

Material Handling and Beyond

People Moving Things —Where Our Opportunities Arise

Daifuku is leveraging its unique strengths as it searches for new possibilities in material handling—an industry that every day becomes an ever more essential component of social infrastructure due to its expanding role in diverse industries.

- **Bases of Operation in 19 Countries**
- **More than 20,000 Material Handling Systems Successfully Delivered**
- **Non-Japan Sales Ratio 50%+**
- **Profit-Driving Aftermarket Service: 21% of Net Sales and Growing**



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.

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Cover Story

The DUOSYS (Synchronized Duo System) illustrated on the cover, which is equipped with unprecedented proprietary tuning control technology (patent pending), is a super-fast mini load automated storage and retrieval system (AS/RS) developed as highly functional automated equipment for distribution centers.

Functioning in the same aisle, two storage/retrieval machine (SRM) stacker cranes move past each other while simultaneously performing storage and retrieval operations. Arranged in two tiers, a total of four SRMs working at the same time are able to produce a remarkably high storage/retrieval throughput of up to 2,200 cases per hour, six times more than conventional types. Requiring less floor space, the two-tier layout of the DUOSYS realizes significant cuts in power consumption thanks to the SRM's lightweight design and the use of regenerative power produced during deceleration.

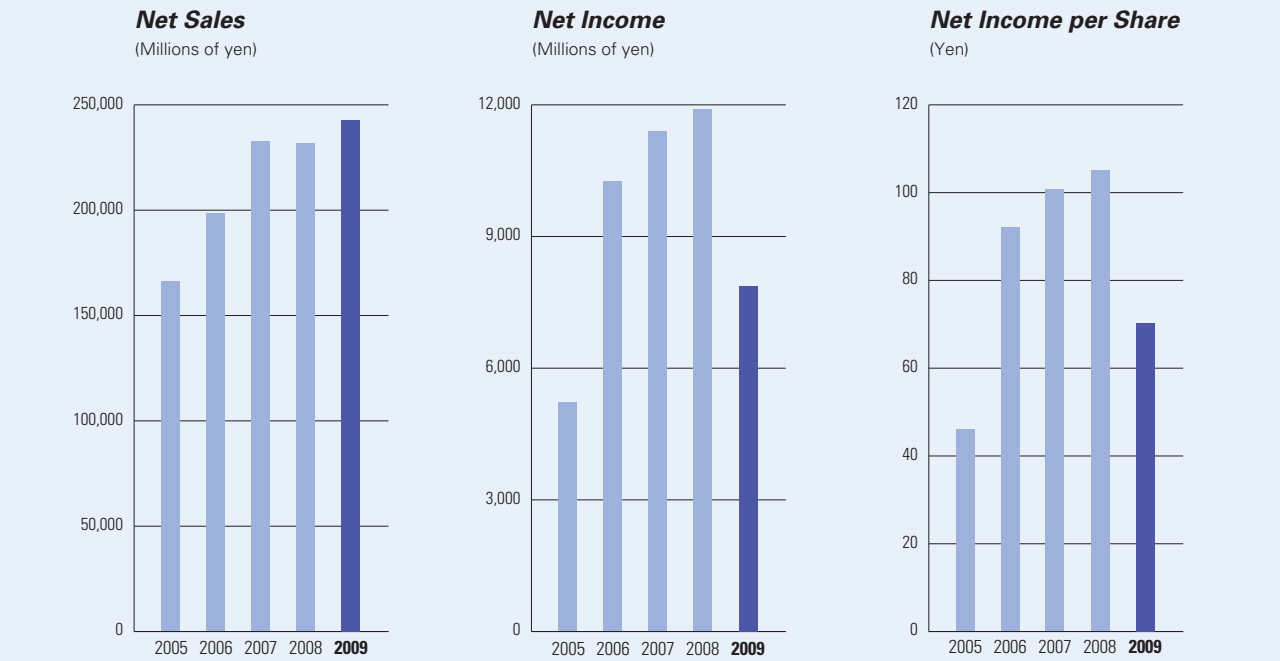


Financial Highlights

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2009 and 2008

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
For the Year			
Orders received	¥212,017	¥243,761	\$2,157,724
Net sales	242,182	231,619	2,464,710
Operating income	15,015	20,677	152,814
Net income	7,851	11,893	79,901
Net income per share (Yen and U.S. dollars)	70.29	105.05	0.72
Cash dividends per share (Yen and U.S. dollars)	26.00	26.00	0.26
Capital investment	4,613	4,071	46,954
R&D expenditures	8,018	6,964	81,608
At Year-End			
Total assets	¥194,727	¥222,386	\$1,981,754
Working capital	75,087	64,840	764,169
Net assets	82,810	88,709	842,770
Number of employees	5,660	5,663	
Ratios			
Operating income/net sales	6.2%	8.9%	
Net income/net sales	3.2	5.1	
Return on shareholders' equity (ROE)	9.6	14.7	
Shareholders' equity/total assets	40.9	38.0	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥98.26 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2009.



Chairman's Message

The Daifuku Group consists of its mainstay Logistics Systems business, which focuses on material handling systems and equipment; its Electronics business, engaged in the manufacture of such products as interface boards for measurement controls and industrial computers; and its Other business, which covers car wash machines, bowling alley equipment, wheelchair lifts for care-provider vehicles, and other lifestyle products. The Logistics Systems business currently accounts for more than 90% of the Group's net sales. The other two business segments are involved in material handling system-related equipment or products that draw on material handling technology. In global terms, Daifuku is currently placed in the top echelons of the specialty material handling industry.



Effects of the Worldwide Recession on Second-Half Performance

Paralysis in the financial system and bankruptcies among major banks, triggered by the collapse of subprime loans in the United States in the previous year, caused a global financial crisis. In addition to the major blow dealt to the real economy, the situation resulted in the economies of many countries, including Japan and all of Asia, suffering reversals and entering recessionary phases. No one could have predicted the extent to which economic activity would so sharply decline.

As a result, all of Daifuku's corporate customers also significantly reduced capital investment, which reduced orders and had a profound effect on the Daifuku Group's performance in the second half of fiscal 2008, ended March 31, 2009, from November 2008 onward. As there is no way of telling when the economy will bottom out, the severity of the environment in which the Daifuku Group operates will likely remain undiminished.

However, demand for material handling systems, Daifuku's stock-in-trade, is not about to dry up, and we feel certain that this business will continue to grow. From production to the home by means of distribution, and within the major framework of recycling economies, the role of material handling systems—specifically logistics systems—will gain in importance. The strength of the material handling market lies in demand that is consistently created in keeping with the times.

