





Contents

- 01 Editorial Policy, Disclosed Information
- 02 Our Mission
- 04 History
- 06 Our Business
- 08 CEO Message

Chapter 1

Daifuku's Value Creation

- 18 Daifuku Value Creation Model
- 20 Our Competitive Edge
- 22 Global Presence
- 28 Our Material Handling Solutions

Chapter 2

Daifuku's Growth Strategy

- 34 Historical Challenges of Growth Strategy
- 36 Three-Year Business Plan
Value Transformation 2023
- 38 Message from the Corporate Officer Responsible for Finance
- 40 Message from the Production Officer
- 42 Strategies by Business
- 48 Risk Management

Chapter 3

Daifuku's Sustainability

- 52 Sustainability Management
- 54 Materiality
- 56 Sustainability Action Plan
- 58 Respect Human Dignity
- 60 Disclosure of Climate Change Information
- 62 Daifuku Environmental Vision 2050
- 64 SASB Disclosure Information Index

Chapter 4

Daifuku's Governance

- 68 Board of Directors
- 70 Management
- 74 Corporate Governance
- 82 Interview with Outside Directors
- 86 Key Performance Indicators
- 88 Eleven-Year Financial Summary
- 90 Company Profile and Stock Information

Editorial Policy

This report presents a brief summary of material information particularly relevant to the Daifuku Group's value creation in line with international frameworks, including IIRC^{*1} and GRI^{*2} standards. See the Company website for more detailed information: www.daifuku.com

The report covers 68 companies, including the parent company, 66 consolidated subsidiaries, and one equity-method affiliate (as of March 31, 2021).

*1 IIRC: International Integrated Reporting Council

*2 GRI: Global Reporting Initiative

Period covered Fiscal 2020 (April 2020 - March 2021)

Whenever it is appropriate to include historical background information and data or recent examples, reporting may include matters outside this time period.

Disclosed Information

For details about Daifuku, see the following.

Corporate

Corporate Site
www.daifuku.com

DAIFUKU PROFILE
www.daifuku.com/ir/financials/recent

Business

Intralogistics
www.daifuku-logisticssolutions.com/en

Cleanroom
www.daifuku.com/pro/efa

Automotive
www.daifuku.com/pro/aps

Airport
www.daifukuattec.com

Electronics (Contec Americas Inc.)
www.contec.com/us

Financial

Investor Relations
www.daifuku.com/ir

Daifuku Report 2021 Financial Section
www.daifuku.com/ir/library/annualreport

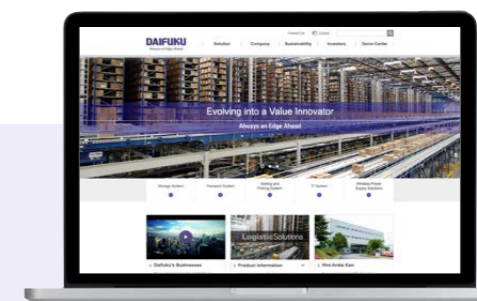
Non-Financial

ESG (environment, society, governance) Data
www.daifuku.com/sustainability/data/esg-data

Sustainability Management
www.daifuku.com/sustainability/management

Sustainability Action Plan
www.daifuku.com/sustainability/management/plan

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



Our Mission

The Daifuku Group revised its management philosophy in October 2021. The new management philosophy, “Automation that Inspires,” expresses our determination to create a sustainable society that enhances well-being, minimizes burdens on the environment and respects human rights, through our core competence—automated material handling technology.

I Corporate policies

Company creed



Hini Arata

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

Group Code of Contact

Basic Stance

We will act in accordance with applicable laws rules, regulations, social norms and ethics.

We will place safety as a major premise in all aspects of our business activities.

We will remain committed to the creed of “Hini Arata” as we take on new challenges and make changes for the better.

Management philosophy

Automation that Inspires

Inspire society, deliver prosperity and enhance well-being through our core competence—automated material handling technology.

We will

- 1 strive to realize a sustainable society that minimizes burdens on people and the environment, respects human rights, and encourages responsible manufacturing.
- 2 work together with customers around the world to create optimal smart logistics solutions that incorporate innovative technologies.
- 3 ensure a fair and open corporate culture that respects diversity and allows each individual to excel. Further, we will strengthen our fundamental management practices globally to have a high level of transparency.

Brand message

In line with this development, Daifuku has also changed its brand message from “Always an Edge Ahead” to “Automation that Inspires.”

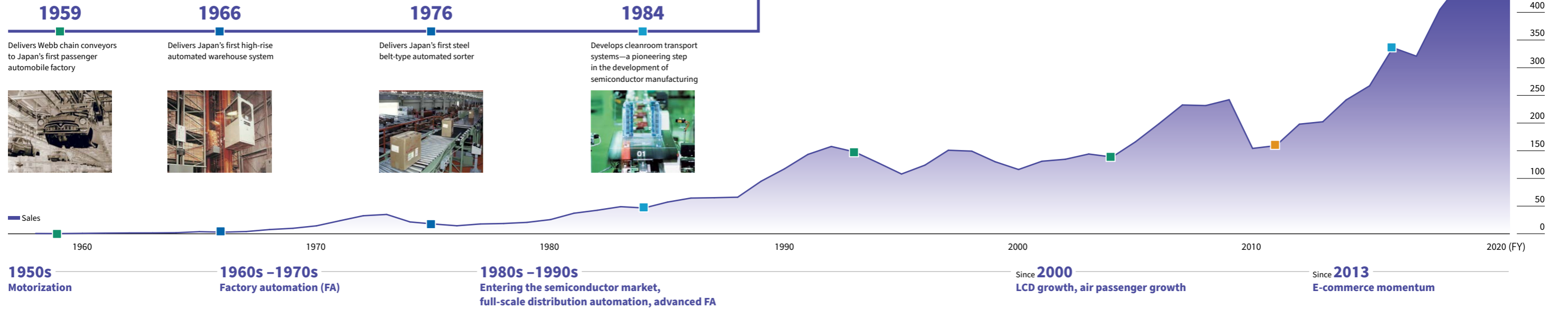
〈 Daifuku logo and new brand message 〉

DAIFUKU
Automation that Inspires

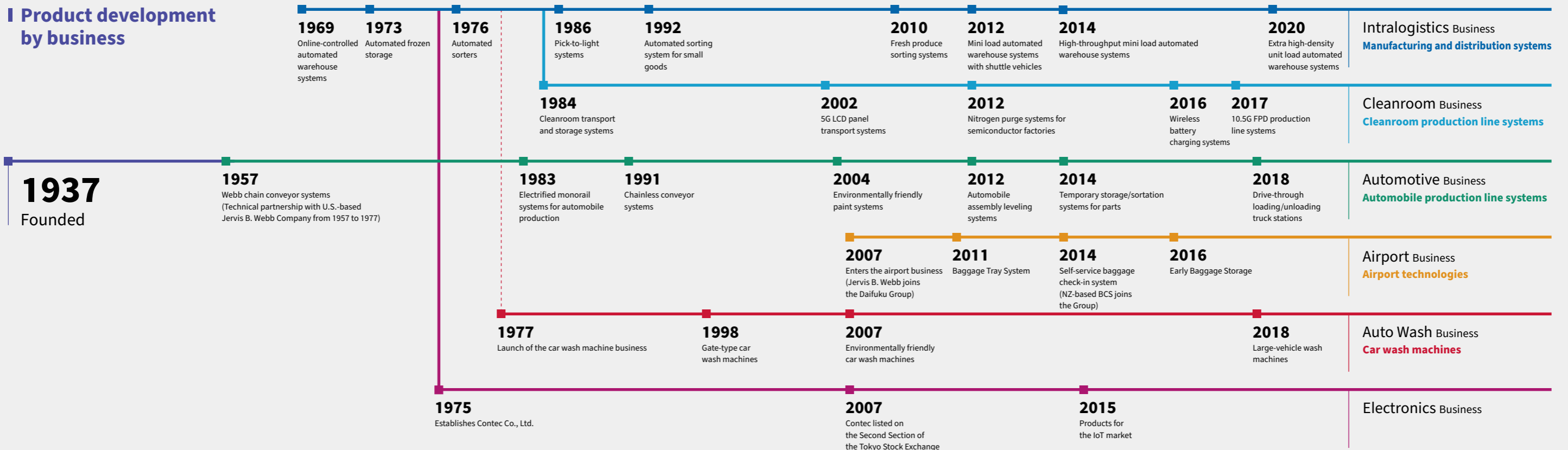
History

As a comprehensive manufacturer and integrator of material handling systems, Daifuku has been contributing to the modernization of material handling by constantly striving to move ahead of the times and catering to customer needs. Material handling technologies are now essential for society. Daifuku's technologies are applied to a wide range of sectors and contribute to such areas as factory automation for semiconductors, flat-panel displays (FPDs), automobiles, and other manufacturers; labor-saving at distribution centers; and streamlining of airport operations.

I Path of innovation



I Product development by business



Our Business

As a comprehensive manufacturer and integrator of material handling systems, Daifuku has been offering its solutions to respond to the challenges of customers in a wide range of industries.



Intralogistics

Manufacturing and distribution systems

Provides storage, transport, sorting, and picking systems to distributors and manufacturers in wide-ranging sectors, including e-commerce.



Cleanroom

Cleanroom production line systems

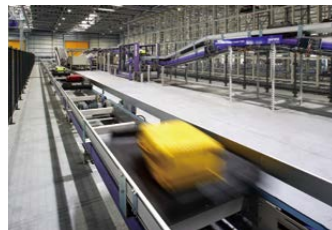
Provides cleanroom storage and transport systems to semiconductor and FPD factories essential for smartphones and tablet terminals.



Automotive

Automobile production line systems

Provides automobile production line systems to automakers worldwide, centered around Japanese companies. The systems convey car bodies through the entire manufacturing process, including press, weld, paint, and assembly.



Airport

Airport technologies

Provides a broad range of automated systems for airports, including baggage handling systems, to maintain safety, efficiency, and reliability.



Auto Wash

Car wash machines

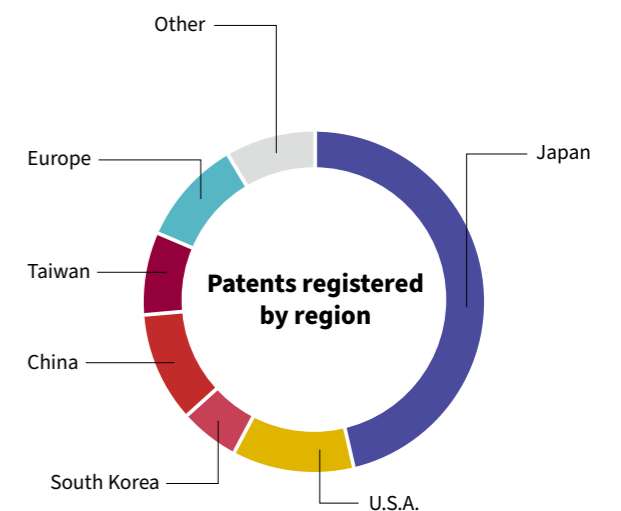
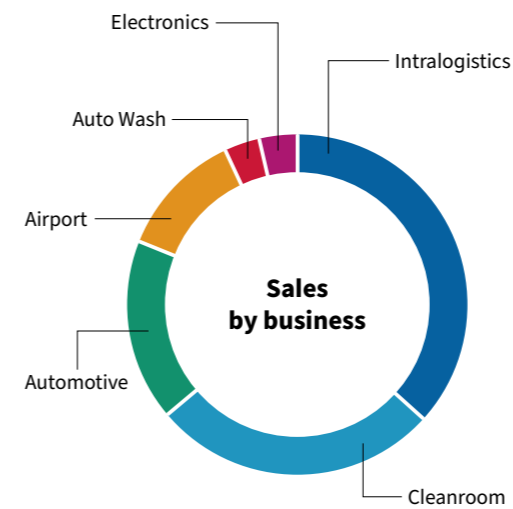
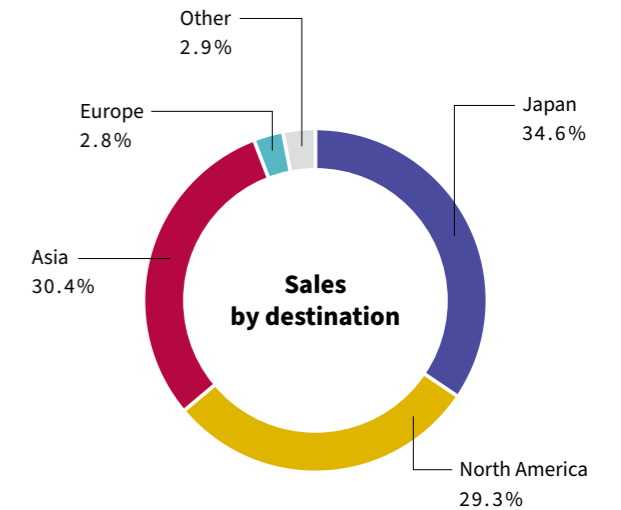
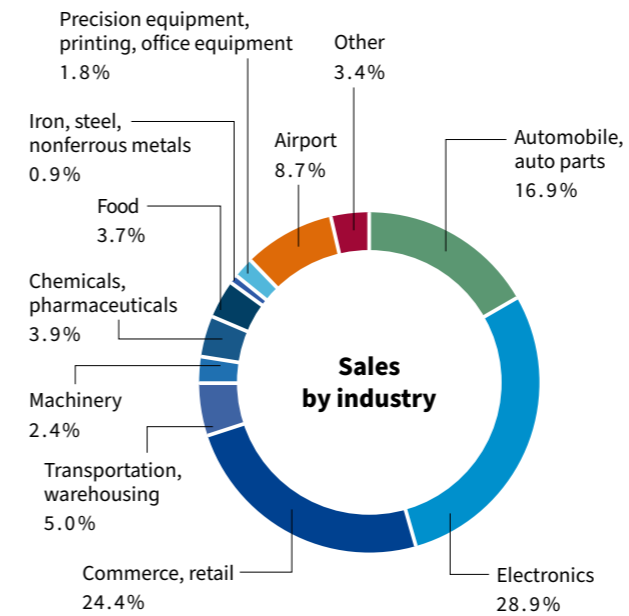
Provides car wash machines and related equipment mainly for service stations, car dealers, and self-service car washes.



Electronics

Provides high-end industrial personal computers, circuit boards for measurement control, and network-related products through Daifuku's subsidiary Contec Co., Ltd.

FY2020 Results





Hiroshi Geshiro
President and CEO

CEO Message

Be a Leader Who Provides Clear Guidelines and Goals

The Daifuku Group—a Group that offers material handling systems to support both corporate activities and people’s daily lives

Cars on the road, food items picked up at the supermarket, and products delivered to homes through e-commerce—all these things that we see and touch in our daily lives have a connection to the material handling systems that the Daifuku Group provides to its customers. In a sense, our systems are an indirect part of the lives of most people, and perhaps one could say that we play a supporting role in society as a behind-the-scenes player in the industrial world.

Our technological capabilities are geared toward building logistics systems rooted in optimizing labor and automation, which facilitate operations with the minimum amount of personnel. With these capabilities, we have been able to help distribution centers that provide groceries and daily necessities continue their operations during the COVID-19 pandemic.

Material handling originates from the desire to free people from the burden of heavy labor and simple repetitive tasks so that they can focus on more creative work. From this starting point, material handling has evolved through the continued development of next-generation logistics systems to become a support structure for society. I believe that the Group’s purpose is to continue working to evolve these systems and use them to support corporate activities and to help people in their everyday lives, and by doing so, help create a better society.

▶ Pages 86–87

Key Performance Indicators

COVID-19 pandemic—an unclear situation calling for clear goals

Fiscal 2020 was the final year of four-year business plan Value Innovation 2020. Net sales totaled 473.9 billion yen, with an operating margin of 9.4%. Although these results fell short of our updated targets of 500 billion yen in net sales and an operating margin of 11.5%, set in May 2019, we did reach the plan’s initial targets of 420 billion yen in net sales and an operating margin of 8.0%. Moreover, our non-Japan sales ratio reached 65%.

At the beginning of fiscal 2020, we set a net sales target of 460 billion yen, which we met, thanks to the ingenuity of each of our employees working around the world. Even though the spread of COVID-19 has made it difficult to dispatch Japanese engineers to sites overseas, they were able to provide technical guidance, conduct active opinion exchanges, and perform other actions remotely. I believe our achievement is a result of their hard work and the efforts of all employees working on-site.

When we were formulating the performance targets for fiscal 2020, there were some within the Company with the opinion that it would be better to postpone announcing them in light of COVID-19 and the lack of clarity in regard to its potential impact on business going forward. However, we believe that management has a duty to interact with stakeholders in good faith, even in difficult situations, and we announced our targets based on the best assumptions possible. As leaders, we must be ready to provide clear guidelines and goals—particularly when times are difficult—and we will therefore continue our efforts to communicate with stakeholders going forward.

Growth of the Intralogistics business into a Group pillar

In terms of medium-term growth, each measure implemented under Value Innovation 2020 performed above expectations. In particular, the Intralogistics business has become a growth driver for the Group, developing a structure that ensures stable returns and a high profit margin. In addition to new product development, this success is attributed to ongoing efforts toward product standardization. Standardization allows us to ensure consistent quality, increase productivity, and lower costs, which greatly increases competitiveness. This has earned our solutions high praise, particularly from our customers in Japan.

In the Cleanroom business, we have established a strong position, with the Group’s systems installed in many of the most advanced

▶ Pages 34–35

Historical Challenges of Growth Strategy

▶ Pages 36–37

Three-Year Business Plan
Value Transformation 2023

semiconductor factories. We were able to prove the Group’s technological capabilities when it came to keeping up with the technological innovations demanded by our customers, but there remained issues regarding profitability.

In the Automotive business, we went forward with large installation in North America in the midst of the COVID-19 pandemic for orders received in fiscal 2019, and achieved record-high net sales in fiscal 2020, the final year of Value Innovation 2020.

The Airport business has become a fourth core business, on par with the Automotive business.

The success of the Intralogistics business under Value Innovation 2020 has clarified the direction of future growth for the Group. Product standardization brings with it more growth and greater productivity. We are sharing this understanding throughout the Group, and are working to speed up dissemination of the required know-how to other business units.

The three concepts of Value Transformation 2023 business plan

Our new three-year business plan, Value Transformation 2023, is built around three concepts: “Transformation of the value provided through DX²,” “Creation of new value in the new normal,” and “Towards realizing a sustainable society.”

“Transformation of the value provided through DX²” refers to promoting Digital Transformation (DX) to transform both the Group itself (Daifuku Transformation) and the value we provide to stakeholders. In other words, this is Digital Transformation x Daifuku Transformation, or “DX Squared.” By transforming the Group itself, we mean promoting DX throughout the Company and advancing initiatives that reach outward, beyond our organizational framework, to improve productivity and operational efficiency. We will also use artificial intelligence (AI) and the Internet of Things (IoT) technologies to develop products and services that are even more cutting-edge. We believe that the new value created by combining DX that transforms the Company with the development of products and services will lead to greater contributions to our customers and to further Group growth.

“Creation of new value in the new normal” is aimed at meeting new demands born out of a rapidly changing society with unprecedented flexibility and creativity and the ability to reshape existing frameworks. As one example, new normal conditions call for systems that can operate stably without having to call a technician for on-site maintenance or inspections. We intend to make full use of technology that allows us to convert our pool of experience to data as well as IoT to create never-before-seen solutions and services that, among other things, will allow

for remote responses when trouble occurs or when system failure is predicted.

“Toward realizing a sustainable society” encompasses our efforts to help achieve the Sustainable Development Goals (SDGs) of the United Nations. To do this, we have positioned our three-year business plan alongside our Sustainability Action Plan as the two wheels of our business strategy, working from the perspective of promoting efforts in ESG (environment, society, and governance), sustainability, and related endeavors. The Group has been manufacturing products that reduce the impact on the environment since 2012, and has been ramping up the development of products that help save energy. We will contribute to the realization of a sustainable society by providing customers with products and services that not only give them a greater competitive edge but that are also environmentally friendly.

Cultivating the Group’s sustainability since the 1970s

Before we delve into our business strategy, I would like to explain our sustainability initiatives a little further.

Sustainability management at the Group has its origins in 1970 with the acquisition of the land where the Shiga Works is currently located, when the idea of an “industrial park” was conceived. Working amid such a rich natural environment has instilled in us a sense of coexistence with nature that manifested itself in Daifuku Environmental Vision 2020, which was formulated in 2011 and blazed a trail for several domestic companies to follow, and in the careful consideration we give to environmental impact when conducting any business activity.

In February 2021, we unveiled Daifuku Environmental Vision 2050, which aims for a world where material handling systems have zero environmental impact in 2050, and bears the slogan “One-Daifuku Zero.” In addition to further enhancing the efforts we have made to date and offering Eco-Products or other environmentally friendly products, we are also committed to producing zero CO₂ emissions at all Group locations.

In keeping with Daifuku Environmental Vision 2050, we have also established five themes for sustainability management: Contribute to a smart society, Maintain and improve the quality of products and services, Enhance operational framework, Respect human dignity, and Contribute to the environment through our business. In addition, we have identified 18 material issues (materiality) connected to these themes. We intend to specify goals and key performance indicators (KPIs) for these material issues under our three-year Sustainability Action Plan and keep watch over progress over the course of the plan.

▶ Pages 52–53
Sustainability Management

▶ Pages 62–63
Daifuku Environmental Vision 2050

▶ Pages 54–55
Materiality

▶ Pages 56–57
Sustainability Action Plan

▶ Pages 22–27
Global Presence

Improve cost competitiveness and quality worldwide

As for our business strategy, which means to actualize the concepts within Value Transformation 2023, we intend to take action related to our business domains, profitability, operational framework, and brand.

Our global strategy ties in heavily with measures related to business domains. One of the goals in this strategy is for non-Japan sales to account for 50% or more of net sales in the Intralogistics business. While the Intralogistics business has received a great deal of praise from customers in Japan, we need to improve our competitiveness in non-Japan markets and increase the proportion of our business conducted outside Japan.

As it stands, the Japanese market is shifting from retail toward e-commerce, and our customers are making active investments in distribution centers. That said, we expect this demand to ease in the future. If we look from a longer-term perspective, it seems unlikely that overall consumption will increase in Japan as the population continues to decline. We will continue to provide cutting-edge technology in Japan and maintain our top share position. Meanwhile, we will continue to ramp up the efforts already undertaken to increase production capacity and cost competitiveness in North America, China, India, and other regions to expand our market share in each of these markets.

One measure to bolster existing businesses is to conduct active marketing of ready-designed solutions to increase active sales; that is to say that the solutions and systems we provide will be customizable. Since we independently develop and produce the individual products that make up the system, we are confident and take pride in not only the quality of the entire system but also the quality of each product

contained within. To increase sales of these products, we are planning to provide a selection of individual products to supply to engineering companies and other customers, even if they are for projects that do not primarily involve the Group’s systems.

Competition is increasing in Japan for relatively simple systems used in distribution centers with the entry of emerging manufacturers from China. Similar to other domains, we will promote a lineup focused on product development tailored to customer needs.

We are exploring next-generation logistics systems as a long-term measure. The key is open innovation. To date, the Group has focused on in-house production with an emphasis on delivery time and quality control. However, if we are to take advantage



of the various technologies being tested around the world—automation, predictive AI, drones, delivery robots, and more—we must have open innovation such as industry and academic collaboration and the ability to hear venture pitches. With this in mind, we have already begun work on advanced robotics technology research with Osaka University.

Build effective systems beyond business units

Risk management is becoming increasingly important as projects in each business increase in scale. We believe that the knowledge we have accumulated in the Intralogistics business can be used in other fields as well. As mentioned earlier, we have succeeded in increasing cost competitiveness in the Intralogistics business, especially in the Japanese market, and one of the keys to this has been the “visualization” of risks. Building a system capable of overseeing processes, from design to system operation, in real time and also capable of providing advance detection of risks that could cause construction delays has helped ensure accurate management.

In recent years, there have been cases where business units with a majority of non-Japan projects have experienced installation delays for various reasons. This requires these units to invest in a great number of additional human resources and ultimately causes costs to swell. To mitigate this problem, we intend to export the Japanese structure of the Intralogistics business to other business units and use this structure to visualize development, production, and delivery processes in real time for global projects, to ensure the early detection of any potential issues.

In fiscal 2019, we reorganized our global business structure by business unit, clarifying the scope of authority and responsibilities of each unit. This has allowed each business unit to cultivate and allocate human resources flexibly and in line with the Group’s business strategy. Even though it has only been about a year since this reorganization, we are seeing steady results, particularly in the Intralogistics business.

We also integrated the Automotive business unit and the Airport business unit, starting in fiscal 2021. Since it was established, the Automotive business has expanded into the world alongside its customers, as shown by the fact that around 80% of net sales come from outside Japan. Accordingly, the business unit has several non-Japan locations and human resources that move forward with local projects. On the other hand, the Airport business comprises non-Japan companies that joined the Group via M&A and so we have an urgent need to strengthen the human resources capability we need to promote the projects of this business. We expect that integrating these two businesses—particularly in terms of their business outside Japan—will make it possible to mobilize human resources, share locations, and generate a collaboration effect.

