Mission Statement & Policies

Company Creed

日彩

Hino Arata

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

Disclosure

Investor Relations information
www.daifuku.com/ir

CSR information
www.daifuku.com/sustainability

Editorial Policy

This annual report presents a brief summary of material information particularly relevant to the Daifuku Group’s value creation. The front cover design represents that Daifuku’s e-commerce supporting material handling systems quickly and accurately send goods to consumers. See the Company website for more detailed information: www.daifuku.com

The report covers 59 companies, including 55 consolidated subsidiaries and two equity-method affiliates (as of March 31, 2017).

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The Daifuku Group has a long track record in material handling across a wide variety of sectors, and is the world’s leading material handling systems manufacturer and integrator.

Daifuku by the numbers

- Global Sales
  - No. 1*

- Consolidated Sales
  - ¥320.8 billion

- Operating Income
  - ¥23.0 billion

- ROE
  - 12.6%

- Service Sales Ratio
  - 28%

- D/E Ratio
  - 0.29

Core businesses

- Manufacturing and Distribution Systems
  - FA&DA
    - Factory & Distribution Automation

- Cleanroom Production Line Systems
  - eFA
    - e-Factory Automation

- Automobile Production Line Systems
  - AFA
    - Automotive Factory Automation

- Airport Technologies
  - ATec

- Car Wash Machines
  - AWT
    - Auto Washing Technologies

- Electronics
  - Contec

* Source: Modern Materials Handling - May 2017 (See page 4)
Global Presence

The Daifuku Group has steadily pursued global business development, establishing production and sales locations in 23 countries and regions. Non-Japan sales accounted for 65% of revenue in fiscal 2016.

Fiscal 2016 sales by region, ratio to net sales

Asia Pacific
Sales ¥114.0 billion
Sales ratio 35.5%

Japan
Sales ¥110.6 billion
Sales ratio 34.5%

North America
Sales ¥76.6 billion
Sales ratio 23.9%

Other
Sales ¥10.9 billion
Sales ratio 3.4%

Top 20 worldwide materials handling systems suppliers 2016

Daifuku's global production sites

Note: Performance in fiscal 2017 is expected to weaken because of foreign currency fluctuations.
Daifuku achieved nearly all its management targets for the previous medium-term business plan, Value Innovation 2017. Under the new business plan, Value Innovation 2020 starting in fiscal 2017, we aim to become a truly world-leading company in material handling.

### Steadily achieving goals

**Aiming to become the Truly Global No. 1 under**

**the Value Innovation 2020 Business Plan**

<table>
<thead>
<tr>
<th>Value Innovation 2017 (FY2013–FY2016)</th>
<th>Initiatives and Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Themes</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Business Domains</strong></td>
<td></td>
</tr>
<tr>
<td>Mature Japanese markets; globalizing markets</td>
<td></td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
</tr>
<tr>
<td>Intensified price competition; competitors from emerging countries entering into markets</td>
<td></td>
</tr>
<tr>
<td><strong>Operational Efficiency</strong></td>
<td></td>
</tr>
<tr>
<td>Challenges in effectively using operating resources within the Group</td>
<td></td>
</tr>
<tr>
<td><strong>Brand Power</strong></td>
<td></td>
</tr>
<tr>
<td>Limited differentiation from competitors with only enhancing hardware functionality</td>
<td></td>
</tr>
<tr>
<td><strong>Initiatives and Results</strong></td>
<td></td>
</tr>
<tr>
<td>1. Identifying new businesses and markets</td>
<td></td>
</tr>
<tr>
<td>• 2013: Acquired U.S.-based Wynright, to expand RAIDA business in the U.S.</td>
<td></td>
</tr>
<tr>
<td>• 2014: Acquired New Zealand-based RCS, to expand ATec business</td>
<td></td>
</tr>
<tr>
<td>• Served global demand for automation in the e-commerce market</td>
<td></td>
</tr>
<tr>
<td>• One-of-a-kind/Design businesses: BAGgate, D-PAD, CONPROSYS, audit</td>
<td></td>
</tr>
<tr>
<td>2. Bolstering global business</td>
<td></td>
</tr>
<tr>
<td>• Non-Japan sales ratio: 52% → 65%</td>
<td></td>
</tr>
<tr>
<td>• Non-Japan employee headcount: 3,742 → 5,536</td>
<td></td>
</tr>
<tr>
<td>3. Expanding existing business</td>
<td></td>
</tr>
<tr>
<td>• Service sales ratio: 25%</td>
<td></td>
</tr>
<tr>
<td>• Established retrofitting business</td>
<td></td>
</tr>
<tr>
<td>4. Increasing value added</td>
<td></td>
</tr>
<tr>
<td>• Provided high-end solutions that deliver high value-added in e-commerce, etc.</td>
<td></td>
</tr>
<tr>
<td>5. Boosting cost-competitiveness</td>
<td></td>
</tr>
<tr>
<td>• Expanded non-Japan production</td>
<td></td>
</tr>
<tr>
<td>• Implemented bulk purchasing, standardization</td>
<td></td>
</tr>
<tr>
<td>6. Leveraging managerial resources</td>
<td></td>
</tr>
<tr>
<td>• Initiated use of ATec's Sym3 (3D software) for RAIDA business, providing avenues for using technology across businesses</td>
<td></td>
</tr>
<tr>
<td>7. Enhancing financial integrity</td>
<td></td>
</tr>
<tr>
<td>• Paid-in capital: 8 billion yen → 15 billion yen</td>
<td></td>
</tr>
<tr>
<td>• Per-share dividend: 15 yen → 42 yen</td>
<td></td>
</tr>
<tr>
<td>• Included in the JPX-Nikkei Index 400</td>
<td></td>
</tr>
<tr>
<td>8. Raising employee awareness</td>
<td></td>
</tr>
<tr>
<td>• Conducted annual employee awareness surveys, 4 times in total</td>
<td></td>
</tr>
<tr>
<td>• Offered global business training for Japan-based staff and leadership training for global staff</td>
<td></td>
</tr>
<tr>
<td>9. Changing the approach to customers</td>
<td></td>
</tr>
<tr>
<td>• Shifted from physical-visit-based to information-based model of customer acquisition, making effective use of websites and exhibitions</td>
<td></td>
</tr>
<tr>
<td>10. Building a new brand</td>
<td></td>
</tr>
<tr>
<td>• To evolve into a value innovator, established the brand message of “Always an Edge Ahead”</td>
<td></td>
</tr>
<tr>
<td>• Held brand briefings at affiliates and offices worldwide</td>
<td></td>
</tr>
<tr>
<td>11. Strengthening businesses using ICT*</td>
<td></td>
</tr>
<tr>
<td>• Real-time sharing of customer/project data, etc., across the network to help boost productivity</td>
<td></td>
</tr>
<tr>
<td>* ICT: Information &amp; Communications Technology</td>
<td></td>
</tr>
<tr>
<td>12. Streamlining business operations</td>
<td></td>
</tr>
<tr>
<td>• Systematized Group operations</td>
<td></td>
</tr>
<tr>
<td>• Optimized U.S./Chinese subsidiaries</td>
<td></td>
</tr>
<tr>
<td>13. Raising employee awareness</td>
<td></td>
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<tr>
<td>14. Changing the approach to customers</td>
<td></td>
</tr>
<tr>
<td>• Shifted from physical-visit-based to information-based model of customer acquisition, making effective use of websites and exhibitions</td>
<td></td>
</tr>
</tbody>
</table>

### Value Innovation 2020

**FY2020 Targets**

**FY2020**

<table>
<thead>
<tr>
<th>Consolidated Sales</th>
<th>¥320.8 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>7.2%</td>
</tr>
<tr>
<td>Rating</td>
<td>A- [Positive]</td>
</tr>
</tbody>
</table>

**FY2020**

<table>
<thead>
<tr>
<th>Consolidated Sales</th>
<th>¥420.0 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>8.0%</td>
</tr>
<tr>
<td>Rating</td>
<td>A</td>
</tr>
</tbody>
</table>

**Source:** Modern Materials Handling
**Business Model**

**Changes in business flows due to growth in e-commerce (C2B)**

**Labor shortages and the need to enhance productivity**

**Use of new technologies such as IoT, AI, and VR**

**Societal Issues**

**Inputs**

**Capital**
- Financial capital: Funds that can be used in sustainable corporate activities, including fund-raising and fund usage
- Manufactured capital: Non-current assets, including production equipment and systems
- Human capital: The skills and abilities of employees and their motivation as well as the organizational experience
- Intellectual capital: All types of intangible assets, including intellectual property and software, which the Company uses in creating value
- Social and relationship capital: Engagement and bonds of trust with society and stakeholders, along with systems to further develop those
- Natural capital: The natural environment and material resources that have an impact on the Company’s business activities and its sustainability

**Seven Strengths**
- Product lineup
- Installation record
- Financial capital
- Global reach
- Human resources
- Services
- Corporate governance

**Risk Factors**

**Price competition**
We believe that the Daifuku Group’s products offer high value-added and incorporate technology, quality, and cost characteristics that competitors cannot easily replicate, but competition in the industries in which we do business is fierce, and the intensification of price competition has the potential to put pressure on our earnings.

**Product quality issues**
We endeavor to apply rigorous quality management to all products produced in Japan and abroad, and we hold liability insurance to safeguard against the possibility of unforeseen quality claims, but serious quality claims, should they arise, have the potential to affect the Group’s financial results.

**Capital expenditures and economic conditions**
All of our customers in the semiconductor and flat-panel display (FPD) market and the automotive market are among the industry leaders, actively engaged in capital expenditures with a view to the future, and exhibit strong growth, but temporary suspensions and postponements of capital expenditures due to sudden changes in demand trends in both markets, were they to occur, have the potential to affect the Group’s financial results.

**Non-Japan business**
We do business globally, particularly in North America and Asia. Relative to domestic operations in Japan, however, overseas business operations are subject to higher levels of risk from changes in social, political, and economic conditions, unforeseen regulatory changes, and the like.

