

Corporate Governance Report

Translated from the original Japanese-language document

Last update: April 5, 2017

Daifuku Co., Ltd.

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

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

1. Basic Views

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

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

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

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

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

The Company implements all the Principles of the Corporate Governance Code.

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

To develop further as a global corporate entity, the Group believes that it is important to act in accordance with the spirit of Japan's Corporate Governance Code. As an indicator of this commitment, the Group has established and discloses the Daifuku Corporate Governance Guidelines as the guidepost for fulfilling its corporate governance. For the disclosure based on the Principles of the Corporate Governance Code, please refer to the Guidelines on the following website:

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

A summary of the evaluation of the Board of Directors' effectiveness according to Supplementary Principle 4.11.3 is as follows:

[Supplementary Principle 4.11.3]

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

After the previous fiscal year, the Company conducted a questionnaire survey of directors and Audit & Supervisory Board members for the fiscal year ended March 31, 2017. The results of the survey were analyzed at the regular meeting of representative directors, outside directors, and members of the Audit & Supervisory Board, and the evaluation was reported at the meeting of the Board of Directors. The Company regards this survey as being of considerable importance for deepening the understanding of the Corporate Governance Code and sharing its issues.

The main results of the evaluation were as follows:

- 1) All members of the Board of Directors share the contexts of subjects and issues, and hold diverse and positive discussions. The Board of Directors is operated efficiently. This result was the same as that of the previous fiscal year, however overall improvements were seen.
- 2) In response to the point "It is necessary to consider how all the corporate governance bodies are managed, including not only the Board of Directors but also the Management Advisory Meeting as well as the implementation of revisions of the rules and regulations, and their members," which was identified as one of the issues in the previous fiscal year, the Company reviewed the regulations of the Board of Directors, etc. Specifically, the Company accelerated management decision-making and strengthened the supervisory function of the Board of Directors by narrowing down the matters to be discussed in the meetings of the Board of Directors based on the assumption of the delegation of a certain range of authorities. These revised rules and regulations will come into effect in the fiscal year ending March 31, 2018.
- 3) In response to the point "It is necessary to consider, in particular, that outside officers receive the early distribution of materials and advance briefings on important matters (in agenda items)," which was identified as one of the issues in the previous fiscal year, the Company changed the relevant operations by means such as the use of information technology as an improvement measure. However, this initiative was evaluated as being insufficient, and the Company will undertake further examinations to devise response measures.

2. Capital Structure

Foreign shareholding ratio	30% or more
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[Status of Major Shareholders]

Name or company name	Number of shares held	Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	10,263,400	8.30
The Master Trust Bank of Japan, Ltd. (trust account)	8,536,900	6.91
Mizuho Bank, Ltd.	5,490,403	4.44
Sumitomo Mitsui Banking Corporation	4,080,454	3.30
Daifuku Supplier Shareholder Association	3,899,181	3.15
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,833,906	3.10
Nippon Tochi-Tatemono Co., Ltd.	3,207,500	2.59
Nippon Life Insurance Company	2,745,767	2.22
Daifuku Employees' Shareholding Association	1,829,250	1.48
CBNY-GOVERNMENT OF NORWAY	1,647,300	1.33

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

Supplementary Explanation

3. Corporate Attributes

Listed stock market and market section	First Section, Tokyo Stock Exchange
Fiscal year-end	March
Type of business	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	1,000 or more
Sales (consolidated) as of the end of the previous fiscal year	From JPY100 billion to less than JPY1 trillion
Number of consolidated subsidiaries as of the end of the previous fiscal year	From 50 to less than 100

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

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

Contec Co., Ltd., one of the Company's subsidiaries, is listed on the Second Section of the Tokyo Stock Exchange. The Company issues no instructions on the management of the said subsidiary and respects its independence and autonomy.

II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-Making, Execution of Business, and Supervision in Management

1. Organizational Composition and Operation

Form of organization	Company with Audit & Supervisory Board
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[Directors]

Maximum number of directors stipulated in the Articles of Incorporation	25
Term of office of directors stipulated in the Articles of Incorporation	One year
Chair of the Board of Directors	President and CEO
Number of directors	10
Outside directors	Appointed
Number of outside directors	2
Of outside directors, number of independent officers	2

Relationship with the Company (1)

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

* Categories for "Relationship with the Company"

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

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

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

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

Relationship with the Company (2)

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

Voluntary establishment of committee(s) corresponding to nomination committee or remuneration committee	Established
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Committee's Name, Composition, and Attributes of Chair

	Committee corresponding to nomination committee	Committee corresponding to remuneration committee
Committee's name	Advisory Committee	Advisory Committee
Number of all committee members	5	5
Full-time members	0	0
Inside directors	3	3
Outside directors	2	2
Outside experts	0	0
Other	0	0
Chair	One of outside directors	One of outside directors

Supplementary Explanation

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

[Audit & Supervisory Board members]

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

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

Audit & Supervisory Board members undertake mutual cooperation with the accounting auditors by accompanying them on inventory inspections and on-site audits of offices and subsidiaries, describing audit plans, and exchanging information and opinions on audit result reports.

