Profile

As a leading company in material handling systems and equipment, Daifuku Co., Ltd. has acquired a top share of the world market since its founding in 1937 in the automobile industry, semiconductor manufacturing equipment field, and logistics and warehousing field.

Daifuku broadly contributes to the development of industry around the world with its formidable know-how and comprehensive capabilities in a wide range of logistic systems, offering services from consulting and engineering to maintenance that fulfill diverse and sophisticated customer needs.

The fiscal year ended March 31, 2005, marked the first year of the Three-Year Business Plan, which will finish in the fiscal year ending March 31, 2007. With significant growth in earnings, Daifuku embarked on an excellent start in the fiscal year ended March 31, 2005, toward achieving the objectives of the plan. In the fiscal year ending March 31, 2006 and beyond, Daifuku will focus efforts on continually improving its earnings capabilities and financial standing while fulfilling the needs of customers around the world.
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### Financial Highlights

**Daifuku Co., Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2005 and 2004**

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<thead>
<tr>
<th>Year</th>
<th>Orders received</th>
<th>Net sales</th>
<th>Operating income</th>
<th>Net income</th>
<th>Net income per share (Yen and U.S. dollars)</th>
<th>Capital investment</th>
<th>R&amp;D expenditures</th>
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<td>2005</td>
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A Message from the President

Performance: Higher Sales and Profits

During fiscal 2004, ended March 31, 2005, the Daifuku Group recorded strong growth in orders received, net sales, and profits on a consolidated basis. We achieved all of our numerical targets for the fiscal year under review, marking an excellent start in the first year of the Three-Year Business Plan. Daifuku recorded its highest levels of orders received and net sales since its establishment. Orders received advanced 31.8% to 178,019 million yen, while net sales climbed 14.9% to 166,232 million yen compared with the previous fiscal year. As our business divisions aggressively responded to increasingly sophisticated customer needs, the Japanese economy expanded with improved corporate earnings and growth in capital investment. In overseas markets, demand was steady in Asia and Europe, contributing to our strong performance.

Daifuku also recorded its highest level of operating income and net income for the past 10 years. Operating income increased 101.4% to 10,790 million yen due mainly to significantly improved profits in the logistics system business. Net income soared 220.1% to 5,231 million yen compared with the previous fiscal year.

Daifuku will celebrate its 70th anniversary in May 2007, and launched the new Three-Year Business Plan in fiscal 2004 to commemorate the milestone. In light of our mission as a leading material handling company, the objectives of the plan are to contribute to the development of industry around the world and, in the process, achieve growth and increase corporate value for the Daifuku Group. This Three-Year Business Plan requires the commitment of management to achieve its targets, and therefore our basic policies are centered on the keywords “create” and “challenge.” The concept of “create” and “challenge” is to motivate each and every employee to proactively participate in new business development, and to fully contribute toward achieving management targets.

Achievements in Fiscal 2004

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The Three-Year Business Plan positions the material handling systems and equipment business, as well as the electronic business, as core businesses, while promoting efforts to develop globally and create new businesses. In addition, management is focused on improving profitability to establish a robust financial foundation that is able to flexibly adapt to changes in the operating environment. Accordingly, Daifuku has set the plans for year fiscal 2006 targets to achieve an operating income margin of 7.0%, return on equity (ROE) of 10.2%, and a debt-equity ratio of 0.5%. Over the three-year strong growth in profits for fiscal 2004, Daifuku achieved its ROE target ahead of schedule, but will continue efforts to improve ROE in the future.

In fiscal 2004, Daifuku stepped up operations in each of its seven core businesses and enhanced collaborative efforts to improve performance along the objectives of the Three-Year Business Plan. In particular, Daifuku concentrated its efforts on:

1. Expanding operations in the growth fields of information technology, supply chain management, and automobiles.
2. Upgrading the production structure of plants in Japan and abroad to realize an optimal global production system.
3. Building an integrated development, manufacturing, and sales structure able to swiftly and precisely respond to customer needs.
4. Fostering a mindset that emphasizes the environment and safety in producing products and systems.
5. Enhancing our employee promotion system to meet global standards while nurturing a corporate culture of freedom and vigor.

As a result of these efforts, Daifuku achieved the following results during the fiscal year ended March 31, 2005.

1. Growth in transport and storage systems (e-Factory Automation) for semiconductors and FPDs

Demand for digital consumer electronics and information communications equipment in the IT-related semiconductor and flat panel display (FPD) fields contributed to Daifuku’s strong performance during the fiscal year under review. Although some change is anticipated in market growth rates in these fields in the future, worldwide growth is expected to continue over the medium term with the shortening of the silicon cycle and crystal cycle.

