

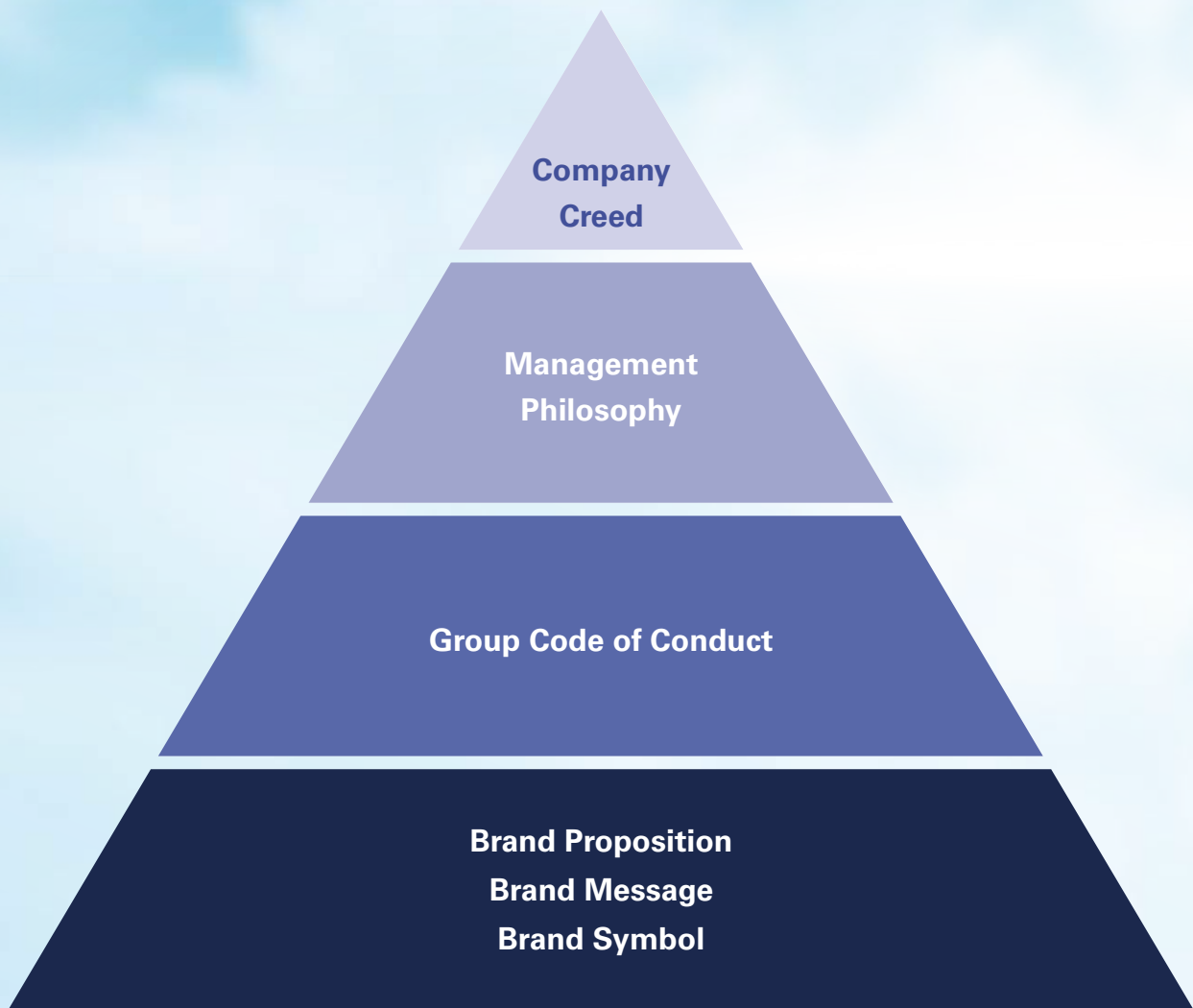
Value Innovation for the Next Stage



Daifuku Report 2020

Our Mission

Corporate Policies Structure



Company Creed



Hini Arata

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

Management Philosophy

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

Group Code of Conduct

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.

Corporate Brand

Brand Proposition

Value Innovator

We aim to evolve into a top-class Value Innovator that provides the best solutions for customers by capitalizing on our experience and technologies we have accumulated as a comprehensive manufacturer and integrator of material handling systems.

Brand Message

Always an Edge Ahead

The brand message conveys our desire to create and provide best solutions to give customers a competitive edge. It also symbolizes our flexible and outstanding workforce, possessing both expertise and a commitment to taking on new challenges and making changes for the better.



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- Vision
- Daifuku as a Company
- Growth Strategy
- The Environment and Society
- Governance

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Our CEO discusses Daifuku’s current state and measures toward future goals.

Introduces our history and core products.

Shows our initiatives toward sustainable corporate value.

Introduces our initiatives to create a sustainable society.

Shows our management framework to bolster Daifuku’s value creation.

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Company Data and Stock Information

Disclosed Information

■ Management Policy

Medium-Term Business Plan (April 2017 - March 2021)
www.daifuku.com/ir/policy/plan

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

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

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

■ Financial Information

Daifuku Report 2020 Financial Section
www.daifuku.com/ir/library/annualreport

■ Non-Financial Information

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

CSR Management
www.daifuku.com/sustainability/management

CSR Action
www.daifuku.com/sustainability/action

■ 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* and GRI** standards. See the Company website for more detailed information: www.daifuku.com

The report covers 57 companies, including the parent company, 55 consolidated subsidiaries, and one equity-method affiliate (as of March 31, 2020).

* IIRC: International Integrated Reporting Council
** GRI: Global Reporting Initiative

Period covered
Fiscal 2019 (April 2019 - March 2020)
Whenever it is appropriate to include historical background information and data or recent examples, reporting may include matters outside this time period.

Front cover design
Through this report, Daifuku communicates past, current and future efforts to provide value to society. With specific focus on the future, on the front cover we use one of the currently running corporate advertisements. Offering a glimpse of how we might live in the future, the image highlights our commitment to leading the evolution of world-class material handling systems by providing logistics solutions that deliver outstanding outcomes toward such a future.

CEO Message



Hiroshi Geshiro
President and CEO

Working to develop and provide logistics solutions that will help create a “new society and day-to-day life” in response to the “new normal”

Tell us about the fiscal 2019 results and Daifuku’s medium-term business plan, Value Innovation 2020.

Projections for fiscal 2019 at the beginning of the fiscal year were for orders totaling 530 billion yen, net sales of 480 billion yen, and an operating margin of 11%. Actual consolidated results for the fiscal year were orders amounting to 483.1 billion yen, net sales of 443.6 billion yen, and an operating margin of 9.1%. While the Cleanroom business was heavily impacted by a drop in capital investment from customers in the semiconductor and flat-panel display (FPD) sectors, the Intralogistics business performed solidly due to a customer shift toward e-commerce, global development, and a move toward automation. In addition, the Automotive business drew praise for its ability to carry out large projects and won an order for its largest project in North America to date. The Airport business posted its first results in Japan. On the other hand, we faced several issues that included improving costs from a global perspective and managing budgets for large projects.

With regard to the COVID-19 pandemic, most of our non-Japan subsidiaries closed their accounts for the fiscal year in December, meaning that despite some orders being delayed due to teleworking, restrictions on movement, and other measures to prevent the spread of the virus, the impact on sales and profits was minor.

□ **Pages 26-27**
Eleven-Year Financial Summary

□ **Pages 28-29**
Progress of Value Innovation 2020

CEO Message

In terms of finances, one of the goals of the Value Innovation 2020 medium-term business plan, covering the period from April 2017 to March 2021, is a return on shareholders' equity (ROE) of 10% or higher, which we have been able to maintain. Furthermore, we have established a strong financial position with a shareholders' equity ratio of 56.7% and a debt-to-equity (D/E) ratio of 0.14.

Fiscal 2020 will be the final year of the current medium-term business plan. Factoring in the impact of COVID-19, we forecast orders amounting to 480 billion yen, net sales of 460 billion yen, and an operating margin of 8.9%.

Have you considered changing the nature and direction of business as a result of the COVID-19 pandemic?

Daifuku operates four core businesses—Intralogistics, Cleanroom, Automotive, and Airport—and counts among its strengths a portfolio that is without compare.

We were named the world's leading material handling equipment manufacturer in terms of net sales for the sixth consecutive year by U.S. publication *Modern Materials Handling* in May 2020. However, we aim to go beyond that achievement to become the world leader in each business domain where we operate.

The economic and business environment surrounding the Daifuku Group is difficult to predict on account of the COVID-19 pandemic. That said, we expect the pandemic to prompt new needs that include greater e-commerce expansion as more people remain in their home (nest-dweller consumption), along with demand for more efficient logistics operations and greater needs for semiconductors for 5G communications and data centers as a result of the normalization of teleworking.

Our customers face major changes in their business environments, including the expansion of e-commerce, digital transformation, and a shift to autonomous driving and electric vehicles, not to mention labor shortages and other social challenges. Amid a shrinking workforce, consumer behavior has made a major shift away from real stores to online purchasing, i.e., e-commerce. However, fulfillment centers require an enormous workforce to pick, sort and ship merchandise by individual order. Our duty is to bridge this gap. As a result, the industry will place greater emphasis on the logistics solutions provided by the Group, thus our medium- to long-term growth will remain as is.

☐ Pages 32-33
Risk Management

☐ Pages 14-15
Daifuku Value Creation Model

Elaborate on the Group's global strategy.

Non-Japan sales accounted for 65% of the Group's total sales in fiscal 2019. Nonetheless, this proportion varies with each business. For instance, most sales of the Intralogistics business are for customers in Japan, whereas the majority of customers of the Cleanroom business are from outside Japan. Since our goal is for each business to reach the pinnacle of their respective fields, it is important that we establish a global business structure to formulate and execute a global strategy.

To help establish this structure, in fiscal 2019 we worked on cross-sectional reforms in North America. The organization of companies under the umbrella of the Group's largest subsidiary, Daifuku North America Holding Company, had become increasingly complicated as a result of business diversification and multiple M&A efforts. Accordingly, we revamped its structure based on business, product, region, and other factors to a structure based on customer sector.

We believe that increased in-house production of key products will improve functionality and quality, raise price competitiveness, and lead to overall strength. To this end, we increased production starting with our factories in South Korea in 2018, and in 2019 we increased production in Thailand and China, in addition to acquiring a material handling systems manufacturer in India. We also commenced operations of a new factory in North America with twice the production capacity of previous factories.

One of the goals of our M&A efforts is to acquire cutting-edge technologies not yet possessed by the Group. In keeping with that goal, in fiscal 2019 we acquired companies in Australia and the Netherlands to strengthen our digital technologies in the Airport business.

Looking at our competitors, we expect competition to further increase as new players from China and emerging countries are rising up to join our traditional competitors from the West.

Going forward, we will take advantage of the Group's strength—consistent provision of the best systems made possible via our integrated framework, which encompasses consulting, manufacturing, and after-sales services, and via our extensive product lineup of equipment and software. We will also focus on radical cost reforms.

☐ Pages 42-51
Strategies by Business

CEO Message

Tell us about the Group's efforts related to human resource development, safety, and the environment.

Pages 36-37

Strengthen Human Resources

At Daifuku, we focus on management rooted in respect for human rights under a diverse and positive corporate culture that encourages every employee to demonstrate his or her creativity.

As we promote globalization, we also place emphasis on localization at our non-Japan subsidiaries, spread out across 26 countries and regions. Therefore, we are appointing human resources to lead the implementation of sales, production, installation, and services in close connection with local communities.

As a business with people engaged in production, installation, and services, safety is always our top priority. To us, safety is not a relative comparison that you can assign a rank. Rather, it is an absolute that is never to be compromised, no matter the situation. With this in mind, we work with our customers and suppliers to ensure that we eliminate work accidents and help establish a "Safety Always" culture.

To prevent the spread of COVID-19, it is crucial that people maintain distance from one another. To do so requires that we develop a new approach to service activities for systems post-delivery. Accordingly, we have been working to use the Internet of Things (IoT), artificial intelligence (AI), and information and communications technology (ICT) to establish material handling systems that never stop, or that will be able to recover immediately even if stopped. We will continue to support stable operations of customer facilities by introducing new technologies and services, including remote operation, while ensuring the lives, safety, and health of employees and their families.

Global warming is also a threat to people's lives, safety, and health. As such, in accordance with the recommendations put forth by the Task Force on Climate-related Financial Disclosures (TCFD), we analyzed the impact of climate change on our business and summarized related risks and opportunities, which we then disclosed in May 2020. We expect demand for our products and services to more than compensate for the extra business costs we will incur from climate change countermeasures.

We also set up the Sustainability Committee in April 2020, to make clear our intention to engage in a wide range of activities to contribute to society. Chaired by the CEO, the Committee is a reorganized and

Pages 38-39

Enhance Safety

improved version of the conventional Environmental Enhancement Management Committee that specialized in environmental issues. We are currently in the process of preparing our new environmental vision, with intermediate targets set for 2030 and final targets for 2050. This new vision will place greater emphasis on automation and address the need for more environmentally friendly products in its response to global warming.

How does the Group plan on contributing to the post-COVID-19 society?

Due to restrictions on going out and self-imposed stay-at-home measures, online purchasing has seen a drastic rise. Daifuku has delivered many systems to e-commerce-related customers, mainly retailers and distributors. Up to this point, our systems have been primarily aimed at helping solve labor shortages and shortening lead times, but in this case these labor-saving measures have proven effective in avoiding closed, crowded, and close contact settings. We believe that the demand for automation that eschews human intervention will continue to accelerate even further.

Society faces a difficult challenge in COVID-19. For society to realize sustainable growth, we will likely see a new type of day-to-day living—a "new normal"—appear. This life will be different than that before COVID-19. I believe that we must develop and provide new logistics solutions that will help build this type of society.

To date, we have launched various products and systems that are the first of their kind in Japan and the world. Moving forward, we need to be more sensitive to ever-changing social needs than ever before.

We look forward to your continued support in these endeavors.

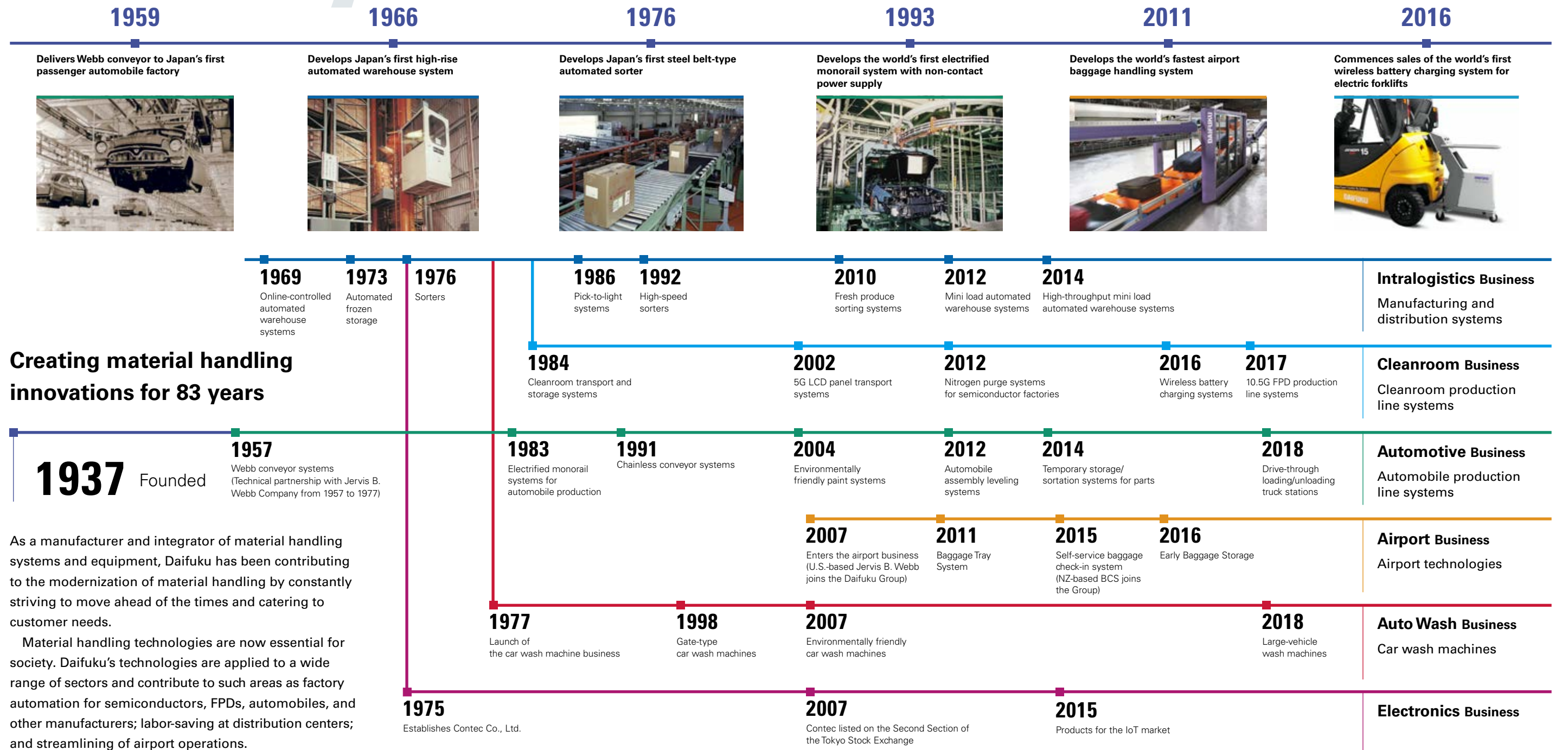


President and CEO

Pages 40-41

Based on TCFD Recommendations

History

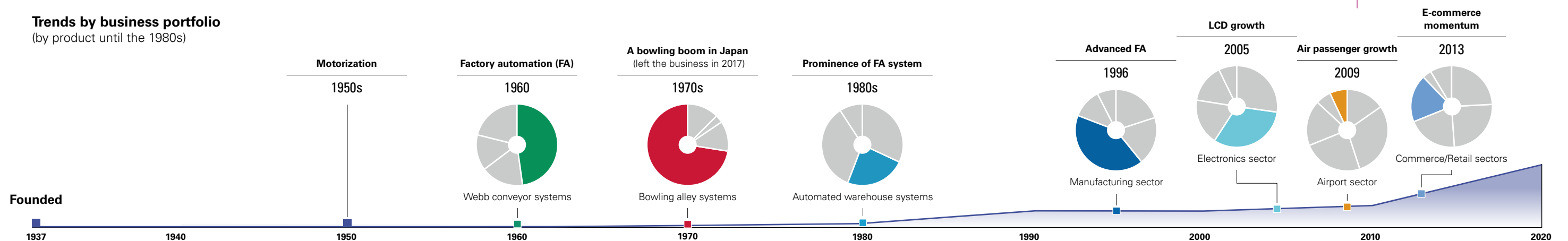


Creating material handling innovations for 83 years

As a manufacturer and integrator of material handling systems and equipment, 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, FPDs, automobiles, and other manufacturers; labor-saving at distribution centers; and streamlining of airport operations.

Trends by business portfolio (by product until the 1980s)



Business and Equity

At a Glance

Our Business

As a 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.

Sales by business

Net sales (FY2019) **443.6** billion yen



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

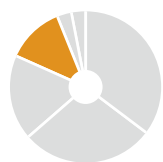
Provides cleanroom storage and transport systems to semiconductor and FPD factories essential for smartphones and tablet terminals.



Automotive

Automobile production line systems

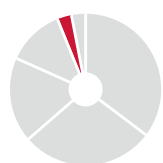
Provides automobile production line systems to automakers worldwide, centered around Japanese companies. The systems convey car bodies through the entire manufacturing process, including press, weld, paint, and assembly.



Airport

Airport technologies

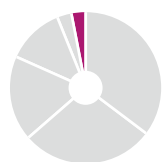
Provides a broad range of automated systems for airports, including baggage handling systems, to maintain safety, efficiency, and reliability.



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.

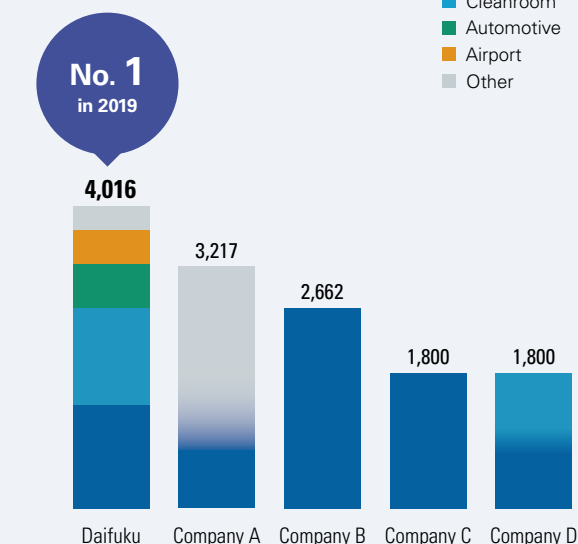
Results and Assets (FY2019)

Results

Daifuku has been the material handling industry sales leader for six years running and the non-Japan sales ratio reached 65%.

