

Corporate Governance Report

Translated from the original Japanese-language document

Last update: July 7, 2021

Daifuku Co., Ltd.

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

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

1. Basic Views **Updated**

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

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

The Company is a company with an Audit & Supervisory Board. The Company has enhanced its corporate governance framework by developing a Board of Directors consisting of nine members, including four independent outside directors, and an Audit & Supervisory Board consisting of four members, three of whom are elected from outside the Company. More than a third of the members of the Board of Directors are independent outside directors. The composition indicates that the Company considers diversity. To supplement the functions of the Board of Directors, the Company has an Advisory Committee, which deliberates on the nomination, election and dismissal, and remuneration of the management team members. The Audit & Supervisory Board members strengthen cooperation with the Audit & Supervisory Board Office, Audit Division and accounting auditors and deepen and make more efficient the auditing service.

To encourage rapid decision-making on business execution, the Company has introduced the corporate officer system. The Company has also introduced the audit officer system to strengthen auditing functions.

The President & CEO directs each Global Business and the Corporate Functions and identifies and addresses issues common to the entire Group through the committees under the direct control of the President.

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

The Company implements all the Principles of Japan's Corporate Governance Code revised on June 1, 2018.

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

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

Summaries of the review of cross-shareholdings according to Principle 1.4 and the evaluation of the Board of Directors' effectiveness according to Supplementary Principle 4.11.3 are as follows:

[Principle 1.4 Cross-Shareholdings]

At the meeting of Board of Directors on April 27, 2021, the Company reviewed the appropriateness of its cross-shareholdings held at the end of fiscal 2020. During fiscal 2020, the Company sold six issues. In addition, the Board will decide to sell some of its holdings on a timely basis, checking stock prices, etc.

For details, please see our securities report (Japanese) submitted on June 28, 2021. The full text of the report is also available on the Company website (Japanese):

www.daifuku.com/jp/ir/library/statements

[Supplementary Principle 4.11.3 Evaluation of the Board of Directors' effectiveness]

In March 2021, the Company conducted its sixth questionnaire of all directors and Audit & Supervisory Board members concerning the Board of Directors' effectiveness, with responses going directly to an external organization to ensure anonymity. Using the external organization, the Company endeavored to collect more impartial opinions, and the results were analyzed in comparison with other companies. Directors discussed the results of the analysis at the Board meeting on April 27, 2021.

For details, please see our securities report (Japanese) submitted on June 28, 2021. The full text of the report is also available on the Company website (Japanese):

www.daifuku.com/jp/ir/library/statements

[Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans]

The Group formulated and announced its new three-year business plan, *Value Transformation 2023*, which started in April 2021. With a shortfall in the targets for the four-year business plan ended March 2021, the cause was analyzed to evaluate and reflect the analysis in the following business plan, and then the issues are being explained to shareholders and investors. For more information about Value Transformation 2023, please see the Company website:

www.daifuku.com/ir/policy/plan

2. Capital Structure

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

Name	Number of shares held	Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	9,565,400	7.58
Custody Bank of Japan, Ltd. (trust account)	7,987,600	6.33
Mizuho Bank, Ltd.	4,117,803	3.26
Sumitomo Mitsui Banking Corporation	4,080,454	3.24
MUFG Bank, Ltd.	3,833,906	3.04
Nippon Tochi-Tatemono Co., Ltd.	3,207,500	2.54
Daifuku Supplier Shareholder Association	3,195,322	2.53
Nippon Life Insurance Company	2,745,767	2.18
PICTET AND CIE (EUROPE) SA, LUXEMBOURG REF: UCITS	2,484,700	1.97
Custody Bank of Japan, Ltd. (trust account 7)	2,406,200	1.91

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

Supplementary Explanation

3. Corporate Attributes

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

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

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

1. Basic views and policies on Group management

The Company owns Contec Co., Ltd. ("Contec") as a listed subsidiary as of July 7, 2021. Basic policies on owning listed subsidiaries are the following:

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

Based on these policies, the Company gives its full attention to the interests of general shareholders of listed subsidiaries. At the same time, to further enhance its corporate value, the Company recognizes that it is required to build a more efficient Group management system, taking into account the growing interest of shareholders and investors in the listing of the parent company and the subsidiary.

2. Significance of owning listed subsidiaries based on the policies above

1) Reasons for owning Contec as a subsidiary

The major business of the Group is manufacturing, installation and servicing for plant projects. In recent years, given the growing scale of projects, a reasonable amount of time has become necessary to proceed from determining specifications to recording orders. In addition, because cases in which the period until the completion of work exceeds one year are increasing, a large amount of working capital has come to be required.

On the other hand, because Contec sells device products through agents in many cases, it requires less labor, time and working capital than the plant business.

