

Annual Report 2014

Year ended March 31, 2014

Value Innovator for a Competitive Edge

DAIFUKU
Always an Edge Ahead



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Profile

Since its founding in 1937, the Daifuku Group has established a long track record in material handling spanning a wide variety of sectors. Having aspired toward globalization from early on, Daifuku today operates in 20 countries and regions and commands a large market share as a leading global material handling manufacturer and systems integrator. Featuring an integrated approach from consulting to engineering, design, manufacturing, sales, installation, and after-sales services, Daifuku's comprehensive business structure is one of its unique strengths.

Under *Value Innovation 2017*, a four-year business plan that commenced in April 2013, Daifuku seeks to become more responsive to the needs of its customers and society, while maintaining its core material handling business. Keywords are "innovation" and "solutions." Daifuku is evolving into a top-class Value Innovator that can offer the best solutions.

The Company Creed



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

Management Philosophy

1. Provide the best solutions to benefit the global markets and the development of society.
2. Focus on healthy, growth-driven global management under a diverse and positive corporate culture.

Value Innovator

We aim to evolve into a top-class Value Innovator that provides the best solutions for customers by capitalizing on our experience and technologies we have accumulated as a comprehensive manufacturer and integrator of material handling systems.

Always an Edge Ahead

The brand message conveys our desire to create and provide best solutions to give customers a competitive edge. It also symbolizes our flexible and outstanding workforce, possessing both expertise and a commitment to taking on new challenges and making changes for the better.

Path of Innovation

Future growth underpinned by 77 years of experiences and technologies

Founding era



1937 Operations begin in Osaka, Japan; manufactures mainly forge rolling machinery for ironworks, and tower cranes

1947 Begins manufacturing stackers

1948 Pilers that eliminate manual stacking

Towards an era of rapid economic growth



1957 First Japanese-manufactured chain conveyor system, the leading edge of automation systems

1959 Chain conveyor system installed at Japan's first passenger automobile factory

1965 Japan's first automatic guided vehicle

1966 Japan's first rack-supported building automated storage and retrieval system (AS/RS)

1969 Japan's first online computer-controlled rack-supported building AS/RS

Era of systemization



1982 Factory automation (FA) systems delivered to a state-of-the-art motor factory

1984 Transport systems for clean rooms, a pioneering step in the development of semiconductor manufacturing

1989 Friction-driven automobile assembly and transport systems in which workers ride the pallet while assembling

Expanding business to DA fields



1992 Automated sorting systems with controlled trays to enter distribution automation (DA) business

1993 World's first electrified monorail system with non-contact power supply

2003 Transport systems for liquid crystal glass substrate wafers

Innovating material handling technologies to create added value



2008 World's first superfast mini load AS/RS with four stacker cranes that move past one another on the same rack but arranged in two tiers

2011 Pick-to-light systems with wireless displays mounted on collection boxes

2012 Cleanroom storage technologies to respond to the semiconductor miniaturization needs
Airport baggage handling system running at the world-leading speed of 600 meters per minute

Evolving from a material handling manufacturer into a Value Innovator



2014 Area management system, the first in the world to obtain ISO 13482 certification for personal care robots

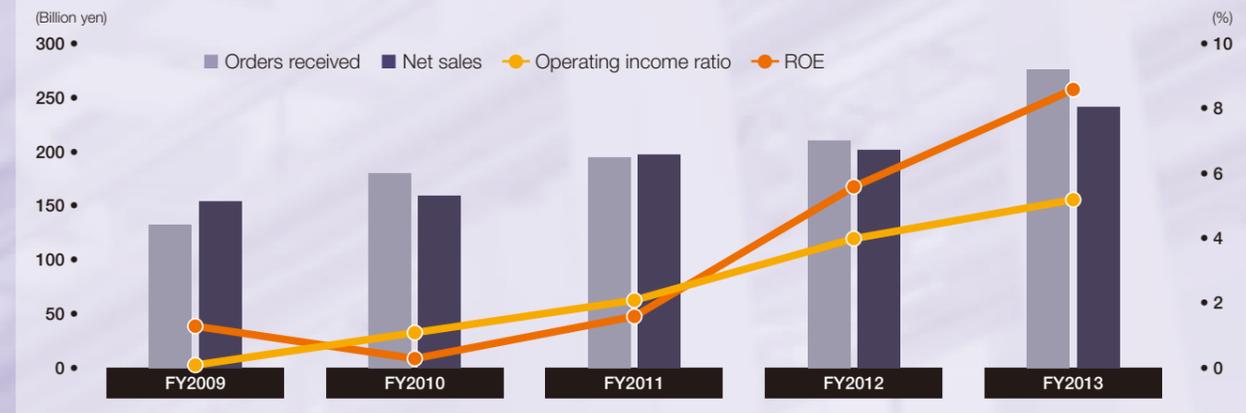
Financial Highlights

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2014 and 2013

| | Million yen | | % | U.S. thousand dollars |
|---|-------------|----------|--------|-----------------------|
| | FY2013 | FY2012 | | Change |
| For the Year | | | | |
| Orders received | ¥276,831 | ¥210,990 | 31.2% | \$2,689,772 |
| Net sales | 241,811 | 202,337 | 19.5 | 2,349,507 |
| Operating income | 12,556 | 8,010 | 56.8 | 122,006 |
| Net income | 7,740 | 4,439 | 74.4 | 75,209 |
| Net income per share (Yen and U.S. dollars) | 69.96 | 40.12 | 74.4 | 0.67 |
| Cash dividends per share (Yen and U.S. dollars) | 18.00 | 15.00 | 20.0 | 0.17 |
| Capital investment | 10,446 | 7,687 | 35.9 | 101,505 |
| R&D expenditures | 7,490 | 6,855 | 9.3 | 72,781 |
| At Year-End | | | | |
| Total assets | ¥249,531 | ¥206,875 | 20.6% | \$2,424,517 |
| Working capital | 87,070 | 45,832 | 90.0 | 846,002 |
| Net assets | 99,690 | 85,685 | 16.3 | 968,619 |
| Number of employees | 7,349 | 6,678 | 10.0 | |
| Ratios | | | | |
| Operating income/net sales | 5.2% | 4.0% | +1.2pt | |
| Net income/net sales | 3.2 | 2.2 | +1.0pt | |
| Return on shareholders' equity (ROE) | 8.6 | 5.6 | +3.0pt | |
| Shareholders' equity/total assets | 38.8 | 40.4 | -1.6pt | |

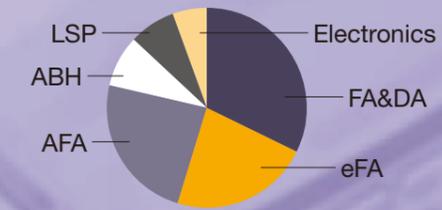
Notes: 1. Details are described in "Financial Section" from page 21.
2. The U.S. dollar amounts in this annual report are translated from Japanese yen for convenience only, at the rate of ¥102.92=U.S.\$1.00, on the Tokyo Foreign Exchange Market on March 31, 2014.

Consolidated Financial Data



Our Business

Consolidated Sales by Business (FY2013)



Manufacturing and Distribution Systems
FA&DA
Factory & Distribution Automation



Provides systems to wide-ranging sectors, including distributors and manufacturers. This business operates mainly in Japan but is focusing on needs for logistics systems along with the economic growth in Asia. Sales were also enhanced in North America through M&A.

Cleanroom Production Line Systems
eFA
e-Factory Automation



Provides systems to the semiconductor and flat-panel display factories. More than 90% of sales are recorded outside of Japan, including Asia and North America. In semiconductors, firm sales of products, uniquely developed to accommodate the increase in semiconductor miniaturization needs, contribute to earnings.

Automobile Production Line Systems
AFA
Automotive Factory Automation



Provides systems for automobile production processes worldwide, mainly for Japanese, Detroit's Three, Chinese and South Korean automakers. In particular, sales of the service business, including upgrades of the existing factories, are strong. The system conveys car bodies between each assembly process at automobile factories.

Airport Baggage Handling Systems
ABH



Provides systems for airports, from check-in counters for outbound flights to baggage claim areas for inbound flights. This business responds to demand for building new airports in emerging countries, as well as upgrades, services, and operations for airport facilities in the West.

Lifestyle Products
LSP



Provides mainly car wash machines to gas stations and automobile dealers. With production in Japan, South Korea, and China, this business boasts top shares in the Japan and South Korea markets. The business enhances eco-friendly functions, including saving water and using plant-based liquid detergents.

Electronics
Contec



Provides high-end industrial personal computers, controllers used in medical devices, computers built in digital signage, and measuring/control systems for mega solar facilities through Daifuku's subsidiary Contec Co., Ltd. Contec is strengthening its business globally, mainly through M&A in North America.

Global Presence

Daifuku currently has affiliate companies and offices operating in more than 20 countries and regions.



Daifuku's Global Production Sites

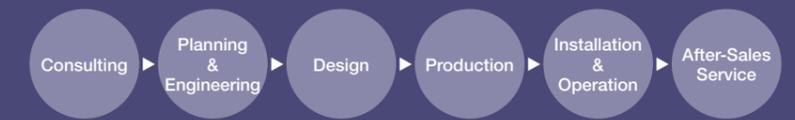


Daifuku's Total Solution

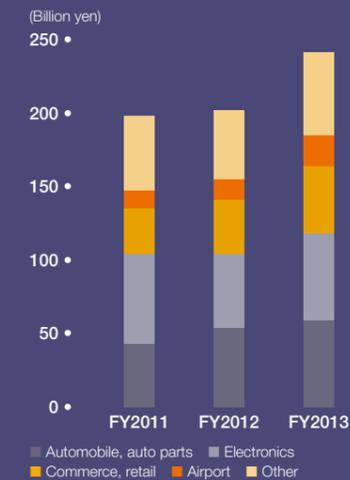
Daifuku provides solutions ranging from consulting to after-sales service.

As a leading material handling manufacturer, Daifuku's mission is to develop unique cutting-edge systems for each customer. Our recent achievements include the creation of a distribution center compatible with supply chain management and transport systems in clean rooms for manufacturing semiconductors and flat panel displays.

Daifuku assists customers from planning to proposal, design, manufacturing, installation, after-sales service, and facility retrofits.



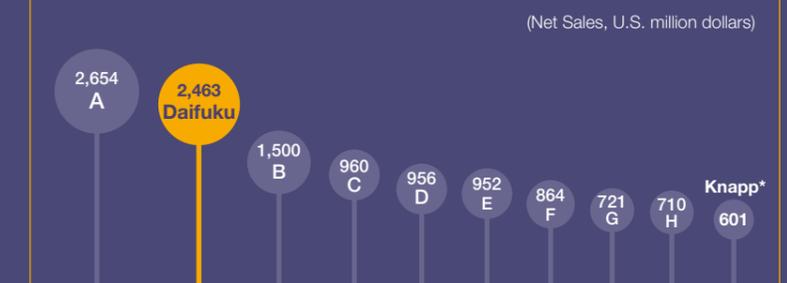
Sales by Industry



Sales in Services



Top 10 Worldwide Materials Handling System Suppliers, 2013



* Equity-method affiliate since July 2012
 Source: Modern Material Handling - April 2014



Masaki Hojo
President and CEO

A handwritten signature in white ink, appearing to read "M. Hojo", is written on the back of a blue conference chair.

We received the highest level of orders in our history during the first year of our four-year business plan. Our aim is to continue evolving into a Value Innovator.

Fiscal 2013, the year ended March 31, 2014, was a year of major accomplishments. We expanded both new orders and sales and raised profitability through internal structural improvements. Just as important, we launched robust initiatives to pave the way for future growth. As a result, we exceeded our targets and reported major, double-digit gains in key consolidated performance indicators. Orders rose 31.2% from the previous year, to 276.8 billion yen; net sales

Well on Our Way —Value Innovation 2017

increased 19.5%, to 241.8 billion yen; operating income was up a solid 56.8%, to 12.5 billion yen; and net income climbed 74.4%, to 7.7 billion yen. Most noteworthy was that orders reached a record level in Daifuku's history, and net sales rose close to the previous peak of 242.1 billion yen recorded in fiscal 2008.

During fiscal 2013, we also made progress toward our objective of evolving from a manufacturer of material handling systems into a Value Innovator. We launched our four-year business plan *Value Innovation 2017* that will cover the period through fiscal 2016, the year ending March 31, 2017, with targets for the final year of 280 billion yen in net sales and an operating income to sales ratio of 7%. Our performance in fiscal 2013 put us well on the way to reaching these targets.

There were a number of factors that made this performance possible. Foremost among these was economic recovery in North America and Japan as well as expansion in the middle-income classes in the rest of Asia. These factors resulted in excellent performance in our three core businesses. Other important factors contributing to profitability were our efforts in cost-cutting at factories as well as exacting and comprehensive project management at installation sites. Turning to new orders, the ratio of orders

from outside Japan in systems for manufacturers and distributors, which had been about 20%, moved up about 10 points to above 30%. This was mainly due to successful acquisitions in North America and the fact that Daifuku systems met local needs in Asia. By industrial sector, orders from the automotive, electronics, commerce, and retailing sectors increased. In particular, the e-commerce sector has also been strong, and we believe that our product development efforts will bring even better performance in this sector in the years ahead.

Daifuku, as a Value Innovator, offers its customers the best solutions to meet their needs, capitalizing on its expertise and technologies it has accumulated for years as a comprehensive manufacturer and integrator of material handling systems. Over the past year, we held 75 meetings at Daifuku Group companies around the world to discuss the four-year business plan as well as what becoming a Value Innovator—which is the centerpiece of our brand strategy—really means.

Major Policies and Results in Fiscal 2013

The key to driving our growth to meet the targets of the four-year business plan *Value Innovation 2017* is to strengthen our manufacturing and distribution systems business globally. As a strategic step toward raising the profile of our activities in the North American market, where our presence had been relatively low, we acquired U.S. company Wynright Corporation in October 2013. With Wynright's sales channels and product lineup, which complement our own, we aim to increase our sales volume and presence in North America.

As another strategic step aimed at future growth in East Asia, we expanded our factories in China and South Korea. In fiscal 2013 in China, orders mainly from the food, beverage, paper, and distribution sectors significantly increased over the previous fiscal year. Meanwhile, as their role as our Group's global components supplier increased, our factories in China produce and provide components for automobile production line systems not only in China but also to other countries. Also, they manufacture and supply members for airport baggage handling systems to Europe. Another important development in China was the start-up in March 2013 of full-scale operations at our plant in Suzhou, which provides systems to manufacturers of flat-panel

Message from the CEO



displays (FPDs) and semiconductors in collaboration with our subsidiaries in South Korea and Taiwan. Daifuku has, therefore, become the only company in the world's material handling systems industry to create a strong production framework encompassing China, South Korea, Taiwan, and Japan. Further, to meet the needs of individual markets around the world, we are actively hiring and drawing on the capabilities of affiliate staff who share the same cultural background as our customers. Similarly, we are proceeding with human resource development initiatives and working toward delegating more management responsibilities to our subsidiaries with the aim for expanding businesses.

Responding to New Management Issues

Aiming for a 7% ratio of operating income based on Daifuku's unique technologies

Our four-year business plan *Value Innovation 2017* sets four key management themes: business domains, profitability, brand power, and operational efficiency. Specifically, during

Management Targets



the first two years under the business plan, we will work to improve profitability. During the final two years, the plan calls for contributions to performance from new products and new technologies. We should note, however, that in fiscal 2013, the volume of orders received was already close to the goal for the final year of the plan. Not only that, but the ratio of operating income stood at 5.2%, which represented a major step toward our final goal of 7%. To make sure we hit the plan's targets, we are implementing the following measures.

Introduce a regional supervisory framework

As our activities become more global in scope, from fiscal 2014, the year ending March 31, 2015, three of Daifuku's representative directors, including myself, will each take overall responsibility for one of three principal regions: North America, Europe, and Asia. We expect this new management arrangement to give us a cross-regional perspective that will increase the overall strength of the Daifuku Group and enable us to market, develop, and manufacture products and systems that best meet the requirements of regional customers.

The North American market is particularly important because of its contribution to current performance and its role in driving growth under the business plan. I will be responsible for North America and will take the initiative in seeking benefits from the collaboration with Wynright and other companies we have acquired in North America as quickly as possible and in raising profitability.

Identify new products and technologies based on cutting-edge technologies

To take the next major leap forward in growth, it is more vital than ever to go beyond applications and extensions of existing technologies and proceed with the development and application of cutting-edge technologies in various fields where future growth is expected. Objectives under the four-year business plan *Value Innovation 2017* include creating unique, "one of a kind" products and systems through developing new technologies and M&A and evolving toward highly profitable business operations at not only the plant, but also device and component levels.

In 1993, we developed an electrified monorail system that applied the world's first non-contact power supply technology. Since then, Daifuku's wireless power supply systems have been used by many sectors, including automobiles, semiconductors and FPDs, pharmaceuticals, food products, and food containers. We also offer many related solutions, including wireless battery charging systems and cable-less operations. We are also developing device-type products that incorporate these technologies.

As part of a project under Japan's Ministry of Economy, Trade and Industry and the New Energy and Industrial Technology Development Organization, we developed the Area Management System, and, in February 2014, we became the first company in the world to obtain ISO 13482 certification for personal care robots. Based on ultra-wideband wireless technology, the system enables safer operation by determining the position of vehicles, forklifts, and workers in real time and thereby controlling the speed of vehicles. With this "one of a kind" technology that can determine the position of objects, we are striving to develop products for new markets, such as for preventing the loss of pallets for wholesale markets.

Among other accomplishments, Daifuku developed an automated system for freezer lockers that can operate at -35°C (-31°F) and applied it to develop the world's first warehouse for fast freezing fish products. In this system, each container has its own RFID tag, and the system won a special award for the 2013 Automatic ID System Grand Prix.

In the area of logistics, along with the increase in the delivery of individual items to the recipients' homes, technology for minimizing human sorting error has become increasingly necessary. This is a field we have focused on in recent years, and we are working to increase our market share by developing and applying "one of a kind" value-added technologies.

By taking this multifaceted approach, we are working to significantly accelerate technological innovation that will lead to Daifuku's growth in the years ahead.

Maintain high standards for safety

Daifuku numbers many of the world's leading corporations among its valued customers. We have confronted challenges head-on, such as quality, on-time delivery and cost from these world-leading corporations, which made us a stronger company. In this respect, safety is no exception. We at Daifuku have been taught well by Japanese automakers whose culture demands starting up operations on-time without accident or incident. Putting safety first at all times protects human life and also prevents delays in delivery and economic losses. We believe this is what has given the Daifuku brand the trust it enjoys today. It is essential for us to transmit this culture of safety that we have nurtured so that others will better understand the importance of safety. We truly believe there should be no limits imposed on the pursuit of safety.

Capital Policy and Return to Shareholders

We issued zero-coupon convertible bonds maturing in 2017, with rights to purchase new shares in the amount of 15.0 billion yen, to strengthen our financial position and increase our shareholders' equity to achieve the target in our four-year business plan. The funds raised were used for the acquisition of Wynright, capital investment in Japan, and the repayment of borrowings.

To provide returns to our shareholders, we aim to maximize Daifuku's corporate value by continuing to expand earnings as we maintain sustainable growth in per share cash dividends, aiming for a dividend payout ratio of 30% of consolidated net income in the medium-to-long term. For the year ended March 31, 2014, we increased dividends for the year by 3 yen per share, to 18 yen per share. This represents a dividend payout ratio of 25.7%. For the fiscal year ending March 31, 2015, we are planning to increase dividends by 2 yen per share, to bring the annual dividend to 20 yen per share.

We wish to thank you, our shareholders, for your investment in Daifuku and look forward to your continuing support as we endeavor to further increase our return to shareholders.

Masaki Hojo
President and CEO
Daifuku Co., Ltd.

Growth Regions: The Americas and Asia

The Americas

Creating early benefits with the companies that joined the Daifuku Group and increasing profitability of businesses in a growing North American market

Market Analysis and Trends by Product Area

Daifuku established Daifuku U.S.A. Inc. (currently, Daifuku America Corporation) in 1983 as Japanese automakers, its major customers, were entering the U.S. market and has subsequently further developed its business activities through M&A. At present, wholly owned subsidiary Daifuku Webb Holding Company oversees operations in North America. To accommodate the needs of customers, the majority of which are locally based companies, Daifuku is enhancing its human resource training and personnel management systems to prepare for management led by local staff. Trends in principal markets and Daifuku's accomplishments are as follows.

Manufacturers and distributors: In the U.S. market, the time required to recover capital investments is relatively short, and investments with a short time horizon are predominant. Accordingly, it is necessary to show customers the specific advantages in terms of direct impacts in the short term on their businesses including automation, energy conservation, labor saving, and other areas.



Wynright's warehouse robotic technology

Talking points must focus around how investments will differentiate customers from their competitors, how operations can be accelerated, how precision will be increased, and other benefits. In the United States, which has a large landmass and a growing population, Daifuku expects expansion in the

logistics markets, and the outlook is for growth in demand for material handling systems, such as conveyor, sorter, and picking systems.

Semiconductors: Orders began to recover in the latter half of fiscal 2013. In this sector, where customers tend to remain loyal to specific vendors, Daifuku's proprietary nitrogen purge stockers benefited earnings.

Automobiles: In addition to the increased demand for facility upgrades, including those for major projects, orders are favorable among Detroit's Three automakers. In addition, demand for system upgrades from Japanese automakers in the region remains firm.

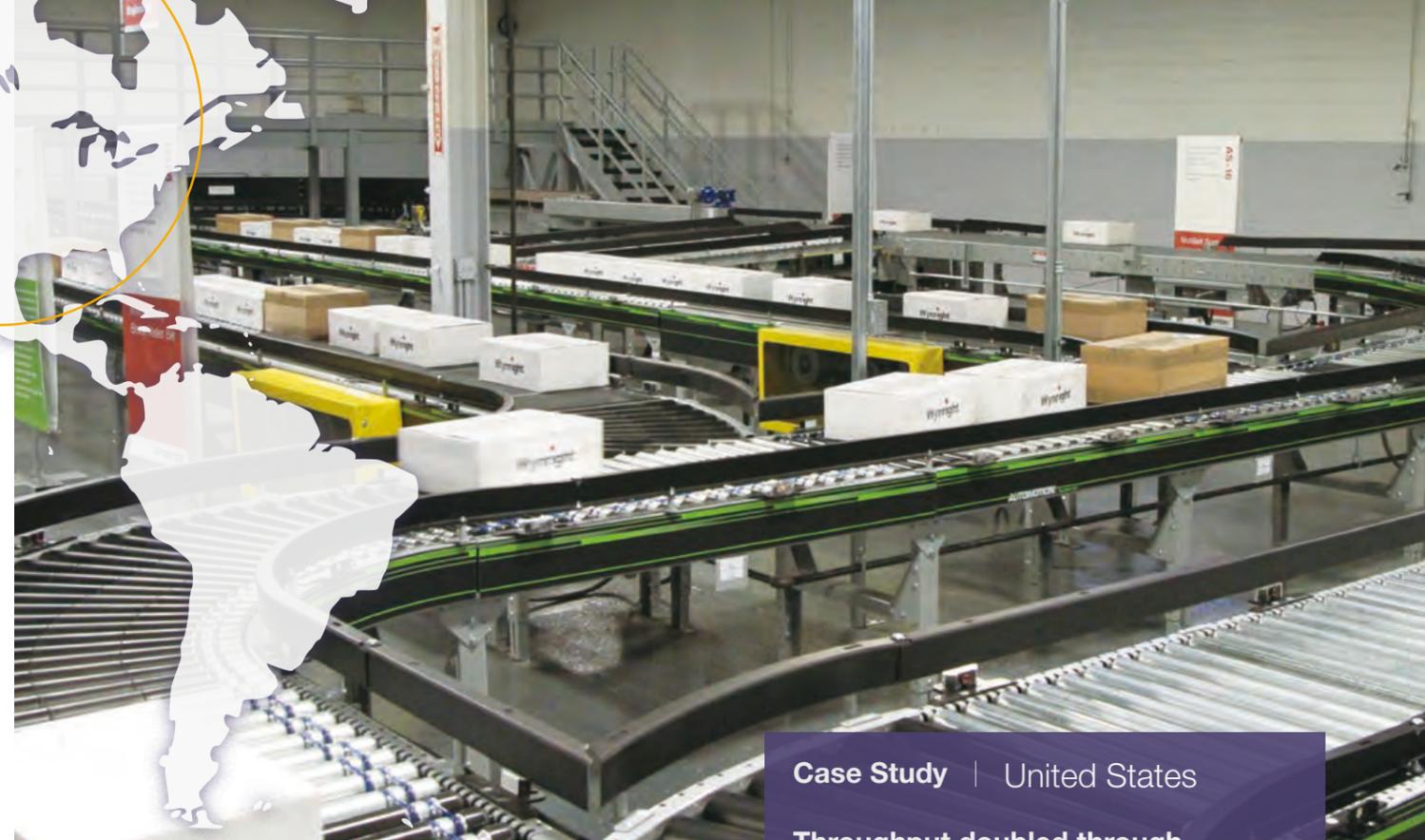
Airports: Demand in the North American airport market in fiscal 2013 shrank 40% from the previous year, and, because of the shortage of orders, strict business operations are necessary. However, demand related to tightening security measures is expected going forward, and profitability will increase with the implementation of cost-cutting measures.



