

Chapter 4

Governance

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Board of Directors

In the Daifuku Group, which strongly promotes global expansion, ensuring management transparency, appropriate risk management, and compliance are the major premise of its business. In addition, we need to consider a strong demand to incorporate a social perspective as well as economic efficiency. In view of this situation, the Board of Directors is composed of people with various expertise and knowledge suitable for manufacturers that generate net sales of 500 billion yen to customers in a wide range of sectors, and with top management experience of subsidiaries and management experience of other companies, to maintain a structure that responds to referrals from shareholders. The experience and skills of corporate officers are also briefly introduced in this report (▶□□ Page 73).



I Corporate governance structure list (as of June 25, 2021)

▶ Directors

	Hiroshi Geshiro	Shuichi Honda	Seiji Sato	Toshiaki Hayashi	Hiroshi Nobuta	Yoshiaki Ozawa	Mineo Sakai	Kaku Kato	Keiko Kaneko
Title	Representative Director President and CEO	Director Senior Managing Officer	Director Managing Officer	Director Managing Officer	Director Managing Officer	Outside Director	Outside Director	Outside Director	Outside Director
Assuming office	June 2015	June 2013	June 2010	June 2020	June 2021	June 2014	June 2018	June 2019	June 2019
Attendance	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 9/9 times Special: 3/3 times	—	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 4/5 times
Advisory Committee (nomination/remuneration)	Member					Chair	Member	Member	Member

Diversity

Independence							✓	✓	✓	✓
Professional background	Corporate management	The Group	The Group, bank	The Group	The Group	The Group		Trading company, IT company	Trading company, energy development company	
	Other than corporate management						Accounting firm, university, outside member of the Audit & Supervisory Board and Substitute Director (Audit & Supervisory Committee Member) of enterprises	University	Trading company, university, law firm, statutory auditor and external statutory auditor of enterprises	
Knowledge/Experience		Sales, production, management	Sales, management	Sales, production	Production	Sales, production	Finance, accounting	Finance, accounting	Legal	Legal
International experience		✓	✓	✓	✓	✓	✓	✓	✓	
Gender		Male	Male	Male	Male	Male	Male	Male	Male	Female
Age		63	64	61	62	61	67	70	66	53

▶ Audit & Supervisory Board members

	Yoshihisa Kimura (inside)	Ryosuke Aihara (outside)	Tsukasa Miyajima (outside)	Nobuo Wada (outside)
Attendance	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 11/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times
Statements	He has abundant experience at the accounting unit and considerable knowledge of financial and accounting matters.	He provides expert advice and recommendations to the Boards as a lawyer.	He is a university professor specializing in legal affairs. As an academic expert and a legal specialist, he provides insightful advice and recommendations to the Boards, based on extensive experience and deep insight.	Having been a university professor specializing in condensed matter physics for many years, he provides insightful advice and recommendations to the Boards, based on extensive experience as an academic expert.

Management (As of June 25, 2021)

I Representative Director



Hiroshi Geshiro

President and CEO

In 2018, Hiroshi Geshiro became the president and CEO. His strength is abundant sales experience worldwide. With appropriate risk management, he drove the achievement of higher sales and profits even in the face of the COVID-19 pandemic. In addition, he demonstrates the leadership in establishing a system suitable for the Daifuku Group across the globe, including Groupwide production reforms by DX and strengthening efforts for sustainability management.



Yoshiaki Ozawa

Outside Director

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



Mineo Sakai

Outside Director

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

I Directors



Shuichi Honda

President and CEO of
Daifuku North America Holding Company

Director
Senior Managing Officer

Shuichi Honda promotes globalized management based on his international knowledge and involvement in managing a Japanese megabank, while serving as the head of a non-Japan subsidiary.



Seiji Sato

Cleanroom Global Business Head

Director
Managing Officer

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



Kaku Kato

Outside Director

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



Keiko Kaneko

Outside Director

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



Toshiaki Hayashi

Automotive and
Airport Global Business Head
Automotive Division Manager

Director
Managing Officer

Toshiaki Hayashi's career centers on the engineering and production of the Automotive business, as well as management experience in a non-Japan subsidiary.



Hiroshi Nobuta

Intralogistics Global Business Head

Director
Managing Officer

Hiroshi Nobuta has abundant experience in the field of the mainstay Intralogistics business centered on engineering and sales at the Company and its non-Japan subsidiary.

Management

I Audit & Supervisory Board members



Yoshihisa Kimura

Audit & Supervisory Board Member

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



Tsukasa Miyajima

Audit & Supervisory Board Member (outside)

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



Ryosuke Aihara

Audit & Supervisory Board Member (outside)

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



Nobuo Wada

Audit & Supervisory Board Member (outside)

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

I Officers

1 Expertise, knowledge, experience 2 International experience (* Including management experience) 3 Gender 4 Age

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Akihiko Kishida

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

1 Production 2 China* 3 Male 4 62

Yoshiyuki Horiba

Cleanroom Automation
Chief Officer of Komaki Works

1 Design, product development 2 —
3 Male 4 62

Takaya Uemoto

Deputy Automotive and Airport Global Business Head
Airport Division Manager

1 Installation, service 2 U.S.A.* 3 Male 4 60

Yasuhisa Mishina

Production Officer
DX Division Manager
Intralogsitics Production

1 Software, design, production 2 —
3 Male 4 61

Hideaki Takubo

Corporate Functions
Human Resources and General Affairs

1 HR, general affairs 2 China*
3 Male 4 60

Audit Officer

Tsukasa Saito

General Manager of Audit & Supervisory Board Office

1 Finance, accounting 2 U.K., China*
3 Male 4 57

Corporate Officers

Akihiko Nishimura

Auto Wash Global Business Head
President of Daifuku Plusmore Co., Ltd.

