



Integrated Report 2021

Fiscal Year Ended March 31, 2021

Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth

Founded in 1924, Daikin has continued to expand with a focus on its Air-Conditioning and fluorochemicals businesses. We are the world's only general air-conditioning equipment manufacturer with in-house divisions covering both air conditioning and refrigerants. We have continued to grow and develop based on people-centered management, the pursuit of originality, and diversity management. Based on the enterprising spirit espoused in our core values, our employees have worked in unison to take on the challenge of achieving established goals. By demonstrating the ability to fully carry out our duties, we have successfully refined our strengths in energy-saving and environmental as well as IAQ technologies, robust sales network, and local production for local consumption model.

Under our five-year FUSION 20 strategic management plan that ended in fiscal 2020, we had adopted the two pillars of thoroughly strengthening our core businesses—air conditioning, chemicals, and filters—and expanding our business domains while transforming our business structure. As a result, we were able to steadily implement our key strategies while investing in growth for the future.

We are currently experiencing a once-in-a-century pandemic, and the COVID-19 crisis is causing unprecedented environmental changes and a dramatic transformation of the consumer structure. We are also experiencing major structural changes in society, such as the promotion of carbon neutrality. As the world's only manufacturer that develops and produces both air-conditioning equipment and refrigerants, we have been contributing to the environment by providing differentiated products and services that take advantage of our environmental and energy-saving technologies around the world. However, we believe that it is essential to achieve both business growth and the goal of achieving net zero greenhouse gas emissions by 2050.

In formulating FUSION 25, the strategic management plan that we started in fiscal 2021, we took into account the major changes in the structure of the economy, industry and society 10 to 20 years into the future, as well as the ideal state of the Daikin Group. Based on this back-casting approach, we have set specific themes to be addressed during the five years of FUSION 25.

While contributing to solving environmental and social issues, we will expand our business to achieve further growth and development. Our goal is to realize contributions to both a sustainable society and the growth of the Daikin Group.

Our Core Values

Absolute Credibility

Enterprising Management

Harmonious Personal Relations

Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers

2. Contribute to Society with World-Leading Technologies

3. Realize Future Dreams by Maximizing Corporate Value

4. Think and Act Globally

5. Be a Flexible and Dynamic Group

1. Flexible Group Harmony 2. Build Friendly yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit

6. Be a Company that Leads in Applying Environmentally Friendly Practices

7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust

1. Be Open, Fair, and Known to Society 2. Make Contributions that Are Unique to Daikin to Local Communities

8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group

1. The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development
2. Pride and Loyalty 3. Passion and Perseverance

9. Be Recognized Worldwide by Optimally Managing the Organization and Its Human Resources, under Our Fast & Flat Management System

1. Participate, Understand, and Act 2. Offer Increased Opportunities to Those who Take on Challenges
3. Demonstrate Our Strength as a Team Composed of Diverse Professionals

10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

On Publishing the Integrated Report 2021

This is the first time we published an integrated report to inform our shareholders and investors of the Daikin Group's efforts to enhance corporate value over the medium to long term. Through this report, we hope to convey the Group's aspiration and endeavors to help realize a sustainable society by balancing efforts to resolve environmental and social issues with the growth and development of its business while collaborating with customers, business partners, employees, local communities, and other stakeholders.

In the "Process of Value Creation," we have clearly outlined the relationship between the six types of capital and outcomes, as well as expressed our aim to achieve sustainable growth by working to solve social issues through the Group's unique strengths and business model. In the "Risks and Opportunities That Affect Medium- to Long-Term Value Creation" section, we identified important social issues that could affect the Group's medium- to long-term value creation in light of changes in the external environment, and identified related risks and opportunities. In the "Looking Back on Our Strategic Management Plan "FUSION" " section, we summarized our efforts, achievements, and progress to date. In addition, the " "FUSION 25" Strategic Management Plan" section outlines the details of this strategic management plan that began in fiscal 2021. Under FUSION 25, our goal is to "offer new value for the environment and air to realize both contributions to a sustainable society and Group growth" with the aim of continuing to grow and develop by expanding our business and strengthening profitability while contributing to the environment and society. We have also set our key strategic themes, including the challenge to achieve carbon neutrality. The report outlines the specific measures, both financial and non-financial, that Daikin will take to realize its vision for fiscal 2025, the final year of the plan.

This report contains information that is of particular importance to enhancing the corporate value of the Daikin Group. For more detailed information, please refer to our website.

Investor Relations

<https://www.daikin.com/investor/>

Environment & CSR

<https://www.daikin.com/csr/>

Guidelines Used as Reference

In compiling this report, we draw on such references as the International Integrated Reporting Council's (IIRC) (reorganized as the Value Reporting Foundation in June 2021) "International Integrated Reporting Framework," and the "Guidance for Collaborative Value Creation" issued by Japan's Ministry of Economy, Trade and Industry.



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Fiscal year: In conjunction with the issue of the Company's inaugural integrated report, Daikin has defined the fiscal year under review as fiscal 2020, the fiscal year ended March 31, 2021.

Forward-Looking Statements

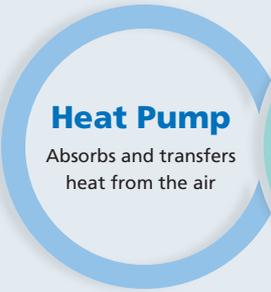
This Integrated Report contains statements regarding the future plans and strategies of Daikin Industries, Ltd. (the Company), as well as the Company's future performance. These statements are not statements of past facts but are based on judgments made by the Company on the basis of information known at the time. Therefore, readers should refrain from drawing conclusions based only on these statements regarding the future performance of the Company. The actual future performance of the Company may be influenced by economic trends, strong competition in the industrial sectors where it conducts its operations, foreign currency exchange rates, and changes in taxation and other systems. For these reasons, these forward-looking statements are subject to latent risk and uncertainty.

A Path to Unique Solutions

Founded in Osaka in 1924, Daikin operates in more than 160 countries worldwide, focusing on the Air Conditioning business. By providing solutions to the problems society and communities are facing while achieving business growth, Daikin supports healthy and comfortable lifestyles. As a global corporation creating new value in the air and environmental fields, Daikin continually meets the expectations and trust of people throughout the world.

Three Core Technologies

Daikin has developed three advanced air-conditioning technologies that form the basis for next-generation technology.



Heat Pump
Absorbs and transfers heat from the air



Inverter
Contributes to greater energy saving and comfort

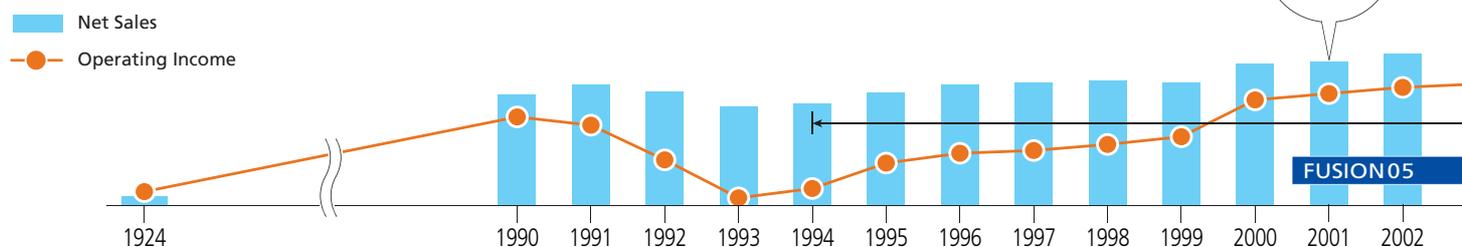


Refrigerant Control
Efficient heat transmission

Business Scale (at March 31, 2021)

Net Sales (Fiscal 2020) ¥2,493.4 billion	Employees 84,870	Group Companies Consolidated Subsidiaries: 315 <small>(Japan: 30, Overseas: 285)</small>	Global Business Presence More than Countries: 160	Worldwide Production Bases More than Factories: 100
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Business Results



Ensuring a Competitive Edge through High Levels of Product Competitiveness and Production Technologies

Business and Technology Development

- | | |
|---|--|
| <ul style="list-style-type: none"> 1924 Founding of Osaka Kinzoku Kogyosho Limited Partnership 1935 Development of fluorocarbon refrigerant 1937 Development of Japan's first Freon-type refrigerator 1942 Freon production begins 1951 Launch of Japan's first packaged air conditioner 1958 Entry into the room air-conditioning business 1975 Launch of "Hikari Kurieru" air purifier | <ul style="list-style-type: none"> 1982 Launch of Japan's first multi-type air-conditioning system for buildings 1999 Launch of "Ururu Sarara" world's first waterless humidifying room air conditioner 2002 Nationwide expansion of the fluorocarbon recovery and destruction business 2002 Launch of "ECOCUTE" heat-pump water heater 2004 World's first successful application of streamer electric discharge technology |
|---|--|

