

Basic Approach

The Daikin Group considers the fundamental objectives of its corporate governance systems to be to realize the following objectives and thereby increase the Group's corporate value.

- Speedier decision making in advance of environmental changes related to management issues
- A continuous rise in management transparency and soundness

Going forward, we will strive to further increase our corporate value by relentlessly reconsidering how to optimize our corporate governance systems and promote the Groupwide, multidimensional pursuit of best practices.

Corporate Governance Systems

While the Daikin Group's development and changes in the operating environment have presented the Group with increasingly complex management issues and important Groupwide challenges, we are striving to speed up management decision making and operational execution by means of an "integrated management framework" in which the directors have both management responsibility and operational execution responsibility. Under this framework, 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.

To help the Board of Directors make speedy strategic decisions and perform sound supervision for the entire Group, the Board has been designed to include the appropriate number of members for enabling sound discussion and debate as well as to include two or more members who are outside directors.

As of July 2008, the Board of Directors included 10 members, of whom two were outside directors. In principle, the Board of Directors meets once each month.

We have 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. To thoroughly discuss important operational execution issues and promote speedy execution, we have established the Executive Officers' Meeting, which, in principle, meets once each month.

Daikin has three main decision-making organs—the Group Steering Meeting, the Board of Directors, and the Executive Officers' Meeting. The Group Steering Meeting—the supreme deliberating organ of the Group

management system—is designed to strengthen consolidated management. In principle, it meets once each month to determine important management policies and strategies in a timely manner and quickly devise means of 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.

Daikin has established a four-member Board of Corporate Auditors. To ensure effective, sound, and transparent audits by the corporate auditors, two members of the Board of Corporate Auditors are outside corporate auditors. The outside corporate auditors attend meetings of the Board of Directors as well as sessions of the Executive Officers' Meeting, the Group Steering Meeting, and other important meetings to maintain a good understanding of operational execution situations, supervise those situations, and provide diverse kinds of advice.

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.

In addition, the corporate auditors have established an Auditing Department separate from the Internal 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.

Committees That Support the Strengthening of Corporate Governance

To promote the additional strengthening of its corporate governance, Daikin has established the following committees that provide support when needed.

- **Personnel and Compensation Advisory Committee**
Acting as an advisory organ to the CEO, the committee works to increase management transparency related to corporate officer appointment and compensation by conducting deliberations regarding such issues as corporate officer selection standards, corporate officer candidates, and corporate officer remuneration. The members of the committee are outside directors.

Internal Controls

- **Corporate Advisors**

The advisors provide advice regarding diverse management issues from an independent perspective. They meet twice each year.

- **Internal Control Construction Committee**

This committee works to strengthen internal controls related to financial reporting, and it is chaired by Daikin's president.

- **Disclosure Committee**

This committee confirms the completeness and appropriateness of annual securities reports (*Yuka Shoken Hokoku-sho*) and diverse other information disclosure media and seeks to upgrade accountability. It is chaired by Daikin's president.

- **Independent Committee**

Serving as a management regulatory body designed to raise corporate value, this committee is comprised of highly independent outside directors and advisors. In the event that a party purchases or seeks to purchase a large amount of Daikin shares, the Board of Directors will, based on the Daikin Shareholder Relationship Policy, convene a meeting of the Independent Committee, which has the roles of obtaining information from the stock purchaser, considering whether the purchase would be beneficial to corporate value and shareholders, providing shareholders with information and its fair opinion on this issue, and, thereby, creating an environment that facilitates the making of an appropriate decision. Rather than being a mechanism to help prevent a takeover of Daikin, the committee is designed to increase the transparency and objectivity of Daikin's processes for dealing with takeover bids.

In addition, Daikin has established the Corporate Ethics & Risk Management Committee and the CSR Committee.

Compliance and Corporate Ethics

- **Rigorous Compliance**

The Daikin Group is striving to establish highly rigorous compliance systems that enable it to quickly grasp and respond to compliance problems that occur anywhere in the Group.

Specifically, Daikin has set up the Corporate Ethics & Risk Management Committee, which is chaired by the Company's president and is comprised of members who are corporate officers and department managers. Efforts to implement the committee's decisions center on the Law, Compliance & Intellectual Property Center, which endeavors to promote thorough rigorous Groupwide compliance.