**Increasing project scale**
With the recent advance of e-commerce, reductions in semiconductor sizes, increases in FPD sizes, and so forth, the systems that we are involved with are becoming more sophisticated and larger in scale than ever before. Our financial results may be affected by the timing of orders recorded, along with how efficiently all aspects of projects are managed.

**Value Provided**

**Customers**
We aim to develop products that meet customer needs and deliver the best, most appropriate solutions, designed with workplace safety and security in mind.

**Shareholders and Investors**
Through the timely disclosure of corporate and financial information, we aim to foster deeper understanding among shareholders and investors while also increasing our enterprise value through sustained growth.

**Employees**
We aim to foster a corporate culture that recognizes the role that all employees play in supporting our business by greatly valuing individual lifestyles and enabling employees to fully utilize their capabilities and derive fulfillment from their work.

**Suppliers**
We work as one with our suppliers in the manufacturing of goods and equipment. Putting in place the means for the regular sharing of information, we strive daily to maintain good relationships based on mutual trust, and consistently adhere to laws and regulations in line with a common desire to work with confidence in each other.

**Communities**
As a good corporate citizen, we work closely with local communities towards global environmental conservation, and in addressing numerous social issues.

**Value Innovation 2020**

- **Safety/Security**: Daifuku’s Total Support
- **Quality/Accuracy**: Planning & Engineering
- **Consulting**: Production
- **Installation & Operation**: After-Sales Service & Retrofits
- **Planning & Engineering**: Design
- **Consulting**: Production
- **Installation & Operation**: After-Sales Service & Retrofits
- **Planning & Engineering**: Daifuku’s Business Activities

* VR: Virtual Reality
# Financial and Non-Financial Highlights

## Financial highlights

### For the Year

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received</td>
<td>¥ 356,518</td>
<td>¥ 359,427</td>
<td>(0.8)%</td>
</tr>
<tr>
<td>Net sales</td>
<td>320,825</td>
<td>336,184</td>
<td>(4.6)</td>
</tr>
<tr>
<td>Operating income</td>
<td>23,099</td>
<td>20,878</td>
<td>10.6</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company</td>
<td>16,746</td>
<td>13,652</td>
<td>22.7</td>
</tr>
<tr>
<td>Capital investment</td>
<td>5,805</td>
<td>4,210</td>
<td>40.3</td>
</tr>
<tr>
<td>R&amp;D expenditures</td>
<td>7,489</td>
<td>7,009</td>
<td>6.8</td>
</tr>
</tbody>
</table>

### Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>¥ 26,683</td>
<td>¥ 2,706</td>
<td>270.3%</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(5,393)</td>
<td>(2,099)</td>
<td>(156.9)</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>21,289</td>
<td>5,107</td>
<td>316.8</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(4,404)</td>
<td>(8,702)</td>
<td>49.4</td>
</tr>
</tbody>
</table>

### At Year-End

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥ 303,540</td>
<td>¥ 296,055</td>
<td>2.5%</td>
</tr>
<tr>
<td>Working capital</td>
<td>96,401</td>
<td>99,293</td>
<td>(2.9)</td>
</tr>
<tr>
<td>Net assets</td>
<td>142,340</td>
<td>130,116</td>
<td>9.4</td>
</tr>
<tr>
<td>Amounts per Share of Common Stock</td>
<td>¥ 137,58</td>
<td>¥ 118,72</td>
<td>15.9%</td>
</tr>
<tr>
<td>Net income per share (yen)</td>
<td>1,142,14</td>
<td>1,044,40</td>
<td>9.4</td>
</tr>
<tr>
<td>Cash dividends per share (yen)</td>
<td>42,00</td>
<td>30,00</td>
<td>40.0</td>
</tr>
</tbody>
</table>

### Ratios

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income/net sales</td>
<td>7.2%</td>
<td>6.2%</td>
<td>+1.0pt</td>
</tr>
<tr>
<td>Net income/net sales</td>
<td>5.2</td>
<td>4.1</td>
<td>+1.1pt</td>
</tr>
<tr>
<td>Return on shareholders’ equity (ROE)</td>
<td>12.6</td>
<td>11.6</td>
<td>+1.0pt</td>
</tr>
<tr>
<td>Shareholders’ equity/total assets</td>
<td>45.8</td>
<td>42.9</td>
<td>+2.9pt</td>
</tr>
</tbody>
</table>

## Non-financial highlights

### Environment

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions (t-CO₂)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>15,034</td>
<td>16,190</td>
<td>(7.1)%</td>
</tr>
<tr>
<td>Outside Japan</td>
<td>24,563</td>
<td>20,148</td>
<td>21.9</td>
</tr>
<tr>
<td>CO₂ reduction contribution from environmentally friendly products (t-CO₂)</td>
<td>41,689</td>
<td>33,367</td>
<td>24.9</td>
</tr>
<tr>
<td>Water usage (m³)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>125,991</td>
<td>135,519</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Outside Japan</td>
<td>102,160</td>
<td>98,522</td>
<td>3.7</td>
</tr>
<tr>
<td>Emission and transfer volume of chemical substances related to PRTR Law (kg)*1</td>
<td>21,190</td>
<td>30,010</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Waste generated (t)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycling rate (%)*2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Employees

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8,689</td>
<td>7,835</td>
<td>10.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>3,153</td>
<td>3,077</td>
<td>2.5</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2,758</td>
<td>2,558</td>
<td>7.8</td>
</tr>
<tr>
<td>Americas</td>
<td>2,587</td>
<td>2,027</td>
<td>27.6</td>
</tr>
<tr>
<td>Europe</td>
<td>191</td>
<td>173</td>
<td>10.4</td>
</tr>
</tbody>
</table>

### Employees by region

<table>
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### CO₂ emissions

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Note: A PDF version containing notes to the financial statements is available on our website: www.daifuku.com/ir/library/annualreport

*1 Shiga Works
*2 Figures for Japan only

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**Consolidated financial data**

![Graph showing consolidated financial data]

**Employees by region**

![Graph showing employees by region]

**CO₂ emissions**

![Graph showing CO₂ emissions]
Review of Fiscal 2016 and the “Value Innovation 2017” Business Plan

We achieved all of our medium-term business plan targets except for net sales, which was affected by the strong yen. Our distribution automation (DA) business expanded in Japan, enhancing our earning capacity, and generating record highs for operating income for two consecutive years.

Consolidated orders in fiscal 2016 ended March 31, 2017 declined 0.8% from the previous fiscal year, to 356.5 billion yen, with net sales down 4.6%, to 320.8 billion yen. Operating income, however, rose 10.6%, to 23.0 billion yen, with net income attributable to shareholders of the parent company up 22.7%, to 16.7 billion yen. As a result, compared to the business plan targets of net sales of 340 billion yen, operating income of 21.0 billion yen, and ROE of 10% or higher, we achieved the targets for both operating income and ROE, while net sales were affected by the strong yen. The main factor in this was the extremely active investment in Japan by distributors in line with the growth and development of e-commerce. In Japan, our production has been increasingly efficient with personnel and other aspects, making the DA business an earnings driver in terms of both quantitative expansion and the multiplier effect.

Looking back on the four years of the Value Innovation 2017 business plan, I believe we managed to largely achieve our goal of strengthening existing businesses. In the DA business, we not only expanded existing business, but broadened our customer base with new customers. Also, there are no other material handling companies anywhere in the world with operations in the three sectors—manufacturing and distribution systems, semiconductor and flat-panel display (FPD) production line systems, and automobile production line systems. In the semiconductor and FPD sectors, Daifuku benefits from the “Made in Japan” reputation for quality, and has gained a high market share. The inclusion of airport technologies along with these sectors is another of Daifuku’s major strengths. With these comprehensive capabilities, we achieved a position as the global

Value Innovation 2017 targets and fiscal 2016 performance (Billion yen)

<table>
<thead>
<tr>
<th></th>
<th>Final FY Target</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥340.0</td>
<td>¥320.8</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥21.0</td>
<td>¥23.0</td>
</tr>
<tr>
<td>ROE</td>
<td>10% or higher</td>
<td>12.6%</td>
</tr>
</tbody>
</table>
industry leader in revenue for three consecutive years (see page 4), however, catching up with the top company in manufacturing and distribution systems, which is our mainstay business, will allow us to become the truly global leader in material handling.

On the other hand, in terms of developing new business models and identifying new businesses, while we have had some initial success, these have yet to produce sufficient results. The new business plan, Value Innovation 2020, will continue various measures to open new markets, including establishing distinctive business models, developing new technologies, and M&A with companies possessing unique technologies.

In particular, we are focusing on innovation in material handling systems as part of the “smart logistics” concept, and will continue to advance the Airport Technologies segment as one of four core businesses. (See the Special Feature on pages 18-21 for details.)

The New “Value Innovation 2020” Business Plan and Its 10-Year Vision

With the aim to be the truly global leader in material handling, using new technologies and by providing new solutions, we will increase system quality and enhance value for customers.

The new four-year business plan launched in April 2017, “Value Innovation 2020,” was formulated in a way that also takes into account a vision of our future after 10 years, where it will be crucial for us to work with e-commerce. Going forward, we believe that there will be a change from business-to-consumer (B2C), where companies guide ordinary consumers, to the consumer-to-business (C2B) model that will become the mainstream, with the needs of ordinary consumers guiding companies. For B2B companies such as Daifuku to survive, we need to remain conscious of the consumer trends facing our customers.

Managers in leading C2B companies are extremely quick in decision making and management, maybe 10 times faster than our Company. By the time we decide on a course of action, they are already thinking three years ahead, with many brilliant ideas being generated. In dealing with companies led by such top managers, we need to be constantly thinking of the next step in both business and management. Safety and stability are, of course, paramount, but that alone will not allow us to survive the competition. We need to constantly set challenges for ourselves.

