

Corporate Governance

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Fundamental CSR Corporate Governance



Why is it Important ?

Every time there is a corporate scandal, there are calls to step up the importance of corporate governance in order to strengthen management check functions.

Improved corporate governance not only helps reduce corporate risk and avoid scandals; it also improves corporate profitability and medium-to-long-term corporate value, and it supports sustainable growth. Therefore, corporate governance helps protect stakeholder benefits, as well as return the benefits of value created to society, thus promoting a virtuous economic cycle.

DAIKIN'S POLICY

Daikin Industries, Ltd. has adopted an integrated management system to speed up management processes. The integrated management system supports management responsibility, allowing directors to quickly make strategic decisions and conduct sound supervision in order to collaborate and fulfill their responsibilities in all aspects of management. Integrated management also supports business execution.

We have Audit & Supervisory Board that improves the effectiveness of auditing. The Board of Directors oversees the CSR Committee, the Corporate Ethics and Risk Management Committee, and other committees. We strive to achieve corporate governance that supports sustainable growth.

> Corporate Governance

Through an integrated management system for fast decision-making and execution, we improve our operational speed and ensure sound, transparent management.

> Board of Directors Biographies

Names and biographies of the Board of Directors.

> Risk Management

We quickly and accurately get the big picture regarding risk, and we strive to reduce it by conducting cross-organizational risk management.



> Compliance

The Daikin Group has a unified system for the promotion of compliance (corporate ethics, legal compliance) and risk management.



> Free Competition and Fair Business Dealings

The Daikin group strives for fair business practices through measures for complying with laws on anti-monopoly, misleading representations, and subcontracting in countries around the world.



> Prohibiting Bribes

We do our utmost to ensure that business entertainment and gift-giving related to business are conducted within the laws and customs of each country and region.



> Information Security

We have built an information management system with specific in-house protocols in efforts to ensure complete control over information security.



> Respect for Intellectual Property Rights

Intellectual property is a valuable company asset. We carry out proper and fair exercise of rights in response to violation of our intellectual property as well as respect other companies' intellectual property.



Corporate Governance

Corporate Governance

■ Fundamental Corporate Governance Policy

Further Boosting Corporate Value

The Daikin Group believes that the role of corporate governance is to accelerate decision making and operational execution work in anticipation of and in response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby increasing the Group's corporate value.

Going forward, the Group will continue to raise corporate value by ensuring the increasing sophistication of speedy management and still-higher levels of soundness and transparency. We will achieve this by constantly reviewing and implementing optimal corporate governance and by spreading best practices throughout the entire Daikin Group.

■ Corporate Governance Structure

Management and Operational Execution Systems

Rather than adopt a U.S.-style "committees system" that completely separates decision making and work supervision from operational execution, Daikin Industries, Ltd. has adopted an "integrated management" system that it has judged to be effective in speeding up decision making and execution based on the Daikin Group's characteristics. In an integrated management system, directors quickly make strategic decisions and conduct sound supervision, thus achieving management responsibility through cooperation across all management and at the same time achieving work execution responsibility. The company is also strengthening monitoring functions from an independent perspective through measures such as the appointment of numerous external corporate officers. In addition, Daikin Industries, Ltd. has introduced an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

Directors are selected with an emphasis on having a diverse range of personnel representing people of varying genders, nationalities and experience. As of June 2016, we have 12 directors (including one woman and two non-Japanese nationals) who oversee prompt and strategic decision making and sound management throughout the entire Group.

Daikin Industries, Ltd. appoints three external directors with no vested interest in our company. We ensure these external directors have abundant experience and deep insight and can, therefore, offer a sophisticated perspective on a broad range of issues as they participate in decision making and supervise management. Our main selection criterion therefore is directors of listed companies with a wealth of business experience.

We also ensure that our external directors do not hold more than five positions (including their position with Daikin Industries, Ltd.).

To ensure that the external directors can effectively contribute to Daikin Industries, Ltd.'s corporate governance system, the employees in the Management Planning Office are assigned to strive to provide the external directors with early notice of Board of Directors meetings. In addition, in the case that an external director is not able to attend a Board of Directors meeting, the assistants provide the external director with related materials and subsequently provide the external director with an explanation of the proceedings of the meeting and provide other assistance.

Audit System

Daikin Industries, Ltd. employs an Audit and Supervisory Board and seeks to nominate two or more outside members to its Audit and Supervisory Board. The principal nomination criteria for external Audit and Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company. As of June 2016, Daikin Industries, Ltd.'s four Audit and Supervisory Board members include two external Audit and Supervisory Board members.

The external Audit and Supervisory Board members 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 Audit and Supervisory Board receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors.

To ensure the effectiveness of audit and supervisory board members, there is the Office of Audit and Supervisory Board Members and support staff for assisting audit and supervisory board members in their duties. Staff of the Office of Audit and Supervisory Board Members carry out their duties under the orders of corporate auditors. Audit and Supervisory Board members' decisions on employee transfers and evaluations take into account the opinions of the Audit and Supervisory Board.

Organizational Structure Supports Speedy Management Implementation

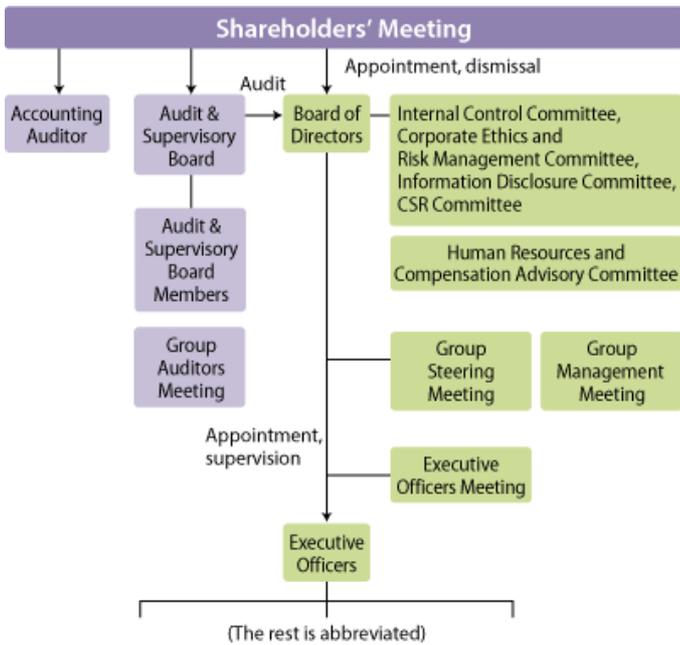
We are striving to ensure prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues. Three organs—the Board of Directors Meeting, the Group Steering Meeting, and the Executive Officers Meeting—are the main decision-making bodies and as a rule each is convened once a month.