1 Installation, service, sales
2 Canada, U.S.A.* 3 Male 4 58

Takuya Gondo

Intralogsitics Engineering

1 Engineering, production 2 —
3 Male 4 60

Hiroaki Kita

Safety and Health Management
Chief Officer of Shiga Works

1 Design, product development
2 U.K., Germany, U.S.A., China*
3 Male 4 60

Norihito Toriya

Intralogsitics Sales

1 Sales 2 — 3 Male 4 57

Tetsuya Hibi

Corporate Functions
Finance and Accounting

1 Finance, accounting 2 U.S.A.*
3 Male 4 57

Seiji Yamamoto

Intralogsitics Installation and Services

1 Installation, service 2 Thailand*
3 Male 4 56

Tsutomu Maeda

Automotive Systems Installation and Services

1 Installation, service 2 U.S.A., India*
3 Male 4 55

Tomoaki Terai

Cleanroom Automation Production

1 Production 2 U.S.A., Taiwan*
3 Male 4 52

Corporate Governance

I Principal initiatives

As a company with Audit & Supervisory Board, the Daifuku Group is flexibly promoting the introduction and expansion of systems that enhance management transparency, monitoring and supervision functions.

The Company strives to improve its effectiveness by continuously implementing the PDCA (plan-do-check-act) cycle, establishing the Daifuku Corporate Governance Guidelines based on Japan's Corporate Governance Code.

I Corporate governance structure

Daifuku, which is a company with Audit & Supervisory Board, enhances its corporate governance by its Board of Directors consisting of nine members, including four outside directors, and the Audit & Supervisory Board consisting of four members, three of whom are elected from outside the Company. The Board of Directors is composed of more than one-third of independent outside directors and designed with diversity.

In addition, to complement the functions of the Board of Directors, Daifuku has set up the Advisory Committee to deliberate on the nomination, election/dismissal, and remuneration of management team members. The Audit & Supervisory Board members and the Audit & Supervisory Board Office further strengthen cooperation between the Audi Division and the Accounting Auditor to deepen and streamline audit work.

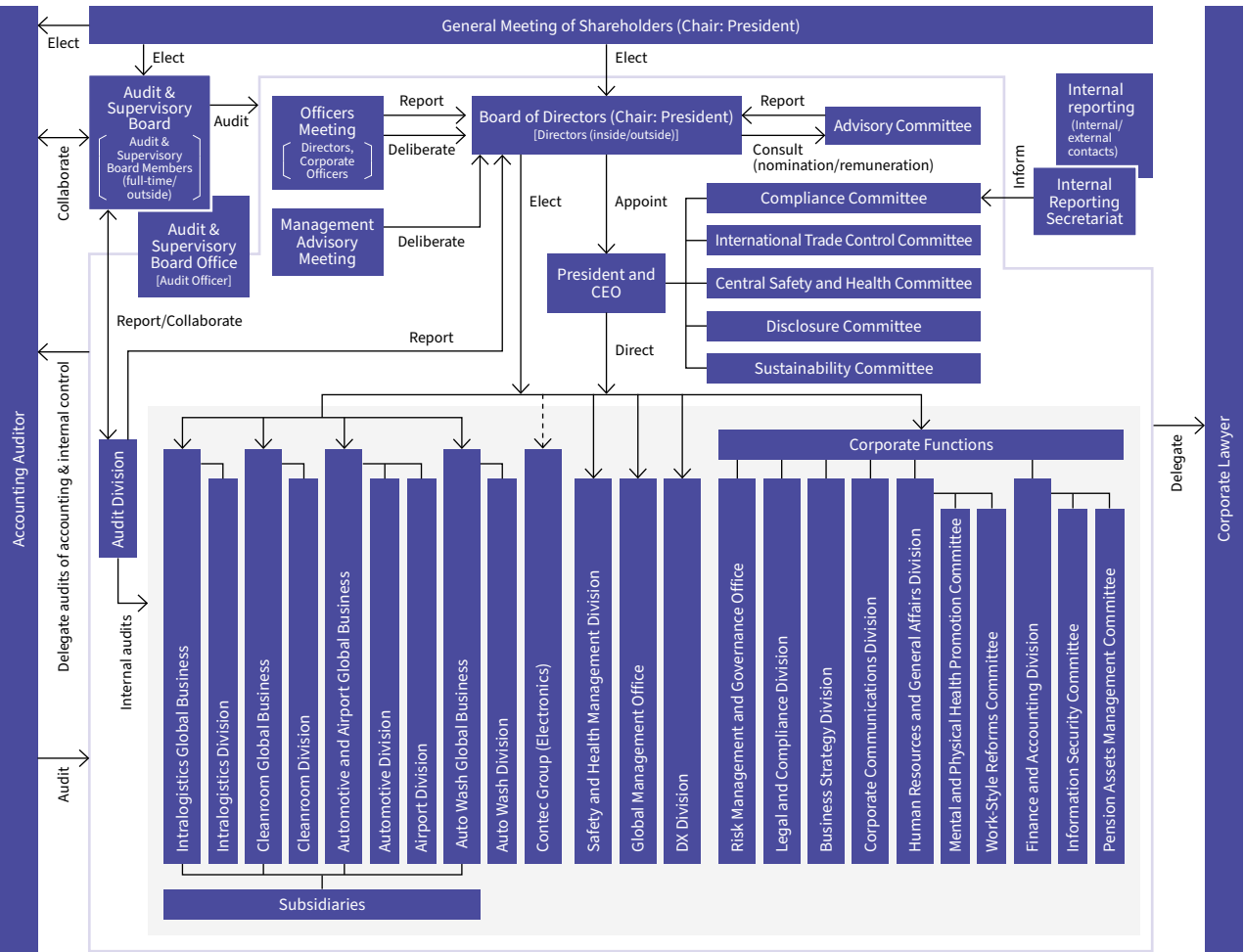
The Company has introduced a corporate officer system to encourage rapid decision-making on business execution. The Officers Meeting deliberates on the content of business execution in the presence of directors, corporate officers, full-time Audit & Supervisory Board members, audit officers, etc. In addition, Daifuku has adopted an audit officer system to strengthen the audit function. The Audit & Supervisory Board Office has been established to assist the duties of Audit & Supervisory Board members and the Audit & Supervisory Board and is supervised by audit officers.

