,708		2,926	
Foreign tax credit carried forward	–		1,022	
Other	1,984		1,751	
Valuation allowance	(4,044)		(3,525)	
Total deferred tax assets	7,462		8,291	
Deferred tax liabilities:				
Reserve for tax purpose reduction entry of non-current assets	126		124	
Net unrealized gain (loss) on securities	1,729		1,708	
Other	42		46	
Total deferred tax liabilities	1,899		1,880	
Offset against deferred tax assets	(1,899)		(1,880)	
Net deferred tax assets	5,563		6,410	

Changes in presentation

"Provision for losses on construction contracts," which was previously presented separately under "deferred tax assets" is included in "other" from the fiscal year ended March 31, 2023, due to decrease in its monetary significance.

Accordingly, 93 million yen presented as "provision for losses on construction contracts" and 1,891 million yen presented as "other," both under "deferred tax assets" in the previous fiscal year, have been reclassified into "other" in the amount of 1,984 million yen.

2. Reconciliation between the statutory tax rate and the effective tax rate after applying tax effect accounting

	FY2021 (as of March 31, 2022)	FY2022 (as of March 31, 2023)
Statutory tax rate	30.6%	30.6%
Adjustments:		
Permanent difference arising from non-deductible expenses (e.g., entertainment expenses)	0.2%	0.4%
Permanent difference arising from non-taxable income (e.g., dividend income)	(4.9)%	(7.5)%
Taxation on per capita basis	0.2%	0.2%
Tax credit for experimentation and research expenses	(0.2)%	(0.5)%
Increase in valuation allowance	0.6%	(1.8)%
Other	0.3%	0.4%
Effective tax rate after applying tax effect accounting	26.8%	21.9%

Revenue recognition

The note disclosure is omitted as the same information is provided in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Revenue recognition."

Major subsequent events

Stock split and partial amendment to the Articles of Incorporation

The note disclosure is omitted as the same information is provided in "1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to the Consolidated Financial Statements, Major subsequent events."

iv. Annexed detailed schedules

Annexed detailed schedule of property, plant and equipment, etc.

(Million yen)

Type of assets	Balance at beginning of FY2022	Increase during period	Decrease during period	Ending balance	Accumulated depreciation or amortization at end of period	Depreciation and amortization for the period	Balance at end of FY2022
Property, plant and equipment							
Buildings	32,257	492	737	32,012	21,201	764	10,811
Structures	6,027	249	53	6,223	5,143	105	1,080
Machinery and equipment	12,146	2,112	356	13,901	9,393	1,088	4,507
Vehicles	75	2	3	74	71	1	2
Tools and fixtures	8,228	554	273	8,509	7,587	585	921
Land	7,995	–	–	7,995	–	–	7,995
Leased assets	1,885	46	59	1,873	1,173	174	700
Construction in progress	1,098	1,757	2,039	816	–	–	816
Total property, plant and equipment	69,715	5,215	3,523	71,406	44,570	2,720	26,836
Intangible assets							
Software	11,726	1,651	221	13,155	9,628	1,148	3,527
Software in progress	327	540	432	435	–	–	435
Other	847	–	44	803	803	0	0
Total intangible assets	12,902	2,191	698	14,395	10,431	1,148	3,963

Note: The balances at beginning and end of period are stated at cost.

Annexed detailed schedule of provisions

(Million yen)

Account	Balance at beginning of FY2022	Increase during period	Decrease during period	Balance at end of FY2022
Allowance for doubtful accounts	267	278	99	446
Provision for losses on construction contracts	304	34	272	66
Other reserves	278	114	21	371

(2) Components of major assets and liabilities

This information is omitted because the Company has prepared the consolidated financial statements.

(3) Other

Not applicable

VI. Outline of Share-Related Administration of Reporting Company

Fiscal year	From April 1 to March 31
Ordinary general meeting of shareholders	In June
Record date	March 31
Record date for dividends of surplus	September 30 March 31
Number of shares per unit	100 shares
Purchase and sale of shares of less than one unit	
Place of handling	Special account: 4-5-33 Kitahama, Chuo-ku, Osaka Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited
Stock transfer agent	Special account: 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	–
Share purchase/sale fees	None
Method of public notice	The Company gives public notices by means of electronic public notice. However, if electronic public notice is not possible due to an accident or any other unavoidable reason, the public notices shall be given in the Nihon Keizai Shimbun. Electronic public notices are posted on the Company's website at the following URL: https://www.daifuku.com/
Shareholder benefits	None

VII. Reference Information of Reporting Company

1. Information about Parent of Reporting Company

The Company does not have a parent company, etc. as prescribed in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

From the beginning of this fiscal year up to the filing date of this Annual Securities Report, the Company has filed the following documents:

(1) Annual Securities Report, attached documents thereof and Confirmation Letter

The 106th fiscal year (from April 1, 2021 to March 31, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on June 27, 2022.

