

**ANNUAL REPORT 2006**

Year ended March 31, 2006

## Profile

With a prioritized management philosophy of contributing to the development of industries by supplying optimal material handling systems to the global market, Daifuku Co., Ltd. has been developing its business and improving technologies to meet customer demands since its founding in 1937. Daifuku has been building up customer trust worldwide in the automobile, electronics and distribution industries. By providing solution services in response to the rapidly changing global market, Daifuku will continue to be involved in the development of society as a leading company in comprehensive logistics systems and equipment.

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## Performance Records in Fiscal 2005

- Orders received: **¥ 221,133 million** (Record high)
- Net sales: **¥ 198,811 million** (Record high)
- Operating income: **¥ 16,517 million** (Highest in the last 10 years)
- Net income: **¥ 10,253 million** (Record high)

Only Daifuku can.

With its exceptional capabilities in global business development and mobility, Daifuku strives to become the world's best material handling manufacturer.

### Cautionary Statement with Respect to Forward-Looking Statements

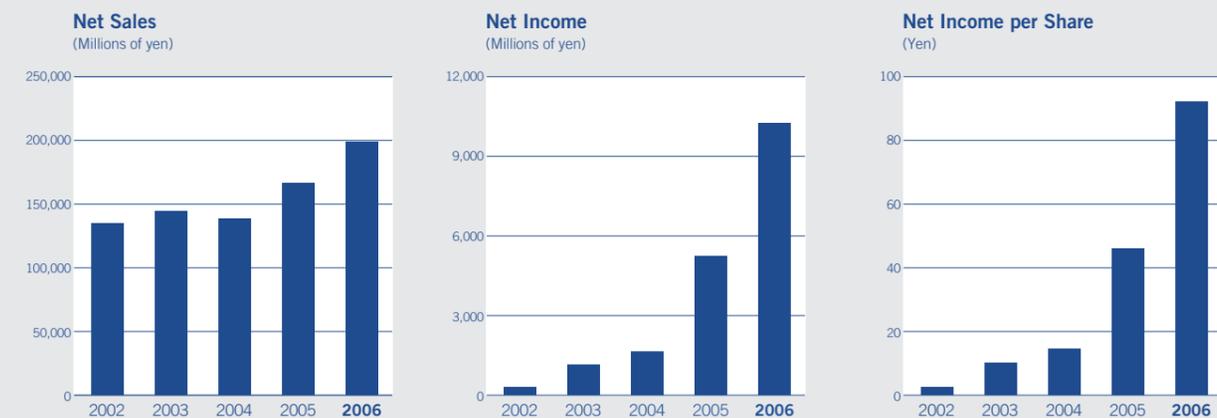
The strategies, beliefs and plans related to future business performance as described in this annual report are not facts of the past. They are business prospects based on the assumptions and beliefs of the management team judging from the most current information, and therefore these prospects are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include 1) consumer trends and economic conditions in the Company's operating environment, 2) the effect of yen exchange rates on sales, assets and liabilities denominated in U.S. dollars and other currencies, and 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions. Moreover, there are other factors that may adversely affect the Company's performance.

## Financial Highlights

Daifuku Co., Ltd. and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	2006	2005	2006
	Millions of yen		Thousands of U.S. dollars
<b>For the Year</b>			
Orders received	<b>¥221,133</b>	¥178,019	<b>\$1,882,464</b>
Net sales	<b>198,811</b>	166,232	<b>1,692,441</b>
Operating income	<b>16,517</b>	10,790	<b>140,611</b>
Net income	<b>10,253</b>	5,231	<b>87,278</b>
Net income per share (Yen and U.S. dollars)	<b>92.20</b>	46.07	<b>0.78</b>
Cash dividends per share (Yen and U.S. dollars)	<b>18.00</b>	13.00	<b>0.15</b>
Capital investment	<b>5,236</b>	3,671	<b>44,570</b>
R&D expenditures	<b>7,629</b>	4,970	<b>64,947</b>
<b>At Year-End</b>			
Total assets	<b>¥181,990</b>	¥147,158	<b>\$1,549,246</b>
Working capital	<b>52,249</b>	42,575	<b>444,784</b>
Shareholders' equity	<b>68,882</b>	53,337	<b>586,381</b>
Number of employees	<b>4,109</b>	3,716	
<b>Ratios</b>			
Operating income/sales	<b>8.3%</b>	6.5%	
Net income/sales	<b>5.2</b>	3.1	
Return on shareholders' equity (ROE)	<b>16.8</b>	10.2	
Shareholders' equity/total assets	<b>37.8</b>	36.2	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥117.47 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2006.



## A Message from the President



**Katsumi Takeuchi**  
President and CEO

### Review of Operations: Three-Year Business Plan Targets Accomplished One Year ahead of Schedule

During fiscal 2005, ended March 31, 2006, the Daifuku Group achieved record-high results in terms of orders received, net sales, and profits for almost all items on a consolidated basis. On the back of these favorable results, Daifuku accomplished the targets stipulated in its fiscal 2004 to fiscal 2006 Three-Year Business Plan a full year ahead of schedule.

Orders received increased 24.2% from the previous fiscal year to a record-high 221,133 million yen, making the post-fiscal 2006 outlook even more promising. Net sales also rose 19.6% year on year to a record-setting 198,811 million yen. Propelled by aggressive corporate capital investment at home and overseas, Daifuku enjoyed strong sales, particularly in the Logistics System business for cleanroom transport and storage systems in the Japanese and Asian electronics industries, as well as in conveyor systems for the automobile industry. In addition, there was an increasing demand for the establishment of third-party logistics (3PL) — business structures that handle comprehensive logistics business in a one-stop operation — for distribution and delivery centers in the Japanese transportation, warehousing, and food wholesale industries. As a result, our transport, storage, sorting and picking systems for large- and medium-scale automated warehouses enjoyed brisk sales during the fiscal year under review.

On the earnings front, operating income surged 53.1% to a 10-year high of 16,517 million yen and net income skyrocketed 96.0% to a highest-ever 10,253 million yen. These achievements resulted from increased productivity brought about by a surge in orders, the implementation of thorough cost-management measures, the reduction of variable costs due to the expansion of optimal production and higher material procurement ratios in overseas markets, overall cost reductions brought about by leveraging IT-driven new production control systems, and strong partnerships with subsidiaries elsewhere in Asia.