The president and CEO directs each Global Business and the Corporate Functions. In addition, committees under the president are working to identify and resolve common issues for the entire Group.

The evolution of corporate governance

FY	Board of Directors, Audit & Supervisory Board	Other
2011	• Introduction of a corporate officer system	
2012	• Election of an outside director	
2014	• Addition of one outside director to make two in total	
2015	• Implementation of evaluation of the Board of Directors' effectiveness and disclosure of the results overview	
2016	• Establishment of the Advisory Committee for nomination and remuneration • Formulation of independence standards of outside directors and outside Audit & Supervisory Board members • Introduction of the Board Benefit Trust (BBT) as a performance-based remuneration system	• Establishment of the Daifuku Corporate Governance Guidelines • Review of the appropriateness of cross-shareholdings and clarification of voting rights exercise standards
2017	• Evaluation of the Board of Directors' effectiveness through an external organization • Narrowing down the agenda items to be discussed by the Board of Directors to the important matters • Strengthening of training of directors	• Acceleration of management decision-making at its subsidiaries and clarification of their authorities and responsibilities
2018	• Addition of one outside director to make three in total	• Review of the whistleblowing system • Establishment of the Pension Assets Management Committee • Abolition of takeover defense measures
2019	• Addition of one outside director to make four in total • Establishment of Audit Officer position and the Audit Division	• Formulation of the Group Code of Conduct
2020	• Reduction of three inside directors of the Board • Establishment of the Audit & Supervisory Board Office	• Verification of the appropriateness of shareholdings based on basic policies on owning listed subsidiaries
2021	• Election of one corporate officer who oversees the largest business as an inside director	• Establishment of the Risk Management and Governance Office • Establishment of rules for entertainment and gift-giving in the Group Code of Conduct

Corporate governance structure (as of April 1, 2021)



I Audits by the Audit & Supervisory Board members

The Audit & Supervisory Board makes resolutions on audit plans, election/dismissal, non-reelection of accounting auditors, consent for accounting auditors' remuneration, a draft of audit report, etc. In addition, full-time Audit & Supervisory Board members report on the status of audit implementation, audit results, audit equivalence assessment of accounting auditors, compliance-related matters, etc.

- Major priority audit items for fiscal 2020 were as follows:
- Status of project management system for large projects
 - Development and operation status of the Group's internal audit system
 - Status of training and securing human resources
 - Status of sustainability management initiatives

The Audit & Supervisory Board also heard audit plans, quarterly reviews, and reports of audit result from accounting auditors.

- Full-time Audit & Supervisory Board members execute the following:
- Attendance at important meetings, including meetings of the Board of Directors, and various committees
 - Interviews with directors and heads of each business unit
 - Audit of main non-Japan subsidiaries

The Audit & Supervisory Board also works to increase the effectiveness of audits by sharing information and discussion with the Audit Division, Legal and Compliance Division, and other, as well as subsidiary Audit & Supervisory Board members. 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.

Corporate Governance

I Advisory Committee

Daifuku 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 remuneration of directors and corporate officers.

Specifically, as follows:

- ① The Committee consists of at least one representative director and three or more members, including one or more outside directors, and meets at least three times a year. In fiscal 2020, the Committee consisted of all four outside directors and one representative director, and met six times.
- ① To ensure the independence and objectivity of the Committee, the Committee is chaired by an outside director.
- ① Remuneration of the management team is resolved by the Board of Directors after being examined and reported by the Advisory Committee based on evaluation criteria.
- ① The Advisory Committee considers the identification of the qualities required for successors, the appointment and evaluation of specific successor candidates; and reports the result to the Board of Directors.
- ① The Advisory Committee examines the qualities of candidates based on objective criteria, and the Board of Directors resolves the appointment of the CEO.
- ① If the CEO's qualities have disappeared, the dismissal of the CEO will be considered by the Advisory Committee on an objective basis and resolved by the Board of Directors.