(2) Internal Control Report and attached documents thereof

The 106th fiscal year (from April 1, 2021 to March 31, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on June 27, 2022.

(3) Quarterly Securities Reports and Confirmation Letter

The first quarter of the 107th fiscal year (from April 1, 2022 to June 30, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on August 9, 2022.
The second quarter of the 107th fiscal year (from July 1, 2022 to September 30, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on November 9, 2022.
The third quarter of the 107th fiscal year (from October 1, 2022 to December 31, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on February 10, 2023.

(4) Extraordinary Report

Extraordinary Report pursuant to the provisions of Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (result of exercise of voting rights at general meeting of shareholders).
Submitted to the Director-General of the Kanto Local Finance Bureau on June 27, 2022.

(5) Amendment Report for Annual Securities Report and Confirmation Letter

The 105th fiscal year (from April 1, 2020 to March 31, 2021)
Submitted to the Director-General of the Kanto Local Finance Bureau on June 21, 2022.

Part 2. Information about Reporting Company’s Guarantor, etc.

Not applicable

Independent Auditor's Report
(English Translation*)

June 26, 2023

To the Board of Directors of Daifuku Co., Ltd.

PricewaterhouseCoopers Aarata LLC
Osaka office

Kengo Yamamoto, CPA
Designated limited liability Partner
Engagement Partner

Kazuyuki Kitano, CPA
Designated limited liability Partner
Engagement Partner

<Audit of the Consolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Daifuku Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2023, and the consolidated statements of income and comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the year then ended, notes to the consolidated financial statements, and annexed consolidated detailed schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of estimating the total cost of construction with regards to the revenue recognized as the performance obligation is satisfied over time	
Key audit matter description	How our audit addressed the key audit matter
The Company conducts business globally as a manufacturer and integrator of material handling systems, and most orders from its customers include construction projects. For construction	We performed the following principal audit procedures to evaluate management's estimates of total cost of construction used to recognize revenue over time.

projects with performance obligations satisfied over time, the Company recognizes revenue over time based on progress towards completion measured by the cost-to-cost method. As described in Significant accounting estimates in Notes to Consolidated Financial Statements, net sales recognized over time for the current consolidated fiscal year were 432,383 million yen (approximately 72% of consolidated net sales). Given the materiality of net sales recognized over time as well as the judgment exercised by management, revenue recognized over time, particularly with respect to the estimates of total construction costs, requires careful audit consideration. The estimated total costs are determined based on historical project performance and various conditions for each individual project in line with the agreed-upon specification in the contract. As each individual long-term contract is unique in terms of specification and construction periods, the estimates of the total cost require management judgment based on historical project performance and is particularly complex for large-scale long-term contracts. Consequently, in case of unforeseen events, such as changes in specifications during construction due to requests from customers, fluctuations in man-hours requirements and material and equipment prices, and additional costs incurred during construction due to modifications, the estimated total costs may differ from the actual costs. Based on the above, we considered the estimates of total cost of construction used to recognize revenue over time method as a key audit matter.	We evaluated the design and implementation and tested the operating effectiveness of the following internal controls: • Controls for obtaining internal approval for the initial estimate of total cost of construction based on agreed-upon specifications, for example, by ensuring this initial estimate considers the actual cost of similar projects in the past. • Controls that periodically compare the estimated total construction cost for each project with the actual amount incurred, confirm whether estimates have been revised when necessary, and approve the latest estimate of the total construction cost in a timely and appropriate manner. In order to evaluate the reliability of estimates developed by management and cost managers, we compared the estimated amount of total construction costs at the end of the previous consolidated fiscal year to the re-estimated amount or actual amount at the end of the current consolidated fiscal year. We performed the following procedure for samples selected based on our materiality: • Tested the reasonableness of the total cost of construction by examining supporting documents. • Observed meetings held by management periodically to monitor the progress of the project, including conducting inquiries with the cost manager, and inspected supporting documents for the estimated total costs of construction. • Observed the construction site and inquired with the site manager to gain an understanding and evaluate the method utilized by management to estimate the total costs of construction. • For construction projects completed after the end of the current consolidated fiscal year, compared the estimated total construction cost and the actual confirmed amount.