▶ Pages 40–41

Message from
the Production Officer

▶ Pages 42–47

Strategies by Business

The Group’s excellent traditional values —the bedrock of value creation

The Group is infused with an excellent traditional culture, developed over years of on-site experience and imprinted with the promise to deliver systems on time, and to protect the operations of customer lines. This culture became a part of me when I was a new employee and was involved in a project to replace a system for an automobile factory while its production line was shut down during the summer holidays. We were under heavy pressure, knowing that if we did not meet our deadline that it might affect production after the holidays, and I will never forget the experience of working together with my seniors and colleagues to get the system ready without any problems. The Group’s excellent traditional values have evolved as employees in Japan share these types of experiences over time.

Currently about 12,000 employees are working for the Group, with about 8,000 of them working outside Japan. Given the different cultures that exist in each country and region, it is difficult to instill these traditional values and sense of purpose Groupwide. Sometimes people are bound to ask, “Why are we pushing ourselves so hard?” However, I truly believe it leads customers to say, “Best leave it to Daifuku.” What I have learned through my experience is that the first step to gaining this trust from our customers outside Japan, and securing M&A and alliance opportunities worldwide, is to build support for these values and to develop a shared set of values among our employees. Because of this, I will remain resolute in my effort to make sure that the Group’s culture and values are truly conveyed and instilled Groupwide.

Going forward, I ask you to bring your expectations, as we continue to take on challenges and move forward, charged with the “Hini Arata” spirit.



President and CEO

Chapter 1

Value Creation

18 Daifuku Value Creation Model

20 Our Competitive Edge

22 Global Presence

24 North America

26 China



28 Our Material Handling Solutions

Daifuku Value Creation Model

Daifuku seeks to streamline logistics and, as a comprehensive manufacturer and integrator of material handling systems, has been able to achieve significant growth. Under our company creed Hini Arata, we promote Value Transformation that helps enhance the competitiveness of our customers and, in tandem with contributing to the development of society, take up the challenge to enhance our corporate value.



Our Competitive Edge

Our strength lies in our in-house development of hardware and software, and our comprehensive support system for customers that includes consulting, design, production, installation, and maintenance. Daifuku boasts a wealth of manufacturing and system integration experience, quickly responding to needs that include designing systems with complex requirements and making on-site adjustments when problems occur. We will establish these strengths at a global level toward achieving further success amid fierce market competition.



1 Consulting

Well-balanced configuration

- Storage, transportation, sorting/picking functions, capabilities and costs, from receiving to shipment

Long-term vision

- Post-operation scalability and flexibility

2 Planning/Engineering

Whole system optimization

- Integrate various aspects such as hardware and its control, software, architecture, and electricity
- Assuming a situation where trouble should occur

3 Design/Production

Proactive production and R&D

- Production sites across the world: Thorough quality control in Japan, North America, Asia, and Europe

▶ **Daifuku's global production**

26 sites

Global workload adjustment

- Efficiently distribute production to each region to supply products in a stable manner

Supply chain development

- High in-house production rate and operation rate
- Use AI (artificial intelligence) and VR (virtual reality) to shorten the development process

4 Installation/Operation

Streamlining on-site adjustment

- High factory perfection
- Preliminary verification using 3D software (Sym3 below)
- Bench strength of human resources with abundant experience in project management

▶ **Sym3 system image**

▶ **Construction site of high-rise automated warehouse system**

5 After-Sales Service

Abundant service assets around the world

- More than 31,000 stacker cranes for automated warehouse systems
- Over a total of 5,000 kilometers of automobile conveyor systems

Extensive service menu

- Daily maintenance and operation
- Upgrade, remodeling, retrofits

▶ **Service features by business**

Intralogistics	<ul style="list-style-type: none"> Maintenance Inspection, repair Retrofits
Cleanroom	<ul style="list-style-type: none"> On-site services
Automotive	<ul style="list-style-type: none"> Upgrades
Airport	<ul style="list-style-type: none"> Operations and maintenance

Strong relationship of trust with customers

- Fostering with long-term relationships
- A strategic move to win new projects

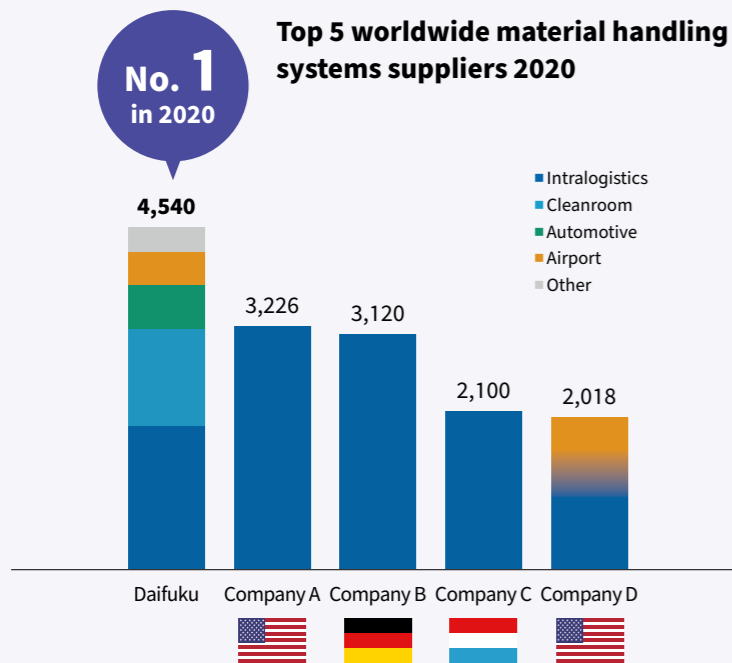
▶ **Retrofit timing and size for automated warehouse systems**

The bar chart illustrates the timing and size of retrofits for automated warehouse systems over a 28-year period. The x-axis represents 'Years of operation' from 0 to 28. The y-axis represents the size of the retrofits. Three distinct periods are highlighted: 'Computer upgrading period' (years 7-9), 'Control equipment upgrading period' (years 12-14), and 'Whole equipment upgrading period' (years 24-26).

Global Presence

Daifuku has provided the best solutions to customers in various fields around the world. We have been the world's No. 1 in sales within the material handling industry for the seventh straight year. Going forward, we will continue to work with our human resources and sites globally to meet growing demand.

I Results and assets



Net sales (million U.S. dollars)

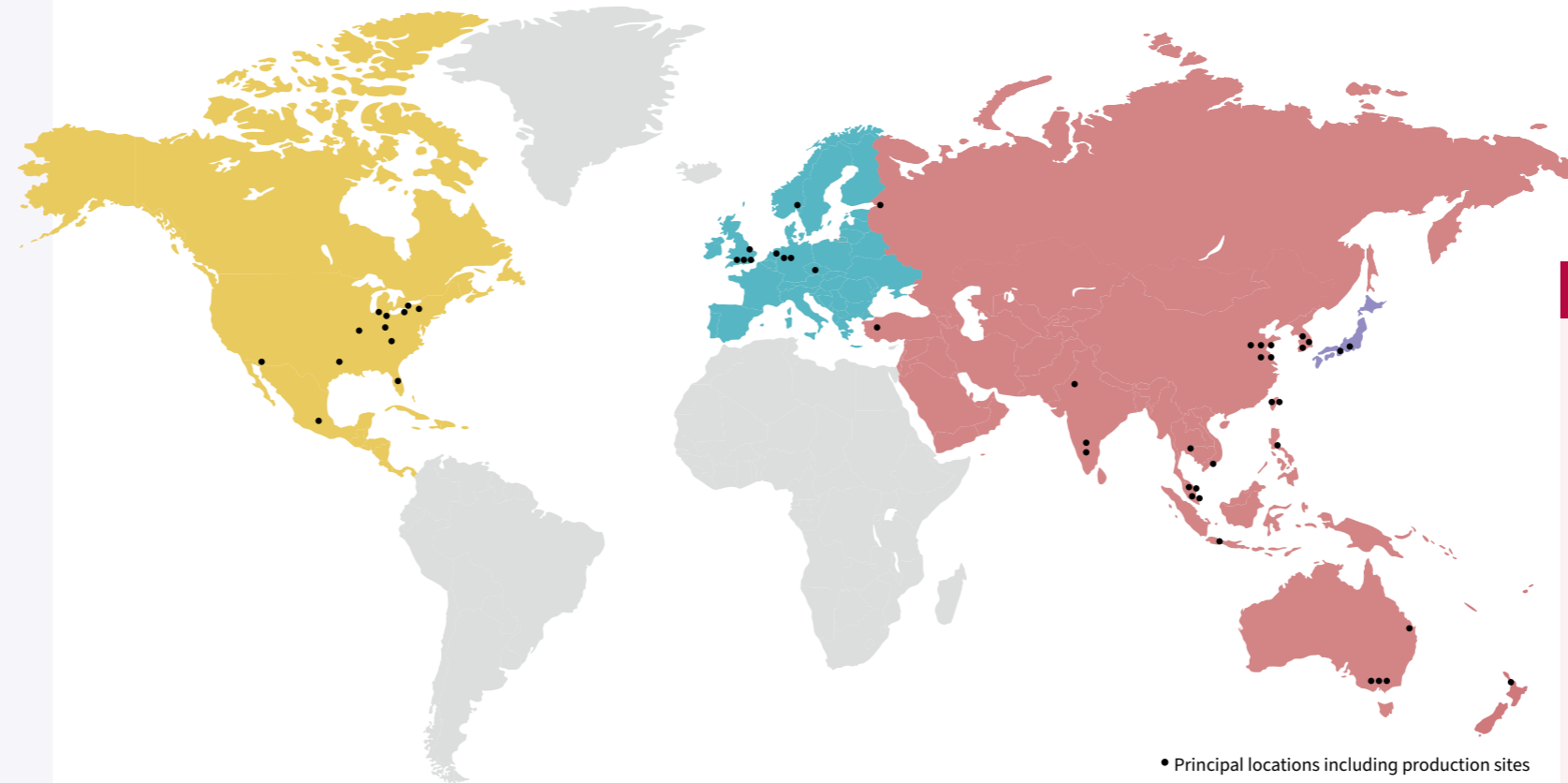
Source: Modern Materials Handling – May 2021
(Excluding Daifuku, data for the remaining four companies is calculated from published materials)

Employees (consolidated)
11,697 (Employees outside Japan: 8,045)
Up 834 yoy (Employees outside Japan: Up 733 yoy)

Along with an expansion in our global network, consolidated employee numbers increased. We invigorate our organization by employing diversified human resources.

Installation record
54 countries

We have sites in 26 countries and regions to receive orders from a broad range of customers worldwide.

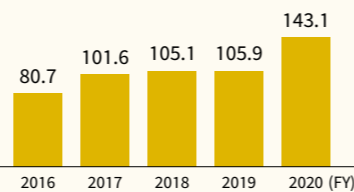


• Principal locations including production sites

Americas

- Daifuku North America Holding Company
 - Daifuku America Corporation
 - Daifuku Cleanroom Automation America Corporation
- Jervis B. Webb Company
- Elite Line Services, Inc.
- Wynright Corporation
- Contec Americas Inc.
- Daifuku Canada Inc.
- Jervis B. Webb Company of Canada, Ltd.
- Daifuku Airport Technologies Canada Inc.
- Daifuku de México, S.A. de C.V.

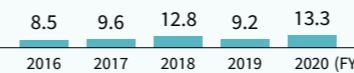
▶ **Net sales**
(Billion yen)



Europe

- Daifuku Europe Ltd.
- Daifuku Europe GmbH
- Jervis B. Webb Company, Ltd.
- Daifuku Logan Ltd.
- Daifuku Self Services Technologies AS
- Scarabee Aviation Group B.V.

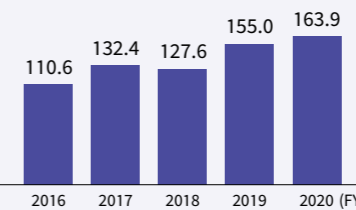
▶ **Net sales**
(Billion yen)



Japan

- Daifuku Co., Ltd.
- Contec Co., Ltd.
- Daifuku Plusmore Co., Ltd.
- Daifuku Business Service Corporation
- Daifuku Manufacturing Technology Co., Ltd.
- Iwasaki Seisakusho Co., Ltd.
- Daifuku Airport Technologies Japan Co., Ltd.
- Scarabee Aviation Group - Japan Co., Ltd.

▶ **Net sales**
(Billion yen)



Asia Pacific

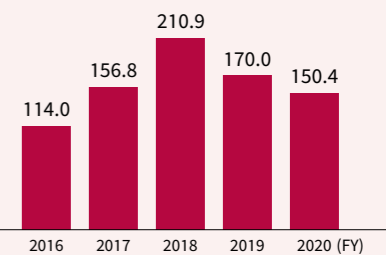
Asia

- Daifuku (China) Co., Ltd.
- Daifuku (China) Manufacturing Co., Ltd.
- Daifuku (China) Automation Co., Ltd.
- Daifuku (Suzhou) Cleanroom Automation Co., Ltd.
- Contec (Shanghai) Co., Ltd.
- Daifuku India Private Limited
- ForgePro India Private Limited
- Vega Conveyors and Automation Private Limited
- P.T. Daifuku Indonesia
- Daifuku Korea Co., Ltd.
- Clean Factomation, Inc.
- Hallim Machinery Co., Ltd.
- Daifuku (Malaysia) Sdn. Bhd.
- BCS Integration Solutions Sdn. Bhd.
- Daifuku Mechatronics (Singapore) Pte. Ltd.
- Singapore Contec Pte. Ltd.
- Taiwan Daifuku Co., Ltd.
- Taiwan Contec Co., Ltd.
- Daifuku (Thailand) Ltd.
- Daifuku Intralogistics Vietnam Co., Ltd.

Oceania

- Daifuku Oceania Limited
 - BCS Airport Systems Pty Limited
 - BCS Logistics Solutions Pty Limited
 - BCS Infrastructure Support Pty Limited
 - Intersystems (Asia Pacific) Pty Limited

▶ **Net sales**
(Billion yen)



Global Presence

North America

Stepping up global integrated operations to expand business scale and increase both productivity and profitability

Shuichi Honda

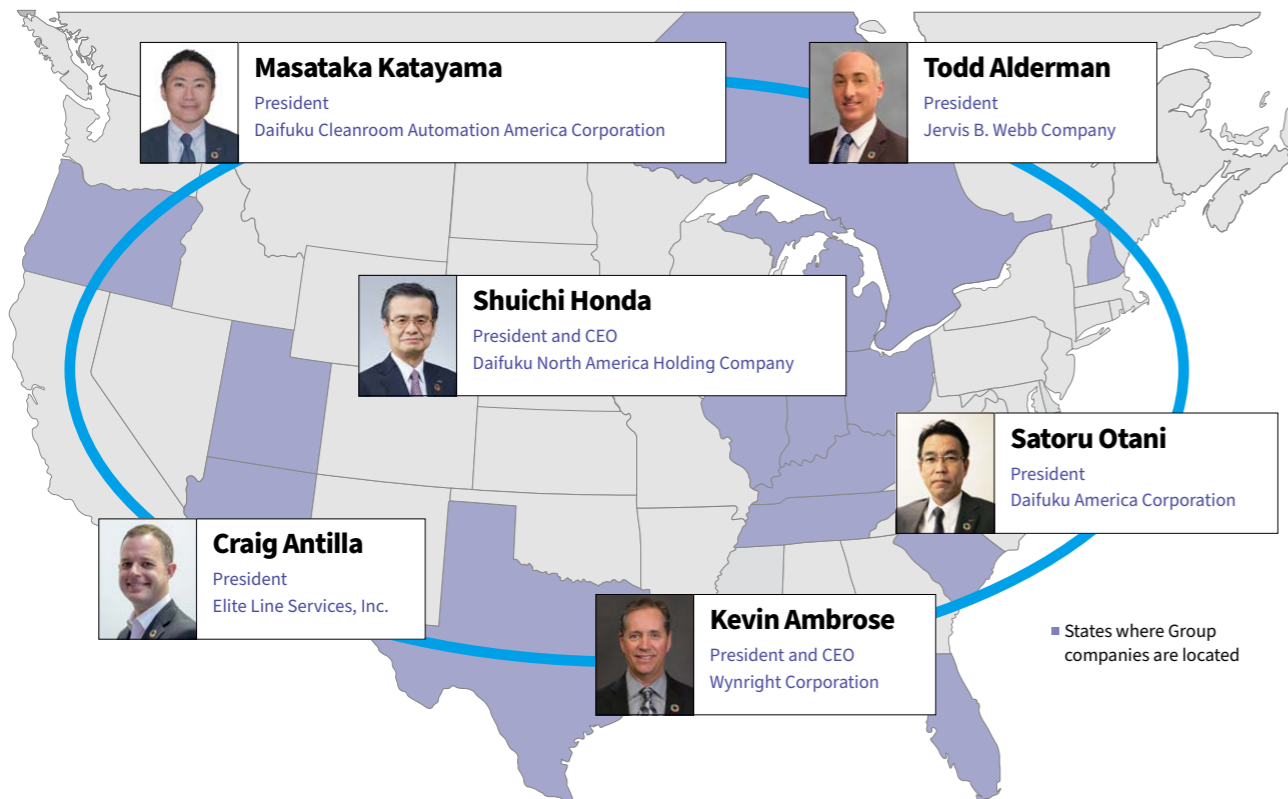
Director
Senior Managing Officer
President and CEO of Daifuku
North America Holding Company



Position of the North America market in the medium-term business plan

Daifuku North America Holding Company runs the Intralogistics, Cleanroom, Automotive, and Airport businesses in North America together with its five affiliates. North American sales surged nearly 1.8 fold, from 76.6 billion yen for fiscal 2016 to 138.9 billion yen for fiscal 2020. It was the region attaining the sharpest growth under the previous four-year business plan. As a result, North America's net sales contributed around 30% of consolidated financial results. Since the market is large and has high growth potential, we define it as the top priority region in the new three-year business plan.

Overview of Daifuku North America Holding Company



The companies acquired through M&A, including Jervis B. Webb Company, our first acquisition in 2007, play central roles in business operations. We should work to forge a sense of unity within the Daifuku Group and strengthen ties inside the Group. To strengthen integrated global operation in separate businesses, in fiscal 2019 we revamped our Group companies based in North America to establish a system with enhanced management efficiency. We will also rebuild our production and procurement frameworks to increase profitability.

In North America, economic activities have resumed in earnest as the COVID-19 vaccination campaign advanced. Some uncertainties remain, including concerns about inflation resulting from supply constraints. Even so, we will heighten our presence in the promising North America market to move the entire Group forward.

Trend by business

▶ **Intralogistics**

During the pandemic, restrictions on going out and the spread of teleworking led to a quick hike in home delivery demand and accelerated investment in e-commerce. Accordingly, we received many more orders in North America for fiscal 2020. Since considerable demand is expected for the near term, we will endeavor to expand our business by winning orders.

In 2020, Wynright's new plant commenced operation. We will strive to heighten production efficiency and the in-house production ratio, to achieve a production growth effect following an increase in orders and to tackle our issue of increasing profitability.

▶ **Cleanroom**

Amid the global shortage of semiconductors and the U.S. government policy to increase domestic semiconductor production capacity, we anticipate active new capital investments. On the basis of our past delivery track record, we will build closer ties with customers and thereby capture business opportunities.

▶ **Automotive**

North America is a market with intense competition among Japanese, American, and European automakers. They are highly eager to make investments and the market is expected to continue to expand. The automobile industry is in a period of major change. We regard it as a major business opportunity and will work to gain orders.

▶ **Airport**

In this business, sales doubled during the period of the previous four-year business plan. It has grown into the fourth core business of the Group and its business expansion in North America drove the whole Group. Orders have not been severely affected by the pandemic. It maintains a large backlog.

Capital investment

▶ **A new plant in the Airport business**

Jervis B. Webb will be constructing a new plant on a site of about 20,000 sqm in Boyne City, Michigan, which will be completed in August 2022. The three existing factories will be integrated into this new plant to boost production capacity. In addition to the conventional products in the Airport business, it will also manufacture products handled by other segments and subsidiaries to broaden the range of production. We will concentrate the production facilities to further improve profitability.



Global Presence

China

Demonstrating strong potential over the medium and long terms

Akihiko Kishida

Managing Officer
Chairman of Daifuku (China) Co., Ltd.
Chairman of Daifuku (China) Automation Co., Ltd.



Business environment in China

China contained COVID-19 earlier than other countries and its economy is rallying. Consumption is now active across the country. A willingness to make capital investments resurged in a multitude of business sectors. Demand is expected to rise, especially for infrastructure and high-tech manufacturing. It is also said that consumer behaviors and corporate management will change to accelerate new business development as society shifts to the new normal.

However, China does face its own challenges, such as rising labor costs, aging of workers, and a reluctance among young workers, mainly the Millennials born in 1985 and later, to work in the manufacturing sector. I believe that the trend toward rationalization and labor saving will gather momentum.

Trend by business

▶ Intralogistics

With the help of solid growth in domestic demand, wholesalers and retailers are actively investing in expanding distribution markets, for instance with the introduction of e-commerce, and are working to increase logistics efficiency.

Competition with major Western competitors and with fast-growing Chinese competitors is intense. Over the medium and long terms, these are markets with high future potential and their scale is expected to be comparable with those of Japan. We will increase local production and stress high quality, low cost, and short delivery lead times. In addition, we will improve our results and bolster our service structure as a system integrator to press ahead with differentiation from the competition.

▶ Cleanroom

The semiconductor market expansion will continue into the medium- and long-term future, driven by the growth of 5G and IoT applications and data centers and the global shortage of semiconductors. Among other products, memory semiconductors, system LSIs and C-MOS sensors with a line width of 45 nm are seeing growing demand.

In an aim to move away from importing semiconductors, the Chinese government is making huge investments in expanding the country's semiconductor industry. Despite uncertainty arising from the prolonged U.S.-China trade dispute, we expect demand across the entire high-tech sector will still be high.

On the other hand, investment in flat-panel displays (FPDs) has peaked, but the market is turning around since sales for applications such as computer screens and TV sets rose after soaring demand for teleworking under the pandemic.

As a result, the willingness to make capital investment is improving in both FPDs and semiconductors. However, due to entry restrictions between Japan and China, it is difficult to dispatch engineers from Japan to customers' premises. We will regard it as an opportunity to expand the range of services offered by local staff with the help of remote technical support.

▶ Automotive

China's automobile sales volume is returning to pre-COVID-19 levels. However, capital investment by automakers is only moderately rallying, due partly to production limitations imposed by the semiconductor shortage. Meanwhile, capital investment in compliance with new energy vehicle (NEV) regulations, which require companies producing at least 30,000 vehicles in China to produce a predetermined or higher percentage of NEVs, will begin in earnest. In a few years, China's annual car production volume is expected to surpass 28 million units. At that time, automakers will be making active capital investment.

In the NEV market, a large number of new manufacturers have emerged, in addition to the major automakers. They will produce not only high-end electric vehicles (EVs) but also low-end models, like Japan's *kei*-category vehicles, to speed up the creation of new markets. Mainly serving Japanese automakers, we will also strengthen contacts with emerging EV manufacturers as well.

Chinese competitors now have considerable capabilities. In the past, there was a huge gap in quality, but their quality level is nearing ours. We will step up efforts to cut costs and focus on the differentiation of new products.

Capital investment

▶ Daifuku China Training Center

We have set up a training center on the premises of the Songjiang Plant in Shanghai for the purpose of swiftly developing service personnel capable of performing facility maintenance and building up their skills. The center is jointly run by the Intralogistics business and the Automotive business. To offer education and training, it consists of a training facility with real machines and a safety training facility.

▶ A new plant in the Cleanroom business

A new plant is being constructed in Suzhou. It is scheduled to come onstream in January 2023. We will thus strive for stable business operation geared to the future expansion of the semiconductor market. The production space layout is designed to suit projects for semiconductors that will be seeing surging demand. The new plant is equipped with a showroom and demonstration lines for semiconductors and for FPDs. They will be used in promotional activities for customers.



▶ A new plant in the Automotive business

To boost productivity, the plant in Changshu, Jiangsu Province, is being renovated. Work for the assembling factory ended in February 2021 while that for the machining factory is expected to end in January 2022. To meet environmental regulations that have recently been tightened by the authorities, the new plant is equipped with a solar power system, which is expected to produce 800 kW of electric power, equivalent to the plant's conventional power consumption. The plant will thus be reborn into an environmentally friendly facility.

Impact of the U.S.-China trade dispute

Some manufacturers exporting to the U.S. are moving their plants out of China. However, there has so far been no major impact. Nonetheless, in the Automotive business, some products were supplied from China to the U.S. Now, they are produced or procured inside the U.S. due to high tariffs and soaring export costs following the RMB appreciation.