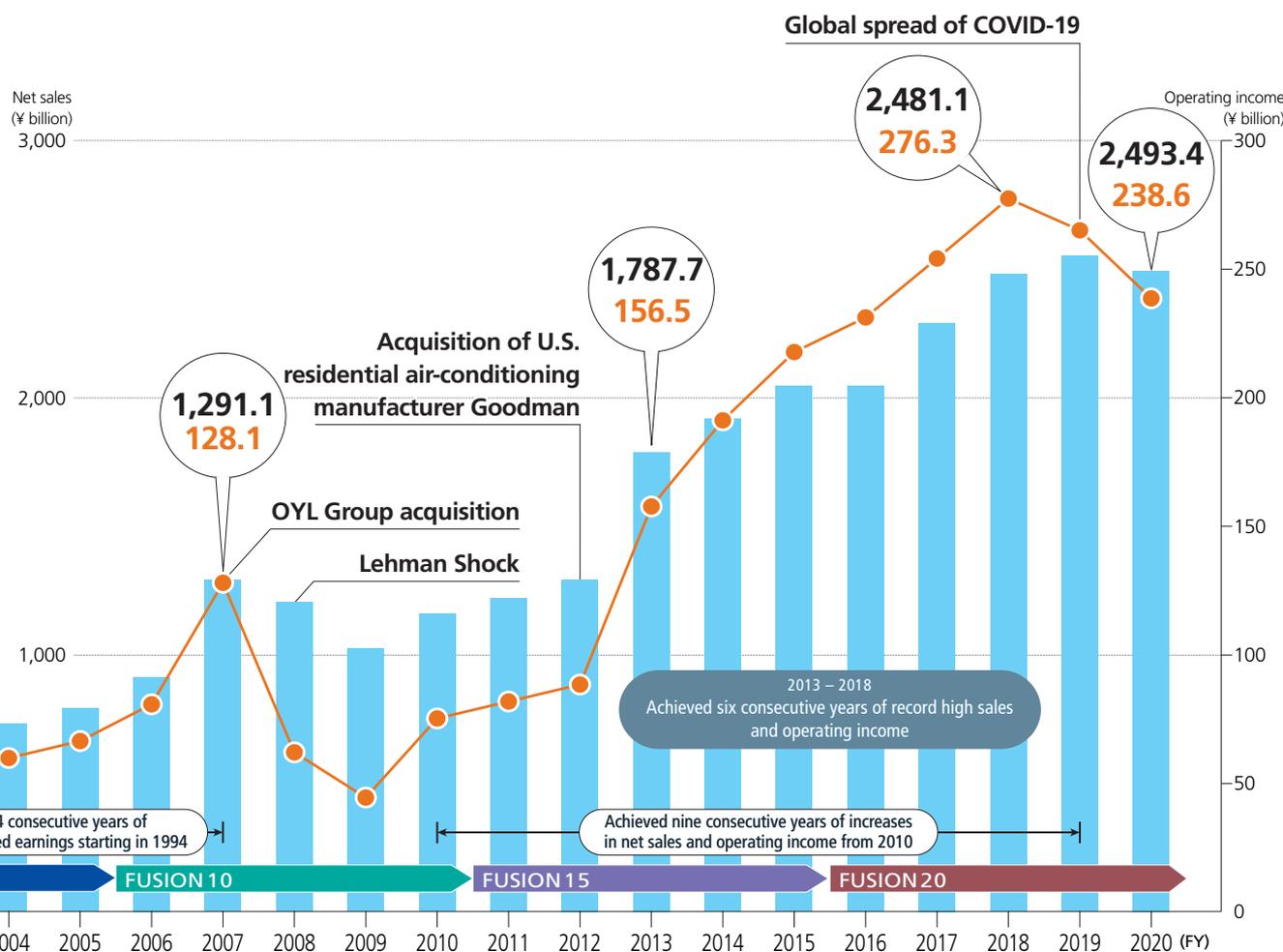
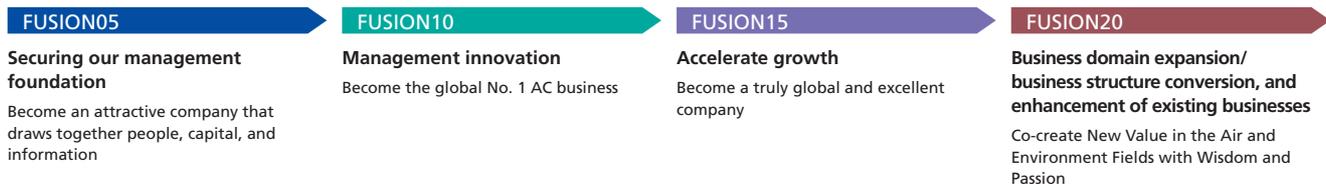
Accelerating the Pace of Global Expansion while Expanding the Scale of Business during the 2000s

Daikin's Evolution and Strategies

- | | |
|---|--|
| <ul style="list-style-type: none"> 2007 Acquisition of OLY Group, a major global air-conditioning manufacturer 2008 Business alliance with Gree Electric Appliances, China's top air-conditioning manufacturer 2008 Acquisition of German heating manufacturer ROTEX | <ul style="list-style-type: none"> 2009 Acquisition of Japanese air filter manufacturer NIPPON MUKI CO., LTD. 2011 Acquisition of Turkish air-conditioning manufacturer Airfel 2012 Acquisition of U.S. residential air-conditioning manufacturer Goodman |
|---|--|

FUSION 05 to 20 (Fiscal 2001 – Fiscal 2020)

Details ▶ P.20



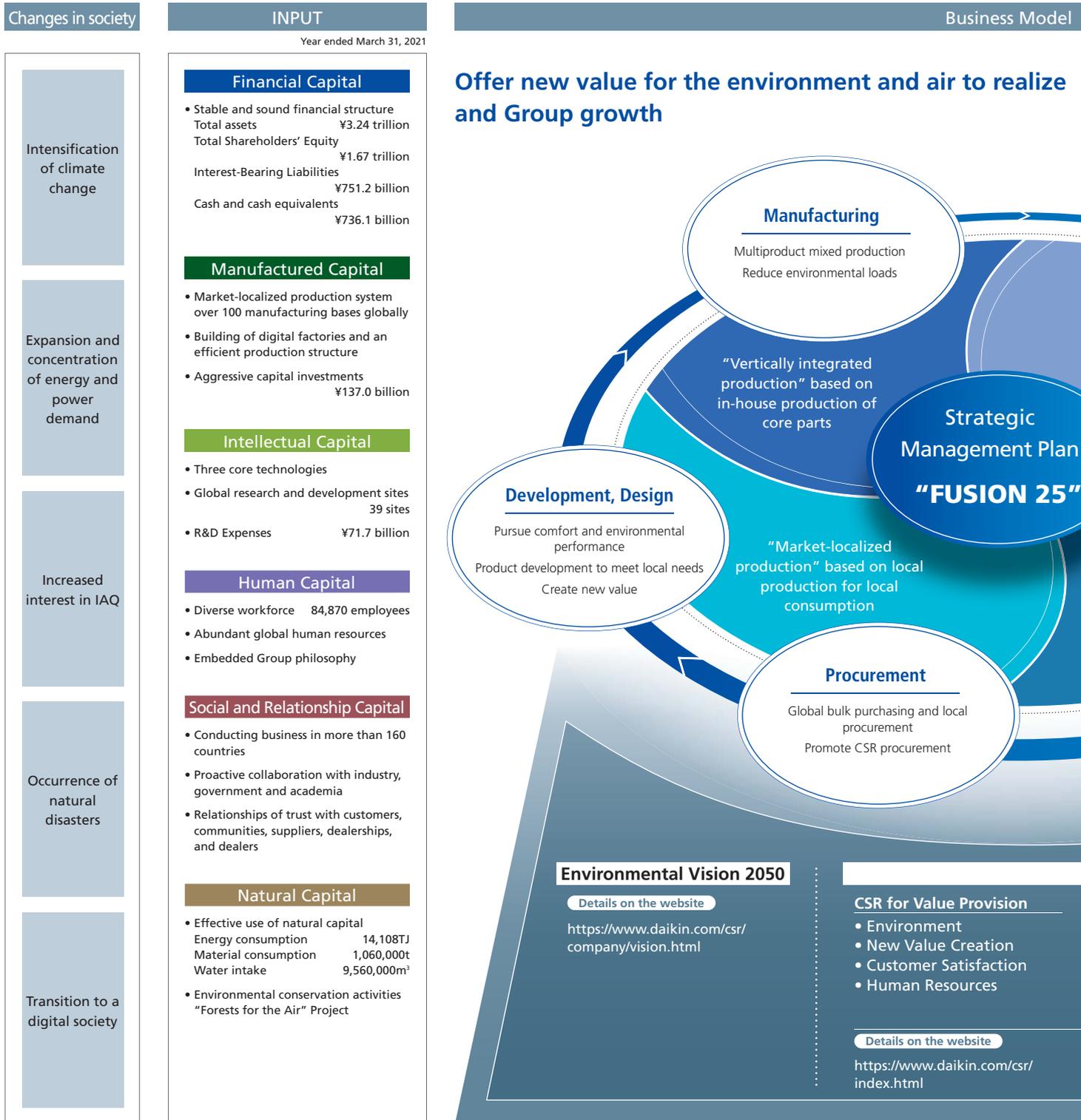
- 2005 Opening of China's first dedicated showroom for large-scale air conditioners
- 2006 Launch in Europe of "Daikin Altherma" air-to-water heat pump system
- 2007 Launch of "DESICA" world's first humidity control air conditioner without water drainage or supply pipes
- 2009 Establishment of the Daikin McQuay Applied Development Center in the U.S.
- 2010 Establishment of the Shanghai R&D Center
- 2011 Opening of the Solution Plaza Fuha Tokyo
- 2012 Launch of "Urusara 7" world's first residential air conditioner using new R32 refrigerant
- 2013 Opening of the Solution Plaza Fuha Osaka
- 2014 Launch of cooling-only inverter air conditioners for developing countries
- 2015 Establishment of Technology Innovation Center
- 2017 Establishment of Daikin Texas Technology Park, a production and technology development base
- 2015 Granting of worldwide free access to basic patents for using R32 refrigerant
- 2015 Acquisition of the refrigerant business in Europe from major Belgian chemical group Solvay
- 2016 Acquisition of U.S. filter manufacturer Flanders
- 2016 Acquisition of Italian refrigerator/freezer manufacturer Zanotti
- 2016 Acquisition of Scandinavian filter manufacturer Dainar
- 2019 Acquisition of Austrian refrigerating and freezing showcases manufacturer AHT

Process of Value Creation

Through efforts to find solutions to social problems through our value, and aims for sustainable growth.

