



Daifuku Report 2022

DAIFUKU Inspiring Society and the Future

Material handling refers to the efficient storage, transport, sorting and picking of goods.

Its essence lies in using automation technologies to reduce heavy work and repeated processes and create new value.

Starting with the use of leverage, pulleys and casters, material handling has developed dramatically through innovations in dynamic and information processing technologies.

It is now a system that supports the foundations of society, and as such is always close to the lives of people.

Daifuku will continue its Groupwide efforts to “inspire society, deliver prosperity and enhance well-being through our core competence—automated material handling technology.”

Path of Value Creation

A sound corporate culture that cultivates a chain of innovation

Since its founding in 1937, Daifuku has been committed to remaining at the forefront of the times and to meeting customers’ needs as a manufacturer and integrator of material handling systems and equipment. Underlying this is the following ① to ③, our traditional corporate cultures (so-called corporate DNA).

① Responding to customers’ needs with sincerity

Our business cannot exist without maintaining customers’ systems in operation.

In 1959, we delivered an automobile production line system to Japan’s first passenger automobile factory. Any failure in the system we delivered would bring the customer’s business activities to a halt. Under this severe pressure, we learned that our products must never cause production lines to stop under any circumstances.

② A spirit of development in pursuit of cutting-edge technologies

Becoming an all-around material handling machinery provider. From human power to machines—modernization of material handling

Until around the 1940s, most materials at ports were handled by stevedores who carried cargoes on their shoulders, straining at the task. Daifuku began to introduce a range of material handling machinery designed to reduce physical burdens and enhance productivity, to the market.

In 1947, the then president Kenjiro Masuda, who served in that role from 1947 to 1949 and from 1953 to 1967, was seeking a future direction for the Company. He made a decision to pursue the modernization of material handling. This marked Daifuku’s “Year One of Material Handling.”



Stevedores carrying cargo (photo credit: Museum of Logistics)

In time, a need will arise, even where none exists today. Motorization as the road to fortune and dramatic growth

“In the future, conveyors will not simply move or carry goods. They will develop into systems with advanced functions. Although they do not sell now, the day will surely come when they will be needed.” With this belief in the late 1950s, Masuda sought advanced conveyor system technologies for automobile factories from Jervis B. Webb Company, a U.S. material handling company that is now part of the Daifuku Group.



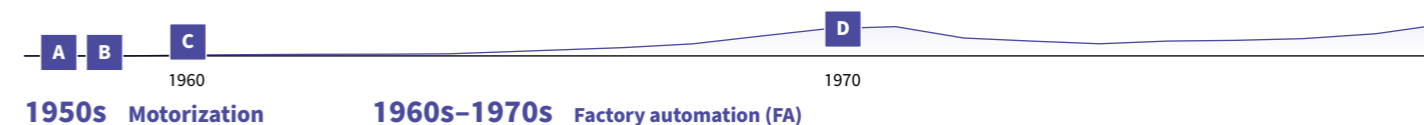
Japan’s first passenger automobile factory

③ Diverse and positive corporate culture

Confidence in management from the early days

In those difficult postwar years, wages were overdue by up to 75 days. The sight of Masuda rushing around trying to raise money to pay their salaries increased the confidence employees had in the Company. At that time, factory staff were paid daily wages while office staff received monthly wages. Masuda abolished this and introduced a new system of paying all staff on a monthly basis, removing a wall that had existed within the Company. His successor, Toshio Hirotsawa, who served as president from 1967 to 1977, worked hard to improve the treatment of employees, introducing programs that were novel at that time, such as the five-day work week and mandatory retirement at the age of 60.

Sales trends



1 Responding to customers' needs with sincerity

E Providing quality products and services in response to advancing material handling needs

The 1980s saw a rapid increase in demand for cleanroom transport systems for semiconductor factories, resulting from the spread of personal computers.

In 2002, Daifuku received a first order for a fifth-generation LCD panel transport and storage system. This system later evolved into a transport system for glass substrates for large-screen TVs. We provide customers with one-stop services that encompass everything from proposals for logistics strategies to maintenance of distribution centers and other facilities. After e-commerce and other services rapidly proliferated, needs increased for material handling for high-mix, low-volume and high-frequency transport. We faced a need to provide solutions for temperature management in cold chains and hygiene management ensuring food safety and reassurance.



Cleanroom transport systems for semiconductor factory



Automated sorters in a distribution center

G Global increase in the movement of people and goods

In 2007, Webb joined the Daifuku Group through M&A, enabling us to enter the airports sector. We have since expanded the business mainly to overseas markets. In 2018, we won our first project in Japan.

In recent years, airport security checks have become increasingly stringent, and boarding procedures are taking longer and longer. There is brisk demand for smart airports, such as self-service baggage check-in, facial recognition for passport control, automation of passengers' procedures, and curtailment of time for security checks.



Self-service baggage check-in system

H Developing and providing logistics solutions to help build new lifestyles

Changes to systems in society and people's lifestyles are accelerating. Customers are faced with issues such as the expansion of e-commerce, advances in digitalization, the trend towards electric vehicles, mounting awareness of the environment, society and governance (ESG) issues, rising labor expenses and labor shortages. Daifuku will flexibly and sincerely continue to respond to their new needs.

2 A spirit of development in pursuit of cutting-edge technologies

C The "living" warehouse brings a distribution revolution

In the 1960s, the volume of cargo began to exceed the handling capacity of delivery centers and it became common to see piles of goods waiting to be delivered. At that time, Daifuku began to explore new fields and developed the Rackbuil system, a pioneering automated warehousing technology in Japan, with the first system in 1966. Rackbuil was dubbed a living, moving warehouse and a revolutionary system that changed the concept of warehouses. It instantly became the Company's mainstay product.



The first delivered Rackbuil system

D Cultivating Daifuku's sustainability through industrial park plans

In 1970, Daifuku acquired a vast site measuring about 1.2 million square meters with the idea of building an industrial park in the town of Hino-cho, in Shiga Prefecture. Today, this is the home of our Shiga Works. With an emphasis on harmony with the natural environment and ties with the community, we started building a production site with a function of developing a rich humanity. The Works has become one of the world's largest production centers of material handling systems, boasting 12 factories. We are working to build a sustainable society, for instance with the Yui Project launched in 2014 to preserve biological diversity.



Yui no Mori the forest
Yui no Mori was developed as part of efforts to protect biodiversity. In addition to protecting the endemic red pine forests and a rare species of salamander, Yui no Mori is used as a place of learning, both inside and outside the Company.

F Society supported by non-stop logistics

Today, companies are facing challenges related to how to ensure non-stop logistics, and how to restore them quickly if they do stop. Daifuku offers preventive maintenance and regular inspection services for systems and operates a 24/7 system support center to ensure stable operation of customers' facilities.

Since the 1995 Great Hanshin-Awaji Earthquake, severance of supply chains and the stagnation of physical distribution caused by natural disasters are now recognized as a major risk to society. We are working to introduce quake-absorbing systems to logistics facilities in a bid to help customers achieve a rapid recovery in business activities and to maintain the foundations of society.



Daifuku's own sway-control technology developed at its high-rise testing tower within the Shiga Works

3 Diverse and positive corporate culture

A good mentor

Kenjiro Masuda served as president for a total of 17 years and six months, and subsequently also served as chairman and advisor. Until just before he passed away at the age of 97 in 1996, he would speak about business vigorously. Our current management team occasionally heard his instructions when they were young. He was also a man of the pen. His contribution to the Company newsletter for six years acted as a core of the chronicle of Daifuku's 50 years. Our corporate history vividly describes our 50 years of history based consistently on his views.

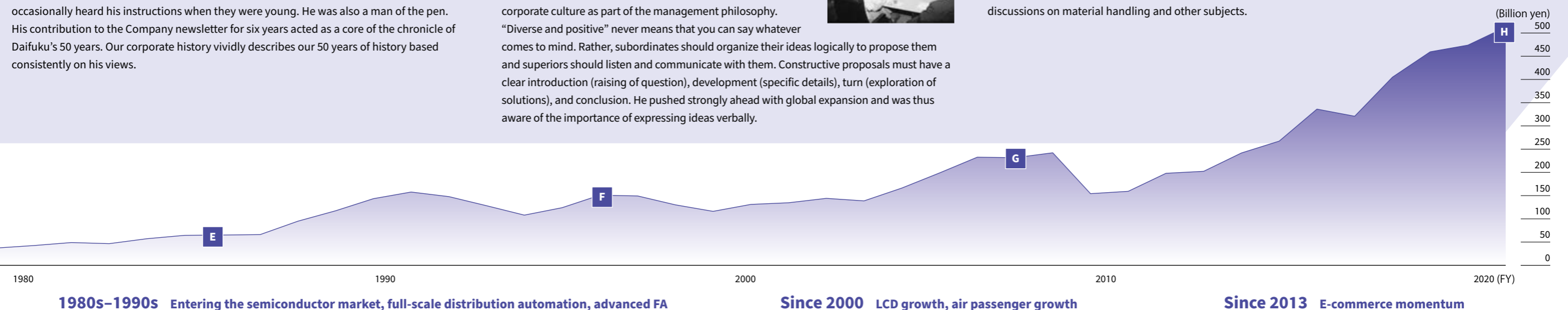
Provide proposals with clear introduction, development, turn, and conclusion

Katsumi Takeuchi served as president from April 2002 to March 2008. He always defined the creation of a diverse and positive corporate culture as part of the management philosophy. "Diverse and positive" never means that you can say whatever comes to mind. Rather, subordinates should organize their ideas logically to propose them and superiors should listen and communicate with them. Constructive proposals must have a clear introduction (raising of question), development (specific details), turn (exploration of solutions), and conclusion. He pushed strongly ahead with global expansion and was thus aware of the importance of expressing ideas verbally.



Active discussions based on customer needs

We receive a large number of orders for different projects. Accordingly, younger personnel have opportunities to work on the front lines. When conditions are difficult, they may need deliberations inside the Company at times. They are often seen involved in intense discussions on material handling and other subjects.



A spirit of seeking constant advancement in everything behind the company creed

In January 1964, the then president Kenjiro Masuda formulated Daifuku's company creed of *Hini Arata** ▶Page 5. He explained his thinking, which was incorporated into the creed of Hini Arata.

It embodies our aspiration, shown below.

* Cited from *The Great Learning*, one of the Four Books in Chinese Confucianism

With respect to humanity, it means to develop character and build up skills. As for the mind, it means enterprise, cultivation, patience, emphasis and service. It aspires to constant advancement in everything; for example, development and training of skills, improvement of efficiency and productivity in work, prosperity for the company, and greater happiness at home. As long as you carry out new activity day by day, you will always be young in spirit and the company will prosper eternally.

There is no guarantee that today's leading industry or business will stay successful forever. The most important thing is to always keep in mind that businesses will fail. We should review our actions every day and change them for the better. We have therefore chosen Hini Arata as our company creed. It is the practice we must learn to ensure our corporate survival.

This notion has been passed down to us today. It serves as a foundation that supports the Daifuku Group's development.

Corporate Policies

Company creed



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

Management philosophy

Automation that Inspires

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

We will

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

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.

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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 IFRS Foundation and Global Reporting Initiative (GRI) standards. See the Company website for more detailed information: www.daifuku.com

The report covers 70 companies, including the parent company, 69 consolidated subsidiaries, and one equity-method affiliate (as of March 31, 2022).

Period covered: Fiscal 2021 (April 2021–March 2022)

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



Disclosed Information

For details about Daifuku, see the following.

Corporate

Corporate Site
www.daifuku.com

DAIFUKU PROFILE
www.daifuku.com/ir/library/profile

Business

Intralogistics
www.daifuku.com/solution/intralogistics

Cleanroom
www.daifuku.com/pro/efa

Automotive
www.daifuku.com/pro/aps

Airport
www.daifuku.com/pro/atec

Electronics (Contec Co., Ltd.)
www.contec.com/about-contec

Financial

Investor Relations
www.daifuku.com/ir

Securities Report
www.daifuku.com/ir/library/statements

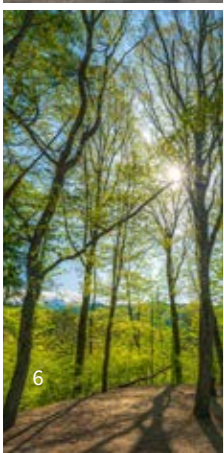
Non-Financial

ESG Data
www.daifuku.com/sustainability/data/esg-data

Daifuku's Sustainability
www.daifuku.com/sustainability/management

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

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





Hiroshi Geshiro
President and CEO

CEO Message

Advancing Our Presence in Society with Our Automated Material Handling Technology

Inspiring people with material handling technology rooted in our new management philosophy

In October 2021, the Daifuku Group revised its management philosophy to “Automation that Inspires.” The development of our current three-year business plan, Value Transformation 2023, and the new steps forward that will come with it, are what inspired us to update our well-established management philosophy to better suit the times. As part of the revision process, we set up a project team of officers from each business unit and the Corporate Functions unit. From there, we took some time to confirm the Group’s reason for being. Thanks to this action, as well as numerous discussions with the presidents and executives of subsidiaries outside Japan, we reaffirmed, to no one’s surprise, that Daifuku’s reason for being is material handling—the efficient storage, transport, sorting, and picking of objects. Material handling originates from the desire to reduce heavy labor and repetitive tasks and enable people to focus on more creative work. This is our mission.

Material handling calls for the movement of a variety of objects in a rapid, accurate, and efficient manner. As the declining birthrate and an aging population causes a contraction in the workforce, we see machines increasingly being entrusted with tasks they are capable of performing. In light of this trend, we want to use our automated material handling technology to help inspire society, deliver prosperity, and enhance well-being. By extension, we aim to be a company that leaves a strong impression on people. This idea is contained within “Automation that Inspires.”

▶ Page 5
Management Philosophy

We need innovation with a view toward changing society. Conversely, there are aspects integral to Daifuku’s corporate culture, its so-called corporate DNA, that we cannot and must not change. One is the drive to complete a project, regardless of its difficulty, and ensure the operation of our customers’ facilities no matter what it takes. Another is the need to maintain a free and open corporate culture that allows employees to express their opinions, no matter their position. We need to preserve these ideals all the more if we are to create things that the world has never seen, and if we are to realize our dream of working to deliver new convenience to customers and the consumers they serve.

The COVID-19 pandemic has brought with it remote communication and other changes to the ways people live, as well as changes to the way we sell and consume, which includes e-commerce among other means. These changes will likely continue in the new normal of a post-COVID-19 world. We hope that Daifuku can be an integral part of society in these coming times, and continue to provide new value and inspire people.

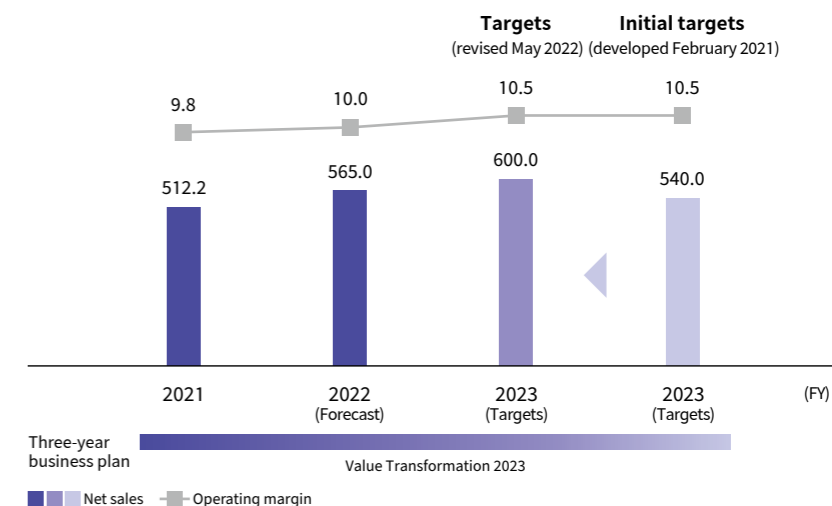
Consolidated orders and sales reach new record highs

In fiscal 2021, the first year of Value Transformation 2023, we achieved orders received of 589.0 billion yen, net sales of 512.2 billion yen, and operating income of 50.2 billion yen, setting record highs in both orders and sales. These results were driven by the Intralogistics business, which deals with manufacturing and distribution systems, as well as by the strong performance of the Cleanroom business, which deals with cleanroom production line systems. In particular, demand for capital investment in semiconductor production lines—part of the Cleanroom business—exceeded the expectations set when we developed Value Transformation 2023, and we expect this high level of performance to continue going forward. In light of these results, we have revised our consolidated net sales target for fiscal 2023, the final year of Value Transformation 2023, from 540 billion yen to 600 billion yen.

Meanwhile, our operating margin in fiscal 2021 was 9.8%, which puts us on track to reach our fiscal 2023 target of 10.5%. Even during the pandemic, sales and income increased in consecutive years. The biggest contributors to this achievement are our employees, with their ingenuity and hard work. We will continue to move forward with management that draws on the power of our employees to meet our targets.

Net sales and operating margin

(Billion yen / %)



The cornerstones of management —keys to sustainable growth

To coincide with the adoption of our three-year business plan, we developed the Sustainability Action Plan after revising the material issues (materiality) addressed in its predecessor, the CSR Action Plan. We need to treat the creation of products and systems that contribute to society with the same importance as the pursuit of net sales and profits. We look at both of these plans as wheels—if only one wheel is spinning, it will spin idly. However, if both wheels are spinning in synchronization, then we have forward movement. If we treat the three-year business plan and the Sustainability Action Plan as the “cornerstones of management,” and use them to move forward, we will create value unique to the Group.

Since introducing our proprietary Daifuku Eco-Products Certification Program in fiscal 2012, we have been committed to providing products while being mindful of their environmental impact. The mega solar farm we installed at the Shiga Works in 2013, which generates up to 4,438 kW, is just one example of our efforts to support the coming generation, and was undertaken long before environmental, social, and governance (ESG) initiatives began to draw the attention of society. As another example, we maintain a policy for developing new products with more efficient power consumption when compared with existing products. This is important since these systems operate at customer locations for long periods of time. On occasion, a customer might ask whether this is all truly necessary. However, this development policy adds to the Group’s competitive advantage.



The Group's sustainability management remains consistent throughout the supply chain, from consulting for logistics systems, design, and installation to after-sales services. This allows us to provide suppliers of parts and other items with advice and support, which helps us work together to reduce CO₂ emissions. It also means that recyclable materials compose at least 90% of the products and systems we provide customers, ensuring they do not become harmful substances when they are disposed of in the future.

We will remain mindful of sustainability so that we continue to provide unique products and services with the value sought by society and customers.

The progress of Value Transformation 2023 and our external conditions

Since its founding, the Group has developed Japan's first high-rise automated warehouse and the world's first electrified monorail system with a non-contact power supply, among a variety of other innovative projects. Even in the present day, as e-commerce and other services have become more widespread and life has become more convenient, we have a strong desire to set things in place that will make life better for the coming generation. To turn this desire into innovation across our businesses, we have appointed an officer responsible for advanced technology and new business development. Since April 2022, under the leadership of this officer, we have been seeking out new businesses as we strive to strike a balance between helping realize a sustainable society and contributing to profits.

Standardizing products from the design stage to increase profitability is one of the major themes of the three-year business plan. Setting the precedent for this endeavor is the Intralogistics business, which has been committed to product standardization and streamlining of production and assembly for the last decade or so. This endeavor has involved steady research and trial and error, but the business has lowered costs by significantly reducing the number of parts, and has decreased the need for engineers to draw up blueprints from scratch by standardizing parts for common use across several products. These initiatives have resulted in greater profitability. We are currently promoting similar standardization efforts in the Cleanroom business, and are on track to reduce costs 30% by fiscal 2023.

In fiscal 2021, the prolonged COVID-19 pandemic caused disruptions in the supply chain. Thanks to early ordering and inventory stockpiling in each business in anticipation of this situation, we were able to deliver products and systems to our customers with little to no delay until around December 2021. However, since 2022 there has been an increase in supply and procurement restrictions, which has made it difficult to receive orders on time, even if the order was made in advance.

For this reason and others, the Group is moving forward with design changes that include switching to alternative parts and components. Moreover, in the past, products were shipped from our factories close to completion and were installed and adjusted on-location. Now, when it takes time to procure parts, we will bring the unit excluding the missing parts to the site and proceed with the installation work until the parts arrive. This measure takes advantage of a particular characteristic of our business, which is the long period between receiving an order and actual operation. If the supply of parts is delayed, we do not just wait for that part to arrive. Instead, we proceed with whatever work that can be carried out, and continue to make every effort to meet the completion deadline for the customer.

We are currently working to build a production control system that visualizes development, production, installation, and other processes in real time, for projects worldwide. Intensive data management, tracking progress and changes in costs will raise the efficiency of the process aimed at completing these projects. While we did make some progress in fiscal 2021, we are still en route to "complete visualization," and will continue to move forward with this effort in the Intralogistics business, which is leading the way in this respect, and then expand horizontally to the Cleanroom business and other businesses.

In March 2022, we conducted a takeover bid for our consolidated subsidiary Contec Co., Ltd. and made it a wholly owned subsidiary in May. In today's world of technological innovations such as AI and IoT, development and investment in the device business are essential for the Group's growth. In addition, Contec has advanced into fields such as environment/energy, medical care, and digital signage by taking advantage of the technology it has cultivated in electronic devices for factory automation. This makes it possible to offer products for a wide range of industries. Going forward, we will deepen our cooperation with Contec, with a focus on developing new products while also making use of each other's technology, know-how, customer foundations, and other management resources.

Daifuku's long-term vision

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Daifuku Environmental Vision 2050

In February 2021, we unveiled Daifuku Environmental Vision 2050, which aims for a world in which material handling systems have zero environmental impact in 2050. I am confident that in 30 years' time we will still be thriving as the company of choice for our customers and other stakeholders, thanks to our efforts to reduce the environmental impact of our products and systems.

In fiscal 2021, these efforts included the installation of a photovoltaic system as part of the construction of a new factory outside of Japan and worked to introduce electricity from renewable energy sources, under the banner of "accelerating climate change and energy responses." Meanwhile, with a policy of "building a foundation to promote resource recycling," we will continue to promote operations at Company-owned factories with low environmental impact. We also set targets for each business unit to reduce their environmental impact, with the intent of assessing the degree of completion in the future.

Looking at the "cornerstones of management" I mentioned earlier, namely the three-year business plan and the Sustainability Action Plan, I would like to elaborate on the human resources strategy put forth in the latter. This is intended to affect the development of new businesses, as we plan to use this integration to assign employees to suitable positions. As part of that, in fiscal 2021 we integrated the Automotive business unit with the Airport business unit and are taking steps to make our pool of human resources more mobile. We will also need to train project managers. One cannot be a project manager without extensive knowledge and experience, in areas ranging from cost management to design and installation, as well as having a good understanding of our partner companies. Therefore, we provide systematic education to train the next generation of project managers. Outside of Japan, we are working to construct a project management system that will ensure that projects are not dependent on any one person, something that is possible because the mobility of human resources outside Japan is high overall.

We will also focus on developing and promoting diverse human resources. The number of female employees and managers of our company increases with each passing year, but we need make drastic changes to conscious and unconscious gender biases to ensure they can be even more active in their roles. We are also considering appointing officers who are foreign nationals.

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Risk Management

Enhancing risk management and Group governance

Risk management is also important if Daifuku is to achieve sustainable growth. Geopolitical risks and the resulting procurement risks have come to light in recent years, adding to cyberattack and compliance-related risks. To address these issues, we established the Risk Management Committee in April 2022, with the head of each business unit serving as members. As chair of the Committee, I will work to ensure it operates effectively and manages Group risks.

Regarding Group governance, the three-year business plan calls for "rebuilding Group management." Therefore, we are planning to evolve our governance system by strengthening the supervisory functions of our subsidiaries and reorganizing in order to optimize business operations. As for communication with Group companies, I feel that communication is more active now than it was prior to COVID-19. Instead of being hindered by the difficulty of traveling to worksites, it has become standard to hold meetings online, unrestricted by place or time. We plan on continuing to take advantage of these benefits in the future, as we work to enhance Group governance further.

In fiscal 2020 and fiscal 2021, the Daifuku Group increased both sales and income despite the pandemic. Moreover, fiscal 2021 marked the eighth consecutive year that the Group was the global leader in net sales for material handling systems. I take this as a sign of society's high demand for automated logistics systems as well as the great expectations being placed upon us. In fiscal 2022, we will continue our efforts to increase sales and income and contribute to the realization of a sustainable society.

I ask for your guidance and encouragement as we go forward.



President and CEO

Our Business

Intralogistics

Manufacturing and distribution systems

Provides logistics systems that are optimized for each customer by configuring the best combination of automated storage, transport, sorting, and picking systems, to distributors including e-commerce, retailers, wholesalers, transportation, and warehousing, and to manufacturers including food, chemicals, and pharmaceuticals. We deliver the smart logistics sought by customers by incorporating cutting-edge technologies such as IoT and AI.



Cleanroom

Cleanroom production line systems

Provides cleanroom transport and storage systems essential in manufacturing semiconductors and flat-panel displays. We have delivered numerous systems to many of the world's leading electronics companies and component manufacturers. As a global supplier, we develop systems that respond to the evolution of accelerating technologies to ensure that we continue to improve our customers' operating rates.



Automotive

Automotive production line systems

For more than half a century, we have provided automobile manufacturers worldwide with systems that support their manufacturing operations. In the ever-evolving automobile industry, we use our extensive know-how and technologies to respond to sophisticated and diversified demand, as well as develop pioneering systems that support parts logistics and other areas in automobile manufacturing.



Airport

Airport technologies

Provides a broad range of solutions for airports, including baggage handling systems, automated baggage check-in systems, baggage screening systems, and software and controls. The business operates worldwide in collaboration with its Group affiliates in North America, Asia Pacific, and Europe.



Auto Wash

Car wash machines and related products

Provides mainly car wash machines and related products to filling stations and car dealers primarily in Japan and South Korea. The business offers a range of car wash models to ensure customers can choose features that meet their needs, including eco-friendly, ultra-quiet and water-saving functions among others.



Electronics

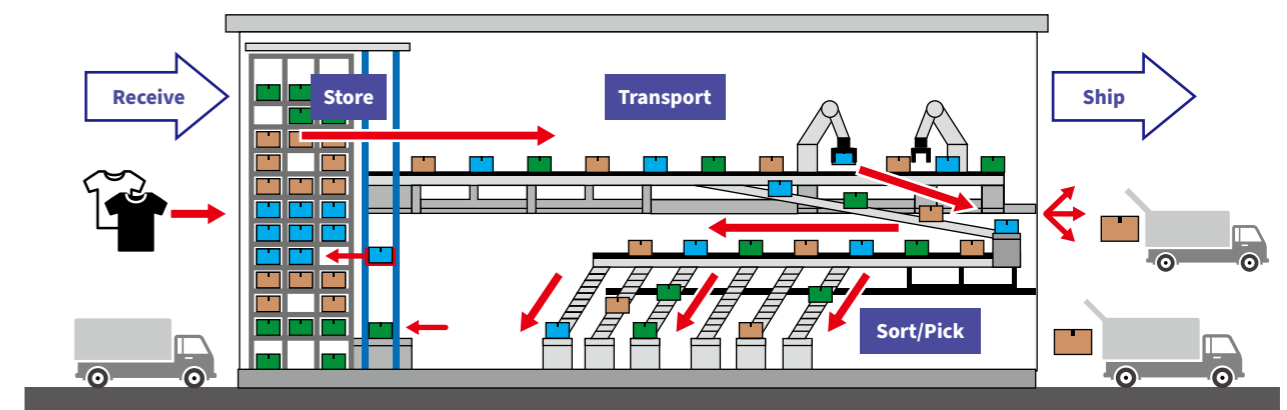
Provides industrial computers, measuring/control systems, and IoT solutions, through our subsidiary Contec Co., Ltd. Customers come from various industries, such as energy, medical, and railway.



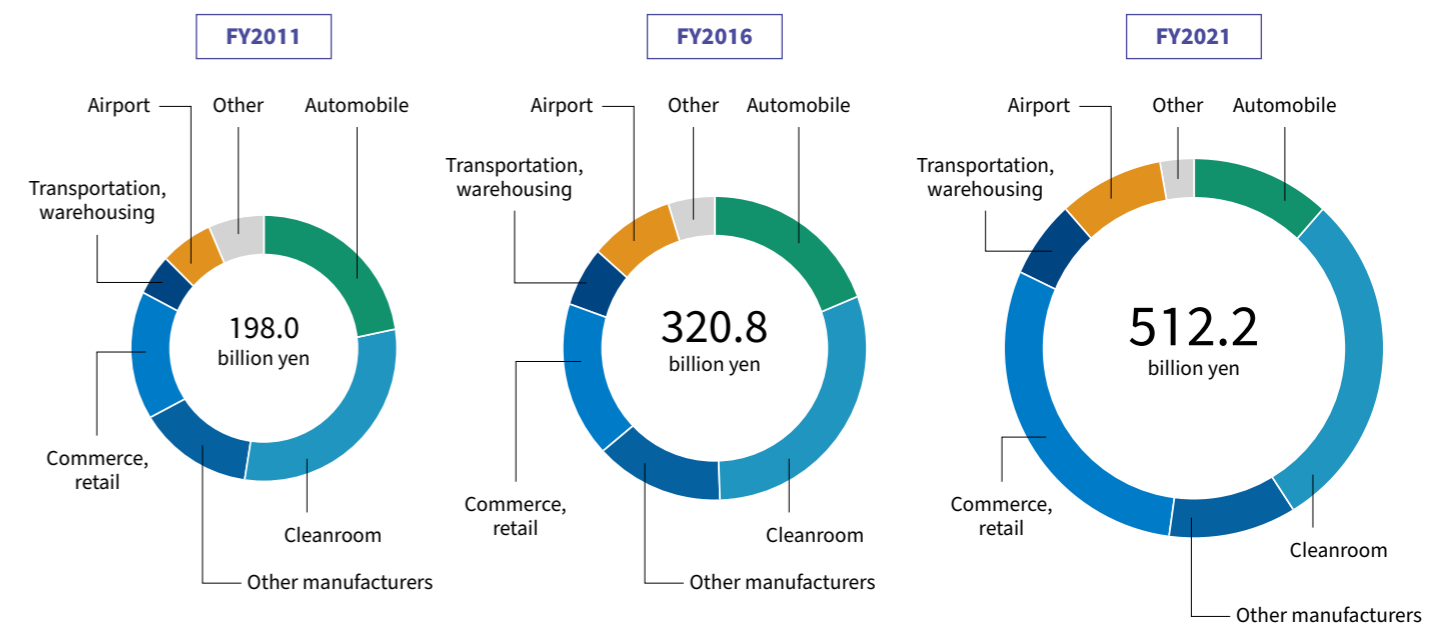
Our material handling technology creates values

At the core of Daifuku's business is automated material handling technology. Material handling refers to the efficient storage, transport, sorting, and picking of goods. A material handling system provides a smooth flow of goods by integrating equipment that has such functions and software that control and manage system operations. By providing a material handling system, it is our mission to reduce heavy labor and repetitive work and enable people to focus on more creative work. We will seek to create new value through our core competence—automated material handling technology. As the world's leading supplier and system integrator of in-house manufactured products, we will address diversified customer needs worldwide to inspire society, deliver prosperity, and enhance well-being.

Typical distribution center flow



Sales by industry

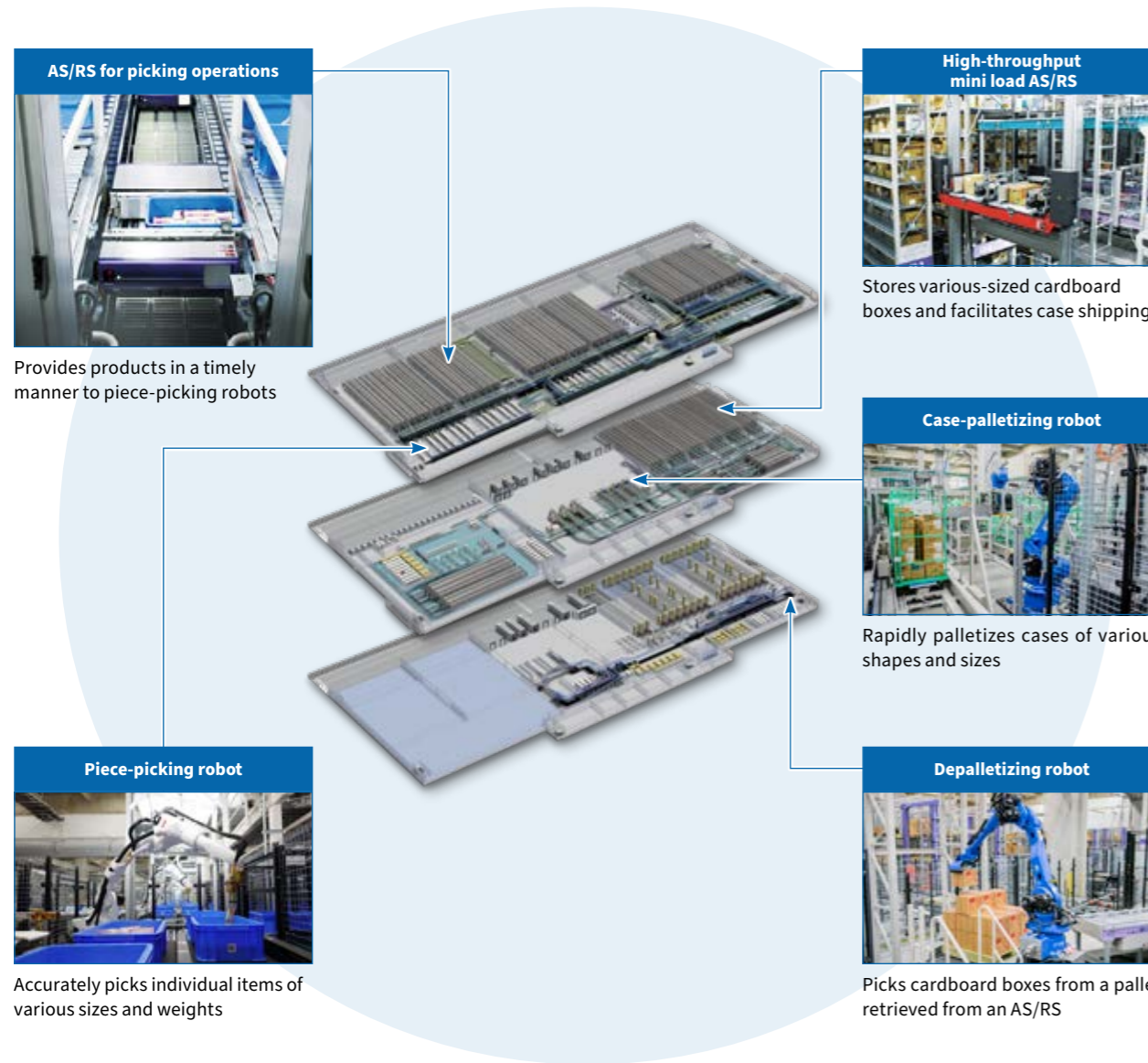
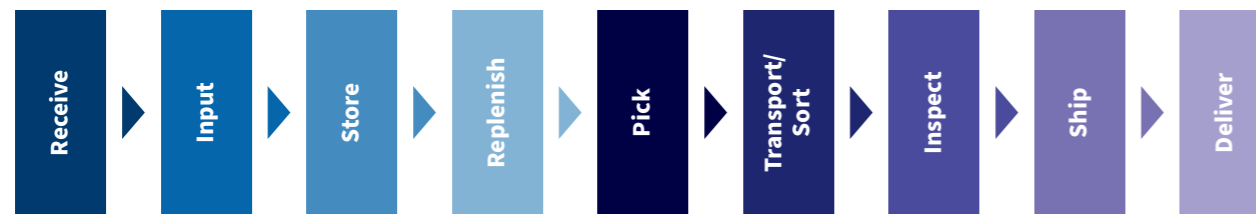


Our Material Handling Solutions

Intralogistics

Cutting-edge distribution center using the latest technologies

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



Cold Chain

Cold storage and low-temperature centers are in growing demand around the world following lifestyle changes and improvements in diet. This trend has been spurred by the increase in online purchases of frozen and chilled food amid rising air temperatures and the growing popularity of working from home. The number of items has been increasing recently and orders have been involving smaller and smaller lots. Accordingly, a shift to high-mix, low-volume distribution is taking place, and it is becoming more difficult to operate warehouses at full capacity without idle space. When the temperature in a refrigerated warehouse is at minus 25°C, the temperature difference from the outdoor air temperature might be 60°C or more. It is vital to use space in the warehouse effectively and to improve the working environment.