Audit & Supervisory Board members and an internal audit entity (the Internal Audit Department) work in collaboration to carry out business execution audits, and mutually raise audit effectiveness by exchanging information at auditors' meetings—made up of Audit & Supervisory Board members, the Internal Audit Department and the Legal Department.

In addition, Audit & Supervisory Board members are present when the accounting auditors and Internal Audit Department conduct internal control evaluation tests related to financial reporting and monitor their effectiveness.

During the fiscal year ended March 31, 2017, the number of occasions when Audit & Supervisory Board members were present with the accounting auditors for audits and information exchanges was 44.

Appointment of outside members of the Audit & Supervisory Board	Appointed
Number of outside members of the Audit & Supervisory Board	3
Of outside members of the Audit & Supervisory Board, number of independent officers	3

Relationship with the Company (1)

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

* Categories for "Relationship with the Company"

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

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

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

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

- Executive of the Company or its subsidiaries
- Non-executive director or accounting advisor of the Company or its subsidiaries
- Non-executive director or executive of a parent company of the Company
- An Audit & Supervisory Board member of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the Company or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company in addition to compensation as an Audit & Supervisory Board member
- Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)

- k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board members are mutually appointed (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Other

Relationship with the Company (2)

Name	Independent officer	Supplementary explanation of the relationship	Reasons for appointment
Isao Kitamoto	○	Mr. Isao Kitamoto works concurrently as a special advisor at Japan International Broadcasting Inc.	Based on his extensive knowledge and abundant experience of working abroad as a journalist, he has provided us with advice and counsel to ensure the transparency of management and enhance the functions of management oversight and auditing. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an Audit & Supervisory Board member from an independent and objective perspective.
Hiroyuki Torii	○	Mr. Hiroyuki Torii works concurrently as JST Project Senior Officer of Japan Science and Technology Agency and part-time Auditor of Nuclear Waste Management Organization (NUMO).	Based on his extensive knowledge of science and technology and abundant experience as a journalist, he has provided us with advice and counsel to ensure the transparency of management and enhance the functions of management oversight and auditing. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an Audit & Supervisory Board member from an independent and objective perspective.
Ryosuke Aihara	○	Mr. Ryosuke Aihara works concurrently as a lawyer at Aihara General Law Office and an outside auditor of Nippon Shuppan Hanbai Inc. Despite a delegation agreement between the Company and Mori Hamada & Matsumoto Law Office, with which he was affiliated until March 2016, he	He is a lawyer who has specialized for many years in corporate governance and compliance, which are significant management issues of the Company. The Company would like him to assume this position in the expectation of obtaining advice and counsel regarding overall management to ensure the legality of management and enhance the

		has never engaged in any matters that the Company previously delegated to the law office. Furthermore, the transaction amount between said law office and the Company is insignificant, at less than 1% of both the annual revenue of the law office and the consolidated net sales of the Company. In addition, there have been no transactions whatsoever between the Aihara General Law Office to which he belongs and the Company during or since April 2016.	functions of management oversight and auditing from his professional viewpoint as a lawyer. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an Audit & Supervisory Board member from an independent and objective perspective.
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[Independent Officers]

Number of independent officers	5
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Other Matters Relating to Independent Officers

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

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

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

Article 1
A person who falls or fell under any of the following in the last three years:

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

Article 2
An officer or employee of Daifuku's subsidiary or a person who held such a position during the ten years before being appointed as such status

Article 3

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

Article 4

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

Article 5

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

(Notes)

- *1: A customer from whom Daifuku received payment of at least 2% of the amount of Daifuku's annual consolidated net sales in the most recent fiscal year, or a business partner who received payment from Daifuku of at least 2% of the amount of its annual consolidated net sales in the most recent fiscal year
- *2: The annual average for the last three years of 10 million yen or more
- *3: A shareholder with 10% or more of the voting rights
- *4: The annual average for the last three years of 10 million yen or more, or 30% of the average total annual expenditure of the organization, whichever is larger

[Incentives]

Incentive policies for directors	Performance-linked remuneration
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Supplementary Explanation

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

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

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

Recipients of stock options	
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Supplementary Explanation

[Directors' Remuneration]

Disclosure of individual directors' remuneration	No individual disclosure
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Supplementary Explanation

In the fiscal year 2015, the total remuneration paid to the directors and Audit & Supervisory Board members included 452 million yen in terms of the total annual remuneration paid to the directors (of which the total remuneration to outside directors was 28 million yen) and 90 million yen in terms of the total annual remuneration paid to the Audit & Supervisory Board members (of which the total annual remuneration paid to outside members of the Audit & Supervisory Board was 30 million yen). The Company has not disclosed the individual remuneration amounts because no total remuneration amount of 100 million yen or more exists on a consolidated basis.

