Daifuku at a Glance

Company Creed

日彩
Hini Arata

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

Consolidated Net Sales
336.1 billion yen

Operating Income
20.8 billion yen

Sales in the World
No.1

Non-Japan Sales Ratio
66%

Service Sales Ratio
27%

ROE
11.6%

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Profile

Since its founding in Japan 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 22 countries and regions and is the world’s top material handling systems manufacturer. 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 with the key words of “innovation” and “solutions,” Daifuku seeks to become more responsive to the needs of its customers and society, while maintaining its core material handling business. Daifuku is evolving into a top-class Value Innovator that can offer the optimal and best solutions to help its customers gain a competitive edge.
Business Overview

Manufacturing and Distribution Systems

FA&DA
Factory & Distribution Automation

Provides systems to distributors and manufacturers in wide-ranging sectors. This business is actively developing into global markets and is focusing on capturing growth opportunities in Asia. Sales were also enhanced in North America through M&A.

FA&DA
Factory & Distribution Automation

Provides mainly car wash machines to gas stations and auto-mobile services, and operations for airport facilities in the Western world. New airports in emerging countries, as well as upgrades, and controls. This business responds to demand for building check-in systems, baggage screening systems, and software including baggage handling systems, automated baggage systems.

Automobile Production Line Systems

AFA
Automotive Factory Automation

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

Airports Technologies

ATec
Airport Technologies

Provides a broad range of automated systems for airports, including baggage handling systems, automated baggage check-in systems, baggage screening systems, and software and controls. 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.

Cleanroom Production Line Systems

eFA
eFactory Automation

Provides systems to semiconductor and flat-panel display factories. About 90% of sales are recorded outside of Japan, including Asia and North America. With the core factory in Japan, local production has been growing in South Korea, China, and Taiwan.

Lifestyle Products

LSP
Lifestyle Products

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

Electronics

Contec
Electronics

Provides high-end industrial personal computers, controllers used in medical devices, computers built in digital signage, and measuring/control systems for solar facilities through Daifuku’s subsidiary Contec Co., Ltd.

Consolidated sales by business (FY2015)

Consolidated sales by industry (FY2015)

Financial Highlights

<table>
<thead>
<tr>
<th>Financial highlights</th>
<th>Million yen</th>
<th>% U.S. thousand dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orders received</td>
<td>¥359,427</td>
<td>¥305,567</td>
</tr>
<tr>
<td>Net sales</td>
<td>336,184</td>
<td>267,284</td>
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<tr>
<td>Operating income</td>
<td>20,878</td>
<td>14,883</td>
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<tr>
<td>Net income attributable to shareholders of the parent company</td>
<td>13,652</td>
<td>9,810</td>
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<tr>
<td>Capital investment</td>
<td>4,210</td>
<td>7,532</td>
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<tr>
<td>R&amp;D expenditures</td>
<td>7,009</td>
<td>6,945</td>
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<tr>
<td>Cash Flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>¥7,206</td>
<td>¥6,295</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(2,099)</td>
<td>(5,846)</td>
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<tr>
<td>Free cash flows</td>
<td>5,107</td>
<td>448</td>
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<tr>
<td>Cash flows from financing activities</td>
<td>(8,702)</td>
<td>(509)</td>
</tr>
<tr>
<td>At Year-End</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥296,055</td>
<td>¥271,011</td>
</tr>
<tr>
<td>Working capital</td>
<td>99,293</td>
<td>91,187</td>
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<tr>
<td>Net assets</td>
<td>130,115</td>
<td>111,921</td>
</tr>
<tr>
<td>Amounts per Share of Common Stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income per share (Yen and U.S. dollars)</td>
<td>¥118,72</td>
<td>¥88,59</td>
</tr>
<tr>
<td>Net assets per share (Yen and U.S. dollars)</td>
<td>1,044,40</td>
<td>972,75</td>
</tr>
<tr>
<td>Cash dividends per share (Yen and U.S. dollars)</td>
<td>30,00</td>
<td>22,00</td>
</tr>
<tr>
<td>Ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income/net sales</td>
<td>6.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Net income/net sales</td>
<td>4.1</td>
<td>3.7</td>
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<tr>
<td>Return on shareholders’ equity (ROE)</td>
<td>11.6</td>
<td>9.6</td>
</tr>
<tr>
<td>Shareholders’ equity/total assets</td>
<td>42.9</td>
<td>39.8</td>
</tr>
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</table>

Financial and Non-Financial Highlights

Non-financial highlights

<table>
<thead>
<tr>
<th>Non-financial highlights</th>
<th>FY2015</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>7,835</td>
<td>7,746</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Water usage (m³)</td>
<td>135,919</td>
<td>136,801</td>
<td>-0.8%</td>
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<tr>
<td>Emission and transfer volume of chemical substances related to PRTR Law (kg)</td>
<td>32,133</td>
<td>21,218</td>
<td>51.4</td>
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<tr>
<td>Waste generated (t)</td>
<td>5,073</td>
<td>4,020</td>
<td>26.1</td>
</tr>
<tr>
<td>Recycling rate (%)</td>
<td>98.3</td>
<td>99.2</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

Consolidated financial data

Million yen

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<tr>
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</thead>
<tbody>
<tr>
<td>Orders received</td>
<td></td>
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<tr>
<td>Net sales</td>
<td></td>
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<tr>
<td>Operating income ratio</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td></td>
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</table>
Daifuku is achieving sustained increases in corporate value by providing the optimal and best solutions to customers in virtually all industries and business fields.

Daifuku offers the best solutions tailored to industries and individual markets, employing comprehensive capabilities ranging from consulting services and system designs to after-sales services and retrofits to prolong the useful lifetimes of facilities. In sum, Daifuku has the capabilities for overcoming difficult problems, and providing proposals based on its experience, the ability to implement proposals that are “always an edge ahead,” and the capabilities for applying strengths gained from other fields. These qualities have enabled Daifuku to build and maintain the trust of customers based on many years of relationships, which are also the motive force enabling Daifuku to win new customers.
Daifuku built state-of-the-art logistics systems by fusing robotics technologies. These systems attained 99.99999%, or “seven nines” accuracy, the highest in the industry.

As a systems integrator, Daifuku offers logistics systems that meet customers’ real needs in virtually all fields. At the large-scale distribution center “TBC Saitama” (provisional name) of Toho Pharmaceutical Co., Ltd., a pharmaceutical wholesaler, major themes in systems design were not only efficiently handling shipments of a large number of items in small lots, but also introducing robots that would reduce labor inputs, as labor becomes increasingly scarce in the years ahead. Daifuku worked with its customer to develop and deliver state-of-the-art logistics systems that make use of robots. Case picking by robots, with some exceptions, is 100% automated from delivery to the distribution center to shipments. In addition, Daifuku went beyond this accomplishment to use robots for piece picking from a large number of items, a step which was previously thought to be too difficult.

Moreover, Daifuku expanded the scope of automation by integrating computer systems with its various automated storage and retrieval systems (AS/RSs). As a result, the number of personnel was reduced by half compared to distribution centers of the same size, and productivity was doubled, while accuracy of shipments attained the highest level of 99.99999%, described as “seven nines.”

Accurate Management of Pharmaceutical Products
Pharmaceuticals received from manufacturers are automatically inventoried and managed by lot based on bar-code information or data from automatic word recognition equipment. These systems enable both the reduction of labor inputs and increased traceability of about 30,000 pharmaceutical items.

Automated Through to Shipments
Products to be shipped are matched and loaded into collapsible totes, and then placed on a conveyor. Next, they are temporarily stored on the Shuttle Rack mini load AS/RS for shipments. They are then retrieved in the delivery vehicle in the reverse order that they will be delivered in, to increase the efficiency of removing cases at the point of delivery. The totes for shipment are loaded automatically on roll box pallets.

Meanwhile, cases of various shapes and sizes are transported by an automatic palletizing robot, which then palletizes them in an optimal manner quickly onto roll box pallets.

To see Daifuku products and case studies, please visit the following websites:
- Corporate Site: Solutions
  www.daifuku.com/solution
- Logistics Solutions Site
  www.daifuku-logisticsolutions.com/en
Evolving Daifuku’s Solutions

eFA

Industry ➔ Smart Mobility

Solution ➔ Wireless Charging System

Expansion into Wireless Charging Technology

In addition to its conventional plant business, Daifuku has launched a device business that makes use of noncontact power supply technology. In February 2016, with the cooperation of Komatsu Forklift Japan Ltd., Daifuku commercialized a wireless battery charging system for electric forklifts using its new technology called the D-PAD (the first system of its kind in the world according to Daifuku’s own research and is patent-pending). The system realizes a high level of transmission efficiency and reduces damage and accidents due to contact failure of electric plugs. (Photos 1 and 2)

Going forward, Daifuku will focus on developing technology for detecting foreign objects and workers as well as work to develop systems with improved and longer transmission capabilities to enhance the quality and functionality of its D-PAD technology, improve their cost performance, and expand applications in a wide range of industries. Efforts are also being focused on identifying new markets that will make the smart mobility society a reality.

The Daifuku Group has a strong record for installing systems for automobile production lines around the world, principally to Japanese and U.S. automakers. These systems include not only conveyor systems for transporting car bodies from one work process to another but also automated guided vehicles. For example, Magna T.E.A.M. Systems Inc., which manufactures SLVs on a subcontracting basis, makes use of the SmartCart automatic guided cart, one of the main products of U.S. Daifuku Group company, Jennis B. Webb Company. (Photo 1)

Applying the Internet of Things (IoT) in Manufacturing Fields

In the field of automobile production line systems, one of the key factors in determining equipment utilization rates is maintenance. As a new mode of human machine interface (HMI), Daifuku has developed a mobile system that uses a tablet terminal (see below right). Through the use of wireless LANs, this new system provides information on the status of utilization in real time, reports abnormal displays, and monitors input/output status. Moreover, it can maintain systems through remote operations and provide information on when to replace parts with limited lifetimes and other preventive maintenance-related information.

In addition, the tablet terminal can read the QR codes located at each operating point and become a multipurpose tool that operates those points, thus making it possible to design operation control boxes located on the production line substantially smaller and simpler. Also, another strength of this tablet terminal system is that it can play a role in explosion-proof and other environments where it is not possible to install control panels.

The system provides necessary information, such as machine design drawings, anytime, anywhere, and in portable form, thus making it possible for work in collaboration with the workplace through a computer terminal. These system capabilities enhance conditions in the workplaces of Daifuku’s customers and are expected to increase the convenience of operations.