The Board of Directors is the Group-wide decision-making body for items stipulated in laws, regulations, and articles of incorporation. The board periodically conducts self assessments with regards to its effectiveness. In fiscal 2015, the Board of Directors Meeting was convened 16 times, with external directors attending on average 91% of the meetings and external Audit and Supervisory Board members attending on average 84% of the meetings.

The highest deliberation organ for the Group's management system is the Group Steering Meeting, 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. The Group Steering Meeting was convened six times in fiscal 2015.

To ensure that the interests of stakeholders other than shareholders are respected and protected, the Board of Directors oversees the Internal Control Committee, the Corporate Ethics and Risk Management Committee, the Information Disclosure Committee, and the CSR Committee.

■ Corporate Governance Structure (as of end of June 2016)



■ Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin Industries, Ltd. has established the Human Resources and Compensation Advisory Committee. This committee engages in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. The committee consists of five members, including three external directors, one in-house director, and one executive officer, with the committee chair being chosen from the external directors.

The remuneration of directors and Audit and Supervisory Board members is determined so as to fall within the aggregate remuneration ceiling for directors and corporate auditors as set by a resolution at the general shareholders' meeting. Based on a report from the Human Resources and Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Audit and Supervisory Board.

Daikin Industries, Ltd.'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 (net sales and operating income) and each director's job responsibilities, and "stock options" that reflect the Group's medium- to long-term performance. 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.

The remuneration of external directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing 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.

In fiscal 2015, the CEO's annual compensation was 230 million yen and the median employee compensation was 7.1 million yen. The CEO-to-employee pay ratio was thus 32-to-1.

■ Corporate Officer Remuneration (Fiscal 2015)

Category	Total compensation (Million yen)	Fixed compensation (Million yen)	Performance-linked compensation (Million yen)		Persons paid
		Base compensation	Stock options	Bonus	
Director (Excluding external directors)	1,254	775	128	350	10
Audit and Supervisory Board member (Excluding external Audit and Supervisory Board members)	65	65	-	-	3
External corporate officers	59	59	-	-	4

■ Corporate Officers with Compensation Over 100 Million Yen (Fiscal 2015)

Name	Total compensation (Million yen)	Category	Company	Total of different types of compensation (millions of yen)		
				Base compensation	Stock options	Bonus
Noriyuki Inoue	338	Director	Daikin Industries, Ltd.	213	27	97
Masanori Togawa	230	Director	Daikin Industries, Ltd.	138	27	65
Ken Tayano	176	Director	Daikin Industries, Ltd.	109	13	41
		President	Daikin (China) Investment Co., Ltd. (Consolidated subsidiary)	12	-	-
Guntaro Kawamura	119	Director	Daikin Industries, Ltd.	75	13	30
Masatsugu Minaka	117	Director	Daikin Industries, Ltd.	6	13	29
		Director	Daikin Europe N.V. (Consolidated subsidiary)	67	-	-
Jiro Tomita	105	Director	Daikin Industries, Ltd.	61	10	33
Takashi Matsuzaki	103	Director	Daikin Industries, Ltd.	61	10	31

■ Accounting Auditor Compensation (Fiscal 2015)

Auditing expenses	201 million yen
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■ Group-Wide Governance

To ensure governance throughout the entire Group, including companies acquired by Daikin, the Group Management Meeting aims for action based on unified opinion throughout the Group. It does this by sharing important Group policies and basic strategies, as well as providing support for problem-solving in Group companies. The Group Auditors Meeting, made up of auditors from the main Group companies, works to strengthen auditing and control functions throughout the Group and ensure that these functions are working to the fullest.

To further raise corporate governance and Group management as a multinational company, Daikin has put a Chief Global Group Officer position in place. Under this position, the Group strives to further improve cohesiveness across global operations.

■ Noriyuki Inoue

■ Position

Chairman of the Board and Chief Global Group Officer

■ Date of Birth

March 17, 1935

■ Brief Personal History and Position Held

March 1957	Entered the Company
February 1979	Director of the Company
February 1985	Managing Director of the Company
June 1989	Senior Managing Director of the Company
June 1994	President, Representative Director of the Company
May 1995	Chairman of the Board and President, Representative Director of the Company
June 1996	President, Representative Director of the Company
June 2002	Representative Director, Chairman of the Board and CEO of the Company
June 2014	Chairman of the Board and Chief Global Group Officer of the Company (Current position)

■ Significant Positions Concurrently Held

- External Director of The Kansai Electric Power Co., Inc.
- External Director of Hankyu Hanshin Holdings, Inc.
- Chairman of The Daikin Foundation for Contemporary Arts
- Chairman of Kansai Philharmonic Orchestra

■ Reasons for Nominating Candidate for Director

Mr. Noriyuki Inoue has assumed a management role in the Company for many years, holding posts that include President, Representative Director, Chairman of the Board, and CEO. His management foresight has produced substantial results in global business expansion and enhancement of corporate value. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