Each division and main Group company appoints "compliance and risk management leaders." To help ensure rigorous compliance and risk management in each division and company, the leaders participate in meetings and other activities designed to promote information sharing, awareness of issues, and the implementation of countermeasures.

All employees are provided with copies of the *Handbook for Corporate Ethics*, which includes legal compliance guidelines. To promote rigorous compliance with those guidelines, each Daikin division and Japan-based Group company undertakes self-assessment activities that call for each employee to perform "daily triple checks."

Based on the results of these self-assessment activities, the Law, Compliance & Intellectual Property Center performs objective legal audits while the Internal Audit Department concurrently performs internal audits.

A compilation of information on the latest relevant laws and regulations gathered by each Daikin division can be accessed on the Company's intranet, and this information is systematically shared with other Group companies.

As for overseas Group companies, nine main Group companies* share information with Daikin's Legal Affairs and Intellectual Property Department and the Law, Compliance & Intellectual Property Center as they endeavor to ensure rigorous performance with respect to compliance and corporate ethics. Going forward, plans call for all overseas Group companies, including OYL and its subsidiaries, to engage in the same Groupwide compliance and corporate ethics systems as the nine main Group companies.

* The nine main overseas Group companies are Daikin Europe N.V.; Daikin America, Inc.; Daikin AC (Americas), Inc.; Daikin Airconditioning (Singapore) Pte Ltd.; Daikin Industries (Thailand) Ltd.; Daikin Australia Pty., Ltd.; Daikin Air-Conditioning (Shanghai) Co., Ltd.; Daikin (China) Investment Co., Ltd.; and Daikin Fluorochemicals (China) Co., Ltd.

Checking Systems for Legal Compliance

1. Daily triple checks

Every month, compliance and risk management leaders head programs that include daily efforts to gather the latest information on relevant laws and regulations as well as checks to ensure that in-house regulations are in line with the latest laws and regulations and that those in-house regulations are being observed.

2. Self-assessment

All employees take part in an annual check to ensure that the legal compliance guidelines in the *Handbook for Corporate Ethics* are being observed.

3. Legal compliance audit

The Law, Compliance & Intellectual Property Center determines the divisions and Group companies to be audited and audit focus items to evaluate the legal compliance of those units.

4. Internal audit

The Internal Auditing Department determines audit themes and carries out audits of each division and Group company on those themes to evaluate the legal compliance of those units.

Daikin provides its executives and other employees with training courses and consciousness-raising activities related to compliance and corporate ethics on a regular basis and as required, and plans call for further augmenting these courses and activities.

• Ensuring Sound Corporate Ethics

The Daikin Group's definition of sound corporate ethics includes measures to ensure rigorous compliance performance as well as sustained efforts to ensure that the Company meets society's demanding expectations regarding the soundness of all corporate activities despite the challenges associated with the ongoing changes in global society.

The Law, Compliance & Intellectual Property Center is continually striving to keep abreast of changes in the Group and throughout society, identify corporate ethics issues that the Group should address, and organize programs designed to ensure the Group strengthens its corporate ethics stance with respect to those issues.

The center has also established a related help line that employees can use to receive consultation or offer their opinions regarding all kinds of corporate ethics issues. When ethics problems are reported, the center investigates and cooperates with relevant Group units to determine the optimal means of preventing the recurrence of such problems. In this way, Daikin has established a system for quickly responding to ethics issues.

Response to J-SOX

To respond to Japan's Financial Instruments and Exchange Law (also referred to as the Japanese version of the U.S. Sarbanes-Oxley Act, or J-SOX), Daikin began revising and upgrading its internal control systems related to financial reporting in August 2005. Subsequently, the Company has introduced systems designed to ensure the appropriateness of all operational processes throughout the Daikin Group that could affect financial reporting.

Daikin is continually evaluating these systems to ensure they are properly functioning so that the Company is able to effectively and appropriately provide the internal control reports required by J-SOX beginning from fiscal 2009. We are preparing to make corrections to the systems if needed to ensure our sustained compliance with J-SOX and related regulations.

In addition to its internal control systems, the Daikin Group has established global accounting regulations and is working to ensure that each Group company is well aware of these regulations as well as to make further improvements with respect to the effectiveness and appropriateness with which the regulations are followed.