As a result, return on equity (ROE) improved to 16.8% compared with 10.2% for the previous fiscal year. Net income per share surpassed the previous fiscal year's 46.07 yen per share to 92.20 yen per share.

Given such progress, Daifuku increased annual dividends to 18 yen per share in accordance with the performance-based dividend payment policy introduced in fiscal 2004, when they were 13 yen per share.

### Taking Measures for Further Growth

In fiscal 2005, Daifuku succeeded in achieving significant results by shifting to aggressive management strategies based on the sound, profit-oriented business practices established in the process of implementing the Three-Year Business Plan. Considering it as a milestone, we will strive to strenuously improve our business operations in pursuit of sustainable growth. In November 2006, we will establish the next Three-Year Business Plan for the period from fiscal 2007 to fiscal 2009, targeting annual production of 250,000 million yen both in Japan and overseas and an annual sales growth rate of over 5.0%. In addition, we will also stipulate new targets of an operating income margin of over 10%, and a ratio of overseas sales to total net sales of over 50%.

We consider that Daifuku has the potential to be the world's best material handling company both in product quality and quantity when we accomplish these targets.

In order to realize these growth strategies, Daifuku will exert every effort to address the following issues:

- (1) Overseas market expansion,
- (2) Expanding and strengthening production bases worldwide,
- (3) Research and development (R&D) activities,
- (4) Human resource training, and
- (5) Maintaining credibility by impeccable corporate behavior.

#### **(1) Overseas market expansion**

During the fiscal year under review, Daifuku recorded a ratio of overseas sales to total net sales of 41.6%. Aiming to boost this to over 50% in fiscal 2009, ending March 31, 2010, Daifuku will make companywide efforts to expand overseas markets. Daifuku's e-Factory Automation (eFA) Operations are currently boasting the highest ratio of overseas sales to total net sales. This spurred the Company to establish a wholly owned affiliate in Science Park, located in southern Taiwan, in August 2005, which commenced operations in March 2006. Maintaining close links with device makers primarily in the flat-panel display (FPD) field, Daifuku has a comprehensive business line covering development, marketing, production, and after-sales service. Our eFA Operations had already established an affiliated company in South Korea, and with the commencement of local production in Taiwan, Daifuku's global business structure has been further reinforced.

The second-strongest business in Daifuku's global market development is Automotive Factory Automation (AFA). Amid the rising demand for capital investment in the Chinese automobile industry, our AFA Operations established a joint venture in Changshu, Jiangsu, China, in September 2005, in response to customer demands for lower costs and shorter delivery schedules. In January 2006, the joint venture commenced the production of conveyor systems used in automobile production lines. In collaboration with Daifuku's existing sales companies in Tianjin and Guangzhou, we will proactively strengthen systems that are able to provide timely delivery to customers across China. In addition to the progress in China, Daifuku established a local subsidiary for sales in India during fiscal 2005, promoting market expansion to BRIC (Brazil, Russia, India and China) countries. At present, the ratio of overseas sales to total net sales for Factory Automation & Distribution Automation (FA&DA) Operations, and the Electronics and Car-Washing Machines businesses are not as high as the eFA and AFA businesses. Daifuku will initiate new global market research to boost the ratio for these three businesses up to 50%.

#### **(2) Expanding and strengthening production bases worldwide**

Daifuku is streamlining its overseas production bases in pursuit of closer relationships with customers, optimal production for prompt response, and cost reductions. Furthermore, our Japanese factories are changing their roles to become core factories, with the aim of developing global business. As part of the plan, we established two factories at the Shiga Works (in Hino, Shiga Prefecture) in order to transfer the production lines for automated warehouse systems from the Komaki Works (in Komaki, Aichi Prefecture), and commenced full-scale parallel operations in April 2006. Owing to the establishment of these new factories, Shiga Works has become one of the world's largest material handling systems and equipment production bases, with 11 factories on its premises. These new factories are also regarded as Daifuku's R&D bases, playing the role of core factories that provide our distribution technologies and know-how on a global scale.

#### **(3) R&D activities**

Fulfilling its mission as a leading material handling company, Daifuku plans to invest approximately 4% – 5% of net sales in R&D every fiscal year, in order to offer new products and better-value solutions. During fiscal 2005, Daifuku allocated 7,629 million yen (3.8% of net sales) for R&D. In addition, we engage in development activities and implemented constant capability improvements with the key slogan of "S. Q. C. D. E. (Safety, Quality, Cost, Delivery and Ecology)" in mind in our mainstay conveyor systems and automated warehouse

systems. Particularly in the electronics industry, which is witnessing significant technological innovations, Daifuku developed the Daifuku Advanced Transport System (DATS), an integrated system for hardware and software used in the semiconductor business. In the FPD business, we are focusing on the development of Clean Stocker in an effort to respond to demands for larger-sized LCD substrate glass. Daifuku continues to improve its product competitiveness by strengthening the Company's R&D structure.

#### **(4) Human resource training**

In 2007, a large number of baby-boomers will reach the mandatory retirement age, and this is expected to have a negative impact on many Japanese companies in terms of passing on technical expertise. With an eye on the future, Daifuku rapidly addressed this issue by establishing three wholly owned subsidiaries in April 2005: Daifuku Business Create Co., Ltd., Daifuku Manufacturing Expert Co., Ltd., and Daifuku Field Engineer Co., Ltd. These subsidiaries were formed with the aim of rehiring retired workers. In June 2005, Daifuku opened the Daifuku Manufacturing and Design System (D-MAND) promotion center, which acts as a training organization for design and manufacturing divisions, on the site of Shiga Works for the purpose of passing on manufacturing technology and techniques as well as providing young personnel with a chance to be trained by experienced employees. Daifuku is implementing measures to contribute to the Company's sustainable development from the aspect of human resource training promotion.