AFA

Industry ➔ Automobiles

Solution ➔ Introducing New Approaches for Both Equipment and Maintenance

Daifuku’s transport and storage systems that use HID* noncontact power supply technology are safe and dustless and are suited to cleanroom environments. Daifuku has delivered more than 10,000 such systems for production lines in the semiconductor sector where they are operating non-stop for 24 hours a day and 365 days a year, as well as in automobile production lines.

* HID: High-efficiency inductive power distribution

More than 20 Years of Experience in Wireless Power Supply Systems

In the field of wireless power supply technology, Daifuku has specialized in research on noncontact power supply systems. Using noncontact power supply technology, Daifuku has delivered more than 10,000 systems for production lines in the semiconductor sector where they are operating non-stop for 24 hours a day and 365 days a year, as well as in automobile production lines. Daifuku has also developed a wireless charging system for electric forklifts using its new technology called the D-PAD (the first system of its kind in the world according to Daifuku’s own research and is patent-pending). The system realizes a high level of transmission efficiency and reduces damage and accidents due to contact failure of electric plugs. (Photos 1 and 2)

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Evolving Daifuku’s Solutions

The Daifuku Group has provided a new product to avoid workplace accidents at airports, realizing the integration of humans and machines with its ergonomics approach.

**TSA’s Challenge**

The Transportation Security Administration (TSA), an agency of the U.S. Department of Homeland Security with authority over the security of the traveling public, deploys security officers for more than 100% screening of all checked baggage. For over a decade, the TSA’s 100% screening of all checked baggage has been providing in other industries for more than 15 years.

The groundbreaking MIT, also known as a collaborative robot, or “cobot,” offers a new concept of mobile inspection systems standards. The integration of the technology with Daifuku’s baggage handling control system, WebbView, and the SymIQ software and controls package of BCS Group Limited enables mobile access based dashboard functionality, as well as consolidated data gathering.

**MIT Benefits**

Jervis B. Webb Company developed the Mobile Inspection Table (MIT), a first of its kind, to address the issues the TSA was facing. The MIT uses Automatic Guided Cart technology, which Jervis B. Webb has been providing in other industries for more than 15 years.

The MIT is designed to eliminate lifting injuries by TSA employees, flexibility, quick installation time, and direct tracking as well as adheres 100% to the latest Planning Guidelines and Design Standards for Checked Baggage Inspection Systems standards. The integration of the technology with Jervis B. Webb’s baggage handling control system, WebbView, and the SymIQ software and controls package of BCS Group Limited enables mobile access based dashboard functionality, as well as consolidated data gathering.

**Go to see Daifuku products and case studies**

**Industry**

**Airports**

**Solution**

**New Concept of Mobile Inspection Technology Improves Ergonomics**

**LSP**

**Industry**

**Automobile Service Stations**

**Solution**

**Double-Action I.B.S.**

Cleans Even Hard-to-Reach Places

In November 2015, Daifuku launched its FABRICA drive-through car wash machine equipped with the new double-action I.B.S. (patent pending in Japan). This is the only unit in the industry with inclined and separate side brushes. By designing the side brushes with an incline, the machine can clean the underside of the rear spoiler, which conventional brushes had difficulty in reaching, when washing the rear of the vehicle. (Photo 1) In addition, FABRICA is equipped with brushes that can operate separately at differing heights on the right and left according to different vehicle heights, enabling it to wash a wide range of vehicles.

FABRICA has a number of additional options, including functions for adjusting the volume of water for cleaning the underside of the vehicle and a roll jet wheel washing function using high-pressure water ejection. For customers who have demanding car wash requirements, FABRICA is a high-value-added washing machine. As FABRICA is expected to win a high evaluation in the market, Daifuku is working to expand sales.

**Go to see Daifuku products and case studies**

**Contec**

**Industry**

**M2M/IoT**

**Solution**

**Simple, Convenient, Easy-to-Use Device Cloud Service**

Contec is expanding sales of this system and let according to different vehicle heights, enabling it to wash a wide range of vehicles. **Go to see Contec products and case studies**

**Go to see Contec products and case studies**

www.daifuku.com/solution/carwash

**www.daifuku.com/solution**
The Daifuku Group is actively expanding into global markets and today operates in production and sales in 22 countries and regions. During fiscal 2015, the non-Japan sales ratio accounted for 66% to total net sales.

**FY2015 sales by region, ratio to total net sales**

**Asia**
- Sales: 109.7 billion yen
- Sales Ratio: 32.6%

**Japan**
- Sales: 114.2 billion yen
- Sales Ratio: 34.0%

**Europe**
- Sales: 9.9 billion yen
- Sales Ratio: 3.0%

**North America**
- Sales: 83.1 billion yen
- Sales Ratio: 24.7%

**Other**
- Sales: 19.0 billion yen
- Sales Ratio: 5.7%

**Consolidated subsidiaries and affiliates**
- 58

**Top 20 worldwide materials handling systems suppliers 2015**

(Source: Modern Materials Handling - May 2016)

*Equity-method affiliate since July 2012

*Non-Japan sales ratio

Performance in fiscal 2016 is expected to weaken because of foreign currency fluctuations.
We aim to establish a Smart Distribution Infrastructure that goes beyond the framework of existing logistics systems and respond to increasingly sophisticated material handling system needs.

Performance in Fiscal 2015
In fiscal 2015, ended March 31, 2016, we reported our sixth consecutive year of growth in net sales and net income and set new records for sales and operating income.

Consolidated orders in fiscal 2015 rose 17.6% from the previous fiscal year, to ¥359.4 billion yen. Net sales increased 25.8%, to ¥336.1 billion yen, and operating income was up 40.3%, to ¥20.8 billion yen. Net income attributable to shareholders of the parent company rose 39.2%, to ¥13.6 billion yen. Sales were almost at the ¥340 billion yen targeted in our revised four-year business plan and operating income was at a historically high level.

The factor leading to robust growth in performance in recent years has been the expansion in non-Japan sales, which account for 66% of total net sales. In fiscal 2015, orders received from customers in the semiconductor and flat-panel display (FPD) sectors, particularly in Asia, rose to a new record high. In response to needs for sophisticated, customized, made-in-Japan high-end systems, our core factory in Japan has supplied top-quality core products.

Meanwhile, the Daifuku Group has 8,600 employees in total according to the fiscal 2016 plan, of which a considerable number of 5,200 personnel outside of Japan are providing services in their home markets.

In the semiconductor, FPD, and automobile sectors, our customers are overwhelmingly from outside of Japan; however, in the case of general manufacturing and distribution, 56% of our customers are in Japan, and demand from them is expanding further. This is one of the factors that makes Daifuku strong against the stresses of currency fluctuations. Our business has not been hollowed out at our home ground and we are continuing to steadily introduce innovations. Also, outside of Japan, we have structured frameworks that provide not only services but are also strong in sales, production, and installations, based on deep roots in the local markets.

Performance in fiscal 2015

<table>
<thead>
<tr>
<th></th>
<th>Billion yen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received</td>
<td>¥359.4</td>
<td>¥305.5 17.6%</td>
</tr>
<tr>
<td>Net sales</td>
<td>¥336.1</td>
<td>¥267.2 25.8%</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥20.8</td>
<td>¥14.8 40.3%</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company</td>
<td>¥13.6</td>
<td>¥9.8 39.2%</td>
</tr>
</tbody>
</table>
Daihatsu's Strategic Directions

Going into Smart

Distribution Infrastructure

We do not view our robust performance during fiscal 2015 as a temporary event because it is supported by strong business underpinnings. It has become very easy for consumers to purchase goods via the Internet. Within the new e-commerce business model, the importance of our business activities is expanding by leaps and bounds. As the social presence of logistics and distribution companies, which are responsible for timely shipments of goods from delivery centers and reliable delivery to their customers, is rising, distribution is taking its place as a new infrastructure. When we say "logistics," "distribution," and "material handling," only a limited number of people understand their meaning. For the past few years, I have spent much time considering how to explain what we do and reached the conclusion that the most-appropriate way of describing it is to say we are part of a new infrastructure. Even with manufacturing, describing the assembly line that conveys car bodies in automobile factories as a main highway fits this narrative well. The best phrase to express this main highway fits this narrative well.

The best phrase to express this main highway fits this narrative well.

bodies in automobile factories as a infrastructure. Even with is to say we are part of a new appropriate way of describing it explain what we do and reached much time considering how to

Performance and Strategy by Region

Performance in Asia is robust, and we are aiming for further growth in the Americas and Europe

Daihatsu's non-Japan sales during fiscal 2015 amounted to 221.9 billion yen, an increase of 25.7% over the previous fiscal year. This represented 66% of overall net sales. By region, the largest amount of sales was in Asia, where production centers for semiconductors and FPDs are concentrated.

On the other hand, there are no local distribution-related companies that are working to develop Smart Distribution Infrastructure. Even in South Korea, Taiwan, and China, distribution system solutions are spreading from Japan.

In China, we began to provide automated warehouses for factories and distribution centers in the pharmaceutical, food and beverage sectors, and then expanded to retailers and e-commerce in the distribution sector. Since China's population and land area are large, we believe it will become an even larger market. To enable consumers in China to "get their products tomorrow, or even today" on a large-scale basis, it will be necessary to create a distribution infrastructure on a far greater scale than in South Korea and Taiwan.

In Thailand, Indonesia, Singapore, and Malaysia, new orders showed little growth, reflecting the unstable economic situation there, but the number of automated warehouses for food and beverages is increasing, and a promising future is expected. Recently, in Myanmar, we have provided the first-ever automated warehouse for a government pharmaceutical company.

In the United States, business conditions and the economic situation are favorable. We have been developing our position in North America, centered around conveyor systems for automobile production lines for many years, but we believe there is still room for further growth in systems for distributors. We will place increased emphasis on this area, expand volume, and strive to increase our market share.

In the European market, our principal businesses are providing services for systems for manufacturers and distributors and systems used in airports. Our equity-method affiliate in Austria, Knapp AG, is very strong in providing systems for the pharmaceutical, cosmetics, and other sectors and offering picking solutions for small items. By substantially deepening our collaboration with this company, we will be working to strengthen our presence also in Europe where competition is intensifying.

Issues to Be Addressed and Approaches

Improving profitability and raising technological capabilities through M&A

The initial target committed to in the four-year business plan for the operating income to net sales ratio was 7%. In fiscal 2015, we reached 6.2%, and, for the current year in progress, we are expecting to attain 6.4%; however, we will still strive to reach the 7% target.

Regarding issues to be addressed, we believe it will be important to place emphasis on achieving a balance among three types of activities: new large projects, small- to medium-sized projects, and services as an integral part of projects.