Daifuku Webb boasts the largest-scale market share in North America in terms of operation and maintenance for airport facilities.

Growth Strategies

Beginning with the current fiscal year, Daifuku senior management will exercise more-direct control of the North American market. Daifuku will make effective use of existing sales channels of Wynright Corporation, which joined the

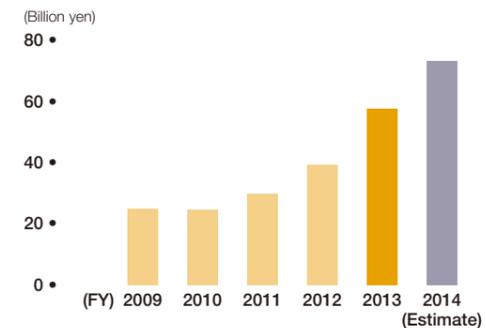


Wynright Tech Center

Group in October 2013. Also, Daifuku, with strengths in the automated warehouse field, will collaborate with Wynright, which has strengths in roller conveyors, to market their complementary product lineups. Marketing activities will focus on expanding sales, mainly to the distribution sector. Wynright, which forecasts more than 20.0 billion yen in sales in fiscal 2014, has two factories and 18 sales and service centers, where more than 200 engineers are engaged in projects, in the United States. Wynright operations encompass from design to manufacturing, installation, sales, and after-sales service, and it has delivered systems to many well-known companies. Wynright has developed robotic technology for truck loading/unloading, where automation has largely remained untouched, in distribution centers.

The president of Daifuku Webb serves as the general manager of Daifuku's airport business and oversees operations across the globe, and activities to strengthen management in Europe and Asia are in progress.

Sales in North America



Case Study | United States

Throughput doubled through consolidation of distribution centers: Casual footwear company SKECHERS

Wynright undertook the design as a systems integrator for the material handling systems of a distribution center for SKECHERS USA, Inc., headquartered in California, which included conveyors, sorters, and pallet racks. In addition, Daifuku Webb delivered mini load automated storage and retrieval systems (56 stacker cranes, 363,000 storage locations). SKECHERS USA consolidated five distribution centers into one in the United States, resulting in a double throughput with half the labor. The system was designed to be expandable to handle a higher volume of products.



SKECHERS distribution center

Asia

Accommodating the needs for structuring safe and reliable logistics networks and for automated systems to accommodate rising wage costs, brought by a growing middle-income class in Asia

Market Analysis and Trends by Product Area

China

Daifuku's sales in the Chinese market are expanding at a high and steady pace. China's 12th Five-Year Plan (covering the period from 2011 to 2015) contains measures for promoting the sophistication of the industrial structure, including investments in warehousing and delivery centers. The plan also calls for the development of supply chain

Case Study | China

Dongfeng Honda Automobile's second plant: Honda's joint venture company in China adopting Daifuku technology

Dongfeng Honda Automobile Co., Ltd., Honda Motor Co., Ltd.'s automobile production and sales joint venture in China, built a second plant to increase its production capacity in China. The new factory adopts Daifuku's latest systems throughout its facility, substantially increasing productivity. The factory represents a successful realization of Honda's aim of creating a highly efficient facility that is people-friendly. The automobile assembly lines incorporate Daifuku's Flexible Assembly Leveling System (FALS) in all processes. FALS is a full pallet conveyor system that allows for adjustments of the car platform (chassis) to desired heights so workers can ergonomically perform their tasks, thus greatly reducing physical stress and fatigue.



Dongfeng Honda Automobile Co., Ltd.

management systems for the manufacturing sector and urban delivery systems, including systems for chilled food products. These investments are expected to continue into the future.

Manufacturers and distributors: Demand for systems for the food, pharmaceutical, beverage, and paper factories and supermarket logistics is expanding rapidly. Daifuku has received orders for high-throughput sorting systems from four retailers that rank within the top 10 Chinese retailing companies.

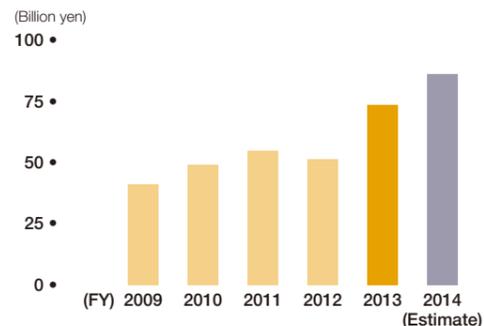
Semiconductors and FPDs: Daifuku forecasts major gains in both orders and sales of systems for flat-panel display (FPD) factories in fiscal 2014. In 2013, Daifuku (Suzhou) Cleanroom Automation Co., Ltd. went into operation, strengthening local production and procurement systems.

Automobiles: In fiscal 2013, Daifuku (China) Co., Ltd. received orders from Chinese as well as Western automakers, with signs of buoyed investment by Japanese automakers. In addition, the SmartCart, an automatic guided cart developed by Daifuku Webb, is now being manufactured in China and was delivered to non-Chinese automakers in the nation.

South Korea

In systems for semiconductor and FPD factories, Daifuku's subsidiary Clean Factomation, Inc. is experiencing strong growth and, with its originally developed products, sales to South Korean companies are robust.

Sales in Asia



Daifuku Logan's baggage handling systems are used at Kunming Airport.



Cleanroom transport systems for FPD factories



Automobile factory in Thailand

With respect to systems for automobile factories, Daifuku Korea Co., Ltd. is undertaking projects for South Korean automakers both in their home country and their plants in China and other countries. Sales in this business in fiscal 2013 rose to a new record level.

In systems for manufacturers and distributors in South Korea, Daifuku recorded orders received mainly from the e-commerce related sector.

Taiwan

In Taiwan's semiconductor and FPD market, Daifuku has secured a solid customer base among leading companies and continues to further build customer relationships.

In systems for manufacturers and distributors in Taiwan, Daifuku has received orders from the paper and distribution sectors as well as touch-panel manufacturers.

ASEAN

ASEAN is the region where the most growth is expected in systems for manufacturers and distributors, especially in the food and retailing sectors. Daifuku strives to strengthen its

position in the ASEAN region through implementing a number of strategies, such as assigning specialists to these markets, developing additional sales channels, and increasing productivity in Thailand.

Daifuku Mechatronics (Singapore) Pte. Ltd. has trained top-quality software engineers, and their accomplishments include the development of original RFID systems. Daifuku Singapore has also been successful in developing business outside the material handling field, including the hotels and restaurants sector. In Malaysia, amid growing concerns about health, demand in systems for handling mushrooms, drinking water, and other products is expanding.

In systems for automobile factories, investments by Japanese automakers mainly in Thailand and Indonesia are robust. Especially in Thailand, Daifuku's quick response to the flooding in 2011 has been highly appraised by customers, and has led to the receipt of additional orders.

Growth Strategies

Competition with other Japanese and European systems manufacturers is growing more intense. For this reason, Daifuku is strengthening its local presence in Asian markets by assigning specialists to these areas to expand its presence in the manufacturing and distribution sectors. In addition, to deal effectively with the growth of locally based competitors, Daifuku is moving forward with production and procurement in the local markets and introducing high-value-added products to differentiate from competitors' products.



Daifuku Singapore exhibits at a local trade fair

Strategic Regions: Europe and Japan



Case Study | Sweden

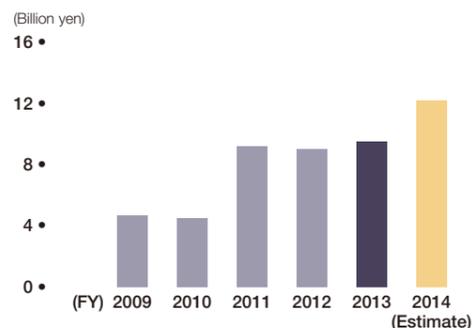
Attaining higher efficiency with Daifuku's automated systems: Distribution center for ICA, Scandinavia's largest supermarket chain

ICA Sverige AB, a supermarket headquartered in Stockholm, Sweden, which provides quality goods at reasonable prices, has more than 2,100 stores in northern Europe. ICA consolidated nine warehouses into a single distribution center. The new facility, which has an area of 70,000 square meters, now operates as a comprehensive distribution center, handling more than 5,000 different items. Daifuku's material handling systems in the center include automated storage and retrieval systems, conveyors, heavy-duty racks, and sorting systems. With these systems, the distribution center was significantly automated, allowing it to handle a wide variety of goods quickly and at low cost.



ICA distribution center

Sales in Europe



Europe

Pursuing a localization strategy in the midst of severe competition and strengthening systems to respond to regional characteristics

Market Analysis and Trends by Product Area

Competition in this region is challenging, as many leading material handling equipment manufacturers are active in Europe. Amid this operating environment, Daifuku is collaborating with leading dealers in the region and striving to raise its profile in the European market. In comparison with the United States, customers in Europe place greater emphasis on worker-friendly and environmental issues. In Japan, the trend is to have systems that include both people and machines, whereas the trend in Europe emphasizes creating worker-free automation systems. Daifuku works to meet the diversified needs of various regions to grow into a global leading company.

Growth Strategies

In northern Europe, Daifuku has been highly appraised for its installations and after-sales service to leading supermarkets in Sweden and Denmark. As a result, Daifuku has increasingly been selected as the systems integrator for expansions of distribution centers. In Russia, the Company installed systems at a major distribution center for footwear. Daifuku will continue to address the challenge of generating a stable flow of similarly large projects.

Meanwhile, in southern Europe, the relationship of more than 25 years with ULMA Handling Systems in Spain has resulted in a stable record of success. ULMA provides sales and services for Daifuku's stacker cranes, principally in Spain, Portugal, France, and Brazil.

In central Europe, Daifuku entered a business partnership with Austria-based Knapp AG in 2010 for logistics systems. Knapp has strengths in the handling of small objects, including pharmaceuticals and cosmetics. In 2012, Knapp became an equity-method affiliate of Daifuku.

Daifuku is also working to improve its performance in the airport sector, where challenging business conditions have persisted. Currently, Daifuku Logan Ltd. aims to win orders in the United Kingdom by taking advantage of the products developed in Japan.

Daifuku is placing emphasis on the training and development of affiliate staff to push for the localization of management in Europe as a whole.

Japan

Further bolstering R&D, the foundation for future growth, and demonstrating Daifuku's strengths even in the mature market of Japan

Positioning of the Japanese Market

Daifuku's R&D is mainly centered in Japan, the location of Daifuku's headquarters and a key location for its global business operations. Over the nearly 80 years since its establishment, the reason Daifuku remains a growing company and a source of pride is its unrelenting drive to accommodate the needs of diversified industries and business models with products that fit with the times. Daifuku is imparting the material handling expertise developed in Japan to its subsidiaries outside Japan, and, after identifying the needs of local markets, is working jointly with the subsidiaries to create products that meet these needs.

In addition, factories in Japan provide core components of Daifuku products around the world. With a sales volume that ranks in the top two in the world, Japan is also significantly contributing to the performance of the Group through its major cost-cutting efforts by reviewing and making



Using RFID technology, a cosmetics company increased throughput and shipping accuracy for online mail orders.

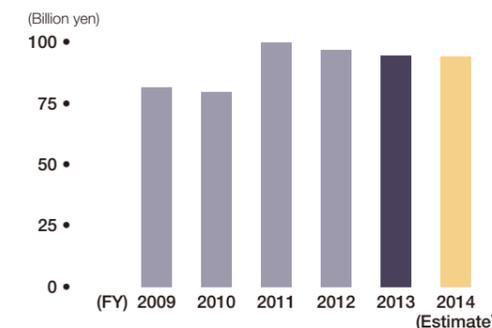
improvements in its procurement activities and expanding in-house production.

Growth Strategies

The Japanese market is expected to show continued stability, with ongoing trends including industrial realignments in customer industries; reforms in distribution and logistics, including the further development of e-commerce; and a rising need for automation due to a lack in workforce from low birthrates and demographic aging of the population. Aftermarket services for the large number of past installations are a primary source of earnings for Daifuku, and demand for the retrofit and replacement of existing equipment is increasing.

In addition, Daifuku is taking initiatives to develop new value-added and highly profitable products that will incorporate innovative, new technologies. Meanwhile, since demand for e-commerce related systems is increasing, Daifuku will press forward with the development of new products suited to this sector.

Sales in Japan



Corporate Social Responsibility (CSR)

Daifuku undertakes a variety of CSR to be a company that supports society and the future.

Daifuku Eco-Products Certification Program

Daifuku is aware of the importance of environmental considerations in its business management and endeavors to enhance its environmental efforts in all aspects of corporate activities. As a measure of its CSR activities, the Company has implemented the Daifuku Eco-Products Certification Program, which rates and certifies products based on in-house standards, and now has 15 certified products. The program, which started in November 2012, rates every product manufactured within the Daifuku Group in the following terms: energy saving, recyclable, lightweight, long life, resource saving, water saving, low noise, clean water preservation, and harmful substances reduced.



Drive-through car wash machine—Twinfect Force

Daifuku Joins the United Nations Global Compact

In April 2014, Daifuku signed a commitment to join the United Nations Global Compact (UNGC), which sets forth Ten Principles concerning human rights, labor, environment, and anti-corruption. The commitment was accepted by the United Nations, and Daifuku became an official member of the UNGC.

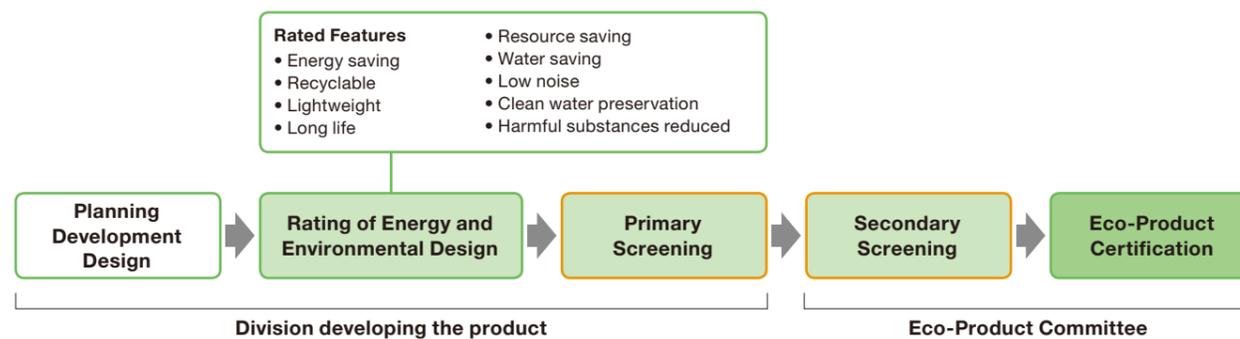
The commitment is a part of Daifuku's CSR efforts to enhance disclosure of information concerning its environmental, social, and governance activities and as a declaration in support of the UNGC initiatives.



President Masaki Hojo presenting the commitment letter to Toshio Arima, chairman of the Global Compact Japan Network

For more details on Daifuku's CSR activities, please refer to Daifuku's CSR Report: www.daifuku.com/csr/report.html

Daifuku Eco-Products Certification Process



Corporate Governance

Principal Initiatives

Daifuku is fulfilling its corporate social responsibility based on the key tenets of its management philosophy: "provide the best solutions to benefit the global markets and the development of society" and "focus on healthy, growth-driven global management under a diverse and positive corporate culture." The Company ceaselessly strives to improve its corporate governance, the platform supporting the realization of this mission.

Management Decision Making, Supervision, and Business Execution Framework

Board of Directors

Since introducing the corporate officer system* in fiscal 2011, Daifuku has reduced its number of directors; currently, the Board of Directors consists of 11 directors, including two outside directors. The director's term of office is one year, and each Board member's mandate is reviewed yearly at the General Meeting of Shareholders. The Board of Directors pursues decision making on important management matters, including management policies. The Board of Directors'

regular meetings are held once a month, while extraordinary meetings are held as needed (six times in fiscal 2013).

Daifuku also holds the Management Advisory Meeting* (six times in fiscal 2013), which comprises representative directors with corporate auditors in attendance, to make recommendations to the Board of Directors.

The corporate officer system is in place to enhance the mobility and speed of management by dividing decision making and supervision functions from business execution functions. The Company currently maintains 22 corporate officers, including one American officer and others serving concurrently as directors.

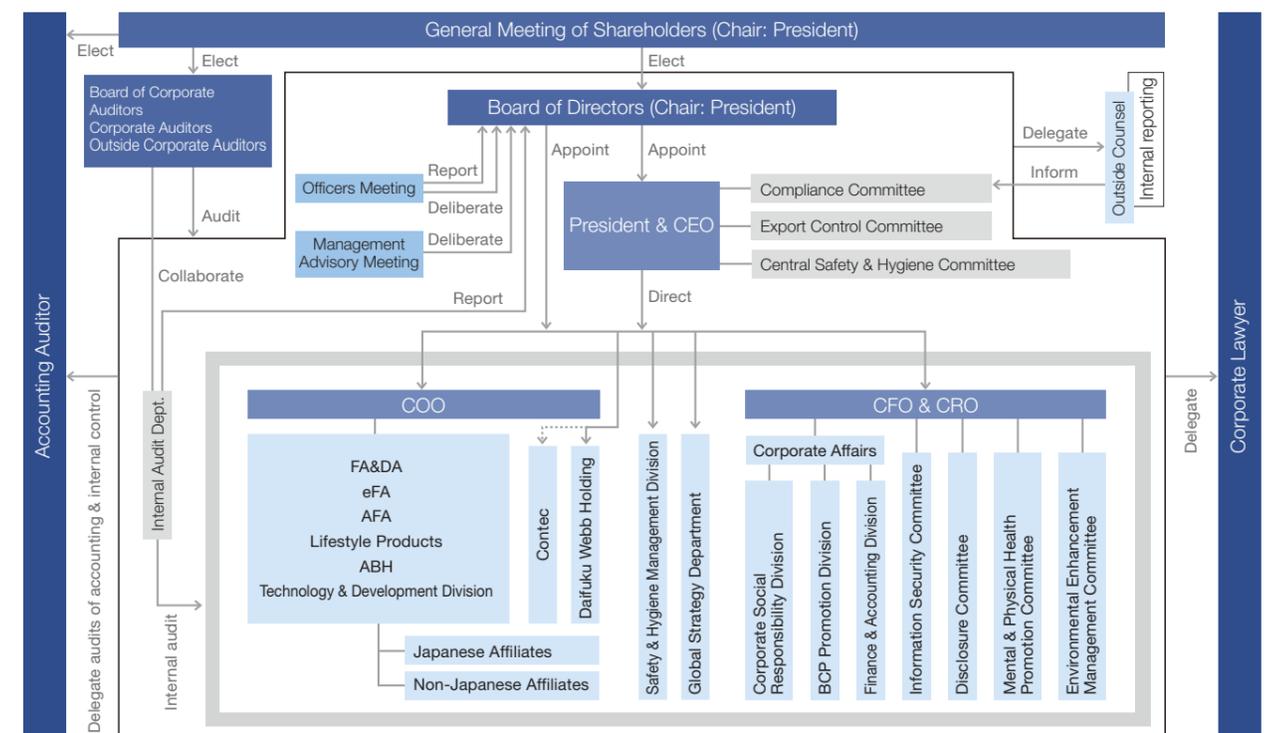
* Corporate officer systems and Management Advisory Meetings that are established within companies with boards of corporate auditors are voluntary corporate bodies not specified in Japan's Companies Act.

Outside directors

Noboru Kashiwagi assumed the position of outside director at the June 2012 General Meeting of Shareholders, and Yoshiaki Ozawa, professor at St. Andrew's University in Osaka, was inducted as an outside director at the June 2014 General Meeting of Shareholders.

While cooperating with the internal directors, who are highly familiar with Daifuku's businesses, the two outside

Corporate Governance Structure



Corporate Governance

directors help vitalize the Board and enhance management objectivity and transparency. Based on its regulations, the Tokyo Stock Exchange has been notified that the outside director Kashiwagi is an independent officer.

Activity of outside directors

| Name | Board meeting attendance | Activity |
|------------------|--|--|
| Noboru Kashiwagi | Regular: 11/12 times Special: 5/6 times | Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate legal affairs and international trade laws. |
| Yoshiaki Ozawa | (Elected in June 2014) | Will provide expert advice and recommendations to the Board of Directors based on his extensive knowledge in finance and accounting and experience working outside of Japan. |

Board of Corporate Auditors

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 fiscal 2013.

Corporate auditors conduct audit and supervisory activities in accordance with audit plans formulated at the beginning of the fiscal year. In the course of their duties, corporate auditors attend key meetings, including Board of Directors' meetings and officers' meetings, receive reports from directors and other officers, examine financial reporting documents, and visit to monitor financial activities at various operating divisions including factories, sales offices, and Group companies. To promote coordination and effectiveness in auditing, corporate auditors exchange information and conduct business audits in coordination with the Internal Audit Department, which is independent of the regular business operations, and, together with accounting auditors, make inspection visits, exchange opinions about audit plans and results, and attend evaluation tests of internal control systems.

Outside corporate auditors

The three outside corporate auditors—Harumichi Uchida, Isao Kitamoto, and Hiroyuki Torii—bring diverse perspectives to the Board of Corporate Auditors by exchanging opinions with the full-time corporate auditors, attending Board of Directors' meetings, and gathering information. Along with the previously mentioned outside director, the Tokyo Stock Exchange has been notified that two of the outside corporate auditors, Isao Kitamoto and Hiroyuki Torii, are independent officers.

As Daifuku's contracted independent accounting auditor, PricewaterhouseCoopers Aarata, a PwC member firm, performs accounting and internal control audits.

Activity of outside corporate auditors

| Name | Board meeting attendance | Activity |
|------------------|--|--|
| Harumichi Uchida | Board of Directors Regular: 12/12 times Special: 5/6 times Board of Corporate Auditors: 6/6 times | Provides expert advice and recommendations to the Boards, as a prominent lawyer. |
| Isao Kitamoto | Board of Directors Regular: 12/12 times Special: 6/6 times Board of Corporate Auditors: 6/6 times | Provides insightful advice and recommendations as a journalist to the Boards, based on extensive experience working outside of Japan. |
| Hiroyuki Torii | Board of Directors Regular: 12/12 times Special: 6/6 times Board of Corporate Auditors: 6/6 times | Provides insightful advice and recommendations as a journalist to the Boards, based on a wealth of knowledge in the science and technology fields. |

Internal Control Improvements

Daifuku recognizes the construction and operation of healthy and strong internal control structures as important to improving the effectiveness of corporate governance as well as raising corporate trustworthiness and operational efficiency. Accordingly, the Company has built internal control systems centered on compliance, risk management, and ensuring the reliability of financial reporting.

Compliance

Daifuku has established a Compliance Committee chaired by the president, of which all directors are members, to supervise legal and other compliance initiatives. The combined CFO and CRO communicates with all directors and employees to ensure compliance with the Corporate Code of Conduct.

As a part of its efforts, the Company holds trainings companywide to raise awareness of compliance in all of its employees. In addition, as a countermeasure against the global risk of violating laws, the Company has established basic company rules and subsidiary rules detailing various measures and procedures to comply with competition and bribery laws. Daifuku has also distributed a message from the president conveying the importance of compliance to all employees.

Risk management

Daifuku implements risk management measures through the BCP (business continuity plan) Promotion Division and the CSR (corporate social responsibility) Division, which are under the control of the CRO.

In addition, the Company launched a risk management promotion framework, composed of the general managers of each business operation, to mitigate and minimize risks that involve corporate management and strengthen emergency response structures.

During the fiscal year ended March 31, 2014, the Company made disaster contingency equipment available at major offices and factories in Japan, including first aid kits, relief goods and supply kits for people stranded at the workplace. It also conducted risk assessments at subsidiaries in Thailand and China in efforts to comprehend regional risks and facilitate sharing of information. Moving forward, the Company will share and implement risk countermeasures across the Daifuku Group.