■ Masanori Togawa

■ Position

Representative Director, President and CEO

■ Date of Birth

January 11, 1949

■ Brief Personal History and Position Held

April 1973	Entered the Company
June 2002	Director of the Company
June 2004	Director and Senior Executive Officer of the Company
July 2006	Member of the HRM and Compensation Advisory Committee of the Company (Current position)
June 2007	Director and Senior Executive Officer of the Company
June 2011	Representative Director, President and COO of the Company
June 2014	Representative Director, President and CEO of the Company (Current position)

■ Reasons for Nominating Candidate for Director

As Representative Director, President and COO since June 2011, and as Representative Director, President and CEO since June 2014, Mr. Masanori Togawa has displayed leadership in implementing the strategic management plan Fusion 15 and has contributed to its realization. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

■ Chiyono Terada

■ Position

Member of the Board (external)

■ Date of Birth

January 8, 1947

■ Brief Personal History and Position Held

June 1976	Founded Art Hikkoshi Center
June 1977	Established Art Hikkoshi Center Co., Ltd. (Currently, Art Corporation), became a President and Representative Director of the above company (Current position)
June 2002	Director of the Company (Current position)
July 2006	Chairman of the HRM and Compensation Advisory Committee of the Company (Current position)

■ Significant Positions Concurrently Held

- President and Representative Director of Art Corporation
- Chairman and Representative Director of Art Childcare Corporation
- External Director of Rock Field Co., Ltd.

■ Reasons for Nominating Candidate for Director

The Company has benefited from Ms. Chiyono Terada's abundant experience and deep insight as a corporate manager, which she uses to supervise the Company's management appropriately from an independent standpoint. In addition, Ms. Terada proactively makes proposals concerning management based on the viewpoint of consumers, such as the importance of the Company's brand, and measures to further promote the active role of female employees. We have appointed her to continue as External Director, believing that she will continue to contribute to enhancement of the Company's corporate value.

■ Tatsuo Kawada

■ Position

Member of the Board (external)

■ Date of Birth

January 27, 1940

■ Brief Personal History and Position Held

March 1962	Entered Fukui Seiren Kako Co., Ltd. (Currently, Seiren Co., Ltd.)
August 1981	Director of the above company
August 1985	Managing Director of the above company
August 1987	President of the above company
June 2003	President and COO of the above company
October 2005	President, CEO and COO of the above company
June 2011	Chairman, President, CEO and COO of the above company
June 2014	Chairman and CEO of the above company (Current position)

■ Significant Positions Concurrently Held

- Chairman and CEO of Seiren Co., Ltd.
- External Director of Hokuriku Electric Power Company
- External Audit & Supervisory Board Member of Hokuhoku Financial Group, Inc.
- Chairman of Fukui Chamber of Commerce and Industry

■ Reasons for Nominating Candidate for Director

Serving as Representative Director of Seiren Co., Ltd., Mr. Tatsuo Kawada has abundant experience and deep insight as a corporate manager in areas such as shifting to new business models, generating innovation, and reforming corporate culture. We have appointed Mr. Kawada as External Director, believing that he will use his experience and insight to supervise the Company's management appropriately from an independent standpoint, and that he can contribute to enhancement of the Company's corporate value by making proposals from a broad and advanced perspective concerning management in general.

■ Akiji Makino

■ Position

Member of the Board (external)

■ Date of Birth

September 14, 1941

■ Brief Personal History and Position Held

March 1965	Entered Iwatani Corporation
June 1988	Director of the above company
June 1990	Executive Director of the above company
June 1994	Senior Executive Director of the above company
June 1998	Executive Vice President of the above company
April 2000	President of the above company
June 2004	President and Executive Officer of the above company
June 2012	Chairman, CEO and Executive Officer of the above company

■ Significant Positions Concurrently Held

- Chairman, CEO and Executive Officer of Iwatani Corporation
- Chairman of the Board of Iwatani Industrial Gases Corporation
- Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited

■ Reasons for Nominating Candidate for Director

Serving as Representative Director of Iwatani Corporation, Mr. Akiji Makino has abundant experience and deep insight as a corporate manager in the energy and environmental fields, service businesses, and other areas. We have appointed Mr. Makino as External Director, believing that he will use his experience and insight to supervise the Company's management appropriately from an independent standpoint, and that he can contribute to enhancement of the Company's corporate value by making proposals from a broad and advanced perspective concerning management in general.

■ Ken Tayano

■ Position

Member of the Board, Senior Executive Officer

■ Date of Birth

January 12, 1947

■ Brief Personal History and Position Held

April 1970	Entered the Company
June 2000	Associate Officer of the Company
June 2002	Senior Associate Officer of the Company
June 2004	Senior Executive Officer of the Company, Representative of China business of the Company (Current position), Member of Global Air Conditioning Committee of the Company (Current position)
May 2009	Chairman of the Board and President of Daikin (China) Investment Co., Ltd. (Current position)
June 2011	Director and Senior Executive Officer of the Company
June 2013	In charge of air conditioning business in Japan of the Company (Current position)
June 2014	Representative Director and Senior Executive Officer of the Company (Current position)
December 2014	Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. (Current position)

■ Significant Positions Concurrently Held

- Chairman of the Board and President of Daikin (China) Investment Co., Ltd.
- Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd.

■ Reasons for Nominating Candidate for Director

Mr. Ken Tayano has abundant experience and accomplishments, including having been involved in management of the air conditioning business in China and in Japan. We have appointed Mr. Tayano to continue as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

■ Masatsugu Minaka

■ Position

Member of the Board, Senior Executive Officer

■ Date of Birth

July 9, 1953

■ Brief Personal History and Position Held

October 1983	Entered the Company
July 2005	Director and President of Daikin Europe N.V. (Current position)
June 2007	Associate Officer of the Company, Member of Global Air Conditioning Committee of the Company (Current position)
June 2008	Executive Officer of the Company
June 2010	Senior Executive Officer of the Company
June 2011	Director and Senior Executive Officer (Current position), Representative of air conditioning in Europe, the Middle East and Africa of the Company (Current position)

■ Significant Positions Concurrently Held

- Director and President of Daikin Europe N.V.