The merits of undertaking large projects are that the volume of production will increase and our overall factory utilization rates will rise, bringing an increase in gross profit. However, for large projects, competitors will also enter the bidding, and price competition will become more intense; this may lead to a decline in profitability. Accordingly, it is vital for us to achieve a balance with small- to medium-sized projects where we can expect stable earnings and large-scale business undertakings. Meeting with customers to gain a good understanding of their requests and then providing our solutions with appropriate in-depth content require time and money. Improving our organization, training personnel, raising awareness of Daihatsu in the market, building networks for sales, installation and services, and other activities take a certain level of investments for future growth. For this reason, we will be more careful not to be overly concerned with increasing short-term profitability.

Recent M&A, business alliance, and capital participation arrangements

<table>
<thead>
<tr>
<th>Company Name**</th>
<th>Year of Acquisition</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jervis B. Webb Company</td>
<td>2007</td>
<td>Overall business expansion in North America, entry into the airport field</td>
</tr>
<tr>
<td>Knapp AG**</td>
<td>2010</td>
<td>Future keystone of European operations</td>
</tr>
<tr>
<td>Logan Teleflex Group</td>
<td>2011</td>
<td>Strengthening technology in airport-related systems</td>
</tr>
<tr>
<td>Wynright Corporation</td>
<td>2013</td>
<td>Expansion of business for distributors in North America</td>
</tr>
<tr>
<td>BCS Group Limited</td>
<td>2014</td>
<td>Strengthening airport-related systems in Asia-Pacific</td>
</tr>
</tbody>
</table>

** Company name as of arrangement date.

With respect to M&A, we will focus on M&A deals that have merits for technological reasons and on collaboration with universities. For example, in the field of robotics, picking up pieces individually requires sophisticated sensing technology. Robot manufacturers do a good job down to the arm of their robots, but, when hand and fingertip movements are necessary, they do not have sufficient understanding.

In M&A deals, one approach would be looking for technology that can instantaneously identify products by shape, size, weight, and speed of the flow, and then transmitting this information to robots' hand(s) and fingertips.

Close to 30 years ago, we conducted joint research with the University of Auckland in New Zealand. This led to the development of the world's first electrified monorail system using noncontact power supply. As this technology is maintenance-free, it

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Aiming for Sustained Growth
Contributing to society through initiatives to achieve “healthy growth”

Daifuku operates its business activities based on its management philosophy of “Provide the best solutions to benefit the global markets and the development of society.” Looking ahead, we are striving to achieve healthy, sustainable growth by aiming to be a company that is trusted by all its stakeholders.

In recent years, institutional investors, especially in Europe, have placed greater emphasis on “ESG” (environment, society, and governance) criteria. These investors are requesting greater transparency in management, corporate governance, initiatives related to the natural environment, and evidence of social contributions. If we think in depth about “healthy,” it boils down to ESG. Smart Distribution Infrastructure is a concept that goes well when tied to ESG.

Regarding the natural environment, we at Daifuku are aware of the need to reduce our environmental footprint, including from our customers and other stakeholders. Daifuku’s products and services are used not only in Japan but widely around the world, and we believe this provides us with opportunities to make major contributions. Expanding the range of our eco-friendly products is one example of our initiatives.

For corporate governance, we go through the PDCA (Plan, Do, Check, and Act) cycle with the main objective of improving the effectiveness of our corporate governance and have established Daifuku Corporate Governance Guidelines. To strengthen the independence and objectivity of our Board of Directors in matters such as the nomination of the management team and its remuneration as well as accountability of management, we have formed an Advisory Committee that is chaired by an outside director. We receive timely advice and recommendations from our outside directors and Audit & Supervisory Board members, including information and points of view that we cannot obtain internally. For the internal management team, which tends to focus mainly on the business matters they are responsible for, this information is extremely valuable.

Financial Strategy and Allocation of Income
Aiming for a well-balanced allocation between return to shareholders and investment for future development

In allocating income, we believe that achieving a good balance between paying dividends to shareholders and making investment for future growth is important. Under the four-year business plan Value Innovation 2017 also, we are aiming for a dividend payout ratio of 30% and levels of investment that will continue to increase Daifuku’s corporate value. Based on this allocation policy, we set dividends for fiscal 2015 at 30 yen per share. In fiscal 2016, we are planning to pay a dividend of 35 yen per share, including a 5 yen commemorative dividend to mark the 80th anniversary of Daifuku’s founding. In addition, going forward, as another means of returning income to shareholders, we may consider purchases of treasury shares from the market.

From the perspective of strengthening our financial position, we are placing emphasis on increasing the balance of Daifuku’s net assets to prepare for investments in future growth. We will still insist on reaching a 7% operating income to net sales ratio with the aim to raise our bond rating from the current single A minus, while increasing trust in our corporate bonds. Through continuing these initiatives to increase the attractiveness of Daifuku to investors, I believe Daifuku’s stock will be naturally included in the JPX-Nikkei Index 400.

Thoughts on Management
Our philosophy of being partners with our customers

Daifuku is a company that has been brought up and grown through transactions with the very top tier of companies in a wide range of industries. We have responded to the exacting requests of our customers for safety, quality, delivery, and costs and have been able to maintain sustained business relationships for the long term. This is a strength that has sustained Daifuku over the years and is one of our greatest assets. I believe we have a responsibility to listen earnestly and sincerely to the expectations of our customers, even as their requirements have changed from era to era, and respond appropriately. Our company creed is Hini Arata, which means, “Today we are doing better than we were yesterday. Tomorrow we will be growing ahead of where we are today.” Daifuku’s philosophy is to advance and grow with our customers. Regardless of the era, this has always been true and will remain unchanged.

Based on our business philosophy, which is founded on advancing and growing with our customers and with Group companies, we will continue to fuse their unique technologies and information networks with Daifuku’s technology to provide the very best solutions to our customers in all industries and fields. Thereby, we will continue to contribute to the livelihood of customers and to society. We look forward to your continuing support.

Masaki Hojo
President and CEO
Daifuku Co., Ltd.
Discussion with the Outside Directors

Increasing the transparency of management and managing companies in the interest of all stakeholders will realize sustainable corporate growth.

It has been one year since Japan’s Corporate Governance Code went into effect. The operating environment for corporate governance is changing. Could you please tell us what points you are emphasizing the most as outside directors?

Ozawa: The most important thing about corporate governance is increasing transparency as a corporation and not creating hidden barriers that impair communication. If companies have strong barriers between divisions, it is difficult to do internal checks on the activities of sections protected by these walls, and they may even become a cause of fraud.

Kashiwagi: Most cases of corporate fraud in Japan take place without ever being noticed by the board of directors. That means that ensuring transparency by way of efficient and good communication is very important. To be sure that corporate governance is really working, the tone at the top encouraging good communication is very important.

Ozawa: One failure case of this is an incident in a Japanese company that involved corporate governance, where improper behavior was the fault of the organization, while the individuals involved did not benefit in any way. All types of organizations are operated by people; therefore, to introduce Japan’s Corporate Governance Code effectively, it will be necessary to take account of unique circumstances that exist in Japan.

Kashiwagi: Many corporate frauds arise because there are people who take the instructions of top management and their bosses too seriously. This puts strong pressure on these people to carry out any means the instructions, and, in many cases, may lead to corporate frauds.

As you pointed out, we have to keep Japan’s characteristic circumstances in mind when considering about corporate governance. From the perspective of the board of directors, what do you think is different in Japan, compared with the United States, for example?

Ozawa: Japan’s Corporate Governance Code assumes that the board of directors will play a supervisory role. Under this governance model, the role of the board of directors is to provide effective supervision. This is an organizational structure similar to governance in the United States. Under another governance model, the role of the board of directors is more managerial, and it specializes mainly in making decisions about the business strategies.

Ozawa: Under the management model, the board of directors is required to steer the company toward sustainable growth in corporate value. Today, though, after the Corporate Governance Code has gone into effect, the next topic we should discuss is whether or not it is a good idea to continue to maintain the management model.

Kashiwagi: However, the monitoring model and the management model are not necessarily incompatible. If we maintain the management model, but delegate as much authority as possible to executive directors while the outside directors monitor their performance, I believe this approach will combine the best features of the two models. In any case, an important part of the role of outside directors is to prevent the management from sacrificing the company’s interest for their own benefit. When the outside directors perform these monitoring functions to prevent such conflict of interest, they will benefit investors and other stakeholders.

Taking into account what we have discussed so far, regarding recent activities, could you please give us some of your thoughts on the atmosphere in Dafuku’s Board of Directors and establishment of an Advisory Committee?

Kashiwagi: Dafuku’s Board of Directors adopts the management type of governance model as explained above, by operation of law. For example, the Board decides such matters as issuing convertible bonds and M&A. Since the outside directors have joined the Board, the atmosphere in the meetings has been consistently free and open, and we engage in active discussions.

Ozawa: President Hojo has listened carefully to what people said in the Board meetings, and I believe that this creates an atmosphere where it is easy to express our opinions. I feel that the attitude of top management plays a big role in while the atmosphere of Dafuku is created.

Kashiwagi: From a corporate governance point of view, Dafuku has newly formed an Advisory Committee, and we have been appointed as members. Our roles include checking on whether the process for selecting management is transparent and appropriate. Also, the Committee oversees the compensation level of directors.

Ozawa: It is very important that the outside directors, as members of the Advisory Committee, participate in the process of selecting directors. This is because they have an awareness of persons within the Company and the perspectives of persons outside the Company. For example, this means they will not select a candidate who has a special interest in the Company and its directors.

The outside directors can now act as advisors for the next generation of candidates for the management team, but, from a different perspective, this should act as a filter and prevent incorrect personnel choices. As a last point, since the roles of the Board of Directors are under discussion, how do you view your roles as outside directors of Dafuku?

Ozawa: In Japan, the situations of accounting and laws differ from those in other countries. Since Japan has some unique cultural and business practices, it is not sufficient to apply discussions related to corporate governance overseas directly to Japan. We, as outside directors, must be aware that we need to gain an in-depth understanding of corporate governance, and, based on this understanding, perform our duties as supervisors of the overall management of the Company.

Kashiwagi: As one of the roles performed by outside directors, we are expected to look after the interests of all stakeholders. From the perspective of outside stakeholders, an important role of the outside directors is to ensure that directors are working for all the stakeholders and for the purpose of increasing the long- and medium-term value of the Company. To realize sustained growth, we must be aware of the need to maintain good relationships with all stakeholders, including shareholders and institutional investors, employees, customers, and the community. The greatest assets of companies are their human resources. We must employ highly capable human resources, regardless of gender and nationality, and put them into places that will enable them to contribute to the best of their capabilities.

Since Dafuku is placing a high priority on promoting diversity, we look forward to seeing the results. Thank you for participating in our discussion today.
Principal Initiatives
The Daifuku Group strives to fulfill its corporate governance responsibility with the aim of ensuring the sustained growth of the Group and creating its medium- to long-term corporate value, 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.”

