

[Translation]

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**Daikin Industries, Ltd.**

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[English website: <http://www.daikin.com>]

## **Daikin Industries' Corporate Governance**

### **I. Corporate Governance Philosophy, Capital Structure, Corporate Attributes, Other Basic Information**

#### **1. Basic Philosophy**

Through its corporate governance, Daikin Industries strives to raise corporate value by carrying out its decision-making with foresight and by executing business with increasingly greater speed, transparency, and soundness, all in line with Group management challenges and changes in the business environment.

We strive to improve our current integrated management framework, under which directors assume responsibility for both business execution and management to fulfill the responsibility for overall management together by making strategic decisions quickly and providing appropriate supervision. We also seek to improve the monitoring function of third parties including multiple outside directors.

Aiming for management with even greater speed, soundness, and transparency, we will continue to boost corporate value by seeking and implementing new ways to achieve optimal corporate governance as we undertake best practices in all facets and at all levels of the Daikin Group.

#### **Main Points of Corporate Governance**

- 1) Increase the speed of management decisions and action through our integrated management framework, under which directors work together in assuming responsibility for both management and execution in response to the increasingly complex and wide-ranging management challenges and key Group-wide challenges that we face.
- 2) We have an executive officers system aimed at increasing speed through independent

assessments and decisions conducted in each business, region, and function of Daikin. Under the system, the officers support speedy, strategic decision-making and sound management. The number of officers is well suited to carrying out appropriate debate and decision-making on all issues, and there are at least three external directors at all times. Currently, the board of directors has a total of 11 members, including three external directors (including one female) and one foreign director.

- 3) The Group Steering Meeting is the highest deliberation organ for the Group's management system, and it strives to constantly speed up the pace at which Daikin decides on future direction and solves issues related to important management policy and strategies. As well, the Group Management Meeting aims to ensure there is unified opinion on all corporate action by ensuring the sharing of major Group management policy and basic strategy, and by better supporting Daikin Group companies in their problem-solving. The Group Auditors Meeting works to strengthen auditing and control functions throughout the Group, including those at overseas subsidiaries, and ensure that these functions are working to the fullest.
- 4) The Chief Global Group Officer leads efforts to further strengthen the unifying force of the Daikin Group, thus boosting corporate governance and the organizational management of Daikin, a multinational company.
- 5) The job of the Human Resources and Compensation Advisory Committee, chaired by an external director, is to improve the transparency and soundness of all operations related to Daikin directors' personnel and compensation matters.

### **【Reasons for not implementing the principles in the Corporate Governance Code】**

We have implemented all the principles in the Corporate Governance Code, and we will seek further improvement.

### **【Disclosure based on corresponding principles in the Corporate Governance Code】**

#### **[1.4 Cross-Shareholdings]**

##### **■Policy for cross-shareholdings and actions of the Board of Directors**

While our business is increasingly becoming more complex and wide-ranging, alliances and partnerships with other organizations in various fields are becoming more important for our growth. As a result of the examination from a strategic viewpoint to expand our business quickly through alliances and partnerships and increase our corporate value over the mid- to long-term, we decided to hold shares of companies whose corporate value is expected to increase.

The Board of Directors annually examines whether the objectives of cross-shareholdings are achieved or not from the above strategic viewpoint.

##### **■ Standards with respect to the voting rights**

We exercise our voting right based on the standard of whether the corporate value is expected to increase over the mid- to long-term and whether the company respects the interests of shareholders.

#### **[1.7 Related Party Transactions]**

With regard to the conflict of interest with directors, Daikin requires its management and employees to comply with the procedures specified in the Companies Act and in-house regulations, such as timely resolution and report at the Board of Directors Meeting. Our Group Philosophy also states that in addition to observing all applicable laws and regulations in each country, we aim to take action based on a high standard of ethics and to conduct our business operations based on principles of fair competition. The same policy is applied to transactions with major shareholders and other stakeholders.

#### **[3.1 Full Disclosure]**

- (i) Our Group Philosophy and the 5-year strategic management plan Fusion are disclosed and announced on our website.

Our Group Philosophy

(<http://www.daikin.com/about/corporate/philosophy/>)

Fusion, the 5-year strategic management plan

(<http://www.daikin.com/investor/management/strategy/>)

- (ii) For our basic views on corporate governance, please refer to “I. 1. Basic Philosophy” in this report.

(iii) Board policies and procedures in determining the remuneration of the senior management and directors:

(iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and corporate auditors candidates:

We have the HRM and Compensation Advisory Committee chaired by an outside director, and it deliberates and examines the standard for selecting directors, executive officers, and other senior management as well as the principles and systems for their compensation. For details, please refer to “II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems” in this report.

(v) With respect to the individual appointments of senior management and nominations of directors and corporate auditors candidates by the Board of Directors, respective reasons for selecting outside directors are described in this report and the Securities Report. As for the appointment and nomination of directors and audit and supervisory board members from among Daikin employees, their individual careers are stated in the Securities Report and the Convocation Notice of the Ordinary General Meeting of Shareholders. The Convocation Notice of the Ordinary General Meeting of Shareholders also states the reasons for their appointments. We will continue to provide more detailed explanations.