Daifuku has successfully seized the opportunities presented by such changes, effectively turning them into its growth drivers. Behind such successes are our extensive, solid delivery record, proprietary technologies and human resources, all of which we have developed since our founding in 1937. En route to taking a bigger leap when the economy enters an expansionary phase, even in the currently harsh economic environment, Daifuku is poised to take its next step: focusing on R&D to respond to constantly changing needs and on nurturing personnel who can be more active on the global stage.

We respectfully ask for the support of our stakeholders, including shareholders and investors.

K. Takeuchi

Katsumi Takeuchi
Chairman and Co-CEO



Having achieved its non-Japan sales ratio target of 50% in the fiscal year under review, Daifuku is focusing on enhancing its already solid footing in the aftermarket service business and cultivating new markets in domestic growth fields and developing countries.

Confronting a Harsh Business Environment

Q1 With the benefit of hindsight, could you please give us your views on fiscal 2008?

A1 Underpinned by an extensive order backlog from the start of the period, sales looked set to remain robust in the mainstay Logistics Systems business segment in fiscal 2008. However, negative factors involving orders and sales recorded during the period-proposals for small- and medium-sized automated storage and retrieval systems (AS/RSs) and material handling equipment, for example-made the situation worse from the second half onward. Moreover, from November 2008 onward, capital investment reviews or postponements primarily in the automotive and electronics industries resulted in orders in each business unit falling below figures planned at the beginning of the year.

As a result, orders were down 13% to 212,017 million yen and net sales rose 4.6% year on year to 242,182 million yen, the latter being due to Jervis B. Webb Company, a U.S. affiliate included in the scope of consolidation. In profit terms, due among other factors to the deteriorating

business conditions and order profitability as well as the necessity to reduce factory operating levels due to the drop in orders, the Electronics business posted an operating loss, with operating income falling 27.4% year on year to 15,015 million yen. In Daifuku's case, since products manufactured at factories comprise not only sales for the fiscal year under review but also include sales derived from orders placed in the fiscal year under review for delivery in subsequent fiscal years, the fall in orders had a drastic effect on operating levels and earnings. Ordinary income declined 27.9% from the previous fiscal year, to 14,882 million yen, owing primarily to greater interest paid because of the rise in interest-bearing liabilities aimed at increasing funds on hand. Net income stood at 7,851 million yen, down 34% from the previous fiscal year.

In fiscal 2008, the Company paid a year-end dividend of 16 yen per share for a total annual dividend of 26 yen, which is on par with the previous fiscal year.

Cultivating New Markets in Developing Countries and Growth Fields

Q2 Please tell us about your forecasts for fiscal 2009 and trends in the market.

A2 Harsh market developments are expected as a result of the deterioration of the already turbulent current operating environment. In addition to orders outstanding at the end of the year being 24% down compared with the end of fiscal 2007, we expect there to be no way of escaping a fall in new orders.

There are three mainstay Logistics Systems businesses: Automotive Factory Automation (AFA), Factory Automation and Distribution Automation (FA&DA) and e-Factory Automation (eFA).

In the AFA business, new investment for automobile production lines in developed countries has mostly been postponed. However, in the medium to long term, burgeoning demand in developing countries, primarily China, and investment in environmentally friendly vehicle production lines are anticipated.

In the FA&DA business, there were relatively modest declines in large-scale projects from industries that are less subject to the vagaries of the economic climate: for distribution, pharmaceutical and food wholesalers and the like. However, there are concerns that small- and medium-sized projects and material handling equipment sales will suffer from the effects of the deterioration in the business situation for some time to come. On the other hand, there is rising demand for material handling systems in ongoing growth fields, such as from Japan

Agricultural Cooperatives, for handling fresh produce and for the production of solar cells, and Daifuku is working hard to gain its share of those markets.

In the eFA business, which includes cleanroom transport and storage systems for the electronics industry, the harsh business environment continued for both semiconductors and flat-panel displays. However in developing systems compatible with next-generation production technologies to cater to needs for 450-mm semiconductor wafers and 11th- and 12th-generation LCD glass, Daifuku is prepared for market recovery.

At wholly owned U.S. affiliate Jervis B. Webb Company (Webb), sales of airport baggage handling (ABH) systems are steadily rising. In addition to having extended Webb's installation range and enabled the possibility of receiving large-scale project orders by joining the Daifuku Group, demand is growing for Webb's ABH conveyor systems following the introduction of an inline screening system as an anti-terrorism measure. Daifuku will strive to focus on ABH systems as a core business.

A system that combines Webb's automatic guided vehicle technologies with Daifuku's unit load AS/RS attracted interest at the largest material handling trade show held in the United States in January 2009. As a result, this system has already gained orders and synergies of the two entities are anticipated.

Underpinning Daifuku's Aftermarket Service Business, Focusing on R&D and Human Resource Training

Q3 Could you please tell us about management policies for fiscal 2009?

A3 Despite the obvious impact of the global financial crisis, it is currently thought that—over the medium to long term and from the global perspective—there will be steady growth at Daifuku's customers in the automobile, semiconductor, flat-panel display and distribution industries. Therefore Daifuku has set its basic policy for fiscal 2009 as strengthening the business structure and meeting diversifying market needs for the next breakthrough.

Specifically, as regards strengthening the business structure, Daifuku is focusing on its proprietary strengths

in its aftermarket service business, which is geared toward regular after-delivery maintenance, equipment upgrades and retrofits. Based on its track record of having delivered more than 20,000 units around the world, Daifuku continues the relationships it enjoys with its customers even after delivery and is establishing a business model designed to generate profit over the long term. Since, for example, regular maintenance checks are necessary as far as keeping equipment running is concerned, even caps on new capital expenditure will not result in any decline even in the current business envi-

ronment. The aftermarket service business has traditionally been one to which we have been committed and proactive in our efforts to expand our framework, including overseas, strengthen our customer response system and create new high-value-added products and services. To give one example, in June 2009, we received the AS/RS aftermarket business from a major Japanese forklift maker.

In the meantime, having set up an Operations Improvement Committee in fiscal 2008 to address business efficiency through, for example, Companywide reductions in expenses and cost prices as well as strict inventory controls, Daifuku is in the process of robustly implementing measures to lower its breakeven point. In planning further management efficiencies, Daifuku has already taken steps on the way to rebuilding its business foundation, merging its three affiliates operating in South

Korea in March and its sales subsidiaries involved in car wash machines and bowling alley equipment in April 2009.

Customer needs are becoming much more diverse, ranging from advanced automated systems to cost-effective equipment in order to sell low-cost products to developing countries. To carefully address these kinds of needs, the Daifuku Group is inextricably linked with product commercialization.

The Daifuku Group is focusing on the development of personnel who are able to flourish globally as it aims to be No. 1 in material handling. Itself able to conduct R&D that covers the gamut of needs, from low to high end, and naturally possessing techniques and skills handed down from veteran employees, Daifuku is training personnel at global affiliates and creating and expanding businesses with global staff.