Offering systems tailored to carton property

When shipping in units of cases, the most basic solution is to use a mobile rack (upper right photo). That minimizes the space required for forklift movement and enables storage efficiency that is much higher than fixed racks.

Low-temperature distribution centers are used for deliveries to supermarkets, restaurant chains and other stores. They need to be able to handle high-mix, low-volume operations at a high turnover rate, and they tend to stock goods that require tremendous labor for picking. As such, automated storage and retrieval systems (AS/RSs) are effective. Workloads inside a refrigerated warehouse, with the temperature at minus 25°C, can be physically burdensome, but can be slashed by providing a high-rise stairwell space within the building and by creating a picking station inside the cargo sorting space where the temperature ranges from minus 5°C to plus 5°C.



Solutions for the e-commerce and mail order sectors

In e-commerce logistics, the scale and number of items vary depending on the operator. The extent of manual operation and that of automated operation vary with the customer. For all corporate customers, speed and accuracy are essential for the inspection of incoming goods, storage, collection, inspection of outgoing goods, packing and shipping.

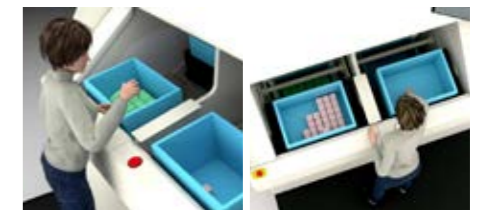
Shuttle vehicle mini load AS/RS

This system handles a number of types of plastic containers and cartons. It performs free allocation management to automatically adjust storage locations according to the load size. That paves the way for high-density storage. If a vehicle fails, maintenance can be performed with the vehicle detached. During the maintenance process, the system can remain in operation with the remaining vehicles, minimizing the impact on the overall process.



Regular position picking system

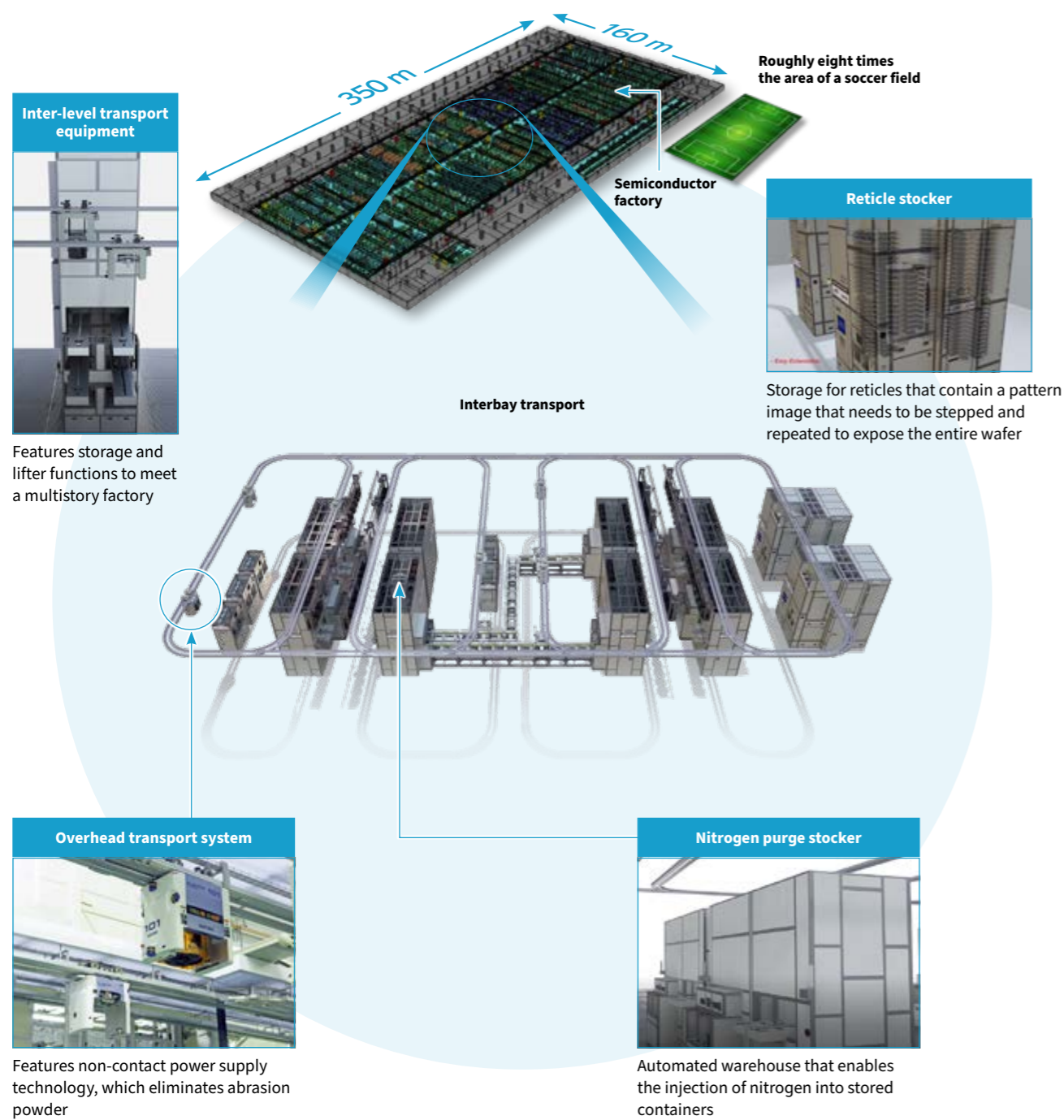
This system automatically feeds stock containers and order collection containers to an operator. The operator needs only pick the required quantity of containers from those supplied in accordance with the instruction displayed. That minimizes disparities in productivity associated with operators' skill levels.



Cleanroom

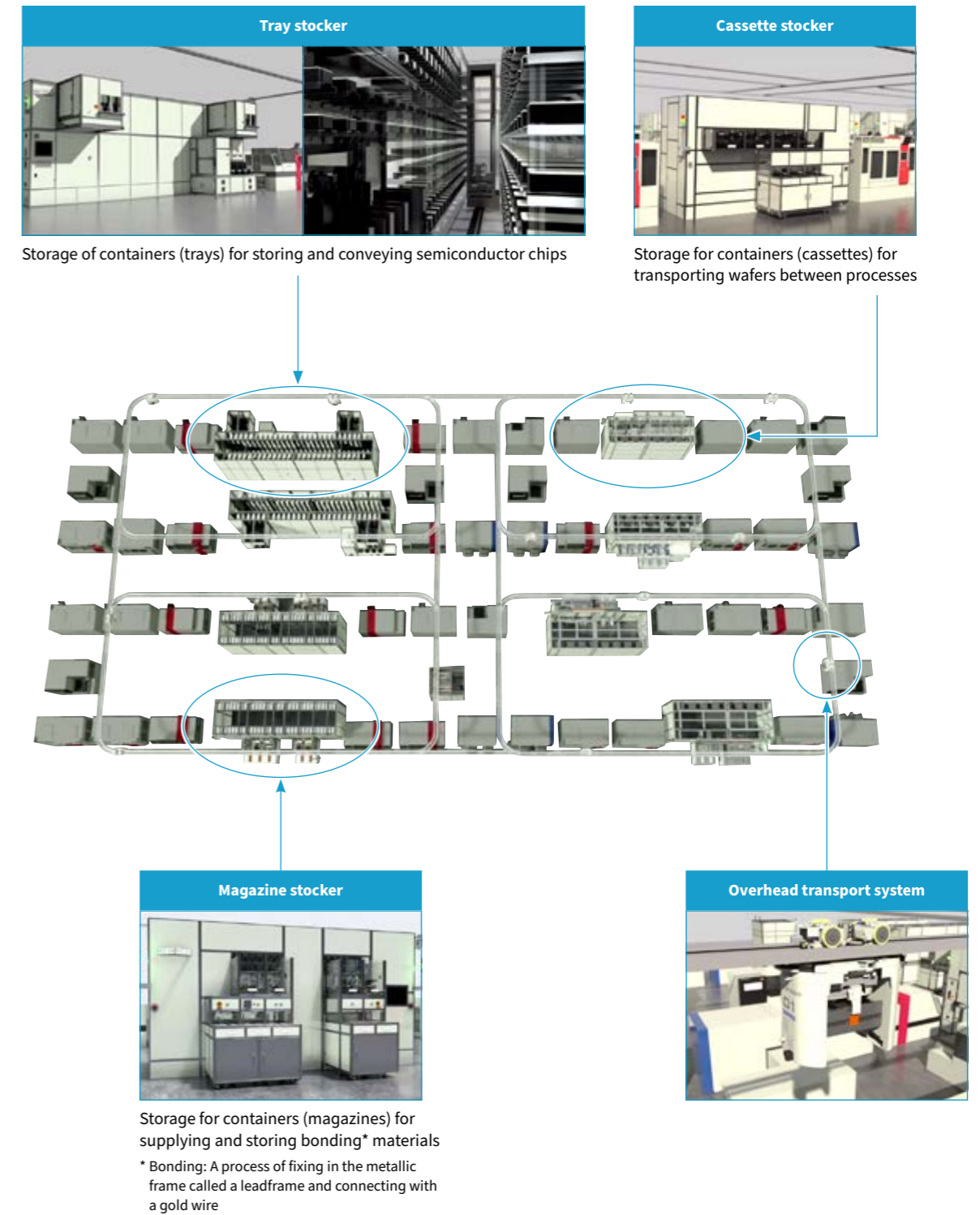
State-of-the-art semiconductor factory

A semiconductor factory performs around 1,000 manufacturing processes, and it takes two to three months from material input to completion and even more time for cutting-edge products. A large factory has interbay rail tracks with a total length of 20 to 30 km on the ceiling of the clean room as well as 1,500 to 3,000 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.



Semiconductor back-end process factory

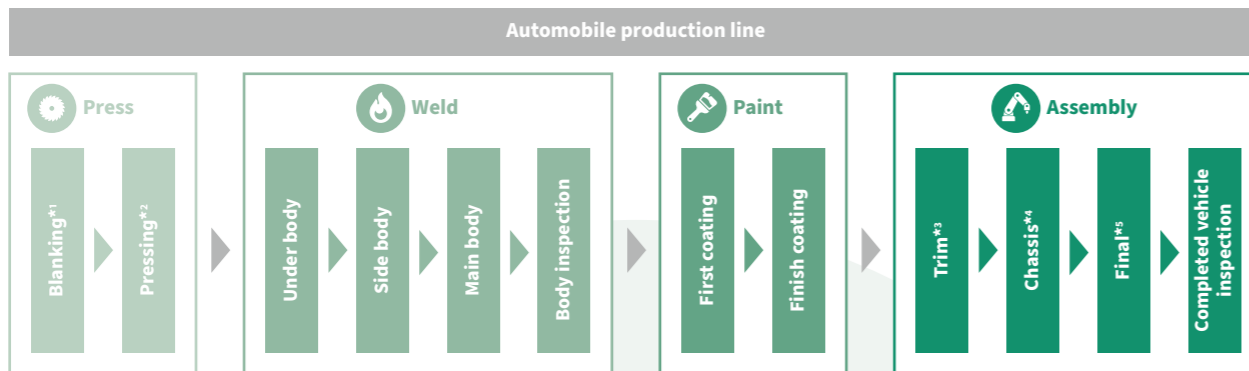
Customers have sought to reduce the semiconductor linewidth to 3 nanometers, and then to 2 nanometers. This miniaturization is nearing its limit. As a new solution, three-dimensional packaging technologies are advancing. With this approach, several semiconductor chips cut from wafers are vertically stacked and integrated. In the past, personnel were responsible for storage and conveyance between back-end processes in a non-clean room environment. New technologies require maximum cleanliness. As the objects to be conveyed become heavier, demand for automation is created.



Automotive

Automobile production line systems

We offer automated systems that enable labor saving in all processes of automobile production, including pressing, welding, coating, assembly, component storage and supply, engine testing and battery installation. They are ergonomically designed, for instance with a mechanism for lifting bodies to the height at which personnel can easily carry out their processes. Recent years have brought mounting demand for carbon neutrality. We are responding to the shift to electric vehicles (EVs).



*1 Blanking: A process of cutting a long single steel sheet to a required length with the use of a dedicated cutter

*2 Pressing: A process of forming the cut steel sheet into a 3D body component with the use of a pressing machine

*3 Trim: Process of attaching the accessories and parts to the car body

*4 Chassis: Process of attaching the accessories and parts to the car undercarriage

*5 Final: Process of adding the finishing touches

Virtual factory tour
www.daifuku.com/solution/automotive

Environmentally friendly paint system



Overhead friction conveyor system



Floor friction conveyor with lifting units



Vehicle door removal automation solution



EV battery mounting unit



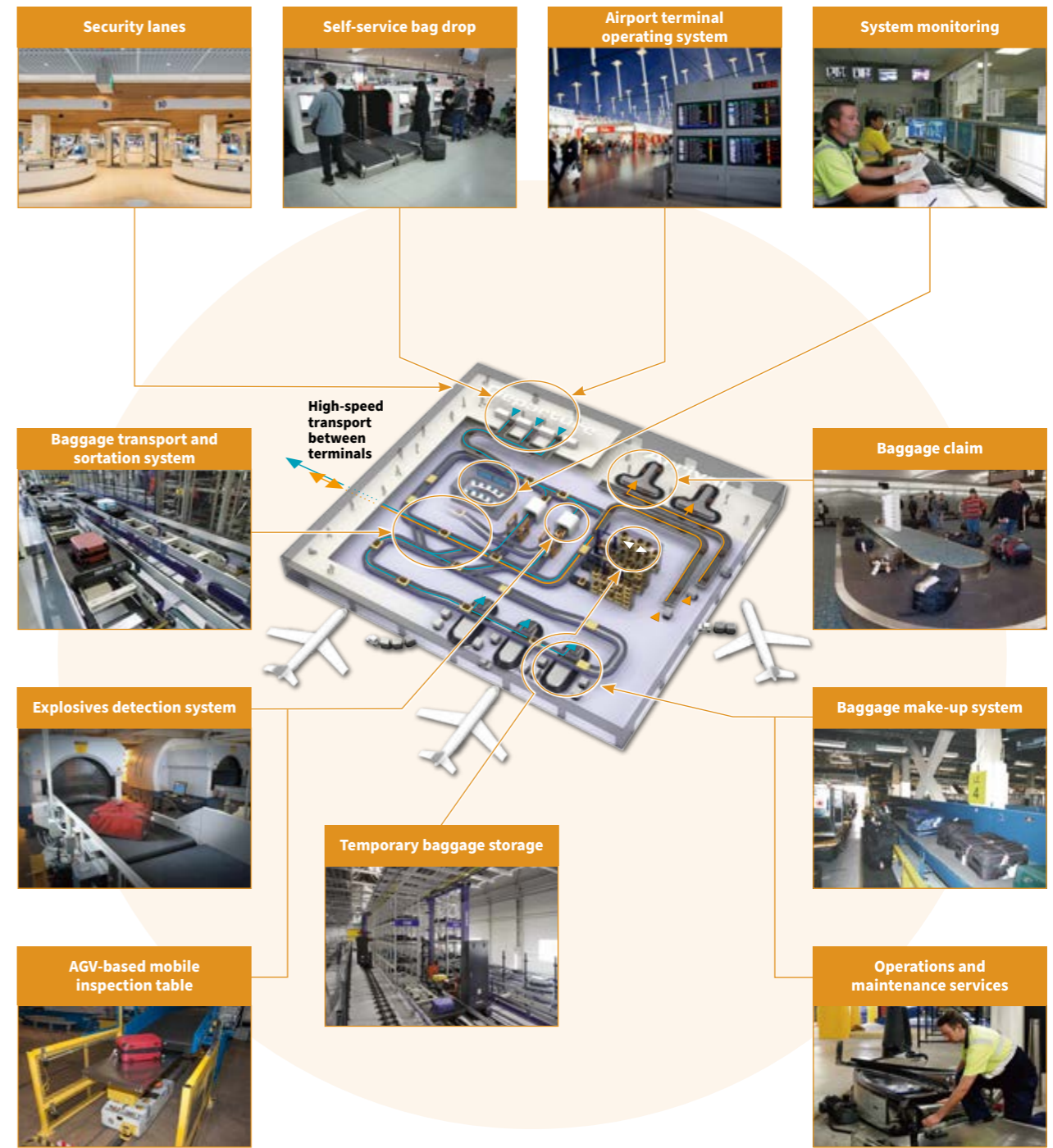
Automated guided vehicle



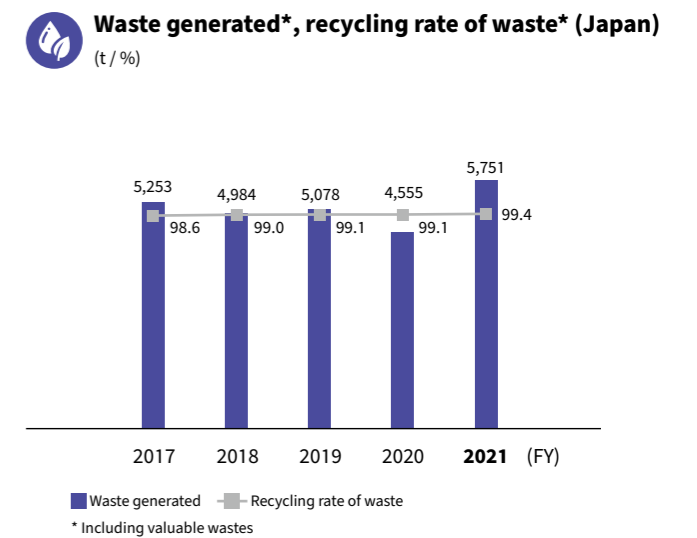
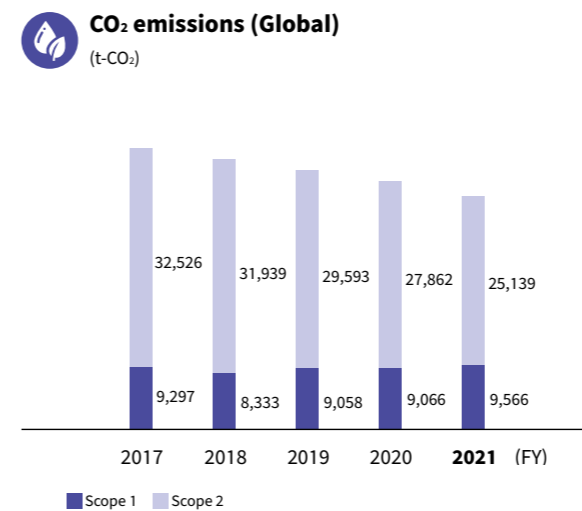
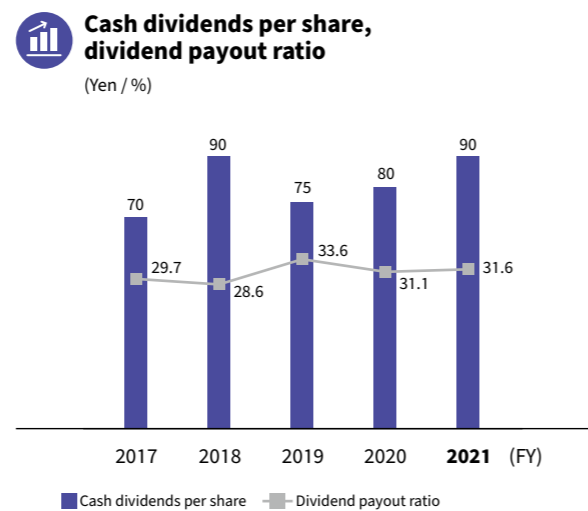
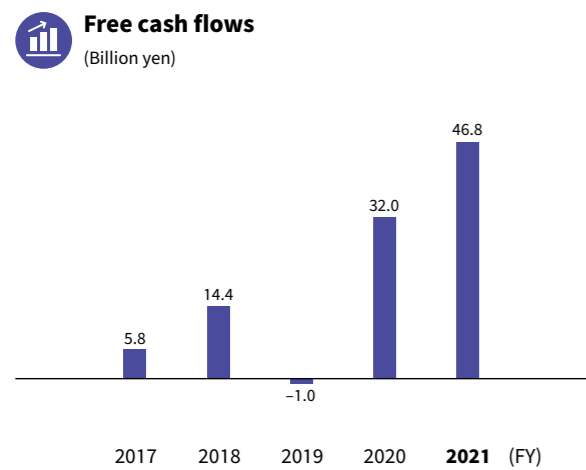
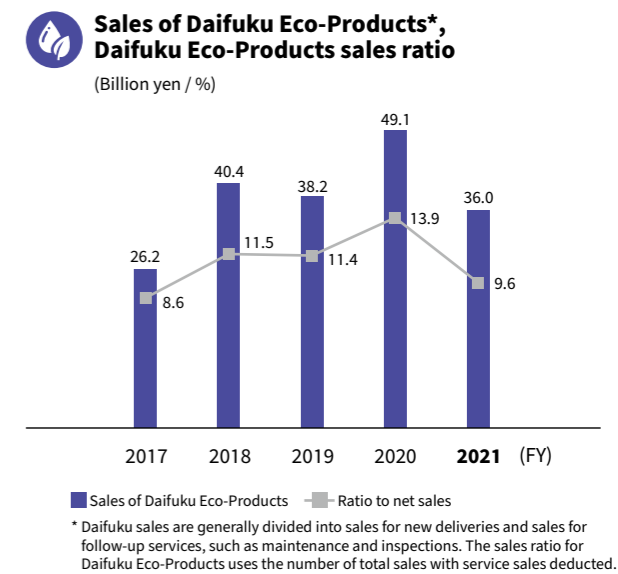
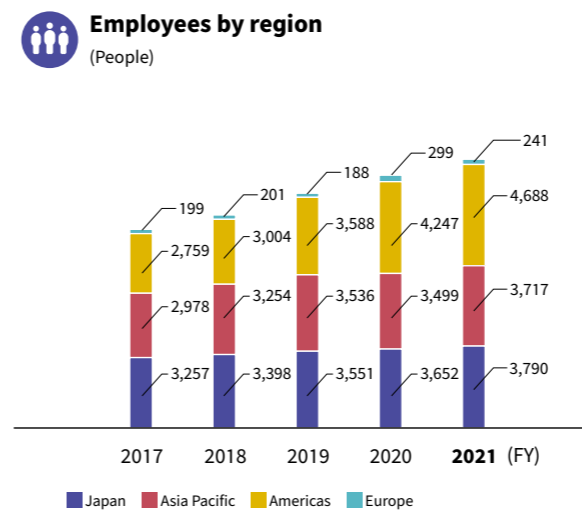
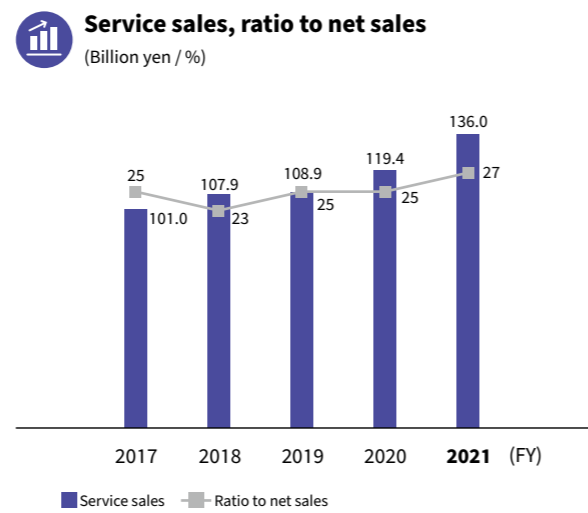
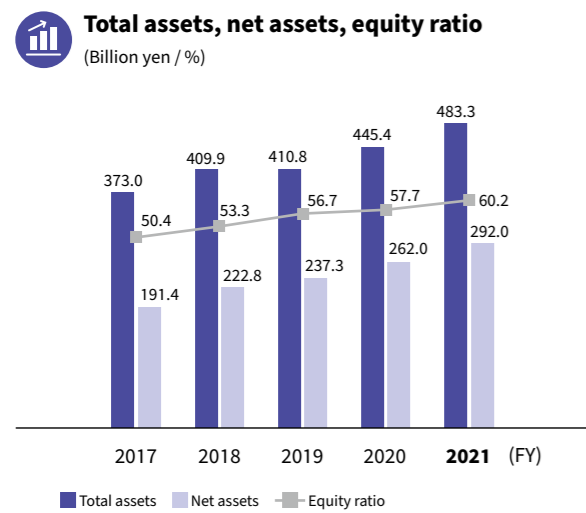
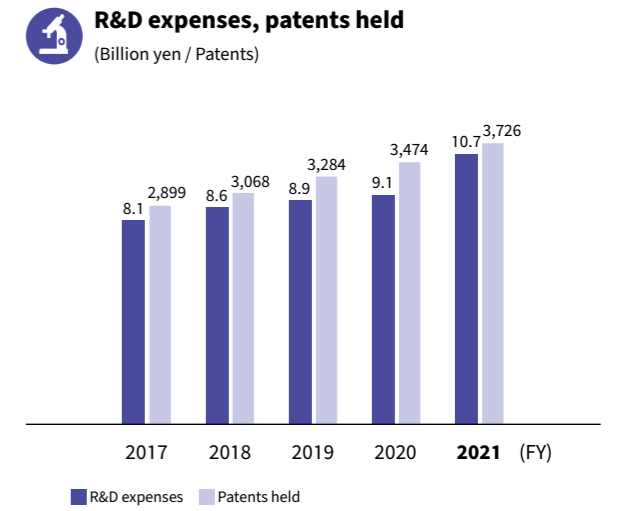
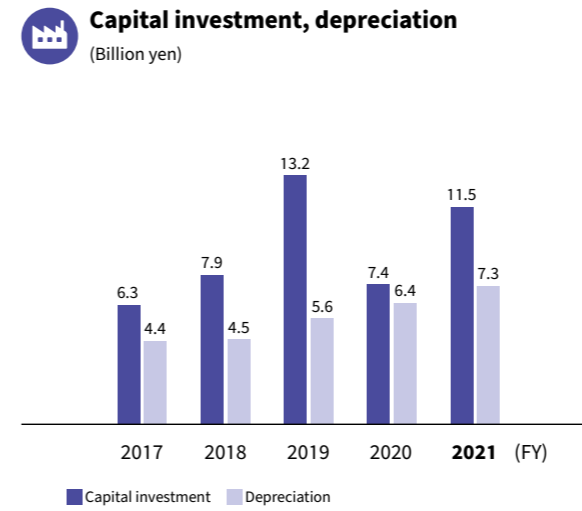
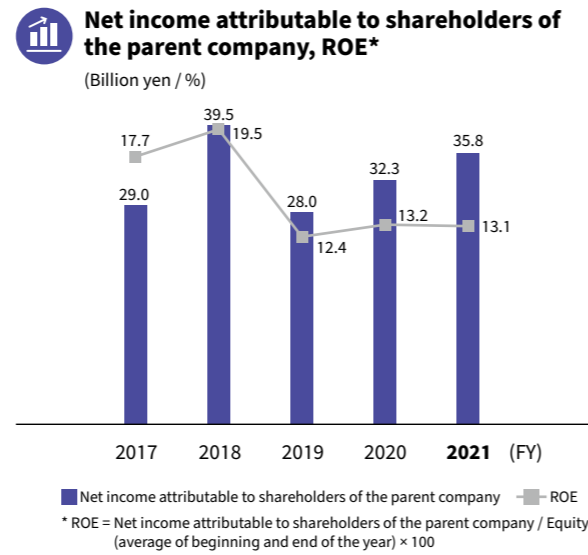
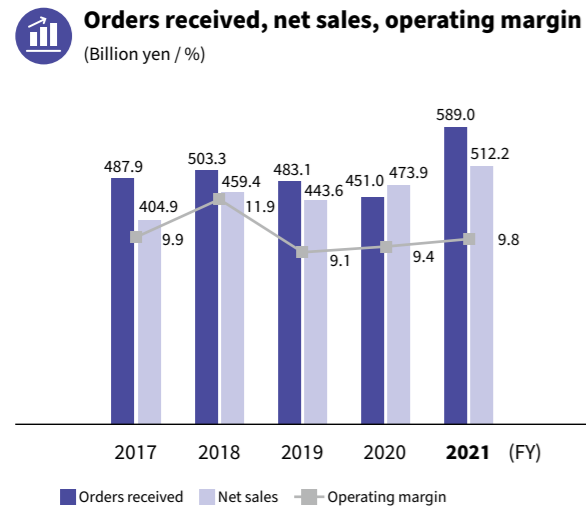
Airport

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 airport terminal operating system 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

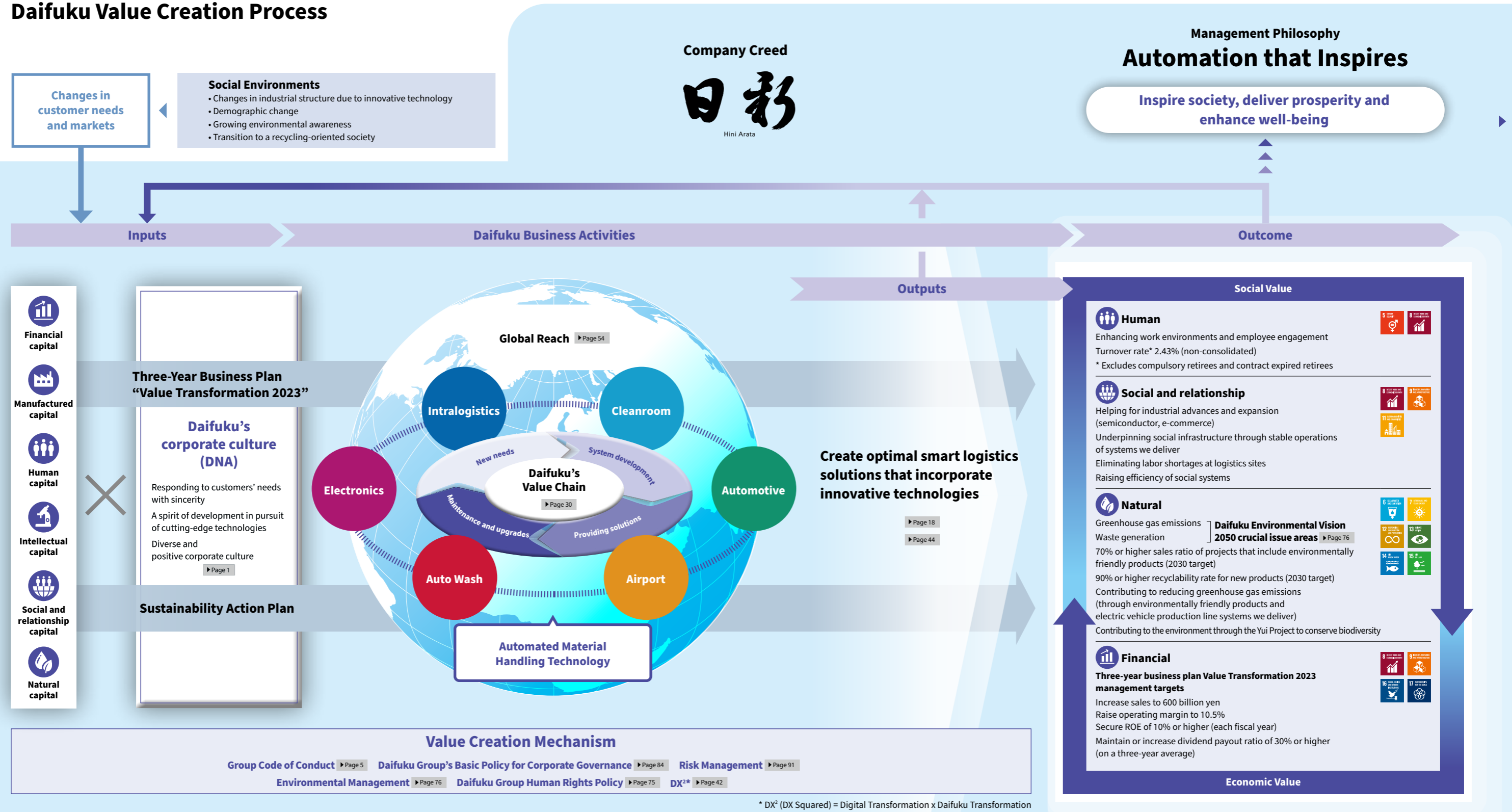


Chapter 1

Value Creation Story

- 28** Daifuku Value Creation Process
- 30** Daifuku's Value Chain
 - 34** See, learn and get hints at Hini Arata Kan
- 36** Materiality
- 38** Sustainability Action Plan

Daifuku Value Creation Process



Input capitals ▶ Page 24

Financial

Net assets	292.0 billion yen
Net income	35.8 billion yen
Corporate credit rating	A (Rated by R&I, as of December 2021)

Manufactured

Production sites	26 (10 countries and regions)
Capital investment	11.5 billion yen

Human

Employees	12,436 (non-consolidated: 3,202, Japan subsidiaries: 588, non-Japan: 8,646)
Designers/Engineers	955 (non-consolidated)
Field engineers	797 (non-consolidated)

Intellectual

Innovation investment (R&D expenses + DX investment amount)	13.0 billion yen
Patents held	3,726

Social and relationship

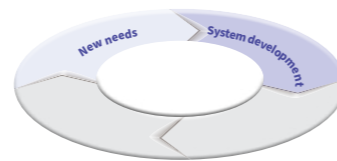
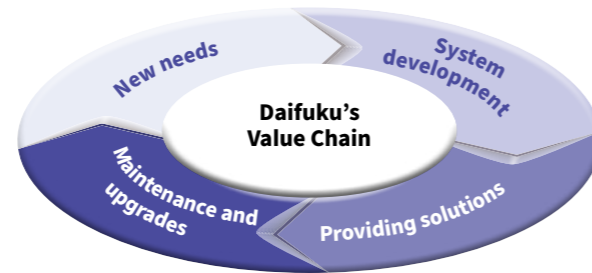
Major suppliers	700 or more* (non-consolidated)
* Annual transaction value of more than 10 million yen	
Extensive installation records for 75 years since we entered the material handling business	

Natural

Amount of energy used	770,790 GJ
Amount of water used	207,253 m ³

Daifuku's Value Chain

Daifuku's value chain is a long-term business model that has been constructed for generations by personnel from customers and from Daifuku. For example, automated warehouse systems have a very long service life, but over 30 years, social and business circumstances change markedly and customers have new needs. The end of a cycle marks the start of the process for capturing those new needs. We will enhance value chain management to continually increase our capacity to develop systems and to provide solutions on the basis of experience and expertise to maintain our world-class competitiveness.