I Officers' remuneration

Daifuku stipulates the details of officers' remuneration in related internal rules. The Company also formulates the decision policy on annual remuneration, which is decided by the Board of Directors after consideration and the report by the Advisory Committee.

Summary of decision policy

- ① The Company resolved to set the annual amount of remuneration for directors at 700 million yen or less approved at the ordinary general meeting of shareholders held in June 2006. The basic policy is to pay remuneration for directors in accordance with related internal rules stipulated by the resolution of the Board of Directors so that the level of remuneration is appropriate for the roles and duties of directors.
- ① The remuneration for the executive directors consist of base salary as a fixed compensation, a bonus as a short-term performance-linked compensation, and a medium- to long-term performance-linked equity compensation.
- ① For outside directors who have a supervisory function, only the base salary shall be paid.
- ① The base salary shall be fixed compensation based on the annual salary of officers by position, and the level shall be determined by comprehensively considering the qualifications and positions and the performance of the Company as well as levels at other companies.

Activities of the Board of Directors and a committee, etc., in the process of determining officers' remuneration

The remuneration for directors shall be reviewed and reported by the Advisory Committee, which consists of outside directors and the representative director, and the total amount of base salary and bonuses shall be resolved annually by the Board of Directors. The president and CEO shall be delegated by the Board of Directors to determine the amount of remuneration for individual directors based on relevant internal rules. For details on the Advisory Committee, see the above.

Policy on the determination of the payment ratio of performance-based compensation and other compensation is not fixed because the link between the Company's results and stock value is reflected in compensation. The Company determines the ratio, taking into consideration levels at other companies and the report from the Advisory Committee.

Performance-based remuneration

Bonus

The funds for bonuses as short-term performance-linked compensation are a certain percentage of consolidated net income in a fiscal year, and bonuses are paid based on the basic allocation according to qualifications and positions and the evaluation allocation according to performance results at a certain time every year. For bonus calculation, we have set a "Basic allocation coefficient" based on qualifications and job titles and a "Qualifications evaluation allocation coefficient" based on quantitative (profit growth) and qualitative aspects. About 80% of the allocation amount is "Basic allocation," about 20% is "Qualifications evaluation allocation," and "Qualifications evaluation allocation" is calculated based on individual evaluation.

Non-monetary compensation

Daifuku adopts the Board Benefit Trust (BBT) system as a non-monetary compensation. The purpose of introducing this system is to make clearer the link between officers' remuneration and the Company's results and stock value and for officers to share with shareholders the benefit of rising stock prices and the risk of falling stock prices, which will motivate them to contribute to improving results and increase corporate value over the medium to long term.

In this system, standard points are set for each position. According to the degree of achievement of the business year target and the medium-term business plan targets, coefficients by four levels are assigned, and points are awarded accordingly. Accumulated points are paid in stock and money at the time of retirement. The degree of achievement in a fiscal year is calculated based on the degree of achievement of initial net income and profit margin plans in the fiscal year. The degree of achievement in the medium-term 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. In fiscal 2020, the number of shares issued was 24,500 for four retired directors and 4,100 for three executive officers who reached retirement age, for a total of 28,600 shares.

Delegation of authority to determine remuneration for individual directors

The Board of Directors has the authority to decide on policies on the amount of officers' remuneration, etc., and the method for calculating the amount. President and CEO Hiroshi Geshiro has been delegated to determine the amount of remuneration for individual directors for fiscal 2020 under the internal rules. The delegated authority is the authority to determine the monthly allocation of basic remuneration for each director and the allocation of bonus 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 maintaining an overview of the results at the entire Company, and at the same time, evaluating each director's roles and responsibilities.

To exercise the authority properly, the president and CEO determines remuneration for each director in line with the opinions of the Advisory Committee. To ensure that the president and CEO exercises the authority properly, the Board of Directors has respected the Advisory Committee's report on remuneration for each director, which is the result of the Committee's deliberation in line with the policy, and has approved the remuneration.

Remunerations for Board members

Total amount of remuneration, etc., for each officer category of the submitting company, total amount of remuneration, etc., by type, and number of target officers (FY2020)

	Total remuneration (million yen)	Total remunerations by type (million yen)			Number of target officers
		Base salary	Performance-based remuneration		
			Bonus	BBT	
Directors (excluding outside directors)	409	164	182	63	8
Audit & Supervisory Board members (excluding outside members)	52	31	21	—	2
Outside officers	90	90	—	—	7

Disclosure of individual directors' remuneration over 100 million yen: Hiroshi Geshiro (President and CEO, Representative Director): Total remuneration of 119 million yen (base salary: 55 million yen, bonus: 45 million yen, BBT: 18 million yen)

Corporate Governance

Performance-based remuneration and other compensation

	Performance-based remuneration		Other
	Bonus	Non-monetary compensation (BBT)	Base salary
Covering	Inside directors of the Board, full-time Audit & Supervisory Board members	Inside directors	All officers
Index	Part of net income is used as funds. Determine after quantitatively and qualitatively evaluating the work in charge.	<ul style="list-style-type: none">Each FY: Achievement of performance targets (net income amount and ratio)Achievement of medium-term business plan Value Innovation 2020 (April 2017–March 2021): Targets of net sales, operating income, and ROE	—

