

Material Handling and Beyond

# Material Handling and Beyond



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## 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 established facts. 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.

On the cover: The Unit Load Automated Storage/Retrieval System (AS/RS) in action at a specialty paper logistics center

## Profile

### Aiming to Be World No. 1 in Material Handling

Over the more than 70 years that have passed since its founding in 1937, Daifuku's primary business has been supplying material handling systems and equipment to industry. Continuing a long tradition, Daifuku brings people excitement and joy by "moving things." As a result, Daifuku has sold more than 20,000 automated warehouse stacker cranes, which feature in factories and distribution centers. Over the course of its unbroken heritage, the Company has delivered more than 4,000 kilometers of automobile production line systems. In business for semiconductor and flat-panel display (FPD) production cleanrooms, Daifuku has been working to maintain its lead over other companies in the supply of cutting-edge transport and storage systems.

Daifuku has established itself in a top position in the material handling field. We respectfully thank all our stakeholders, including shareholders and investors, for all their guidance and encouragement over the years.

Daifuku: Expanding its Global Operations

Production Bases and Sales Offices Active in 19 Countries and Regions

Track Record of More than 20,000 Units Delivered around the World

Ratio of Non-Japan Sales to Net Sales of More than 40%

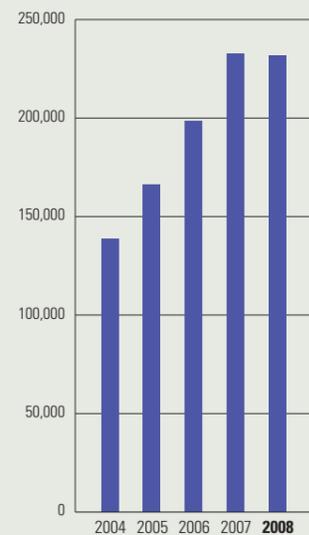
## Financial Highlights

Daifuku Co., Ltd. and consolidated subsidiaries  
Years ended March 31, 2008 and 2007

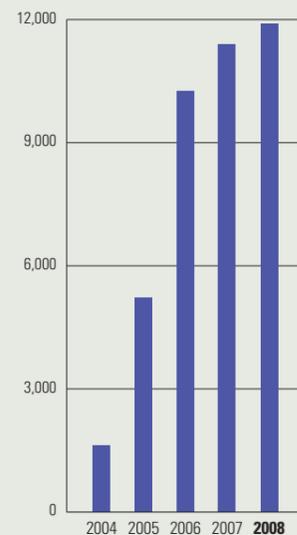
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
<b>For the Year</b>			
Orders received	¥243,761	¥236,246	\$2,432,751
Net sales	231,619	232,703	2,311,569
Operating income	20,677	18,836	206,364
Net income	11,893	11,382	118,696
Net income per share (Yen and U.S. dollars)	105.05	100.50	1.05
Cash dividends per share (Yen and U.S. dollars)	26.00	25.00	0.26
Capital investment	4,071	8,280	40,632
R&D expenditures	6,964	7,564	69,504
<b>At Year-End</b>			
Total assets	¥222,386	¥195,015	\$2,219,428
Working capital	64,840	60,351	647,107
Net assets	88,709	80,717	885,320
Number of employees	5,663	4,702	
<b>Ratios</b>			
Operating income/net sales	8.9%	8.1%	
Net income/net sales	5.1	4.9	
Return on shareholders' equity (ROE)	14.7	15.6	
Shareholders' equity/total assets	38.0	39.6	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥100.20 = U.S.\$1 on the Tokyo Foreign Exchange Market on March 31, 2008.

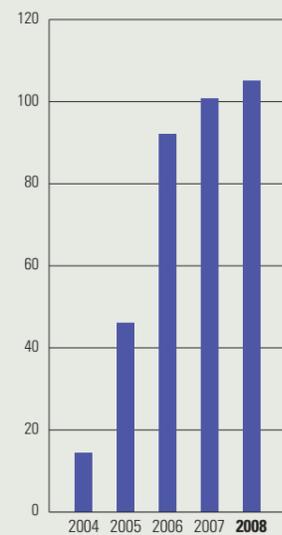
**Net Sales**  
(Millions of yen)



**Net Income**  
(Millions of yen)



**Net Income per Share**  
(Yen)



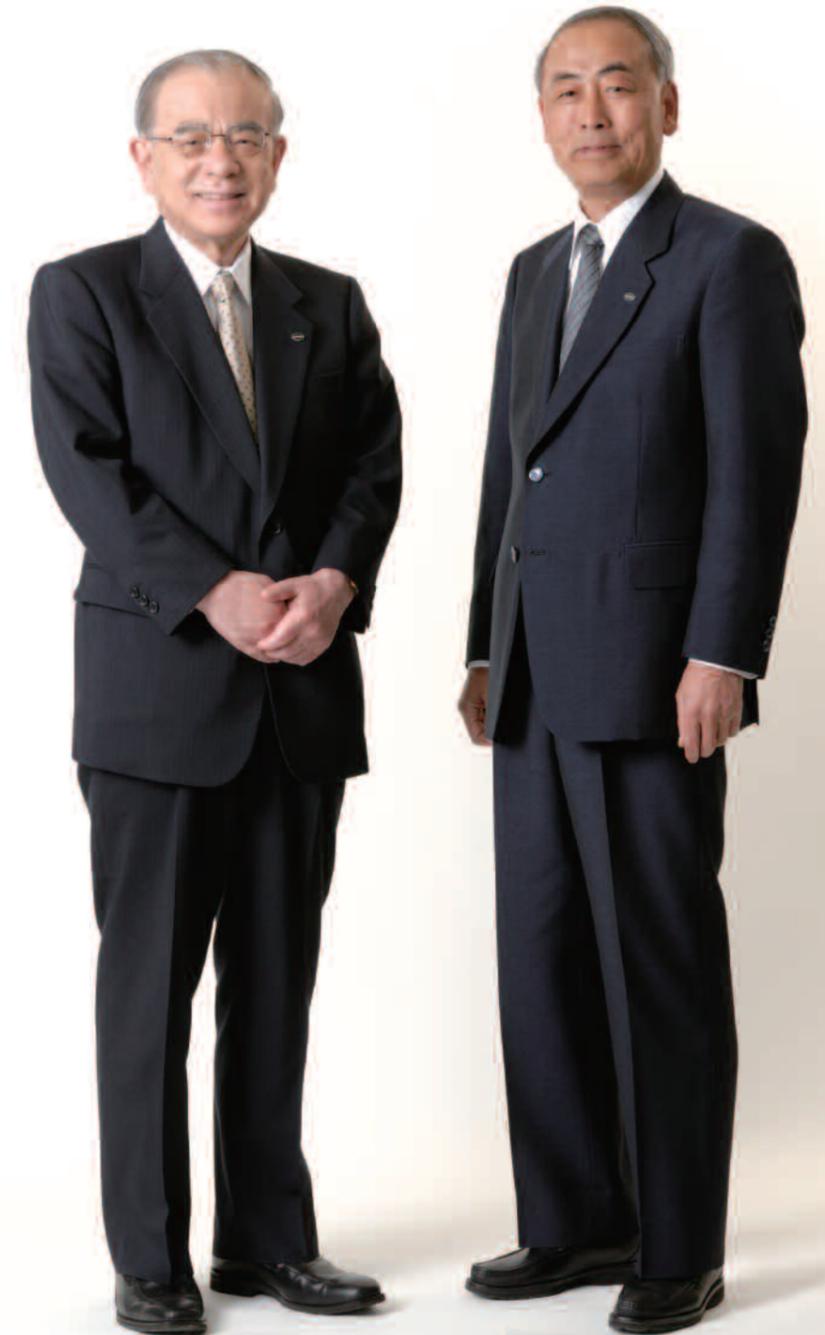
## Introducing the Chairman and President

I stepped down as Daifuku president and was appointed chairman in April 2008. During the six years I served as president, Daifuku underwent significant changes and achieved rapid growth. While supporting the new president, I will strive to further the Company's progress toward goals set in the Three-Year Business Plan.