To develop further as a global corporate entity, the Group believes that it is important to act in accordance with the spirit of Japan’s Corporate Governance Code. The Group aims to continuously improve the effectiveness of its corporate governance by implementing the PDCA (Plan, Do, Check, and Act) cycle of corporate governance.

Corporate Governance Structure
The main roles and responsibilities of the Board of Directors shall be to establish the Company’s management philosophy, etc. to determine the strategic direction. It shall undertake constructive discussions about specific management policies, management plans, and other aspects. Daifuku’s Board of Directors consists of 10 directors, including two outside directors. The directors’ 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’ regular meetings are held once a month, while extraordinary meetings are held as needed (six times in the fiscal year ended March 31, 2016). Daifuku adopts a corporate officer system to accelerate management decision making on business execution and strengthen supervising functions of the Board of Directors. The Board of Directors delegates matters other than important matters defined in the Rules of the Board of Directors to the management team, i.e., directors and corporate officers.

System to complement functions of the Board of Directors
Daifuku has an optional Advisory Committee to deliberate on the nomination and/or appointment of management team members and the remuneration of management. The Advisory Committee is comprised of representative directors and outside directors, and meets at least three times a year. The Advisory Committee is chaired by one of the outside directors to ensure its independence and objectivity.

With the introduction of the corporate officer system, Daifuku holds officers’ meetings, with all members of the management team and full-time members of the Audit & Supervisory Board attending and participating in deliberations on the content of business execution. The Management Advisory Meeting is held to consider important management matters. With directors and full-time members of the Audit & Supervisory Board in attendance, this meeting also seeks the opinions of external specialists.

Activity of outside directors and outside members of the Audit & Supervisory Board

<table>
<thead>
<tr>
<th>Name</th>
<th>Independent officer</th>
<th>Board meeting attendance</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nobuyuki Kashiwagi</td>
<td>[✓]</td>
<td>Regular: 12/12 times</td>
<td>Provides insightful advice and recommendations as a journalist to the Boards, based on his extensive knowledge in finance and accounting and experience working outside of Japan.</td>
</tr>
<tr>
<td>Yoshiaki Oshiro</td>
<td>[✓]</td>
<td>Special: 6/6 times</td>
<td>Provides insightful advice and recommendations as a journalist to the Boards, based on his extensive knowledge in finance and accounting and experience working outside of Japan.</td>
</tr>
<tr>
<td>Koji Kikuchi</td>
<td>[✓]</td>
<td>Management Advisory Meeting: 4/4 times</td>
<td>Provides expert advice and recommendations to the Board of Directors based on his extensive experience in financial management, and his roles in governance.</td>
</tr>
<tr>
<td>Ryoichi Tani</td>
<td>[✓]</td>
<td>Regular: 12/12 times</td>
<td>Provides insightful advice and recommendations as a journalist to the Boards, based on his extensive knowledge in finance and accounting and experience working outside of Japan.</td>
</tr>
<tr>
<td>Ryosuke Arita</td>
<td>[✓]</td>
<td>Special: 6/6 times</td>
<td>Provides insightful advice and recommendations as a journalist to the Boards, based on his extensive knowledge in finance and accounting and experience working outside of Japan.</td>
</tr>
</tbody>
</table>

Provides extensive knowledge in finance and accounting and experience working outside of Japan.

Outside directors and outside members of the Audit & Supervisory Board
Two outside directors provide insightful advice and recommendations to the Board of Directors based on their abundant experience and extensive knowledge in international trade laws, corporate legal affairs, finance, and accounting.

Outside directors and outside members of the Audit & Supervisory Board bring diverse perspectives to the Audit & Supervisory Board by exchanging opinions with the full-time members of the Audit & Supervisory Board attending Board of Directors’ meetings, and gathering information.

Daifuku maintains an Audit & Supervisory Board made up of five Audit & Supervisory Board members, three of whom are elected from outside the Company. The Audit & Supervisory Board meetings were held on seven occasions during the fiscal year ended March 31, 2016.

Audit & Supervisory Board members and the Audit & Supervisory Board shall fulfill their duties by stipulating and promoting the effective applications of the Rules of the Audit & Supervisory Board, with regard to the audit of directors’ fulfillment of duties, decisions over resolutions to be submitted to the General Meeting of Shareholders regarding election/demise and non-reappointment of the accounting auditor, and others, with due attention to their fiduciary responsibilities to shareholders and with an aim for sustainable growth and medium- and long-term improvement of the corporate value.

Audit & Supervisory Board members conduct audit and supervisory activities in accordance with audit plans formulated at the beginning of the fiscal year. In the course of their duties, Audit & Supervisory Board members attend key meetings, including Board of Directors’ meetings and officers’ meetings, and visit to monitor financial activities at various operating divisions in factories, sales offices, and Group companies. To promote coordination and effectiveness in auditing, Audit & Supervisory Board members 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.

In addition, to make more-effective use of outside officers, meetings of outside officers, the representative directors, and full-time members of the Audit & Supervisory Board are held on a regular basis.
To clarify the independence of officers, Daifuku meets the provisions provided by stock exchanges and formulates its own requirements of independence. Two outside directors and three outside members of the Audit & Supervisory Board meet the requirements of independence, and the Tokyo Stock Exchange has been notified that they are independent officers.

### Board Member Remuneration

At Daifuku’s June 2006 General Meeting of Shareholders, a resolution was passed limiting the total annual remuneration of directors (excluding the salaries of staff) to 700 million yen, and that of Audit & Supervisory Board members to 110 million yen. Director and the Audit & Supervisory Board member remuneration in fiscal 2015 is as shown in the following table. No individual received total remuneration on a consolidated basis of 100 million yen or more, nor did any individual officer receive remuneration as a director or Audit & Supervisory Board member from Daifuku’s subsidiaries besides that shown in the table.

At the General Meeting of Shareholders held in June 2016, the introduction of the board benefit trust system for the business-performance based remuneration within the scope of the aforementioned 700 million yen for internal directors and corporate officers was approved. Additional remuneration based on business performance will be deliberated by the Advisory Committee and decided at the Board of Directors’ meeting according to the achievement of the management target committed in the medium-term business plan in addition to the level of business achievement in each fiscal year.

#### Remuneration for Board members

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of individuals</th>
<th>Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (Outside directors)</td>
<td>14 (8)</td>
<td>482 million yen (38 million yen)</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (Outside members)</td>
<td>5 (3)</td>
<td>80 million yen (30 million yen)</td>
</tr>
<tr>
<td>Total (Outside officer total)</td>
<td>19 (11)</td>
<td>542 million yen (48 million yen)</td>
</tr>
</tbody>
</table>

Note: The above table includes directors who retired as of the June 2015 General Meeting of Shareholders.

#### Effectiveness of Governance

**Corporate governance guidelines**

In May 2016, Daifuku established its Corporate Governance Guidelines to enhance and strengthen its corporate governance structure. The Company strives to improve the effectiveness of corporate governance by implementing the PDCA cycle continuously. The guidelines comprise the following:

I. General Provisions
II. Relationship with Shareholders
III. Appropriate Cooperation with Stakeholders Other Than Shareholders
IV. Ensuring Appropriate Information Disclosure and Transparency
V. Corporate Governance Structure

For further information on “Daifuku Corporate Governance Guidelines,” see Daifuku’s website: www.daifuku.com/en/policy/governance/guideline

**Evaluation of the Board of Directors’ effectiveness**

The effectiveness of the Board of Directors was evaluated, with the results assessed by outside directors and reported at a meeting of the Board of Directors. Daifuku will strive to improve effectiveness continuously through the PDCA cycle.

**Cross-shareholding strategy**

Daifuku has established strong relationships with customers through the delivery of products and after-sales services. Considering these relationships, the Company examines the economic rationality of cross-shareholdings and decides whether to retain them. The Company will decide on the exercise of voting rights individually, considering the medium- to long-term shareholder value of the companies whose shares Daijuku holds and whether the shareholdings will contribute to improving the Company’s corporate value.

**Risk management framework**

1. For natural disaster risks, such as earthquakes, winds and floods, lightning, fires, and new flu strains, Daifuku continues to develop business continuity plans, manuals and procedures preparation, and training sessions and drills on crisis management and disaster prevention.
2. Daifuku built a system to share information on situations during disasters related to buildings/facilities, infrastructure, customers, etc. within the Group. Daifuku implemented training to use an individuals safety confirmation system for officers and employees on a regular basis. Daifuku also introduced a system to confirm suppliers’ operations to quickly understand their situations during disasters.
3. Daifuku reviewed its information security related rules, considering that information security is becoming greater challenges for the Company. In addition, the Company provided all employees with e-learning and e-mail based training to raise their awareness of information security.

**Internal audits**

The Internal Audit Department implemented audits for the Company and other Group companies worldwide, based on the initial audit plan formulated at the beginning of the fiscal year. With respect to the results of audits, an internal audit report was fed back to the audit divisions and submitted to representative directors and relevant officers, including full-time members of the Audit & Supervisory Board. Consequently, in its fiscal 2015 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.

**Information Disclosure and IR Activities**

The Group aims to realize fair, highly transparent management by being proactive in information provision other than statutory disclosure, not to mention disclosing information appropriately in accordance with legislation. Daifuku has the Disclosure Committee to ensure the timely disclosure of financial results, information related to corporate decisions, and information related to the occurrence of material facts and defines processes by each case.

For its shareholders and investors, Daifuku conducts timely and appropriate disclosure of information through its IR (Investor Relations) 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 through the department.

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

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**Operation Status of Systems to Secure Business Appropriateness**

**Compliance**

1) Daifuku created a database to accumulate information on case studies regarding compliance from other companies and has been communicating with officers and employees through the database on a regular basis.
2) At meetings of the Compliance Committee, which comprises directors and corporate officers, Daifuku reviewed the recent scandals of other companies and discussed what the Company should learn from these cases and strove to raise compliance awareness of the management team.
3) Daifuku set October as the Month of Compliance and promoted activities to raise employees’ compliance awareness through posting relevant articles on in-house newsletters and announcement posters within factories and offices.

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**Corporate Governance**
The Daifuku Group believes that the basic principles of CSR are to build a symbiotic relationship with its stakeholders and to practice the Group’s Corporate Policies Structure through its corporate activities.

Quality Initiative
Daifuku has established its Rules on Inventions and Designs. Under these rules, the Company actively promotes patent applications and the acquisition of rights with a special focus on newly developed products. The progress of globalization has resulted in an increased number of patent applications made outside of Japan in recent years. Every year, Daifuku presents in-house innovation awards to patent-pending inventions awaiting patent registration. This award program recognizes outstanding products and technologies on a timely basis in accordance with internal and external evaluations.