Note: FY2020

- Net income: ¥29 billion (target of FY2020), ¥32.3 billion (achievement ratio: 111.7%)
- Net income ratio: 6.3% (target of FY2020), 6.8% (achievement ratio: 108.4%)

Medium-term business plan (the target revised in May 2019)

- Net sales: ¥500 billion (target), ¥473.9 billion (achievement ratio 94.8%)
- Operating income: ¥57.5 billion (target), ¥44.5 billion (achievement ratio 77.5%)
- ROE: More than 10% (target), 13.2% (achieved)

I Enhancing corporate governance structure

Evaluation of the Board of Directors' effectiveness

In March 2021, Daifuku conducted its sixth questionnaire of all directors and Audit & Supervisory Board members concerning the Board of Directors' effectiveness. Using an external organization for evaluation, in the same manner as the previous fiscal year, the Company ensured anonymity and collected more impartial opinions by answering directly to the organization. The results were analyzed from the perspective of a comparison with other companies. Compared to last time, it is considered that awareness gaps within the Board of Directors became smaller.

Evaluation results

Composition of the Board of Directors:

We received many positive opinions such as “very good balance” and “appropriate composition ratio (internal and external) and diversity, etc.” We also received a comment from an internal officer, stating, “Outside directors are actively speaking and lively discussions are taking place.”

Training opportunity, development and operation of the successor plan:

We recognized again that no improvement was seen and that more in-depth discussions and examinations were necessary.

Decrease in communication opportunity:

We saw many comments on decrease in communication opportunity between outside directors as well as between inside directors and outside directors. The primary reason includes the fact most of the Board meetings were held online due to the COVID-19 pandemic. We will consider countermeasures to create opportunities for discussion and dialogue.

Average score of total evaluation:

The score remained unchanged compared to the previous time, however, the difference in the average score of evaluations among directors became smaller. It is considered that the disparity in recognition within the directors has become even smaller.

Comparison with other companies:

Most of the 41 questions in 7 items were above average of other companies' evaluations. We saw significant improvement in the evaluation of questions, “Is there constructive discussion and exchange of opinions with freehearted atmosphere rather than formal?” and “Is own opinion reflected in decision-making and judgment?” In addition, we received comments from external organizations, stating, “effectiveness is generally ensured.”

Basic policies on owning listed subsidiaries

- ▶ Daifuku Co., Ltd. owns Contec Co., Ltd. as a listed subsidiary. Basic policies on owning listed subsidiaries are the following:
 - To respect the subsidiary's independence as a listed company
 - Not to perform acts contrary to the principle of shareholder equality
- ▶ The Company shall encourage Contec to build and operate an effective governance system, for instance by appointing several independent outside directors among the directors of Contec, to secure independent decision-making as a listed subsidiary. The Company shall also ask for prior consultation on matters necessary for risk management.

Reasons for owning Contec as a subsidiary

The major business of the Group is manufacturing, installation, and servicing for plant projects. In recent years, given the growing scale of projects, a reasonable amount of time has become necessary to proceed from determining specifications to recording orders. In addition, because cases in which the period until the completion of work exceeds one year are increasing, a large amount of working capital has come to be required. Because Contec sells device products through agents in many cases, it requires less labor, time, and working capital than the plant-based business. The Group believes that dealing with device products at the same time as focusing on the plant-based business will lead to management stability.

Rationale for maintaining Contec as a listed subsidiary

While Contec engages in the external sales business above, it supplies the Company with electronics products essential for material handling systems. Given that these products need to be developed based on long-standing, cutting-edge know-how while keeping industrial secrets, the Company has decided that it will lead to the maintenance and enhancement of the corporate value of the Group if Contec is required as a listed company to practice strict discipline in areas such as governance and security.

Cross-shareholding strategy

- ▶ Daifuku reviews the appropriateness of its cross-shareholdings and evaluates the result at the meeting of Board of Directors once a year. Shares of other listed companies held by Daifuku, including those held as cross-shareholdings, shall be kept to the minimum necessary or reduced, in principle. On the other hand, Daifuku has established a firm relationship of trust with its customers through after-sales services as well as the delivery of products. Circumstances including these trade relations shall also be taken into consideration when the economic rationale of cross-shareholdings, such as market capitalization, book value, transaction amounts, dividends, ROE, risk of shareholdings, degree of contribution to the Company's performance, and expectation of contribution to future performance including ongoing orders and retrofits, is examined. The shares, which the Board of Directors regards as having no significance, shall be sold on a timely basis.
- ▶ With respect to the voting rights as to cross-shareholdings, assessments shall be made individually by the corporate officer responsible for finance by attaching importance to the medium- to long-term improvement of the corporate value of each cross-shareholding partner. At the time of the assessment, special attention shall be paid to whether the cross-shareholding partner has been tarnished by scandal or has committed an antisocial act. If the cross-shareholding partner should be involved in such circumstances, its managerial approach to improvement shall be scrutinized.
- ▶ 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.
- ▶ During fiscal 2020, Daifuku sold all four issues and part of the two issues. As a result, the number of cross-shareholdings decreased by 4 to 48, and the book value decreased by 0.65 billion yen to 7.18 billion yen. Amount of shares recorded was 13.37 billion yen on the balance sheet, which accounts for 3% of total assets.
- ▶ Going forward, Daifuku will continue to negotiate to sell the shares for which we have decided to sell them, and strive to reduce the number of cross-shareholdings.

