

Corporate Governance

1. Fundamental Corporate Governance Concept

The Daikin Group's corporate governance, in accord with the Group Management Philosophy, is designed to help accelerate decision making and operational execution work in response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby seeking to increase the Group's corporate value.

Going forward, the Group will be striving to ensure the increasing sophistication of speedy management, the strengthening of consolidated management, and still-higher levels of soundness and transparency. In addition, to realize an increase in corporate value, the Group will continually consider and reevaluate its concepts regarding the most appropriate forms of corporate governance as it pursues a diverse range of Group-level initiatives aimed at ensuring best practices throughout the Group.

2. Corporate Governance Systems

Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management responsibilities as well as for operational execution responsibilities. In view of the special characteristics of the Group's business, it was judged that this is a more effective means of accelerating decision making and operational execution.

Daikin entrusts the CEO with the responsibility for making management decisions, including those involving the overall management of the Group, while it assigns the COO the responsibility for executing operations. This system is used to give due attention to both decision making and operational execution processes while seeking to accelerate both kinds of processes with respect to management tasks, including Group management tasks.

The top deliberative unit in the Group's management system is the Group Steering Meeting.

In addition, to further strengthen corporate governance, the Group has established support committees and other units, such as the Corporate Ethics & Risk Management Committee, the Internal Control Construction Committee, and the Disclosure Committee.

3. Increasing the Sophistication of Speedy Management

To facilitate speedy decision making based on substantive discussions, the Board of Directors has been designed to include a small number of members. As of July 2010, the Board of Directors included 10 members.

Since 2004, Daikin has employed an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function. In parallel to the Executive Officer System, the Board of Directors is responsible for making speedy strategic decisions and performing sound supervision for the entire Group.

The Group Steering Meeting quickly and in a timely manner determines the Group's strategic direction regarding important management policies and strategies as well as quickly resolving problems.

In addition, the Group Management Meeting aims to unify the Group's decisions by thoroughly sharing important management policies and the basic strategies of the Group and supporting and expediting the Group companies' problem-solving efforts. To further increase the Group's overall corporate value and ensure the Group lives up to its responsibilities to society, the Group Management Meeting aims to ensure that the Group is characterized by a unified understanding and integrated corporate operations.

4. Systems for Increasing Transparency and Soundness

Daikin employs a Board of Corporate Auditors and seeks to nominate two or more outside members—with no relationship of interest with the Company—to both its Board of Directors and its Board of Corporate Auditors. As of July 2010, Daikin's 10 directors included two outside directors, and the Company's four corporate auditors included two outside corporate auditors.

The outside directors are assigned assistants in the Management Planning Office who strive to provide the outside directors with early notice of Board of Directors meetings. In addition, in the case that an outside director is not able to attend a Board of Directors meeting, the assistants provide the outside director with related materials and subsequently provide the outside director with an explanation

of the proceedings of the meeting, thereby ensuring that the outside directors can effectively contribute to Daikin's corporate governance system.

The outside corporate auditors attend meetings of the Board of Directors as well as other important meetings and receive reports. In addition, they are able to express diverse opinions.

To ensure effective audit functions, the Board of Corporate Auditors receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors.

To strengthen Groupwide auditing and supervision functions for all Group companies, including overseas subsidiaries, principal Group companies appoint Group auditors. The corporate auditors and Group auditors regularly hold Group Auditors' meetings and otherwise work to increase the smoothness of information flows.

Within Daikin, the corporate auditors have established an Auditing Department, with staff who assist in auditing activities. The staff of the Auditing Department report directly to the corporate auditors and perform their duties in accordance with the corporate auditors' instructions, and such decisions relating to the staff as personnel reassignments and evaluations are made with due deference to the opinions of the Board of Corporate Auditors.

To ensure the transparency of management with respect to corporate officer appointment and compensation, Daikin has established its Personnel and Compensation Advisory Committee, which is chaired by an outside director and conducts deliberations regarding such issues as corporate officer selection standards, corporate officer candidates, and corporate officer remuneration.

5. Remuneration of Corporate Officers

Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium-to-long term and thereby contributing to a rise in the Group's corporate value. Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term

performance and job responsibilities, and "stock options" that reflect the Group's long-term performance. The remuneration of outside directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on an analysis and comparison of data from an outside specialized institution on the remuneration of corporate officers active in approximately 200 Japanese companies listed on the First Section of the Tokyo Stock Exchange as well as based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan.

The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient.

There are three Companywide performance-linked evaluation indices—net sales, the ratio of operating income to net sales, and the return on equity (ROE) ratio. These indices were selected in view of their use as Companywide performance targets in the context of numerical corporate management, their close correlation with stock value, their close interrelationship, and their simplicity as indices as well as in view of trends regarding other companies and other factors. The sector performance-linked indices used are net sales and operating income, as these are the most important performance indices used within Daikin and are used by the Company's business departments as daily operational execution targets.

The remuneration of directors and corporate auditors is determined so as to fall within the aggregate remuneration ceiling of directors and corporate auditors as determined by a resolution of the general shareholders' meeting. Based on a report from the Compensation Advisory Committee (composed of four directors other than the president or chairman and chaired by an outside director) and in accordance with the Company's Articles of Incorporation, the directors' remuneration is determined based on a resolution of the Board of Directors while the corporate auditors' remuneration is determined based on a resolution of the Board of Corporate Auditors.