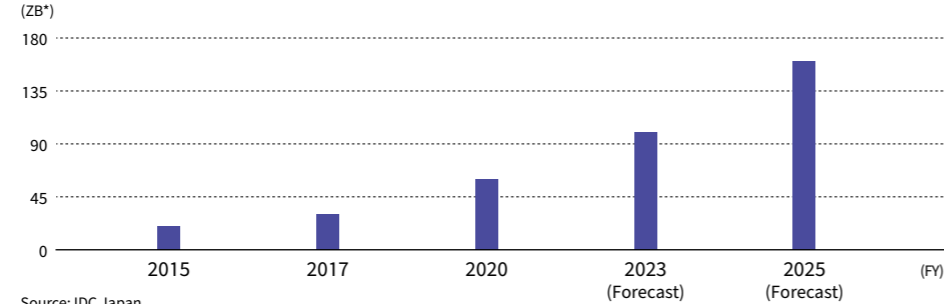


New needs and system development

Using changes in society as business opportunities

With the spread of smartphones and expansion of their applications, increased data traffic (see [Chart 1](#)) have sharply boosted semiconductor demand. In addition, the market is demanding semiconductors with greater performance, together with miniaturization. The semiconductor industry has seen business circumstances change dramatically in a short period of time. Only companies capable of meeting the new needs arising from these social changes can win new business.

Chart 1 Global data traffic (ZB*)

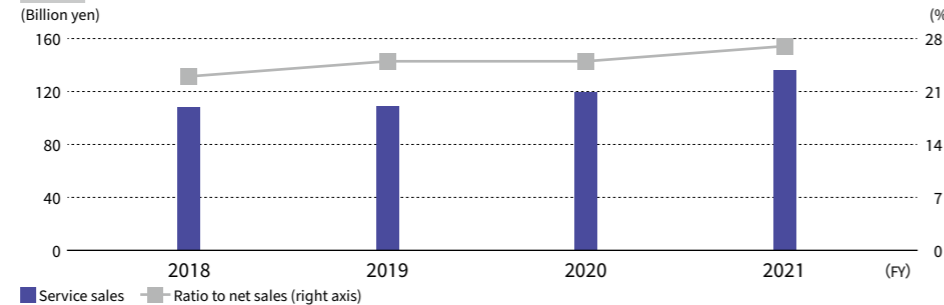


Source: IDC Japan
* 1 Zettabyte = 10²¹ B

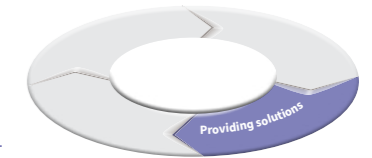
Service revenues support innovation

Offering of services to customers is an important part of Daifuku's value chain in two respects. First, it helps us maintain relationships of trust with customers. Second, it is a stock business based on our ample track record of delivering systems for a long period of time. [Chart 2](#) shows that service sales accounts for around 25% of our total sales. They help us secure stable revenues.

Chart 2 Service sales (Billion yen)



Offering of solutions

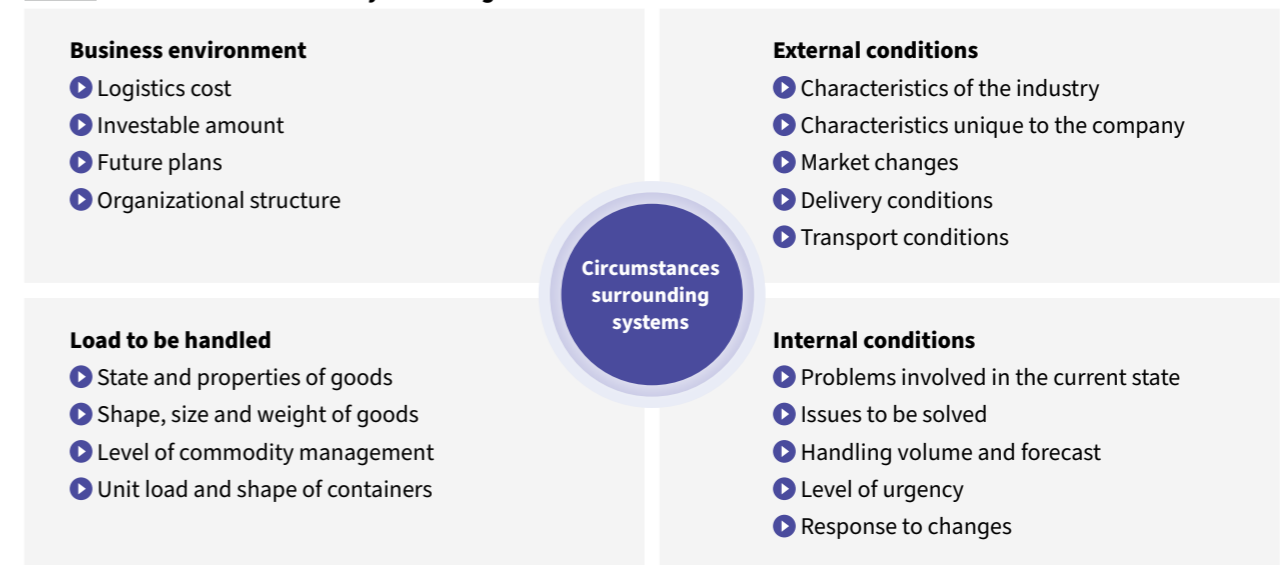


What customers want from material handling systems is a reduction in the total time required from planning to start-up and the reliability that allows for the systems to operate without interruption. To meet these needs, we offer products and services that integrate consulting and engineering, design and manufacturing, as well as installation and after-sales services. In consulting and engineering, we listen to customers to identify their needs. In design and manufacturing, we incorporate their wishes into products and solutions.

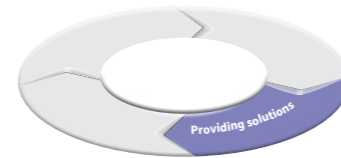
Consulting and engineering for providing best solutions

We have been working consistently to upgrade our consulting and engineering functions. Collecting data and deeply analyzing which material handling systems are best suited to individual customers, we reach best solutions. What customers expect from us is not the hardware itself but knowledge, including how to use it. They study the flow of goods from the perspectives of production and overall logistics. We offer solutions based on a management perspective. This is, in other words, an overall perspective encompassing procurement, production, logistics and sales, rather than a narrow focus on delivery operations. These proposals earn high marks from customers (see [Figure 1](#)).

Figure 1 Elements considered in system design



Offering of solutions—Dedication to manufacturing



Daifuku seeks to enrich its product lineup to offer systems best suited to the needs of customers running different types of business. We create our mainstay products independently to put the entire system under our control. That allows us to shorten the start-up time and achieve high reliability.

Aiming to satisfy diverse needs and attain standardization

1 Extensive lineup

While many manufacturers specialize in specific models and domains, Daifuku offers a full range of storing, conveying, sorting and picking solutions.

2 Internal production

We develop and manufacture mainstay products completely independently. We thus meet customers' expectations to a high degree in terms of delivery time, cost and long-term stable operation.

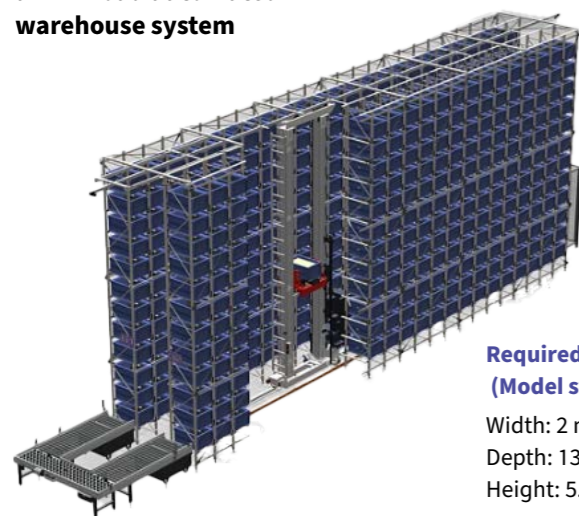
3 Balance with profitability

To achieve what is described above, manufacturing items and specifications will inevitably be diverse. A mechanism for reducing costs and generating profits at factories by making combined use of standardized parts is taking root in some of our businesses. As a result, the ratio of net income in Daifuku's non-consolidated reportable segments rose from 9.1% in fiscal 2016 to 12.7% in fiscal 2020. We will continue to extend this effort across the whole Daifuku Group to continue increasing profitability.

Design requirements for automated warehouse systems

- Operating environment: General, clean, refrigeration, or hazardous materials
- Load profile: Pallet, bucket(tote), cardboard box, or special items (long items, drums, metal molds, etc.)
- Throughput: Standard or high
- Installation requirements: Integrated with building, indoor installation, clearance under beam, and vibration resistance

Standard specifications of a mini load automated warehouse system



Required space (Model system)

Width: 2 m
Depth: 13.8 m
Height: 5.3 m

Answering various needs of customers

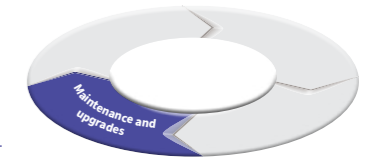
Distributor A

"We have constructed a center that can be readily adapted to changes in shipping patterns in addition to the standardization of operations and labor saving."

Household goods manufacturer B

"The logistics process no longer requires human labor at night. That is helpful to workstyle reforms. We realize that it was a major effect."

Maintenance and upgrades



Service business as a bridge to the next generation

Daifuku's products work for many years. During this period, maintenance services are indispensable, such as troubleshooting and replacement of parts that have deteriorated or broken or for which the warranty period has expired (see Figure 2). We also conduct capacity enhancement and other modification associated with changes in customers' business environments (see Figure 3). Our services are so highly regarded that customers keep adopting our products at the time of replacing their systems. On those occasions, we learn of new needs and that may lead to the development of new technologies.

Figure 2 Service cycle for automated warehouse systems

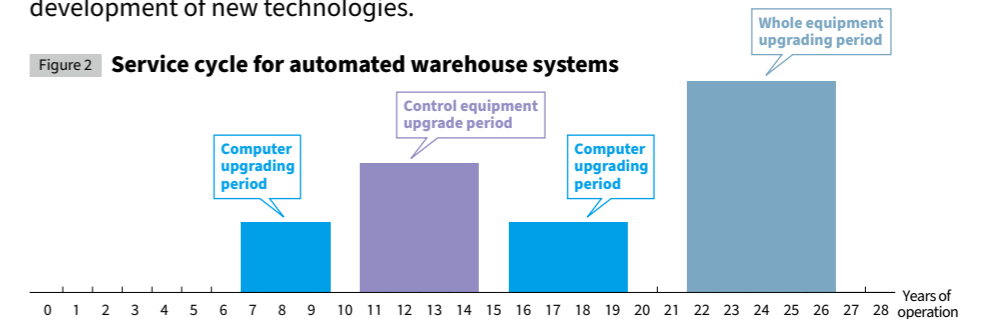
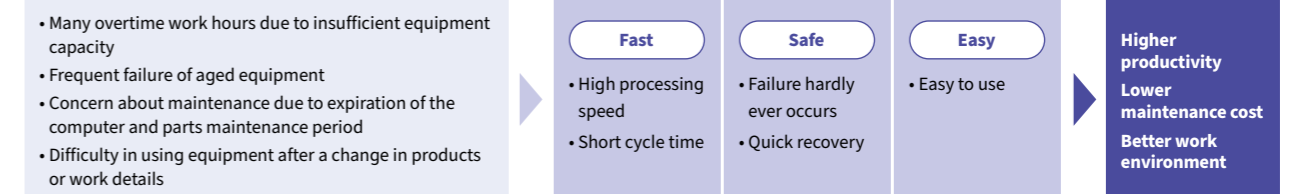


Figure 3



Switch to Daifuku Eco-Products offering greater energy and resource efficiency

It is also possible to extend the service life while improving performance by replacing certain components. For example, when retrofitting the automated warehouse systems we delivered, its racks can be continuously used, which enables effective use of steel materials. With reduced weight and energy consumption, the latest stacker crane introduced falls under the category of Daifuku Eco-Products. It is expected to produce an effect of cutting CO₂ emissions. The stacker crane in Figure 4 incorporates revisions to the frame structure and adopts a premium efficiency motor as standard. Its power consumption is up to 6% lower than that of the conventional model, while its CO₂ emissions and energy consumption are reduced by up to 10%.

Japanese automakers may occasionally carry out large-scale remodeling without stopping their production lines. Although requiring advanced project management skills, this reduces resource waste by making use of existing facilities. Similar methods can be seen in systems for airports.

Figure 4 Daifuku's stacker crane "S/R Machine" (R-L10)

The S/R Machine (Model: R-L10) is a stacker crane that performs storage and retrieval on a pallet-by-pallet basis. It carries a maximum load of 1 ton to a maximum height of 15 meters. With a lower-weight frame and a premium efficiency motor mounted as standard, it has reduced power consumption by 8% from that of the conventional model. It also conserves resources by cutting the number of parts by 10% after a review of the frame structure and the reduction of wiring.



See, learn and get hints at Hini Arata Kan

Hini Arata Kan is one of the world's largest hands-on demo centers for material handling and logistics. Daifuku invested around 4.0 billion yen in building this facility on the premises of its Shiga Works, which is around 20,000 square meters in size. The center commenced operation in June 1994. The decision to build it was made during fiscal 1993, when our net sales stood at 111.1 billion yen and operating income at 2.6 billion yen.

The center showcases 54 models of mainstay material handling systems and equipment, including automated storage and retrieval systems (AS/RSs), automatic guided vehicles, automated sorting systems and other cutting-edge logistics systems. Dedicated staff give explanations in Japanese, English, Chinese and Korean so that visitors can better understand operation systems and logistics facilities. The center also offers visitors hands-on experience using actual advanced technologies and systems. It displays examples of delivery and how systems are used on-site on a large monitor to propose best solutions in the hope that they will provide visitors with hints to solving their problems.

It also has a space for displaying motors, sensors, image recognition systems and other components of material handling systems with the help of 26 suppliers. Equipped with theater rooms, large and small meeting rooms and a restaurant, it is used not only for business discussions with customers but also more broadly for staff development in corporate training and for field trips by local elementary schoolchildren. While serving as a venue for in-house learning, sharing and understanding our company creed of Hini Arata, after which the facility was named, the center is designed to achieve harmonious coexistence with the community.



Always showcasing cutting-edge equipment

Hini Arata Kan was closed to the public starting March 2020 because of the COVID-19 pandemic. During this time, it underwent its first large renovation since its opening, with an approximate capital investment of 1.3 billion yen. It then re-opened on June 1, 2022. With the recent renovation, the center now displays the latest material handling systems and equipment we independently developed and manufactured to meet customers' needs for digitalization and unmanned operation. The center welcomes visitors keen to view our advanced technologies and systems.



Intralogistics

The center demonstrates a collection of products that we developed to lead next-generation logistics.



Cleanroom

A theater is set up in the area of real systems for semiconductor factories. Using virtual reality, it takes the audience inside the factory, access to which is normally unavailable.



Automotive

The center displays a conveyor system and a collaborative robot on the automobile assembly line. The platform offers a bird's-eye view of their dynamic movements.



Airport

An airport system enabling the realization of a smart airport is on display. A sequence of processes from baggage check-in to baggage claim is explained.

Offering original solutions

Products on display have two operation modes: demo mode and test mode. Customers can bring in their actual products to check out our systems in the test mode. For example, they can put fragile items such as rice crackers, other snacks and bottled products in the case to check if they are damaged at the time of storage and transport in the AS/RS. The operation speed is adjustable so that customers can simulate their operations. This is Daifuku's edge, and is based on the independent development of products and on the presence of both design and manufacturing teams at the Shiga Works. From the perspective of uninterrupted logistics, our sales team, together with the design team, propose ways to avert trouble.

In the client consultation area on the first floor, there is a remote system for real-time communication with a 24/7 call center for supporting system we deliver in Japan. That allows visitors to have a simulated experience of remote maintenance and support after delivery.

Hini Arata Kan is not merely an exhibition site. It is a place where we work together with customers to solve their problems. This is our unique sales model that differentiates us from our competition.



VOICE



Yasuhiro Kato
General Manager of
Hini Arata Kan

Aspiring to be a demo center that satisfies customers around the world

Hini Arata Kan has to date welcomed about 500,000 visitors from 90 countries and regions. Going forward, it will not confine itself to the role of one of the world's largest hands-on demo centers; it will also play a role as an open space for harmonious coexistence with the community.

Capitalizing on my roughly 35 years of sales experience, I will aspire for the facility to provide the best solutions to customers. We would be delighted to welcome you to Hini Arata Kan.

For details, see our website:
www.daifuku.com/showroom/hiniaratakan

Demo center that operates CO₂-emission free

Since 2014, Hini Arata Kan and its shuttle buses have been operating CO₂-emission free by completely offsetting CO₂ emissions* from the center and 1.5 kg-CO₂ per visitor. For visitors who participate in this action, we have prepared commemorative postcards made from thinned wood at the Shiga Works.

* CO₂ associated with the consumption of electric power and liquefied petroleum gas (LPG) for operation of the demo center and emitted from the consumption of diesel oil, including biodiesel oil, serving as fuel for shuttle buses



Materiality

Basic stance

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

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

Determination process

STEP 1 Identifying and classifying issues	<p>1 ESG evaluative analysis: We have compiled evaluation results by multiple global ESG evaluation bodies, and assessed both the expectations of our primary stakeholders and the issues and strengths.</p> <p>2 Impact analysis: We have examined the risks and opportunities in our value chain, and classified the impacts to the management of our actions toward the world in 2030 as envisioned by the SDGs.</p>
STEP 2 Identifying materiality	<p>1 Extracting candidates: Materiality candidates were extracted from the results of Step1 by 10 project appointees from each business unit and the Corporate Functions unit.</p> <p>2 Impact evaluation by issue: Regarding these materiality candidates, five outside experts (investors, university professors, NGO experts), three of our customers, and four of our outside directors evaluated the degree of impact on stakeholders and the degree of impact on Daifuku business.</p> <p>3 Identifying materiality: Based on the impact evaluation results by multiple individuals, low-priority issues were excluded, new issues added, and a draft materiality list identified.</p>
STEP 3 Confirming adequacy	<p>The identified materiality list was deliberated (verification and review of the adequacy of the selected issues) and approved by the Sustainability Committee, chaired by the CEO, and the Board of Directors.</p>

Evaluation results

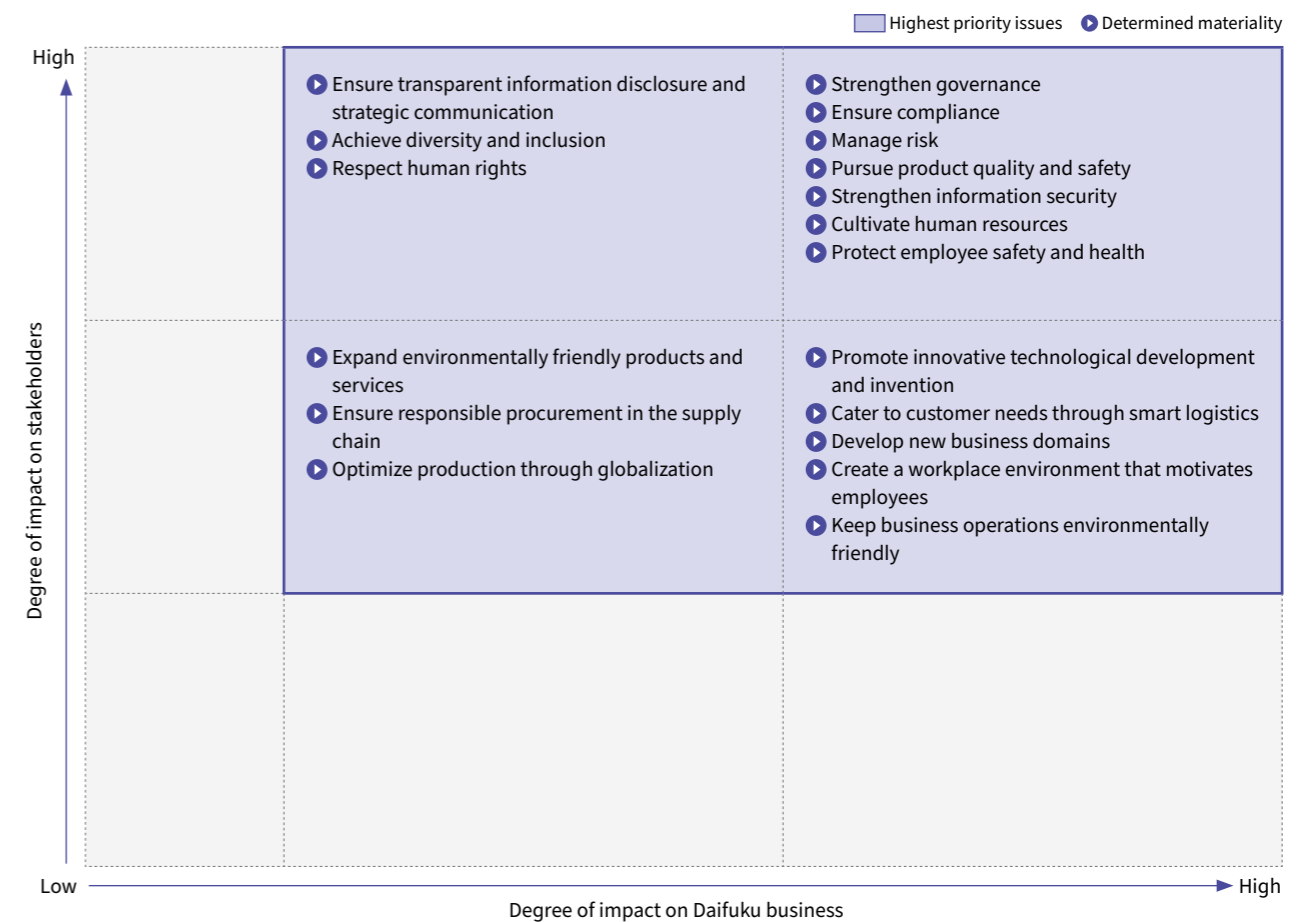
We conducted an evaluation of the materiality candidates extracted by the internal project team according to the following methods, and identified 18 materiality aspects.

Degree of impact on stakeholders (vertical axis)

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

Degree of impact on Daifuku business (horizontal axis)

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



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

Sustainability Action Plan

A company that supports society and the future

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

See pages [▶Page 67](#) – [▶Page 79](#) for the 2021 results.

- *1 R&D expenses + DX investment amount
- *2 Accidents caused by the malfunction of our products or systems leading to death or serious illness/injury during operations (injury or illness requiring 30 days or more of treatment)
- *3 Carrying out reviews based on unified standards under the same schedule and certification authority, and obtaining and maintaining certification
- *4 Credentials meant chiefly for designers that certify knowledge and abilities in the field of safety based on international safety standards
- *5 In fiscal 2022, KPI changed to: "Number of companies with which dialog meetings were held"
- *6 Accidental deaths occurring during work at Daifuku (labor accidents)
- *7 Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO₂ emissions at suppliers
- *8 CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance.
- *9 Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

Themes	Aspirations for 2030	Materiality	2030 Goals	SDGs	Key Performance Indicator (KPIs)	Scope	Targets		
							FY2021	FY2022	FY2023
Contribute to a smart society	Provide products and services, and develop new technology to solve social challenges	Promote innovative technological development and invention ▶Page 67	Innovate to create new value for the distribution system		1 Innovation investment amount* ¹ 2 Patent registrations (cumulative total)	Global	1 15 billion yen 2 3,600 patents	1 15 billion yen 2 3,800 patents	1 15 billion yen 2 4,000 patents
		Develop new business domains ▶Page 68	Expand realm of business using business strategy (including M&A and alliances)		Penetration into new markets and new business conditions; commercialization of new products	Global	<ul style="list-style-type: none"> · Collaborative research with universities and companies · Provide new automated solutions · Develop new customers, expand business area globally · Expand service business 		
		Cater to customer needs through smart logistics ▶Page 68	Use cutting-edge technology to improve efficiency and automate to create value for customers		Introduction of cutting-edge technology to products/services	Global	<ul style="list-style-type: none"> · Use wireless/5G tech and rechargeable batteries · Introduce high-efficiency systems and predictive maintenance systems using AI tech · Reduce energy consumption with more sophisticated power supply equipment · Make maintenance services more efficient with use of IoT 		
Maintain and improve the quality of products and services	Build and maintain systems that provide reliable, safe and high-quality products	Optimize production through globalization ▶Page 69	Achieve global optimized production		New/Expanded production sites to achieve production in optimal conditions; and other countermeasures	Global	<ul style="list-style-type: none"> · Build a procurement network globally and share production technology · Strengthen ability to respond at non-Japan subsidiaries (in sales, production/service) · Optimally distributed production through consolidation/in-sourcing 		
		Pursue product quality and safety ▶Page 69	Earn customer trust in product quality and safety		1 Number of serious accidents related to product/system safety* ² 2 Rate of ISO 9001 global multi-site certification* ³ in production sites 3 Number of employees who obtain safety assessor credentials* ⁴	1 2 Global 2 3 Japan	1 0 occurrences 2 60% 3 160 people	1 0 occurrences 2 60% 3 190 people	1 0 occurrences 2 65% 3 220 people
Enhance operational framework	Carry out both business operations and social responsibility	Strengthen governance ▶Page 70	Further strengthen Group governance system	—	1 Improving effectiveness of the Board of Directors 2 Enhancing internal perceptions 3 Carrying out sound internal audits	Global	<ul style="list-style-type: none"> 1 Carry out efforts to improve effectiveness 2 Implement measures to propagate the Group Code of Conduct globally 3 Carry out internal audits in Japanese business units and non-Japan subsidiaries (total 300 cases, 3 years) and maintain compliance with internal evaluations 		
		Ensure compliance ▶Page 70	Eliminate serious cases of corruption		Carrying out anti-corruption training	Global	Carry out training and follow-ups for Japanese and global parties with authority to accept/place orders		
		Manage risk ▶Page 70	Implement Group risk management, including non-Japan subsidiaries		Implementing countermeasures against major risks	Global	<ul style="list-style-type: none"> · Carry out regular risk assessments · Form risk management policy and spread awareness of it · Implement important risk countermeasures · Carry out risk response training 		
		Ensure responsible procurement in the supply chain ▶Page 71	Implement global CSR procurement		Establishing a CSR procurement system and expand range of operations	Global	Review CSR Procurement Standards and formulate new guidelines to be applied in Japan and abroad		
		Strengthen information security ▶Page 71	Thoroughly implement internal global standards and continued operations	—	1 Number of global information security education sessions 2 Number of global e-mail training sessions	Global	1 2 sessions 2 3 sessions	1 4 sessions 2 4 sessions	1 4 sessions + education follow-up training 2 4 sessions
		Ensure transparent information disclosure and strategic communication ▶Page 71	Strengthen stakeholder engagement		1 Number of dialog meetings held with shareholders and investors* ⁵ 2 Enhancing communication with stakeholders	1 1 Global 2 2 Japan	1 370 meetings (ESG-related: 10 meetings) 2 Carry out events for science and engineering students; get employees to participate in social contribution activities	1 1,200 companies (ESG-related: 20 companies)	1 1,200 companies (ESG-related: 20 companies)
Respect human dignity	Seek to provide peace of mind and comfort to people	Protect employee safety and health ▶Page 72	Eliminate labor accidents and major accidents in operations		1 Frequency rate: Japan (non-Japan) 2 Severity rate: Japan (non-Japan) 3 Number of occupational safety and health trainees 4 Number of serious accidents* ⁶	Global	1 0.4 (0.9) 2 0.02 (0.03) 3 1,500 trainees 4 0 accidents	1 0.4 (0.8) 2 0.01 (0.02) 3 1,700 trainees 4 0 accidents	1 0.3 (0.6) 2 0.01 (0.02) 3 1,700 trainees 4 0 accidents
		Achieve diversity and inclusion ▶Page 72	Create an environment where a diversity of human resources can remain active		1 Number of female managers 2 Employment rate of people with disabilities 3 Paternity leave acquisition rate	Japan	1 19 people 2 2.3% 3 5%	1 25 people 2 2.3% 3 8%	1 30 people 2 2.3% 3 10%
		Create a workplace environment that motivates employees ▶Page 73	Achieve a workplace environment where employees experience comfort, health and prosperity		1 Paid leave acquisition rate 2 Maintaining high rate of stress check testing 3 Holding events to encourage mental and physical health	Japan	1 73% 2 96% 3 Continued events centered on main facilities	1 76% 2 96%	1 80% 2 96%
		Cultivate human resources ▶Page 74	Provide opportunities for growth according to the individual's career ambitions		1 Strengthening education for managerial employees and candidates 2 Developing training using online resources and promoting autonomous learning	Japan	<ul style="list-style-type: none"> 1 Provide education according to the qualities of candidates up for promotion 2 Establish on-demand library for training and education 		
		Respect human rights ▶Page 75	Respect human rights of all people involved in our business		1 Promotion of workplace understanding of human rights 2 Carrying out due diligence for human rights	Global	<ul style="list-style-type: none"> 1 Carry out human rights training for Group employees 2 Formulate policies and carry out due diligence for human rights and ensure wide-spread human rights knowledge inside and outside the Company 		
		Contribute to the environment through our business	Make efforts in the workplaces and in all regions that reduce our burden on the global environment	Keep business operations environmentally friendly ▶Page 77	Enhance measures to reduce environmental footprint, such as in climate change and resource depletion		1 Daifuku's total CO ₂ emissions reduction rate (over FY2018) 2 Participation rate in CO ₂ emissions reduction programs* ⁷ throughout the supply chain 3 Recycling rate of waste	1 2 Global 2 3 Japan	1 2.5% reduction 2 32% 3 Survey global sites; establish goals
Expand environmentally friendly products and services ▶Page 78	Maximize value for customers through being environmentally friendly				1 Avoided CO ₂ emissions* ⁸ 2 Sales ratio of projects that include environmentally friendly products* ⁹ 3 Recyclability rate for new products	Global	1 30,000 t-CO ₂ 2 43% 3 90%	1 60,000 t-CO ₂ 2 46% 3 90%	1 90,000 t-CO ₂ 2 49% 3 90%

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

Chapter 2

Value Creation Strategy

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Financial Strategy

Ramp up efforts to improve cash flow to help expand business

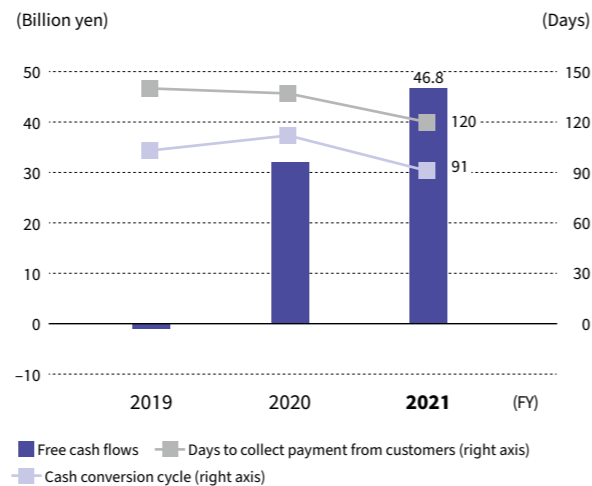
Tetsuya Hibi
Corporate Officer
Corporate Functions
Finance and Accounting



Free cash flows improve 14.8 billion yen

Free cash flows for fiscal 2021 amounted to 46.8 billion yen, up 14.8 billion yen from 32.0 billion yen in fiscal 2020. This was thanks to efforts to increase profits and collect notes and accounts receivables at an early stage. We also attained this result by delivering our products closer to full completion as part of cost reduction measures. This made it easier to set up and do test runs of our products, which then made it possible to perform acceptance testing on schedule and reduce the occurrence of defects afterward, all of which helped speed up the collection of payment from customers. As a result, the number of days from sales outstanding dropped from 137 days in fiscal 2020 to 120 in fiscal 2021, and our cash conversion cycle shortened from 112 days to 91.