Corporate Governance

Initiatives for strengthening compliance

Group Code of Conduct

In 2019, we at the Daifuku Group established the Group Code of Conduct that defines the fundamental principles we (all directors, officers, and employees of the Group) should follow with the aim to realize the Group company creed and management philosophy.

- The Group Code of Conduct consists of nine items under the following three basic stances.
- 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.

The Group Code of Conduct is translated into various languages, and a booklet is distributed to all Group employees to strive to make it known through training and other opportunities.

The Risk Management and Governance Office, which was established in April 2021, aims to develop the compliance system and strengthen Group governance, including the permeation of ethical awareness throughout the Group.

In addition, the Sustainability Committee encourages to raise employee's ethical awareness by participating in the My Ethical Consumption Declaration, which selects products and services that take the environment, society, and the community into consideration.

For details, see our website:
www.daifuku.com/company/policy/code

Whistleblowing system

Daifuku has established a whistleblowing (internal reporting) system to detect fraud and scandals at an early stage and deal with them appropriately. In light of the revision of the Guidelines for Private Enterprises Regarding the Development and Operation of Internal Reporting Systems Based on the Whistleblower Protection Act, in 2018 the Group formulated new whistleblowing system rules and guidelines.

To make the whistleblowing system more effective, the Group has set up an internal contact and independent external reporting desk (with neutral external contractors). Anonymous reporting is possible, and it is available in eight languages to executives and employees of the Group, as well as ongoing business partners (suppliers). The Internal Reporting Secretariat is responsible for the administration of this system and verifies the facts of the report, determines the course of action to take, and handles investigations among other duties. The method of investigation depends on the severity of the report, urgency, and organized involvement. Should a compliance problem be identified through the investigation, we will take corrective action and measures to prevent recurrence. Critical problems are reported to the Compliance Committee and the Audit & Supervisory Board. The confidentiality of people involved in internal report work is obligated and we work to protect whistleblowers from unfair treatment deriving from their act of filing a report.

President Geshiro has sent the following message via the internal network.

“Our management philosophy includes creating a diverse and positive corporate culture. Please do not turn a blind eye to infractions of the law or hesitate to report anything you feel may be wrong so that the Group can continue growing further by obtaining more trust from society.”



Bribery prevention

In April 2021, the Group established new rules for entertainment and gift-giving, in addition to the rules for dealing with obvious violations of laws and regulations that have been already operated.

We set every October as a compliance enhancement month and work to raise compliance awareness of our employees through various events. Prior to strengthening these rules, in October 2020 we held a discussion meeting on the risk of bribery with the president and outside directors in attendance.

At the meeting, the following comments were given by outside directors.

- We need to consider based on the countries having the strictest regulations with the mind that we are doing business to the world. (Kaku Kato)
- It is important for those who are in a high position to have a strong mind to “never let their staff cheat.” (Keiko Kaneko)

President Geshiro declared to all employees of the Group through the Company newsletter, “We will work with you to create the Group that does not tolerate fraud and operates its business fair and square.”

In terms of operation, we have established a mechanism to protect individuals, such as setting up a multilingual reporting contact so that employees do not take on worries alone, and thorough advance application and approval when contracting with business partners.

We are working on this not only at Daifuku but also as a supply chain. At a management and production trends presentation held in June 2021, President Geshiro appealed to the management of 263 business partners that he would refuse to receive entertainment and gifts to the Group employees.



President Geshiro participating in the presentation for business partners



The scene of panel discussion sent to all employees in four languages.

First-ever implementation of a virtual general meeting of shareholders

We first introduced the virtual method at the ordinary general meeting of shareholders held on June 25, 2021. We delivered a live stream of the shareholders' meeting over the Internet. The shareholders who watched the video were not able to exercise voting rights or ask questions, however, we accepted questions before the meeting and answered the majority of questions on the day.

We asked shareholders to refrain from visiting the venue to prevent the spread of COVID-19 infections. As a result, 70 shareholders participated in the live stream, most of which were in remote locations. The number of visitors was 10. The voting right exercise rate remained high at 86.49% (86.90% in the previous fiscal year).



A video camera for the live stream was installed in front of the podium.

Interview with Outside Directors

Daifuku has formulated the three-year business plan Value Transformation 2023, a series of new policies, goals, and plans, starting April 2021. It also identified material issues and developed the Sustainability Action Plan and Daifuku Environmental Vision 2050, with the goal of increasing corporate value over the medium to long term.

In this interview, outside directors were asked about the new business plan, policies, and goals, the kinds of discussions that take place during meetings of the Board of Directors, and the key points to achieving the Company's plans and reaching its goals.



Yoshiaki Ozawa
Outside Director

Mineo Sakai
Outside Director

Kaku Kato
Outside Director

Keiko Kaneko
Outside Director

Q1

How would you evaluate the activities of the Board of Directors in fiscal 2020?