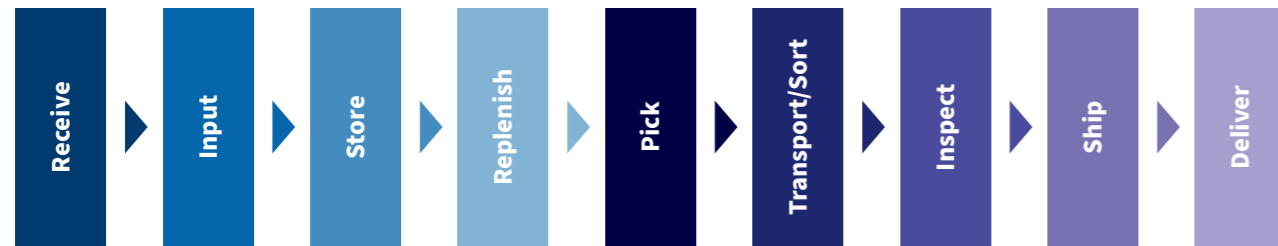
The U.S. administration had adopted a policy including export restrictions against China's semiconductor producers. At this time, it is not having an impact.

Our Material Handling Solutions

Intralogistics Business

Daifuku provides logistics solutions that meet the needs for automation and labor saving in various manufacturing fields such as food/beverage, pharmaceuticals, machinery/metal processing, electrical appliances, and daily necessities. In addition to the abundant experience and know-how that we have cultivated so far, we are maximizing the automation rate by working on new technologies.

I Operation flow of logistics facilities



I Products

Unit Load AS/RS*



Daifuku's Unit Load AS/RS automatically transports products and parts in pallet units and stores them in high-rise racks. By effectively using the height direction, it is possible to improve storage efficiency.

High-throughput mini load AS/RS - Shuttle Rack-M



Daifuku's Shuttle Rack-M is a fast, vehicle-type AS/RS designed to provide temporary storage, sorting, and sequencing functions. Unlike the conventional stacker crane type AS/RS, its shuttle vehicles with a transfer function, which are arranged on a rack, transport in the depth direction and put it in and out of the shelves. It can be used for various load profiles, such as cardboard cases and trays.

Automated high-speed sorter - Surfing Sorter



Daifuku's Surfing Sorter is an automatic sorting system that can handle various packing styles such as irregular shapes and long items. The soft-touch slide shoe method enables reliable sorting without worrying about load damage.

* AS/RS: Automated Storage and Retrieval System



Daifuku's extensive experience and expertise

Providing solutions

I Cutting-edge distribution center using the latest technologies

This center targets zero shipping errors. As a cutting-edge facility, the center uses a number of advanced technologies, including 3D image processing that enables high-mix, low-volume handling and robotic piece picking; and AI-based palletizing simulations.



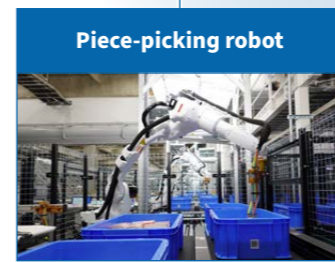
Provides products in a timely manner to piece-picking robots



Stores various-sized cardboard boxes and facilitates case shipping



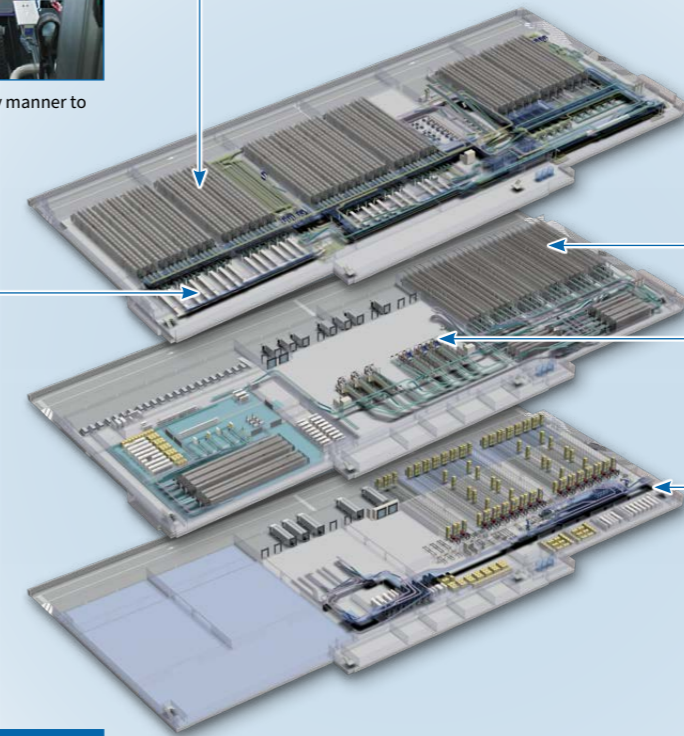
Rapidly palletizes cases of various shapes and sizes



Carefully and gently picks individual items of various sizes and weights



Picks cardboard boxes from a pallet retrieved from an AS/RS

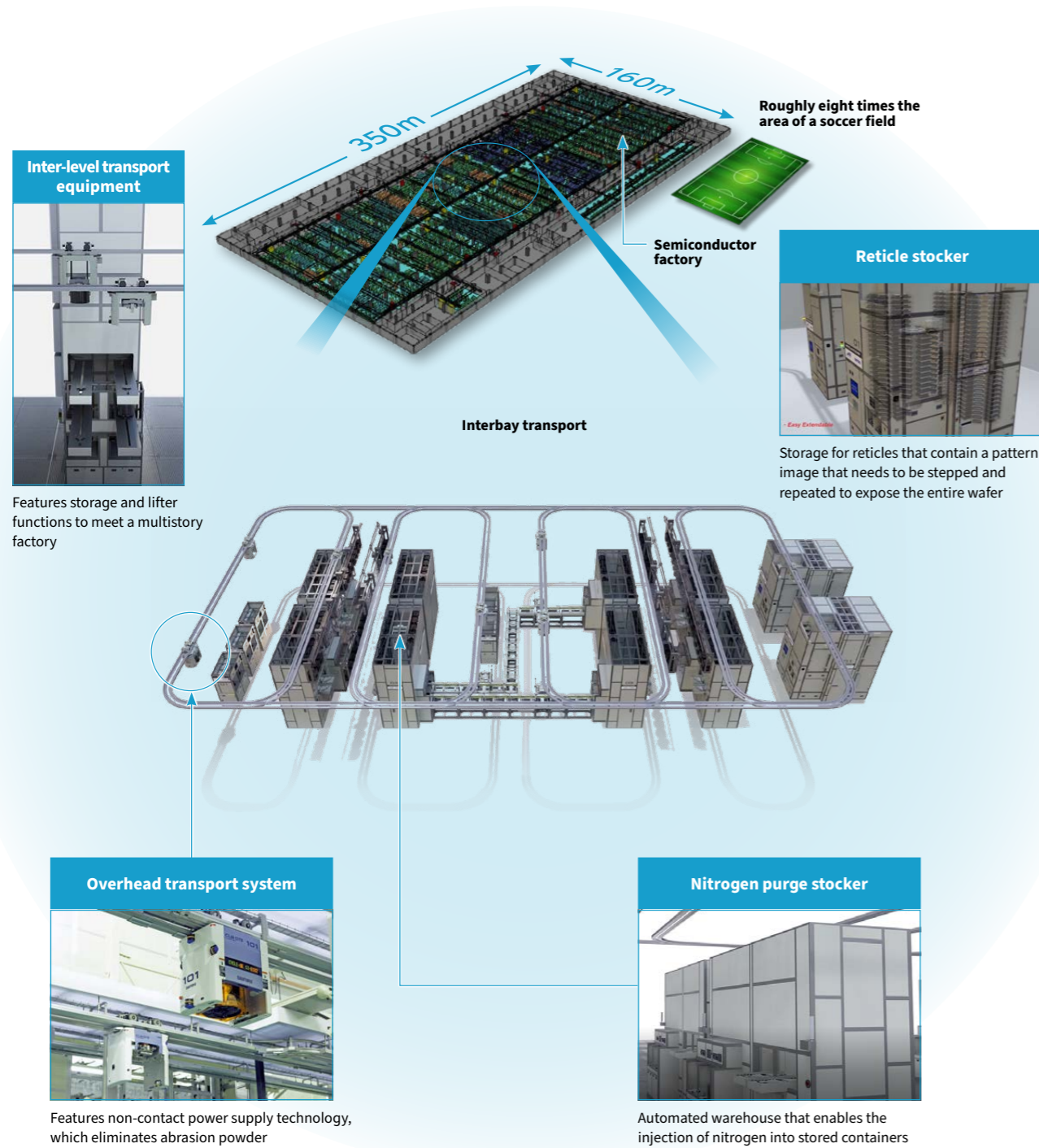


Our Material Handling Solutions

Cleanroom Business

I State-of-the-art semiconductor factory

A semiconductor factory performs around 1,000 manufacturing processes. A large factory has interbay rail tracks with a total length of 10 km on the ceiling of the clean room as well as hundreds of wafer transport vehicles in operation 24/7. Wafers in process require very careful handling. As semiconductors are becoming finer, lower vibration levels are needed. Software for managing vehicle operations according to production plans is also becoming increasingly advanced and sophisticated.

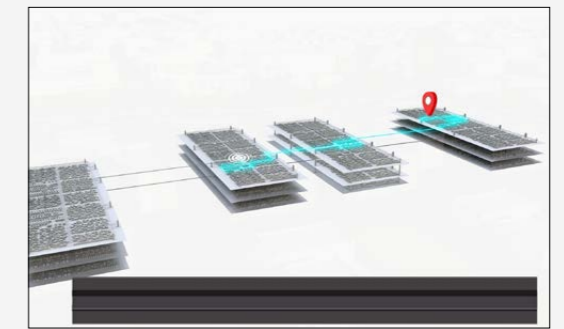


I Advanced control technologies supporting production at the latest semiconductor factories



On-demand

Positional information and the running status of several hundred wafer transportation vehicles is monitored in real-time over continuous Wi-Fi communications. Optimum vehicle operation is suggested based on constantly changing production process conditions.



Scalability

At cutting-edge semiconductor factories known as "GigaFab" facilities, multiple factories need to be connected to transport wafers in all directions. State-of-the-art wafers known as "hot lots" can be processed in a short period of time by having transport vehicles move back and forth between buildings and floors. By considering wafer priority and the status of transportation equipment in real-time, optimum wafer transportation plans can be suggested even between factories.



Intelligent

Running rails stretching across the ceiling of clean rooms form a mesh. When a wafer is collected from a production unit, a vehicle that can process the wafer in the shortest time is instantly searched from among hundreds of units. The wafer collected by the vehicle is transferred to the next process in a way that determines how to reach the destination in the shortest time along the mesh rail network, taking into account congestion based on the status of all vehicles in the factory. When determining the travel route, AI-based learning and predictive functions are used to implement overall optimization based on an ever-changing environment.



Reliability

The transportation of wafers between manufacturing processes in the semiconductor factory operates 24/7. All control and communication systems are double and triple redundant to provide high levels of reliability so that even if an unexpected failure occurs, it will have no impact on the operation of the semiconductor factory.

Chapter 2

Growth Strategy

- 34 Historical Challenges of Growth Strategy
- 36 Three-Year Business Plan *Value Transformation 2023*
- 38 Message from the Corporate Officer Responsible for Finance



- 40 Message from the Production Officer

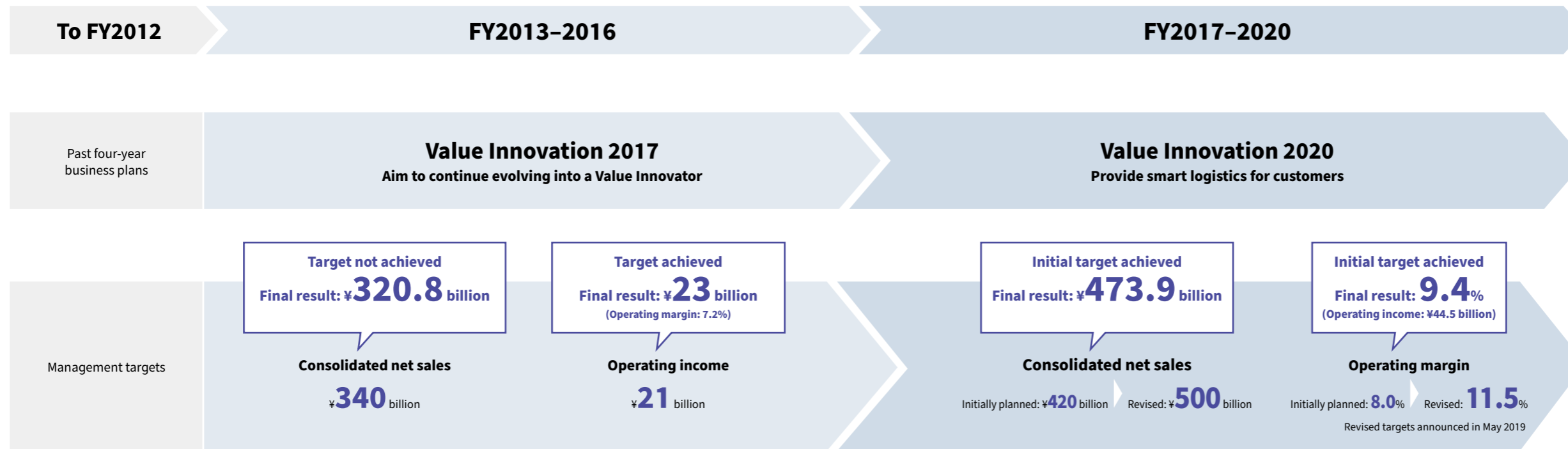


- 42 Strategies by Business
 - 42 Intralogistics
 - 43 Cleanroom
 - 44 Automotive
 - 45 Airport
 - 46 Auto Wash
 - 47 Electronics



- 48 Risk Management

Historical Challenges of Growth Strategy



Challenges

- Consistent challenges**
- Globalization
 - Strengthen Group governance against the backdrop of expansion of non-Japan subsidiaries
 - Increase profitability
 - Respond to technological innovation
 - Respond to the market environment
 - Boost competitiveness

- Challenges of increasing importance**
- Use IT (Digital Transformation)
 - Sociality

Measures	Business Domains	
	<ul style="list-style-type: none"> ▶ Conducted M&A to strengthen Intralogistics business in North America and Airport business in Oceania ▶ Strengthened device products and complemented plant products ▶ Globally responded to e-commerce demand ▶ Business globalization Non-Japan sales ratio: 52% → 65% 	<ul style="list-style-type: none"> ▶ Established Airport business as the fourth core business Doubled the volume of orders, underpinned by well-equipped to handle large-scale projects, incorporating device products (Picture 1), and adding software products ▶ Secured advantages at cutting-edge semiconductor factories ▶ Developed optimization support services for automobile production lines
<ul style="list-style-type: none"> ▶ Provided high value-added e-commerce solutions ▶ Boosted cost competitiveness Streamlined the production framework in Japan Expanded local production outside Japan Used information and communications technology (ICT) 	<ul style="list-style-type: none"> ▶ Improved remote monitoring function for equipment we deliver ▶ Significantly reduced on-site adjustments by using 3D software acquired through M&A across the board ▶ Constructed a new factory in the U.S. to secure nearly twice the production capacity of conventional products (Picture 2) ▶ Invested in factories in Japan, South Korea, China, and Thailand to promote localization 	
<ul style="list-style-type: none"> ▶ Building a strong financial base Paid-in capital: ¥8 billion → ¥15 billion ▶ Optimized business operations at Group companies in North America and China ▶ Strengthened business management computer systems across the Group 	<ul style="list-style-type: none"> ▶ Further strengthened financial base Paid-in capital: ¥15 billion → ¥31.8 billion ▶ Revamped management structure in North America ▶ Established a training system in Japan for global staff 	
<ul style="list-style-type: none"> ▶ Transforming internal perceptions Understood employee awareness and enhanced training system ▶ Established "Always an Edge Ahead" as our new brand message Provided customers with a "competitive edge" ▶ Shifted from physical-visit-based to information-based model of customer acquisition, making effective use of websites and exhibitions 	<ul style="list-style-type: none"> ▶ Value Transformation Provided a system that never stops and that resumes its operation immediately even if it stops ▶ Raised employees' ethical awareness by establishing the Group Code of Conduct ▶ Established the Sustainability Committee and developed the Sustainability Action Plan ▶ Disclosed information on climate changes based on TCFD* recommendations and developed Daifuku Environmental Vision 2050 * TCFD: Task Force on Climate-related Financial Disclosures 	



Picture 1: Self-service baggage check-in system

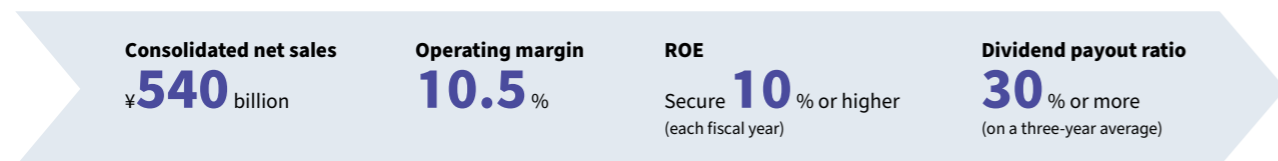


Picture 2: Wynright's new manufacturing complex

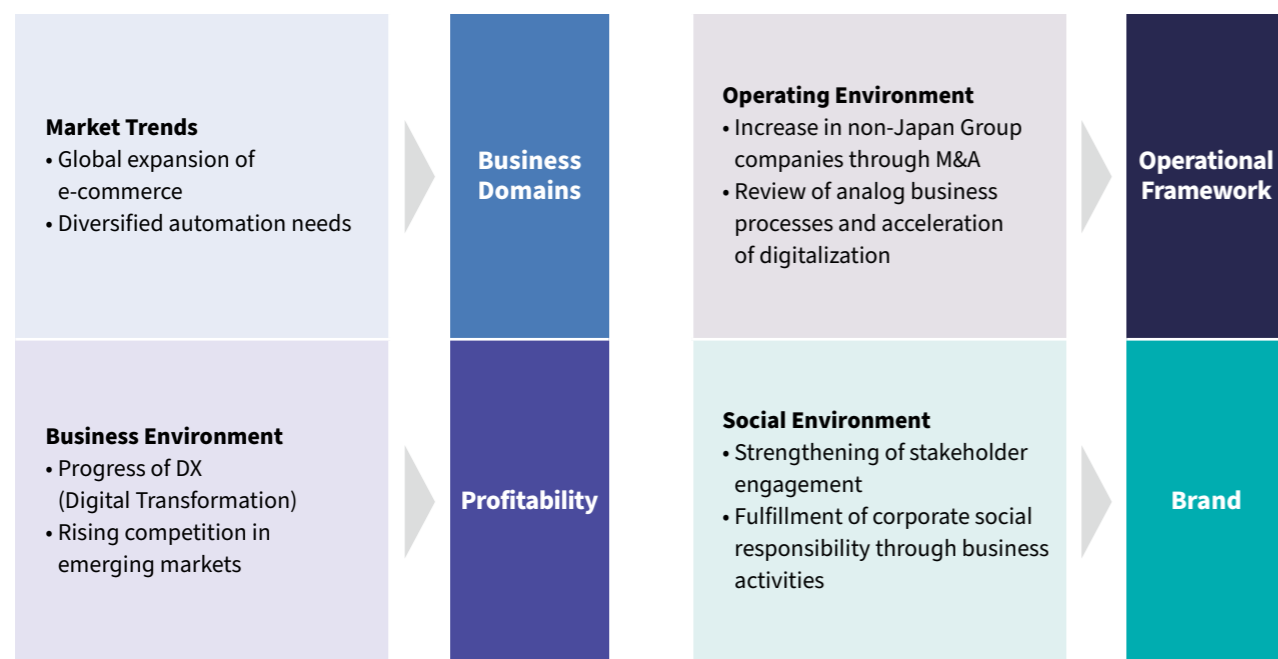
Three-Year Business Plan Value Transformation 2023

Given the drastic changes in the environment surrounding the Daifuku Group, in the new business plan the Group will promote DX^2 (DX Squared) = Digital Transformation \times Daifuku Transformation with the goal of contributing to the realization of a sustainable society and the enhancement of corporate value through solutions that solve the challenges faced by customers and society.

I Management targets



I Current and future business challenges



I Concept

1 Transformation of the value provided through DX^2

DX^2 (DX Squared) = Digital Transformation \times Daifuku Transformation

The Group will transform the value provided to its customers and other stakeholders through the promotion of Digital Transformation (DX) and of the transformation of the Daifuku Group itself (Daifuku Transformation).

2 Creation of new value in the new normal

The goal of the Group is to continue to stride forward in a society that demands the creation of new value, leveraging its flexible, creative ability to create ideas free from precedent and its power to execute its plans to transform existing frameworks.

3 Towards realizing a sustainable society

The Group positions its three-year business plan and Sustainability Action Plan (Page 56) as the two wheels of its business strategy. The Group will implement these plans to contribute to the achievement of the Sustainable Development Goals (SDGs) of the United Nations.

I Business strategy

Business Domains		Operational Framework	
1 Accelerating globalization	Strategically invest in the global market <ul style="list-style-type: none"> Achieve global business expansion through M&A and alliances Actively expand sales reach in markets with growth potential 	1 Rebuilding Group management	Strengthen Group governance <ul style="list-style-type: none"> Conduct business operations from a portfolio management perspective Optimize Group resources, including consolidation and integration
2 Strengthening existing businesses	Create next-generation business models <ul style="list-style-type: none"> Conduct active marketing of ready-designed solutions Propose new business models such as recurring revenue business 	2 Transforming business operations	Increase efficiency and add value from a customer-oriented perspective <ul style="list-style-type: none"> Implement a fundamental review of business processes to increase customer satisfaction Reconfigure existing work processes through DX
3 Developing new business	Invest in promising new domains <ul style="list-style-type: none"> Further promote open innovation including collaboration with the private sector, universities, and emerging companies Develop new businesses, including considering businesses outside the framework of existing business domains 	3 Reforming personnel systems	Adopt diverse human capital management systems <ul style="list-style-type: none"> Develop and appoint human resources through global talent management Introduce a competitive employment system for hiring specialists

Profitability		Brand	
1 Enhancing product value	Transform value provided through cutting-edge technologies <ul style="list-style-type: none"> Provide smart logistics using advanced ICT and AI technologies Develop products that meet increasingly diverse customer needs and drive next-generation logistics 	1 Innovating value provided	Provide smart logistics through TOP* innovation <ul style="list-style-type: none"> Provide logistics systems that support the DX sought by customers Provide new value transcending the barriers of TOP through digital space technology <p>* TOP: Time, Occasion, Place</p>
2 Increasing productivity	Strengthen international price competitiveness <ul style="list-style-type: none"> Rebuild production and procurement framework to become an industry leader in cost reduction and quality Establish a highly accurate digitalized project management system 	2 Creating social value	Strengthen framework consistent with our role as a company responsible for social infrastructure <ul style="list-style-type: none"> Cement the safety, stability, and reliability of logistics in its role as an element of social infrastructure Carry out initiatives that help realize a sustainable society
3 Reinforcing production framework	Promote innovation in monozukuri (manufacturing) through digitalization <ul style="list-style-type: none"> Standardize all processes including design, production, installation, and after-sales service Optimize engineering efficiency through digital technology 	3 Transforming internal perceptions	Create a global corporate culture <ul style="list-style-type: none"> Encourage work-style awareness toward embracing telework Improve employee engagement across the Group

Message from the Corporate Officer Responsible for Finance

Increasing corporate value through a stronger management foundation and proactive investment



Tetsuya Hibi
Corporate Officer
Corporate Functions
Finance and Accounting

Looking back on year one since becoming the corporate officer responsible for finance

In our current stage, we are focused on growth. In recognition of this fact, we have been expanding our business to this point using management indicators focused on the statements of income, including net sales and operating income. Now that our business scale has expanded to the point where we are now a global company, with non-Japan sales accounting for 70% of total sales, we are shifting our mindset from emphasizing the statements of income toward emphasizing the balance sheet and cash flows. At the same time, we are trying to instill this shift in our employees. We are also in the process of developing a system that will quickly generate management indicators based on the balance sheet and cash flows.

Cash flows in particular become an issue as projects grow in scale, since this lengthens the time it takes to complete a project. This means that the amount of advance payments we are required to provide on behalf of a third party increases. As a result, we are redoubling our efforts to speed up the collection of funds. In our industry, sales are recorded based on construction progress, but when it comes to business practices, the actual payment contracts are not linked to construction progress. What happens, then, is that cash conversion cycle (CCC) tends to be longer as net sales increase. We are in the process of setting up a system that will allow for us to carefully track and collect funds globally, which includes following up with customers on a monthly basis, with an emphasis on customers outside Japan. These efforts have resulted in a decrease in long-term receivables in arrears. We will continue to focus on improving CCC, including negotiating payment terms with customers when determining contracts.