#### **(5) Maintaining credibility by impeccable corporate behavior**

Aiming for long-term, sustainable growth, it is essential to maintain credibility by displaying impeccable corporate behavior. A number of corporate scandals have recently come to light and gained media attention both in Japan and overseas. Daifuku will enhance and strictly comply with its corporate behavior targets to gain the full trust of all its stakeholders including shareholders, investors, customers, employees, suppliers, cooperating companies, as well as wider society at home and abroad. As a part of these efforts, we are working on the following initiatives:

##### **(a) Internal controls**

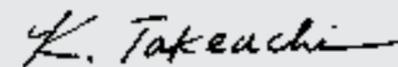
On May 1, 2006, the Corporation Law was enacted, superseding the Commercial Code of Japan. The new law stipulates how corporations are expected to act and stringently requires corporations to establish internal control systems. In response to this, Daifuku is in the process of implementing measures for the timely and accurate disclosure of information regarding its compliance, risk management, financial soundness, and other necessary information, in order to develop and improve its internal control systems. Daifuku will bring superior improvements as a company that conducts its affairs in an ethical, fair and transparent manner.

##### **(b) Strengthening management systems for health, safety and the environment**

A variety of initiatives are being taken on environmental issues around the world. Daifuku is not alone in being required to consider the environment as an important factor in the Company's management and to approach environmental issues around production sites and the environmental impact from its products. Daifuku implemented its "S. Q. C. D." slogan to improve customer satisfaction. In addition to this measure and to give a sincere response to safety and the environment in all corporate activities, the Company has added "E (Ecology)" to the slogan and placed a greater emphasis on environmental issues in its corporate activities.

Daifuku is proactively fulfilling its responsibilities and reinforcing its companywide approach to become the world's best material handling company. With these endeavors, Daifuku will instill confidence in all its stakeholders including shareholders, and maintain its position as a major contributor to the development of industry and society.

July 2006



Katsumi Takeuchi  
President and CEO

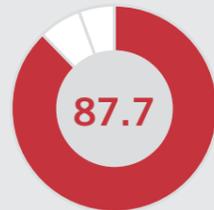
## Performance by Business Segment

(Millions of yen)

		Logistics System Business	Electronics Business	Other Business
Orders received		196,049	13,825	11,259
Net sales	Sales to external customers	174,406	13,286	11,119
Operating income	Before eliminations and corporate	19,723	1,031	1,163
Capital expenditure	Before eliminations and corporate	3,873	548	56

### Logistics System Business

Consolidated sales ratio



During the fiscal year under review, Daifuku's AFA business received a steady flow of orders for the conveyor systems used in automobile production lines in the Japanese, North American and Asian markets. Simultaneously, in the eFA business, demand for cleanroom transport and storage systems for the electronics industry significantly increased in Japan and elsewhere in Asia. Furthermore, in the FA&DA business, orders for large- and medium-scale automated warehouse systems used mainly at distribution centers remained strong in the wholesale and retail, food and beverage, and transportation and warehousing industries as a result of sound demand for construction of logistics and distribution centers in Japan.

Net sales were also favorable in the fiscal year under review and were nearly on par with the growth rate of orders.

Accordingly, orders in the Logistics System business rose 26.4% from the previous year to 196,049 million yen, while net sales increased 22.3% to 174,406 million yen, marking record-high results. Operating income grew 37.2% year on year to 19,723 million yen.

In the Logistics System business, capital expenditure (before elimination and corporate) rose 23.3% to 3,873 million yen due to the construction of new factory buildings ahead of the relocation of Komaki Works facilities to Shiga Works, maintenance and update of production facilities, and reinforcement of production control systems.

### Electronics Business

Consolidated sales ratio

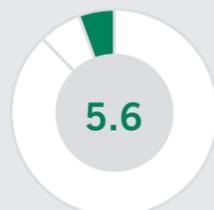


In the Electronics business, orders and sales of computers and boards embedded in various terminal equipment were stagnant during the fiscal year under review due to a slow-down in the computer market. However, orders and sales of production management systems and production line control systems remained strong. During the fiscal year under review, we responded to the proliferation of wireless LAN and engaged in the development and sales promotions of specialized equipment that ensures a high level of security. As a result, orders received increased 9.3% from the previous fiscal year to 13,825 million yen, while net sales edged down 2.6% to 13,286 million yen. Operating income was down 20.4% year on year to 1,031 million yen.

Capital expenditure in the Electronics business stood at 548 million yen, mainly for the maintenance and upgrade of production facilities.

### Other Business

Consolidated sales ratio



In the mainstay Car-Washing Machines business, we launched seven models of three roll-over type machines, including Exparge and Viecell. In conjunction with this, we strived to strengthen our service office functions and foster sales promotion. Overseas, sales in South Korea remained on the right track thanks to our local affiliate's efforts, and further inroads were made with the establishment of a local affiliate in Shanghai and the inauguration of a production plant in September this year in an effort to cultivate the Chinese market. As a result, orders grew 10.1% from the previous fiscal year to 11,259 million yen, while net sales rose 11.6% to 11,119 million yen. Operating income stood at 1,163 million yen, compared to a 52 million yen loss in the previous fiscal year.

Capital expenditure amounted to 56 million yen, primarily for the maintenance and upgrade of production facilities.

## Business Results by Region

Daifuku's Group companies' business results by region (Japan, North America, Asia and other regions) during the fiscal year under review are described as follows.

In Japan, sales in the AFA business for automobile production lines, the eFA business for the electronics industry, and the FA&DA business for distribution centers were brisk on the back of the economic recovery and the expansion of corporate profitability and capital expenditures. As a result, net sales climbed 8.3% from the previous fiscal year to 153,198 million yen, and operating income surged 33.6% to 18,596 million yen.

In North America, despite inflation fears stemming from hurricane damage and spiraling crude oil prices, sales in the AFA and eFA businesses continued to be strong, reflecting brisk consumer spending and capital expenditures. Accordingly, net

sales jumped 72.0% year on year to 20,965 million yen, while operating income skyrocketed 555.4% to 911 million yen.

Economies in Europe showed signs of recovery in the second half of this fiscal year, while Asian economies, particularly that of China, maintained high growth. Against this backdrop, the Daifuku Group's business remained strong particularly in the AFA and eFA businesses in Asia. As a result, combined net sales for Asia and other regions in the fiscal year under review were 24,648 million yen (21,259 million yen in Asia and 3,389 million yen in other regions), a 96.2% increase from the previous year. Operating income totaled 2,410 million yen (an increase of 2,483 million yen in Asia and a 73 million yen drop in other regions), for an overall 54.2% year-on-year increase.