Based on these expectations, Daifuku is concentrating management resources on cleanroom transport and storage systems for semiconductor and FPD fabs. In fiscal 2004, this strategy coincided with robust capital investment in the semiconductor and FPD industries, leading to significant growth in the transport and storage systems business. In the FPD field, which has undergone a period of growth with digital TVs, our F&D efforts paid off with the development of an LCD glass single skirt air cushion transport conveyor for seventh-generation large glass substrates, further differentiating our product lineup from the competition.

Semiconductor and FPD manufacturers are rapidly expanding their production capacity in Asia. As a part of its strategy to create an optimal global production system, Daifuku is constructing new plants for semiconductor and LCD panel transport systems in South Korea, and expanding its plants in Japan and Taiwan.

2. Growth in deliveries of logistics systems in response to SCM needs

From manufacturing to distribution, supply chain management is proliferating as companies strive to be more sensitive to market trends. At the same time, logistics systems are becoming more sophisticated and efficient with the use of information technology. We believe these trends present opportunities for business expansion.

During the fiscal year under review, orders received and sales increased considerably for conveyor and storage systems and related equipment as a result of focusing on the distribution automation field, comprising systems, picking systems, conveyors, and automated warehouses, for the logistics industry. Daifuku enjoyed steady growth in large-scale distribution centers, such as one built for the Japan's Consumer Co-operative, which boasts Japan’s largest supply capacity, as well as large- and medium-scale automated warehouse systems for the wholesale, retail, transportation, warehousing, food, and beverage industries.

The key to differentiation in logistics systems is the development of superior software. In fiscal 2004, Daifuku established a sub-subsidiary Daifuku Alvec Software Co., Ltd. to keep up with the increasing complexity and advancements of software. The Daifuku Group believes that becoming a logistics system integrator that provides optimal logistics solutions will reinforce its comprehensive strengths, and aims to restructure efforts on the software front in the future.
3. Aggressively entering China’s automobile industry

In the Automotive Factory Automation business, sales declined in North America due to weak performance at automobile manufacturers, which were adversely affected by higher crude oil prices. Nevertheless, orders received and sales increased overall in Japan, Asia, and Europe. In fiscal 2004, as a part of our strategy to expand the global business structure, we established a local subsidiary, Daifuku Automation (Taiwan) Co., Ltd. to handle sales, installation, and after-sales services for conveyor systems for automobile production lines in China, where significant demand growth is expected. This move completed our six-base structure in the Automotive Factory Automation business in China by 2007. Daifuku plans to expand to 10 bases as Japanese, U.S., and European automobile manufacturers step up efforts to enter China.

4. Reinforcement of Group capabilities with establishment of new companies

Under the Three-Year Business Plan, Daifuku aims to manage its roster of subsidiaries and affiliates to strengthen consolidated management of the Group in order to increase cost competitiveness while enhancing quality and the service structure to prosper in the global marketplace. Toward this objective, in fiscal 2004, Daifuku established the following companies in addition to Daifuku Kifuco Software Co., Ltd. and other overseas companies mentioned previously:

- We established Contec EMS Co., Ltd. as a subsidiary of Contec Co., Ltd. to consolidate electronics production functions within the Group. As a result, we aim to concentrate our knowledge of electronics and increase efficiency in the development and production of electronic devices used in our core businesses.
- To pass on the technical skills and know-how of experienced veteran employees down to the next generation of younger employees, we established three subsidiaries comprising the marketing and engineering company Daifuku Business Creo Co., Ltd., manufacturing company Daifuku Manufacturing Expert Co., Ltd., and the installation and service company Daifuku Field Engineer Co., Ltd.


In the fiscal year ending March 31, 2006, the operating environment is uncertain with concerns for higher crude oil and steel prices and a deceleration in the European and U.S. economies. With this outlook, Daifuku is positioning fiscal 2005 as a launching pad for carrying on the success of the fiscal year under review and achieving the second-year targets of the Three-Year Business Plan. Accordingly, we are making every effort to sustain growth in earnings and create a robust corporate structure. In fiscal 2005, to continue along the path of global business expansion, Daifuku aims to develop operations in growth markets, upgrade and raise efficiency in its international production structure, and improve the competitiveness of its products as a global industry leader with a stronger R&D structure.

1. Developing growth markets through global business expansion

Daifuku aims to raise the ratio of overseas sales from 38.6% in the fiscal year under review to 40% or higher. Accordingly, Daifuku has developed new businesses and expanded operations in many China, where economic growth is strong. Moreover, the Company plans to increase the pace of growth in overseas sales by developing markets in Russia, Brazil, and India.

