

Corporate Governance Report

Translated from the original Japanese-language document

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Daifuku Co., Ltd.

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The corporate governance of Daifuku Co, Ltd. (the Company) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Daifuku Group (the Group) emphasizes the fulfillment of its corporate social responsibility (CSR) based on the following management philosophy:

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

The Company has enhanced its corporate governance framework by developing the Board of Directors of 10 members, including three independent outside directors, and the Audit & Supervisory Board consisting of five members, three of whom are elected from outside the Company. The Company believes that the management oversight system functions sufficiently through the close collaboration of the two Boards. In addition, the Company has introduced the corporate officer system to encourage rapid decision-making on business execution.

The Company acknowledges that a firm internal control system will make corporate governance more workable, thereby leading to enhanced corporate credibility in addition to efficient and effective operations, and will seek to ensure compliance with laws and regulations, risk management, secured assets, and credible financial reporting.

[Reasons for Non-Compliance with the Principles of Japan's Corporate Governance Code] (Updated)

The Company discloses based on the revised Corporate Governance Code on June 1, 2018.

[Principle 4.11 Preconditions for Board and *Kansayaku* Board Effectiveness]

In terms of internationalism, persons who have extensive non-Japan experience are increasingly promoted to assume as directors of the Company. Meanwhile, the Company recognizes that promotion of gender diversity should be a matter to consider and will strive to secure appropriate persons with the aim of creating better balanced structure of the Board.

[Disclosure Based on the Principles of Japan's Corporate Governance Code] (Updated)

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. As an indicator of this commitment, the Group has established and discloses the Daifuku Corporate Governance Guidelines as the guidepost for fulfilling its corporate governance. For the disclosure based on the Principles of the Corporate Governance Code, please refer to the Guidelines on the following website:

www.daifuku.com/ir/policy/governance/guideline

Summaries of the review of cross-shareholdings according to Principle 1.4 and the evaluation of the Board of Directors' effectiveness according to Supplementary Principle 4.11.3 are as follows:

[Principle 1.4 Cross-Shareholdings]

At the April 2018 meeting of Board of Directors, the Company reviewed the appropriateness of its cross-shareholdings by individual issue, which is implemented once a year. As a result, the Board decided to sell part of issues on a timely basis.

[Supplementary Principle 4.11.3 Evaluation of the Board of Directors' effectiveness]

Regarding the evaluation of the Board of Directors' effectiveness, the Company has a basic policy of striving to improve its effectiveness by continuously implementing the PDCA cycle.

In April 2018, the Company conducted the third questionnaire survey of all directors and Audit & Supervisory Board members concerning the Board of Directors' effectiveness, using an external organization for the survey to ensure anonymity and collect more impartial opinions by answering directly to the organization. The results were analyzed on a perspective of a comparison with other companies. Directors of the Board discussed the results of the analysis.

The main results of the evaluation were as follows:

- 1) All members of the Board of Directors share the contexts of subjects and issues, and hold diverse and positive discussions. The Board of Directors is operated efficiently. Compared to the previous fiscal year, the number of higher evaluated items by outside officers increased and an improvement in sharing of information was seen.
- 2) The Company has striven to improve the operation of the Board of Directors, in terms of narrowing the matters to be discussed to important matters along with revision of the Rules for the Board of Directors, early distribution of meeting materials among others. As the result of this survey, the Company confirmed that the efficiency and workability of the Board of Directors were improved, with a comment stating, "The operation of the Board of Directors itself became clearer by focusing on important matters to be discussed, with an appropriate shift of the matters to be determined to each business operation. In addition, awareness (sense) of responsibility at the execution level increased, which was a productive result." Looking ahead, the Company will continue to improve the function of the Board of Directors, including through earlier distribution of meeting materials.
- 3) The Advisory Committee was effective for the nomination of new president of the Company for assuming the position in April 2018.

4) Compared to the other companies, most of items won higher points than average. The items that won lower points than the average included the prior preparation efforts made by directors themselves, which were seen as a matter of awareness level.

Going forward, the Company will work to deepen discussion and resolve issues including the above mentioned.

2. Capital Structure

| | |
|----------------------------|-------------|
| Foreign shareholding ratio | 30% or more |
|----------------------------|-------------|

[Status of Major Shareholders] (Updated)

| Name or company name | Number of shares held | Percentage (%) |
|-----------------------------------------------------------|-----------------------|----------------|
| Japan Trustee Services Bank, Ltd. (trust account) | 11,171,300 | 8.82 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 6,684,700 | 5.28 |
| Mizuho Bank, Ltd. | 5,490,403 | 4.34 |
| Sumitomo Mitsui Banking Corporation | 4,080,454 | 3.22 |
| MUFG Bank, Ltd. | 3,833,906 | 3.03 |
| Daifuku Supplier Shareholder Association | 3,606,726 | 2.85 |
| Nippon Tochi-Tatemono Co., Ltd. | 3,207,500 | 2.53 |
| PICTET AND CIE (EUROPE) SA, LUXEMBOURG REF: UCITS | 3,090,400 | 2.44 |
| Nippon Life Insurance Company | 2,745,767 | 2.17 |
| BBH FOR GLOBAL X ROBOTICS AND ARTIFICIAL INTELLIGENCE ETF | 2,047,986 | 1.62 |

| | |
|-----------------------------------------------------|-------|
| Controlling shareholder (except for parent company) | _____ |
| Parent company | None |

| | |
|---------------------------|-------|
| Supplementary Explanation | _____ |
|---------------------------|-------|

