

## Outline of Resolutions to Establish a System to Confirm Operational Appropriateness

### <Basic Philosophy on and Status of an Internal Control System>

The Daikin Group's system to confirm operational appropriateness based on Japan's Corporation Act and its Enforcement Regulations is outlined below.

#### (1) System to ensure compliance with laws and regulations by Directors and employees in execution of their duties

We establish a compliance system that tackles and swiftly responds to compliance issues Group-wide.

Specific measures follow:

- (i) In accordance with the management basic direction and code of conduct stipulated in our Group Management Philosophy (2002), Corporate Ethics Handbook (2003) and other directives, we will be disciplined in execution of duties, use initiative and apply these principles.
- (ii) We have established a Corporate Ethics and Risk Management Committee made up of Directors and departmental managers and presided over by the President. This committee oversees Legal Affairs, Compliance and Intellectual Property Department, which spearheaded thorough legal compliance Group-wide. Each department and Group company assigns a compliance, risk management leader to ensure thorough compliance in the Company, their respective departments and Group companies. We hold Compliance, Risk Management Leader and Group Compliance, Risk Management Leader Meetings to share information, address issues and promote implementation of policies.
- (iii) We have introduced a unique self-inspection system through which each division and Group company conducts an annual autonomous check from the standpoint of legality and risk. Using the results of this check, the Legal Affairs, Compliance and Intellectual Property Department carries out a legal audit of each division and Group company, along with the Internal Auditing Department's Legal Compliance Audit.
- (iv) We have established a Help-line for Corporate Ethics. The Legal Affairs, Compliance and Intellectual Property Department investigates reports made to this facility and forms strategies to prevent recurrence after deliberations with the manager of the relevant division. We have established a system to promote swift adoption of such measures Company-wide.
- (v) As stated clearly in our Corporate Ethics Handbook, we, as a business entity, stand firmly against antisocial forces that damage social order and healthy corporate activities.
- (vi) We carry out and are currently improving capacities for periodic and occasional compliance and corporate ethics education across management and employee strata.

#### (2) System for data storage, management and disclosure relating to execution of duties by Directors

The minutes of important committee and other meetings are retained for a storage period based on the stipulations of separate in-house regulations. Regarding disclosure of important information outside the Company, the Information Disclosure Committee, chaired by the President, ensures completeness and appropriateness of important disclosure and is working to improve accountability.

#### (3) Rules and other systems relating to risk management

Executive Officers and the Directors responsible for operations have the authority and responsibility for building risk management systems, which oversees the entire Group. Each of them in their own domain focuses on product liability, quality, safety, production, sales activities and natural disasters. Regarding Company-wide risks, the officer responsible for Corporate Ethics and Compliance supervises risk management, and operates through the Legal Affairs, Compliance and Intellectual Property Department, in order to specify major risks based on risk assessment, and to formulate countermeasures after deliberations with the Corporate Ethics and Risk Management Committee which is headed by the President.

#### (4) System to ensure efficient execution of duties by Directors

We have introduced the efficient execution framework dubbed "Executive Officer system," which allows us to achieve prompt decisions through substantive discussions by the reduced number of Directors. It also accelerates the process of making individual judgments and decisions in each business division, geographical location and corporate function.

We have established the "Group Steering Meeting," which acts as the supreme deliberating agency that manages our Group. Important management policies and strategies are determined promptly and in a timely manner, resulting in faster problem-solving processes. We have also implemented a system which allows our Directors and Executive Officers to appropriately and effectively execute their duties through administrative authority and decision-making rules, based on various internal regulations, centered on the Board of Directors' regulations, the Executive Officers Meeting regulations and collective decision-making regulations. This initiative encourages participation, advice and guidance in management decision-making from an independent

and neutral external standpoint and provides a check function to raise appropriate and effective execution of duties by Directors and Executive Officers. This is achieved through permanently maintaining two or more external Directors with no contradicting interests in the Company. At the same time, we have established a Management Advisory Council system to garner advice and opinions from an independent standpoint for management problems facing the Group.

(5) System to ensure fair business practice in the Group comprising Daikin Industries, its parent company and subsidiaries

To raise corporate value throughout the Group and fulfill social responsibilities, the Company and its subsidiaries aspire to conduct that upholds the Group Management Philosophy, strengthen links of authority and communication between Group companies, and ensure fair business practice Group-wide, while carrying out guidance, advice and assessment. Important items determined by the Board of Directors and Executive Officers meeting are promptly shared throughout the Group, with the exclusion of data that could be construed as insider information. Thus through corporate behavior based on unanimous intent, we aim to cultivate an understanding and secure fair business practice.

The departments responsible for management and support for Group companies are determined at the Head Office, and we promote strategies for continuous cooperation in day-to-day operations. Simultaneously, we have established Group Management Meeting to unify corporate action across the entire Group by thoroughly sharing important management policies and basic strategies of the Group by facilitating and strengthening support for solving problems and tasks of the Group companies.

We strive to handle important decisions and business execution in subsidiaries through pre-emptive consultation and involvement and regular ascertainment of business conditions based on the stipulations of the Affiliated Companies' Management Regulations, which was updated and further subdivided this April.

The Japanese SOX act (Financial Instruments Exchange Act) came into force since fiscal year 2008. Accordingly, in August 2005, we commenced development and establishment of an internal control system regarding financial reporting, with the aim of ensuring appropriateness of the business processes that impact financial reporting Group wide. Starting this year (fiscal year 2008), we continuously evaluate and, if necessary, update our existing operational framework in order to make sure the system functions properly in accordance with the Financial Instruments Exchange Act and other related laws, and to prepare for submitting effective and appropriate reports on internal control defined in Article 24-4-4 of the Act. In addition to the system of reporting internal control, we have recently laid down Global Accounting Regulations to familiarize ourselves with regulations, and to improve the efficiency and fairness of the company's financial closing worldwide.

(6) Ensuring effectiveness of the audit by the Corporate Auditors

In addition to the Board of Directors' Meeting, Corporate Auditors attend meetings of the Executive Officers Meeting and Company-wide technology meetings to receive reports and deliver opinions. In addition, to ensure effectiveness of the audit a system is in place by which the Board of Corporate Auditors is updated on important items that influence management and performance.

The Corporate Auditors meet periodically to exchange opinions with Representative Directors, Executive Officers and the Independent Auditors. They also attend various types of important meetings and verify investigations and documents on related departments, and we make sure their authority extends throughout the Group without restraint. To support this system, Group Auditors have been appointed to each of the major Group companies, ensuring smooth flow of information. Corporate Auditors also periodically assemble Group Auditors' Meetings in order to exchange information and make improvements to auditing procedures.

The Corporate Auditors also appoint auditing staff members, and establish Corporate Auditing Department to assist with their duties. Audit Office members act on the order of the Corporate Auditors, and their transfer and performance assessment are conducted based on the opinions of the Board of Corporate Auditors.