#### **[4.1 Roles and Responsibilities of the Board(1)]**

##### **4.1.1**

■ The Board of Directors resolves 1) Items specified in the Companies Act, Company's Articles of Incorporation, and other laws and regulations, 2) Items delegated based on the resolution at the General Meeting of Shareholders, and 3) Other important items for management specified in the Board of Directors Meeting Regulations.

■ Executive directors and executive officers are delegated the authority for business execution, and the Board of Directors supervises the execution.

#### **[4.8 Effective Use of Independent Directors]**

The Board of Directors has three independent directors out of a total of 11 directors. The independent directors provide appropriate supervision and advice when the Board of Directors makes decisions, and that is functioning adequately to increase our corporate value.

#### **[4.9 Independence Standards and Qualification for Independent Directors]**

As disclosed and announced in the Securities Report, our decision on the nomination of independent director candidates is based on the standard related to independent directors specified in the regulations and other guidelines of TSE (“participation in decision-making and supervision of management from a broad and thoughtful perspective based on abundant experience and deep insight”). Daikin’s independent directors fulfill the requirements of TSE, and they are notified to TSE as Daikin’s independent directors.

#### **[4.11 Preconditions for Board of Directors and Board of Corporate Auditors Effectiveness]**

##### **4.11.1**

■ While Daikin is developing globally in an ever-changing business environment, the Board of Directors seeks optimal balance for the Board as a whole in nominating director candidates, taking into consideration not only their knowledge, experience, and expertise but also their diverse background including nationality, gender, and career.

■ For procedures related to the nomination of director candidates, please refer to “II. 2. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems (Overview of Current Corporate Governance System)” in this report.

##### **4.11.2**

In cases where directors and corporate auditors also serve as officers at other companies, resolution is required at the Board of Directors Meeting at each time of their appointment/reappointment to make rational decisions as to whether they can devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Positions concurrently held by directors and corporate auditors are stated in the annual Convocation Notice of General Meeting of Shareholders.

##### **4.11.3**

The Board of Directors analyzes and evaluates the effectiveness and appropriateness of the Board of Directors itself and the corporate governance system through deliberations. The Board of Directors appropriately makes decisions based on open and active discussions and performs an effective role in increasing corporate value over the mid- to long-term. We will continue to seek more effectiveness of the Board.

#### **[4.14 Directors and Corporate Auditors Training]**

##### **4.14.2**

■ Directors and corporate auditors are provided, at the time of appointment, opportunities to

learn and update the knowledge and information required to appropriately fulfill their roles and responsibilities. We actively provide opportunities particularly for outside officers to understand Daikin's Group philosophy, business, financial status, organizational structure, etc. whenever necessary as well as at the time of appointment.

■After inaugurations, group training is provided regularly and constantly by third parties to discuss timely themes beneficial for corporate management, including laws and regulations, accounting, and product safety, as the knowledge related to company's business, finance, organizational structure, etc.

### **[5.1 Policy for Constructive Dialogue with Shareholders]**

#### (1) Basic policy

Our Group Philosophy states that we strive to enhance our accountability and the timely and appropriate disclosure of information. To have shareholders and investors understand our management policy and approach and corporate culture, we will take measures for constructive dialogue with them in a timely manner.

#### (2) IR organizational structure

Officers in charge of IR and General Affairs (SR) are in place.

At financial briefings and management strategy briefings, the President directly explains his views on matters of concern to shareholders and investors. For financial and other announcements, we hold internal discussions with related divisions and overseas Group companies about the content and also seek prior approval from the Information Disclosure Committee to ensure reasonableness and appropriateness of announcements.

#### (3) Dialogue setting with shareholders and investors

Financial briefings (2nd quarter and full year-end), business briefings, and factory tour (when necessary) are available for institutional investors and analysts.

For individual investors, we provide webpages that disclose our financial performance and business, which also includes e-mail address to contact us.

#### (4) Feedback to the management and employees

Opinions of shareholders and investors during dialogues are passed down to and discussed among the management, including directors, and related divisions when necessary.

#### (5) Control of insider information

To ensure fair treatment of all shareholders and investors, we seek to uniformly disclose information in having dialogues with shareholders and investors. Also, we have adopted a "silent period" (from the day following the closing date of the fiscal period to the day the financial statements are released), in which we do not make any comments concerning our

financial results. In regard to the prevention of insider trading, in-house regulations are in place to strictly control the use of insider information.

## 2. Capital Structure

Percentage of Shares Held by Foreigners	More than 30%
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### [Major Shareholders]

Name of Individual or Company	No. of Shares Held	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	24,185,600	8.28
Japan Trustee Services Bank, Ltd. (Trust Account)	19,609,300	6.71
Sumitomo Mitsui Banking Corporation	9,000,000	3.08
Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for Nippon Steel and Sumitomo Metal Industries, Ltd.	6,477,000	2.21
Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for the Norinchukin Bank The	4,999,846	1.71
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,900,000	1.67
The Bank of New York Mellon SA/NV 10	4,805,840	1.64
Japan Trustee Services Bank, Ltd. (Trust Account 4)	4,493,100	1.53
Trust & Custody Services Bank, Ltd. (Investment Trsut Account)	3,859,100	1.32
Sumitomo Life Insurance Company	3,595,000	1.23