The Group believes that dealing with device products at the same time as focusing on the plant business will lead to management stability and has therefore decided that maintaining the current business portfolio will contribute to the maximization of the corporate value of the Group.

2) Rational reasons for maintaining Contec as a listed subsidiary

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

The Group discusses on the rationality of maintaining Contec as a listed subsidiary at meetings of the Board of Directors and other occasions to objectively confirm whether it remains rational. There is no contract, etc. governing what is to be described as views and policies on Group management with listed subsidiaries.

3. Measures to ensure the effectiveness of the governance system of listed subsidiaries

Given that there is a risk of conflicts of interest arising between general shareholders of the Company and listed subsidiaries, the Company shall encourage Contec to build and operate an effective

governance system, for instance by appointing several independent outside directors among the directors of Contec, to secure independent decision-making as a listed subsidiary.

The Company shall also ask for prior consultation on matters necessary for risk management.

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

1. Organizational Composition and Operation

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

Maximum number of directors stipulated in the Articles of Incorporation	25
Term of office of directors stipulated in the Articles of Incorporation	One year
Chair of the Board of Directors	President and CEO
Number of directors Updated	9
Outside directors	Appointed
Number of outside directors	4
Of outside directors, number of independent officers	3

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yoshiaki Ozawa	Academic								△			○
Mineo Sakai	From another company								○			
Kaku Kato	From another company											○
Keiko Kaneko	Lawyer								○			

* Categories for "Relationship with the Company"

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

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

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

"▲" when a close relative of the director fell under the category in the past

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

- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Other

Relationship with the Company (2) **Updated**

Name	Independent officer	Supplementary explanation of the relationship	Reasons for appointment
Yoshiaki Ozawa	✓	<p>Mr. Yoshiaki Ozawa works concurrently as Professor of Business Management at St. Andrew's University.</p> <p>He once served as a representative partner of PricewaterhouseCoopers Aarata LLC, the Accounting Auditor of the Company, but since he resigned from this audit firm in September 2012, there have been no business transactions between him and the Company and therefore no relationships that would affect the independence required of an Outside Director.</p>	<p>He has considerable knowledge in financial and accounting matters and teaches accounting as a university professor by leveraging his experience working abroad. At meetings of the Board of Directors, he offers professional advice and counsel to secure the transparency of management and enhance the supervision thereof based on his abundant experience and extensive knowledge, as well as to help us promote globalization of the Group. In addition, he works to supervise the management team at Advisory Committee meetings, mainly reflecting the evaluation of corporate performance and other results in the nomination and remuneration for officers from an independent and objective perspective.</p> <p>He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective.</p>
Mineo Sakai	✓	<p>Mr. Mineo Sakai served as the Chairman and Chief Executive Officer (CEO) of Kanematsu Electronics Ltd. until March 2018 and the Adviser of the same company from June 2019. Although there are transactions between the Company and Kanematsu Electronics Ltd. where he belongs, the amount of the transactions is less than 1% of the consolidated net sales of either company.</p>	<p>He has abundant experience and extensive knowledge in corporation management that he has cultivated through the positions as the Chairman and Chief Executive Officer (CEO) of Kanematsu Electronics. At meetings of the Board of Directors, he offers advice and counsel to secure the transparency of management and enhance the supervision thereof based on his abundant experience and extensive knowledge. In addition, he works to</p>

			<p>supervise the management team at Advisory Committee meetings, mainly reflecting the evaluation of corporate performance and other results in the nomination and remuneration for officers from an independent and objective perspective.</p> <p>He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective.</p>
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Kaku Kato	✓	<p>Mr. Kaku Kato has been working concurrently as a visiting professor of Faculty of Law and Politics at Rikkyo University since April 2020.</p>	<p>He conducts research on law at a university by leveraging his abundant experience and extensive knowledge in corporation management, particularly in the fields of safety and ESG (environment, society, governance) as well as compliance and internal control, cultivated through the positions as executive officer at Mitsui & Co., Ltd. and Mitsui Oil Exploration Co., Ltd. At meetings of the Board of Directors, he offers advice and counsel to secure the transparency of management and enhance the supervision thereof from the viewpoint of corporate legal affairs. In addition, he works to supervise the management team at Advisory Committee meetings, mainly reflecting the evaluation of corporate performance and other results in the nomination and remuneration for officers from an independent and objective perspective.</p> <p>He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as Outside Director from an independent and objective perspective.</p>
Keiko Kaneko		<p>Ms. Keiko Kaneko works for Anderson Mori & Tomotsune. Although the Company may outsource individual cases to Anderson Mori & Tomotsune where she belongs, there is no advisory contract and the amount of the transactions is less than 1% of the consolidated net sales of either company.</p>	<p>She has experienced working at a trading company and as an associate professor of a graduate school. As a lawyer, she is actively involved in areas such as business acquisition, transactions and management of business enterprises, and regulations in the field of natural resources. At meetings of the Board of Directors, she offers advice and counsel to secure the transparency of management and enhance the supervision thereof from her professional viewpoint. In addition, he works to supervise the management team at Advisory Committee meetings, mainly</p>