Top 5 worldwide material handling systems suppliers 2019

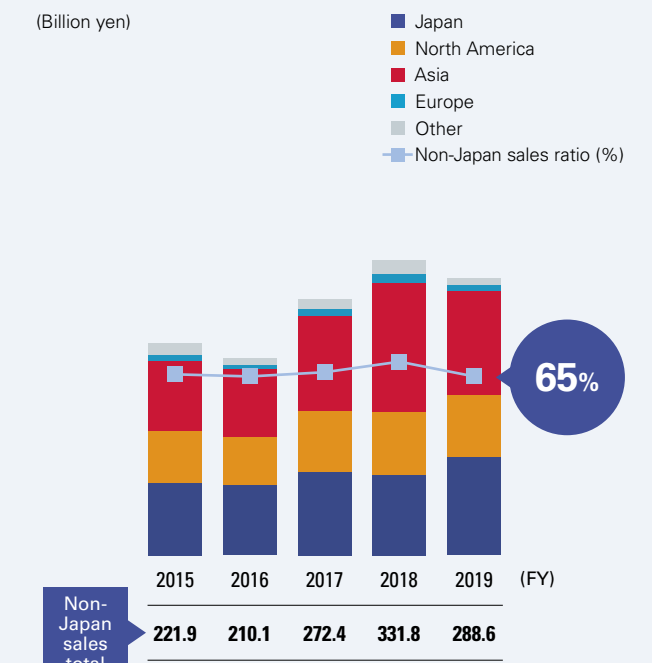
Net sales (million U.S. dollars)



Source: *Modern Materials Handling* – May 2020
(Excluding Daifuku, data for the remaining four companies is calculated from published materials)

Sales by region

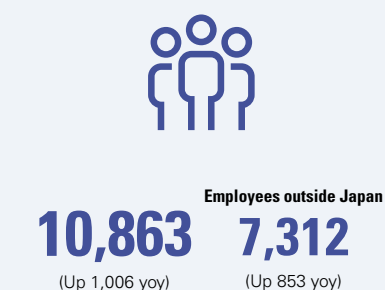
(Billion yen)



Assets

Daifuku boasts an extensive installation record in a variety of sectors worldwide. To respond to rising global demand, we are strengthening our human resources and production sites.

Employees (consolidated)



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

Production sites



To respond to rising demand in every country and region, we are expanding production sites.

Installation record



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

Daifuku Value Creation Model

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



Company Creed

日新



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.

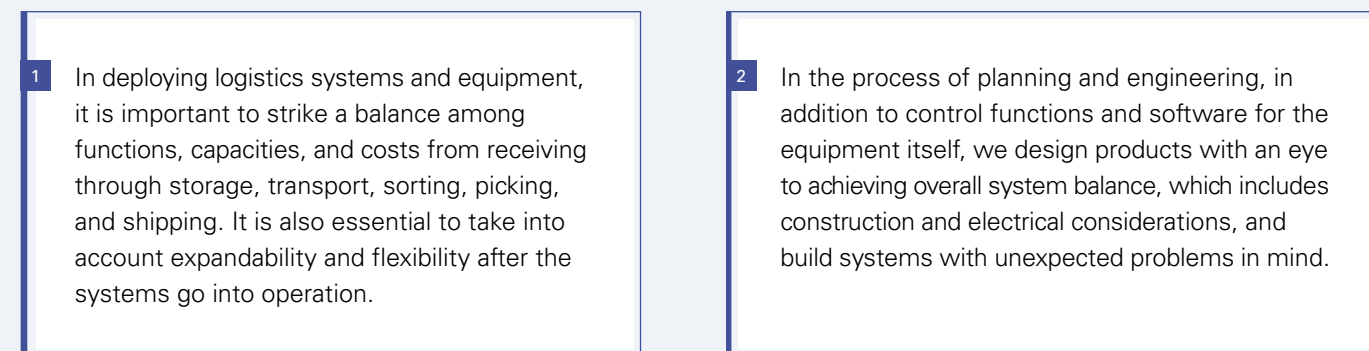


Sym3 system image 3

Airport operations and maintenance 4

Edge 1

Daifuku's Total Solutions



3 We have production sites in Japan and various parts across North America, Asia, and Europe, to provide customers worldwide with our material handling systems. Each of these regions practices sound quality management, allowing us to achieve improved customer satisfaction. In particular, in the Cleanroom and Automotive businesses, as projects are managed on a global level, we are able to distribute production volume efficiently among each region, even in high-load situations, and maintain a stable supply of our products. We will continue to increase our capacity utilization rate and manufacturing proficiency level at each factory to further increase profitability.

In the Intralogistics business, the 3D software Sym3 enables us to perform virtual tests in advance to determine whether functional capacity throughout an entire system meets initially planned requirements, which in turn allows for the highest possible degree of finish for the overall system before it is shipped. We used to prepare 1,000 cases to send down a sorting conveyor for a test at an installation site, but as it took only a few minutes to complete the test, the volume of data available for analyzing was limited. With Sym3, we now run an unlimited number of tests, which helps cut hours in processes from installation to final adjustment at the site. We will expand this initiative into other businesses to meet the need for shortened delivery lead times.

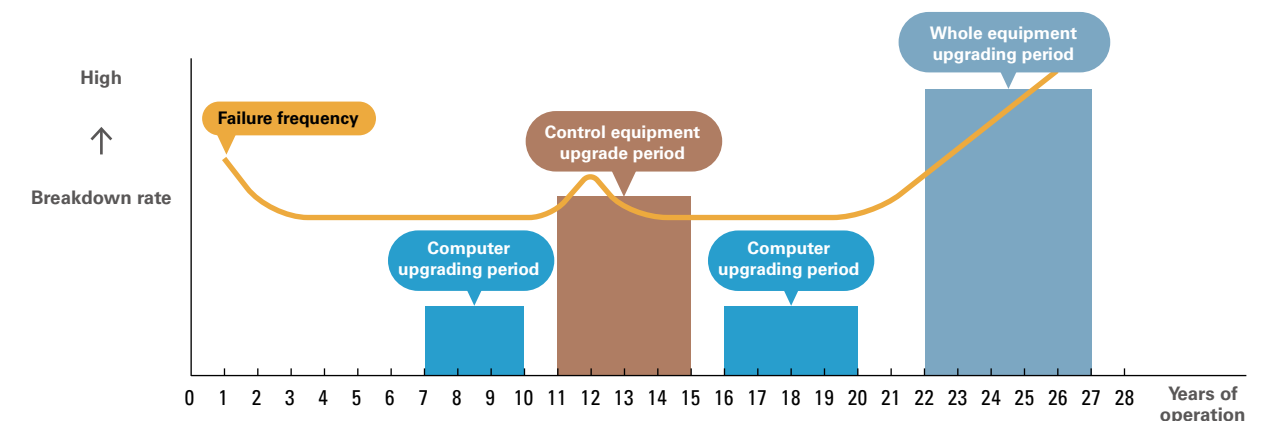
4 Daifuku has been building a support system to ensure stable operation for customers using its products, with an extensive servicing menu. We have provided customers worldwide with more than 31,000 stacker cranes for automated warehouse systems and over a total of 5,000 kilometers of automobile conveyor systems.

When our systems become unfunctional or see a decline in performance, due to aging or a change in product lines or handling volume, we offer solutions for facility upgrades or retrofits. By building trust with our customers through after-sales services, we identify business opportunities to win new orders.

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

Service cycle for automated warehouse system



Our Competitive Edge

Edge 2

System/Equipment Sophistication

Enhance Production Framework

Pursuing optimal production on a global scale



With a measure of “striving for optimal production and procurement worldwide” in the Value Innovation 2020 medium-term business plan, the Daifuku Group is expanding production sites, including the new construction of factories, to increase profitability.

► Trends in capital investment on [page 25](#)



In December 2019, we built a new manufacturing complex in Indiana, the U.S., as a core production site for intralogistics systems in North America. With this facility amalgamating two existing factories, we aim to increase production volume and the ratio of in-house production.



In December 2019, we built a new facility at the Pinthong Plant in Thailand, to meet growing automation needs in Southeast Asia. At this facility, we produce automotive systems for automobile production lines, and intralogistics systems.



In June 2019, we built a new facility within the Songjiang Plant in Shanghai, China. At this facility, we produce intralogistics systems for manufacturers and distributors.



In April 2019, an India-based company, which designs, manufactures and installs conveyor systems, joined the Group to meet needs for automation within the manufacturing and logistics sectors.



In September 2019, we built the 12th factory within the Shiga Works, responding to an increased volume of orders.

Edge 3

After-Sales Service Enhancement

Enhance After-Sales Services

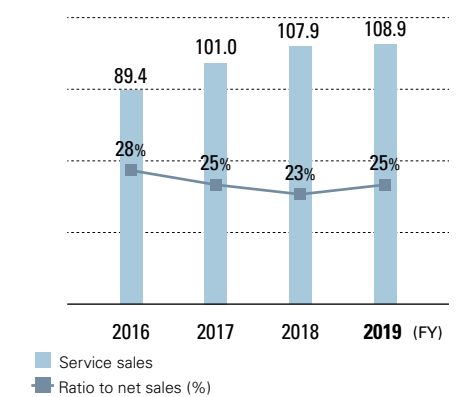
Japan



Daifuku offers systems with built-in cameras and sensors to support stable operation for customers using its products. When equipment fails, these systems allow us to monitor equipment online and remotely identify problem areas and determine the causes of problems based on sensor data logs. As this eliminates the need for equipment designers to go out into the field, we minimize the time needed for equipment reinstatement.

By visualizing maintenance data for entire systems using IoT technologies, we analyze and parse accumulated data and work to make proper preventive maintenance possible. Using state-of-the-art technologies, we work actively to achieve systems that will not fail.

Also, at our System Support Center (SSC) that remotely monitors the state of systems operated at customer sites, engineers respond to inquiries and trouble calls from customers, collaborating online with design and manufacturing units and service stations, around the clock all year round. From the perspective of increasing servicing assets and business continuity planning, we added a second SSC site.

Service sales and ratio to net sales
(Billion yen)

Outside Japan



We are expanding service training centers at non-Japan subsidiaries (details on [page 37](#)). These training centers will be equipped with our core products of each business, and actual machines will be used for training Daifuku and partner personnel. Sharing the improved skills and expertise of service engineers to support stable system operation at customer sites, we will continue to build trust with our customers and win new orders.



Service training center opening ceremony in China

Our Material Handling Solutions

Intralogistics Business

> Cutting-edge distribution center using the latest technologies

Along with responding to labor shortages brought on by an aging population and declining birth rate, this center also 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. Daifuku's extensive experience, expertise and intensive initiatives for new technologies help drive automation to new heights.

AS/RS* for picking operations



Provides products in a timely manner to piece-picking robots

* AS/RS: Automated Storage and Retrieval System

High-throughput mini load AS/RS



Stores different-sized cardboard boxes and facilitates case shipping

Case-palletizing robot



Rapidly palletizes cases of various shapes and sizes

Depalletizing robot



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

Piece-picking robot

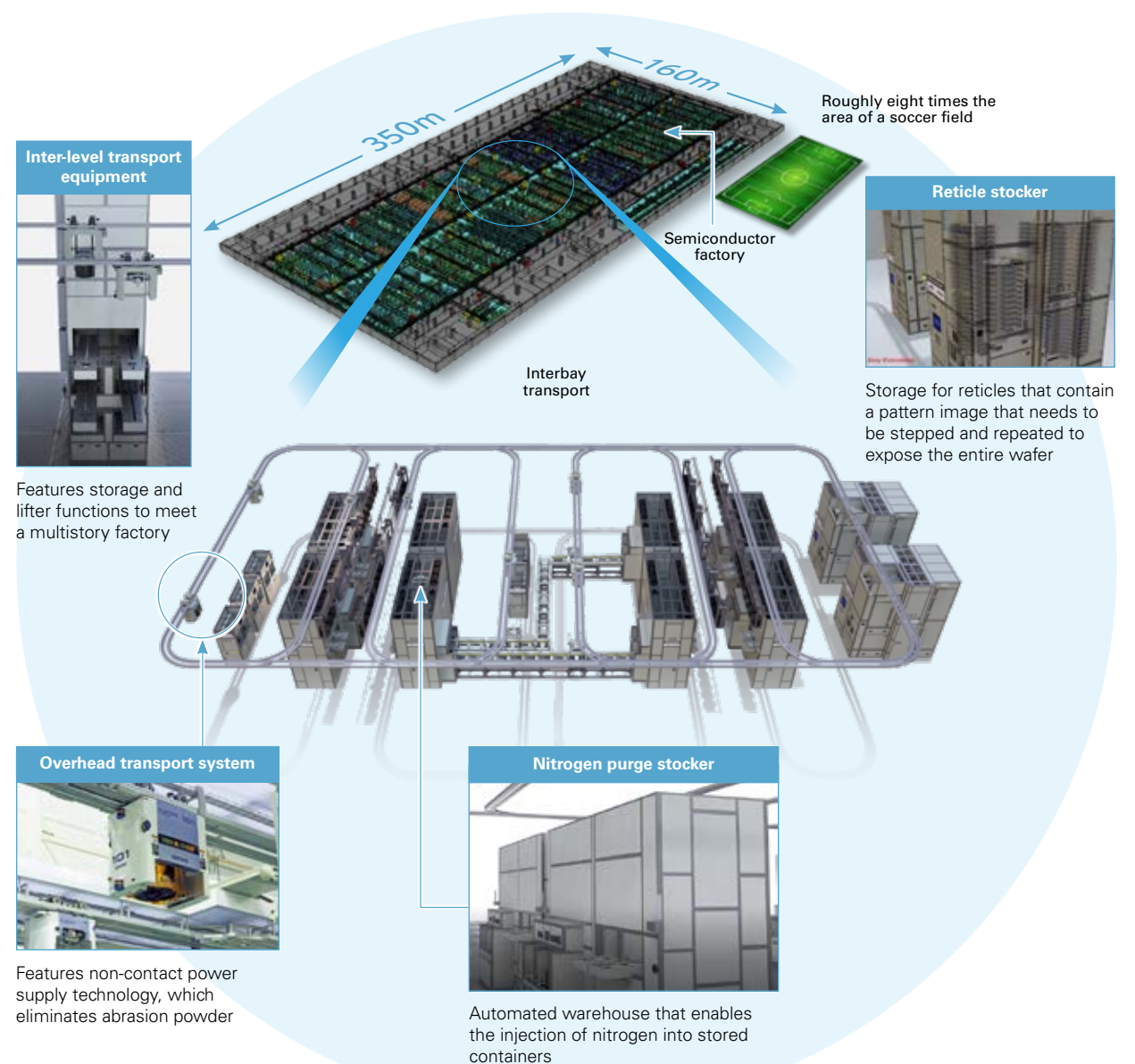


Carefully and gently picks individual items of various sizes and weights

Cleanroom Business

> State-of-the-art semiconductor factory

A semiconductor factory performs many hundreds of 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.

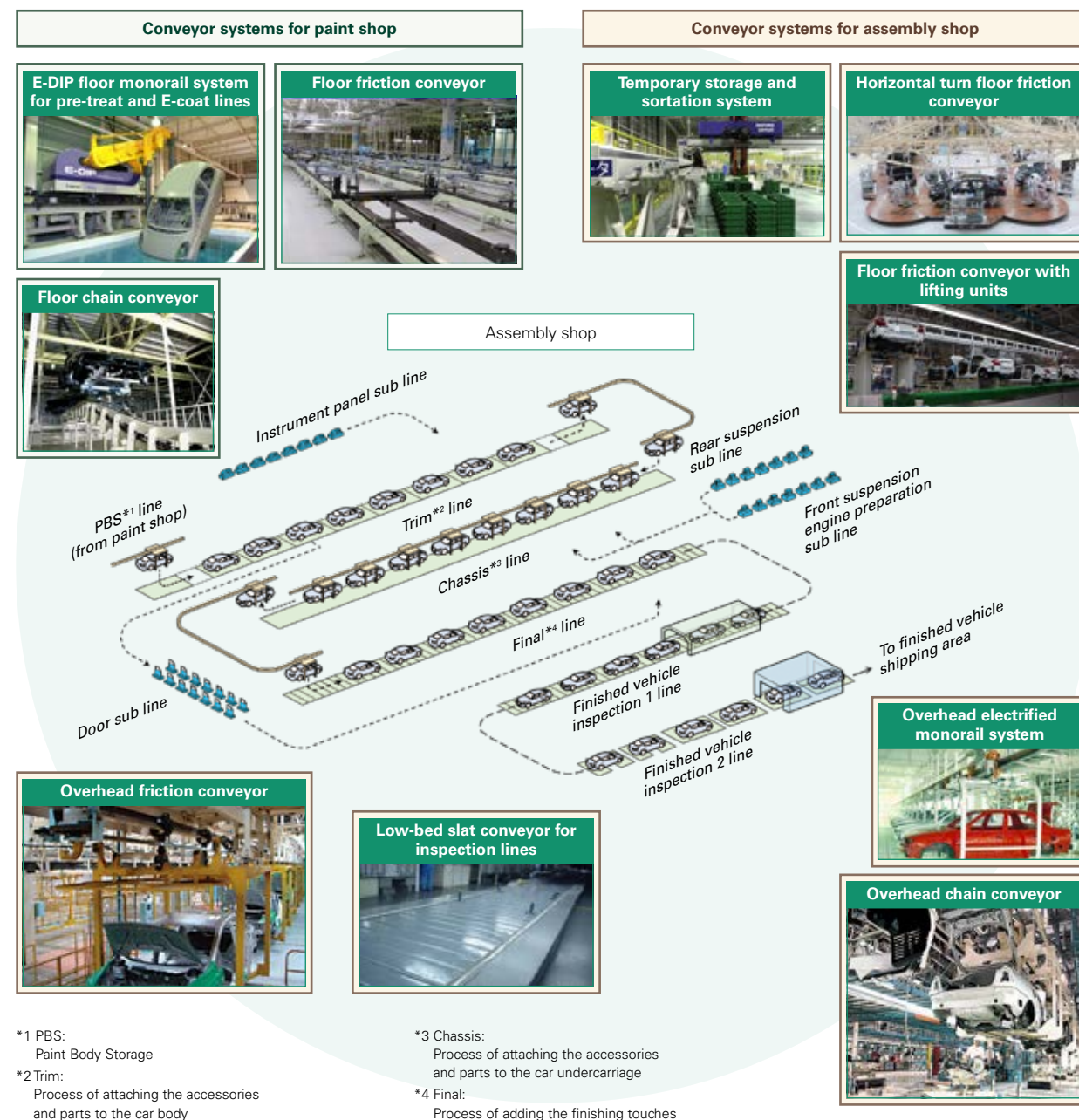


Our Material Handling Solutions

Automotive Business

> Car body conveyor system in an automobile factory

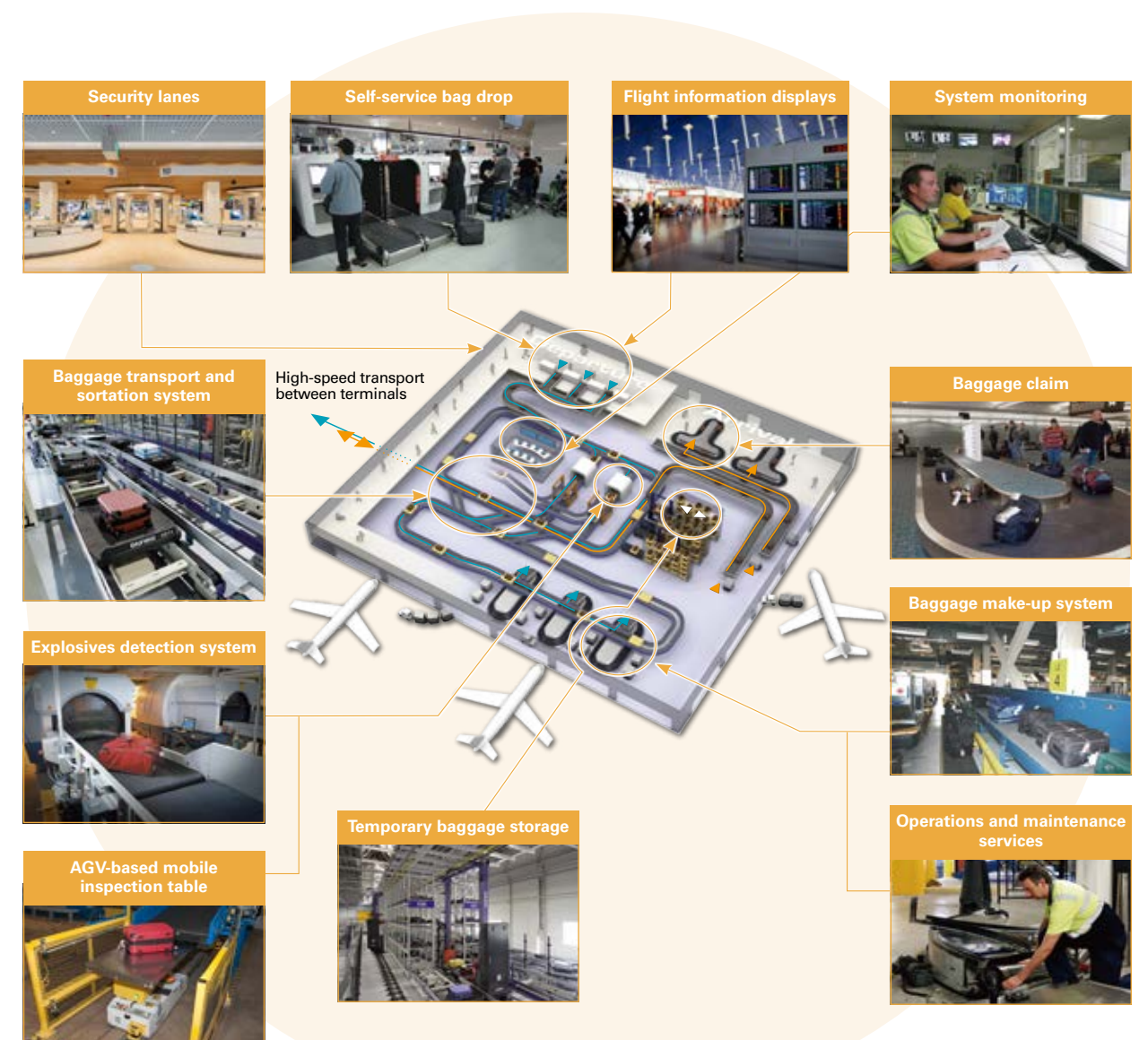
Our technologies have been introduced to all processes within automobile factories. The systems are ergonomically designed to ensure ease of working and safety, with the ability to adjust body height according to the work process as one example of this.