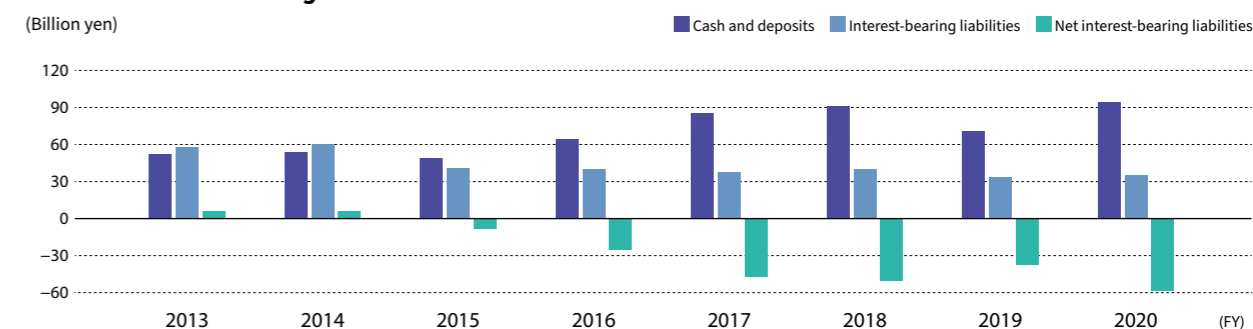
Daifuku has a well-established system to handle financial management for non-Japan subsidiaries, but we may still have issues with companies that joined the Daifuku Group through M&A. We will work on this system with the intent of adding goals within the time frame of our new three-year business plan.

Review of the capital and financial strategy of the Value Innovation 2020 business plan

The Company made a public offering in December 2017. Our equity ratio increased from 45.8% in fiscal 2016 to 57.7% in fiscal 2020, as the Company grew in scale while increasing its financial soundness. Judging by voting rights, the number of shareholders also increased considerably, from about 12,000 in fiscal 2016 to 21,000 in fiscal 2020, increasing stock liquidity and leading us to believe that both our capital structure and shareholder composition match the size of the Company.

Interest-bearing liabilities remain low, and as of March 31, 2021, the balance of net interest-bearing liabilities decreased 59 billion yen with no substantial interest-bearing liabilities. This puts us in a good financial position.

Trends in interest-bearing liabilities



Over the course of Value Innovation 2020, we were able to maintain our target of ROE of 10% or higher. The Cleanroom business performed well in fiscal 2017 and 2018, and ROE rose more sharply than usual as a result, but if we exclude this exception to the norm, ROE has been showing steady improvement over the medium to long term, and we will continue to increase ROE by improving profitability.

	Value Innovation 2017					Value Innovation 2020			
FY	2013	2014	2015	2016	2017	2018	2019	2020	
ROE*(%)	8.6	9.6	11.6	12.6	17.7	19.5	12.4	13.2	
1 Net income / Net sales (%)	3.20	3.67	4.06	5.22	7.16	8.61	6.32	6.83	
2 Total asset turnover (Times)	1.06	1.03	1.19	1.07	1.20	1.17	1.08	1.11	
3 Financial leverage (Times)	2.58	2.51	2.33	2.18	1.99	1.87	1.76	1.73	

* ROE= 1 × 2 × 3

Moving to the use of funds, we continued to make proactive capital investments both within and outside Japan. In particular, we invested in building a new factory that began full operation in 2020, focusing on the Intralogistics business in North America. We believe that this was a timely investment, as it coincided with an increase in orders stemming from the growing demand for e-commerce.

Capital and financial strategy of the Value Transformation 2023 business plan

We are focused on increasing our global financial management capabilities, and to do so we will leverage digital transformation (DX) and establish a solid business management foundation, enabling us to quickly provide a variety of management indicators, based primarily on the balance sheet and cash flows. With this tactic, we intend put in place a management system and methodology befitting a company with net sales of 500 billion yen or higher.

Regarding shareholder returns, our goal is to maintain a dividend payout ratio of 30% or more. Funds other than those allocated to dividends will be used to invest in growth that will further enhance corporate value going forward. For fiscal 2021, we have committed record amounts toward capital investment—13.6 billion yen, or 40% of our projected net income, with a focus on investment outside Japan—and toward R&D expenditures—10.8 billion yen, or 32% of our projected net income. We will look for the best solution to balancing shareholder returns, growth investment, and retained earnings.

The groundwork for our transition to the International Financial Reporting Standards (IFRS), the adoption of which we have been studying for several years, has been laid, and we plan on using the new three-year business plan Value Transformation 2023 as a preparation period for the switch. The move to IFRS will place more emphasis on the balance sheet and cash flows, so we will need to shift employee focus in this direction as well.

The Group positions the execution of the Value Transformation 2023 business plan and its Sustainability Action Plan as the two wheels of its business strategy. Moreover, we see ESG (environment, society, and governance) expenditures and expenditures aimed at achieving the SDGs as crucial investments rather than costs, and are committed to helping achieve a sustainable society and increasing corporate value.

Message from the Production Officer

Pushing ahead with visualization of manufacturing to increase productivity and reform the value we offer

Yasuhisa Mishina

Managing Officer
Production Officer
DX Division Manager
Intralogistics Production



Visualization for heightening profitability and job satisfaction

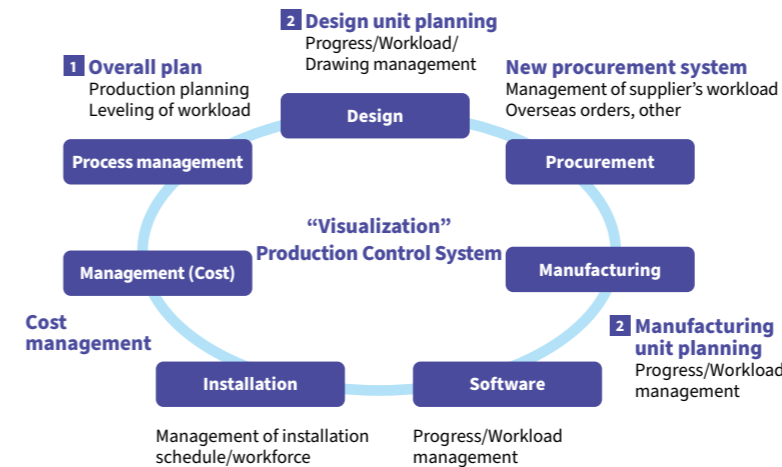
Digital transformation (DX) is a vehicle for accelerating the Daifuku Group's innovation. I believe it is important to make effective use of digital technologies and to visualize manufacturing in the context of implementing DX. This visualization will pave the way for reviewing processes and approaches, for standardizing and automating operations, and for reducing work hours (and costs), improving quality and shifting from a dependency on personal skills on the basis of accumulated data. We will remove limitations to specific persons, times, opportunities, and locations with the use of digital technologies to ensure openness irrespective of items, times, locations, and persons. We will then use the time gained by this action to create extra value and increase employees' fulfillment.

Online shift for making things visible anytime and anywhere

Daifuku has been working on DX since the period of the previous medium-term business plan. With an integrated system ranging from consulting to after-sales services, we offer systems. In the past, individual departments managed the processes separately. That resulted in a division of information, obscurity of progress and workloads, delays of processes, and surpluses or shortages of resources. There was no system for identifying any of these problems at an early stage. It meant that any problem that occurred in an upstream process affected downstream processes.



To ensure visualization of all processes, we have constructed a new production system and created a database of overall plans and design, procurement, and manufacturing processes in an effort to achieve centralized management of information.



1 Overall plan:
Production planning based on data on inquiries and orders received, and visualization of workloads
This enables efficient allocation of personnel, material, and other resources to meet demand.

2 Design/Manufacturing unit planning:
Making clear the progress of design and manufacturing and the workload based on the overall plan
This helps us understand the workloads in advance in the form of specific numerical figures to enable early management such as workload distribution and moving up of plans.

We began constructing a system based on the visualization of sales, design, and manufacturing processes to swiftly identify any issues in an upstream process and to take response action. At the same time, we are working to visualize on-site installation, system verification and other aspects. In the period of the new medium-term business plan, we will advance these areas, and also move ahead with prior quality completion in an upstream process with the use of digital technologies.

Outside Japan, we have started our action towards visualization in the ASEAN region, mainly in Thailand, where we built a new plant, in India, and elsewhere.

DX Division in charge of inter-business linkage

As mentioned, we have been working on digitalization that leads to productivity improvement. However, we have failed to share mechanisms that proved effective. To enhance efficiency throughout the Company with the use of good systems, we launched the DX Division. It is in charge of constructing internal digital infrastructure, of developing digital engineers and data analyzers, and of creating an environment for building up employees' digital skills.

In manufacturing, individual businesses have their own characteristics. No single system can be applicable to all of them. For introducing new actions smoothly to separate businesses, we set up a project with key members from individual departments to help increase their productivity.

Continuing innovation of value to offer

When I joined Daifuku in 1983, the Company worked to shift to higher value-added products with electronic programming and computer technologies. I was assigned to the software design section, which is associated with today's Intralogistics business. Later, I was appointed to develop and design technologies for controlling entire systems. In addition, I served as manager of the design department, which also dealt with hardware. Around 2015, I began to be involved in the manufacturing unit. That gave me plenty of good experience for the manufacturing reform in the Intralogistics business.

Just a short while after the start of the manufacturing reform, I was surprised that the reform was advanced by the visualization of processes and work hours. We started shifting from experience to digital values for data accumulation and analysis. Nowadays, we can use more digital technologies, including AI, IoT, and ICT. We will establish a project management system featuring digitalization in higher accuracy to help achieve further business expansion.

Material handling systems are becoming part of the social infrastructure. Customers need systems that do not stop or that can immediately be restored from stoppage in addition to featuring higher speed and accuracy than conventional models. We will incorporate sensors and other cutting-edge digital technologies into systems delivered to customers to advance visualization and optimization of logistics so as to provide customers with a competitive edge as well as the logistics value they seek, such as lower costs, shorter lead times and enhanced quality, and environmental features of logistics operations.

Strategies by Business

Transforming into a business that can continue to grow globally

Intralogistics

Introduction

The Intralogistics business combines automated warehouses with storage, transport, sorting, and picking functions to offer optimal systems to an extensive range of customers, including food, pharmaceuticals, and machinery factories; and to distributors for their delivery centers, such as retailers, wholesalers, transport operators, and warehouse operators. In recent years, large systems for e-commerce have been a driver of our business performance.



Director
Managing Officer
Intralogistics Global Business Head

Hiroshi Nobuta

Review of the Value Innovation 2020 business plan

Sales from commerce and retailers, centering on e-commerce, have more than doubled from 53.5 billion yen before the plan to 115.5 billion yen. While the Japanese market grew slowly, we carried out measures using ICT for increasing integrated productivity covering sales, engineering, production and installation, and R&D efforts to offer the best solutions. These efforts helped rapidly increase sales and earnings strength as e-commerce demand grew rapidly.

Outside Japan, we strengthened our production frameworks in North America, China, Thailand, and elsewhere. In addition, we established a subsidiary in Vietnam and acquired a material handling system manufacturer in India. Having almost completed construction of a framework for quantitative expansion, we will next be required to work on quality enhancement.

Actions under the Value Transformation 2023 business plan

As e-commerce markets are expanding not only in Japan but across the globe, we will continue to seek growth. Our non-Japan operations need to be improved since they are less profitable than those in Japan. To attain global growth and higher profitability, it is essential that we have lineups of competitive products in markets in separate countries. At present, many of our products are tailored for the Japanese market. Personnel within the Daifuku Group worldwide will work together to accelerate the development of products for local markets to bolster our competitiveness.

Customers' innovation and their subsequent needs for industry reorganization have been among the growth drivers for our business. For example, when capital investment in one industry comes to an end, new needs emerge in another industry. Going forward, we will take swift action to avoid missing opportunities and to increase opportunities for growth.

Building a solid global network while focusing on the customer's perspective

Cleanroom

Introduction

The Cleanroom business offers storage and transport systems designed exclusively for clean rooms to the semiconductor and flat-panel display (FPD) factories. With cutting-edge technologies suited to miniaturization of semiconductors and production of larger FPDs and OLEDs, we maintain a large market share. Non-Japan sales hold a share of at least 95% mainly in East Asia.



Director
Managing Officer
Cleanroom Global Business Head

Seiji Sato

Review of the Value Innovation 2020 business plan

This business has long been susceptible to dramatic market changes. Net sales from the electronics sector in fiscal 2018 rose at least 30% year on year, to reach a record level of about 190 billion yen. The following fiscal year, sales fell to just over 140 billion yen. During the period of the plan, single-year sales grew to a rough range of between 120 billion and 130 billion yen.

Each year, we secure a market share of around 50%, mainly among existing large customers. I believe that this is a result of our delivery of highly reliable systems for producing leading-edge products with short lead times. Meanwhile, the emphasis on cost cutting priority became lower. This is a significant issue that we need to address in the future, alongside the emergence of competitors. The growth of the Chinese market is also a major issue. We stepped up marketing activities, including the launch of a show space and a promotional website.

Actions under the Value Transformation 2023 business plan

Amid progress in IoT, 5G, DX, and other technologies, demand for semiconductors and FPDs is rising sharply around the world. There is no doubt as to the medium- and long-term growth potential of this business. On the other hand, we face challenges of responding to radical market changes and of improving profitability without impairing our response. We have thus defined our segment's slogan as *Value Transformation by "Excellent Quality, Best Price, Quick Delivery."* This embodies our resolution to go back to the basics of manufacturing.

Operating close to customers, non-Japan subsidiaries will play newly central roles. Not only manufacturing and installation work but also engineering and design services will be locally provided for local customers. What is significant here is to develop engineers outside Japan. Our efforts will not be confined to business. We will work on further enhancing systems' energy efficiency to reduce environmental impact and to foster new thinking.

Strategies by Business

Provide stronger proposals and the value that exceeds expectations

Automotive

Introduction

The Automotive business offers conveyor systems for all automobile production processes, including press, weld, paint, and assembly. In addition to these systems, we also provide solutions that include automation of automobile production lines. Centered on Japanese companies, we provide automakers with various systems worldwide, including in Japan, Asia, and the Americas. It also features remodeling, maintenance, and other services accounting for around 40% of segment sales.

Director
Managing Officer
Automotive and Airport Global Business Head
Automotive Division Manager

Toshiaki Hayashi



Review of the Value Innovation 2020 business plan

The biggest topic is that we received an order for and completed delivery of our largest-ever project in North America. We completed the large project, which accounts for around 50% of annual sales of the business units, thanks to the cooperation from subsidiaries in North America and other Group companies during the COVID-19 pandemic.

We renewed and expanded our own plants that had aged in China, which is now the world's biggest automobile producer. In addition, we concluded a business alliance with AFT Industries AG in Germany to make a strategic move to respond to European automakers' demands for global capital investment.

Meanwhile, global price competition has intensified with the rise of Chinese competitors. Though we have reduced costs by expanding in-house production and improving profitability, we believe that we are only halfway to improving profitability.

Actions under the Value Transformation 2023 business plan

Demand for carbon offsets is increasing globally. We must meet customer needs for carbon neutral, not only through zero greenhouse gas emissions while driving but also from the perspective of Life Cycle Assessment from materials/production to disposal. We view this major transformation as a business opportunity and will strive to achieve continuous growth.

One thing we are doing is leveraging our strength, namely our service capabilities. By enhancing services such as centralized management of facility statuses and other data through DX and predictive maintenance using IoT tools, we will change the value we provide to customers.

Another initiative is to strengthen our global collaboration framework. Across the Group, we will seek to improve profitability by employing modular designs while leveraging our conventional strength in on-demand design.

Producing a collaboration effect throughout the business with strict project management

Airport

Introduction

The Airport business provides airports around the world with an extensive array of systems, centering on baggage handling systems and including self-service baggage check-in systems, security systems, and airport facility monitoring systems. Affiliates based in North America, Europe, and Asia Pacific, and Japan's business unit are working together to operate the business.

Managing Officer
Deputy Automotive and Airport Global Business Head
Airport Division Manager

Takaya Uemoto



Review of the Value Innovation 2020 business plan

This business achieved a goal of becoming a fourth core business after the volume of orders received doubled compared to the level before the plan. We won orders for large airport baggage handling systems chiefly in Japan and North America. Meanwhile, self-service baggage check-in systems and security systems broadened the range of our business in airports. In view of the smart airport project, we merged and acquired two software-related companies.

We faced an unprecedented situation when the number of air passengers fell sharply due to the COVID-19 pandemic. However, this business was strong, winning large projects. This was based on the facts that airports are social infrastructure and long-term public projects and that they had urgent needs for replacing aged facilities and for upgrading security.

With regard to profitability, it has become clear that there is still room to improve project management.

Actions under the Value Transformation 2023 business plan

At the start of this plan, we merged with the Automotive business into one global business unit. This move is aimed at effectively deploying the Automotive business' staff, who have extensive experience in project management, and at sharing use of non-Japan facilities. It is also intended to introduce our good traditional values, such as emphasis on hands-on experience with the customer-first principle that Daifuku has been based on, to new Group companies. Formerly, individual companies tended to expand their businesses in their own ways. With the aim of operating the Airport business in a united manner, we will step up information exchange through monthly meetings of leaders in businesses and subsidiaries' management members and strictly implement Japan-led project management. We will seek a collaboration effect by transferring key personnel between subsidiaries and by restructuring the organization.

In North America, we will integrate three dispersed factories into one new plant and shift to an independent production system that covers all processes from manufacturing to trial runs to increase productivity. We are determined to make effective use of our assets to heighten the efficiency and profitability of the overall business.

Strategies by Business

Enhance product competitiveness by reinforcing production/sales business structures

Auto Wash

Introduction

The Auto Wash business provides service stations, car dealers, garages, and self-service car washes with car wash machines and related products, mainly in Japan and South Korea. We are expanding our sales channels to new markets other than existing customers and are working to differentiate our products by strengthening environmental measures.

Corporate Officer
Auto Wash Global Business Head
President of Daifuku Plusmore Co., Ltd.

Akihiko Nishimura



Review of the Value Innovation 2020 business plan

Unlike the plant-led material handling systems, the Auto Wash business offers production, sales, and after-sales services for car wash machines and related products. In addition to the fact that it can leverage the control technologies at which Daifuku excels, it has allowed us to retain the top share in Japan, also thanks to the effects of M&A conducted in 2011.

During the period of the plan, we increased sales of large-vehicle wash machines in addition to sales in existing stable markets that are based on a large number of automobiles in Japan. This is because of demand to reduce the car wash workload of transport drivers, who are in increasingly short supply given the rise of e-commerce, and inbound demand. Although the business was sluggish in quantitative terms in the final fiscal year due to the COVID-19 pandemic, our profitability increased through product improvement and the introduction of new services including smartphone apps.

Actions under the Value Transformation 2023 business plan

We will continue to identify new markets and differentiate our products. As an immediate initiative, we will introduce IoT machines that support cashless payment, which help capture the trend toward the introduction of car wash machines at laundromats and large commercial facilities. Because they are seen firsthand by consumers and use water and chemicals such as shampoo, we will also focus our efforts on introducing devices that reuse water resources and environmentally friendly chemicals, etc.

In addition, efforts for DX are essential to realize operational reforms such as improvements in production costs. We will focus on developing new products that use our car wash technologies as well as improving service businesses through online-sales systems for consumables and remote operation/monitoring.

Addressing reform and value creation by capitalizing on the Group's strength

Electronics

Introduction

Contec Co., Ltd., a subsidiary of Daifuku, was established as an in-house business venture spun off from Daifuku's control and software departments for automated warehouse systems. It manufactures and sells electronic devices incorporated into systems to Daifuku and many other customers. Its principal products include electronics products consisting of industrial computers, IoT devices, and solution products, as well as control panels and control modules. Our products are commonly used in applications where durability under different operating conditions such as 24-hour uninterrupted operation or high-temperature environments is required.

President and CEO
Contec Co., Ltd.

Akira Ikari



Review of the Value Innovation 2020 business plan

Contec's sales target was initially set at 30 billion yen. Its actual sales stood at 27.4 billion yen, affected by the U.S.-China trade dispute and the COVID-19 pandemic.

We fell short of the initial target. Even so, we stepped up global sales to achieve brisk sales of industrial computers for the medical device sector in the U.S. market. During the period, U.S. sales grew around 30%.

For the rapidly growing IoT market, we have expanded the lineup of CONPROSYS IoT solutions featuring technologies cultivated in the areas of industrial computers, measurement control, and networks. Going forward, it will be a challenge to secure a position in the market where we are able to display a competitive edge.

Actions under the Value Transformation 2023 business plan

Our management goals for the final fiscal year include sales of 30 billion yen and an operating margin of 9.3%, in comparison to sales of 27.4 billion yen and an operating margin of 6.0% recorded for fiscal 2020. We will shift to fields where market growth is anticipated in a bid to increase both sales and profitability. In the DX market, we will seek to win extra orders from target industries, namely those of semiconductors, medical care, and security. We will also offer more solutions to the environment and energy-related markets to boost sales.

To enhance our global structure, we will work to achieve centralization of information at development locations in Japan, the U.S., and Taiwan to increase development efficiency. We will introduce joint procurement in the Contec Group to slash costs and to boost our competitiveness.

Apart from that, we will work to create new markets through initiatives in labor saving with the use of our AI technologies, the cultivation of robotics markets, and the provision of new solutions incorporating next-generation communication technologies, such as 5G and Wi-Fi 6, and remote monitoring technologies.

Risk Management

I Risk management framework

The Daifuku Group has built a Groupwide risk management framework with the CEO assuming ultimate responsibility. Based on the Risk Management Rules, we have established a risk management promotion framework consisting of the heads of business units. Daifuku conducts risk assessments on a regular basis (generally once a year) for the entire Group to understand the risks that affect the Group's business. For each risk, the department in charge is working to mitigate the risk and minimize impact from the occurring risks according to the level of criticality. The Sustainability Promotion Department manages the risk management promotion framework and reports high-priority risks to the Board of Directors.

For details of risks and opportunities relating to climate change, see ▶ □ Pages 60–61.

I Prerequisites for risk analysis

The main prerequisites that the Group should consider in risk analysis are as follows:

- ① Our business is greatly affected by the capital investment trends of customers in specific industries.
- ② Our business generally involves long-term plant installation.
- ③ Nearly 70% of total sales are recorded outside Japan.
- ④ Business performance and the Group's size are growing rapidly, and sustainable growth is expected in the future.
- ⑤ Logistics systems are recognized as an important infrastructure, and are attracting growing attention from society.

I Major risks

Based on the above risk assessment, we evaluate important risks that have a significant impact on the Group's business activities in terms of frequency with which they occur and the potential impact. Since it is unlikely that the impact and frequency will fluctuate markedly in a short period of time, in fiscal 2020 we conducted monitoring of the major risks identified with a third party in fiscal 2019. The major risks (summarized in the table on page 49) are expected in normal business operations, listed in order of importance. Although we are taking measures to reduce each of the risks listed, it is difficult to predict and deal with them completely.

I Risks from the COVID-19 pandemic

We recognize the following major risks posed by the COVID-19 pandemic:

- Restrictions on movement, attendance, and activities of the Group and customers
- Delay or stagnation of business activities due to an outbreak of infections
- Deterioration of profitability due to the postponement, cancellation, or reduction of customers' capital investment due to recession.

The Group has set up a task force for the COVID-19 pandemic with the CEO as the chief executive, and each business unit scrutinizes the situation and reports to the Board of Directors each time. Our top priority is to ensure the life, health, and safety of our employees, their families, our customers, and our business partners. We carry out our business activities in accordance with the guidelines of Japan and foreign governments and government agencies, using teleworking to minimize the risk of spreading the infection.

The COVID-19 pandemic has had very little impact on the Shiga Works, which is the Group's main production site, and the supply chain is functioning soundly. Non-Japan factories, offices, and service sites of the Group operate following policies announced by local governments and authorities.

As for the impact on financial results for fiscal 2020, sales and income were favorable and increased, while orders were down 6.6% from a year earlier due to delays in business negotiations, restrictions on attendance, and movement. Going forward, orders are expected to expand over the medium to long term due to the further spread of e-commerce.

We recognize that the range of these risks may possibly expand, as the scale and period of impact from the COVID-19 pandemic on the global economy are uncertain for now.