(Millions of yen)

		Japan	Overseas		
			North America (see Note 1)	Asia (see Note 2)	Other Regions (see Note 3)
Net sales	Sales to external customers	153,198	20,965	21,259	3,389
Operating income (loss)	Before eliminations and corporate	18,596	911	2,483	(73)

Note 1: North America comprises the United States and Canada

Note 2: Asia comprises Singapore, Malaysia, Thailand, Taiwan, South Korea and China

Note 3: Other regions comprises the United Kingdom



## Principal Businesses and Products

Logistics System Business			
<b>Automotive Factory Automation</b>	<p>The AFA business promotes the development, manufacture and sale of conveyor systems for automotive production lines. Since its first chain conveyor systems were released to the market in 1957, Daifuku has been accumulating a wealth of expertise. Daifuku boasts a leading share of the world market for conveyor systems for automobile plants, as many automobile manufacturers in Japan and overseas — including the Big Three, the three largest U.S. automobile manufacturers — use its conveyor systems.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• RAMRUN®, electrified monorail system</li> <li>• FDS® (Flexible Drive System), chainless conveyor system</li> <li>• Other chain conveyor systems</li> <li>• Engine testing systems</li> </ul>	
<b>Factory Automation &amp; Distribution Automation</b>	<p>The FA&amp;DA business develops, manufactures and sells storage systems including Automated Storage / Retrieval Systems (AS/RS), high-speed sorting and picking systems, and other material handling (MH) equipment for logistics and distribution centers. Our systems optimize overall supply chains and are used in all types of industries at home and overseas, including the electronics, food, pharmaceutical, transportation and warehouse, distribution and retail industries.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Storage systems such as AS/RS</li> <li>• Conveyor systems and automatic guided vehicle (AGV)</li> <li>• Sorting and picking systems</li> <li>• MH equipment</li> <li>• Software for distribution center management systems and AS/RS inventory management computers</li> </ul>	
<b>Daifuku Technology Services</b>	<p>Daifuku Technology Services (DTS) provide overall after-sales service for logistics systems and MH equipment, covering maintenance services, parts supply, and renewal projects. Having established service offices and distribution centers in 60 locations throughout Japan, Daifuku provides detailed support for the stable operation of delivered facilities, such as remote monitoring systems utilizing IT.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Maintenance services</li> <li>• System support services</li> <li>• Renewal projects</li> <li>• Transportation and delivery of MH equipment</li> </ul>	
<b>e-Factory Automation</b>	<p>The eFA business is centered on the development, manufacture and sale of cleanroom transport and storage systems, which are essential for the production of semiconductors and FPDs. Our systems have brought about improved operating rates at production facilities, reduced manufacturing costs, as well as enabled small-lot production, and are highly regarded at home and overseas.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Transport and storage systems for semiconductor production cleanrooms</li> <li>• Transport and storage systems for FPD production cleanrooms</li> <li>• Transport and storage systems for the production of other electronic components</li> </ul>	
Electronics Business			
<b>Electronics</b>	<p>The Electronics business centers on Group company Contec Co., Ltd. This business focuses on the development, production and sale of factory automation PCs, boards, LAN-related equipment, logistics system control devices, and remote monitoring and control systems.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Distributed monitoring and control systems</li> <li>• Industrial computers and interface boards</li> <li>• LAN-related equipment</li> <li>• Logistics system controllers</li> </ul>	
Other Business			
<b>Car-Washing Machines</b>	<p>This business covers the development, manufacture, sale and after-sales service of car-washing machines. Our sales subsidiary, Daifuku Unix Corporation, has a business structure integrating operations from development to after-sales service in this product area, leading the industry with its high-quality, advanced products that anticipate market needs.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Car-washing machines (roll-over type, tunnel type, and one-way drive-through car-washing machines)</li> <li>• Peripheral products for car-washing machines</li> </ul>	
<b>Special Equipment</b>	<p>Leveraging our technologies and expertise in logistics systems and MH equipment, Daifuku develops, manufactures and sells products used in hospitals and public facilities, as well as welfare and environment-related fields. We are developing our business in automated transport storage systems for surgical instruments, automated storage for libraries, and multilevel bicycle parking systems.</p>	<p><b>Main Products</b></p> <ul style="list-style-type: none"> <li>• Transport and storage systems for medical equipment</li> <li>• Machines for bowling alleys and automatic scoring systems</li> <li>• Multilevel bicycle parking systems</li> <li>• Rear-mounted vehicle lifts for wheelchairs</li> </ul>	

## Automotive Factory Automation

Since delivering Japan's first chain conveyor systems to Toyota Auto Body Co., Ltd. in 1957, Daifuku's AFA business has been working on a large number of automotive production line systems both in Japan and overseas. Today, Daifuku enjoys premier status with more than 20% of the world market. Responding to the rapid acceleration in automakers' global development to ensure the stable growth of Daifuku's business, we will promote the localization of our sales and production bases in concert with a customer-first marketing strategy.

### Business Topics of the Fiscal Year

#### 1. Establishment of Production Subsidiary in China

In September 2005, Daifuku established Jiangsu Daifuku Rixin Automation Co., Ltd. (DRA), a joint venture for the production of conveyor systems used in automobile production lines in Changshu, Jiangsu Province, China. DRA aims to ensure cost competitiveness and shorten delivery times to meet burgeoning demand from the rapidly developing Chinese auto industry. With the establishment of DRA, AFA comprises three subsidiaries and nine offices, fortifying its customer-response capabilities.

#### 2. Delivery of Latest Conveyor System to High-Class Lexus Plant

In September 2005, Daifuku supplied an FDS® for chainless transport to the No. 2 assembly plant at Toyota Motor Corporation's subsidiary, Toyota Motor Kyushu, Inc. This special plant manufactures 200,000 high-end Lexus automobiles annually. By introducing FDS®, the plant succeeded in bringing to fruition a working environment that produces quality vehicles and meets the plant's "Clean & Silent" concept.

#### 3. Establishment of Sales Base in India

The Company established Daifuku India Private Limited, a local subsidiary that handles sales, installation and after-sales service of automotive production line conveyor systems in New Delhi, India. With a Japanese president and five local staff, it commenced operations in December 2005 with sales targets of 500 million yen for the fiscal year ending December 31, 2006 and over 1,500 million yen for the fiscal year ending December 31, 2010. Daifuku is planning to open an office in southern India depending on the inroads automakers have made in the Indian market.