Internal control system

Regarding the maintenance of reliable financial reporting, the Internal Audit Department serves as a bureau to upgrade and manage the Group's internal control systems. As such, the Internal Audit Department conducts integrated management by working to prevent risks that could impede the reliability of financial reporting, educating employees across the Group about internal control systems and manages Plan-Do-Check-Act cycles.

Consequently, in its fiscal 2013 internal control report, based on the Financial Instruments and Exchange Act of Japan, Daifuku once again evaluated its internal control systems over financial reporting as effective.



Large-scale fire drills

Board Member Compensation

At Daifuku's June 2006 General Meeting of Shareholders, a resolution was passed limiting the total annual compensation of directors (excluding the salaries of staff) to 700 million yen and that of corporate auditors to 110 million yen. Director and corporate auditor compensation in fiscal 2013 is as shown in the following table. No individual received total compensation on a consolidated basis of 100 million yen or more, nor did any individual outside officer receive compensation as a director or corporate auditor from Daifuku's subsidiaries besides that shown in the table.

Compensation for directors and auditors (amount paid in fiscal 2013)

| Category | Number of individuals | Compensation |
|---|-----------------------|----------------------------------|
| Directors (Outside directors) | 11 (1) | 388 million yen (15 million yen) |
| Corporate auditors (Outside corporate auditors) | 5 (3) | 83 million yen (30 million yen) |
| Total (Outside officer total) | 16 (4) | 472 million yen (45 million yen) |

Information Disclosure and IR Activities

For its shareholders and investors, Daifuku conducts timely, appropriate disclosure of information in accordance with the law, including the Financial Instruments and Exchange Act of Japan, and Tokyo Stock Exchange Regulations, through its Investor Relations (IR) Department. For security analysts and institutional investors, the Company conducts IR activities, such as quarterly results briefings, additional company information sessions as needed, and conference calls, and responds to individual requests for information.

With regard to individual investors, Daifuku broadly pursues transparency through tours of its facilities, various IR events and publications, and timely information disclosure on its website.



Shiga Works site tour for shareholders, viewing Daifuku's mega-solar facility

Directors and Auditors

(As of June 30, 2014)

Directors



Masaki Hojo
President and CEO



Fumio Kobayashi
Executive Vice President



Mikio Inohara
Executive Vice President
CFO and CRO



Akio Tanaka
Executive Vice President
COO



Susumu Moriya
Director
Cleanroom Automation



Shuichi Honda
Director
Global Strategy and
Corporate Affairs



Masayoshi Inoue
Director
Lifestyle Products



Takashi Hiramoto
Director
Technology and Product
Development



Hidenori Iwamoto
Director
Automotive Automation



Noboru Kashiwagi*
Outside Director



Yoshiaki Ozawa
Outside Director

Auditors



Tatsujiro Kurosaka
Corporate Auditor



Yoshihisa Kimura
Corporate Auditor



Harumichi Uchida
Outside Corporate Auditor



Isao Kitamoto*
Outside Corporate Auditor



Hiroyuki Torii*
Outside Corporate Auditor

* Noboru Kashiwagi, Isao Kitamoto, and Hiroyuki Torii are independent officers, appointed in accordance with the Securities Listing Regulations partially revised in December 2009.

Financial Section

Six-Year Summary

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2014, 2013, 2012, 2011, 2010 and 2009

| | (Million yen and U.S. thousand dollars) | | | | | | |
|---|---|-------------|----------|----------|----------|----------|----------|
| | 2014 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| For the Year | | | | | | | |
| Net sales | ¥241,811 | \$2,349,507 | ¥202,337 | ¥198,052 | ¥159,263 | ¥154,208 | ¥242,182 |
| Cost of sales | 194,974 | 1,894,432 | 165,340 | 165,505 | 131,639 | 128,195 | 195,430 |
| Selling, general and administrative expenses | 34,279 | 333,068 | 28,986 | 28,328 | 25,897 | 25,932 | 31,736 |
| Operating income | 12,556 | 122,006 | 8,010 | 4,217 | 1,726 | 80 | 15,015 |
| Income before income taxes and minority interests | 12,137 | 117,933 | 7,316 | 3,129 | 703 | 862 | 13,956 |
| Net income | 7,740 | 75,209 | 4,439 | 1,223 | 269 | 1,018 | 7,851 |
| Net income per share (Yen and U.S. dollars) | ¥ 69.96 | \$ 0.67 | ¥ 40.12 | ¥ 11.05 | ¥ 2.43 | ¥ 9.20 | ¥ 70.29 |
| Cash dividends per share (Yen and U.S. dollars) | 18.00 | 0.17 | 15.00 | 15.00 | 15.00 | 20.00 | 26.00 |
| Capital investment | ¥ 10,446 | \$ 101,505 | ¥ 7,687 | ¥ 2,393 | ¥ 3,221 | ¥ 2,280 | ¥ 4,613 |
| Depreciation | 3,821 | 37,128 | 3,332 | 3,612 | 3,577 | 3,679 | 3,930 |
| R&D expenditures | 7,490 | 72,781 | 6,855 | 6,484 | 6,370 | 6,075 | 8,018 |
| At Year-End | | | | | | | |
| Total assets | ¥249,531 | \$2,424,517 | ¥206,875 | ¥185,049 | ¥163,388 | ¥165,430 | ¥194,727 |
| Working capital | 87,070 | 846,002 | 45,832 | 61,943 | 65,908 | 66,265 | 75,087 |
| Interest-bearing liabilities | 58,144 | 564,947 | 53,385 | 51,010 | 40,912 | 45,295 | 55,417 |
| Net assets | 99,690 | 968,619 | 85,685 | 76,618 | 77,714 | 81,295 | 82,810 |
| Net assets per share (Yen and U.S. dollars) | ¥ 875.14 | \$ 8.50 | ¥ 754.98 | ¥ 674.72 | ¥ 683.39 | ¥ 716.07 | ¥ 718.68 |
| Number of employees | 7,349 | | 6,678 | 5,617 | 5,209 | 5,395 | 5,660 |
| Ratios | | | | | | | |
| Operating income/net sales | 5.2% | | 4.0% | 2.1% | 1.1% | 0.1% | 6.2% |
| Income before income taxes and minority interests/net sales | 5.0 | | 3.6 | 1.6 | 0.4 | 0.6 | 5.8 |
| Net income/net sales | 3.2 | | 2.2 | 0.6 | 0.2 | 0.7 | 3.2 |
| Return on shareholders' equity (ROE) | 8.6 | | 5.6 | 1.6 | 0.3 | 1.3 | 9.6 |
| Shareholders' equity/total assets | 38.8 | | 40.4 | 40.3 | 46.3 | 47.9 | 40.9 |

Notes: 1. The amount of "Capital investment" in the year ended March 31, 2014 includes goodwill generated from acquisition of shares in U.S. companies by the Company's subsidiaries.
2. The U.S. dollar amounts in this annual report are translated from Japanese yen for convenience only, at the rate of ¥102.92 = U.S.\$1.00, on the Tokyo Foreign Exchange Market on March 31, 2014.
3. In the calculation of net assets per share, the amount of minority interests is subtracted from the amount of net assets in accordance with the above guidelines.
4. In the calculation of shareholders' equity/total assets ratio and ROE, shareholders' equity represents the amount of net assets less minority interests.

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Operating and Financial Review

Scope of Consolidation and Number of Employees

In fiscal 2013, the year ended March 31, 2014, five companies were newly consolidated with the parent company, bringing the total number of consolidated subsidiaries to 52. On a consolidated basis, Daifuku and consolidated subsidiaries had 7,349 employees as of the fiscal year-end.

Analysis of Operating Results

During fiscal 2013, although many of the emerging countries, including China, faced concerns stemming from a slowdown in economic growth, the U.S. economy maintained moderate growth, and the European economies began to bottom out. In addition, the Japanese economy staged a moderate recovery, reflecting the decline in the value of the yen, appreciation in stock prices, and other factors.

The material handling and logistics industry continued to confront a difficult business environment and competition remained tough. Nonetheless, capital investment in every customer sector has been on the rebound.

Amid these operating conditions, the Daifuku Group reported steady advances in its performance. Orders, sales, and income all increased over fiscal 2012, and, in the first year of its four-year business plan *Value Innovation 2017* (covering April 2013 to March 2017), the Group confirmed a solid start toward reaching the goals of the plan. Targets include net sales of 280 billion yen and an operating income ratio of 7% for fiscal 2016, the year ending March 31, 2017.

Orders were favorable, mainly due to robust construction plans for distribution centers for manufacturers and distributors in Japan and increased demand in China and other Asian regions. In addition, a resumption of capital spending on systems for semiconductor factories, in addition to projects for new factory construction and existing factory upgrades in the automotive sector in North America, as well as China and other Asian countries, led to favorable results.

Sales remained strong, underpinned by extensive orders for each sector. The non-Japanese sales ratio to total sales rose to 61%, exceeding the final numerical target of 60% for the four-year business plan. The servicing sales ratio also rose to 31%, exceeding the final numerical target of over 25% for the plan.

As a result, the Group received orders of 276,831 million yen, a rise of 31.2% year on year, and recorded net sales of 241,811 million yen, an increase of 19.5%. These results included orders of about 15,900 million yen and net sales of about 3,800 million yen recorded by U.S. company Wynright Corporation, which joined the Group in October 2013. Wynright has been developing its framework to expand the businesses of storage, transport, sorting, and picking systems for manufacturers and distributors in North America.

In terms of profits, the existing Group companies contributed to profitability. Operating income significantly improved from the increased sales and higher profitability, which resulted from the Company's commitment to in-house structural innovation. Earnings also benefited from efforts to cut costs at factories, exacting and

comprehensive project management at installation sites, favorable results in service business, and improved results in the Contec Group and other non-Japanese subsidiaries. Net income was substantially higher than in fiscal 2012, despite losses on the sale of shares to enhance the liquidity of Contec Co., Ltd. and of a factory in the Kyushu region of Japan.

Consequently, the Group posted operating income of 12,556 million yen, 56.8% higher than in fiscal 2012, and net income amounted to 7,740 million yen, 74.4% higher year on year.

Results by reportable segment are as described below. Orders from and sales to outside customers are shown as segment orders and sales, and net income is recorded as segment income.

Operating Results by Segment

(1) Daifuku Co., Ltd.

Orders and sales of our mainstay manufacturing and distribution systems for large projects remained solid in the distribution, agriculture, pharmaceutical manufacturing, and food sectors. Most of Daifuku's operations for these systems are in Japan. However, orders for systems to be used in the rest of East Asia, including China, and in Southeast Asia, including Thailand, increased during fiscal 2013. In particular, orders from the commerce and retail sectors expanded, backed by increasing demand from non-store retailers, such as e-commerce operations. Orders not only for large systems but also for small and midsize systems remained strong, especially for automated warehouse systems.

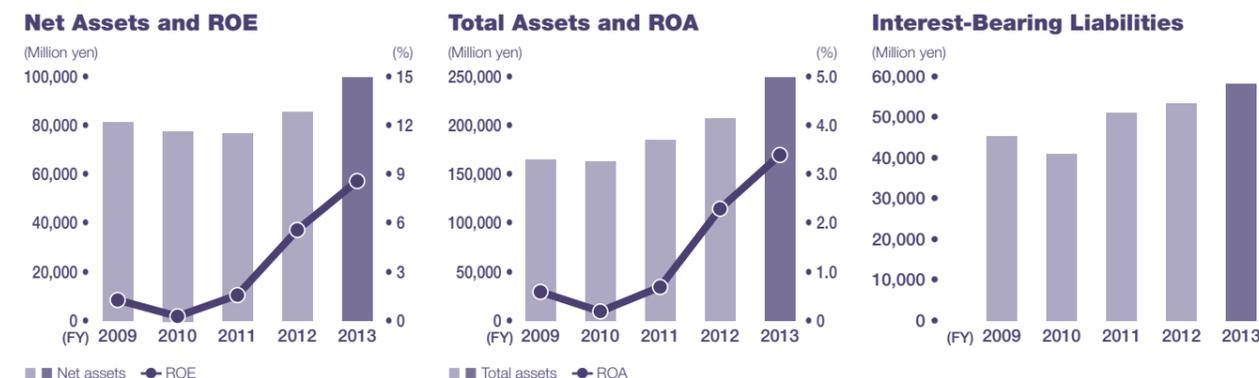
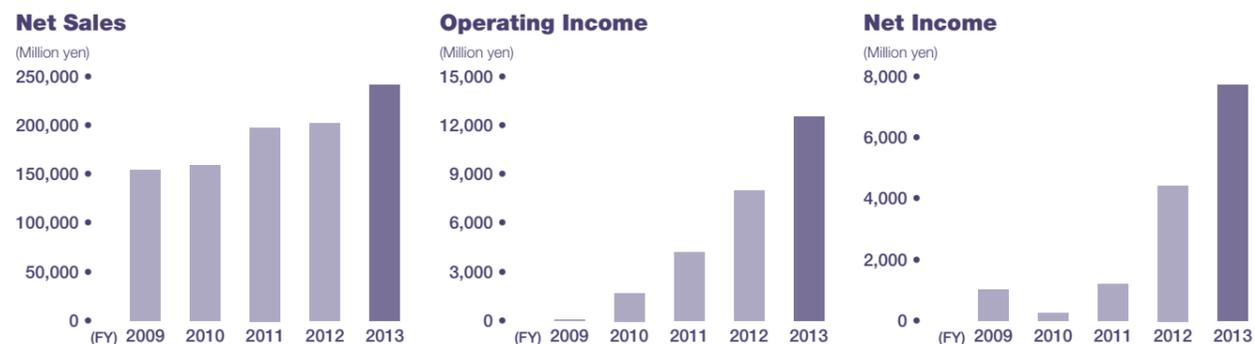
In the systems for semiconductor factories, a resumption of capital spending on systems for semiconductor factories during the latter half of fiscal 2013, mainly in the United States, contributed to the increase in orders. Sales remained strong in North America, South Korea, and Taiwan. In the systems for flat-panel display (FPD) factories, orders were buoyed from the latter half of fiscal 2013 by the Chinese government's investment plans for improving self-sufficiency in TV panels in China; however, sales were influenced by the delays in planned construction.

Orders and sales of automobile production line systems remained firm, mainly in North America and emerging countries, including Thailand and China. In Japan, orders for service and small upgrade projects were also strong.

In lifestyle products, sales of car wash machines increased, reflecting strong replacement demand from car service stations and businesses serving the after-sales market for automobiles, including automobile dealers as well as last-minute demand before the rise in the Japanese consumption tax.

Among other lifestyle products, sales of wheelchair lifts for care-provider vehicles were firm, reflecting demographic aging, but the performance fell short of the level of the previous year, when the introduction of new models boosted demand.

Profitability in this segment rose as a result of further cost reductions in the manufacturing and distribution systems business and favorable sales of services in automobile production line systems.



As a result, this segment reported orders of 117,357 million yen, 10.1% higher year on year; sales of 110,253 million yen, 0.1% over the previous year; and segment income of 5,761 million yen, 2.8% above the previous year.

(2) Contec Group

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

Among extension boards, sales of measuring and control boards were strong, backed by a recovery in customer investment plans for improving corporate earnings. In industrial-use personal computers, sales remained strong. In addition, sales to non-manufacturers were favorable, mainly for panel computers for restaurant and institutional kitchen use and box computers for use in guide display systems in hospitals.

Moreover, Contec DTx Inc. (formerly DTx Inc.), a U.S. company that develops and sells controllers used in medical devices, joined the Contec Group, resulting in significantly increased sales. In networking products, Contec collaborated with a Taiwan-based wireless LAN manufacturer to expand sales, by complementing their specialized products, promoting joint development, and other initiatives.

In the solution products and system products fields, sales of photovoltaic data measuring systems remained firm as in the previous year. In addition, sales of solution products for hospitals benefited earnings. Among system products, Contec took steps to expand sales of security systems and other system products for the distribution and logistics sectors.

As a consequence, Contec posted orders of 14,821 million yen, up 59.0% from fiscal 2012; sales of 13,370 million yen, up 49.6%; and segment income of 727 million yen, representing an increase of 327.0%.

(3) Daifuku Webb Group

(Daifuku Webb Holding Company and its subsidiaries and affiliates)

Daifuku Webb Holding Company (Daifuku Webb) oversees Daifuku's North American business, with Daifuku America Corporation, Jervis B. Webb Company, and ELS Holding

Company, the parent company of Elite Line Services, LLC (ELS), under its control. In addition, Wynright Corporation, which excels in conveyor and other material handling systems for manufacturers and distributors, was included in the scope of consolidation in the fourth quarter of fiscal 2013. Through revamping these diverse management resources, Daifuku Webb is focusing on making effective use of the Group's operating frameworks in North America.

In manufacturing and distribution systems, Daifuku Webb responded to customer needs mainly for small projects and services. In these systems, Daifuku Webb will expand its operations in collaboration with Wynright, which has jointly undertaken large projects in the past, and strive to win more large orders.

In systems for the semiconductor sector, the recovery in demand for nitrogen purge stockers contributed to increased earnings.

In automobile production line systems, orders and sales remained strong, thanks to brisk capital investment among automakers in North America, including Detroit's Big Three and Japanese automakers. Before the establishment of the Daifuku Webb Group, Daifuku Webb's subsidiary Jervis B. Webb had sold systems to Detroit's Big Three automakers, and Daifuku America had installed systems in Japanese automobile factories in the United States. As the two companies have become more closely integrated, Daifuku Webb has exerted their collaboration effects in technologies and project management.

In airport baggage handling systems, results were influenced by a scaling back of investment plans or delays in the implementation of some planned investments following cuts in U.S. government spending, although operation and service businesses for existing airport facilities were added when the Group acquired ELS in 2012.

Profits increased significantly compared with fiscal 2012, mainly driven by automobile production line systems.

As a result, Daifuku Webb achieved orders of 75,174 million yen, up 67.6% year on year and sales of 52,743 million yen, an increase of 38.3% over the previous year. Segment income amounted to 1,680 million yen, representing an increase of 199.0%.

(4) Other

The Other segment includes all other Daifuku Group companies, excluding the aforementioned three segments. The Group has 52 consolidated subsidiaries and affiliates located in Japan and overseas.

Major subsidiaries outside Japan are engaged in manufacturing, sales, and other activities related to material handling systems and equipment. Each of these companies plays a role in optimal global production and procurement activities and is working to increase exports. Performance of Group companies is steady, especially subsidiaries in Asia.

In China, Daifuku (China) Co., Ltd. continued to receive robust orders and inquiries, mainly from the food, beverage, pharmaceutical, paper, and distribution sectors, backed by brisk capital investment from local as well as European and U.S. companies. To meet this large demand, the company expanded its production facilities. These facilities also produce belt conveyor materials for airport baggage handling and supplies to Europe and other regions. In systems for the FPD and semiconductor sectors, factory construction plans remained cautious. Nonetheless, there are numerous projects, and Daifuku (Suzhou) Cleanroom Automation Co., Ltd., which began production in March 2013, accommodates each order it receives on a timely basis. In systems for the automotive sector, the results were favorable with plans for existing facility upgrades at Japanese automakers in addition to projects for Chinese and non-Chinese automakers.

In Taiwan, large orders from the paper and touch panel sectors, which Taiwan Daifuku Co., Ltd. received at the beginning of fiscal 2013, contributed to earnings.

In South Korea, the performance of semiconductor manufacturers improved, and demand for capital investment, mainly for nitrogen purge stockers, contributed to earnings. In automobile production line systems, Daifuku Korea Co., Ltd. expanded its factories to meet brisk demand from local automakers for domestic factory upgrades in the summer and fall as well as demand stemming from production in China. Sales of car wash machines held steady, with a trend in the background toward charging fees for car washing services.

In Thailand and Indonesia, capital investment by Japanese automakers has continued to be brisk. In particular, Daifuku (Thailand) Ltd. responded to these conditions with continued production at full capacity. In addition, non-automotive markets are expanding, which resulted in orders for retailer distribution centers.

In Europe, Africa, and the Middle East, Daifuku Logan Ltd. (formerly Logan Teleflex (UK) Ltd.) and Logan Teleflex (France) S.A.S. have been seeking orders for airport baggage handling systems. During fiscal 2013, however, the results were influenced by the harsh economic conditions in Europe.

As a result of these various developments, this segment received orders of 69,477 million yen, up 38.3% over the previous year, and recorded sales of 64,143 million yen, an increase of 41.4% year on year. Segment income amounted to 2,973 million yen, up 39.3%.

Earnings

During fiscal 2013, as mentioned previously, net sales increased 19.5%, to 241,811 million yen. The gross profit margin improved one percentage point, to 19.4%, as a result of efforts to reduce costs as well as exacting and comprehensive project management. The ratio of selling, general and administrative expenses improved 0.1 percentage point, to 14.2%.

As a result, operating income rose 56.8%, to 12,556 million yen. Among non-operating income and expenses, losses were reported on the sale of shares to enhance liquidity at Contec and the sale of a factory in the Kyushu region of Japan. However, net income rose 74.4%, to 7,740 million yen. The effective income tax rate for fiscal 2013 was 33.7%. As a consequence, net income per share rose from 40.12 yen per share in the previous year to 69.96 yen per share for fiscal 2013.

Financial Position

Assets, liabilities, and net assets

Total assets at the end of fiscal 2013 were 249,531 million yen, an increase of 42,655 million yen year on year. This result principally reflected increases of 18,397 million yen in cash on hand and in banks and 5,391 million yen in

notes and accounts receivable and unbilled receivables, as well as an increase of 4,371 million yen in goodwill, principally related to the acquisition of Wynright. Total capital investments during fiscal 2013 amounted to 10,446 million yen, which included expenditures for maintenance and replacement of production equipment at the Shiga Works, installation of a photovoltaic facility, upgrading of the demonstration line for semiconductor production line systems, and upgrading of server functions in core IT systems.

Total liabilities at the end of fiscal 2013 were 149,840 million yen, an increase of 28,650 million yen year on year. Primary factors included an increase of 4,759 million yen in interest-bearing liabilities, including convertible bonds with stock acquisition rights, and an increase of 10,326 million yen in payment obligations, including electronically recorded obligations, as well as an increase of 3,969 million yen in liabilities for retirement benefits (the consolidated provision for retirement benefits in fiscal 2012).

Net assets at the end of fiscal 2013 were 99,690 million yen, an increase of 14,004 million yen year on year. This was mainly due to an increase in retained earnings of 6,150 million yen. The ratio of shareholders' equity to total assets stood at 38.8% at fiscal year-end, and the return on equity (ROE) was 8.6%.

Cash flows

Cash and cash equivalents at the end of fiscal 2013 increased 18,129 million yen from the end of fiscal 2012, to 51,852 million yen, compared with 33,722 million yen in the same period of fiscal 2012.

Cash flows from operating activities

Net cash provided by operating activities totaled 20,447 million yen, compared with cash provided of 15,666 million yen in fiscal 2012. This primarily reflected an increase of 4,821 million yen in notes and accounts payable, and included income before income taxes and minority interests of 12,137 million yen and depreciation of 3,821 million yen.

Cash flows from investing activities

Net cash used in investing activities was 7,372 million yen, compared with cash used of 13,649 million yen in fiscal 2012. Major activities included outlays of 3,155 million yen for the purchase of non-current assets and 4,495 million yen for the acquisition of shares in affiliates.

Cash flows from financing activities

Net cash provided by financing activities was 1,045 million yen, compared with cash provided of 88 million yen in fiscal 2012. The major factors were an increase of 2,895 million yen in interest-bearing liabilities, including the issuance of convertible bonds with stock acquisition rights, despite the payment of cash dividends amounting to 1,656 million yen.

Basic policy regarding dividends for fiscal 2013 and 2014

Daifuku regards the return of profits to shareholders as its most-important management task and adopts a performance-based policy for cash dividends based on consolidated net income, with the aim of achieving additional profit distribution to shareholders. With regard to the remaining surplus, the Company's basic policy is to raise funds to invest in future growth.

Under its four-year business plan *Value Innovation 2017*, Daifuku aims to maintain and increase its dividends per share and achieve a dividend payout ratio of 30% in the medium-to-long term.

For fiscal 2013, Daifuku paid an interim dividend of 5 yen per share and a year-end dividend of 13 yen per share, for an annual dividend of 18 yen per share.

With respect to dividends for fiscal 2014, the year ending March 31, 2015, the Company is planning to pay an annual dividend of 20 yen per share, consisting of an interim dividend of 7 yen per share and a year-end dividend of 13 yen per share, taking into account the outlook for performance for fiscal 2014 and the Company's basic dividend policy described above, as well as the future termination of the shareholder special benefit program.