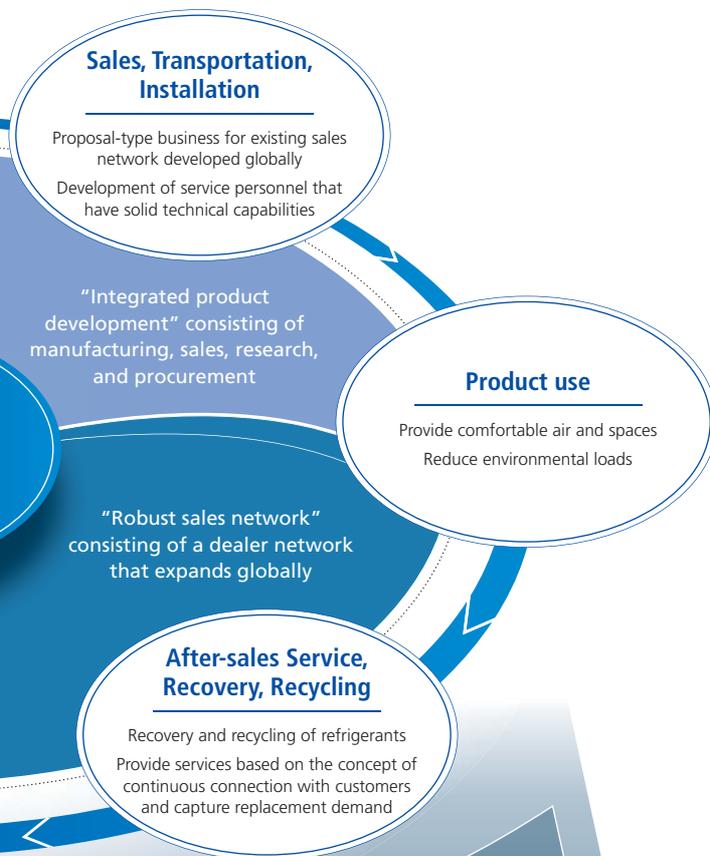
Global society is continually changing, and directly faces many problems related to climate change and other issues.

Through its business, Daikin Group provides society with new value, and by contributing to the realization of a sustainable society, seeks growth for itself as well.



business, Daikin provides new

both contributions to a sustainable society



- CSR Management**
- Fundamental CSR**
- Corporate Governance
 - Respect for Human Rights
 - Supply Chain Management
 - Stakeholder Engagement
 - Communities

Daikin's Contribution to Sustainable Development Goals (SDGs)

(P.24~)

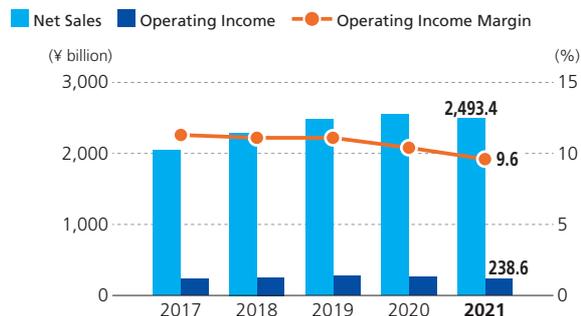
OUTPUT	OUTCOME
Year ended March 31, 2021	Year ended March 31, 2021
<p>Net sales ¥2.49 trillion</p> <p>Operating income ¥238.6 billion</p> <p>Operating income margin 9.6%</p> <p>Major Products Room air-conditioning systems, packaged air-conditioning systems, multiple air-conditioning systems for office buildings, heat-pump hot-water-supply and room-heating systems, air purifiers, heat reclaim ventilation</p> <p>Ratio of net sales</p>	<ul style="list-style-type: none"> • Meetings with institutional investors/analysts over 400 Events annually • 10-year TSR 839.9% (25.1% annually) • No. of patent applications More than 1,540 (Fiscal 2019, Daikin Industries only) • No. of female managers 71 • Ratio of overseas bases where local nationals are president 43% • Ratio of excellent or advanced skilled engineers in manufacturing 1 in 3.3 (Daikin Industries only) • IoT and AI human resource training centered on the Daikin Information and Communications Technology College • Shift to region-based procurement to achieve local production for local consumption • Customer Satisfaction Japan = 1.14 (when using Fiscal 2015 as 1.00) • Safe and secure air “Urusara X” room air-conditioning system with ventilation capabilities “Venti-air” Heat Reclaim Ventilator • Total unit sales of R32 air-conditioning systems More than 28 million units sold in over 100 countries worldwide (as of December 2020) • Through the adoption of environmentally conscious products, contribute to reducing greenhouse gas emissions 70 million tons- CO₂ • Reduction ratio of greenhouse gas emissions from development and production 79% reduction (compared to Fiscal 2005) • Contribution to CO₂ emission reductions through forest preservation 7 million tons-CO₂ • Reductions in CO₂ emissions due to adoption of heat pump space and water heaters • Reductions in CO₂ emissions due to adoption of inverter units

▲ Capital icons: Financial, Manufactured, Intellectual, Human, Social and Relationship, Natural

Financial and Non-Financial Highlights

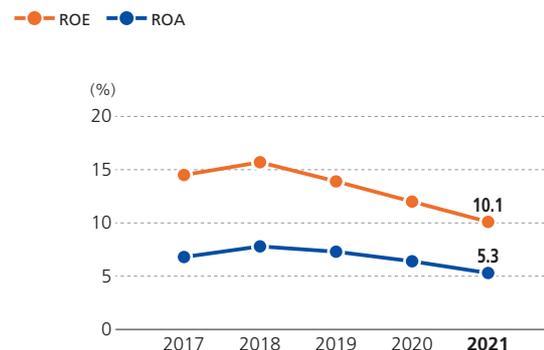
Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

Net Sales/Operating Income, Operating Income Margin



Despite the ongoing impact of the COVID-19 pandemic, Daikin achieved results that exceeded those of the action plan by ensuring short-term performance and promoting enhancements to the management structure.

ROE/ROA



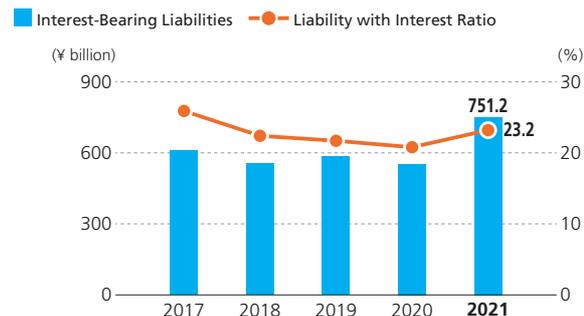
The Air Conditioning business is looking to aggressively undertake R&D as well as capital, acquisition, and other strategic investments on the back of a forecast increase in demand going forward. By steadily reaping returns on the aforementioned investments, we will work to boost our performance on a continuous basis and improve ROE/ROA.

Total Shareholders' Equity/Shareholders' Equity Ratio



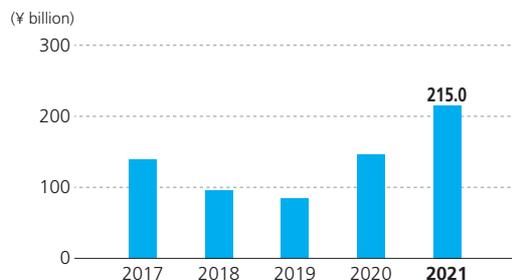
Daikin's shareholders' equity ratio came in at 51.4% for the fiscal year under review, exceeding 50% for the fourth consecutive year. The Company is taking positive steps to ensure its financial stability.

Interest-Bearing Liabilities/Liability with Interest Ratio



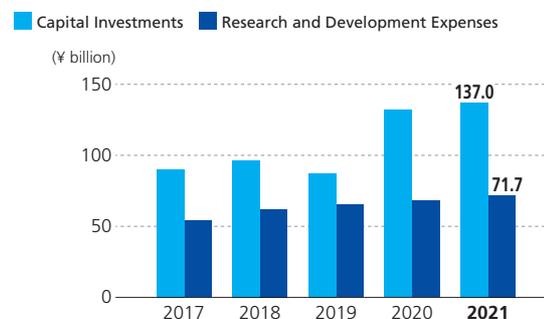
We have continued to steadily reduce the balance of interest-bearing liabilities by generating free cash flow and making effective use of Group funds. In preparation for contingencies coinciding with the spread of the COVID-19 pandemic, during the fiscal year under review, we reinforced cash and cash equivalents through long-term borrowings.

Free Cash Flow



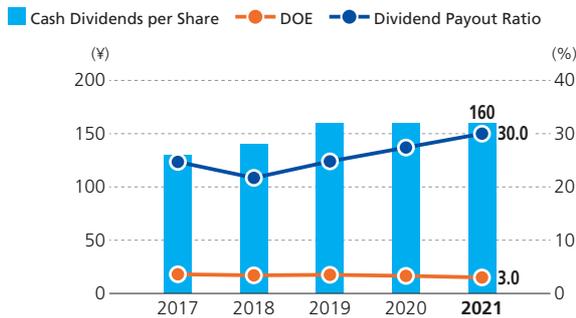
In addition to increasing earnings and improving investment efficiency, efforts are also being made to generate cash flow from a working capital perspective. This includes thoroughly reducing the balances of accounts receivable and inventory.