3. Corporate Attributes

| | |
|------------------------------------------------------------------------------|------------------------------------------------|
| Listed stock market and market section | First Section, Tokyo Stock Exchange |
| Fiscal year-end | March |
| Type of business | Machinery |
| Number of employees (consolidated) as of the end of the previous fiscal year | 1,000 or more |
| Sales (consolidated) as of the end of the previous fiscal year | From JPY100 billion to less than JPY1 trillion |

| | |
|-------------------------------------------------------------------------------|--------------------------|
| Number of consolidated subsidiaries as of the end of the previous fiscal year | From 50 to less than 100 |
|-------------------------------------------------------------------------------|--------------------------|

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with the Controlling Shareholder

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5. Other Special Circumstances That May Have a Material Impact on Corporate Governance

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| Contec Co., Ltd., one of the Company's subsidiaries, is listed on the Second Section of the Tokyo Stock Exchange. The Company issues no instructions on the management of the said subsidiary and respects its independence and autonomy. |
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II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-Making, Execution of Business, and Supervision in Management

1. Organizational Composition and Operation

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|----------------------|----------------------------------------|
| Form of organization | Company with Audit & Supervisory Board |
|----------------------|----------------------------------------|

[Directors]

| | |
|-------------------------------------------------------------------------|-------------------|
| Maximum number of directors stipulated in the Articles of Incorporation | 25 |
| Term of office of directors stipulated in the Articles of Incorporation | One year |
| Chair of the Board of Directors | President and CEO |
| Number of directors | 10 |
| Outside directors | Appointed |
| Number of outside directors | 3 |
| Of outside directors, number of independent officers | 3 |

Relationship with the Company (1)

| Name | Attribute | Relationship with the Company* | | | | | | | | | | | |
|------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | |
| Noboru Kashiwagi | From another company | | | | | | | | | | | | ○ |
| Yoshiaki Ozawa | Academic | | | | | | | | | △ | | | ○ |
| Mineo Sakai | From another company | | | | | | | | | ○ | | | |

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

- Executive of the Company or its subsidiaries
- Non-executive director or executive of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the Company or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director
- Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- Executive of a company, between which and the Company outside directors/Audit & Supervisory Board members are mutually appointed (the director himself/herself only)

- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Other

Relationship with the Company (2)

| Name | Independent officer | Supplementary explanation of the relationship | Reasons for appointment |
|------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Noboru Kashiwagi | ○ | Mr. Noboru Kashiwagi works concurrently as Director of the Foundation for Civil Dispute Resolution Research Funds. | He is familiar with corporate legal affairs and international transaction laws based on his experience as a university professor and working overseas for a trading firm. Based on his abundant experience and extensive knowledge, he has provided us with advice and counsel to ensure the transparency of management and enhance the oversight and supervision functions thereof. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective. |
| Yoshiaki Ozawa | ○ | <p>Mr. Yoshiaki Ozawa works concurrently as Professor of Business Management at St. Andrew's University.</p> <p>He once served as a representative partner of PricewaterhouseCoopers Aarata LLC, the Accounting Auditor of the Company, but since he resigned from this audit firm in September 2012, there have been no business transactions between him and the Company and therefore no relationships that would affect the independence required of an Outside Director.</p> | He has considerable knowledge of finance and accounting, and experience residing overseas for six years in total. He also undertakes research on the topic of signs of corporate fraud in financial statements analysis as a university professor of business analysis. He has provided us with professional advice and counsel to ensure the transparency of management and enhance the supervision function thereof. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective. |

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|-------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mineo Sakai | ○ | Mr. Mineo Sakai served as the Chairman and Chief Executive Officer (CEO) of Kanematsu Electronics Ltd. until March 2018. He serves as a director and senior advisor of Kanematsu Electronics Ltd. from April 2018. Although there are transactions between the Company and Kanematsu Electronics Ltd. where he belongs, the amount of the transactions is less than 1% of the consolidated net sales of either company. Also, he works currently as an audit & supervisory board member of KEL Technical Service Ltd., Audit & Supervisory Board Member of Nippon Office Systems Ltd., and an audit & supervisory board member of i-NOS Corporation. There are no transactions between the Company and these companies. | He has abundant experience and extensive knowledge in corporation management that he has cultivated through the positions as the Chairman and CEO of Kanematsu Electronics Ltd. To secure the transparency of management and enhance the supervision thereof, we would like him to give us professional advice and counsel as Outside Director. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective. |
|-------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|---------------------------------------------------------------------------------------------------------|-------------|
| Voluntary establishment of committee(s) corresponding to nomination committee or remuneration committee | Established |
|---------------------------------------------------------------------------------------------------------|-------------|

Committee's Name, Composition, and Attributes of Chair

| | Committee corresponding to nomination committee | Committee corresponding to remuneration committee |
|---------------------------------|-------------------------------------------------|---------------------------------------------------|
| Committee's name | Advisory Committee | Advisory Committee |
| Number of all committee members | 6 | 6 |
| Full-time members | 0 | 0 |
| Inside directors | 3 | 3 |
| Outside directors | 3 | 3 |
| Outside experts | 0 | 0 |
| Other | 0 | 0 |
| Chair | One of outside directors | One of outside directors |

Supplementary Explanation

The Company has voluntarily established the Advisory Committee to advise the Board of Directors concerning important matters on the nomination and remuneration of directors and the management team members to ensure corporate transparency, the purpose of Japan's Corporate Governance Code, and respond to social requirements. The size of the Advisory Committee and the attributes of the chair thereof are as explained above. This came as a result of taking into consideration the size of the Company's Board of Directors and the background to the appointment of independent outside directors, etc. The Company holds meetings of the Advisory Committee three or more times per year.