Kato: In fiscal 2020, we had to conduct Board meetings online due to the COVID-19 pandemic. These online meetings went smoothly, as appropriate materials for the meetings were distributed beforehand and those speaking on the agenda were well prepared. With that said, casual conversations and behaviors are also an important part of communication at these meetings. My hope is that we are able to come up with a way to better facilitate nonverbal communication at these meetings as they are a part of living with COVID-19.

One current issue is that I see more than a few proposals that are essentially micromanagement. I believe that the Board of Directors should focus its discussions through a more “big picture” lens. And I believe an even bigger issue is the matter of training candidates to succeed the Company president. As an outside director, I will continue to play an important role on the Board and remain actively involved in issues such as these.

Since the number of full-time Audit & Supervisory Board members has decreased by one in fiscal 2020, I feel that appropriate supervision over management is even more important, both from the audit side of things and from outside directors.

Ozawa: I find it admirable that even in an online environment, the Board was able to adhere to the Corporate Governance Code, set and review the corporate vision and medium- to long-term plans, work to ensure transparent management and operations, implement organizational reforms, and make efforts to enhance audits conducted by the Audit & Supervisory Board by strengthening cooperation with the internal audit unit.

What would enhance the Board is a Corporate Code of Conduct and an ethical charter that provide clear criteria for judgment, in addition to thorough efforts to disseminate them throughout the Daifuku Group.

Q2

What important roles do outside directors play amid the COVID-19 pandemic and the new normal?

Kaneko: The compliance-themed study sessions attended by officers in fiscal 2020 served as a good initiative to facilitate appropriate business execution, and I believe that they helped increase officers’ and employees’ understanding of compliance.

Sakai: In this time of COVID-19 and the new normal, it is crucial to evaluate the effect on business and risk responsiveness. As COVID-19 generates and accelerates changes in the environment, outside directors need to be active in voicing their opinions on changes or revisions that need to be made for existing businesses and on new growth strategies to ensure that a company can respond.

Ozawa: Now more than ever, we need to understand the impact of the COVID-19 pandemic on business and assess risk responsiveness. In addition, on top of new business opportunities and strategies, we outside directors need to look at the new normal and actively discuss it in terms of the Company’s ongoing digital transformation (DX) efforts, work-style reforms, and human resource development.

Kato: While I recognize that inside officers are aware of the rapid changes going on in the world in terms of common thinking and social conditions, outside directors are a little different in that we are not bound by company or industry thinking, so we can be expected to catch wind of different things or have a different perspective. The demands of society may change completely, so I believe that outside directors have an important duty to keep feelers out over a wide area.

Ozawa: The logistics industry needs to review its business models for mass production, consumption, and disposal. We need to make a radical change to how we produce and consume and come up with new growth models that will help realize a sustainable society. Important to this is the cyclical collection of products and resources at the end of their life cycle, recycling, and reuse. Our material handling systems need to be compatible with this sort of recycling-oriented business. I believe that if the Company generates this type of response, it will create further opportunities for growth.

Sakai: One of the Company’s strengths, that is, its material handling systems, is a type of social infrastructure that helps support customers’ production and consumption and is a business that intrinsically helps achieve the SDGs. I am of the opinion that material handling will continue to see steady growth in the future as a type of social infrastructure that assists with ever-increasing e-commerce and as a mechanism for both saving labor and reducing person-to-person contact.

On the other hand, there remains a shortage of workers to cover “the last mile,” the section from the final shipping center to a consumer’s home. If the Company combines its existing systems and services with digital technology such as apps and drones, it will likely help increase efficiency and mitigate these labor shortages.

Kato: Not only does Daifuku’s business help save labor and increase efficiency at manufacturing facilities, distribution sites, and airports, it also helps avoid the Three C’s (closed spaces, crowded places, and close contact settings). Striving to provide products with even less of an impact on the environment will greatly enhance Daifuku’s contribution toward resolving social and environmental issues. Working from this idea, the Company does need to actively promote its business and provide even better products, but it also needs to be more diligent in explaining the aspects of its business I just mentioned to society, and make an appeal based on them. More than ever before, it is important to enhance supply chain management, specifically because this helps resolve environmental and social issues.

Q3

What risks do you believe demand particular attention as environmental and social issues become more apparent, and in what areas do you expect to see business opportunities?

Interview with Outside Directors

Q4

What kind of Board discussions took place when formulating Value Transformation 2023, and how would you appraise the plan?

Sakai: During meetings, we paid close attention to market expectations held by shareholders and institutional investors as they relate to management goals and shareholder returns and the likelihood of delivering on these expectations.

The COVID-19 pandemic has sparked rapid changes in domains that have not seen change in a long time. I believe the choice to change the period of Value Transformation 2023 from the conventional four years to three is appropriate in light of this rapidly changing environment.

During a meeting of the Board of Directors, we had an opinion that the Company should challenge itself with more ambitious target values. Each of the numerical targets that the Company has committed to are what management believes to be the best for the present time, and they have been arrived at with the understanding that they can be shifted upward in keeping with changes in the future business environment.

Value Transformation 2023 advocates for “DX² (DX Squared),” which is a concept that incorporates the transformation of the Group itself. The Company is paying close attention to the activities of the newly established DX Division to respond to high expectations for DX as a means to enter new business domains.