Capital Investments/Research and Development Expenses



From a capital investment perspective, energies are being directed toward upgrading and expanding sales networks and newly constructing plants while boosting production capacity, focusing on emerging countries and key markets where there has been remarkable growth. As far as research and development expenses are concerned, Daikin recognizes that strengthening technological competitiveness is the lifeblood of a manufacturer. On this basis, the Company is coordinating with its eight development sites worldwide and the Technology and Innovation Center (TIC) that serves as the Group's development control tower, and is accelerating the development of distinctive technologies and products, including those for addressing global environmental problems.

Cash Dividends per Share/ DOE, Dividend Payout Ratio



Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% or higher based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

Number of Patent Applications



Daikin is working to stimulate employees' motivation to invent, spur the creation of intellectual property, increase the quality and quantity of patents in competitive fields, and increase the number of overseas patents in key technological fields in particular in emerging countries.

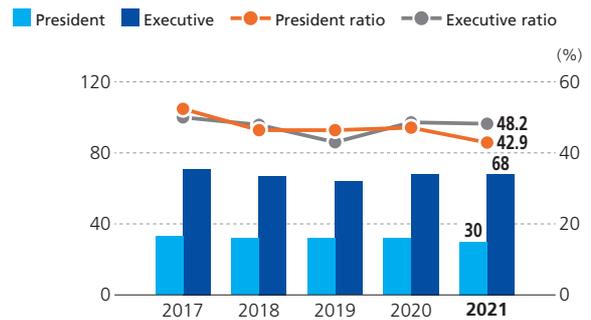
* The latest figures for the fiscal year ended March 31, 2020.

Number and Percentage of Women in Management Positions



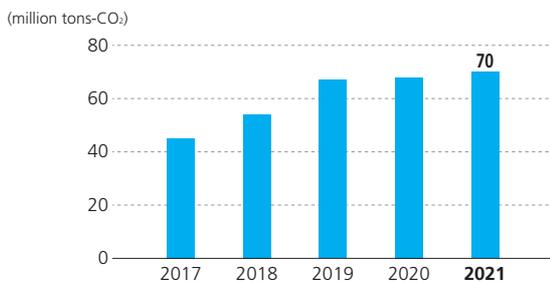
One of the Company's most important policies revolves around the empowerment of women in its workforce. Daikin is implementing various measures to accelerate the development of women in management and executive positions, change the mindset of men in management, and support the early return to work of its female employees after child-care leave.

Number and Percentage of Overseas Bases Where Local Nationals Are President or Executive



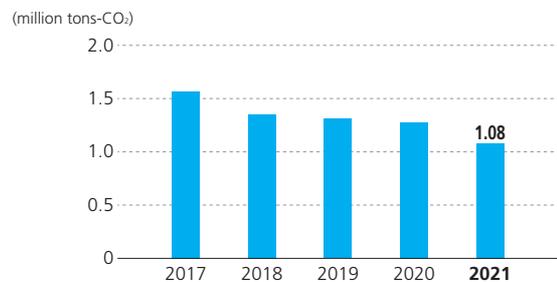
As Daikin's business globalizes, the Company is actively promoting more employees at overseas bases to managerial positions. Daikin holds the Global Daikin Leadership Development Program as a development measure to give locally hired managers the opportunity to run Daikin subsidiaries in their own countries.

Contribute to Reducing Greenhouse Gas Emissions



Daikin's air conditioners, a mainstay product, emit particularly high levels of greenhouse gas emissions when in use. Accordingly, the Company is focusing on promoting the use of inverters and air conditioners that use low-GWP refrigerants. Daikin reduced greenhouse gas emissions by 70 million tons-CO₂, compared to its target of limiting greenhouse gas emissions to 60 million tons-CO₂ by the fiscal year ended March 31, 2021.

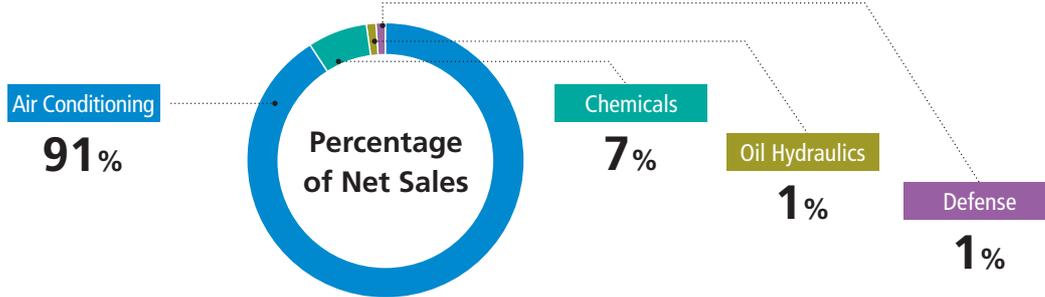
Greenhouse Gas Emissions (during development and production)



Every effort is being made to minimize environmental impact through production activities. Daikin achieved a 79% reduction (to 1.08 million tons-CO₂) in greenhouse gas emissions, compared to its target of a 70% reduction (to 1.58 million tons-CO₂) from the fiscal year ended March 2005 level in development and production greenhouse gas emissions for the Group as a whole in the fiscal year ended March 2021.

At a Glance

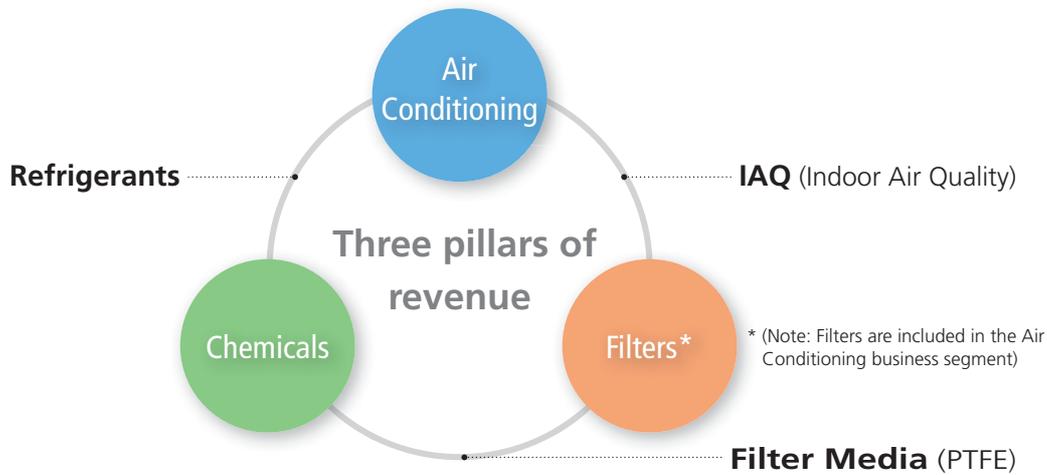
Daikin Industries, Ltd. and Consolidated Subsidiaries Years Ended March 31



Net Sales and Operating Income	Major Products	Description
<p>Air Conditioning</p> <p>Net Sales (¥ billion): 2,000 (2017), 2,273.8 (2018), 223.1 (2019), 200 (2020)</p> <p>Operating Income (¥ billion): 100 (2017), 110 (2018), 120 (2019), 130 (2020)</p> <ul style="list-style-type: none"> Room air-conditioning systems Air purifiers Heat-pump hot-water-supply and room-heating systems Packaged air-conditioning systems Multiple air-conditioning systems for office buildings Air-conditioning systems for facilities and plants 	<ul style="list-style-type: none"> Absorption refrigerators Freezers Water chillers Turbo refrigerator equipment Air-handling units Air filters Industrial dust collectors Marine-type container refrigeration Refrigerating and freezing showcases 	<p>Since becoming the first in Japan to manufacture packaged air-conditioning systems in 1951, Daikin has supported comfortable living based on the strengths of technologies that it has itself nurtured as the world's sole manufacturer to create a full line of products from refrigerants to air conditioners.</p>
<p>Chemicals</p> <p>Net Sales (¥ billion): 160 (2017), 164.2 (2018), 11.4 (2019), 60 (2020)</p> <p>Operating Income (¥ billion): 14 (2017), 15 (2018), 16 (2019), 17 (2020)</p> <ul style="list-style-type: none"> Fluorocarbons Fluoroplastics Fluoroelastomers Fluoropaints Fluoro coating agents Semiconductor-etching products 	<ul style="list-style-type: none"> Water and oil repellent agents Pharmaceuticals and intermediates Dry air suppliers 	<p>In 1933, Daikin was the first in Japan to engage in research on fluorinated refrigerants. Today, our activities range from research and development to commercialization, and we offer a lineup of 1,800 fluorine compounds including gas, resin and rubber.</p>
<p>Oil Hydraulics</p> <p>Net Sales (¥ billion): 30 (2017), 32.9 (2018), 2.0 (2019), 10 (2020)</p> <p>Operating Income (¥ billion): 1.5 (2017), 1.6 (2018), 1.7 (2019), 1.8 (2020)</p> <ul style="list-style-type: none"> Oil hydraulic pumps Oil hydraulic valves Cooling equipment and systems Inverter controlled pump motors 	<ul style="list-style-type: none"> Hydrostatic transmissions Centralized lubrication units and systems 	<p>Daikin's unique hydraulic technologies offer outstanding energy-conservation performance and are contributing to the development of industry by unleashing the potential of power control.</p>
<p>Defense</p> <p>Net Sales (¥ billion): 15 (2017), 18.0 (2018), 1.2 (2019), 10 (2020)</p> <p>Operating Income (¥ billion): 0.4 (2017), 0.5 (2018), 0.6 (2019), 0.7 (2020)</p> <ul style="list-style-type: none"> Warheads for Japan's Ministry of Defense/ Warhead parts used in guided missiles for training purposes 	<ul style="list-style-type: none"> Home-use oxygen therapy equipment 	<p>Daikin's superior machining and quality control technologies are used in the production of defense-related products and other industries where high levels of reliability and performance are critical.</p>