We do not make robots or sensors, but we have more expertise than any other company in equipment, devices, and efficient and effective applications that large distribution centers need. Quality is not in the product itself, but in taking a broader view of the structure, and incorporating various applications, enhancing the quality of the overall system.

In semiconductors as well, our business benefits from a strong tailwind. This is because automobiles now incorporate a lot more electronics. The Internet of Things (IoT) and artificial intelligence (AI) will further accelerate this trend. Self-driving cars can be considered a type of IoT. The volatility that typified the semiconductor industry when it relied on personal computers alone will fade, accordingly.

Due to IoT and AI, our business will change. One example is the collection and analysis of system operating data to provide preventative maintenance services. We will be able to analyze the problems that occur in system operations at an early stage, and respond accordingly, inferring the cause from the result in an exceedingly imprecise. The ability to recreate visually what happened, and the circumstances at the moment it occurred, will allow us to discern the true cause.

When I was a salesperson for automotive production line systems, a customer told me that for every minute the line stopped, production volume fell by one vehicle. An hour’s stoppage meant 60 fewer vehicles, with losses in the hundreds of millions of yen. Disruption to automobile and semiconductor production line systems cannot be tolerated. When discussing this with the head of an e-commerce company, he mentioned how an interruption in the distribution system is a huge problem for them as well. He pointed out that unlike automobile factories, even when the line stops, customer orders just keep coming, building to a volume that cannot even begin to compare with one vehicle per minute. Ensuring that nothing causes a system failure or stoppage has taken on an even greater significance.

Returning to the issue of IoT and AI, Japan’s Ministry of Land, Infrastructure, Transport and Tourism and the transport industry are moving toward the creation of an efficient delivery system, and the practical application of self-driving vehicles. I believe that, as a leading manufacturer, we also need to be involved in such efforts from the standpoint of material handling.
An Optimal Corporate Governance System for Localization and Globalization

We aim to establish the best corporate governance structure for the Daifuku Group.

One of the aims of the new business plan is to “pursue the best combination of localization and globalization.” This means establishing an optimal corporate governance system to realize further growth outside Japan. During fiscal 2017, the Group plans to have about 9,400 employees, of which 62%, or about 5,800, will work at non-Japanese affiliates. On-site staff are vital to developing business with local customers. That is why we need to strengthen localization, but, without sufficient oversight, the overall governance of the corporate group will be ineffective. To prevent this, it is important for those affiliates to continually share information with Japan, and to adapt the new products and solutions originating from Japan for local markets.

Another of Daifuku’s social responsibilities is “safety.” Top management in the global manufacturing industry is keenly aware of safety, and Daifuku is no exception, conducting business with a consistent focus on safety. At the same time, governance in Japan has a close association with compliance, and, once a company causes a scandal, it loses its continuation value. We consistently strive to raise awareness of compliance among employees. (See the Discussion Between the President and Outside Directors on pages 24-27 for details.)

Daifuku’s Distinctive DNA and Sustainable Growth

Building trust with customers is part of Daifuku’s corporate DNA, and the first key to sustainable growth.

The starting point for Daifuku’s business is responding sincerely to the various needs and wants of customers. Examples of our products being a world or industry first, are far from rare. When a customer believes that our system is an effective means to meet their needs, we are able to build a long-term relationship of trust, allowing for further growth. This is the positive culture and DNA that Daifuku has built over its 80-year history. The earnings provided by growth are, of course, important, but I believe that focusing too much on earnings causes companies to lose sight of their essence. The morale of salespersons and engineers in direct contact with customers is extremely high, and the trust placed in Daifuku is the source of their energy, and therefore our sustainable growth. Going forward, Daifuku will continue to develop its unique culture, cultivate markets by providing optimal solutions, and contribute to the advancement of customers and societies around the world. Thank you for your continued support.

Masaki Hojo
President and CEO
Daifuku Co., Ltd.
Changes in Logistics Value
Advancements in communications technology have significantly changed the form of commercial transactions, and ushered in an era of direct links between companies and individuals. Sales channels have become consumer-to-business (C2B), and logistics, business-to-consumer (B2C), with goods flowing directly to consumers. Any consumer is able to place orders for the things they want anytime and anywhere, and, because goods are delivered directly without passing through stores, the issue in terms of logistics is to serve many and varied individuals in a way that it never had to before. The role played by logistics and the value demanded of logistics are rising rapidly. The material handling systems provided by Daifuku are increasingly important as part of the social infrastructure essential in such a logistics revolution.

The Smart Logistics Customers Need
Consumers and logistics have become directly linked, and the level of service demanded of logistics by customers has risen dramatically. With more-frequent deliveries, a rapidly increasing number of packages, and shorter lead times, logistics centers are becoming larger, with greater speed, precision, and complexity. Logistics systems need to be faster and more precise than ever, with stoppage unacceptable, and immediate recovery when an interruption occurs. By using the Internet of Things (IoT), information and communications technology (ICT), artificial intelligence (AI), and other technologies, Daifuku is accelerating the development speed and is improving delivery quality through virtual verification, and is providing the “smart logistics” customers need. With these technologies, development and testing are possible without physically making anything, the current status of operations can be confirmed without being on site, and predictions and preventive measures are made based on accumulated data. It will also become possible to enhance quality and shorten time in all processes from development to maintenance.

As logistics centers become larger, the need for automation in many different aspects rises. Enhancing “visualization and optimization” in logistics, and achieving lower logistics costs, shorter logistics time, and an improved quality and environment in logistics, delivers the value and competitive edge that customers seek.

Along with providing customers with smart logistics, initiatives to enhance productivity are essential. Daifuku implements fundamental innovations in production, resolving issues of muri (overburden), muda (waste), and mura (unevenness), three concepts originating in Japan that identify and eliminate waste from work, and using such technologies as IoT and AI to reform methods and processes. Pretesting in virtual spaces improves delivery quality, and eliminates the trouble of on-site adjustments. Visibility is enhanced by taking advantage of IoT and image recognition technology, and accumulated data analyzed to shorten recovery time following a disruption. Standardization and automation in operations also help in reducing costs, increasing quality, shortening work time, and in eliminating dependence on specific personnel. The cost and time saved create added value and lead to a sense of fulfillment for employees.

Accelerating innovation removes the limitations of a specific person, time, and place, and allows for the realization of “anything, anytime, anywhere, and anyone,” we believe. IoT and AI are tools to accelerate innovation. Daifuku will strive to enhance productivity and deliver the smart logistics demanded by customers.

Message from the COO
Akio Tanaka
Executive Vice President and COO

Retail e-commerce sales worldwide, 2015-2020
Chronicle of events

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<thead>
<tr>
<th>Year</th>
<th>Sales (Left Scale)</th>
<th>% of Total Sales (Right Scale)</th>
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<tbody>
<tr>
<td>2015</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>2017</td>
<td>2</td>
<td>12</td>
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<tr>
<td>2018</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>2019</td>
<td>0</td>
<td>4</td>
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<td>2020</td>
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Source: eMarketer, August 2016
Shifting to a Hybrid Solutions Provider

A total of 3.5 billion people traveled by air worldwide in 2015, and the International Air Transport Association (IATA) is projecting that this will double to around 7.0 billion in the next 20 years. Construction of new airports, new terminals and demand for increased efficiency, expansion and renovation of existing facilities are expected to further increase.

Considering this business environment, the Daifuku Group positions its Airport Technologies (Attec) as one of the four core businesses, which is a theme of the Value Innovation 2020 medium-term business plan. Attec is becoming a key source of revenue for the Group together with the three other core businesses, i.e. for manufacturers and distributors (FA&DA), for semiconductor and food panel display factories (eFA), and for automobile production lines (AFA).

At the heart of our growth strategy is a shift to being an end-to-end total solutions provider. In addition to the existing business centered on baggage handling systems (BHS) and other types of hardware, we are expanding the scope of operations to include sophisticated software elements that will assist in streamlining airport activities.

Integrating Solutions for the Future

Airports around the world are actively introducing digital technologies and security systems to create “smart airports” that offer enhanced passenger safety, security, and convenience.

The Group has built a global network covering markets in North America, Europe, and Asia Pacific, with strengths centered on total solutions incorporating BHSs, operations and maintenance, as well as self-service bag drop (SBD) systems. Using excellent innovative technology from the Group’s other core businesses, Daifuku Attec is in a very strong position to develop value-added solutions that will revolutionize the airports market. Some of the innovative products that have been developed include use of FA&DA’s highly innovative Automated Storage & Retrieval Systems (AS/RS) for early baggage storage and sortation batching, and the Mobile Inspection Table (MIT) that offers a new solution to enhance the effectiveness of baggage inspection.

Daifuku Attec has also started to integrate digital systems with the existing products as part of a plan to transition to a high-value-added business model. Examples of this include sharing of data acquired through the SBD system with an airline’s departure control system (DCS), integration of BHS/SBD information with various other airport systems including but not limited to airport management systems (AMS), airport operational databases (AODB), and baggage reconciliation systems (BRS) allowing for more efficient integrated management of airline, airport, passenger, and baggage information.

Self-service using SBD systems reduces passenger wait time and enhances the efficiency of airport operations. The SBD system is a device product that integrates hardware and software, and we expect it to generate strong earnings with more widespread adoption at airports, including for low-cost carriers.

Special Feature

The Challenge to Be a Value Innovator

Establishing Airport Technologies as One of Daifuku’s Four Core Businesses

The Sym3 software and control package is a 3D software tool incorporating on a single platform the three functions of simulation (system design verification), emulation (software verification), and SCADA (supervisory control and data acquisition). Sym3 is able to test various operational scenarios in a simulation, allowing latent problems to be discovered at an early stage. The simulation data can also be forwarded to the emulation function to verify the control operation for the entire layout of actual equipment. We plan to apply this technology to the Group’s other core businesses, e.g. FA&DA’s manufacturing and distribution automation as well as airport facilities.