*Katsumi Takeuchi, Chairman and Co-CEO (left)*

Under Chairman Takeuchi and the joint CEO system, I am honored to be able to devote myself to strengthening and enhancing Daifuku's business base to make new advances and achieve the goals of the Three-Year Business Plan. Together, we will do our best to give added momentum to confronting the challenges inherent in our "Material Handling and Beyond" slogan.

*Masaki Hojo, President and Co-CEO (right)*





Automated Storage/Retrieval Systems (AR/RSs), core equipment for streamlining distribution. These systems are being actively used in Japan and throughout the world in various product manufacturing and distribution processes, including in the IT, food, beverage and pharmaceutical industries.

**During fiscal 2007, ended March 31, 2008, the Daifuku Group was able to achieve solid results in the first year of *Jump up for 2010*, its latest Three-Year Business Plan. The main fiscal 2009 targets under *Jump up for 2010* are net sales of over 250,000 million yen, an operating income margin of more than 10%, and a non-Japan sales ratio of more than 50%. The start of fiscal 2008, the plan's second year, in April 2008 saw Chairman of the Board Katsumi Takeuchi and President Masaki Hojo banding together as a new joint-CEO management team to lead the Company toward the achievement of these targets.**

### Fiscal 2007 Performance Overview

The Daifuku Group consists of its mainstay Logistics Systems business, which focuses on material handling systems and equipment, as well as the Electronics and Other businesses, the latter covering car wash machines and special-purpose equipment. The Logistics Systems business segment currently accounts for approximately 90% of the Company's net sales. Our other two business segments are involved in material handling system-related equipment or products that draw on material handling technology. The Company's annual net sales exceeded 230,000 million yen, placing Daifuku in the top echelons of the specialty material handling industry on a global scale.

### Six Consecutive Years of Increased Earnings Achieved

In recent years, European companies have made forceful inroads into the global material handling market while a number of influential companies have emerged in developing countries, leading to increased global competition.

Amid these developments, the Daifuku Group's mainstay Logistics Systems business segment, continuing on from the previous fiscal year, recorded a commendable performance, and the Group registered a 3.2% year-on-year increase in orders received to 243,761 million yen. Net sales, driven primarily by the Logistics System business, edged down 0.5% year on year to 231,619 million yen.

Operating income rose 9.8% year on year to 20,677 million yen and net income increased 4.5% to 11,893 million yen, both exceeding the previous year's all-time highs and marking six consecutive years of increased earnings. In addition to the increase in productivity associated with the surge in orders received, these improvements reflected the effectiveness of cost-management measures, including enhanced project management; overall cost reductions due to the leveraging of new IT-driven production control systems; the reduction of variable costs through the expansion of global production in optimal locations and raising the non-Japanese source procurement ratio; and higher income in the aftermarket service and retrofit fields.

### Improved Financial Position and Higher Ratings

In June 2007, Rating and Investment Information, Inc., a prominent Japanese credit rating agency, raised its rating of Daifuku's long-term debt from the previous BBB+ to A- as well as its short-term debt rating for Daifuku from a-2 to a-1. These improvements attest to Daifuku's progress in enhancing and expanding its financial base. In fact, a comparison of Daifuku's main financial indicators for the year under review with those recorded five years prior in fiscal 2002 reveals that net assets have grown 1.8 times to 88,709 million yen, interest-bearing liabilities have fallen 14% to 33,559 million yen, and return on equity (ROE) has leapt from 2.3% to 14.7%. Daifuku is endeavoring to further improve and enhance its performance.

### Group Strengthening by M&A and Subsidiary Mergers

Daifuku acquired two companies and two Taiwanese subsidiaries merged in fiscal 2007. One acquisition, Jervis B. Webb Company—a long-established, leading U.S. material handling company headquartered in Michigan—became a wholly owned subsidiary following the purchase of all its shares in December 2007. Jervis B.

Webb and Daifuku have long enjoyed a complementary relationship with very little overlap in markets, customers or products. The two companies have engaged in technological collaboration since 1957 and so boast a thorough knowledge of each other's corporate culture and expect to benefit from the synergies of this long relationship. Moreover, this acquisition has enabled Daifuku to step up the enlargement and enhancement of global business in line with *Jump up for 2010*.

In Japan, Daifuku added another subsidiary in January 2008, acquiring 68.7% of the shares of Osaka Machinery Works Co., Ltd., a company in the business of logistics systems for automobile production lines with which it has been allied for 50 years.

The merged subsidiaries in Taiwan—Taiwan Daifuku Co., Ltd. and Daifuku Pioneer Co., Ltd.—are continuing to trade as Taiwan Daifuku Co., Ltd. and have inherited the existing businesses of both: the design, manufacture, sale, installation and aftermarket service of transport and storage systems for distribution centers as well as for IT-related companies, such as those producing semiconductors and flat-panel displays.

### Dividend Policy

With regard to the return of profits to shareholders, Daifuku adheres to a performance-based dividend payment policy. In fiscal 2006, the Company paid a total annual dividend of 25 yen per share, including a payment to mark its 70th anniversary. Continuing the successive dividend increases over recent years, the total annual dividend for fiscal 2007 was 26 yen per share.

### Toward Achieving the Three-Year Business Plan Targets

The following outlines the types of initiatives that will be pursued in fiscal 2008, the second year of the *Jump up for 2010* Three-Year Business Plan.

### Enhancing Daifuku's Business Model

Daifuku's business model covers the Company's activities as both manufacturer and system integrator. The on-site supply of products and optimal set up of buildings and delivered systems involve highly coordinated front lines, in addition to systems development and fabrication, to ensure the best possible quality. Business relationships with customers are built on and deepen over the many years following delivery through aftermarket service. To optimize this business model and hone key growth strategies, Daifuku is focusing on thorough project management and expanding its aftermarket service business.

## The Three-Year Business Plan Targets

(Billions of yen, %)

## Jump up for 2010

	Fiscal 2007 Results	Fiscal 2009 Targets
Net sales	¥231.6	¥250.0
Non-Japan sales ratio	43.8%	50.0%
Operating income margin	8.9%	10.0%

### Improving Project Management Accuracy

Project management seeks S.Q.C.D.E. (safety, quality, cost, delivery and ecology) not only at Daifuku factories but also at the customer factories or distribution centers to which products are delivered and where Daifuku's greatest responsibility is installing systems smoothly and thus securing customer trust. Business environments and cultures differ widely among regions; therefore, Daifuku is cultivating sound on-site partnerships to improve project management.

### Increasing Income Potential by Enhancing the Aftermarket Service Business

One of Daifuku's strengths is an extensive and solid delivery record established over many years of operations. Income from the aftermarket service business, including retrofits, reflects this record and has recently been increasing. To further increase aftermarket service business income, Service Management Operations formulate and implement service strategies for the entire Company. By increasing value added, the aftermarket service business is proving an ongoing pillar of stable management.

### World-Class Human Resources Training

To supply products of a consistently high quality and to the same high standard throughout the world, Daifuku must ensure that the skills of trained personnel are passed on and that global personnel are cultivated and nurtured. Within the Shiga Works, the Company uses the Daifuku Manufacturing and Design System (D-MAND) to train design and manufacturing division personnel as well as to plan *monozukuri* (craftsmanship) development. Also, courses like the technical and skills training courses given in Japan are held for staff at global factories along with Worldwide Skills Competitions.

### Sound and Transparent Management That Engenders Trust

Daifuku aims to become an attractive company that engenders trust in its stakeholders, including its shareholders, by maintaining a sound and transparent corporate culture. Recently, it has become necessary to enhance internal control and corporate governance systems in the face of increasing calls for transparency, intensifying global competition, multiplying risk factors and corporate social responsibility. Furthermore, a provision of Japan's Financial Instruments and Exchange Law has come into effect in the current fiscal year requiring listed companies to report on the status of internal control over financial reporting as of the fiscal year-end. Closely monitoring these developments, Daifuku established Internal Control Operations in April 2007 and a system ensuring the required control functions and internal committees in order to ensure that laws and the Company's own Corporate Code of Conduct are strictly observed, to enhance risk management and to spread these practices throughout the Daifuku Group.