2. Increasing production efficiency globally

Our domestic factories not only fulfill domestic demand, but also play an increasingly important role as core factories in the Daifuku Group’s global business development that aims to realize an optimal global production structure. Our overseas plants are advantageous in the context of cost competitiveness for their close proximity to local markets and lower material and personnel expenses. Daifuku is developing operations while adopting a balanced approach to optimizing its local and global business structures. Daifuku established the D-MAND (Daifuku Manufacturing And Design System) promotion center for the purpose of personnel training and support in manufacturing field at home and abroad, and through its D-MAND core production system on a global basis. In August 2005, Daifuku will establish a production subsidiary in Taiwan for the e-Factory Automation business. In fiscal 2005, we are accelerating the formation of an optimal global supply structure, while also gradually increasing local procurement overseas in response to rising prices for crude oil and steel materials.

3. Reinforcing the R&D structure

Daifuku is reinforcing its R&D structure to create products and systems in tune with global market needs while emphasizing environmental conservation and safety.

In fiscal 2005, Daifuku plans to launch measures to switch to materials and production methods for its logistic equipment that help preserve the environment. Daifuku has developed remote monitoring systems, and is further advancing the development of preventive measures for the risk management of facilities to be delivered to customers.

Eyeing Further Development

In line with its basic management philosophy and as a leading company in the material handling industry, Daifuku aims to fulfill its role in the sustainable development of society by contributing to the development of the manufacturing industry while pursuing earnings growth.

As a corporate responsibility to society, we are making concerted efforts to improve corporate governance by enhancing compliance and fulfilling our duty of accountability. In addition to switching to a new performance-linked dividend payment policy, Daifuku has created an organization dedicated to investor relations, and is stepping up its investor relations activities at home and abroad as a part of new management measures that emphasize shareholders. Moreover, on August 1, 2005, Daifuku will change its standard share unit from 1,000 to 500 shares for the convenience of individual investors and to enhance share liquidity.

We are in position to continue growing as a company that fulfills the expectations and trust of all our stakeholders, including shareholders and investors. We ask for your support in these endeavors.

July 2005

Katsumi Takeuchi
President and CEO
Corporation Governance

Daifuku is striving to invigorate management and has taken steps to reinforce the density of its Board of Directors with the aim of accelerating management decision-making. In addition, the Company has established the Management Advisory Committee, comprised of Daifuku's senior executives, namely those managing director status and above, and external specialists. The committee meets as necessary to discuss key matters relevant to the management of the Company. Furthermore, Daifuku has implemented a structure of supervisory meetings, specific to business operations, manufacturing, administration, and overseas subsidiaries. The objective of the structure is to ensure greater flexibility in the execution of the Company's activities.

Daifuku currently maintains 16 directors. In 2001, the Company shortened the term of each director to one year with the aim of further clarifying each director's responsibility. In this manner, Daifuku has established a structure that enables the reconfirmation of each director's mandate by its shareholders on a fiscal year basis.

Daifuku is a company with a corporate audit system as defined by the Commercial Code of Japan. The Company is enhancing the effectiveness of monitoring over the management activities of directors and officers through the implementation of the current system of five-member corporate auditors, of which three members are appointed from outside the Company. Guided by the annual audit plan, which is formulated at the beginning of each fiscal year to ensure effective management of the company, the corporate auditors attend key meetings, including meetings of the Board of Directors, receive reports from directors, employees, external accounting auditors and internal audit entities; conduct inspections and audits of manufacturing, operating, and business bases; and implement audits for the Company's subsidiaries in Japan and abroad.

Compliance and the Internal Control Structure

Chaired by the President, Daifuku established the Compliance Committee in 2003 to ensure that the Company's activities strictly comply with regulatory, fair, and ethical requirements. To complement this initiative, Daifuku also formulated its Code of Conduct and the Internal Control Structure. As a part of its efforts to develop global human resources, Daifuku is striving to revitalize its management and is taking steps to ensure the continuity of each director's mandate by its shareholders on a fiscal year basis.

Corporate Social Responsibility (CSR)

In recent years, corporate social responsibility has extended beyond the economic perspective to include issues relating to the environment and social contribution. In this context, Daifuku has stepped up to play a central role in the Company's new ThreemYear Business Plan: Create & Challenge for the 70th Anniversary. Guided by the plan, the Daifuku Group is united in pursuing three underlying principles, namely: (1) to contribute to the development of the industry as the world's leading material handling manufacturer; (2) to strictly observe laws, ordinances, and social norms in Japan and overseas and at the same time strengthen compliance and risk management; and (3) to supply products and systems while building a production structure that emphasizes safety and environment conservation.