[Audit & Supervisory Board members]

| | |
|-------------------------------------------------------------------------------------------------|-------------|
| Establishment of the Audit & Supervisory Board | Established |
| Maximum number of Audit & Supervisory Board members stipulated in the Articles of Incorporation | 5 |
| Number of Audit & Supervisory Board members | 5 |

Cooperation between Audit & Supervisory Board members, Accounting Auditors and the Internal Audit Department

Audit & Supervisory Board members and the Internal Audit Department work in collaboration to carry out business execution audits, and mutually raise audit effectiveness by sharing audit results and exchanging information at auditors' meetings held once in two months.

Audit & Supervisory Board members undertake mutual cooperation with the accounting auditors by hearing audit plans and results conducted by accounting auditors and exchanging opinions when accompanying them on inventory inspections and on-site audits of non-Japanese subsidiaries.

In addition, Audit & Supervisory Board members participated in the tests held in Japan and conducted by the accounting auditors and internal inspectors to assess the status of internal control upgrades and operational status, and assessed the effectiveness of the tests.

During the fiscal year ended March 31, 2018, the number of occasions when Audit & Supervisory Board members were present with the accounting auditors for audits and information exchanges was 62.

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| Appointment of outside members of the Audit & Supervisory Board | Appointed |
| Number of outside members of the Audit & Supervisory Board | 3 |

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| Of outside members of the Audit & Supervisory Board, number of independent officers | 3 |
|-------------------------------------------------------------------------------------|---|

Relationship with the Company (1)

| Name | Attribute | Relationship with the Company* | | | | | | | | | | | | | |
|------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m | |
| Isao Kitamoto | From another company | | | | | | | | | | | | | | ○ |
| Ryosuke Aihara | Lawyer | | | | | | | | | | ○ | | | | |
| Tsukasa Miyajima | Academic | | | | | | | | | | ○ | | | | |

* Categories for "Relationship with the Company"

* "○" when the Audit & Supervisory Board member presently falls or has recently fallen under the category;

"△" when the Audit & Supervisory Board member fell under the category in the past

* "●" when a close relative of the Audit & Supervisory Board member presently falls or has recently fallen under the category;

"▲" when a close relative of the Audit & Supervisory Board member fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. An Audit & Supervisory Board member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company in addition to compensation as an Audit & Supervisory Board member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)
- k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board members are mutually appointed (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Other

Relationship with the Company (2)

| Name | Independent officer | Supplementary explanation of the relationship | Reasons for appointment |
|---------------|---------------------|---------------------------------------------------|---------------------------------------------------------------------|
| Isao Kitamoto | ○ | Mr. Isao Kitamoto works concurrently as a special | Based on his extensive knowledge and abundant experience of working |

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|------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | advisor at Japan International Broadcasting Inc. | abroad as a journalist, he has provided us with advice and counsel to ensure the transparency of management and enhance the functions of management oversight and auditing. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an Audit & Supervisory Board member from an independent and objective perspective. |
| Ryosuke Aihara | ○ | Mr. Ryosuke Aihara works concurrently as a lawyer at Aihara General Law Office and an outside auditor of Nippon Shuppan Hanbai Inc. Despite a delegation agreement between the Company and Mori Hamada & Matsumoto Law Office, with which he was affiliated until March 2016, he has never engaged in any matters that the Company previously delegated to the law office. Furthermore, the transaction amount between said law office and the Company is insignificant, at less than 1% of both the annual revenue of the law office and the consolidated net sales of the Company. In addition, there have been no transactions whatsoever between the Aihara General Law Office to which he belongs and the Company during or since April 2016. | He is a lawyer who has specialized for many years in corporate governance and compliance, which are significant management issues of the Company. He has provided us with advice and counsel regarding overall management to ensure the legality of management and enhance the functions of management oversight and auditing from his professional viewpoint as a lawyer. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an Audit & Supervisory Board member from an independent and objective perspective. |
| Tsukasa Miyajima | ○ | Mr. Tsukasa Miyajima served as a member of the Special Committee of the Company. The Company had paid remunerations to him. The amount was 1 million yen, which was quite small. In addition, the Company abolished the countermeasures to guard against attempted large-scale purchase of its | He is a university professor specializing in legal affairs and has deep insight and extensive experience as an academic expert and a legal expert. To secure the transparency of management and enhance the functions of management supervision and auditing, we would like him to give us advice and counsel. He has no personal, capital or business |

| | | | |
|--|--|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | shares (takeover defense measures) with the closing of the Ordinary General Meeting of Shareholders on June 22, 2018. | relationships with or any other interests in the Company and is able to fulfill his duties as an outside member of Audit & Supervisory Board from an independent and objective perspective. |
|--|--|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

[Independent Officers]

| | |
|--------------------------------|---|
| Number of independent officers | 6 |
|--------------------------------|---|

Other Matters Relating to Independent Officers

All the outside officers who meet the independence standards are designated as independent officers.