Majority Shareholders (excluding parent company)	—
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Parent Company	None
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### Supplementary Explanation

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## 3. Corporate Attributes

Stock Exchange Listing and Section	Tokyo Stock Exchange, First Section
Fiscal Year-End Date	March 31

Industry Sector	Machinery
Number of Employees at End of Previous Fiscal Year	More than 1,000
Net Sales in Previous Fiscal Year	More Than ¥1 Trillion
Number of Consolidated Subsidiaries at End of Previous Fiscal Year	Between 100 and 299

**4. Guidelines on Measures to Protect Minority Shareholders During Dealings with Majority Shareholders**

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**5. Other Special Conditions that May Have a Major Influence on Corporate Governance**

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## II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems

### 1. Items Related to Institutional Structure and Organizational Operations

Organizational Form	Company with Board of Auditors
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#### [Relation of Directors]

Number of Directors Under Articles of Incorporation	15
Directors Appointment Period Under Articles of Incorporation	2 years
Chairperson of Board of Directors	Chairman (Except When Chairman is Also President)
Number of Directors	11
Appointment of External Directors	Appointed
Number of External Directors	3
Number of External Directors Designated as Independent Officers	3

#### Relation to Company (1)

Name	Attribute	Relation to Company*										
		a	b	c	d	e	f	g	h	i	j	k
Chiyono Terada	Person of another company								○			
Tatsuo Kawada	Person of another company											
Akiji Makino	Person of another company								○			

\* Categories of Relation to Company

\* A “○” means that a category applies to said person currently or recently and a “△” means that a category applied to said person in the past.

\* A “●” means that a category applies to a close family member currently or recently and a “▲” means that a category applied to a close family member in the past.

- Executive of a listed company or its subsidiary
- Executive or non-executive director of the parent company of a listed company

- c. Executive of a fellow subsidiary of a listed company
- d. Person of a listed company considered major client, or an executive of that company
- e. Major client of a listed company or an executive of that company
- f. Consultant, accounting expert, or legal expert receiving a large monetary sum or other property other than corporate officer remuneration
- g. Major shareholder of a listed company (if the major shareholder is a corporation, an executive of that corporation)
- h. Executive (said person only) of a client (not covered by items d, e, and f) of a listed company
- i. Previous executive (said person only) with connection to the mutual appointment of an external corporate officer
- j. Previous executive (said person only) of a listed company making donations
- k. Others

Relation to Company (2)
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Name	Independent Officers	Supplementary Explanation Related to Matching Items	Reason for Appointment of Concerned External Directors (In the Case of Those Designated as Independent Officers, Includes the Reason for This Designation)
Chiyono Terada	○	Designated as independent officer	Chiyono Terada is the President and CEO of Art Corporation. Based on her abundant experience and deep insight as a corporate manager, Ms. Terada has been outstanding in executing her duties, taking a broad and thoughtful perspective in, for example, making management proposals, such as those regarding the importance of our brand, with a customer focus, and implementing measures to maximize the talents of female employees. Between Art Corporation (and its subsidiaries) and Daikin Industries (and its subsidiaries) there are business dealings in the form of product deliveries, air conditioner sales, and outsourcing of moving services. However, in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Ms. Terada's impartiality. Although there are business dealings between Art Corporation and Daikin

			Industries, Ltd., in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Ms. Terada's impartiality.
Tatsuo Kawada	○	Designated as independent officer	As the Chairman and C.E.O. of Seiren Co., Ltd., Tatsuo Kawada has abundant experience and deep insight as a corporate manager, including expertise in areas such as business model transfer, innovation creation, and reform of organizational culture. Besides leveraging this experience in impartially carrying out appropriate supervision, he uses his extensive and advanced insight to make proposals on all management matters, thus contributing to improving Daikin Industries, Ltd.' corporate value. It is for these reasons that Mr. Kawada was chosen as an external director. We have also determined that Mr. Kawada meets the standards for impartiality stipulated by the TSE and that there is no chance of conflict of interest with general shareholders.
Akiji Makino	○	Designated as independent officer	As the Chairman and C.E.O. of Iwatani Corporation, Akiji Makino has abundant experience and deep insight as a corporate manager, including expertise in areas such as energy, environment, and services. Besides leveraging this experience in impartially carrying out appropriate supervision, he makes proposals on all management matters using his extensive and advanced insight, thus contributing to improving Daikin Industries, Ltd.' corporate value. It is for these reasons that Mr. Makino was chosen as an external director. Although there are business dealings between Iwatani Corporation and Daikin Industries, Ltd., in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Makino's impartiality.