Pursuing Open and Fair Business Activities

In the context of strict compliance with laws and ordinances as well as with social norms (refer to page 4, “Corporate Governance”) that constitute the fundamentals of CSR, Daifuku established the Compliance Committee in 2003. The role of the Compliance Committee is to ensure that all employees and officers, and in fact all Daifuku employees, comprehend the fundamentals of CSR by observing Daifuku’s Code of Conduct and the Internal Control Structure.

In support of the Compliance Committee, Daifuku established the Information Security Committee and began to monitor and educate employees in matters relating to the handling and protection of information assets.

Environmental Activities

In 1999, the Company's Komaki Works and Shiga Works acquired ISO 14001 certification, the international standard for environmental management systems. In early 2004, Daifuku acquired ISO 14001 certification at its headquarters, Tokyo Headquarters, and Chubu Tokai Branch Office. The Company has also established the Daifuku Environmental Management System to expand its environmental protection system. As a result of Daifuku’s success and efforts in Japan, Daifuku will endeavor to acquire ISO 14001 certification at all of its overseas offices.

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As a part of its efforts to develop global human resources, Daifuku has offered internship training on-site in France, inviting university students majoring in engineering from the United States to participate every year. We have had 17 students from the United States, who have participated in the internship training, offer insights into the development of new ideas and innovative solutions.

For further information in connection with Daifuku’s environmental activities, please refer to the Company’s Web site: http://www.daifuku.co.jp/english/company/profile/ecology.html

Major CSR Activities

—Product Safety

In fiscal 2003, Daifuku launched the Product Safety Task Force. This task force is responsible for guaranteeing product safety with the aim of ensuring continuous development and improvement of the Company’s business and at the same time ensuring the Company's compliance with the prevailing standards for product risk assessment in line with ISO guidelines and standards set by Japan’s Health, Labour and Welfare Ministry. These standards are applied primarily to the Company's engineering and design departments.

—Individual Rights, Employment and Work Safety

Daifuku respects the individual rights of each employee and stakeholder. The Company is active in efforts to create a bright, comfortable, and pleasant work environment. In 2004, Daifuku established the Personnel Counseling Office, which provides counseling services to employees on a wide range of matters including compensation, evaluations, workplace environment, health, and safety. In addition, the Company established the open communication with its employees and officers, and in fact all Daifuku employees, comprehends the fundamentals of CSR by observing Daifuku’s Code of Conduct and the Internal Control Structure.

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Corporate Governance

Daifuku is committed to implementing a variety of measures to ensure comprehensive corporate governance and strict compliance with all regulations. To this end, the Company is guided by a fundamental policy and objective to maintain ethical, fair, and transparent management.

Daifuku’s President assumes ultimate responsibility in the context of the Company’s risk management structure. In addition, the Company has incorporated various risk hedge initiatives in its management plan and conducts periodic reviews with the aim of minimizing risk. To supplement its risk management structure, the Company has further established Risk Management Centers, headed by the relevant directors at principal offices in Japan and abroad. Consequent to the existence of unforeseen risks, accidents, and incidents, Daifuku’s risk management structure is geared toward employing preventive measures, taking prompt and accurate action in response to risk, minimizing damage, and raising awareness of risk management and compliance across the Company, thereby developing a healthy and robust management.

In 2004, Daifuku established the Information Security Committee with the responsibility of formulating an information security policy and standards for information assets and security management. This policy and its standards have been applied to the Company’s activities commencing in April 2005.

In conjunction with the aforementioned, in order to ensure the effectiveness of the internal control structure and the reliability of financial reporting based thereon, the Company’s Business Audit Office, which serves as its central internal auditing body, assesses the Company’s in its execution of business activities in the context of its business plans, related regulatory requirements, and in-house rules. The Business Audit Office strives to improve management soundness and efficiency, and protect the Company’s assets.

Information Disclosure System

Daifuku is committed to increasing transparency in management and its accountability. In addition to reinforcing the Company’s IR activities, Daifuku also established the Disclosure Committee in April 2005. The role of the Disclosure Committee is to evaluate reports concerning important decisions and occurrences initiated by departments, officers, and subsidiaries, and to submit reports to the Board of Directors for any required actions. The role of the Disclosure Committee is to ensure timely disclosure to the public in coordination with relevant head office departments.