Management Policy

Basic management policy of the Group

The Daifuku Group is currently implementing its four-year business plan *Value Innovation 2017*, covering the period from April 2013 through March 2017.

Under the plan, the Group aims to evolve into a top-class Value Innovator that provides the best solutions for customers worldwide by capitalizing on the experience and technologies it has accumulated as a comprehensive manufacturer and integrator of material handling systems.

To enhance financial integrity, the Group is implementing the following three financial strategies:

1. Generating a free cash flow for active use in global business development,
2. Maintaining a credit rating in the A zone or higher from Rating and Investment Information, Inc. (R&I), and
3. Sustaining growth in dividends per share, aiming for a medium- to long-term dividend payout ratio of 30%.

For further details on the Group's medium- to long-term strategy, please refer to the Message from the CEO in this Annual Report.

Business-Related Risks

The main items that the Daifuku Group recognizes as risks and responds to as such are as follows.

Risks covered by the Chief Financial Officer & Chief Risk Officer

- (1) Major disruptions in production (damage to facilities, etc.)
- (2) Impact of natural disasters and intentional threats, war, acts of terrorism, strikes, disease, etc.
- (3) Environmental problems
- (4) Labor relations issues (deterioration in the employee-management relationship, outbreak of industrial disputes, etc.)
- (5) Joint ventures (deterioration in management policy at joint venture partner(s), deterioration in management environment, etc.)
- (6) Risk related to intellectual property (IP) rights (failure to obtain the license for use of the third-party IP rights/royalty demands; third-party allegations of IP right infringement(s); lack of protection of Daifuku IP rights in certain countries and regions outside of Japan, etc.)

- (7) Securing of personnel (recruitment and retention of competent personnel; difficulties in training human resources, etc.)
- (8) Customer/Supplier credit risk (customer/supplier doubtful accounts/bad debts, etc.)
- (9) Information management (leak of important and/or personal information to outside the Company; use for purposes other than that intended, etc.)
- (10) Risk related to global business development (changes to each country's laws and regulations; changes in the social, political and economic situation; deterioration in public safety, disruption to transportation/electric power infrastructure; currency exchange restrictions and fluctuations; tax system changes; taxation by transfer price; trade protection regulations; customer credit risk from different commercial practices; different employment/social insurance systems; changes in labor environment; difficulties in recruiting/retaining personnel; outbreaks of disease, etc.)

Risks covered by the Chief Operating Officer of business operations

- (1) Impacts of conditions in the markets related to semiconductors and flat-panel displays, as well as automobiles (changes in demand/capital investment trends, etc.)
- (2) Price competition (pressure on profits due to fierce price competition, etc.)
- (3) Product quality issues (product defects/failures, quality claims/complaints, etc.)
- (4) Risk related to the development of new products/technologies (mismatch between new products/technologies and market needs; rival developments from competitors; absence of IP right protection; breach of another company's IP rights; emergence of new alternative technology products from other companies, etc.)
- (5) Increase in raw material prices (sharp increase in prices for raw materials and components, product shortages, supply instability, etc.)

Risk covered by the Compliance Committee

Compliance-related risk (trouble or losses caused by director/employee failure to observe laws, regulations, standards, internal regulations, policies, etc.)

Consolidated Balance Sheets

Daifuku Co., Ltd. and consolidated subsidiaries
March 31, 2014 and 2013

| | (Million yen) | | (U.S. thousand dollars) (Note 6) |
|---|---------------|---------------|----------------------------------|
| | 2014 | March 31 2013 | March 31 2014 |
| ASSETS | | | |
| Current assets: | | | |
| Cash on hand and in banks (Notes 10 and 29) | ¥ 52,132 | ¥ 33,735 | \$ 506,537 |
| Notes and accounts receivable and unbilled receivables (Notes 9 and 10) | 74,217 | 68,826 | 721,121 |
| Costs and estimated earnings in excess of billings on uncompleted contracts (Note 10) | 15,334 | 13,138 | 148,993 |
| Merchandise and finished goods | 3,307 | 3,368 | 32,137 |
| Costs incurred on uncompleted construction contracts and other (Note 8) | 6,599 | 5,751 | 64,121 |
| Raw materials and supplies | 10,475 | 8,484 | 101,783 |
| Deferred income taxes (Note 28) | 3,502 | 2,471 | 34,027 |
| Other current assets | 5,349 | 4,160 | 51,978 |
| Less: allowance for doubtful accounts | (137) | (105) | (1,334) |
| Total current assets | 170,781 | 139,831 | 1,659,365 |
| Non-current assets: | | | |
| Property, plant and equipment (Notes 7 and 14): | | | |
| Buildings and structures | 14,618 | 14,586 | 142,040 |
| Machinery and vehicles | 3,457 | 2,621 | 33,594 |
| Tools and fixtures | 1,409 | 1,030 | 13,692 |
| Land | 11,801 | 11,668 | 114,665 |
| Other | 2,788 | 1,390 | 27,094 |
| Total property, plant and equipment | 34,075 | 31,297 | 331,087 |
| Intangible assets: | | | |
| Software | 1,944 | 2,119 | 18,891 |
| Goodwill | 10,139 | 5,768 | 98,522 |
| Other | 2,772 | 1,146 | 26,937 |
| Total intangible assets | 14,856 | 9,035 | 144,351 |
| Investments and other assets: | | | |
| Investments in securities (Notes 10, 11, and 12) | 20,628 | 19,376 | 200,427 |
| Long-term loans | 142 | 125 | 1,380 |
| Assets for retirement benefits (Notes 3 and 15) | 268 | — | 2,610 |
| Deferred income taxes (Note 28) | 5,800 | 3,923 | 56,361 |
| Other | 3,109 | 3,434 | 30,213 |
| Less: allowance for doubtful accounts | (131) | (148) | (1,281) |
| Total investments and other assets | 29,817 | 26,711 | 289,712 |
| Total non-current assets | 78,749 | 67,044 | 765,151 |
| Total assets | ¥249,531 | ¥206,875 | \$2,424,517 |

The accompanying notes are an integral part of these statements.

| | (Million yen) | | (U.S. thousand dollars) (Note 6) |
|---|---------------|---------------|----------------------------------|
| | 2014 | March 31 2013 | March 31 2014 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Notes and accounts payable and construction contracts payable (Note 10) | ¥ 36,818 | ¥ 36,553 | \$ 357,741 |
| Electronically recorded obligations-operating (Note 10) | 10,061 | — | 97,764 |
| Short-term borrowings and current portion of long-term borrowings (Notes 10 and 13) | 7,014 | 28,221 | 68,158 |
| Current portion of bonds (Notes 10 and 13) | — | 6,000 | — |
| Income taxes payable | 3,991 | 1,416 | 38,780 |
| Provision for losses on construction contracts (Notes 8 and 21) | 275 | 739 | 2,678 |
| Other current liabilities (Note 13) | 25,548 | 21,066 | 248,240 |
| Total current liabilities | 83,711 | 93,998 | 813,363 |
| Non-current liabilities: | | | |
| Bonds (Notes 10 and 13) | 2,700 | — | 26,233 |
| Bonds with stock acquisition rights (Notes 10 and 13) | 15,131 | — | 147,019 |
| Long-term borrowings (Notes 10 and 13) | 33,298 | 19,163 | 323,536 |
| Deferred income taxes (Note 28) | 1,410 | 1,007 | 13,709 |
| Provision for retirement benefits (Note 15) | — | 4,712 | — |
| Liabilities for retirement benefits (Notes 3 and 15) | 8,681 | — | 84,353 |
| Negative goodwill | 239 | 299 | 2,328 |
| Other non-current liabilities (Note 13) | 4,667 | 2,008 | 45,352 |
| Total non-current liabilities | 66,129 | 27,191 | 642,533 |
| Total liabilities | 149,840 | 121,190 | 1,455,897 |
| Contingent liabilities (Note 17) | | | |
| NET ASSETS | | | |
| Shareholders' equity (Note 19): | | | |
| Common stock: | | | |
| Authorized—250,000,000 shares | | | |
| Issued—113,671,494 shares | 8,024 | 8,024 | 77,963 |
| Capital surplus | 9,239 | 9,028 | 89,771 |
| Retained earnings | 76,009 | 69,859 | 738,532 |
| Less: treasury stock, at cost—March 31, 2014—3,012,390 shares | | | |
| March 31, 2013—3,022,663 shares | (2,620) | (2,424) | (25,463) |
| Total shareholders' equity | 90,652 | 84,486 | 880,804 |
| Accumulated other comprehensive income: | | | |
| Net unrealized gain (loss) on securities | 3,102 | 1,809 | 30,148 |
| Deferred gain (loss) on hedges | (29) | (14) | (286) |
| Foreign currency translation adjustments | 5,310 | (2,743) | 51,598 |
| Accumulated adjustments on retirement benefits (Notes 3 and 15) | (2,194) | — | (21,318) |
| Total accumulated other comprehensive income | 6,189 | (948) | 60,142 |
| Minority interests | | | |
| Minority interests | 2,848 | 2,147 | 27,672 |
| Total net assets | 99,690 | 85,685 | 968,619 |
| Total liabilities and net assets | ¥249,531 | ¥206,875 | \$2,424,517 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Comprehensive Income

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2014 and 2013

| | (Million yen) | | (U.S. thousand dollars) (Note 6) |
|--|-----------------|-----------------|----------------------------------|
| | 2014 | March 31 2013 | March 31 2014 |
| Net sales | ¥241,811 | ¥202,337 | \$2,349,507 |
| Cost of sales (Notes 21 and 22) | 194,974 | 165,340 | 1,894,432 |
| Gross profit | 46,836 | 36,996 | 455,074 |
| Selling expenses (Note 20) | 16,716 | 14,746 | 162,424 |
| General and administrative expenses (Notes 20 and 22) | 17,562 | 14,240 | 170,643 |
| Total selling, general and administrative expenses | 34,279 | 28,986 | 333,068 |
| Operating income | 12,556 | 8,010 | 122,006 |
| Other income: | | | |
| Interest income | 215 | 96 | 2,091 |
| Dividend income | 261 | 242 | 2,537 |
| Foreign exchange gain | 468 | 184 | 4,554 |
| Amortization of negative goodwill | 59 | 59 | 582 |
| Land and house rental revenue | 226 | 227 | 2,202 |
| Miscellaneous income | 394 | 180 | 3,834 |
| Total other income | 1,626 | 991 | 15,802 |
| Other expenses: | | | |
| Interest expenses | 810 | 887 | 7,873 |
| Miscellaneous expenses | 181 | 115 | 1,759 |
| Total other expenses | 991 | 1,003 | 9,632 |
| Ordinary income | 13,191 | 7,999 | 128,176 |
| Extraordinary income: | | | |
| Gain on sales of property, plant and equipment (Note 24) | 6 | 159 | 65 |
| Other | — | 5 | — |
| Total extraordinary income | 6 | 165 | 65 |
| Extraordinary loss: | | | |
| Loss on sales of shares in affiliates | 148 | — | 1,438 |
| Loss on sales of property, plant and equipment (Note 25) | 393 | 46 | 3,824 |
| Loss on disposal of property, plant and equipment (Note 23) | 68 | 159 | 666 |
| Impairment loss (Note 27) | 370 | 544 | 3,595 |
| Other | 80 | 97 | 781 |
| Total extraordinary loss | 1,060 | 847 | 10,307 |
| Income before income taxes and minority interests | 12,137 | 7,316 | 117,933 |
| Income taxes (Note 28) | | | |
| Current | 5,634 | 2,534 | 54,742 |
| Deferred | (1,545) | 254 | (15,013) |
| Total income taxes | 4,088 | 2,788 | 39,728 |
| Income before minority interests | 8,048 | 4,528 | 78,204 |
| Minority interests in net income | 308 | 88 | 2,995 |
| Net income | 7,740 | 4,439 | 75,209 |
| Minority interests in net income | 308 | 88 | 2,995 |
| Income before minority interests | 8,048 | 4,528 | 78,204 |
| Other comprehensive income (Note 26) | | | |
| Net unrealized gain (loss) on securities | 1,417 | 1,568 | 13,774 |
| Deferred gain (loss) on hedges | (23) | (17) | (224) |
| Foreign currency translation adjustments | 7,193 | 3,853 | 69,892 |
| Share of other comprehensive income of affiliates accounted for by the equity method | 1,115 | 1,113 | 10,838 |
| Total other comprehensive income | 9,703 | 6,517 | 94,280 |
| Comprehensive income (Note 26) | ¥ 17,752 | ¥ 11,045 | \$ 172,485 |
| (Comprehensive income attributable to:) | | | |
| Shareholders of the parent company | ¥ 17,073 | ¥ 10,842 | \$ 165,888 |
| Minority interests | 679 | 203 | 6,597 |
| | | (Yen) | (U.S. dollars) |
| Net income per share (Note 33) | ¥69.96 | ¥40.12 | \$0.67 |
| Cash dividends per share | 18.00 | 15.00 | 0.17 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2014 and 2013

| | Number of shares of common stock (Thousands) | Shareholders' equity | | | | | Total shareholders' equity (Million yen) |
|---|---|--|--------------------------------|--|--|--|---|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total | |
| Balance at March 31, 2012 | 113,671 | ¥8,024 | ¥9,028 | ¥67,382 | ¥(2,421) | ¥82,013 | |
| Cash dividends | — | — | — | (1,659) | — | (1,659) | |
| Net income | — | — | — | 4,439 | — | 4,439 | |
| Purchase of treasury stock | — | — | — | — | (3) | (3) | |
| Decrease due to acquisition of shares in a subsidiary | — | — | — | (302) | — | (302) | |
| Net changes of items other than shareholders' equity | — | — | — | — | — | — | |
| Balance at March 31, 2013 | 113,671 | ¥8,024 | ¥9,028 | ¥69,859 | ¥(2,424) | ¥84,486 | |
| Cash dividends | — | — | — | (1,659) | — | (1,659) | |
| Net income | — | — | — | 7,740 | — | 7,740 | |
| Purchase of treasury stock | — | — | — | — | (594) | (594) | |
| Disposal of treasury stock | — | — | 210 | — | 398 | 609 | |
| Increase due to acquisition of shares in a subsidiary | — | — | — | 69 | — | 69 | |
| Net changes of items other than shareholders' equity | — | — | — | — | — | — | |
| Balance at March 31, 2014 | 113,671 | ¥8,024 | ¥9,239 | ¥76,009 | ¥(2,620) | ¥90,652 | |
| | | Accumulated other comprehensive income | | | | | |
| | | Net unrealized gain (loss) on securities | Deferred gain (loss) on hedges | Foreign currency translation adjustments | Accumulated adjustments on retirement benefits | Total accumulated other comprehensive income | Minority interests |
| | | | | | | | Total net assets |
| | | | | | | | (Million yen) |
| Balance at March 31, 2012 | ¥ 247 | ¥ 11 | ¥(7,611) | ¥ — | ¥(7,352) | ¥1,956 | ¥76,618 |
| Cash dividends | — | — | — | — | — | — | (1,659) |
| Net income | — | — | — | — | — | — | 4,439 |
| Purchase of treasury stock | — | — | — | — | — | — | (3) |
| Decrease due to acquisition of shares in a subsidiary | — | — | — | — | — | — | (302) |
| Net changes of items other than shareholders' equity | 1,561 | (26) | 4,868 | — | 6,403 | 190 | 6,594 |
| Balance at March 31, 2013 | ¥1,809 | ¥(14) | ¥(2,743) | ¥ — | ¥ (948) | ¥2,147 | ¥85,685 |
| Cash dividends | — | — | — | — | — | — | (1,659) |
| Net income | — | — | — | — | — | — | 7,740 |
| Purchase of treasury stock | — | — | — | — | — | — | (594) |
| Disposal of treasury stock | — | — | — | — | — | — | 609 |
| Increase due to acquisition of shares in a subsidiary | — | — | — | — | — | — | 69 |
| Net changes of items other than shareholders' equity | 1,293 | (14) | 8,053 | (2,194) | 7,138 | 700 | 7,839 |
| Balance at March 31, 2014 | ¥3,102 | ¥(29) | ¥5,310 | ¥(2,194) | ¥6,189 | ¥2,848 | ¥99,690 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (Continued)

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2014 and 2013

| | Number of shares of common stock (Thousands) | Shareholders' equity | | | | |
|---|---|----------------------|-----------------|-------------------|-------------------------|----------------------------|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| | | | | | | |
| Balance at March 31, 2013 | 113,671 | \$77,963 | \$87,722 | \$678,770 | \$(23,558) | \$820,898 |
| Cash dividends | — | — | — | (16,126) | — | (16,126) |
| Net income | — | — | — | 75,209 | — | 75,209 |
| Purchase of treasury stock | — | — | — | — | (5,777) | (5,777) |
| Disposal of treasury stock | — | — | 2,048 | — | 3,872 | 5,921 |
| Increase due to acquisition of shares in a subsidiary | — | — | — | 679 | — | 679 |
| Net changes of items other than shareholders' equity | — | — | — | — | — | — |
| Balance at March 31, 2014 | 113,671 | \$77,963 | \$89,771 | \$738,532 | \$(25,463) | \$880,804 |

| | Accumulated other comprehensive income | | | | | | |
|---|--|--------------------------------|--|--|--|--------------------|------------------|
| | Net unrealized gain (loss) on securities | Deferred gain (loss) on hedges | Foreign currency translation adjustments | Accumulated adjustments on retirement benefits | Total accumulated other comprehensive income | Minority interests | Total net assets |
| | | | | | | | |
| Balance at March 31, 2013 | \$17,577 | \$(143) | \$(26,652) | \$ — | \$ (9,217) | \$20,862 | \$832,543 |
| Cash dividends | — | — | — | — | — | — | (16,126) |
| Net income | — | — | — | — | — | — | 75,209 |
| Purchase of treasury stock | — | — | — | — | — | — | (5,777) |
| Disposal of treasury stock | — | — | — | — | — | — | 5,921 |
| Increase due to acquisition of shares in a subsidiary | — | — | — | — | — | — | 679 |
| Net changes of items other than shareholders' equity | 12,570 | (143) | 78,251 | (21,318) | 69,360 | 6,809 | 76,170 |
| Balance at March 31, 2014 | \$30,148 | \$(286) | \$51,598 | \$(21,318) | \$60,142 | \$27,672 | \$968,619 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2014 and 2013

| | (Million yen) | | (U.S. thousand dollars) (Note 6) |
|--|----------------|----------------|----------------------------------|
| | March 31 | | March 31 |
| | 2014 | 2013 | 2014 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | ¥12,137 | ¥ 7,316 | \$117,933 |
| Adjustments for: | | | |
| Depreciation | 3,821 | 3,332 | 37,128 |
| Impairment loss | 370 | 544 | 3,595 |
| Amortization of goodwill | 743 | 376 | 7,222 |
| Amortization of negative goodwill | (59) | (59) | (582) |
| Interest and dividend income | (476) | (339) | (4,628) |
| Interest expenses | 810 | 887 | 7,873 |
| Loss on disposal or sales of property, plant and equipment | 455 | 205 | 4,425 |
| Decrease in notes and accounts receivable | 1,747 | 3,306 | 16,974 |
| Increase in inventories | (310) | (1,225) | (3,016) |
| Increase in notes and accounts payable | 4,821 | 1,054 | 46,850 |
| Decrease in advances received on uncompleted construction | 324 | 2,132 | 3,153 |
| Other, net | (683) | 311 | (6,641) |
| Sub total | 23,701 | 17,843 | 230,289 |
| Interest and dividend income received | 478 | 334 | 4,651 |
| Interest expenses paid | (856) | (888) | (8,318) |
| Income taxes paid | (3,163) | (1,921) | (30,740) |
| Other, net | 286 | 298 | 2,787 |
| Net cash provided by operating activities | 20,447 | 15,666 | 198,669 |
| Cash flows from investing activities: | | | |
| Acquisition of shares in newly consolidated subsidiaries | (4,202) | (4,495) | (40,832) |
| Acquisition of shares in newly included equity-method affiliates | — | (3,449) | — |
| Proceeds from paid-in capital reduction in a non-consolidated subsidiary | — | 800 | — |
| Investments in time deposit | (409) | (0) | (3,979) |
| Proceeds from refund of time deposit | 389 | 136 | 3,780 |
| Payments for purchase of property, plant and equipment | (3,155) | (3,033) | (30,659) |
| Proceeds from sales of property, plant and equipment | 425 | 400 | 4,135 |
| Payments for purchase of investments in securities | (321) | (67) | (3,119) |
| Payments for acquisition of shares in subsidiaries and affiliates | (293) | (3,392) | (2,850) |
| Collection of loans receivable | 3 | 3 | 38 |
| Payments for transfer of business | — | (570) | — |
| Other, net | 190 | 20 | 1,850 |
| Net cash used in investing activities | (7,372) | (13,649) | (71,635) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowings, net | 755 | (7,987) | 7,339 |
| Proceeds from long-term borrowings | 14,360 | 15,922 | 139,535 |
| Repayment of long-term borrowings | (24,071) | (1,930) | (233,883) |
| Proceeds from issuance of bonds with stock acquisition rights | 15,150 | — | 147,201 |
| Proceeds from issuance of bonds | 2,700 | — | 26,233 |
| Redemption of bonds | (6,000) | (4,000) | (58,297) |
| Proceeds from disposal of treasury stock | 610 | — | 5,931 |
| Payments for purchase of treasury stock | (594) | (3) | (5,777) |
| Payments of cash dividends | (1,656) | (1,657) | (16,093) |
| Other, net | (209) | (255) | (2,033) |
| Net cash provided by financing activities | 1,045 | 88 | 10,156 |
| Effect of exchange rate change on cash and cash equivalents | 3,201 | 2,179 | 31,104 |
| Net increase in cash and cash equivalents | 17,320 | 4,284 | 168,294 |
| Cash and cash equivalents at beginning of year | 33,722 | 29,438 | 327,660 |
| Increase in cash and cash equivalents resulting from change of scope of consolidation | 808 | — | 7,855 |
| Cash and cash equivalents at end of year (Note 29) | ¥51,852 | ¥33,722 | \$503,810 |

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2014 and 2013

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Daifuku Co., Ltd. ("the Company") and its consolidated subsidiaries.

The Company and its domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in Japan's Companies Act and in conformity with generally accepted accounting principles prevailing in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The accounts of its overseas consolidated subsidiaries are based on their accounting records, which are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries have been incorporated. Necessary adjustments to the accounts of the

overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements, in all material respects, to present them in conformity with International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The presentation of the accompanying consolidated financial statements is made in conformity with the "Regulations Concerning Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (ordinance promulgated by the Japanese Cabinet Office) and meets the requirements for disclosure of financial information of the Company on a consolidated basis.

Amounts less than ¥1 million and \$1 thousand have been omitted. As a result, the total shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

2. Summary of significant accounting policies

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of the parent company and 52 subsidiaries as of March 31, 2014.

Iwasaki Seisakusho Co., Ltd., Hallim Machinery Co., Ltd. and Daifuku (Suzhou) Cleanroom Automation Co., Ltd., which were non-consolidated subsidiaries in the year ended March 31, 2013, were newly included in the scope of consolidation because of their growing importance in the financial reporting. Daifuku Webb Holding Company, a wholly owned subsidiary of the Company, acquired all shares in Wynright Corporation and its three subsidiaries on October 1, 2013. Daifuku Institute of Technology and Training Co., Ltd., which was a consolidated subsidiary in the year ended March 31, 2013, was absorbed by the Company. As a result, the number of consolidated subsidiaries increased by five, from 47 in the year ended March 31, 2013.

In addition, Contec Co., Ltd. a subsidiary of the Company, liquidated Contec Microelectronics U.S.A. Inc., its wholly owned subsidiary, on March 31, 2014.

Daifuku de México, S.A. de C.V. is a small company, and its total assets, net sales, net income or loss (the amount corresponding to equity interests) and retained earnings (the amount corresponding to equity interests), etc. are deemed not to have a significant impact on the consolidated financial statements. Therefore, it is excluded from the scope of consolidation. The number of non-consolidated subsidiaries decreased by three, from four in the year ended March 31, 2013, because Iwasaki Seisakusho Co., Ltd., Hallim Machinery Co., Ltd. and Daifuku (Suzhou) Cleanroom Automation Co., Ltd., became consolidated subsidiaries from non-consolidated subsidiaries as described above.

The consolidated subsidiaries adopt the same fiscal year as the Company, except for 42 overseas consolidated subsidiaries, as of March 31, 2014, with fiscal years ending December 31. For the consolidation of these overseas subsidiaries, the Company makes appropriate adjustments for any material transactions subsequent to December 31.