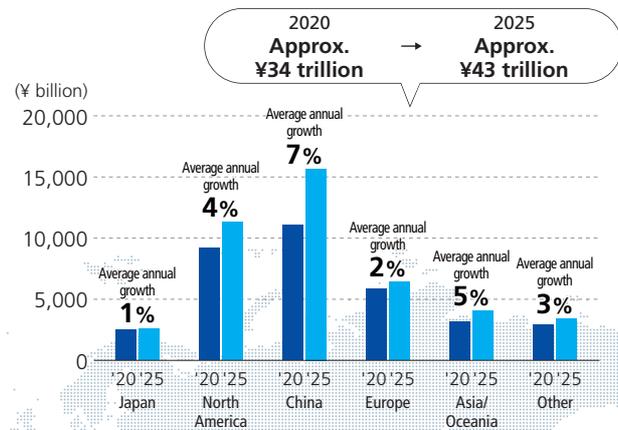
Market Size and Positioning of Each Business

Creating synergies by utilizing the affinity of the Air Conditioning, Chemicals, and Filter businesses



Air Conditioning Business

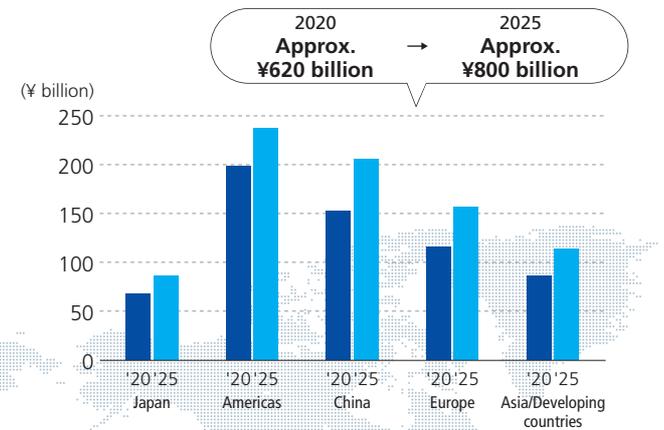
Global HVAC&R* Market Scale (Daikin estimates)



* Heating, Ventilating, Air-conditioning and Refrigerating

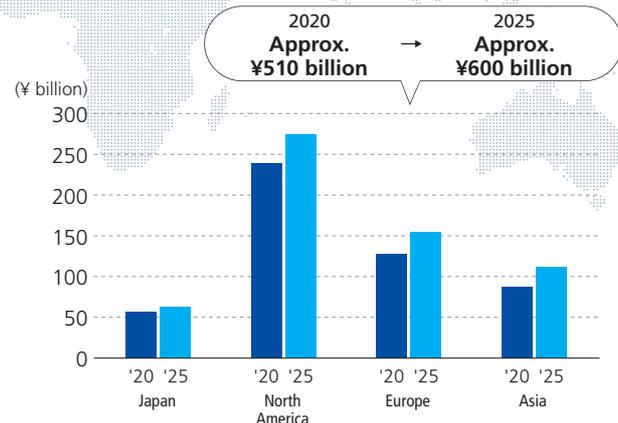
Chemicals Business

Global Fluorochemicals Market (Daikin estimates)

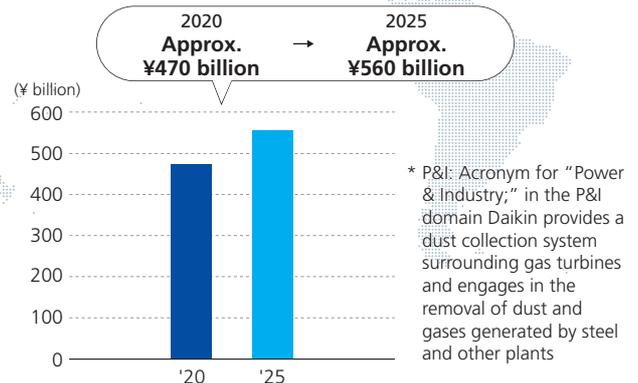


Filter Business

Global Air Filter Market Scale (Daikin estimates)



Global Power & Industrial (P&I) Market Scale (Daikin estimates)





Through the key strategy themes adopted under “FUSION 25,” we aim to expand our business and further grow and develop while contributing to the solving of environmental and social issues

The Company has been achieving sustainable growth and development on the basis of its FUSION strategic management plans. Looking ahead to major changes in the structure of the economy, industry, and society, as well as the future ideal state of the Daikin Group, under “FUSION 25” we have identified issues to be resolved and set specific themes to be addressed during the next five years. Through these efforts, we will contribute to a sustainable society and realize the further growth and development of the Group.

Masanori Togawa

President and CEO

Fiscal 2020 Results and FUSION 20 Overview

Achieved performance exceeding announced values due to management approach in confronting COVID-19 crisis

In fiscal 2020, the fiscal year ended March 31, 2021, amid the uncertainties in the outlook due to the spread of COVID-19, we took the management position of confronting the crisis immediately. Having established themes for “defensive and proactive measures” and “constitution strengthening and reform” as important issues to be tackled by the global Group as a whole, I myself have been involved in enacting six emergency projects, efforts that led to the creation of results by the entire Company. By carrying out flexible management in response to the ever-changing situation, we were able to manage and also to achieve results that exceeded the announced values. Sales for the year in full reached ¥2,493.4 billion, up ¥33.4 billion against the announced forecast value but a 2.2% decrease year on year. Operating profit came in at ¥238.6 billion, up ¥6.6 billion against forecast but a 10.1% decrease year on year.

As a company that operates globally, the impact of the global COVID-19 pandemic has been very significant, and we estimate that it has had a negative impact of approximately ¥350.0 billion on net sales and ¥150.0 billion on operating profit. As a result, in fiscal 2020, both sales and profits decreased compared with previous year. However, I believe that we were able to not only secure short-term results, but also to further strengthen our management structure for future growth and development through the measures we took amid the COVID-19 crisis.

Looking back at FUSION 20

To date, the Company has been aiming for sustainable development through our unique FUSION management that encapsulates the meanings of balancing short-term profitability and long-term growth potential, collaboration with global Group companies and other companies and working together as one on development, production, sales, and services. In particular, after showing where we were aiming to be in five years' time, we have produced results and have led to growth and development by clarifying the key strategies toward those goals and the quantitative targets and execution themes for the following three years.

Under FUSION 20, which ran from fiscal 2015 to fiscal 2020, we worked on the thorough implementation of a twin-pronged raft of measures, that is on the one hand strengthening our core businesses—Air Conditioning, Chemicals, and Filters—and on the other hand, the expansion of our business scope and the changing of our business structure, which were adopted as priority themes. From the fourth quarter of fiscal 2019 onward, we have been greatly affected by the spread of the COVID-19 pandemic, but even amid a severe business environment, we focused on achieving FUSION 20 and the Group as a whole tackled the difficult situation. I believe that we were able to secure both short-term profits and medium- to long-term growth by steadily implementing our key strategies while investing in growth for the future.

In 2018, we formulated our Environmental Vision 2050, which has the goal of reducing greenhouse gas emissions to almost zero toward 2050, and accelerated the development

FUSION 20 Results

	FY2016	FY2017	FY2018	FY2019	FY2020	
	Actual	Actual	Actual	Actual	FUSION 20 Goals	Actual
Net sales (100 million yen)	20,440	22,906	24,811	25,503	29,000	24,934
Operating profit (100 million yen)	2,308	2,537	2,763	2,655	3,480	2,386
Operating profit margin (%)	11.3	11.1	11.1	10.4	12.0	9.6

Message from the CEO

and adoption of products and services that contribute to the conservation of energy and the prevention of global warming. Under "FUSION 25", we will further strengthen this initiative

and continue to work toward the realization of a sustainable society by balancing the solving of environmental and social issues with business growth.

Management Approach to Fiscal 2021

Compared with the past fiscal year, the social situation has calmed down slightly in fiscal 2021, but I feel that the uncertainties about the future will continue for the time being with no clear idea of how the situation will change. Although there are now the negative effects of lockdowns due to the reemergence of infections, there exists the possibility that the economy will recover rapidly once the infection has been put under control by the widespread use of vaccines and the effects of large-scale economic measures taken by various countries. In the current fiscal year, I believe it to be of the utmost importance that we take flexible measures to respond to these changes in the situation according to the circumstances but with even greater speed than before. I will thus steer the management in a flexible manner that enables us to respond quick-

ly to the vagaries of the business environment.

The business environment factors surrounding the Company in the current fiscal year include the uncertain impact from COVID-19, the significant negative impacts brought by raw material market conditions and sharp rises in logistics costs, concerns about a slowdown in the residential air-conditioning market and a delay in the recovery of the commercial air-conditioning market, all of which are placing the Company in a difficult situation. Even under these circumstances, based on what we have been working on in fiscal 2020, I would like us to continue to adopt an aggressive stance and show a willingness to take on challenges toward the implementation of measures while aiming to accumulate results and achieve record-high performance.

Strategic Management Plan "FUSION 25"

In the course of formulating Strategic Management Plan "FUSION 25"

In formulating "FUSION 25," we took into account the major changes in the structure of the economy, industry, and society, and looked at the changes in the world's economy and society 10 to 20 years into the future, as well as the ideal state of the Daikin Group. Based on this back-casting approach, we have set specific themes to be addressed during the five years of "FUSION 25." Unprecedented environmental changes and a dramatic transformation of the consumer structure are being caused by the COVID-19 pandemic, which is said to be a once-in-a-century event. In addition to geopolitical changes, we are also experiencing major structural changes in society, as the world moves toward a decarbonized society, or carbon neutrality. Companies are required to have a management stance and the business strategies to win out in the new normal era.