The SCADA function is also used in airport machinery facilities as an overall monitoring and control system. Tracking and managing baggage in real time enable immediate notification of alerts, which can be shared over mobile terminals to facilitate a prompt on-site response, helping to eliminate instances of lost baggage and strengthening security hence taking the IATA 753 requirements and compliance to an even higher level.

*1 Mobile Inspection Table (MIT): The MIT, using our “SmartCart” automatic guided cart, automatically lifts baggage from a conveyor and transports it to a security inspection office. The system uses an ergonomic approach to enhance the efficiency of inspection, eliminating the need for the security officer to lift or turn the bag. Baggage is automatically returned to the conveyor after inspection.

Message from the Head of Airport Technologies

In 2016, we received our first order for the Baggage Tray System (BTS), a promising new high-speed conveyor system, from Montreal Airport in Canada. The move prompted airports around the world to consider adopting the BTS, giving momentum to our sales activities.

This project was the result of a concerted effort among the Group companies around the world, and serves as a new business model of global integration. Our Attec business is being handled as a unified operation under the Daifuku Airport Technologies brand. We will further strengthen our brand at the global level, focusing on the growing markets in the North American region.

*2 Companies include BCS Group Limited, Elite Line Services, Inc., Jarvis B. Welsh Company, Logan Teleflex, Inc., and Daifuku Logan Ltd., which all operate under the Daifuku Attec banner.

Shuichi Honda
Director
Senior Managing Officer
Corporate Business Development
Airport Technologies

Expanding the business scope to include software along with hardware
Main financial indicators

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<tr>
<td>ROE</td>
<td>5.6%</td>
<td>Revised 10%</td>
<td>12.6%</td>
<td>Secure 16% or Higher</td>
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<tr>
<td>Net assets</td>
<td>¥85.6 billion</td>
<td>¥123.3 billion</td>
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<tr>
<td>Net income per share</td>
<td>¥40</td>
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<td>¥137</td>
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<td>Year-end stock price</td>
<td>¥771</td>
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<td>¥2,775</td>
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<td>Annual dividend</td>
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<td>¥42</td>
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Interest-bearing liabilities declined from 53.3 billion yen to 39.7 billion yen, with the D/E ratio falling from 0.64 times to 0.29 times.

ROE rose from 5.6% to 12.6%. Net assets (the denominator) increased with the bond conversion, but was offset by an upturn in the total asset turnover (1.03 times → 1.07 times), the result of steady growth in net income (4.4 billion yen → 16.7 billion yen), and an expansion in non-Japan sales, making it easier to collect advances. Free cash flow also increased, from 2.0 billion yen to 21.2 billion yen.

In 2016, Daifuku was included in the JPX-Nikkei Index 400, meeting the requirements including three-year cumulative operating income, three-year average ROE, and market capitalization. An additional factor was our proactive efforts to comply with Japan’s Corporate Governance Code introduced in 2015.

Daifuku also managed to drive its bond rating a bit further, from A-minus to A-flat. In short, these four years were a period in which strengthening our financial position also led to enhanced brand power.

Establishing a Robust Financial Position under Value Innovation 2017

Increasing shareholders’ equity was one of the themes for the financial strategies in the four-year business plan Value Innovation 2017. Daifuku decided to issue 15.0 billion yen in convertible bonds, with an option for advanced redemption if the share price exceeded the conversion price by 120% or more for 20 business days, and after two years the share price rose steadily, with it eventually exceeding the 120% mark, leading to advanced redemptions being announced. Finally converting all convertible bonds to shares pushed Daifuku’s capital to 15.0 billion yen for the first time in a quarter century, with the equity ratio rising to 45.8%, compared to 40.4% in fiscal 2012, which was prior to the launch of Value Innovation 2017. We had a concern that the increased number of issued shares would dilute net income per share; however, through an increase in earning power, we raised this from 40 yen to 137 yen.

Capital Policy

The Daifuku Group has benefited greatly from the business environment, and is still in a position for more growth. Our share price has reached 3,400 yen (on June 1, 2017), a considerable increase from 771 yen at the end of March 2012. Meeting market expectations of our growth, and continually increasing net income, is the royal road to enhancing corporate value and ROE.

For capital investment to ensure the next stage of growth, we plan to focus on expanding production facilities to support further growth beyond our target of 420 billion yen in net sales (picture top right: Daifuku’s U.S. demo center coming fall 2017). Our M&A efforts will center on incorporating leading-edge technologies, while supporting the business in Europe.

For shareholder returns, we continue to adhere to a payout ratio of 30%, and in fiscal 2016 paid a record dividend of 42 yen per share, which we plan to increase for a fifth consecutive year in fiscal 2017 to 47 yen.

Message from the CFO

The responsibility of a CFO is to enhance corporate value by establishing a robust financial position, providing for flexible investment, and ensuring appropriate shareholder returns. We achieved well-balanced results under the Value Innovation 2017 business plan, with net sales, total assets, and market capitalization over 300 billion yen.

At the same time, through communications with non-Japanese investors in particular, we realized that a company is not defined solely in terms of business results and figures. We also need to both minimize downside risk in corporate value with strict compliance, and to enhance upside potential by boosting our brand power.

Under the Value Innovation 2020 business plan, we aim to become the truly global leader in material handling. To accomplish this, we need a global management structure, and collaboration with subsidiaries and affiliates around the world.

Daifuku’s management division has formulated the C3 Declaration, comprising “Communication” (ensuring understanding with colleagues around the globe), “Creation” (proposals and remarks that anticipate change), and “Contribution” (contributing to business).

This is an internal declaration, but one that is equally applicable to a wide range of stakeholders. We will further enhance corporate value through C3-focused activities.
Discussion Between the President and Outside Directors

Building Daifuku’s Global Governance Structure

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<thead>
<tr>
<th>Noboru Kashiwagi</th>
<th>Masaki Hojo</th>
<th>Yoshiaki Ozawa</th>
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<tr>
<td>Outside Director</td>
<td>President and CEO</td>
<td>Outside Director</td>
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<td>Independent Officer</td>
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<td>Independent Officer</td>
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Localization and Globalization—the Key Theme of the New “Value Innovation 2020” Business Plan

President Hojo: Daifuku’s younger executives representing the next generation participated in the formulation of the new medium-term business plan, Value Innovation 2020. With non-Japan sales now consistently exceeding 60% of revenue, we held extensive discussions on the sort of corporate governance and management structures we want to establish, including companies acquired through M&A. One of the major themes that emerged was globalization with locally generated communication, rather than the conventional style of communication originating from Japan. I’d like to hear your views and suggestions on the balance of localization and globalization.

Director Ozawa: Localization and globalization are generally considered to be contradictory. The gradual integration of the world economy is called “globalization,” with optimal global procurement and marketing necessary to maintain sales. In contrast, the usual meaning of “localization” is inward-looking corporate management, conducting business only within a single country. However, Daifuku considers “localization” in the sense of achieving harmony and an optimal balance with globalization, and conducting business as a single organization. I’ve come across several cases where Japanese companies are unable to manage their subsidiaries, and so entrust the entire operation to local managers, which they refer to as “localization.” The post-merger integration of acquisition targets is extremely difficult, not least due to the language barriers. The point is to leave production and sales to on-site affiliates, with the parent company managing capital and figures in a timely and appropriate manner.

An additional point is the internationalization of the workforce. This requires more than just using English internally, and hiring more foreign employees. Companies need to rethink their approach to the sort of things that used to be called “Japanese-style management,” concepts such as “creating an atmosphere of unspoken understanding” or “reading between the lines” that non-Japanese may not readily recognize. I believe that one of Daifuku’s strengths is the sense of loyalty and mutual trust within the Company—the essence of Japanese-style management—but I feel that, for implementing globalization, it would be best to reconsider the current state of Japanese-style management.

Director Kashiwagi: Reconciling global and local management is a difficult issue for any company. One time at a trading company, I’ve heard presidents and branch managers of overseas subsidiaries refer to themselves half-jokingly as “boarding house masters” looking after the employees dispatched from the business division of the parent company. However, there were also many highly capable subsidiary presidents who not only take care of dispatched employees, but create strong networks of contacts and information in their respective areas, supporting the work of business managers so that they don’t become boarders from the parent company. The gears engage with each other, with overseas subsidiary presidents bringing a local perspective, and employees dispatched from the parent company conveying the headquarters’ global outlook. Growth strategies vary by region, differing according to the current situation and nature of business in each country. It’s necessary to consider the balance of globalization and localization as the occasion requires. There is no one correct answer or equation.

President Hojo: Daifuku’s global business expansion began with local installations and services provided to Japanese companies expanding production outside of Japan. Today, we need to identify business with local customers to expand operations. We should incorporate local aspects, while also transferring Daifuku’s strengths to regional areas. It may be a world without correct answers, but I hope we are able to create a satisfactory structure over the next four years.

Daifuku’s Corporate Governance

Director Kashiwagi: In any large company, the organization tends to age, and some kind of action is required. However, even though Daifuku has been operating for 80 years, I admire its youthful corporate atmosphere of lively and energetic discussion where employees feel free to speak their minds. At a meeting of the Board of Directors the other day, Executive Vice President Tanaka stated, “We don’t believe in behind-the-scenes maneuvering or prior consultation, called nemawashi in Japanese,” and I felt this was a positive stance. Encouraging people to be on the “same page” ahead of time leads to a situation that overly prioritizes group harmony and risk avoidance, resulting in the company gradually losing its edge. I believe this is one reason for a decline at Japanese companies. In that sense, even though Daifuku is a company as 80 years old, I feel that it has a very youthful corporate spirit.

I also have an extremely strong sense that Daifuku is in step with the trend of the times. With continued innovation in logistics, demand for Daifuku’s systems will continue to grow.

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I also have an extremely strong sense that Daifuku is in step with the trend of the times. With continued innovation in logistics, demand for Daifuku’s systems will continue to grow.
An essential component of corporate governance is management control. It’s important for the president and all management to communicate a clear message to the Group companies, and to exercise global control over those companies to ensure their transparency in line with that message. Daifuku’s management control has improved each year, and is in good condition. The Company and its management are extremely trustworthy.