The Company has two affiliates, including Knapp AG, as of March 31, 2014, which were accounted for by the equity method. For equity-method affiliates that have a different fiscal year from the Company's, financial statements for the fiscal year of these companies are used. The number of equity-method affiliates is the same as the year ended March 31, 2013.

The Company has one affiliate, IKS Co., Ltd., that was not accounted for by the equity method but by the cost method since all sums of total assets, net sales, net income or loss (the amount corresponding to equity interests), retained earnings (the amount corresponding to equity interests), etc. are deemed not to have a significant impact on consolidated financial statements. The number of non-equity-method affiliates is the same as the year ended March 31, 2013.

All significant intercompany transactions, account balances and unrealized profit among the consolidated group have been eliminated.

(2) Translation of foreign currencies

Accounts receivable and payable denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are charged or credited to income for the period.

The balance sheet accounts of the overseas consolidated subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates, except for shareholders' equity, which is translated at the historical exchange rates. Revenue and expense accounts of the overseas consolidated subsidiaries and affiliates are translated into Japanese yen at the annual average rate.

The translation differences in Japanese yen arising from the use of different rates are recorded as "Foreign currency translation adjustments" in the consolidated balance sheets.

The portion equivalent to the equity of minority interests is included in "Minority interests" and the Company's portion is presented as a separate component of net assets in the consolidated balance sheets.

(3) Cash and cash equivalents

Cash and cash equivalents include all liquid investments, generally with an original maturity date of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

(4) Inventories

Inventories are stated at the lower of cost or market. The cost for components relating to material handling systems and "Raw materials and supplies" is determined by the moving-average method, while the specific identification method is used for other inventories.

(5) Financial instruments

(a) Derivatives

All derivatives are stated at fair value.

(b) Securities

Under the Japanese accounting standard for financial instruments, securities are classified into four categories: "Trading securities," "Held-to-maturity debt securities," "Investments in subsidiaries and affiliates" and "Other securities."

"Trading securities" are the securities that are held for the purpose of generating profits from short-term changes in prices. "Held-to-maturity debt securities" are debt securities the Company intends to hold to maturity.

The Company and its subsidiaries also have "Investments in non-consolidated subsidiaries and affiliates" and "Other securities."

"Investments in non-consolidated subsidiaries and affiliates" are stated at cost, and costs of securities sold are determined based on the moving average method.

"Other securities" for which market quotations are available are stated at fair value. Unrealized gain or loss on securities is included as a component of net assets in the consolidated balance sheets, and costs of securities sold are determined based on the moving average method.

"Other securities" for which market quotations are unavailable are stated at cost, and costs of securities sold are determined based on the moving average method.

(c) Hedge accounting

(i) Gains or losses arising from changes in fair value of the derivatives designated as "Hedging instruments" are deferred as assets or liabilities and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The interest rate swaps that meet the exceptional criteria to apply hedge accounting are not revalued to market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

The forward foreign exchange contracts and currency swaps that meet the exceptional criteria to apply hedge accounting are not revalued to market value, but assets and liabilities denominated in foreign currencies hedged by forward foreign exchange contracts are translated at the contracted rates of exchange.

(ii) The derivatives designated as hedging instruments by the Company are mainly forward exchange contracts and interest swap agreements. The corresponding hedged items are accounts receivable and payable, future transactions denominated in foreign currencies, and long-term bank borrowings.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of fluctuations in foreign exchange and interest rates. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amounts of the hedged items.

(iii) The implementation and management of hedge transactions are carried out to hedge fluctuation risk of currency rates and interest rates in accordance with internal regulations that provide transaction and authorization limits.

(6) Depreciation and amortization

(a) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Depreciation of these assets of the Company and its domestic consolidated subsidiaries is computed principally on the declining-balance method, at rates based on the estimated useful lives of the assets. Depreciation of buildings, acquired on or after April 1, 1998, is computed on the straight-line method, at rates based on the estimated useful lives of the assets. The estimated useful life over which the asset is depreciated and the treatment of residual value of the Company and its domestic consolidated subsidiaries are principally determined according to the same standards set out in the Corporation Tax Act of Japan.

Depreciation of the assets of the overseas consolidated subsidiaries is computed principally on the straight-line method.

(b) Intangible assets (excluding leased assets)

Intangible assets are principally amortized by the straight-line method.

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

(c) Leased assets

Finance lease transactions that transfer ownership:

The leased assets are depreciated using the same method as the assets in the Company's possession.

Finance lease transactions that do not transfer ownership:

The leased assets are fully depreciated using the straight-line method over the lease term, which represents the expected useful life. However, the leased assets with guaranteed residual value are depreciated to the amount of the residual value.

In addition, finance lease transactions that do not transfer ownership prior to April 1, 2008, are accounted for in a manner similar to accounting for an ordinary rental transaction.

(7) Goodwill and negative goodwill

Goodwill is amortized on the straight-line basis over its estimated useful life. However, in the case the materiality is low, it is fully amortized when it arose. Furthermore, the negative goodwill recognized before March 31, 2010, is amortized on the straight-line basis over its estimated useful life.

(8) Allowance for doubtful accounts

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

(9) Liabilities for retirement benefits

(a) Allocation method of projected retirement benefits to periods of services

In calculating the retirement benefit obligations, the straight-line method is used to allocate projected retirement benefits during the year ended March 31, 2014.

(b) Amortization methods of unrecognized prior service costs and actuarial gains and losses

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

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

3. Changes in significant accounting policies

(1) The Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30; December 25, 2013) became applicable from the beginning of the first fiscal year that ends after the issue of the PITF. The Company applied the PITF in the year ended March 31, 2014, and recognizes the differences between the value received in exchange for treasury stock and its book value when it is disposed of and is transferred to the trust, where the net amount of a gain or loss on sale of treasury stock to the employee shareholding association by the trust, dividends from the Company for treasury stock held by the trust, and net costs associated with the trust are posted in liabilities.

(2) The Company applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26; May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012), except for the provisions of the main clauses of Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of the Guidance on Accounting Standard for Retirement Benefits from March 31, 2014. Upon its application, the Company

(10) Provision for losses on construction contracts

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

(11) Accounting policy for significant revenues and costs

Accounting policy for recognition of revenues and costs of construction work is as follows:

(a) Construction work, for which the outcome of the percentage completed at the balance sheet date is deemed certain:

Percentage-of-completion method (in which the percentage of completion is estimated based on the percentage of cost incurred relative to the estimated total cost)

(b) Other construction work:

Completed-contract method

(12) Japanese consumption taxes

Consumption taxes withheld by the Company and its domestic consolidated subsidiaries on sales of products are not included in the amount of "Net sales" in the accompanying consolidated statements of income and comprehensive income. Equally, any consumption taxes borne by the Company and its domestic consolidated subsidiaries on goods, services and expenses are not included in the accompanying consolidated statements of income and comprehensive income, but are recorded as an asset or liability in the consolidated balance sheets.

has changed its accounting method and posted retirement benefit obligations, less plan assets, as "Assets for retirement benefits" and "Liabilities for retirement benefits." The Company also posted unrecognized actuarial gains and losses and unrecognized prior service costs in "Assets for retirement benefits" and "Liabilities for retirement benefits."

The application of the Accounting Standard for Retirement Benefits and the Guidance is subject to the transitional provisions stipulated in Article 37 of the Accounting Standard for Retirement Benefits, and the effects of the change in accounting policy are reflected in "Accumulated adjustment on retirement benefits" in "Accumulated other comprehensive income" as of March 31, 2014.

Reflecting the change above, assets for retirement benefits of ¥268 million (\$2,610 thousand) and liabilities for retirement benefits of ¥8,681 million (\$84,853 thousand) were posted as of March 31, 2014. Deferred tax assets increased by ¥1,326 million (\$12,888 thousand), and minority interests decreased by ¥86 million (\$838 thousand). Accumulated other comprehensive income decreased by ¥2,194 million (\$21,318 thousand).

4. Accounting standards and related guidance issued but have not yet been applied

—Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013)

—Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013)

—Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013)

—Accounting Standard for Net Income Per Share (ASBJ Statement No. 2; September 13, 2013)

—Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10; September 13, 2013)

—Guidance on Accounting Standard for Net Income Per Share (ASBJ Guidance No. 4; September 13, 2013)

(a) Overview

In these revised accounting standards and related guidance above, changes have been made mainly in the areas of 1) accounting of changes in the parent company's interest in the subsidiaries upon additional acquisition of shares while maintaining control, 2) accounting of expenses for acquisition of shares in subsidiaries, 3) presentation of net income and change in the name of a line item to "Non-controlling interests" from "Minority interests," and 4) provisional accounting for business combination.

(b) Planned date of application

These revised accounting standards and related guidance are planned to be applied from the beginning of the year ending March 31, 2016. In addition, the revised provisional accounting for business combination are planned to be applied to business combinations carried out on and after the beginning of the year ending March 31, 2016.

5. Additional information

(1) Transactions of delivering the Company's own stock to employees etc. through trusts

To enhance employee benefits and welfare, the Company delivers its own stock through a trust to the employee shareholding association.

(a) Overview

Under the resolution adopted on December 12, 2013, the Company introduced an employee shareholding incentive plan through a trust (E-Ship, "the Plan"). The purpose of the Plan is to provide an incentive for the Company's employees to help enhance the Company's enterprise value in the medium to long term, to expand employee benefits and welfare, and to encourage the continuous development of the Company by boosting employees' morale through their capital participation as shareholders.

The Plan is an incentive plan for all employees who are members of the Daifuku Employee Shareholding Association ("the Shareholding Association"). In the Plan, the Company has set up a trust exclusively for the Shareholding Association ("the E-Ship Trust") at a trust bank. The E-Ship Trust acquires shares of the Company that it anticipates the Shareholding Association will acquire in the next three years through a "specified-party allocation" method of shares by the Company, using borrowed money.

(c) Impact of applying the revised accounting standards and related guidance

The financial impact of applying the revised accounting standards and related guidance is under review at the time the consolidated financial statements for the year ended March 31, 2014, are prepared.

—Accounting Standard for Retirement Benefits (ASBJ Statement No. 26; May 17, 2012)

—Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25; May 17, 2012)

(a) Overview

In these revised accounting standards and related guidance above, the accounting methods of unrecognized actuarial gains and losses and unrecognized prior service costs, as well as the calculation methods of retirement benefit obligations and service costs, have been revised. In addition, the disclosure of these items has been enhanced from the standpoint of improving financial reporting and in light of international trends.

(b) Planned date of application

These revised calculation methods of retirement benefit obligations and service costs are planned to be applied from the beginning of the year ending March 31, 2015.

(c) Impact of applying the revised accounting standards and related guidance

By applying these accounting standards and related guidance, operating income, ordinary income and income before income taxes and minority interests for the year ending March 31, 2015, are all expected to increase by ¥36 million (\$350 thousand).

Subsequently, the E-Ship Trust regularly sells shares of the Company to the Shareholding Association. If the equivalent of gains on sale of shares is accumulated upon termination of the trust, it will be distributed to qualified beneficiaries as residual assets. The Company provides loan guarantees for the E-Ship's borrowings to purchase shares of the Company, and if the E-Ship has outstanding debts equivalent to losses on sale of shares upon termination of the trust, the Company will repay the outstanding debts under the guarantee agreement.

(b) The Company's shares remaining at the trust

The Company posts the book value of shares of the Company, which are unsold to the Shareholding Association and, therefore, remaining in the trust (excluding incidental expenses), as treasury stock in net assets. The book value and the number of the treasury stock were ¥537 million (\$5,223 thousand) and 423 thousand shares, respectively, for the year ended March 31, 2014.

(c) The book value of borrowings posted using the "Gross method"

¥537 million (\$5,219 thousand) for the year ended March 31, 2014

6. United States dollar amounts

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥102.92 to U.S. \$1, being the effective rate of exchange at March 31, 2014.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at a rate of ¥102.92 to U.S. \$1 or at any other rate.

7. Accumulated depreciation of property, plant and equipment

Accumulated depreciation of property, plant and equipment was ¥50,370 million (\$489,414 thousand) and ¥47,550 million as of March 31, 2014 and 2013, respectively.

8. Inventories related to construction contracts with probable loss and provision for losses on construction contracts

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

The amount of inventories related to construction contracts with probable loss, for which provision for losses on construction contracts is provided, totaled ¥58 million (\$566 thousand) and ¥35 million as of March 31, 2014 and 2013, respectively.

9. Notes due at the end of the fiscal year

The settlement of notes due at the end of the fiscal year is recorded on the actual settlement date, rather than the due date. Since the end of the fiscal year fell on a bank holiday, ¥621 million in

notes receivable due at the end of the fiscal year is included in the consolidated balance sheets as of March 31, 2013.

10. Financial instruments

(1) Status of financial instruments

(a) Policy for financial instruments

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

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

Trade receivables (notes and accounts receivable and unbilled receivables) are exposed to customer credit risks. The Group manages such risk by following its credit control regulations. As a rule, when entering a transaction with a new customer, the Group carefully makes credit decisions, after which the sales administration of each operating division monitors the customer's condition periodically. The Group is then able to discern and lessen the risks resulting from a downturn of the financial situations on a

customer-by-customer basis, by managing each customer's due dates and outstanding balances. Trade receivables denominated in foreign currencies are exposed to the risk of foreign currency exchange rate fluctuations, but such risk is managed and mitigated principally by using forward foreign exchange contracts.

Investment securities (investments in securities), mainly consisting of equity securities of customers and suppliers with whom the Group has business relationships, are exposed to the risk of market price fluctuations. With respect to the risk of impairment, the Group periodically monitors market prices of the securities and financial conditions of the issuers.

Trade payables (notes and accounts payable and construction contracts payable) are mostly due within one year. Trade payables include amounts related to overseas construction work and are denominated in foreign currencies and, as such, are exposed to currency exchange rate fluctuation risk. However, the balance of these accounts consistently stays within the outstanding total amount of foreign currency-denominated trade accounts receivable.

Of the borrowings, short-term borrowings are used for raising funds mainly for working capital, while long-term borrowings and corporate bonds are funding primarily for capital investment (investments in property, plant and equipment). Borrowings with variable interest rates (floating-rate borrowings) are exposed to the interest rate fluctuation risk. However, with regard to the long-term

floating-rate borrowings, the Company uses interest rate swap transactions to fix the rate of future interest expenses as a hedge against the interest rate fluctuation risk.

Trade payables, borrowings and corporate bonds are all exposed to liquidity risk at the time of debt settlement. The Group manages such risk through active cash management, including the use of lending commitment lines from several financial institutions.

Derivative transactions are executed in accordance with the Company's internal derivative control regulations, which include transaction authorization, administrative structure and minimum credit ratings for counterparties. For information regarding hedging instruments, hedged items, policy on hedging, evaluation methods for hedge effectiveness, refer to "Hedge accounting" described under the previously-specified "Summary of significant accounting policies."

(c) Supplementary explanation concerning fair values of financial instruments

The fair values of financial instruments include values based on the market price, and rationally calculated values in cases where market price is not readily available. In the calculation of such values, variable factors are also taken into consideration and, therefore, the values calculated may vary if different factors or assumptions are employed. The contract amounts and other information provided in Note 18 "Derivatives and hedging activities" are not necessarily indicative of the amounts of the actual market risk involved in derivative transactions.

(2) Fair values of financial instruments

The balance sheet carrying amounts, fair values and unrealized gains/losses of the financial instruments as of March 31, 2014 and 2013, are as presented below. However, the financial instruments whose fair values are not readily determinable are excluded from these tables (see [Note 2] below):

For the year ended March 31, 2014:

| | (Million yen) | | |
|---|--|-----------------|-------------|
| | Carrying amount on consolidated balance sheets | Fair value | Variance |
| (1) Cash on hand and in banks | ¥ 52,132 | ¥ 52,132 | ¥ — |
| (2) Notes and accounts receivable and unbilled receivables | 74,217 | 74,217 | — |
| (3) Costs and estimated earnings in excess of billings on uncompleted contracts | 15,334 | 15,334 | — |
| (4) Investments in securities | | | |
| "Other securities" | 12,432 | 12,432 | — |
| Total assets | ¥154,117 | ¥154,117 | ¥ — |
| (1) Notes and accounts payable and construction contracts payable | ¥ 36,818 | ¥ 36,818 | ¥ — |
| (2) Electronically recorded obligations - operating | 10,061 | 10,061 | — |
| (3) Short-term borrowings and current portion of long-term borrowings | 7,014 | 7,014 | — |
| (4) Current portion of bonds | — | — | — |
| (5) Bonds | 2,700 | 2,693 | 6 |
| (6) Bonds with stock acquisition rights | 15,131 | 15,021 | 109 |
| (7) Long-term borrowings | 33,298 | 33,231 | 66 |
| Total liabilities | ¥105,025 | ¥104,842 | ¥182 |
| Derivative transactions (*) | ¥ (46) | ¥ (46) | ¥ — |

For the year ended March 31, 2013:

| | (Million yen) | | |
|---|--|-----------------|------------|
| | Carrying amount on consolidated balance sheets | Fair value | Variance |
| (1) Cash on hand and in banks | ¥ 33,735 | ¥ 33,735 | ¥ — |
| (2) Notes and accounts receivable and unbilled receivables | 68,826 | 68,826 | — |
| (3) Costs and estimated earnings in excess of billings on uncompleted contracts | 13,138 | 13,138 | — |
| (4) Investments in securities | | | |
| "Other securities" | 9,897 | 9,897 | — |
| Total assets | ¥125,597 | ¥125,597 | ¥ — |
| (1) Notes and accounts payable and construction contracts payable | ¥ 36,553 | ¥ 36,553 | ¥ — |
| (2) Electronically recorded obligations - operating | — | — | — |
| (3) Short-term borrowings and current portion of long-term borrowings | 28,221 | 28,221 | — |
| (4) Current portion of bonds | 6,000 | 6,000 | — |
| (5) Bonds | — | — | — |
| (6) Bonds with stock acquisition rights | — | — | — |
| (7) Long-term borrowings | 19,163 | 19,127 | 36 |
| Total liabilities | ¥ 89,939 | ¥ 89,903 | ¥36 |
| Derivative transactions (*) | ¥ (9) | ¥ (9) | ¥ — |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | |
|---|--|--------------------|----------------|
| | Carrying amount on consolidated balance sheets | Fair value | Variance |
| (1) Cash on hand and in banks | \$ 506,537 | \$ 506,537 | \$ — |
| (2) Notes and accounts receivable and unbilled receivables | 721,121 | 721,121 | — |
| (3) Costs and estimated earnings in excess of billings on uncompleted contracts | 148,993 | 148,993 | — |
| (4) Investments in securities “Other securities” | 120,795 | 120,795 | — |
| Total assets | \$1,497,448 | \$1,497,448 | \$ — |
| (1) Notes and accounts payable and construction contracts payable | \$ 357,741 | \$ 357,741 | \$ — |
| (2) Electronically recorded obligations - operating | 97,764 | 97,764 | — |
| (3) Short-term borrowings and current portion of long-term borrowings | 68,158 | 68,158 | — |
| (4) Current portion of bonds | — | — | — |
| (5) Bonds | 26,233 | 26,174 | 59 |
| (6) Bonds with stock acquisition rights | 147,019 | 145,954 | 1,065 |
| (7) Long-term borrowings | 323,536 | 322,890 | 645 |
| Total liabilities | \$1,020,453 | \$1,018,683 | \$1,769 |
| Derivative transactions (*) | \$ (449) | \$ (449) | \$ — |

(*) Net debt and credit that resulted from derivative transactions are presented as the net amount. Therefore, the amounts in parentheses indicate net debt.

[Note 1] Calculation methods of fair values of financial instruments and related information concerning investment in securities and derivative transactions:

Assets

(1) Cash on hand and in banks, (2) Notes and accounts receivable and unbilled receivables, (3) Costs and estimated earnings in excess of billings on uncompleted contracts These assets are recorded using book values because their fair values approximate book values reflective of their short-term maturity nature.

(4) Investments in securities

The fair values of these securities are determined using the quoted prices at the stock exchange. For information concerning marketable securities classified by the category of holding purposes, see Note 11 “Investments in securities.”

Liabilities

(1) Notes and accounts payable and construction contracts payable, (2) Electronically recorded obligations - operating, (3) Short-term borrowings and current portion of long-term borrowings, (4) Current portion of bonds.

These liabilities are recorded using book values because their fair values approximate book values reflective of their short-term maturity nature.

(5) Bonds, (6) Bonds with stock acquisition rights, (7) Long-term borrowings

The fair values of these items are determined by discounting the aggregate amounts of the principal and interests using estimated interest rates assuming that the same type of bonds and borrowings are newly made. Long-term borrowings bearing variable interest rates (floating-rate borrowings) are subject to the exceptional treatment applicable to interest rate swap transactions (see Note 18 “Derivatives and hedging activities”) and, therefore, their fair values are determined by discounting the aggregate amounts of the principal and interests (that are treated together with the relevant interest rate swap transactions) using the reasonably estimated interest rates, assuming that the same type of borrowings are newly made.

Derivative transactions

Please refer to Note 18 “Derivatives and hedging activities.”

[Note 3] The expected settlement subsequent to the balance sheet date for monetary assets and investments in securities with maturity dates:

For the year ended March 31, 2014:

| | (Million yen) | | | |
|---|---------------------|--|---|---------------------|
| | Due within one year | Due after one year and within five years | Due after five years and within ten years | Due after ten years |
| Cash on hand and in banks | ¥ 52,132 | ¥— | ¥— | ¥— |
| Notes and accounts receivable and unbilled receivables | 74,217 | — | — | — |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 15,334 | — | — | — |
| Total | ¥141,685 | ¥— | ¥— | ¥— |

For the year ended March 31, 2013:

| | (Million yen) | | | |
|---|---------------------|--|---|---------------------|
| | Due within one year | Due after one year and within five years | Due after five years and within ten years | Due after ten years |
| Cash on hand and in banks | ¥ 33,735 | ¥— | ¥— | ¥— |
| Notes and accounts receivable and unbilled receivables | 68,826 | — | — | — |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 13,138 | — | — | — |
| Total | ¥115,700 | ¥— | ¥— | ¥— |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | |
|---|-------------------------|--|---|---------------------|
| | Due within one year | Due after one year and within five years | Due after five years and within ten years | Due after ten years |
| Cash on hand and in banks | \$ 506,537 | \$— | \$— | \$— |
| Notes and accounts receivable and unbilled receivables | 721,121 | — | — | — |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 148,993 | — | — | — |
| Total | \$1,376,652 | \$— | \$— | \$— |

[Note 4] The expected redemption subsequent to the balance sheet date for bonds, long-term borrowings and other interest-bearing liabilities:

For the year ended March 31, 2014:

| | (Million yen) | | | | | |
|-------------------------------------|---------------------|---|--|---|--|----------------------|
| | Due within one year | Due after one year and within two years | Due after two years and within three years | Due after three years and within four years | Due after four years and within five years | Due after five years |
| Short-term borrowings | ¥7,014 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds | — | — | — | — | 2,700 | — |
| Bonds with stock acquisition rights | — | — | — | 15,000 | — | — |
| Long-term borrowings | — | 4,741 | 2,397 | 14,960 | 10,800 | 400 |
| Total | ¥7,014 | ¥4,741 | ¥2,397 | ¥29,960 | ¥13,500 | ¥400 |

For the year ended March 31, 2013:

| | (Million yen) | | | | | |
|--------------------------|---------------------|---|--|---|--|----------------------|
| | Due within one year | Due after one year and within two years | Due after two years and within three years | Due after three years and within four years | Due after four years and within five years | Due after five years |
| Short-term borrowings | ¥28,221 | ¥— | ¥ — | ¥ — | ¥ — | ¥— |
| Current portion of bonds | 6,000 | — | — | — | — | — |
| Long-term borrowings | — | 88 | 4,459 | 114 | 14,500 | — |
| Total | ¥34,221 | ¥88 | ¥4,459 | ¥114 | ¥14,500 | ¥— |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | | | |
|-------------------------------------|-------------------------|---|--|---|--|----------------------|
| | Due within one year | Due after one year and within two years | Due after two years and within three years | Due after three years and within four years | Due after four years and within five years | Due after five years |
| Short-term borrowings | \$68,158 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Bonds | — | — | — | — | 26,233 | — |
| Bonds with stock acquisition rights | — | — | — | 145,744 | — | — |
| Long-term borrowings | — | 46,065 | 23,292 | 145,355 | 104,935 | 3,886 |
| Total | \$68,158 | \$46,065 | \$23,292 | \$291,099 | \$131,169 | \$3,886 |

11. Investments in securities

“Other securities” with carrying amounts on the consolidated balance sheets that exceed their acquisition costs were as follows:

| (Million yen) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2014 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | ¥7,618 | ¥12,264 | ¥4,646 |

| (Million yen) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2013 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | ¥6,913 | ¥9,558 | ¥2,644 |

| (U.S. thousand dollars) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2014 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | \$74,019 | \$119,169 | \$45,150 |

“Other securities” with carrying amounts on the consolidated balance sheets that do not exceed their acquisition costs were as follows:

| (Million yen) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2014 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | ¥177 | ¥167 | ¥(10) |

| (Million yen) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2013 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | ¥369 | ¥339 | ¥(30) |

| (U.S. thousand dollars) | | | |
|----------------------------|------------------|--|------------|
| March 31, 2014 | | | |
| | Acquisition cost | Carrying amount on consolidated balance sheets | Difference |
| Investments in securities: | | | |
| Equity securities | \$1,728 | \$1,626 | \$(101) |

The acquisition costs in the above tables are representative of book value after impairment adjustment.