Over the next five years, we will contribute to solving environmental and social issues, while expanding our business and continuing to achieve growth and development. Our goal this time is to realize both contributions to a sustainable society and to the Group's growth. We have set three themes for our growth strategy: "challenge to achieve carbon neutrality,"

"promotion of Solutions business connected with customers," and "creating value with air."

Changes in business environment surrounding the Company

The first major change is the growing importance of environmental and social contributions. Among the efforts to tackle various social issues, in particular the corporate responsibility to reduce CO₂ emissions and decarbonization has become a major issue.

As the world's only manufacturer of both air-conditioning equipment and refrigerants, we have been contributing to the environment by providing differentiated products and services that take advantage of our energy-saving technologies around the world and by popularizing products equipped with low global warming potential (GWP) refrigerants. In the years to come, however, I believe that it will be essential to achieve both business growth and the goal of achieving net zero greenhouse gas emissions (carbon neutrality) by 2050.

The second point is that the values and needs of customers are changing more rapidly than ever, from goods to experiences and from ownership to use. I believe that the key to future

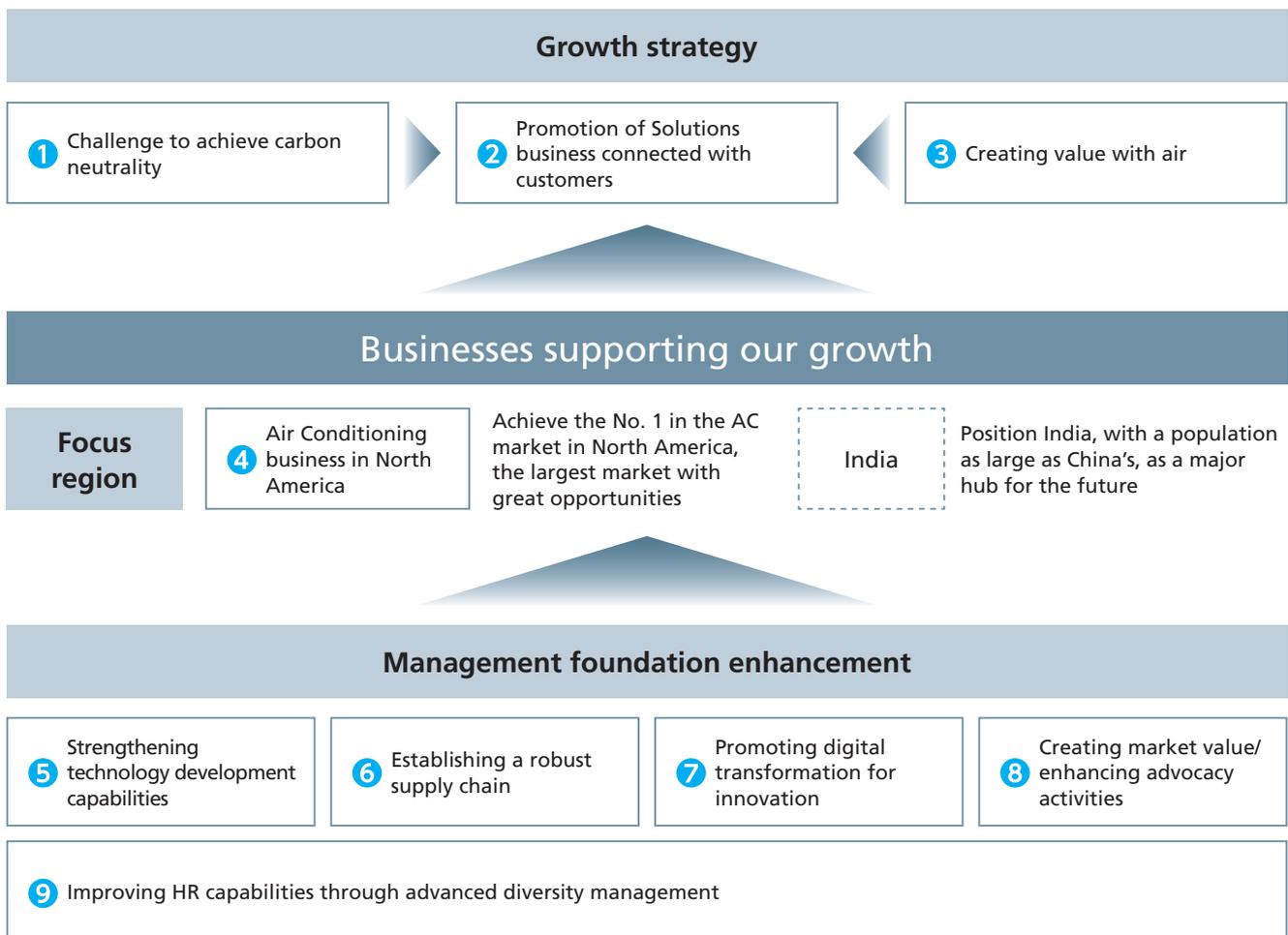
business expansion will be to create products that meet people's new needs and to build Solutions business while aiming for qualitative growth.

The third point is the expanding market needs for indoor air quality (IAQ) and ventilation. While the impact of COVID-19 has reduced the movement of people and the opportunities for people to gather, new needs have emerged as people become more aware of safety and security as well as more concerned about health and comfort. As a manufacturer specializing in air conditioning, I believe that one of our missions is to explore

and create new air value, in addition to selling products featuring performance that utilizes our unique technologies, such as air purification and disinfection.

The fourth point is the innovative advancement of technologies, such as AI, 5G, and robotics, and the emergence of business models that utilize these latest technologies. I think it is no exaggeration to say that the outcome depends on how we can take advantage of rapidly advancing digital technology to transform our business activities as a whole.

9 Key Strategy Themes



Three Growth Strategy Themes

Challenge to achieve carbon neutrality

As a raft of measures toward achieving carbon neutrality, we will promote the expansion of our Heat Pump Space and Water Heating business, the further expansion of sales of energy-saving devices equipped with inverters, the use of low-GWP refrigerants, the establishment of the refrigerant eco-cycle (recovery, reclamation and destruction), and the reduction of CO₂ emissions during the manufacturing process. In the Heat Pump Heating business, in particular, combustion-type and electric heaters are currently the mainstream in Europe and North America, and the ratio of heat pump space heating remains at around 10% of the market. By accelerating the shift to heat pump space and water heating systems in Europe and North America, which are our top priority regions, we plan to double our Heat Pump Space and Water Heating business sales by fiscal 2025 compared with fiscal 2020.

Promotion of Solutions business connected with customers

In the Air Conditioning Solutions business, we will establish a business model that provides customers with experiences while accelerating the expansion of the business. While reinforcing the service, engineering, and other business foundations we have built to date, we will work to provide new value, such as the provision of individually optimized air-conditioned spaces and improvements in comfort and safety, by directly connecting with users by application and market, such as hospitals and factories, and combining the use of equipment operation data, energy management, and IAQ technology. In addition, we will provide competitive solutions to reduce the electric power load by utilizing data through the promotion of connected devices that take advantage of our technological strength as an air-conditioning specialist to



save manpower and improve efficiency.

In the refrigeration field, we are planning to establish a one-stop Solutions business for stores that combines air conditioning and showcases to provide their customers with appropriate food temperature control and a safe and secure store environment. Furthermore, with regard to refrigeration, we would like to take on the challenges in building a highly profitable business model as well as in solving social issues, such as reducing food loss, by connecting the cold chain from the production area to the consumption area.

Creating value with air

Seizing the opportunity presented by demand for IAQ and ventilation, which has been growing amid the COVID-19 crisis, we will create a market for air purifiers in each region of the world and take on the challenge of selling one million units per year in each region. In addition to creating new products and services that enrich the healthcare field and daily life, we will promote collaborative creation with external parties to tackle the business of pursuing new value with air.

Execution of growth investments

To realize the “FUSION 25” growth strategies and take advantage of the changes of the times as opportunities to expand our business, we will make aggressive investments. We are planning to invest a cumulative total of ¥800 billion over the next three years (a five-year total of more than ¥1.3 trillion), including capital investment and investments in R&D, digital technology, and human resources.

In addition to capital investment centered on increasing production capacity to support business expansion in each region of the world, we will concentrate our resources boldly on technological areas related to our growth strategy in R&D. In addition to strengthening our overseas R&D bases, by utilizing collaborative creation inside and outside the Company as well as by reforming our development process utilizing digital technology, we will advance environmental technologies, such as heat pumps and next-generation refrigerants, and create differentiated products one after another. I also believe that it will be essential to acquire and develop the talented human resources who will provide the driving force behind these innovations. Expanding our digital investments is not only designed to accelerate business innovation, such as the promotion of our data-driven Solutions business and the creation of air value. This time, they will also promote process innovation that will lead to a shortening of development lead times, thereby improving supply chain efficiency and to strengthen our management foundation.

Although M&A have not been factored into the quantitative targets (for sales, operating profit, and investment plans) at this time, we are actively promoting alliances, collaborations, and M&A to increase the speed of our business expansion. In particular, the areas that we want to focus on are heating and refrigeration service companies in Europe, service and engineering companies to expand our Solutions business in Asia and North America, and sales and wholesale companies to strengthen Goodman's sales network. At this point, we are currently envisioning M&A totaling approximately ¥600 billion over the next three years.

Efforts to improve profitability of mainstay businesses

To invest in the growth strategy themes and thereby expand our business, it is essential to further strengthen the profitability of our existing businesses. Above all else, we will promptly work to raise the profitability of the Air Conditioning business in North America.

I believe that we have been able to increase the competitiveness of our North American Air Conditioning business in terms of sales, production, and products through the aggressive investments we have made so far but, on the other hand, we are still in the process of recovering our investments. Under “FUSION 25,” we will strive to achieve an operating profit margin of 10% or higher in fiscal 2025 while making further investments in growth to become the number one air-conditioner manufacturer in North America.