Free cash flows, days to collect payment from customers, and cash conversion cycle



Improving contracts to generate greater free cash flows

The difficulty of speeding up payment collection from customers is a problem common to plant-based businesses. With systems growing in scale over the past few years, the period over which we collect payment increases. What is more, the payments such as material and labor expenses we make on behalf of customers over this time can be quite large, depending on the contract.

When we determine contractual conditions, we are careful to factor in the need to stay competitive. However, customers are looking for systems of a scale and quality that are higher than ever before. As such, only a few companies have the full range of capabilities that make it possible to deliver such a system all at once. We plan to take advantage of this competitive edge and will work with business units to improve contract conditions, which can include increasing the amount of advance payments that will be received under the order contract.

The large scale of projects, combined with the uneven size and timing of deposits and withdrawals, make it difficult to conceive a cash flow plan, but we intend to communicate with customers to improve the structure of these contracts and generate more free cash flows as a result.

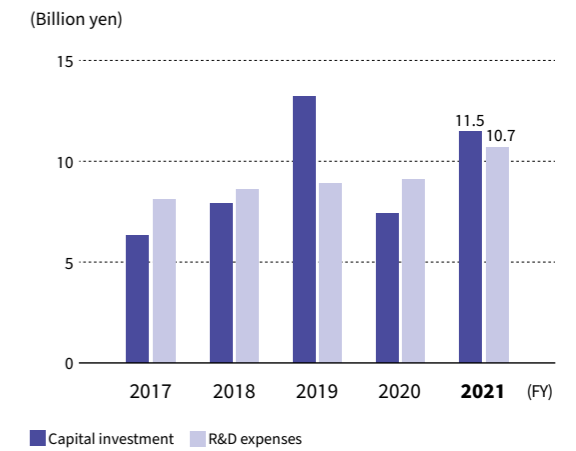
Growth investment and shareholder returns

We have set a net sales target within our medium-term business plan of 600 billion yen, but we also plan to increase our production capacity in anticipation of future growth, particularly in the United States, China, and India, as these are regions with high potential. In addition, we intend to set aside about 6 billion yen for capital investment in Japan, which includes upgrading equipment and improving efficiency. As it stands, we plan to continue devoting over 10 billion yen a year toward these capital investments.

In addition, we are committed to implementing digital transformation (DX) across the Daifuku Group. Therefore, we have set “innovation investment amount” as a key performance indicator (KPI) within the Sustainability Action Plan, referring to the amount invested in DX initiatives and related R&D expenses. In fiscal 2021, our innovation investment amount was 13.0 billion yen. We plan on raising this amount to 15.0 billion yen for fiscal 2022 and fiscal 2023. Within the Corporate Functions unit, we have revamped our system for calculating travel and other expenses and are currently working to go paperless and stamp-free. We are also taking steps to standardize operations by introducing artificial intelligence (AI) chatbots and robotic process automation (RPA).

Daifuku considers shareholder returns as a matter of the highest importance. Accordingly, we aim for an average consolidated dividend payout ratio of 30% or more for the three-year period of our medium-term business plan. Going forward, we will look for ways to provide even greater shareholder returns that maintain a balance with growth investment and efforts to strengthen our financial underpinnings.

Capital investment and R&D expenses



Determining new management indicators

The Group uses a matrix-based management system in which each Group company is plotted along the vertical axis and each business unit on the horizontal axis. Looking at the company segment, we have established a system of institutional accounting that presents past results. Looking at the business unit, however, it is important to clarify our future direction, so we are working to create a new managerial accounting system. To date, each business has focused on sales and profits. Now, we are working to visualize our balance sheets and cash flow statements as part of preparations to gain a fuller understanding of management throughout the Group and use this to formulate and assess new management indicators. Going forward, we will look into what indicators are best suited to the Group.

Developing human resources with the spirit of Daifuku’s “anchor leg”

Corporate business activities are converted into monetary amounts and reflected in financial statements and tax returns. Conversely, none of these activities can be carried out without sufficient cash flows. At Daifuku, the financial and accounting unit within the Corporate Functions unit is responsible for preparing these financial statements and tax returns and controlling cash flows, making them, in a sense, the “anchor leg,” or the final runner in this relay race. If there is a business-related issue, such as a drop in the profitability of a project, the occurrence of doubtful accounts, or a problem with transfer pricing taxation in transactions outside Japan, these units need to find a way to resolve it, regardless of whether they are directly or indirectly involved. We are no different than the other business units in that we never give up and find a way to persevere, but we are also charged with a special kind of spirit that comes with being the “anchor.” Work is about getting the people around you involved and having the organization work the way you want it to. When this happens, there is a joy to it. When I was younger, I took part in setting up a factory in Thailand. Actually, I was solely responsible for designing its accounting system and getting this system running. The experience certainly included tough moments, but also quite a few good ones, and these came from being able to build the system I had conceived.

With that same spirit, we will create a work environment that allows employees to take on difficult challenges with gusto, while cultivating human resources who will carry Daifuku into the future.

Strategies by Business

Intralogistics

Striving for continuous growth by boosting global competitiveness

Introduction

The Intralogistics business offers best solutions to an extensive range of customers—factories of food, pharmaceuticals, machinery and other manufacturers; and delivery centers of distributors, such as retailers, wholesalers, transport operators, and warehouse operators—by combining automated warehouses with storage, transport, sorting, and picking functions. In recent years, large systems for e-commerce have been a driver of our business performance.



Hiroshi Nobuta

Director, Managing Officer
Intralogistics Global Business Head
Intralogistics Division Manager

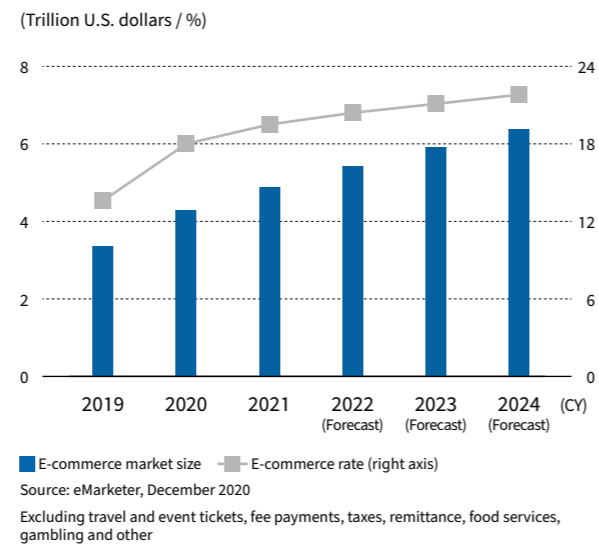
Business environment

In Japan, manufacturers are facing a growing need to make new capital investment that will help rebuild their business continuity structures after experiencing the supply chain turmoil attributable to the COVID-19 pandemic. Distributors and e-commerce players have driven the growth of this business for several years. They are expected to continue their systematic and strategic investments.

In North America and in China, investments related to e-commerce have now temporarily subsided, while investments by manufacturers remain solid. In the past few years, interest is building in North America in high-value-added automated warehouse systems and other solutions to rising labor costs.

With their continued economic growth, India and ASEAN countries are enjoying a growing presence as international manufacturing centers. Not only local businesses but companies around the world are massively increasing their investments there.

Worldwide B2C e-commerce market



Business strategy

In accordance with the three-year business plan, we strive to transform the logistics value we offer to customers. The logistics value consists of the lead time, the quality of logistics, and logistics costs. Specifically, we take the actions mentioned below.

Increasing competitiveness in Japan and worldwide

To support the constant growth of this business, it is essential to increase non-Japan sales ratio. We share solutions for the various industries we have cultivated in Japan to non-Japan subsidiaries to bolster their sales strengths. Given that production systems support globalization, we are extending them in North America and Asia. We are changing the design of high-value-added products that used to be produced in Japan to ensure local procurement and assembly. We thus increase the ratio of local production. We are working to boost cost competitiveness by means of production at optimal locations suited to prevailing demand-supply trends. We will take these steps to solidify a structure that bolsters our earnings strength in parallel with the expansion of our business scale.

Increasing the speed of development

With our unique one-stop support system encompassing everything from consulting to after-sales services, allied with an extensive lineup of our products, we have flexibly and swiftly addressed customers' issues. However, perceptions of time are now totally different. The logistics lead time was once viewed in units of days, but is now viewed in units of hours. Customers seek more advanced and larger-scale performance from systems and want quicker deliveries. In addition, the market has expanded dramatically in the past couple of years. Companies in the United States and China, among other markets, are successively introducing new products. To provide product lineups geared to individual markets, we will work on development with the participation of non-Japan subsidiaries to gain and maintain a competitive advantage.

Vision

Customers' innovation and their subsequent needs for industry reorganization have been among the growth drivers for our business. For example, when capital investment in one industry comes to an end, new needs emerge in another industry. We have delivered a large number of systems in association with B2B transactions. In the rapidly growing e-commerce market, commercial distribution and physical distribution are both on a B2C basis. We are closer to consumers than ever before. If the system delivered comes to a halt, consumers will instantly be affected. That means that the market needs uninterruptible systems comparable with social infrastructure. To make our systems uninterruptible, we will increase service bases for supporting customers and expand the service options with the use of IoT and AI technologies to build up our capabilities.

Today, a contracting working population is aggravating the labor shortage in Japan. It is anticipated that demand will grow for systems with high automation rates or ideally with unmanned operation. To achieve unmanned systems, a major hurdle in the form of system reliability must be overcome. If a large number of personnel are required for dealing with system failure, then the result is far from the unmanned system sought by customers. Confidence in our systems means that a high level of reliability is expected from them. We have long had the spirit of thoroughly searching for the solutions customers seek. Continuing that commitment, we aim to create fully unmanned systems. And by serving our customers, we will work to address social issues such as labor shortages and heavy workloads.

Cleanroom

Seeking continued growth by globalizing the development and deployment of human resources

Introduction

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



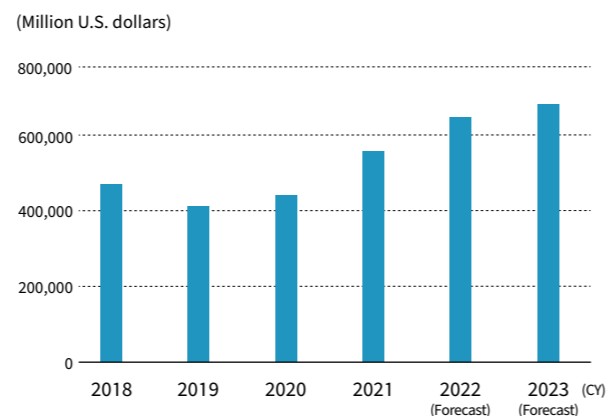
Seiji Sato
Director, Managing Officer
Cleanroom Global Business Head
Cleanroom Division Manager

Business environment

With the emergence of IoT, 5G, AI and metaverse and other technologies, demand for semiconductors and FPDs is rising sharply. Meanwhile, the global semiconductor shortage has become an urgent issue to be addressed, as this shortage has significant adverse repercussions for other industries. In the semiconductor market, customers and investing capital are more active than we had forecast. The market is expected to remain brisk for several years to come.

In addition to investments in state-of-the-art miniaturized semiconductors, U.S., Chinese, Japanese and other national governments are encouraging investments in semiconductors. Efforts are underway to achieve higher performance by laminating semiconductors. New investment demand is emerging for packaging that needs to be performed in a clean environment, in contrast to conventional packaging technology. This demand is expected to continue into the medium and long terms.

Global semiconductor market



Source: World Semiconductor Trade Statistics (WSTS)

Business strategy

Capital investment in the semiconductor and FPD sectors is tremendously susceptible to economic conditions. For a long time, we had no choice but to accept this. This led to a sense of crisis, when we questioned if we had neglected customers' perspectives. Returning to the basic principle of offering good products quickly at low prices, we have launched a slogan of Value Transformation by "Excellent Quality, Best Price, Quick Delivery" in a bid to transform the value we offer.

▶ Boosting cost competitiveness

Fiscal 2021 was the first year of the three-year business plan. We made worldwide efforts to visualize costs with a focus on Best Price. Irrespective of the destination, we procure from the region where production can be implemented at the lowest cost to maintain our cost competitiveness amid soaring material prices. For fiscal 2022, we will focus on Quick Delivery. We will introduce ICT-assisted automatic layout creation systems and other equipment. That will shorten the period of system construction for proposals to customers from the current three to seven days to around one day. It will also standardize the skill level and improve layout accuracy. In busy seasons when we receive a high number of orders, we continue to curtail the lead time and enhance quality.

▶ Community-based human resource development

In the past, non-Japan subsidiaries separately improved their production structures and after-sales services to construct revenue bases in their regions. To bolster their independent management, we will share with them the technologies and know-how we have in Japan, aiming to expand the business foundations for the entire Daifuku Group. We will dispatch trainers to provide on-the-job training for sales staff and system engineers. We will also provide engineers engaging in design, manufacturing and services at their respective locations with opportunities to receive training for at least half a year in Japan in an effort to build up their skills.

Vision

Although its sales account for 95% of non-Japan sales, this business is still in the course of localization in distinct regions. In consideration of the global situation over the past several years, local production for local consumption and one-stop domestic operations covering sales, system deliveries and after-sales services in individual countries will surely be significant. We will build a system under which individual bases will identify new needs, develop systems and create value in each region, including Japan. The created value and assets will not be limited to the local region. Rather, we will create a situation in which they will be shared on the network, so that they each can complement the other beyond regional boundaries.

What is most important for people working is to independently develop a story and accomplish it at their own initiative. We give each company the discretion to take on challenges. We also provide positive support for employees' skill development, construct a borderless workplace environment and thereby create job satisfaction and fulfillment.

The world is shifting to a digital society at an unprecedented pace. Semiconductors and FPDs are now essential to society. The significance of this business lies in maximizing the productivity of customers manufacturing these devices. We will continue to be a company that customers select without concern as a partner that supports them and serves the digital society.

Automotive

Reconstructing a system that integrates operations in Japan with non-Japan subsidiaries to strengthen Group governance

Introduction

The Automotive business offers conveyor systems for all automobile production processes, including press, weld, paint, and assembly. We also provide solutions that include automation of the overall automobile production line. Centered on Japanese companies, we provide automakers with various systems worldwide, including in Japan, North America and Asia. This business also features remodeling, maintenance, and other services accounting for around 40% of segment sales.



Akihiko Nishimura

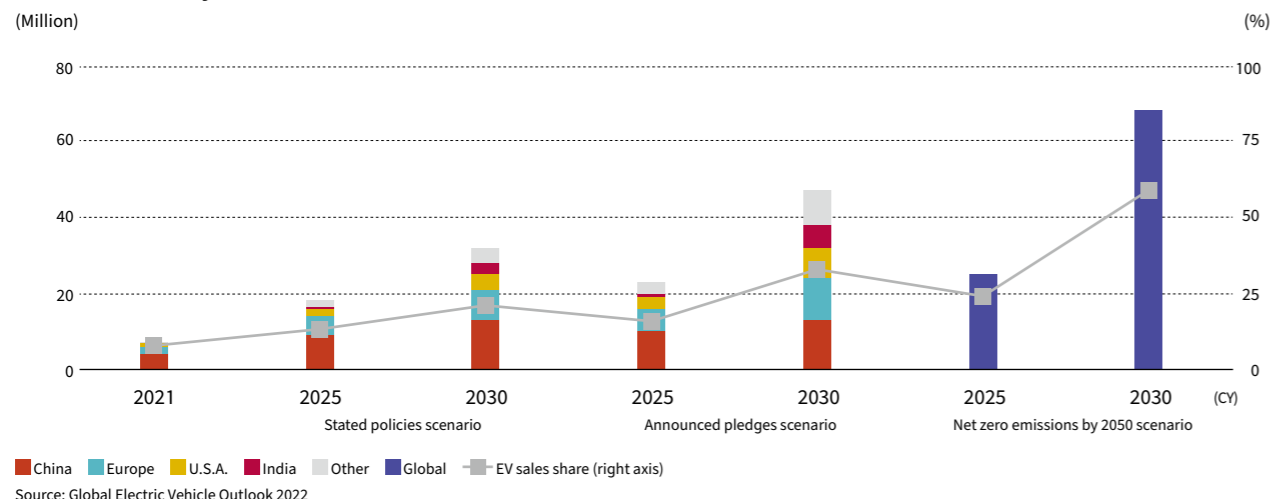
Corporate Officer
Deputy Automotive and Airport Global Business Head
Automotive Division Manager

Business environment

During fiscal 2021, a number of major capital investments outside Japan were postponed due to the COVID-19 pandemic and the shortage of semiconductors. In fiscal 2022, customers' capital investment will rally. We also anticipate a turnaround in demand and improving vehicle supply. However, there are quite a few factors that raise concern, such as shortages of semiconductors and other components, a possible resurgence of COVID-19 infections and geopolitical risks. We need pay close attention to the impacts these factors might have on the business.

Meanwhile, the automobile industry is currently experiencing a period of major change, for instance with the introduction of advanced technologies for electric drive systems and autonomous driving and successive entries from different sectors into the car industry. According to the net zero emissions by 2050 scenario, the ratio of electric vehicles (EVs) to total passenger car sales will be around 60% higher than it is today by the early 2030s. This electrification will accelerate worldwide. The EV manufacturing process will be simpler, the number of parts will be smaller and the way the car is constructed will all be different. We regard this as a new business opportunity and will strive to expand the business.

Global EV sales by scenario



Business strategy

We use the term “lifecycle value” (LCV) to represent the business model for this business. LCV refers to the value offered to customers in the form of the service life of production equipment as well as to our own value. Maximizing the LCV is the key to success in this industry. We see it as an important strategy for increasing profitability. Specifically, we have an organization that combines sales and service functions, instead of a form in which the two functions are separate, to ensure the timely sharing of information and quick responses to a problem when it occurs. In pursuing differentiation from the competition and a stronger earnings base, we will take the following measures.

▶ **Maximize the LCV in a business structure that combines Japanese sales and services functions**

We will make intensive efforts to maximize the LCV that we have already established.

▶ **Build closer ties with subsidiaries in the world’s five major markets, i.e., North America, China, South Korea, ASEAN, and India**

We will apply our business model in Japan to other markets in a bid to optimize our LCV. Capitalizing on the strengths of individual subsidiaries, we will strive to enhance Group governance.

▶ **Enlarge business domains**

We will step up our original Grand Engineering Solution (GES) as a solution business that deals with production technologies under a comprehensive agreement. Customers face the issue of shortening the lead time for introducing automobile production equipment. It is highly difficult, requiring sophisticated expertise. For this reason, demand is increasing for turnkey contracts, or comprehensive contracts for equipment from engineering proposals to turning of the operation key. We will unfailingly identify latent needs for turnkey contracts for production technologies and offer comprehensive solutions related to automobile production on the basis of collaboration among all our units. After we evolve into a turnkey contractor, we will be able to avoid excessive competition, given closer relationships between automakers and suppliers. We will support our customers as a partner that works with them across a broader range to win their trust.

Vision

We are operating at a time of dynamic change. As new competitors based in China and elsewhere enter the global market, traditional companies are gradually losing market shares. Without being dragged into price wars with emerging companies under these circumstances, we will start by reinforcing our foothold to boost revenue based on the appropriate cost.

Daifuku has hubs all over the world, with a large number of Group members. We will work together with these members to develop and integrate the rich and varied experiences and intellectual property owned by the Group to maximize the value of this business and perfect our organization.

In terms of making a social contribution, this business has long grown in step with automakers and served end users through our system. We will continue offering solutions tailored to the times, including those for meeting customer needs for carbon neutrality. In so doing, we will build closer ties with customers, expand business domains and continue to make a contribution to society.

Airport

Boosting global competitiveness through Group collaboration

Introduction

The Airport business provides airports and airlines around the world with an extensive array of solutions and services, focusing on baggage handling technologies such as sorting systems, self-service baggage check-in systems, bag and passenger security systems, and airport terminal operating systems. The business unit operates with affiliates based in Japan, North America, Asia Pacific and Europe, and we combine as one to operate this business.



Takaya Uemoto

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

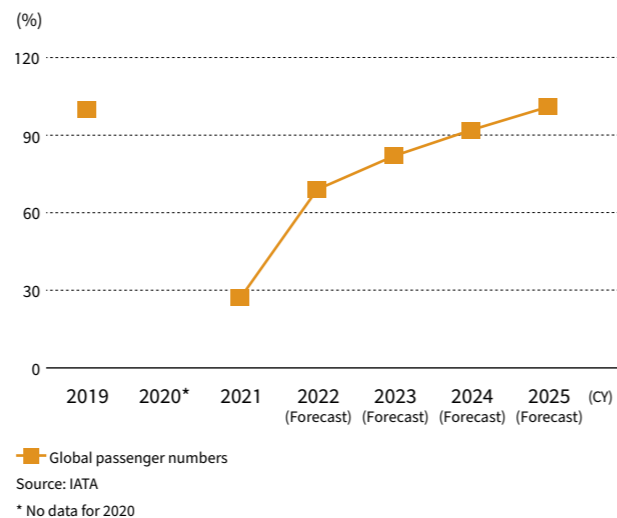
Business environment

Amid uncertainties linked to the COVID-19 pandemic and the conflict in Ukraine, this business has achieved solid results, mainly through the delivery of large projects and customer service. Despite these uncertain times, airports remain an essential part of society, and will continue to require ongoing support for reasons such as growth expansion, security upgrades, obsolescence programs, and implementing new technologies to enhance the passenger experience.

The business is buoyant in North America, our largest market. The US Bipartisan Infrastructures Law provides \$20B in funding for airport infrastructure projects from 2022 through 2026. Many local governments are planning to construct new airport terminals as part of their planning initiatives, and demand is expected to remain strong in fiscal 2022 and beyond. Inquiries from Oceania and Europe have begun to rise again, after a period during which investment had been restrained.

The number of air passengers worldwide is expected to reach roughly 80% of the pre-pandemic level in 2022, according to a June 2022 announcement by the International Air Transport Association (IATA). In many regions, entry restrictions have been eased. Overseas travel needs are showing signs of recovering from the slowdown caused by the pandemic. In view of that, we expect airport demand in the form of transformation into smart airports, and business conditions will remain positive for several years to come.

Global travel recovery (compared with 2019)



Business strategy

We will institute the measures mentioned below to differentiate ourselves from our competitors and to strengthen our earnings base.

Seek intra-Group collaboration effect and building proposing capabilities

In addition to upgrading traditional hardware solutions for baggage handling systems, operations and maintenance, and self-service baggage check-in systems, we will work to bolster our ability to provide solutions in the software domain. Through M&A, we acquired two Oceania-based affiliates that are particularly strong in this domain. We will gather their expertise to centralize development, increasing development efficiency and diversifying the business. Meanwhile, the Smart Security Lane security screening system from our Netherlands-based affiliate is helping improve airport security. Our strength lies in our capacity to propose both hardware and software solutions. We will continue to strengthen operations of our airport business with this integrated approach.

Further enhance project management

Close sharing of information at monthly meetings of leaders in businesses and overseas subsidiaries' management members as well as at quarterly meetings of chief financial officers (CFOs) has improved project management globally and led to a steady rise in profitability. In view of long delivery lead times as part of the peculiarities of this business, we have emphasized cash flow and have taken steps to strengthen fund management. We will deploy many engineers experienced in project management from the Automotive business, which was integrated in fiscal 2021, to each project for boosting accuracy in cost and progress management.

Build a global production structure

In North America, a new factory of Jervis B. Webb Company is scheduled to begin operation in September 2022. We will integrate three separate factories to increase production capacity and to streamline operations for cost savings. The new factory will also be capable of producing additional product lines within the Airport business group. We will also carry out production reform at our plant in Malaysia, which serves as a manufacturing site in Asia. We will make efficient use of our assets to increase profitability of the overall business.

Vision

We aspire to be capable of proposing comprehensive solutions to customers in the airport industry. This business is supported by our specialist subsidiaries in North America, Asia Pacific, and Europe, enabling us to offer both hardware and software solutions. We expect that airports themselves will turn into amusement destinations, with more spaces where people will spend more time for leisure, like the major airports in the West and Asia. Temporary baggage storage will be of increasing importance, and a business opportunity beneficial to our strong automated warehouse technologies may emerge. We will constantly look ahead to swiftly develop and propose products that respond to emerging needs.

In terms of our contribution to society, we play a role in smoothly conveying travelers' baggage using airports to their final destinations. For instance, our systems detect inappropriate baggage in advance to support safe aircraft operations, while automated guided vehicles improve the work environment. Power-saving equipment and smart controls help reduce power consumption. We will provide solutions that will help people feel more fulfilled.

Auto Wash

Identifying new markets while maintaining earning strength

Introduction

The Auto Wash business provides filling stations, car dealers, garages, and self-service car washes with car wash machines and related products, mainly in Japan and South Korea.



Yoshiyuki Horiba

Managing Officer
Auto Wash Global Business Head
Auto Wash Division Manager
President of Daifuku Plusmore Co., Ltd.

Business environment

As automobiles shift to electric vehicles and hybrid vehicles, the number of filling stations, which are our main customers, is projected to decline. However, we believe that until the number of automobiles owned falls, solid demand will persist for car wash machines, to replace existing machines and to install them at new locations.

In South Korea, we foresee rapid demand growth for self-service car wash machines, which will emerge as a new trend. Traditionally, full-service car wash performed by staff was the mainstay. However, self-service car wash machines are increasingly being introduced amid rising labor costs. We will actively develop new models to respond to this new trend.

Business strategy

We will accelerate the business with a focus on boosting earnings strength and opening new markets. To boost our earnings strength, we have over the past three years been taking steps to reduce costs and reform our sales strategy. For fiscal 2021, it will be vital to bring these efforts to fruition and to maintain their achievements. To build a structure that enables us to retain our earnings strength, we carried out operational reforms, such as reducing assembly and logistics man-hours, to eliminate waste entirely. We will also actively seek to adopt cost cutting approaches taken by other business units.

To identify new markets, we need to respond to emerging needs identified by the sales team. We will seek to identify these new needs, such as for introduction to locations where people gather and where no car wash machines have been installed, including commercial facilities and laundromats, as well as demand for car wash machines for tank trucks and other special vehicles. Developing tangible products tailored to these needs will require strong collaboration between the sales team and the development team. Given that sales activities are conducted by a Group company in this business, we have a unit for coordinating customers' wishes and needs between these two functions, to facilitate information sharing. Going forward, we will turn our attention to a broad range of areas, without being confined to car washes. We will use our technologies to reduce workloads and environmental impacts and thereby help address social issues.

Electronics

Evolving our competitiveness globally as we seek to enter new fields

Introduction

The Electronics business, mainly operated by Contec Co., Ltd., develops, manufactures, and sells electronic devices, such as industrial computers, IoT devices, solution products, and electronic control panels/modules. Contec also provides Daifuku Co., Ltd. with its control components essential to material handling systems.



Akira Ikari

President and CEO
Contec Co., Ltd.

Business environment

Corporate demand for capital investment, which rapidly contracted during the COVID-19 pandemic, has been showing signs of recovery across the globe since fiscal 2021, amid an acceleration of DX.

In Japan, the recovery of corporate capital investment brings active demand for industrial computers and data acquisition cards used in factory production lines.

In North America, our major customers in the healthcare and airport security industries are actively increasing their investments.

While a shortage of parts including semiconductors still has significant impact on our business, a close collaboration among the sales, production, and research and development (R&D) teams contributes to overcome with swift changes in design and newly identified supply chains. These are a source of strength for us.

Business strategy

In May 2022, Contec became a wholly owned subsidiary of Daifuku Co., Ltd. Since then, we have enjoyed more active human resource exchange and upgraded information sharing framework within the Daifuku Group. I believe that future joint R&Ds will increase the presence of our products and grow ourselves mutually.

As a product essential to various systems and services in society, our industrial computers, IoT devices, and other products are used in a broad array of industries, including Daifuku's customers. We will contribute to realizing a sustainable society by providing these products and aim to maximize comprehensive collaboration effects as a member of the Group.

Our medium-term strategy focuses on strengthening our global structure. We will strive to expand our development capability and product lineup, mainly with industrial computers, by increasing our investment in human resources in Taiwan, where our R&D center is located. In addition, we will enhance our procurement structure to ensure consistently stable supply of products and boost our cost competitiveness. Through these initiatives, we will build our product development capability and market competitiveness in the global market.

Global Reach

The Daifuku Group offers solutions tailored to the needs of customers in different sectors in numerous countries and regions. We have constructed a supply chain from procurement to sales, in addition to a system for procurement and production at optimal locations.

In comparison with our competitors, we have high sales in fast-growing Asia and have delivered to a wide range of customers in North America and elsewhere (see [Chart 1](#)). Currently, we have sites in 26 countries and regions. We have holding companies in major markets, namely North America and China (see [Figure 1](#)).

We began to enter non-Japan markets in earnest around 40 years ago. At that time, we delivered our products mainly to Japanese automobile factories (Automotive business). Today, we have broader sales channels and deliver products to semiconductor and flat-panel display factories (Cleanroom business) and to general manufacturers and distributors (Intralogistics business). In 2007, we made U.S.-based Jervis B. Webb Company a subsidiary and launched the Airport business. After positively working on M&As, non-Japan sales jumped three folds from 101.4 billion yen in fiscal 2007, to 332.0 billion yen in fiscal 2021. The ratio of overseas net sales surged from 45% to 65% (see [Chart 2](#)).



Group companies/branches
70 companies
 (including the parent company)
6 branches
 We have sites in 26 countries and regions (see [Page 120](#)).