Summary of major risks

1 Economic crises, business fluctuations, and improper management of non-Japan subsidiaries	Impact level	<ul style="list-style-type: none"> • Decrease in capital investment due to economic fluctuations in the electronics industry • Increased installation costs due to poor project management
	Measures	<ul style="list-style-type: none"> • We pay close attention to trends in the electronics industry and strive to flexibly reflect them in our business plans. • We strive to improve the accuracy of project management, including budgets and installation progress. • The Group pays close attention to trends in customer industries and strives to flexibly reflect them in our business plan. However, capital investment trends in the semiconductor and flat-panel display industries change rapidly, making it difficult to forecast earnings completely.
2 Risks related to compliance	Impact level	<ul style="list-style-type: none"> • A significant increase in management targets due to rapid growth of the Group. Increased compliance risk due to a lack of cooperation in Japan and overseas
	Measures	<ul style="list-style-type: none"> • Strengthening the internal control system, improving the whistleblowing system, developing regulations on anti-bribery and preventing competition law violations, establishing an organization to enhance the effectiveness of audits by the Audit & Supervisory Board members, establishing an organization to strengthen the system for checking non-Japan subsidiaries that joined the Group through M&A, establishing an organization to strengthen Group governance • Compliance risk may increase due to a significant increase in management targets and lack of cooperation in Japan and overseas.
3 Risks related to human resources	Impact level	<ul style="list-style-type: none"> • Difficulty in acquiring and training excellent personnel
	Measures	<ul style="list-style-type: none"> • Enhancement of training courses, cross-sectional use of human resources with a talent management system, promotion of work-style reforms • We promote work-style reforms and improve treatment, but it will take some time before these measures begin to show an effect. In addition, engineers related to material handling systems are concerned about the lack of personnel globally due to advances in e-commerce and other factors.
4 Risks from large-scale natural disasters	Impact level	<ul style="list-style-type: none"> • Suspension of business activities due to the occurrence of large-scale natural disasters such as earthquake and tsunami
	Measures	<ul style="list-style-type: none"> • Natural disaster hazard surveys at each site, formulation of time order response plans for when they occur, training such as safety confirmation, expansion of stockpiles • If the disaster is severe (Nankai Trough earthquake, super typhoon, etc.), the impact may be very large.
5 Risk of cyberattacks	Impact level	<ul style="list-style-type: none"> • Information leakage due to cyberattacks and accidents related to computer security
	Measures	<ul style="list-style-type: none"> • We establish an Information Security Committee chaired by a corporate officer. CSIRT* identifies the extent of impact and damage, takes initial action to prevent the spread of damage, examines measures to prevent recurrence, and regularly conducts employee education and training. * Computer Security Incident Response Team: An organization for dealing with computer security accidents such as information leaks caused by cyberattacks • Since the threat of cyberattacks is increasing in both impact and frequency, it may lead to deterioration of the brand image and result in damage that cannot be covered by cyber risk insurance.

Chapter 3

Sustainability

52 Sustainability Management



- 54 Materiality
- 56 Sustainability Action Plan
- 58 Respect Human Dignity
- 60 Disclosure of Climate Change Information
- 62 Daifuku Environmental Vision 2050
- 64 SASB Disclosure Information Index

Sustainability Management

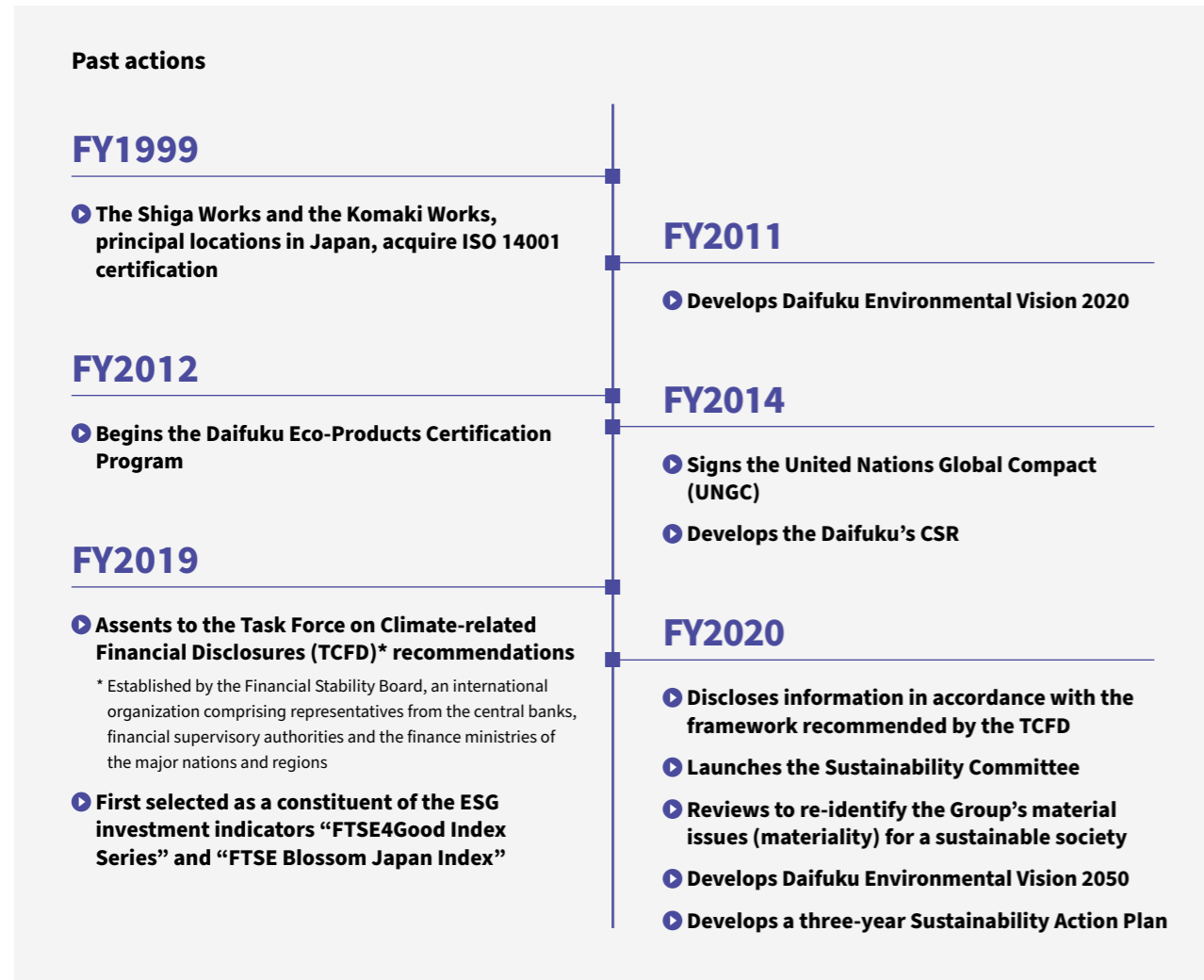
I Message from corporate officer responsible for sustainability

The Daifuku Group developed Daifuku Environmental Vision 2020 in 2011 and has since been addressing climate change, resource circulation, preservation of biodiversity, and other global issues. To present the Group's vision for 2050 from a long-term perspective for tackling these serious issues, we have now developed Daifuku Environmental Vision 2050.

We have also launched an internal cross-sectional project to identify and discuss medium- and long-term material issues to be addressed by the Group. The project identified material issues reflecting views of internal and external stakeholders and adopted the Sustainability Action Plan as a plan for specific actions toward resolving these issues. Drawing up a vision for 2030, the plan defines KPIs for individual issues and their targets for the next three years. The Sustainability Action Plan is positioned, alongside the three-year business plan that started in fiscal 2021, as an essential part of the Group's management strategy. It will contribute to fulfillment of the Sustainable Development Goals (SDGs) through its execution and strategy. Paying attention to human rights, the environment, and other environmental, social and governance (ESG) factors as a company that works to resolve social issues, the Group will work as one to carry out sustainability management with a view to realizing a sustainable society and to increasing corporate value.



Hideaki Takubo
 Managing Officer
 Corporate Functions
 Human Resources and General Affairs



I Sustainability management framework

The Sustainability Committee is the highest decision-making body for sustainability management issues. It is chaired by the CEO, and its members comprise each department head across the Group. The Committee, made of the top management, directs company policy and plan implementation on measures against a variety of sustainability issues, including climate change.

I Structure and operation of the Sustainability Committee

The Sustainability Committee is an organization that plays a central role in sustainability management. It was set up in fiscal 2020 as an upgraded successor to the abolished Environmental Enhancement Management Committee chaired by the CFO.

The new committee is chaired by the CEO and appoints heads of individual business units as members to build a stronger structure. Under its control, there are technical subcommittees to hold in-depth discussions on their respective subjects.

For fiscal 2020, we revised the material issues and developed the Sustainability Action Plan. As part of this process, individual departments and sections launched projects to hold interviews and dialogues with management as needed to create and produce plans to submit to the Committee. Then, the Committee held two discussions on the grounds for setting every goal and its expressions. It referred them twice to the Board of Directors for final approval.

We have already discussed, in fiscal 2021, the method of managing and operating the Sustainability Action Plan and a policy of procuring renewable energy under Daifuku Environmental Vision 2050. Going forward, they will be steadily implemented by the Subcommittee on Eco-Products and the Subcommittee on Environmentally Friendly Operations in an effort to realize the Environmental Vision. Human rights issues are regarded as important across the globe. To tackle these issues, we have set up the Subcommittee on Human Rights and Supply Chains to draw up a human rights policy and to implement due diligence.

Past actions*	Other during FY2020
<ul style="list-style-type: none"> ▶ Review of materiality ▶ Development of the Sustainability Action Plan ▶ Development of Daifuku Environmental Vision 2050 ▶ Information disclosure based on TCFD recommendations 	<ul style="list-style-type: none"> ▶ Encouraging employees to understand the SDGs (video distribution) ▶ Expansion and strengthening of ESG information disclosure ▶ CSR action plan monitoring

* Includes the efforts of its predecessor, the Environmental Enhancement Management Committee.

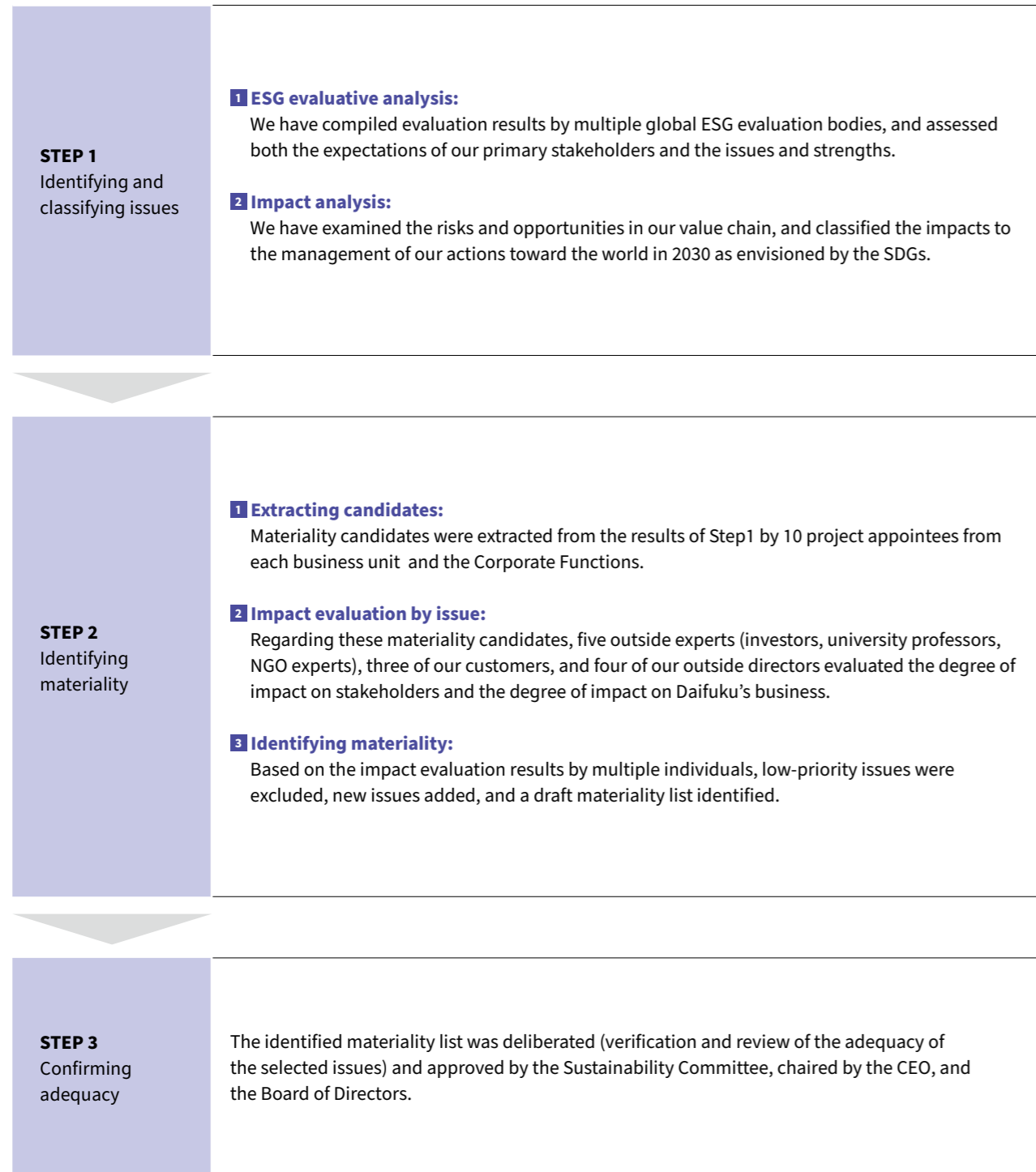
Materiality

I Basic stance

In February 2021, with the aim of achieving both the sustained growth of our business and the sustainable society envisioned by the SDGs, Daifuku reviewed and re-identified the material issues (materiality*) that make up the core for all of our CSR activities that we identified in June 2014.

* Issues that need to be addressed as top priorities, as they have a significant influence on the environment, society and governance or the evaluation and decision-making of stakeholders.

I Determination process



I Evaluation results

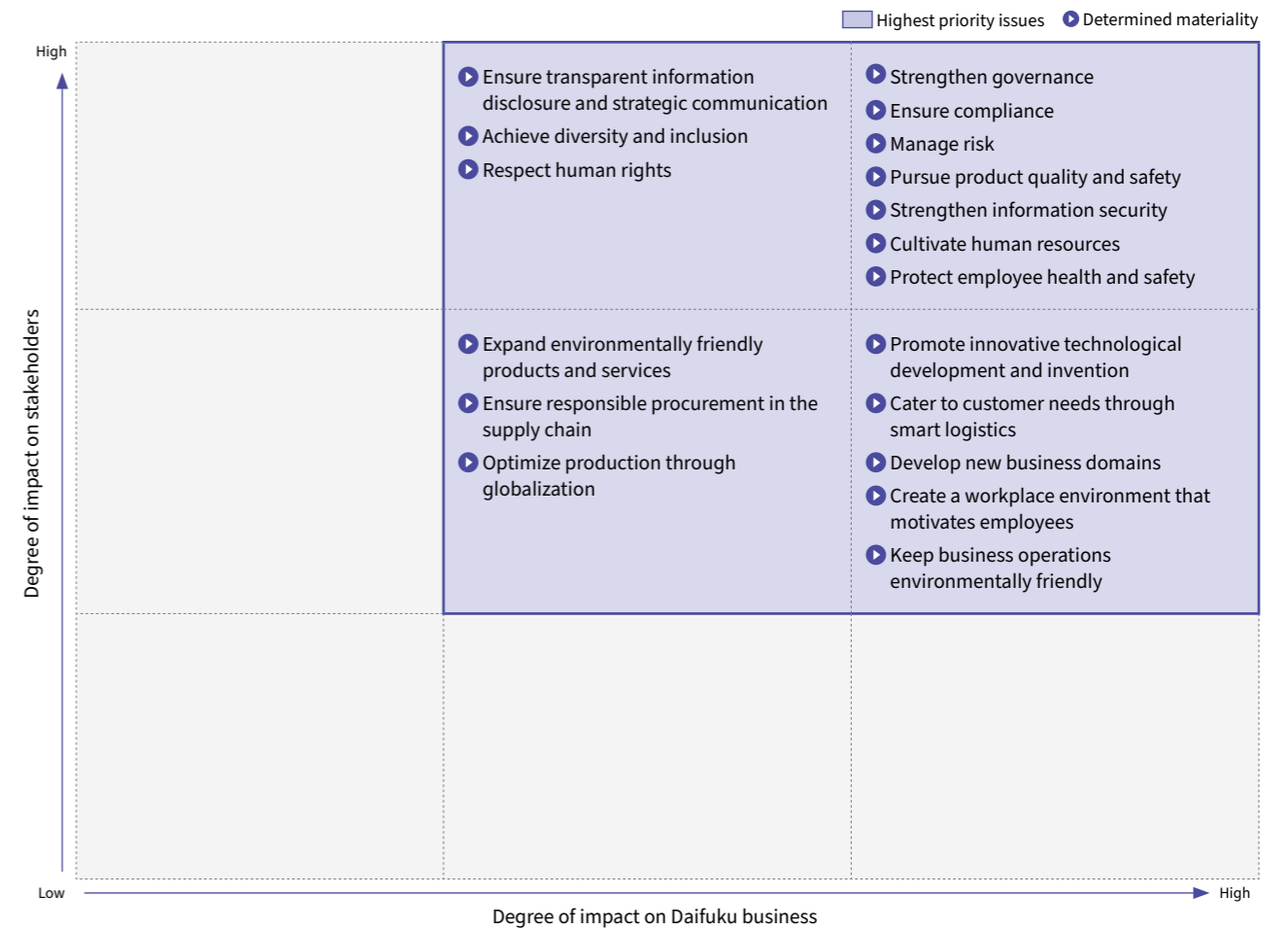
We conducted an evaluation of the materiality candidates extracted by the internal project team according to the following methods, and identified 18 materiality aspects.

Degree of impact on stakeholders (vertical axis)

We evaluated stakeholder expectations and demands as well as the degree of impact from a positive and negative perspective through our initiatives for each issue.

Degree of impact on Daifuku business (horizontal axis)

We evaluated compatibility with our business policy and strategy, impact on the business index, and from a perspective on risk and opportunity to our reputation for each issue.



For details, see our website:
www.daifuku.com/sustainability/management/materiality

Sustainability Action Plan

I A company that supports society and the future

The Daifuku Group formulated the Sustainability Action Plan (FY2021-2023) after reviewing the critical issues we have worked on until fiscal 2020 in our CSR Action Plan and based on the five themes given precedence in our initiatives. Unlike the CSR Action Plan, we place great importance on contributing through our business with the aim of achieving both sustainable management growth and the realization of a sustainable society that the SDGs aim for.

The Sustainability Committee, chaired by the CEO, has managed the progress of this Plan with the aim of accomplishing its goals, and regularly reports our achievements through our website.

I Sustainability vision



For details, see our website: www.daifuku.com/sustainability/management/plan

Themes	Aspirations for 2030	Materiality	2030 Goals	SDGs
Contribute to a smart society	Provide products and services, and develop new technology to solve social challenges	Promote innovative technological development and invention	Innovate to create new value for the distribution system	
		Develop new business domains	Expand realm of business using business strategy (including M&A and alliances)	
		Cater to customer needs through smart logistics	Use cutting-edge technology to improve efficiency and automation to create value for customers	
Maintain and improve the quality of products and services	Build and maintain systems that provide reliable, safe, and high-quality products	Optimize production through globalization	Achieve global optimized production	
		Pursue product quality and safety	Earn customer trust in product quality and safety	
Enhance operational framework	Carry out both business operations and social responsibility	Strengthen governance	Further strengthening of Group governance system	—
		Ensure compliance	Eliminate serious cases of corruption	
		Manage risk	Implement Group risk management, including overseas subsidiaries	
		Ensure responsible procurement in the supply chain	Implement global CSR procurement	
		Strengthen information security	Thoroughly implement internal global standards and continued operations	—
		Ensure transparent information disclosure and strategic communication	Improve stakeholder engagement	
Respect human dignity	Seek to provide peace of mind and comfort to people	Protect employee health and safety	Eliminate labor accidents and major accidents in operations	
		Achieve diversity and inclusion	Create an environment where a diversity of human resources can remain active	
		Create a workplace environment that motivates employees	Achieve a workplace environment where employees experience comfort, health, and prosperity	
		Cultivate human resources	Provide opportunities for growth according to the individual's career ambitions	
		Respect human rights	Respect human rights of all people involved in our business	
Contribute to the environment through our business	Make efforts in the workplaces and in all regions that reduce our burden on the global environment	Keep business operations environmentally friendly	Enhance measures to reduce environmental footprint, such as in climate change and resource depletion	
		Expand environmentally friendly products and services	Maximize value for customers through being eco-friendly	

Respect Human Dignity

The Daifuku Group is striving to create a work environment that is safe, diverse, respecting of human rights and motivating, to allow each employee to perform to their fullest potential.

[For details, see our website: www.daifuku.com/sustainability/action/human-dignity](http://www.daifuku.com/sustainability/action/human-dignity)

Human resource initiatives

Promotion framework

The Human Resources and General Affairs Division is in charge of establishing and advancing cross-organizational initiatives related to human resources. In particular, we are responsible for fostering the human resources we need to support the global development of our business and the enhancement of our management. We have also set up the Mental and Physical Health Promotion Committee to ensure a work environment that allows employees to work without undue worry, as well as to promote various initiatives. We set up the Work-Style Reforms Committee with the aim of increasing productivity and achieving work-life balance for employees. Our aim is to provide a work environment suitable for diverse human resources. We will continue to pursue effective initiatives based on the sharing of information with each business unit.



Human resource development

To facilitate effective human resource (HR) development, we developed HR policies and conduct systematic and focused training programs based on these policies across the Group. We provide systems, such as a Global Business Trainee Program, to foster global talent and a workforce capable of engaging in global business.

With the increasing number of non-Japanese staff, we provide training for global leaders and staff rising to share the Group's value, as well as build a positive work environment where employees are able to maximize their abilities through the training and other programs.

[For details, see our website: www.daifuku.com/sustainability/action/human-dignity/human-resources](http://www.daifuku.com/sustainability/action/human-dignity/human-resources)

China: All participants pass the certification test administered by the government

While originally administered almost exclusively by the government, following reforms to the country's professional qualification system in recent years, there is a growing trend of companies in the private sector administering certification tests instead. Daifuku (China) Automation Co., Ltd. was selected to take part in the first certification test in Changshu under the new system.



Practical test

In August 2020, the company commenced related training initiatives. Ninety-three manufacturing personnel attended lectures from a third-party institution. Afterward, participants attended an entry-level written and practical test conducted in the presence of government officials. Following a review of the results by the Changshu Municipal Government, all participants were certified as entry-level machinery assemblers on January 5, 2021.

Safety initiatives

Promotion framework

Daifuku has established a Central Safety and Health Committee, which is under the direct control of the CEO, to work toward the eradication of industrial accidents. Regional Safety and Health Committees and various expert committees (installation/production/procurement) have been set up under this Committee to ensure safety in all Group companies and establish health management systems throughout the Group. We have obtained occupational safety and health management system certification (ISO 45001). We are committed to continuing our safety culture cultivated over many years and striving to make our workplaces safe by identifying all potential risks. Also, having experienced serious accidents in the past, we are now cooperating and sharing information with our suppliers through Safety Cooperation Associations and the Safety and Health Seminar for management. Through this cooperation and information sharing with suppliers, we aim to achieve safety based on mutual awareness and education.



Safety training

Daifuku has a hands-on safety training facility globally that provides extensive safety training toward eradicating work accidents. It gives trainees simulated experiences of potential dangers at manufacturing and installation sites, such as electric shocks, getting caught in operating equipment, fire, and falls. Available to both Daifuku and partner personnel, the training fundamentally seeks to raise safety awareness and promote safe actions.

[For details, see our website: www.daifuku.com/sustainability/action/human-dignity/safety](http://www.daifuku.com/sustainability/action/human-dignity/safety)

Thailand: Obtaining top safety and health rank

Daifuku (Thailand) Ltd. was awarded the top safety and health rank (platinum) from the Thailand Institute of Occupational Safety and Health (T-OSH) following its participation in a project sponsored by the organization, which operates under Thailand's Ministry of Labor.

The institute's project, which targets improvements in occupational health and safety management, advocates for companies to implement related frameworks and initiatives that engage with all facets of its business, and acts as a steppingstone for companies seeking to acquire ISO 45001 certification.

Since its participation in the project in 2020, the company has carried out a number of initiatives toward improving health and safety in the workplace, including establishing robust safety policies and a Safety Management Department, setting safety management targets, and identifying and improving risk areas in the factory. As a result of these efforts, it was evaluated that all of the 81 evaluation criteria set by T-OSH were cleared.



Daifuku (Thailand)'s president Hattori (left) receiving the award

Disclosure of Climate Change Information

At Daifuku, we regard *intensifying global environmental issues* as one of the important factors in the social environment surrounding the Daifuku Group. Since fiscal 2019, we have been carrying out an *environmental management* aimed at decarbonizing society and achieving the SDGs. As part of these efforts, we declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD recommendations). In accordance with the framework of the TCFD recommendations, we have identified risks and opportunities that climate change creates for our businesses globally.

I Governance

We have set up the Sustainability Committee (chaired by the CEO), which submits, reports, and provides information about deliberation items related to sustainable management, including those related to climate change. The Committee consists of the heads of each global business unit and related officers. The Board of Directors receives reports from the Sustainability Committee and passes resolutions on the necessary measures.

I Processes of risk identification and assessment

We set up the secretariat of the Sustainability Committee and a working group consisting of external experts and relevant units. In each scenario, we identified events that may occur in the future and their impact on the value chain. For each impact that has been identified, we clarified the current initiatives as Daifuku's preparations and future prospects.

As a result of a scenario analysis, while business cost will increase due to climate change and the measures taken to mitigate it, we expect growth in demand for our products and services that exceeds the above negative impact.

Specifically, we analyzed different scenarios for rising temperature during the 21st century:

- 1) When the temperature rise reaches 4 degrees Celsius (the world continues to emit greenhouse gases without change), and
- 2) When the temperature rise is kept to less than 1.5 degrees Celsius (greenhouse gas emission regulations are rapidly tightened).