Policy on determining remuneration amounts and calculation methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

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

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

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

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

1. Directors and Board of Directors
 The Company's Board of Directors consists of 10 directors. The directors' term of office is one year. The Company holds regular monthly meetings of the Board of Directors to make decisions on fundamental management issues, with extraordinary meetings convened as necessary, on six occasions during the fiscal year ended March 31, 2017.

The directors manage their respective business operations in accordance with resolutions made at the Board of Directors' meetings.

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

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

The Company maintains an Audit & Supervisory Board made up of five Audit & Supervisory Board members, three of whom are elected from outside the Company. The Company held meetings of the Audit & Supervisory Board on six occasions during the fiscal year ended March 31, 2017.

3. Advisory Committee

The Company has the Advisory Committee to advise the Board of Directors concerning important matters on the nomination and remuneration of directors and the management team members to ensure corporate transparency, the purpose of Japan's Corporate Governance Code, and respond to social requirements. The Advisory Committee is comprised of three representative directors and two outside directors and is chaired by one of the outside directors, and the meetings were held on four occasions during the fiscal year ended March 31, 2017.

4. Other bodies, etc.

For important management matters, a body comprising all the directors, the Management Advisory Meeting, is in place to confer. With Audit & Supervisory Board members in attendance, the Meeting also seeks the opinions of external specialists on an as-needed basis. Convened by the president as he sees fit, the Management Advisory Meeting meets on a timely basis as appropriate. In the fiscal year ended March 31, 2017, the Company held one meeting.

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

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

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

The Company also holds Japanese affiliate company meetings about once every three months, and representatives of the companies report on business conditions and other information to the Company's representative directors and Audit & Supervisory Board members. In addition, the Company holds annual global affiliate management meetings to share information on business plans, with presidents from all over the world in attendance.

3. Reasons for Adoption of Current Corporate Governance System

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

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

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary explanation
Early notification of General Shareholders' Meeting	The Company sent out the convocation notice of the 2016 100th Ordinary General Meeting of Shareholders (held on June 24, 2016) on June 6, 2016 (18 days prior to the meeting date). On June 1, 2016, prior to sending out the notice, the Company published the convocation notice on the websites of Tokyo Stock Exchange and the Company.
Allowing the electronic exercise of voting rights	It is acceptable to exercise voting rights via the Internet (including using cell phones).
Participation in the electronic voting platform and efforts to improve the environment for the exercise of voting rights by institutional investors	The Company is participating in the platform for the electronic exercise of voting rights operated by ICJ, Inc.
Providing convocation notices (summary) in English	The Company posts convocation notices in English on the websites of Tokyo Stock Exchange and the Company and provides them to the platform for the electronic exercise of voting rights operated by ICJ, Inc.
Other	The Company posts notices of convocation and resolutions on its website. In addition, it visualizes the content of financial reports using graphs and photographs to increase shareholders' understanding of our business activities at general shareholders' meetings, and posts these materials on the Company's website.

2. Investor Relations (IR) Activities

	Supplementary explanation	Explanations by the President of the Company
Holding of regular briefings for individual investors	The Company holds tours of its general exhibition center within the Shiga Works. The Company participates in IR events targeting individual investors.	Yes
Holding of regular briefings for analysts and institutional investors	In addition to holding results briefings four times a year, the Company holds investor briefings as required.	Yes
Holding of regular briefings for investors outside of Japan	Regular briefings for the investors are held in Europe, Singapore and Hong Kong. Telephone conferences and meetings by other means are held as required.	Yes
Posting of IR materials on its website	News releases, summaries of financial statements, materials for financial results briefing sessions, reports (newsletters for shareholders), convocation notices, securities reports, annual reports in Japanese and English, summaries of financial statements in English, materials in	

	English for financial results briefing sessions, and convocation notices in English are posted.	
Establishment of department (manager) in charge of investor relations	Investor Relations Department, Corporate Communications Division	

3. Measures to Ensure Due Respect for Stakeholders

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

IV. Matters Related to the Internal Control System

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

[Basic Stance on the Internal Control System]

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

[Development of the Internal Control System]

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

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

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

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

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

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

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

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of anti-takeover measures	Adopted
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Supplementary Explanation

At the 99th Ordinary General Meeting of Shareholders held on June 26, 2015, the shareholders approved the partial revisions of the Company's preventive measures against large-scale acquisitions of Company shares (anti-takeover measures) aimed at protecting and advancing the Company's corporate value and shareholders' interests. Please refer to the Company's website below for the details of the updated information.

www.daifuku.com

2. Other Matters Concerning the Corporate Governance System

[Overview of timely disclosure]

The Group aims to realize fair, highly transparent management by being proactive in information provision other than statutory disclosure, not to mention disclosing information appropriately in accordance with legislation.