Employees
12,436
 (Non-Japan: 8,646)
 Up 739 yoy
 (Non-Japan: Up 601 yoy)



Installation record
54 countries

Chart 1 Top 5 materials handling systems suppliers 2021

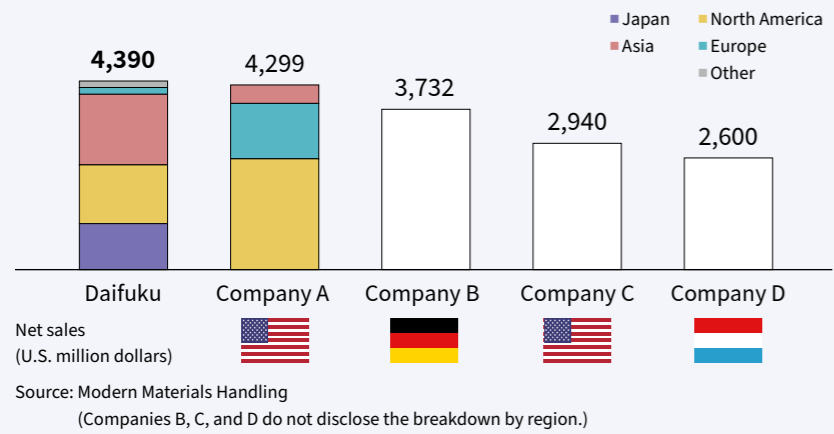
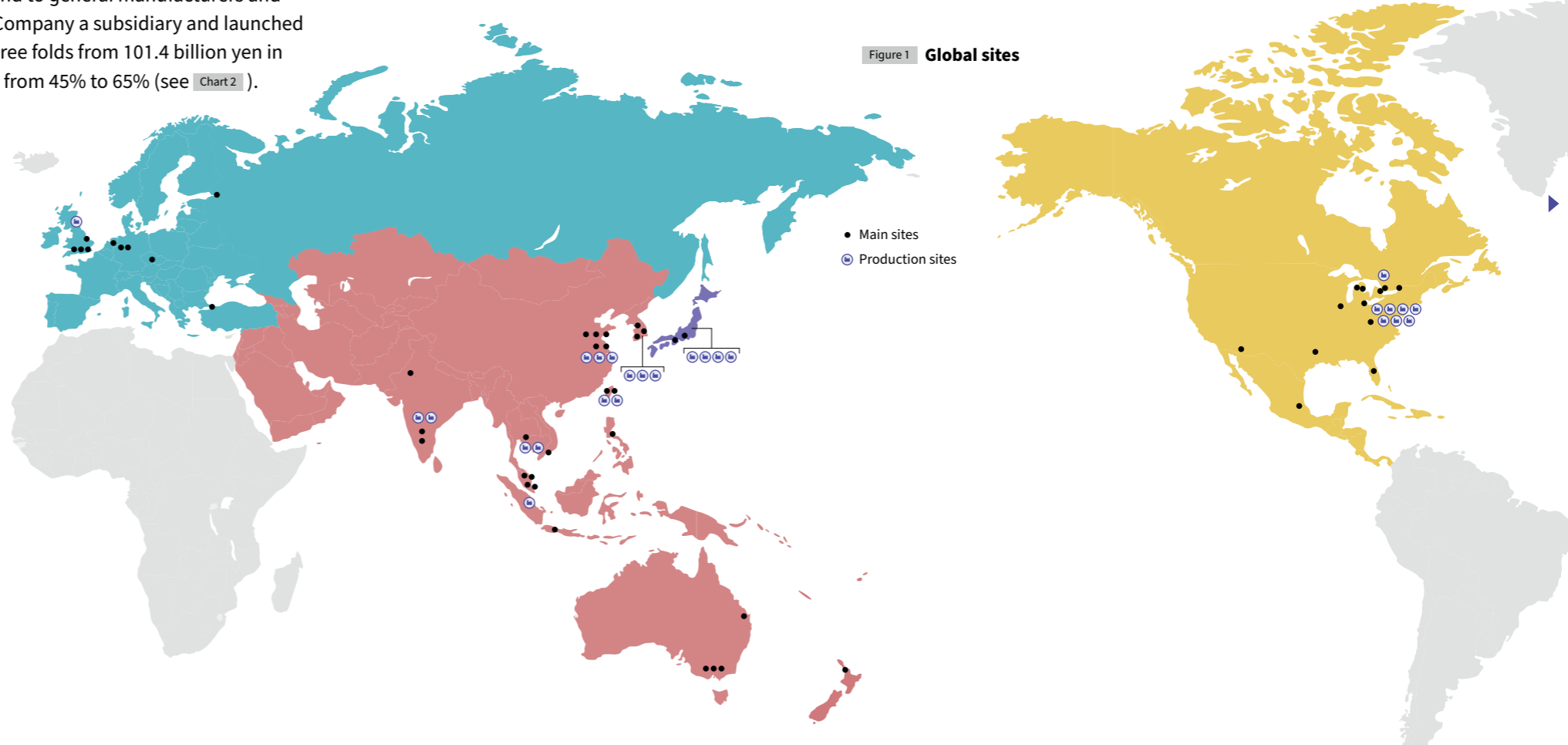
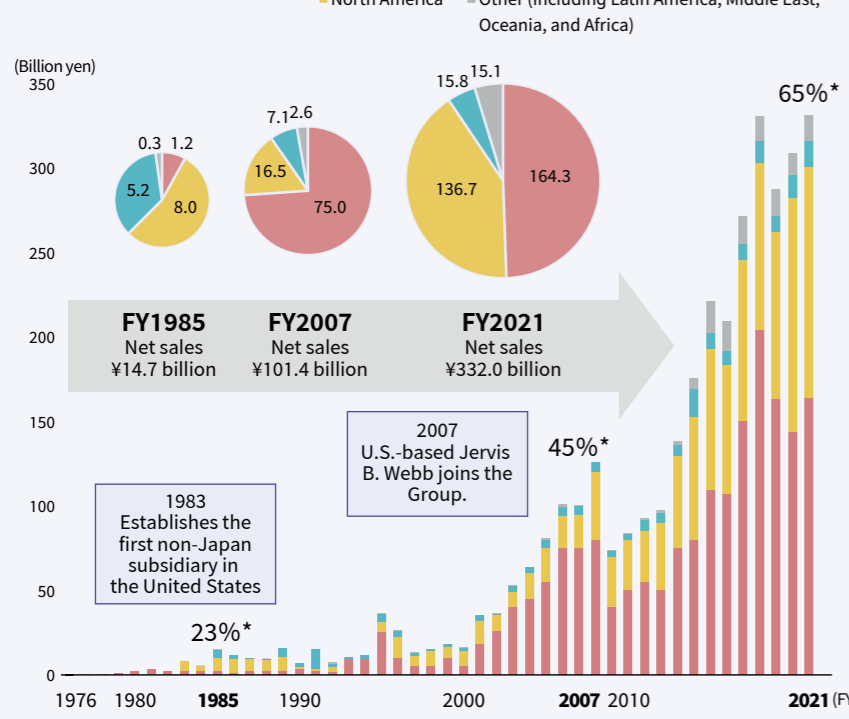


Chart 2 Non-Japan sales



Japan	Europe	Asia Pacific	Americas
<p>Daifuku has seven Group companies, including Contec Co., Ltd. At the core factory in Shiga Prefecture, we are involved in technological development with a view to the Group's global strategy. In addition, Japan is the most stable market, where we earn high revenues from services and other factors.</p>	<p>We have 11 Group companies in six countries, including the United Kingdom and Germany. Their operations encompass production, sales, and services.</p>	<p>We have 25 Group companies in 11 countries and regions in Asia, including production sites in China, Taiwan, South Korea, Thailand, India, and Malaysia. A large portion of our sales comes from the electronics sector, including semiconductor and flat-panel display manufacturers in China, South Korea and Taiwan.</p> <p>In China, we have five Group companies with 34 offices in operation (see Page 46). We also have sites in Vietnam, Indonesia, and Singapore. Vietnam attracts attention for its future growth potential.</p> <p>Our five Group companies in Oceania, specifically in New Zealand and Australia, engage chiefly in the Airport business.</p>	<p>We have 12 Group companies in the United States, Canada, and Mexico.</p> <p>In North America, companies affiliated with Daifuku North America Holding Company operate a wide variety of businesses (see Page 44).</p> <p>Wynright Corporation operates the Intralogistics business, mainly serving e-commerce operators. It has been posting higher sales with increased profitability. These positive results are attributable to the inauguration of a new plant. In the Airport business operated by Jervis B. Webb, production capacity will be increased by consolidating factories.</p>

Strategies for the North America Market

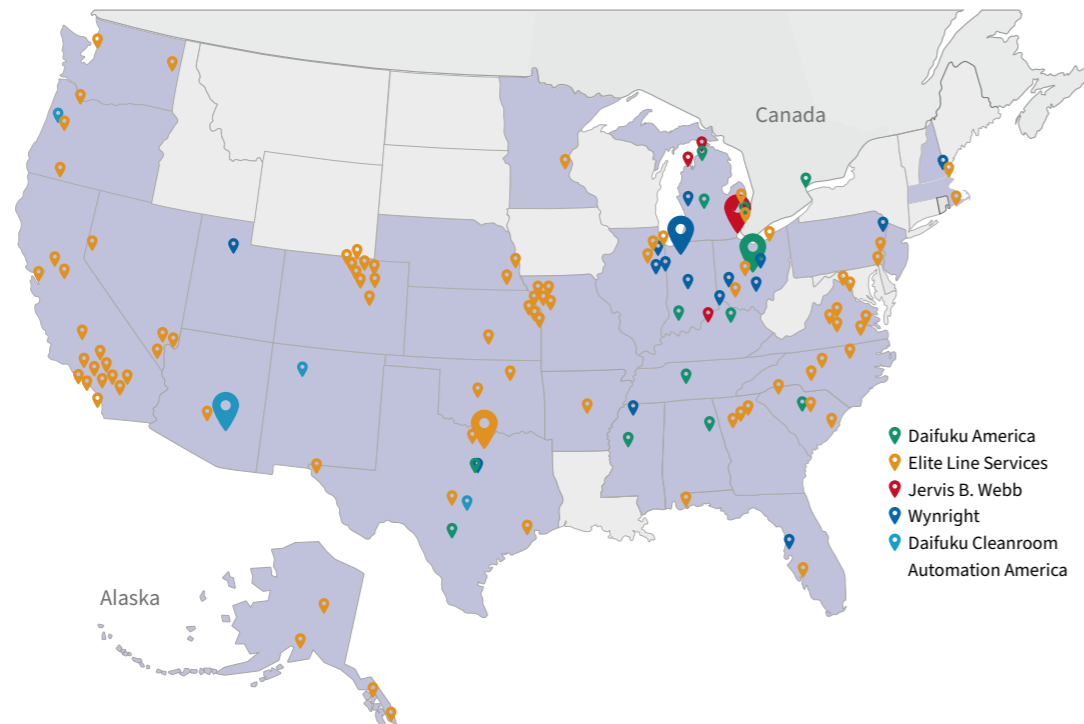
**Focus on expanding business scale,
increasing productivity and profitability
and developing human resources**

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



Daifuku North America Holding Company operates the Intralogistics, Cleanroom Automotive and Airport businesses together with five principal affiliates. Sales in North America reached 136.7 billion yen for fiscal 2021, accounting for nearly 30% of consolidated net sales. In the Daifuku Group, the ratio of non-Japan sales stands at 65%. Around 40% of non-Japan sales come from North America. Its overall market is large and has high growth potential. We therefore see North America as the top priority region.

Sites of Daifuku North America



Market environment

The COVID-19 pandemic has begun to show signs of easing. Companies have started to show more willingness to invest in the e-commerce, semiconductor, automotive and airport sectors. We received an increasing number of inquiries.

Meanwhile, prices are rising at a tremendous pace caused by hikes in resources prices and wages and global supply chain disorders. That raises concern about profitability. We will look ahead to changes in circumstances and endeavor to maintain and increase profitability.

Trend by business

Since the Group companies were reorganized into separate businesses in 2019, their business efficiency has been rising every year. We will remain committed to offering solutions that meet customers' needs. We will strive to improve the production and procurement systems, including their standardization and streamlining with a view to higher profitability. We will develop a sense of unity and collaboration in the North America group to increase our presence in the market and serve the Daifuku Group's performance.

● Intralogistics (Wynright Corporation)

As retailers and distributors increase their investments in e-commerce, orders and sales are buoyant in North America. Competition is expected to intensify in the future, but a high level of demand is anticipated. We will work to gain orders to boost the business scale.

A new factory in Hobart, Indiana commenced operation in 2020. Its production efficiency and internal production ratio have since gradually increased. A surge in orders had the effect of increasing production. These factors redressed the profitability issue. In light of the current volumes ordered, we are considering increasing production capacity for 2024 and beyond.

● Cleanroom (Daifuku Cleanroom Automation America Corporation)

Amid the worldwide shortage of semiconductors and the U.S. government policy of stimulating domestic investment, customers are positive about making investments. We expect new capital investments to continue in the future. We will adopt more stringent profitability management and build closer ties with customers on the basis of our delivery track record to create business opportunities.

● Automotive (Daifuku America Corporation)

North America is a market featuring fierce competition among American, European and Japanese automakers. For fiscal 2021, these companies tended to postpone their plans due to the pandemic. In 2022, investments resumed, mainly in the transition to electric vehicles, and we are now receiving many inquiries. Regarding this as a major business opportunity, we will work to secure orders.

● Airport (Jervis B. Webb Company and Elite Line Services, Inc.)

Since airport operators continue to pursue their long-term strategies, we have continued to receive a high level of orders without a significant negative impact from the pandemic. In North America, the largest market, the number of passengers is recovering. Investments have continued mainly to deal with aged facilities. In addition, contactless systems and those for reducing staff are drawing attention amid the pandemic and the labor shortage. We will correctly identify customers' needs like these to maintain the level of orders we receive.

Staff development

It continues to be difficult to secure labor in the United States. The labor shortage is worsening and measures to deal with the rise in those quitting jobs, the decline in labor productivity and the rise in wages for people are urgently required. At the moment, we are taking many different actions. These include the introduction of working from home and new staff training and an increase in opportunities for communicating with staff.

In November 2021, we launched the Daifuku North America Leadership Academy. This is our first original staff training program. It is open to all personnel in the Daifuku North America group. Twenty-four staff members selected from 97 applicants receive training under a year-long special program. It is aimed at building their practical and technical skills and at developing the perspective of management based on leadership theory. In quarterly camps, trainees meet one another face to face and improve their capacity by learning from others and freely communicating with presidents of individual companies in remote sessions. We will give all staff opportunities like this irrespective of their length of service in the hope of boosting their motivation.



Strategies for the China Market

Speed up development and commercialization of products targeting cutting-edge markets

Akihiko Kishida

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



In China, we have operated several subsidiaries in different businesses and in different regions in step with growth of the Chinese market since 2002. Today, we have three subsidiaries in China, specializing in the Intralogistics, the Cleanroom and Automotive businesses. Each is responsible for comprehensive operations, from sales to after-sales services. Production facilities for these businesses are located in China. We have an advantage in being close to customers through local production to meet local needs.



Market environment

In March 2022, Shanghai entered lockdown following a surge in COVID-19 cases. It came to an end in June. Restrictions on business activities and outdoor movements were gradually eased. Accordingly, consumer spending is now expected to rally. However, there is a widespread wait-and-see atmosphere among businesses and consumers in light of concern about a resurgence of infectious diseases and the National Congress of the Chinese Communist Party, which is held once every five years and is scheduled for this coming fall.

China has the world's largest population and market. Its relatively rapid economic growth will continue, even if it does slow temporarily. The country is shifting from its conventional policy of mass producing commodities and expanding consumption to stepping up development of advanced technologies, such as environmental initiatives, 5G, AI, semiconductors and space technologies. Automobile production is a significant industry for China, which is one of the world's largest markets, mainly for new energy vehicles (NEVs).

Targeting cutting-edge markets like this, we will accelerate the development and commercialization of products. Rather than simply working on successful cases in the past, we will seek innovative strategies to further stimulate our China business.

Trend by business

◉ Intralogistics (Daifuku (China) Manufacturing Co., Ltd.)

China has tremendous potential for growth over the medium and long terms. We will boost local production to advertise high quality, low cost and short delivery lead times, enhancing our track record as a system integrator as well as our service structure to differentiate ourselves from the competition.

Production at the Songjiang Plant in Shanghai was suspended for about two months under the lockdown. Installations were also partly interrupted. Under difficult conditions such as the semiconductor shortage, rising material prices and supply chain stagnation, we will strive to make up for the lost time caused by delays in processing following the relaxation of activity restrictions.

◉ Cleanroom (Daifuku (Suzhou) Cleanroom Automation Co., Ltd.)

New large investments for flat-panel display production lines decreased while orders are expected to grow for semiconductors amid strong investment by customers and numerous requests for bringing orders forward. The market is expected to continue growing, backed by the spread of 5G, IoT and data centers and the global semiconductor shortage, as well as Chinese government support for the expansion of the semiconductor industry.

At the plant in Suzhou, production was partly affected by the COVID-19 quarantine measures. It is working to deliver orders as initially planned. To increase production capacity in China, we commenced construction of a new factory in the city of Suzhou in Jiangsu Province in March 2022. It is scheduled to begin operation in September 2023.

◉ Automotive (Daifuku (China) Automation Co., Ltd.)

In June 2022, the number of new cars sold in China was up 23.8% year on year, according to an announcement by the China Association of Automobile Manufacturers. The figure was higher than the year-ago level for the first time in four months, and is trending upward. However, with restraints on production due to the semiconductor shortage, the recovery of capital investment by automakers is slow. However, plans to construct NEVs will soon be executed in earnest. These factories are aimed at meeting the NEV mandate policy, which obliges entities manufacturing at least 30,000 vehicles in China to ensure that NEVs make up a predetermined rate or higher of the vehicles they manufacture. In 2023 and beyond, existing major manufacturers are expected to invest in boosting NEV production.

While competition with Chinese peers is fierce, demand for reliability in terms of track record, quality and services is rallying. We will work to reduce costs, to offer new system proposals and to upgrade services.

Capital investment

◉ Investment in DX investment

In everyday life, the digital shift with smartphone apps is advancing. We also use versatile business apps for smartphones in offices. With regard to design and production, we are building product data management and product lifecycle management systems. We will continue investing in future expansion and improvements.

◉ Environmental investment

In the Automotive business, the factory in Changshu, Jiangsu Province, was renovated, with the work completed in January 2022. In recent years, the Chinese government has been stressing the environment. The renovation has turned the factory into an environmentally friendly facility equipped with a photovoltaic system and the latest coating system. In the Cleanroom business, a new factory currently under construction will also be equipped with a photovoltaic system.

Staff development

In China, staff are basically employed under job-based contracts. At the same time, they are under indefinite-term employment as in Japan. Therefore, we need to build a job-based personnel system suitable for China. Loyalty to the company alone does not motivate future generations. To secure a competent workforce, we are working to improve our brand appeal and to increase opportunities for education, training and personal development. We are studying revisions to the personnel system so that employees have their efforts and capacity rewarded.

The Daifuku China Training Center was launched on the premises of the Songjiang Plant in September 2020. We will operate it to increase safety awareness and to quickly develop and build up the skills of service personnel capable of performing equipment maintenance.

Message from the Chief Officer of Shiga Works

Harmony between manufacturing and the natural environment

Toshiaki Hayashi

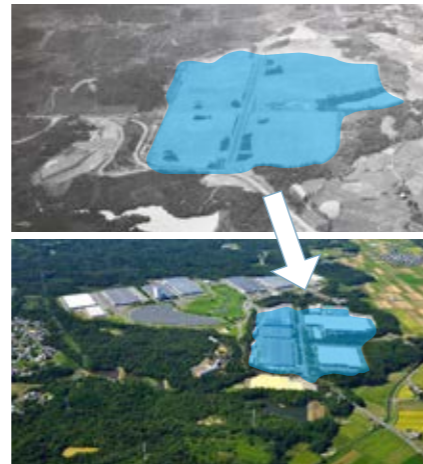
Director
Managing Officer
Chief Officer of Shiga Works



Aspiring to create a factory that is popular with the community and where it is a joy to work

In 1970, Daifuku acquired a site of around 1.2 million square meters, which is the current site of the Shiga Works. At the time, we had factories in Osaka and Aichi Prefectures, respectively the home of its current Headquarters and the Komaki Works. Shiga Prefecture lies between them. In addition, we had an Industrial Park plan aimed at establishing a highly productive factory, where rich humanity is nurtured in a natural environment. That led to the decision on the location.

Integrating and expanding all factories in Osaka and Aichi, the Shiga Works now consists of 12 factories with a total floor area of 214,451 square meters, the Hini Arata Kan demo center, three administrative offices with the canteen, and a mega solar farm with annual power generation of 4.3 million kWh, equivalent to annual power consumption of 1,000 ordinary households. It is now one of the world's largest production bases for material handling systems, with around 1,600 proper employees and around 1,400 employees of partner companies. The Shiga Works serves as the Daifuku Group's core factory for the world. Popular with the community, it continues to evolve.



Top: The first phase of construction
Bottom: As of 2022

Cross-business manufacturing reform and R&D

The integration of all of our factories in Japan into the Shiga Works helps strengthen intra-business collaboration, which is one of the management policies under the current three-year business plan. Products in individual businesses vary depending on the industry in which customers operate. Separate businesses actively share technologies. In particular, production technologies in the Intralogistics business are an advanced mechanism of the Group for heightening the ratio of internal production, productivity and earnings strength. In businesses mainly receiving orders from specific customers, the concept of standardization in the Intralogistics business is used for a transition from custom-made production to module design with a view to reducing costs.

Intra-business collaboration is carried out in research and development (R&D) by following the example in manufacturing. We organize exchange meetings of development engineers on the subject of new business development. These are opportunities to discover something through sharing information on extensive topics, ranging from developed products to ideas in the course of development.

Safety should be above all—never to be compromised, no matter what

Safety and efficiency may clash at times. However, safety is the top priority issue that is essential to protect ourselves, our colleagues and our family members, and must be guaranteed even if it compromises efficiency.

It would be quicker and easier to perform final adjustments in installation without stopping the machinery, rather than after stopping it. However, even if safety gear is used, we could never eliminate the risk of accidents in this case. We employ coercive measures such as lockout of the power source in combination with other approaches to create a safe work environment.

In addition, a large number of automobiles run inside the Shiga Works. In the past, we instructed employees to perform pointing and calling at the time of passing a crosswalk. However, this practice did not become entrenched. We then changed the rule and asked them to do pointing without calling. This was widely accepted by employees. It is important to seek a high level of safety, but it is necessary to make small changes to entrench a practice as part of the culture. The Shiga Works will strive to establish a safe and secure workplace from different perspectives to serve as a model of the Group in terms of safety as well as in other areas.

Rebuilding supply chain management

The whole world is facing supply chain disorders attributable to soaring raw material and fuel prices and difficulties in procuring materials. We have to date escaped severe impacts by increasing inventories and placing early orders to secure materials. However, the turmoil has impacted supply chains that are associated with us.

In light of that, we will check again the overall picture of our supply chain and accelerate visualization of supply chain management. We will present the overall status relating to carbon neutrality, human rights due diligence, cybersecurity and other areas to share views across the supply chain, transcending boundaries between business units. In doing so, we will rebuild our supply chain management.

Harmonious coexistence with nature

The Shiga Works has found more than 700 native species and at least 50 endangered and rare species on its premises through ecosystem surveys.

Preserving biological diversity not only protects our assets but also protects assets of the region. The Works is located in a nature-rich woodland. With an awareness that the existing environment must not be destroyed, we have been conducting preservation activities with specialists and local associations. To preserve this great natural environment for future generations and stimulate internal and external communication, we have been running a specific activity called the Yui Project since 2014. We conserve endemic red pine trees, a rare species of Yamato salamander, *Hynobius vandenburghi*, and other natural elements, and maintain the Yui no Mori forest (see photo) as a place for learning about the natural environment.

In addition, we form a network with the community to carry out regular monitoring of the corporate premises, create biotopes, remove foreign species, organize nature observation events, exhibit and present our activities and understand the state of nature in surrounding areas.

We will continue to upgrade the Industrial Park where manufacturing and preservation of the natural environment can both be ensured and will seek to build a sustainable society through our business activities.



Chapter 3

Foundation for Value Creation

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Message from the Sustainability Officer

Aspiring to be a company
continuously needed by the market
and by society

Hideaki Takubo
Managing Officer
Corporate Functions Head



My perspective on the role of a sustainability officer

Global environmental issues such as climate change, human rights concerns, and many other social issues are emerging as increasingly serious problems. Consequently, society has very high expectations of the actions companies are taking toward resolving these issues. Businesses are expected not only to seek profits but also to take environmental, social, and governance (ESG) actions and strive to achieve the SDGs. I feel that companies failing to meet these demands will be unable to survive.

The Daifuku Group aspires to remain a company trusted and needed by society through increasing its customers' competitive advantage with its core competence of automated material handling technology, while simultaneously making sure its solutions are based on consideration to people, the environment, and resolving social issues. For this purpose, it is vital to retain and improve intangible assets, such as technologies, expertise, personnel, and corporate culture. I understand that my duties are to learn about what impacts social issues have on the Group's business capital and what changes there are in social demands. I will then incorporate them into management policies and strategies in collaboration with Daifuku's business units and share the viewpoint of sustainability across the Group.

Our new management philosophy following the October 2021 revision points to a policy of being needed by the market, gaining the trust of society, and enriching business capital with the use of automated material handling technology. I believe that the Group can achieve continuous growth when all of its officers and employees share a vision and move in the same direction even as the surrounding environment changes.

Initiatives over the past decade

(FY)

2011	Formulates Daifuku Environmental Vision 2020
2012	Daifuku Eco-Products Certification Program introduced
2014	Joins the United Nations Global Compact
2019	Assents to the Task Force on Climate-related Financial Disclosures (TCFD)* recommendations First selected as a constituent of the ESG investment indicators "FTSE4Good Index Series" and "FTSE Blossom Japan Index"
2020	Discloses information in accordance with the framework recommended by the TCFD Launches the Sustainability Committee Reviews and re-identifies the Group's materiality with the aim of achieving both continued management growth and the realization of a sustainable society that the SDGs aim for Discloses Daifuku Environmental Vision 2050
2021	Discloses the Sustainability Action Plan

* Established by the Financial Stability Board, an international organization comprising representatives from the central banks, financial supervisory authorities and the finance ministries of the major nations and regions

Activities of the Sustainability Committee

To create a sustainable society through business, the Group has identified 18 material issues (materiality). We have been executing the Sustainability Action Plan, which is a three-year action plan for addressing these problems. This plan and the three-year business plan kicked off in April 2021 are the cornerstones of our management strategy. Chaired by the CEO, the Sustainability Committee manages our progress. For the initial year, namely fiscal 2021, results were roughly in line with the targets. They are regarded as a product of efforts made by individual employees in the Group. We put particular emphasis on environmental and human rights issues, and formed separate subcommittees for addressing these issues under the Sustainable Committee in fiscal 2021. Our business units and Corporate Functions unit are working hand-in-hand in this respect.

With regard to the environment, we unveiled Daifuku Environmental Vision 2050 in February 2021, concurrently with the ongoing three-year business plan, which aims for a world where our material handling systems have zero environmental impact in 2050. It also defines two crucial issue areas: climate change and energy, and resource recycling. In each of these areas, we set a target for 2030. We are focusing our efforts on energy conservation measures through the development of environmentally friendly products and the optimization of the operations of the overall system, as well as through requests to major suppliers to reduce their CO₂ emissions. We are thus working toward realizing our vision.

To address human rights issues throughout the entire supply chain, we are striving to develop a mechanism of human rights due diligence in accordance with the Daifuku Group Human Rights Policy established in October 2021. From fiscal 2022 to fiscal 2023, we will identify and evaluate latent and actual risks of negative impacts on human rights arising from our overall business activities worldwide. We will then introduce measures that tackle the problems.

Actions for enhancing human capital

Enhancing human capital across the Group is indispensable to its continued growth. Amid the ongoing globalization of business, we need to address the questions of how we should manage our human resources, including those of non-Japan subsidiaries, and how we should share and develop our long-established, open-minded corporate culture and the values we cherish.

Since fiscal 2021, we have been working to determine the competencies—namely, the behavioral traits and attitudes—expected from the Group's staff, to clearly specify key positions and to prepare for the systematic development of successors so as to construct foundations for personnel management throughout the Group. We will use these competencies as the basis of staff evaluation and development in the future. We will also conduct Groupwide personnel development measures such as staff transfers and exchanges between business units.

Also in fiscal 2021, we carried out an engagement survey of employees of Japan-based Group companies, focusing on the two aspects of job satisfaction and employee-friendliness. The survey revealed that our strengths lay in our customer orientation and confidence in management, while our weaknesses were in collaboration among organizations and support for the career development of individual employees. In response, we will combine Companywide measures with activities for improvement in separate business units with a view to enhancing staff engagement. Going forward, we will expand the scope of engagement surveys to non-Japan subsidiaries to forge a sense of unity throughout the entire Group.

To stakeholders

The Group will follow its management philosophy of "Automation that Inspires." We will seek to create economic value as well as social and environmental value with our automated material handling technology, and in doing so will contribute to the building of a sustainable society. To be a company needed by stakeholders in the future, we will strive to fulfill the targets set in the three-year business plan and in the Sustainability Action Plan without fail, and will continuously enhance our efforts.

Basic approach

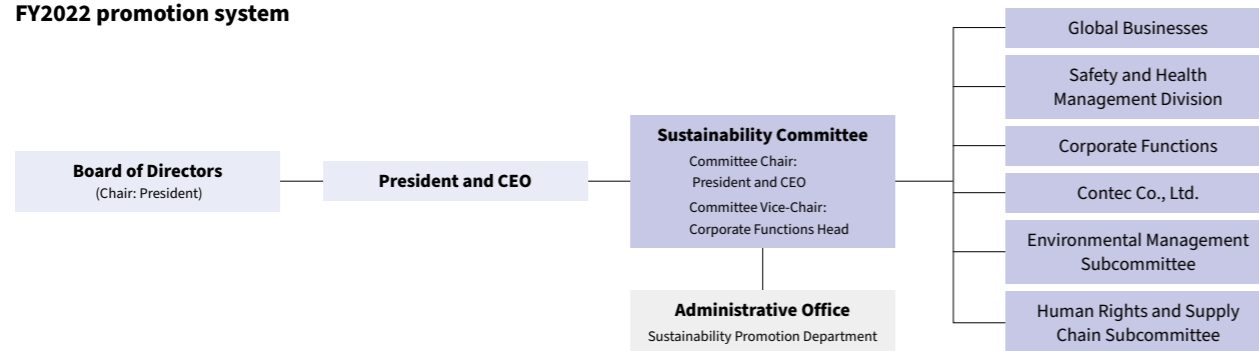
The Daifuku Group aims to achieve a sustainable society and enhance corporate value in accordance with the Group Code of Conduct, based on the company creed, “Hini Arata,” and our management philosophy, “Automation that Inspires.”

In putting our sustainable business to practice, we assented to and signed the United Nations Global Compact (UNGC), which encompasses 10 principles across the four fields of human rights, labour, environment, and anti-corruption; and, we are also working to achieve the SDGs, which were adopted by the UN. Moreover, the Group positions the three-year business plan and the Sustainability Action Plan as the cornerstones of its management strategy, and all employees strive to achieve both social value and economic value through our business activities.

Sustainability promotion system

The Sustainability Committee—a Groupwide advisory body to the Board of Directors—is chaired by the CEO and includes the Global Business Head of each business unit. The Committee provides top management with instructions on the implementation of action policies and plans regarding climate change and various other issues, and reports the details of its initiatives to the Board of Directors as needed. In addition, the Environmental Management Subcommittee and the Human Rights and Supply Chain Subcommittee have been established under its auspices, and are working on specific initiatives according to their respective goals.

FY2022 promotion system



Members	<ul style="list-style-type: none"> Committee Chair: President and CEO Committee Vice-Chair: Corporate Functions Head Members: Global Business Heads, President and CEO of Contec Co., Ltd., Safety and Health Management Division Manager, Human Resources and General Affairs Division Manager, Legal and Compliance Division Manager, Business Strategy Operations, Corporate Communications Operations, Finance and Accounting Division Manager, General Managers of Investor Relations Department and Governance Promotion Department
Voluntary participation	Outside directors, full-time Audit & Supervisory Board members

FY2021 Sustainability Committee activities

Sessions	Five sessions (May, August, October, December, March)
Main agenda	<ul style="list-style-type: none"> Progress management of the Sustainability Action Plan Future measures based on risk assessment results Priority measures in each subcommittee In-house sustainability awareness measures Discussion and approval of human rights policy Planning and promotion system for fiscal 2022, and other



Contribute to a smart society

Amid an accelerating global trend toward automation and scaling up of logistics operations, investments in alleviating labor shortages and boosting productivity are expected to grow even more in the future. The Daifuku Group will work to expand its existing domains and open new ones as it seeks to respond to ever-advancing needs in society. We will develop new, and use existing, cutting-edge technologies to further increase the value we offer to stakeholders. In doing so, we aspire to help realize a smart society.

Sustainability Action Plan

Promote innovative technological development and invention

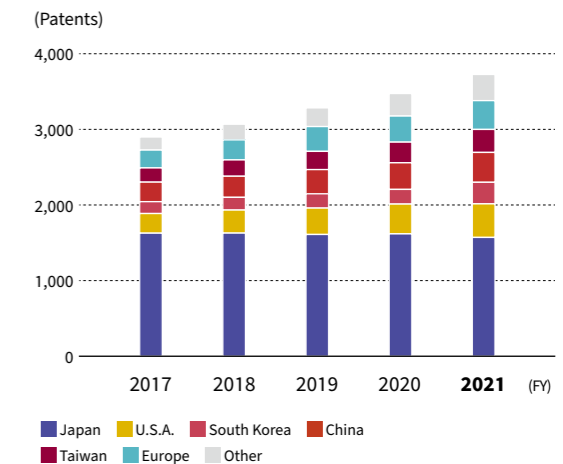
2030 Goals Innovate to create new value for the distribution system

KPIs	Scope	FY2021 targets	FY2021 results
Innovation investment amount*	Global	15.0 billion yen	13.0 billion yen
Patent registrations (cumulative total)		3,600 patents	3,726 patents

* R&D expenses + DX investment amount

Patents registered by region

The Group proactively seeks patent applications and the acquisition of rights primarily for newly developed products. In recent years, the number of patent applications outside Japan has been on the rise, and we hold patents in more than 30 countries around the world. In particular, there has been a steady rise in the proportion of applications we file in Asia, mainly China, South Korea, and Taiwan.



VOICE



Emiko Igarashi
General Manager
Business Strategy
Division

Seeking to establish smart logistics in collaboration with global business units

This division plans business strategies for the whole Group, studies M&A and alliances, supports the cultivation of new business domains, and promotes cutting-edge technology surveys and open innovation, all from a Groupwide standpoint. We work with global business units, carry out joint development with a number of universities and outside research institutions and conduct studies and proof of concept (POC) of AI, 5G and other cutting-edge technologies. Keeping in mind the company creed of Hini Arata and the management philosophy of “Automation that Inspires,” we will pursue our efforts in collaboration with global business units to realize smart logistics.

ESG and SDGs actions are indispensable to consistently strengthening the management foundations that support business expansion. For this purpose, we emphasize diversity and inclusion (D&I) and other principles. Achieving fulfillment by offering value to customers through business, we are determined to build a sustainable society.

Develop new business domains



2030 Goals Expand realm of business using business strategy (including M&A and alliances)

KPIs	Scope	FY2021 targets	FY2021 results
Penetration into new markets and new business conditions; commercialization of new products	Global	<ul style="list-style-type: none"> Collaborative research with universities and companies Provide new automated solutions Develop new customers, expand business area globally Expand service business 	<ul style="list-style-type: none"> Promoted the development of new products through open innovation with multiple universities and external research institutions Began supplying an in-house developed piece-picking robot Expanded new customer base and global business area through strategic alliance with Germany-based AFT Industries AG Service sales: +16.6 billion yen (+14%) over the previous fiscal year

Cater to customer needs through smart logistics



2030 Goals Use cutting-edge technology to improve efficiency and automate to create value for customers

KPIs	Scope	FY2021 targets	FY2021 results
Introduction of cutting-edge technology to products/services	Global	<ul style="list-style-type: none"> Use wireless/5G tech and rechargeable batteries Introduce high-efficiency systems and predictive maintenance systems using AI tech Reduce energy consumption with more sophisticated power supply equipment Make maintenance services more efficient with use of the IoT 	<ul style="list-style-type: none"> Conducted study on adoption of wireless/5G tech Currently evaluating various rechargeable batteries Highly efficient transport system using AI has been developed and adopted Predictive maintenance system is being trialed and data collection is underway Currently developing an advanced non-contact power supply device that reduces power consumption Launched maintenance services using various sensors and remote functions

Developing and introducing AI-based highly efficient transport systems

We employ AI to efficiently control a large number of vehicles that run on overhead transport lines in semiconductor factories. The software we developed in fiscal 2021 is designed to store past data, so as to always be able to predict what will happen many seconds ahead. It collects vehicle position data on a real-time basis and calculates prediction data from machine-learned travel records. This has improved accuracy in route control and increased transport volume by 10%. We introduced this software to our customers' systems and filed a patent application.



Maintain and improve the quality of products and services

At the Daifuku Group, all of our facilities are constantly working to maintain and increase the quality of our products and services. To meet the wide-ranging needs of customers across the globe, we are constructing a globally optimal production structure and instituting proper quality and risk management in compliance with standards in individual countries and regions.

Sustainability Action Plan

Optimize production through globalization



2030 Goals Achieve global optimized production

KPIs	Scope	FY2021 targets	FY2021 results
New/Expanded production sites to achieve production in optimal conditions; and other countermeasures	Global	<ul style="list-style-type: none"> Build a procurement network globally and share production technology Strengthen ability to respond at non-Japan subsidiaries (in sales, production/service) Optimally distributed production through consolidation/in-sourcing 	<ul style="list-style-type: none"> Currently sourcing global suppliers and verifying the quality of procured goods Production technologies such as manufacturing procedures and inspections deployed to non-Japan subsidiaries Enhanced responsiveness (development, design, production, etc.) through personnel training at non-Japan subsidiaries Carried out consolidation, shift to in-house production and construction of new plants to optimize local production for each product

Pursue product quality and safety



2030 Goals Earn customer trust in product quality and safety

KPIs	Scope	FY2021 targets	FY2021 results
Number of serious accidents related to product/system safety*1	Global	0 occurrences	0 occurrences
Rate of ISO 9001 global multi-site certification*2 in production sites		60%	62%
Number of employees who obtain safety assessor credentials*3	Japan	160 people	178 people

*1 Accidents caused by the malfunction of our products or systems leading to death or serious illness/injury during operations (injury or illness requiring 30 days or more of treatment)

*2 Carrying out reviews based on unified standards under the same schedule and certification authority, and obtaining and maintaining certification

*3 Credentials meant chiefly for designers that certify knowledge and abilities in the field of safety based on international safety standards

VOICE



Mark Johnson
Assistant Manager
Administration Dept.
Cleanroom Division

Seeking to build robust partnerships with customers

In the Cleanroom business, we perform quality management with a focus on three points: prioritizing customers, looking ahead to the future, and making changes. In doing so, we offer products and services that meet the highest expectations of customers. Our motivation derives from our aspiration to give satisfaction to customers and to maintain their confidence in Daifuku and the high marks they give us. We will continue to take pride in our work and to be unceasing in our efforts, aiming to build robust relationships with our customers.