As a result of an analysis based on the two scenarios, scenario 1) is expected to produce severe typhoons and floods, and scenario 2) is expected to result in increased business costs due to carbon taxation, etc. In both scenarios, it has become clear that the increase in demand for our products and services is likely to exceed costs, given the promotion of automation investment and the growing need for environmentally friendly products.

Membership status in climate-related organizations

Daifuku is a member of the following organizations aiming to solve climate change issues and is involved in information sharing and policy proposals:

- ▶ Japan Climate Initiative
- ▶ Japan Climate Leaders' Partnership (Supporting Member)
- ▶ TCFD Consortium

Initiatives for disclosure of climate change information

Daifuku has participated in the CDP* climate change questionnaire since fiscal 2017 to disclose its measures for climate change issues. We also respond to all customer requests through the CDP supply chain program.

* Headquartered in London, CDP is an international non-profit organization working in environmental areas such as climate change, water, and forest resources. On behalf of more than 525 institutional investors with total assets under management of US\$96 trillion, it conducts surveys requesting the disclosure of information related to environmental strategies and greenhouse gas emissions, and publishes the results of its evaluation based on the responses from companies.

	FY2020
CDP Climate Change Questionnaire	B
CDP Supply Chain Program	A-

I Process for managing climate-related risks

For risks and opportunities analyzed based on a transition risk scenario and a physical risk scenario in climate change, in the aspects of both business operation and products, we will specify the process of mitigating, transferring, accepting, and managing climate-related risks through the Sustainability Committee.

Overview of scenario analysis on climate change risks

Rise in temperature in the 21st century	Envisioned risk	Envisioned opportunity
Greenhouse gases are emitted around the world without significant change 4 degrees Celsius	<ul style="list-style-type: none"> ▶ Delays in incoming and outgoing products, damage to production equipment, and shutdowns of our factories due to increased incidence of typhoons, heavy rains, flooding, etc. ▶ Risk of employees experiencing heatstroke in factories and other facilities associated with high temperatures 	Increase in demand for products and services <ul style="list-style-type: none"> ▶ Expansion of cold chain and e-commerce markets ▶ Growing demand for labor savings ▶ Increase in demand from customers for contributions to reducing CO₂ emissions
Rapidly tightened regulations related to greenhouse gas emissions Less than 1.5 degrees Celsius	<ul style="list-style-type: none"> ▶ Increase in procurement and operating costs due to carbon tax, etc. 	

Transition risk measures	While CO ₂ emissions from in-house production activities are about 1% of the total, CO ₂ emissions from customers' energy use is overwhelmingly high at about 64%, and customers need to reduce the environmental load in logistics and production. We will focus on the development and sales of environmentally friendly products (70 products as of May 2021), responding to further increases in these customer needs for mitigating carbon dioxide. In addition, to promote decarbonization in business operations, we are conducting surveys on the potential for introducing renewable energy at major global production sites and formulating plans for introducing the renewable energy.
Physical risk measures	In the risk assessment conducted by the entire Group, we have identified natural disasters including typhoons and floods as severe risks that have a significant impact. To improve the effectiveness of the business continuity plan including the supply chain, we have analyzed the degree of business impact and reviewed the system table of each business unit. We have also made efforts to mitigate the risk of suspended supply by diversifying production sites, purchasing key components from two or more suppliers, and taking other measures. Moreover, at production, installation, and service sites, we are striving to continuously improve the work environment to protect against higher temperatures and ensure thorough safety and health management.

I Risk management

We have built a Groupwide risk management framework based on our risk management rules. We position major natural disasters, including climate change, as a significant risk, and the Sustainability Committee manages that risk in a centralized manner. Concerning climate change risks, we apply the views of external experts and report them to the Board of Directors as necessary.

I Metrics and targets

We have promoted Daifuku Environmental Vision 2020, which set fiscal 2020 as the final year, focusing on three themes: 1) promote environmentally friendly activities in business operations, 2) expand environmentally friendly products and services, and 3) enhance the foundations for environmental management. Based on a scenario analysis and stakeholder requests, we have developed Daifuku Environmental Vision 2050, a new environmental vision looking toward 2050. (▶ □ Pages 62–63)

For details, see our website:
www.daifuku.com/sustainability/environmental-management/#eco-2

Daifuku Environmental Vision 2050

Daifuku has formulated its new environmental vision, Daifuku Environmental Vision 2050—One-Daifuku Zero, looking toward 2050 for the achievement of a sustainable society. We have set a goal to create material handling systems with zero environmental impact by 2050, and toward that goal we have established targets for issue areas until 2030: Climate Change and Energy, and Resource Recycling.

I Daifuku Group's vision for 2050



I Crucial issue areas and targets for 2030

During its implementation period from fiscal 2021 to 2030, the Vision is driven by the Sustainability Committee with the CEO as chair. In addition, this initiative is positioned as the themes: “Keep business operations environmentally friendly” and “Expand environmentally friendly products and services” in the Sustainability Action Plan.

Accelerating climate change and energy responses

- We will strive to reduce CO₂ emissions in our value chain by reducing the energy use of our products operated at customer sites and by working together with our suppliers.
- We will work on CO₂ emissions reductions compliant with the Paris Agreement by promoting energy conservation and introducing renewable energy sources throughout the Daifuku Group.
 - ▶ **70% or higher** sales ratio of projects that include eco-friendly products*¹
 - ▶ **30% or more** in overall avoided CO₂ emissions*²
 - ▶ **25% or more** reduction in total CO₂ emissions by Daifuku (from FY2018 levels)
 - ▶ **50% or more** corporate participation in supply chain CO₂ reduction program

Building a foundation to promote resource recycling

- To promote resource recycling throughout the product life cycle, we will enhance the recyclability rate of our products.
- We will build a resource-recycling framework at all our production sites.
 - ▶ **90% or higher** recyclability rate for new products
 - ▶ Resource recycling*³ for our global production sites

*1 Projects that contributed to our customers' environmental activities through Daifuku Eco-Products

*2 CO₂ volume after subtracting all CO₂ emissions from Daifuku products and services provided to our customers from CO₂ emissions in fiscal 2011, used as a base standard for environmental performance at the time

*3 In April 2022, we will announce a target following an assessment of resource recycling at our production sites.

I Vision formulation process

We have set up a subordinate project of the Sustainability Committee and discussed the areas, levels, and indicators of initiatives with the heads of each business unit and outside experts. Daifuku concludes that measures against climate change and resource recycling are paramount.

I Crucial issue: Climate change and energy initiatives

The material handling system we provide is constantly in operation at our customers' logistics facilities and factories around the world. As a result, CO₂ emissions from energy use during product operation are the highest. Using the technology and experience we have cultivated so far, we will promote energy-saving measures through product energy-saving measures and overall system operation optimization.

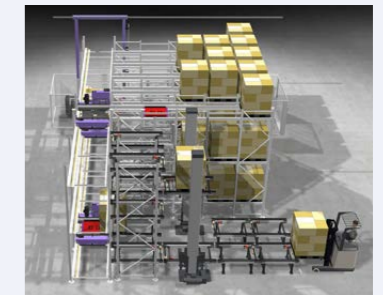
In business operations, we will work to further promote energy conservation measures at our globally expanding production bases and introduce renewable energy. Regarding renewable energy, we have already introduced a photovoltaic system and procured electricity derived from renewable energy at our production sites, and we will continue to introduce it under a medium- to long-term plan.

In production activities, most of our products are in the assembly process, and the CO₂ emissions of upstream suppliers such as parts manufacturing tend to be relatively high. To realize this vision, we will work with our suppliers to reduce CO₂ emissions in the supply chain that supports our production.

Daifuku Eco-Products

Shuttle Rack D³ extra high-density unit load AS/RS

Shuttle Rack D³ is a unit load automated warehouse suitable for storing small types of products in large quantities. Loads are transported to each layer by the input/output lifter and stored in the rack by the parent shuttle and child shuttle placed in each layer. Compared to the operation of a conventional stacker crane, multiple loads can be stored deeper into the rack, greatly improving storage efficiency. In addition, by separating the running and lifting functions, the weight of the running part has been reduced, along with power consumption.



I Crucial issue: Resource recycling initiatives

We offer a large-scale material handling system consisting of many parts and materials. This vision aims to circulate resources not only when waste is generated from business activities but also when equipment delivered to customers is removed. From that point of view, we will review the product materials and improve the ease of disassembly from the design stage.

In addition, we have positioned the stable operation of the system for a long period of time and delaying the timing of disposal as an important initiative, and will enhance after-sales services such as maintenance.

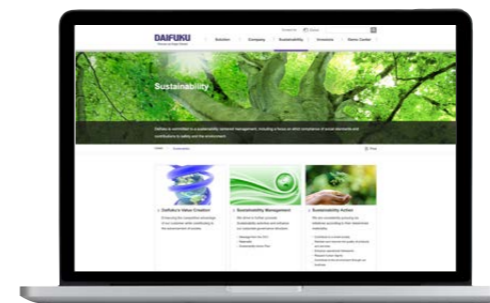
SASB Disclosure Information Index

Sustainability disclosure topics & accounting metrics

Topic	Code	Category	Accounting metrics	Daifuku website
Energy management	RT-IG-130a.1	Quantitative	1 Total energy consumed	Although we do not use a measurement method that matches the metrics recommended by SASB, we only disclose each energy consumed in Japan. ESG Data > E: Environment
			2 Percentage grid electricity	Although we do not use a measurement method that matches the metrics recommended by SASB, we only disclose each power consumed in Japan. ESG Data > E: Environment
			3 Percentage renewable	Although we do not use a measurement method that matches the metrics recommended by SASB, we are actively introducing renewable energy under Daifuku Environmental Vision 2050. Environmental Management
Employee health & safety	RT-IG-320a.1	Quantitative	1 Total recordable incident rate (TRIR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose frequency rate as alternative data. ESG Data > S: Society
			2 Fatality rate	ESG Data > S: Society
			3 Near miss frequency rate (NMFR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose the following information as alternative data. Protect Employee Health and Safety
Fuel economy & emissions in use-phase	RT-IG-410a.1	Quantitative	Sales-weighted fleet fuel efficiency for medium- and heavy-duty vehicles	We have no target product, but we disclose the overall avoided CO ₂ emissions through our products and services. Expand Environmentally Friendly Products and Services
	RT-IG-410a.2	Quantitative	Sales-weighted fuel efficiency for non-road equipment	
	RT-IG-410a.3	Quantitative	Sales-weighted fuel efficiency for stationary generators	
	RT-IG-410a.4	Quantitative	Sales-weighted emissions of nitrogen oxides (NOx) and particulate matter (PM)	
Materials sourcing	RT-IG-440a.1	Discussion and analysis	Description of the management of risks associated with the use of critical materials	Currently, we are grasping and organizing the existence of risks in the use of scarce resources.
Remanufacturing design & services	RT-IG-440b.1	Quantitative	Revenue from remanufactured products and remanufacturing services	Although we do not use a measurement method that matches the metrics recommended by SASB, we identify environmentally friendly products and manage their sales based on the Daifuku Eco-Products certification system. ESG Data > E: Environment

Activity metrics

Activity metrics	Code	Category	Topic	Daifuku website
Metrics that quantify the scale of a company's business	RT-IG-000.A	Quantitative	Number of units produced by product category	We do not disclose due to the wide range of products and their characteristics.
	RT-IG-000.B	Quantitative	Number of employees	ESG Data > S: Society



Our sustainability website provides detailed information on Daifuku's sustainability promotion policies, systems, achievements, and data. The site also provides our sustainability reports and the GRI (Global Reporting Initiative) Standards Index.

- [Sustainability Report](http://www.daifuku.com/sustainability/report)
- [GRI Standards Index](http://www.daifuku.com/sustainability/gri)

Chapter 4

Governance

- 68** Board of Directors
- 70** Management
- 74** Corporate Governance
- 82** Interview with Outside Directors



Board of Directors

In the Daifuku Group, which strongly promotes global expansion, ensuring management transparency, appropriate risk management, and compliance are the major premise of its business. In addition, we need to consider a strong demand to incorporate a social perspective as well as economic efficiency. In view of this situation, the Board of Directors is composed of people with various expertise and knowledge suitable for manufacturers that generate net sales of 500 billion yen to customers in a wide range of sectors, and with top management experience of subsidiaries and management experience of other companies, to maintain a structure that responds to referrals from shareholders. The experience and skills of corporate officers are also briefly introduced in this report (▶□ Page 73).



I Corporate governance structure list (as of June 25, 2021)

▶ Directors

	Hiroshi Geshiro	Shuichi Honda	Seiji Sato	Toshiaki Hayashi	Hiroshi Nobuta	Yoshiaki Ozawa	Mineo Sakai	Kaku Kato	Keiko Kaneko
Title	Representative Director President and CEO	Director Senior Managing Officer	Director Managing Officer	Director Managing Officer	Director Managing Officer	Outside Director	Outside Director	Outside Director	Outside Director
Assuming office	June 2015	June 2013	June 2010	June 2020	June 2021	June 2014	June 2018	June 2019	June 2019
Attendance	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 9/9 times Special: 3/3 times	—	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 5/5 times	Board meeting Regular: 12/12 times Special: 4/5 times
Advisory Committee (nomination/remuneration)	Member					Chair	Member	Member	Member

Diversity

Independence							✓	✓	✓	✓
Professional background	Corporate management	The Group	The Group, bank	The Group	The Group	The Group		Trading company, IT company	Trading company, energy development company	
	Other than corporate management						Accounting firm, university, outside member of the Audit & Supervisory Board and Substitute Director (Audit & Supervisory Committee Member) of enterprises	University	Trading company, university, law firm, statutory auditor and external statutory auditor of enterprises	
Knowledge/Experience		Sales, production, management	Sales, management	Sales, production	Production	Sales, production	Finance, accounting	Finance, accounting	Legal	Legal
International experience		✓	✓	✓	✓	✓	✓	✓	✓	
Gender		Male	Male	Male	Male	Male	Male	Male	Male	Female
Age		63	64	61	62	61	67	70	66	53

▶ Audit & Supervisory Board members

	Yoshihisa Kimura (inside)	Ryosuke Aihara (outside)	Tsukasa Miyajima (outside)	Nobuo Wada (outside)
Attendance	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 11/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times	Board meeting Regular: 12/12 times Special: 5/5 times Audit & Supervisory Board meeting: 6/6 times
Statements	He has abundant experience at the accounting unit and considerable knowledge of financial and accounting matters.	He provides expert advice and recommendations to the Boards as a lawyer.	He is a university professor specializing in legal affairs. As an academic expert and a legal specialist, he provides insightful advice and recommendations to the Boards, based on extensive experience and deep insight.	Having been a university professor specializing in condensed matter physics for many years, he provides insightful advice and recommendations to the Boards, based on extensive experience as an academic expert.

Management (As of June 25, 2021)

I Representative Director



Hiroshi Geshiro

President and CEO

In 2018, Hiroshi Geshiro became the president and CEO. His strength is abundant sales experience worldwide. With appropriate risk management, he drove the achievement of higher sales and profits even in the face of the COVID-19 pandemic. In addition, he demonstrates the leadership in establishing a system suitable for the Daifuku Group across the globe, including Groupwide production reforms by DX and strengthening efforts for sustainability management.



Yoshiaki Ozawa

Outside Director

Yoshiaki Ozawa has ample experience as a certified public accountant, keen insights into accounting, and a wealth of experience in business, including working outside Japan. He is a university professor focusing on business analysis. He has been an outside director at Daifuku since 2014.



Mineo Sakai

Outside Director

Mineo Sakai has a strong track record and extensive experience in corporate management, including serving as CEO and chairman of a leading IT company. He has been an outside director at Daifuku since 2018.

I Directors



Shuichi Honda

President and CEO of
Daifuku North America Holding Company

Director
Senior Managing Officer

Shuichi Honda promotes globalized management based on his international knowledge and involvement in managing a Japanese megabank, while serving as the head of a non-Japan subsidiary.



Seiji Sato

Cleanroom Global Business Head

Director
Managing Officer

Seiji Sato has a wide range of experience and knowledge in semiconductor and FPD production line systems, as well as management experience in a non-Japan subsidiary.



Kaku Kato

Outside Director

Kaku Kato has abundant experience and extensive knowledge in corporation management also in terms of health, safety, environment, society, and corporate governance and a wealth of non-Japan experience. He is a visiting professor focusing on law at a university. He has been an outside director at Daifuku since 2019.



Keiko Kaneko

Outside Director

Keiko Kaneko has abundant experience and extensive knowledge in corporate legal affairs as a legal specialist and has experience working at a trading company and as an associate professor at a graduate school. She has been an outside director at Daifuku since 2019.



Toshiaki Hayashi

Automotive and
Airport Global Business Head
Automotive Division Manager

Director
Managing Officer

Toshiaki Hayashi's career centers on the engineering and production of the Automotive business, as well as management experience in a non-Japan subsidiary.



Hiroshi Nobuta

Intralogistics Global Business Head

Director
Managing Officer

Hiroshi Nobuta has abundant experience in the field of the mainstay Intralogistics business centered on engineering and sales at the Company and its non-Japan subsidiary.

Management

I Audit & Supervisory Board members



Yoshihisa Kimura

Audit & Supervisory Board Member

Yoshihisa Kimura has deep insight and extensive non-Japan experience, mainly in the field of accounting and finance. He has been a member of the Audit & Supervisory Board since 2014.



Tsukasa Miyajima

Audit & Supervisory Board Member (outside)

Tsukasa Miyajima is a university professor specializing in legal affairs, and as an academic expert and a legal specialist, has extensive experience and deep insight. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2018.



Ryosuke Aihara

Audit & Supervisory Board Member (outside)

Ryosuke Aihara, as a legal specialist, has a wealth of experience and deep insight into corporate governance and compliance. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2016.



Nobuo Wada

Audit & Supervisory Board Member (outside)

Nobuo Wada has long been a university professor majoring in experimental research into condensed matter physics and has deep insight and extensive experience as an academic expert. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2019.

I Officers

1 Expertise, knowledge, experience 2 International experience (* Including management experience) 3 Gender 4 Age

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Akihiko Kishida

Chairman of Daifuku (China) Co., Ltd.
Chairman of Daifuku (China) Automation Co., Ltd.

1 Production 2 China* 3 Male 4 62

Yoshiyuki Horiba

Cleanroom Automation
Chief Officer of Komaki Works

1 Design, product development 2 —
3 Male 4 62

Takaya Uemoto

Deputy Automotive and Airport Global Business Head
Airport Division Manager

1 Installation, service 2 U.S.A.* 3 Male 4 60

Yasuhisa Mishina

Production Officer
DX Division Manager
Intralogistics Production

1 Software, design, production 2 —
3 Male 4 61

Hideaki Takubo

Corporate Functions
Human Resources and General Affairs

1 HR, general affairs 2 China*
3 Male 4 60

Corporate Officers

Akihiko Nishimura

Auto Wash Global Business Head
President of Daifuku Plusmore Co., Ltd.

1 Installation, service, sales
2 Canada, U.S.A.* 3 Male 4 58

Takuya Gondo

Intralogistics Engineering

1 Engineering, production 2 —
3 Male 4 60

Hiroaki Kita

Safety and Health Management
Chief Officer of Shiga Works

1 Design, product development
2 U.K., Germany, U.S.A., China*
3 Male 4 60

Norihito Toriya

Intralogistics Sales

1 Sales 2 — 3 Male 4 57

Tetsuya Hibi

Corporate Functions
Finance and Accounting

1 Finance, accounting 2 U.S.A.*
3 Male 4 57

Seiji Yamamoto

Intralogistics Installation and Services

1 Installation, service 2 Thailand*
3 Male 4 56

Tsutomu Maeda

Automotive Systems Installation and Services

1 Installation, service 2 U.S.A., India*
3 Male 4 55

Tomoaki Terai

Cleanroom Automation Production

1 Production 2 U.S.A., Taiwan*
3 Male 4 52

Audit Officer

Tsukasa Saito

General Manager of Audit & Supervisory Board Office

1 Finance, accounting 2 U.K., China*
3 Male 4 57

Corporate Governance

I Principal initiatives

As a company with Audit & Supervisory Board, the Daifuku Group is flexibly promoting the introduction and expansion of systems that enhance management transparency, monitoring and supervision functions. The Company strives to improve its effectiveness by continuously implementing the PDCA (plan-do-check-act) cycle, establishing the Daifuku Corporate Governance Guidelines based on Japan's Corporate Governance Code.

I Corporate governance structure

Daifuku, which is a company with Audit & Supervisory Board, enhances its corporate governance by its Board of Directors consisting of nine members, including four outside directors, and the Audit & Supervisory Board consisting of four members, three of whom are elected from outside the Company. The Board of Directors is composed of more than one-third of independent outside directors and designed with diversity.

In addition, to complement the functions of the Board of Directors, Daifuku has set up the Advisory Committee to deliberate on the nomination, election/dismissal, and remuneration of management team members. The Audit & Supervisory Board members and the Audit & Supervisory Board Office further strengthen cooperation between the Audit Division and the Accounting Auditor to deepen and streamline audit work.

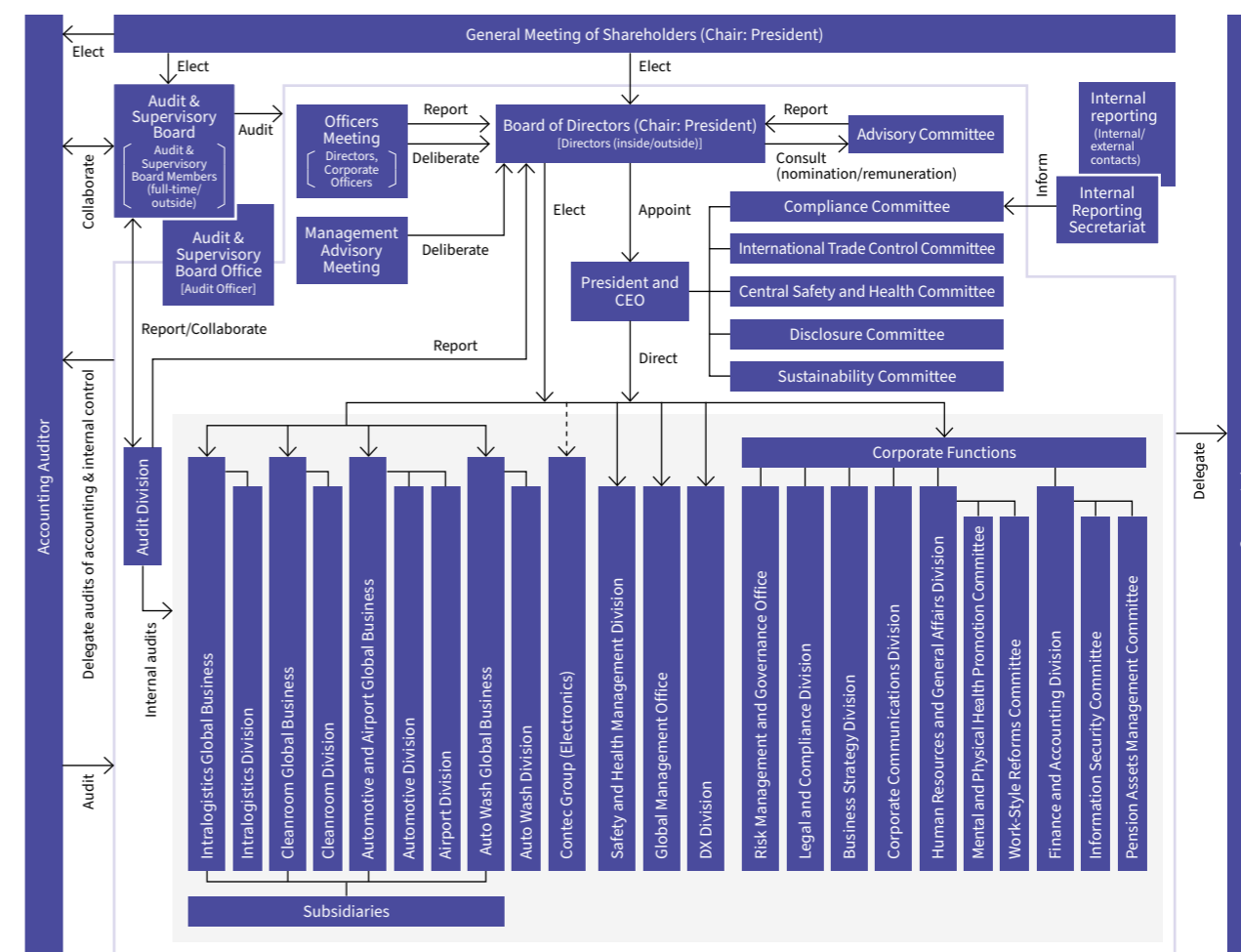
The Company has introduced a corporate officer system to encourage rapid decision-making on business execution. The Officers Meeting deliberates on the content of business execution in the presence of directors, corporate officers, full-time Audit & Supervisory Board members, audit officers, etc. In addition, Daifuku has adopted an audit officer system to strengthen the audit function. The Audit & Supervisory Board Office has been established to assist the duties of Audit & Supervisory Board members and the Audit & Supervisory Board and is supervised by audit officers.