The Company did not record an impairment loss for the years ended March 31, 2014 and 2013.

In general, the Company recognizes an impairment loss when the fair value of the security decreases by 50% or more from the acquisition cost. Furthermore, the Company recognizes an impairment loss when the fair value of the security continuously decreases for two years by 40% or more and below 50% from the acquisition cost.

“Held-to-maturity debt securities” with market value as of March 31, 2014 and 2013:

Omitted due to no material securities being held

“Held-to-maturity debt securities” sold during the year ended March 31, 2014 and 2013:

Not applicable

“Other securities” sold during the years ended March 31, 2014 and 2013:

Not applicable

12. Investments in non-consolidated subsidiaries and affiliates

Investments in non-consolidated subsidiaries and affiliates that were included in “Investment in securities” were as follows:

| (Million yen) | | | (U.S. thousand dollars) |
|---------------------------|--------|--------|-------------------------|
| March 31 | 2014 | 2013 | 2014 |
| Investments in securities | ¥7,610 | ¥8,722 | \$73,944 |

13. Short-term borrowings, long-term borrowings, bonds and lease obligations

Short-term borrowings are principally bank borrowings.

The weighted average interest rate applicable to the short-term borrowings outstanding as of March 31, 2014, was 1.9%.

Short-term borrowings outstanding as of March 31, 2014 and 2013, were as follows:

| (Million yen) | | | (U.S. thousand dollars) |
|------------------------|--------|--------|-------------------------|
| March 31 | 2014 | 2013 | 2014 |
| Borrowings from banks: | | | |
| Unsecured | ¥6,724 | ¥4,286 | \$65,340 |

Long-term borrowings are principally bank borrowings.

The weighted average interest rate applicable to the long-term borrowings outstanding as of March 31, 2014, was 0.8%.

Long-term borrowings and bonds outstanding as of March 31, 2014 and 2013, were as follows:

| (Million yen) | | | (U.S. thousand dollars) |
|--|---------|---------|-------------------------|
| March 31 | 2014 | 2013 | 2014 |
| Borrowings, principally from banks: | | | |
| Secured and unsecured | ¥33,588 | ¥43,098 | \$326,353 |
| Less: portion due within one year | 289 | 23,935 | 2,817 |
| Sub total | 33,298 | 19,163 | 323,536 |
| Bonds | | | |
| 1.70% yen unsecured bonds, due 2014 | — | 2,000 | — |
| 2.02% yen unsecured bonds, due 2014 | — | 2,000 | — |
| 1.80% yen unsecured bonds, due 2014 | — | 2,000 | — |
| 0.50% yen unsecured bonds, due 2019 | 700 | — | 6,801 |
| 0.73% yen unsecured bonds, due 2019 | 2,000 | — | 19,432 |
| Japanese yen convertible bonds with stock acquisition rights, due 2017 | 15,131 | — | 147,019 |
| Sub total | 17,831 | 6,000 | 173,253 |
| Total | ¥51,129 | ¥25,163 | \$496,789 |

The 1.70% unsecured bonds in the principal amount of ¥2,000 million, due 2014, issued on January 30, 2009, were issued in Japan at their face value.

The 2.02% unsecured bonds in the principal amount of ¥2,000 million, due 2014, issued on March 25, 2009, were issued in Japan at their face value.

The 1.80% unsecured bonds in the principal amount of ¥2,000 million, due 2014, issued on March 25, 2009, were issued in Japan at their face value.

The 0.50% unsecured bonds in the principal amount of ¥700 million, due 2019, issued on March 25, 2014, were issued in Japan at their face value.

The 0.73% unsecured bonds in the principal amount of ¥2,000 million, due 2019, issued on March 25, 2014, were issued in Japan at their face value.

The details of convertible bonds with stock acquisition rights are as follows:

| March 31 | 2014 |
|--|---------------------------------------|
| Class of shares | Common stock |
| Issue price of stock acquisition rights | No cost |
| Issue price of shares | ¥1,406 (\$13.66) |
| Total amount of issue | ¥15,150 million (\$147,201 thousand) |
| Total amount of stock acquisition rights exercised | — |
| Percentage of stock acquisition rights granted | 100% |
| Exercise period | October 16, 2013 – September 15, 2017 |

Borrowings details

The aggregate annual maturity of long-term borrowings, other than the portion due within one year outstanding as of March 31, 2014, was as follows:

| Year ending March 31 | (Million yen) | (U.S. thousand dollars) |
|----------------------|----------------|-------------------------|
| 2016 | ¥ 4,741 | \$ 46,065 |
| 2017 | 2,397 | 23,292 |
| 2018 | 14,960 | 145,355 |
| 2019 | 10,800 | 104,935 |
| Total | ¥32,898 | \$319,649 |

Lease obligation details

Lease obligations outstanding as of March 31, 2014 and 2013, were as follows:

| March 31 | 2014 | 2013 | 2014 |
|-----------------------------------|---------------|---------------|-------------------------|
| | (Million yen) | (Million yen) | (U.S. thousand dollars) |
| Lease obligations | ¥2,006 | ¥848 | \$19,499 |
| Less: portion due within one year | 207 | 400 | 2,012 |
| Total | ¥1,799 | ¥448 | \$17,486 |

[Note 1] Average interest rates of lease obligations are not provided herein because, on the consolidated balance sheets, the amounts of lease obligations are presented inclusive of interest amounts payable as part of the total lease payments.

[Note 3] To secure timely and efficient financing of working capital, the Company entered into and maintains lending commitments with six banks that provide lines of credit up to ¥20,000 million in total.

[Note 2] The aggregate annual maturity of lease obligations, other than the portion due within one year, for five years subsequent to March 31, 2014, was as follows:

| Year ending March 31 | (Million yen) | (U.S. thousand dollars) |
|----------------------|---------------|-------------------------|
| 2016 | ¥196 | \$1,913 |
| 2017 | 183 | 1,787 |
| 2018 | 175 | 1,706 |
| 2019 | 157 | 1,532 |
| Total | ¥714 | \$6,940 |

14. Asset retirement obligations details

Since the amounts of asset retirement obligations as of March 31, 2014 and 2013, were less than 1% of the total liabilities and net assets as of March 31, 2014 and 2013, asset retirement obligations details were omitted.

15. Retirement benefit plans

For the year ended March 31, 2014

Employees who terminate their services with the Company or its domestic consolidated subsidiaries are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The Company and its domestic consolidated subsidiaries have defined contribution plans and hybrid type of pension plans (cash balance plans).

In addition, the Company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in the plan assets.

Certain of the overseas consolidated subsidiaries have defined contribution plans.

In defined contribution plans in certain of the consolidated subsidiaries, liabilities for retirement benefits and retirement benefit expenses are calculated using the simplified method.

(1) Movement of the balance at the beginning of the year to the balance at the end of the year of retirement benefit obligations (excluding the plans using the simplified method) were as follows:

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|--|----------------|-------------------------|
| Balance at beginning of year | ¥49,838 | \$484,240 |
| Service cost | 1,040 | 10,111 |
| Interest cost | 1,451 | 14,106 |
| Accrued actuarial gains and losses | (3,980) | (38,672) |
| Payments for retirement benefits | (1,805) | (17,541) |
| Foreign currency translation adjustments | 5,850 | 56,841 |
| Other | 0 | 0 |
| Balance at end of year | ¥52,395 | \$509,086 |

(2) Movement of the balance at the beginning of the year to the balance at the end of the year of plan assets (excluding the plans using the simplified method) were as follows:

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|--|----------------|-------------------------|
| Balance at beginning of year | ¥36,895 | \$358,490 |
| Expected return on plan assets | 1,883 | 18,302 |
| Accrued actuarial gains and losses | 1,530 | 14,867 |
| Employer contributions | 1,913 | 18,587 |
| Payments for retirement benefits | (1,523) | (14,802) |
| Foreign currency translation adjustments | 4,029 | 39,148 |
| Balance at end of year | ¥44,728 | \$434,594 |

(3) Movement of the balance at the beginning of the year to the balance at the end of the year of liabilities for retirement benefits in the plans using the simplified method were as follows:

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|--|---------------|-------------------------|
| Balance at beginning of year | ¥588 | \$5,719 |
| Retirement benefit expenses | 283 | 2,752 |
| Payments for retirement benefits | (28) | (276) |
| Employer contributions | (164) | (1,594) |
| Foreign currency translation adjustments | 47 | 463 |
| Other | (10) | (103) |
| Balance at end of year | ¥716 | \$6,960 |

(4) Reconciliation of the balance of retirement benefit obligations and plan assets at the end of the year, to that of liabilities for retirement benefits and assets for retirement benefits on the consolidated balance sheet were as follows (including the plans using the simplified method):

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|--|----------------|-------------------------|
| Retirement benefit obligations in funded plans | ¥53,087 | \$515,809 |
| Plan assets | (45,277) | (439,926) |
| | 7,809 | 75,883 |
| Retirement benefit obligations in unfunded plans | 573 | 5,569 |
| Other | 29 | 290 |
| Net liabilities and assets on consolidated balance sheets | 8,413 | 81,743 |
| Liabilities for retirement benefits | 8,681 | 84,353 |
| Assets for retirement benefits | (268) | (2,610) |
| Net liabilities and assets on consolidated balance sheets | ¥ 8,413 | \$ 81,743 |

(5) Details of retirement benefit expenses were as follows:

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|---|---------------|-------------------------|
| Service cost | ¥1,040 | \$10,111 |
| Interest cost | 1,451 | 14,106 |
| Expected return on plan assets | (1,883) | (18,302) |
| Amortization of actuarial gains and losses | 1,530 | 14,867 |
| Retirement benefit expenses using the simplified method | 283 | 2,752 |
| Other | (3) | (38) |
| Retirement benefit expenses on defined benefit plans | ¥2,418 | \$23,497 |

(6) Details of accumulated adjustments on retirement benefits before deduction of deferred tax was as follows:

| March 31, 2014 | (Million yen) | (U.S. thousand dollars) |
|---|---------------|-------------------------|
| Unrecognized actuarial gains and losses | ¥3,606 | \$35,046 |
| Total | ¥3,606 | \$35,046 |

(7) Matters regarding plan assets

Percentages of each item of the plan assets were as follows:

| | (%) |
|------------------------------------|------|
| Shares/Equity securities | 47% |
| Bonds | 31 |
| General accounts at life insurance | 11 |
| Cash on hand and in banks | 4 |
| Other | 7 |
| Total | 100% |

[Note] Total amount of plan assets includes the employee retirement benefit trust of 12%.

To determine the expected long-term return on plan assets, the Company considers the current and forecast allocation of plan assets and the current and expected long-term return on the diverse assets that compose the plan assets.

(8) Assumption for actuarial calculations as of March 31, 2014, were as follows:

| | |
|--|-------------|
| Discount rate | 1.4 – 9.0% |
| Expected rate of long-term return on plan assets | 1.5 – 8.25% |

The amount of contributions required under the defined contribution plans of the Company and its consolidated subsidiaries was ¥1,368 million (\$13,299 thousand) for the year ended March 31, 2014.

For the year ended March 31, 2013

Employees who terminate their services with the Company or its domestic consolidated subsidiaries are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The Company and its domestic consolidated subsidiaries have defined contribution plans and hybrid type of pension plans (cash balance plans).

Certain of the overseas consolidated subsidiaries have defined contribution plans.

The Company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in the plan assets.

Retirement benefit obligations as of March 31, 2013, were as follows:

| March 31, 2013 | (Million yen) |
|---|---------------|
| (1) Retirement benefit obligations | ¥(50,309) |
| (2) Plan assets | 37,209 |
| (3) Unfunded retirement benefit obligations ((1)+(2)) | (13,100) |
| (4) Unrecognized actuarial gains and losses | 8,713 |
| (5) Unrecognized prior service obligations | 0 |
| (6) Prepaid pension cost | 325 |
| (7) Provision for retirement benefits recognized on balance sheet ((3)+(4)+(5)-(6)) | ¥ (4,712) |

[Note] In certain subsidiaries, retirement benefit obligations are calculated using the simplified method.

Retirement benefit expenses for the year ended March 31, 2013, were as follows:

| March 31, 2013 | (Million yen) |
|--|---------------|
| Service cost | ¥1,137 |
| Interest cost | 1,404 |
| Expected return on plan assets | (1,398) |
| Amortization of actuarial gains and losses | 2,550 |
| Amortization of prior service obligations | 0 |
| Retirement benefit expenses | 3,694 |
| Other | 564 |
| Total | ¥4,258 |

[Note 1] Retirement benefit expenses of consolidated subsidiaries calculated using the simplified method are included in "Service cost" above.

[Note 2] "Other" represents the amount of contributions required under the defined contribution plans.

The basis for the calculation of the retirement benefit obligations was as follows:

| March 31, 2013 | |
|---|---------------------------------|
| Discount rate | Mainly 1.4% |
| Expected rate of return on plan assets | Mainly 1.0% |
| Method of allocating the projected retirement benefits to periods of services | Mainly on a straight-line basis |
| Amortization of actuarial gains and losses | Mainly 5 years |
| Amortization of prior service obligations | Mainly 5 years |

16. Lease commitments

The finance lease transactions, which do not transfer the ownership of the leased assets, other than those for which the commencement of lease transactions fell prior to the initial fiscal year of the application of "Accounting Standard for Lease Transactions," for the years ended March 31, 2014 and 2013, were summarized as follows:

(1) Amount of leased assets for acquisition cost equivalent, accumulated depreciation equivalent and net book value equivalent:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|-------------------------------------|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Machinery and vehicles | ¥628 | ¥628 | \$6,109 |
| Tools and fixtures | — | 16 | — |
| Sub total | 628 | 645 | 6,109 |
| Accumulated depreciation equivalent | 524 | 469 | 5,093 |
| Net book value equivalent | ¥104 | ¥175 | \$1,015 |

The amounts equivalent to the acquisition cost of leased assets are calculated based upon the inputted interest method because future minimum lease payments account for only a small proportion of property, plant and equipment.

(2) The future minimum lease payments required under the terms of these finance leases as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---------------------|---------------|-------------|-------------------------|
| | 2014 | 2013 | 2014 |
| Due within one year | ¥ 67 | ¥ 71 | \$ 658 |
| Due after one year | 36 | 104 | 357 |
| Total | ¥104 | ¥175 | \$1,015 |

The amounts equivalent to the future minimum lease payments are calculated based upon the inputted interest method because future minimum lease payments account for only a small proportion of property, plant and equipment.

(3) Lease payments and depreciation equivalent

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|-------------------------|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Lease payments | ¥71 | ¥100 | \$693 |
| Depreciation equivalent | ¥71 | ¥100 | \$693 |

(4) Method of calculating depreciation equivalent amount and interest equivalent for leases

The leased assets are fully depreciated using the straight-line method over the lease term, which represents the expected useful life. However, the leased assets with guaranteed residual value are depreciated to the amount of the residual value.

Operating leases

The future minimum lease payments for non-cancellable leases as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---------------------|---------------|---------------|-------------------------|
| | 2014 | 2013 | 2014 |
| Due within one year | ¥ 458 | ¥ 307 | \$ 4,457 |
| Due after one year | 1,305 | 1,456 | 12,682 |
| Total | ¥1,763 | ¥1,763 | \$17,139 |

Impairment loss on leased assets

For the years ended March 31, 2014 and 2013, there was no impairment loss on leased assets.

17. Contingent liabilities

The contingent liabilities as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|------------|-------------------------|
| | 2014 | 2013 | 2014 |
| Guarantee for bank borrowings of non-consolidated subsidiaries and affiliates | ¥55 | ¥65 | \$534 |
| Total | ¥55 | ¥65 | \$534 |

18. Derivatives and hedging activities

(1) Derivative transactions to which the Group did not apply hedge accounting

For the years ended March 31, 2014 and 2013:

Not applicable

(2) Derivative transactions subject to hedge accounting

(a) Currency-related

For the year ended March 31, 2014:

| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value | |
|---|------------------------------------|---|-----------------|-----------------------------|---------------|--|--|
| | | | | Of which due after one year | | | |
| Principal method | Forward exchange contracts Sell | Accounts receivable (future transactions) | ¥ 750 | ¥ — | ¥ 754 | Determined at the quoted prices at forward exchange rates market | |
| | | | 827 | — | 865 | | |
| | | | 121 | — | 120 | | |
| | | | 74 | — | 82 | | |
| | | | 33 | — | 34 | | |
| | Buy | Accounts payable (future transactions) | (33) | — | (36) | | |
| | | | U.S. dollar | | | | |
| | | | U.S. dollar | | | | |
| | | | U.S. dollar | | | | |
| | | | U.S. dollar | | | | |
| Exceptional treatment of forward exchange contracts | Forward exchange contracts Sell | Accounts receivable | 1,053 | — | (*1) | | |
| | | | 56 | — | | | |
| | | | 105 | — | | | |
| | | | 151 | — | | | |
| | Buy | Accounts payable | (7) | — | | | |
| | | | U.S. dollar | | | | |
| | Currency swaps | Long-term borrowings | 6,000 | 6,000 | (*2) | | |
| | | | U.S. dollar | | | | |
| | Total | | | ¥9,133 | ¥6,000 | ¥1,819 | |

For the year ended March 31, 2013:

| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value |
|---|------------------------------------|---|-----------------|-----------------------------|-------------|--|
| | | | | Of which due after one year | | |
| Principal method | Forward exchange contracts Sell | Accounts receivable (future transactions) | ¥ 433 | ¥ — | ¥486 | Determined at the quoted prices at forward exchange rates market |
| | | | 70 | — | 70 | |
| | | | 110 | — | 110 | |
| | Buy | Accounts payable (future transactions) | (247) | — | (283) | |
| | | | U.S. dollar | | | |
| | | | Korean won | | | |
| | | | Korean won | | | |
| Exceptional treatment of forward exchange contracts | Forward exchange contracts Sell | Accounts receivable | 1,077 | — | (*1) | |
| | | | 409 | — | | |
| | | | 12 | — | | |
| | Buy | Accounts payable | (24) | — | | |
| | | | U.S. dollar | | | |
| | Currency swaps | Long-term borrowings | 4,000 | 4,000 | (*2) | |
| | | | U.S. dollar | | | |
| Total | | | ¥5,774 | ¥4,000 | ¥308 | |

For the year ended March 31, 2014:

| | | | | | | (U.S. thousand dollars) |
|---|------------------------------------|---|-----------------|-----------------------------|------------|--|
| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value |
| | | | | Of which due after one year | | |
| Principal method | Forward exchange contracts | | | | | Determined at the quoted prices at forward exchange rates market |
| | Sell | Accounts receivable (future transactions) | | | | |
| | U.S. dollar | | \$ 7,289 | \$ — | \$ 7,330 | |
| | Euro | | 8,040 | — | 8,409 | |
| | Canadian dollar | | 1,179 | — | 1,168 | |
| | Korean won | | 722 | — | 798 | |
| New Taiwan dollar | | 324 | — | 333 | | |
| Buy | | Accounts payable (future transactions) | | | | |
| U.S. dollar | | | (325) | — | (357) | |
| Exceptional treatment of forward exchange contracts | Forward exchange contracts | | | | | |
| | Sell | Accounts receivable | | | (*1) | |
| | U.S. dollar | | 10,232 | — | | |
| | Euro | | 552 | — | | |
| | Canadian dollar | | 1,027 | — | | |
| | Korean won | | 1,467 | — | | |
| Buy | | Accounts payable | | | | |
| U.S. dollar | | | (68) | — | | |
| Currency swaps | | Long-term borrowings | | | (*2) | |
| U.S. dollar | | | 58,297 | 58,297 | | |
| Total | | | \$88,740 | \$58,297 | \$17,681 | |

(*1) Forward exchange contracts with exceptional treatment are accounted for together with the principal hedged items of notes and accounts receivable and unbilled receivables; therefore, the fair values of notes and accounts receivable and unbilled receivables include those of the forward exchange contracts.

(*2) Currency swaps with exceptional treatment are accounted for together with the principal hedged item of long-term borrowings; therefore, the fair value of long-term borrowings includes those of the currency swaps.

(b) Interest-related

For the year ended March 31, 2014:

| | | | | | | (Million yen) |
|--|------------------------------------|-----------------------|-----------------|-----------------------------|------------|--------------------------------------|
| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value |
| | | | | Of which due after one year | | |
| Exceptional treatment of interest rate swaps | Interest rate swaps | Long-term borrowings | | | | |
| | Fixed payment/ Variable receipt | | ¥27,920 | ¥27,660 | (*) | |
| Total | | | ¥27,920 | ¥27,660 | ¥— | |

For the year ended March 31, 2013:

| | | | | | | (Million yen) |
|--|------------------------------------|-----------------------|-----------------|-----------------------------|------------|--------------------------------------|
| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value |
| | | | | Of which due after one year | | |
| Exceptional treatment of interest rate swaps | Interest rate swaps | Long-term borrowings | | | | |
| | Fixed payment/ Variable receipt | | ¥38,544 | ¥15,904 | (*) | |
| Total | | | ¥38,544 | ¥15,904 | ¥— | |

For the year ended March 31, 2014: (U.S. thousand dollars)

| | | | | | | (U.S. thousand dollars) |
|--|------------------------------------|-----------------------|-----------------|-----------------------------|------------|--------------------------------------|
| Method of hedge accounting | Category of derivative transaction | Principal hedged item | Contract amount | | Fair value | Method of calculating the fair value |
| | | | | Of which due after one year | | |
| Exceptional treatment of interest rate swaps | Interest rate swaps | Long-term borrowings | | | | |
| | Fixed payment/ Variable receipt | | \$271,278 | \$268,752 | (*) | |
| Total | | | \$271,278 | \$268,752 | \$— | |

(*) Interest rate swaps with exceptional treatment are accounted for together with the principal hedged item of long-term borrowings; therefore, the fair value of long-term borrowings includes those of the interest rate swaps.

19. Consolidated statements of changes in net assets

(1) Matters regarding issued shares:

For the year ended March 31, 2014:

| Class of shares | (Thousand shares) | | | |
|-----------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2013 | Increase | Decrease | As of March 31, 2014 |
| Common stock | 113,671 | — | — | 113,671 |

For the year ended March 31, 2013:

| Class of shares | (Thousand shares) | | | |
|-----------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2012 | Increase | Decrease | As of March 31, 2013 |
| Common stock | 113,671 | — | — | 113,671 |

(2) Matters regarding treasury stock:

For the year ended March 31, 2014:

| Class of shares | (Shares) | | | |
|-----------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2013 | Increase | Decrease | As of March 31, 2014 |
| Common stock | 3,022,663 | 469,213 | 479,486 | 3,012,390 |

[Note 1] Details of increases in the number of treasury stock were as follows:

- Increased by 18,213 shares due to the purchase of less-than-a-unit shares
 - Increased by 451,000 shares through the acquisition by The Nomura Trust Banking Co., Ltd. under the E-Ship program
- Details of decreases in the number of treasury stock were as follows:
- Decreased by 486 shares due to the sale of less-than-a-unit shares
 - Decreased by 451,000 shares due to the disposal to The Nomura Trust Banking Co., Ltd. under the E-Ship program
 - Decreased by 28,000 shares due to the sale to Daifuku Employee Shareholding Association from Nomura Trust Banking under the E-Ship program

[Note 2] Under the resolution adopted on December 12, 2013, the Company introduced an employee shareholding incentive plan through a trust ("E-Ship"). At the same time, the Company resolved to dispose 451,000 shares of treasury stock to The Nomura Trust Banking Co., Ltd. as a third-party allotment, which was implemented on January 9, 2014. As of March 31, 2014, the number of treasury stock includes 423,000 shares of the Company's common stock held by the trust.

For the year ended March 31, 2013:

| Class of shares | (Shares) | | | |
|-----------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2012 | Increase | Decrease | As of March 31, 2013 |
| Common stock | 3,016,058 | 6,605 | — | 3,022,663 |

[Note] Treasury stock increased by 6,605 shares due to the purchase of less-than-a-unit shares.