On the one hand, a US-based competitor is accelerating its business expansion by initiatives that include becoming a specialized air-conditioning company. On the other hand, however, it is expected that energy-saving regulations will become more stringent and environmental policies will be strengthened, and thus we will take the initiative in changing the market by converting to inverters, heat pumps, and low-GWP refrigerants, which are our strengths.

At Goodman, we are expanding our business in the residential market and promoting the conversion to inverters by increasing sales of premium products as well as increasing productivity in Goodman's factory. At Daikin Applied Americas Inc., we plan to expand earnings by fully developing our Solutions business in the applied market.

In Japan, we will aim to become the top company in all areas in the residential, commercial, and IAQ and ventilation businesses. At the same time, we will accelerate our growth by utilizing data to expand the Solutions business.

In Europe, we will not only engage in equipment sales in all the fields of air conditioning, space and water heating, applied,

Message from the CEO

and refrigeration and freezing, but also aim to become a solutions provider that can meet customer needs in areas such as IAQ and energy.

In the China business, we will work to maintain high profitability. China is one of the most digitally advanced countries in the world, and we have been working to build a business model that includes sales and marketing activities that utilize digital technology. In addition to hybrid sales activities that combine our unique strengths, such as offline sales via PROSHOP and online sales activities, we will work to expand sales by system proposals that, for example, bundle ventilation and air purification with IAQ sensors. In terms of production,

we will also aim for a state-of-the-art smart factory that utilizes digital technology.

Concerning the Air Conditioning business in Asia, which is expected to display the world's greatest market growth, we would like to establish an overwhelming number one position there. In India in particular, we would like to expand our business in the future and make it a major base of operations. We will strengthen our local production system, sales network, and product development to expand sales of energy-efficient products and services while taking the lead in the market's shift to inverters and low-GWP refrigerants (R32).

Responses to Social Issues

The last five years have also been a period of major changes in the structure of the economy, industry, and society. Their pace having been faster and the extent of the shift greater than expected, those changes are exerting an influence in a variety of ways, from the business activities of the Group to the way we lead our own lives. Due to the increasing importance being placed on environmental and social contributions, companies are also required not only to pursue profits but also to help solve social issues set by the Sustainable Development Goals (SDGs).

We have set a quantitative target under "FUSION 25" because we believe that it is our top priority to further acceler-

ate our efforts to reduce greenhouse gas emissions throughout the life cycle of our products, as efforts to realize a decarbonized society are spreading worldwide.

The global air-conditioning market is expected to triple in size in the 30-year period to 2050 in step with the economic development of emerging countries and other factors. In 2018, we declared in our Environmental Vision 2050 by which we aim to achieve net zero greenhouse gas emissions by 2050. Under "FUSION 25" we will further strengthen our efforts to not only fulfill our social responsibilities, but also to achieve business growth, making it sustainable.

Shareholder Returns

As a company that is expanding its business on a global basis, fiscal 2020 turned into a year in which Daikin was greatly affected by the worldwide spread of the COVID-19 pandemic. Although sales and profits decreased compared with the previous fiscal year, as a result of the Group working together as one to tackle important issues, we were able to achieve results that exceeded the announced values and thus paid a year-end dividend of ¥160 per share, in line with what had been previously announced.

Based on our nimble yet robust management structure cultivated in the fiscal year under review, in fiscal 2021 we will continue to implement measures while adopting an aggressive stance and showing a willingness to take on challenges to secure double-digit sales and profit growth. We will aim for a

V-shaped recovery in earnings that surpasses our pre-COVID performance. In fiscal 2021, we are planning to pay an annual dividend of ¥180 per share, comprising interim and year-end dividends both of ¥90.

On the basis of our implementing stable and continuous dividend payments, in the future as we have in the past we will strive to maintain a ratio of dividends to shareholder equity (DOE) of 3% or higher and at the same time also aim for an increasingly higher level of dividend payout ratio. In addition, we will expand our business while making upfront investment for further growth and development and strive to further enhance shareholder returns by increasing corporate value and increasing market capitalization.



A Message to Our Stakeholders

Due to the resurgence of COVID-19 infections, the severe business environment is expected to continue. Even under these difficult circumstances, the Group will work together as one in taking thorough measures while aiming to both secure short-term earnings and achieve both medium- and long-term growth. In recent years, the increasing importance of environmental and social contributions, changes in customer needs with regard to air quality, and advances in digital technology have had a significant impact on business activities, and quick and flexible responses are demanded. "FUSION 25" was formulated as an execution-oriented management strategy with a vision looking 10 and 20 years into the future, and then with a view to realizing carbon neutrality in 2050. Through "FUSION

25" we will lead the low carbonization of the air-conditioning industry, provide new value for the environment and air, contribute to a sustainable society, and realize the growth of the Group.

On this note, we thank you for your understanding and kindly ask for your continued support as we move forward.

Masanori Togawa

President and CEO
June 2021

Looking Back on Our Strategic Management Plan “FUSION”

Over the past 20 years, we have achieved approximately a five-fold increase in both net sales and operating profit.

Even in the face of the Lehman Shock and other severe conditions, we achieved growth by steadily executing the FUSION plan. Now with operations in over 160 countries and more than 80,000 Group employees, we have achieved a more robust global business foundation.