The second year of *Jump up for 2010* has already started. We respectfully ask for the support of our stakeholders, including shareholders and investors.

June 2008



Katsumi Takeuchi  
Chairman and Co-CEO



Masaki Hojo  
President and Co-CEO

## Special Feature

Several Steps Beyond:

# Daifuku Making Headway toward New Business Horizons



## Expanding Business Scope with Airport Baggage Handling Systems

Daifuku is broadening its scope into new business areas and making greater inroads into global businesses by working in concert with Jervis B. Webb Company ("Webb"), a long-established U.S. material handling solutions provider that recently joined the Daifuku Group.



Webb, which is included within the Company's scope of consolidation from the current fiscal year, was founded in the suburbs of Detroit in 1919. Webb's chain conveyors, which played a role in establishing the production system for the Ford Model T automobile, are today widely used around the world.

Having begun with chain conveyors before branching out into such areas as automatic guided vehicles (AGVs), automated storage and retrieval systems (AS/RSs) and airport baggage handling systems, for which it holds more than 170 patents worldwide, Webb has delivered products to every industry and is constantly on the lookout for new technologies. Consequently, Webb has built up a global network covering both manufacturing and sales in North America, Asia and Europe that capitalizes on its abundance of personnel and potent brand power.

In terms of product lineups and sales, the two companies enjoy a complementary relationship, with Daifuku's strengths lying in sales of AS/RSs, primarily to Japanese customers, while Webb's forte is considered to be AGVs, mainly for the Western markets. Airport baggage handling systems in particular mark a new area of business for Daifuku. Currently, Webb holds 32% of the U.S. market for these systems. The security monitoring of airline baggage has been intensifying in the United States in recent years as part of counterterrorism measures, resulting in ongoing burgeoning demand for new systems at regional airports. In this market situation and in its capacity as parent company, Daifuku is in a position to complement Webb's creditworthiness, enabling a greater number of orders to be accepted as it looks to develop untapped markets, such as those of Asia.

To maximize collaboration and the synergies of the tie-up, Daifuku President Masaki Hojo concurrently holds the post of chairman and co-CEO at Webb, where Susan M. Webb continues to serve as president and co-CEO. Webb's performance targets are net sales of US\$300 million and operating income of US\$15 million in the final year of the *Jump up for 2010* business plan, ending March 2010.

### Company Overview

Headquarters: Michigan, U.S.A.  
 Address: 34375 W. Twelve Mile Road  
 Farmington Hills, MI 48331  
 Founded: 1919  
 Net sales: \$298 million  
 (fiscal year ended  
 December 31, 2007)  
 No. of employees: Approx. 830  
 (as of December 2007)

## Airport Baggage Handling Systems Business

Webb provides total support for baggage handling systems, which comprise various types of conveyor systems and security monitoring systems.



Security Scanning System



Check-in Ticket Counter Conveyors



Sloped Plate Baggage Carousels

## Automobile Production Lines and General Manufacturing Material Handling Systems Business

Possessing an extensive track record, Webb is broadly developing such businesses as conveyor systems for the automobile industry and the latest in multifunctional AGVs.



AGVs



Slat Conveyor

## Enhancing the Capabilities of Global Bases

To accelerate its "global growth," the Daifuku Group is working in unison to build a more robust global structure and to strengthen on-site capabilities.

Daifuku America Corporation in North America is promoting the human resource development in engineering and after-sales services, increasing sales to local companies. One such client is the major direct marketing company Cox Target Media, Inc., whose new facility became fully operational during the fiscal year under review. Every month, this completely automated facility, which handles printing through enclosure, processes coupons that are then sent to 45 million households. Daifuku America carried out the integration of the entire material handling system within the plant. The company's proposed logistic flow solution, which comprehensively covered the entire production process, stood out at the bid tendering stage.

In Europe, the Company, in a tie-up with Daifuku Europe Ltd., presented for the first time at CeMAT 2008, the world's leading trade fair for intralogistics, held in Hannover, Germany, in May 2008. A superfast mini load AS/RS was used to showcase Daifuku's capacity-enhancing technologies and provide an example of structured systems, many of which are already in operation in Europe. These served to strengthen Daifuku's market standing, both as a world-class material handling technology manufacturer and as a system integrator.

Daifuku is developing strategic measures to address heightened demand in each region of Asia as well as in the BRIC nations. One of our South Korean subsidiaries has built a new plant. Undertaking the manufacture and test operation of large-scale equipment for automotive factories, this subsidiary is raising product quality levels. In Taiwan, Daifuku merged its two subsidiaries. Here, plans are under way for Daifuku to improve customer

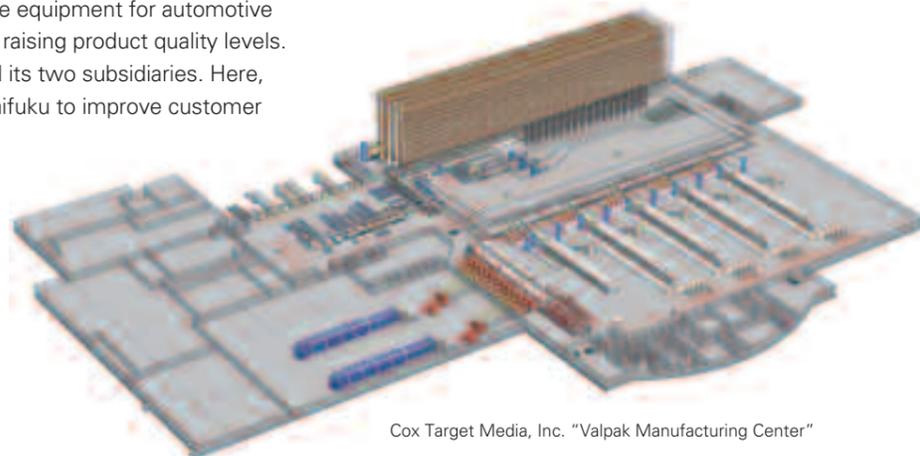


Daifuku booth at CeMAT 2008. Daifuku's exhibition and presentation of its mini load AR/RS attracted much interest.

satisfaction, enhance its marketing efficiency and strengthen competitiveness in Taiwan's mainstay IT industry.

In China, Daifuku operates four affiliates involved in the logistics systems business and three involved in the electronics and car wash machine businesses. Here, our logistic system production base has set up test lines for its mainstay chain conveyor models and has taken its localization efforts a step further by, for example, stabilizing quality and improving cost-competitiveness.

In India, where Webb made early inroads as a material handling manufacturer and has since built up a solid business base, the aim is market expansion in collaboration with Daifuku India Private Limited.



Cox Target Media, Inc. "Valpak Manufacturing Center"

## Increasing Income Potential by Enhancing the Aftermarket Service Business

Restructuring the income-generating aftermarket service business by updating aging facilities, a service for which there is widespread demand, and after-delivery maintenance

Daifuku's strengths lie in its ability to provide total solutions based on its intimate firsthand knowledge gained through visiting customers' corporate front lines. These solutions range from consulting, engineering, design, manufacture and installation to after-sales service. Consequently, Daifuku has a record of more than 20,000 deliveries worldwide of storage, transport, sorting and picking solutions to IT, food, beverage, pharmaceutical and other manufacturers as well as distribution centers. In addition, Daifuku has garnered a solid reputation throughout the world in the areas of conveyor systems for automobile production lines and transport and storage systems for electronics industry cleanrooms. In the aftermarket business, which benefits from this broad customer base, Daifuku has built up long-term business relationships with a large number of customers through a service business that offers regular maintenance and the provision of spare parts.

In recent years, the aftermarket business has seen widespread demand for full-scale retrofits, such as upgrades of aging automated warehouses or the replacement of outdated equipment with higher-capacity material handling systems. Keeping pace with this trend, the aftermarket service business has come to account for a higher proportion of Daifuku's total sales and is adding depth to the Company's profit base.