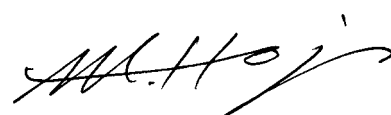
Ongoing Challenges in the Next Three-Year Business Plan

Q4 What is the current status of the next three-year management planning?

A4 Under *Jump up for 2010*, the Three-Year Business Plan, we plotted a sustainable growth track; the fiscal 2009 targets were net sales of more than 250 billion yen, an operating income margin of more than 10%, and a non-Japan sales ratio of 50% or over. As the final year of the plan is under way, although we expect to achieve the non-Japan sales ratio target, at the present time it is regrettably difficult to determine if we will make

the targets for net sales and operating income margin due to last year's sharp deterioration in the business environment, and we will continue to confront the challenges in the next Three-Year Business Plan.

We plan to announce details of the next Three-Year Business Plan some time after the first half of the current fiscal year.



Masaki Hojo
President and Co-CEO

Special Features

Feature 1

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Accelerating the Aftermarket Service Business

Major AS/RS retrofits associated with aging equipment and diversifying needs.
Short-duration retrofit work while system remains in operation.



Feature 2

> Page 10

Uncovering Opportunities in Our Material Handling Business

A state-of-the-art distribution center consolidates the operations of eight key locations.
Utilizing RFID technology significantly streamlined distribution operations.



Topic

> Page 11

Cost-Competitive Development Geared to Asia Strategy

Centered on its production subsidiaries in China, Daifuku is engaged in the development of systems that are easy to install and modify locally at low cost.



Accelerating the Aftermarket Service Business

Expanding Aftermarket Service Business, Uncovering New Sales Opportunities

Daifuku material handling provides more than logistics systems tailored to its customers: after delivery, the Company provides comprehensive aftermarket services to ensure smooth-running operations. Based on company-wide Service Control Operations—established in 2008 to form the growth pillar of its aftermarket service business—Daifuku is striving to uncover new sales opportunities by strengthening and expanding its existing aftermarket service business. Currently covering maintenance and the provision of service parts, Daifuku will achieve its plans by such means as upgrade proposals and developing new overseas aftermarket service business.

Main Points for Enhancing Basis of Aftermarket Service Business

- 1. Upgrade proposals: Expand existing aftermarket services and create high-value-added products
- 2. Broaden service market

Wide-Ranging Services Underpinning Performance

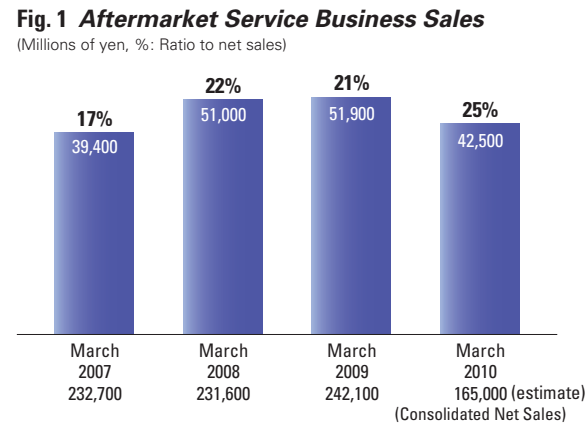
As shown in Fig. 1, in the fiscal year ended March 31, 2009, aftermarket service business sales totaled 51.9 billion yen, reaching 21% of consolidated net sales and representing a stable source of revenue.

One of Daifuku’s strengths is derived from having installed more than 20,000 material handling systems including automated storage and retrieval systems (AS/RSs) to customers on the corporate front-line, a number that surpasses other companies. Now it is not solely Daifuku, as the Company has gradually acquired businesses—the logistics system division of a Japanese manufacturer in 2004; the Jervis B. Webb Company, with a history dating back more than 90 years, in 2007; and the aftermarket service business of a Japanese manufacturer in June 2009—to significantly increase the breadth and depth of its customer base.

The Daifuku service model for these existing customers runs the full gamut, from regular maintenance checks, repairs, parts sales and retrofits to upgrades. Services underpin performance, because it is necessary to place limits on machinery operation, and the level of business derived from new facility projects is susceptible to economic conditions. Generally, on such production lines as those for automobiles, consecutive holidays are used to

carry out modifications and increase production capacity.

There is a limit to the service lives of both the machinery components and computers that together constitute material handling systems, so after a few years, new repeat demand will be generated. Service offices (at more than 80 locations in Japan alone) work for customers in each area, and the System Support Center responds to customer enquiries around the clock and all year round. Daifuku endeavors to foster long-term relationships with customers.



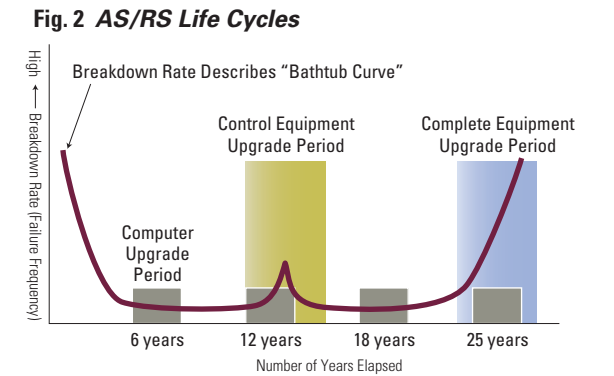
Upgrade Proposals: Expand Existing Services and Create High-Value-Added Products

From its everyday services, which include maintenance and parts supply, Daifuku is going one step further to build a service business structure that will be pivotal in subsequent market development and production activities. The Comprehensive Service Center at the Shiga Works acts as the hub. Whenever a problem arises with customer equipment, the center records a maintenance history in computerized logs and shares the information with service offices. Consequently, we are in the process of moving from an on-call approach to a preventive maintenance system that enables regular equipment checks.

In the case of an AS/RS, one of Daifuku’s core products, worn parts are replaced during maintenance to ensure stable equipment operation. By conducting maintenance to reduce equipment mean time between failure (MTBF) and to know the equipment condition, in addition to simply pinpointing upgrade periods—centering around replacement of control and machinery parts and, as needed, stacker cranes—and setting up specialist units in marketing and engineering, we are endeavoring to expand the retrofit business.

Due to the current global recession caution is being

exercised in the building of new facilities, however, on the other side of the coin, there are moves toward making more effective use of existing equipment.



In addition, product diversification and radically changing needs associated with changes in lifestyles are also bringing about changes every few years in all aspects of the Logistics Systems business, from commodity size to operational methods.

Under these circumstances, there are a growing number of companies that need to upgrade their existing assets, their operational quality and the productivity of

their facilities, as well as to introduce new technologies. Proposing upgrades that accurately respond to these kinds of needs will not only lead to heightened customer trust and stable earnings, they will also lead to the development of one major style of logistics. Utilizing its strengths, which combine front-line capabilities and technological development, Daifuku is focusing on upgrades and retrofit businesses.