The president and CEO directs each Global Business and the Corporate Functions. In addition, committees under the president are working to identify and resolve common issues for the entire Group.

The evolution of corporate governance

FY	Board of Directors, Audit & Supervisory Board	Other
2011	• Introduction of a corporate officer system	
2012	• Election of an outside director	
2014	• Addition of one outside director to make two in total	
2015	• Implementation of evaluation of the Board of Directors' effectiveness and disclosure of the results overview	
2016	• Establishment of the Advisory Committee for nomination and remuneration • Formulation of independence standards of outside directors and outside Audit & Supervisory Board members • Introduction of the Board Benefit Trust (BBT) as a performance-based remuneration system	• Establishment of the Daifuku Corporate Governance Guidelines • Review of the appropriateness of cross-shareholdings and clarification of voting rights exercise standards
2017	• Evaluation of the Board of Directors' effectiveness through an external organization • Narrowing down the agenda items to be discussed by the Board of Directors to the important matters • Strengthening of training of directors	• Acceleration of management decision-making at its subsidiaries and clarification of their authorities and responsibilities
2018	• Addition of one outside director to make three in total	• Review of the whistleblowing system • Establishment of the Pension Assets Management Committee • Abolition of takeover defense measures
2019	• Addition of one outside director to make four in total • Establishment of Audit Officer position and the Audit Division	• Formulation of the Group Code of Conduct
2020	• Reduction of three inside directors of the Board • Establishment of the Audit & Supervisory Board Office	• Verification of the appropriateness of shareholdings based on basic policies on owning listed subsidiaries
2021	• Election of one corporate officer who oversees the largest business as an inside director	• Establishment of the Risk Management and Governance Office • Establishment of rules for entertainment and gift-giving in the Group Code of Conduct

Corporate governance structure (as of April 1, 2021)



I Audits by the Audit & Supervisory Board members

The Audit & Supervisory Board makes resolutions on audit plans, election/dismissal, non-reelection of accounting auditors, consent for accounting auditors' remuneration, a draft of audit report, etc. In addition, full-time Audit & Supervisory Board members report on the status of audit implementation, audit results, audit equivalence assessment of accounting auditors, compliance-related matters, etc.

Major priority audit items for fiscal 2020 were as follows:

- Status of project management system for large projects
- Development and operation status of the Group's internal audit system
- Status of training and securing human resources
- Status of sustainability management initiatives

The Audit & Supervisory Board also heard audit plans, quarterly reviews, and reports of audit result from accounting auditors.

Full-time Audit & Supervisory Board members execute the following:

- Attendance at important meetings, including meetings of the Board of Directors, and various committees
- Interviews with directors and heads of each business unit
- Audit of main non-Japan subsidiaries

The Audit & Supervisory Board also works to increase the effectiveness of audits by sharing information and discussion with the Audit Division, Legal and Compliance Division, and other, as well as subsidiary Audit & Supervisory Board members. Outside members of the Audit & Supervisory Board attend meetings of the Board of Directors and express their opinions as necessary based on their professional viewpoints and abundant experience.

Corporate Governance

I Advisory Committee

Daifuku has established a voluntary Advisory Committee to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors regarding the nomination, dismissal, and remuneration of directors and corporate officers.

Specifically, as follows:

- ① The Committee consists of at least one representative director and three or more members, including one or more outside directors, and meets at least three times a year. In fiscal 2020, the Committee consisted of all four outside directors and one representative director, and met six times.
- ② To ensure the independence and objectivity of the Committee, the Committee is chaired by an outside director.
- ③ Remuneration of the management team is resolved by the Board of Directors after being examined and reported by the Advisory Committee based on evaluation criteria.
- ④ The Advisory Committee considers the identification of the qualities required for successors, the appointment and evaluation of specific successor candidates; and reports the result to the Board of Directors.
- ⑤ The Advisory Committee examines the qualities of candidates based on objective criteria, and the Board of Directors resolves the appointment of the CEO.
- ⑥ If the CEO's qualities have disappeared, the dismissal of the CEO will be considered by the Advisory Committee on an objective basis and resolved by the Board of Directors.

I Officers' remuneration

Daifuku stipulates the details of officers' remuneration in related internal rules. The Company also formulates the decision policy on annual remuneration, which is decided by the Board of Directors after consideration and the report by the Advisory Committee.

Summary of decision policy

- ① The Company resolved to set the annual amount of remuneration for directors at 700 million yen or less approved at the ordinary general meeting of shareholders held in June 2006. The basic policy is to pay remuneration for directors in accordance with related internal rules stipulated by the resolution of the Board of Directors so that the level of remuneration is appropriate for the roles and duties of directors.
- ② The remuneration for the executive directors consist of base salary as a fixed compensation, a bonus as a short-term performance-linked compensation, and a medium- to long-term performance-linked equity compensation.
- ③ For outside directors who have a supervisory function, only the base salary shall be paid.
- ④ The base salary shall be fixed compensation based on the annual salary of officers by position, and the level shall be determined by comprehensively considering the qualifications and positions and the performance of the Company as well as levels at other companies.

Activities of the Board of Directors and a committee, etc., in the process of determining officers' remuneration

The remuneration for directors shall be reviewed and reported by the Advisory Committee, which consists of outside directors and the representative director, and the total amount of base salary and bonuses shall be resolved annually by the Board of Directors. The president and CEO shall be delegated by the Board of Directors to determine the amount of remuneration for individual directors based on relevant internal rules. For details on the Advisory Committee, see the above.

Policy on the determination of the payment ratio of performance-based compensation and other compensation is not fixed because the link between the Company's results and stock value is reflected in compensation. The Company determines the ratio, taking into consideration levels at other companies and the report from the Advisory Committee.

Performance-based remuneration

Bonus

The funds for bonuses as short-term performance-linked compensation are a certain percentage of consolidated net income in a fiscal year, and bonuses are paid based on the basic allocation according to qualifications and positions and the evaluation allocation according to performance results at a certain time every year. For bonus calculation, we have set a "Basic allocation coefficient" based on qualifications and job titles and a "Qualifications evaluation allocation coefficient" based on quantitative (profit growth) and qualitative aspects. About 80% of the allocation amount is "Basic allocation," about 20% is "Qualifications evaluation allocation," and "Qualifications evaluation allocation" is calculated based on individual evaluation.

Non-monetary compensation

Daifuku adopts the Board Benefit Trust (BBT) system as a non-monetary compensation. The purpose of introducing this system is to make clearer the link between officers' remuneration and the Company's results and stock value and for officers to share with shareholders the benefit of rising stock prices and the risk of falling stock prices, which will motivate them to contribute to improving results and increase corporate value over the medium to long term.

In this system, standard points are set for each position. According to the degree of achievement of the business year target and the medium-term business plan targets, coefficients by four levels are assigned, and points are awarded accordingly. Accumulated points are paid in stock and money at the time of retirement. The degree of achievement in a fiscal year is calculated based on the degree of achievement of initial net income and profit margin plans in the fiscal year. The degree of achievement in the medium-term business plan is calculated based on the latest management targets (including net sales, operating income, ROE targets) announced by the end of the previous fiscal year. In fiscal 2020, the number of shares issued was 24,500 for four retired directors and 4,100 for three executive officers who reached retirement age, for a total of 28,600 shares.

Delegation of authority to determine remuneration for individual directors

The Board of Directors has the authority to decide on policies on the amount of officers' remuneration, etc., and the method for calculating the amount. President and CEO Hiroshi Geshiro has been delegated to determine the amount of remuneration for individual directors for fiscal 2020 under the internal rules. The delegated authority is the authority to determine the monthly allocation of basic remuneration for each director and the allocation of bonus based on the evaluation of performance for each director. The authority has been delegated to the president and CEO because the president and CEO is in the most suitable position for maintaining an overview of the results at the entire Company, and at the same time, evaluating each director's roles and responsibilities.

To exercise the authority properly, the president and CEO determines remuneration for each director in line with the opinions of the Advisory Committee. To ensure that the president and CEO exercises the authority properly, the Board of Directors has respected the Advisory Committee's report on remuneration for each director, which is the result of the Committee's deliberation in line with the policy, and has approved the remuneration.

Remunerations for Board members

Total amount of remuneration, etc., for each officer category of the submitting company, total amount of remuneration, etc., by type, and number of target officers (FY2020)

	Total remuneration (million yen)	Total remunerations by type (million yen)			Number of target officers
		Base salary	Performance-based remuneration		
			Bonus	BBT	
Directors (excluding outside directors)	409	164	182	63	8
Audit & Supervisory Board members (excluding outside members)	52	31	21	—	2
Outside officers	90	90	—	—	7

Disclosure of individual directors' remuneration over 100 million yen: Hiroshi Geshiro (President and CEO, Representative Director): Total remuneration of 119 million yen (base salary: 55 million yen, bonus: 45 million yen, BBT: 18 million yen)

Corporate Governance

Performance-based remuneration and other compensation

	Performance-based remuneration		Other
	Bonus	Non-monetary compensation (BBT)	Base salary
Covering	Inside directors of the Board, full-time Audit & Supervisory Board members	Inside directors	All officers
Index	Part of net income is used as funds. Determine after quantitatively and qualitatively evaluating the work in charge.	<ul style="list-style-type: none"> Each FY: Achievement of performance targets (net income amount and ratio) Achievement of medium-term business plan Value Innovation 2020 (April 2017–March 2021): Targets of net sales, operating income, and ROE 	—

Note: FY2020

• Net income: ¥29 billion (target of FY2020), ¥32.3 billion (achievement ratio: 111.7%)

• Net income ratio: 6.3% (target of FY2020), 6.8% (achievement ratio: 108.4%)

Medium-term business plan (the target revised in May 2019)

• Net sales: ¥500 billion (target), ¥473.9 billion (achievement ratio 94.8%)

• Operating income: ¥57.5 billion (target), ¥44.5 billion (achievement ratio 77.5%)

• ROE: More than 10% (target), 13.2% (achieved)

I Enhancing corporate governance structure

Evaluation of the Board of Directors' effectiveness

In March 2021, Daifuku conducted its sixth questionnaire of all directors and Audit & Supervisory Board members concerning the Board of Directors' effectiveness. Using an external organization for evaluation, in the same manner as the previous fiscal year, the Company ensured anonymity and collected more impartial opinions by answering directly to the organization. The results were analyzed from the perspective of a comparison with other companies. Compared to last time, it is considered that awareness gaps within the Board of Directors became smaller.

Evaluation results

Composition of the Board of Directors:

We received many positive opinions such as “very good balance” and “appropriate composition ratio (internal and external) and diversity, etc.” We also received a comment from an internal officer, stating, “Outside directors are actively speaking and lively discussions are taking place.”

Training opportunity, development and operation of the successor plan:

We recognized again that no improvement was seen and that more in-depth discussions and examinations were necessary.

Decrease in communication opportunity:

We saw many comments on decrease in communication opportunity between outside directors as well as between inside directors and outside directors. The primary reason includes the fact most of the Board meetings were held online due to the COVID-19 pandemic. We will consider countermeasures to create opportunities for discussion and dialogue.

Average score of total evaluation:

The score remained unchanged compared to the previous time, however, the difference in the average score of evaluations among directors became smaller. It is considered that the disparity in recognition within the directors has become even smaller.

Comparison with other companies:

Most of the 41 questions in 7 items were above average of other companies' evaluations. We saw significant improvement in the evaluation of questions, “Is there constructive discussion and exchange of opinions with freehearted atmosphere rather than formal?” and “Is own opinion reflected in decision-making and judgment?” In addition, we received comments from external organizations, stating, “effectiveness is generally ensured.”

Basic policies on owning listed subsidiaries

▶ Daifuku Co., Ltd. owns Contec Co., Ltd. as a listed subsidiary. Basic policies on owning listed subsidiaries are the following:

- To respect the subsidiary's independence as a listed company
- Not to perform acts contrary to the principle of shareholder equality

▶ The Company shall encourage Contec to build and operate an effective governance system, for instance by appointing several independent outside directors among the directors of Contec, to secure independent decision-making as a listed subsidiary. The Company shall also ask for prior consultation on matters necessary for risk management.

Reasons for owning Contec as a subsidiary

The major business of the Group is manufacturing, installation, and servicing for plant projects. In recent years, given the growing scale of projects, a reasonable amount of time has become necessary to proceed from determining specifications to recording orders. In addition, because cases in which the period until the completion of work exceeds one year are increasing, a large amount of working capital has come to be required. Because Contec sells device products through agents in many cases, it requires less labor, time, and working capital than the plant-based business. The Group believes that dealing with device products at the same time as focusing on the plant-based business will lead to management stability.

Rationale for maintaining Contec as a listed subsidiary

While Contec engages in the external sales business above, it supplies the Company with electronics products essential for material handling systems. Given that these products need to be developed based on long-standing, cutting-edge know-how while keeping industrial secrets, the Company has decided that it will lead to the maintenance and enhancement of the corporate value of the Group if Contec is required as a listed company to practice strict discipline in areas such as governance and security.

Cross-shareholding strategy

▶ Daifuku reviews the appropriateness of its cross-shareholdings and evaluates the result at the meeting of Board of Directors once a year. Shares of other listed companies held by Daifuku, including those held as cross-shareholdings, shall be kept to the minimum necessary or reduced, 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, such as market capitalization, book value, transaction amounts, dividends, ROE, risk of shareholdings, degree of contribution to the Company's performance, and expectation of contribution to future performance including ongoing orders and retrofits, is examined. The shares, which the Board of Directors regards as having no significance, shall be sold on a timely basis.

- ▶ With respect to the voting rights as to cross-shareholdings, assessments shall be made individually by the corporate officer responsible for finance by attaching importance to the medium- to long-term improvement of the corporate value of each cross-shareholding partner. At the time of the assessment, special attention shall be paid to whether the cross-shareholding partner has been tarnished by scandal or has committed an antisocial act. If the cross-shareholding partner should be involved in such circumstances, its managerial approach to improvement shall be scrutinized.
- ▶ When a cross-shareholder indicates its intention to sell the Company's shares, the Company shall not hinder the sale of the cross-held shares.
- ▶ During fiscal 2020, Daifuku sold all four issues and part of the two issues. As a result, the number of cross-shareholdings decreased by 4 to 48, and the book value decreased by 0.65 billion yen to 7.18 billion yen. Amount of shares recorded was 13.37 billion yen on the balance sheet, which accounts for 3% of total assets.
- ▶ Going forward, Daifuku will continue to negotiate to sell the shares for which we have decided to sell them, and strive to reduce the number of cross-shareholdings.

Corporate Governance

I Initiatives for strengthening compliance

Group Code of Conduct

In 2019, we at the Daifuku Group established the Group Code of Conduct that defines the fundamental principles we (all directors, officers, and employees of the Group) should follow with the aim to realize the Group company creed and management philosophy.

The Group Code of Conduct consists of nine items under the following three basic stances.

- We will act in accordance with applicable laws, rules, regulations, social norms and ethics.
- We will place safety as a major premise in all aspects of our business activities.
- We will remain committed to the creed of “Hini Arata” as we take on new challenges and make changes for the better.

The Group Code of Conduct is translated into various languages, and a booklet is distributed to all Group employees to strive to make it known through training and other opportunities.

The Risk Management and Governance Office, which was established in April 2021, aims to develop the compliance system and strengthen Group governance, including the permeation of ethical awareness throughout the Group.

In addition, the Sustainability Committee encourages to raise employee’s ethical awareness by participating in the My Ethical Consumption Declaration, which selects products and services that take the environment, society, and the community into consideration.

For details, see our website:
www.daifuku.com/company/policy/code

I Whistleblowing system

Daifuku has established a whistleblowing (internal reporting) system to detect fraud and scandals at an early stage and deal with them appropriately. In light of the revision of the Guidelines for Private Enterprises Regarding the Development and Operation of Internal Reporting Systems Based on the Whistleblower Protection Act, in 2018 the Group formulated new whistleblowing system rules and guidelines.

To make the whistleblowing system more effective, the Group has set up an internal contact and independent external reporting desk (with neutral external contractors). Anonymous reporting is possible, and it is available in eight languages to executives and employees of the Group, as well as ongoing business partners (suppliers). The Internal Reporting Secretariat is responsible for the administration of this system and verifies the facts of the report, determines the course of action to take, and handles investigations among other duties. The method of investigation depends on the severity of the report, urgency, and organized involvement. Should a compliance problem be identified through the investigation, we will take corrective action and measures to prevent recurrence. Critical problems are reported to the Compliance Committee and the Audit & Supervisory Board. The confidentiality of people involved in internal report work is obligated and we work to protect whistleblowers from unfair treatment deriving from their act of filing a report.

President Geshiro has sent the following message via the internal network.

“Our management philosophy includes creating a diverse and positive corporate culture. Please do not turn a blind eye to infractions of the law or hesitate to report anything you feel may be wrong so that the Group can continue growing further by obtaining more trust from society.”



Bribery prevention

In April 2021, the Group established new rules for entertainment and gift-giving, in addition to the rules for dealing with obvious violations of laws and regulations that have been already operated.

We set every October as a compliance enhancement month and work to raise compliance awareness of our employees through various events. Prior to strengthening these rules, in October 2020 we held a discussion meeting on the risk of bribery with the president and outside directors in attendance.

At the meeting, the following comments were given by outside directors.

- We need to consider based on the countries having the strictest regulations with the mind that we are doing business to the world. (Kaku Kato)
 - It is important for those who are in a high position to have a strong mind to “never let their staff cheat.” (Keiko Kaneko)
- President Geshiro declared to all employees of the Group through the Company newsletter, “We will work with you to create the Group that does not tolerate fraud and operates its business fair and square.”

In terms of operation, we have established a mechanism to protect individuals, such as setting up a multilingual reporting contact so that employees do not take on worries alone, and thorough advance application and approval when contracting with business partners.

We are working on this not only at Daifuku but also as a supply chain. At a management and production trends presentation held in June 2021, President Geshiro appealed to the management of 263 business partners that he would refuse to receive entertainment and gifts to the Group employees.



President Geshiro participating in the presentation for business partners

First-ever implementation of a virtual general meeting of shareholders

We first introduced the virtual method at the ordinary general meeting of shareholders held on June 25, 2021. We delivered a live stream of the shareholders’ meeting over the Internet. The shareholders who watched the video were not able to exercise voting rights or ask questions, however, we accepted questions before the meeting and answered the majority of questions on the day.

We asked shareholders to refrain from visiting the venue to prevent the spread of COVID-19 infections. As a result, 70 shareholders participated in the live stream, most of which were in remote locations. The number of visitors was 10. The voting right exercise rate remained high at 86.49% (86.90% in the previous fiscal year).



The scene of panel discussion sent to all employees in four languages.



A video camera for the live stream was installed in front of the podium.

Interview with Outside Directors

Daifuku has formulated the three-year business plan Value Transformation 2023, a series of new policies, goals, and plans, starting April 2021. It also identified material issues and developed the Sustainability Action Plan and Daifuku Environmental Vision 2050, with the goal of increasing corporate value over the medium to long term.

In this interview, outside directors were asked about the new business plan, policies, and goals, the kinds of discussions that take place during meetings of the Board of Directors, and the key points to achieving the Company's plans and reaching its goals.



Yoshiaki Ozawa

Outside Director

Mineo Sakai

Outside Director

Kaku Kato

Outside Director

Keiko Kaneko

Outside Director

Q1

How would you evaluate the activities of the Board of Directors in fiscal 2020?

Kato: In fiscal 2020, we had to conduct Board meetings online due to the COVID-19 pandemic. These online meetings went smoothly, as appropriate materials for the meetings were distributed beforehand and those speaking on the agenda were well prepared. With that said, casual conversations and behaviors are also an important part of communication at these meetings. My hope is that we are able to come up with a way to better facilitate nonverbal communication at these meetings as they are a part of living with COVID-19.

One current issue is that I see more than a few proposals that are essentially micromanagement. I believe that the Board of Directors should focus its discussions through a more "big picture" lens. And I believe an even bigger issue is the matter of training candidates to succeed the Company president. As an outside director, I will continue to play an important role on the Board and remain actively involved in issues such as these.

Since the number of full-time Audit & Supervisory Board members has decreased by one in fiscal 2020, I feel that appropriate supervision over management is even more important, both from the audit side of things and from outside directors.

Ozawa: I find it admirable that even in an online environment, the Board was able to adhere to the Corporate Governance Code, set and review the corporate vision and medium- to long-term plans, work to ensure transparent management and operations, implement organizational reforms, and make efforts to enhance audits conducted by the Audit & Supervisory Board by strengthening cooperation with the internal audit unit.

What would enhance the Board is a Corporate Code of Conduct and an ethical charter that provide clear criteria for judgment, in addition to thorough efforts to disseminate them throughout the Daifuku Group.

Q2

What important roles do outside directors play amid the COVID-19 pandemic and the new normal?

Kaneko: The compliance-themed study sessions attended by officers in fiscal 2020 served as a good initiative to facilitate appropriate business execution, and I believe that they helped increase officers' and employees' understanding of compliance.

Sakai: In this time of COVID-19 and the new normal, it is crucial to evaluate the effect on business and risk responsiveness. As COVID-19 generates and accelerates changes in the environment, outside directors need to be active in voicing their opinions on changes or revisions that need to be made for existing businesses and on new growth strategies to ensure that a company can respond.

Ozawa: Now more than ever, we need to understand the impact of the COVID-19 pandemic on business and assess risk responsiveness. In addition, on top of new business opportunities and strategies, we outside directors need to look at the new normal and actively discuss it in terms of the Company's ongoing digital transformation (DX) efforts, work-style reforms, and human resource development.

Kato: While I recognize that inside officers are aware of the rapid changes going on in the world in terms of common thinking and social conditions, outside directors are a little different in that we are not bound by company or industry thinking, so we can be expected to catch wind of different things or have a different perspective. The demands of society may change completely, so I believe that outside directors have an important duty to keep feelers out over a wide area.

Q3

What risks do you believe demand particular attention as environmental and social issues become more apparent, and in what areas do you expect to see business opportunities?

Ozawa: The logistics industry needs to review its business models for mass production, consumption, and disposal. We need to make a radical change to how we produce and consume and come up with new growth models that will help realize a sustainable society. Important to this is the cyclical collection of products and resources at the end of their life cycle, recycling, and reuse. Our material handling systems need to be compatible with this sort of recycling-oriented business. I believe that if the Company generates this type of response, it will create further opportunities for growth.

Sakai: One of the Company's strengths, that is, its material handling systems, is a type of social infrastructure that helps support customers' production and consumption and is a business that intrinsically helps achieve the SDGs. I am of the opinion that material handling will continue to see steady growth in the future as a type of social infrastructure that assists with ever-increasing e-commerce and as a mechanism for both saving labor and reducing person-to-person contact.

On the other hand, there remains a shortage of workers to cover "the last mile," the section from the final shipping center to a consumer's home. If the Company combines its existing systems and services with digital technology such as apps and drones, it will likely help increase efficiency and mitigate these labor shortages.

Kato: Not only does Daifuku's business help save labor and increase efficiency at manufacturing facilities, distribution sites, and airports, it also helps avoid the Three C's (closed spaces, crowded places, and close contact settings). Striving to provide products with even less of an impact on the environment will greatly enhance Daifuku's contribution toward resolving social and environmental issues. Working from this idea, the Company does need to actively promote its business and provide even better products, but it also needs to be more diligent in explaining the aspects of its business I just mentioned to society, and make an appeal based on them. More than ever before, it is important to enhance supply chain management, specifically because this helps resolve environmental and social issues.

Interview with Outside Directors

Q4

What kind of Board discussions took place when formulating Value Transformation 2023, and how would you appraise the plan?

Sakai: During meetings, we paid close attention to market expectations held by shareholders and institutional investors as they relate to management goals and shareholder returns and the likelihood of delivering on these expectations.

The COVID-19 pandemic has sparked rapid changes in domains that have not seen change in a long time. I believe the choice to change the period of Value Transformation 2023 from the conventional four years to three is appropriate in light of this rapidly changing environment.

During a meeting of the Board of Directors, we had an opinion that the Company should challenge itself with more ambitious target values. Each of the numerical targets that the Company has committed to are what management believes to be the best for the present time, and they have been arrived at with the understanding that they can be shifted upward in keeping with changes in the future business environment.

Value Transformation 2023 advocates for “DX² (DX Squared),” which is a concept that incorporates the transformation of the Group itself. The Company is paying close attention to the activities of the newly established DX Division to respond to high expectations for DX as a means to enter new business domains.

During the design stage for logistics systems, digitalization and system modularization are eliminating individual tasks. Digitalization has become a phenomenon, even without the term “DX,” with functions that include using digital technology to perform pre-verification, eliminating the need to perform on-site adjustments of logistics system after shipping.

For digital technology to transform business, however, it is important to change the mindset of employees. When making these kinds of changes from the top down, conflicting mindsets can stand in the way, such as a desire to maintain the status quo, resistance to change, and an inability to accept new ideas. It is up to management and the Company's evaluation systems to try and change this mindset and have employees get out their comfort zones and think in terms of delivering value to their customers.

Kaneko: While we had opinions stating that Value Transformation 2023 could aim for greater growth and could post more ambitious targets, in the end, the current plan, put forth after a wide range of discussions, is something I agree with. Going forward, I will keep a close eye on the Company's efforts to carry out this plan.