			<p>reflecting the evaluation of corporate performance and other results in the nomination and remuneration for officers from an independent and objective perspective.</p> <p>She has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill her duties as Outside Director from an independent and objective perspective.</p> <p>In line with the policy of Anderson Mori & Tomotsune, the Company will not designate her as an independent officer as stipulated by the rules of the Tokyo Stock Exchange. However, she fully satisfies the requirements set forth in the independence standards stipulated by the Company, and it is therefore determined that her independence from the Company is sufficiently ensured.</p>
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Voluntary establishment of committee(s) corresponding to nomination committee or remuneration committee	Established
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Committee's Name, Composition, and Attributes of Chair

	Committee corresponding to nomination committee	Committee corresponding to remuneration committee
Committee's name	Advisory Committee	Advisory Committee
Number of all committee members	5	5
Full-time members	0	0
Inside directors	1	1
Outside directors	4	4
Outside experts	0	0
Other	0	0
Chair	One of outside directors	One of outside directors

Supplementary Explanation **Updated**

As described below, the composition, etc. of the Advisory Committee is set out in the internal rules.

- Composition and independence

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. This composition of the Committee ensures its independence. In fiscal 2020, the Committee consisted of all of the four outside directors and a representative director.

- Selection method

The members are determined by resolution of the Board of Directors.

- Members

Outside Director Yoshiaki Ozawa (chair), Outside Director Mineo Sakai, Outside Director Kaku Kato, Outside Director Keiko Kaneko, and Representative Director Hiroshi Geshiro

- Authority and roles of the Committee

The Committee deliberates on the nomination, and election and dismissal of management team members and remuneration for all directors and corporate officers. It reports the results of the deliberation to the Board of Directors.

- Activities

The main activities of the Advisory Committee are the deliberation on, and reporting of, the nomination, election and dismissal, and remuneration of officers. Six meetings were held in fiscal 2020. Of those meetings, four meetings were held to deliberate on officers' remuneration in July and August in 2020, and January and March in 2021. The results of the deliberations were discussed at two meetings of the Board of Directors, in September 2020 and March 2021, and directors' and corporate officers' remuneration were determined. All committee members were present at all committee meetings.

[Audit & Supervisory Board members]

Establishment of the Audit & Supervisory Board	Established
Maximum number of Audit & Supervisory Board members stipulated in the Articles of Incorporation	5
Number of Audit & Supervisory Board members	4

Cooperation between Audit & Supervisory Board Members, Accounting Auditors and the Internal Audit Unit

Audit & Supervisory Board members and the Audit Division work in collaboration from initial stage to plan and carry out individual audits and mutually raise audit effectiveness by reflecting information including their audit performance, individual results of audited units, and views shared at auditors' meetings held once in two months, in their audit practices on a timely manner.

Audit & Supervisory Board members undertake mutual cooperation with the accounting auditors by hearing audit plans and results conducted by accounting auditors and exchanging opinions when accompanying them on inventory inspections and on-site audits of installation sites. In addition, they participate in the tests conducted in Japan by the accounting auditors and internal inspectors to assess the status of internal control upgrades and operational status, and assessed the effectiveness of the tests.

The Audit Division conducts internal control assessment tests effectively by having regular and as-needed meetings with the accounting auditors to share views and information.

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

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Ryosuke Aihara	Lawyer										△			○
Tsukasa Miyajima	Academic													○
Nobuo Wada	Academic													○

* Categories for "Relationship with the Company"

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

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

- * “●” when a close relative of the Audit & Supervisory Board member presently falls or has recently fallen under the category;
 “▲” when a close relative of the Audit & Supervisory Board member fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. An Audit & Supervisory Board member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company in addition to compensation as an Audit & Supervisory Board member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)
- k. Executive of a company, between which and the Company outside officers are mutually appointed (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Other

Relationship with the Company (2)

Name	Independent officer	Supplementary explanation of the relationship	Reasons for appointment
Ryosuke Aihara	✓	Mr. Ryosuke Aihara works concurrently as a lawyer at Aihara General Law Office. Despite a delegation agreement between the Company and Mori Hamada & Matsumoto Law Office, with which he was affiliated until March 2016, he has never engaged in any matters that the Company previously delegated to the law office. Furthermore, the transaction amount between said law office and the Company is insignificant, at less than 1% of both the annual revenue of the law office and the consolidated net sales of the Company. In addition, there have been no transactions	He is a lawyer who has specialized for years in corporate governance and compliance. He has given us advice and counsel regarding overall management to ensure the legality of management and enhance the functions of management oversight and auditing from his professional viewpoint as a lawyer. He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an outside member of the Audit & Supervisory Board from an independent and objective perspective.