Broaden Service Market

To enhance its global strategy, Daifuku is further marketing its services, primarily in Asia, including Thailand, China, South Korea, and Taiwan.

In particular, in the business geared to semiconductor and flat-panel display production lines, which up to now had focused on new projects including new construction, the service life of equipment is shortening due to all-day, year-round operations. Upgrades and replacement demand can be expected, especially from the many famous electronics manufacturers in South Korea and Taiwan. The key to gaining project orders will be making proposals that emphasize the brevity of the upgrade and replacement timeframes and whether the change can be made without halting system operations.

Case Study

Major Paint Manufacturer

Major AS/RS retrofits associated with aging equipment and diversifying needs. Short-duration retrofit work while system remains in operation.

In 2008, Daifuku upgraded the AS/RS at a distribution center of a major paint manufacturer’s sales subsidiary in Saitama, Japan. In 1989, Daifuku had replaced the same center’s high-rise AS/RS stacker cranes as well as rails, power-feeders and control devices, which had originally been installed by another manufacturer, to improve throughput. In the intervening 19 years, service parts had become difficult to obtain, the age of the equipment giving rise to the necessity for an update.

In addition, with the increasing need nowadays for water-based paint due to heightened concern about environmental issues, Daifuku offered a retrofit as the existing storage and retrieval management system had reached its limitations.

In addition to speeding up operations, the internal layout of the warehouse was changed, by retrofitting stacker cranes and newly introducing high-speed sorting transfer vehicles (STVs). Updating the inventory management computer

enabled the consolidation of shipment management, realizing such streamlining as a 30% increase in storage capacity, despite the reduced number of racks.

By installing the STV and then the stacker cranes while the AS/RS was in operation, in the very short time of 16 days, the retrofit work was carried out without disrupting logistics operations. Projects like this will become necessary as customers increasingly call for “upgrades that do not halt logistics operations.”

Uncovering Opportunities in Our Material Handling Business

Japanese Market

In confronting issues associated with material handling in concert with its customers, Daifuku goes to great lengths to cultivate new demand. To cite one of two examples, Daifuku delivered a distribution center for which radio frequency identification (RFID) was adopted throughout. Being highly sensitive to both products and the external environment, RFID has not been widely introduced in distribution centers, despite the increasing attention it has gained and high expectations. In the other instance, Daifuku augmented a delivery center in the agricultural field in response to calls for greater food safety.



Freshness enhanced by strict temperature control, traceability improved, home delivery business strengthened (Case Study 2)

Case Study 1 [RFID Tags System]

FANCL Corporation

Famous as a mail order manufacturer of additive-free cosmetics and dietary supplements, FANCL Corporation is currently branching out by developing direct-managed stores on a nationwide scale. Making headway in its aggressive business development, FANCL is also expanding its sales channels in general distribution, including via convenience stores.

In August 2008, the company established and commenced operations at its new FANCL Kanto Distribution Center in Chiba, Japan, which manages products in bulk. This move consolidated the operations of eight distribution locations, which had been managed until then along existing sales channels.

In addition to a state-of-the-art material handling system with a newly developed warehouse management system at the center, Daifuku realized improved throughput and shipping efficiency. Orders are consolidated into one of more than

14,000 containers guided by RFID tags.

This project led to FANCL resolving its previous problems—such as customers receiving multiple items, increased distribution costs and complexities involved in product management related to freshness—and a dramatic improvement in the efficiency of its distribution operations. The center plans to improve its same-day delivery rate from 78% to more than 90% and its shipping accuracy to “zero-error” standards.

Proprietary supply chains that pursue customer satisfaction and focus on “no additive” freshness and quality have brought about major advances in distribution infrastructure.



Case Study 2 [Agricultural Sector]

ZEN-NOH Fresh Produce Marketing Corporation

ZEN-NOH Fresh Produce Marketing Corporation owns distribution bases in Saitama, Kanagawa and Osaka prefectures in Japan and supplies domestically grown fruit and vegetables to co-ops and supermarkets, not through markets, but via direct contracts with the producing areas. Currently, one of the businesses entrusted by ZEN-NOH is CO-OP’s home delivery system, which delivers fruits and vegetables that have been harvested in the morning and delivers them the following day at the earliest. Due to the increase in two-income households in recent years and the rising awareness with regard to food safety given the passage of time, demand has been growing for safe and convenient services.

For the initial contract in 2001, the annual picking figure for fruits and vegetables was at the 25 million level. However

in 2007 this had increased 1.6 times to more than 40 million items. Limited in terms of work space, number of workers, and time, problems were arising. For example, replenishment histories were not being recorded accurately. To address these problems, Daifuku proposed a material handling system centered around a multiorder-type Combination Digital Pick System (C-DPS) fitted with a preparatory storage table and an automatic replenishment system.

Thanks to its ability to pre-pick part of an order that has passed the temporary storage table, the C-DPS has reduced worker waiting time and significantly improved throughput. Furthermore, the automatic replenishment system, which is capable of automatic product replenishing by means of high-speed stacker crane, realizes increased speed, takes up less floor space and can reliably trace products. As a result of advances in automation in every area, including sorting and shipment, labor saving has become a reality.

Global Market

[North America]

Having added the extended installation range of Jervis B. Webb Company (Webb) to the Daifuku Group, the airport baggage handling (ABH) system business (see photo) has performed favorably and the receipt of large-scale project orders is now a distinct possibility. In addition, demand is growing for screening systems that detect dangerous objects to be built into ABH conveyor lines as an anti-terrorism measure.

In addition, Webb and Daifuku staged a joint exhibit at ProMat 2009, the largest material handling trade show in the United States, which was held in Chicago in January. Giving collaborative demonstrations of Daifuku’s unit load AS/RS and Webb’s automatic guided vehicle (AGV) technologies served to attract interest in the synergies of the two entities. This combined system has already gained orders, and the aim is to use this start to build on the synergies.



Topic

Cost-Competitive Development Geared to Asia Strategy

Today, the needs of Daifuku’s customers are extremely varied, ranging from advanced automated facilities, which are increasingly sought after in line with the dwindling birth rate and aging population, to cost-effective equipment for supplying low-cost products to developing countries. In Daifuku’s Automotive Factory Automation (AFA) business, amid successive cuts in production at Japanese and Western automakers, there is increasing demand for facilities and systems to enable local manufacturers—especially in India and China, the Asian nations of the BRIC economic bloc—to produce low-cost, entry-level automobiles.