### Business Strategy

Automobile production in industrialized countries appears to be reaching maturity. However, business opportunities are expected elsewhere in the world, reflecting the remarkable growth in the BRIC (Brazil, Russia, India and China) markets. Against this backdrop, Daifuku aims to win a 25% share of the global market for automotive production line systems by 2010. To make stable growth a reality in the AFA business, we will: (1) implement "front-loading," namely by proactively responding to customer needs in the global market, including in BRIC countries; (2) develop S. Q. C. D. E (Safety, Quality, Cost, Delivery and Ecology) by maintaining a close liaison between sales and production lines; and (3) strive to increase profit and improve customer satisfaction with our unique after-sales service.



Daifuku in China



FDS®



Daifuku India Private Limited

## Factory Automation & Distribution Automation

Daifuku's FA&DA business handles diversified systems and products such as AS/RS, which boast the highest share in the Japanese market, transporting systems including conveyors and automatic guided vehicles, sorting and picking systems, other material handling equipment, as well as the computer systems to control these products. Our logistics systems have been adopted by many companies in a wide gamut of industries, such as the food, pharmaceutical, distribution and retail industries, making distribution from production to sale swifter and more efficient.

### Business Topics of the Fiscal Year

#### 1. Order Received for Europe's Largest Distribution Center

Daifuku received an order for a large-scale distribution center from ICA Sverige AB, a major supermarket chain in Sweden. Aiming to commence operations during fiscal 2007, we are establishing the new distribution center in a suburb of Helsingborg. The order — worth 40 million euros (approximately 5,300 million yen) — is the largest distribution center we have handled overseas and will be one of the largest cutting-edge distribution centers in Europe when completed.

#### 2. Delivery of AS/RS to Milk Factory in China

Daifuku delivered a unified building-type AS/RS Compact System with a storage capacity of approximately 21,000 pallets to a new factory belonging to Inner Mongolia Yili Industrial Group Co., Ltd., China's leading dairy company, which operates the largest and most advanced milk factory in Asia. The customer is strengthening its production capacity and building up a rapid delivery system to the Chinese dairy market that is expected to grow as a result of diversifying dietary habits and rising health consciousness.

#### 3. Establishment of New Factory Buildings for Distribution Center Line Systems

Daifuku added two new factory buildings at its Shiga Works in April 2006. The Company relocated the AS/RS factory and Machining factory from Komaki Works to form a new integrated manufacturing plant for logistics systems by combining the existing function of the Flow System factory. While striving to improve production efficiency, we reassigned the human resources that became available after this business integration to the Factory Automation (FA) business for market cultivation in order to develop overseas markets and expand operations. As a result of these efforts, we expect to boost production of logistics systems by 30% compared with the fiscal 2005 level by fiscal 2009, ending March 31, 2010, in terms of volume of automated warehouses and automated sorters.

### Business Strategy

In the distribution automation business, a round of large-scale investment in the construction of distribution centers will be completed. Yet healthy demand is anticipated in small- and medium-size systems on the back of market penetration of supply chain management (SCM). Leveraging our considerable experience in product supply and the installation of large-scale systems, we will strive to meet such demands and expand market share. From the practical viewpoint, we will pinpoint customer needs in advance to develop products and present systems. In recent years, capital investment in logistics systems in the manufacturing industry has been vigorous as a result of the economic recovery in the Japanese market. We are expecting business expansion in the digital home appliance industry in particular. Daifuku continues to offer systems that can improve the speed and efficiency of production distribution by making optimal use of the Company's extensive experience in and knowledge of FA systems.



AS/RS Compact System delivered to a milk factory in China



New factory buildings (Shiga Works)

## Daifuku Technology Services

DTS offers maintenance services for companies that have installed our logistics systems and MH equipment, and provides a full range of after-sales services, covering system support, parts supply and promotion of facility renewals. We have 60 bases in the form of service offices, distribution centers, and subparts centers throughout Japan. Maintaining a close liaison with the System Support Center, which responds to customer inquiries 24 hours a day, 365 days a year, we provide a detailed support structure for the safer use of our products.

### Business Topics of the Fiscal Year

#### 1. Strengthening of Business Structure by Increasing Personnel

In order to expand and strengthen this business, we added more than 30 employees to service offices across Japan. In addition, for the purpose of upgrading our response capabilities, we established the new Toyama Office in Toyama Prefecture and relocated several Customer Service Centers to respond to customers within an hour.

#### 2. Broadening the Selection of Personnel Training Menu

Aiming to provide customers with better services, we enhanced the training course for employees who engage in maintenance services. In fiscal 2005, we offered 155 lectures in 40 courses, including an upgraded course in e-learning and new technical courses covering recent additions to the product lineup. A total of 980 employees participated in the courses. We devote 1.0% of the total man-hours of DTS employees to in-house training and are continuing to focus on personnel training to improve customer satisfaction.

#### 3. Strong Remote Monitoring Service Sales

Our Daifuku Remote Monitoring Service (DREMOS) has gained about 40 orders in almost one year since it was first released in November 2004. It was the industry's first all-day, year-round remote monitoring and preventive maintenance service for computers and equipment used in automated warehouses and logistics systems. DREMOS reduces the rate of incidents by detecting the precursors of equipment breakdowns, and improves operational times by providing prompt responses for system restorations. Amid the growing popularity of high-frequency, just-in-time deliveries, we are meeting customer demands by promoting safe distribution system operations.

### Business Strategy

The DTS business has three main pillars: after-sales services, including maintenance; promoting the renewal of outdated facilities; and providing logistics services for MH equipment. We continue to expand our business in accordance with established policies. For after-sales services, we will strengthen our response capacities by enhancing the service network and improving employees' skill levels. To promote facility renewals, we will aim to increase order volume by implementing marketing activities focusing on target customers and fortifying our cost estimation support division. For distribution services, we will go to even greater lengths to maintain our high customer satisfaction levels by reducing costs and improving delivery quality.



Toyama Office



Technological training



DREMOS Screen

## e-Factory Automation

The eFA business focuses on cleanroom transport and storage systems that are essential to the production of electronic components such as semiconductors and FPDs. Daifuku supplies these systems to leading electronic components companies at home and overseas, and the Company's global market share is now approximately 45%. Our business opportunities will be constantly expanding as highly motivated electronic components companies invest vigorously and the global popularity of digital home appliances becomes more widespread.