		whatsoever between the Aihara General Law Office to which he belongs and the Company during or since April 2016.	
Tsukasa Miyajima	✓	Mr. Tsukasa Miyajima works concurrently as a professor at Graduate School of Law of Asahi University.	<p>He is a university professor specializing in laws and has deep insight and extensive experience as an academic expert and a legal expert. He has given us professional advice and counsel to ensure the transparency of management and enhance the functions of management supervision and auditing thereof.</p> <p>He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an outside member of the Audit & Supervisory Board from an independent and objective perspective.</p>
Nobuo Wada	✓	Mr. Nobuo Wada works concurrently as an emeritus professor and a lecturer (part-time) at Nagoya University.	<p>He has long been a professor at the university majoring in experimental research into condensed matter physics and has deep insight and extensive experience as an academic expert. He has given us advice and counsel to ensure the transparency of management and enhance the functions of management supervision and auditing thereof.</p> <p>He has no personal, capital or business relationships with or any other interests in the Company and is able to fulfill his duties as an outside member of the Audit & Supervisory Board from an independent and objective perspective.</p>

[Independent Officers]

Number of independent officers	6
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Other Matters Relating to Independent Officers

Outside directors and outside members of the Audit & Supervisory Board, excluding the outside director Keiko Kaneko, are designated as independent officers as stipulated by the rules of the Tokyo Stock Exchange. In line with the policy of the law firm where the outside director Kaneko belongs, the Company do not designate her as an independent officer as stipulated by the rules of the Tokyo Stock Exchange, however, she fully satisfies the requirements set forth in the independence standards stipulated by the Company, and it is therefore determined that her independence from the Company is sufficiently ensured.

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

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

Article 1

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

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

Article 2

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

Article 3

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

Article 4

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

Article 5

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

(Notes)

*1: A customer from whom Daifuku received payment of at least 2% of the amount of Daifuku's annual consolidated net sales in the most recent fiscal year, or a business partner who received payment from Daifuku of at least 2% of the amount of its annual consolidated net sales in the most recent fiscal year

*2: The annual average for the last three years of 10 million yen or more

*3: A shareholder with 10% or more of the voting rights

*4: The annual average for the last three years of 10 million yen or more, or 30% of the average total annual expenditure of the organization, whichever is larger

[Incentives]

Incentive policies for directors	Performance-linked remuneration
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Supplementary Explanation	Updated
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Remuneration for executive directors consists of a base salary as fixed compensation, a bonus as a short-term performance-linked compensation, and medium- to long-term performance-linked equity compensation (the Board Benefit Trust or BBT, non-monetary compensation).

- Policy on the determination of the payment ratio of performance-based compensation and other compensation

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

- Indicators related to performance-based compensation, reasons for choosing them, and the method of determining the amount of performance-based compensation

The funds for bonuses as short-term performance-linked compensation are a certain percentage of consolidated net income in a fiscal year, and bonuses are paid based on the basic allocation according to qualifications and positions and the evaluation allocation according to performance results at a certain time every year. Net income has been chosen as an indicator for performance-linked allocation because net income indicates the result of the efforts of all officers and employees.

- Description of non-monetary compensation, etc.

The Company has introduced the Board Benefit Trust as a medium- to long-term performance-linked equity compensation system for officers.

In this system, standard points are set for each position. According to the degree of achievement of the business year target and the three-year business plan targets, coefficients from 0.0 to 1.0 (four levels) are assigned, and points are awarded accordingly. Accumulated points are paid in stock and money at the time of retirement. The degree of achievement in a fiscal year is calculated based on the degree of achievement of initial net income and profit margin plans in the fiscal year. The degree of achievement in the three-year business plan is calculated based on the latest management targets (including net sales, operating income, ROE targets) announced by the end of the previous fiscal year.

The purpose of introducing this system is to make clearer the link between officers' remuneration and the Company's results and stock value and for officers to share with shareholders the benefit of rising stock prices and the risk of falling stock prices, which will motivate them to contribute to improving results and increase corporate value over the medium to long term.