Establishment or non-establishment of an optional committee which corresponds to the Nominating	Established
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Committee or Compensation Committee
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Status of establishment of an optional committee, members of the committee, and attributes of the chairperson of the committee
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	Name of the Committee	Total Number of Members	Number of Full-time Members	Number of Inside Members of the Board of Directors	Number of Outside Members of the Board of Directors	Number of Outside Experts	Number of Others	Committee Chair (Chairperson)
Optional Committee Corresponding to the Nominating Committee	HRM Advisory Committee	5	-	1	3	-	1	Outside Members of the Board of Directors
Optional Committee Corresponding to the Compensation Committee	Compensation Advisory Committee	5	-	1	3	-	1	Outside Members of the Board of Directors

The Human Resources and Compensation Advisory Committee decides the standards for selecting directors and executive officers, as well as who are appropriate candidates for these positions, and deliberates and considers the principles and systems for their compensation. The HRM and Compensation Advisory Committee consists of five members—three external directors, one in-house director, and one Human Resources executive officer—and is chaired by one of the three external directors.

**[Relation of Corporate Auditors]**

Board of Corporate Auditors	Established
Number of Corporate Auditors Under Articles of Incorporation	4
Number of Corporate Auditors	4

Coordination Among Corporate Auditors, Accounting Auditors, and Internal Auditing Division
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Corporate auditors explain, and receive reports on, matters including accounting audit plans, systems, and methods, as well as the auditing situation at Daikin and its subsidiaries in Japan and overseas. They also hold periodic and unscheduled meetings with accounting auditors to exchange opinions. As well, they hold meetings and exchange information with the Internal Auditing Department when necessary to keep abreast of the internal control situation; for example, accompanying internal auditors in their duties, explaining accounting audits beforehand, and receiving audit result reports.

Appointment of External Corporate Auditors	Appointed
Number of External Corporate Auditors	2
Number of External Corporate Auditors Designated as Independent Officers	2

Relation to Company (1)
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Name	Attribute	Relation to Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Ryu Yano	Person of another company													
Toru Nagashima	Person of another company										○			

\*Categories of Relation to Company

\* A “○” means that a category applies to said person currently or recently and a “△” means that a category applied to said person in the past.

\* A “●” means that a category applies to a close family member currently or recently and a “▲” means that a category applied to a close family member in the past.

- a. Executive of a listed company or its subsidiary
- b. Non-executive director or accounting advisor of a listed company or its subsidiary
- c. Executive or non-executive director of the parent company of a listed company
- d. Corporate auditor of the parent company of a listed company
- e. Executive of a fellow subsidiary of a listed company
- f. Person of a listed company considered major client, or an executive of that company
- g. Major client of a listed company or an executive of that company
- h. Consultant, accounting expert, or legal expert receiving a large monetary sum or other property other than corporate officer remuneration
- i. Major shareholder of a listed company (if the major shareholder is a corporation, an executive of that corporation)
- j. Executive (said person only) of a client (not covered by items f, g, and h) of a listed company
- k. Previous executive (said person only) with connection to the mutual appointment of an external corporate officer
- l. Previous executive (said person only) of a listed company making donations
- m. Others

Relation to Company (2)
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Name	Independent Officers	Supplementary Explanation Related to Matching Items	Reason for Appointment of Concerned External Corporate Auditors (In the Case of Those Designated as Independent Officers, Includes the Reason for This Designation)
Ryu Yano	○	Designated as independent officer	Ryu Yano is Chairman of the Board of Sumitomo Forestry Co., Ltd. Based on his abundant experience and deep insight as a corporate manager, Mr. Yano has been outstanding in executing his duties, using his broad and thoughtful perspective built up through his vast experience doing business around the world. Although there are business dealings between Sumitomo Forestry Co., Ltd. and Daikin, in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Yano's impartiality. We have also determined that Mr. Yano meets the standards for impartiality stipulated by the TSE and that there is no chance of conflict of interest with general shareholders.
Toru Nagashima	○	Designated as independent officer	As the President and C.E.O. of Teijin Limited, Toru Nagashima has abundant experience and deep insight as a corporate manager, including experience in implementing the paradigm shift from manufacturing products to creating services. He was chosen as an external corporate auditor so Daikin Industries, Ltd. could utilize this expertise in the oversight of all management matters and in the realization of even more appropriate auditing. Although there are business dealings between Teijin Limited and Daikin Industries, Ltd., in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Nagashima's impartiality.

**[Relation of Independent Officers]**

Number of Independent Officers	5
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## Other Items Related to Independent Officers

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### [Relation of Incentives]

Implementation of Measures Related to Granting of Incentives to Directors	Introduction of Performance-Linked Compensation System, Introduction of Stock Option System
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## Supplementary Explanation Related to Concerned Items

Daikin's corporate officer remuneration system is designed to respond to shareholders' expectations by increasing corporate officer motivation to promote a sustained increase in Group performance over the medium to long term and thereby contribute to a rise in the Group's corporate value in accordance with the Daikin Group's management policy. Directors' remuneration consists of "fixed compensation," "performance-linked compensation," which reflects the short-term performance of the Group and individual divisions, and "stock options," which reflect the Group's medium- to long-term performance. The remuneration of external directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined after analyzing and comparing data on large companies in the manufacturing industry from a third-party institution specializing in surveying the remuneration of corporate officers active in approximately 200 Japanese companies listed on the First Section of the Tokyo Stock Exchange. Selection is based on the three indicators of net sales, operating income, and ROE (return on equity), and our decision is based on Daikin's position relative to the performance and compensation positions of the companies we are being compared to.

In Daikin's performance-linked compensation for directors, we have made the correlation between performance and compensation higher than the industry average in order to ensure directors have a greater incentive to boost performance.