Airport Business

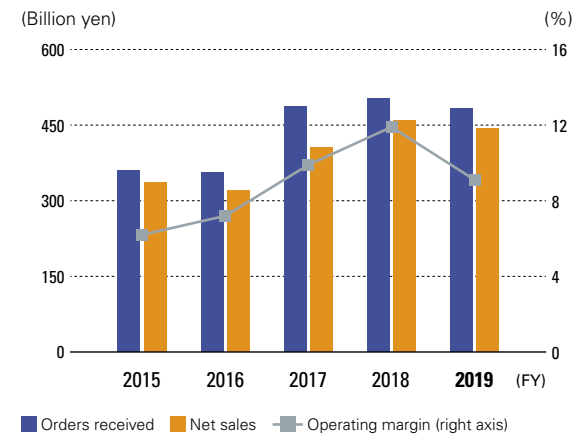
> Solutions for airports

We provide material handling systems, such as baggage check-in, transport, sorting and temporary storage systems, as well as products incorporating digital technology, including flight information systems and security lanes, in airports. We are also working to reduce lost baggage by increasing processing speed and accuracy. In terms of services, we engage in operations and maintenance.

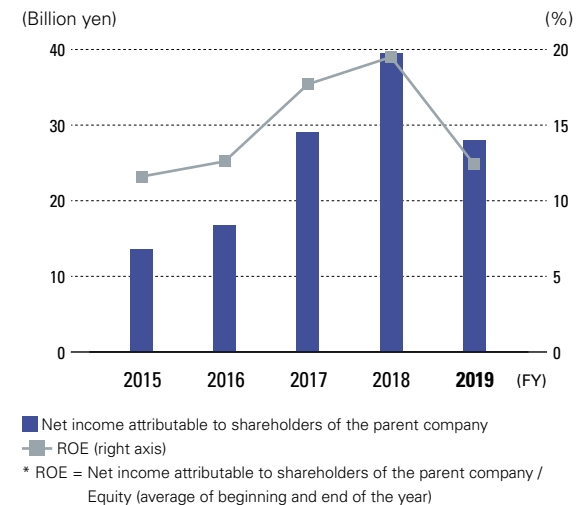


Key Performance Indicators

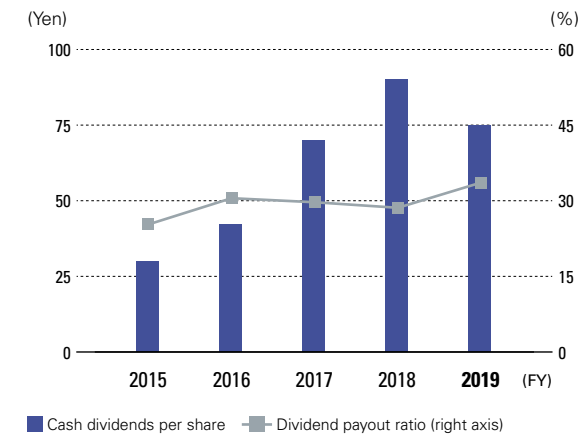
Orders received, net sales, operating margin



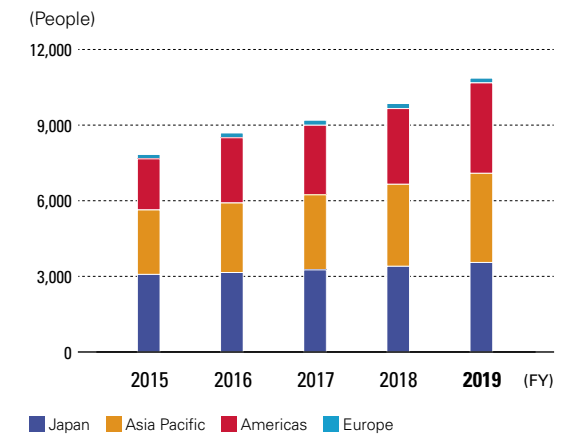
Net income attributable to shareholders of the parent company, ROE*



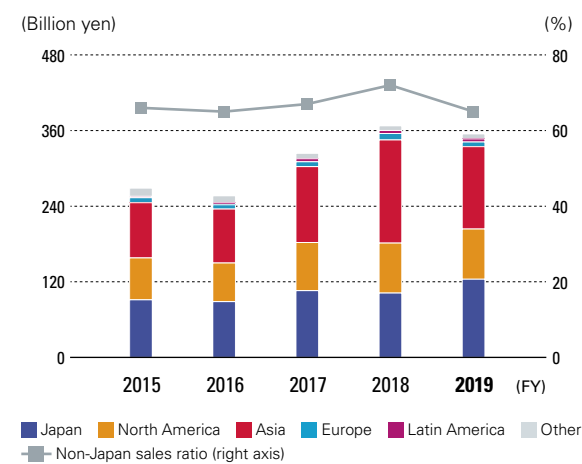
Cash dividends per share, dividend payout ratio



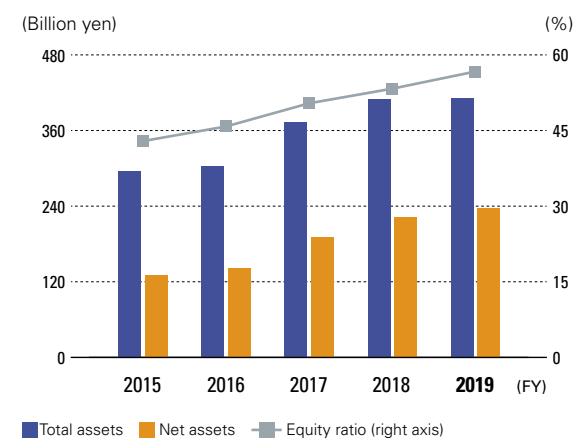
Employees by region



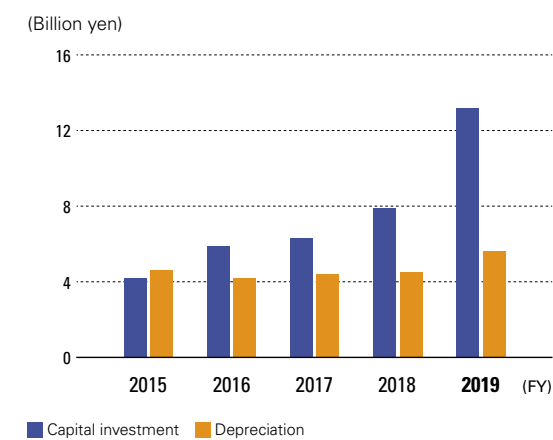
Sales by region, non-Japan sales ratio



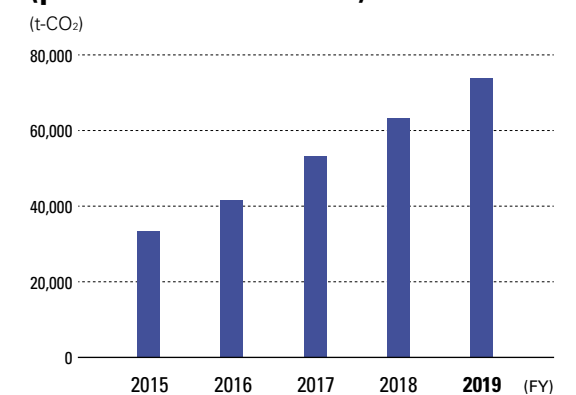
Total assets, net assets, equity ratio



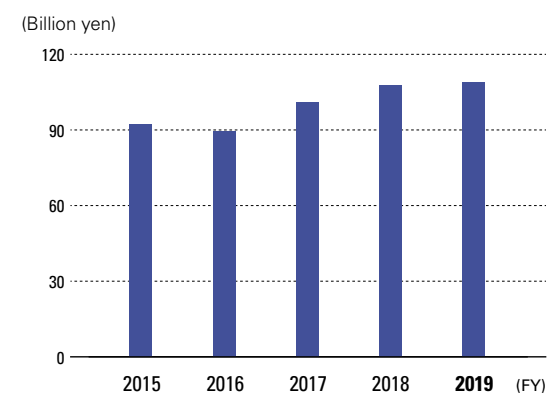
Capital investment, depreciation



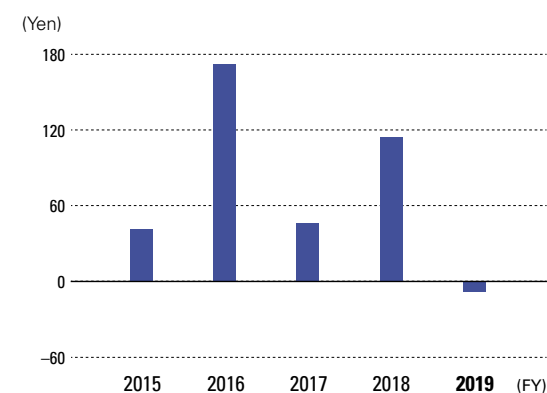
CO₂ reduction contribution (products and services)



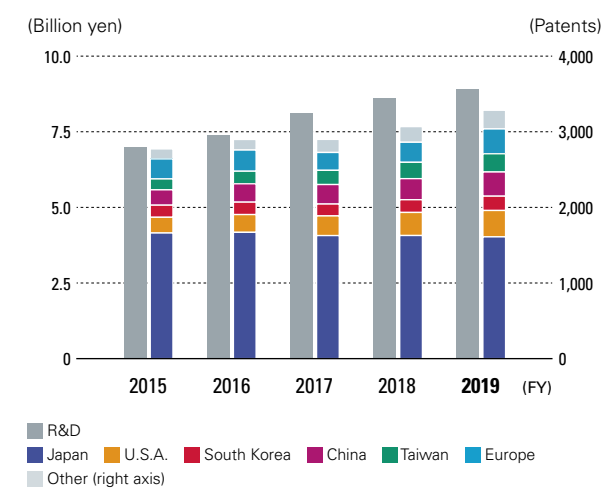
Service sales



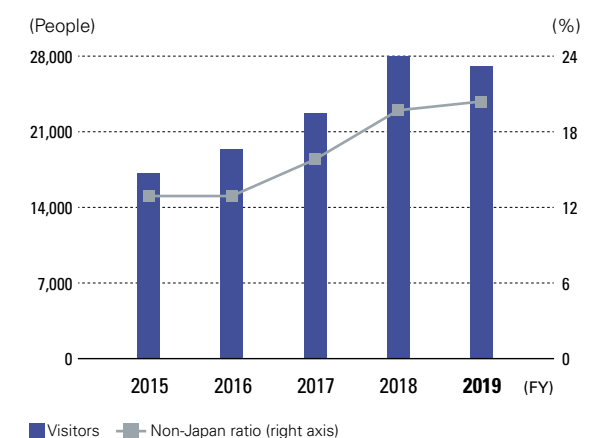
Free cash flow per share



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

	Jump up for 2010	Material Handling and Beyond			Value Innovation 2017				Value Innovation 2020		
(Million yen)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
For the Year											
Net sales	¥154,208	¥159,263	¥198,052	¥202,337	¥241,811	¥267,284	¥ 336,184	¥ 320,825	¥ 404,925	¥ 459,486	¥ 443,694
Cost of sales	128,195	131,639	165,505	165,340	194,974	215,641	272,832	256,417	321,836	358,230	357,870
Gross profit	26,012	27,623	32,546	36,996	46,836	51,642	63,351	64,407	83,089	101,255	85,824
Selling, general and administrative expenses	25,932	25,897	28,328	28,986	34,279	36,759	42,472	41,308	43,164	46,574	45,326
Operating income	80	1,726	4,217	8,010	12,556	14,883	20,878	23,099	39,924	54,681	40,497
Income before income taxes	862	703	3,129	7,316	12,137	15,211	20,650	23,942	41,059	55,329	39,808
Net income attributable to shareholders of the parent company	1,018	269	1,223	4,439	7,740	9,810	13,652	16,746	29,008	39,567	28,063
Capital investment	2,280	3,221	2,393	7,687	10,446	7,532	4,210	5,905	6,348	7,920	13,220
Depreciation	3,679	3,577	3,612	3,332	3,821	4,157	4,587	4,202	4,419	4,598	5,667
R&D expenditures	6,075	6,370	6,484	6,855	7,490	6,945	7,009	7,489	8,123	8,615	8,936
Cash Flows											
Cash flows from operating activities	¥ 20,921	¥ 11,417	¥ (5,187)	¥ 15,666	¥ 20,447	¥ 6,295	¥ 7,206	¥ 26,683	¥ 11,497	¥ 8,559	¥ 13,706
Cash flows from investing activities	(7,303)	(3,616)	(4,039)	(13,649)	(7,372)	(5,846)	(2,099)	(5,393)	(5,600)	5,937	(14,791)
Free cash flows	13,617	7,801	(9,227)	2,016	13,074	448	5,107	21,289	5,897	14,496	(1,084)
Cash flows from financing activities	(11,321)	(6,056)	7,709	88	1,045	(509)	(8,702)	(4,404)	13,444	(6,893)	(18,354)
At Year-End											
Total assets	¥165,430	¥163,388	¥185,049	¥206,875	¥249,531	¥271,011	¥ 296,055	¥ 303,540	¥ 373,013	¥ 409,982	¥ 410,887
Working capital	66,265	65,908	61,943	45,832	87,070	91,187	99,293	96,401	137,298	170,277	180,988
Interest-bearing liabilities	45,295	40,912	51,010	53,385	58,144	60,547	40,904	39,770	37,967	40,001	33,418
Net assets	81,295	77,714	76,618	85,685	99,690	111,521	130,116	142,340	191,474	222,885	237,356
Shareholders' equity	83,852	82,454	82,013	84,486	90,652	98,469	123,669	136,694	181,454	214,656	231,714
Number of employees	5,395	5,209	5,617	6,678	7,349	7,746	7,835	8,689	9,193	9,857	10,863
Amounts per Share of Common Stock											
Net income per share (Yen)	¥ 9.20	¥ 2.43	¥ 11.05	¥ 40.12	¥ 69.96	¥ 88.59	¥ 118.72	¥ 137.58	¥ 235.62	¥ 314.54	¥ 222.96
Net assets per share (Yen)	716.07	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
Cash dividends per share (Yen)	20.00	15.00	15.00	15.00	18.00	22.00	30.00	42.00	70.00	90.00	75.00
Ratios											
Operating income/net sales	0.1%	1.1%	2.1%	4.0%	5.2%	5.6%	6.2%	7.2%	9.9%	11.9%	9.1%
Income before income taxes/net sales	0.6	0.4	1.6	3.6	5.0	5.7	6.1	7.5	10.1	12.0	9.0
Net income/net sales	0.7	0.2	0.6	2.2	3.2	3.7	4.1	5.2	7.2	8.6	6.3
Return on shareholders' equity (ROE)	1.3	0.3	1.6	5.6	8.6	9.6	11.6	12.6	17.7	19.5	12.4
Total assets turnover (Times)	0.9	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.2	1.1
Shareholders' equity/total assets	47.9	46.3	40.3	40.4	38.8	39.8	42.9	45.8	50.4	53.3	56.7
D/E ratio (Times)	0.57	0.54	0.68	0.64	0.60	0.56	0.32	0.29	0.20	0.18	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

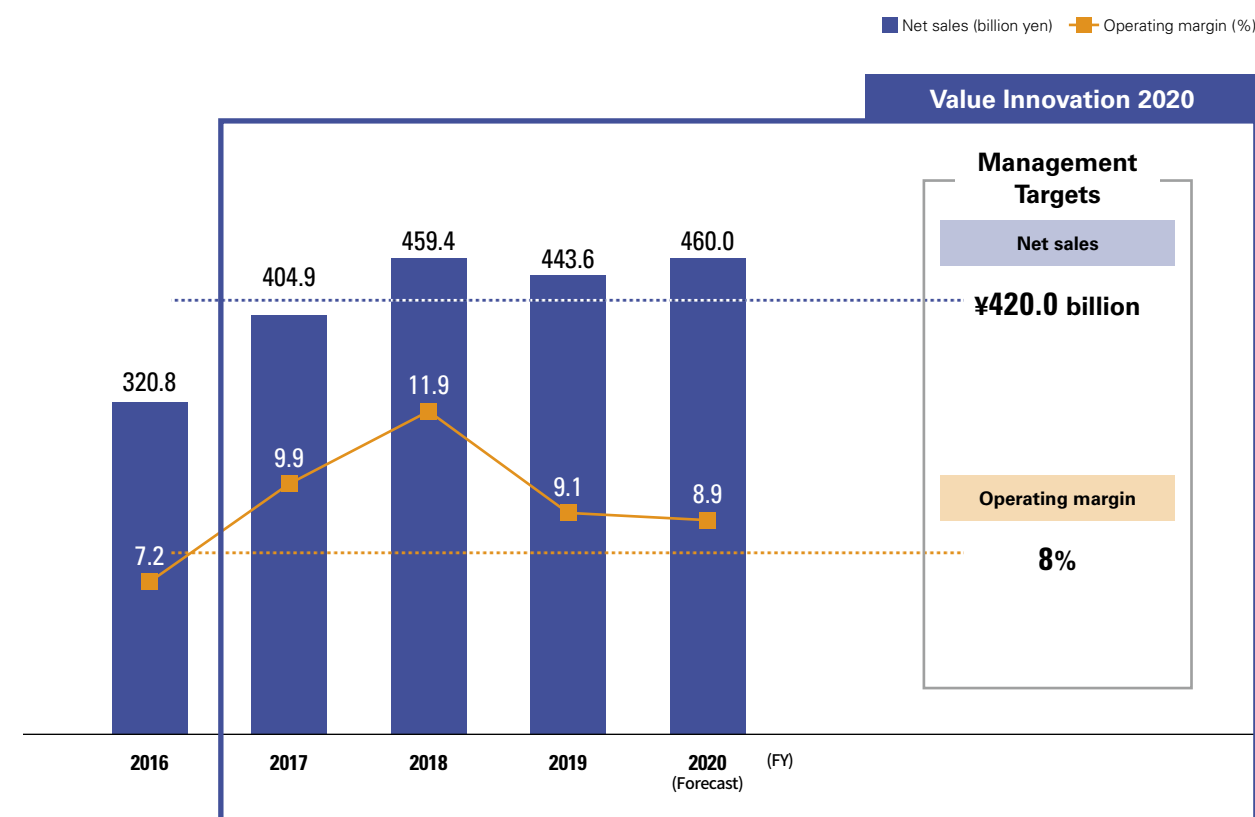
Progress of Value Innovation 2020

Under the four-year medium-term business plan Value Innovation 2020 that commenced in fiscal 2017, business performance and financial standing generally made good progress. For its final fiscal year, the sales target of 500 billion yen and the operating margin of 11.5%—the targets set with the upward revision in May 2019—were not reached due to declines in capital investment in the semiconductor and FPD sectors and the impact of the COVID-19 pandemic. However, the targets set at the time the plan was first made, namely sales of 420 billion yen and an operating margin of 8%, are expected to be met. ROE is consistently at 10% or higher. Aiming for sustainable growth, a next-generation medium-term business plan is scheduled to be announced in February 2021.