Recipients of stock options

Supplementary Explanation

[Directors' Remuneration]

Disclosure of individual directors' remuneration

Selected directors

Supplementary Explanation **Updated**

In fiscal 2020, the remunerations paid to the directors and Audit & Supervisory Board members are as follows:

Directors (excluding outside directors):

Eight (8) persons, total remuneration of 409 million yen (base salaries: 164 million yen, bonuses: 182 million yen, the Board Benefit Trust: 63 million yen)

Audit & Supervisory Board members (excluding outside members):

Two (2) persons, total remuneration of 52 million yen (base salaries: 31 million yen, bonuses: 21 million yen)

Outside officers:

Seven (7) persons, total remuneration of 90 million yen (base salaries: 90 million yen)

The following one director had total remuneration in fiscal 2020 of 100 million yen or more:

Hiroshi Geshiro

Hiroshi Geshiro (President and CEO, Representative Director):

Total remuneration of 119 million yen (base salary: 55 million yen, bonus: 45 million yen, the Board Benefit Trust: 18 million yen)

Policy on determining remuneration amounts and calculation methods **Updated**

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

- The Company resolved to set the annual amount of remuneration for directors at 700 million yen or less approved at the ordinary general meeting of shareholders held on June 2006. The basic policy is to pay remuneration for directors in accordance with the Internal Rules on Executive Remuneration and Bonus for Officers and the Rules on Executive Stock Benefits stipulated by the

resolution of the Board of Directors so that the level of remuneration is appropriate for the roles and duties of directors.

- The remuneration for the executive directors consist of base salary as a fixed compensation, a bonus as a short-term performance-linked compensation, and a medium- to long-term performance-linked equity compensation.
- For outside directors who have a supervisory function, only the base salary shall be paid based on their duties.
- The basic salary shall be fixed compensation based on the annual salary of officers by position, and the level shall be determined by comprehensively considering the qualifications and positions and the performance of the Company as well as levels at other companies.
- Activities of the Board of Directors and a committee, etc. in the process of determining officers' remuneration

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

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 2020, the Committee consisted of all of the four outside directors and one representative director.

- Delegation of authority to determine remuneration for individual directors

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

To exercise the authority properly, the President and CEO determines remuneration for each director in line with the opinions of the Advisory Committee.

- The reason why the Board of Directors has decided that remuneration for each director for fiscal 2020 is in line with the policy

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

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

Updated

The Company has not assigned employees to exclusively assist outside directors. The Audit Division and the Corporate Functions provide the necessary assistance to the outside directors. Meanwhile, under the direction of Audit & Supervisory Board members, the Audit & Supervisory Board Office, which has been established to enhance the effectiveness of audits conducted by the Audit & Supervisory Board members and help fulfill their duties of the audits smoothly, exclusively assists the Audit & Supervisory Board members.

On the communication front, the Company provides materials for meetings of the Board of Directors in advance, using IT and tablets, to give outside directors time to examine them.

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

1. Directors and the Board of Directors

The Company's Board of Directors consists of nine directors. The directors' term of office is one year. The Company holds regular monthly meetings of the Board of Directors to make decisions on fundamental management issues, with extraordinary meetings convened as necessary, on five occasions during fiscal 2020.

The Board of Directors shall delegate matters other than the important matters stipulated in the Rules of the Board of Directors, such as the determination of management policies, management plans, and corporate governance system, to directors and corporate officers.

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

The independent outside directors include a woman and two persons who have experience engaging in corporate management. The detailed composition of the Board of Directors and a skill matrix are disclosed in convocation notices and security reports.

Convocation notices

www.daifuku.com/ir/stock/shareholders

Securities reports (Japanese)

www.daifuku.com/jp/ir/library/statements

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

The Company maintains an Audit & Supervisory Board made up of four Audit & Supervisory Board members, three of whom are elected from outside the Company. The Company held meetings of the Audit & Supervisory Board on six occasions during fiscal 2020.

Audit & Supervisory Board members and the Audit & Supervisory Board shall fulfill their duties by stipulating and promoting the effective applications of the Rules of the Audit & Supervisory Board, Audit Standards, and Standards on Audit Concerning the Internal Control System, with regard to audit of directors' fulfillment of duties, decisions over resolutions to be submitted to the General Meeting of Shareholders regarding election/dismissal and non-reappointment of the accounting auditor, and others, with due attention to their fiduciary responsibilities to shareholders and with an aim for sustainable growth and medium- and long-term improvement of the corporate value.

3. Advisory Committee

A voluntary Advisory Committee has been established to strengthen the independence, objectivity and accountability of the Board of Directors' functions on the matters of the nomination, election/dismissal, and the remuneration of directors, Audit & Supervisory Board members, corporate officers, and audit officers. The Committee is comprised of one representative director and four outside directors and meets at least three times a year. The Committee, which is chaired by one of the outside directors to ensure its transparency in the course of resolutions, held meetings on six occasions during fiscal 2020.

4. Other bodies, etc.

The Management Advisory Meeting is held to confer important management matters. With directors and Audit & Supervisory Board members in attendance, this meeting also seeks the opinions of external specialists on an as-needed basis. Convened by the president as he sees fit, the Management Advisory Meeting meets on a timely basis as appropriate.