### Business Topics of the Fiscal Year

#### 1. Establishment of Production Subsidiary in Taiwan

In August 2005, Daifuku established Taiwan Daifuku Co., Ltd. (TDC) in Science Park, located in southern Taiwan for the manufacture of semiconductor and FPD production line systems. The construction of the plant was completed and commenced operations in March 2006. With the establishment of TDC, Daifuku significantly strengthened its business structure in Taiwan with an integrated system that covers sales, design, manufacture, installation and after-sales service. In addition, we are able to provide detailed responses to customers and gain positive effects, such as reduced cost and shorter delivery time.

#### 2. Exhibition Held for Semiconductor Manufacturers

Daifuku invited leading semiconductor companies from home and overseas to the Daifuku Open House 2005 held at Shiga Works to introduce the latest cleanroom FA systems. Taking "Change the Manufacturing" as our theme, we gave a demonstration of a next-generation transport system using the Daifuku Advanced Transport System (DATS). We displayed our dynamism not just as an Automated Material Handling System (AMHS) supplier, but also as a solutions provider.

#### 3. Preferred Quality Supplier Award Received from Intel

During the fiscal year under review, Daifuku received one of the Preferred Quality Supplier Awards that Intel Corporation bestows on its superior suppliers. This was the second time we have won this award since 2002. The Preferred Quality Supplier Award is presented for distinguished achievements in the supply of materials or services—on this occasion Daifuku's AMHS was evaluated—that contributed to Intel's success in business.

### Business Strategy

Competition in the semiconductor and FPD industries is intensifying on a global scale, and the unrelenting quests for technological innovation and production streamlining are becoming major issues in manufacturers' attempts to survive. As a leading producer of cleanroom FA systems, Daifuku will reinforce customer relations with its systems integration technology, which firmly combines IT and AMHS, and highly reliable products. We will establish a stronger structure by: (1) unifying semiconductor and FPD sector operations; (2) increasingly optimizing the production structure through the establishment of local production bases in Japan, South Korea and Taiwan; and (3) executing and promoting global development in both production and sales.



Taiwan Daifuku Co., Ltd.



Daifuku Open House 2005



Preferred Quality Supplier Award

## Electronics

The Electronics business handles the development, production and sale of electronic equipment through subsidiary Contec Co., Ltd. and its group companies. The wide range of products marketed by the Electronics business includes interface boards, industrial-strength PCs, networking equipment such as wireless LANs, and single board computers both in Japan and overseas. Together with these activities, the Contec Group plays a key role in the development and production of electronic equipment mounted in Daifuku products and systems. In Japan, the Contec Group is primarily made up of Contec Co., Ltd. and its production subsidiary Contec EMS Co., Ltd. Overseas, the Contec Group has one office and four affiliated companies in the United States, China and Taiwan.

### Business Topics of the Fiscal Year

#### 1. Release of the Cutting-Edge PCI Express Board and PCI Adapter

We launched a multipurpose extension communication board ahead of other manufacturers in our mainstay industrial automation industry. The new product is compatible with PCI\* Express\*\*, the new bus standard for PCs. Together with this, we released a board that transforms PCI Express into the currently most popular PCI bus standard. By combining a PCI bus chassis marketed by Contec, which allows up to 13 PCIs to be added, it makes effective use of existing application assets using PCI boards in the PCI Express standard.

\* PCI: Peripheral Component Interconnect. A standard bus (data transmission path) that interconnects parts inside PCs.

\*\* PCI Express: A new standard that makes data transmission faster by using a serial bus instead of a PCI bus.

#### 2. Electric Power Monitoring System Released

We have developed the "Eco Station 2" electric power monitoring system in collaboration with Kinden Corporation. We commenced sales of Eco Station 2 in June 2005. By placing electric power measuring equipment in locations such as inside power distribution boards and connecting it to networking equipment like internal LANs, Eco System 2 enables electric power to be remotely measured and monitored by computers.

#### 3. Establishment of Local Affiliated Company for Industrial-Strength Computers in Taiwan

In January 2006, Contec Co., Ltd. established a local affiliated company, Taiwan Contec Co., Ltd., and commenced operations in March 2006. We acquired a capital stake in two Taiwanese industrial computer-related companies, ARBOR Technology and IPOX Technology, in 2005. With the establishment of the new company, we will strengthen our development and production structure in this field. Taiwan Contec established an R&D base with resident Japanese engineers, localized parts procurement and production functions, and utilized resident as well as sec-

onded personnel for quality assurance in order to shorten production lead times, stabilize quality, and reduce costs.

### Business Strategy

In accordance with the Three-Year Business Plan started in the fiscal year ended March 31, 2005, we have positioned the Electronics business as one of the Group's core businesses and aimed for business expansion and improvement. Furthermore, we are promoting business reform to sustain growth. In practical terms, we have improved our sales, technological, production and service structures to expand the business. Along with these efforts, we are streamlining and improving our business bases in Japan, China and Taiwan in terms of their development, production and procurement activities. In order to do so, we will: (1) implement the provision of new products that meet market demands, and (2) make preparations to become more cost competitive in the global market.



PCI Bus Adapter



Eco Station 2



Industrial Computers

## Car-Washing Machines & Special Equipment

The Car-Washing Machines business handles a wide variety of distinct products that are backed by our accumulated technological capabilities in material handing systems and customer-oriented development structure. We have been manufacturing car-washing machines for nearly 30 years, making a significant impact on the market with our cutting-edge technologies such as the industry's first microcomputer. Our car-washing machines are installed mainly at gasoline stations, of which there are approximately 48,000 across Japan, in addition to being used in coin-operated car washes and by automobile dealers. In the Special Equipment business, we offer products that can be used in people's everyday lives, such as in the medical, welfare, housing and environmental fields.

### Business Topics of the Fiscal Year

#### Delivery of Surgical Instruments Transport and Storage System to Nagoya University Hospital

As a part of the National University Facility Improvement Plan, a new central ward was built on the premises of Nagoya University Hospital. This ward boasts a total floor area of approximately 44,000sq.m, putting it in the largest class of national university-affiliated hospitals. Daifuku delivered an automated transport and storage systems for supplying and collecting surgical instruments, integrating a mini load AS/RS, Vertical Carrousel, and AGVs. These systems promote laborsaving in work operations and material control that was previously labor-intensive, and improve efficiency by making systems that allow nurses on the ward to concentrate on patient care.