Enhance operational framework

As business globalization progresses, it is vital to work to strengthen its business foundation across the Daifuku Group, with the aim of fulfilling its social responsibility toward our various stakeholders. The Group is taking steps to strengthen Group governance and risk management to ensure business management and the fulfillment of social responsibility.

Sustainability Action Plan

Strengthen governance

2030 Goals Further strengthen Group governance system

KPIs	Scope	FY2021 targets	FY2021 results
Improving effectiveness of the Board of Directors	Global	Carry out efforts to improve effectiveness	<ul style="list-style-type: none"> Held interviews with selected officers in addition to conventional questionnaires on the Board's effectiveness
Enhancing internal perceptions		Implement measures to propagate the Group Code of Conduct globally	<ul style="list-style-type: none"> Released the Compliance Guidebook to explain the Group Code of Conduct in six languages and propagated it globally Globally implemented e-learning on the Guidebook and the concept of compliance
Carrying out sound internal audits		Carry out internal audits in Japanese business units and non-Japan subsidiaries (total 300 cases, 3 years) and maintain compliance with internal evaluations	<ul style="list-style-type: none"> 125 audits (103 in Japan, 9 international, 13 specified audits) Internal evaluations determined the Group as compliant

Corporate Governance ▶ Page 84



Ensure compliance

2030 Goals Eliminate serious cases of corruption

KPIs	Scope	FY2021 targets	FY2021 results
Carrying out anti-corruption training	Global	Carry out training and follow-ups for Japanese and global parties with authority to accept/place orders	<ul style="list-style-type: none"> Created compliance training materials for global use in Japanese and English and carried out e-learning

Initiatives for strengthening compliance ▶ Page 94



Manage risk

2030 Goals Implement Group risk management, including non-Japan subsidiaries

KPIs	Scope	FY2021 targets	FY2021 results
Implementing countermeasures against major risks	Global	Carry out regular risk assessments and risk response training	<ul style="list-style-type: none"> Conducted a risk assessment through 49 officers of Group companies worldwide and identified five significant areas of risk

Risk Management ▶ Page 91

Ensure responsible procurement in the supply chain



2030 Goals Implement global CSR procurement

KPIs	Scope	FY2021 targets	FY2021 results
Establishing a CSR procurement system and expand range of operations	Global	Review CSR Procurement Standards and formulate new guidelines to be applied in Japan and abroad	<ul style="list-style-type: none"> Conducted different surveys to formulate new guidelines

Strengthen information security

2030 Goals Thoroughly implement internal global standards and continued operations

KPIs	Scope	FY2021 targets	FY2021 results
Number of global information security education sessions	Global	2 sessions	2 sessions
Number of global e-mail training sessions		3 sessions	3 sessions

Ensure transparent information disclosure and strategic communication



2030 Goals Strengthen stakeholder engagement

KPIs	Scope	FY2021 targets	FY2021 results
Number of dialog meetings held with shareholders and investors	Global	370 meetings (ESG-related: 10 meetings)	376 meetings (ESG-related: 16 meetings) → 1,241 companies (52 ESG-related)*
Enhancing communication with stakeholders	Japan	Carry out events for science and engineering students; get employees to participate in social contribution activities	<ul style="list-style-type: none"> Held "DAIFUKU Presents Discovery Hackathon 2021," a manufacturing event for science and engineering students to facilitate exchanges with students from Japan and abroad Contributed to local communities through voluntary cleanups and tie-up events with social welfare organizations, mainly in the Shiga region

* In fiscal 2022, KPI changed to: "Number of companies with which dialog meetings were held." Number of companies: Up 31 year on year

VOICE



Yasuhito Fukushima
Digital Dept.
DX Division

Improving the level of security for the entire Group

Our duties include constructing our information security platforms, introducing and managing security software, and collecting and analyzing logs from communication equipment. Given that information security must be ensured in both technical and human aspects, we regularly provide education and e-mail training aimed at raising employees' security awareness with a view to improving the level of security for the entire Group, including overseas subsidiaries. We will be actively studying the introduction of new technologies that are constantly becoming more sophisticated, to continuously increase user convenience and security strength, quickly understand the circumstances in the event of an emergency and construct the foundations to minimize any damage.

Respect human dignity

To ensure sustainable growth, the Daifuku Group is committed to creating a safe and rewarding work environment where each and every employee can develop their abilities and maximize their performance. As a precondition for this, the Group adheres to international standards such as the Universal Declaration of Human Rights, supports the ten principles of the United Nations Global Compact, and respects the human rights of its employees and all other parties in the value chain. In a fair and open corporate culture that respects diversity, each and every one of us will excel to meet the challenge of bettering ourselves.

Sustainability Action Plan

Protect employee safety and health



2030 Goals Eliminate labor accidents and major accidents in operations

KPIs	Scope	FY2021 targets	FY2021 results
Frequency rate: Japan (non-Japan)	Global	0.4 (0.9)	0.21 (0.65)* ¹
Severity rate: Japan (non-Japan)		0.02 (0.03)	0.002 (0.009)* ¹
Number of occupational safety and health trainees		1,500 trainees	1,627 trainees
Number of serious accidents* ²		0 accidents	0 accidents* ¹

*¹ Data from January to December 31, 2021

*² Accidental deaths occurring during work at Daifuku (labor accidents)

Occupational safety and health training

Shiga Works has a hands-on safety training facility. While hands-on learning about accidents has traditionally been difficult to provide, the facility offers a program that provides trainees with a simulated experience of danger, helping train staff members to have a high safety awareness and to take appropriate actions. The facility introduced a virtual reality system in 2018, which opened the way for a simulated experience of industrial accidents. The training is targeted not only at Daifuku employees but also at its partners' employees, aiming to raise the safety level of the entire Group.



Virtual experience of an accident in which personnel are caught in the roller of a machine

Achieve diversity and inclusion



2030 Goals Create an environment where a diversity of human resources can remain active

KPIs	Scope	FY2021 targets	FY2021 results
Number of female managers	Japan	19 people	20 people
Employment rate of people with disabilities		2.3%	2.54%*
Paternity leave acquisition rate		5.0%	8.7%

* As of June 1, 2021

Efforts for women's participation and advancement in the workplace

In December 2021, we revised upward the target of the number of female managers set in the plan of action pursuant to the Act on the Promotion of Women's Participation and Advancement in the Workplace. Looking ahead, we will step up our efforts to promote female managers. The same targets under the Sustainability Action Plan were also changed. Specifically, the target for fiscal 2022 was changed from 21 to 25, and the target for fiscal 2023 was changed from 22 to 30. We have also set a quota of specially referred women for the leader training aimed at developing prospective executives. We are thus creating an environment for nurturing female managers, aiming to help female employees be aware of the career path to managers and to provide them with opportunities to build their skills. That will help broaden the range of potential candidates for managerial posts.

Create a workplace environment that motivates employees



2030 Goals Achieve a workplace environment where employees experience comfort, health and prosperity

KPIs	Scope	FY2021 targets	FY2021 results
Paid leave acquisition rate	Japan	73%	73%
Maintaining high rate of stress check testing		96%	97%
Holding events to encourage mental and physical health		Continued events centered on main facilities	<ul style="list-style-type: none"> Enriched online events, such as physical exercise seminars and programs Held walking events at the Osaka Headquarters and Shiga Works

Health and Productivity Management

Daifuku established its Health and Productivity Management Declaration covering the entire Group in April 2018, placing the physical and mental health of employees as an important issue that underpins the sustainable growth of the Group. Under the declaration as a basic policy, we strive to develop a rewarding work environment where employees can work with vitality.

We are operating the Mental and Physical Health Promotion Committee, a Companywide organization encompassing corporate and industrial physicians and health nurses and labor unions, which was established in 2006. We draw up a medium-term action plan to work steadily towards the advancement of health management. Our major activities include the organization of seminars and events for solving health problems such as lifestyle-related diseases and mental health issues, and support for smoke-free lifestyles through a program for quitting smoking. To reduce the physical and mental burden on employees involved in childcare and nursing care, we are improving our programs and providing a range of assistance, such as health consultations with an industrial physician and a health nurse.



At the Shiga Works, we hold two walking events each month during the lunch break. Participants walk along the promenade on the Works' premises. A total of 7,667 people participated in the events in fiscal 2021.

Respect human dignity

Cultivate human resources



2030 Goals Provide opportunities for growth according to the individual's career ambitions

KPIs	Scope	FY2021 targets	FY2021 results
Strengthening education for managerial employees and candidates	Japan	Provide education according to the qualities of candidates up for promotion	<ul style="list-style-type: none"> Implemented training and aptitude tests on business management and labor management for those promoted to managerial positions in fiscal 2022 Offered promotion recommendation requirement courses for candidates for managerial positions in fiscal 2023 and beyond
Developing training using online resources and promoting autonomous learning		Establish on-demand library for training and education	<ul style="list-style-type: none"> Began using training videos with internal lecturers in a total of 16 rank-based training programs

Enhancing training system

We encourage our employees by providing self-motivated learning opportunities and a rank-based training system, as well as a global leadership training program for the next generation, including candidates for senior management of non-Japan Group companies. In fiscal 2021, we created a new style of training with an eye to the era after the pandemic. The training takes place in three steps. The first is preparatory learning using on-demand training materials (for the purpose of input). Next is online sessions for an exchange of opinions (for the purpose of output). And third is self-development learning after the online sessions (which serves as a follow-up).

We launched a preparatory e-learning program for business skills and knowledge. It is defined as a requirement for referrals for prospective managers. The training aims to systematically develop prospective managers and to encourage them to learn autonomously.

Strengthening human resources management to bolster global business

We are working to establish systems and mechanisms for constructing a staff management platform for the whole Group. Going forward, we will specify key positions in the Group and build a system for managing prospective successors to those in key positions and for systematically developing such personnel.

VOICE



Minami Nakagawa

Human Resources and General Affairs Dept.
Human Resources and General Affairs Division

Creating an environment that supports autonomous learning

My duties are related to the development of our staff members. That centers on planning and operation of internal training for young staff. While identifying the needs of employees and those of the times, I myself learn day by day. We value the stance of making good programs together with trainees. We are striving to create a system of training that allows individual trainees to learn actively and to link among them. We will employ a hybrid system that combines online and offline training. At the same time, we will be active in undertaking new initiatives.

Respect human rights



2030 Goals Respect human rights of all people involved in our business

KPIs	Scope	FY2021 targets	FY2021 results
Promotion of workplace understanding of human rights	Global	Carry out human rights training for Group employees	<ul style="list-style-type: none"> Provided three anti-harassment seminars to managers at Group companies in Japan
Carrying out due diligence for human rights		Formulate policies and carry out due diligence for human rights and ensure wide-spread human rights knowledge inside and outside the Company	<ul style="list-style-type: none"> Formulated and disclosed our human rights policy; then disseminated it across the Group through videos and internal newsletters

Promoting human rights due diligence

We aim to construct a human rights due diligence system at the Human Rights and Supply Chain Subcommittee under the Sustainability Committee. This subcommittee created the Daifuku Group Human Rights Policy in fiscal 2021 to make clear the Group's stance on human rights in conducting business activities. Developed in line with the United Nations Guiding Principles on Business and Human Rights, it applies to all officers and employees of the Group. It is hoped that our business partners will understand this policy and adopt it. We will emphasize our respect for human rights in collaboration with our partners.

From fiscal 2022, we will build a mechanism for identifying, analyzing and evaluating the negative impacts of our overall business activities, including those in the supply chain, on human rights and for redressing, mitigating and preventing any such impacts that are identified. We will constantly implement and refine it. If it becomes clear that these actions produce or amplify negative impacts on human rights, we will endeavor to take appropriate and effective remedial measures.

We understand that respect for human rights is one of our most significant duties for continuous growth. We will fulfill this duty by minimizing the possible adverse impacts of business activities on human rights.

FY2022 promotion system



Human Rights and Supply Chain Subcommittee

Members	Business units (management and procurement), Safety and Health Management Division, Human Resources and General Affairs Department, Governance Promotion Department, Business Administration Department, Sustainability Promotion Department
Main agenda	<ul style="list-style-type: none"> Building a human rights due diligence system Developing guidelines for sustainable procurement guidelines and constructing a mechanism for sustainable procurement, and other

For details, see our website:
www.daifuku.com/sustainability/society/human-rights

For details, see our website:
www.daifuku.com/sustainability/society/supply-chain



Contribute to the environment through our business

The most profound risk to our business continuity comes from global environmental issues, such as climate change and threats to biodiversity, while, at the same time, we recognize that solving such issues also presents business opportunities for us. In 2021, the Daifuku Group established Daifuku Environmental Vision 2050, which sets quantitative targets to reach by 2030 in the two crucial issue areas of climate change and energy, and resource recycling. We will strive to achieve our vision across the Group under the auspices of the top management.

Group's vision for 2050



Crucial issue areas for 2030

Accelerating climate change and energy responses

We will strive to reduce CO₂ emissions in our value chain by reducing the energy use of our products operated at customer sites and by working together with our suppliers. We will work on CO₂ emissions reductions compliant with the Paris Agreement by promoting energy conservation and introducing renewable energy sources throughout the Group.

Building a foundation to promote resource recycling

To promote resource recycling throughout the product life cycle, we will enhance the recyclability rate of our products. We will build a resource-recycling framework at all our production sites.

FY2030 targets

Crucial issue areas	Targets
Climate change and energy	<ul style="list-style-type: none"> 70% or higher sales ratio of projects that include environmentally friendly products^{*1} Overall avoided CO₂ emissions^{*2} of 300,000 t-CO₂ or more 25% or more reduction in total CO₂ emissions by Daifuku (from fiscal 2018 levels) 50% or more corporate participation in supply chain CO₂ reduction program^{*3}
Resource recycling	<ul style="list-style-type: none"> 90% or higher recyclability rate for new products 99% or higher recycling rate of waste

*1 Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

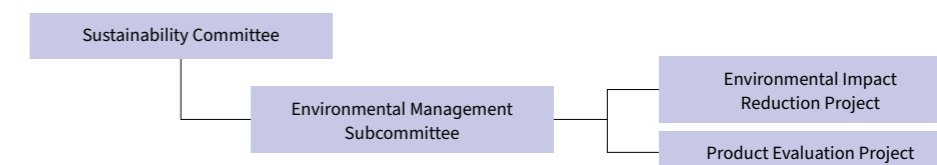
*2 CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance.

*3 Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO₂ emissions at suppliers

Promotion framework

We have established a subcommittee on environmental management under the Sustainability Committee, which is chaired by the CEO and composed of heads of global business units. This subcommittee holds discussions mainly on contributing to the environment through business, one of the themes in the Sustainability Action Plan. We have set individual targets for the material issues of “keeping business operations environmentally friendly” and “expanding environmentally friendly products and services” to check how activities are conducted and what progress they made. In fiscal 2022, we launched two projects. One is a project for reducing our environmental impact. It studies energy and resource conservation in business activities and the introduction of renewable energy. The other is the product evaluation project. It discusses the certification and advertising of Daifuku Eco-Products as well as revisions to the certification criteria.

FY2022 promotion system



Environmental Management Subcommittee

Members	Business units (manufacturing, sales, and design), Human Resources and General Affairs Department, Assets Administration Department, Sustainability Promotion Department
Main agenda	<ul style="list-style-type: none"> Adoption of renewable energy Implementation of energy and resource saving Product sustainability assessment, and more

Sustainability Action Plan

Keep business operations environmentally friendly



2030 Goals Enhance measures to reduce environmental footprint, such as in climate change and resource depletion

KPIs	Scope	FY2021 targets	FY2021 results
Daifuku's total CO ₂ emissions reduction rate (over fiscal 2018)	Global	2.5% reduction	13.8% reduction
Participation rate in CO ₂ emissions reduction programs* throughout the supply chain	Japan	32%	36%
Recycling rate of waste	Global	Survey global sites; establish goals	99%

* Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO₂ emissions at suppliers

Expand environmentally friendly products and services



2030 Goals Maximize value for customers through being environmentally friendly

KPIs	Scope	FY2021 targets	FY2021 results
Avoided CO ₂ emissions* ¹	Global	30,000 t-CO ₂	69,694 t-CO ₂
Sales ratio of projects that include environmentally friendly products* ²		43%	63%
Recyclability rate for new products		90%	86%

*1 CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance.

*2 Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

Climate change and energy initiatives

Material handling systems provided by the Group are in operation at logistics facilities and factories of customers around the world. CO₂ emissions from energy consumption for product operation account for the largest portion of our CO₂ emissions. In light of that, we take steps to conserve energy based on product design with environmental considerations and the optimization of overall system operation.

With respect to business management, we will continue moving forward with energy conservation measures at production sites worldwide, and will work to introduce renewable energy. The Group is characterized by a high percentage of non-Japan sales. Energy consumption tends to be larger at non-Japan production sites than at facilities in Japan. In fiscal 2020, we embarked on surveys for procuring renewable energy at facilities with high power consumption. We will successively introduce renewable energy procurement to those facilities prepared for it. As of the end of fiscal 2021, 9.9% of our total power consumption was covered by renewable energy.

In addition, many of our production processes involve assembly. CO₂ emissions from suppliers engaging in parts production in the upstream part of our supply chain tend to account for a relatively high percentage of total emissions. We have launched a program for cutting CO₂ in the supply chain to ask our principal suppliers responsible for the top 80% of our procurement amount to set their CO₂ emissions reduction targets. We are thus making efforts to collaborate with suppliers. In fiscal 2021, the supply chain CO₂ emissions reduction program participation rate was 36%, achieving the single-year target.

Status and schedule of renewable energy procurement

FY2021	<ul style="list-style-type: none"> ▶ Changshu plant of Daifuku (China) Automation Co., Ltd. introduced a rooftop photovoltaic system. ▶ Daifuku Logan Ltd. completed green power switchover at Hull operations.
FY2022 (planned)	<ul style="list-style-type: none"> ▶ Daifuku (Thailand) Limited will purchase a renewable energy certificate for its Pinthong and Chonburi plants. ▶ Contec Americas Inc.'s Melbourne office will purchase a renewable energy certificate. ▶ Daifuku will buy back the environmental value of electricity generated by the Daifuku Mega Solar at the Shiga Works.

Resource recycling initiatives

The Group offers a large-scale material handling system consisting of many parts and materials. Daifuku Environmental Vision 2050 aims to circulate resources not only when waste is generated from business activities but also when equipment delivered to customers is removed. From that point of view, we are reviewing the product materials and improving the ease of disassembly from the design stage. In addition, we have positioned the stable operation of the system for a long period of time and delaying the timing of disposal as an important initiative, and will enhance after-sales services such as maintenance.

Daifuku Eco-Products Certification Program

Since 2012, Daifuku has been operating an in-house 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 Daifuku 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 2022, 77 products have met the standards and been certified as Daifuku Eco-Products.

In fiscal 2022, the Environmental Management Subcommittee under the Sustainability Committee launched a product evaluation project to review this program. It is studying product evaluation criteria with a broader perspective including not only environmental considerations but also the products' contribution to customers and society.

VOICE



Ayumi Ishihara
Development Department
Intralogistics Division

Meeting social needs with an extensive perspective

I work for a unit responsible for product development for intralogistics systems for manufacturers and distributors. I am involved in the mechanical design of a certified Daifuku Eco-Product. We try to understand what is needed at customers' shop floors, so that we can respond to those needs. In addition, we are working to reduce product weight to lower CO₂ emissions and increase productivity, while reducing waste by refining the design. Going forward, I intend to enhance my skills and knowledge with a focus on having wide-ranging viewpoints and perspectives in a bid to better satisfy the needs of customers and society.

Disclosure of Climate Change Information

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

Governance

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

Processes of risk identification and assessment

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

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

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

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

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

Process for managing climate-related risks

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

Overview of scenario analysis on climate change risks

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

Transition risk measures	While CO ₂ emissions from in-house production activities are about 1% of the total, CO ₂ emissions from customers' energy use is overwhelmingly high at about 76%, and customers need to reduce the environmental load in logistics and production. We will focus on the development and sales of environmentally friendly products (77 products as of May 2022), responding to further increases in these customer needs for mitigating carbon dioxide. In addition, to promote decarbonization in business operations, we are conducting surveys on the potential for introducing renewable energy at major global production sites and formulating plans for introducing the renewable energy.
Physical risk measures	In the risk assessment conducted by the entire Group, we have identified natural disasters including typhoons and floods as severe risks that have a significant impact. To improve the effectiveness of the business continuity plan including the supply chain, we have analyzed the degree of business impact and reviewed the system table of each business unit. We have also made efforts to mitigate the risk of suspended supply by diversifying production sites, purchasing key components from two or more suppliers, and taking other measures. Moreover, at production, installation, and service sites, we are striving to continuously improve the work environment to protect against higher temperatures and ensure thorough safety and health management.

Risk management

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

Metrics and targets

The Group has formulated Daifuku Environmental Vision 2050, which envisions the year 2050. With the Vision, we have set a goal to create material handling systems with zero environmental impact. With "climate change and energy" as one of our crucial issue areas, we aim to reduce the total amount of CO₂ emissions from our business activities by 25% or more by 2030 compared to fiscal 2018, by actively promoting energy conservation and the introduction of renewable energy globally [▶ Page 76](#).

Membership status in climate-related organizations

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

- ▶ Japan Climate Initiative
- ▶ Japan Climate Leaders' Partnership (supporting member)
- ▶ TCFD Consortium

Initiatives for disclosure of climate change information

Daifuku has participated in the CDP* climate change questionnaire since fiscal 2017 to disclose its measures for climate change issues.

* Headquartered in London, CDP is an international non-profit organization working in environmental areas such as climate change, water, and forest resources. On behalf of more than 680 financial institutions with total assets under management of US\$130 trillion, it conducts surveys requesting the disclosure of information related to environmental strategies and greenhouse gas emissions, and publishes the results of its evaluation based on the responses from companies.

	FY2021
CDP Climate Change Questionnaire	A-
CDP Supplier Engagement Rating	A

SASB Standards Index

Sustainability disclosure topics & accounting metrics

Topic	Code	Category	Accounting metrics	Daifuku's website
Energy management	RT-IG-130a.1	Quantitative	1 Total energy consumed	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose energy consumed. ESG Data > E: Environmental
			2 Percentage grid electricity	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose power consumed. ESG Data > E: Environmental
			3 Percentage renewable	Although we do not use a measurement method that matches the metrics recommended by SASB, we are actively introducing renewable energy under Daifuku Environmental Vision 2050. The percentage of electricity derived from renewable energy sources to total electricity is 9.9% in fiscal 2021. ESG Data > E: Environmental
Employee health & safety	RT-IG-320a.1	Quantitative	1 Total recordable incident rate (TRIR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose frequency rate as alternative data. ESG Data > S: Social
			2 Fatality rate	ESG Data > S: Social
			3 Near miss frequency rate (NMFR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose the following information as alternative data. Occupational Safety and Health
Fuel economy & emissions in use-phase	RT-IG-410a.1	Quantitative	Sales-weighted fleet fuel efficiency for medium- and heavy-duty vehicles	We have no target product, but we disclose the overall avoided CO ₂ emissions through our products and services. Environmentally Friendly Products and Services
	RT-IG-410a.2	Quantitative	Sales-weighted fuel efficiency for non-road equipment	
	RT-IG-410a.3	Quantitative	Sales-weighted fuel efficiency for stationary generators	
	RT-IG-410a.4	Quantitative	Sales-weighted emissions of nitrogen oxides (NOx) and particulate matter (PM)	
Materials sourcing	RT-IG-440a.1	Discussion and analysis	Description of the management of risks associated with the use of critical materials	Currently, we are grasping and organizing the existence of risks in the use of scarce resources.
Remanufacturing design & services	RT-IG-440b.1	Quantitative	Revenue from remanufactured products and remanufacturing services	Although we do not use a measurement method that matches the metrics recommended by SASB, we identify environmentally friendly products and manage their sales based on the Daifuku Eco-Products Certification Program. ESG Data > E: Environmental

Activity metrics

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



Our sustainability website provides detailed information on Daifuku's sustainability promotion policies, systems, achievements, and data. The site also provides our sustainability reports and the GRI Standard Comparison Table.

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

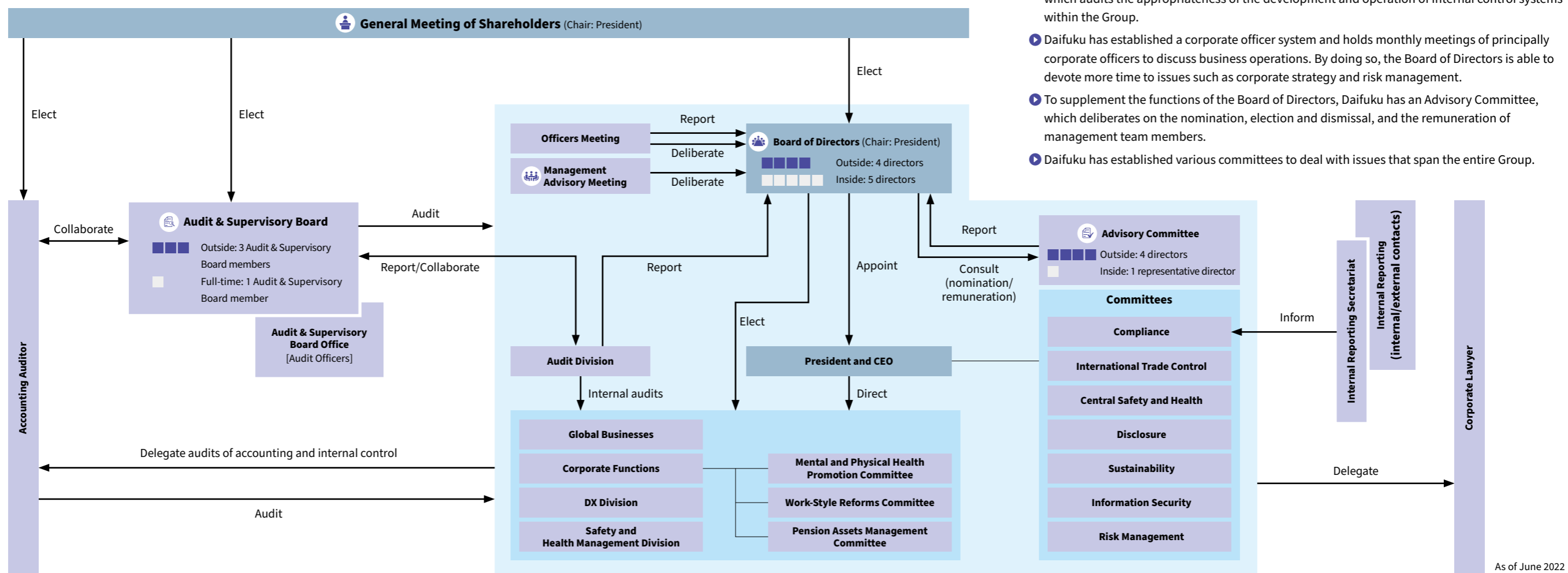
Corporate Governance

Basic stance

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

Corporate governance framework

- Daifuku works to enhance its corporate governance framework by developing a Board of Directors that includes multiple independent outside directors and is designed to take diversity into consideration, and an Audit & Supervisory Board that includes multiple members elected from outside the Company.
- Audit & Supervisory Board members, together with the Audit & Supervisory Board Office, further strengthen the cooperation between the Audit Division and the accounting auditor to deepen and streamline audit work. An audit officer system has been established for the purpose of strengthening audit-related functions. Audit officers are equivalent to corporate officers and attend meetings of the Board of Directors.
- Under the direct control of the Board of Directors, Daifuku has established the Audit Division, which audits the appropriateness of the development and operation of internal control systems within the Group.
- Daifuku has established a corporate officer system and holds monthly meetings of principally corporate officers to discuss business operations. By doing so, the Board of Directors is able to devote more time to issues such as corporate strategy and risk management.
- To supplement the functions of the Board of Directors, Daifuku has an Advisory Committee, which deliberates on the nomination, election and dismissal, and the remuneration of management team members.
- Daifuku has established various committees to deal with issues that span the entire Group.



As of June 2022

Board of Directors' meeting

18 times (FY2021)

The Board of Directors makes decisions on important matters stipulated in the Rules of the Board of Directors, such as the determination of management policies, business plans, and the corporate governance system. The Board of Directors' meetings are attended by all directors and all Audit & Supervisory Board members, with managing officers and audit officers joining as observers.

Management Advisory Meeting

3 times (FY2021)

The Management Advisory Meeting is held to confer important management matters. With all directors and Audit & Supervisory Board members in attendance, this meeting also seeks the opinions of related corporate officers, audit officers, executives, and 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.

Advisory Committee

5 times (FY2021)

The Advisory Committee has been established to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors regarding the nomination, dismissal, and remuneration of directors and corporate officers. The Committee consists of three or more members, including one or more representative directors and one or more outside directors, and meets at least three times a year. The Committee is chaired by an outside director.

Audit & Supervisory Board meeting

8 times (FY2021)

The Audit & Supervisory Board resolves on audit plans, election/dismissal, non-reappointment of accounting auditors, consent to accounting auditors' remuneration, a draft of audit report, etc. In addition, the full-time Audit & Supervisory Board member reports on the status of audit implementation, audit results, assessment of appropriateness of audit by the accounting auditor, compliance-related matters, etc.

Officers' remuneration

Daifuku stipulates the details of officers' remuneration in related internal rules. The Company also formulates a policy on determination of annual remuneration for individual officers, such as adopting a resolution at a Board of Directors' meeting after consideration and reporting by the Advisory Committee.

Summary of decision policy

- The annual amount of remuneration for directors is set to be 700 million yen or less approved at the ordinary General Meeting of Shareholders held in June 2006. The basic policy is to pay remuneration for directors in accordance with related internal rules stipulated by resolution of the Board of Directors so that the level of remuneration is appropriate for the roles and duties of directors.
- The remuneration for executive directors consists of basic remuneration as fixed remuneration, a bonus as short-term performance-linked remuneration, and medium- to long-term performance-linked equity remuneration.
- The ratio of each remuneration is not fixed because the link between the Company's results and stock value is reflected in remuneration. The Company determines the ratio, taking into consideration the remuneration levels at other companies and reports from the Advisory Committee.
- For outside directors who have a supervisory function, only the basic remuneration shall be paid.
- Basic remuneration is determined based on fixed remuneration for executive remuneration by position. The remuneration level is determined based on a comprehensive consideration of qualifications, position, and company performance, while also taking into account levels at other comparable companies.
- Activities of the Board of Directors and committees, etc., in the process of determination of remuneration amount for officers

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

The Advisory Committee consists of three or more members, including one or more representative directors and one or more outside directors. The chair is an outside director. In fiscal 2021, the Committee consisted of all four outside directors and one representative director.

Performance-based remuneration

Bonuses, which serve as short-term performance-linked remuneration for directors, are funded by a certain proportion of consolidated net income for each fiscal year, allocated as a basic component that corresponds to an officer's qualifications and position and an evaluation component that reflect performance, and distributed once a year at a fixed time. When calculating bonuses, we determine the "basic component factor" based on qualification and job title, and the "performance-linked evaluation component factor" based on quantitative (profit growth) and qualitative aspects. In terms of the method of calculations, the basic component constitutes about 80% of the allocation and the performance-linked evaluation component constitutes about 20%. The performance-linked evaluation component is calculated based on the evaluation of individual performance.

Non-monetary remuneration

Daifuku adopts the Board Benefit Trust (BBT) system as a non-monetary remuneration. The purpose of introducing this system is to further clarify the link between officers' remuneration and the Company's results and stock value and for officers to share with shareholders the benefit of rising stock prices and the risk of falling stock prices together with shareholders, with an aim to motivate them help improve results and increase corporate value over the medium to long term. Under this system, standard points are set for each position. According to the degree of achievement of the business year target and the three- or four-year business plan targets, four levels of coefficients are assigned, and points are granted accordingly. The Company's stocks and money are paid according to accumulated points at the time of retirement. The degree of achievement in a fiscal year is calculated based on the degree of achievement of initial net income amount and margin plans in the fiscal year. The degree of achievement in a three- or four-year business plan is calculated based on the latest management targets (including net sales, operating income, and ROE targets) announced by the end of the previous fiscal year.

Performance-linked remuneration and other remuneration

Name	Performance-linked remuneration		Other
	Bonus	Non-monetary remuneration (BBT)	Basic remuneration
Target recipients	Inside directors of the Board, full-time Audit & Supervisory Board members	Inside directors	All officers
Index	The remuneration is funded by a certain proportion of net income and determined based on the results of quantitative and qualitative assessments of the area for which the recipient is responsible.	For each fiscal year: Achievement of performance targets (net income amount and margin) Achievement of a three-year business plan: Targets for net sales, operating income, and ROE in Value Transformation 2023 (April 2021–March 2024)	—

* FY2021

• Net income: Fiscal 2021 initial target of ¥34 billion, forecast value of ¥35.5 billion announced February 2022 (achievement ratio: 104.4%)

• Net income ratio: Fiscal 2021 initial target of 6.8%, forecast value of 7.0% announced February 2022 (achievement ratio: 103.4%)

Delegation of authority to determine remuneration for individual directors

The Board of Directors has the authority to decide on policies on officers' remuneration amount, etc., and the method for calculating the amount. President and CEO Hiroshi Geshiro has been delegated to determine the amount of remuneration for individual directors for fiscal 2021 under the internal rules. The delegated authority includes determining the monthly allocation of basic remuneration for each director and the allocation of bonus based on the evaluation of performance for each director. The authority has been delegated to the president and CEO because the president and CEO is in the most suitable position for evaluating each director's roles and responsibilities while maintaining an overview of results for the entire company. To ensure that the delegated authority is exercised properly, the president and CEO determines the amount of remuneration for each director in line with the opinions of the Advisory Committee.