In response, from April 2008 the Company introduced Service Management Operations to strengthen the aftermarket service business as an ongoing pillar of stable management.

Under the control of the new centralized Service Management Operations, which will integrate aftermarket service control functions previously scattered across all three core businesses, efforts are being made to review priority measures and enhance non-Japan strategies. The basic policy, which is being developed, revolves around the following five points:

1. Improving existing services
2. Establishing service infrastructure
3. Strengthening basis of aftermarket services
4. Using aftermarket service business to create new added value
5. Broadening extent of service market

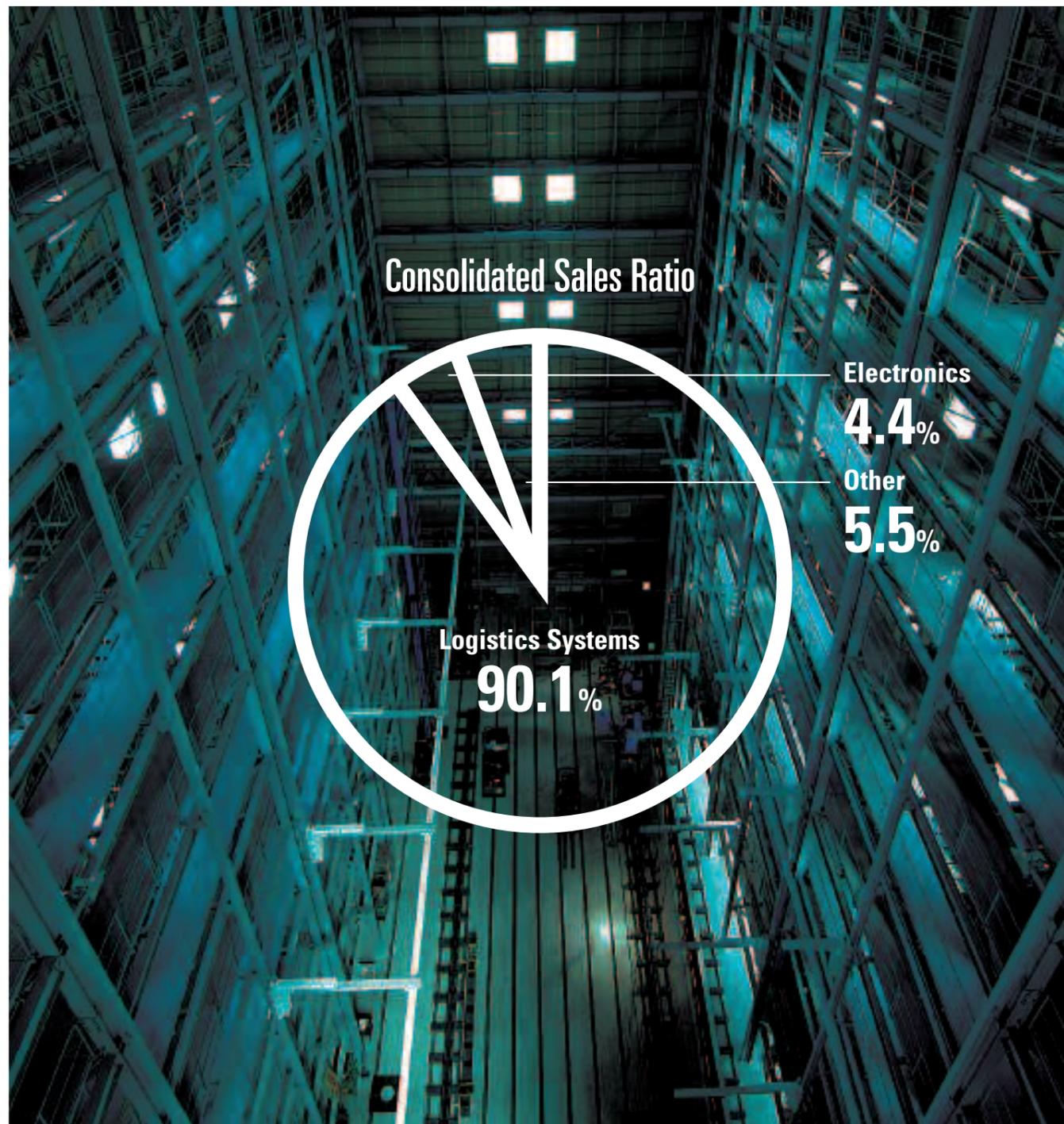


Maintenance operation performed on an automated warehouse system



The System Support Center monitors the status of Japan's domestic delivery system in real time

## Performance by Business Segment



(Millions of yen)

	Logistics Systems	Electronics	Other
Orders received	¥220,115	¥10,107	¥13,537
Net sales (Sales to outside customers)	208,616	10,194	12,807
Operating income (Before adjustments and eliminations)	26,316	589	390
Capital expenditure (Before adjustments and eliminations)	2,189	246	123

### Logistics Systems

During the fiscal year under review, Daifuku recorded favorable sales in all of its mainstay Logistics Systems businesses: sales in Factory Automation and Distribution Automation (FA&DA) operations included storage, transport, sorting and picking systems for IT, food, beverage and pharmaceutical manufacturers as well as distribution industries in Japan, Europe and the United States; in e-Factory Automation (eFA) operations, sales included cleanroom transport and storage systems for the

electronics industry in Japan, the United States and the rest of Asia; and Automotive Factory Automation (AFA) operations sold automobile production line systems to automakers in Japan, Europe, the United States and the rest of Asia.

Accordingly, orders in the Logistics Systems business rose 2.8% from the previous fiscal year to 220,115 million yen, while net sales edged down 0.3% to 208,616 million yen and operating income grew 9.9% to 26,316 million yen.

#### Automotive Factory Automation (AFA)

- RAMRUN® series electrified monorail system
- FDS® (Flexible Drive System) chainless conveyor system
- Other chain conveyor systems
- All types of engine testing systems

#### Factory Automation & Distribution Automation (FA&DA)

- Storage systems, such as AS/RSs
- Conveyor systems and automatic guided vehicles (AGVs)
- Sorting and picking systems
- MH equipment
- Software for distribution center management systems and AS/RS inventory management computers

#### e-Factory Automation (eFA)

- Transport and storage systems for semiconductor production cleanrooms
- Transport and storage systems for FPD production cleanrooms
- Transport and storage systems for other cleanrooms

### Electronics

The Electronics business recorded steady industrial computer and related equipment orders brought about by favorable demand for test and semiconductor equipment and healthy capital investment in the automobile industry. However, this business segment as a whole saw a trend toward a slow-down in capital investment, which the gaining of Electronics business orders to replace those of the previous fiscal year

could not offset. Performance indicators were down compared with the previous fiscal year.

As a result, orders in the Electronics business edged down 3.9% year on year to 10,107 million yen, net sales were down 11.7% to 10,194 million yen and operating income fell 39.1% to 589 million yen.

- Distributed monitoring and control systems
- Industrial computers and interface boards
- LAN-related equipment
- Logistics system controllers

### Other

Daifuku endeavored to create an automobile dealer market for its car wash machines and successively launched new, environmentally friendly models that set Daifuku machines apart from those of their rivals. These new models included the Crystal Dry, which delivers the ultimate in low noise levels, and the Abient, which reduces the amount of water used by half. However, demand rapidly diminished as soaring crude oil prices had severely impacted service station management.

Performance thus fell below that of the previous year.

Sales of wheelchair lifts for mounting on the rear of care-provider vehicles maintained favorable levels.

Consequently, while orders in the Other business segment increased 16.0% in comparison with the previous fiscal year to 13,537 million yen, sales grew 6.7% to 12,807 million yen and operating income dropped 42.3% to 390 million yen.