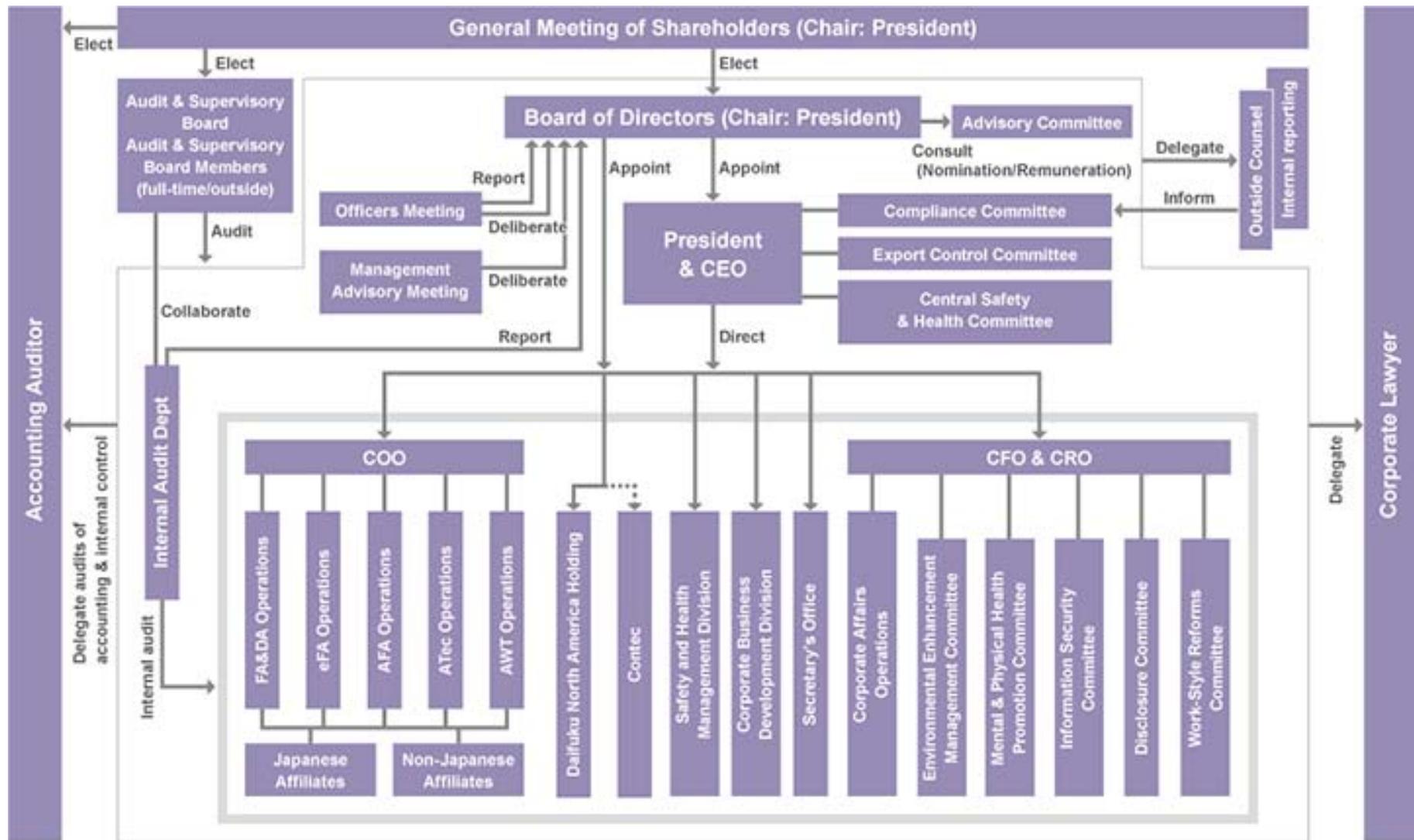
- The Disclosure Committee shall ensure the timely disclosure of financial results, information related to corporate decisions, and information related to the occurrence of material facts. In the event of a disaster or similar, the committee shall cooperate with the departments related to risk management.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

Daifuku Corporate Governance Guidelines

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

See Exhibit 2.

Corporate governance structure



Organizations for Timely Disclosure