■ Reasons for Nominating Candidate for Director

Mr. Masatsugu Minaka has abundant experience and accomplishments, having been involved in management of the air conditioning business in Europe, the Middle East, and Africa. We have appointed Mr. Minaka to continue as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

■ Jiro Tomita

■ Position

Member of the Board, Senior Executive Officer

■ Date of Birth

August 7, 1949

■ Brief Personal History and Position Held

April 1970	Entered the Company
June 2008	Associate Officer of the Company
November 2009	Director and Vice President of Daikin Europe N.V.
May 2010	Executive Officer of the Company
June 2010	Director and Senior Executive Officer of the Company
June 2011	Director and Senior Executive Officer of the Company (Current position)
June 2015	In charge of Global Operations Division of the Company (Current position), In charge of manufacturing technology of the Company (Current position)
May 2016	Leader of ATT project (Current position), Leader of SSJ project of the Company (Current position)

■ Reasons for Nominating Candidate for Director

Mr. Jiro Tomita has abundant experience and accomplishments, having been involved in global air conditioning business operations, mainly in production and production technology. We have appointed Mr. Tomita to continue as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

■ Takashi Matsuzaki

■ Position

Member of the Board, Senior Executive Officer

■ Date of Birth

December 23, 1958

■ Brief Personal History and Position Held

April 1982	Entered the Company
June 2004	Executive Officer of the Company
June 2008	Director and Senior Executive Officer of the Company
June 2010	Senior Executive Officer of the Company
June 2012	Director and Senior Executive Officer of the Company (Current position)
June 2015	In charge of R&D in North America (including applied solutions, commercial & industrial refrigeration, filter and dust collection) of the Company (Current position)
May 2016	Leader of GRT project of the Company (Current position)

■ Reasons for Nominating Candidate for Director

Mr. Takashi Matsuzaki has abundant experience and accomplishments, having been involved mainly in operations related to R&D. We have appointed Mr. Matsuzaki to continue as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

■ Koichi Takahashi

■ Position

Member of the Board, Senior Executive Officer

■ Date of Birth

May 24, 1956

■ Brief Personal History and Position Held

April 1979	Entered the Company
June 2006	Executive Officer of the Company
June 2007	In charge of Accounting, Finance, and Budget (Current position), General Manager of Finance and Accounting Division of the Company (Current position)
June 2010	Director and Executive Officer of the Company
June 2011	Chairman of Information Disclosure Committee (Current position), Chairman of Development Committee for Operational Adequacy Promotion System (Current position)
June 2013	Leader of IZS Project of the Company (Current position)
June 2014	Director and Senior Executive Officer of the Company (Current position), In charge of IT development of the company

■ Reasons for Nominating Candidate for Director

Mr. Koichi Takahashi has abundant experience and accomplishments, having been involved mainly in accounting and financial operations. We have appointed Mr. Takahashi to continue as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

■ Yuan Fang

■ Position

Member of the Board (non-resident)

■ Date of Birth

March 9, 1956

■ Brief Personal History and Position Held

June 1994	Deputy General Manager and General Manager of Sales of Shanghai Office of the Company
June 2009	Senior Executive Officer of Daikin (China) Investment Co., Ltd.
June 2011	Director and Senior Executive Officer of the above company
June 2012	Associate Officer of the Company (Current position)
May 2014	Chairman of the Board of Daikin Airconditioning (Hong Kong) Ltd. (Current position)
June 2015	Regional General Manager, air conditioning business in emerging nations in the ASEAN and Oceania of Global Operations Division of the Company (Current position), Vice Chairman and Senior Executive Officer of Daikin (China) Investment Co., Ltd. (Current position)

■ Significant Positions Concurrently Held

- Vice Chairman and Senior Executive Officer of Daikin (China) Investment Co., Ltd.
- Chairman of the Board of Daikin Airconditioning (Hong Kong) Ltd.

■ Reasons for Nominating Candidate for Director

Mr. Yuan Fang has abundant experience and accomplishments with regard to the air conditioning business in China and emerging nations in the ASEAN and Oceania regions. We have appointed Mr. Fang as Director, judging that he is an appropriate person to help the Company realize sustainable enhancement of corporate value in the future.

Corporate Governance Risk Management

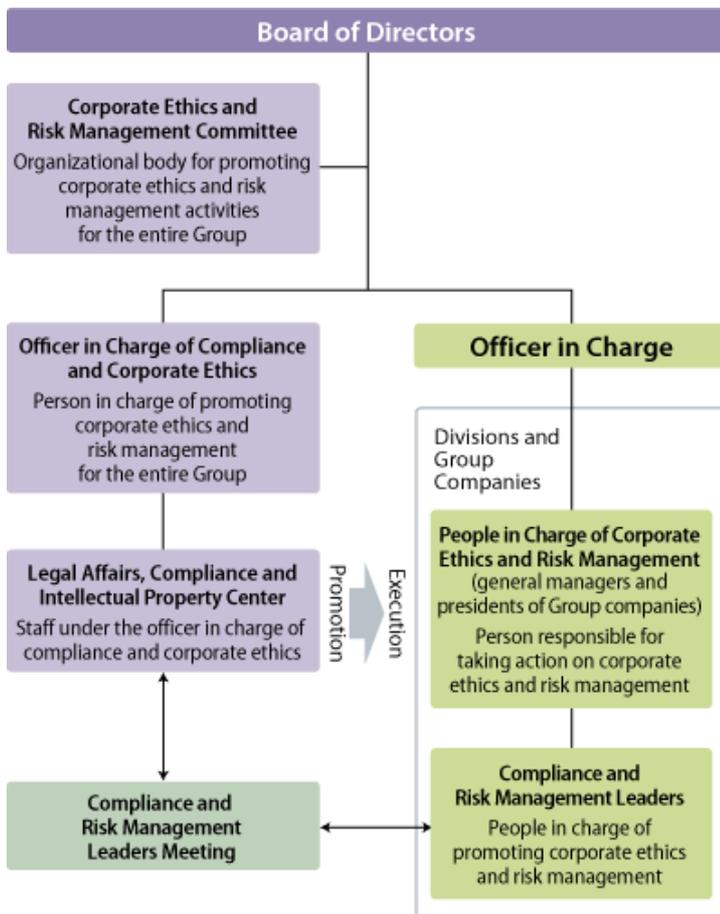


■ Basic Policy

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 department, 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.