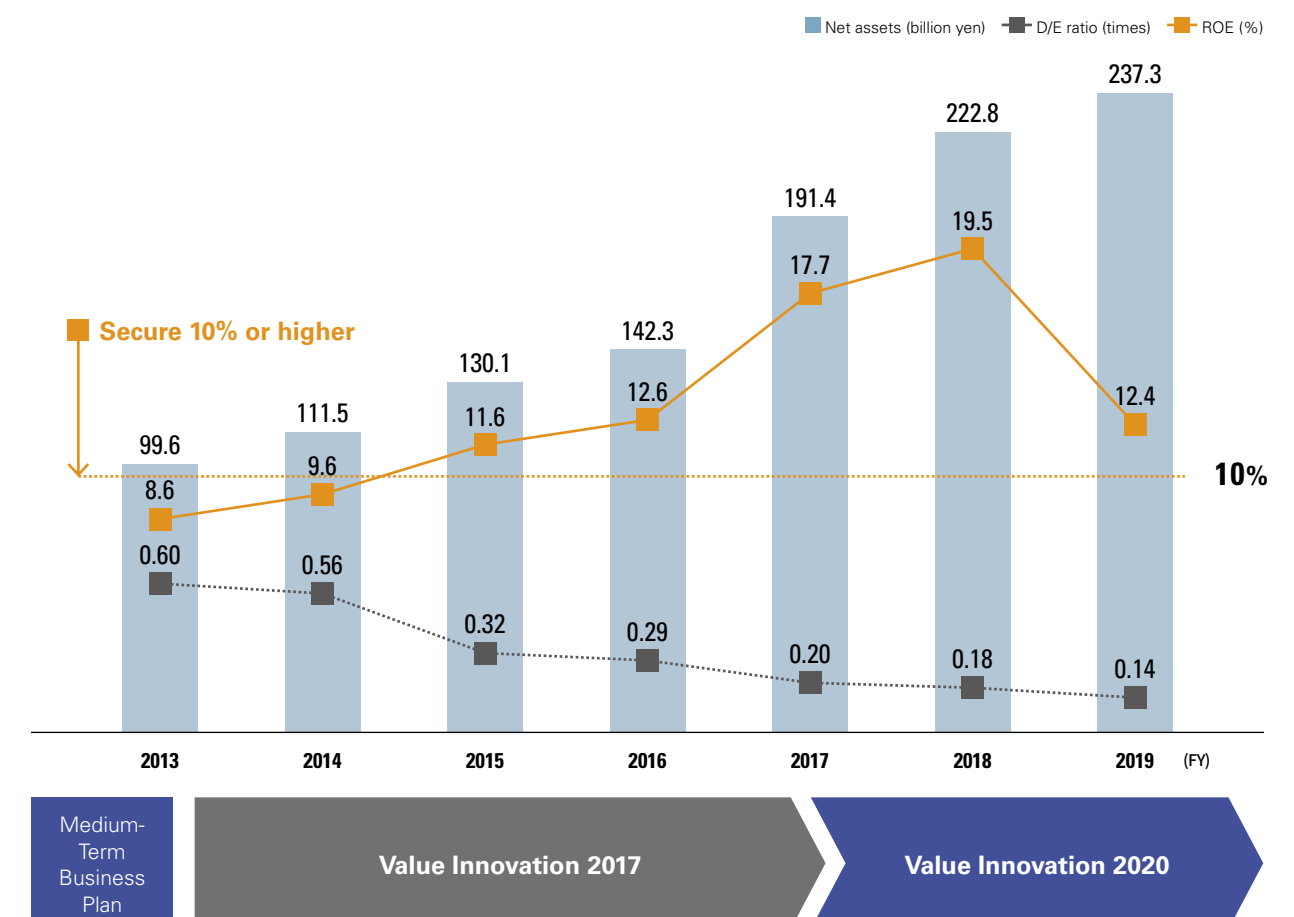
Themes for Value Innovation 2020



Net sales and operating margin



Financial condition



Message from the Corporate Officer Responsible for Finance

Increasing both economic and social corporate value

One of the goals of our four-year medium-term business plan, Value Innovation 2020, is to maintain an ROE of 10% or higher. While we are successful in this regard, we aim to build on this success by being more conscious of our balance sheet and cash flows. Also, we support the sustainable growth of our business operations by strengthening lines of communication and providing assistance as needed. This includes expanding the scale of our consolidated management and managing funds in keeping with more diversified content.

Tetsuya Hibi

Corporate Officer
Finance and Accounting



Basic views on financial condition and strategy

We continue to make investments toward further growth, building on our stable financial foundation. At the same time, our goal is to maximize economic corporate value by maintaining an ROE of 10% or higher and stable returns to shareholders. In December 2017, we conducted a public offering while undertaking the disposition of treasury stock worth a combined total of 22.3 billion yen, greatly improving our financial condition. For fiscal 2019, the shareholders' equity ratio was 56.7%, our D/E ratio was 0.14, and our interest coverage ratio was 17.7. As a result, our financial condition is sufficient to withstand the economic downturn caused by the COVID-19 pandemic.

Due to the inability to foresee the scope and duration of this impact, however, we secured a bank loan in the first quarter of fiscal 2020 to ensure a large amount of cash on hand in preparation for any unexpected circumstances. We have also made separate global commitment line agreements with financial institutions amounting to 30 billion yen across multiple currencies and borrowers, thereby allowing us to provide complete funding for the entire Daifuku Group, including our subsidiaries worldwide.

ROE

ROE is derived from the math formula, "net income/net sales x total asset turnover x financial leverage."

Looking to each element, to increase ROE while maintaining the same shareholders' equity ratio, we need to increase profitability and asset efficiency. People throughout Daifuku are becoming more aware of profitability, and each business unit is making an independent effort to reduce costs and enhance project budget management. In terms of improving total asset turnover, the Board of Directors meets monthly to discuss this and related matters on a Companywide basis, but each business unit has challenges regarding their efforts.

Daifuku's business portfolio covers a wide range of industries, from growth sectors such as distribution, which includes e-commerce, semiconductors, and airports, to mature sectors such as automobiles and car wash machines, and the environment surrounding each customer's industry is significantly different. As such, we will identify which indicators to employ before promoting efficiency by business.

Promoting global cash flow management

As of March 31, 2020, we operate in 26 countries and regions, with 49 non-Japan subsidiaries, highlighting a growing need for financial management from a global perspective. In particular, in Asia, the issue of prolonged fund collection is becoming more and more apparent, given the growing scale of projects and the COVID-19 pandemic. Meanwhile, in cases of companies acquired through M&A, efficient financial management is not possible without post-merger integration that includes the integration of accounting and administrative systems, and efforts to merge corporate cultures.

For this reason, we are working to enhance the management framework at our subsidiaries across the globe by dispatching personnel from administrative divisions from Japan and hiring competent staff locally. We will also enhance negotiations regarding the terms for collecting funds when receiving orders for projects outside Japan.

Investments for further growth

Up to this point, we have focused on specialized fields related to material handling and have expanded investments in market-oriented developments based on customer requests. In fiscal 2019, we were involved in several M&As, acquiring a manufacturing-based company in India, as well as two software companies in the Airport business, expanding our reach in that domain. Going forward, we will continue market-oriented investments in product development focusing on material handling as well as investments to identify new markets and expand our business domains. At the same time, we will actively target venture capital investments and M&A to quickly incorporate AI and other cutting-edge technologies.

To date, the amount of capital invested in Asian subsidiaries has been held back as we prioritized other regions. We plan to increase capital in the future to accelerate growth and strengthen them.

Dividends

Despite a decrease in consolidated net income for fiscal 2019, we paid an annual dividend of 75 yen per share to maintain stable returns to shareholders, increasing our dividend payout ratio from 28.6% to 33.6%, with a target of 30% on average over the medium to long term (details on □ page 25). We will appropriate the remaining surplus to internal reserves for future growth through M&A and the establishment of an internal management system in line with the rapid expansion of company scale.

Aspiration

I was newly appointed to serve as the corporate officer responsible for finance from this fiscal year. In addition to serving as CFO at a U.S. subsidiary, I have experience establishing a factory for a Thai subsidiary, and in the M&A and launch of several subsidiaries outside Japan, and until the end of fiscal 2019 I was able to cultivate a Companywide perspective as General Manager of the Corporate Business Development Division. What is most fortunate is that Daifuku has been developing personnel over a long period of time, not just myself, in key positions in financial and accounting departments who have been gaining experience in subsidiary management, M&A, and IT. This is true for our business units as well. I intend to link these human resources in an organic fashion.

I will work to enhance the global competitiveness of our business units by developing a management infrastructure incorporating IT and other tools and by providing them with management data, and to increase corporate value from an economic standpoint by strengthening our financial foundation.

At the same time, I regard expenditures related to the Sustainable Development Goals (SDGs), aimed at realizing a sustainable society, and that meet ESG (environment, society, and governance) related demands, as indispensable investments, not mere costs. I also aim to increase social corporate value by proactively cooperating with business units, corporate divisions, and global subsidiaries. I will take steps to achieve a balance between both economic and social corporate value, and by doing so, truly increase our overall corporate value.

Risk Management

Risk management framework

We at the Daifuku Group have built a Groupwide risk management framework with the CEO assuming ultimate responsibility based on our risk management rules. In terms of the risks related to climate change, our Sustainability Committee chaired by the CEO promotes Groupwide initiatives (details on □□ [pages 40-41](#)).

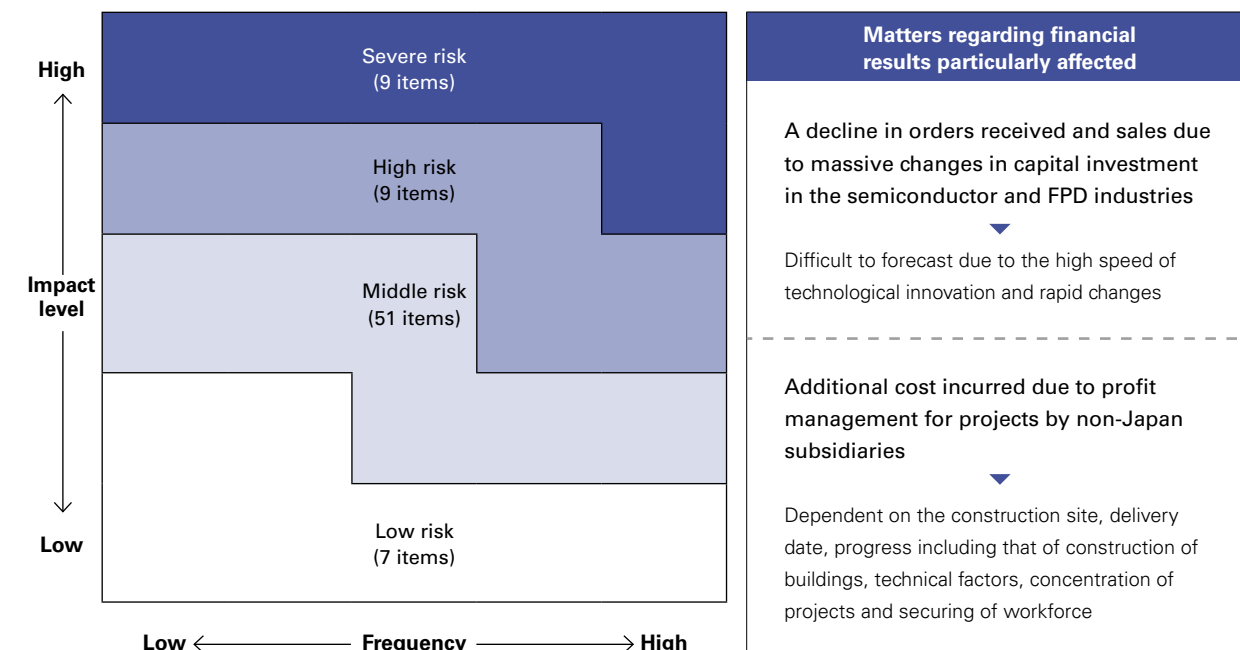
For both Companywide risks and climate change risks, we apply the views of external experts and report the results of risk analyses to the Board of Directors.

Risk analysis

The Group conducts a risk assessment survey each year. Starting in fiscal 2019, we seek advice from an outside third-party body about carrying out an objective survey that takes into account a comparison with other companies. In addition, we have broadened the scope of survey subjects to identify risks throughout the Group. We draw a risk map that reflects the risk significance level assessment based on internal risk assessment results, and made corrections based on the expertise of outside bodies to develop measures to address severe risks and to gather the results of an evaluation of the current status in the Company.

Specifically, items are classified into four categories, namely severe risk, high risk, middle risk and low risk, after their risk occurrence frequency and impact level are each evaluated on a five-grade scale. Nine items have thus been classified as severe risk, another nine as high risk, 51 as middle risk and seven as low risk. Severe risk items are subject to active control chiefly by the management team. For high risk items, competent departments play a central role in management and regularly report their situations to the management team. Middle risk and low risk items are subject to management by the department.

Risk significance level assessment (FY2019)



Risk information

Severe risk	
Economic crises and business fluctuations	<ul style="list-style-type: none"> Decrease in capital investment following a downturn in customers' industries Occurrence of foreign debt delinquency in any country where the Group operates
Misconduct at Group companies	<ul style="list-style-type: none"> Degradation of social credibility and decrease in orders received after accidents or misconduct
Improper management of non-Japan subsidiaries	<ul style="list-style-type: none"> Deterioration of financial results resulting from failure in operation of organization
Human resource development and recruitment	<ul style="list-style-type: none"> Turmoil resulting from inadequate development of successors (to take positions of officers and other personnel at managerial level) Business suspension or contraction due to global shortage of competent material handling engineers after progress in e-commerce Stagnation of manufacturing due to a labor shortage
Reputation	<ul style="list-style-type: none"> Impairment of social credibility by rumors, libels and suchlike
Natural disasters	<ul style="list-style-type: none"> Interruption of business activities following occurrence of earthquakes, tsunamis or other large-scale disasters or pandemics of infectious diseases

High risk
<p>Abrupt changes in foreign exchange rates, interest rates and share prices, cyberattacks, failure in business acquisition, violation of competition laws, deficiencies in labor management, fires, explosions, coups, civil wars and conflicts</p>

Risk from the COVID-19 pandemic

The Group has built a BCP (business continuity plan) framework for unexpected situations, including earthquakes and tsunamis. In response to the COVID-19 pandemic that arose in January 2020, we established a special task force with the CEO as chief executive to address the situation.

As a result of years spent developing ICT infrastructure, we were able to shift smoothly to teleworking. In addition, the Shiga Works, our main production site, has hardly been affected by the COVID-19 pandemic at all and the supply chain is also functioning well. Accordingly, our business activities have no significant impact in Japan. Outside Japan, factories, sales offices and service stations are operating in compliance with the guidelines set out by the governments and authorities in the countries where we operate.

Many of the Group's customers are leading companies in their respective sectors and not only do they have few credit concerns, they also appear to be taking the stance that now when business confidence is low is precisely the time to make forward-looking capital investments. The Group's financial position is strong, with a shareholders' equity ratio of 56.7% and a D/E ratio of 0.14, and there are no causes for concern that the COVID-19 pandemic might significantly damage the Group's financial foundation.

We recognize that the main risks posed by the COVID-19 pandemic include restrictions on movement, such as working at the office and other activities of the Group and its customers; the delay and stagnation of business activities due to cases of infection; the suspension and discontinuation of customer capital investment as a result of recession; and higher break-even points due to decreased production.

We also 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.

Sustainability Initiatives

Daifuku has been implementing environmental management with a focus on global environmental conservation. While management with an emphasis on ESG, which includes the viewpoints of environment, society and governance, is now required, since fiscal 2020 our management team has been actively monitoring ESG-related initiatives and making decisions in the Sustainability Committee, the organization in Daifuku responsible for such matters.

Past actions

■ 1999

Principal locations in Japan, the Shiga Works and the Komaki Works, acquire ISO 14001 certification

Daifuku commences operation of a management system aimed at reducing the environmental impact of business activities, such as CO₂, waste, hazardous chemicals, and effluent. In 2012, the Company acquired global multi-site certification.

■ 2011

Develops its Environmental Vision 2020

Publishes its Groupwide policy to address climate change, biodiversity conservation, and other global issues by fiscal 2020 as well as related targets.

■ 2014

Establishes Daifuku's CSR

Identifies different guidelines including the ISO 26000 standard, the GRI's G4 Guidelines and the United Nations (UN) Global Compact as well as materiality (priority issues) based on stakeholders' expectations and impacts on business.

■ 2020

Discloses information in accordance with the framework recommended by the TCFD

Following our statement of support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2019, Daifuku now analyzes and discloses risks and opportunities relating to climate change.

Launches the Sustainability Committee

Reorganizes the former Environmental Enhancement Management Committee into a cross-sectional body to ensure that the management team makes decisions for sustainable growth by incorporating ESG, the SDGs, and many other elements.

Future actions

The ongoing COVID-19 pandemic and many other changes in the external environmental or social issues have huge impacts on management. Companies are required not only to achieve their own continued growth but to address social issues through business operations.

We have worked to resolve serious social issues, including the labor shortage brought on by aging populations and declining birth rates, by providing material handling systems as a means to automate and implement labor-saving technologies.

In fiscal 2020, we established a Sustainability Committee chaired by the CEO to boost the effectiveness of ESG-focused management. Regarding social issues not as risks but as business opportunities, we will aim for sustainability management that helps achieve a sustainable society while developing both social value and economic value.



Hideaki Takubo
Corporate Officer
Human Resources and General Affairs

MEGA

Surrounding Daifuku

TRENDS

Personnel Accelerating changes in industrial structure

Initiatives	
Global leadership training program	Page 37
Launch of a training center in China	Page 37
A mobile training center in the U.S.	Page 37

Rapidly advancing technological innovation including AI, IoT, and 5G is changing industrial norms. To create technologies and services toward further solidifying the foundations for future management, it is vital to obtain skilled personnel, develop personnel internally, and improve the work environment.

Safety Growing risks of work accidents globally

Initiatives	
Occupational safety and health management system certification	Page 38
Hands-on safety training facility	Page 39
Safety and health seminar for management	Page 39

As the Daifuku Group's business scale grows, its stakeholders are extending across the globe. To eradicate work accidents, it is increasingly important to make internal rules on industrial safety that surpass language and cultural barriers.

The Environment Intensifying global environmental issues

Initiatives	
Based on TCFD Recommendations	Pages 40-41

All business activities including manufacturing have negative environmental impacts. Among others, Daifuku sees climate change as both a distinct business risk and an opportunity. It offers environmentally friendly products and services to help resolve the worsening issue of global warming.

MEGA

1

TREND

Strengthen Human Resources

As stated in its management philosophy, “Focus on healthy, growth-driven global management under a diverse and positive corporate culture,” Daifuku places its human resources at the core of management. Since the environment surrounding our management is changing rapidly, we are actively building a work environment that responds to globalization and diversity.

Promotion framework

The Human Resources and General Affairs Division is in charge of the establishment and promotion of cross-organizational initiatives related to human resources. In particular, we promote the cultivation of human resources to support the global development of our business and the enhancement of our management. We have also set up the Mental & Physical Health Promotion Committee to ensure a working environment that allows employees to work without undue worries, as well as to promote various initiatives. In April 2017, we set up the Work-Style Reforms Committee, with the aim of achieving work-life balance by providing a work environment suitable for diverse human resources and for improving productivity. We will continue to implement effective initiatives based on the sharing of information with each department.

Human resource development

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

We are enhancing on-site operations along with increasing the number of Daifuku locations across the globe year by year. Amid the increasing number of non-Japanese staff, we provide training for global leaders and staff to understand the Group's value and share knowledge, as well as build a positive working environment where employees are able to maximize their abilities through the training and other programs.

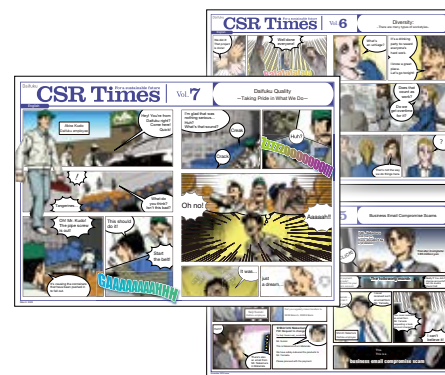
Daifuku HR training system

Mandatory training						
Position-specific	Role-based	Carrier development	Global HR development	Leadership	Self-development	Non-Japanese staff

For details, see our website:
www.daifuku.com/sustainability/action/employee/humanrights

CSRTimes

In fiscal 2019, we began to create a comic strip to introduce what is CSR. Five language version—Japanese, English, Chinese (simplified and traditional), and Korean—are shared online with Group members, covering a number of topics, including safety, quality, and bribery. We will continue to raise employee's awareness of our social responsibility.



Development of personnel outside Japan

Global leadership training program

The Group offers annual global leadership training aimed at skills development of prospective executives at non-Japan subsidiaries. In fiscal 2019, the ninth such training session took place with the participation of 15 trainees selected at subsidiaries in the U.S., Mexico, Canada, India, China, South Korea, Taiwan, Singapore, Indonesia and Thailand. The event shared knowledge and information through lectures on a wide range of subjects including management policies, financial health, financial strategies, public relations, legal affairs, intellectual property, information security and safety, and through factory tours in the Shiga Works.



Launch of a training center in China

In fiscal 2019, Daifuku (Suzhou) Cleanroom Automation Co., Ltd. set up a demo line in its plant for products for semiconductor and FPD factories and opened a training center to enhance the skills of engineers of Daifuku and its business partners. With a systematic education program, it now offers effective education using real machines. We will thereby improve the level of on-site work and the quality of maintenance services in an effort to win more orders for services.



A mobile training center in the U.S.