During fiscal 2015, The Daifuku Innovation Awards Grand Prize for fiscal 2015 was given to three products: new rack cross-section, SPDR (Spider), and the display panel WASH TOUCH II for car wash machines. The Innovation Award was given to three additional products, for a total of 32 inventors.

Workplace Safety
Based on the concept that safety is its ultimate priority, Daifuku has moved the Central Environment, Safety & Hygiene Committee under the direct control of the president and will strive to eradicate workplace accidents. With the aim of passing on a corporate culture that for years has focused on safety, identifying undiscovered risks, and securing intrinsic safety, Daifuku obtains several occupational safety and health management system certifications, such as OHSAS 18001 and the JISHA method, at its major sites. Also, the Company encourages these management systems across the Group worldwide.

Workplace Safety
Based on the concept that safety is its ultimate priority, Daifuku has moved the Central Environment, Safety & Hygiene Committee under the direct control of the president and will strive to eradicate workplace accidents. With the aim of passing on a corporate culture that for years has focused on safety, identifying undiscovered risks, and securing intrinsic safety, Daifuku obtains several occupational safety and health management system certifications, such as OHSAS 18001 and the JISHA method, at its major sites. Also, the Company encourages these management systems across the Group worldwide.

Environmental Initiatives
Since November 2012, Daifuku has been operating an in-house program to rate and certify the energy and environmental design of its own products. We rate every product manufactured within the Daifuku Group in terms of: energy saving, recyclable, lightweight, long life, resource saving, water saving, low noise, clean water preservation, and harmful substance(s) reduced. Products that meet a certain standard are certified as a Daifuku Eco-Product. During fiscal 2015, eight more products were added to the lineup of certified Daifuku Eco-Products, amounting to 29 certified products. In addition, centering on its care factory, Shiga Works, Daifuku takes steps to save energy and resources, introduce renewable energy, preserve biodiversity, reduce environmental impact, and build relationships with communities.

Relationships of Trust with Suppliers
Daifuku, as a good corporate citizen, aims to be a company that contributes to the development of both the economy and society by proactively conducting community-based activities. As part of its community contribution activities, Daifuku participates in cleanup activities, ties up with communities after natural disasters, and implements site tours for its factories and the Daifuku Mega Solar power plant within the Shiga Works. In fiscal 2015, Daifuku Korea Co., Ltd. and Clean Factomation, Inc. co-sponsored the Japan-Korea Festival 10th Anniversary in Seoul.

Fiscal 2015 Environmental Action Plans and Results
Daifuku sets forth its targets and action plans for global warming prevention, resource saving, biodiversity conservation, green procurement, Daifuku Eco-Products certification, CO2 reduction contribution, environmental education, and environmental management framework.

For more details on Daifuku’s CSR activities, please refer to Daifuku’s CSR Report or our website:
www.daifuku.com/sustainability/report
www.daifuku.com/sustainability
Directors, Auditors, and Officers

[A page from the 2016 Annual Report of Daifuku Co., Ltd.]

Directors

Masaki Hojo
President and CEO

Apr. 1979 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jun. 1988 Director, member of the Board
Apr. 2006 President of Daifu America Holding Company (now Daifu North America Holding Company)

Akio Tanaka
Executive Vice President and COO

Apr. 1973 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jul. 2004 Administration Officer with Director status
Jun. 2008 Director, member of the Board
Jun. 2014 Secretary General of the Corporate Social Responsibility Committee

Mikio Inohara
Executive Vice President and CFO

Apr. 1993 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jul. 2004 Administration Officer with Director status
Jun. 2009 Director, member of the Board
Jun. 2014 Secretary General of the Finance and Accounting Committee

Yoshinori Nakashima
Chairman of Daifu Co., Ltd.

Apr. 1983 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jul. 2008 Administration Officer with Director status
Jun. 2013 Director, member of the Board
Jun. 2015 Chairman of Daifu (China) Co., Ltd. (present)

Yoshiaki Ozawa
Independent Director

Apr. 1979 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jun. 1989 Executive Vice President (to present)

Auditors

Tatsuo Kurosaka
Audit & Supervisory Board Member

Apr. 1978 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Apr. 2005 Director of the Business Continuity Committee

Yoshitsuka Kimura
Audit & Supervisory Board Member

Apr. 1982 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jun. 2008 Director of the Business Continuity Committee

Isao Kitamoto
Audit & Supervisory Board Member (outside)

Apr. 1990 Joined Japan Broadcasting Corporation (NHK) as Program Director of NHK Department of Planning and Operation
Jun. 2008 Managing Director of NHK Enterprises 21 Inc.
Jun. 2015 Independent Officer

Hiroshi Torii
Chairman of Daifu (China) Manufacturing Co., Ltd.

Apr. 1993 Joined Daifuku Machinery Works Co., Ltd. (now DaifuCo., Ltd.)
Jul. 2008 Administration Officer with Director status
Jun. 2013 Director, member of the Board
Jun. 2015 Chair of the New National Stadium Project Trust Board of Nippon Shuppan Hanbai Inc. (to present)

Ryosuke Aihara
Audit & Supervisory Board Member (outside)

Apr. 1977 Registered as an attorney, belonging to Daini Tokyo Bar Association (to present)

Managing Officers

Akira Ikari
Chairman of Daifu Pharmaceutical Co., Ltd.

Ushigama Products, an affiliate of Daifu Co., Ltd.

Tadashi Kimura
Factory & Distribution Automation Production, International

Corporate Officers

Ken Sasaki
Safety and Environmental Management Officer, Chief Officer of Morita Works

Takuya Gondo
Factory & Distribution Automation Engineering

Yasuhiro Mishina
Factory & Distribution Automation Production

Corporate Officers

Hiroshi Nobuta
Executive Vice President of Daifu North America Holding Company

Yoshishita Ichinose
Corporate Social Responsibility Officer, Chief Officer of Maruki Works

Takuya Gondo
Corporate Officer

Apr. 2016 Corporate Manager of the Sales Division under FA&D Operations

Hiroshi Geshiro
Corporate Officer

Apr. 2013 Corporate Manager of the Sales Division under FA&D Operations

Toshiaki Hayashi
Corporate Officer

Apr. 2014 Corporate Manager of the Sales Division under FA&D Operations

Yoshiaki Kita
Chairman of Daifu (China) Manufacturing Co., Ltd.

Chairman of Daifu (China) Manufacturing Co., Ltd.
Financial Section

Eleven-Year Summary
Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2006 to 2016

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</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥336,184</td>
<td>¥267,284</td>
<td>¥241,811</td>
<td>¥202,337</td>
<td>¥198,052</td>
<td>¥159,263</td>
<td>¥154,208</td>
<td>¥242,182</td>
<td>¥231,619</td>
<td>¥232,703</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>¥272,832</td>
<td>¥215,641</td>
<td>¥194,974</td>
<td>¥165,340</td>
<td>¥165,505</td>
<td>¥128,195</td>
<td>¥159,312</td>
<td>¥182,260</td>
<td>¥186,991</td>
<td>¥159,312</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>¥42,472</td>
<td>¥36,759</td>
<td>¥34,279</td>
<td>¥28,966</td>
<td>¥28,328</td>
<td>¥25,897</td>
<td>¥22,982</td>
<td>¥26,767</td>
<td>¥22,822</td>
<td>¥20,530</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥20,878</td>
<td>¥14,883</td>
<td>¥12,556</td>
<td>¥8,010</td>
<td>¥4,217</td>
<td>¥1,726</td>
<td>¥80</td>
<td>¥15,015</td>
<td>¥20,677</td>
<td>¥18,337</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>¥20,650</td>
<td>¥15,211</td>
<td>¥12,137</td>
<td>¥7,316</td>
<td>¥3,129</td>
<td>¥703</td>
<td>¥680</td>
<td>¥13,956</td>
<td>¥20,592</td>
<td>¥18,356</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company</td>
<td>¥13,652</td>
<td>¥9,810</td>
<td>¥7,740</td>
<td>¥4,349</td>
<td>¥1,223</td>
<td>¥269</td>
<td>¥1,018</td>
<td>¥7,851</td>
<td>¥11,893</td>
<td>¥11,382</td>
</tr>
<tr>
<td>Net income per share (yen and U.S. dollars)</td>
<td>¥118.72</td>
<td>¥88.59</td>
<td>¥69.96</td>
<td>¥40.12</td>
<td>¥11.05</td>
<td>¥2.43</td>
<td>¥2.90</td>
<td>¥10.05</td>
<td>¥9.20</td>
<td></td>
</tr>
<tr>
<td>Cash dividends per share (yen and U.S. dollars)</td>
<td>¥30.00</td>
<td>¥22.00</td>
<td>¥18.00</td>
<td>¥15.00</td>
<td>¥15.00</td>
<td>¥20.00</td>
<td>¥20.00</td>
<td>¥20.00</td>
<td>¥20.00</td>
<td></td>
</tr>
<tr>
<td>Capital investment</td>
<td>¥4,210</td>
<td>¥7,532</td>
<td>¥10,446</td>
<td>¥22.00</td>
<td>¥18.00</td>
<td>¥15.00</td>
<td>¥15.00</td>
<td>¥20.00</td>
<td>¥20.00</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,087</td>
<td>40,708</td>
<td>4,517</td>
<td>4,157</td>
<td>4,017</td>
<td>3,679</td>
<td>3,930</td>
<td>3,401</td>
<td>2,866</td>
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<td>R&amp;D expenditures</td>
<td>7,009</td>
<td>62,199</td>
<td>6,945</td>
<td>7,490</td>
<td>6,846</td>
<td>6,370</td>
<td>6,075</td>
<td>6,864</td>
<td>7,564</td>
<td></td>
</tr>
</tbody>
</table>
| At Year-End
| Total assets       | ¥296,055 | ¥271,011 | ¥249,531 | ¥206,875 | ¥185,049 | ¥163,388 | ¥165,430 | ¥194,727 | ¥222,386 | ¥195,016 | ¥181,990 |
| Working capital    | 99,293  | 91,187  | 87,070  | 45,832  | 61,943  | 65,908  | 66,265  | 75,087  | 64,840  | 60,351  | 52,249  |
| Interest-bearing liabilities | 40,904 | 53,385 | 40,912 | 45,295 | 55,417 | 33,559 | 33,764 | 33,856 |
| Net assets         | 130,116 | 111,521 | 99,690  | 85,685  | 76,618  | 77,714  | 81,295  | 82,810  | 80,718  | 68,882  |
| Net assets per share (yen and U.S. dollars) | ¥1,044.40 | ¥927.75 | ¥875.14 | ¥3,498 | ¥748.59 | ¥682.01 | ¥608.12 |
| Number of employees | 7,835    | 7,746  | 7,349   | 6,768  | 6,517  | 5,209  | 5,395  | 5,660  | 4,702  | 4,109  |