■ Corporate Ethics and Risk Management



■ Principal Risks Associated with the Daikin Group's Operations

Identifying Major Risks and Proposing and Implementing Measures

With the Daikin Group expanding rapidly around the globe, we have introduced company-wide, cross-organizational risk management in order to quickly get an overall picture of risks from a global point of view and reduce the risks.

All divisions carry out annual risk assessments in which they determine important risks and create measures to deal with them. Based on the results of these assessments, the most important company-wide risks are determined, with measures proposed and implemented to deal with them in order to reduce risk.

In fiscal 2015, efforts involved six key risk areas: earthquakes, product liability and quality, intellectual property, information leaks, overseas crisis management, and improper accounting practices.

■ Cross-Organizational Risks for Fiscal 2015

- | | |
|-------------------------------|----------------------------------|
| 1. Earthquakes | 2. Product liability and quality |
| 3. Intellectual property | 4. Information leaks |
| 5. Overseas crisis management | 6. Improper accounting practices |

The following are possible risks affecting the Daikin Group's financial situation, business performance, and other areas.

Please note that forward-looking statements made here are based on knowledge current as of the end of March 2016.

Risks Directly Affecting Operations

(1) Sudden changes in politico-economic conditions or supply-demand relationships in principal markets

The Group provides goods and services throughout the world, and there is a possibility that Group performance could be impacted if politico-economic changes occur in such markets as Japan, Europe, North America, China, and other countries in the Asian region.

In particular, the Group is proactively developing business operations outside Japan through measures including constructing new air-conditioning equipment manufacturing facilities and acquiring air-conditioning equipment dealers in Europe as well as establishing manufacturing and marketing companies in China. There is, thus, a possibility that the Group's performance could be impacted by business environment changes in one or more global regions. These changes could include the deterioration of economic conditions, raw material price surges, and/or the intensification of competition with other companies.

In the United States, on November 1, 2012, Daikin completed all procedures for the acquisition of Goodman Global Group, Inc. (Head Office: Houston Texas; hereinafter "Goodman") for a purchase price of US\$3.7 billion (including the refinancing of Goodman's existing debt).

By means of this acquisition, Daikin intends to reinforce Goodman's sales network—the largest sales network in the U.S. residential and commercial air-conditioning equipment market—through the launch of environmentally friendly products incorporating Daikin's state-of-the-art environmental technologies. In doing so, Daikin aims to bring about new trends in the U.S. air-conditioner market that will enable the Group to realize business expansion and contribute to environmental protection. Furthermore, Daikin hopes to further improve its competitiveness by leveraging Goodman's low-cost management know-how to develop business in emerging economies and volume-zone markets. Daikin also hope to use this know-how to reform the Group's earnings structure, including at operations in advanced economies. There is a possibility that the degree of progress toward realizing these objectives could impact the Daikin Group's performance.

(2) Changes in demand for air conditioners due to cold summer weather and other unusual weather patterns

Air-conditioning and refrigeration operations accounted for 89.4% of the Daikin Group's consolidated net sales in fiscal 2014. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world's principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group's performance could be impacted.

(3) Large fluctuations in currency exchange rates

Overseas sales accounted for 75.4% of the Daikin Group's consolidated net sales in fiscal 2015. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items, including sales, expenses, and assets, for Group operations in each global region, into Japanese yen. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because some of the Group transactions in raw materials and component procurement and in the sale of goods and services are foreign currency-denominated, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

(4) Major product quality claims

The Daikin Group conducts the highest level of quality control on all products it manufactures, no matter what country they are manufactured in. In new product development, we strive to constantly improve quality, cost, and development speed by revamping all processes—starting in the pre-development stages—in a cooperative effort synchronizing the four facets of design, manufacturing technology, purchasing, and suppliers. Although the Group has liability insurance in case a product claim arises, there is still the possibility that major product quality claims could impact Group performance.

(5) Major problems in manufacturing

The Daikin Group takes every possible measure to prevent problems at its worldwide manufacturing bases, and it constantly works to improve its safety inspections and security measures, especially in the chemicals business. In preparation for potential manufacturing problems, the Group has insurance covering things like damage to equipment and lost profits. However, there is the possibility that major manufacturing problems could impact Group performance.

(6) Major changes in the market prices of securities

Securities of the Daikin Group are held mainly for the purpose of mutually expanding business with and strengthening relationships between Daikin and its business partners. However, factors such as fluctuations in the stock market and bankruptcy of business partners could possibly impact Daikin Group performance.

(7) Impairment of long-lived assets

The Daikin Group records a variety of tangible and intangible assets, including assets for business purposes and goodwill arising from the acquisition of another company. It may be necessary to book impairment losses on these assets; for example, due to a decline in business performance or in the market value of the assets, they may not generate the expected cash flow. Such impairment losses could impact Daikin Group performance.

(8) Natural disasters

Natural disasters can affect Daikin Group manufacturing, sales, and distribution bases, leading to a possible impact on Group performance.

■ Preparing for Earthquakes

Revamping Earthquake Risk Measures and Stepping Up Safety Measures

Daikin has made earthquake risk measures a key company-wide theme and we are formulating measures via task-specific teams.