Daifuku’s Environmental Report is available in English.
During the fiscal year under review, the logistics system business received record-high orders of 155,143 million yen, an increase of 38.2% from the previous fiscal year. Sales rose 23.6% to 142,622 million yen, and operating income (before eliminations and corporate, same below) amounted to 14,374 million yen, a rise of 140.6% from the previous fiscal year. Profits expanded significantly due to increased production facilities in North America, where Daifuku’s operations are centralized. Owing to construction demand for logistics and distribution centers, net sales rose to 219,022 million yen, with a profit margin of 8.2%.

In the logistics system business, capital expenditures (before eliminations and corporate) expanded to 3,140 million yen, mainly for production facilities, including 740 million yen for expanding cleanrooms at Shiga Works and 1,020 million yen for moving and upgrading a plant at Clean Factomation, Inc. in South Korea.

In the electronics business, sales were strong for CPU boards, production management systems and production line control systems, despite weak sales of computers and boards embedded in various terminal equipment due to a decline in the PC market and related capital investment. Amid the proliferation of wired LANs, Daifuku developed and initiated sales of specialized LAN equipment that ensures a high level of security. As a result, orders received edged down 1.3% year on year to 12,653 million yen, while sales grew 1.0% to 13,647 million yen. Operating income fell 36.5% to 1,296 million yen.

In other businesses, although domestic demand remained weak, Daifuku aimed to expand sales of mainstay car-washing machines by strengthening the services of its marketing companies and launching ‘Teeflock’, a new car-through type car washer. As a result, orders received increased 2.4% to 10,222 million yen and sales rose 2.7% to 3,840 million yen. However, this segment had an operating loss of 52 million yen, compared with operating income of 370 million yen in the previous fiscal year. Capital expenditures were 60 million yen, primarily for streamlining and upgrading production facilities.

In Japan, sales expanded 22.6% to 141,478 million yen and operating income advanced 69.5% to 13,916 million yen on account of firm corporate capital investment and an increase in IT-related demand. In North America, sales decreased 13.4% to 12,190 million yen but operating income totaled 139 million yen, rebounding from an operating loss of 196 million yen in the previous fiscal year. These results reflected inflationary concerns from rising crude oil prices and the impact of sluggishness in the automobile industry. In other regions, including Asian countries other than Japan, performance improved considerably on the back of demand growth in mainly China. Accordingly, sales increased 36.3% to 12,564 million yen and operating income grew 99.6% to 1,563 million yen.

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Core Businesses

Logistics System Business

Automotive Factory Automation

The Automotive Factory Automation business promotes the development, production and sale of factory automation systems for automobile production lines in all corners of the world. Daifuku boasts a leading share of the world market for conveyor systems for automobile plants, as many automobile manufacturers in Japan and countries overseas use its factory automation systems.

Factory Automation & Distribution Automation

The Factory Automation & Distribution Automation business develops, manufactures and sells storage systems, high-speed sorting and picking systems, automated guided vehicles, conveyors, and other logistics systems. Our systems are used in all types of industry at home and abroad, including the food, pharmaceutical, distribution and retail, and public sector businesses.

Daifuku Technology Services

Daifuku Technology Services provide installation and maintenance services for logistics systems and related equipment delivered to customers, after-sales services such as parts supply, and renewal projects. We aim to increase customer satisfaction through tight collaboration between service offices and customer service centers.

Other Business

Car-washing Machines

A main pillar of Daifuku’s Other Business is the development, production and sale of car-washing machines for service stations in Japan and other parts of Asia. Our sales subsidiary Daifuku Wash Corporation has a business structure integrating operations from development to after-sales services in this product area.

Special Equipment

Daifuku also develops, manufactures and sells products based on welfare and environmental concepts. We provide products that leverage our expertise in material handling equipment, such as the Renece series of home under-floor storage units for condominiums and multilevel bicycle parking systems.

Electronics Business

Electronics

The Electronic business centers on Group company Contec Co., Ltd. This business focuses on the development, production and sale of factory automation PCs, boards, LAN-related products, material handling control equipment, and remote monitoring and control systems.

Main Products

- RAMRUN®, electrified monorail systems
- Flexible Drive System, chainless conveyor systems
- Chain conveyor systems
- Engine testing systems

- Conveyor systems and automated guided vehicles
- Storage systems
- Sorting and picking systems
- Material Handling equipment
- Software

- Maintenance services
- Renovation projects
- Transportation and delivery of logistics equipment

- Transport and storage systems for semiconductor production
- Transport and storage systems for LCD production
- Transport and storage systems for other electronic components production

- Car-washing machines
- Peripheral products for car-washing machines

- Transport and storage systems for medical equipment
- Machines for bowling alleys
- Multilevel bicycle parking systems
- Welfare rear-mounted lifts (for wheelchair on vehicles)