Non-Japan sales now consistently account for more than 60% of revenues, and how to balance localization with globalization and build a corporate governance structure are priority issues.

Masaki Hojo

Director Kashiwagi: Training courses are essential, but not terribly effective. It’s common knowledge in educational theory that lectures are the least effective educational technique. The most effective method in terms of compliance is not to hold a lot of training sessions, but for top management to occasionally speak on the importance of having integrity as a company. For example, it’s to mention in the New Year’s address how compliance is extremely important, or demonstrate a clearly disapproving attitude toward a director who makes an anti-compliant remark during a meeting of the Board of Directors. I believe top management expressing their position on compliance is the most effective method. The current Daifuku management has been steadily communicating such a message at least since the time of the late Chairman Katsumi Takeuchi.

President Hojo: Daifuku has been earnestly developing new products to meet customer needs. We have no time to play defense, or engage in “behind-the-scenes maneuvering” to ensure others are on the “same page.” Rather than thinking about localization and globalization in the usual way, I believe it’s important to combine and optimize both local and global activities in each of Daifuku’s business divisions, and consider the balance of global and local management from the standpoint of the worldwide strategies of the entire Daifuku Group.

Noboru Kashiwagi

Director Ozawa: Essentially, everything is determined by how executives consider and act. Unless executives sincerely accept their social responsibility and act in a timely and appropriate manner, the company will be unable to fulfill its social responsibilities no matter how splendid it looks from the outside. It’s important for executives to take the initiative and act while continually bearing in mind the lessons of the past and fundamental principles. Daifuku is underpinned by loyalty, and the lessons of a harmonious atmosphere and everyday sensibility are important components that have fostered and developed its corporate culture.

Directors Ozawa and Kashiwagi: I recently learned an interesting expression, “Don’t cut corners for numbers.” In essence, don’t be deceptive just to make sales numbers or other figures look better. Moreover, aim for high performance with high integrity. I wholeheartedly agree with this. Daifuku’s management is regularly sending the message to never be dishonest to boost numbers. I believe the Company and its management are incredibly trustworthy.

President Hojo: Finally, how should we in management instill in our employees the principles of compliance, corporate governance, and the Company’s responsibilities to society going forward? We hold activities to raise awareness, but what is the best approach to ensure employees have a deep understanding? I’d like to hear your suggestions.

Masaki Hojo

Discussion Between the President and Outside Directors

This attitude of continual challenge has allowed us to encounter good customers who come to us to find new solutions, and we work diligently to meet those needs. We tend to act rather than deliberate and get the work done.

Director Ozawa: Daifuku seems to have skillfully adapted its business model to fit the changing times. Its business has been expanded in response to automation in the automobile industry, factory automation among machinery and electronic manufacturers, and cleanroom semiconductor and flat-panel display production lines. Daifuku’s roots may be in conveyor or transport systems, but it has used its core technologies and successfully adapted to the changing times.

Director Kashiwagi: I have exactly the same thought. A keen sense of the times and ability to change are extremely important.

President Hojo: Daifuku has been earnestly developing new products to meet customer needs. We have no time to play defense, or engage in “behind-the-scenes maneuvering” to ensure others are on the “same page.” Rather than thinking about localization and globalization in the usual way, I believe it’s important to combine and optimize both local and global activities in each of Daifuku’s business divisions, and consider the balance of global and local management from the standpoint of the worldwide strategies of the entire Daifuku Group.

Noboru Kashiwagi
Corporate Governance

Principal Initiatives

The Daifuku Group strives to fulfill its corporate governance responsibility with the aim of ensuring the sustained growth of the Group and creating its medium- to long-term corporate value, based on the key tenets of its management philosophy: “provide the best solutions to benefit the global markets and the development of society” and “focus on healthy, growth-driven global management under a diverse and positive corporate culture.”

FY2016 overview

<table>
<thead>
<tr>
<th>Form of organization</th>
<th>Company with the Audit &amp; Supervisory Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term of office of Directors stipulated in the Articles of Incorporation</td>
<td>1 year</td>
</tr>
<tr>
<td>Chair of the Board of Directors</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Number of directors</td>
<td>10 (including 2 outside directors, who are also independent officers)</td>
</tr>
<tr>
<td>Frequency of Board meetings</td>
<td>Regular: 12 times, Special: 6 times</td>
</tr>
<tr>
<td>Voluntary committee</td>
<td>Advisory Committee for nominations and remunerations</td>
</tr>
<tr>
<td>Members and chair of the Advisory Committee</td>
<td>Members: 3 representative directors and 2 outside directors</td>
</tr>
<tr>
<td>Frequency of Advisory Committee meetings</td>
<td>4 times</td>
</tr>
<tr>
<td>Number of Audit &amp; Supervisory Board members</td>
<td>5 (including 3 outside members of the Audit &amp; Supervisory Board, who are also independent officers)</td>
</tr>
<tr>
<td>Frequency of Audit &amp; Supervisory Board meetings</td>
<td>6 times</td>
</tr>
<tr>
<td>Independence standards of outside directors and outside members of the Audit &amp; Supervisory Board</td>
<td>Daifuku defines its standards, which are specified in the disclosed Corporate Governance Report, etc.</td>
</tr>
<tr>
<td>Evaluation of the Board of Directors’ effectiveness</td>
<td>A questionnaire survey of all directors and Audit &amp; Supervisory Board members is conducted concerning the Board of Directors’ effectiveness. For the results of the survey, please see page 29.</td>
</tr>
<tr>
<td>Directors’ remuneration system linked to the medium- to long-term results</td>
<td>In August 2016, the Board Benefit Trust for inside directors and corporate officers, a performance-linked equity compensation plan, was introduced.</td>
</tr>
</tbody>
</table>

Initiatives for Strengthening Corporate Governance Structure

Daifuku Corporate Governance Guidelines

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.

Information disclosure on corporate governance

Daifuku Corporate Governance Guidelines
www.daifuku.com/ir/policy/governance/guideline

Notice of General Meeting of Shareholders
www.daifuku.com/ir/stock/shareholders

Corporate Governance Report
www.daifuku.com/ir/policy/governance

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. The Company regards this evaluation survey, conducted since fiscal 2015, as being of considerable importance for deepening the understanding of the Corporate Governance Code and sharing its issues. Going forward, the Company will work to deepen discussion and resolve issues.

1. Evaluation method

Step 1: The Company conducted a questionnaire survey of directors and Audit & Supervisory Board members concerning the Board of Directors’ effectiveness.

Step 2: The results of the survey were analyzed at regular meetings of representative directors, outside directors, and members of the Audit & Supervisory Board, and the evaluation was reported at a meeting of the Board of Directors.

2. Evaluation results

FY2015

- All members of the Board of Directors share the contents of subjects and issues, and hold diverse and positive discussions. The Board of Directors is operated efficiently.

FY2016

- It is necessary to consider how all the corporate governance bodies are managed, including not only the Board of Directors but also the Management Advisory Meeting as well as the implementation of revisions of the rules and regulations, and their members.

- The Company reviewed the regulations of the Board of Directors, etc. Specifically, the Company accelerated management decision making and strengthened the supervisory function of the Board of Directors by narrowing down the matters to be discussed in the meetings of the Board of Directors based on the assumption of the delegation of a certain range of authorities. These revised rules and regulations will come into effect in fiscal 2017.

- The Company improved the relevant operations by means such as the use of information technology. However, this initiative was evaluated as being insufficient, and the Company will undertake further examinations to devise response measures.

Cross-shareholding strategy

- Shares of other listed companies held by Daifuku, including those held as cross-shareholdings, shall be kept to the minimum necessary, in principle. On the other hand, Daifuku has established a firm relationship of trust with its customers through after-sales services as well as the delivery of products. Circumstances, including these trade relations, shall also be taken into consideration when the economic rationale of cross-shareholdings is examined, and the Board of Directors shall determine whether to hold such shares or not.

- With respect to the voting rights as to cross-shareholdings, assessments shall be made individually by the Chief Financial Officer (CFO) by attaching importance to the medium- to long-term improvement of the corporate value of each cross-shareholding partner. Special attention shall be paid to whether the cross-shareholding partner has committed an antisocial act. If the cross-shareholding partner should be involved in such circumstances, its approach to improvement shall be confirmed.

Takeover defense measures

With approval at the General Meeting of Shareholders, Daifuku updated its takeover defense measures for the period until the end of the Ordinary General Meeting of Shareholders to be held in June 2018. Even before the expiry of the above period, the Board of Directors shall discuss the necessity and rationality of these measures on an as-needed basis and study the necessity of continuing with or changing the measures through appropriate procedures. Of note, Daifuku has established the Special Committee, with a high degree of independence from the management team. A decision from the Special Committee will be required to trigger takeover defense measures.
**Corporate Governance Structure**

1. **Board of Directors**
   - The main roles and responsibilities of the Board of Directors shall be to establish the Company’s management philosophy, to determine the strategic direction, and to undertake constructive discussions about specific management policies, management plans, and other aspects.

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

**Officers Meeting**
Daifuku adopts a corporate officer system to accelerate management decision making on business execution and strengthen supervising functions of the Board of Directors. The Board of Directors delegates matters other than important matters defined in the Rules of the Board of Directors to the management team, i.e., directors and corporate officers.

With the introduction of the corporate officer system, Daifuku holds officers meetings, with all members of the management team and full-time members of the Audit & Supervisory Board attending and participating in deliberations on the content of business execution.

**Management Advisory Meeting**
The Management Advisory Meeting is held to confer important management matters, with directors and full-time members of the Audit & Supervisory Board in attendance. This meeting also seeks the opinions of external specialists on an as-needed basis.

**Audit & Supervisory Board**
Audit & Supervisory Board members and the Audit & Supervisory Board shall fulfill their duties by stipulating and promoting the effective applications of the Rules of the Audit & Supervisory Board, with regard to the audit of directors’ fulfillment of duties, decisions over resolutions to be submitted to the General Meeting of Shareholders regarding election/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.