- Car wash machines (gate-type, tunnel-type, and one-way drive-through machines)
- Peripheral products for car washes
- Transport and storage systems for medical equipment
- Machines for bowling alleys and automatic scoring systems
- Multilevel bicycle parking systems
- Wheelchair lifts for care-provider vehicles

## Non-Japan Sales

Non-Japan sales for the past two consolidated fiscal years are as follows:

### Fiscal year under review (Year ended March 31, 2008)

(Millions of yen)

	North America	Asia	Other	Total
Non-Japan sales	¥16,592	¥75,008	¥9,814	¥101,415
Consolidated sales	—	—	—	231,619
Ratio of non-Japan sales to consolidated sales (%)	7.2%	32.4%	4.2%	43.8%

Notes: 1. The geographic breakdown is by regional proximity

2. The main countries and regions are:

- (1) North America United States, Canada
- (2) Asia Singapore, Thailand, Taiwan, South Korea, China, India
- (3) Other United Kingdom, Poland, Sweden, Denmark

3. Non-Japan sales include exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.

### Previous fiscal year (Year ended March 31, 2007)

(Millions of yen)

	North America	Asia	Other	Total
Non-Japan sales	¥15,985	¥75,330	¥12,305	¥103,622
Consolidated sales	—	—	—	232,703
Ratio of non-Japan sales to consolidated sales (%)	6.9%	32.4%	5.3%	44.5%

Notes: 1. The geographic breakdown is by regional proximity

2. The main countries and regions are:

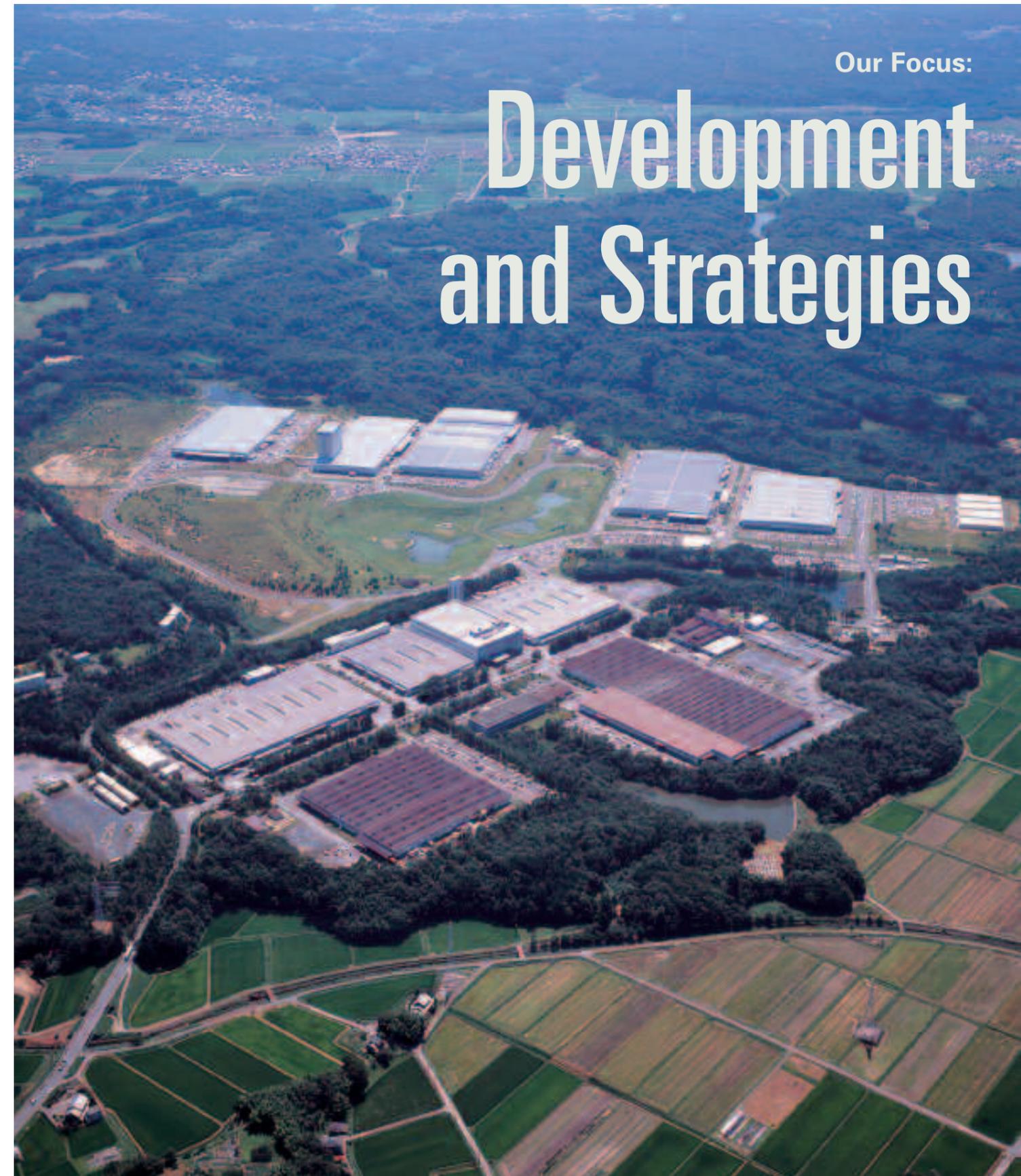
- (1) North America United States, Canada
- (2) Asia Singapore, Indonesia, Thailand, Taiwan, South Korea, China
- (3) Other United Kingdom, Spain, Russia, Sweden

3. Non-Japan sales include exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.



Note: Jervis B. Webb Company locations are not indicated in the above map.

## Principal Businesses



## Automotive Factory Automation (AFA)

The AFA business develops, manufactures and sells a comprehensive lineup of automobile production systems and equipment. Daifuku has accumulated a wealth of expertise since releasing its first chain conveyor systems on to the Japanese market in 1957. Today, Daifuku chain conveyors are used not only by Japanese automakers but by automobile manufacturers in Europe, North America and China. Having acquired Jervis B. Webb Company in December 2007, Daifuku has consolidated its leading position in terms of market share in the global market.



### Production Bases in South Korea and China Enhanced

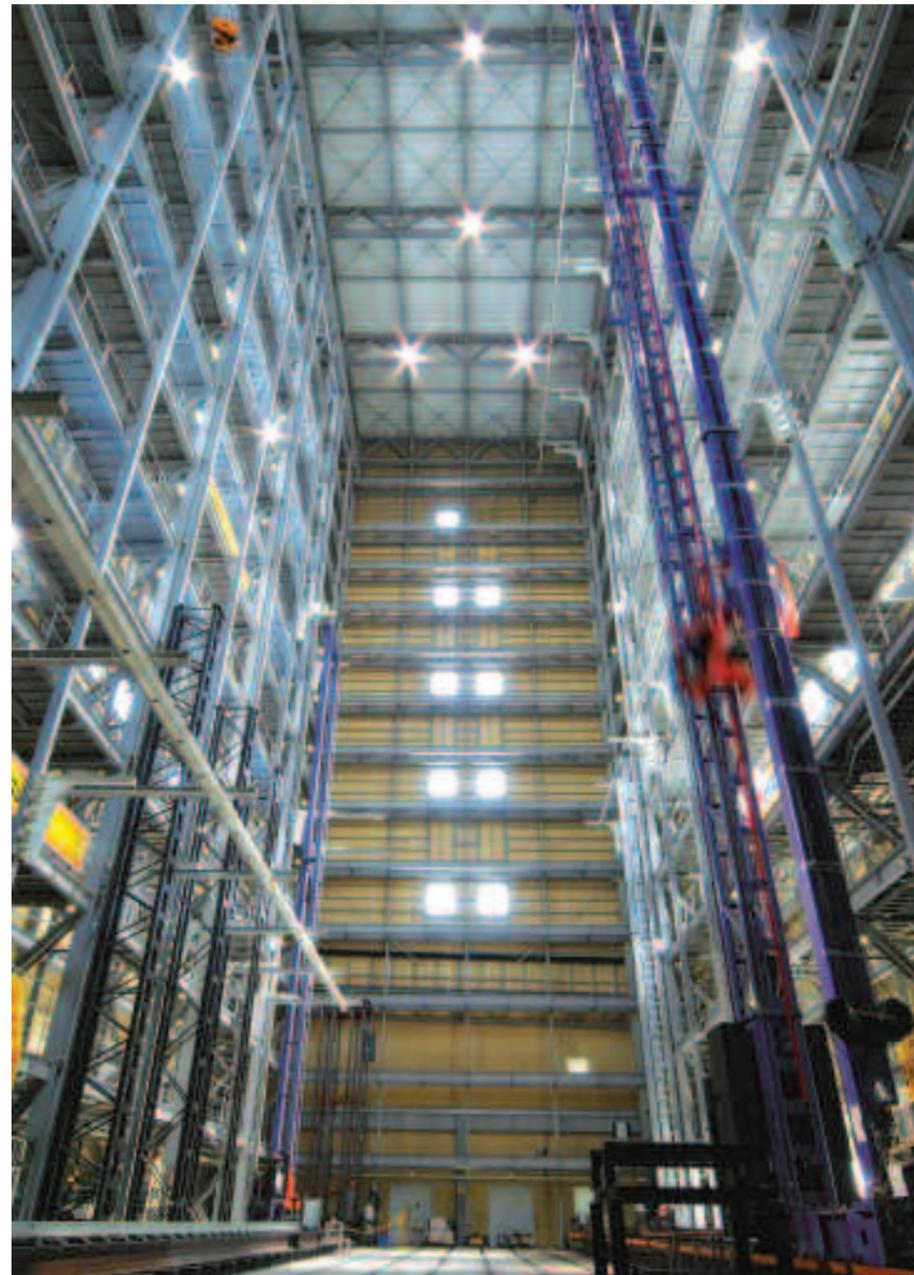
A test plant was newly constructed at ATS Co., Ltd., Daifuku's South Korean production subsidiary, in July 2007. The test plant is intended to improve the reliability and accuracy of large-scale equipment for automobile production lines. Testing lines are also being constructed at Jiangsu Daifuku Rixin Automation Co., Ltd. (Jiangsu, China) to further enhance on-site production and for customer presentations.