- Distributed monitoring and control systems
- Industrial computers and board computers
- Built-in-slot PPCs for industrial applications
- LAN-related equipment

Special Equipment

- Transport and storage systems for medical equipment
- Machines for bowling alleys
- Multilevel bicycle parking systems
- Welfare rear-mounted lifts (for wheelchair on vehicles)
Business Overview

During the fiscal year under review, the first year of the Three-Year Business Plan, Daifuku concentrated its efforts on three main points from a medium-term perspective of the automobile industry. The first point was responding to and taking advantage of customer needs for our front-loading logistics centers. The second aim was to establish an overwhelming presence in fast-growing China. The third area was expanding sales volume through product management, which aims to increase productivity from engineering to manufacturing. As a result, the Automotive Factory Automation business performed on par with the previous fiscal year as growth in China, Japan, and other Asian countries offset the adverse effects of higher crude oil prices in the North American market.

In product development, we responded to needs for higher quality, lower costs, and environmental protection by developing new products including "E-DIP", a new automobile production line system that increases our competitive advantage in the market. E-Kasai, a new assembly line system, and NewFABS, a dual conveyor system, Overseas, we completed construction and began operations at the second plant of our South Korean subsidiary ATS Co., Ltd., which is manufacturing outsourcing products in China. Daifuku established a local company in Guangzhou, southern China to engage in marketing and construction services. This completes our six-base structure, with two local companies, including the existing one in Tianjin, northern China.

Business Strategy

Despite mature automobile production in the markets of advanced countries, business opportunities are expected to expand worldwide, on account of growth in Brazil, Russia, India, and China (BRICs). Daifuku aims to secure a 25% share of the global market for automobile production line systems by 2010. Toward achieving this goal, we are pursuing business that can be expanded in the coming fiscal year.

1. We aim to modestly expand sales and earnings through our value chain of efficiently integrated core factories in Japan and marketing and production bases around the world.

2. We aim for the next stage of growth by strengthening BRICs markets, which are expected to grow, by automobile companies’ entry by gathering information ahead of other companies and focusing on early market development to solidify our lead.

3. We aim to expand earnings on a global basis in the Automotive Factory Automation business by strengthening our technological service capabilities at overseas bases.

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Daifuku Technology Services

Daifuku Technology Services operations started in July 2003 with the merger of Daifuku Technology Service Corporation into Daifuku. The business provides installation and maintenance services for automated warehouses and facilities related to Factory Automation & Distribution Automation: FADAX systems and material handling equipment, as well as a full range of after-sales services from system support to parts supply, promotion of facility renewals, and logistics service business development. We have 60 bases in the form of service offices, logistics centers, and sub-parts centers across Japan that form a structure for servicing customers within one hour from each base. At the end of 2003, we opened a Customer Service Center (CSC) that answers telephone inquiries 24 hours a day, 365 days a year.

Through collaboration with the FAIBA business, we have established an integrated structure ranging from the engineering and production of logistics systems to their installation and maintenance. We aim to improve customer satisfaction and expand our base of loyal customers.

Business Overview

In the fiscal year under review, backed by a favorable upturn in the logistic system market, Daifuku Technology Services showed steady growth in performance as a result of efforts to propose preventative maintenance systems and recommend medium-term maintenance plans to customers. In line with initial targets, sales have steadily increased in the renewal and logistics service businesses in addition to growth in revenue from maintenance service operations.

In the first year of the Three-Year Business Plan, we began to enhance the functions of our service offices and embarked on marketing tailored to specific regions in the fiscal year under review. As a part of these efforts, we opened two new service offices in addition to moving, expanding, and expanding some existing offices. At the CSC, we started to offer helpful services for customers, including preventative maintenance, and the industry's first all-day, all-year, remote monitoring of computer and facilities for logistics systems such as automated warehouses delivered to our customers. The monitoring equipment supports the stable operations of customers' systems by predicting equipment malfunction or quickly detecting any trouble, allowing Daifuku to offer unparalleled services to its customers.

In addition to upgrading our infrastructure, we are advancing our partnership with Daifuku Logistic Technology Co., Ltd. to develop synergies in the fields of refrigerated and frozen storage warehouses, as well as hazardous materials and explosion proof warehouses.

Business Strategy

We expect continued growth in Daifuku Technology Services against a backdrop of expansion in the distribution automation market. Our ability to continue providing high-quality services in this business forms a support base for our growth in orders received in the FADAX business. We estimate performance to steadily increase in line with our Three-Year Business Plan. In the current fiscal year ending March 31, 2006, Daifuku is implementing the following measures in accordance with its basic policy of pursuing marketing tailored to each region and enhancing the functions of the CSC in the service business.