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

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

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

In addition, once a year the Company holds the Daifuku Global Management Meeting, attended by senior executives of all non-Japan subsidiaries, to share business plans and exchange views. (In fiscal 2020, the meeting was held online due to the impact of COVID-19 pandemic.)

5. Limitation of liability

Under Article 427, Paragraph 1 of the Companies Act, the Company has entered into liability limitation agreements with outside directors and outside members of the Audit & Supervisory Board provided for in Article 423, Paragraph 1 of the Companies Act. The maximum amount of liability for damages under the agreement is an amount stipulated in laws and regulations. The agreement will be applied only if outside directors or outside members of the Audit & Supervisory Board have acted in good faith and without gross negligence in performing the duties that have caused the liability.

3. Reasons for Adoption of Current Corporate Governance System Updated

The Company is a company with an Audit & Supervisory Board. Under this basic structure, the Group has flexibly introduced and expanded systems to enhance management transparency and the management monitoring and supervision functions. We believe that the current corporate governance system is appropriate in terms of the workforce and business scale of the Group and that we meet the expectations of shareholders, who entrust management to us.

III. Implementation of Measures for Shareholders and Other Stakeholders

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

Updated

	Supplementary explanation
Early notification of General Shareholders' Meeting	The Company sent out the convocation notice of the 105th Ordinary General Meeting of Shareholders (held on June 25, 2021) on June 10, 2021 (15 days prior to the meeting date). On June 3, 2021, prior to sending out the notice, the Company published the convocation notice on the websites of Tokyo Stock Exchange and the Company.
Allowing the electronic exercise of voting rights	It is acceptable to exercise voting rights via the Internet (including using smartphones).
Participation in the electronic voting platform and efforts to improve the environment for the exercise of voting rights by institutional investors	The Company is participating in the platform for the electronic exercise of voting rights operated by ICJ, Inc.
Providing convocation notices (summary) in English	The Company posts convocation notices in English on the websites of Tokyo Stock Exchange and the Company and provides them to the platform for the electronic exercise of voting rights operated by ICJ, Inc.
Other	<p>The Company posts notices of convocation and resolutions on its website. In addition, the Company visualizes the content of financial reports using graphs and photographs to increase shareholders' understanding of its business activities at general shareholders' meetings, and posts these materials on its website.</p> <p>The Company held its first virtual ordinary general meeting of shareholders on June 25, 2021. For shareholders who refrained from coming to the site of the meeting, the Company distributed a live video of the shareholders' meeting over the Internet. The shareholders who watched the video were not able to exercise voting rights or ask questions. However, the Company accepted questions before the meeting and answered major questions on the day.</p>

2. Investor Relations (IR) Activities

	Supplementary explanation	Explanations by the President of the Company
Stipulation and disclosure of disclosure policy	<p>The Company has its disclosure policy to ensure appropriate information disclosure and its transparency.</p> <p>See Exhibit 2, Daifuku Corporate Governance Guidelines: www.daifuku.com/ir/policy/governance/guideline</p>	

Holding of regular briefings for individual investors	The Company holds tours of its general exhibition center within the Shiga Works. (In fiscal 2020, the tour has been canceled to prevent the spread of COVID-19.)	Yes
Holding of regular briefings for analysts and institutional investors	In addition to holding results briefings four times a year, the Company holds investor briefings as required.	Yes
Holding of regular briefings for investors outside of Japan	In fiscal 2020, the investor relations tour outside Japan was canceled due to the impact of COVID-19 pandemic. Telephone conferences and meetings by other means are held as required.	Yes
Posting of IR materials on the Company website	Posted IR materials include the following: <ul style="list-style-type: none"> - News releases (Japanese/English) - Summaries of financial statements (Japanese/English) - Presentations for results briefing sessions (Japanese/English) - Business reports (newsletters) for shareholders - Convocation notices (Japanese/English) - Securities reports - Corporate reports for integrated reporting (Japanese/English) - Corporate governance reports (Japanese/English) 	
Establishment of department (manager) in charge of investor relations	Investor Relations Department, under the Corporate Communications Division	

3. Measures to Ensure Due Respect for Stakeholders Updated

	Supplementary explanation
Stipulation of internal rules and regulations for respecting the position of stakeholders	<p>We at the Group established the Group Code of Conduct that defines the fundamental principles we (all directors, officers and employees of the Group) should follow with the aim to realize the Group company creed and management philosophy. In performing our duties as members of the Group, we act faithfully in accordance with this Code under the following Basic Stance.</p> <p>Basic Stance</p> <ul style="list-style-type: none"> - 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.