Ratios

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income/net sales</td>
<td>6.2%</td>
<td>5.6%</td>
<td>5.2%</td>
<td>4.0%</td>
<td>2.1%</td>
<td>1.1%</td>
<td>0.1%</td>
<td>6.2%</td>
<td>8.9%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Income before income taxes and net sales</td>
<td>6.1</td>
<td>5.7</td>
<td>5.0</td>
<td>3.6</td>
<td>1.6</td>
<td>0.4</td>
<td>0.6</td>
<td>5.8</td>
<td>8.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Net income/net sales</td>
<td>6.1</td>
<td>3.7</td>
<td>3.2</td>
<td>2.2</td>
<td>0.6</td>
<td>0.2</td>
<td>0.7</td>
<td>3.2</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Return on shareholders' equity (ROE)</td>
<td>11.6</td>
<td>9.6</td>
<td>8.6</td>
<td>5.6</td>
<td>1.6</td>
<td>0.3</td>
<td>1.3</td>
<td>9.6</td>
<td>14.7</td>
<td>15.6</td>
</tr>
<tr>
<td>Shareholders' equity/total assets</td>
<td>42.9</td>
<td>39.8</td>
<td>38.8</td>
<td>40.4</td>
<td>40.3</td>
<td>46.3</td>
<td>47.9</td>
<td>40.9</td>
<td>39.0</td>
<td>39.6</td>
</tr>
</tbody>
</table>

Notes:
1. The amount of "Capital investment" in the years ended March 31, 2015, 2014, and 2013 includes goodwill generated from acquisition of shares in overseas companies.
2. The U.S. dollar amounts in this annual report are translated from Japanese yen for convenience only, at the rate of ¥112.69 = U.S.$1.00, on the Tokyo Foreign Exchange Market on March 31, 2016.
3. In the calculation of net assets per share, the amount of non-controlling 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 non-controlling interests.
Group made steady progress, with record orders, sales, and related investments from the e-commerce sector are been growing given a stronger yen and lower stock prices. However, economic uncertainty has been growing partially during the fourth quarter. In the U.S. market, demand for capital investment for airports, which features extensive use of robots and B2B online stores that sell dental health materials and laboratory tools.

In addition, orders and sales of systems for semiconductor and FPD factories increased significantly, mainly in Japan and other Asian regions.

In automobile production line systems, orders for services and small upgrade projects remained firm in Japan, while customers are increasingly investing in new factories outside of Japan.

In networking products, Contec strove to identify new markets by expanding sales of wireless LAN products for networking equipment.

In systems for semiconductor manufacturers, orders remained firm, bolstered by large projects for the semiconductor and FPD factories increased significantly, mainly in Japan and other Asian regions.

In systems for semiconductor manufacturers, business remained firm.

In automobile production line systems, Daifuku North America received multiple large orders for new automobile paint line systems for an American automaker and achieved further cost improvements, mainly for continued orders from Japanese automakers. This business has grown to a substantial revenue stream in North America. Earnings benefited from solid sales of automatic guided vehicles, online industrial supply, transportation, and other sectors.

In systems for airports, planned orders and sales fell below the initial plan of the fiscal year, mainly due to delayed orders for large projects. However, earnings...
capacity is rising significantly, underpinned by the termination of unprofitable projects and cost improvements, and growth should turn positive for fiscal 2016.

Earnings were affected by the amortization of goodwill associated with a U.S. company that joined the Group through M&A, which was reflected in Daifuku North America's results.

As a result, Daifuku North America achieved orders of 95,713 million yen, up 26.4% from the previous fiscal year, net sales of 77,066 million yen, up 0.7%, and segment income of 1,503 million yen, down 3.3%.

(4) Daifuku Plusmore Co., Ltd.

Daifuku Plusmore mainly sells car wash machines and bowling-related products and provides rental roll box pallets in Japan. Sales of car wash machines for car service stations remained steady, underpinned by demand for upgrades of aging machines and subsidiaries operated by Japan’s Agency for Natural Resources and Energy’s business stabilization and support operations. Daifuku Plusmore consequently achieved record annual unit sales.

As a result, Daifuku Plusmore reported orders of 12,387 million yen, up 19.7% from the previous fiscal year, net sales of 12,284 million yen, up 18.3%, and segment income of 143 million yen, up 117.0%.

(5) Other

The Other segment includes all other Daifuku Group companies, excluding the aforementioned Contec and Daifuku North America group companies and Daifuku Plusmore. As of March 31, 2016, the Group had 58 consolidated subsidiaries and affiliates in total located worldwide.

Outside Japan, major subsidiaries primarily sell and manufacture material handling systems and equipment. Each of these companies plays a global role in optimizing the local production and procurement framework of the Group.

In China, since the economic situation has been shifting from exporting to domestic demand, with a concurrent move from manufacturing to service-oriented sectors, usage of material handling systems is rising rapidly in the food, pharmaceutical, and distribution sectors. In 2015, in the Company’s manufacturing and distribution systems and systems for automobile assembly lines, Daifuku reorganized its three Chinese subsidiaries and affiliates to integrate their production and sales division and is working toward expansion. Each of these companies has its own operations divided by business.

In systems for FPD factories, under China’s policy of becoming the world’s No. 1 in FPD production in fiscal 2017, orders and sales increased significantly. In automobile production line systems, orders for conveyors and automatic guided vehicles for Euro-American automobile factories remained firm.

In Taiwan, business performance improved significantly, with large orders for systems for semiconductor and FPD factories and systems for the distribution centers of online stores.

In South Korea, orders from semiconductor manufacturerers, work on projects to upgrade automobile production lines, and sales of car wash machines were steady.

Due to unfavorable business sentiment in ASEAN countries, orders grew at a sluggish pace at subsidiaries in Thailand, Singapore, Indonesia, and Malaysia. In consideration of ASEAN’s potential, however, these subsidiaries will continue strengthening their local operating framework, including production, sales, services, and information infrastructure, to receive orders for automobile production lines, the need to replace their facilities, as well as to meet demand for low-temperature logistics in the food and beverage sectors.

In Europe, service business for systems for manufacturiers and distributors remained steady. Daifuku Logan Ltd., which handles systems and technologies for airports, posted expenses incurred in the company’s structural reforms, but showed improved performance after winning large orders in the U.K. and France during the fourth quarter.

Sales reported by BCS Group Limited, which handles systems and technologies for airports in Oceania and Asia, remained firm. Looking ahead, BCS will collaborate with Daifuku Logan in Europe and expand sales by supplying rising demand for automated check-in systems.

Consequently, the segment recorded orders of 94,428 million yen, up 40.7% from the previous fiscal year, net sales of 81,792 million yen, up 50.8%, and segment income of 3,233 million yen, down 20.4%.

Earnings

During fiscal 2015, because of the previously mentioned factors, the Group posted net sales of 336,184 million yen, up 25.8% from the previous year. The Group’s gross profit ratio decreased 0.5 percentage point, to 18.6%, mainly due to provisions for reserves for losses on construction; on the one hand, the profitability of the parent company was high and sales increased at subsidiaries in the rest of Asia. In addition, the ratio of selling, general and administrative expenses improved 1.2 percentage points over the previous fiscal year, to 12.6%.

As a result, operating income rose 40.3%, to 20,878 million yen. Although there were some extraordinary losses due to revaluation of non-current assets in Japan and overseas, net income attributable to shareholders of the parent company amounted to 13,652 million yen, an increase of 39.2% year on year. The effective income tax rate for fiscal 2015 was 33.2%.

As a consequence, net income per share rose from 88.59 yen per share in the previous fiscal year, to 118.72 yen in fiscal 2015.

Financial Position

Assets, liabilities, and net assets

Total assets at the end of fiscal 2015 stood at 296,055 million yen, an increase of 25,043 million yen from the end of the previous fiscal year. The result principally reflected an increase of 28,618 million yen in notes and accounts receivable and unbillable receivables.

Total liabilities at the end of fiscal 2015 amounted to 165,938 million yen, an increase of 6,448 million yen from the end of the previous fiscal year. Primary factors included increases of 6,442 million yen in electronically recorded obligations, 4,708 million yen in income taxes payable, and 9,633 million yen in other current liabilities such as excess charges for uncompleted construction and advances received, offset by a decrease of 15,093 million yen in yen convertible bonds with stock acquisition rights due 2017.

Net assets at the end of fiscal 2015 were 130,116 million yen, an increase of 18,584 million yen from the end of the previous fiscal year. This was mainly attributable to an increase of 10,874 million yen in retained earnings, as well as increases of 6,555 million yen in capital surplus and 6,992 million yen in paid-in capital or common stock with the proceeds from the issuance of new shares following the exercise of stock acquisition rights mentioned above. Daifuku issued convertible bonds with stock acquisition rights in October 2013 as a pillar of the financial strategy described in its current four-year business plan, with the objective of converting the bonds into shares by October 2017. As its stock price has been favorable since then, the Company was able to boost its capital before the bond maturity date of October 2, 2017. The ratio of shareholders’ equity to total assets stood at 42.9% at fiscal year-end and the return on equity (ROE) was 11.6%.

Cash flows

Cash and cash equivalents at the end of fiscal 2015 decreased 4,986 million yen from the end of the previous fiscal year, to 49,084 million yen, compared with 54,081 million yen in the same period of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities totaled 7,206 million yen, compared with cash provided of 6,295 million yen in the same period of the previous fiscal year. This primarily reflected 20,650 million yen in income before income taxes and non-controlling interests, an increase of 11,964 million yen in notes and accounts payable as well as depreciation of 4,587 million yen, offsetting a decrease of 28,060 million yen in notes and accounts receivable.

Cash flows from investing activities

Net cash used in investing activities was 2,099 million yen, compared with cash used of 5,846 million yen in the same period of the previous fiscal year. Major factors included an outlay of 3,158 million yen for the payments for purchase of property, plant, and equipment.

As a result, free cash flow for fiscal 2015 amounted to 5,107 million yen, compared with 449 million yen in the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities was 6,702 million yen, compared with cash used of 509 million yen in the same period of the previous fiscal year. Major factors were repayments of 4,232 million yen in interest-bearing liabilities, a dividend payment of 2,794 million yen, and payments totaling 1,556 million yen for the acquisition of shares in subsidiaries that did not affect the scope of consolidation.

Basic policy regarding dividends for fiscal 2015 and 2016

Daifuku regards the return of profits to shareholders as its most important management task and has adopted a performance-based policy for cash dividends based on consolidated net income (net income attributable to
2. Focus on healthy, growth-driven global management philosophy:

For fiscal 2015, Daifuku paid an interim dividend of 10 yen per share, and the Board of Directors passed a resolution to pay a year-end dividend of 20 yen per share at a meeting held on May 12, 2016, making the annual dividend 30 yen per share.