Independence standards of outside directors and outside members of the Audit & Supervisory Board

At Daifuku, outside directors and outside members of the Audit & Supervisory Board are considered independent if they do not fall under any of Articles 1 to 5 below.

Article 1

A person who falls or fell under any of the following in the last three years:

- 1) An officer or employee of a company, etc. that is a key customer of Daifuku or whose key business partner is Daifuku (*1)
- 2) A lawyer who belongs to a law firm that has concluded an advisory contract with Daifuku or its subsidiary and who was actually in charge of legal business for Daifuku, a certified public accountant (or a certified tax accountant) who was an accounting auditor or accounting advisor of Daifuku or its subsidiary, or an employee, partner, or staff member who belongs to an auditing firm (or tax accountant corporation) that is an accounting auditor or accounting advisor of Daifuku or its subsidiary and who was actually in charge of the auditing service for Daifuku
- 3) A lawyer, certified public accountant, or certified tax accountant, if not applicable to the above item 2, who provides specialized services, etc. to Daifuku by receiving a large amount (*2) of money or assets other than remuneration for an officer, directly from the company
- 4) An officer or employee of a company, etc. that is a major shareholder (*3) of Daifuku

Article 2

An officer or employee of Daifuku's subsidiary or a person who held such a position during the ten years before being appointed as such status

Article 3

An executive board member or any other person who executes business of an organization that receives donations or grants exceeding a certain amount (*4) from Daifuku (such as a public interest incorporated foundation, a public interest incorporated association, or a non-profit corporation)

Article 4

The spouse or a relative within the second degree of relationship of a person who falls under any of Articles 1 to 3 above, or a relative living together with such a person

Article 5

A person who does not fall under any of Articles 1 to 4 above, but who is deemed likely to have a virtual conflict of interest with Daifuku due to their relationship with the company

(Notes)

*1: A customer from whom Daifuku received payment of at least 2% of the amount of Daifuku's annual consolidated net sales in the most recent fiscal year, or a business partner who received payment from Daifuku of at least 2% of the amount of its annual consolidated net sales in the most recent fiscal year

*2: The annual average for the last three years of 10 million yen or more

*3: A shareholder with 10% or more of the voting rights

*4: The annual average for the last three years of 10 million yen or more, or 30% of the average total annual expenditure of the organization, whichever is larger

[Incentives]

Incentive policies for directors

Performance-linked remuneration

Supplementary Explanation

The Company has abolished the system of retirement benefits for officers and will pay officers' compensation, which will include remuneration equivalent to the above and officers' bonuses.

At the 100th Ordinary General Meeting of Shareholders in 2016, a resolution was adopted for the introduction of the Board Benefit Trust for inside directors and corporate officers (hereinafter referred to as the "Directors, etc."), a performance-linked equity compensation plan. The Company will pay new equity compensation to the Directors, etc. within the upper limit of remuneration (not more than 700 million yen a year) described in [Directors' Remuneration] below. With the introduction of the plan, the Company aims to further clarify the relationships among the remuneration for the Directors, etc., its business performance, and the stock value, and to enhance the motivation of Directors, etc. to contribute to the improvement of its business performance in the medium and long term and to boosting its corporate value by sharing not only the benefits of rising stock value but also the risks of a decline in stock prices with its shareholders.

The plan is a stock compensation plan linked directly to its business performance by acquiring its stock through the trust using the funds that the Company contributes (hereinafter referred to as "the trust") and providing remuneration for the Directors, etc. through the trust, in accordance with the stock compensation regulations for its officers. The remuneration is the Company's shares and the monies equivalent to the amount obtained by converting the Company's shares at a market price as of the retirement date.

Recipients of stock options

Supplementary Explanation

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[Directors' Remuneration]

| | |
|--------------------------------------------------|--------------------|
| Disclosure of individual directors' remuneration | Selected Directors |
|--------------------------------------------------|--------------------|

Supplementary Explanation

In the fiscal year 2017, the remunerations paid to the directors and Audit & Supervisory Board members are as follows:

Directors (excluding outside directors):

8 persons, total remuneration of 611 million yen (base salaries: 299 million yen, bonuses: 283 million yen, the Board Benefit Trust: 28 million yen)

Audit & Supervisory Board members (excluding outside members):

2 persons, total remuneration of 79 million yen (base salaries: 50 million yen, bonuses: 29 million yen)

Outside officers:

6 persons, total remuneration of 60 million yen (base salaries: 60 million yen)

In the fiscal year 2017, a member of the Board, whose total remuneration was more than 100 million yen, was one director, Masaki Hojo.