	<p>In accordance with the Basic Stance, we will respect the position of stakeholders, in relation to customers, business partners, shareholders and investors, employees, people, and society.</p>
Implementation of environmental activities, CSR activities, etc.	<p>The Company has established the Sustainable Committee that encourages initiatives to contribute widely to society as a body of simple and smooth management decision-making, to respond to environmental, social and governance (ESG) issues of the Group, amid increasing relevant social issues and demand on a broad scale, including ESG and SDGs (Sustainable Development Goals). Moreover, to fulfill our environmental responsibilities toward the next generation as a member of global society, in May 2020 the Company disclosed its risks and opportunities that climate change creates for its businesses based on the TCFD (Task Force on Climate-related Financial Disclosures) recommendations.</p> <p>www.daifuku.com/sustainability/news/2020/0529_01</p> <p>The Company has formulated the Daifuku Environmental Vision 2050, a new environmental vision looking toward 2050 for the establishment of a sustainable society. In the new Vision, the Company has set a goal to create material handling systems with zero environmental impact by 2050, and toward that goal has established each target for issue areas until 2030: 1) climate change and energy and 2) resource recycling.</p> <p>www.daifuku.com/sustainability/environmental-management</p> <p>The Company positions its three-year business plan Value Transformation 2023 and Sustainability Action Plan as the two wheels of its business strategy. In the Sustainability Action Plan, Daifuku has set five themes for the promotion of sustainability management and the SDGs: 1) contribute to a smart society, 2) maintain and improve the quality of products and services, 3) enhance operational framework, 4) respect human dignity, and 5) contribute to the environment through our business. It has also identified 18 material issues related to these themes, as well as defined its three-year action plan.</p> <p>https://www.daifuku.com/sustainability/management/plan/</p> <p>Having assented to the intent and purpose, in April 2014 the Company joined the United Nations Global Compact, which implements international initiatives for sound globalization and a sustainable society. For further information about CSR activities, please see the Company website: www.daifuku.com/sustainability</p>
Formulation of policies on information provision to stakeholders	<p>The Group Code of Conduct defines our policies on information provision to the stakeholders. For the Group Code of Conduct, please see the Company website: www.daifuku.com/company/policy/code</p>

IV. Matters Related to the Internal Control System

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

[Basic Stance on the Internal Control System]

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

[Development of the Internal Control System]

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

1. A system that ensures that the performance of duties by the directors and employees complies with laws and regulations and the Articles of Incorporation of the Company

1) The directors shall take the lead in observing the Group Code of Conduct, which aims for compliance with laws and regulations, the Articles of Incorporation of the Company and the internal rules and regulations, and strive to achieve a thorough understanding of the Code within the Company.

2) The Company has established the Compliance Committee consisting of all the directors and corporate officers with the aim to ensure compliance with laws and regulations in its corporate activities and to raise and improve awareness of fairness and morality.

3) The Audit Division, which is independent of the Company's lines of business execution, shall conduct audits of the status of adherence to laws and regulations, the Articles of Incorporation of the Company and the internal rules and regulations.

4) The Company shall develop and operate a whistle-blowing system for the early detection of risks associated with corporate activities and the prevention of material problems.

5) In addition to the above, the Company shall establish and operate various committees for the purpose of solving important issues within the Group in a cross-organizational manner.

2. A system for the storage and management of information related to the execution of duties by the directors

The Company shall properly store and maintain the minutes of general shareholders' meetings and meetings of the Board of Directors, and records, etc. related to the execution of duties by the directors in accordance with the Document Management Rules and other internal rules and regulations.

3. Rules and regulations and other systems concerning the management of the risk of losses

1) The Company shall recognize and evaluate risks that may affect the achievement of management goals in the Group, and develop internal systems to appropriately control such risks.

2) In accordance with the Risk Management Rules, the Company shall conduct risk assessment activities, mitigate risks that may affect its business activities and work on strengthening the frameworks for responding to emergency situations.

3) The Company shall establish regulations concerning information security that stipulate the systems necessary for the maintenance and management of information security, functions and authorities of organizations for the promotion of information security and methods of handling information assets, thereby promoting the protection of information assets owned by the Group.

4. System to ensure the efficient execution of duties by the directors

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

- 3) Members of the Audit & Supervisory Board, the Audit & Supervisory Board Office, and the Audit Division shall attend meetings of the Board of Directors of subsidiaries and other major meetings to collect information and ensure the effectiveness of audits.
8. Other systems to ensure the efficient execution of audits by Audit & Supervisory Board members
 - 1) In accordance with the provisions of the Rules of the Audit & Supervisory Board, the Board shall hold regular opinion exchange forums with the representative directors, etc. on important audit issues, etc.
 - 2) Audit & Supervisory Board members shall receive regular reports on audit plans and results from the Audit Division and request that the Department conduct investigations as necessary.
 - 3) Audit & Supervisory Board members direct the Audit & Supervisory Board Office to enhance the effectiveness of audits conducted by the Audit & Supervisory Board members and fulfill their duties of the audits smoothly.
 - 4) Audit & Supervisory Board members and the Audit & Supervisory Board shall hold regular meetings with the accounting auditors, maintain close relationships with them and conduct effective and efficient audits.
 - 5) The Audit & Supervisory Board may request that the Company make advance payment or reimbursement of expenses required for conducting audits, including the use of legal and accounting specialists.