Based on estimates made by the Central Disaster Management Council of Japan's Cabinet Office (such as estimated maximum magnitude and maximum tsunami height), we have made and are implementing proposals in areas including reinforcement of earthquake resistance at our plants and flooding measures at our chemical plant, as well as evacuation drills to prepare for flooding.

We are also creating a business continuity plan (BCP) that includes concrete measures to eliminate risk and we are putting this plan into action.

Group companies are all proceeding with their own BCPs.

■ Measures to Deal with Information Leaks

Stepping Up Information Leak Prevention

Preventing information leaks is a Group-wide concern. IT-related divisions and compliance-related divisions cooperate closely, and personal information managers and IT security managers in each division lead efforts to minimize the risk of information leaks.

Recently, there has been a rash of targeted attack emails. In response, the Group has stepped up efforts, including supplementing employee training with actual practice in dealing with such targeted attack emails.



Corporate Governance Compliance

■ Group Conduct Guidelines

The Group Conduct Guidelines set forth the basic premises to observe as a basic framework for corporate ethics compliance for all Group companies as well as each and every one of their executives and employees in the worldwide expansion of the Daikin Group.

Believing that violation of the Group Conduct Guidelines constitutes a form of risk, we strive to achieve compliance and risk management throughout the entire Daikin Group.

■ Items of the Group Conduct Guidelines

1. Providing Safe, High Quality Products and Services

We shall make every effort to ensure the safety and quality of our products and services from the standpoint of our customers. Should a problem occur regarding safety, we shall immediately take appropriate action.

2. Free Competition and Fair Trading

We shall observe all applicable laws and regulations relating to fair competition and fair trade of each country and region, including antimonopoly laws. Furthermore, we shall conduct fair sales and procurement activities based on proper corporate ethics and in accordance with sound business practices and social norms.

3. Observing Trade Control Laws

We shall not participate in any transactions that may undermine the maintenance of global peace and security and world order. We shall always act in compliance with all applicable export- and import-related laws and regulations of each country and region, as well as the Daikin Group Security Trade Control Policy, which relates to foreign trade control.

4. Respect and Protection of Intellectual Property Rights

Recognizing that intellectual property rights are important company assets, we shall strive to protect and maintain our intellectual property rights and effectively utilize them. Furthermore, we shall respect and make every effort not to infringe upon the intellectual property rights of other companies.

5. Proper Management and Utilization of Information

We shall properly manage and effectively utilize the confidential information of our company, the confidential information obtained from other companies, and the personal information of our customers and employees and shall not obtain any information through improper means. We shall thoroughly execute IT security management for our computer systems and the data-resources saved on them.

6. Prohibition of Insider Trading

To maintain the trust of the securities market, we shall not use non-public information about the Daikin Group or other companies to buy or sell stocks or other securities (insider trading).

7. Timely and Appropriate Disclosure of Corporate Information

Aiming to be an "open company" with high transparency and earn the respect of society, we shall actively convey corporate information in a timely fashion not only to shareholders and investors but also to a wide spectrum of society, and engage in two-way communication.

8. Preservation of the Global Environment

We shall observe all applicable environmental laws and regulations of each country and region and practice initiatives that preserve the global environment in all aspects of our business operations, including product development, manufacturing, sales, distribution, and services. Also, each and every one of us shall deepen our knowledge of environmental issues, reduce the environmental load in the workplace and at home, and strive toward biodiversity conservation.

9. Ensuring the Safety of Operations

We shall take all possible precautions for safe operations and act with a mindset of "Safety First" to ensure the safety of the workplace and further gain the trust of people in the regions we serve.

10. Respect for Human Rights and Diversity in the Workplace and Observance of Labor Laws

We shall respect the human rights of each and every employee and shall not engage in conduct that discriminates on the basis of nationality, race, ethnicity, religion, color of skin, age, gender, sexual orientation, or disability. Diversity in individual values is enthusiastically accepted, and we shall work to make the unique talents and abilities of each and every person the driving force of the organization. We shall also observe both the letter and spirit of all labor laws and regulations of each country and region, and under no circumstances shall we sanction the labor of underage employees, minors who do not meet the minimum legal age requirements (child labor), or labor performed under compulsion or against a person's will (forced labor).

11. Protection of Company Assets

We shall properly manage the tangible and intangible assets of our company to protect and utilize effectively these assets.

12. Proper Handling of Accounting Procedures

We shall comply with all accounting standards and tax laws of each country and region as well as internal company rules in properly performing accounting procedures.

13. Practicing Moderation in Entertainment and Gift Exchanges

We shall exercise moderation and perform within the acceptable range of social norms and obey the laws and regulations of each country and region in regards to entertainment, the exchange of presents, and invitations relating to the development of our global business. In particular, we shall not entertain, provide gifts of monetary value to, or extend invitations to public officials in Japan or abroad that violate the applicable laws and regulations in each respective country and region.

14. Maintaining a Firm Attitude against Anti-social Activities

We shall take a firm attitude against anti-social force or organization that threatens the safety and order of the citizens of society.

15. Relationship with Society

We aim to be a good corporate citizen that is trusted by society and we shall do our best to act with humility and modesty while at the same time having self-awareness and taking pride in our actions. Moreover, we shall participate in social contribution activities centered on environmental conservation, education support, and cooperation with the local community.

16. Observing Each Category of Industry Law and Regulation

We shall accurately comprehend and observe all business laws and regulations of each country and region applicable to our business activities.

■ Management Structure

Conducting Integrated Group-Wide Promotion of Compliance and Risk Management

The Corporate Ethics and Risk Management Committee is the organ for leading group-wide corporate ethics activities. It is headed by the officer in charge of compliance and corporate ethics and made up of general managers and presidents of major Group companies in Japan. As a rule, this committee meets twice a year to discuss and work toward solving a variety of issues. Matters deliberated upon at these meetings are reported to Daikin executives twice a year.