1. We aim to improve service office functions by moving and expanding some offices, improving employee skills, and operating our main offices on a 24-hour basis.
2. We aim to eliminate potential malfunctions by periodically visiting customers and inspecting equipment, as well as improving the quality of field services by speeding up our response to malfunctions.
3. We aim for sustained growth in the renewal and logistic service businesses, and to develop new service businesses such as IT-based services and strengthen overseas service functions.
4. We aim to further enhance the functions of the CSC by increasing the features of our customer information management system, upgrading the function of the parts center and training personnel.

In the first half of the fiscal year under review, both the silicon cycle and crystal cycle took a turn upward, driven by demand for semiconductor and LCD panels. Accordingly, performance in the e-Factory Automation business improved considerably. Under these circumstances, Daifuku is concentrating its efforts on improving quality and performance and holding down costs through further technological innovations in response to intensified competition due to lower product prices at customers. At the same time, we aimed to bolster the technological capabilities of our overseas factories to strengthen our global competitiveness. As an example of our successful technological innovation, we revealed the mXCS after developing a material control system (MCS) for controlling conveyor transport systems. We have already received orders and delivered the mXCS from several semiconductor and LCD panel manufacturers, owing to the new product's rich functionality, large-scale transport capacity, and cost performance.

In addition to sharply increasing demand for LCD panels, the size of glass substrate is becoming larger for FPD displays while entering peripheral system manufacturers. In manufacturing, we plan to strengthen our global sales and production structures through the establishment of a subsidiary in Shanghai and production bases in China.

In semiconductors and FPDs, we aim to differentiate ourselves from the competition by offering a total solution supplier of cleanroom factory automation systems. We are concentrating on the development of next-generation control systems based on the mXCS.
Business Overview
The service station industry, the main market for car-washing machines, has endured intense competition since the petroleum industry was deregulated in 1996. There were approximately 50,000 gasoline stations in 2004, which have decreased in number from a peak of 60,000 stations. The number of full-service gas stations is expected to continue on a gradual decline. The number of self-service gas stations, however, has increased steadily since the liberalization of regulations in 1988 to more than 4,000 stations as of March 31, 2005. The number of self-service gas stations is expected to increase to a peak of 930 stations per year over the medium term.

In fiscal 2004, Daifuku concentrated on the development of self-service car-washing machines in tandem with market trends. Since drive-through car-washing machines are the mainstream type in the full-service gas station industry, Daifuku developed and released on the market an auto wash machine, the Aquaphone, and a new car-washing machine that features independently controlled brushes and separate car-washing and drying sections. As a result, Daifuku has consolidated its lineup of car-washing machines, addressing the needs of full-service gas stations to improve profitability.

In overseas markets, Daifuku Carwash-Machine Korea Inc. expanded its sales and service network in its second year since its establishment, which had the positive effect of increasing sales volume significantly. We expect to continue expanding our share of the car-washing machine market.

Business Strategy
As the only company in the car-washing machine industry to have acquired ISO 9001 and ISO 14001 certifications, Daifuku makes concerted efforts to help preserve the environment. All of our liquid solutions, including shampoo, waxes, and water-repellent coatings, are gentle on people and the environment and do not contain environmental hazards or phathrocous-regulated substances. In addition, we commercialized a recycling system that reuses car wash water through a combination of an aggregation precipitation treatment and ultrafilter membranes. The environmental aspects of our recycling system were recognized with the receipt of the 2004 Technological Achievement Award from the Society of Chemical Engineers, Japan. In the future, Daifuku aims to continue developing products that help reduce environmental load.

In the service station industry, we are stepping up efforts in the car wash business to expand our market share. To achieve this objective, Daifuku is combining forces with sales subsidiaries Daifuku Inc. and Daifuku Bus Co., which has about 40 sales and service bases in Japan, to accelerate the creation of an integrated structure from development to after-sales services. We are focusing all of our efforts on accelerating new product development, a pricing issue, and increasing our faster pace of change in the market and more sophisticated customer demands. To further integrate our equipment, we are using common assembly components, aiming to dramatically reduce costs through global procurement, and working to further stabilize quality.

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Car-washing Machines
Daifuku has manufactured car-washing machines for a quarter of a century. Our car-washing machines are installed mainly at gasoline stations, which number approximately 50,000 across Japan, in addition to being used in co-operated car washes and automobile maintenance centers. Backed by its technological capabilities accumulated in material handling systems and its customer-oriented development structures, Daifuku has developed a variety of car-washing machines that have fundamentally changed the industry. We were early to adopt and commercialize monorail controls during the era of relay control boards, spawning a revolutionary change in the car-washing machine industry. Daifuku has maintained its leadership position in the industry through the commercialization of products such as a continuous car-washing machine, which is able to wash large volumes of vehicles by using a low-floor roller conveyor to move cars from the washing to the drying stages, as well as the high & wild car-washing machine with larger dimensions to handle large-size cars such as SUVs.