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

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

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

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of anti-takeover measures	Not adopted
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Supplementary Explanation

2. Other Matters Concerning the Corporate Governance System

[Overview of timely disclosure]

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

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

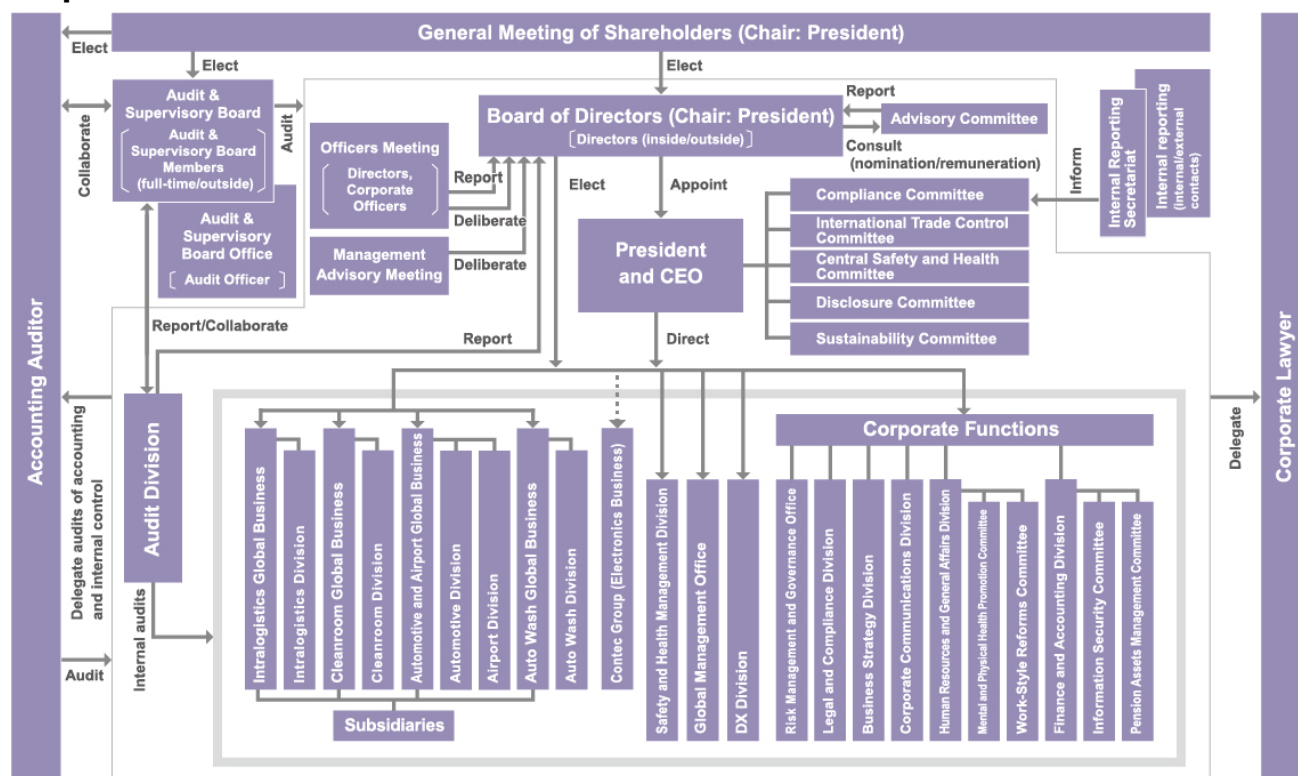
[Corporate governance structure]

Please see the chart on the next page.

- Major changes as of April 2021

1. The Company has established the DX Division as a new Company-wide organization under the direct control of the president and CEO, with DX (Digital Transformation) positioned as an important issue.
2. The Company has integrated the Automotive Global Business and Airport Global Business into one unit, the Automotive and Airport Global Business, to increase the mobility of human resources, built an optimal production framework for related non-Japan affiliates, and increase the efficiency of business operations.
3. The Company has established the Corporate Functions, a new organization to oversee all related divisions to enhance their collaboration. In addition, the Company has set the Risk Management and Governance Office under the Corporate Functions to enhance the risk management framework of the entire Group.

Corporate Governance Structure



Updated in April 2021

Organizations for Timely Disclosure