In June 2019, U.S. subsidiary Daifuku North America Holding Company launched a Mobile Technology Center. Based in a trailer that is transported to locations around the U.S., the center is equipped with roller conveyor and other equipment, which is used to provide electro-mechanical skills development and training staff engaged in the operations and maintenance of warehouses and distribution centers. An environmentally friendly vehicle that received a top rank under the SmartWay program run by the U.S. Environmental Protection Agency is employed for the trailer.



MEGA

2

TREND

Enhance Safety

Daifuku sees safety as the greatest value for its employees and personnel of business partners. The basic premise of our corporate activities is to ensure their safety. We aim to increase the safety awareness of all involved in our business and firmly establish a safety-focused corporate culture. Based on its slogan, "Safety is at the foundation of corporate sustainability and supersedes everything," we promote safety management initiatives throughout the whole group and amongst our suppliers. To eradicate work accidents, we must 1) implement risk assessments to eliminate and minimize dangers not only in our offices, factories and installation sites, but with machinery and equipment, and 2) entrench a "corporate culture that ranks the safety and health of employees as the highest priority" through consistent safety training and education.

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 Daifuku Group. We have obtained occupational safety and health management system certification (ISO 45001) at all our major sites. 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 patrol conducted by CEO at installation sites

For details, see our website:
www.daifuku.com/sustainability/action/employee/safety

Enhance safety promotion framework

Occupational safety and health management system certification

All production sites and primary locations in Japan, and all main production sites overseas, have obtained and maintained certification for occupational safety and health management systems such as ISO 45001. As of January 2020, in terms of sales ratio, production has been 100% certified in Japan and 31% certified overseas.

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

Safety education

Hands-on safety training facility

Daifuku has a hands-on safety training facility in the Shiga Works 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.



Simulating being caught in a roller

Safety and health seminar for management

Safety awareness among management is key to preventing work accidents. Daifuku holds a seminar toward entrenching a safety culture among its suppliers and its management team every year. This seminar includes a program of honoring suppliers actively carrying out safety and health activities in a bid to raise their safety awareness.



Safety and health seminar for management (FY2019)

Achievements

Daifuku Singapore achieves one million accident-free work hours

A subsidiary in Singapore, Daifuku Mechatronics (Singapore) Pte. Ltd., achieved a cumulative total of one million hours without recorded accidents in the period of six years from 2013 to 2019. The company engages in activities aimed at building safety awareness, including showing videos on accidents and disasters created by the Singaporean government at monthly staff meetings.

Since 2013, it has been certified with the bizSAFE standard for occupational safety and health led by the government of Singapore. The certification is very important for Daifuku Singapore as the company works on contracts for both the government and private sectors.



The Environment Intensifying global environmental issues

MEGA
3
TREND

Based on TCFD Recommendations

Daifuku announced its assent to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. In accordance with the framework of the TCFD recommendations, we have identified risks and opportunities that climate change creates for our businesses globally. Here, we will disclose information about the four items of Governance, Strategy, Risk Management, and Metrics and Targets.

Governance

Overview

Daifuku has set up the Sustainability Committee (chaired by the CEO) that 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.

Regarding climate change, the Committee determines policies on energy conservation, resource conservation, and environmentally friendly products for the entire Group, or Group companies all over the world, responds to related laws and regulations, and discloses information to stakeholders.

Board of Directors

The Board of Directors receives reports from the Sustainability Committee and passes resolutions on necessary measures. The Board of Directors consists of eight members. One of the four outside directors has experience in the management of an energy development company.

Sustainability Committee

The Sustainability Committee develops and promotes sustainable management strategies, which support the sustainable growth of the Daifuku Group, toward achieving a decarbonized society and the SDGs.

Strategy

Process of scenario analysis

We conducted a scenario analysis through the following processes, to assess the resilience of our business strategies against climate change risks.

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

Result of scenario analysis

We analyzed the impact of climate change on our operations with two scenarios for a rise in temperature in the 21st century. While business costs will increase, we expect growth in demand for our products and services that exceeds the above negative impact.

Rise in temperature in the 21st century	Envisioned risk	Envisioned opportunity
<p>Greenhouse gases are emitted around the world without significant change</p> <p>4 degrees Celsius</p>	<p>▶ 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.</p> <p>▶ Risk of employees experiencing heat stroke in factories and other facilities associated with high temperatures</p>	<p>Increase in demand for products and services</p> <p>▶ Expansion of cold chain and e-commerce markets</p> <p>▶ Growing demand for labor savings</p> <p>▶ Increase in demand from customers for contributions to reducing CO₂ emissions</p>
<p>Rapidly tightened regulations related to greenhouse gas emissions</p> <p>Less than 1.5 degrees Celsius</p>	<p>▶ Increase in procurement and operating costs due to carbon tax, etc.</p>	

For details, see our website:
www.daifuku.com/sustainability/action/environment/management#TCFD



Risk Management

Processes of risk identification and assessment

We set up a working group including external specialists and conducted a scenario analysis.

Risk management process

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. In addition, we will be dedicated to the development and sales of environmentally friendly products with a focus on the fact that the amount of CO₂ emissions by customers resulting from their use of energy is far greater than that of our own emissions.

Status of integration into the overall organization's risk management

At the Daifuku Group, we have built a Groupwide risk management system based on our risk management rules. We position major natural disasters, including climate change, as one of a top priority risks, and the Sustainability Committee manages such risk in a centralized manner. Concerning both Companywide risks and climate change risks, we apply the views of external experts and report them to the Board of Directors as necessary.

Metrics and Targets

A new environmental vision we are now developing will include metrics and targets on climate change. The new vision will be looking ahead, with final targets set for 2050 and interim targets for 2030. The new vision will also contain our environmental contribution through providing best products and services, use of renewable energy in business operations, and initiatives toward a recycling-oriented society.

Strategies by Business

Intralogistics

Introduction

The Intralogistics business broadly offers storage, transport, sorting and picking systems to manufacturers, including food, pharmaceuticals, and machinery factories, and to distributors for their delivery centers. As changes in customers' capital investment trends are limited, stable growth is expected.

Managing Officer
Intralogistics Global Business Head

Kanji Anno



My Starting Point

When I worked as a project manager after being transferred from the design section to the installation and services section, I realized that people would only follow my leadership if I took a hands-on approach, which requires you to not just simply go to the site and see the work firsthand, but to talk directly with those involved to enable you to make solid decisions that satisfy all persons that are working on the project in different roles. Making decisions and taking action based on the sharing of expertise toward the same goal bore success backed by numbers. Visualizing success by setting metrics enables an organization to surpass its expectations. I will continue in my efforts to entrench a culture where employees take the initiative to identify and solve problems.

Market environment

Japan

Japan is a mainstay market where this business earns 65% to 70% of its orders and sales.

E-commerce market

In recent years, e-commerce has been driving the growth of this business. In 2018, the B2C e-commerce market in Japan had a size of 18 trillion yen, representing growth of 8.96% from the previous year, according to the Ministry of Economy, Trade and Industry. Many consumers used e-commerce, including home delivery services of consumers' cooperatives, for the purpose of preventing COVID-19 infections. This market is expected to continue growing.

Outside Japan

This market has potential for future growth. In fiscal 2019, we carried out an M&A with a company in India, saw the inauguration of a new factory of a subsidiary in the U.S. and set up a subsidiary in Vietnam.

E-commerce market

This market shows a higher growth rate outside Japan. With customers proactively expanding their operations into other countries, demand for logistics systems that encompass both physical stores and e-commerce is on the rise. Further, apparel and other businesses are expected to make systematic and strategic investments.

Needs for labor saving due to a labor shortage

Not only in wholesaling and manufacturing but also in delivery services, workloads are increasing despite no major change in the workforce. The expansion of e-commerce increases the amount of physical distribution, which is leading to an increasing volume of joint deliveries and distribution centers being consolidated. Accordingly, projects are becoming larger in scale.

Refrigerated and frozen storage warehouses

In ASEAN countries, manufacturers, mainly those based locally, are making investments. Especially, food manufacturers have massive demand for refrigerated and frozen storage warehouses in addition to ordinary warehouses.

Strategies

We adopted the following four strategies with the aim of providing logistics value (logistics time, quality and cost) that contributes to the competitive edge of our customers.

Strategy 1 Global reform

- Analyze markets and customers globally and identify new markets. In addition to our conventional business model of responding to inquiries from customers, we will build a sales network and revise our sales approach in a bid to secure more orders.
- Shift manufacturing to local sites to increase the ratio of in-house production and to boost our price competitiveness.

Strategy 2 Solution proposals

- Provide specialized products tailored to specific industries and users, such as automated columbariums and automated frozen storage warehouses.
- Expand our lineup of automated equipment to achieve full automation of material handling in distribution centers and factories.

Strategy 3 Manufacturing reform

- Improve product quality upstream in the manufacturing process by standardizing high-quality system layouts and by developing simulators that can simulate actual operations.
- Streamline engineering work by automating the creation of drawings and procurement data from 3D layouts.

Strategy 4 Installation reform

- With easy-to-understand procedural manuals that provide 3D illustrations and video content, standardize rack and crane installation work and use dedicated jigs to improve work efficiency.

Aspiration

Customers of the Intralogistics business maintain their competitive edge by quickly and accurately delivering goods at low cost to consumers. Innovation is necessary to ensure we provide the logistics value sought by customers; thus, we will take steps to rapidly innovate they key areas of our business.

Product Spotlight

Mini Load AS/RS (H-P10)

The H-P10 is a high-performance mini load automated warehouse system that can store loads of any width and is suited for multi-tenant logistics warehouses. With a mechanism that enables simultaneous storage and retrieval, it shortens transfer time. Adopting a single-mast stacker crane instead of a two-mast one has achieved a massive weight reduction and lower power consumption of around 27% compared with conventional models.



Environmental Contribution

Energy saving

CO₂ reduction

Strategies by Business

Cleanroom

Introduction

The Cleanroom business offers storage and transport systems designed exclusively for clean rooms to the semiconductor and FPD factories. With cutting-edge technologies suited for the 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%.

Director and Managing Officer
Cleanroom Global Business Head

Seiji Sato



My Starting Point

I have been working in the cleanroom industry for 18 years. Survival in the industry is dependent on the continued adoption of cutting-edge technologies. Further, as the industry is sensitive to the global economy, it experiences dynamic ups and downs. The first thing I learned in the industry is to always be prepared to try something new. Customers are always trying to push new boundaries. Thus, to survive as a business, we must listen to and work with our customers to achieve breakthroughs in the areas of clean room storage and transport.

Market environment

Semiconductors

For fiscal 2019, capital investment relating to semiconductor memories contracted. We expect that a resumption of investment will lead to the receipt of orders for fiscal 2020. The future outlook is uncertain due to the trade dispute between China and the U.S. and the COVID-19 pandemic. However, the market is projected to be brisk in the medium- and long-term future with device manufacturers likely to continue their investments in line with increasing datacenters, along with increased latent demand resulting from AI, 5G and autonomous driving.

FPDs

In the mainstay Chinese market, sales, manufacturing and installations were all severely affected by the COVID-19 pandemic in the period from February to May 2020. While FPDs seem to have peaked overall, the shift from LCDs to OLEDs will gather momentum, with demand for OLEDs set to continue over the medium and long term in the application of mobile devices.

Strategies

We will enhance our business structure from a customer- and locally-focused perspective.

Strategy 1 Response to rapid changes in market environment

- Strengthen our global network, irrespective of point of destination, by coordinating work volume among the four production sites in Japan, South Korea, China and Taiwan, to shorten delivery lead times and to procure parts at low costs.
- Established a flexible resource system in fiscal 2019 that removed usage classifications, which conventionally locked resources to either FPD or semiconductor projects.

Strategy 2 Ensure project management that incorporates the latest digital technologies

- Increase efficiency by expanding the use of layouts created by the engineering team into drawings and procurement tables for production and software.
- In response to growing numbers of large-sized projects, create a global production management system that supports on-demand monitoring of the overall status of all Cleanroom business projects.

Strategy 3 Realize a system that never stops and that resumes its operation immediately even if it stops

- Develop an IoT- and AI-based system for failure diagnosis and self-recovery.

Strategy 4 Differentiate from the competition through brand strategy

- Launched an exhibition space for material handling systems for OLEDs in China. In addition, now we must consider the expansion of demo lines for semiconductors since the semiconductor market is expected to grow. We will thus work to increase our brand strength in the Chinese market.

Strategy 5 Step up development efforts

- Semiconductors: Introduce AI, IoT and other cutting-edge technologies to storage and transport to meet customers' requests for low vibrations, high cleanliness, high transport efficiency and lower power consumption for environmental conservation.
- FPDs: Develop transport systems for OLEDs, broaden the array of related equipment and develop cost-cutting solutions expected by the Chinese market, which is now an area of fierce competition.

Aspiration

The Daifuku Group's systems are commended and trusted to the extent that we are often honored as "excellent suppliers" by key customers. To build even closer ties, we will develop original products based on local needs, create business domains, develop on-site personnel and reinforce our customer-based service framework. Rather than serving as a mere supplier, we aspire to be selected by customers as a true partner that helps them with state-of-the-art technologies.

Product Spotlight

Cleanroom N2 Purge Stocker (Purge STK)

The N2 Purge Stocker, which is a storage system for clean rooms, injects nitrogen (N₂) into the front opening unified pod (FOUP), an enclosure holding wafers. As the process becomes finer and finer, improving the yield rate becomes an issue. Injecting N₂ controls humidity, which has a notable impact on quality.

A key feature of the stocker is its ability to control the timing and volume of N₂ injected according to the status of each FOUP.



Strategies by Business

Automotive

Introduction

The Automotive business offers conveyor systems for all automobile production processes, including press, weld, paint and assembly. 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 at least 40% of segment sales.

Director and Managing Officer
Automotive Global Business Head

Toshiaki Hayashi



My Starting Point

When I was in my third year at the Company, my assignment was to come up with a design for the remodeling of the automobile assembly line. In a project, the system did not work as we had expected, and we thought we would fail to meet the delivery date. We put the faulty units in the parking lot and used vehicle headlamps for lighting. All the staff in the factory and installation section worked to fix them and managed to successfully put the system into operation. That stance of facing something head on, never giving up and standing together is a great culture that has continuously been passed down at Daifuku, and I believe it is the source of our development and improvement as a company.

Market environment

For fiscal 2019, Japan's automobile production volume remained flat, while demand for replacement and automation due to the aging of existing factories continued. The North American and ASEAN markets were buoyant. In North America, we won a large project based on our track record of successfully managing big projects. In China, despite overall sales growth temporarily slowing, sales of vehicles from Japanese automakers expanded.

For fiscal 2020, the impact of the COVID-19 pandemic is unavoidable. While global automobile production volume is expected to fall 15% year on year, conversely, after the pandemic it is forecast to grow at an annual average rate of 2% as demand for new electric vehicle models expands, according to MarkLines Co., Ltd. It will be important to closely monitor future trends in capital investment among individual automakers. Meanwhile, automobiles are now well received for physical distancing and personal spacing. In recent years, major automakers have been focusing their resources on business models associated with Connected, Autonomous, Shared and Electric (CASE) vehicles.

Strategies

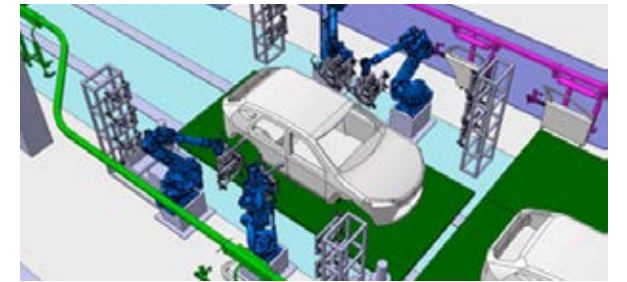
We will pursue the following initiatives.

Strategy 1 Increase profitability

- Take steps to increase our competitiveness with an eye on emerging Chinese competitors.
- Proactively incorporate digital transformation and ICT technology toward bolstering our global production management system.
- Introduce a digital chart that lists the status of each equipment or facility delivered in Japan and abroad, and, using IoT-based data collection, offer predictive maintenance services to customers.
- Renovate and expand a factory building in China, which was constructed around 30 years ago, to increase in-house production and heighten productivity.

Strategy 2 Expand business domains

- There is latent demand for outsourcing all processes related to production technologies. The Automotive Production Solution (APS) business, which is a growing focus of the Group, is gaining prominence among our customers. We will continue to offer systems that respond to needs for automation, labor saving and production diversification, and give customer-oriented proposals on process planning engineering. With a view to offering all-inclusive solutions that cover everything from production planning to the provision of systems, we will step up our consulting and engineering activities to help increase our customers' competitiveness.
- Expand global business domains. We will work intensively on transplant projects for Western automakers in India, China and other emerging countries. To this end, we will build closer ties with partner companies and strengthen our production framework in India.



Vehicle door removal automation solution for an assembly shop

Aspiration

We aim to maximize our global synergy. Our Automotive Division in Japan will take the initiative in becoming an organization united with non-Japan subsidiaries in an effort to increase customer satisfaction.

Product Spotlight

Temporary Storage and Sortation System - SPDR

SPDR (pronounced "spider") stores and sorts a variety of cases used in parts logistics at automobile factories and auto parts manufacturers. As it does not use racks like a conventional automated warehouse system, it can be installed in areas with limited space, thus contributing to resource saving. In addition to facilitating the handling of cases directly on the ground or in stacks, the system stores and retrieves cases efficiently based on picking operations. Further, the system's lightweight increases energy efficiency. By using a belt drive to move, the system operates quietly, improving the work environment, and is easy to maintain.



Environmental Contribution

Energy saving

Lightweight

Strategies by Business

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 are working together to operate the business.

Corporate Officer
Airport Global Business Head

Takaya Uemoto



My Starting Point

I was involved in the project of recovering the plant facility of Honda Automobile (Thailand) Co., Ltd., headquartered in Ayutthaya, Thailand. It was inundated in the floods of 2012. Under the slogan of “Make a legend,” rather than saying “It’s not possible,” all the members viewed the challenge as a way to make a “new legend” for Daifuku. Gathered from different countries around the world, 150 supervisors and personnel joined by 300 workers from Thailand united in setting up an automobile factory, which targeted an annual production capacity of 240,000 units, in two months as requested by the customer. I will never forget that we were supported not only by internal departments but by partner companies, component manufacturers, transport companies and more. To this day, I feel proud that Daifuku has so many partners that provide such great support.

Market environment

In May 2020, the International Air Transport Association (IATA) announced its forecast that due to the COVID-19 pandemic it would take four years for the number of air passengers on international flights to return to the 2019 level. We are experiencing delays in the timing of the receipt of orders, delays in work progress and the downsizing of operations and maintenance in some projects. However, airports are a key part of the social fabric with many projects strategic and long-term in nature; thus, it is expected that any impact may be offset by other projects and that selling, general and administrative expenses can be reduced. We will manage the business to minimize the impact.

Among the needs by region, demand for the upgrading of aging facilities and for the enhancement of security is growing in North America, the largest market. In Asia Pacific, we see strong demand for the expansion of airport terminals. In Europe, we are addressing demand for tougher baggage inspections.

IATA's Fast Travel program places emphasis on the automation (or the shift to self-service) of passenger procedures at airports. It is anticipated that new business opportunities will emerge, such as development of smart airports that respond to future increases in passenger numbers and that seek safety, reassurance and convenience, automation aimed at labor saving, physical distancing and touchless technologies.



A self-service baggage check-in system that reduces check-in time and provides labor saving at Melbourne Airport

Strategies

For the top-priority target of establishing a structure and foundation for profitability, we will take the following measures.

Strategy 1 Strengthen our project management

- Appoint dedicated project managers to prevent delays in progress and cost increases, as large projects require two to three years until the system begins operation. Top management of this business will be actively involved in this area.
- Implement a monitoring system via the Steering Committee.
- Enhance project management led by affiliate management and implement cross-sectional monitoring within the global business unit.

Strategy 2 Reinforce our business foundations

- Strengthen existing business models, including baggage handling systems, operations and maintenance, and self-service baggage check-in systems. We have introduced products, in which each of our Group companies excel within their respective markets, worldwide. Going forward, our goal is to have 1) all Airport businesses within the Daifuku Group complement each other and 2) sales, production, and services conducted from the most advantageous locations around the world to boost our competitiveness globally.
- Boost our global competitiveness. To strengthen the digital business for airports, the Group was joined by two software-related companies in 2019, thereby facilitating our entry into the growing areas of airport security smart lanes and integrated information systems in an effort to diversify our business domains. Through collaboration between all our airport-related affiliates based in the U.S., Europe, and Asia Pacific, we will strengthen our global competitiveness.

Aspiration

On the basis of my experience cultivated over years of installations and services for automobile production line systems, I will bolster the management framework for airport projects. I will also set up a system involving leaders from affiliates in North America, Europe, and Asia Pacific to monitor the progress of projects and aim to maximize collaboration between these affiliates to boost our global competitiveness.

Business Spotlight

Developing a mobile inspection table, incorporating ergonomic technologies to help improve work environment

Airport security inspections have become stricter year by year to ensure safe flights.

At the Transportation Security Administration (TSA), an agency of the U.S. Department of Homeland Security with authority over the security of the traveling public, passenger baggage flagged for further inspection during security screening is delivered to the Checked Baggage Resolution Area (CBRA), where a security officer inspects the baggage manually. Improved screening accuracy has led to lower risks but has also increased the number of bags required for further inspection. Accordingly, the volume of work facing security officers grows.