During the design stage for logistics systems, digitalization and system modularization are eliminating individual tasks. Digitalization has become a phenomenon, even without the term “DX,” with functions that include using digital technology to perform pre-verification, eliminating the need to perform on-site adjustments of logistics system after shipping.

For digital technology to transform business, however, it is important to change the mindset of employees. When making these kinds of changes from the top down, conflicting mindsets can stand in the way, such as a desire to maintain the status quo, resistance to change, and an inability to accept new ideas. It is up to management and the Company’s evaluation systems to try and change this mindset and have employees get out their comfort zones and think in terms of delivering value to their customers.

Kaneko: While we had opinions stating that Value Transformation 2023 could aim for greater growth and could post more ambitious targets, in the end, the current plan, put forth after a wide range of discussions, is something I agree with. Going forward, I will keep a close eye on the Company’s efforts to carry out this plan.

Ozawa: If the Company is able to implement the strategies within the plan aimed at increasing profitability—specifically, to enhance product value, increase productivity, and reinforce its production framework—it will most likely exceed its targets for the final year of the plan.

I also believe we need to spend a little more time discussing the measures that make up the plan’s business strategy. When looking at Value Transformation 2023 we see that in terms of business domains it highlights “Strategically invest in the global market,” “Create next-generation business models,” and “Invest in promising new domains.” Of these, “strategically invest in the global market” makes reference to M&A, but this requires careful judgment in light of past performances, and the Board has expressed the need to strengthen post-merger integration. Moreover, I would like the measure to “invest in promising new domains” to lead to more active investment in R&D.

Kato: One point that we emphasized in Value Transformation 2023 is that it is based on social and global demands and trends such as environment, society, and governance (ESG) and the SDGs. This plan was developed with the recognition that there is no future in trying to toe conventional lines and that the unexpected can occur, and so it is aimed at making a business that cannot be shaken by such unexpected events, one that is supported by corporate governance and internal controls. This will require bold decision-making by management. I will spare no effort to support and contribute to these goals.

As an outside director, I will also provide measured advice and supervision from a distance to ensure that when managing or executing the plan changes in the business conditions or social demands are not overlooked in the pursuit of numbers.

Q5

How would you evaluate the Group’s material issues, Sustainability Action Plan, and Daifuku Environmental Vision 2050, and what do you believe is important for improving corporate value over the medium to long term?

Sakai: It is vital that everyone in the Group is aware of the significance of linking business with sustainability. If this significance is not internalized within each business unit, then taking the time to re-identify material issues is simply an empty gesture. One specific initiative, the Sustainability Action Plan, contains a number of KPIs based on five themes. The key to achieving these KPIs is to foster a suitable corporate culture and include the business units and their many employees as part of these achievements, so that each employee is motivated to make proactive efforts. I anticipate a strong message from President Mr. Geshiro, chair of the Sustainability Committee, with a follow-up from the Committee itself.

Daifuku established its Group Health Management Declaration early in its history. I appreciate that, to further promote sustainability management, respect human dignity was set as one of the themes in the Sustainability Action Plan, and both respecting human rights and cultivating human resources were identified as material issues. These are things that will lead to a sustainable society and enhance corporate value.

Daifuku Environmental Vision 2050 deserves credit, as it serves as a long-term vision and a milestone for 2030. For a medium- to long-term initiative such as this, it is important to manage progress and course-correct as needed. I expect strong leadership from the Sustainability Committee and will follow progress carefully.

Kaneko: The Group’s material issues, Sustainability Action Plan, and Daifuku Environmental Vision 2050 are a series of policies and targets that lay the foundation for management and operational goals in the future. While the determination of management is paramount to achieving them, all employees need to be united on this front. To play my part, I will continue to work actively as an outside director and to strengthen supervision over progress.

Ozawa: When it comes to these policies developed by the Company, we need to look at how to go forward in terms of improving corporate value as an investment target, creating business opportunities, and acquiring the best human resources.

Improving corporate value as an investment target naturally means taking active measures starting from ESG investing. Creating business opportunities is important, since environmental and social issues are expected to bring major changes, and material handling systems are no exception. I believe that incorporating these changes into the Company’s strategy will create new businesses. As for acquiring the best human resources, young people have a strong interest in the environment, meaning if the Company does not make efforts in this direction, the best human resources will slip away.

Daifuku needs to be mindful of these matters and act upon them if it wants to achieve medium- to long-term growth.

Kato: In Daifuku Environmental Vision 2050, the Group aims for a world where material handling systems have zero environmental impact in 2050. This is an extremely challenging declaration to make. This vision is infused with a desire to become a leading company in material handling as opposed to just following the movements of society, and that is something I have to applaud.

As for each measure and its progress, I believe the Company should develop and adopt an evaluation method with more precise numerical values when things can be evaluated quantitatively, such as CO₂ emission reduction amounts. Of course, we have many issues that are qualitative and difficult to evaluate numerically. In these cases, we need to find an evaluation method and figure out how to disclose this information to society.

I do recognize that there are advantages and disadvantages to the different ways in which the degree of achievement of these measures is reflected in internal performance evaluations and personnel assessments, and that this is an issue. In the future it will be necessary to investigate and develop evaluation methods both promptly and carefully, and I intend to actively participate in, and contribute to this process.