Monthly meetings are held by compliance and risk management leaders (CRLs), who are appointed in each division and major Group company in Japan. The goal of the CRLs is to follow the state of compliance and risk management activities, share information, and carry out compliance education and training, thus fostering an atmosphere of compliance and ensuring thorough measures to deal with risk.

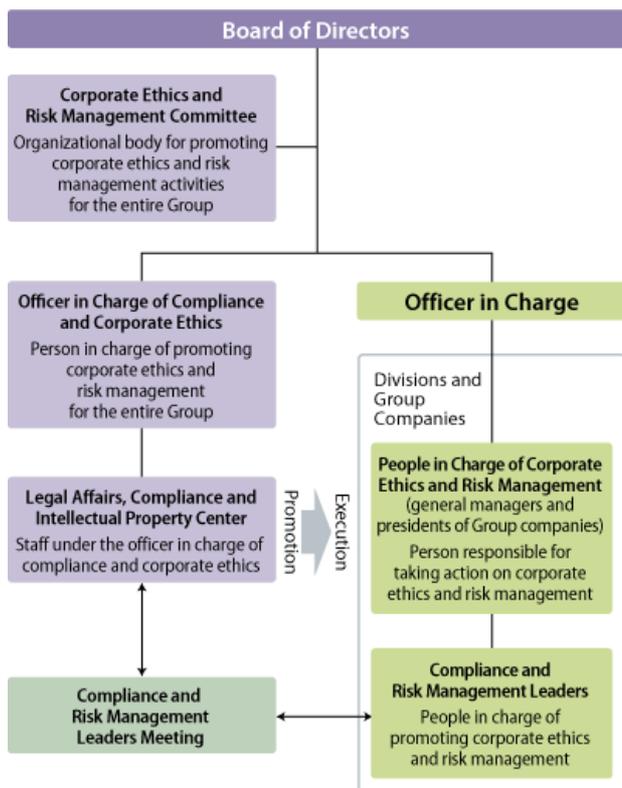
Building Compliance and Risk Management Systems for Overseas Group Companies

Modeled on Daikin Industries, Ltd. in Japan, a compliance and risk management system has been built for each country and world region to match particular local needs.

Each of these systems has compliance committees and Corporate Ethics Handbooks, and they conduct regular self assessments and risk management checks.

In addition, Corporate Ethics and Risk Management Committee members of Daikin Industries, Ltd. regularly visit overseas Group companies to join compliance committee meetings, where they confirm the state of compliance and risk management, and share information. This process enables Daikin Industries, Ltd. and its overseas companies to share and implement each other's best practices.

■ Corporate Ethics and Risk Management



Compliance meeting in China (Suzhou)

■ Compliance and Risk Management Efforts

Handbook for Corporate Ethics, and Regular Self Assessments

Daikin's Handbook for Corporate Ethics summarizes employee rules for action and behavior to ensure compliance in Japan. Moreover employees in Japan have been given compliance cards and are urged to carry these with them at all times to ensure that they always follow rules and ethics.

In the area of legal compliance, compliance and risk management leaders (CRLs) in each division head efforts to gather the latest legal information and check to see if laws are reflected in company rules and manuals. There are also daily triple checks to ensure everyone is following laws and company rules and manuals. We also have self assessments, a Daikin initiative, which are conducted once a year in all divisions and Group companies to ensure soundness in both legal compliance and risk matters. Based on the results of these self assessments, the legal department conducts legal audits in divisions and Group companies, while the Internal Auditing Department confirms legal compliance through audits.

In the area of risk management, all divisions conduct risk management checks along with self assessments. If any major risks are identified by these checks, measures are drawn up to reduce such risks.

The members of the legal department tour overseas group companies to lead efforts such as the creation of the Handbook for Corporate Ethics and the conducting of self assessments.

> [Ensuring Legal Compliance in the Entire Supply Chain \(Supply Chain Management\)](#) (Page 262)



Handbook for Corporate Ethics

■ Education

Focus on Educating Employees Toward Thorough Compliance

We strive to make every employee constantly aware of compliance through a special emphasis on educational activities. We constantly improve these through better compliance education tools and improved ways to relay the importance of compliance.

For example, employees who are studying look at case studies related to legal matters in specific areas, such as sales, production, and procurement. Education is also divided by employee category, with courses for directors, new employees, newly appointed managers, CRLs, and other kinds of employees.

Moreover, to raise employees' compliance awareness, training is supplemented by sessions with individual division heads and managers, who repeatedly remind workplace employees about the importance of compliance from their own experience.

Since fiscal 2012, Daikin's Compliance Caravan made up of representatives from the legal department, various Daikin divisions, and group companies has been touring branches around Japan to explain the assumed risks and key points of compliance. This training includes active dialogue on case studies relevant to Daikin business.

Every two months, employees receive an email newsletter called Daikin Compliance News, which uses familiar case studies to raise employee awareness of the importance of compliance.

In fiscal 2014, the members of legal department toured overseas group companies to explain and educate employees on the Daikin Group's anti-bribe guidelines.

■ Major Legal Violations in the Daikin Group in Fiscal 2015

The Daikin Group makes it a rule to publicly announce all instances of major legal violations related to business operations.

There were no cases of business-related major legal violations in fiscal 2015.

■ Help-Line

Help-Line for Corporate Ethics Offers Counseling and Gathers Opinions

We have a Help-Line for Corporate Ethics in the legal department, where employees can give opinions or receive consultation on all corporate ethics matters. Through the help-line, all advice sought and opinions expressed are kept strictly confidential, and reported matters are dealt with promptly and appropriately. No retribution is taken against either those persons reporting problems and seeking advice, or those persons helping investigate the reported matters.

The legal department investigates all queries and opinions to the Help-Line, and works with related company divisions to decide on measures to prevent the reoccurrence of problems. This makes for the smooth creation of measures and the solution of problems.

To ensure that the help-line is well publicized, the help-line's contact information is provided on the compliance card that all employees carry with them at all times.