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

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Independent officer</th>
<th>Board meeting attendance</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noboru Kashiwagi</td>
<td>✓</td>
<td>Board of Directors: Regular 12/12 times Special: 4/6 times Management Advisory Meeting: 5/5 times</td>
<td>Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate legal affairs and international trade laws.</td>
</tr>
<tr>
<td>Yoshiko Ogasawara</td>
<td>✓</td>
<td>Board of Directors: Regular 12/12 times Special: 4/6 times Management Advisory Meeting: 5/5 times</td>
<td>Provides expert advice and recommendations to the Board of Directors based on his extensive knowledge in finance and accounting and experience working outside of Japan.</td>
</tr>
<tr>
<td>Iwao Kitanaka</td>
<td>✓</td>
<td>Board of Directors: Regular 12/12 times Special: 0/3 times Audit &amp; Supervisory Board: 6/6 times</td>
<td>Provides insightful advice and recommendations to the Boards, based on his knowledge in the science and technology fields.</td>
</tr>
<tr>
<td>Masaki Torii</td>
<td>✓</td>
<td>Board of Directors: Regular 12/12 times Special: 4/6 times Audit &amp; Supervisory Board: 6/6 times</td>
<td>Provides expert advice and recommendations to the Audit &amp; Supervisory Board members and the Audit &amp; Supervisory Board, attending Board of Directors’ meetings, and gathering information.</td>
</tr>
<tr>
<td>Ryohei Akahara</td>
<td>✓</td>
<td>Board of Directors: Regular 12/12 times Special: 4/6 times Audit &amp; Supervisory Board: 6/6 times</td>
<td>They also ensure the transparency of management and supervise business execution by the inside directors.</td>
</tr>
</tbody>
</table>

**Remunerations for Board members**

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (Outside directors)</td>
<td>2026 million yen</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (Outside directors)</td>
<td>6 million yen</td>
</tr>
<tr>
<td>Total (Outside officer total)</td>
<td>66 million yen</td>
</tr>
</tbody>
</table>

**Disclosure of individual directors’ remuneration**

<table>
<thead>
<tr>
<th>Name</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masahiro Hino</td>
<td>108 million yen</td>
</tr>
</tbody>
</table>

Note: The listing of the total of consolidated remuneration, etc., is restricted to persons with 100 million yen or more.
Operation Status of Systems to Secure Business Appropriateness

Compliance
1) Daifuku conducts regular compliance training sessions and provides case studies to foster specific understanding.
2) An external consultation service has been established, with direct access to an external attorney.
3) Daifuku has established and operates various committees, including the Central Safety and Health Committee to promote health and safety activities and the Export Control Committee for the proper conduct of security export controls. In fiscal 2017, the Company has newly established a Work-Style Reforms Committee to promote improvements in the work-life balance of employees.

Risk management framework
1) For natural disaster risks, Daifuku continues to develop business continuity plans, manuals and procedures preparation, and training sessions and drills on crises management and disaster prevention. The Company is also introducing a system to confirm the safety of its suppliers in an emergency.
2) Daifuku implements e-learning and e-mail based training to raise their awareness of information security.

System to secure the business appropriateness of the Group
1) Based on changes to matters for decisions by the Board of Directors, Daifuku revised its Subsidiary Management Rules to allow for quicker management decision making at subsidiaries and to clarify rights and responsibilities.
2) Daifuku has formulated its Corporate Code of Conduct as its policy toward organized crime syndicates and other anti-social forces and promotes awareness of the policy. For the prevention of bribery, the Company deepens the establishment and application of anti-bribery rules based on the situations and environments surrounding consolidated subsidiaries and affiliates outside of Japan and proactively conducts internal training sessions.

Audits by the Audit & Supervisory Board members
1) Audit & Supervisory Board members conducted audit and supervisory activities in accordance with audit plans formulated at the beginning of the fiscal year. In the course of their duties, Audit & Supervisory Board members attended key meetings, including Board of Directors’ meetings, and visited to monitor financial activities at various operating divisions in factories, sales offices, and Group companies.
2) Audit & Supervisory Board members participated in evaluation tests, which are conducted by accounting auditors, of developments and operations of the internal control system held in Japan and accompanied audits of inventories, non-Japanese subsidiaries and affiliates, factories, and installation sites, and assessed the effectiveness of these tests and audits.
3) To enhance the effectiveness of auditing, Audit & Supervisory Board members communicated with representative directors, outside directors, members of the Internal Audit Department, and accounting auditors through exchanging opinions.

Internal audits
The Internal Audit Department implemented audits for the Company and other Group companies worldwide, based on the initial audit plan formulated at the beginning of the fiscal year. With respect to the results of audits, an internal audit report was fed back to the audited divisions and submitted to representative directors and relevant officers, including full-time members of the Audit & Supervisory Board. Consequently, in its fiscal 2016 internal control report, based on the Financial Instruments and Exchange Act of Japan, Daifuku once again evaluated its internal control systems over financial reporting as effective.

Dialogue with Shareholders
To contribute to sustainable growth and the increase of corporate value over the medium-to-long term, the Group shall promote constructive dialogue with shareholders. To vitalize the General Meetings of Shareholders and facilitate the smooth exercise of voting rights, Daifuku participates in a

Ordinary General Meeting of Shareholders

Results briefings for institutional investors

Results briefings for investors: Held 4 times

Global IR tour: 3 times

Meetings with investors: 300 times

Briefings for individual investors

Held 3 times

Participants: 304

Information 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. Daifuku has the Disclosure Committee to ensure the timely disclosure of financial results, information related to corporate decisions, and information related to the occurrence of material facts and defines processes by each case.

IR activities
For its shareholders and investors, Daifuku conducts timely and appropriate disclosure of information through its IR (Investor Relations) Department. For securities analysts and institutional investors, Daifuku conducts IR activities, such as quarterly results briefings, additional company information sessions as needed, and conference calls, and responds to individual requests for information through the department. For individual investors, Daifuku broadly pursues transparency through tours of its facilities, various IR events and publications, and timely information disclosure on its website.
### Directors

#### Masaki Hojo
- **President and CEO**
- **Jun. 1998 - Apr. 2000**: Director, member of the Board
- **Apr. 2000 - Apr. 2004**: President of Daifuku America Corporation
- **Apr. 2004 - Apr. 2006**: Representative Director (to present)
- **Apr. 2006 - Apr. 2015**: Executive Vice President
- **Apr. 2015 - Apr. 2016**: Chairman and Co-CEO of Daifuku W eb Holding Company
- **Apr. 2016 - Apr. 2019**: General Manager of AFA Operations
- **Nov. 2019 - Apr. 2020**: Chairman of Daifuku (China) Co., Ltd. (to present)
- **Apr. 2020 - Apr. 2021**: President of Daifuku Canada Inc.
- **Apr. 2021 - Apr. 2022**: Director, Management Officer (to present)

#### Akio Tanaka
- **Executive Vice President and COO**
- **Apr. 2002 - Apr. 2006**: Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
- **Apr. 2006 - Jul. 2008**: Director, member of the Board
- **Jul. 2008 - Apr. 2013**: Director, Managing Officer
- **Apr. 2013 - Jun. 2017**: Representative Director (to present)
- **Apr. 2019 - Apr. 2020**: Executive Vice President (to present)

#### Mikio Inohara
- **Executive Vice President**
- **Apr. 1997 - Jun. 2006**: Director, member of the Board
- **Jun. 2006 - Apr. 2010**: Director, Managing Officer
- **Apr. 2010 - Jun. 2016**: Representative Director (to present)
- **Jun. 2016 - Apr. 2020**: Chief Financial Officer (CFO) and COO (to present)
- **Apr. 2020 - Apr. 2021**: Executive Vice President (to present)

#### Shuichi Honda
- **Director**
- **Corporate Business Development**
- **Mar. 1981 - Jun. 1992**: General Manager of Finance and Accounting Division
- **Jun. 1995 - Apr. 2004**: Chief Financial Officer (CFO) and CRO (to present)
- **Apr. 2004 - Apr. 2006**: General Manager of the Sales Division under eFA Operations
- **Apr. 2006 - Apr. 2009**: Director, member of the Board, Managing Officer (to present)
- **Apr. 2009 - Apr. 2011**: Director, Senior Managing Director (to present)
- **Apr. 2011 - Apr. 2012**: General Manager of Corporate Business Development Division (to present)
- **Apr. 2012 - Apr. 2013**: General Manager of A&DA Global Operations
- **Apr. 2013 - Apr. 2015**: General Manager of AF&DA Global Operations (to present)
- **Apr. 2015 - Apr. 2016**: General Manager of the Sales Division under AFA Operations (to present)

#### Hidenori Iwamoto
- **Director**
- **Automotive Factory Automation**
- **Apr. 1985 - Jun. 1987**: President of Daifuku Canada Inc.
- **Jun. 1987 - Apr. 1992**: General Manager of the Sales Division under AFA Operations
- **Apr. 1992 - Jun. 1997**: Director, member of the Board
- **Apr. 2000 - Apr. 2006**: General Manager of Finance and Accounting Division
- **Apr. 2006 - Jun. 2010**: General Manager of Corporate Business Development Division (to present)
- **Jun. 2010 - Apr. 2012**: General Manager of A&DA Global Operations (to present)
- **Apr. 2012 - Apr. 2013**: General Manager of AF&DA Global Operations (to present)
- **Apr. 2013 - Apr. 2015**: General Manager of the Sales Division under AFA Operations

#### Yoshikazu Nakashima
- **Director**
- **Chairman of Daifuku (China) Co., Ltd.**
- **Apr. 1986 - Apr. 2000**: Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
- **Apr. 2000 - Jul. 2006**: Administration Officer with director status
- **Jul. 2006 - Jun. 2013**: Director, member of the Board
- **Jun. 2013 - Jun. 2015**: Managing Officer with an introduction of corporate officer system (to present)
- **Jun. 2015 - Apr. 2016**: General Manager of A&DA Global Operations (to present)
- **Apr. 2016 - Apr. 2019**: General Manager of the Sales Division under AFA Operations