Masaki Hojo (President & CEO):

Total remuneration of 128 million yen (base salary: 60 million yen, bonus: 62 million yen, the Board Benefit Trust: 6 million yen)

| | |
|--------------------------------------------------------------------|-------------|
| Policy on determining remuneration amounts and calculation methods | Established |
|--------------------------------------------------------------------|-------------|

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

At the 90th Ordinary General Shareholders' Meeting in 2006, a resolution was adopted to set the upper limits of 700 million yen and 110 million yen for annual remuneration paid to the directors (provided, however, that this shall exclude employee salaries) and Audit & Supervisory Board members, respectively.

[Support System for Outside Directors and/or Outside Members of the Audit & Supervisory Board]

The Company has not assigned employees to exclusively assist outside directors or outside members of the Audit & Supervisory Board. The Internal Audit Department, Corporate Affairs Operations, etc. provide the necessary assistance to outside directors or outside members of the Audit & Supervisory Board.

2. Matters on Functions of Business Execution, Auditing, Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

1. Directors and Board of Directors

The Company's Board of Directors consists of 10 directors. The directors' term of office is one year. The Company holds regular monthly meetings of the Board of Directors to make decisions on fundamental management issues, with extraordinary meetings convened as necessary, on six occasions during the fiscal year ended March 31, 2018.

The Board of Directors shall delegate matters other than the important matters stipulated in the regulations of the Board of Directors, such as the determination of management policies, management plans, and corporate governance system, to directors and corporate officers.

The three independent outside directors provide insightful advice and recommendations to the Board of Directors based on their abundant experience and extensive knowledge of corporate operations, corporate legal affairs, and accounting, etc. They also ensure the transparency of management and supervise business execution by the inside directors.

2. Audit & Supervisory Board members and Audit & Supervisory Board

The Company maintains an Audit & Supervisory Board made up of five Audit & Supervisory Board members, three of whom are elected from outside the Company. The Company held meetings of the Audit & Supervisory Board on six occasions during the fiscal year ended March 31, 2018.

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, Audit Standards, and Standards on Audit Concerning the Internal Control System, with regard to audit of directors' fulfillment of duties, decisions over resolutions to be submitted to the Ordinary General Meeting of Shareholders regarding election/dismissal 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.

3. Advisory Committee

A voluntary Advisory Committee has been established to strengthen the independence, objectivity and accountability of the Board of Directors' functions on the matters of the nomination and remuneration of directors and corporate officers. The Committee is comprised of three representative directors and three outside directors, and meets at least three times a year. The Committee, which is chaired by one of the outside directors to ensure its transparency in the course of resolutions, held meetings on three occasions during the fiscal year ended March 31, 2018.

4. Other bodies, etc.

The Management Advisory Meeting is held to confer important management matters. With directors and Audit & Supervisory Board members in attendance, this meeting also seeks the opinions of external specialists on an as-needed basis. Convened by the president as he sees fit, the Management Advisory Meeting meets on a timely basis as appropriate. In the fiscal year ended March 31, 2018, the Company held four meetings.

In addition, the Company introduced the corporate officer system for the purposes of the following:

- 1) Accelerating decision-making on business execution through a reduction in the number of directors as well as further revitalizing the Board of Directors by promoting more rigorous deliberations.
- 2) Engage in functional and efficient business operations by promoting younger employees with knowledge of business operations to serve as corporate officers and execute business based on the authority bestowed upon them by the Board.

With the introduction of the corporate officer system, the Company holds officers' meetings with all directors, corporate officers, and Audit & Supervisory Board members, etc. attending and participating in deliberations. The meetings are held every month, fitting in with scheduled Board of Directors meetings. Corporate officers participate in meetings of the Board of Directors and the Management Advisory Meeting, depending on the matters to be discussed.

The Company also holds Japanese affiliate company meetings four times a year, and representatives of the companies report on business conditions and other information to the Company's representative directors and full-time members of Audit & Supervisory Board. In addition, the Company holds annual global affiliate management meetings to share information and exchange opinions on business plans, with presidents from all over the world in attendance.

3. Reasons for Adoption of Current Corporate Governance System

The Company has enhanced its corporate governance framework by electing six outside officers, including three independent outside directors and three outside members of the Audit & Supervisory Board. The Company believes that the management oversight functions are sufficiently based on the close collaboration of the independent outside directors and outside members of the Audit & Supervisory Board.

In addition to the above, the Company ensures management transparency and appropriateness by obtaining advice from external lawyers, etc., as necessary.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

| | Supplementary explanation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Early notification of General Shareholders' Meeting | The Company sent out the convocation notice of the 102nd Ordinary General Meeting of Shareholders (held on June 22, 2018) on June 6, 2018 (16 days prior to the meeting date). On June 1, 2018, prior to sending out the notice, the Company published the convocation notice on the websites of Tokyo Stock Exchange and the Company. |
| Allowing the electronic exercise of voting rights | It is acceptable to exercise voting rights via the Internet (including using cell phones). |
| Participation in the electronic voting platform and efforts to improve the environment for the exercise of voting rights by institutional investors | The Company is participating in the platform for the electronic exercise of voting rights operated by ICJ, Inc. |
| Providing convocation notices (summary) in English | The Company posts convocation notices in English on the websites of Tokyo Stock Exchange and the Company and provides them to the platform for the electronic exercise of voting rights operated by ICJ, Inc. |
| Other | The Company posts notices of convocation and resolutions on its website. In addition, it visualizes the content of financial reports using graphs and photographs to increase shareholders' understanding of our business activities at general shareholders' meetings, and posts these materials on the Company's website. |