Special Equipment
In the Special Equipment business, based on our accumulated technologies and know-how in the logistics system and equipment business, we develop products that contribute to the medical and welfare fields as well as the preservation of the environment.

Our primary special equipment lineups are broadly divided into Medical Automation & Office Automation (hospital and office materials transport and storage systems), bowling systems, welfare rear-mounted lifts (for wheelchairs on vehicles), bicycle parking systems (multilevel bicycle parking systems), and Renace Series—Condominium-related equipment (under-floor storage units). We also provide containers for discarded electronic appliances and compost recycling plants, for which demand remains steady.

Business Overview
Medical Automation & Office Automation Business
In the Medical Automation field, Daifuku has been offering automated transport systems for medical records and x-ray films for 30 years. Our automated guided vehicles and compact automated storage and perpendicular rotating rube (ACR: Vertical Carousel) are essential components of our automated transport systems for surgical equipment and materials as well as for pharmaceutical storage systems, which have been installed at many national hospitals and university-affiliated hospitals in Japan. Daifuku has a high share of the market for medical AGVs.

Bowling Systems
In 2000, Daifuku entered into a partnership for Auto Scorers systems used in bowling alleys with Qubica Corporation in Italy, the world’s largest bowling equipment company. Daifuku develops and sells the Bowler Entertainment System (BES), which features Daifuku’s front-end systems through this partnership.

Welfare Rear-Mounted Lifts
Daifuku has commercialized a rear-mounted wheelchair lift for vehicles, and supplies the lift to automobile manufacturers. With a 70% share of the market in Japan, Daifuku has an overwhelming lead in this field over the competition.

Bicycle Parking Systems
Daifuku’s Cycle House 21 is a perpendicular rotating parking system. It features simple operation using cards, and is wide enough to accommodate mid sized bicycles and bicycles with infant seats. This system helps alleviate the crowding of bicycle-parked near-station trains.

Renace Series, Condominium-related equipment
Renace provides an under-floor storage system that effectively uses space under the floors of condominiums. Using an innovative construction method, spaces are treed under floorboards for storage. Well regarded, the storage system has been sold to approximately 10,000 households over the last 10 years.

Business Strategy
In the market for the Medical Automation & Office Automation business, hospitals are expected to respond in scale through mergers and integration, providing a tailwind for the Medical Automation business. We will already respond to the needs of remodeling or installing new transport systems while striving to develop the next promising business to rival that of transport systems for surgical equipment and materials.

Due to expanding market scale from the aging society in Japan, demand for welfare vehicles is expected to grow at a constant 5% annually. Accordingly, Daifuku is responding to the needs of automobile manufacturers with higher quality and lower cost wheelchair lifts.

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Electronics

Business Overview
In fiscal 2004, demand was favorable for general-purpose electronic equipment sold by Contec against a backdrop of strong exports and expanding capital investment by Japanese corporations spurred on by a recovery in corporate earnings in the first half of the fiscal year. In the second half of the fiscal year, however, demand stagnated due to a deceleration in the digital electronics industry. Amid these conditions, Daifuku strengthened its product lineup through the development of new products including highly secure wireless LAN equipment in an aim to stimulate sales.

On the other hand, production value for electronic equipment embedded in core business products increased on the back of strength in the e-Factory Automation business throughout the fiscal year under review.

In accordance with our Three-Year Business Plan, we transferred all production of electronics from Daifuku and Contec Co., Ltd. to indirectly held subsidiary Contec EMS Co., Ltd. on October 1, 2004, enabling integrated manufacturing of electronic equipment throughout the Group. Contec EMS Co., Ltd. aims to strengthen cost competitiveness and improve product quality and services through its global production structure by leveraging production bases in China and Taiwan with factories in Komaki, Osaka, and Shiga, Japan, and the Komaki Factory acting as a core factory.

Business Strategy
Electronics is playing an increasingly important role in all of our operations. We are working on the following initiatives in the electronics business under an integrated development, production, sales, and administration structure:

1. We aim to create a robust and self-sustainable global sales, development, production, and service structure for the electronics business.
2. We aim to lower costs significantly by accelerating local procurement and optimal global production structure.
3. We plan to make further improvements in quality and delivery times.
4. We are responding to environmental concerns through means such as the use of lead-free production facilities.