■ Free Competition and Fair Business Dealings

Thorough Compliance with the Anti-Monopoly Act, Misleading Representations Act, and Subcontract Act

Based on our Group Conduct Guidelines, which state that we conduct free competition and fair business dealings, the Daikin group conducts fair business practices through measures for complying with laws on anti-monopoly, misleading representations, and subcontracting in countries around the world.

For example, annual training plans are made based on the needs of each division. As necessary, we assign experts such as lawyers and employees in the legal department as instructors for these division-based training courses. In this way, communication with each division ensures the most effective training. At the same time, self assessments include checks that relevant laws are being obeyed.

➤ [For more information, see Education.](#) (Page 246)

The header image features a blue and green geometric design on the left side. The text 'Corporate Governance' is in a smaller blue font, and 'Prohibiting Bribes' is in a larger, bold black font. The background of the header is a photograph of a modern conference room with a long table and chairs.

Corporate Governance Prohibiting Bribes

■ Basic Policy on Prohibiting Bribes

The Group Conduct Guidelines clearly state that the Daikin Group shall conduct business entertainment and gift-giving within the laws and customs of each country and region. We are especially strict in enforcing this in relation to gifts and entertainment for government officials.

■ Efforts to Ensure Moderate Business Entertainment and Gift-Giving

To this end, we hold company-wide training so that employees obey rules on sound and transparent relations with government offices, are compliant with the Political Funds Control Law and the Public Offices Election Act, and conduct moderate entertainment and gift-giving with suppliers.

In fiscal 2014, we created guidelines with detailed directives related to entertaining, gift-giving, and invitations for government officials. In fiscal 2015, we continued on the previous year's efforts to distribute these throughout all divisions and companies in the Daikin Group in Japan and overseas.



Corporate Governance Information Security

■ Proper Management and Use of Information

Proper Management and Use of All Confidential Information Including That of Other Companies

The Group Conduct Guidelines state that we manage and use confidential information appropriately. Information managers in each division follow in-house protocols in thoroughly managing confidential information, be it our own or that of other companies. The system undergoes continuous improvement as employees carry out their own self assessments, the legal department carries out legal audits, and the Internal Auditing Department conducts internal audits.

And with the increasingly widespread problems of companies losing information over the Internet, we are striving to raise the awareness of employee regarding managing their information; for example, we have strict company policy regarding employees' use of social media.

■ Personal Information

> [See Protecting Customer Information \(Customer Satisfaction\)](#) (Page 192)

■ Respect for Intellectual Property Rights

Acquire Intellectual Property Rights While Respecting That of Other Companies As Well

Daikin Industries, Ltd. understands that intellectual property rights constitute a valuable company asset. We thus strive to both protect these rights and use them effectively. Our Group Conduct Guidelines state that we will respect other companies' intellectual property rights and ensure that our inventions do not infringe on these rights. Using the guidelines, we formulated more detailed points in our Compliance Action Guidelines, which state that we will acquire patents and avoid infringement by having the person in charge of R&D at Daikin be the person responsible for a patent and having the researcher/developer understand that he/she is the sole developer of the product or invention.

In new product and new technology development, part of the design review process involves verifying that these products and technologies do not infringe on existing patents. In collaborations with other companies, confidential technologies and know-how disclosed to the other party is designated as such and kept out of reach.

Intellectual Property Manager in Research Department

To actively support researchers/developers, the legal department assigns an intellectual property manager in each division.

The intellectual property managers keep in contact with each other, and manage the variety of intellectual property matters that come up daily (filing/acquisition of rights, reduction of risk of infringement upon and infringement by other companies, etc.). They also educate employees at various levels on intellectual property and reward Daikin patent awardees. And to ensure strategic implementation of intellectual property activities, they form patent networks with researchers/developers and strengthen global intellectual property survey functions.

Moreover, with the globalization of our R&D bases, we are appointing intellectual property managers at each of these bases.

We will continue to strive to better manage our intellectual property rights by acquiring and using a greater number of patents and higher quality patents.

Strengthening the Intellectual Property Rights System in Line with Globalization of Business and R&D Bases

We are also strengthening our intellectual property rights systems at our overseas R&D bases. At Daikin Industries, Ltd. and at overseas group R&D bases, starting with those of our Group companies in China, we are striving to obtain various intellectual property rights.

China has overtaken the U.S. as the country with the most patent applications. It also has more intellectual property court cases than the U.S. Against this background, the Daikin Group is actively acquiring intellectual property rights in China, and is stepping up applications for patents, utility models, devices, and trademarks. In emerging countries like India and Brazil, and in emerging countries in southeast Asia, we are stepping up device applications as a way to effectively prevent product copying and boost patent applications.

In fiscal 2015, we held classroom and on-the-job training for intellectual property managers and developers at overseas R&D bases. At the on-the-job training, participants dug up inventions that Daikin Industries, Ltd. has made over the years, and studied the changing ways available to prevent other companies from infringing on Daikin's patents.

As in fiscal 2014, we again held our global intellectual property conference (for the second time), where participants strengthened bonds by exchanging information on what they are doing at their particular bases.

In fiscal 2016, we intend to conduct systematic efforts to have overseas R&D bases gain more autonomy over their own intellectual property duties.

■ Encouraging Employees to Create Intellectual Property

> [See Spurring the Creation of Intellectual Property \(Human Resources\)](#) (Page 219)

■ Scientific Technology Transfer

Worldwide Free Access to Patents for Equipment Using Next-Generation Refrigerant

Daikin Industries, Ltd. has been offering free access to a cumulative total of 93 basic patents necessary for companies to develop and commercialize air conditioners that use HFC-32 refrigerant. The company has been doing this in emerging countries since September 2011 and worldwide including industrialized countries since September 2015. The aim is to promote the use of HFC-32 worldwide.

> [See Key Activities of Fiscal 2015: Environment — Creating a New Market that Contributes to the Mitigation of Global Warming](#) (Page 47)