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

Remuneration for Board members

Total amount of remuneration by position, type of remuneration and number of target officers of the reporting company (FY2021)

Category	Total remuneration (million yen)	Total remuneration by type (million yen)			Number of target officers
		Basic remuneration	Performance-linked remuneration		
			Bonus	Non-monetary remuneration (BBT)	
Directors (excluding outside directors)	455	189	223	42	5
Audit & Supervisory Board members (excluding outside members)	47	25	22	—	1
Outside officers	90	90	—	—	7

Disclosure of individual directors' remuneration over 100 million yen: Hiroshi Geshiro (President and CEO, Representative Director):

Total remuneration of ¥160 million (basic remuneration: ¥55 million, bonus: ¥88 million, and BBT: ¥16 million)

Enhancing corporate governance structure

Evaluation of the Board of Directors' effectiveness

For the purpose of enhancing corporate governance, we have since fiscal 2015 been inspecting whether or not the whole of the Board of Directors functions properly in terms of composition and operation, aiming to identify problems so that we can take measures to remedy them and to enhance the strengths of the Board. We contract with an external evaluation body to carry out analysis and evaluation in order to ensure their independence and objectivity.

Overview of evaluation of the Board of Directors' effectiveness for fiscal 2021

Period: January to March 2022

Subjects: All nine directors and all four Audit & Supervisory Board members

Method: A questionnaire to all subjects and interviews with the representative director and four outside directors

Survey items: 1 Composition of Board of Directors 2 Operation of the Board of Directors 3 Discussions at the Board of Directors 4 The Board of Directors' monitoring function 5 Training 6 Dialogs with shareholders (investors) 7 Subjects' own actions 8 Operation of committees (47 questions in total, including seven requiring written answers)

1 General evaluation

In most of the survey items, evaluation results were higher than the average of results obtained by an external body for all companies. The external body commented that the Board of Directors worked effectively on the whole. An outside officer said that offices and inside officers had a will to make improvements with a constant awareness of issues and that they felt that improvements happened.

2 Main evaluation results

1. Discussions at the Board of Directors were rated by many as free, active and constructive. High marks were given particularly to the fact that Board members held repeated discussions on standards for matters to be referred to the Board of Directors requested by some officers in the previous fiscal year to achieve improvements.
2. Some commented that the current system that allowed outside officers to attend and observe different internal meetings other than meetings of the Board of Directors helped enrich discussions at the Board of Directors.
3. In interviews on the formulation and implementation of the program for successors to the CEO and other posts, some commented that the successor program was reviewed and discussed through development of potential successors and personnel assignment keeping in mind succession.

3 Recognition of problems and future actions

1. Opportunities for training requisite to officers remain part of the agenda. For fiscal 2022, we will be holding intensive discussions on this matter.
2. Insufficiency in sharing of discussions at the Advisory Committee, consisting of the representative director and four outside directors, with the Board of Directors was recognized as a new issue. We will take actions to remedy it.
3. The current composition of the Board of Directors is not problematic. However, several respondents called for enhanced diversity, namely women and non-Japanese nationals, as a point to be address in the future. In response to that, we will continue consideration of this issue from a medium- and long-term perspective.

Skills of the Board of Directors

Name	Expertise, experience							Diversity			
	Corporate management	Technology	Finance/Accounting	Legal affairs, risk management	Sales/Marketing	Global	Environment, society, governance	Independence	Gender	Age	Major career
Hiroshi Geshiro	✓			✓	✓	✓	✓		Male	64	The Group
Shuichi Honda	✓		✓	✓		✓	✓		Male	65	The Group, bank
Seiji Sato	✓				✓	✓			Male	62	The Group
Toshiaki Hayashi	✓	✓				✓			Male	63	The Group
Hiroshi Nobuta	✓	✓				✓			Male	62	The Group
Yoshiaki Ozawa			✓			✓	✓	×	Male	68	Accounting firm, university, outside member of the Audit & Supervisory Board and Substitute Director (Audit & Supervisory Committee Member) of enterprises
Mineo Sakai	✓		✓			✓	✓	×	Male	71	Trading company, IT company
Kaku Kato	✓			✓		✓	✓	×	Male	67	Trading company, energy-related company, university
Keiko Kaneko				✓		✓	✓	×	Female	54	Trading company, university, law firm, statutory auditor and external statutory auditor of enterprises

Notes: 1 Up to five skills of individuals are marked with "✓".
 2 The above list does not represent all of the knowledge, experience, and abilities of individuals.
 3 The age is at the nearest birthday as of the conclusion of the General Meeting of Shareholders.

Cross-shareholding

The policy on shareholding is defined in the Disclosure Based on the Principles of Japan's Corporate Governance Code as follows:

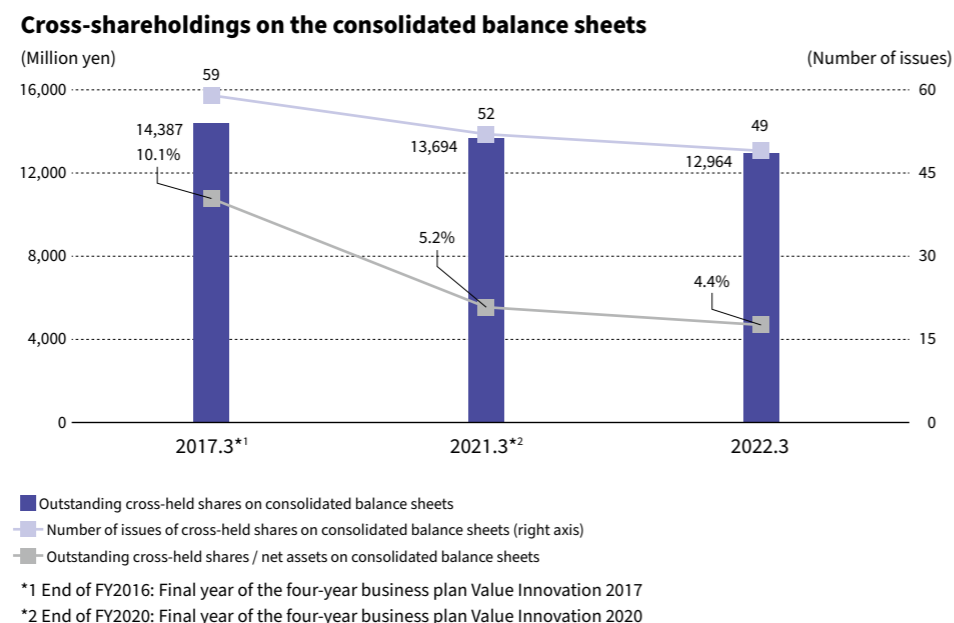
"Our basic policy is to limit shareholdings, including shares held as cross-shareholdings, to the minimum necessary and to reduce them, and the Board of Directors confirms the status of individual holdings every year. In principle, we will no longer hold new shares for strategic purposes.

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 will also be taken into consideration when the economic rationale of cross-shareholdings, such as market capitalization, book value, transaction amounts, dividends, ROE, and risk of shareholdings, is examined. Shares, which the Board of Directors regards as having no significance, will be sold on a timely basis.

With respect to the voting rights attached to cross-shareholdings, we will make decisions individually with an emphasis on improving the corporate value of the cross-shareholding partners over the medium to long term. At the time of the assessment, special attention will be paid to whether the cross-shareholding partner has been tarnished by scandals or has committed an antisocial act. If the cross-shareholding partner has been involved in such circumstances, its managerial approach to improvement shall be scrutinized. Audit reports concerning that partner shall also be scrutinized. When a cross-shareholder indicates its intention to sell the Company's shares, Daifuku shall not hinder the sale of the cross-held shares."

In fiscal 2021, the Company reduced the holding of four issues of shares, including three issues of shares sold entirely. With respect to the shares held as of the end of fiscal 2021, the Board of Directors discussed "examination of whether to continue to hold shares as cross-shareholdings, and investigation based on the standard of exercising voting rights" and approved the holding of the shares at its meeting held on April 26, 2022. In addition, the Company will decide to sell some issues of shares flexibly, keeping a close watch on the prices of the shares. The shares held by the Company are steadily being reduced as shown in the chart [▶ Page 90](#).

Cross-shareholdings



Listed subsidiary

The Company has held shares of Contec Co., Ltd. as a listed subsidiary, but conducted a tender offer. As a result, Contec Co., Ltd. was delisted on April 28, 2022. The Company currently has no listed subsidiary.

With the growing focus on structural conflict-of-interest risks between a listed parent and its subsidiaries and to strengthen countermeasures against them, the Company has been examining the optimal capital and alliance relationships with Contec from the perspective of its business portfolio management and corporate governance. As a result, the Company has come to realize that it is essential to better facilitate mutual utilization of Contec and the Company's management resources, etc., and to promptly make decisions as a united Group. Accordingly, the Company has decided to make Contec a wholly owned subsidiary of the Company.

Looking forward, along with the acceleration of DX (digital transformation), Contec products are expected to play an increasingly active role. Contec will strive to achieve further growth by leveraging its group strengths while pursuing innovation and value creation. As a member of the Daifuku Group, Contec aims to maximize comprehensive collaboration effects across the Group.

Risk management

Risk management framework

Daifuku established a Risk Management Committee in April 2022 for the purpose of managing significant risks that affect the achievement of the Group's management goals in a cross-organizational manner. The Sustainability Committee has been responsible for risk management. However, risks surrounding business and management environment are rapidly changing and uncertainty in business is growing. In response to the situation, the Group has established the independent committee that integrates Groupwide risk management activities to build a stronger management system that supports swift decision-making and strong risk-taking. The Risk Management Committee is chaired by the CEO, and composed of global business heads, division managers, and responsible persons of the Safety and Health Management Division, Corporate Functions unit and other units. The Committee holds several general meetings annually, and reports significant risk management issues to the Board of Directors as appropriate.

Management systems for normal time and for emergencies

The Company has established the Risk Management Committee to separately operate the system for normal time and that for emergencies. The Committee promotes risk management actions in normal time, and controls risks before they become apparent. On the other hand, the Company has developed a business continuity plan (BCP) promotion system to address a crisis in emergencies after a risk becomes apparent. The BCP promotion system works together with the Risk Management Committee and also makes preparations for emergencies in normal time. When faced with a crisis such as a large-scale disaster, we will quickly establish a system and take an initial response to prevent secondary disasters, giving top priority to human life.

Prerequisites for risk analysis

- The Group considers the following preconditions should be analyzed for risk analysis:
- ▶ Our business is significantly affected by the trend in capital investment of a customer in a certain industry.
 - ▶ Our business generally involves long-term plant installation.
 - ▶ The Group operates globally, and nearly 70% of its net sales are from outside of Japan.
 - ▶ The results and scale of the Group are rapidly growing and are expected to continue growing, and sustainable growth is expected in the future.
 - ▶ Logistics systems are recognized as an important social infrastructure and attracting growing attention in society.

Risk assessment

The Group regularly conducts a risk assessment in accordance with the Risk Management Rules. Crucial risk factors that significantly affect the business activities of the Group are extracted, and those factors are mapped with two assessment axes of frequency and consequence to grasp and manage risks.

The assessment covers all business units and subsidiaries inside and outside of Japan. In accordance with the results of the assessment, an external agency adjusts the measures through the survey in the Group and with their expert knowledge. The results in 2021 had a higher consequence in risks associated with changes in the business environment compared with the results of the 2019 assessment. This assessment reflected the COVID-19 pandemic, US-China trade friction, the global semiconductor shortage and other factors.

Significant risks

According to the results of the risk assessment and other data, the management has recognized that the risk factors described below may have a material impact on the financial position, operating results and cash flows of consolidated companies: Risks projected in normal business operation are described in 1 to 6. Factors described in “7 Risks from the COVID-19 pandemic” are of higher priority under the current situation, and those in “8 Risks associated with climate change” should be disclosed in accordance with international frameworks. For item 8, see Page 80.

We are implementing countermeasures against each risk, however, earnings forecasts may have more impact than expected.

Summary of major risks

1 Risks related to changes in business environment	Impact	<ul style="list-style-type: none"> Decrease in capital investment due to economic fluctuations in the electronics sector, mainly semiconductor and flat-panel displays Supply shortage of semiconductors and other parts, soaring energy and raw material prices, disrupted logistics networks and rising labor costs Economic impacts of rising energy and food prices and supply chain disruption on consumption due to impact of Russia’s invasion of Ukraine
	Measures	<ul style="list-style-type: none"> Paying close attention to trends in the electronics sector to flexibly reflect them in our business plans Improving the accuracy of project management, including budgets and installation progress Focusing on and minimizing the impact on business activities related to Russia and Ukraine
2 Risks related to compliance	Impact	<ul style="list-style-type: none"> A significant increase in management targets due to rapid growth of the Group, emergence of risks due to stricter legal systems, etc.
	Measures	<ul style="list-style-type: none"> Outside directors’ participation in the Compliance Committee Internal audits conducted by the Audit Division that is independent from the business lines Review of the whistleblowing system Having established the Legal and Compliance Division and developed regulations to prevent corruption, breaches of competition laws, etc. Having established the Audit & Supervisory Board Office to assist the duties of Audit & Supervisory Board members and the Audit & Supervisory Board, to enhance the effectiveness of audits by Audit & Supervisory Board members Having set the Risk Management and Governance Office (now Governance Promotion Department) to enhance governance of the entire Group Having set the International Trade Management Department to develop the compliance management system for import and export transactions Creating a Compliance Guidebook in multiple languages that explains the Group Code of Conduct, holding briefing sessions on the Code using the guidebook
3 Risks related to human resources	Impact	<ul style="list-style-type: none"> Difficulty in acquiring and securing excellent personnel
	Measures	<ul style="list-style-type: none"> Actively hiring and promoting women, foreign nationals, and mid-career professionals Conducting an engagement survey that asks about motivation and comfort in workplaces of the Group employees Building a training system intended to train successors (officers and executives) through clarifying key positions and identifying employee competencies (required behavior and attitude)
4 Risks from large-scale natural disasters	Impact	<ul style="list-style-type: none"> Suspension of business activities due to the occurrence of large-scale natural disasters such as earthquake and tsunami Supply chain disruption, including suspension of business partners’ operations
	Measures	<ul style="list-style-type: none"> Formulation and regular review of BCP and initial response procedures Establishing a rapid recovery system and conducting regular drills for the purpose of initial response Natural disaster hazard surveys at each site, expansion of stockpiles


5 Reputation risks	Impact	<ul style="list-style-type: none"> Reputation risks (damage caused by rumors) by the spread of misinformation, wrong advertisement, or infelicities widely spread through social media The Group’s brand image and social credibility decline, potential impact on operating results and financial condition
	Measures	<ul style="list-style-type: none"> Conducting media training for officers and preparing guidelines
6 Risk of information leakage from cyberattacks	Impact	<ul style="list-style-type: none"> Information leakage due to cyberattacks and accidents related to computer security
	Measures	<ul style="list-style-type: none"> Strengthening Groupwide information security measures through the Information Security Committee chaired by the CEO Identifying the possible scope of impact and damage from cyberattacks Initial response to prevent the spread of damage Conducting employee education and drills on a regular basis
7 Risks from the COVID-19 pandemic	Impact	<ul style="list-style-type: none"> Restrictions on movement, attendance, and activities of the Group and customers. Delay or stagnation of business activities due to an outbreak of infections. Deterioration of profitability due to the postponement, cancellation, or reduction of customers’ capital investment due to recession
	Measures	<ul style="list-style-type: none"> Building the BCP system, accumulating know-how and knowledge to respond to disasters and emergencies Conducting a system of working from home Establishing a special task force to address the pandemic, with the CEO as its head
8 Risks related to climate change	Impact	<ul style="list-style-type: none"> Delays in incoming and outgoing products, damage to production equipment, and shutdowns of our factories due to increased incidence of typhoons, heavy rains, flooding, etc. Risk of employees experiencing heatstroke in factories and other facilities, associated with high temperatures
	Measures	<ul style="list-style-type: none"> Declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) We disclose information within the framework of the TCFD recommendations. For details, see “Disclosure of Climate Change Information” Page 80 . Disclosure based on the TCFD Recommendations “The Four Core Elements and Our Initiatives” (1) Governance <ul style="list-style-type: none"> We have set up the Sustainability Committee under the direct control of the CEO. Board of Directors resolves necessary measures are passed based on reports from the Committee. (2) Strategy <ul style="list-style-type: none"> As a result of scenario analysis, it was found that the impact of climate change on our business performance is minor, although business costs increased. On the other hand, we expect growth in demand for our products and services, which will exceed the above negative impact. (3) Risk management <ul style="list-style-type: none"> The Sustainability Committee manages risks in a centralized manner and reports those that have high priority to the Board of Directors. (4) Metrics and targets <ul style="list-style-type: none"> We formulated Daifuku Environmental Vision 2050 in 2021. We have set targets for 2030 based on the Vision. For details, see “Contribute to the environment through our business” Page 76 .

Strengthening corporate governance

Correspondence to Japan's Corporate Governance Code

In November 2021, the Daifuku Group developed its Basic Policy for Corporate Governance and the Disclosure Based on the Principles of Japan's Corporate Governance Code. We did this with the aim of complying with the revision to the Tokyo Stock Exchange's Corporate Governance Code in June 2021. The Disclosure describes the state of compliance with all 83 principles in the Corporate Governance Code one by one.

Normally, compliance reports on revisions to the Corporate Governance Code are made by submitting corporate governance reports. We selected the method of timely disclosure of the report. This is designed to deepen public understanding of the Group's stance and its sincere efforts to carry out its corporate governance reform. For details, see the following news release.

 For details, see our website:
www.daifuku.com/ir/assets/20211126_01e.pdf

Initiatives for strengthening compliance

1 Creating the Compliance Guidebook

We have established the Group Code of Conduct that defines the fundamental principles we (all directors, officers and employees of the Group) should follow with the aim of realizing the company creed and management philosophy.

The Code defines the Group's compliance as "acting in good faith and comply with all applicable laws, rules, regulations and social norms of each country in all aspects of our business activities" (see Figure 1).

In 2021, we created the Compliance Guidebook to give plain explanations of the Group Code of Conduct, publishing it in multiple languages. The CEO addressed all personnel in the Group about the concept of compliance. We continue efforts to raise staff's awareness about compliance and to disseminate it throughout the Group.

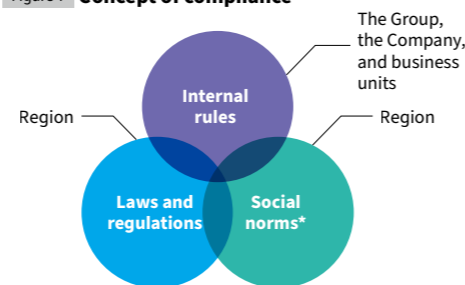
2 Compliance awareness month campaign

The Company conducts compliance training for its officers and employees. Specifically, every October is designated as a month for compliance awareness, and we are conducting a penetration plan with case studies. In fiscal 2021, we held discussions with experts and outside directors on the theme of governance, and distributed content on the internal intranet.



In-house newsletter article where the CEO appeals to raise compliance awareness

Figure 1 Concept of compliance



* Social norms: Including the discipline, tradition, practices, religion, morality and other ethical norms that should be observed in social life

Whistleblowing system

The Company shall develop and operate a whistleblowing system for the early detection of risks associated with corporate activities and the prevention of material problems.

We accept reports via two routes, namely one internal and one external route, to ensure a more effective whistleblowing system. Anonymous reporting is possible, and it is available in eight different languages for executives and employees of the Group, as well as ongoing business partners (suppliers) from different sites around the world.

The Internal Reporting Secretariat is responsible for the administration of this system and verifies the facts of the report, determines the course of action to take, and handles investigations, among other duties. Should a compliance problem be identified through the investigation, we will take corrective action and measures to prevent a recurrence. Critical problems are reported to the Compliance Committee and the Audit & Supervisory Board.

Anti-bribery

In accordance with laws and regulations, the Company and the entire Group take a resolute attitude toward antisocial forces and groups that threaten the order and safety of civil society. In addition, we will develop and disseminate anti-bribery regulations, etc., in response to compliance risk on a global level.

The Group has established policies for responding to organized crime groupings and other antisocial forces in the Group Code of Conduct, and ensures that Group officers and employees are fully aware of those policies. In terms of anti-bribery measures, in addition to regulations for providing entertainment, gifts, etc., in April 2021, new rules for receiving entertainment and gifts were established. The Group is committed to strengthening its anti-corruption efforts by engaging in sound and transparent transactions Groupwide.

Daifuku receives METI Minister's Award for Corporate Governance of the Year 2021

In January 2022, Daifuku received a special METI Minister's Award for Corporate Governance of the Year 2021, sponsored by the Japan Association of Corporate Directors (JACD).

The point of this year's review is in terms of a company's selection and succession of presidents and CEOs, the planning of which are fundamental for corporate governance. We earned high marks for outstanding achievements by global management from a medium- and long-term perspective in addition to fulfilling all of the criteria mentioned below.

- Election process with a focus on objectivity that involves the Advisory Committee
- Swiftiness in change of president
- Formation of an executive team led by the new president, improvement of the process for electing the president, reforms helpful to successor planning, and communication and information sharing with outside directors
- Display of integrity required of the management to sincerely answer expectations of stakeholders

For the functions played by the Advisory Committee and outside directors, refer to the Roundtable Discussion with the Outside Directors [▶ Page 100](#). Outside directors play significant roles in deliberations for the election of corporate officers from among whom future management members and the CEO will be elected and in acting as lecturers in leader development training and training for senior managers (as prospective corporate officers).



Daifuku received the award together with other companies with an excellent reputation for corporate governance. (Daifuku president and CEO Hiroshi Geshiro on the far left)

Management (As of June 24, 2022)

Representative Director



Hiroshi Geshiro

President and CEO

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

Directors



Shuichi Honda

President and CEO of
Daifuku North America Holding Company

Director
Senior Managing Officer

Shuichi Honda promotes globalized management based on his international knowledge and involvement in managing a Japanese megabank, while serving as the head of a North American holding company.



Seiji Sato

Cleanroom Global Business Head
Cleanroom Division Manager

Director
Managing Officer

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



Toshiaki Hayashi

Automotive and
Airport Global Business Head
Chief Officer of Shiga Works

Director
Managing Officer

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



Hiroshi Nobuta

Intralogistics Global Business Head
Intralogistics Division Manager

Director
Managing Officer

Hiroshi Nobuta has abundant experience in the field of the mainstay Intralogistics business centered on engineering and sales, as well as management experience in a non-Japan subsidiary.



Yoshiaki Ozawa

Outside Director

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



Mineo Sakai

Outside Director

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



Kaku Kato

Outside Director

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



Keiko Kaneko

Outside Director

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

Audit & Supervisory Board members



Tsukasa Saito

Audit & Supervisory Board Member

Tsukasa Saito is well versed in the Group's business operation with deep insight mainly in the field of finance and accounting, management experience in a non-Japan subsidiary, and being involved in duties of Audit & Supervisory Board members.



Ryosuke Aihara

Audit & Supervisory Board Member (outside)

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



Tsukasa Miyajima

Audit & Supervisory Board Member (outside)

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



Nobuo Wada

Audit & Supervisory Board Member (outside)

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

Officers

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

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Akihiko Kishida

Chairman of Daifuku (China) Co., Ltd.

1 Production 2 China* 3 Male 4 63

Yoshiyuki Horiba

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

1 Design and development 2 —
3 Male 4 63

Takaya Uemoto

Deputy Automotive and
Airport Global Business Head
Airport Division Manager

1 Installation, service 2 U.S.A.* 3 Male 4 61

Yasuhisa Mishina

Production Officer
DX Division Manager
Intralogistics Production Head

1 Software, design, production 2 —
3 Male 4 62

Hideaki Takubo

Corporate Functions Head
Human Resources and General Affairs
Division Manager

1 HR, general affairs 2 China* 3 Male 4 61

Takuya Gondoh

Advanced Technology & New Business
Development Officer
Intralogistics Engineering Head

1 Engineering, production 2 — 3 Male 4 61

Audit Officer

Toshikatsu Takahashi

Audit & Supervisory Board Office Manager

1 HR, general affairs 2 China* 3 Male 4 58

Corporate Officers

Akihiko Nishimura

Deputy Automotive and Airport Global Business Head
Automotive Division Manager
Automotive Sales and Service Business Strategy

1 Installation, service, sales 2 Canada, U.S.A.*
3 Male 4 59

Hiroaki Kita

Safety and Health Management

1 Design, product development
2 U.K., Germany, U.S.A., China*
3 Male 4 61

Norihito Toriya

Intralogistics Sales Head

1 Sales 2 — 3 Male 4 58

Tetsuya Hibi

Deputy Corporate Functions Head
Finance and Accounting Division Manager

1 Finance, accounting 2 U.S.A.* 3 Male 4 58

Seiji Yamamoto

Intralogistics Installation and Services Head

1 Installation, service 2 Thailand* 3 Male 4 57

Tsutomu Maeda

Automotive Domestic Market Business Unit Head
Automotive Global Production Head

1 Installation, service 2 U.S.A., India*
3 Male 4 56

Tomoaki Terai

Cleanroom Production Head

1 Production 2 U.S.A., Taiwan* 3 Male 4 53

Atsushi Sonoda

Cleanroom Sales Head
Chief Officer of Komaki Works

1 Sales 2 South Korea 3 Male 4 53

Roundtable Discussion with the Outside Directors

Daifuku is currently acting on its three-year business plan Value Transformation 2023 and its Sustainability Action Plan—its “cornerstones of management.” These plans draw from the Company’s management philosophy, which was revised in fiscal 2021. We held a roundtable discussion with our outside directors, at which we asked their opinions on Daifuku’s management philosophy, the significance of its “cornerstones of management” approach, and future issues for the Company related to value creation.

Q1

How would you evaluate the activities of the Board of Directors in fiscal 2021?

Ozawa The exchange of opinions during Board meetings was much more active in fiscal 2021 than in previous years. Under the leadership of Daifuku President and CEO Hiroshi Geshiro, there was lively discussion of strategies that went beyond the boundaries of the Company’s business units. This allowed Daifuku to follow its natural tendency to stay on the offense and keep taking on challenges.

Kato Not only was it easy to have discussions at Board meetings, the executive directors made a concerted effort to listen to the opinions of the outside directors. The agenda for meetings has been adjusted to reduce discussions related to the minutiae of business execution and allot more time for discussion about more important issues. I feel that the Daifuku Group as a whole has a very free and open corporate culture.

Kaneko Improvements to management of the Board of Directors have also been implemented quickly. When proposals were made to enhance discussion methods, they were incorporated promptly to improve efficiency. A notable characteristic of the Company is the lively discussion that takes place at Board meetings.

Sakai Over the past few years, Mr. Geshiro has spearheaded efforts to raise operational efficiency, sorting out important matters from unimportant ones, leading to a considerable improvement in the quality of our discussions at Board meetings. I hope we will be able to hear even more from inside officers in the future.

Q2

What role do you think Daifuku should play in society in light of its new management philosophy “Automation that Inspires?”

Ozawa I believe this is a management philosophy that strives to realize a sustainable society, aims to provide optimal solutions for customers, and encourages employees to excel, and is emblematic of Daifuku and its “Hini Arata” company creed. In particular, Daifuku’s smart logistics are extremely useful to realizing a sustainable society. In addition, the Company’s commitment to maintaining an attitude among its employees of taking on challenges echoes the phrase “leave no one behind,” a principle of the SDGs.

Sakai I was thoroughly impressed by the Company’s strong resolve and sense of mission after reading a message from one of the Board members in the Company’s in-house newsletter, published after the revision of the management philosophy. It stated that “Daifuku is committed to leading the logistics industry using the latest technology, raising the efficiency of on-site work, and improving working environments.” I believe it is important for Daifuku to be committed not only to raising on-site efficiency but also to fulfilling its social role in terms of enriching people from within.

Kaneko I believe the significance of logistics in society has grown as a result of globalization and the COVID-19 pandemic. This means that the social impact of Daifuku’s technologies, and the work-style, lifestyle, and other reforms that come with it, is on the rise as well. These technologies have amazing possibilities, and when one considers that Daifuku’s primary business is to promote technological innovation in this direction, I expect the Company and its business will enrich the world and inspire people.

Ozawa Purpose-driven management is taking hold both inside and outside Japan. Purpose-driven management refers to management that emphasizes a company’s reason for being. However, it is different from a management philosophy in that it is meant to make employees aware of the direct connection they have to this reason for being. This includes their relationship with a company’s social significance. Purpose-driven management requires us to consider the fundamental purpose of a company’s existence. I believe that Daifuku’s management philosophy is a close reflection of this purpose. It is both realistic and easy for customers and employees to sympathize with. Therefore, I think by taking concrete steps to embody this new philosophy, Daifuku will be able to create new value. That said, Daifuku is a for-profit company, so it cannot cast aside the need to improve profitability. Instead, it must meet this need while also fulfilling its fundamental role to contribute to society as laid out in its management philosophy.

Yoshiaki Ozawa
Outside Director

Mineo Sakai
Outside Director

Kaku Kato
Outside Director

Keiko Kaneko
Outside Director

Roundtable Discussion with the Outside Directors

Q3

How do you view the positioning of the three-year business plan and the Sustainability Action Plan as the cornerstones of management?

Kato Daifuku is a company that contributes to social sustainability by expanding its business. As a result, I think it should move forward with both wheels—the three-year business plan and the Sustainability Action Plan—working in tandem rather than separately.

Sakai We could say that both the three-year business plan and the Sustainability Action Plan are pointed in the same direction in terms of realizing a sustainable society. Additionally, when we look at recent social trends, we see that economic and sustainability activities do not remain separate—they inevitably intertwine. I believe it will be important to make sure that steps are taken to ensure these activities are effectively integrated in the future.

Kaneko More and more companies are combining the pursuit of financial targets in their medium-term management plans with their sustainability activities. The thing that differentiates these companies from one another is how committed they are to integrating the two. In the case of Daifuku, Mr. Geshiro has declared the Company's full commitment to positioning the cornerstones of management as a single driving force.

Ozawa Daifuku has set KPIs for each material issue (materiality) highlighted in the Sustainability Action Plan, in addition to numerical targets within the three-year business plan. This established a complementary relationship between the two plans, in that figures for both will be checked, and I expect that the act of closely monitoring both will accelerate this two-wheeled approach going forward.



Kato I will add that it would be even better if the cornerstones of management were promoted in a way that drives employees, such as tying the achievement of each KPI to the evaluation of employees in a business unit. This would keep the Sustainability Action Plan from becoming an empty title.

Q4

Value Transformation 2023 highlights enhancing product value, increasing productivity, and reinforcing its production frameworks as means to improve profitability. What progress did you see in fiscal 2021 along these lines?

Ozawa Over the past year, every business unit has worked across the board to increase productivity and reinforce their production framework, and these efforts are starting to bear fruit. Moreover, Daifuku's strengths lie in its in-house development of hardware and software that make up its systems, and its comprehensive customer support system that covers everything from consulting, design, production, installation and maintenance. Under its current three-year business plan, Daifuku intends to leverage these strengths to enhance product value across the Group, and I look forward to seeing how this plays out in the future.

Sakai ROE for fiscal 2021 was 13.1%, which maintained the Company's goal of 10.0% or higher. This tells me that it is making good progress in terms of these measures. As for increasing productivity and reinforcing production frameworks, Daifuku established the DX Division, which has helped set up a highly accurate and digitalized project management system. The Company is also taking steps to optimize engineering. As well, it has worked to enhance product value by focusing its attention on developing new technology and establishing new businesses, having appointed an officer in charge of these tasks in April 2022. I am looking forward to seeing Daifuku use its world-leading technology to set itself even further apart from other companies going forward.

Q5

Japan's Corporate Governance Code was revised, which required the Board of Directors to enhance its supervisory functions over human capital and other intangible assets. How would you rate Daifuku's current efforts in this regard?

Kaneko I really feel the deep desire of the executive directors to tackle these three profitability-raising strategies based on the discussions and reporting taking place at Board meetings. I am going to enjoy seeing how these proactive efforts manifest from here on out.



Ozawa In the meantime, there are some issues going forward, specifically the matter of reorganizing Daifuku's business portfolio and the strategy for doing so. Instead of continuing to develop several business units in parallel, Daifuku should adopt a more selective and concentrated approach, keeping in mind the Company's core competencies and allocating management resources in their direction.

Kaneko Generally speaking, long-running companies tend not to follow that approach, but I hope the Company does eventually assess its portfolio from a medium- to long-term perspective, even if it does not do so immediately.

Ozawa One of the main revisions in the latest iteration of the Code centers on ensuring diversity among human resources, which is something the Company is currently addressing. However, in the case of women in managerial positions, there are still no women on the Board of Directors from within the Company nor are there any female executive officers. Daifuku would do well to look into this in the future.

Kaneko The Company has been steadily implementing measures aimed at improving gender diversity, and this includes its ongoing practice of hiring a certain number of women, but there is still room for improvement. As for the issue of women in managerial positions, this is related to the need for companies to have a good foundation of talented and motivated human resources. Women working at Japanese companies face obstacles that prevent them from achieving the long tenure required for these managerial positions. One of the reasons for this is that the long working hours may make it difficult for people to balance work with their personal lives. When developing a personnel system, companies have to ensure mechanisms are in place that make it easy for people raising children to perform their duties. This applies to men as well. Essentially, companies need a system that will allow motivated people to continue working for many years. Daifuku has long been a company that has advocated for reforms to support families with small children, and has a variety of mechanisms in place to do so.

Kato It is important that excellent human resources are evaluated fairly and placed in suitable positions regardless of who they are, versus simply adhering to a hiring quota or similar framework. It is better to make an active effort to hire exceptional human resources, as this will increase the number of women and non-Japanese employees and naturally cause new company values to develop.

Roundtable Discussion with the Outside Directors

Q6

Please tell us about the activities of the Advisory Committee.

Sakai About 200 years ago, Japanese agriculturalist, philosopher, and economist Sontoku Ninomiya, a man who worked tirelessly to restore devastated farming villages, stated that “without morality, economy is a crime, and without economy, morality is idle chatter.” As Ninomiya says, companies need to fulfill their social responsibilities while they increase their profits, which means there needs to be effective governance regarding sustainability. Japan’s Corporate Governance Code has been revised against the backdrop of recent social demands, such as initiatives pertaining to human resources and other intangible assets, and Daifuku is making a sincere effort to respond to each one. These demands always underpin our discussions at Board meetings as well.

Kato I agree—Daifuku is both humble and sincere. Naturally, it will not announce things it has not done as if they are complete. Instead, the Company accepts that it has things it needs to work on and then makes an earnest attempt to improve them.

Ozawa At the Advisory Committee, we outside directors make an active effort to scrutinize decisions related to nomination policies and procedures, and evaluations of director performance. We also look into matters regarding remuneration, watching over the investigation and formulation of remuneration policies and making sure they are appropriate. In fiscal 2021, the Committee held five meetings, with plenty of productive discussion.