### Toward Global Development Axes Including BRIC Nations

Daifuku is aiming to garner an over 25% share of the world market for automobile production line systems in fiscal 2009. To realize a stable growth track, the AFA business is planning to expand its global market, with the BRIC nations together forming one axis covering sales, production, installation and after-sales service. In addition, efforts will be made to, for example, achieve customer satisfaction by promoting activities in line with S.Q.C.D.E. (safety, quality, cost, delivery and ecology).

## Factory Automation & Distribution Automation (FA&DA)

The FA&DA business manufactures a complete range of systems and products. Commanding the top share of the Automated Storage/Retrieval Systems (AS/RSs) market in Japan, this business offers all kinds of storage systems; transport systems, such as conveyor systems and automatic guided vehicles (AGVs); sorting and picking systems; all kinds of distribution equipment; and the computer systems that control all these items. Widely used in a variety of industries, including IT, food, beverages and pharmaceuticals, and at each stage of the supply chain, from product manufacture to sale, our systems support increased efficiency and streamlining within the logistics industry.



### Tohan Okegawa SCM Center Operational

Delivered to major publishing company Tohan Co., Ltd., the Okegawa SCM—the largest distribution center of its kind in the Japanese publishing industry and possessing in global terms unprecedented distribution capabilities—commenced full operations in October 2007. The latest high-speed book sorting equipment and mini load AS/RS have been deployed at the center, highly automating the book order sorting, shipping and return processes.

### Proposing Optimal Systems to All Companies

The realm of the FA&DA business includes such sectors as the PC, food, beverage and pharmaceutical industries as well as activities along the entire length of the supply chain, from the manufacture to sale of all types of products. With a track record of delivering a large number of systems to a wide market and a wealth of experience in building large-scale systems, Daifuku is conducting product development and system proposals that anticipate customer needs to increase its share of the market. Daifuku has been optimizing its own business structure by integrating its after-sales service divisions since April 2008.

## e-Factory Automation (eFA)

The eFA business centers on cleanroom transport and storage systems, which are essential for the production of semiconductors and flat-panel displays (FPDs). Having delivered many systems to major manufacturers around the world, Daifuku has now achieved a global market share of almost 50%. With digital home appliances gaining in popularity on a global scale, Daifuku is drawing on its wealth of expertise and the latest technologies to respond to calls for upgraded, more complex material handling systems from all device manufacturers.



### Preferred Supplier Award Received from Intel Corporation

Daifuku received an Intel Corporation Preferred Quality Supplier (PQS) award for fiscal 2007. The PQS award is presented to companies that demonstrate outstanding commitment to quality and performance excellence and that provide products and services deemed essential to Intel's business success. This award was in recognition of Daifuku's efforts in supplying automated material handling systems.



### Daifuku's Main Advantage: The Latest Systems for Semiconductors and FPDs

With competition within the semiconductor and FPD fields intensifying on a global scale, the biggest challenges all manufacturers of such products now face are keeping up the pace of unrelenting technological innovation and production streamlining in order to continue winning against their rivals. As a leading company in cleanroom FA systems, Daifuku aims to benefit from IT and its automated material handling systems (AMHSs), which sophisticatedly combine integration technologies, and the high reliability of its products to increase its market share.

## Electronics

Daifuku subsidiary Contec Co., Ltd., which forms a corporate group, is developing its business by means of a global framework. This business engages in the development, manufacture and sale of equipment related to computer extension boards, industrial-use computers, computer networks, and other devices, as well as handling a variety of control and remote monitoring systems.



### Striking a Growth Balance between Sales and Profit, while Aiming to become a Robust Corporate Group

Contec shares were listed on the Tokyo Stock Exchange, Second Section, in March 2007. In conjunction with this, Contec's Three-Year Business Plan was formulated, enabling the Company to address the development of specialty products, measures to enhance its marketing capabilities and improvements in production efficiency. To this end, Contec is taking steps to realize the goals of each of these initiatives.

In addition to the progress being made toward a ubiquitous society—a society that enables the seamless use of information communication technologies anytime, anywhere—the outlook calls for increased business opportunities. Acknowledging that, on the other hand, the operating environment is set to become more exacting, we are thus planning to strike a growth balance between sales and profit while aiming to become a robust corporate group.

## Car Wash Machines and Special-Purpose Equipment

Daifuku is involved with several specialty products that draw on the technologies that the Company has accumulated in material handling systems and from customer-oriented product development. In the case of car wash machines, with a track record dating back more than 30 years, Daifuku has consistently conducted pioneering development in the industry. In special-purpose equipment, Daifuku offers products that provide assistance in situations closely associated with people's everyday lives, including medical and welfare services, housing and amusement facilities.



### Strengthening Product Capabilities toward Sustainable Growth

Taking into account the characteristics of business in close proximity to the end-user in mass-produced products, Daifuku has managed its car wash machines and special-purpose equipment operations as an integrated business since April 2006. Through user-oriented business development, the Company has expanded the scale of this business so that it now equates to about 5.6% of Companywide sales. At the same time there are plans to build an infrastructure and transform the profit base toward sustainable growth.

In the Car Wash Machines business in the fiscal year under review, the Company developed a new drive-through model in top-of-the-line and regular versions that offer great reductions in the amount of water used, under the Waxmor brand. These environmentally conscious, strategic products are being developed to form the lynchpins of market gains.

Bringing together manufacturing and sales in the Special-Purpose Equipment business, our emphasis is on further improving quality and reducing costs in order to expand business operations. Daifuku aims to garner the highest market accolades for its products and systems.

## Corporate Governance

Corporate governance involves establishing management policies and monitoring and assessing management's execution of duties with the aim of maximizing corporate value. Daifuku is taking steps to construct a robust corporate structure in order to become a more vibrant company.

### Basic Policy

Daifuku adheres to a two-fold management philosophy. Firstly, to contribute to the development of industry by supplying optimal material handling systems and related products as well as electronic devices to the global market from the perspectives of the business domains in which the Company operates, the markets it serves and its customers. Secondly, to become a truly trustworthy, more attractive corporation in the eyes of all its stakeholders—shareholders, customers and employees—by focusing on healthy, growth-driven management that values profitability while endeavoring to build a robust business structure that can withstand global competition.