#### Seiji Sato
- **Director**
- **eFactory Automation**
- **Apr. 1986 - Apr. 2000**: Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
- **Apr. 2000 - Jun. 2004**: General Manager of the Semiconductor Division under eFA Operations
- **Jun. 2004 - Jun. 2006**: Director, member of the Board
- **Jun. 2006 - Apr. 2011**: Managing Officer with an introduction of corporate officer system (to present)
- **Apr. 2011 - Apr. 2012**: General Manager of A&DA Global Operations (to present)
- **Apr. 2012 - Apr. 2015**: General Manager of the Sales Division under AFA Operations
- **Apr. 2015 - Apr. 2016**: General Manager of eFactory Automation (to present)

#### Hiroshi Geshiro
- **Director**
- **Factory & Distribution Automation**
- **Apr. 1986 - Apr. 2000**: Joined Daifuku Machinery Works Co., Ltd. (now Daifuku Co., Ltd.)
- **Apr. 2000 - Apr. 2012**: Corporate Officer
- **Apr. 2012 - Apr. 2013**: General Manager of the Sales Division under FA&DA Operations
- **Apr. 2013 - Apr. 2015**: Managing Officer
- **Apr. 2015 - Apr. 2016**: General Manager of A&DA Global Operations (to present)
- **Apr. 2016 - Apr. 2018**: Senior Manager of FA&DA Operations (to present)
- **Apr. 2018 - Apr. 2020**: General Manager of the Sales Division under AFA Operations
- **Apr. 2020 - Apr. 2021**: Director, member of the Board, Managing Officer (to present)
- **Apr. 2021 - Apr. 2022**: Executive Officer (to present)

#### Noboru Kashiwagi
- **Outside Director**
- **Independent Officer**
- **Jun. 1996 - Aug. 1999**: Worked as assistant manager of legal affairs department at Mitsubishi Corporation (Americas)
- **Aug. 1999 - Jun. 2006**: Professor at the Institute of Business Law and Comparative Law and Politics of the University of Tokyo
- **Jun. 2006 - Jun. 2009**: Professor emeritus at the University of Tokyo (to present)
- **Jun. 2009 - Apr. 2014**: Director of the Foundation for Civil Dispute Resolution Research Funds (to present)
- **Apr. 2014 - Jan. 2016**: Professor at Graduate School of Law of Ochanomizu University
- **Jan. 2016 - Apr. 2018**: Director of the Foundation for Civil Dispute Resolution Research Funds (to present)
- **Apr. 2018 - Jun. 2019**: Outside Director of Daifuku Co., Ltd. (to present)
- **Jun. 2019 - Aug. 2022**: Chair of the New National Stadium Project Procurement Investigation Panel (to present)

#### Yoshiaki Ozawa
- **Outside Director**
- **Independent Officer**
- **Jul. 1999 - Jun. 2000**: Senior partner of PwC Asia
- **Jun. 2000 - Apr. 2012**: Professor of Business Administration at St. Andrew’s University (to present)
- **Apr. 2012 - Sep. 2012**: Outside Director of Daifuku Co., Ltd. (to present)
- **Sep. 2012 - May 2014**: Professor of Business Administration at St. Andrew’s University (to present)

### Top row from left: Noboru Kashiwagi, Seiji Sato, Hidenori Iwamoto, Shuichi Honda, Yoshiyuki Nakashima, Hiroshi Geshiro, Yoshiaki Ozawa

### Bottom row from left: Akio Tanaka, Masaki Hojo, Mikio Inohara
The Daifuku Group believes that the basic principles of CSR are to build a symbiotic relationship with its stakeholders and to practice the Group’s Corporate Policies Structure through its corporate activities.

Daifuku’s CSR

“A company that supports society and the future”
To achieve that goal, we are engaged in the following six initiatives.

- Provide high quality products and services
- Strengthen risk management
- Nurture relationships of trust with our suppliers
- Respect human dignity (human rights, labor practices, safety, health)
- Create good relations with communities
- Contribute to the environment through corporate activities
Corporate Social Responsibility (CSR)

Quality Initiative
Daifuku has established its Rules on Inventions and Designs. Under these rules, the Company actively promotes patent applications and the acquisition of rights with a special focus on newly developed products. The progress of globalization has resulted in an increased number of patent applications made outside of Japan in recent years. Every year, Daifuku presents in-house innovation awards to patent-pending inventions awaiting patent registration. During fiscal 2016, the Grand Prize was given to its subsidiary Contec Co., Ltd.’s IoT solution - CONPROSYS. The Innovation Award was given to 10 additional products.

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

Trust Relationships with Suppliers
Daifuku shall strive for fair and impartial transactions and seek safety, quality, cost and delivery, in accordance with basic procurement policies and CSR procurement standards.

Procurement is an important task directly linked to financial results. In strict enforcement of compliance, Daifuku has introduced a qualification system for persons engaged in procurement operations so that they obtain the necessary knowledge to conduct their work.

Communities Outreach
Daifuku, as a good corporate citizen, aims to be a company that contributes to the development of both the economy and society by proactively conducting community-based activities. From April to July 2017, Daifuku sponsored a course on logistics at Waseda University’s School of Commerce.

As part of its community contribution activities, Daifuku participates in cleanup activities, puts forward its facilities to be used by communities in the event of natural disasters, and implements site tours for its factories and the Daifuku Mega Solar power plant within the Shiga Works.

Employees Certified in Procurement

1,301

Certified Daifuku Eco-Products

38

CO2 Reduction Contribution

Daifuku strives to decrease its carbon footprint by providing environmentally friendly products and services.

The contribution towards reduced CO2 from its products and services is calculated by taking the amount of CO2 released and subtracting it from the amount released during fiscal 2005, which acts as the base year.

For more details on Daifuku’s CSR activities, please refer to Daifuku’s CSR Report or website:
www.daifuku.com/sustainability/report
www.daifuku.com/sustainability
## Eleven-Year Summary

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

**Years ended March 31, 2007 to 2017**

(Million yen)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>For the Year</strong></td>
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<tr>
<td>Net sales</td>
<td>¥320,825</td>
<td>¥336,184</td>
<td>¥267,284</td>
<td>¥241,811</td>
<td>¥202,337</td>
<td>¥198,052</td>
<td>¥159,263</td>
<td>¥154,208</td>
<td>¥242,182</td>
<td>¥231,619</td>
<td>¥232,703</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Selling, general and administrative expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Operating income</td>
<td></td>
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<tr>
<td>Income before income taxes</td>
<td></td>
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<tr>
<td>Net income attributable to shareholders of the parent company</td>
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<tr>
<td>Capital investment</td>
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<td></td>
<td></td>
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<tr>
<td>Depreciation</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>R&amp;D expenditures</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Cash Flows</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>¥26,683</td>
<td>¥7,206</td>
<td>¥6,295</td>
<td>¥20,447</td>
<td>¥15,666</td>
<td>(5,187)</td>
<td>¥11,417</td>
<td>¥20,921</td>
<td>¥8,425</td>
<td>¥21,234</td>
<td>¥864</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(5,393)</td>
<td>(2,099)</td>
<td>(5,846)</td>
<td>(7,372)</td>
<td>(13,649)</td>
<td>(4,039)</td>
<td>(3,616)</td>
<td>(7,303)</td>
<td>(8,900)</td>
<td>(6,340)</td>
<td>(10,257)</td>
</tr>
<tr>
<td>Free cash flows</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(4,404)</td>
<td>(8,702)</td>
<td>(509)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>At Year-End</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥303,540</td>
<td>¥296,055</td>
<td>¥271,011</td>
<td>¥249,531</td>
<td>¥206,875</td>
<td>¥185,049</td>
<td>¥163,388</td>
<td>¥165,430</td>
<td>¥194,727</td>
<td>¥222,386</td>
<td>¥195,016</td>
</tr>
<tr>
<td>Working capital</td>
<td>96,401</td>
<td>99,293</td>
<td>91,187</td>
<td>87,070</td>
<td>45,832</td>
<td>61,943</td>
<td>65,908</td>
<td>66,265</td>
<td>75,087</td>
<td>64,840</td>
<td>60,351</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>39,770</td>
<td>40,904</td>
<td>60,547</td>
<td>58,144</td>
<td>53,385</td>
<td>51,010</td>
<td>40,912</td>
<td>45,295</td>
<td>55,417</td>
<td>33,559</td>
<td>33,764</td>
</tr>
<tr>
<td>Net assets</td>
<td>142,340</td>
<td>130,116</td>
<td>111,521</td>
<td>90,652</td>
<td>84,486</td>
<td>82,013</td>
<td>82,454</td>
<td>85,827</td>
<td>83,356</td>
<td>80,718</td>
<td>80,718</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>136,694</td>
<td>123,669</td>
<td>98,469</td>
<td>96,872</td>
<td>82,013</td>
<td>82,454</td>
<td>85,827</td>
<td>83,356</td>
<td>74,389</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td>8,689</td>
<td>7,835</td>
<td>7,746</td>
<td>7,346</td>
<td>7,090</td>
<td>6,945</td>
<td>6,845</td>
<td>6,977</td>
<td>6,977</td>
<td>6,977</td>
<td>6,977</td>
</tr>
<tr>
<td><strong>Amounts per Share of Common Stock</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Net income per share (yen)</td>
<td>¥137.58</td>
<td>¥118.72</td>
<td>¥88.59</td>
<td>¥69.96</td>
<td>¥40.12</td>
<td>¥69.17</td>
<td>¥40.32</td>
<td>¥80.87</td>
<td>¥60.15</td>
<td>¥69.96</td>
<td>¥69.96</td>
</tr>
<tr>
<td>Net assets per share (yen)</td>
<td>1,142.14</td>
<td>1,044.40</td>
<td>972.75</td>
<td>875.14</td>
<td>754.98</td>
<td>674.72</td>
<td>683.39</td>
<td>716.07</td>
<td>718.68</td>
<td>746.59</td>
<td>682.01</td>
</tr>
<tr>
<td>Cash dividends per share (yen)</td>
<td>42.00</td>
<td>30.00</td>
<td>22.00</td>
<td>18.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>20.00</td>
<td>26.00</td>
<td>26.00</td>
<td>25.00</td>
</tr>
<tr>
<td><strong>Ratios</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income/net sales</td>
<td>7.2%</td>
<td>6.2%</td>
<td>5.6%</td>
<td>5.2%</td>
<td>4.0%</td>
<td>2.1%</td>
<td>1.1%</td>
<td>0.1%</td>
<td>0.6%</td>
<td>0.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Income before income taxes/net sales</td>
<td>7.5</td>
<td>6.1</td>
<td>5.7</td>
<td>7.3</td>
<td>3.6</td>
<td>1.6</td>
<td>0.4</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Net income/net sales</td>
<td>8.8</td>
<td>7.3</td>
<td>5.6</td>
<td>7.0</td>
<td>4.0</td>
<td>1.5</td>
<td>0.7</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Return on shareholders' equity (ROE)</td>
<td>14.6</td>
<td>16.6</td>
<td>36.6</td>
<td>15.6</td>
<td>14.6</td>
<td>16.6</td>
<td>15.6</td>
<td>14.6</td>
<td>14.6</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Total assets turnover (Times)</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Shareholders' equity/total assets</td>
<td>38.8</td>
<td>40.4</td>
<td>40.3</td>
<td>46.3</td>
<td>47.9</td>
<td>47.9</td>
<td>47.9</td>
<td>47.9</td>
<td>47.9</td>
<td>47.9</td>
<td>47.9</td>
</tr>
<tr>
<td>D/E ratio</td>
<td>0.29</td>
<td>0.32</td>
<td>0.56</td>
<td>0.60</td>
<td>0.64</td>
<td>0.68</td>
<td>0.54</td>
<td>0.57</td>
<td>0.70</td>
<td>0.40</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Notes: 1. The amount of "Capital investment" in the years ended March 31, 2015, 2014, and 2013 includes goodwill generated from acquisition of shares in overseas companies.
2. In the calculation of net assets per share, the amount of non-controlling interests is subtracted from the amount of net assets in accordance with the above guidelines.
3. In the calculation of shareholders' equity/total assets ratio and ROE, shareholders' equity represents the amount of net assets less non-controlling interests.
4. A PDF version containing notes to the financial statements is available on our website: www.daifuku.com/ir/library/annualreport