In particular, TSA has experienced growing ergonomics issues from officers lifting heavy bags from and to the conveyor, which could be connected to work accidents. In response, an alternative system to resolve such issues was sought. The Group offered the Mobile Inspection Table (MIT) solution to TSA to replace traditional belt conveyors. MIT offers an ergonomic, goods-to-person approach within CBRA by enabling the security officer to search the bag directly on top of MIT, thereby eliminating injuries caused by lifting, twisting, or turning. Highly lauded on-site, MIT reduced time wasted moving and lifting, improved work efficiency, and cut operating cost.

Since our first MIT installation at Detroit Metropolitan Airport, other airports in the U.S. are now following suit.



Strategies by Business

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. It works to expand sales channels to new markets and to upgrade environmental features in product development.

Corporate Officer
Auto Wash Global Business Head

Akihiko Nishimura



My Starting Point

Having worked in North America for 26 years in a number of roles, including sales, project management, and services, I have learned the importance of thinking from the customers’ standpoint. Even with differences in nationality and culture, and despite the varying challenges that can arise, all team members share the same goal: completing the project successfully and satisfying the customer. Thinking from the customers’ perspective is something I will continue to do and encourage.

Market environment

Service station industry

Because of the COVID-19 pandemic, demand for car wash machines is down from fiscal 2019. However, the number of vehicles owned in Japan has continued to increase slightly and is considered unlikely to drop drastically.

Transportation industry

In line with the expansion of e-commerce and increasing briskness of logistics in Japan, demand for large-vehicle wash machines is growing. While the shortage of drivers is emerging as a social issue, such machines are expected to help improve the working environment for drivers. As a result, we anticipate growing interest from potential customers.

Automotive maintenance industry

Car dealers constitute a principal market for this industry; however, the number of dealerships may decrease due to major automakers reorganizing their sales networks. Despite this, we forecast that demand will hold steady from 2019, given mounting needs for labor saving amid a shortage of automobile mechanics and demand for replacement of existing car wash machines.

Korean market

Amid the COVID-19 pandemic, demand for replacement of systems slowed while needs for maintenance to extend the life span of existing machines surged. Inquiries are increasing for Korea’s first brushless tunnel-type car wash machine that we released in April 2020.

Strategies

We released the industry’s first water-saving car wash machine, which nearly halves water consumption compared with conventional machines. Our efforts continue to develop products with a reduced environmental footprint. Car wash machines are one of the Daifuku Group’s few products that directly present our quality to consumers. They help improve Daifuku brand awareness and our reputation.

Strategy 1 Stand out with an extensive product lineup

We have released an array of unique products, including a car wash system with a foam wash function, which has become a revenue earner; a space-saving model with the industry’s shortest rail length; and the industry’s first smartphone payment system. We will continue to offer products that will help our customers secure a competitive edge.

Strategy 2 Identify business opportunities

We will not overlook but continue to identify business opportunities, such as the installation of car washes next to laundromats, and introduction to large commercial facilities.

Strategy 3 Increase profitability by enhancing services

We have the largest number of service offices in Japan as well as the industry’s first call center. Our next target is to provide meticulous services and replacements to customers and to expand sales of high-value-added coating products.

Electronics

Introduction

Contec Co., Ltd. develops, manufactures and sells electronics products consisting of industrial computers, IoT devices and solution products, as well as control devices such as control panels and control modules. It also provides Daifuku with control components essential to material handling systems.

President and CEO
Contec Co., Ltd.

Akira Ikari



My Starting Point

I have only recently been assigned to the Electronics business, but prior to this I had experience in development, production and sales, and have always approached each role from a customer-oriented perspective. Electronic devices are used in a broad range of fields, and I am convinced that their market will continue to expand in the future. On the basis of the “three-reality principles,” I will take the initiative toward expanding the business to new heights.

Market environment

Our products are commonly used in situations where the ability to withstand environmental conditions is required, such as in factories and infrastructure facilities demanding 24-hour uninterrupted operation or in high-temperature environments. In recent years, they have found increasing applications online through IoT and cloud technologies.

Manufacturing sector

Gradual advancement is seen in the use of IoT solutions for collecting data from industrial machinery to improve productivity, and in investment in smart factories incorporating 5G communication technologies. Against a backdrop of labor shortages, work-style reforms and soaring labor costs, there is growing demand for labor saving and automation.

Social infrastructure

Our products are increasingly used for environmental measures, such as in photovoltaic power generation, monitoring of road, rail and other conditions, and monitoring of water levels in rivers and dams. Applications are expanding to remote monitoring and cloud management of social infrastructure.

Medical device sector

It is anticipated that the aging of the population will continue in developed countries and that the level of medical services will rise in emerging countries in line with economic development. This means that demand for medical equipment is growing around the world.

Competitive environment

Since Taiwanese competitors hold a large market share, competition is expected to intensify. European, Chinese and other markets are larger than the Japanese market. In recent years, the Southeast Asian and Indian markets have been growing rapidly.

Strategies

Strategy 1 Expand sales in Japan

We will expand the lineup of high-performance industrial computers as well as computer peripheral and measurement control products, and around network products in a bid to capture new customers and boost sales.

Strategy 2 Promote globalization

To develop products tailored to individual countries, including the U.S., China, ASEAN and European countries, we will cement our site in Taiwan as a global development center and build closer links between technical teams in Japan and Taiwan. Further, we will increase optimal procurement and production volumes in Taiwan to bolster cost competitiveness.

Strategy 3 Strengthen technological development

In addition to research into image recognition with the use of AI, we will develop network and software technologies in response to 5G and Wi-Fi 6, while making active use of open innovation.

Environmental Contribution

Materiality-related SDGs targets

Initiatives Materiality

- Promote environmentally friendly activities in business operations
- Expand environmentally friendly products and services
- Strengthen environmental management platform

Created value

CSR Action Plan KPIs

✓ FY2019 result □ FY2020 targets

Total CO₂ emissions from production and office locations <small>(compared with levels in FY2005)</small> ✓ Reduced by 57.4% □ Reduction of 41% or more	CO₂ emissions from production and office locations <small>(per unit of net sales compared with levels in FY2005)</small> ✓ 31.9% □ 72% or less	Global CO₂ emissions <small>(per unit of net sales compared with levels in FY2011)</small> ✓ 47.5% □ 50% or less	Waste generated <small>(per unit of net sales compared with levels in FY2005)</small> ✓ 47.6% □ 72% or less
Amount of water used <small>(per unit of net sales compared with levels in FY2005)</small> ✓ 30.1% □ 57% or less	Amount of water used globally <small>(per unit of net sales compared with levels in FY2011)</small> ✓ 26.9% □ 40% or less	Certified Daifuku Eco-Products ✓ 62 □ 63 or more	Contribution to reducing CO₂ emissions from products and services ✓ 73,928 t-CO₂ □ 100,000 t-CO₂
Participants in the Eco-Action program ✓ 13,403 □ 8,000	Companywide implementation rate of Daifuku Eco-Management System ✓ 95.8% □ 100%		

SDGs pursued by Daifuku



For details, see our website:
www.daifuku.com/sustainability/action/environment

Basic stance

Daifuku promotes its own environmental management to ameliorate a range of environmental issues. The most profound risk to our business continuity comes from global environmental issues, including climate change and loss of biodiversity. At the same time, we recognize that solving such issues also presents business opportunities for us. We formulated the Daifuku Environmental Vision 2020 in 2011, stating, “We strive to be environmentally aware in every business activity, including consistently developing and providing material handling systems with low environmental impact.” As the three priority measures to achieve this vision, we promise to: “Promote environmentally friendly activities in business operations,” “Expand environmentally friendly products and services,” and “Strengthen environmental management platform.” We have set up targets for each measure to be achieved by 2020.

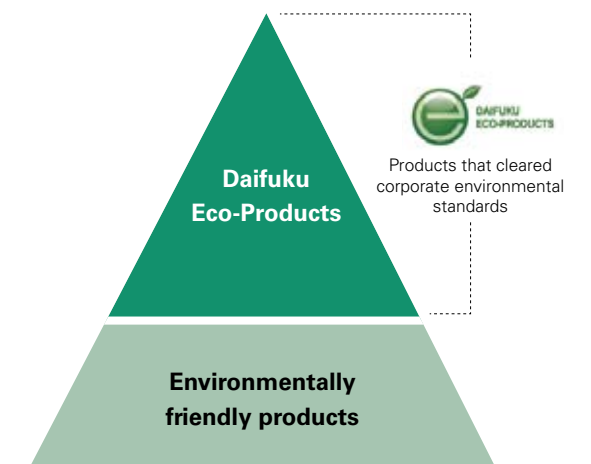
Promotion framework

Toward achieving the Daifuku Environmental Vision 2020, we have set up the Sustainability Committee, chaired by the CEO and comprised of the heads of each global business unit, as the highest decision-making body on environmental management issues across the Daifuku Group. At the Committee, top management provides instructions on activity policies and implementing plans that address various issues, including climate change.

Environmentally friendly products and services

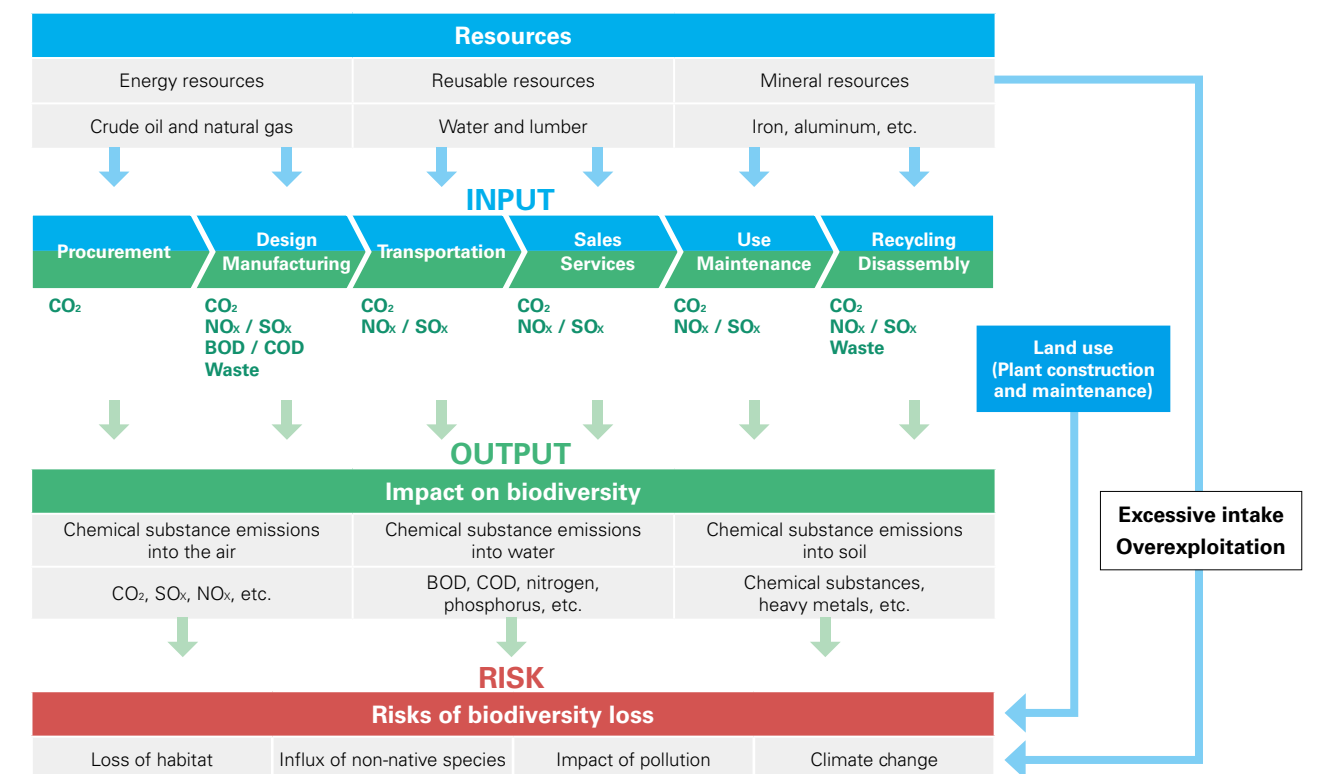
Daifuku develops and provides environmentally friendly products and services to society. Since 2012, Daifuku has been operating an in-house program, Daifuku Eco-Products Certification Program, to rate and certify the energy and environmental design of its own products. Under the program, we rate all products under the same standards across the Group, in terms of energy savings, recyclable, lightweight, long life, resource savings, water conservation, low noise, water pollution prevention, and harmful substance reduction. Also, all products are measured with results of a Life Cycle Assessment. As of May 2020, 62 products have met the standards and been certified as Daifuku Eco-Products.

For details, see our website:
www.daifuku.com/sustainability/action/environment/product



Biodiversity conservation

In accordance with our medium-term conservation plan, Daifuku Environmental Vision 2020, we conduct activities to conserve biodiversity and the environment. To clarify the relationship between business activities and ecosystems, Daifuku has mapped the interaction of product processes, land use, and other areas that may impact ecosystems. Based on this map, Daifuku notes the impact on ecosystems by the land use at the Shiga Works, which is endowed with nature, and is conducting business activities that take biodiversity into account.



For details, see our website:
www.daifuku.com/sustainability/action/environment/biodiversity

Environmental Contribution

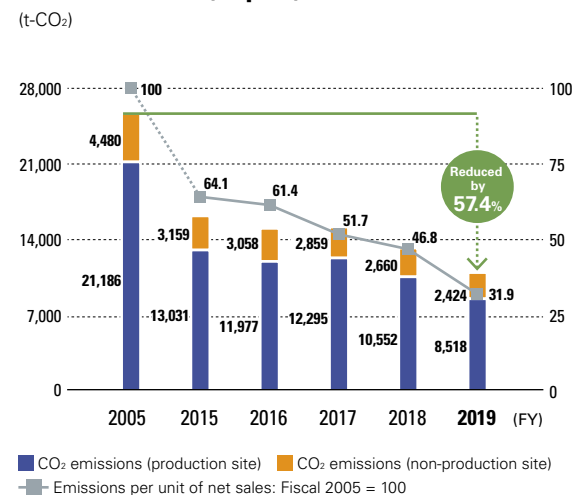
Energy conservation

Daifuku strives to reduce CO₂ emissions from its business activities in an effort to prevent global warming. Our CO₂ reduction efforts range from operational improvements to efforts made in our daily lives, including commuting and traveling on business. Daily data on the use of electricity and heat energy, the major contributors of CO₂ emissions, are constantly monitored for improvement.

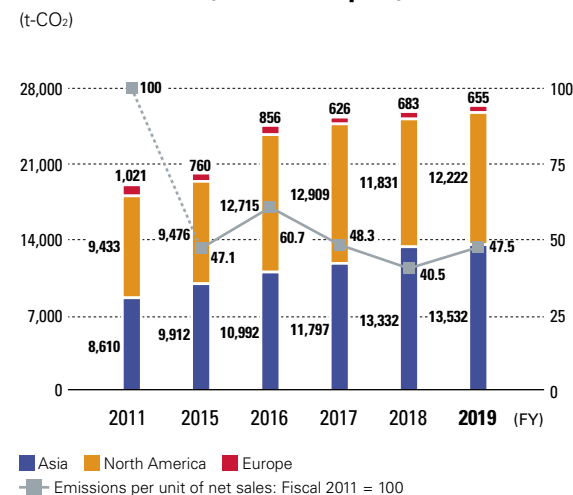
In fiscal 2019, we achieved a 57.4% reduction in emissions against the target (40% or more reduction compared to fiscal 2005) in Japan (see chart below). Also, emissions per unit of net sales was 31.9%, which largely exceeded the target (73% or less compared to fiscal 2005). In subsidiaries outside Japan, although CO₂ emissions increased, emissions per unit of net sales were maintained with the target (50% or less). We will continue to make improvements to our business operations and related equipment and facilities.

For details, see our website:
www.daifuku.com/sustainability/action/environment/ecology

CO₂ emissions (Japan)



CO₂ emissions (outside Japan)



Resource saving

Daifuku is promoting the effective use of precious resources through various corporate activities. At the Shiga Works site, we are collecting cooking oil waste from the three on-site cafeterias and employees' homes, and converting it into biodiesel. We then use this biodiesel as fuel for the Hini Arata Kan shuttle bus (Biodiesel used in fiscal 2019: Approx. 7,200 liters).

For details, see our website:
www.daifuku.com/sustainability/action/environment/resourcesaving



Collection of cooking oil waste from corporate cafeterias

Strengthening of Supplier Platform

Materiality-related SDGs targets

Initiatives

Materiality

- Promote CSR procurement in the supply chain

Created value

CSR Action Plan KPIs

✓ FY2019 result □ FY2020 targets

Supplier visitation rate

✓ **56.7%**
 □ 80.0%

SDGs pursued by Daifuku



For details, see our website:
www.daifuku.com/sustainability/action/supplier

Basic stance

Daifuku manufactures its cutting-edge products together with its suppliers and partners. As globalization progresses and economic activities are intricately linked to each other, we need to take social responsibility for not only our products and services, but also our supply chains. Daifuku's Group Code of Conduct stipulates our trading policy and regulates the compliance of all our executives and employees. Under the Code, we share the Basic Procurement Policy revised during fiscal 2017 with our suppliers to manage supply chains in a responsible manner along with our CSR procurement standards.

Promotion framework

This initiative is promoted mainly by procurement personnel of corporate divisions and each global business unit. We take measures to share our procurement policies with our suppliers by visiting them based on the results of their self-evaluation of CSR-related items. Through our cross-sectional organization called the Production Compliance Committee, we also provide lectures regarding statutory compliance in the fields of production and procurement for persons engaged in procurement. We also hold sessions to exchange information and share our policies with our suppliers.

Procurement policy

Daifuku's principles for dealing with suppliers are as outlined in the Basic Procurement Policy, in keeping with the Management Policy and Group Code of Conduct. Also, we have formulated the CSR procurement standards and will promote CSR activities with all suppliers.

Diverse and Positive Workforce

Materiality-related SDGs targets

Initiatives Materiality

- Promote diversity
- Create a comfortable work environment
- Promote human resource development

Created value CSR Action Plan KPIs

✓ FY2019 result □ FY2020 targets

Ratio of female employee recruitment ✓ 10% □ 20%	Female managers ✓ 17 □ 20	Employment rate of people with disabilities ✓ 2.17% □ 2.20%	Average paid leave utilization rate ✓ 68.7% □ 70.0%
Surveys of employee awareness (5 points max.) ✓ N/A □ 3.80 points	Employees who have TOEIC scores of over 600 ✓ 166 □ 200	Employees certified by the Global Business Trainee Program ✓ 189 □ 300	Employees enrolled in self-development e-learning programs ✓ 70 □ 300

SDGs pursued by Daifuku



For details, see our website:
www.daifuku.com/sustainability/action/employee/humanrights

Basic stance

Daifuku respects the basic human rights of individuals and strives to establish a positive work environment where employees are able to maximize their abilities. As stated in its management philosophy, “Focus on healthy, growth-driven global management under a diverse and positive corporate culture,” Daifuku places its employees at the core of management. We believe that raising each employee’s ability and demonstrating it in an organized way will elicit the trust of society and customers, and indeed, all of our stakeholders. As the environment surrounding our management changes rapidly, we also believe that it is vital to further develop our environment that responds to globalization and diversity. Based on this premise, the Daifuku Group respects international standards such as the Global Human Rights Declaration*, and as a signatory company of the UN Global Compact, we support the Ten Principles of the UN Global Compact.

* Declaration adopted in 1948 by the UN General Assembly (in Paris) recognizing that all humans are born with basic human rights

Employees data ▶ Page 25

Diversity

Create employment opportunity at a farm

In fiscal 2019, the rate of employment of people with disabilities at Daifuku was 2.1%. Taking into account the environments and situations across all our sites, we will continue to proactively hire people with disabilities. In August 2019, as a new initiative, we began a project with a local farm near the Komaki Works in Aichi, Japan, that focuses on providing work to those with disabilities. Harvested vegetables from the farm are served at our cafeteria.



Harvesting work at the farm

Retiree re-employment system

In April 2003, we instituted a re-employment system for which the age of 62 was defined as the upper limit. This system is intended to enable employees to exhibit their abundant knowledge and experience to the fullest after they have reached the age of 60. In 2005, the age limit was raised to 65. In April 2013, the system was reviewed for compliance with amendments to the Act on Stabilization of Employment of Elderly Persons in Japan. As a result, under the re-employment system, we are continuing the employment of at least 80% of the target individuals.

Work environment improvement

Daifuku promotes initiatives to encourage employee awareness of the need to maintain a positive work-life balance. Daifuku’s Work-Style Reforms Committee commenced in April 2017, with the aim of achieving work-life balance by providing a work environment suitable for diverse human resources to increase their job satisfaction. Aiming for employees’ work-life balance, the Committee’s approach targets reforms to (1) work processes and relevant systems, (2) time management to reduce overwork, and (3) workplace culture and employee awareness. We will continue to promote effective initiatives that raise productivity while realizing a work-life balance.