As assessment indicators linked to company-wide performance, we chose two indicators—net sales and operating income—as the bases for assessment due to their clear and mutual relation to Daikin Industries' numerical management targets and their ease of comparison with the performance of other companies in the industry. As assessment indicators linked to divisional performance, we again chose net sales and operating income, since these represent the targets of the work that each division carries out daily.

With regards to compensation for directors and corporate auditors, based on a report by the Compensation Advisory Committee, made up of five directors and executive officers not including the Chairperson and headed by an external director, directors' compensation is decided by the Board of Directors and corporate auditors' compensation is decided after discussion among corporate auditors. The amount of compensation must be within the maximum limit for total compensation of all directors and corporate auditors as decided by a resolution at the general shareholders meeting.

Persons Granted Stock Options	In-House Directors, Employees
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#### Supplementary Explanation Related to Concerned Items

Executive officers are also granted stock options. Employees of Daikin Industries and subsidiaries are granted greater stock options than officers.

#### [Relation of Directors' Compensation]

Disclosure of Individual Directors' Compensation	Only a portion of individual directors' compensation disclosed
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#### Supplementary Explanation Related to Concerned Items

Besides disclosure of the total amount of compensation for individual in-house directors, external directors, corporate auditors, and external corporate auditors, there is also separate disclosure if the total amount, including related compensation, is at least ¥100 million.

Policy for Deciding Compensation Amount and Method of Calculation	Yes
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#### Information Disclosed Regarding Policy for Deciding Compensation Amount and Method of Calculation

Refer to page on implementation of measures related to granting of incentives to directors.

#### [Support System for External Directors (and External Corporate Auditors)]

Assistants are assigned to external directors in the Corporate Planning Department and to external auditors in the Internal Auditing Department. These assistants provide information about Daikin, post notices of Board of Directors meetings as early as possible, and provide meeting agenda beforehand. For particularly important agenda items, assistants will explain these beforehand to the external directors and external auditors. If an external director or

auditor cannot attend the meeting, the assistant will afterwards explain what was discussed at the meeting.

## **2. Items Related to Functions Including Business Execution, Auditing and Supervision, Appointments, and Compensation Decisions (Overview of Current Corporate Governance System)**

- 1) We are striving to ensure prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues. At the same time, we have the Group Steering Meeting, the highest deliberation organ for the Group's management system, which strives to constantly speed up the pace at which Daikin decides on future direction and solves issues related to important management policy and strategies.
- 2) With the introduction of our executive officers system we have established the Executive Officers Meeting, which acts to promote thorough deliberation and prompt execution on important management issues related to business execution. These three organs—the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting—are the main decision-making bodies and as a rule convene once a month.
- 3) The Human Resources and Compensation Advisory Committee decides the standards for selecting directors and executive officers, as well as who are appropriate candidates for these positions, and deliberates and considers the principles and systems for their compensation. The HRM and Compensation Advisory Committee consists of five members—three external directors, one in-house director, and one Human Resources executive officer—and is chaired by one of the three external directors.

## **3. Reasons for Selecting Current System of Corporate Governance**

Through its corporate governance, Daikin Industries strives to raise corporate value by carrying out its decision-making with foresight and by executing business with increasingly greater speed, transparency, and soundness, all in line with Group management challenges and changes in the business environment.

We strive to improve our current integrated management framework, under which directors work together in assuming responsibility for both management and execution. This framework allows us to make management decisions and action more quickly, and to ensure coordinated governance that is effective, sound, and transparent. We will continue to boost corporate value by continuously seeking and implementing new ways to achieve optimal

corporate governance as we undertake best practices in all facets and at all levels of the Daikin Group.

### III. Implementation of Measures Related to Shareholders and Other Stakeholders

#### 1. Efforts to Boost Participation in General Shareholders' Meetings and Facilitate the Exercise of Voting Rights

	Supplementary Explanation
Send General Shareholders' Meeting Invitations Early	Send invitations at least three weeks before the general shareholders' meeting.
Electronic Exercise of Voting Rights	Allow exercise of voting rights by computer, smartphone, or mobile phone.
Improve the Voting Environment for Institutional Investors through Efforts such as Participation in the Electronic Voting Platform	We participate in the Electronic Voting Platform, which allows institutional investors to vote.
Provision of Invitations (Overview) in English	Post information in English on the company website and the Tokyo Stock Exchange website.
Other efforts	Prior to mailing general shareholders' meeting invitations, post these invitations (in Japanese and English) on the company website and the Tokyo Stock Exchange website.

#### 2. IR-Related Activities

	Supplementary Explanation	Explanation from Representative
Creation and Announcement of Disclosure Policy	Put disclosure policy on company website for shareholders and investors.	
Periodic Explanatory Meetings for Individual Investors	Hold annual explanatory meetings for individual investors.	No
Periodic Explanatory Meetings for Analysts and Institutional Investors	Hold meetings in Tokyo at time of full-year and interim business results.	Yes
Periodic Explanatory Meetings for Overseas Investors	Hold explanatory meetings for institutional investors in Europe, North America, and other regions.	Yes

IR Documents on Website	Put business results documents (earnings summary, explanatory documents) and timely disclosure documents on website.	
Establishment of IR-Related Unit	Appoint a manager in the Corporate IR Group of the Corporate Communication Department.	