Ozawa: If the Company is able to implement the strategies within the plan aimed at increasing profitability—specifically, to enhance product value, increase productivity, and reinforce its production framework—it will most likely exceed its targets for the final year of the plan.

I also believe we need to spend a little more time discussing the measures that make up the plan's business strategy. When looking at Value Transformation 2023 we see that in terms of business domains it highlights “Strategically invest in the global market,” “Create next-generation business models,” and “Invest in promising new domains.” Of these, “strategically invest in the global market” makes reference to M&A, but this requires careful judgment in light of past performances, and the Board has expressed the need to strengthen post-merger integration. Moreover, I would like the measure to “invest in promising new domains” to lead to more active investment in R&D.

Kato: One point that we emphasized in Value Transformation 2023 is that it is based on social and global demands and trends such as environment, society, and governance (ESG) and the SDGs. This plan was developed with the recognition that there is no future in trying to toe conventional lines and that the unexpected can occur, and so it is aimed at making a business that cannot be shaken by such unexpected events, one that is supported by corporate governance and internal controls. This will require bold decision-making by management. I will spare no effort to support and contribute to these goals.

As an outside director, I will also provide measured advice and supervision from a distance to ensure that when managing or executing the plan changes in the business conditions or social demands are not overlooked in the pursuit of numbers.

Q5

How would you evaluate the Group's material issues, Sustainability Action Plan, and Daifuku Environmental Vision 2050, and what do you believe is important for improving corporate value over the medium to long term?

Sakai: It is vital that everyone in the Group is aware of the significance of linking business with sustainability. If this significance is not internalized within each business unit, then taking the time to re-identify material issues is simply an empty gesture. One specific initiative, the Sustainability Action Plan, contains a number of KPIs based on five themes. The key to achieving these KPIs is to foster a suitable corporate culture and include the business units and their many employees as part of these achievements, so that each employee is motivated to make proactive efforts. I anticipate a strong message from President Mr. Geshiro, chair of the Sustainability Committee, with a follow-up from the Committee itself.

Daifuku established its Group Health Management Declaration early in its history. I appreciate that, to further promote sustainability management, respect human dignity was set as one of the themes in the Sustainability Action Plan, and both respecting human rights and cultivating human resources were identified as material issues. These are things that will lead to a sustainable society and enhance corporate value.

Daifuku Environmental Vision 2050 deserves credit, as it serves as a long-term vision and a milestone for 2030. For a medium- to long-term initiative such as this, it is important to manage progress and course-correct as needed. I expect strong leadership from the Sustainability Committee and will follow progress carefully.

Kaneko: The Group's material issues, Sustainability Action Plan, and Daifuku Environmental Vision 2050 are a series of policies and targets that lay the foundation for management and operational goals in the future. While the determination of management is paramount to achieving them, all employees need to be united on this front. To play my part, I will continue to work actively as an outside director and to strengthen supervision over progress.

Ozawa: When it comes to these policies developed by the Company, we need to look at how to go forward in terms of improving corporate value as an investment target, creating business opportunities, and acquiring the best human resources.

Improving corporate value as an investment target naturally means taking active measures starting from ESG investing. Creating business opportunities is important, since environmental and social issues are expected to bring major changes, and material handling systems are no exception. I believe that incorporating these changes into the Company's strategy will create new businesses. As for acquiring the best human resources, young people have a strong interest in the environment, meaning if the Company does not make efforts in this direction, the best human resources will slip away.

Daifuku needs to be mindful of these matters and act upon them if it wants to achieve medium- to long-term growth.

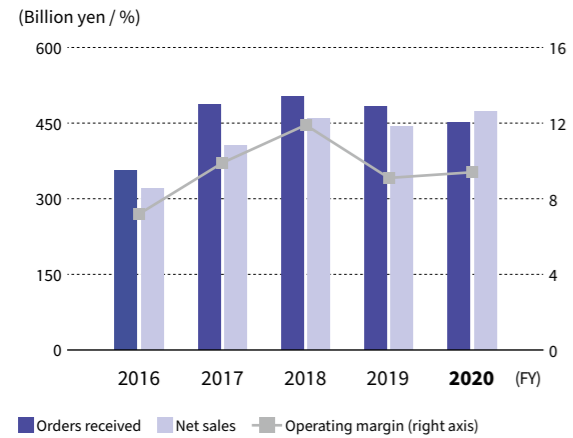
Kato: In Daifuku Environmental Vision 2050, the Group aims for a world where material handling systems have zero environmental impact in 2050. This is an extremely challenging declaration to make. This vision is infused with a desire to become a leading company in material handling as opposed to just following the movements of society, and that is something I have to applaud.

As for each measure and its progress, I believe the Company should develop and adopt an evaluation method with more precise numerical values when things can be evaluated quantitatively, such as CO₂ emission reduction amounts. Of course, we have many issues that are qualitative and difficult to evaluate numerically. In these cases, we need to find an evaluation method and figure out how to disclose this information to society.

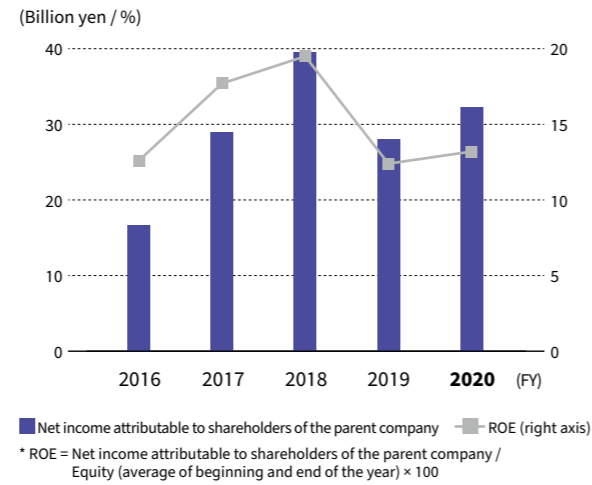
I do recognize that there are advantages and disadvantages to the different ways in which the degree of achievement of these measures is reflected in internal performance evaluations and personnel assessments, and that this is an issue. In the future it will be necessary to investigate and develop evaluation methods both promptly and carefully, and I intend to actively participate in, and contribute to this process.

Key Performance Indicators

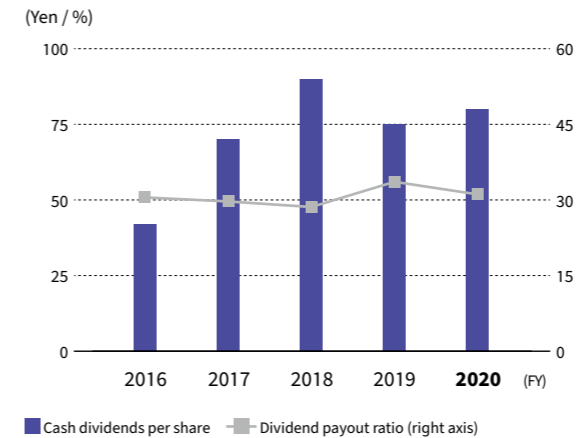
Orders received, net sales, operating margin



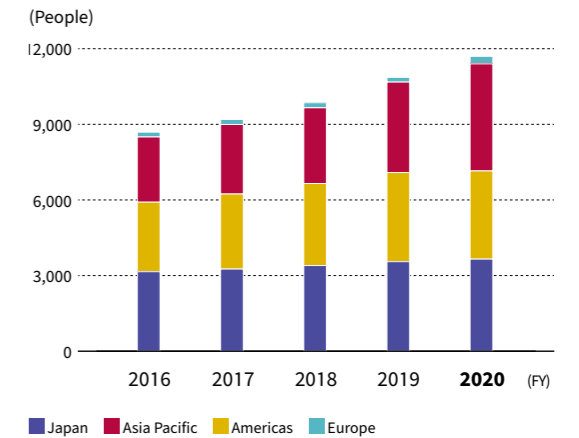
Net income attributable to shareholders of the parent company, ROE*



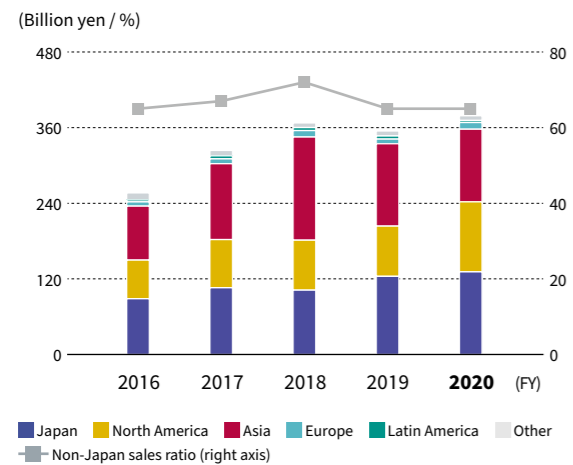
Cash dividends per share, dividend payout ratio



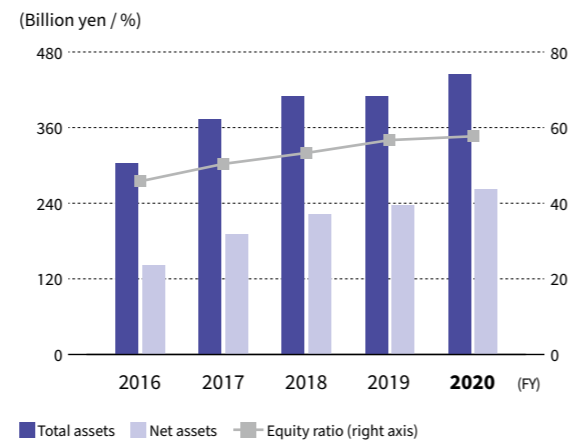
Employees by region



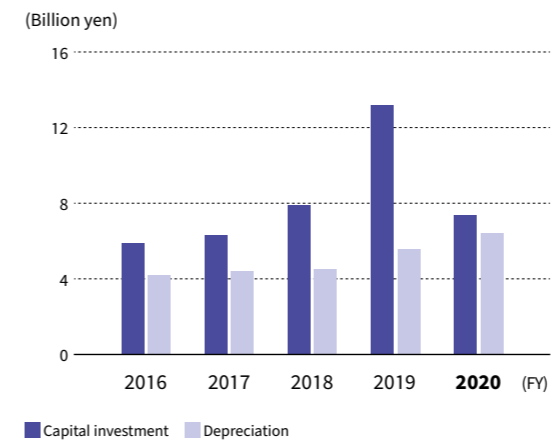
Sales by destination, non-Japan sales ratio



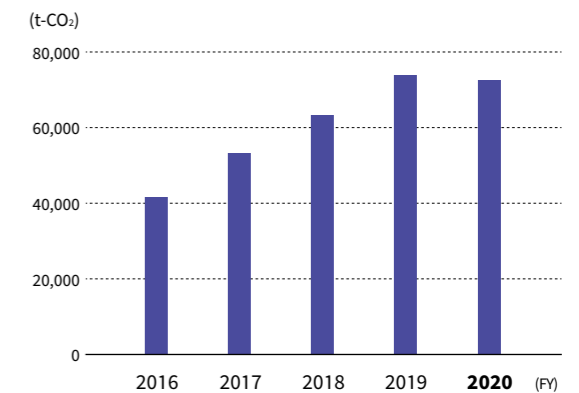
Total assets, net assets, equity ratio



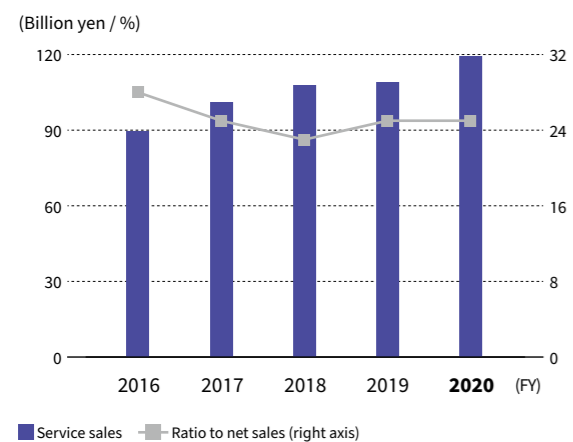
Capital investment, depreciation



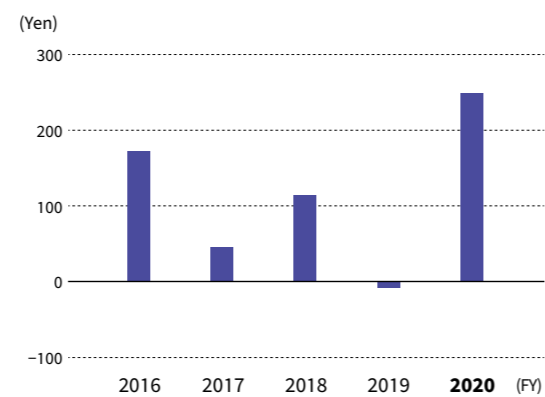
CO₂ reduction contribution (products and services)



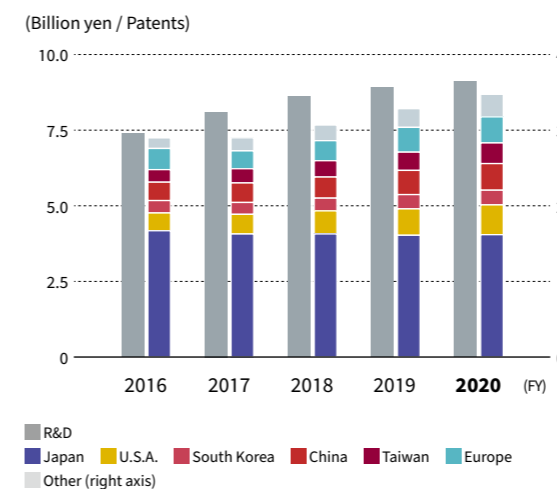
Service sales, ratio to net sales



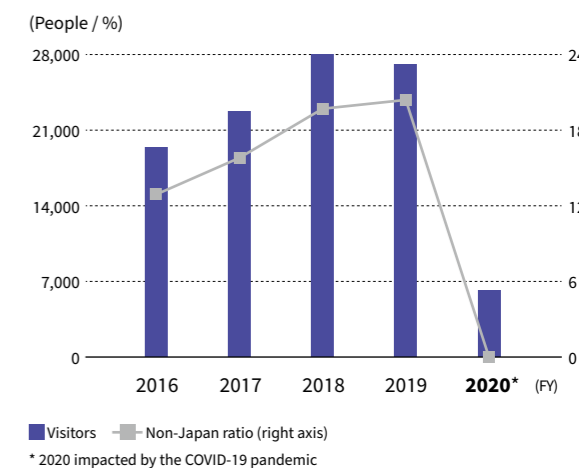
Free cash flow per share



R&D, patents held by region



Visitors to Hini Arata Kan demo center



Eleven-Year Financial Summary

Daifuku Co., Ltd. and consolidated subsidiaries

Fiscal years starting April 1 and ending March 31 the next year

(Million yen)	Material Handling and Beyond			Value Innovation 2017				Value Innovation 2020			2020
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
For the Year											
Net sales	¥ 159,263	¥ 198,052	¥ 202,337	¥ 241,811	¥ 267,284	¥ 336,184	¥ 320,825	¥ 404,925	¥ 459,486	¥ 443,694	¥ 473,902
Cost of sales	131,639	165,505	165,340	194,974	215,641	272,832	256,417	321,836	358,230	357,870	385,744
Gross profit	27,623	32,546	36,996	46,836	51,642	63,351	64,407	83,089	101,255	85,824	88,157
Selling, general and administrative expenses	25,897	28,328	28,986	34,279	36,759	42,472	41,308	43,164	46,574	45,326	43,591
Operating income	1,726	4,217	8,010	12,556	14,883	20,878	23,099	39,924	54,681	40,497	44,566
Income before income taxes	703	3,129	7,316	12,137	15,211	20,650	23,942	41,059	55,329	39,808	45,109
Net income attributable to shareholders of the parent company	269	1,223	4,439	7,740	9,810	13,652	16,746	29,008	39,567	28,063	32,390
Capital investment	3,221	2,393	7,687	10,446	7,532	4,210	5,905	6,348	7,920	13,220	7,462
Depreciation	3,577	3,612	3,332	3,821	4,157	4,587	4,202	4,419	4,598	5,667	6,401
R&D expenditures	6,370	6,484	6,855	7,490	6,945	7,009	7,489	8,123	8,615	8,936	9,165
Cash Flows											
Cash flows from operating activities	¥ 11,417	¥ (5,187)	¥ 15,666	¥ 20,447	¥ 6,295	¥ 7,206	¥ 26,683	¥ 11,497	¥ 8,559	¥ 13,706	¥ 38,229
Cash flows from investing activities	(3,616)	(4,039)	(13,649)	(7,372)	(5,846)	(2,099)	(5,393)	(5,600)	5,937	(14,791)	(6,132)
Free cash flows	7,801	(9,227)	2,016	13,074	448	5,107	21,289	5,897	14,496	(1,084)	32,097
Cash flows from financing activities	(6,056)	7,709	88	1,045	(509)	(8,702)	(4,404)	13,444	(6,893)	(18,354)	(8,932)
At Year-End											
Total assets	¥ 163,388	¥ 185,049	¥ 206,875	¥ 249,531	¥ 271,011	¥ 296,055	¥ 303,540	¥ 373,013	¥ 409,982	¥ 410,887	¥ 445,456
Working capital	65,908	61,943	45,832	87,070	91,187	99,293	96,401	137,298	170,277	180,988	181,236
Interest-bearing liabilities	40,912	51,010	53,385	58,144	60,547	40,904	39,770	37,967	40,001	33,418	35,143
Net assets	77,714	76,618	85,685	99,690	111,521	130,116	142,340	191,474	222,885	237,356	262,012
Shareholders' equity	82,454	82,013	84,486	90,652	98,469	123,669	136,694	181,454	214,656	231,714	255,282
Number of employees	5,209	5,617	6,678	7,349	7,746	7,835	8,689	9,193	9,857	10,863	11,697
Amounts per Share of Common Stock											
Net income per share (Yen)	¥ 2.43	¥ 11.05	¥ 40.12	¥ 69.96	¥ 88.59	¥ 118.72	¥ 137.58	¥ 235.62	¥ 314.54	¥ 222.96	¥ 257.13
Net assets per share (Yen)	683.39	674.72	754.98	875.14	972.75	1,044.40	1,142.14	1,493.69	1,738.20	1,850.28	2,047.07
Cash dividends per share (Yen)	15.00	15.00	15.00	18.00	22.00	30.00	42.00	70.00	90.00	75.00	80.00
Ratios											
Operating income/net sales	1.1%	2.1%	4.0%	5.2%	5.6%	6.2%	7.2%	9.9%	11.9%	9.1%	9.4%
Income before income taxes/net sales	0.4	1.6	3.6	5.0	5.7	6.1	7.5	10.1	12.0	9.0	9.5
Net income/net sales	0.2	0.6	2.2	3.2	3.7	4.1	5.2	7.2	8.6	6.3	6.8
Return on shareholders' equity (ROE)	0.3	1.6	5.6	8.6	9.6	11.6	12.6	17.7	19.5	12.4	13.2
Total assets turnover (Times)	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Shareholders' equity/total assets	46.3	40.3	40.4	38.8	39.8	42.9	45.8	50.4	53.3	56.7	57.7
D/E ratio (Times)	0.54	0.68	0.64	0.60	0.56	0.32	0.29	0.20	0.18	0.14	0.14

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.

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. D/E ratio = Interest-bearing liabilities/(Net assets - Non-controlling interests - Bonds with stock acquisition rights)

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


Company Profile and Stock Information (As of March 31, 2021)

I Company profile

Company name	Daifuku Co., Ltd.	Number of authorized shares	250,000,000 shares
Established	May 20, 1937	Total number of shares issued	126,610,077 shares
Paid-in capital	¥31,865.3 million	Number of shareholders	24,172
Employees	11,697 (consolidated)	General Meeting of Shareholders	June
Ratings	Rating and Investment Information, Inc. (R&I) Long-term: A (single A) [Stable] Short-term: a-1 (a-one)	Stock exchange listing	First Section of Tokyo Stock Exchange
		Stock transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-5-33 Kitahama, Chuo-ku, Osaka

I External evaluation

Title	Evaluator	Evaluation	
		FY2019	FY2020
MSCI Japan ESG Select Leaders Index	<ul style="list-style-type: none"> MSCI Inc. (U.S.A.) Government Pension Investment Fund (GPIF) 	Constituent	Constituent
MSCI Japan Empowering Women Index	<ul style="list-style-type: none"> MSCI Inc. (U.S.A.) Government Pension Investment Fund (GPIF) 	Constituent	Constituent
FTSE Blossom Japan Index	<ul style="list-style-type: none"> FTSE Russell (U.K.) Government Pension Investment Fund (GPIF) 	Constituent	Constituent
S&P/JPX Carbon Efficient Index	<ul style="list-style-type: none"> S&P Global Inc. (U.S.A.) Government Pension Investment Fund (GPIF) 	Constituent	Constituent
ESG Risk Rating * The lower the number, the higher the rating	Sustainalytics (The Netherlands)	31.1	30.7
CDP Climate Change	CDP Worldwide (U.K.)	A-	B
CDP Water Security	CDP Worldwide (U.K.)	B-	B

 For details, see our website:
www.daifuku.com/sustainability/external-evaluation

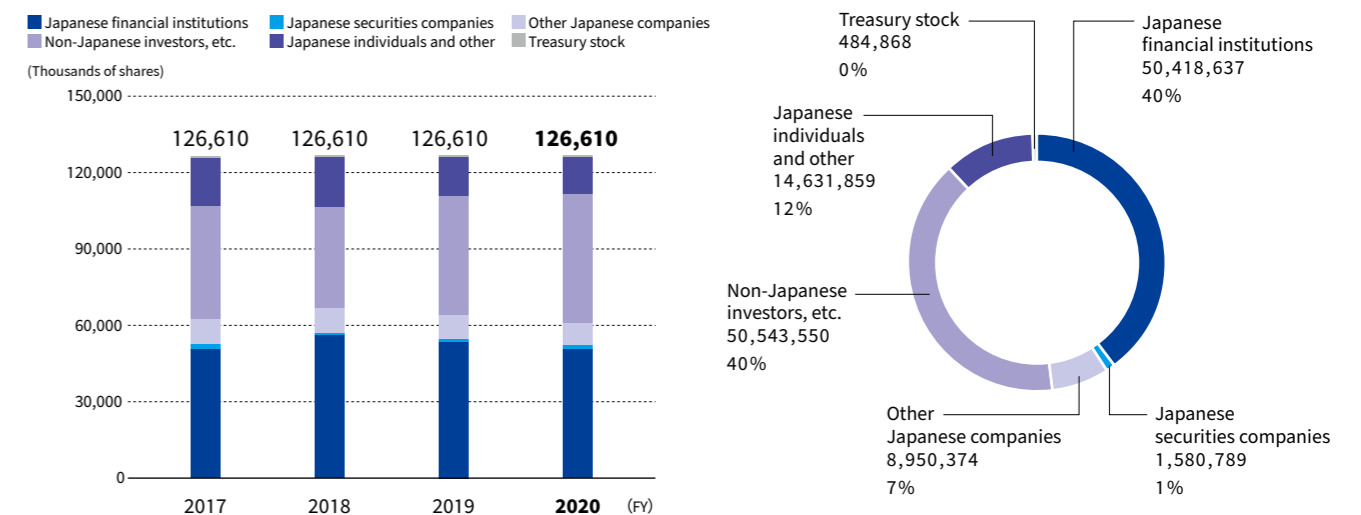
I Stock information

Major shareholders

Name	Number of shares held (Thousands)	Percentage of total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	9,565	7.6
Custody Bank of Japan, Ltd. (Trust account)	7,987	6.3
Mizuho Bank, Ltd.	4,117	3.3
Sumitomo Mitsui Banking Corporation	4,080	3.2
MUFG Bank, Ltd.	3,833	3.0
Nippon Tochi-Tatemono Co., Ltd.	3,207	2.5
Daifuku Supplier Shareholder Association	3,195	2.5
Nippon Life Insurance Company	2,745	2.2
PICTET AND CIE (EUROPE) SA, LUXEMBOURG REF: UCITS	2,484	2.0
Custody Bank of Japan, Ltd. (Trust account 7)	2,406	1.9

Note: Calculated after deducting treasury stock of 484,868 shares.

Distribution of shareholders



Cautionary statement with respect to forward-looking statements

The strategies, belief, and plans related to future business performance as described in this report are not established facts. They are business prospects based on the assumptions and beliefs of the management team judging from the most current information at the time this report was prepared, and, therefore, these prospects are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include 1) consumer trends and economic conditions in the Daifuku Group's operating environment; 2) the effect of yen exchange rates on sales, assets, and liabilities denominated in U.S. dollars and other currencies; 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions; and 4) the impact of natural disasters and intentional threats, war, acts of terrorism, strikes, and/or plagues. Moreover, there are other factors that may adversely affect the Group's performance.

Issued by the Investor Relations Department, Daifuku Co., Ltd.

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