Of these two countries, China with state measures implemented to tackle the economic situation, can expect demand to rise for practical compact cars. Carefully pinpointing such needs, Daifuku is focusing on developing conveyor systems for developing countries. To give one example, we delivered a new floor-type Flexible Drive Bed (FDB) transport system to a local manufacturer in China in 2008. This system not only met the low-cost requirement, it also realized ease of local installation within a short timeframe. To launch facilities in a

[Asia—China (Our “Milestone Strategy”)]

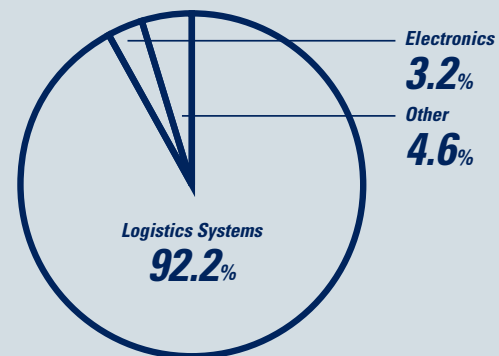
Daifuku has been developing its unique strategy in China since 2004, conducting sales activities that have been targeting leading companies in all industries. That strategy has produced results, with improvements in Daifuku name recognition being directly linked to the receipt of new project orders. Since 2008, Daifuku has had a director responsible for Chinese business and formulated a strategy covering the whole of the Chinese market. Due to these measures, orders received for the manufacturing and distribution industries in China were at favorable levels in fiscal 2009.

The Chinese government injected 4 trillion yuan (around 58 trillion yen) into the Chinese economy to counter the effects of the global recession, waived taxes on capital expenditure and made a host of investments in the name of expanding and stimulating domestic demand. In addition to these economic stimulus packages, demand gradually picked up due to such measures as supplying home appliances and automobiles to rural areas, and assistance for making purchases. The home appliance and automotive-related industries have benefited from this process of revitalizing China’s domestic economy. These industries will help to promote the continuation of Daifuku’s strategy, which will center on industries that are not so susceptible to economic conditions yet are tax exempt, such as pharmaceuticals and food.



By Business Segment

Consolidated Sales Ratio



The Daifuku Group consists of three business segments: its mainstay Logistics Systems, which manages material handling systems and equipment, the Electronics and the Other businesses. The Logistics Systems business, which in fiscal 2008 accounted for approximately 90% of sales, consists of three businesses: the Automotive Factory Automation (AFA) business, which manufactures conveyor systems for automobile production lines; the Factory Automation and Distribution Automation (FA&DA) business, which supplies storage, transport, sorting and picking systems for all kinds of manufacturers and the distribution industry; and the e-Factory Automation (eFA) business, which includes cleanroom transport and storage systems for the electronics industry. A fourth business, which its affiliate Jervis B. Webb Company handles, was added to Daifuku's scope of consolidation during the fiscal year under review.

Logistics Systems

Main Products

AFA

- RAMRUN® electrified monorail systems
- FDS® (Flexible Drive System) chainless conveyor systems
- Other conveyor systems
- Engine testing systems

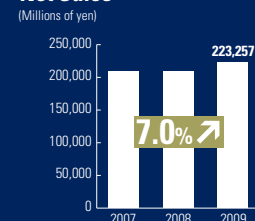
FA&DA

- Storage systems including AS/RSs
- Conveyor systems and AGVs
- Sorting and picking systems
- Material handling equipment
- Software for distribution center management systems and AS/RS inventory management computers

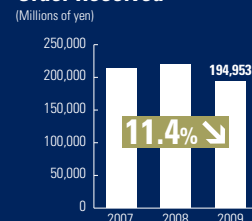
eFA

- Transport and storage systems for semiconductor production cleanrooms
- Transport and storage systems for flat-panel display production cleanrooms
- Transport and storage systems for other cleanroom factories

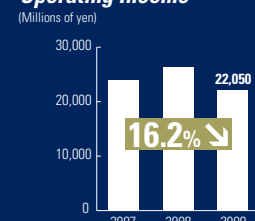
Net Sales



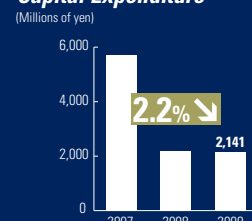
Order Received



Operating Income



Capital Expenditure



During the fiscal year under review, in the AFA business, unfavorable conditions caused the postponement of capital investment planned for automobile production lines during the second half of the fiscal year under review.

Orders were favorable for large-scale projects in the FA&DA business for the electronics, distribution and pharmaceutical wholesale industries, as these industries are less subject to the vagaries of the economic climate, and they are conducting reviews by reorganizing their distribution networks. In the second half, however, small- and medium-sized projects suffered from the effects of the deterioration in the business situation.

The eFA business was also impacted by reviews or postponements of capital investment within the electronics industry.

Meanwhile, Jervis B. Webb's North America-centered business, which is seeing sales expansion in airport baggage handling (ABH) systems and an increasing number of inquiries for automatic guided vehicles (AGVs), is carrying the Group's expectations in the months ahead. As a core business, ABH systems are being enhanced from the current fiscal year.

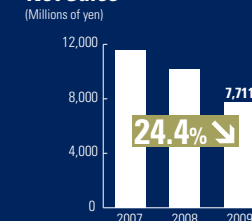
Accordingly, although the Logistics Systems business secured sales of 223,257 million yen, a year-on-year increase of 7.0%, orders decreased 11.4% to 194,953 million yen, and operating income fell 16.2% to 22,050 million yen.

Electronics

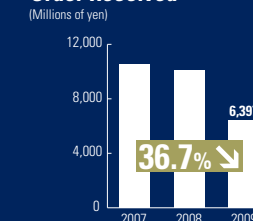
Main Products

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

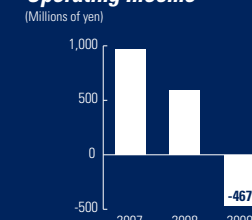
Net Sales



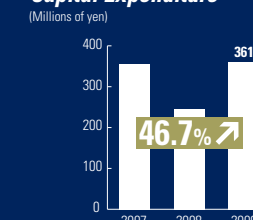
Order Received



Operating Income



Capital Expenditure



The Electronics business made radical changes to its organizational structure, such as switching to centering on a global product business that covers the full range, from sales and technology to production and aftermarket service, producing such results as an increase in the number of project inquiries. However, these moves were profoundly affected by the decrease in capital investment throughout manufacturing industries due to the economic downturn.

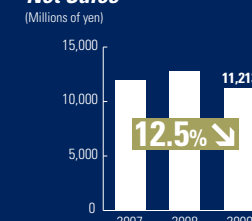
Consequently, net sales in the Electronics business decreased 24.4% to 7,711 million yen, orders fell 36.7% from the previous fiscal year to 6,397 million yen, and there was a 1,057 million yen fall in operating income resulting in the recording of an operating loss of 467 million yen.