2. Investor Relations (IR) Activities (Updated)

| | Supplementary explanation | Explanations by the President of the Company |
|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| Stipulation and disclosure of disclosure policy | The Company has its disclosure policy to ensure appropriate information disclosure and its transparency. See Exhibit 2, Daifuku Corporate Governance Guidelines www.daifuku.com/ir/policy/governance/guideline . | |
| Holding of regular briefings for individual investors | The Company holds tours of its general exhibition center within the Shiga Works. The Company participates in IR events targeting individual investors. | Yes |
| Holding of regular briefings for analysts and institutional investors | In addition to holding results briefings four times a year, the Company holds investor briefings as required. | Yes |

| | | |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Holding of regular briefings for investors outside of Japan | Regular briefings for the investors are held in the United Kingdom, Singapore, Hong Kong, and the United States. Telephone conferences and meetings by other means are held as required. | Yes |
| Posting of IR materials on its website | News releases, summaries of financial statements, materials for financial results briefing sessions, reports (newsletters for shareholders), convocation notices, securities reports, corporate reports in Japanese and English, summaries of financial statements in English, materials in English for financial results briefing sessions, and convocation notices in English are posted. | |
| Establishment of department (manager) in charge of investor relations | Investor Relations Department, Corporate Communications Division | |
| Other | The Company conducts a perception study to research evaluation for its business strategy and investor relations activities from its institutional investors. | |

3. Measures to Ensure Due Respect for Stakeholders (Updated)

| | Supplementary explanation |
|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stipulation of internal rules and regulations for respecting the position of stakeholders | In keeping with the basic guidelines contained in the Company's Code of Conduct, the Company "shows high regard for its stakeholders including shareholders, customers, companies with which it has cooperative relationships and its employees, and builds sound and positive relationships." |
| Implementation of environmental activities, CSR activities, etc. | <p>The Environment Enhancement Management Committee has been established to formulate and promote an environmental management strategy. Moreover, to fulfill our environmental responsibilities toward the next generation as a member of global society, the Company has developed its Environmental Vision 2020 stating the Group's vision and is striving to achieve these targets. In addition, with the basic policies in the Corporate Code of Conduct as our guideline, to fulfill its environmental responsibility toward the next generation, the Company stipulates that it will actively contribute to communities as a good corporate citizen. The Company distributes these policies to all associates, including all employees, temporary staff and outsourcers, who are involved in our business activities.</p> <p>Having assented to its intent and purpose, on April 25, 2014 the Company signed a commitment to join the United Nations Global Compact, which implements international initiatives for sound globalization and a sustainable society. For further information about CSR activities, please see our website: https://www.daifuku.com/sustainability</p> |

IV. Matters Related to the Internal Control System

1. Basic Views on the Internal Control System and the Progress of System Development

[Basic Stance on the Internal Control System]

The Company understands that maintaining a robust internal control system increases the effectiveness of corporate governance to improve corporate reliability as well as operational efficiency and effectiveness. Consequently, the Company is committed to complying with laws and regulations, managing risk, conserving assets, and providing reliable financial reporting.

[Development of the Internal Control System]

The following is the outline of the internal control system resolved at the meeting of the Board of Directors.

1. A system that ensures that the performance of duties by the directors and employees complies with laws and regulations and the Articles of Incorporation of the Company
 - 1) The directors shall take the lead in observing the Company's Code of Conduct, which aims for compliance with laws and regulations, the Articles of Incorporation of the Company and the internal rules and regulations, and strive to achieve a thorough understanding of the Code within the Company.
 - 2) The Company has established the Compliance Committee consisting of all the directors with the aim to ensure compliance with laws and regulations in its corporate activities and to raise and improve awareness of fairness and morality.
 - 3) The Internal Audit Department, which is independent of the Company's lines of business execution, shall conduct audits of the status of adherence to laws and regulations, the Articles of Incorporation of the Company and the internal rules and regulations.
 - 4) The Company shall develop and operate a whistle-blowing system for the early detection of risks associated with corporate activities and the prevention of material problems.
 - 5) In addition to the above, the Company shall establish and operate various committees for the purpose of solving important issues within the Group in a cross-organizational manner.
2. A system for the storage and management of information related to the execution of duties by the directors
The Company shall properly store and maintain the minutes of general shareholders' meetings and meetings of the Board of Directors, and records, etc. related to the execution of duties by the directors in accordance with the Rules of document management and other internal rules and regulations.
3. Rules and regulations and other systems concerning the management of the risk of losses
 - 1) The Company shall recognize and evaluate risks that may affect the achievement of management goals in the Group, and develop internal systems to appropriately control such risks.
 - 2) In accordance with the Risk Management Rules, the Company shall conduct risk assessment activities, mitigate risks that may affect its business activities and work on strengthening the frameworks for responding to emergency situations.
 - 3) The Company shall establish regulations concerning information security that stipulate the systems necessary for the maintenance and management of information security, functions and authorities of organizations for the promotion of information security and methods of handling information assets, thereby promoting the protection of information assets owned by the Group.