In addition, Daifuku has established the Personnel Consultation Office to handle in-house rules and personnel evaluations as well as consultations regarding sexual harassment and the abuse of authority. With a focus on privacy, we are providing an environment that encourages employees to discuss any problems they may face.

Systems toward the work-life balance

Theme	System
Employee refreshment	Flex-time work Leaving work on time Planned paid leave Long leave Refreshment leave
Child support	Maternity leave Paternity leave Childcare leave Early return to work from childcare leave Short-time work Sick childcare leave Job return entry
Care support	Family-care leave (one year) Short-time work Family-care leave (five to ten days) Job return entry

The Daifuku Group strives to enhance its corporate governance with the aim of ensuring the sustainable growth of the Group and creating its medium- to long-term corporate value.

Number of directors	Board meeting attendance	Outside officers' ratio (Directors, Audit & Supervisory Board members)
8	98%	58%
Reducing the number of inside directors by three, Daifuku will pursue speedy decision-making on corporate management.	Based on a year-round schedule, Daifuku conducts a functioning operation by holding the meetings in a planned manner.	Compared to 44% in the previous fiscal year, Daifuku is enhancing the transparency of management and further ensuring legality and the functions of management oversight/supervision.

	Independent (outside officers)	Corporate management	Knowledge about the Company's business	International experience	Expertise	Gender*
Hiroshi Geshiro		✓	✓	✓		M
Shuichi Honda		✓ (Bank)	✓	✓		M
Seiji Sato		✓	✓	✓		M
Toshiaki Hayashi		✓	✓	✓		M
Yoshiaki Ozawa	✓			✓	Finance/ Accounting	M
Mineo Sakai	✓	✓ (IT)		✓	Finance/ Accounting	M
Kaku Kato	✓	✓ (Trading/Energy)		✓	Legal	M
Keiko Kaneko	✓				Legal	F

Activity of outside directors and outside Audit & Supervisory Board members

	Name	Attendance	Activity
Outside directors	Yoshiaki Ozawa	Board of Directors: Regular: 12/12 times Special: 6/6 times Management Advisory Meeting: 2/2 times	Provides expert advice and recommendations to the Board of Directors based on his extensive knowledge in finance and accounting and experience working outside Japan.
	Mineo Sakai	Board of Directors: Regular: 11/12 times Special: 5/6 times Management Advisory Meeting: 2/2 times	Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate management.
	Kaku Kato	Board of Directors: Regular: 9/9 times Special: 4/4 times Management Advisory Meeting: 2/2 times	Provides insightful advice and recommendations to the Board of Directors based on his abundant experience and extensive knowledge in corporate management, as well as in terms of safety, ESG, compliance and internal control.
	Keiko Kaneko	Board of Directors: Regular: 9/9 times Special: 4/4 times Management Advisory Meeting: 2/2 times	Provides insightful advice and recommendations to the Board of Directors based on her abundant experience and extensive knowledge in corporate legal affairs, and also from her professional standpoint as a lawyer.
Outside Audit & Supervisory Board members	Ryosuke Aihara	Board of Directors: Regular: 12/12 times Special: 6/6 times Audit & Supervisory Board: 6/6 times	Provides expert advice and recommendations to the Boards, as a lawyer.
	Tsukasa Miyajima	Board of Directors: Regular: 9/12 times Special: 6/6 times Audit & Supervisory Board: 6/6 times	Provides insightful advice and recommendations as a university professor specializing in legal affairs to the Boards, based on extensive experience as a legal expert.
	Nobuo Wada	Board of Directors: Regular: 9/9 times Special: 4/4 times Audit & Supervisory Board: 4/4 times	Provides insightful advice and recommendations as a university professor specializing in condensed matter physics to the Boards, based on extensive experience as an academic expert.

The diagram illustrates the Corporate Governance Framework of the Government of Karnataka, showing the hierarchy and relationships between various entities:

- General Meeting of Shareholders (Chair: President)** is the top authority, electing the **Board of Directors (Chair: President) [Directors (inside/outside)]**.
- The **Board of Directors** appoints the **President & CEO** and oversees several committees:
 - Advisory Committee** (Reports to Board, consults on nomination/remuneration)
 - Compliance Committee**
 - International Trade Control Committee**
 - Central Safety and Health Committee**
 - Disclosure Committee**
 - Sustainability Committee**
- The **President & CEO** directs the **Subsidiaries** and oversees the **Internal Audits** (Audit Division [Audit Officer]).
- The **Subsidiaries** include:
 - Intralogsistics Global
 - Cleanroom Global
 - Automotive Global
 - Airport Global
 - Auto Wash Global
 - Contec Group (Electronics)
- The **Internal Audits** (Audit Division [Audit Officer]) report to the **Audit & Supervisory Board** and the **Board of Directors**.
- The **Audit & Supervisory Board** (Audit & Supervisory Board Members [full-time/outside]) is elected by the **General Meeting of Shareholders** and reports to the **Board of Directors**.
- The **Board of Directors** also oversees the **Officers Meeting** (Directors, Corporate Officers) and the **Management Advisory Meeting**.
- The **Board of Directors** reports to the **Accounting Auditor** and the **Corporate Lawyer**.
- The **Accounting Auditor** delegates audits of accounting & internal control to the **Audit Division**.
- The **Corporate Lawyer** delegates to the **Global Management Office** and the **Information Security Committee**.

Updated in April 2020

Daifuku's Board of Directors shall make decisions on important matters stipulated in the Rules of the Board of Directors, such as the determination of management policies, management plans, and the corporate governance system. The Board shall delegate matters other than the important matters defined in the Rules of the Board of Directors to directors and corporate officers. The CEO serves as Chair of the Board of Directors.

Audit & Supervisory Board members and the Audit & Supervisory Board shall audit directors' fulfillment of duties and the Company's internal control system, and evaluate balance with audits conducted by accounting auditors.

- The Advisory Committee consists of representative directors and outside directors and meets at least three times a year. The Committee is chaired by one of the outside directors.
- The Committee shall examine matters, such as remuneration of the management team, the proposal of a succession plan, the identification of the qualities required for a successor, the selection and evaluation of successor candidates, and the election/dismissal of the CEO based on objective criteria, and report its findings to the Board of Directors.

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

Daifuku holds officers meetings with directors, corporate officers, full-time Audit & Supervisory Board members, audit officers, etc., attending and participating in deliberations on the content of business execution.

Audit officers oversee the Audit Division and the Audit & Supervisory Board Office. The Audit Division shall promote improvements to the internal control system and its operation by examining and evaluating them from multiple points of view, including compliance with relevant legislation and internal regulations, risk management, ensuring the appropriateness and efficiency of management operations, and ensuring the reliability of financial reporting, independently from the business operation line. The Audit & Supervisory Board Office assists with the duties of Audit & Supervisory Board members and the Audit & Supervisory Board.

Corporate Governance

Principal initiatives

Daifuku enhances its corporate governance by its Board of Directors of eight members, including four outside directors, and the Audit & Supervisory Board consisting of four members, three of whom are elected from outside the Company. The Company believes that the management oversight/supervision system functions sufficiently through the close collaboration of the two Boards. In addition, the Company has introduced the corporate officer system to encourage rapid decision-making on business execution. The Company has introduced an audit officer system, and audit officers participate in meetings of the Board of Directors.

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

As a guidepost for fulfilling its corporate governance, the Company strives to improve its effectiveness by continuously implementing the PDCA cycle, establishing the Daifuku Corporate Governance Guidelines based on Japan’s Corporate Governance Code.

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	
2016	<ul style="list-style-type: none">Establishment of the Advisory Committee for nomination and remunerationFormulation of independence standards of outside directors and outside the Audit & Supervisory Board membersImplementation of evaluation of the Board of Directors’ effectiveness and disclosure of the results overviewIntroduction of the Board Benefit Trust (BBT) as a performance-based remuneration system	<ul style="list-style-type: none">Establishment of the Daifuku Corporate Governance GuidelinesReview of the appropriateness of cross-shareholdings and clarification of voting rights exercise standards
2017	<ul style="list-style-type: none">Evaluation of the Board of Directors’ effectiveness through an external organizationNarrowing down the agenda items to be discussed by the Board of Directors to the important mattersStrengthening of training of directors	<ul style="list-style-type: none">Acceleration of management decision-making at its subsidiaries and clarification of their authorities and responsibilitiesImplementation of a perception study
2018	Addition of one outside director to make three in total	<ul style="list-style-type: none">Review of the whistle-blowing systemEstablishment of the Pension Assets Management CommitteeAbolition of takeover defense measures
2019	<ul style="list-style-type: none">Addition of one outside director to make four in totalEstablishment of Audit Officer position and the Audit Division	Formulation of the Group Code of Conduct
2020	<ul style="list-style-type: none">Outside director ratio of 50%, along with a reduction of three inside directors of the BoardEstablishment of the Audit & Supervisory Board Office	Review of the appropriateness of shareholdings based on basic policies on owning listed subsidiaries

Performance-based remuneration system for Board members

Remuneration for officers of Daifuku consists of the following three types: base salary that reflects their roles and responsibilities, a bonus (short-term performance-based compensation) that reflects their performance results, and performance-based equity compensation that reflects medium- to long-term improvements in business performance and shareholder value.

Performance-based remuneration and other compensation

	Performance-based remuneration		Other
Title	Bonus	BBT, a performance-linked equity compensation	Base salary
Covering	Inside directors of the Board, full-time the Audit & Supervisory Board members	Inside directors	All officers
Index	Growth rate of operating income (target from quantitative aspect)	<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	—

The basic policy on the determination of remuneration for each position is to make a fair evaluation of all three types of compensation based on the evaluation criteria set by the Company, using factors according to qualification and job title. When setting the remuneration level and determining individual remuneration, we secure objectivity, transparency, and reasonability by referencing trends in remuneration outside the Company and through deliberations at the Advisory Committee.

During fiscal 2019, Advisory Committee meetings on officers’ remuneration were held four times. With the results from the Advisory Committee, the Board of Directors met four times. In particular, the Company discussed to decide the continuation of the BBT system and disclosed the result on November 8, 2019.

The ratio of the base salary to performance-based compensation is not fixed. It incorporates the association of officers’ remuneration with the Company’s performance and share value. The bonus varies depending on the profit margin and the performance-based compensation on the share price at the time when shares are received.

Remunerations for Board members (FY2019)

	Number of individuals	Remuneration
Directors (excluding outside directors)	7	Total remuneration of ¥642 million (Base salary: ¥271 million, bonus: ¥275 million, BBT: ¥95 million)
Audit & Supervisory Board members (excluding outside members)	2	Total remuneration of ¥79 million (Base salary: ¥50 million, bonus: ¥29 million)
Outside officers	9	Total remuneration of ¥86 million (Base salary: ¥86 million)

Disclosure of individual directors’ remuneration (FY2019)

Name	Total remuneration
Akio Tanaka	¥131 million (Base salary: ¥55 million, bonus: ¥63 million, BBT: ¥13 million)
Hiroshi Geshiro	¥131 million (Base salary: ¥55 million, bonus: ¥63 million, BBT: ¥13 million)
Mikio Inohara	¥105 million (Base salary: ¥50 million, bonus: ¥45 million, BBT: ¥10 million)

Note: The listing of the total of consolidated remuneration, etc. is restricted to persons with 100 million yen or more. Akio Tanaka and Mikio Inohara retired from their respective roles at the closing of the General Meeting of Shareholders on June 26, 2020.

Corporate Governance

Initiatives for strengthening corporate governance structure

Evaluation of the Board of Directors’ effectiveness

Regarding the evaluation of the Board of Directors’ effectiveness, Daifuku has a basic policy of striving to improve its effectiveness by continuously implementing the PDCA cycle. In February 2020, the Company conducted its fifth 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, the total average was unchanged, with comments from the external organization including “Awareness gaps within the Board of Directors became smaller,” and “We found further increases in awareness of various issues and corporate governance.”

1 Evaluation method

STEP 1

The Company conducted an anonymous questionnaire survey of directors and Audit & Supervisory Board members concerning the Board of Directors’ effectiveness (through an external organization).

STEP 2

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

2 Evaluation results

Comprehensive evaluation	<ul style="list-style-type: none">• Linked with the change to Board composition—an increase in the number of outside officers—several positive opinions were expressed such as about the current management system, which was referred to as “satisfactory,” or “in good condition.” All members shared what they considered priority issues, including “opportunities for training” and “development and operation of the successor plan.” Further, members stated that our established environment facilitates open discussion and efficient management.• Compared to other companies, Daifuku was above average on most points. An item that was below average included prior preparation efforts made by the directors themselves.
Issues	<ul style="list-style-type: none">• A comment stating “there were agenda items and related discussions that I was unable to fully understand” highlighted need for further efforts toward the quick distribution of relevant materials in advance to assist in deliberations.

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
- Based on these policies, the Company gives its full attention to the interests of general shareholders of listed subsidiaries. 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 Daifuku Group is manufacturing, installation, and servicing for plant-based 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 2019, the Company sold two issues, which resulted in 11.7 billion yen on the balance sheet as its cross-shareholdings. The Board will decide to sell some of its holdings on a timely basis, based on stock prices, etc.

Business entertainment and gift-giving

- Daifuku strives to improve compliance awareness of all associates through the Group Code of Conduct, etc.
- We will comply with applicable laws, rules and regulations in each country and region, act according to social ethics, and ensure transparency in respect of entertainment and gift-giving with customers, business partners and other stakeholders.
 - We will not provide entertainment or carry out gift-giving to domestic and/or international public officials to obtain improper business advantages.

Corporate Governance

Dialogue with shareholders (investor relations activities)

To contribute to sustainable growth and the increase of corporate value over the medium to long term for the Group, Daifuku promotes constructive dialogue with its shareholders and investors. The Company conducts timely and appropriate disclosure of information and dialogues through the Investor Relations (IR) Department.

During fiscal 2019, to prevent the spread of COVID-19 infections, the Company's IR actions centered on non-face-to-face phone meetings after the announcement of the third quarter results in February 2020 and after the announcement of full-year financial results in May. While the number of such actions in a year dropped slightly, the number of personnel involved increased.

For fiscal 2020, the Company will step up its communication activities with the use of online technologies while restrictions are in place due to the COVID-19 pandemic.

FY2019

Institutional investors	Results briefings: Held 4 times Global IR tour: 3 times Meetings with investors: 357 times 1,036 people
Individual investors	Briefings hosted by securities companies: 1 time, 45 people in attendance During January to March 2020, planned briefings were abandoned due to the COVID-19 pandemic.
Shareholders	Site tour Participants: 248 Satisfaction level: 99%

Dialogue with shareholders

The General Meeting of Shareholders is the supreme decision-making body on corporate management. The Company strives to enrich dialogues to ensure that its management properly reflects shareholders' opinions.

For the Ordinary General Meeting of Shareholders in June 2020, the Company had to take unusual actions including a call for non-attendance, body temperature measurement and disinfection before entry, and a seating arrangement intended to prevent crowding for the purpose of COVID-19 prevention. Fortunately, the meeting was held as scheduled and the ratio of voting rights exercised reached a high level of 86.90%, in comparison with the ratio of 80.96% in the previous fiscal year. This was a result of the Company's call for shareholders to use the platform to exercise the voting rights and for exercising voting rights before the meeting with the use of smartphones and computers. These information technologies were used for exercising voting rights by 20.23% of shareholders, compared to 13.88% in the previous fiscal year.

All three proposals received strong approval.



Physical distancing at reception area



Disinfecting the venue



General Meeting of Shareholders

Interview with Outside Directors



Yoshiaki Ozawa



Mineo Sakai



Kaku Kato



Keiko Kaneko

Yoshiaki Ozawa

(Assumed office in June 2014)

Profile

Registered as a certified public accountant (CPA) in Japan and as a U.S. CPA (New York). He is a professor specializing in business analysis at the Faculty of Business Administration of St. Andrew's University and serves as an outside member of the Audit & Supervisory Board at Daido Life Insurance Company.

Mineo Sakai

(Assumed office in June 2018)

Profile

After holding the position of Chairman and CEO at Kanematsu Electronics Ltd., an operator of information systems business, he is now an adviser for the same company.

Kaku Kato

(Assumed office in June 2019)

Profile

Based on abundant experience and expertise in corporate legal affairs at Mitsui & Co., Ltd., he worked for Mitsui Oil Exploration Co., Ltd. as a managing executive officer in charge of health, safety, the environment, and governance. He is now a visiting professor of Faculty of Law and Politics at Rikkyo University.

Keiko Kaneko

(Assumed office in June 2019)

Profile

With work experience at a trading company, she has expertise as a lawyer with corporate legal affairs. She is now an external statutory auditor for Fast Retailing Co., Ltd. and The Asahi Shimbun Company, and a statutory auditor for UNIQLO Co., Ltd.

Interview with Outside Directors

Initiatives for enhancement of corporate governance and the reality in the face of the COVID-19 pandemic

Q1

How would you rate efforts to enhance corporate governance in recent years? Also, what needs to be revised in terms of governance as it stands right now?

Sakai In fiscal 2019, Daifuku increased the number of outside directors on the Board of Directors to four out of the 11 members, raising the proportion of outside directors to over 30%. In fiscal 2020, this proportion has been raised to 50%, with four outside directors out of the eight members. The Company deserves high praise for increasing the diversity and transparency of the Board in this regard. In addition, in April 2019 the Company established the Audit Division and appointed an audit officer, a position equivalent to corporate officer, which helped enhance corporate governance further (details on □□ [page 59](#)). What is more, the Company's own corporate governance guidelines are being revised with the aim of strengthening the protection of shareholder interests. I believe that they are building a system and structure in line with these revisions and responding flexibly to the changing times and social demands.

Ozawa By increasing the number of outside directors on the Board of Directors, the Company has put in place a system that allows management to monitor and supervise the execution of business operations. In fiscal 2019, outside directors were more active than ever in expressing their viewpoints, and management actively took in and deliberated their opinions in kind. In ways like this, the Board of Directors has moved away from an advisory or management-type model, to a monitoring-type model and has strengthened its supervisory function as a result.

Kaneko I take part in Board of Directors' meetings, the Officers Meeting, and the Management Advisory Meeting, and whenever we see the potential for a future problem, we are quick to discuss and address the matter seriously with executives. The Company established an audit officer system in fiscal 2019, and in April 2020 established the Audit & Supervisory Board Office to assist the Audit & Supervisory Board and its members in their duties. The Company deserves high marks for introducing these new initiatives to bolster internal audits and improve the effectiveness of audits by Audit & Supervisory Board members.

Kato Governance-related issues have surely been dealt with, and improvements and enhancements have been made accordingly.

Q2

What expectations do you have of the management system that went into effect in June 2020? What sorts of discussion went into the officer selection process?

That said, there is always room for improvement. To give an example, there are times during Board meetings when the items on the agenda seem to be plain micromanagement. Depending on the item, it might be better to consider discussing it at the Officers Meeting or at a lower-level meeting and then submitting the details of that meeting to the Board. Or, if the item is resolved at a lower-level meeting, report the resolution to the Board of Directors. Then again, if the Board is only concerned with larger management plans or similar items you risk falling into ideological discussions, so I would like to see the Company figure out a better balance. A future issue that I see in terms of improving Group governance is the question of how to introduce the Daifuku-style of governance into new companies that join the Group while maintaining that company's good aspects.

Kaneko My assessment is that the new system is made up of straightforward members who take their work in earnest. With the retirement of Chairman Tanaka and Executive Vice President Inohara, both of whom provided strong support for the President, it is reassuring that each member of the new management has been sparked with a sense of responsibility and eagerness.

Sakai Officers are selected based on investigations and reports by the Advisory Committee, a voluntary group chaired by an outside director.

Ozawa Formerly, the Company followed a business management system under which President Geshiro supervised sales units, Chairman Tanaka was responsible for manufacturing units, and Executive Vice President Inohara oversaw corporate administration, with President Geshiro retaining general control. With the retirement of the Chairman and the Executive Vice President, both of whom were central to this system, these duties and functions will fall on the shoulders of the President, whose responsibility will increase a great deal. However, a corporate officer with a technical background was newly appointed as a director to support the President, and a corporate officer in charge of finance with extensive global experience has joined as well.

Kato I participate and provide input not only in Board meetings but also in the Officers Meeting, Management Advisory Meeting, and meetings of the Compliance Committee. These meetings give me a concrete understanding of the role of each department and the issues they face and provide direct insight into the manner of thinking of each person in charge. This has a plus in, among many things, discussions over officer selection.

While I am satisfied with the results of the selection of individual officers, it is extremely difficult for people outside the Company to assess the capability of an officer. To get ahead of this problem, I have attended the meetings I mentioned earlier, and am fully determined to fulfill my role as an outside director in the future training and selection of the next President.

Interview with Outside Directors

Q3

The Company has been holding Board meetings online as a result of the COVID-19 pandemic. What has the Company done well regarding proper governance under these circumstances, and what could be improved regarding maintaining proper governance in future crises?

Sakai Documents for the regular Officers Meeting and Board meetings are becoming more digitized than before. We have made use of web conferencing systems to ensure that Board members, corporate officers, and Audit & Supervisory Board members even in remote locations can convene, deliberate, make decisions, and report, so that despite the COVID-19 pandemic, operations and proceedings remain efficient.