### 3. Efforts Related to Respect for Position of Stakeholders (Updated)

	Supplementary Explanation
Stipulation of Rules for Respect for Stakeholders' Position Based on In-House Regulations	State these rules in Our Group Philosophy.
Implementation of Environmental Protection Activities and CSR Activities	Report these activities in Daikin's Sustainability Report.
Formulation of Guidelines Related to Information Provision for Stakeholders	State these guidelines in Our Group Philosophy.
Others	<p>Daikin Industries considers diversity management to be a pillar of the company, and it strives to utilize the many strengths and diverse personalities of its employees, regardless of their gender, nationality, age, and disabilities. In particular, we believe that maximizing the talents of women is essential to growing and advancing Daikin's business.</p> <p>Our policy is to foster motivated and talented employees by putting them in challenging situations, and promoting to management positions those employees, be they men or women, who exhibit sufficient personal growth. Under this policy, with the aims of accelerating the training of female managers, changing the mindset of male managers, and helping employees make a smooth transition back to the workplace following childcare leave, we carry out a range of measures, including female leadership training, female subordinate fostering sessions as part of management</p>

	<p>training, and a full range of support measures for employees returning to the workplace following less than six months of maternity leave. In fiscal 2016, 22 female employees, or 36%, made a smooth transition back to the workforce following childcare leave (nine women, 32%, in fiscal 2011). Fiscal 2016 figures for the number of female managers and women as a percentage of all managers both increased, to 47 and 4%, respectively (20 women, accounting for 2% of all managers, in fiscal 2011).</p> <p>In fiscal 2015, we expanded our systematic training of female employees so that more of them can become managers. For example, we are setting aside management posts in each division as female management training positions and systematically training candidates for these positions. We also have our Young Female Employees Challenge Program for those hoping to become managers, which will help promote women to management positions faster than previously. We are also trialing the sponsor system, which has been used effectively in European and American companies to produce an increasing number of female managers. Another system we will introduce is the mentor system, which provides women with motivation and mental support. And to change the mindset of both management and female employees, we are expanding a program for both these groups that focuses on the differences between male and female employees.</p> <p>To increase the speed at which we maximize the talents of women, we have set a goal for the end of fiscal 2020 of having at least one internally hired female officer, and more than doubling the figures for the number of female managers and women as a percentage of all managers (100 female managers, accounting for 10% of all managers). Our target for women as a percentage of all employees is 17%, above the average for the manufacturing industry (15% in fiscal 2013), and to achieve this we will hire about 100 women every year as part of our aggressive periodic hiring of women.</p>
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	While keeping our sights on reaching these numerical targets, we will continue to train and support female leaders so that we can make the most of the capabilities of both male and female employees and thus realize an active, positive working environment for everyone.
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#### **IV. Items Related to Internal Control Systems**

##### **1. Basic Philosophy and Creation of Internal Control Systems**

Following are the Daikin Group's systems, and the status of main activities, for ensuring that its business complies with Japan's Companies' Act and the Ordinance for Enforcement of the Companies' Act. The Internal Control Committee inspects and confirms the condition of maintenance and operation of internal control in accordance with each activity, and reports to the Board of Directors Meeting.

[Status of Main Activities in Fiscal 2016]

- The Internal Control Committee convened three times.

##### **1. Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws, Regulations, and Articles of Incorporation**

We have compliance systems in place, and the entire Group strives to keep abreast of compliance issues and speedily resolve these. The following are examples.

- 1) Individuals take the initiative in executing their duties and conducting themselves in accordance with basic management direction and conduct codes stipulated in Our Group Philosophy (2002) and the Handbook for Corporate Ethics (revised in 2008).
- 2) The Corporate Ethics and Risk Management Committee is made up of corporate officers and department heads. Operating under this is the Legal Affairs, Compliance and Intellectual Property Center, which leads efforts to ensure thorough group-wide legal compliance. Compliance and risk management leaders are appointed in each division and Group company, where they ensure thorough legal compliance and risk management. There are also compliance and risk management leader meetings and Group compliance and risk management leader meetings, where attendees share information, look into issues, and enact measures.
- 3) Daikin Industries has its own self-assessment system under which all divisions and Group companies carry out annual self-checks in terms of legal compliance and risk

management. Based on the results of these self-assessments, the Legal Affairs, Compliance and Intellectual Property Center conducts legal audits in divisions and Group companies, while the Internal Auditing Department confirms legal compliance as part of business audits.

- 4) The Help-Line for Corporate Ethics gathers reports and information of problems from employees. The Legal Affairs, Compliance and Intellectual Property Center then investigates these reports, and holds discussions with the concerned Daikin divisions so that we can come up with and implement company-wide measures to prevent reoccurrences of problems.
- 5) In response to anti-social forces that threaten social order and sound corporate activities, we take action with a firm resolution in accordance with the Handbook for Corporate Ethics.
- 6) Periodically as well as when necessary, we conduct training on matters such as compliance and corporate ethics for both management and general employees, and we constantly strive to improve such training.