#### 1. Development of New Drive-Through Car-Washing Machines

Daifuku developed the Twin-Through Spread, one-way drive-through car-washing machine, which improves functions by separating the washing from the drying sections, and commenced sales in March 2006 to the self-service car-washing machine market. An increasing number of drivers prefer to choose self-service gas stations due to spiraling gasoline prices, and the establishment of such gas stations is accelerating. In response to these demands, we will continue to expand our product lineup of self-service car-washing machines.

#### 2. Delivery of Automated Bicycle Parking Systems to Urban Complex Facility

Daifuku delivered Cycle House 21, an automated multilevel bicycle parking system to the "MARE" multipurpose complex building in front of Urayasu station, the gateway to Urayasu, Chiba Prefecture, which is famous for Tokyo Disneyland. This facility accommodates specialty stores as well as a governmental agency, a variety of services and a child-care center, making itself indispensable among local residents. The Cycle

House 21 bicycle parking system, developed utilizing Daifuku's Vertical Carrousel storage technology, can accommodate 1,000 bicycles. Due to its simple operation by IC card and highly effective security features, we have received a number of inquiries mainly from autonomous communities.

### Business Strategy

Daifuku integrated the Car-Washing Machines and Special Equipment Businesses in April 2006 and implements their business operations, as they both handle mass produced items and are close to end-users. By developing community-based operations, we will strive to expand business to boost its current sales ratio of approximately 5.6% of overall sales. In concert with this business expansion, we will make every effort to build a foundation for steady growth and improve profitability.

We expect that replacement demand for self-service car-washing machines will peak in a few years' time and consider this as an opportunity to expand our market share. By utilizing common assembly components and developing new technologies, we will match appropriate prices with market needs and product differentiation to improve our market competitiveness. In the Special Equipment business, our production and sales divisions work in unison to bring about quality improvements and cost reductions, aiming to receive the highest market acclaim for each product and system.



Vertical Carrousel



Twin-Through Spread

# Corporate Governance and Corporate Social Responsibility (CSR)

## Daifuku's Fundamental Policies toward Corporate Governance

Daifuku's management philosophy has two main pillars: The first is to "contribute to the development of industries by supplying optimal material handling systems to a global market," and the second is to "focus on healthy, growth-driven management which values profitability." The Company also advocates "ethical, fair and transparent management" and has a governance system in operation that embodies these fundamental policies.

## Corporate Governance Structure

### (1) The Board of Directors' Structure

Daifuku's managerial decision-making and supervision are undertaken by directors whose mandate was confirmed by the Company's shareholders. The Board of Directors, which currently consists of 18 directors, is chaired by the president. Board of Directors' meetings are held monthly, and extraordinary meetings when deemed necessary (four times in the fiscal year under review), to accelerate decision-making. In addition, the Company has the Management Advisory Committee made up of Daifuku's senior executives, namely those of managing director status and above, and external specialists. This committee, which met six times during the fiscal year under review, deals with matters of key relevance to the management of the Company. Furthermore, Daifuku has been regularly holding supervisory meetings specific to business operations, manufacturing, administration, and overseas subsidiaries to ensure greater flexibility in the execution of the Company's activities. Daifuku has a policy of not appointing external directors because transparency and fairness in its management are ensured through external audits or on advice from external specialists such as lawyers.

### (2) Corporate Auditors' Structure

Daifuku has four corporate auditors (see Note 1), two of whom were appointed from outside the Company, and holds regular Board of Auditors' meetings for audit inspections (eight times during the fiscal year under review). Corporate auditors attend key meetings, including Board of Directors' meetings, and supervise directors' business operations through audits of the Company's business bases and subsidiaries, either by visiting in person or by having question-and-answer sessions. In addition, the corporate auditors closely liaise with their accounting counterparts, regularly conduct monitoring meetings, and pay close attention to accounting auditors' activities at business bases. Furthermore, they are enhancing audit effectiveness by working with internal audit entities and sharing information with them.

## Internal Control System

### (1) Principal Philosophy

Based on the recognition that ensuring effective governance and enhancing corporate credibility require the establishment and utilization of a strong internal control system, Daifuku goes to great lengths to maintain and upgrade credibility towards legal compliance, risk management, asset conservation, and financial reporting.

The new Corporation Law, which was enacted in May 2006, stipulated the establishment of basic policies for internal control systems. Against this backdrop, Daifuku took steps to upgrade and enhance its internal control system through all-embracing institutionalization: the appointment of the Internal Control Officer, the establishment of the Internal Control Department and various committees, such as the Compliance, Risk Management, and Disclosure Committees.

### (2) Compliance

Under the Compliance Committee, which is chaired by the executive vice president, directors responsible for each business division are appointed as the official responsible for compliance in their respective divisions. Daifuku set up the Internal Control Department to ensure that the Company's activities strictly comply with regulatory, fair and ethical requirements. For example, the Internal Control Department establishes companywide assessment frameworks, streamlines complex structures and pinpoints problems under the measures. In addition, it examines and improves all relevant in-house regulations.

### (3) Risk Management

Led by the Risk Management Committee, Daifuku is accelerating its companywide initiatives through its daily activities to detect and minimize risks. On top of this, the Company's Risk Management Center handles various risks, including accidents and disasters.

## Daifuku's Approach to Shareholder-Oriented Management

### (1) Information Disclosure

As a listed company, Daifuku has established the Disclosure Committee to reinforce the Company's IR activities to disclose information in a timely manner.

### (2) Performance-Based Dividend Payment Policy

Daifuku made a policy shift in fiscal 2004 and now gives performance-based profit returns. As a result, Daifuku has increased the dividend amount for the second consecutive year.

### (3) Daifuku's Preventative Measures to Guard against Large-Scale Acquisitions of Company Shares (Takeover Defense Measures)

In June 2006, with the approval of its General Meeting of Shareholders, Daifuku introduced preventative measures to guard against large-scale acquisitions of the Company's shares (takeover defense measures). These measures are effective for three years and intended to protect and enhance the Company's corporate value and the common interests of its shareholders.

In the event of a proposal from parties or persons (the "Acquirer(s)") with regard to 20% or more of the Company's shares, Daifuku shall request that the Acquirer(s) submit the purpose, contents and other related information concerning the acquisition proposal. Upon submission of this information, the Special Committee, which consists of two outside experts and three external auditors (see Note 1), shall judge whether such an acquisition would be detrimental to Daifuku's corporate value and the common interests of its shareholders, and offer its advice to the Board of Directors. Advice from the Special Committee shall include whether the Company should implement an allotment of stock acquisition rights to all shareholders with the exception of the Acquirer(s) (see Note 2).