DAIFUKU CO., LTD. ANNUAL REPORT 2017
Daifuku Global Network

(Ast of June 1, 2017)

Americas
Daifuku North America Holding Company
Farmington Hills, MI, U.S.A.
Daifuku America Corporation
Main Office & Plant: Reynoldsville, OH, U.S.A.
Other offices: Arizona, Austin, Indiana, Kentucky, Michigan, Tennessee
Jervis B. Webb Company
World Headquarters: Farmington Hills, MI, U.S.A.
Boise City Manufacturing Plant: Boise City, M.I.S.
Carlsbad Forging Plant: Carlsbad, NC, U.S.A.
Harbor Springs Manufacturing Plant: Harbor Springs, MI, U.S.A.
Elite Line Services, Inc.
Carrollton, TX, U.S.A.

Wynright Corporation
World Headquarters: EL Grove, IL, U.S.A.
Offices: California, Florida, Indiana, Kentucky, Michigan, Utah
Plants: Illinois, New Hampshire, Texas

Logan Teleflex, Inc.
Louisville, KY, U.S.A.

Contec DX Inc.
Melbourne, FL, U.S.A.

Daifuku Canada Inc.
Mississauga, Ontario, Canada

Daifuku Asia Pacific
Daifuku Self Services Technologies AS
Oslo, Norway

Asia Pacific

Daifuku Corporation
Daifuku (China) Co., Ltd.
Shanghai, China

Daifuku Manufacturing Technology Co., Ltd.
Main Office: Shanghai, China

Daifuku (China) Co., Ltd.
Main Office: Shanghai, China

Daifuku (China) Manufacturing Co., Ltd.
Main Office: Shanghai, China
Shenzhen Branch: Shenzhen, China
Hangzhou Office: Hangzhou, China

Daifuku (West) Clearroom Automation Co., Ltd.
Shanghai, Jiangsu, China

Contec (Shanghai) Co., Ltd.
Main Office: Shanghai, China
Beijing Branch Office: Beijing, China

Daifuku India Private Limited
Main Office: Haryana, India
Bangalore Office: Bangalore, India
Mumbai Office: Maharashtra, India

ForProIndia Private Limited
Mumbai, India

PT. Daifuku Indonesia
Main Office: Jakarta, Indonesia
Deltamas Office: Bekasi, Indonesia

Daifuku Korea Co., Ltd.
Main Office: R&D Center, Inchon, Korea
Plant: Inchon, Korea

Clean Factomation, Inc.
Main Office: Gyeonggi-do, Korea
Asan Plant: Chungcheongnam-do, Korea

Hallim Machinery Co., Ltd.
Goyang-si, Gyeonggi-do, Korea

Daifuku (Malaysia) Sdn. Bhd.
Selangor D.E., Malaysia

Daifuku Mechatronics (Singapore) Pte. Ltd.
Teck Whye 1, Singapore

Singapore Contec Pte. Ltd.
Tech Whye 1, Singapore

Taiwan Daifuku Co., Ltd.
Main Office & Plant: Tainan, Taiwan
Hangzhou Branch: Hangzhou, Taiwan
Taichung Plant: Taichung, Taiwan

Taiwan Contec Co., Ltd.
Xinbei, Taiwan

Daifuku (Thailand) Ltd.
Main Office & Plant: Chonburi, Thailand
Bangkok Office: Bangkok, Thailand
Ban Pho Office: Cha Chong Sao, Thailand
Pitsung Plant: Chonburi, Thailand

(Daiku) (As of June 1, 2017)

Investor Information

(Ast of March 31, 2017)

Corporate Data

Company name Daifuku Co., Ltd.
Established May 20, 1937
Paid-in capital 15,016.1 million yen
Employees 8,869 (consolidated)
Ratings Rating and Investment Information, Inc. (R&I]: Long-term: A; single A minimal (positive)
Short-term: A-1 a- one

Principal Locations

Headquarters 3-2-11 Minami, Nishihotogaya-ku
Osaka 555-0012 Japan
Tel: 81-6-6472-1261 Fax: 81-6-6476-2581

Tokyo Head Office Shiodome-Shihonki Building, 1-2-3 Kaigan
Minato-ku, Tokyo 105-0022 Japan
Tel: 81-3-6721-3501 Fax: 81-3-6721-3570

Shiga Works 1225 Nakazaiji, Hino-cho, Gamo-gun
Shiga 529-1692, Japan
Tel: 81-748-53-0321 Fax: 81-748-52-2063

Komaki Works 4-103 Komakihara, Komaki-shi
Aichi 486-8563 Japan
Tel: 81-568-74-1600 Fax: 81-568-74-1600

Global Branches

Czech Taboraska 317, 503 51 Parndorf, Czech Republic
Tel: 420-466-053-810 Fax: 420-466-053-816

Germany Luxemburg Strasse 52, D-40166
Moenchengladbach, Germany
Tel: 49-2161-49-695-0 Fax: 49-2161-49-695-20

Philippines 30FL, Burgundy Corporate Tower
252 San. Gil Puyat Ave., Makati City
1200 Philippines
Tel: 63-2-884-2778 Fax: 63-2-884-2790

St. Petersburg (Russia)
266/Y, Leningradskiy Pr., St. Petersburg 199340 Russia
Tel: 7-812-458-7338 Fax: 7-812-458-7331

London (UK)
8-10 Grafton Street, London W1F 8QR, England
Tel: 44-20-7629-0629 Fax: 44-20-7629-0630

Subsidiaries in Japan

Investor Information

(Ast of June 1, 2017)

Number of authorized shares 250,000,000
Total number of shares issued 123,610,077
Number of shareholders 13,801
General meeting of shareholders June
Stock exchange listing First Section of Tokyo Stock Exchange
Stock transfer agent Sumitomo Mitsui Trust Bank, Limited

Major Shareholders

Number of shares held

<table>
<thead>
<tr>
<th>Name</th>
<th>Percentage of total shares issued (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account)</td>
<td>11,343</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>9,623</td>
</tr>
<tr>
<td>Mizuho Bank, Ltd.</td>
<td>3,460</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>4,580</td>
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<tr>
<td>Daifuku Group Shareholder Association</td>
<td>3,822</td>
</tr>
<tr>
<td>The Bank of Tokyo-Mitsubishi UFB, Ltd.</td>
<td>3,823</td>
</tr>
<tr>
<td>Nippon Telegraph Telephone Co., Ltd.</td>
<td>3,207</td>
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<tr>
<td>AIG Life Insurance Company</td>
<td>2,745</td>
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<tr>
<td>THE SERIES OF NEW YORK, NON-TREASURY JAPAN ACCOUNT</td>
<td>2,084</td>
</tr>
<tr>
<td>PIERCE AND DUE (S Viao SA, LUXEMBOURG REP. U.S.)</td>
<td>1,006</td>
</tr>
</tbody>
</table>

Cautionary Statement with Respect to Forward-Looking Statements

The strategic, financial, and business-related information in this report was compiled and prepared, and therefore, these projections are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include:

1) Environmental and economic conditions in the Daifuku Group's operating environment.
2) The effect of changes in exchange rates on sales, assets and liabilities denominated in U.S. dollars and other currencies.
3) The tightening of inflation and regulation, regulations regarding other matters that may lead to higher costs or sales restrictions, and the impact of natural disasters and other factors, which may lead to higher costs or sales restrictions.

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