With respect to dividends for fiscal 2016, the Company plans to pay an annual dividend of 35 yen per share (an interim dividend of 12 yen per share and a year-end dividend of 18 yen as common dividends, plus a commemorative dividend of 5 yen to mark its 80th anniversary), taking into consideration the earnings forecast for fiscal 2016 and the basic policy described above.

Management Policy
Basic management policy for the Group

Daifuku has grown to become a manufacturer and systems integrator vying for the No. 1 or No. 2 positions with-in the material handling field, as a result of consistently seeking to achieve sustainable growth based on its management strategy to complement its existing businesses and enhance its corporate value.

The Group has three objectives:

1) Shore up non-Japanese affiliates where profitability is lower than in Japan
2) Further improve profitability in Japan
3) Expand after-sales services through application of the IoT (Internet of Things)

Of non-Japanese affiliates, Wynright Corporation, which has impressive sales in North America, will work to expand its product lineup for the general manufacturers and distributors and to reduce the cost of manufacturing by raising the ratio of in-house production. The Group has been manufacturing and selling airport baggage handling systems focusing on hardware at non-Japanese affiliates. However, the Group will expand the scope of its business to provide Airport Technologies (AiTech), which integrate O&M (operation and maintenance), software, and the automatic check-in system.

In Japan, Daifuku will further promote structural reform for purchases and in-house production and quality improvement.

In the IoT field, subsidiary Contec developed and launched CONPROSYS, an M2M and IoT solution series in the fiscal year ended March 31, 2016. The development of cloud computing and communications technology has made the remote monitoring of infrastructure and the preventive maintenance of plants possible at low prices. Against this backdrop, CONPROSYS integrates different manufacturers’ sensors and machines having different communication methods and data formats and links them to high-order systems.

Since 2004, Daifuku has been providing DREMOS, a remote monitoring and preventive maintenance system for its logistics systems, as an after-sales service. To add value to products and services, the Company will encourage the use of the IoT.

To achieve sustainable growth in the medium to long term, our challenge is developing and identifying new products and new businesses. To meet that challenge, the Company is strengthening its device business as well as its plant business. In February 2016, in a world first, Daifuku put into practical use a wireless battery charging system for electric forklifts, D-PAD.

Daifuku will consider introducing core technologies for innovation, including the IoT, devices, and software, from outside sources. M&A will remain part of the Company’s management strategy to complement its existing businesses and enhance its corporate value.

Business-Related Risks

The main items that the Group recognizes as risks and responds to as such are as follows. Some of the content of this section constitutes forward-looking statements. Accordingly, please note that these statements have been made based on judgments of the Group as of June 27, 2016.

Risks covered by the Chief Financial Officer and 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 (leakage 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 the labor environment; difficulties in recruiting/retaining personnel; outbreaks of disease, etc.)

Risks covered by the Chief Operating Officer

(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 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.)

Risks covered by the Compliance Committee

Compliance-related risks (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, 2016 and 2015

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and in banks (Notes 9 and 28)</td>
<td>¥ 49,187</td>
<td>¥ 54,202</td>
<td>¥ 436,487</td>
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<tr>
<td>Notes and accounts receivable and unbilled receivables (Note 9)</td>
<td>103,264</td>
<td>76,645</td>
<td>916,356</td>
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<tr>
<td>Costs and estimated earnings in excess of billings on uncompleted contracts (Note 9)</td>
<td>28,033</td>
<td>19,414</td>
<td>248,769</td>
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<tr>
<td>Merchandise and finished goods</td>
<td>3,629</td>
<td>3,561</td>
<td>32,209</td>
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<tr>
<td>Costs incurred on uncompleted construction contracts and other (Note 8)</td>
<td>7,092</td>
<td>6,990</td>
<td>62,034</td>
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<td>Raw materials and supplies</td>
<td>11,370</td>
<td>11,980</td>
<td>100,902</td>
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<td>Deferred tax assets (Note 27)</td>
<td>4,501</td>
<td>2,810</td>
<td>39,947</td>
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<tr>
<td>Other current assets</td>
<td>7,380</td>
<td>7,574</td>
<td>65,586</td>
<td></td>
</tr>
<tr>
<td>Less: allowance for doubtful accounts</td>
<td>(146)</td>
<td>(127)</td>
<td>(1,300)</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>214,324</td>
<td>185,041</td>
<td>1,061,894</td>
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</table>

### Non-current assets:

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<th>Property, plant and equipment (Notes 7 and 13):</th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Buildings and structures, net</td>
<td>13,954</td>
<td>14,754</td>
<td>123,826</td>
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<tr>
<td>Machinery and vehicles, net</td>
<td>3,336</td>
<td>3,507</td>
<td>29,608</td>
<td></td>
</tr>
<tr>
<td>Tools and fixtures, net</td>
<td>1,487</td>
<td>1,830</td>
<td>13,198</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>11,881</td>
<td>12,018</td>
<td>105,436</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>2,221</td>
<td>2,562</td>
<td>19,716</td>
<td></td>
</tr>
<tr>
<td>Total property, plant and equipment</td>
<td>32,881</td>
<td>34,673</td>
<td>291,786</td>
<td></td>
</tr>
</tbody>
</table>

### Intangible assets:

| Software | 3,152 | 3,100 | 27,971 | 
| Goodwill | 11,181 | 12,905 | 99,219 | 
| Other | 2,739 | 3,040 | 24,312 | 
| Total intangible assets | 17,072 | 18,045 | 151,503 | 

### Investments and other assets:

| Investments in securities (Notes 9, 10, and 11) | 19,571 | 21,728 | 173,672 | 
| Long-term loans | 135 | 125 | 1,198 | 
| Assets for retirement benefits (Note 14) | 1,600 | 643 | 14,204 | 
| Deferred tax assets (Note 27) | 6,642 | 6,130 | 58,045 | 
| Other | 3,952 | 3,752 | 35,073 | 
| Less: allowance for doubtful accounts | (129) | (128) | (1,111) | 
| Total investments and other assets | 31,776 | 32,251 | 281,983 | 

### Total non-current assets:

| 81,731 | 85,970 | 725,273 | 

### Total assets:

| ¥296,055 | ¥271,011 | ¥2,627,167 | 

The accompanying notes are an integral part of these statements.

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### LIABILITIES

<table>
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<tr>
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<th>2015</th>
<th>2016</th>
<th>2015</th>
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<tr>
<td>Notes and accounts payable and construction contracts payable (Note 9)</td>
<td>40,066</td>
<td>36,586</td>
<td>361,136</td>
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<tr>
<td>Electronically recorded obligations-operating (Note 9)</td>
<td>17,270</td>
<td>10,827</td>
<td>153,253</td>
<td></td>
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<tr>
<td>Short-term borrowings and current portion of long-term borrowings (Notes 9 and 12)</td>
<td>8,702</td>
<td>12,904</td>
<td>77,228</td>
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</tr>
<tr>
<td>Capital taxes payable</td>
<td>5,919</td>
<td>1,210</td>
<td>92,925</td>
<td></td>
</tr>
<tr>
<td>Provision for losses on construction contracts (Notes 8 and 20)</td>
<td>971</td>
<td>505</td>
<td>8,621</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities (Note 12)</td>
<td>41,471</td>
<td>31,837</td>
<td>368,012</td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>115,031</td>
<td>93,853</td>
<td>1,020,777</td>
<td></td>
</tr>
</tbody>
</table>

### Non-current liabilities:

| Bonds (Notes 9 and 12) | 2,700 | 2,700 | 23,959 | 
| Bonds with stock acquisition rights (Notes 9 and 12) | — | 15,093 | — | 
| Long-term borrowings (Notes 9 and 12) | 29,501 | 29,849 | 261,792 | 
| Deferred tax liabilities (Note 27) | 1,048 | 1,580 | 9,301 | 
| Liabilities for retirement benefits (Note 14) | 14,500 | 12,142 | 128,679 | 
| Negative goodwill | 119 | 179 | 1,063 | 
| Other non-current liabilities (Note 12) | 3,037 | 4,091 | 26,950 | 
| Total non-current liabilities | 50,907 | 65,636 | 491,748 | 
| Total liabilities | 165,938 | 159,490 | 1,472,525 | 

### Contingent liabilities (Note 16)

- Total shareholders’ equity
  - Authorized—250,000,000 shares
  - Issued—123,610,077 shares
  - Common stock:
    - Capital surplus | 8,024 | 9,239 | 140,158 |
    - Retained earnings | 94,501 | 83,626 | 838,593 |
    - Less: treasury stock, at cost—March 31, 2016—1,958,836 shares
      - March 31, 2015—2,853,707 shares
      - Total shareholders’ equity | 123,669 | 98,469 | 1,087,428 |

### Accumulated other comprehensive income:

- Net unrealized gain on securities | 3,206 | 4,639 | 28,457 |
- Deferred gain (loss) on hedges | 22 | (72) | 199 |
- Foreign currency translation adjustments | 7,730 | 10,542 | 68,600 |
- Total accumulated other comprehensive income | 3,383 | 9,327 | 30,025 |

### Non-controlling interests

- Total net assets | 130,116 | 111,521 | 1,154,642 |
| Total liabilities and net assets | ¥296,055 | ¥271,011 | ¥2,627,167 |

The accompanying notes are an integral part of these statements.
Net income per share (Note 32) ¥118.72

Net sales ¥336,184

Cost of sales (Notes 20 and 21) 272,832

Gross profit 63,351

Operating income 20,878

Other income:
Interest income 381

Other income:
Dividend income 363

Other income:
Amortization of negative goodwill 91

Equity in earnings of affiliates (Note 4) 503

Land and house rental revenue 227

Refunded foreign taxes 16

Miscellaneous income 329

Operating profit 49,044

Interest expenses 21,995

Miscellaneous expenses 462

Ordinary income 189

Gain on sales of property, plant and equipment (Note 23) 39

Other

Total extraordinary income 21,995

Extraordinary income:
Gain on sales of investments in securities 0

Loss on sales of property, plant and equipment (Note 24) 9

Extraordinary loss:
Loss on disposal of property, plant and equipment (Note 22) 16

Environmental expenditures 3

Other

Total extraordinary loss 27

Income before income taxes 167,291

Income taxes (Note 27) (13,780)

Deferred (1,360) (12,248)

Net income attributable to the parent company 153,511

Net income attributable to shareholders of the parent company 153,511

Non-controlling interests 125

Comprehensive income (Note 25) ¥ 7,280

Comprehensive income attributable to:
Shareholders of the parent company ¥ 7,708

Non-controlling interests 320

Net income per share (Note 32)