[Status of Main Activities in Fiscal 2016]

- The Handbook for Corporate Ethics was revised based on factors such as the state of society and new laws and regulations.
  - The Corporate Ethics and Risk Management Committee convened twice, sharing and deliberating on measures for company-wide issues related to compliance. Compliance and risk management leader meetings were held 11 times, with participants strengthening measures related to compliance. Overseas, a China/ASEAN/Oceania regional compliance meeting was held with participation by Group compliance risk management leaders.
  - Regarding the self-assessment system, each division and Group company conducted self-assessments and risk assessments, and the results of these were deliberated on at the Corporate Ethics and Risk Management Committee meeting.
  - In addition to our in house Help-Line for Corporate Ethics, we set up an external help-line as well.
  - Officers took training in Japan's Antimonopoly Act and secure export control.
2. Systems for the Storage, Management, and Disclosure of Information Related to the Execution of Duties by Directors

The minutes documents of important conferences and committee meetings shall be stored,

each for a specified number of years of storage, based on Daikin Industries' in-house rules. Regarding the external disclosure of important information, the Information Disclosure Committee ensures the completeness and appropriateness of the information in order to achieve the highest level of accountability.

[Status of Main Activities in Fiscal 2016]

- Based on in-house rules, the minutes were saved for Board of Directors meetings and other important conferences and committee meetings.
- The Information Disclosure Committee convened prior to the announcement of quarterly financial results, deliberating on the appropriateness of the content of documents related to financial results.

### 3. Rules to Manage the Risk of Loss and Other Related Systems

The directors and executive officers in charge of a duty have the authority and responsibility to create a Group-wide, cross-organizational system that covers the entire sphere of that duty; for example, in terms of product liability and quality, safety, production and sales activities, and disasters.

To deal with risk across the entire company, officers in charge of compliance and corporate ethics, through the Legal Affairs, Compliance and Intellectual Property Center, identify major risks based on risk management principles, and these are deliberated by the Corporate Ethics and Risk Management Committee in order to formulate measures to deal with risk.

[Status of Main Activities in Fiscal 2016]

- The Corporate Ethics and Risk Management Committee deliberated on the major risks during the fiscal term, stipulating these as risks related to earthquakes, information leaks, intellectual property, overseas crisis management, and product liability and quality. Measures were formulated to deal with each of these risks.

### 4. Systems to Ensure that Directors Execute Duties Efficiently

- We have established an effective system for business execution through the following: By ensuring prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues; and by having an executive officers system aimed at improving speed through independent assessments and decisions conducted in each business, region, and function of Daikin.
- The Group Steering Meeting is the highest deliberation organ for the Group's management

system, and it strives to constantly speed up the pace at which Daikin decides on future direction and solves issues related to important management policy and strategies.

- We have a system for ensuring directors and corporate officers execute duties appropriately and efficiently according to rules of official authority and decision-making and based on in-house regulations including board of directors regulations, executive officer regulations, and internal memo regulations.
- We have three permanent external directors with no vested interest in our company and who can be expected to provide checks and balances that boost the efficiency of the management execution of directors and executive officers, as well as provide advice and opinions as they participate in management decision-making from an independent, neutral outside standpoint.

[Status of Main Activities in Fiscal 2016]

- Executive officers meetings were convened 11 times.
- The Group Steering Committee convened 12 times, mainly deliberating on the major strategic themes of the Fusion 20 strategic management plan.
- The Board of Directors convened 16 times, with the three external directors attending most of these meetings and pointing out management issues.

#### 5. Systems to Ensure Appropriate Business Within Industry Bodies Made Up of Concerned Limited Companies and Their Parent Companies and Subsidiaries

- Daikin Industries and Daikin Group companies strive to raise the corporate value of the entire Group and fulfill corporate social responsibility by acting based on Our Group Philosophy, by having Group companies keep in close communications in the sharing of directives and orders, and by providing guidance, advice, and evaluations, all with the goal of ensuring all Group business is conducted in the most appropriate manner.
- When the Board of Directors and the Executive Officers Meeting are making decisions on key items, we strive to share information within the Group, excluding insider information, and carry out corporate action based on overall consensus so that the decisions made are appropriate and that they are satisfying and convincing for all concerned.
- The Head Office has divisions in charge of managing and assisting Group companies, keeping in constant and close contact with Group companies to support them in their duties and promote necessary measures. At the same time, the Group Steering Meeting leads in the sharing of information Group-wide, disseminates basic policy, and promotes

and supports the solution of problems at Group companies.