(3) Matters regarding stock acquisition rights:

For the year ended March 31, 2014

| Class of shares | Number of shares | | | Outstanding amount | | |
|---|---------------------|----------|----------|----------------------|----------------------|----|
| | (Thousand shares) | | | (Million yen) | | |
| | As of April 1, 2013 | Increase | Decrease | As of March 31, 2014 | As of March 31, 2014 | |
| Stock acquisition rights for Japanese yen convertible bonds, due 2017 | Common stock | — | 10,668 | — | 10,668 | ¥— |
| Total | | — | 10,668 | — | 10,668 | ¥— |

[Note] The number of shares is based on the assumption that the stock acquisition rights were exercised.

(4) Matters regarding dividends:

(a) Dividends paid during the year ended March 31, 2014:

| Resolution adopted | Class of shares | Aggregate amount (Million yen) | Amount per share (Yen) | Record date | Effective date |
|--|-----------------|--------------------------------|------------------------|--------------------|------------------|
| Board of Directors' meeting on May 14, 2013 | Common stock | ¥1,106 | ¥10 | March 31, 2013 | June 27, 2013 |
| Board of Directors' meeting on November 12, 2013 | Common stock | 553 | 5 | September 30, 2013 | December 6, 2013 |

For the year ended March 31, 2013:

| Resolution adopted | Class of shares | Aggregate amount (Million yen) | Amount per share (Yen) | Record date | Effective date |
|--|-----------------|--------------------------------|------------------------|--------------------|------------------|
| Board of Directors' meeting on May 14, 2012 | Common stock | ¥1,106 | ¥10 | March 31, 2012 | June 29, 2012 |
| Board of Directors' meeting on November 12, 2012 | Common stock | 553 | 5 | September 30, 2012 | December 7, 2012 |

For the year ended March 31, 2014:

| Resolution adopted | Class of shares | Aggregate amount (U.S. thousand dollars) | Amount per share (U.S. dollars) | Record date | Effective date |
|--|-----------------|--|---------------------------------|--------------------|------------------|
| Board of Directors' meeting on May 14, 2013 | Common stock | \$10,750 | \$0.09 | March 31, 2013 | June 27, 2013 |
| Board of Directors' meeting on November 12, 2013 | Common stock | 5,375 | 0.04 | September 30, 2013 | December 6, 2013 |

(b) Dividends with a record date during the year ended March 31, 2014, payable in the following fiscal year

For the year ended March 31, 2014:

| Resolution adopted | Class of shares | Source of dividends | Aggregate amount (Million yen) | Amount per share (Yen) | Record date | Effective date |
|---|-----------------|---------------------|--------------------------------|------------------------|----------------|----------------|
| Board of Directors' meeting on May 14, 2014 | Common stock | Retained earnings | ¥1,444 | ¥13 | March 31, 2014 | June 27, 2014 |

[Note] Aggregate amount of dividends includes dividends of ¥5 million on the Company's stocks held by The Nomura Trust Banking Co., Ltd. under the E-Ship program.

For the year ended March 31, 2013:

| Resolution adopted | Class of shares | Source of dividends | Aggregate amount (Million yen) | Amount per share (Yen) | Record date | Effective date |
|---|-----------------|---------------------|--------------------------------|------------------------|----------------|----------------|
| Board of Directors' meeting on May 14, 2013 | Common stock | Retained earnings | ¥1,106 | ¥10 | March 31, 2013 | June 27, 2013 |

For the year ended March 31, 2014:

| Resolution adopted | Class of shares | Source of dividends | Aggregate amount (U.S. thousand dollars) | Amount per share (U.S. dollars) | Record date | Effective date |
|---|-----------------|---------------------|--|---------------------------------|----------------|----------------|
| Board of Directors' meeting on May 14, 2014 | Common stock | Retained earnings | \$14,030 | \$0.12 | March 31, 2014 | June 27, 2014 |

20. Major items of selling, general and administrative expenses

Major items of selling, general and administrative expenses for the years ended March 31, 2014 and 2013, were as follows:

| | (Million yen) | | (U.S. thousand dollars) |
|-----------------------------|---------------|-------|-------------------------|
| | 2014 | 2013 | 2014 |
| March 31 | | | |
| Sales commissions | ¥ 656 | ¥ 416 | \$ 6,374 |
| Advertising | 199 | 143 | 1,937 |
| Outsourcing | 736 | 744 | 7,153 |
| Salaries and bonuses | 7,696 | 6,524 | 74,776 |
| Retirement benefit expenses | 465 | 665 | 4,524 |
| Welfare | 1,435 | 1,299 | 13,947 |
| Travel and transportation | 1,651 | 1,407 | 16,049 |
| Rent | 606 | 598 | 5,893 |
| Depreciation | 459 | 198 | 4,463 |

[Note] Reclassification
With application of the revised accounting standard for retirement benefits and to clarify the financial statement line items presented, the Company posted retirement benefit expenses of 465 million yen, consisting of provision for retirement benefits of ¥382 million (\$3,716 thousand) and provision for retirement reserve of ¥83 million (\$808 thousand), under selling expenses for the year ended March 31, 2014. To reflect this change in presentation, the consolidated financial statements for the year ended March 31, 2013, have been reclassified. Specifically, the Company reclassified 665 million yen to retirement benefit expenses for the year ended March 31, 2013, ¥582 million and ¥83 million of which had been presented as provision for retirement benefits and provision for retirement reserve, respectively, under selling expenses in the prior year presentation.

General and administrative expenses

| | (Million yen) | | (U.S. thousand dollars) |
|-----------------------------|---------------|--------|-------------------------|
| | 2014 | 2013 | 2014 |
| March 31 | | | |
| Outsourcing | ¥2,845 | ¥2,373 | \$27,643 |
| Directors' compensation | 843 | 815 | 8,197 |
| Salaries and bonuses | 6,530 | 5,122 | 63,450 |
| Retirement benefit expenses | 984 | 1,051 | 9,570 |
| Welfare | 925 | 783 | 8,996 |
| Depreciation | 1,774 | 1,330 | 17,240 |
| Research and development | 2,086 | 1,899 | 20,272 |

[Note] Reclassification
With application of the revised accounting standard for retirement benefits and to clarify the financial statement line items presented, the Group posted retirement benefit expenses of 984 million yen, consisting of provision for retirement benefits of ¥896 million (\$8,710 thousand) and provision for retirement reserve of ¥88 million (\$859 thousand), under general and administrative expenses for the year ended March 31, 2014. To reflect this change in presentation, the consolidated financial statements for the year ended March 31, 2013, have been reclassified. Specifically, the Company reclassified 1,051 million yen to retirement benefit expenses for the year ended March 31, 2013, ¥1,001 million and ¥50 million of which had been presented as provision for retirement benefits and provision for retirement reserve, respectively, under general and administrative expenses in the prior year presentation.

21. Provision for losses on construction contracts included in cost of sales

For the years ended March 31, 2014 and 2013, were as follows:

| | (Million yen) | | (U.S. thousand dollars) |
|--|---------------|--------|-------------------------|
| | 2014 | 2013 | 2014 |
| March 31 | | | |
| Provision for losses on construction contracts included in cost of sales | ¥(522) | ¥(107) | \$(5,076) |

22. Research and development

Research and development expenditures included in general expenses and manufacturing costs were ¥7,490 million (\$7,781 thousand) and ¥6,855 million for the years ended March 31, 2014 and 2013, respectively.

23. Loss on disposal of property, plant and equipment

Details of loss on disposal of property, plant and equipment for the years ended March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--------------------------|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Buildings and structures | ¥18 | ¥ 8 | \$175 |
| Machinery and vehicles | 39 | 86 | 382 |
| Tools and fixtures | 6 | 5 | 64 |
| Software | 0 | 12 | 0 |
| Other | 4 | 45 | 42 |

24. Gain on sales of property, plant and equipment

Major items of gain on sales of property, plant and equipment for the years ended March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--------------------------|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Buildings and structures | ¥— | ¥ 9 | \$— |
| Machinery and vehicles | 6 | 3 | 62 |
| Land | — | 146 | — |

25. Loss on sales of property, plant and equipment

Major items of loss on sales of property, plant and equipment for the years ended March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--------------------------|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Buildings and structures | ¥ (15) | ¥14 | \$ (155) |
| Machinery and vehicles | 33 | 31 | 325 |
| Tools and fixtures | 5 | 0 | 50 |
| Land | 370 | — | 3,603 |

[Note] A sale of land and buildings as a whole resulted in a loss on the sale of land of ¥370 million (\$3,603 thousand) and a gain on the sale of building of ¥32 million (\$311 thousand). They have been combined and recorded as a loss on sales of plant, property and equipment.

26. Consolidated statements of comprehensive income

Reclassification adjustment and deferred tax related to other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--|---------------|--------|-------------------------|
| | 2014 | 2013 | 2014 |
| Net unrealized gain on securities: | | | |
| Amount arising during the period | ¥2,041 | ¥2,277 | \$19,836 |
| Reclassification adjustment | (18) | — | (180) |
| Pretax amount | 2,023 | 2,277 | 19,656 |
| Deferred tax | (605) | (709) | (5,882) |
| Net unrealized gain on securities | ¥1,417 | ¥1,568 | \$13,774 |
| Deferred gain (loss) on hedges: | | | |
| Amount arising during the period | ¥ (46) | ¥ (9) | \$ (449) |
| Reclassification adjustment | 9 | (18) | 89 |
| Pretax amount | (37) | (27) | (360) |
| Deferred tax | 14 | 10 | 136 |
| Deferred gain (loss) on hedges | ¥ (23) | ¥ (17) | \$ (224) |
| Foreign currency translation adjustments: | | | |
| Amount arising during the period | ¥7,223 | ¥3,853 | \$70,185 |
| Reclassification adjustment | (30) | — | (293) |
| Foreign currency translation adjustments | ¥7,193 | ¥3,853 | \$69,892 |
| Share of other comprehensive income of affiliates accounted for using equity method: | | | |
| Amount arising during the period | ¥1,115 | ¥1,113 | \$10,838 |
| Total other comprehensive income | ¥9,703 | ¥6,517 | \$94,280 |

27. Impairment losses

Impairment losses on property, plant and equipment and intangible assets for the year ended March 31, 2014 and 2013, were as follows:

For the year ended March 31, 2014:

The Group implemented an impairment test on goodwill of ELS Holding Company at Daifuku Webb Holding Company, based on the Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The test showed that the fair value of the ELS goodwill was lower than its book value. Accordingly, the Group reduced the difference between the consolidated book value of the company's goodwill (after deducting amortization based on Japanese accounting standards) and its fair value and posted the reduction of ¥370 million (\$3,595 thousand) as an impairment loss under extraordinary losses. The Group measured the fair value mainly using the income approach based on U.S. GAAP. The discount rate used was 12.0%.

For the year ended March 31, 2013:

In December 2006, the Group entered into an exclusive distributor agreement with QubicaAMF, a U.S. firm, to sell QubicaAMF brand products in Japan and has been working to expand the bowling business since then. However, the bowling market in Japan has been declining rapidly, and based on the performance and business plan of the bowling operation, the Company re-evaluated the recoverability of the Group's bowling business-related assets during the year ended March 31, 2013. As a result, the Company reduced the book value of the license of trademark QubicaAMF (long-term prepaid expense) owned by the Group to its recoverable amount and recorded a reduction of ¥544 million (\$5,797 thousand) as an impairment loss under extraordinary losses. The recoverable amount was measured using value in use and calculated by discounting the future cash flows at a discount rate of 6.7%.

28. Income taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|---------|-------------------------|
| | 2014 | 2013 | 2014 |
| Deferred tax assets: | | | |
| Current assets | | | |
| Research and development | ¥ 1,311 | ¥ 937 | \$ 12,745 |
| Accrued expenses | 1,157 | 836 | 11,242 |
| Provision for losses on construction contracts | 47 | 136 | 462 |
| Unrealized profit on inventories | 42 | 60 | 409 |
| Other | 1,021 | 627 | 9,923 |
| Sub total | 3,579 | 2,598 | 34,783 |
| Less: Valuation allowance | (73) | (112) | (714) |
| Offset against deferred tax liabilities (current) | (4) | (15) | (41) |
| Total deferred tax assets (current) | ¥ 3,502 | ¥ 2,471 | \$ 34,027 |
| Non-current assets | | | |
| Provision for retirement benefits | ¥ — | ¥ 5,876 | \$ — |
| Liabilities for retirement benefits | 6,157 | — | 59,830 |
| Loss carried forward | 1,986 | 2,164 | 19,298 |
| Unrealized gain on sales of property, plant and equipment | 597 | 597 | 5,803 |
| Loss on valuation of investments in securities | 413 | 415 | 4,013 |
| Asset retirement obligations | 155 | 160 | 1,512 |
| Excess depreciation | 363 | 172 | 3,532 |
| Trademarks | 151 | 200 | 1,475 |
| Asset adjustment accounts | 114 | 157 | 1,109 |
| Other | 810 | 316 | 7,872 |
| Sub total | 10,749 | 10,062 | 104,447 |
| Less: Valuation allowance | (2,924) | (2,842) | (28,411) |
| Offset against deferred tax liabilities (non-current) | (2,024) | (3,296) | (19,674) |
| Total deferred tax assets (non-current) | ¥ 5,800 | ¥ 3,923 | \$ 56,361 |
| Deferred tax liabilities: | | | |
| Current liabilities | | | |
| Other | ¥ 26 | ¥ 15 | \$ 261 |
| Offset against deferred tax assets (current) | (4) | (15) | (41) |
| Total deferred tax liabilities (current) | ¥ 22 | ¥ — | \$ 219 |
| Non-current liabilities | | | |
| Net unrealized gain on assets of consolidated subsidiaries | ¥ 905 | ¥ 2,296 | \$ 8,793 |
| Gain on securities to employees retirement benefit trust | 541 | 541 | 5,257 |
| Provision for retirement benefits | — | 55 | — |
| Liabilities for retirement benefits | 102 | — | 995 |
| Provision of reserve for advanced depreciation of property, plant and equipment | 212 | 239 | 2,067 |
| Retained earnings for overseas subsidiaries | 135 | 96 | 1,320 |
| Net unrealized gain on securities | 1,393 | 789 | 13,544 |
| Other | 144 | 285 | 1,404 |
| Offset against deferred tax assets (non-current) | (2,024) | (3,296) | (19,674) |
| Total deferred tax liabilities (non-current) | ¥ 1,410 | ¥ 1,007 | \$ 13,709 |

(2) Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2014 and 2013

| March 31, 2014 | (%) |
|--|-------|
| Statutory tax rate | 38.0% |
| Permanent difference arising from non-deductible expenses | 1.3 |
| Permanent difference arising from non-taxable dividend income and other | (1.6) |
| Taxation on per capita basis | 0.8 |
| Decrease of valuation allowance | (5.6) |
| Income taxes for retroactive years | 1.1 |
| Tax rate difference applied to overseas subsidiaries | (5.7) |
| Amortization for goodwill and negative goodwill | 0.9 |
| Retained earnings of overseas subsidiaries | 1.2 |
| Adjustment for decrease in deferred tax assets at end of year due to changes in tax rate | 1.3 |
| Other | 2.0 |
| Effective tax rate | 33.7% |

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2013, is omitted as the difference is 5% or below of the statutory income tax rate.

(3) Revision of deferred tax assets and deferred tax liabilities in response to changes in income tax rates

With the introduction of the Act on Partial Revision of the Income Tax Act, Etc. (Act No. 10 of 2014) on March 31, 2014, the special corporate tax for reconstruction became inapplicable to Group companies in fiscal years starting on April 1, 2014, and thereafter.

In response to this change, the Company revised the effective statutory tax rate that was used for calculating deferred tax assets and deferred tax liabilities for the year ended March 31, 2014, and the revised tax rate applied to temporary differences expected to be eliminated during the year that began on April 1, 2014, is 35.6%, compared to 38.0% in the previous fiscal year.

As a result, deferred tax assets (after deducting deferred tax liabilities) fell by ¥187 million (\$1,817 thousand) from the year ended March 31, 2013, and deferred income taxes posted for the year ended March 31, 2014, rose by ¥187 million (\$1,817 thousand).

29. Consolidated statements of cash flows

The components of cash and cash equivalents as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|---------|-------------------------|
| | 2014 | 2013 | 2014 |
| Cash on hand and in banks | ¥52,132 | ¥33,735 | \$506,537 |
| Time deposits with original maturities exceeding three months | (280) | (12) | (2,727) |
| Total | ¥51,852 | ¥33,722 | \$503,810 |

30. Stock options

For the years ended March 31, 2014 and 2013:
Not applicable

31. Related party transactions

For the years ended March 31, 2014 and 2013:
Not applicable

32. Segment information

(1) Overview of reportable segments

Reportable segments comprise components for which discrete financial information is available, and which the Board of Directors review regularly to determine the allocation of management resources and assess operating results.

The Daifuku Group manufactures and sells material handling systems, car wash machines, industrial personal computers, interface boards, and other equipment in Japan and overseas. Each company within the Group conducts manufacturing and sales activities based on its roles as an independent management unit.

There are three reportable segments: Daifuku Co., Ltd. (Daifuku), the core company dealing in material handling systems and equipment, and car wash machines; Contec Co., Ltd. (Contec), the core company engaging in the manufacture and sale of industrial personal computers, interface boards, and other equipment in Japan and overseas; and Daifuku Webb Holding Company (Daifuku Webb).

In addition to the manufacture and sale of material handling systems and equipment, and car wash machines in Japan as the core

company of the Group, Daifuku develops and supplies key components to companies around the world. Overseas subsidiaries assemble material handling system components supplied by Daifuku with locally manufactured or purchased materials, sell the products and perform installation work as well as after-sales services. Daifuku Webb is a U.S. subsidiary that is responsible for key business activities, primarily in North America, with significant volume of sales. It manufactures and sells leading airport baggage handling systems on its own as a part of its material handling systems.

(2) Methods of calculating the amounts of net sales, income or loss, assets, liabilities and other items by reportable segment

The accounting methods of reported business segments are the same as those stated in "Basis of presenting consolidated financial statements." Inter-segment sales or transfers are determined based on the prevailing market price.

(3) Information on the amount of net sales, income or loss, assets, liabilities and other items by reportable segment for the years ended March 31, 2014 and 2013, were as follows:

For the year ended March 31, 2014:

| | (Million yen) | | | | | |
|--|---------------|---------|--------------|--------------------------|-----------|----------|
| | Daifuku | Contec | Daifuku Webb | Reportable segment Total | Other (*) | Total |
| Net sales: | | | | | | |
| Net sales to outside customers | ¥110,253 | ¥13,370 | ¥52,743 | ¥176,367 | ¥64,143 | ¥240,510 |
| Inter-segment sales or transfers | 27,030 | 8,571 | 1,720 | 37,322 | 17,703 | 55,025 |
| Total | 137,283 | 21,942 | 54,463 | 213,689 | 81,847 | 295,536 |
| Segment income | 5,761 | 727 | 1,680 | 8,168 | 2,973 | 11,142 |
| Segment assets | 163,861 | 17,701 | 47,772 | 229,335 | 61,516 | 290,852 |
| Segment liabilities | 86,400 | 10,682 | 31,388 | 128,471 | 36,415 | 164,887 |
| Other | | | | | | |
| Depreciation | 2,440 | 251 | 456 | 3,148 | 670 | 3,818 |
| Amortization of goodwill | 129 | 116 | — | 246 | 119 | 366 |
| Interest income | 37 | 2 | 76 | 116 | 156 | 272 |
| Interest expenses | 686 | 59 | 47 | 793 | 73 | 867 |
| Extraordinary income | 167 | — | 151 | 318 | 2 | 321 |
| Gain on sales of property, plant and equipment | — | — | 151 | 151 | 2 | 154 |
| Extraordinary loss | 591 | 23 | 557 | 1,171 | 67 | 1,239 |
| Loss on sales of property, plant and equipment | 338 | 0 | 37 | 375 | 0 | 376 |
| Impairment loss | — | — | 520 | 520 | — | 520 |
| Income taxes | 3,022 | (216) | 206 | 3,012 | 1,024 | 4,036 |
| Investment to equity-method affiliates | 5,193 | — | — | 5,193 | 202 | 5,395 |
| Increase in property, plant and equipment | 3,875 | 212 | 4,796 | 8,883 | 728 | 9,612 |

For the year ended March 31, 2013:

| | (Million yen) | | | | | |
|--|---------------|---------|--------------|--------------------------|-----------|----------|
| | Daifuku | Contec | Daifuku Webb | Reportable segment Total | Other (*) | Total |
| Net sales: | | | | | | |
| Net sales to outside customers | ¥110,090 | ¥ 8,935 | ¥38,150 | ¥157,177 | ¥45,370 | ¥202,547 |
| Inter-segment sales or transfers | 23,254 | 8,493 | 921 | 32,668 | 12,045 | 44,713 |
| Total | 133,344 | 17,429 | 39,071 | 189,845 | 57,416 | 247,261 |
| Segment income | 5,603 | 170 | 562 | 6,335 | 2,134 | 8,470 |
| Segment assets | 158,636 | 16,227 | 29,662 | 204,526 | 43,297 | 247,824 |
| Segment liabilities | 86,342 | 10,617 | 23,811 | 120,772 | 23,167 | 143,939 |
| Other | | | | | | |
| Depreciation | 2,346 | 265 | 216 | 2,827 | 509 | 3,337 |
| Amortization of goodwill | 129 | — | — | 129 | 119 | 249 |
| Interest income | 34 | 2 | 2 | 38 | 111 | 150 |
| Interest expenses | 787 | 62 | 41 | 891 | 49 | 941 |
| Equity in losses of affiliates | — | — | (115) | (115) | — | (115) |
| Extraordinary income | 92 | — | 124 | 216 | 159 | 376 |
| Gain on sales of property, plant and equipment | — | — | 123 | 123 | 157 | 280 |
| Extraordinary loss | 736 | 2 | 89 | 829 | 26 | 855 |
| Impairment loss | 566 | — | — | 566 | — | 566 |
| Income taxes | 2,211 | 107 | 126 | 2,444 | 518 | 2,963 |
| Investment to equity-method affiliates | 5,162 | — | — | 5,162 | 162 | 5,325 |
| Increase in property, plant and equipment | 2,164 | 1,592 | 3,213 | 6,970 | 737 | 7,708 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | | | |
|--|-------------------------|-----------|--------------|--------------------------|-----------|-------------|
| | Daifuku | Contec | Daifuku Webb | Reportable segment Total | Other (*) | Total |
| Net sales: | | | | | | |
| Net sales to outside customers | \$1,071,251 | \$129,913 | \$512,467 | \$1,713,633 | \$623,239 | \$2,336,872 |
| Inter-segment sales or transfers | 262,631 | 83,285 | 16,717 | 362,634 | 172,012 | 534,646 |
| Total | 1,333,882 | 213,199 | 529,185 | 2,076,267 | 795,251 | 2,871,519 |
| Segment income | 55,976 | 7,067 | 16,324 | 79,368 | 28,891 | 108,260 |
| Segment assets | 1,592,127 | 171,989 | 464,175 | 2,228,292 | 597,708 | 2,826,000 |
| Segment liabilities | 839,493 | 103,791 | 304,981 | 1,248,266 | 353,825 | 1,602,092 |
| Other | | | | | | |
| Depreciation | 23,710 | 2,441 | 4,435 | 30,587 | 6,513 | 37,100 |
| Amortization of goodwill | 1,261 | 1,135 | — | 2,397 | 1,163 | 3,560 |
| Interest income | 364 | 19 | 746 | 1,130 | 1,516 | 2,646 |
| Interest expenses | 6,670 | 578 | 463 | 7,712 | 716 | 8,428 |
| Extraordinary income | 1,626 | — | 1,471 | 3,098 | 25 | 3,124 |
| Gain on sales of property, plant and equipment | — | — | 1,471 | 1,471 | 25 | 1,497 |
| Extraordinary loss | 5,743 | 225 | 5,414 | 11,383 | 660 | 12,044 |
| Loss on sales of property, plant and equipment | 3,291 | 0 | 360 | 3,652 | 0 | 3,653 |
| Impairment loss | — | — | 5,053 | 5,053 | — | 5,053 |
| Income taxes | 29,370 | (2,104) | 2,002 | 29,268 | 9,950 | 39,219 |
| Investment to equity-method affiliates | 50,458 | — | — | 50,458 | 1,965 | 52,424 |
| Increase in property, plant and equipment | 37,651 | 2,063 | 46,600 | 86,315 | 7,079 | 93,394 |

(*) "Other" represents an operating segment comprising domestic and overseas subsidiaries that are not included in reportable segment.