Other

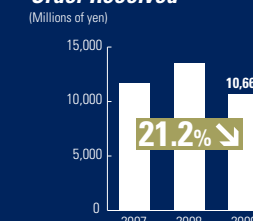
Main Products

- 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
- Bowling alley equipment and automatic scoring systems
- Multilevel bicycle parking systems
- Wheelchair lifts for care-provider vehicles

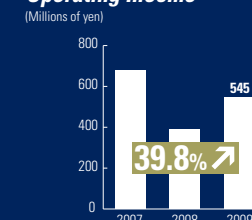
Net Sales



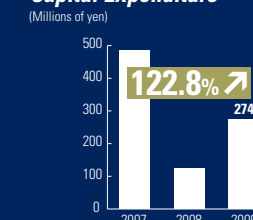
Order Received



Operating Income



Capital Expenditure



Although the Other business segment has taken the industry lead with its mainstay car wash machines—Daifuku having developed and marketed a series of such eco-friendly models as the Sfida, which reduces the amount of water used to less than half—service station and automobile dealer customer demand trended downward.

As a result, Other business net sales fell 12.5% from the previous fiscal year to 11,213 million yen and orders fell 21.2% to 10,666 million yen. Operating income increased 39.8% to 545 million yen due to such factors as bowling alley installation cost reductions and successful measures taken to minimize foreign exchange risk.

Automobile and Automotive Components



Sales Ratio **24.4%**

Including complete automobile assembly lines, Daifuku builds a wide variety of systems for automobile production lines, ranging from conveyor systems for engines, painting and storage lines to running test equipment. Furthermore, various types of material handling equipment including mesh box pallets have been adopted for the automated warehouse systems supplied to automotive parts and component manufacturers. The automotive industry, which has played a leading role in economic growth for several years, has placed its capital investment plans on hold due to the worldwide recession. While net sales held up thanks to the order backlog from the previous fiscal year, difficulties are expected to remain in the current fiscal year.

Electronics



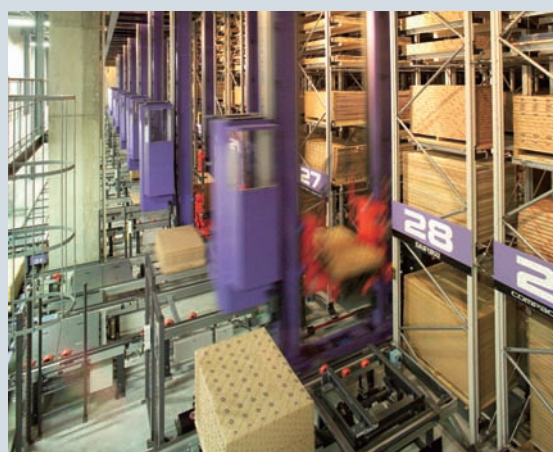
Sales Ratio **36.8%**

Daifuku has a wealth of experience in transport and storage systems for clean rooms, which are indispensable in the manufacture of semiconductors and flat-panel displays (FPDs), as well as in automatic guided vehicle systems in general environments.

As their name suggests, clean rooms must be completely dust-free. As people are the largest source of dust, there is a demand for automated systems that produce no dust whatsoever. Daifuku developed dust-free "non-contact power supply technology" and utilizes this in its automated storage and retrieval systems (AS/RSs) and overhead monorail systems, which have been adopted by leading companies all over the world. Due to the global recession, this industry is also seeing capital investment plans postponed in the current fiscal year. Having been the first to enter a recessionary phase, the semiconductor industry is expected to be the first to return to normal, but the current fiscal year will place demands on performance, particularly in terms of orders received.



Commerce, Retail

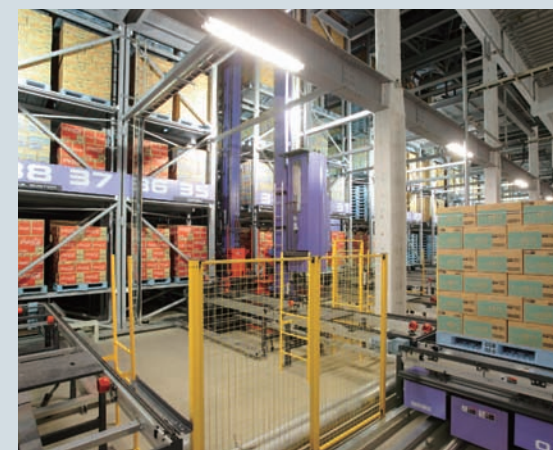


Sales Ratio **14.2%**

To meet the diverse needs of its customers and end users—such as for high-mix, low-volume production, small lot shipments and improved shipment accuracy—Daifuku offers and provides the best combinations of a wide variety of material handling systems for storage, transport, sorting and picking.

Daifuku builds its AS/RSs as well as pick-to-light systems and cart-type picking systems based on a specification of customers' product load size to be stored, such as pallets, cases and pieces. Deliveries are continuing of systems that are linked to terminals to promote paperless operations, inspection systems, or systems that utilize radio frequency identification (RFID) tags, the development of which is ongoing. In addition, a broad range of Daifuku's material handling equipment has been utilized, including collapsible containers and roll box pallets for deliveries by retail store locations.

Chemicals, Pharmaceuticals, Food



Sales Ratio **6.7%**

In the pharmaceuticals and food industries, which are less susceptible to the vagaries of the economic climate, the decline caused by the world recession has been comparatively moderate. This has been particularly noticeable in the pharmaceutical wholesale industry, which has seen a spate of large-scale projects for new distribution centers, and Daifuku, too, has recorded a strong performance in fulfilling orders. The logistics systems structure, which builds distribution centers, is not significantly different from that of the retail industry. However, many of the products handled are of high value and, from the security perspective, its special feature is said to be the many systems dedicated to eliminating shipping errors, for example. In addition, an explosion-proof AS/RS has also been adopted and targeted for chemical and pharmaceutical manufacturers.

Transportation, Warehousing



Sales Ratio **3.7%**

In recent years, the transportation and warehousing industry has done more than just store, manage and convey shippers' products. Having set up logistics facilities, maintained products in stock and implemented sorting and distribution processes in synch with shipping- or destination-priority orders, advances are being made in third-party logistics (3PL) processes, which can undertake order assignments right up to the point of delivery. Offering 3PL has demanded reduced logistics costs, better distribution quality and high levels of service; 3PL has also necessitated additional logistics automation with the introduction of material handling systems that integrate information technology (IT) solutions. Offering high-throughput, high-performance AS/RS, sorters, and picking systems, Daifuku provides advanced logistics systems that bring to fruition the improved shipment accuracy and shortened lead times that shippers demand.