Furthermore, amid a drastically changing business environment, in line with its management philosophy Daifuku prioritizes compliance, emphasizing the fulfillment of its corporate social responsibility (CSR) through honest, sincere, transparent management. Reflecting this approach, to secure speedy management decision making, those present at Board of Directors' meetings are encouraged to give their assessments and voice their opinions.

Having established a Compliance Committee chaired by the president, Daifuku conducts activities to ensure legal compliance, fairness and high ethical standards in its corporate activities. As part of these efforts, the Company formulated its Corporate Code of Conduct, which sets out Daifuku Group's mission and aspirations as a leading global company for all executives and employees as well as the fundamentals that they should adhere to contribute to society at large.

### Board of Directors' Composition, Management and Decision Making Execution System

Daifuku's Board of Directors currently consists of 19 directors and is presided over by the president, who also serves as co-CEO jointly with the chairman of the board. Daylong Board of Directors' regular meetings are held on a monthly basis to make decisions on fundamental management matters, with extraordinary meetings convened when deemed necessary (on six occasions during the fiscal year under review). To enable speedy decision making, Board of Directors' meetings are enlivened by those present giving their assessments and voicing their opinions, as mentioned above. In addition, key management issues are subject to management review by senior Daifuku executives of managing director status and above and external experts. Such review meetings were held three times during the fiscal year under review, with corporate auditors also in attendance. Production Management executive meetings, global affiliate company meetings and other similar meetings are also held on a regular basis to enable flexible responses in business execution.

As the directors' term of office is one year, directors are required to account for their actions each year at the General Meeting of Shareholders. Currently, Daifuku has no outside directors on its Board, instead, it ensures objectivity and fairness in its management by relying on audits by outside corporate auditors and advice from external experts.

### Corporate Auditors and Audit System

Daifuku has adopted a corporate auditor system and maintains a Board of Corporate Auditors made up of five corporate auditors, three of whom are elected from outside the Company. The Board of Corporate Auditors met on eight occasions during the fiscal year under review. Corporate auditors, who attend and have a voice in key meetings, including Board of Directors' meetings, conduct their audits by receiving reports on directors' execution of duties, reviewing financial reporting documents, and monitoring and visiting various operating divisions, including factories and sales offices, as well as Group companies in and outside Japan. Corporate auditors also monitor and verify the Company's internal control systems based on Japan's Corporation Law, checking the relevant resolutions of Board of Directors' meetings and the status of control systems established. While carrying out business execution audits in collaboration with an internal audit entity (Internal Audit Office), corporate auditors regularly meet with accounting auditors to confirm the status of audits by accounting auditors and endeavor to carry out effective audits by, for example, joining accounting auditors on physical inspections of materials and other inventories and on audits of subsidiaries.

Boasting a wealth of experience in fields that include the law, corporate management and the media, the three outside corporate auditors offer a wide range of insights, fulfilling the audit role from an objective perspective by, for example, exchanging opinions with full-time corporate auditors at Board of Corporate Auditors' meetings, attending the regular Board of Directors' meetings (all meetings during the fiscal year under review) and gathering information.

At the General Meeting of Shareholders held in June 2007, PricewaterhouseCoopers Aarata, a PwC member firm, was appointed as independent accounting auditor to perform Daifuku's audits.

### Internal Control System Upgrades

Daifuku has set up and maintains a robust internal control system to maximize the effectiveness of its corporate governance. Recognizing that the system heightens its corporate trustworthiness and the efficiency of its operations, the Company has been steadfastly working on upgrades.

Firstly, with regard to the Corporation Law stipulation requiring a company to have in place an internal control

system, Daifuku created such a system to serve as its own corporate governance system through a resolution of its Board of Directors in May 2006. In the fiscal year under review, Daifuku carried out a review to further enhance and strengthen the system and instituted several changes, as reflected in the accompanying diagram. Specifically, it has stepped up corporate governance activities by placing an executive vice president in charge of Internal Control Operations, under which a BCP (Business Continuity Plan) Promotion Division was established alongside the existing Central Environment, Safety & Hygiene Committee and Strategic Goods Export Control Committee. As Chief Risk Officer (CRO), the executive vice president in charge of Internal Control Operations is responsible for risk identification and assessment spanning the management of the entire Daifuku Group and the upgrade and management of an appropriate response system.

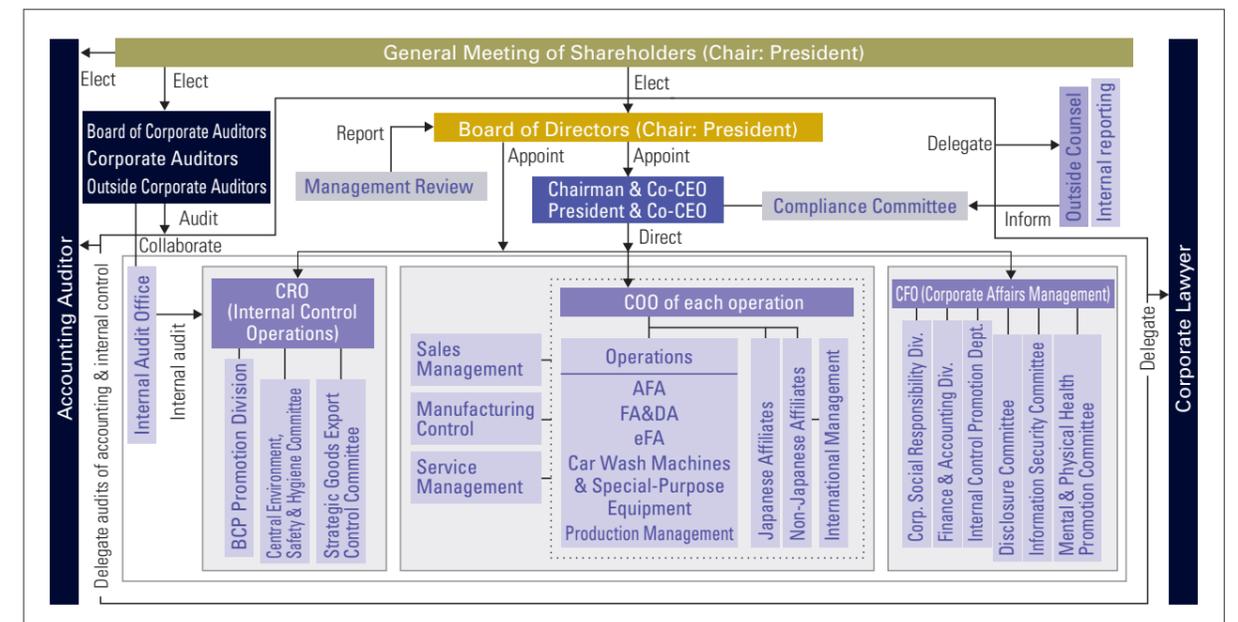
Within Corporate Affairs Management, which is the responsibility of the Chief Financial Officer (CFO), the Internal Control Promotion Department oversees the building of internal control mechanisms, the primary aim of which is to ensure trustworthiness in financial reporting. Also positioned under the CFO are, for example, the Disclosure Committee, the Information Security Committee and the Mental & Physical Health Promotion Committee. These committees are

working on the enhancement of accountability and transparency through expanded disclosure and investor relations activities, information security management and the mental and physical health of employees.

Daifuku has also put in place an internal reporting system that affords direct access to outside counsel. As an enhancement made to the system, since May 2008 employees at global subsidiaries have also been given a facility that affords direct access to the head office legal affairs department for consultation services.

From April 2008, the system of reporting by listed companies on "internal control over financial reporting" has been enforced under Japan's Financial Instruments and Exchange Law. As noted above, Daifuku already has in place an Internal Control Promotion Department to act as an executive office under Corporate Affairs Management and has so far completed the necessary documentation work, including the revision of relevant internal regulations and upgrades of its management/accounting information systems. Currently, Daifuku is in the process of confirming the effectiveness of the internal control structure. In the coming months, the Company will, pursuant to the Financial Instruments and Exchange Law, receive audits by accounting auditors on the internal control structure thus far established and the effectiveness thereof, along with accounting audits.