Cash dividends per share 30.00

Dividends declared 1,140.53

Declared 30.00 1,140.53

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, 2016 and 2015

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury stock, at cost</th>
<th>Total shareholders' equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at March 31, 2015</td>
<td>113,671</td>
<td>$71,204</td>
<td>$81,988</td>
<td>$742,089</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Restated balance</td>
<td>113,671</td>
<td>$71,204</td>
<td>$81,988</td>
<td>$742,089</td>
</tr>
<tr>
<td>Conversion of the convertible bonds with stock acquisition rights</td>
<td>9,938</td>
<td>62,047</td>
<td>66,158</td>
<td>5,516</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(24,648)</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>121,152</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(57)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>—</td>
<td>—</td>
<td>0</td>
<td>1,435</td>
</tr>
<tr>
<td>Decrease due to acquisition of shares in subsidiaries and affiliates</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in treasury shares of parent arising from transactions with non-controlling shareholders</td>
<td>—</td>
<td>(7,809)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net changes of items other than shareholders’ equity</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at March 31, 2016</td>
<td>123,610</td>
<td>$153,251</td>
<td>$140,158</td>
<td>$838,593</td>
</tr>
</tbody>
</table>

**Consolidated Statements of Cash Flows**

**Daifuku Co., Ltd. and consolidated subsidiaries**

For the years ended March 31, 2016 and 2015

<table>
<thead>
<tr>
<th>(Million yen)</th>
<th>(U.S. thousand dollars) (Note 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>$20,650</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,087</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>540</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>1,038</td>
</tr>
<tr>
<td>Amortization of negative goodwill</td>
<td>(99)</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(552)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>480</td>
</tr>
<tr>
<td>Loss on disposal or sales of property, plant and equipment</td>
<td>(28,060)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>2,189</td>
</tr>
<tr>
<td>Increase (decrease) in notes and accounts payable</td>
<td>11,964</td>
</tr>
<tr>
<td>Increase (decrease) in advances received on uncompleted construction</td>
<td>—</td>
</tr>
<tr>
<td>Other, net</td>
<td>(3,609)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>10,035</td>
</tr>
<tr>
<td>Interest and dividend received</td>
<td>554</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(501)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(3,032)</td>
</tr>
<tr>
<td>Other, net</td>
<td>150</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>7,206</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Million yen)</th>
<th>(U.S. thousand dollars) (Note 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Acquisition of shares in newly consolidated subsidiaries</td>
<td>—</td>
</tr>
<tr>
<td>Investments in time deposits</td>
<td>(99)</td>
</tr>
<tr>
<td>Proceeds from refund of time deposits</td>
<td>107</td>
</tr>
<tr>
<td>Payments for purchase of property, plant and equipment</td>
<td>(3,158)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>280</td>
</tr>
<tr>
<td>Payments for purchase of investments in securities</td>
<td>(22)</td>
</tr>
<tr>
<td>Payments for acquisition of shares in subsidiaries and affiliates</td>
<td>—</td>
</tr>
<tr>
<td>Collection of loans receivable</td>
<td>4</td>
</tr>
<tr>
<td>Other, net</td>
<td>785</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(2,059)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Million yen)</th>
<th>(U.S. thousand dollars) (Note 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation</td>
<td>(1,506)</td>
</tr>
<tr>
<td>(Decrease) increase in short-term borrowings, net</td>
<td>(1,156)</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>1,841</td>
</tr>
<tr>
<td>Repayment of long-term borrowings</td>
<td>(4,917)</td>
</tr>
<tr>
<td>Proceeds from disposal of treasury stock</td>
<td>161</td>
</tr>
<tr>
<td>Payments for purchase of treasury stock</td>
<td>(6)</td>
</tr>
<tr>
<td>Payments of cash dividends</td>
<td>(2,794)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(274)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(3,702)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Million yen)</th>
<th>(U.S. thousand dollars) (Note 29)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effect of exchange rate change on cash and cash equivalents</strong></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in cash and cash equivalents</td>
<td>(4,996)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>54,081</td>
</tr>
<tr>
<td>Increase in cash and cash equivalents resulting from change in scope of consolidation</td>
<td>—</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year (Note 29)</td>
<td>$49,084</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these statements.*

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The accompanying notes are an integral part of these statements.
### Daifuku Global Network

#### Americas
- **Daifuku North America Holding Company**
  - Farmington Hills, MI, U.S.A.
- **Daifuku America Corporation**
  - Main Office & Plant: Reynoldsville, OH, U.S.A.
  - Other Offices: Arizona, Austin, Indiana, Kentucky, Michigan, Tennessee
- **Jervis B. Webb Company**
  - World Headquarters: Farmington Hills, MI, U.S.A.
  - Other Offices: California, Florida, Indiana, Kentucky, Michigan, Utah
- **Elle Line Services, Inc.**
  - Carolton, TX, U.S.A.
- **Wynright Corporation**
  - Tel: 44-1908-288-780 Fax: 44-1908-288-781
  - Milton Keynes MK10 0BY U.K.
- **Logan Teleflex, Inc.**
  - Tel: 7-812-458-7336 Fax: 7-812-458-7331
  - 266/V, Ligovskiy Pr., St. Petersburg 196084 Russia
- **Contec DTX Inc.**
  - Tel: 81-3-3456-2231 Fax: 81-3-3456-2258
  - Business Center Ligovskiy 266, Office 3.6
  - Osaka 555-8653 Japan
- **Daifuku Canada Inc.**
  - Mississauga, Ontario, Canada
- **Daifuku de México, S.A. de C.V.**
  - Querétaro, Qro., Mexico

#### Europe
- **Daifuku Europe Ltd.**
  - Main Office: Milton Keynes, U.K.
  - Other Plants: Burscough, Droitwich, Faringdon, France, Gainsborough, Newark, Preston, Triumph, U.K.
- **Jervis B. Webb Company, Ltd.**
  - Hamilton, Ontario, Canada
- **Daifuku de México, S.A. de C.V.**
  - Querétaro, Mexico

#### Asia Pacific
- **BCS Airport Systems Pty Limited**
  - Hallam, Vic., Australia
- **BCS Logistics Solutions Pty Limited**
  - Hallam, Vic., Australia
- **BCS Infrastructure Support Pty Limited**
  - Hallam, Vic., Australia
- **Daifuku (China) Co., Ltd.**
  - Shanghai, China
- **Daifuku (China) Manufacturing Co., Ltd.**
  - Main Office: Shanghai, China
  - Shenzhen Branch: Shenzhen, China
- **Daifuku (China) Automation Co., Ltd.**
  - Main Office: Shanghai, China
  - Other Branches: Beijing, Guangzhou, Shanghai, Tianjin, Wuhan
- **Daifuku (Suzhou) Cleanroom Automation Co., Ltd.**
  - Suzhou, Jiangsu, China
- **Contec (Shanghai) Co., Ltd.**
  - Main Office: Shanghai, China
- **Daifuku India Private Limited**
  - Main Office: Haryana, India
- **ForgePro India Private Limited**
  - Bangalore, India
- **PT. Daifuku Indonesia**
  - Main Office: Jakarta, Indonesia
- **Daifuku Korea Co., Ltd.**
  - Main Office: R&D Center: Incheon, Korea
- **Clean Factomation, Inc.**
  - Korea Plant: Incheon, Korea
- **Hallim Machinery Co., Ltd.**
  - Gyeonggi-do, South Korea
- **Daifuku (Malaysia) Sdn. Bhd.**
  - Selangor D.E., Malaysia
- **BCS Integration Solutions Sdn. Bhd.**
  - Kuala Lumpur, Malaysia
- **Daifuku Mechatronics (Singapore) Pte. Ltd.**
  - Singapore
- **Singapore Contec Pte. Ltd.**
  - Singapore
- **Taiwan Daifuku Co., Ltd.**
  - Main Office & Plant: Tainan, Taiwan
- **Taiwan Daifuku (Thailand) Ltd.**
  - Main Office & Plant: Chonburi, Thailand

### Corporate Data

#### Company name
- Daifuku Co., Ltd.

#### Established
- May 20, 1937

#### Paid-in capital
- 15,016,000,000 yen

#### Employees
- 7,835 (consolidated)

#### Ratings
- Rating and Investment Information, Inc. (R&I): Long-term: A (single A minus)

#### Principal Locations

<table>
<thead>
<tr>
<th>Country</th>
<th>Address</th>
<th>Phone</th>
<th>Fax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech</td>
<td>Taborova 317, 353 51 Pardubice, Czech Republic</td>
<td>Tel: 420-466-053-810 Fax: 420-466-053-816</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Luenberger Strasse 52, D-41065 Mönchengladbach, Germany</td>
<td>Tel: 49-2161-49-695-0 Fax: 49-2161-49-695-20</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>30FL, Burgundy Corporate Tower 252 Sal. Gil Puyat Ave., Makati City 1200 Philippines</td>
<td>Tel: 63-2-884-2778 Fax: 63-2-884-2792</td>
<td></td>
</tr>
<tr>
<td>St. Petersburg (Russia)</td>
<td>Business Center Liguoloy 266, Office 3.6</td>
<td>Tel: 7-812-458-7336 Fax: 7-812-458-7331</td>
<td></td>
</tr>
<tr>
<td>Istanbul (Turkey)</td>
<td>Galatapher Mah. Doral Sahih Sokak, Ufukta 1 Han No: 10 Kat: 1 Gayrettepe - Sisli, Istanbul, Turkey</td>
<td>Tel: 90-212-213-9393 Fax: 90-212-213-9394</td>
<td></td>
</tr>
</tbody>
</table>

**Major Shareholders**

- **Daifuku Supplier Shareholder Association**
  - 3,669
  - 3.15

- **The Bank of Tokyo-Mitsubishi UFJ, Ltd.**
  - 3,503
  - 3.15

- **Ashigusa Textile Textile Co., Ltd.**
  - 3,367
  - 2.96

- **Nippon Life Insurance Company**
  - 2,745
  - 2.22

- **Daifuku Employees’ Shareholding Association**
  - 1,829
  - 1.48

- **Daifuku Co., Ltd.**
  - 1,925
  - 1.58

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

The figures, results, and plans related to future business performances as described in this annual report are not established facts. They are business prospects based on the assumptions and beliefs of the management team. 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 timing and scale of new products, the effect of technology on sales, and product life cycles;
4) The timing and scale of new products, the effect of technology on sales, and product life cycles;
5) The pricing and marketing strategies and actions of competitors;
6) The effect of changes in the environment and the production environment, and the effect of various external factors;
7) 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 performances.

For further information, please contact: dfk_ir@ha.daifuku.co.jp