Airports



Sales Ratio **2.8%**

Jervis B. Webb Company's airport baggage handling systems, demand for which is growing in North America following the introduction of an inline screening system as an anti-terrorism measure, are showing promise as Daifuku's fourth business, alongside its ongoing AFA, FA&DA and eFA businesses.

Other



Sales Ratio **11.4%**

In addition, Daifuku delivers material handling systems and equipment to all branches of industry, including the heavy machinery, steel and nonferrous, precision instrument, printing and business machine industries. Daifuku is also actively engaged in businesses in which it can leverage its expertise in material handling systems, such as car wash machines.

Principal Initiatives

- Focus on improving corporate governance with a view to building a robust business structure in keeping with two key aspects of our management philosophy: “contribute to the development of industry” and “healthy, growth-driven management”
- Corporate governance system through directors and corporate auditors
- Ensure management objectivity and appropriateness with audits by outside corporate auditors and by receiving advice from external experts
- Clarify directors’ responsibilities and encourage speedy business execution by delegating tasks to chief operating officers (COOs) for each business operation, the chief risk management officer (CRO), the chief financial officer (CFO) and other executives.
- Promote internal control upgrades, from fiscal 2008 attach Internal Control Report to annual report filed with a Japanese government agency for public disclosure pursuant to the Financial Instruments and Exchange Law

Board of Directors’ Composition, Management Decision-Making and Execution System

Daifuku’s Board of Directors currently consists of 18 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 three occasions during the fiscal year under review). In addition, key management issues are subject to review by Daifuku representative directors and the directors concerned, corporate auditors and external experts at review meetings, which are also held when deemed necessary. Such review meetings were held on two occasions during the fiscal year under review. Based on a division of responsibility system in which the director responsible for each business (COO) undertakes business management, production management executive meetings, global affiliate company meetings and other similar meetings are also held on a regular basis, a system having been adopted that enables 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 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 six 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 the status of the Company’s internal control systems. While carrying out business execution audits in collaboration with an internal audit entity (Internal Audit Department), corporate auditors regularly meet with accounting auditors to confirm the status of 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 insight, fulfilling their audit role from an objective perspective by, for example, exchanging opinions with full-time corporate auditors at Board of Corporate Auditors’ meetings, attending the monthly Board of Directors’ meetings and gathering information.

As Daifuku’s independent accounting auditor, PricewaterhouseCoopers Aarata, a PwC member firm, currently performs accounting and internal control 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 opera-

tions, the Company emphasizes internal control to ensure the reliability of its compliance, risk management, asset conservation and financial reporting, in particular. 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.

The Company’s general internal control system has been defined as shown in the chart at the end of this section.

The post of chief risk management officer (CRO) was delegated to an executive vice president, under whom risk management activities across all Daifuku Group operations were strengthened by establishing a Business Continuity Plan (BCP) Promotion Division. In the meantime, Corporate Affairs Management Operations have been delegated to the chief financial officer (CFO), under whom the Disclosure Committee, Information Security Committee and a Mental & Physical Health Promotion Committee have been established. 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.

With regard to the upgrade and operational status of internal control over financial reporting for the year under review, the president and the CFO assessed and confirmed the effectiveness of the Company’s internal control over financial reporting as of the end of the year under review and—upon receiving the accounting auditors’ audit—attached an Internal Control Report to that

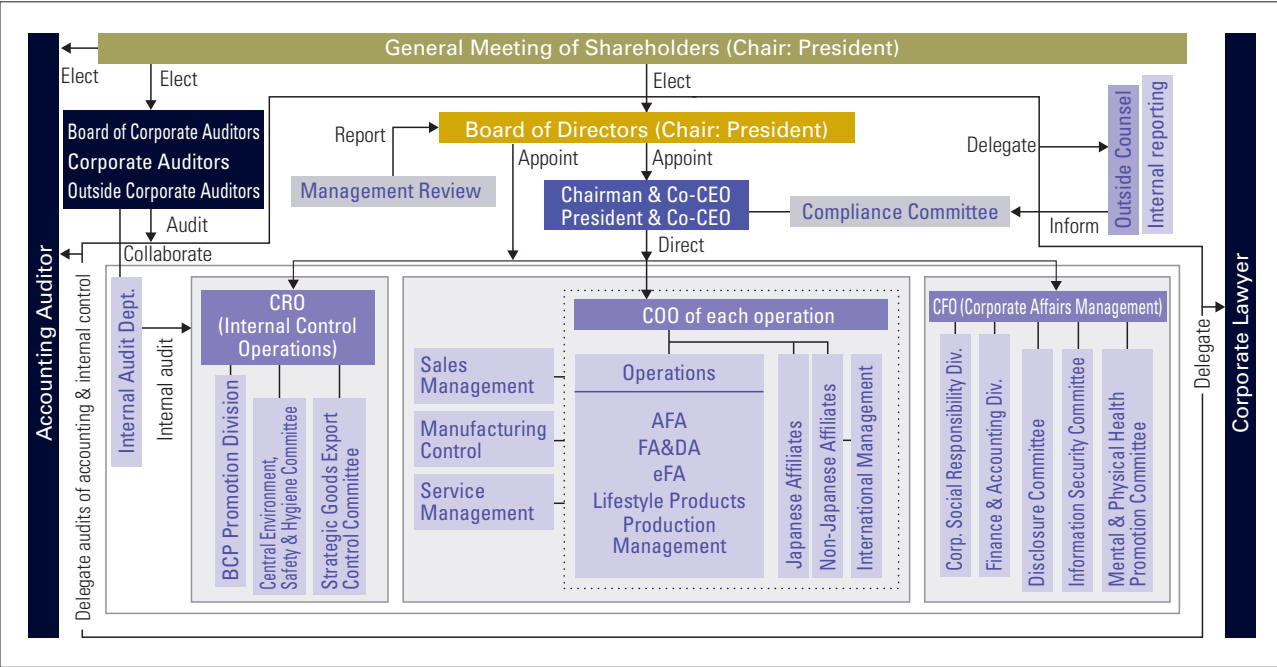
effect to the annual report filed with the Japanese government agency for public disclosure pursuant to the Financial Instruments and Exchange Law.

Daifuku’s Preventative Measures against Large-Scale Acquisitions of Company Shares

As their three-year period of effectiveness was coming to an end, Daifuku recently conducted a review of its preventative measures against large-scale acquisitions of Company shares, which were introduced in 2006. The review was undertaken from a variety of aspects, including the business environment and trends. Having basically carried over the contents of the existing plan with a few revisions, which received approval at the General Meeting of Shareholders held in June 2009, the measures’ limit was once again set at three years.