Sakai From my own experience as a CEO, I know that potential candidates to succeed as company president need to have their eyes on the future and take on a broad range of future-oriented work while gaining the necessary experience. When candidates go through this cultivation process, consensus and support naturally forms around one who stands out as the next leader. In fact, this happens at many companies; over time, an opinion forms internally that one person will be at the top of the Company in the future.



Ozawa When we look for future executives, and by extension, future CEO candidates, we make deliberations with reference to criteria such as personality/humanity, reputation, insight, executive ability, management perspective, and active involvement in managerial matters. We are also establishing a framework that provides multiple opportunities to gain a direct understanding of the personality and thought process of candidates for successor. To do this, outside directors take part in internal candidate selection systems, such as leader development training and training for senior management, aimed at cultivating candidates for executive officers, serving as instructors and by participating in important non-Board meetings with these candidates. The Advisory Committee then deliberates on the appointment of the CEO based on objective criteria that takes into account the candidate’s qualifications and other factors.

Sakai There needs to be more opportunities for us outside directors to share information with inside directors, since they know more about the human resources within the Group.

Kato We need to know the true character of these candidates, as opposed to official statements from the Board alone. However, since the outside directors have access to only a tiny bit of this information, our main role as outside directors is to point out whether or not due process is being followed at each stage of the selection process. That being said, I would like to have this information to ensure there is no feeling that we picked the wrong person.



Kaneko Of course, it is essential to have a systematic selection process right up to the time of election, but the most important thing when training and selecting a successor candidate is making sure the right candidate is elected at the right time.

Sakai The first year I attended Daifuku’s General Meeting of Shareholders was in 2018, when the Company changed presidents. When the previous president Masaki Hojo, was asked why Mr. Geshiro was selected, he simply answered “He is sincere.” This answer left a strong impression on me. Since then, I watched over his management of Daifuku as an outside director and have seen the Company make steady progress over the course of four years. This reaffirms to me that Mr. Hojo was correct, and that Daifuku has a good system for developing and selecting successors.

Kaneko It is definitely a case of the right person being put in the right position. I believe no company president out there conducts day-to-day management without thinking about who will eventually succeed them, and Daifuku is devoting considerable efforts to the coming generation.

Sakai The sitting president of a company will naturally have the best understanding about developing and selecting the next president, so it is a good idea to listen to the current president, identify what they think is important, and use that information in our own investigations.

To Stakeholders

Daifuku has been a pioneer, always leading the pack in the material handling industry. With its total support system, covering consulting, engineering, design, manufacturing, installation, and after-sales services, we feel that the Company is a true example of the Blue Ocean Strategy, which entails venturing into an untapped market or reinventing an existing one. However, material handling will not be a blue ocean forever, and the Company needs to venture into new fields. Daifuku is still a growing company, and there is much to look forward to.

Moreover, as the Company expands, it will help end labor shortages and improve logistics, which will be a boon to both stakeholders and society. We would encourage you all to look forward to what is coming in this regard as well, and know that we will provide our full support as outside directors.

Chapter 4

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Eleven-Year Financial Summary

Daifuku Co., Ltd. and consolidated subsidiaries

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

(Million yen)	Material Handling and Beyond		Value Innovation 2017				Value Innovation 2020				Value Transformation 2023
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
For the Year											
Net sales	¥ 198,052	¥ 202,337	¥ 241,811	¥ 267,284	¥ 336,184	¥ 320,825	¥ 404,925	¥ 459,486	¥ 443,694	¥ 473,902	¥ 512,268
Cost of sales	165,505	165,340	194,974	215,641	272,832	256,417	321,836	358,230	357,870	385,744	417,968
Gross profit	32,546	36,996	46,836	51,642	63,351	64,407	83,089	101,255	85,824	88,157	94,299
Selling, general and administrative expenses	28,328	28,986	34,279	36,759	42,472	41,308	43,164	46,574	45,326	43,591	44,046
Operating income	4,217	8,010	12,556	14,883	20,878	23,099	39,924	54,681	40,497	44,566	50,252
Income before income taxes	3,129	7,316	12,137	15,211	20,650	23,942	41,059	55,329	39,808	45,109	50,978
Net income attributable to shareholders of the parent company	1,223	4,439	7,740	9,810	13,652	16,746	29,008	39,567	28,063	32,390	35,877
Capital investment	2,393	7,687	10,446	7,532	4,210	5,905	6,348	7,920	13,220	7,462	11,565
Depreciation	3,612	3,332	3,821	4,157	4,587	4,202	4,419	4,598	5,667	6,401	7,326
R&D expenses	6,484	6,855	7,490	6,945	7,009	7,489	8,123	8,615	8,936	9,165	10,735
Cash Flows											
Cash flows from operating activities	¥ (5,187)	¥ 15,666	¥ 20,447	¥ 6,295	¥ 7,206	¥ 26,683	¥ 11,497	¥ 8,559	¥ 13,706	¥ 38,229	¥ 56,691
Cash flows from investing activities	(4,039)	(13,649)	(7,372)	(5,846)	(2,099)	(5,393)	(5,600)	5,937	(14,791)	(6,132)	(9,828)
Free cash flows	(9,227)	2,016	13,074	448	5,107	21,289	5,897	14,496	(1,084)	32,097	46,862
Cash flows from financing activities	7,709	88	1,045	(509)	(8,702)	(4,404)	13,444	(6,893)	(18,354)	(8,932)	(27,550)
At Year-End											
Total assets	¥ 185,049	¥ 206,875	¥ 249,531	¥ 271,011	¥ 296,055	¥ 303,540	¥ 373,013	¥ 409,982	¥ 410,887	¥ 445,456	¥ 483,322
Interest-bearing liabilities	51,010	53,385	58,144	60,547	40,904	39,770	37,967	40,001	33,418	35,143	26,356
Net assets	76,618	85,685	99,690	111,521	130,116	142,340	191,474	222,885	237,356	262,012	292,059
Shareholders' equity	82,013	84,486	90,652	98,469	123,669	136,694	181,454	214,656	231,714	255,282	279,264
Number of employees	5,617	6,678	7,349	7,746	7,835	8,689	9,193	9,857	10,863	11,697	12,436
Amounts per Share of Common Stock											
Net income per share (Yen)	¥ 11.05	¥ 40.12	¥ 69.96	¥ 88.59	¥ 118.72	¥ 137.58	¥ 235.62	¥ 314.54	¥ 222.96	¥ 257.13	¥ 284.71
Net assets per share (Yen)	674.72	754.98	875.14	972.75	1,044.40	1,142.14	1,493.69	1,738.20	1,850.28	2,040.07	2,307.38
Cash dividends per share (Yen)	15.00	15.00	18.00	22.00	30.00	42.00	70.00	90.00	75.00	80.00	90.00
Ratios											
Operating income / net sales	2.1%	4.0%	5.2%	5.6%	6.2%	7.2%	9.9%	11.9%	9.1%	9.4%	9.8%
Net income / net sales	0.6	2.2	3.2	3.7	4.1	5.2	7.2	8.6	6.3	6.8	7.0
Return on shareholders' equity (ROE)	1.6	5.6	8.6	9.6	11.6	12.6	17.7	19.5	12.4	13.2	13.1
Total assets turnover (Times)	1.1	1.0	1.1	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1
Shareholders' equity / total assets	40.3	40.4	38.8	39.8	42.9	45.8	50.4	53.3	56.7	57.7	60.2
D/E ratio (Times)	0.68	0.64	0.60	0.56	0.32	0.29	0.20	0.18	0.14	0.14	0.09

Notes: 1. The amount of capital investment in the fiscal years ended March 31, 2013, 2014, and 2015 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). Interest-bearing liabilities are short-term borrowings and long-term borrowings recorded in the consolidated balance sheets that pay interest.

5. For details, see the securities report on our website: www.daifuku.com/ir/library/statements

Financial Section

Consolidated balance sheets

(Million yen)	FY2020 (ended March 31, 2021)	FY2021 (ended March 31, 2022)
ASSETS		
Current assets		
Cash on hand and in banks	94,167	118,769
Notes receivable, accounts receivable from completed construction contracts and other	211,906	—
Notes receivable, accounts receivable from completed construction contracts and other, and contract assets	—	208,915
Merchandise and finished goods	6,355	7,045
Costs incurred on uncompleted construction contracts and other	13,670	11,430
Raw materials and supplies	16,325	22,778
Other	8,749	13,148
Allowance for doubtful accounts	(571)	(777)
Total current assets	350,604	381,310
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,304	22,734
Machinery and vehicles, net	5,802	7,799
Tools and fixtures, net	2,637	2,602
Land	12,228	12,496
Other, net	7,574	9,583
Total property, plant and equipment	49,547	55,215
Intangible assets		
Software	3,998	5,077
Goodwill	4,212	3,956
Other	1,804	1,687
Total intangible assets	10,015	10,720
Investments and other assets		
Investments in securities	14,965	13,322
Long-term loans	117	44
Assets for retirement benefits	7,738	9,002
Deferred tax assets	9,566	10,082
Other	3,066	3,627
Allowance for doubtful accounts	(165)	(3)
Total investments and other assets	35,289	36,076
Total non-current assets	94,852	102,012
Total assets	445,456	483,322

(Million yen)	FY2020 (ended March 31, 2021)	FY2021 (ended March 31, 2022)
LIABILITIES		
Current liabilities		
Notes and accounts payable and construction contracts payable	43,778	48,046
Electronically recorded obligations – operating	20,169	28,084
Short-term borrowings and current portion of long-term borrowings	15,543	22,449
Income taxes payable	9,907	7,252
Advances received on uncompleted construction contracts and other	34,263	—
Contact liabilities	—	40,682
Provision for losses on construction contracts	343	711
Other	25,172	26,419
Total current liabilities	149,178	173,645
Non-current liabilities		
Long-term borrowings	19,600	3,907
Deferred tax liabilities	516	802
Liabilities for retirement benefits	7,674	7,494
Other reserves	351	327
Other	6,123	5,086
Total non-current liabilities	34,265	17,617
Total liabilities	183,443	191,263
NET ASSETS		
Shareholders' equity		
Common stock	31,865	31,865
Capital surplus	21,980	20,691
Retained earnings	202,377	227,609
Treasury stock	(941)	(901)
Total shareholders' equity	255,282	279,264
Accumulated other comprehensive income		
Net unrealized gain (loss) on securities	4,376	4,107
Deferred gain (loss) on hedges	(260)	(637)
Foreign currency translation adjustments	(1,425)	8,380
Accumulated adjustments on retirement benefits	(912)	(344)
Total accumulated other comprehensive income	1,778	11,504
Non-controlling interests	4,952	1,289
Total net assets	262,012	292,059
Total liabilities and net assets	445,456	483,322

Financial Section

Consolidated statements of income and comprehensive income

(Million yen)	FY2020 (April 1, 2020– March 31, 2021)	FY2021 (April 1, 2021– March 31, 2022)
Net sales	473,902	512,268
Cost of sales	385,744	417,968
Gross profit	88,157	94,299
Selling, general and administrative expenses		
Selling expenses	16,185	15,162
General and administrative expenses	27,405	28,883
Total selling, general and administrative expenses	43,591	44,046
Operating income	44,566	50,252
Other income		
Interest income	347	346
Dividend income	415	384
Foreign exchange gains	296	—
Subsidy income	128	645
Land and house rental revenue	218	227
Other	680	419
Total other income	2,086	2,023
Other expenses		
Interest expenses	644	352
Foreign exchange losses	—	279
Tender offer related expenses	—	275
Other	162	116
Total other expenses	806	1,022
Ordinary income	45,846	51,253
Extraordinary income		
Gain on sales of property, plant and equipment	14	7
Gain on sales of investments in securities	920	234
Insurance claim income	—	215
Other	—	24
Total extraordinary income	935	481
Extraordinary loss		
Loss on sales of property, plant and equipment	3	0
Loss on disposal of property, plant and equipment	235	300
Loss on valuation of shares in affiliates	1,027	—
Settlement package	234	—
Extra retirement payments	—	278
Loss on liquidation of affiliates	—	143
Other	170	33
Total extraordinary loss	1,671	756
Income before income taxes	45,109	50,978
Income taxes – current	14,010	14,032
Income taxes – deferred	(1,683)	501
Total income taxes	12,326	14,534
Net income	32,783	36,444
Net income attributable to:		
Shareholders of the parent company	32,390	35,877
Non-controlling interests	393	566

(Million yen)	FY2020 (April 1, 2020– March 31, 2021)	FY2021 (April 1, 2021– March 31, 2022)
Other comprehensive income		
Net unrealized gain (loss) on securities	1,666	(267)
Deferred gain (loss) on hedges	(171)	(375)
Foreign currency translation adjustments	(2,539)	9,974
Retirement benefits reserves adjustments	1,589	553
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	16	39
Total other comprehensive income (loss)	562	9,924
Comprehensive income	33,345	46,368
Comprehensive income (loss) attributable to:		
Shareholders of the parent company	32,921	45,604
Non-controlling interests	423	764

Financial Section

Consolidated statements of changes in net assets

FY2020 (April 1, 2020–March 31, 2021)

(Million yen)

	Shareholders' equity					Total shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock			
Balance at April 1, 2020	31,865	21,987	179,292	(1,430)		231,714	
Cumulative effects of changes in accounting policies						—	
Restated balance	31,865	21,987	179,292	(1,430)		231,714	
Changes of items during the period							
Cash dividends			(9,459)			(9,459)	
Net income attributable to shareholders of the parent company			32,390			32,390	
Purchase of treasury stock				(22)		(22)	
Disposal of treasury stock		0		511		512	
Change in scope of consolidation			155			155	
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity		(7)				(7)	
Net changes of items other than shareholders' equity							
Total changes of items during the period	—	(7)	23,085	489		23,567	
Balance at March 31, 2021	31,865	21,980	202,377	(941)		255,282	
	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Accumulated adjustments on retirement benefits	Total accumulated other comprehensive income		
Balance at April 1, 2020	2,716	(89)	1,038	(2,419)	1,246	4,394	237,356
Cumulative effects of changes in accounting policies							—
Restated balance	2,716	(89)	1,038	(2,419)	1,246	4,394	237,356
Changes of items during the period							
Cash dividends							(9,459)
Net income attributable to shareholders of the parent company							32,390
Purchase of treasury stock							(22)
Disposal of treasury stock							512
Change in scope of consolidation							155
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity							(7)
Net changes of items other than shareholders' equity	1,659	(171)	(2,463)	1,507	531	557	1,089
Total changes of items during the period	1,659	(171)	(2,463)	1,507	531	557	24,656
Balance at March 31, 2021	4,376	(260)	(1,425)	(912)	1,778	4,952	262,012

FY2021 (April 1, 2021–March 31, 2022)

(Million yen)

	Shareholders' equity					Total shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock			
Balance at April 1, 2021	31,865	21,980	202,377	(941)		255,282	
Cumulative effects of changes in accounting policies			(3)			(3)	
Restated balance	31,865	21,980	202,374	(941)		255,278	
Changes of items during the period							
Cash dividends			(10,720)			(10,720)	
Net income attributable to shareholders of the parent company			35,877			35,877	
Purchase of treasury stock				(14)		(14)	
Disposal of treasury stock				54		54	
Change in scope of consolidation			77			77	
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity		(1,288)				(1,288)	
Net changes of items other than shareholders' equity							
Total changes of items during the period	—	(1,288)	25,235	39		23,985	
Balance at March 31, 2022	31,865	20,691	227,609	(901)		279,264	
	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Accumulated adjustments on retirement benefits	Total accumulated other comprehensive income		
Balance at April 1, 2021	4,376	(260)	(1,425)	(912)	1,778	4,952	262,012
Cumulative effects of changes in accounting policies							(3)
Restated balance	4,376	(260)	(1,425)	(912)	1,778	4,952	262,009
Changes of items during the period							
Cash dividends							(10,720)
Net income attributable to shareholders of the parent company							35,877
Purchase of treasury stock							(14)
Disposal of treasury stock							54
Change in scope of consolidation							77
Change in treasury shares of parent arising from transactions with non-controlling shareholders' equity							(4,322)
Net changes of items other than shareholders' equity	(269)	(377)	9,805	567	9,726	660	10,386
Total changes of items during the period	(269)	(377)	9,805	567	9,726	(3,662)	30,050
Balance at March 31, 2022	4,107	(637)	8,380	(344)	11,504	1,289	292,059

Consolidated statements of cash flows

(Million yen)

	FY2020 (April 1, 2020– March 31, 2021)	FY2021 (April 1, 2021– March 31, 2022)
Cash flows from operating activities		
Income before income taxes	45,109	50,978
Depreciation	6,401	7,326
Amortization of goodwill	695	639
Interest and dividend income	(763)	(731)
Interest expenses	644	352
Loss (gain) on sales of investments in securities	(920)	(234)
Loss (gain) on disposal or sales of property, plant and equipment	224	292
Loss on valuation of shares in affiliates	1,027	—
Decrease (increase) in notes and accounts receivables	(10,669)	—
Decrease (increase) in notes and accounts receivables and contract assets	—	12,775
Decrease (increase) in inventories	(3,279)	(3,510)
Increase (decrease) in notes and accounts payable	(4,599)	7,464
Increase (decrease) in advances received on uncompleted construction contracts	647	—
Increase (decrease) in contract liabilities	—	3,796
Other	7,259	(6,463)
Subtotal	41,778	72,686
Interest and dividend received	763	729
Interest paid	(624)	(404)
Income taxes refund (paid)	(4,173)	(17,146)
Other	485	826
Net cash provided by (used in) operating activities	38,229	56,691
Cash flows from investing activities		
Investments in time deposits	(62)	(3)
Proceeds from refund of time deposits	0	1
Payments for purchase of property, plant and equipment	(7,481)	(10,461)
Proceeds from sales of property, plant and equipment	23	53
Payments for purchase of investments in securities	(27)	(29)
Proceeds from sales of investments in securities	1,596	625
Collection of loans receivable	6	15
Other	(186)	(29)
Net cash provided by (used in) investing activities	(6,132)	(9,828)
Cash flows from financing activities		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(5,683)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	152
Increase (decrease) in short-term borrowings, net	1,760	(8,320)
Proceeds from long-term borrowings	—	131
Repayment of long-term borrowings	(482)	(1,647)
Proceeds from disposal of treasury stock	662	38
Payments for purchase of treasury stock	(22)	(14)
Payments of cash dividends	(9,462)	(10,720)
Other	(1,387)	(1,486)
Net cash provided by (used in) financing activities	(8,932)	(27,550)
Effect of exchange rate change on cash and cash equivalents	(741)	4,868
Net increase (decrease) in cash and cash equivalents	22,422	24,180
Cash and cash equivalents at beginning of year	70,883	94,079
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	772	412
Cash and cash equivalents at end of year	94,079	118,672

ESG Data

E: Environmental

Type	Item	Scope	Unit	FY2019	FY2020	FY2021
CO ₂	CO ₂ emissions* ¹	Global	t-CO ₂	38,650	36,927	34,706
	CO ₂ emissions	Japan	t-CO ₂	10,942	10,506	11,827
	CO ₂ emissions* ¹	Non-Japan	t-CO ₂	27,708	26,421	22,879
	CO ₂ emissions per basic unit of net sales* ¹	Global	t-CO ₂ / 100 million yen	8.7	7.8	6.8
	Scope 1+2	Global	t-CO ₂	38,650	36,927	34,706
	Scope 1	Global	t-CO ₂	9,058	9,066	9,566
	Scope 1	Japan	t-CO ₂	1,900	1,812	1,793
	Scope 1	Non-Japan	t-CO ₂	7,158	7,253	7,774
	Scope 2	Global	t-CO ₂	29,593	27,862	25,139
	Scope 2	Japan	t-CO ₂	9,043	8,694	10,034
	Scope 2	Non-Japan	t-CO ₂	20,550	19,168	15,105
	Scope 3	Japan* ²	t-CO ₂	1,462,397	1,421,314	2,366,666
	Avoided CO ₂ emissions* ³	Global	t-CO ₂	—	—	69,694
	Sales of Daifuku Eco-Products	Global	Million yen	38,211	49,183	36,066
	Sales ratio of Daifuku Eco-Products* ⁴	Global	%	11.4	13.9	9.6
Energy	Energy consumption (production)	Global	GJ	658,133	642,121	675,913
	Energy consumption (non-production)	Global	GJ	76,355	80,543	94,876
	Electricity	Global	GWh	57.1	55.2	59.9
	Electricity derived from renewable energy sources	Global	GWh	—	—	5.9
	Percentage of electricity derived from renewable energy sources	Global	%	—	—	9.9
	Liquefied petroleum gas	Global	t	623	502	560
	City gas	Global	Thousand m ³	2,552	2,718	2,927
	Fuel oil A	Global	kl	36	94	56
	Gasoline	Global	kl	468	436	457
	Diesel fuel	Global	kl	79	58	66
Water resources	Water consumption	Japan	m ³	124,836	104,156	104,139
	Groundwater (well water)	Japan	m ³	70,292	53,921	55,847
	Water supply, industrial water	Japan	m ³	54,544	50,235	48,292
	Surface water (rivers, lakes, seas)	Japan	m ³	0	0	0
	Water consumption	Non-Japan	m ³	90,894	91,301	103,114
	Water discharge	Japan	m ³	124,836	104,156	104,139
Waste	Waste generated (including valuable wastes)	Japan	t	5,078	4,555	5,751
	Waste generated (including valuable wastes)* ⁵	Non-Japan	t	—	—	3,739
	Landfill disposal	Japan	t	47	41	36
	Landfill disposal* ⁵	Non-Japan	t	—	—	25
	Recycling rate of waste (including valuable wastes)	Japan	%	99.1	99.1	99.4
	Recycling rate of waste (including valuable wastes)* ⁵	Non-Japan	%	—	—	99.3
Other	Soil and groundwater pollution status reported within plant grounds	Japan	Cases	0	0	0
	Number of environment-related (including water-related) legal violations	Japan	Cases	0	0	0
	Amount paid in fines for environmental-related (including water-related) legal violations	Japan	Million yen	0	0	0

*1 Due to an error in the tabulation method, the results for fiscal 2019 and fiscal 2020 have been revised (August 2022).

*2 Includes CO₂ emissions from the operations of products shipped from Japan to overseas.

*3 CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance. The base year has been changed beginning from the disclosure for fiscal 2021.

*4 Daifuku sales are generally divided into sales for new deliveries and sales for follow-up services, such as maintenance and inspections. The sales ratio for Daifuku Eco-Products uses the number of total sales with service sales deducted.

*5 Data from outside Japan are disclosed from fiscal 2021 but do not include data from North American locations.

S: Social

Type	Item	Scope	Unit	FY2019	FY2020	FY2021	
Quality	Number of serious accidents related to product/system safety	Global	Cases	0	0	0	
Employment	Number of employees	Global	People	10,863	11,697	12,436	
	Number of employees	Daifuku Co., Ltd.	People	2,928	3,042	3,202	
	Average age	Daifuku Co., Ltd.	Age	41.4	42.7	41.0	
	Average years of service	Daifuku Co., Ltd.	Years	15.3	16.0	15.1	
	New graduates	Daifuku Co., Ltd.	People	122	106	109	
	Mid-career recruitment	Daifuku Co., Ltd.	People	136	64	105	
	Ratio of female recruitment	Daifuku Co., Ltd.	%	10	11	10	
	Number of female employees	Daifuku Co., Ltd.	People	348	382	399	
	Number of female managers	Daifuku Co., Ltd.	People	17	18	20	
	Employment rate of people with disabilities	Daifuku Co., Ltd.	%	2.17	2.49	2.54	
	* As of June 1						
	Training	Employee training costs	Japan	Million yen	172.9	101.5	98.9
Training time per person		Japan	Hours	71.3	53.8	51.2	
Number of days for training per person		Japan	Days	9.2	6.9	6.6	
* The number of days is calculated by converting the training hours into 7 hours and 45 minutes, which is the standard working hours per day.							
Number of employees participating in compliance training		Japan	People	292	291	235	
* Rank-based training							
Labor	Number of occupational safety and health trainees (safety training facility)	Japan	People	320	295	1,627	
	Paid leave acquisition rate	Daifuku Co., Ltd.	%	68.7	71.2	73.3	
	Maternity leave utilization	Daifuku Co., Ltd.	People	11	10	8	
	Childcare leave utilization rate (female)	Daifuku Co., Ltd.	%	100	100	100	
	Childcare leave utilization rate (male)	Daifuku Co., Ltd.	%	2.4	3.7	8.7	
	Childcare short-time workday system utilization (female)	Daifuku Co., Ltd.	People	37	36	34	
	Child-care short-time workday system utilization (male)	Daifuku Co., Ltd.	People	1	0	1	
	Return to work rates after 6 months of maternity/childcare leave	Daifuku Co., Ltd.	%	100	100	100	
	Family care leave/personal leave utilization	Daifuku Co., Ltd.	People	0	0	1	
	Turnover rate* ¹	Daifuku Co., Ltd.	%	1.45	1.73	2.43	
Safety	Frequency rate	Japan	—	0.83	0.37	0.21	
	Frequency rate	Non-Japan	—	1.50	0.98	0.65	
	Severity rate	Japan	—	0.004	0.02	0.002	
	Severity rate	Non-Japan	—	0.02	0.03	0.009	
	Employee fatalities	Japan	People	0	0	0	
	Employee fatalities	Non-Japan	People	0	0	0	
Communities	Number of visitors to the Hini Arata Kan demo center* ²	—	People	27,082	6,129	4,503	
	Amount spent for promoting social contribution activities (including donations)	Daifuku Co., Ltd.	Million yen	45.86	27.34	28.98	
	The donation amount to the non-profit organization	Daifuku Co., Ltd.	Million yen	3.32	3.15	3.23	
Compliance	Whistleblowing system	Global	Yes/No	Yes	Yes	Yes	
Other	R&D costs	Global	Million yen	8,936	9,165	10,735	

*1 Excludes retirees and employees leaving the Company at the end of their contract period.

*2 We were temporarily closed to the general public during the COVID-19 pandemic in fiscal 2020 and fiscal 2021.

G: Governance

Type	Item	Unit	FY2019	FY2020	FY2021
Makeup of Board of Directors	Number of directors	People	11	8	9
	Number of outside directors	People	4	4	4
	Number of female directors	People	1	1	1
	Number of Board of Directors' meetings (ordinary, extraordinary)	Times	18	17	18
Makeup of the Audit & Supervisory Board	Number of Audit & Supervisory Board members	People	5	4	4
	Number of outside Audit & Supervisory Board members	People	3	3	3
	Number of Audit & Supervisory Board meetings	Times	6	6	8
Remuneration	Remunerations for directors	Million yen	698	469	515
	Remunerations for Audit & Supervisory Board members	Million yen	109	82	77
Voluntary committees	Advisory Committee for nomination and remuneration	Yes/No	Yes	Yes	Yes
Other	Investor relations meetings	Meetings	374	414	376

ESG external evaluation

Evaluator	Title (constituent)	Evaluation
		FY2021
MSCI	ESG Rating (MSCI Japan ESG Select Leaders Index) (MSCI Japan Empowering Women Index)	AA
FTSE	ESG Rating (FTSE4Good Index Series) (FTSE Blossom Japan Index) (FTSE Blossom Japan Sector Relative Index)	3.4
Sustainalytics	ESG Risk Rating	23.0 (Medium Risk)
CDP	CDP Climate Change	A-
	CDP Supplier Engagement Rating	A

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

Company Profile and Stock Information (As of March 31, 2022)

Company profile

Company name	Daifuku Co., Ltd.	Number of authorized shares	250,000,000 shares
Established	May 20, 1937	Total number of shares issued	126,610,077 shares
Paid-in capital	31,865.3 million yen	Number of shareholders	23,150
Employees	12,436 (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	Prime Market, Tokyo Stock Exchange (As of April 4, 2022)
		Stock transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-5-33 Kitahama, Chuo-ku, Osaka

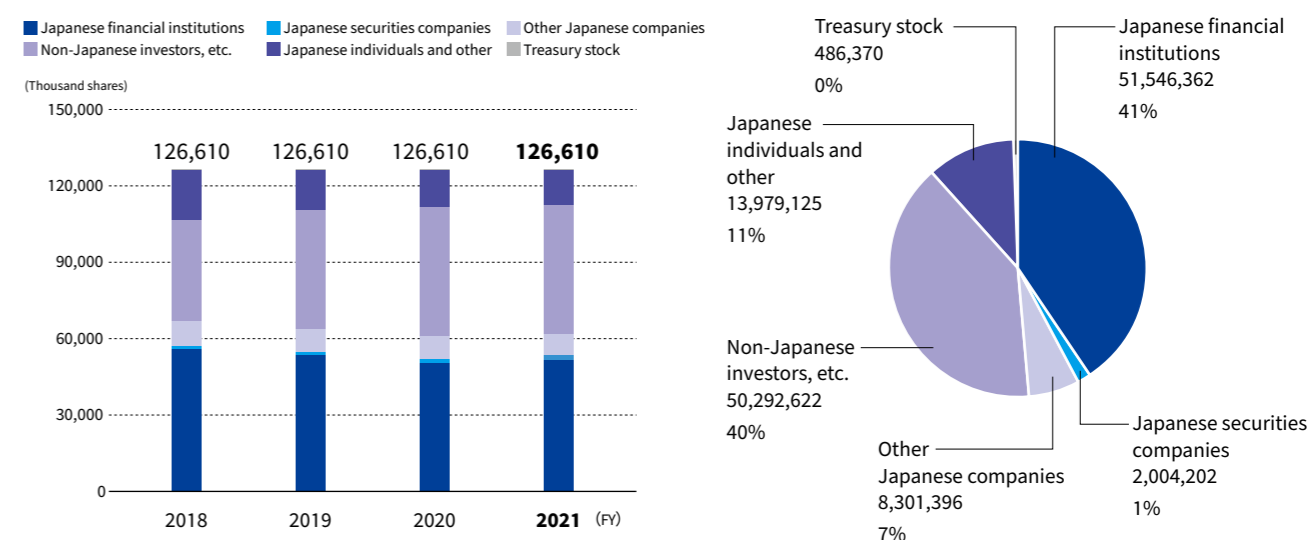
Stock information

Major shareholders

Name	Number of shares held (Thousands)	Percentage of shares held to the total number of issued shares (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,383	15.37
Custody Bank of Japan, Ltd. (Trust Account)	8,783	6.96
Mizuho Bank, Ltd.	4,117	3.26
Sumitomo Mitsui Banking Corporation	3,570	2.83
MUFG Bank, Ltd.	3,354	2.66
Daifuku Supplier Shareholder Association	3,054	2.42
Nippon Life Insurance Company	2,745	2.18
Chuo-Nittochi Group Co., Ltd.	2,690	2.13
SSBTC CLIENT OMNIBUS ACCOUNT	2,588	2.05
J.P. MORGAN BANK LUXEMBOURG S.A. 381593	2,269	1.80

Note: Calculated after deducting treasury stock of 486,370 shares.

Distribution of shareholders



◆ Global network

Japan	Daifuku Co., Ltd.	Europe	Daifuku Europe Ltd.
	Contec Co., Ltd.		Daifuku Europe GmbH
	Daifuku Plusmore Co., Ltd.		Jervis B. Webb Company, Ltd.
	Daifuku Business Service Corporation		Daifuku Logan Ltd.
	Daifuku Manufacturing Technology Co., Ltd.		Daifuku Self Services Technologies AS
	Iwasaki Seisakusho Co., Ltd.		Scarabee Aviation Group B.V.
	Daifuku Airport Technologies Japan Co., Ltd.		
	Scarabee Aviation Group - Japan Co., Ltd.		
Asia Pacific	Asia	Americas	Daifuku North America Holding Company
	Daifuku (China) Co., Ltd.		• Daifuku America Corporation
	• Daifuku (China) Manufacturing Co., Ltd.		• Daifuku Cleanroom Automation America Corporation
	• Daifuku (China) Automation Co., Ltd.		• Jervis B. Webb Company
	Daifuku (Suzhou) Cleanroom Automation Co., Ltd.		• Elite Line Services, Inc.
	Contec (Shanghai) Co., Ltd.		• Wynright Corporation
	Daifuku India Private Limited		Contec Americas Inc.
	ForgePro India Private Limited		Daifuku Canada Inc.
	Vega Conveyors and Automation Private Limited		Jervis B. Webb Company of Canada, Ltd.
	P.T. Daifuku Indonesia		Daifuku Airport Technologies Canada Inc.
	Daifuku Korea Co., Ltd.		Daifuku de México, S.A. de C.V.
	Clean Factomation, Inc.		
	Hallim Machinery Co., Ltd.		
	Daifuku (Malaysia) Sdn. Bhd.		
	BCS Integration Solutions Sdn. Bhd.		
	Daifuku Mechatronics (Singapore) Pte. Ltd.		
	Singapore Contec Pte. Ltd.		
	Taiwan Daifuku Co., Ltd.		
	Taiwan Contec Co., Ltd.		
	Daifuku (Thailand) Limited		
Daifuku Intralogistics Vietnam Company Limited			
Oceania			
Daifuku Oceania Limited			
• BCS Airport Systems Pty Limited			
• BCS Logistics Solutions Pty Limited			
• BCS Infrastructure Support Pty Limited			
• Intersystems (Asia Pacific) Pty Limited			

Message from the Editorial Desk



Thank you for reading the Daifuku Group's integrated report *Daifuku Report 2022*.

In the process of editing this report, we kept in mind dialogs with investors and shareholders and comments together with feedback from a broad range of stakeholders, while endeavoring to offer further insight into our growth strategy and its underlying foundations for value creation.

Prior to production of this report, we defined our management philosophy of "Automation that Inspires" as what the Group aspires to be in the future. With a view to demonstrating that the three-year business plan and the Sustainability Action Plan will result in attaining the management philosophy, we launched another project of studying the value creation process. Led by the head of the Corporate Functions unit, the project team consists of key personnel from different units engaging in sustainability promotion, human resources management, corporate governance promotion and corporate communications, and us the Investor Relations Department. The study looked at elements of Daifuku selected by individual members on the basis of a framework proposed by the IFRS Foundation. A report was then made at the Officers Meeting before being featured here.

We have combined the input capital in the value creation process with Daifuku's corporate culture (DNA). We produced this report with the aim of presenting our corporate history and actions based on the corporate DNA and to give a clear demonstration of the story of value creation up to the realization of a fulfilling society based on our business strategy, fundamental management practices and business operations.

We hope that this publication will help deepen your understanding of the Daifuku Group.

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.

DAIFUKU CO., LTD.

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