## CSR Activities

### (1) Respecting the Position of Stakeholders

Showing high regard for the position of all of its stakeholders, Daifuku engages in a variety of activities with regard to environmental conservation and CSR. The Company's management policies contain activity guidelines for the establishment of a production framework that supplies safe and environmentally conscious products and systems, while contributing to local communities forms part of its Code of Conduct.

### (2) CSR

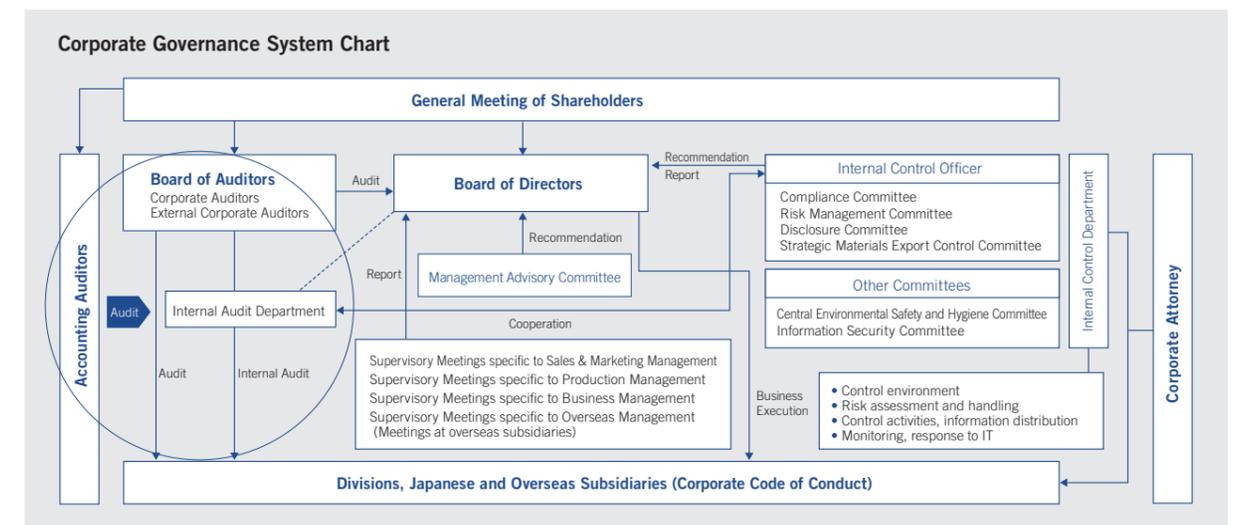
In order to fulfill its CSR commitments, Daifuku has worked hard on initiatives such as providing product safety guarantees, creating a pleasant and productive work environment for employees and other related parties, and prioritizing safety in its business activities. In addition to its participation in clean-up campaigns and landscaping activities in the areas surrounding its plants and offices, Daifuku also contributes to society through its acceptance of overseas students in its internship program.

### (3) Environmental Conservation

Daifuku engages in environmental conservation activities that empower its co-existence with the global environment. To this end, the Company has formulated its fundamental environmental policy, has identified targets, and is now addressing the development and manufacture of environmentally conscious products, energy and resource conservation, and waste reduction. In terms of actual accomplishments, Daifuku has acquired ISO 14001 certification at its Komaki Works, Shiga Works, Main (Osaka) Headquarters, Tokyo Headquarters, and the Chubu Tokai Branch Office. Based on these accomplishments, the Company established the Daifuku Environmental Management System. Today, Daifuku is endeavoring to acquire ISO 14001 certification at its overseas sites, further strengthening its environment conservation activities.

Note 1: The number of corporate auditors was revised to five, including three external auditors, after the Ordinary General Meeting of Shareholders held on June 29, 2006.

Note 2: Overseas shareholders may not be able to exercise the abovementioned stock acquisition rights under the laws and regulations of the countries in which they are resident.



# Directors and Corporate Auditors

(As of June 30, 2006)

## Directors



**Katsumi Takeuchi**  
President and CEO



**Haruyoshi Amakusa**  
Executive Vice President  
COO and General  
Manager of AFA  
Operations



**Fumio Kobayashi**  
Executive Vice President  
COO of Sales and Marketing  
Operations  
COO of FA&DA and DTS  
Operations



**Yutaka Hirai**  
Executive Vice President  
COO and General  
Manager of eFA  
Operations



**Masaki Hojo**  
Executive Vice President  
COO of Business  
Management Operations  
COO of Overseas  
Management Operations



**Hifumi Katsuragi**  
Managing Director  
COO of Production Operations  
and Electronics Operations  
General Manager of Production  
Management Division  
Chief Officer of Shiga Works



**Seiki Kakinuma**  
Managing Director  
COO and General  
Manager of Car-Washing  
Machines & Special  
Equipment Operations



**Shigeyoshi Fujita**  
Managing Director  
General Manager of  
Production Division,  
AFA Operations



**Masayoshi Tanaka**  
Managing Director  
General Manager of  
Semiconductor  
Management Division,  
eFA Operations



**Shinji Hayasaka**  
Managing Director  
General Manager of  
FA&DA Operations



**Katsuhiro Kawano**  
Managing Director  
General Manager of  
Technology Service  
Division, AFA Operations



**Takahiro Taniguchi**  
Managing Director  
General Manager of  
DTS Operations  
Chief Officer of Komaki Works

**Masayoshi Inoue**  
Director  
President of Daifuku  
America Corporation

**Junichi Koizumi**  
Director and Advisor

**Mikio Inohara**  
Director  
General Manager of  
Business Support  
Operations

**Susumu Moriya**  
Director  
General Manager of FPD  
Management Division,  
eFA Operations

**Takashi Hiramoto**  
Director  
General Manager of  
Production Division,  
FA&DA Operations

**Akio Tanaka**  
Director  
General Manager of  
Sales and Marketing Division,  
FA&DA Operations

## Corporate Auditors

**Yukio Ozaki**

**Setsuo Idehara**

**Tetsuo Adachi**

**Haruyasu Uchida**

**Yukio Rinbara**