In the event of an acquisition of 20% or more of the Company’s shares, which could erode Daifuku’s corporate value, Daifuku shall request that the acquirer(s) submit the purpose, contents and other related information concerning the acquisition proposal. Upon submission of this information, a Special Committee made up of outside corporate auditors and outside experts shall judge whether such an acquisition would be detrimental to Daifuku’s corporate value and the common interests of Daifuku’s shareholders and offer its advice to the Board of Directors. Such advice from the Special Committee shall include whether the Company should implement a gratis allocation of stock acquisition rights to all shareholders.

Corporate Governance System Chart (As of April 1, 2009)



Main Initiatives

- Environmental Initiatives through Products
 - (1) Develop a lightweight, power-saving AS/RS stacker crane
 - (2) Deliver bicycle parking systems to South Korea, where environmental considerations are bringing about increased bicycle utilization
 - (3) Line up seven types of car wash machines with water-saving features fitted as standard
- Development of the Working Environment: Daifuku facilities obtained OHSAS 18001 certification for occupational health and safety management at four sites in Japan
- Nurturing Personnel: World Skills Competition held, with global affiliate staff recording first victory in measurement category
- Established dedicated position focusing on Business Continuity Plan (BCP)

Through Corporate Activities

Trusted by stakeholders in all aspects of its corporate activities, Daifuku undertakes a variety of CSR activities, having formulated its Corporate Code of Conduct to contribute widely to society.

Environmental Initiatives: Conservation Activities

The Daifuku Group 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. 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.

With regard to CO₂ 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 2008, the Company was able to reduce CO₂ emissions 19.5% 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, taking meticulous care, while, of course, observing relevant laws and regulations. In fiscal 2008, the Company was able to significantly reduce Companywide water usage by 29.1% compared with fiscal 2006 in terms of net sales per unit.

Environmental Initiatives: Product Development

Daifuku has newly developed a stacker crane for its mainstay unit load automated storage and retrieval systems (AS/RSs). Incorporating a truss into the structure makes the crane 25% lighter than existing products, reduces motor capacity requirements and realizes a 10% saving in power consumption. In addition, Daifuku works to continuously develop products, such as the DUOSYS mini load AS/RS, which achieves high throughput and requires less floor space, and improved lifts for automobile factories that save energy by using regenerative electric power.

The rotary-type Cycle House 21 multilevel bicycle parking system has enjoyed steady delivery performance in Japan as bicycles parked near railway stations have become more of a social issue. This system was introduced successfully in Seoul, South Korea, during the fiscal year under review. As automobile utilization rates are currently high in South Korea, the main focus is on upgrading bicycle paths on a national scale, but primarily in Seoul, and on promoting bicycle use to reduce environmental pollution from exhaust gas emissions. The system is utilized near subway stations.



Cycle House 21

In June 2009, Daifuku launched seven models of gate-type car wash machines. These environmentally friendly models reduce by half the amount of water normally used by conventional car wash machines.

Environmental Initiatives: Promotion of Recycling

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, we succeeded in turning wooden pallet packaging materials that had previously been treated as industrial waste into reinforced corrugated fiberboard.

This initiative, which was devised by the unit that undertakes shipments to automobile factories, won the 2008 award for excellence at the Small Group Initiative Presentation. Conventional wooden pallets are easily broken, cannot be reused and are treated as industrial waste. Consequently, we have succeeded in reducing the environmental impact from, for example, exhaust gas and CO₂ emissions and promoted *KAIZEN* (a Japanese industrial term meaning the principle of ongoing improvement) in the development of modern society.

Established Dedicated Position Focusing on BCP

Daifuku recognizes the extreme importance of risk management associated with the global development of business requested of corporations by society. One of the main pillars of Daifuku's measured response is to focus on its Business Continuity Plan (BCP) so that the maintenance and operation of the Company's equipment, which forms the social infrastructure supporting industry, distribution and trade, are not disrupted. For example, in addition to distributing an operations manual and a booklet to employees to counter new strains of influenza throughout the Group in April 2009, the Company has also started to stockpile food, drinking water and protective facial masks in preparation for new-strain influenza outbreaks and earthquakes.

Development of the Working Environment

Daifuku goes to great lengths to develop working environments that employees find rewarding and in which they can work with vitality. 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 Companywide occupational health and safety management system.

In March 2009, Daifuku obtained OHSAS 18001 certification at the four principal sites in Japan—the Osaka Headquarters, the Tokyo Head Office, the Shiga Works

and Komaki Works. By obtaining this certification in addition to the ISO 9001 and 14001 safety certifications, Daifuku is constructing and operating a system that manages S.Q.C.D.E. (safety, quality, cost, delivery, ecology) in both name and reality.



OHSAS certificate issued by SGS Japan Inc.

Nurturing Personnel

Today, Daifuku's ratio of non-Japan sales to net sales stands at more than 50%. With regard to human resource training, offering customers products, systems and services anywhere in the world requires that a focus be maintained on training systems. As well as implementing training to cater to all levels of employees, including new employees, mid-level employees and managerial members, New Business Leader (NBL) training programs are also organized for those being trained to be the next generation of division leaders. Furthermore, to secure overseas expatriate candidates with international business skills, the Company has established the Global Business Trainee Program under which employees selected by each division receive one year of special training.

In addition, with the aim of improving Companywide technical skills, a World Skills Competition was held in fiscal 2008. With the addition of contestants from Daifuku's U.S. affiliate, Jervis B. Webb, and Daifuku India, the event was the biggest ever. A total of 119 manufacturing personnel pitted their skills against each other, including 42 people from 12 bases in six countries, and for the first time, a staff member from Thailand won the measurement category. The event contributed to an improvement in the technical skills of Daifuku employees from all over the world.

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

Directors and Corporate Auditors

(As of July 1, 2009)

Directors



Katsumi Takeuchi
Chairman and Co-CEO



Masaki Hojo
President and Co-CEO



Yutaka Hirai
Executive Vice President
COO of eFA Operations



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



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



Seiki Kakinuma
Managing Director
COO and General Manager of
LSP Operations



Katsuhiko Kawano
Managing Director
COO and General Manager of
AFA Operations



Takahiro Taniguchi
Managing Director
COO of Production Control
COO of Service Control
General Manager of Production
Management Division
Chief Officer of Shiga Works



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



Shinji Hayasaka
Managing Director
General Manager of FA&DA
Operations



Masayoshi Tanaka
Managing Director
General Manager of eFA
Operations



Shigeyoshi Fujita
Managing Director



Mikio Inohara
Managing Director
General Manager of Finance
and Accounting Division
Chief Officer of Komaki Works

Susumu Moriya
Director
General Manager of FPD
Division in eFA Operations

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

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

Hiroyoshi Takeda
Director
General Manager of Production
Division in AFA Operations

Katsutoshi Fujiki
Director
General Manager of China's
Subsidiary Management

Corporate Auditors

Setsuo Idehara
Hiroshi Fujishima
Harumichi Uchida*
Yukio Rinbara*
Isao Kitamoto*

* Indicates outside auditor