4. System to ensure the efficient execution of duties by the directors
 - 1) The Board of Directors shall formulate management objectives and plans, etc. of the entire Group to be shared by the directors, corporate officers and employees and seek to instill them throughout the Group.
 - 2) The Company has introduced the corporate officer system to entrust certain management decision-making to the execution side and to encourage prompt business execution. Corporate officers formulate specific goals and measures in light of the management objectives determined by the Board of Directors, and execute operations for the achievement of these goals.
5. System to ensure the appropriateness of business operations of the corporate group comprising the Company and its subsidiaries
 - 1) In accordance with the Corporate Code of Conduct shared by the Group, initiatives shall be taken to improve the compliance awareness of the officers and employees of the Group.
 - 2) With the aim of realizing the appropriate operation of the Subsidiary Management Rules, the Company shall appoint officers in charge and ensure the appropriateness of the business operations of the entire Group by providing instructions, advice, etc. through these officers on all aspects of the management of the Company's subsidiaries in Japan and overseas.
 - 3) Standing in a position that is independent from the business execution lines, the Internal Audit Department shall conduct audits of the status of the development and operation of internal control systems in the Group.
 - 4) In accordance with laws and regulations, the Company and the entire Group shall take a resolute attitude toward anti-social forces and groups that threaten the order and safety of civil society. In addition, they will pursue the development of anti-bribery regulations, etc. in response to compliance risk on a global level.
6. Matters related to an employee who should assist with the duties of the Audit & Supervisory Board members, matters related to the independence of the employee from the directors, and matters related to ensuring the effectiveness of instructions issued to the employee
 - 1) If the Audit & Supervisory Board members request the assignment of an employee to assist them in the performance of their duties, the Company shall deal with the matter appropriately upon discussions with the Audit & Supervisory Board.
 - 2) The Company respects the opinions of the Audit & Supervisory Board regarding personnel matters of the employee who assists with the duties of the Audit & Supervisory Board members and employees in the Internal Audit Department. In addition, the Company shall give consideration to the independence of the employee who assists with the duties of the Audit & Supervisory Board members and endeavor to ensure the effectiveness of the instructions issued to the employee.
7. System to ensure that the directors and employees of the Company and its subsidiaries report to Audit & Supervisory Board members and that they will not suffer from disadvantageous treatment due to their submission of reports to the said members
 - 1) The directors and employees, etc. shall report on the following matters to the Audit & Supervisory Board.
 - (1) Matters with the possibility of causing a material impact on the Group's business performance
 - (2) Important matters related to monthly business conditions
 - (3) Important matters related to the status of internal audits and risk management
 - (4) Material violations of laws and regulations or the Articles of Incorporation of the Company

- (5) Other important compliance matters
- 2) The Group shall not take any adverse actions against directors, employees, etc. who reported to the Audit & Supervisory Board members on the grounds that they provided information to the said members.
 - 3) Audit & Supervisory Board members attend meetings of the Board of Directors of subsidiaries in Japan and overseas, global affiliate management meetings and Japanese affiliate company meetings, and receive reports from the directors, employees, etc. of the subsidiaries.
8. Other systems to ensure the efficient execution of audits by Audit & Supervisory Board members
- 1) In accordance with the provisions of the regulations concerning the Audit & Supervisory Board, the Board shall hold regular opinion exchange forums with the representative directors, etc. on important audit issues, etc.
 - 2) Audit & Supervisory Board members shall receive regular reports on audit plans and results from the Internal Audit Department and request that the Department conduct investigations as necessary.
 - 3) Audit & Supervisory Board members and the Audit & Supervisory Board shall hold regular meetings with the accounting auditors, maintain close relationships with them and conduct effective and efficient audits.
 - 4) The Audit & Supervisory Board may request that the Company make advance payment or reimbursement of expenses required for conducting audits, including the use of legal and accounting specialists.

2. Basic Views on Eliminating Anti-Social Forces and the Status of Establishment

In accordance with laws and regulations, the Company shall take a resolute attitude toward anti-social forces and groups that threaten the order and safety of civil society. The Company has outlined its stance in the Corporate Code of Conduct and has taken steps to ensure that it is fully understood and practiced by the officers and employees of the Group.

The Company's response shall be based on recommendations and information from the police, corporate defensive measures councils and other relevant organizations regarding unreasonable claims, etc. The Company has built a framework under which its divisions of legal, personnel, general affairs, etc. and Compliance Committee work closely with the above institutions and its corporate lawyer to take prompt action should any incident occur.

V. Other

1. Adoption of Anti-Takeover Measures

| | |
|------------------------------------|-------------|
| Adoption of anti-takeover measures | Not Adopted |
|------------------------------------|-------------|

Supplementary Explanation

The Company introduced countermeasures to guard against attempted large-scale purchases of its shares (takeover defense measures; the "Plan") with the approval of the Ordinary General Meeting of Shareholders held on June 29, 2006. The Plan has remained in effect since then, however, the Plan's expiration date was set to coincide with the closure of the Ordinary General Meeting of Shareholders for June 22, 2018.