(4) Differences between total amounts for reportable segments and the reported amount in the consolidated financial statements and main details of the differences (matters relating to difference reconciliation)

(a) Net sales

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--|---------------|----------|-------------------------|
| | 2014 | 2013 | 2014 |
| Reportable segment total | ¥213,689 | ¥189,845 | \$2,076,267 |
| Net sales classified in "Other" | 81,847 | 57,416 | 795,251 |
| Elimination of inter-segment transactions | (55,025) | (44,713) | (534,646) |
| Adjustment of net sales of the percentage-of-completion method | 1,236 | 481 | 12,010 |
| Other adjustments for consolidation | 64 | (691) | 623 |
| Net sales in consolidated financial statements | ¥241,811 | ¥202,337 | \$2,349,507 |

(b) Segment income

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|---------|-------------------------|
| | 2014 | 2013 | 2014 |
| Reportable segment total | ¥8,168 | ¥6,335 | \$79,368 |
| Segment income classified in "Other" | 2,973 | 2,134 | 28,891 |
| Elimination of cash dividends from affiliates | (2,009) | (3,429) | (19,521) |
| Other adjustments for consolidation | (1,392) | (601) | (13,529) |
| Net income in consolidated financial statements | ¥7,740 | ¥4,439 | \$75,209 |

(c) Segment assets

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|----------|-------------------------|
| | 2014 | 2013 | 2014 |
| Reportable segment total | ¥229,335 | ¥204,526 | \$2,228,292 |
| Segment assets classified in "Other" | 61,516 | 43,297 | 597,708 |
| Elimination of investment securities in subsidiaries in consolidation process | (28,664) | (22,377) | (278,512) |
| Elimination of intercompany receivables | (18,215) | (17,231) | (176,990) |
| Other adjustments for consolidation | 5,559 | (1,339) | 54,019 |
| Total assets in consolidated financial statements | ¥249,531 | ¥206,875 | \$2,424,517 |

(d) Segment liabilities

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--|---------------|----------|-------------------------|
| | 2014 | 2013 | 2014 |
| Reportable segment total | ¥128,471 | ¥120,772 | \$1,248,266 |
| Segment liabilities classified in "Other" | 36,415 | 23,167 | 353,825 |
| Elimination of intercompany payables | (18,215) | (17,231) | (176,990) |
| Other adjustments for consolidation | 3,169 | (5,517) | 30,795 |
| Total liabilities in consolidated financial statements | ¥149,840 | ¥121,190 | \$1,455,897 |

For the year ended March 31, 2014:

| Other items | (Million yen) | | | |
|---|---------------------------|-------|------------|--------------------|
| | Reportable segments total | Other | Adjustment | Consolidated total |
| Depreciation | ¥3,148 | ¥ 670 | ¥ 2 | ¥ 3,821 |
| Amortization of goodwill | 246 | 119 | 376 | 743 |
| Interest income | 116 | 156 | (57) | 215 |
| Amortization of negative goodwill | — | — | 59 | 59 |
| Interest expenses | 793 | 73 | (57) | 810 |
| Equity in earnings (losses) of affiliates | — | — | 69 | 69 |
| Extraordinary income | 318 | 2 | (314) | 6 |
| <i>Gain on sales of property, plant and equipment</i> | 151 | 2 | (147) | 6 |
| Extraordinary loss | 1,171 | 67 | (178) | 1,060 |
| <i>Loss on sales of property, plant and equipment</i> | 375 | 0 | 17 | 393 |
| <i>Impairment loss</i> | 520 | — | (150) | 370 |
| Income taxes | 3,012 | 1,024 | 52 | 4,088 |
| Investment to equity-method affiliates | 5,193 | 202 | 2,071 | 7,467 |
| Increase in property, plant and equipment | 8,883 | 728 | 834 | 10,446 |

For the year ended March 31, 2013:

| Other items | (Million yen) | | | |
|---|---------------------------|-------|------------|--------------------|
| | Reportable segments total | Other | Adjustment | Consolidated total |
| Depreciation | ¥2,827 | ¥509 | ¥ (4) | ¥3,332 |
| Amortization of goodwill | 129 | 119 | 126 | 376 |
| Interest income | 38 | 111 | (53) | 96 |
| Amortization of negative goodwill | — | — | 59 | 59 |
| Interest expenses | 891 | 49 | (53) | 887 |
| Equity in earnings (losses) of affiliates | (115) | — | 44 | (70) |
| Extraordinary income | 216 | 159 | (210) | 165 |
| <i>Gain on sales of property, plant and equipment</i> | 123 | 157 | (120) | 159 |
| Extraordinary loss | 829 | 26 | (7) | 847 |
| <i>Loss on sales of property, plant and equipment</i> | 566 | — | (21) | 544 |
| Income taxes | 2,444 | 518 | (175) | 2,788 |
| Investment to equity-method affiliates | 5,162 | 162 | 1,107 | 6,432 |
| Increase in property, plant and equipment | 6,970 | 737 | (20) | 7,687 |

For the year ended March 31, 2014:

| Other items | (U.S. thousand dollars) | | | |
|---|---------------------------|---------|------------|--------------------|
| | Reportable segments total | Other | Adjustment | Consolidated total |
| Depreciation | \$30,587 | \$6,513 | \$ 28 | \$ 37,128 |
| Amortization of goodwill | 2,397 | 1,163 | 3,661 | 7,222 |
| Interest income | 1,130 | 1,516 | (555) | 2,091 |
| Amortization of negative goodwill | — | — | 582 | 582 |
| Interest expenses | 7,712 | 716 | (555) | 7,873 |
| Equity in earnings (losses) of affiliates | — | — | 672 | 672 |
| Extraordinary income | 3,098 | 25 | (3,059) | 65 |
| <i>Gain on sales of property, plant and equipment</i> | 1,471 | 25 | (1,432) | 65 |
| Extraordinary loss | 11,383 | 660 | (1,736) | 10,307 |
| <i>Loss on sales of property, plant and equipment</i> | 3,652 | 0 | 170 | 3,824 |
| <i>Impairment loss</i> | 5,053 | — | (1,457) | 3,595 |
| Income taxes | 29,268 | 9,950 | 509 | 39,728 |
| Investment to equity-method affiliates | 50,458 | 1,965 | 20,126 | 72,551 |
| Increase in property, plant and equipment | 86,315 | 7,079 | 8,110 | 101,505 |

[Note] The main items in the adjustment above are as follows:

- Adjustments of ¥2,071 million (\$2,126 thousand) and ¥1,107 million in "Investments to equity-method affiliates" for the years ended March 31, 2014 and 2013, were mainly due to foreign currency translation adjustments included in shares in affiliates.
- An adjustment of ¥834 million (\$8,110 thousand) in "Increase in property, plant and equipment" for the year ended March 31, 2014, resulted from goodwill generated by the acquisition of affiliates.

[Related information]

1. Information by product and service

For the year ended March 31, 2014:

| | (Million yen) | | | |
|--------------------------------|-------------------|-------------|---------|--------------------|
| | Logistics systems | Electronics | Other | Consolidated total |
| Net sales to outside customers | ¥210,782 | ¥13,357 | ¥17,671 | ¥241,811 |

For the year ended March 31, 2013:

| | (Million yen) | | | |
|--------------------------------|-------------------|-------------|---------|--------------------|
| | Logistics systems | Electronics | Other | Consolidated total |
| Net sales to outside customers | ¥178,976 | ¥8,925 | ¥14,435 | ¥202,337 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | |
|--------------------------------|-------------------------|-------------|-----------|--------------------|
| | Logistics systems | Electronics | Other | Consolidated total |
| Net sales to outside customers | \$2,048,021 | \$129,784 | \$171,701 | \$2,349,507 |

2. Information by geographic area

(1) Net sales

For the year ended March 31, 2014:

| | (Million yen) | | | | |
|--------------------------------|---------------|---------|---------|---------|--------------------|
| | Japan | America | China | Other | Consolidated total |
| Net sales to outside customers | ¥94,545 | ¥51,596 | ¥28,356 | ¥67,313 | ¥241,811 |

For the year ended March 31, 2013:

| | (Million yen) | | | | |
|--------------------------------|---------------|---------|---------|---------|--------------------|
| | Japan | America | China | Other | Consolidated total |
| Net sales to outside customers | ¥97,047 | ¥36,442 | ¥10,898 | ¥57,948 | ¥202,337 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | | |
|--------------------------------|-------------------------|-----------|-----------|-----------|--------------------|
| | Japan | America | China | Other | Consolidated total |
| Net sales to outside customers | \$918,627 | \$501,328 | \$275,516 | \$654,034 | \$2,349,507 |

[Note 1] Net sales are classified by country or area where customers are located.

[Note 2] Net sales to "China," which was included in "Other" in the prior year, is disclosed independently because of its growing importance. To reflect this change in presentation, net sales to "Other" of ¥68,847 million for the year ended March 31, 2013, was reclassified as "China" of ¥10,898 million and "Other" of ¥57,948 million, respectively.

(2) Property, plant and equipment

For the year ended March 31, 2014:

| | (Million yen) | | |
|-------------------------------|---------------|--------|--------------------|
| | Japan | Other | Consolidated total |
| Property, plant and equipment | ¥25,162 | ¥8,913 | ¥34,075 |

For the year ended March 31, 2013:

| | (Million yen) | | |
|-------------------------------|---------------|--------|--------------------|
| | Japan | Other | Consolidated total |
| Property, plant and equipment | ¥24,510 | ¥6,786 | ¥31,297 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | |
|-------------------------------|-------------------------|----------|--------------------|
| | Japan | Other | Consolidated total |
| Property, plant and equipment | \$244,481 | \$86,605 | \$331,087 |

3. Information by customer

It was omitted due to there being no outside customers to which sales were more than 10% of net sales of the consolidated statements of income and comprehensive income.

[Information about impairment loss of property, plant and equipment by reportable segment]

For the year ended March 31, 2014:

| | (Million yen) | | | | | | |
|-----------------|--------------------|--------|--------------|-------|-------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Impairment loss | ¥— | ¥— | ¥520 | ¥520 | ¥— | ¥(150) | ¥370 |

For the year ended March 31, 2013:

| | (Million yen) | | | | | | |
|-----------------|--------------------|--------|--------------|-------|-------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Impairment loss | ¥566 | ¥— | ¥— | ¥566 | ¥— | ¥(21) | ¥544 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | | | | |
|-----------------|-------------------------|--------|--------------|---------|-------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Impairment loss | \$— | \$— | \$5,053 | \$5,053 | \$— | \$(1,457) | \$3,595 |

[Note 1] The amount under "Daifuku Webb" for the year ended March 31, 2014, is impairment loss of goodwill.

[Note 2] The amount under "Daifuku" for the year ended March 31, 2013, is impairment loss of long-term prepaid expenses.

[Information about the amount of amortization and unamortized balance of goodwill and negative goodwill by reportable segment]

For the year ended March 31, 2014:

| | (Million yen) | | | | | | |
|-------------------------------------|--------------------|--------|--------------|--------|-------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Ending balance of goodwill | ¥653 | ¥1,715 | ¥5,788 | ¥8,157 | ¥865 | ¥1,116 | ¥10,139 |
| Ending balance of negative goodwill | ¥— | ¥— | ¥— | ¥— | ¥— | ¥239 | ¥239 |

For the year ended March 31, 2013:

| | (Million yen) | | | | | | |
|-------------------------------------|--------------------|--------|--------------|--------|-------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Ending balance of goodwill | ¥783 | ¥1,509 | ¥2,269 | ¥4,562 | ¥985 | ¥220 | ¥5,768 |
| Ending balance of negative goodwill | ¥— | ¥— | ¥— | ¥— | ¥— | ¥299 | ¥299 |

For the year ended March 31, 2014:

| | (U.S. thousand dollars) | | | | | | |
|-------------------------------------|-------------------------|----------|--------------|----------|---------|--------------------------|--------------------|
| | Reportable segment | | | | Other | Elimination or corporate | Consolidated total |
| | Daifuku | Contec | Daifuku Webb | Total | | | |
| Ending balance of goodwill | \$6,351 | \$16,664 | \$56,241 | \$79,258 | \$8,411 | \$10,852 | \$98,522 |
| Ending balance of negative goodwill | \$— | \$— | \$— | \$— | \$— | \$2,328 | \$2,328 |

[Note 1] Information about amortization of goodwill and negative goodwill was omitted because it was disclosed in segment information.

[Note 2] "Ending balance of goodwill" under "Daifuku Webb" principally resulted from acquisition of shares in Wynright Corporation.

[Information about gain on new negative goodwill by reportable segment]

Not applicable

33. Per share information

The amounts of basic and diluted net income per share and net assets per share for the years ended March 31, 2014 and 2013, were as follows:

| March 31 | (Yen) | | (U.S. dollars) |
|------------------------------|---------|---------|----------------|
| | 2014 | 2013 | 2014 |
| Net assets per share | ¥875.14 | ¥754.98 | \$8.50 |
| Net income per share | | | |
| —Basic | 69.96 | 40.12 | 0.67 |
| Diluted net income per share | 66.67 | — | 0.64 |

[Note 1] For the year ended March 31, 2013, diluted net income per share is not shown herein as dilutive shares did not exist.

[Note 2] As described in "3. Changes in significant accounting policies," the Accounting Standard for Retirement Benefits and the Guidance are applied and it is subject to the transitional provisions stipulated in Article 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share during the year ended March 31, 2014, decreased by ¥19.83 (\$0.19).

[Note 3] The shares of Daifuku remaining in the trust which are recorded as treasury stock under equity capital are included in the treasury stock to be deducted in calculation of the average number of shares during the year for the purpose of calculation of the net income per share, and are also included in the number of treasury stock to be deducted from the aggregate number of issued shares as of the end of the year for the purpose of calculation of the net assets per share.

The average number of shares of treasury stock deducted during the year for the purpose of calculation of the net income per share is 430,000 shares for the year ended March 31, 2014, and the number of shares of treasury stock deducted as of the end of the year for calculation of the net assets per share is 423,000 shares for the year ended March 31, 2014.

The basis for the calculation of net income per share and diluted net income per share for the years ended March 31, 2014 and 2013, were as follows:

Net income per share

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|--|---------------|--------|-------------------------|
| | 2014 | 2013 | 2014 |
| Net income | ¥7,740 | ¥4,439 | \$75,209 |
| Amount not attributable to holders of common stock | — | — | — |
| Net income attributable to holders of common stock | ¥7,740 | ¥4,439 | \$75,209 |

| March 31 | (Thousand shares) | |
|---|-------------------|---------|
| | 2014 | 2013 |
| Weighted average number of common stock | 110,645 | 110,651 |

Diluted net income per share

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|------|-------------------------|
| | 2014 | 2013 | 2014 |
| Adjustments to net income | ¥(11) | ¥— | \$(112) |
| <i>Of which: amortization of bond issue discount (net of tax)</i> | ¥(11) | ¥— | \$(112) |

| March 31 | (Thousand shares) | |
|--|-------------------|------|
| | 2014 | 2013 |
| Effect of dilutive securities | 5,290 | — |
| <i>Of which: convertible bonds with stock acquisition rights</i> | 5,290 | — |

The basis for the calculation of net assets per share as of March 31, 2014 and 2013, were as follows:

| March 31 | (Million yen) | | (U.S. thousand dollars) |
|---|---------------|---------|-------------------------|
| | 2014 | 2013 | 2014 |
| Total net assets | ¥99,690 | ¥85,685 | \$968,619 |
| Amount deducted from total net assets | 2,848 | 2,147 | 27,672 |
| <i>Of which: minority interests</i> | 2,848 | 2,147 | 27,672 |
| Total net assets attributable to common stock | ¥96,842 | ¥83,538 | \$940,946 |

| March 31 | (Thousand shares) | |
|--|-------------------|---------|
| | 2014 | 2013 |
| Number of common stock issued and outstanding at fiscal year-end | 110,659 | 110,648 |

34. Subsequent events

Not applicable

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of
Daifuku Co., Ltd.

We have audited the accompanying consolidated financial statements of Daifuku Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statement of income and comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 6 to the consolidated financial statements.

PricewaterhouseCoopers Arata

August 5, 2014

PricewaterhouseCoopers Arata
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

Daifuku Global Network

(As of June 30, 2014)

The Americas

Daifuku Webb Holding Company

Farmington Hills, MI, U.S.A.

Daifuku America Corporation

Main Office & Plant: Reynoldsburg, OH, U.S.A.

Other offices: Arizona, Austin, Indiana, Kentucky, Michigan, Tennessee
Utah

Jervis B. Webb Company

World Headquarters: Farmington Hills, MI, U.S.A.

Boyne City Manufacturing Plant: Boyne City, MI, U.S.A.

Carlisle Forging Plant: Carlisle, SC, U.S.A.

Harbor Springs Manufacturing Plant: Harbor Springs, MI, U.S.A.

Elite Line Services, LLC

Carrollton, TX, U.S.A.

Wynright Corporation

World Headquarters: Elk Grove, IL, U.S.A.

Other Offices: California, Florida, Kentucky, Michigan, Indiana, Illinois
New Hampshire, Texas

American Conveyor and Equipment, Inc.

Reynoldsburg, OH, U.S.A.

Logan Teleflex, Inc.

Louisville, KY, U.S.A.

Contec DTx Inc.

Melbourne, FL, U.S.A.

Daifuku Canada Inc.

Mississauga, Ontario, Canada

Jervis B. Webb Company of Canada, Ltd.

Hamilton, Ontario, Canada

Daifuku de México, S.A. de C.V.

Querétaro, Qro., Mexico

Europe

Daifuku Europe Ltd.

Main Office: Milton Keynes, U.K.

Derby Office: Burton on Trent, U.K.

Germany Branch: Moenchengladbach, Germany

Sweden Branch: Astorp, Sweden

Jervis B. Webb Company, Ltd.

Milton Keynes, U.K.

Daifuku Logan Ltd.

Main Office: Hull, U.K.

South East Sales and Service Office: Reigate, U.K.

Singapore Office: Techplace I, Singapore

Jervis B. Webb GmbH

Main Office: Moenchengladbach, Germany

Spain Branch: Barcelona, Spain

Logan Teleflex (France) S.A.S.

Ivry-sur-Seine, France

Asia

Daifuku (China) Co., Ltd.

Main Office: Shanghai, China

Tianjin Branch: Tianjin, China

Guangzhou Branch: Guangzhou, China

Other offices: Beijing, Changchun, Chengdu, Chongqing, Fuzhou
Nansha, Shenzhen, Suzhou, TEDA, Wuhan, Zhengzhou

Daifuku (China) Manufacturing Co., Ltd.

Shanghai, China

Daifuku (China) Automation Co., Ltd.

Jiangsu, China

Daifuku (Suzhou) Cleanroom Automation Co., Ltd.

Jiangsu, China

Beijing Contec Microelectronics Corporation

Main Office: Beijing, China

Shanghai Branch Office: Shanghai, China

Contec Solution China Corporation

Shanghai, China

Daifuku India Private Limited

Main Office: Haryana, India

Bangalore Office: Bangalore, India

ForgePro India Private Limited

Bangalore, India

P.T. Daifuku Indonesia

Jakarta, Indonesia

Daifuku Korea Co., Ltd.

Main Office & R&D Center: Incheon, Korea

Plant: Incheon, Korea

Clean Factomation, Inc.

Main Office: Gyeonggi-do, Korea

Asan Plant: Chungcheongnam-do, Korea

Hallim Machinery Co., Ltd.

Main Office & Plant: Gyeonggi-do, Korea

Daifuku (Malaysia) Sdn. Bhd.

Selangor D.E., Malaysia

Daifuku Mechatronics (Singapore) Pte. Ltd.

Techplace I, Singapore

Singapore Contec Pte. Ltd.

Techplace I, Singapore

Taiwan Daifuku Co., Ltd.

Main Office & Plant: Tainan, Taiwan

Hsinchu Branch: Hsinchu, Taiwan

Taichung Plant: Taichung, Taiwan

Taiwan Contec Co., Ltd.

Xinbei, Taiwan

Contec Solution Co., Ltd.

Xinbei, Taiwan

Daifuku (Thailand) Ltd.

Main Office & Plant: Chonburi, Thailand

Bangkok Office: Bangkok, Thailand

Pinthong Plant: Chonburi, Thailand

Corporate Data

(As of March 31, 2014)

| | |
|------------------------|---|
| Established | May 20, 1937 |
| Paid-in capital | 8,024 million yen |
| Employees | 7,349 (consolidated) |
| Ratings | Rating & Information, Inc. (R&I) Long-term: A- (single A minus) Short-term: a-1 (a - one) |

Principal Locations

| | |
|--------------------------|---|
| Headquarters | 3-2-11 Mitejima, Nishiyodogawa-ku Osaka 555-0012, Japan Tel: 81-6-6472-1261 Fax: 81-6-6476-2561 |
| Tokyo Head Office | 2-14-5 Shiba, Minato-ku, Tokyo 105-0014, Japan Tel: 81-3-3456-2231 Fax: 81-3-3456-2258 |
| Shiga Works | 1225 Nakazaji, Hino-cho, Gamo-gun Shiga 529-1692, Japan Tel: 81-748-53-0321 Fax: 81-748-52-2963 |
| Komaki Works | 4-103 Komakihara, Komaki-shi Aichi 485-8653, Japan Tel: 81-568-74-1500 Fax: 81-568-74-1600 |

Global Branches

| | |
|--------------------------------|--|
| Philippines | 108 Aguirre Street, Legaspi Village Makati City, Philippines |
| Czech | Tolarova 317, 533 51 Pardubice, Czech Republic Tel: 420-466-053-810 Fax: 420-466-053-816 |
| Germany | Luerriper Strasse 52, D-41065 Moenchengladbach, Germany Tel: 49-2161-49-695-0 Fax: 49-2161-49-695-20 |
| St. Petersburg (Russia) | Business Center Ligovskiy 266, Office 3.6 266/V, Ligovskiy Pr., St. Petersburg 196084 Russia Tel: 7-812-458-7336 Fax: 7-812-458-7331 |
| UK | Unit 5, Dunfermline Court, Kingston Milton Keynes MK10 0BY U.K. Tel: 44-1908-288-780 Fax: 44-1908-288-781 |
| Mexico | Armando Birlain Shaffler 2001 Central Park Torre Corporativa 1 Piso 15 C, Col. Centro Sur, Querétaro Qro. C.P. 76090 Mexico Tel: 52-442-229-0578 |

Subsidiaries and Affiliates in Japan

Contec Co., Ltd.

Contec EMS Co., Ltd.

Contec Software Development Co., Ltd.

Daifuku Plusmore Co., Ltd.

Daifuku Business Service Corporation

Hiniaratakan Corporation

Daifuku Manufacturing Technology Co., Ltd.

Daifuku Renace Co., Ltd.

Iwasaki Seisakusho Co., Ltd.

Investor Information

(As of March 31, 2014)

| | |
|--|---|
| Number of authorized shares | 250,000,000 shares |
| Total number of shares issued | 113,671,494 shares |
| Number of shareholders | 9,986 |
| General meeting of shareholders | June |
| Stock exchange listing | First Section of Tokyo Stock Exchange |
| Stock transfer agent | Sumitomo Mitsui Trust Bank, Limited Transfer Agent Department 4-5-33 Kitahama, Chuo-ku, Osaka |

Major Shareholders

| Name | Number of shares held (Thousands) | Percentage of total shares issued (%) |
|--|-----------------------------------|---------------------------------------|
| The Master Trust Bank of Japan, Ltd. (trust account) | 7,061 | 6.21 |
| Mizuho Bank, Ltd. | 6,238 | 5.49 |
| Japan Trustee Services Bank, Ltd. (trust account) | 4,844 | 4.26 |
| Northern Trust Co. (AVFC) RE 15PCT Treaty Account | 4,338 | 3.82 |
| Sumitomo Mitsui Banking Corporation | 4,080 | 3.59 |
| Daifuku Supplier Shareholder Association | 3,979 | 3.50 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 3,833 | 3.37 |
| Nippon Life Insurance Company | 3,088 | 2.72 |
| Daifuku Employees' Shareholding Association | 1,918 | 1.69 |
| NISSIN TATEMONO Co., Ltd. | 1,889 | 1.66 |

Daifuku holds 2,589,390 shares of treasury stock, although these are excluded from the above list of major shareholders.

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; 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions; and 4) the impact of natural disasters and intentional threats, war, acts of terrorism, strikes, and/or plagues. Moreover, there are other factors that may adversely affect the Company's performance.

For further information, please contact:

dfk_ir@ha.daifuku.co.jp