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, financial statements and our auditor’s report thereon. Management is responsible for the other information. In addition, those charged with governance are responsible for overseeing the Group’s reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Audit of the Internal Control>

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying internal control report of Daifuku Co., Ltd. as at March 31, 2023.
In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2023, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Internal Control* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and and Those Charged with Governance for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Those Charged with Governance are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibilities for the Audit of the Internal Control

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

* Notes to the Readers of Independent Auditor's Report
This is an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

Independent Auditor's Report
(English Translation*)

June 26, 2023

To the Board of Directors of Daifuku Co., Ltd.

PricewaterhouseCoopers Aarata LLC
Osaka office

Kengo Yamamoto, CPA
Designated limited liability Partner
Engagement Partner

Kazuyuki Kitano, CPA
Designated limited liability Partner
Engagement Partner

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the non-consolidated financial statements of Daifuku Co., Ltd. (the Company), which comprise the non-consolidated balance sheets as at March 31, 2023, and the non-consolidated statements of income and the non-consolidated statements of changes in net assets for the year then ended, notes to the non-consolidated financial statements, and annexed detailed schedule.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2023, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of estimating the total cost of construction with regards to the revenue recognized as the performance obligation is satisfied over time	
Key audit matter description	How our audit addressed the key audit matter
The Company conducts business globally as a manufacturer and integrator of material handling systems, and most orders from its customers include construction projects. For construction projects with performance obligations satisfied over time, the Company recognizes revenue over time based on progress towards completion	We performed the following principal audit procedures to evaluate management's estimates of total cost of construction used to recognize revenue over time. We evaluated the design and implementation and tested the operating effectiveness of the following

measured by the cost-to-cost method. As described in Significant accounting estimates in Notes to Non-Consolidated Financial Statements, net sales recognized over time for the current fiscal year were 214,066 million yen (approximately 74% of net sales). Given the materiality of net sales recognized over time as well as the judgment exercised by management, revenue recognized over time, particularly with respect to the estimates of total construction costs, requires careful audit consideration. The estimated total costs are determined based on historical project performance and various conditions for each individual project in line with the agreed-upon specification in the contract. As each individual long-term contract is unique in terms of specification and construction periods, the estimates of the total cost require management judgment based on historical project performance and is particularly complex for large-scale long-term contracts. Consequently, in case of unforeseen events, such as changes in specifications during construction due to requests from customers, fluctuations in man-hours requirements and material and equipment prices, and additional costs incurred during construction due to modifications, the estimated total costs may differ from the actual costs. Based on the above, we considered the estimates of total cost of construction used to recognize revenue over time method as a key audit matter.	internal controls: • Controls for obtaining internal approval for the initial estimate of total cost of construction based on agreed-upon specifications, for example, by ensuring this initial estimate considers the actual cost of similar projects in the past. • Controls that periodically compare the estimated total construction cost for each project with the actual amount incurred, confirm whether estimates have been revised when necessary, and approve the latest estimate of the total construction cost in a timely and appropriate manner. In order to evaluate the reliability of estimates developed by management and cost managers, we compared the estimated amount of total construction costs at the end of the previous fiscal year to the re-estimated amount or actual amount at the end of the current fiscal year. We performed the following procedure for samples selected based on our materiality: • Tested the reasonableness of the total cost of construction by examining supporting documents. • Observed meetings held by management periodically to monitor the progress of the project, including conducting inquiries with the cost manager, and inspected supporting documents for the estimated total costs of construction. • Observed the construction site and inquired with the site manager to gain an understanding and evaluate the method utilized by management to estimate the total costs of construction. • For construction projects completed after the end of the current fiscal year, compared the estimated total construction cost and the actual confirmed amount.

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, financial statements and our auditor’s report thereon. Management is responsible for the other information. In addition, those charged with governance are responsible for overseeing the Company’s reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

* Notes to the Readers of Independent Auditor's Report
This is an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.