Prior to the effective expiration of the Plan, the Company has engaged in careful discussions at the Management Advisory Meeting and the Board of Directors meetings to decide whether or not to continue the Plan, while seeking opinions from external independent member of the Special Committee. As a result, considering the Company's recent stock price and evaluation from society concerning its corporate value, the Company believes the conventional Plan has fulfilled a certain function. In addition, in light of its operating environment, the tightening of regulations under the Financial Instruments and Exchange Law governing large-scale stock purchases, and opinions from institutional investors, the Company concluded that the Plan is no longer crucial to its operations. Taking these factors into account, the Company decided to discontinue and abolish the Plan after its expiration with the closing of the Ordinary General Meeting of Shareholders held in June 2018. The Company also abolished its basic policy regarding the control of corporations.

2. Other Matters Concerning the Corporate Governance System (Updated)

[Overview of timely disclosure]

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.

- The Disclosure Committee shall ensure the timely disclosure of financial results, information related to corporate decisions, and information related to the occurrence of material facts. In the event of a disaster or similar, the committee shall cooperate with the departments related to risk management.

[Corporate governance structure]

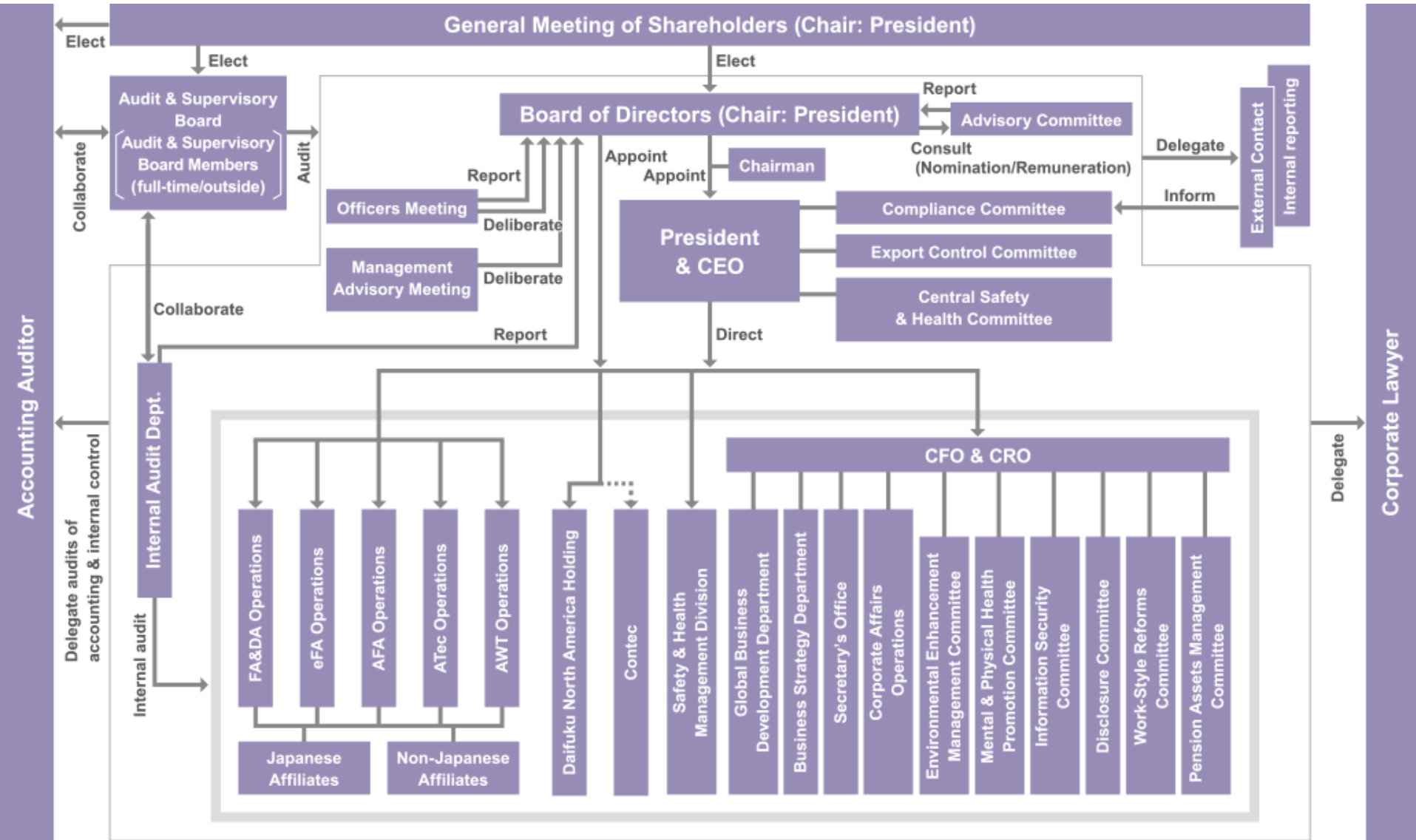
Please see the chart on the next page.

- Changes as of April 2018

1. The Company has newly established the Pension Assets Management Committee. The committee gives the person responsible for pension investment, etc., proper advice regarding important matters from the point of view of safe and effective management of its defined benefit pension plan.
2. The Company revised its internal reporting system with newly stipulated internal rules to operate the system more effectively across the Group. In the new system, the Company developed environments, where a whistle-blower is able to report at ease by setting two channels, internal contact and external independent contact, which accept reporting by email. The new system

features anonymous reporting and multiple languages available, so that every associate of the Group is able to report in their own languages.

Corporate governance structure



Organizations for Timely Disclosure