### Corporate Governance System Chart



## Corporate Social Responsibility (CSR) Activities

Daifuku's Corporate Code of Conduct first and foremost sets out the Company's policy of contribution to society through corporate activities. Amid wide-ranging CSR demands that have extended beyond economic concerns to encompass environmental and social issues, Daifuku engages in a variety of CSR activities. The overriding aim of these activities is to nurture closer relationships with Daifuku stakeholders in every field and to become an even more trusted company.

### Environmental Conservation Activities

As a general manufacturer of material handling systems and equipment that is widely expanding its business activities, Daifuku is very much aware that environmental issues, including those on the production front line or products that have an impact on the environment, form an important component of management. With an environment management system in place that encompasses both production and non-production bases, Daifuku endeavors to make improvements by looking at objective numerical values that run the full gamut—ranging from the various forms of environmental impact caused by its business activities to operational life cycles—to analyze and build a complete picture of the current status of the system.

In the course of its production activities, Daifuku uses a wide variety of chemicals, which the Company independently and painstakingly controls in compliance with the relevant regulations and by working to prevent environmental impact. The replacement of special chemicals stipulated in the Pollutant Release and Transfer Register (PRTR) law with those with low environmental impact in particular is being promoted.

With regard to CO<sub>2</sub> emissions, the main cause of global warming, Daifuku keeps a close watch on the latest situation and on the environmental burden such emissions pose, taking daily action to achieve its own reduction targets and those set for Japan in the Kyoto Protocol. In fiscal 2007, the Company was able to reduce emissions 10.1% compared with fiscal 2006 in terms of net sales per unit.

Water contamination is a serious problem that can affect soil, agricultural products, living environments, and various other areas. Accordingly, efforts are made to control and reduce drainage from works with meticulous care, while, of course, observing relevant laws and regulations. In fiscal 2007, the Company was able to significantly reduce Companywide water usage 23.4% compared with fiscal 2006 in terms of net sales per unit.



Private power generation using a cogeneration system

### Recycling Status

Daifuku's Zero Emission Activities entail the thorough separation of operationally generated waste with the aim of recycling 96% or more of the waste generated within the Company. For example, water containing oil and iron powder from the painting line is passed through a wastewater treatment plant, where the sludge is recovered, dried and shipped as cement raw material. In fiscal 2007, Daifuku recycled 113 tons of sludge that had undergone drying treatment. In addition, all waste generated by company cafeterias undergoes a composting process using a processor. In fiscal 2007, of the 21 tons of waste produced, seven tons were recycled. Moreover, we recycle all paper, with paper that is no longer required as copy paper being turned into high-grade recycled paper and that used for newspapers and pamphlets into medium- to low-grade recycled paper.

### ISO Certification Obtained around the Globe

In its efforts to establish a global "Daifuku Standard" with regard to product quality and the environment, Daifuku has been giving additional encouragement for obtaining ISO certification at the Group's principal bases around the world. Eight bases have currently completed ISO 9001/14001 certification in addition to the 10 that have completed ISO 9001, of which one production base is planning to complete ISO 14001 certification during fiscal 2008. With the exception of newly consolidated subsidiaries, all of the Daifuku Group's logistics system production bases worldwide have obtained or are in the process of obtaining ISO 14001 certification.

In addition to the abovementioned efforts, as a responsible manufacturer with basic social infrastructure obligations to fulfill, Daifuku will continue to maximize its focus on product development, which takes into consideration green procurement as well as environmental concerns.



ISO certification sign at a Chinese production base

### Customer Satisfaction Initiatives

The front line of Daifuku's operations is not only within its own factories, it encompasses installation work carried out at customer sites. The smooth launch of systems and safety assurance are just two necessary aspects of business that Daifuku must ensure in order to gain and maintain customer trust as it develops its business to business (B to B) operations.

In addition there has been a recent and increasing trend for companies on the production and distribution front lines to operate logistics systems round the clock. For this reason, the stable operation of automated warehouse and sorting systems that perform key functions has gained in importance.

Daifuku's DAGUARD prediction and forecast system, which was developed utilizing Daifuku's proprietary technologies, is designed to prevent customer system breakdowns. Precisely monitoring equipment performance enables the prediction of the remaining service lives of parts and equipment and required maintenance intervals.

### Upgraded Working Environments, Human Resource Training

Based on "Safety First" and with the aim of "eliminating work-related accidents," Daifuku conducts health and safety activities suited to conditions on the workplace front lines. In addition, Daifuku has constructed and maintains a company-wide occupational health and safety management system that incorporates a keen awareness of environmental, quality and safety issues.

Paying particular heed to employee mental and physical health, Daifuku established the Mental and Physical Health Promotion Committee to help create comfortable working environments in a system that includes external workplace and industrial health specialists.

With regard to human resource training, Daifuku focuses its efforts from the perspective of providing its customers



Training at a Thai production base

both in and outside Japan with products and systems of consistently high quality. Based on the Daifuku Group Human Resource Training Basic Policy, the Company implements training to cater to all levels of employees, including new employees, mid-level employees and managerial members. Such initiatives as the Global Business Trainee System and the English Learning Support Plan have been set up to encourage the early development of internationally minded candidates working abroad.

As for human resource utilization, three wholly owned subsidiaries were established in April 2005 to reemploy retired workers and executives who have reached retirement age. In addition to deriving ongoing benefit from the technical expertise and know-how of veterans who possess a wealth of experience, the focus of these companies is on ensuring that this expertise is passed on to the younger generation in the Daifuku Group. Furthermore, Daifuku has implemented a reemployment system by which it is possible to extend employment to a maximum of 65 years of age. This widens choices and offers the quickest response in dealing with a common problem among Japanese companies, namely, the aging of the so-called baby-boomer generation.



For more details on Daifuku's corporate social responsibility (CSR) activities, please refer to the English-language version of Daifuku's *Social & Environmental Report*, which is available on our website at: [www.daifuku.com/csr/environment/report.html](http://www.daifuku.com/csr/environment/report.html)

# Directors and Corporate Auditors

(As of October 1, 2008)

## Directors



**Katsumi Takeuchi**  
Chairman and Co-CEO



**Masaki Hojo**  
President and Co-CEO  
COO of WEBB Businesses  
Operations



**Yutaka Hirai**  
Executive Vice President  
COO of eFA Operations



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



**Haruyoshi Amakusa**  
Executive Vice President  
CRO of Internal Control  
Operations  
General Manager of BCP  
Promotion Division



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



**Seiki Kakinuma**  
Managing Director  
COO and General Manager of  
Car-Washing Machine and  
Specialized Equipment  
Operations



**Masayoshi Inoue**  
Managing Director  
CFO  
COO of Business and Global  
Management Operations  
General Manager of CSR  
Division



**Katsuhiro Kawano**  
Managing Director  
COO and General Manager of  
AFA Operations



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



**Takahiro Taniguchi**  
Managing Director  
COO of Services Operations  
General Manager of DTS  
Division in FA&DA Operations  
Chief Officer of Komaki Works



**Masayoshi Tanaka**  
Managing Director  
General Manager of eFA  
Operations



**Shigeyoshi Fujita**  
Managing Director  
Deputy General Manager of  
AFA Operations

**Mikio Inohara**  
Director  
General Manager of Finance  
and Accounting Division

**Susumu Moriya**  
Director  
General Manager of FPD  
Division in eFA Operations

**Akio Tanaka**  
Director  
General Manager of Sales  
Division in FA&DA Operations

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

**Hiroyoshi Takeda**  
Director  
General Manager of Production  
Division in AFA Operations

**Katsutoshi Fujiki**  
Director  
General Manager of China's  
Subsidiary Management  
Division

## Corporate Auditors

**Setsuo Idehara**  
**Hiroshi Fujishima**  
**Haruyasu Uchida\***  
**Yukio Rinbara\***  
**Isao Kitamoto\***

\* indicates outside auditor.