- For key decision-making at subsidiaries, our Management Regulations for Limit of Authority of Daikin Group Companies, revised in 2008, provide the basis for prior consultation and participation, as well as periodic fact-finding regarding the health of the subsidiaries.
- To satisfy the internal control and reporting system (Financial Instruments and Exchange Act), since August 2005 we have been creating and upgrading our system for internal control over financial reporting, and today we have a system capable of ensuring the appropriateness of the business processes that influence financial reporting across the entire Group. To ensure the effective and appropriate submission of internal control reports as stipulated in Article 24, Paragraph 4, Item 4 of the Financial Instruments and Exchange Act, we carry out continuous evaluations to ensure that the mechanisms we have built are functioning properly and when necessary revise these, and we constantly ensure that we are compliant with the Financial Instruments and Exchange Act and other related laws and regulations. In conjunction with the internal control and reporting system, in 2008 we formulated the Global Accounting Regulations, which we have disseminated to Daikin worldwide and improve the effectiveness and appropriateness of our accounting and accounts settlements.
- In March 2009, it was determined that Daikin Industries' After Sales Service Division and several subsidiaries had engaged in improper accounting practices. In response, we continued on the previous year's efforts to improve the accounting functions in divisions and subsidiaries, we stepped up the thoroughness of accounting audits by the Finance and Accounting Division, special audits by the Internal Auditing Department, and self-monitoring by all divisions. Accounting managers undergo training, the Finance and Accounting Division carries out monitoring, and the Legal Affairs, Compliance and Intellectual Property Center has improved its functions for notifying all employees of the importance of compliance. In all, the entire Group has worked to create measures to ensure that such improper accounting practices do not happen again, and to create and continuously improve mechanisms for appropriate and reliable financial reporting.

[Status of Main Activities in Fiscal 2016]

- The results of proceedings at the Board of Directors meetings and the executive officers meetings were conveyed to divisions and Group companies for the sake of sharing information on company-wide issues.
- Assessments were carried out on the creation and status of internal control over

financial reporting, with necessary revisions being made and reports on the assessments submitted to the Board of Directors. Regarding the implementation of measures to prevent the reoccurrence of improper accounting practices, there has been ongoing implementation of such measures, including conducting accounting audits and special audits, and the Corporate Ethics and Risk Management Committee has deliberated on progress with these efforts.

## 6. Ensuring Viability of Audits by Corporate Auditors

- Besides participating in meetings of the Board of Directors, corporate auditors sit in on Executive Officers Meeting and Corporate Technology Meeting, where they receive reports and offer their opinions. At the same time, to ensure the viability of audits, the Board of Corporate Auditors regularly accepts reports related to key issues that affect company management and performance.
- Corporate auditors hold periodic opinion-exchange meetings with representative directors, executive officers, and independent auditors. Group-wide systems are in place for the unhindered exercise of authority by corporate auditors, allowing them to, for example, take part in key meetings, investigate relevant units, and confirm approval of internal memos. To ensure these systems are implemented, auditors are appointed in major Group companies for the purpose of facilitating the smooth flow of information. Corporate auditors gather auditors at the Group Auditors Meeting, where participants exchange information and auditors are trained in auditing methods.
- Corporate auditors have their own support staff, and there is the Office of Audit & Supervisory Board Members for assisting in auditing duties. Office of Audit & Supervisory Board Members staff carry out their duties under the orders of corporate auditors. Corporate auditors' decisions on employee transfers and evaluations take into account the opinions of the Board of Corporate Auditors.

[Status of Main Activities in Fiscal 2015]

- Corporate auditors held information exchange meetings twice with representative directors, 22 times with directors and executive officers, and 21 times with independent auditors.

## 2. Philosophy and Systems for Dealing with Anti-Social Forces

Daikin's Handbook for Corporate Ethics includes a guideline titled 'Maintaining a Firm Attitude against Anti-Social Activities', which details ways to implement this guideline.

Compliance and risk management leaders are kept up to date on all related matters, and they hold meetings to educate employees on dealing with anti-social forces.

## V. Others

### 1. Anti-Takeover Measures

Anti-Takeover Measures	None
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### Supplementary Explanation Related to Concerned Items

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### 2. Other Items Related to Corporate Governance

Below is the state of internal systems related to timely disclosure of corporate information.

#### [Basic Philosophy]

Daikin's Handbook for Corporate Ethics includes a section on timely and proper disclosure of corporate information. The basic guidelines on information disclosure are aimed at making Daikin a highly transparent company trusted by society.

#### [In-house Systems Relating to Timely Disclosure]

- We have an Information Disclosure Committee chaired by the executive officer in charge of legal affairs. The aim is to achieve the timely and proper disclosure of information and thus ensure integrity.
- In case of an incident, the division responsible for the information in question will report to the division in charge of controlling information; and if the incident is covered by information items stipulated in the Board of Directors Meeting Regulations, a report will also be made to the Board of Directors. The division in charge of controlling information will gather documents on the event that was reported on and make a report to the Information Disclosure Committee. The Information Disclosure Committee will decide on whether to conduct timely disclosure and make a resolution on the disclosure content, after which it will contact the Corporate Communication Department, which will publicly disclose the information according to directives from the manager in charge of handling information (the officer in charge of Corporate Communications).
- Regarding decisions to be made and financial results information, these will be submitted to the Board of Directors by the division responsible for the information, and a report will be made to the division in charge of controlling information. The division in charge of controlling information will gather documents related to the facts of the report and make a report to the Information Disclosure Committee. The Information Disclosure Committee will decide on whether to conduct timely disclosure and make a resolution

on the disclosure content, after which it will contact the Corporate Communication Department, which will publicly disclose the information according to directives from the manager in charge of handling information (the officer in charge of Corporate Communications).

- Timely disclosure will be carried out after the information is reported to and confirmed by the President.