Ozawa During the state of emergency stemming from the COVID-19 crisis, we were able to experience the benefits of online Board meetings, such as reduced commuting time, lower costs, as well as the flexible and diverse work system it can create. I believe that it is something worth keeping for the future. Unlike with face-to-face communication, however, it is more difficult to exchange information in a back-and-forth manner online, so it is also necessary to gather and hold meetings in person, as opposed to making a total switch.

We need to be mindful of the fact that telework has negative effects on communication systems unless everyone who participates in the meetings is following the same workflow and is staying up to date on pertinent information, be it within the Company or not.

Kato Online Board meetings have allowed for sufficient discussion on necessary items and were conducted without any particular inconveniences or problems, due to the provision of materials beforehand as well as proper explanations via web conferencing systems.

One might say that online Board meetings are inferior to meeting in person, in that it is difficult to read the disposition and expression of those speaking, or the reaction of other attendees, thereby making it difficult to get a good grasp of the atmosphere. But you could also say that this is a positive, avoiding “gut decisions” when reading the plain facts of the documents, listening to explanations, and making deliberations and judgments with a cooler head. I believe that by looking into the strengths and weaknesses of physical and online events, we can find a method of holding events that incorporates the best aspects of both.

Q4

How would you evaluate the policies issued by President Geshiro regarding the COVID-19 pandemic and his response in terms of employees?

Kaneko In the midst of worldwide confusion, he has displayed leadership and executed a quick response, ensuring business continuity, showing care for customers and suppliers, and sending messages to employees. In addition, employees were able to adjust to the sudden switch to teleworking with little trouble, and the Company has been focused as a whole on measures to mitigate the spread of COVID-19.

Sakai To prevent the spread of COVID-19, President Geshiro established a task force in response to the COVID-19 pandemic at an early stage, with himself as chief executive. I believe that initiatives such as teleworking and staggered work hours capture the spirit of health management. I have heard that more than 80% of employees have worked from home, and the ICT infrastructure of the Company is such that continuous work from home is possible. All said, the Company has been thorough in its measures in terms of a business continuity plan.

Q5

What is your view of the potential management-related issues and opportunities for the sustainable growth of the Company in the wake of the COVID-19 pandemic?

Kato I give points for always taking the Safety Always approach. The COVID-19 crisis has, however, been a wake-up call in terms of the level of demand and expectation that society has placed on the Company and its line of business. It is important to maintain a balance between the safety and security of employees and the expectations of society, and I believe that this time the response was executed extremely well. I believe that in the future it will be necessary to put anticipatory countermeasures in place, not only for pandemics but for the occurrence, spread, and normalization of natural disasters.

Ozawa Non-Japan orders and sales exceeded 65% of both total orders and sales, respectively, and in fiscal 2020 the number of non-Japan subsidiaries has risen above 60. Yet it seems that Japanese expats play a major role in local installation and other areas. Due to border issues caused by the COVID-19 pandemic, many of these expats were forced to return to Japan. Moreover, there is a risk they will be temporarily unable to return to the overseas location where they were working. This means that the Company needs to further localize and enhance its management system for global subsidiaries.

Kaneko There needs to be an examination of the supply system, decision-making, and other facets of each business during the COVID-19 outbreak to identify the good points and areas that could be improved in order to better prepare for future emergencies.

Kato The pros and cons of responses and countermeasures to the COVID-19 pandemic, their effects, and issues that arose should be examined and then discussed at a Board of Directors’ meeting to ensure that management and business activities can continue properly going forward. I would also like to see the Board of Directors discuss areas in which the Company can use its strengths around the world and those that would suffer depending on the nature and form of a variety of potential disasters, and then determine which areas should be advanced or strengthened to promote sustainable growth.

As a company further expands its business both in terms of scale and variety, it is imperative that reforms are carried out to match the scale of this expansion and for executives and employees to update their mindset as well. It is important to maintain proper balance when selecting what needs changing to ensure you keep the things that make the Company a good one, including an open-minded corporate culture.

Sakai In the event of another disaster like the COVID-19 pandemic, the importance of the logistics industry and the demand for material handling will increase, and these needs will likely spread to unexpected industries and businesses. Looking at the stock price index, the Company has always maintained a high price earnings ratio (PER) and shows good growth potential in the market. However, because the market is growing, new players are expected to emerge and the market to become more competitive. It is essential that the Company enhance its technological capabilities and step up new capital investment, M&A, and investment in employees to overcome this competition and achieve sustainable growth as the world’s top material handling systems manufacturer and integrator.

Directors, Auditors, and Officers (As of June 26, 2020)

Directors



1 President and CEO

Hiroshi Geshiro

Hiroshi Geshiro has abundant experience in the mainstay Intralogistics business, mainly in sales worldwide. He has held division-wide responsibility as the head of the aforementioned business since 2014. In particular, he has led business development in the distribution sector, with a proven track record and a wide range of hands-on experience in a number of different industries. In 2018, he became the Group's president and CEO.

3 Director
Managing Officer

Seiji Sato

Cleanroom Global Business Head

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.

2 Director
Senior Managing Officer

Shuichi Honda

President and CEO of
Daifuku North America Holding Company

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.

4 Director
Managing Officer

Toshiaki Hayashi

Automotive Global Business Head

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

5 Outside Director

Yoshiaki Ozawa

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.

7 Outside Director

Kaku Kato

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

6 Outside Director

Mineo Sakai

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.

8 Outside Director

Keiko Kaneko

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

Directors, Auditors, and Officers

Auditors



1 Audit & Supervisory Board Member

Yoshihisa Kimura

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.

3 Audit & Supervisory Board Member (outside)

Tsukasa Miyajima

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.



2 Audit & Supervisory Board Member (outside)

Ryosuke Aihara

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.

4 Audit & Supervisory Board Member (outside)

Nobuo Wada

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.

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Kanji Anno

Intralogistics Global Business Head
President of Daifuku Manufacturing Technology Co., Ltd.

Akihiko Kishida

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

Yoshiyuki Horiba

Cleanroom Field Engineer and Services
Chief Officer of Komaki Works

Hiroshi Nobuta

Intralogistics International

Corporate Officers

Takaya Uemoto

Airport Global Business Head

Akihiko Nishimura

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

Takuya Gondo

Intralogistics Engineering

Yasuhisa Mishina

Intralogistics Production

Hiroaki Kita

Safety and Health Management
Chief Officer of Shiga Works

Norihito Toriya

Intralogistics Sales

Hideaki Takubo

Human Resources and General Affairs

Tetsuya Hibi

Finance and Accounting

Audit Officers

Yoshihisa Ichinose

Audit Division

Tsukasa Saito

Audit & Supervisory Board Office

Global Network (As of September 2020)

> Group companies

Japan

Daifuku Co., Ltd.
 Headquarters (Osaka)
 Tokyo Head Office
 Shiga Works ¹
 Komaki Works ²
 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.

Asia

Daifuku (China) Co., Ltd.
 Daifuku (China) Manufacturing Co., Ltd. ³
 Daifuku (China) Automation Co., Ltd. ⁴
 Daifuku (Suzhou) Cleanroom Automation Co., Ltd. ⁵
 Contec (Shanghai) Co., Ltd.
 Daifuku India Private Limited
 ForgePro India Private Limited ⁶
 Vega Conveyors and Automation Private Limited ⁷
 P.T. Daifuku Indonesia
 Daifuku Korea Co., Ltd. ⁸
 Clean Factomation, Inc. ⁹
 Hallim Machinery Co., Ltd. ¹⁰
 Daifuku (Malaysia) Sdn. Bhd.
 BCS Integration Solutions Sdn. Bhd. ¹¹
 Daifuku Mechatronics (Singapore) Pte. Ltd. ¹²
 Singapore Contec Pte. Ltd.
 Taiwan Daifuku Co., Ltd. ¹³
 Taiwan Contec Co., Ltd. ¹⁴
 Daifuku (Thailand) Ltd. ¹⁵
 Daifuku Intralogistics Vietnam Co., Ltd.

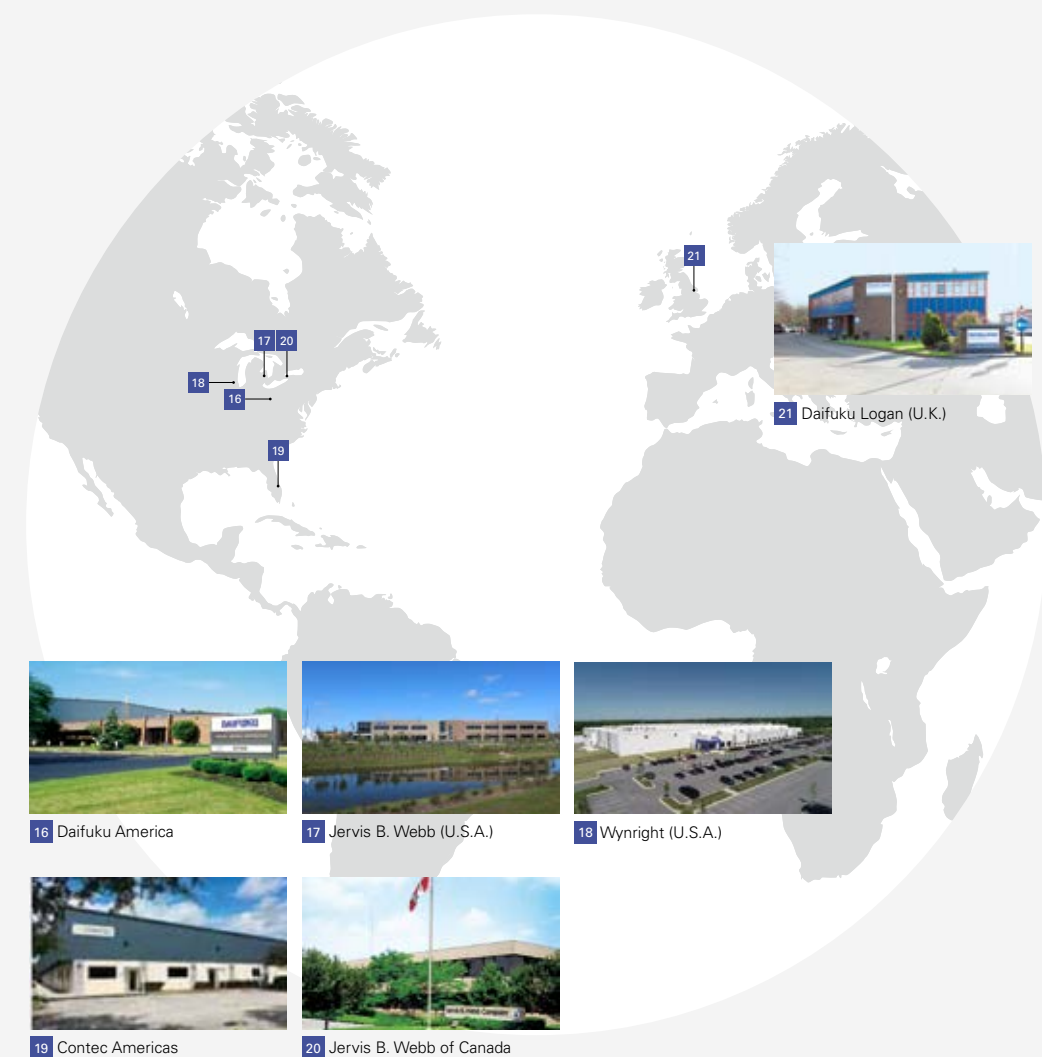
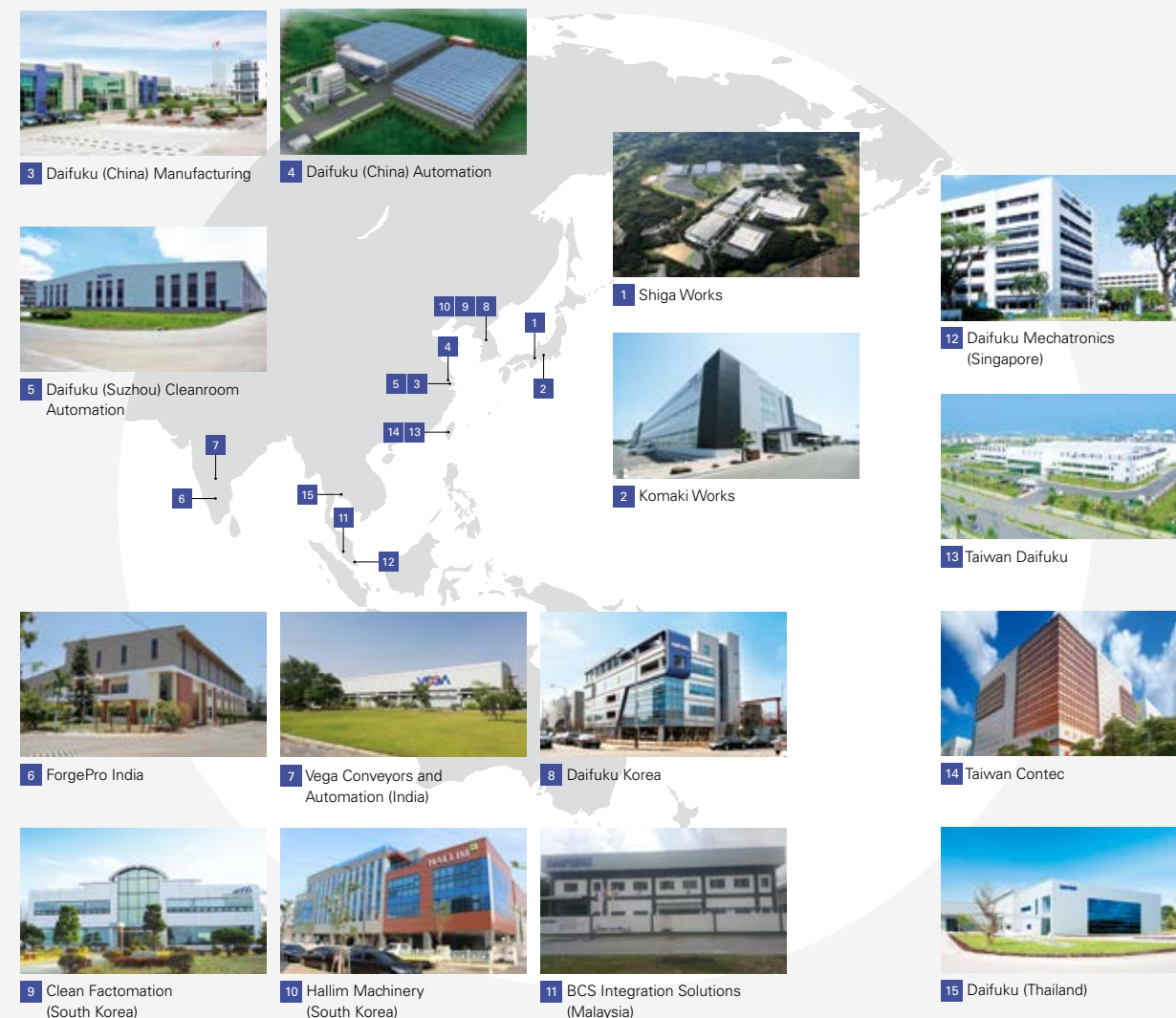
Americas

Daifuku North America Holding Company
 Daifuku America Corporation ¹⁶
 Daifuku Cleanroom Automation America Corporation
 Jervis B. Webb Company ¹⁷
 Elite Line Services, Inc.
 Wynright Corporation ¹⁸
 Logan Teleflex, Inc.
 Contec Americas Inc. ¹⁹
 Daifuku Canada Inc.
 Jervis B. Webb Company of Canada, Ltd. ²⁰
 Daifuku Airport Technologies Canada Inc.
 Daifuku de México, S.A. de C.V.

Europe

Daifuku Europe Ltd.
 Daifuku Europe GmbH
 Jervis B. Webb Company, Ltd.
 Daifuku Logan Ltd. ²¹
 Daifuku Self Services Technologies AS
 Scarabee Aviation Group B.V.

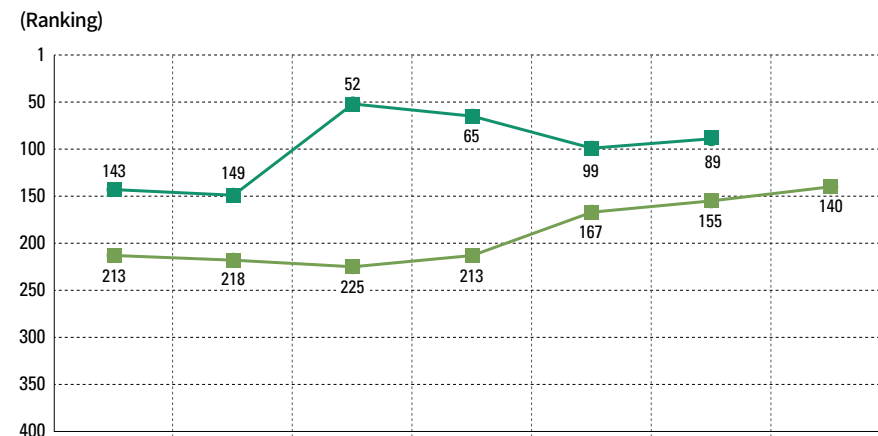
> Production sites



Evaluations by Third Parties

Assessment of brand power

Environmental management ranking CSR company ranking



(FY)	2013	2014	2015	2016	2017	2018	2019
JPX 400 rank Tokyo Stock Exchange				Selected	Selected	Selected	Selected
R&I rating Rating and Investment Information, Inc.	A-	A-	A-	A-	A	A	A
Environmental management ranking Nikkei, Inc.	143	149	52	65	99	89	N/A
CSR company ranking TOYO KEIZAI INC.	213	218	225	213	167	155	140

External evaluation

Inclusion in global stock indexes

Name	Evaluator	Evaluation
MSCI ESG Ratings	MSCI Inc.	AA
FTSE4Good Index Series FTSE Blossom Japan Index	FTSE Russell	Selected stock
SNAM Sustainability Index	Sompo Japan Nipponkoa Asset Management	Selected stock
Health and Productivity Management 2020	The Ministry of Economy, Trade and Industry, Nippon Kenko Kaigi	Selected

Evaluations by international CSR rating organizations

Name	Evaluator	Evaluation
CDP Climate Change 2019	CDP	A-

Company Data and Stock Information (As of March 31, 2020)

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 yen	Number of shareholders	19,709
Employees	10,863 (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

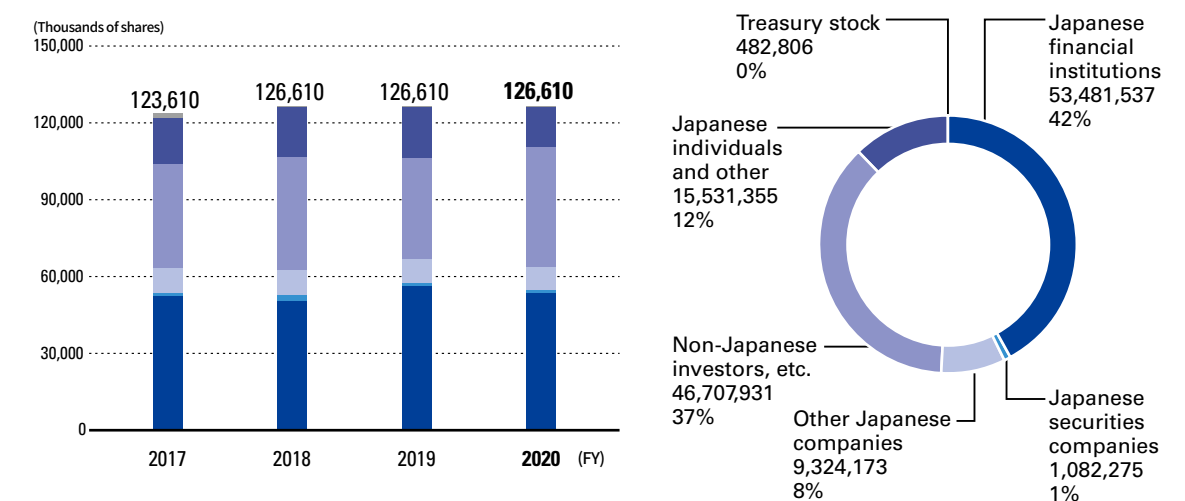
Major shareholders

Name	Number of shares held (Thousands)	Percentage of total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	9,568	7.59
Japan Trustee Services Bank, Ltd. (Trust account)	9,414	7.46
Mizuho Bank, Ltd.	4,117	3.26
Sumitomo Mitsui Banking Corporation	4,080	3.24
MUFG Bank, Ltd.	3,833	3.04
Daifuku Supplier Shareholder Association	3,445	2.73
Nippon Tochi-Tatemono Co., Ltd.	3,207	2.54
Nippon Life Insurance Company	2,745	2.18
Chase Nominees Re JASDEC Treaty Client A/C (General)	2,533	2.01
Japan Trustee Services Bank, Ltd. (Trust account 7)	2,517	2.00

Note: Calculated after deducting treasury stock of 482,806 shares.

Distribution of shareholders

Japanese financial institutions Japanese securities companies Other Japanese companies
Non-Japanese investors, etc. Japanese individuals and other Treasury stock



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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