Daikin's Transformation of Growth

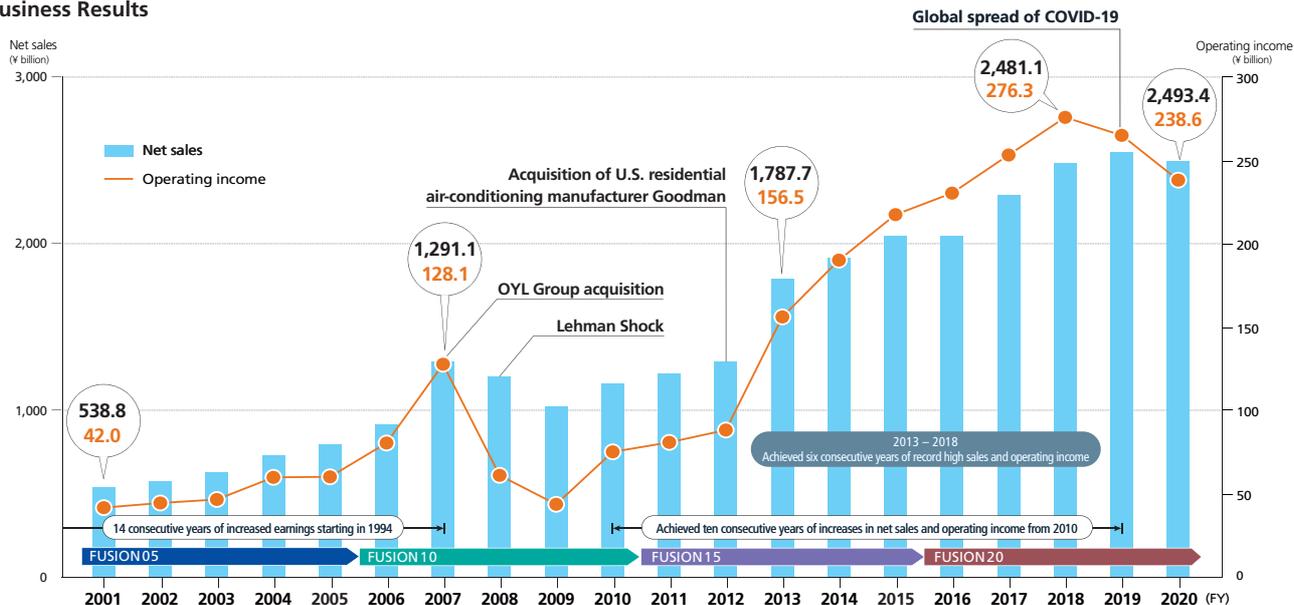
	FUSION 05 (FY2001-FY2005)	FUSION 10 (FY2006-FY2010)	FUSION 15 (FY2011-FY2015)	FUSION 20 (FY2016-FY2020)																						
Goals	Securing our management foundation Become an attractive company that draws together people, capital, and information	Management innovation Become the global No. 1 AC business	Accelerate growth Become a truly global and excellent company	Business domain expansion/business structure conversion, and enhancement of existing businesses Co-create New Value in the Air and Environment Fields with Wisdom and Passion																						
Overview	Daikin aims to be a world-class, truly top-tier company <ul style="list-style-type: none"> Establish a robust profit structure and financial constitution Attain the global No. 1 and No. 2 positions in main businesses (Air Conditioning and Chemicals) Conversion of business structure to achieve sustainable growth Enhance technical capabilities 	Maximization of corporate value to realize global excellence <ul style="list-style-type: none"> A world-leading, global No. 1 business Unprecedented creativity and value generation achieved through innovative technology High capital efficiency with a robust profit capability and financial structure Setting environmental strategy themes and goals that contribute to the natural environment Additional and robust strategic themes to become the global No. 1 AC company 	In light of the increasingly fast speed of change, <ul style="list-style-type: none"> Pursue both scale and profitability, growth and differentiation, sophistication of proprietary technologies as well as the development of low-cost technology and quality suited to new markets Move to be a company that leverages change and crises as springboards to pioneer new paths, and to continuously evolve. 	Swiftly responding to changes in the business environment, we will focus on strengthening efforts toward energy service solutions, Indoor Air Quality (IAQ) and Air Environment (AE) engineering and increasing low-GWP refrigerants <ul style="list-style-type: none"> Accelerate Air Conditioning Solutions business by leveraging IoT/AI technologies Expand business domains Take the initiative on environmental matters Further strengthen existing businesses 																						
Achievements	Built a business foundation for future growth and development <ul style="list-style-type: none"> Established the No. 2 position in the global market for our main businesses Achieved market capitalization of ¥1 trillion Ratio of overseas business grew by 15% over five years, expanding to 46% of all revenue Dramatically enhanced Daikin's technological capabilities 	Accelerated global development <ul style="list-style-type: none"> Overseas business ratio expanded to 61% Expansion of environment-related business <ul style="list-style-type: none"> Entered the heat pump space and water heating business Market development through an open strategy for environmental technology <ul style="list-style-type: none"> Penetration of room air conditioners equipped with inverters in the world's largest market by volume Strengthened profit structure <ul style="list-style-type: none"> Generated ¥100 billion in free cash flow by reducing inventory (cumulatively over years, from fiscal 2008 to fiscal 2010) Improved break-even point ratio and interest-bearing liability ratio 	<ul style="list-style-type: none"> Expanded sales through a fundamental strengthening of sales and marketing capabilities, and achieved a substantial increase in operating income margin by advancing total cost reductions Full-fledged entry into emerging markets and volume zone products Actively contributed to solutions to global warming and other societal issues <ul style="list-style-type: none"> The world's first practical application of low global warming potential R32 refrigerant Expanded sales in regions throughout the world based on sales of high-value-added products and dealer development 	Business domain expansion/business structure conversion <ul style="list-style-type: none"> Expanded Air Conditioning (AC) Solutions business (Energy Service Solutions business, Indoor Air Quality (IAQ) and Air Environment (AE) Engineering business) Promoted leading initiatives for the environment (accelerated uptake of R32 refrigerant and high-performance energy-saving equipment) Strengthened Space and Water Heating business, Commercial Refrigeration business Enhancement of existing businesses (AC business in North America, AC business in Asia, Chemical Business, Filter business)																						
		Results through business alliances, partnerships, and M&A activities <table border="0"> <tr> <td>OYL Group acquisition (2007)</td> <td>→</td> <td>Along with strengthening our position in the Applied Systems air-conditioning field, established a foundation for business in North America and Asia.</td> </tr> <tr> <td>Business alliance with Gree Electric Appliances (2008)</td> <td>→</td> <td>Promoted prevalence of air conditioners equipped with high-environmental-performance inverters in China</td> </tr> <tr> <td>Acquisition of Nippon Muki (2009)</td> <td>→</td> <td>The acquisition of Nippon Muki, which boasts the top share of Japan's air filter market, accelerated development and sales of highly functional products.</td> </tr> </table>	OYL Group acquisition (2007)	→	Along with strengthening our position in the Applied Systems air-conditioning field, established a foundation for business in North America and Asia.	Business alliance with Gree Electric Appliances (2008)	→	Promoted prevalence of air conditioners equipped with high-environmental-performance inverters in China	Acquisition of Nippon Muki (2009)	→	The acquisition of Nippon Muki, which boasts the top share of Japan's air filter market, accelerated development and sales of highly functional products.	Results through business alliances, partnerships, and M&A activities <table border="0"> <tr> <td>Acquisition of Airfel (2011)</td> <td>→</td> <td>Having acquired Airfel, with its broad product lineup and impressive sales network, we boosted the momentum of business development in the Middle East.</td> </tr> <tr> <td>Acquisition of Goodman (2012)</td> <td>→</td> <td>The acquisition of Goodman, which boasts a top share of the residential air-conditioning field, enabled Daikin's full-fledged entry into the residential unitary market. This secured a robust sales network in North America.</td> </tr> </table>	Acquisition of Airfel (2011)	→	Having acquired Airfel, with its broad product lineup and impressive sales network, we boosted the momentum of business development in the Middle East.	Acquisition of Goodman (2012)	→	The acquisition of Goodman, which boasts a top share of the residential air-conditioning field, enabled Daikin's full-fledged entry into the residential unitary market. This secured a robust sales network in North America.	Results through business alliances, partnerships, and M&A activities <table border="0"> <tr> <td>Acquisition of Flanders (2016)</td> <td>→</td> <td>The acquisition of this air filter manufacturer, which holds the top share in the U.S., helped Daikin obtain a wide-ranging lineup, from business to residential equipment.</td> </tr> <tr> <td>Acquisition of Zanotti (2016)</td> <td>→</td> <td>Acquiring Zanotti, with its large lineup of refrigerator and freezer products in Europe, ranging from industrial equipment to transport and commercial equipment, enabled Daikin to build a business foundation that covers the entire length of the cold chain.</td> </tr> <tr> <td>Acquisition of AHT (2019)</td> <td>→</td> <td>AHT-manufactured showcases complemented Daikin's product lineup, and brought business development that covered the entire cold chain. This accelerated one-stop solution development, from air conditioners to refrigeration and freezing equipment.</td> </tr> </table>	Acquisition of Flanders (2016)	→	The acquisition of this air filter manufacturer, which holds the top share in the U.S., helped Daikin obtain a wide-ranging lineup, from business to residential equipment.	Acquisition of Zanotti (2016)	→	Acquiring Zanotti, with its large lineup of refrigerator and freezer products in Europe, ranging from industrial equipment to transport and commercial equipment, enabled Daikin to build a business foundation that covers the entire length of the cold chain.	Acquisition of AHT (2019)
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Assessment	Achieved 12 consecutive years of revenue growth, and record-setting profit for six years in a row. While the plan's final goals for DVA* and free cash flow remained unattained, the Company substantially surpassed goals for net sales, operating income margin, ROE and ROA.	In fiscal 2007, interim goals were achieved a year ahead of schedule, and a new record level of profit was established. The Lehman Shock of fiscal 2008, however, caused the Company to fall short of its final goals, but by making concerted efforts to reform business structure and reinforcing financial structure, we were able to achieve a “V”-shaped recovery in fiscal 2010.	While the Company was unable to reach the plan's final goal in terms of net sales, the goal for operating income was met a year ahead of schedule, and the goal for operating income margin was also substantially surpassed.	Progress was made in line with the schedule up until fiscal 2018. From fiscal 2019, the Company was hit by the impact of COVID-19, and the Company's efforts for net sales and operating income fell short of the plan's final goals.																						

* DVA: Daikin economic value added (reference on page 30)

	FY2005		FY2010		FY2015		FY2020	
	FUSION 05 Goals	Actual	FUSION 10 Goals	Actual	FUSION 15 Goals	Actual	FUSION 20 Goals	Actual
Net sales	Over ¥750.0 billion	¥792.9 billion	¥1,900.0 billion	¥1,160.3 billion	¥2,050.0 billion	¥2,043.7 billion	¥2,900.0 billion	¥2,493.4 billion
Operating income	Over ¥60.0 billion (Over 8.0%)	¥67.1 billion (8.5%)	¥190.0 billion (10%)	¥75.5 billion (6.5%)	¥190.0 billion (9.3%)	¥217.9 billion (10.7%)	¥348.0 billion (12.0%)	¥238.6 billion (9.6%)
Overseas business ratio		46%		61%		75%		77%
Consolidated subsidiaries		99		191		213		315
Production bases	More than 30 factories		More than 70 factories		More than 80 factories		More than 100 factories	
Employees		21,747		41,569		60,805		84,870
Market capitalization		¥1,086.9 billion		¥730.1 billion		¥2,465.7 billion		¥6,542.3 billion

* Excluding net sales and operating income, amounts are stated as of the end of each fiscal year.

Business Results



Looking Back on FUSION 20

Daikin took action to achieve key strategies regarding business domain expansion/business structure conversion, and enhancement of existing businesses, leading to net sales and operating income progress as planned up to fiscal 2018.

Buffeted severely by the impact of COVID-19 from the fourth quarter of fiscal 2019, fiscal 2020, the final year of FUSION 20, saw the Company miss its planned targets for the latter half of FUSION 20, in terms of both net sales and operating income. Nonetheless, even with the uncertain outlook due to the pandemic, Daikin put in place both proactive and defensive measures, preparing management to be quick off the mark in recovering from the COVID-19 crisis and to strengthen business structure. As a result, Daikin substantially exceeded original forecasts for fiscal 2020.

	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 FUSION 20 Goals	FY2020 Actual
Net sales	¥2,044.0 billion	¥2,290.6 billion	¥2,481.1 billion	¥2,550.3 billion	¥2,900.0 billion	¥2,493.4 billion
Operating income	¥230.8 billion	¥253.7 billion	¥276.3 billion	¥265.5 billion	¥348.0 billion	¥238.6 billion
Operating income margin	11.3%	11.1%	11.1%	10.4%	12.0%	9.6%

Business domain expansion/business structure conversion

Expansion of the Air Conditioning (AC) Solutions business	<ul style="list-style-type: none"> Energy Service Solutions business Indoor Air Quality (IAQ) and Air Environment (AE) Engineering business 	<p>Business foundation strengthened through investing in sales and service networks as well as developing technology for the Solutions business. Full-scale business development, primarily in North America, which is the largest market</p> <p>IAQ and AE business expanded in response to growing needs for safe and secure air and space. Aiming to provide air and space value, advance our technology through external collaborative creation such as technology development and demonstration tests.</p>
Leading initiatives for the environment	<p>Environmental Vision 2050 established in 2018 with the target of reducing greenhouse gas emissions to net zero by 2050. Widespread uptake of R32 refrigerant and high-performance energy-saving equipment. Development started for next-generation refrigerants and equipment. Support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) announced in 2019, and disclosure of financial information and ESG information including on climate change started.</p>	
Expansion of business domains	<ul style="list-style-type: none"> Space and Water Heating business Commercial Refrigeration business 	<p>No. 1 market share in heat pump units achieved in Europe, the largest market.</p> <p>Foundation established for the Refrigeration Solutions business in Europe through acquisition of Zanotti and AHT and other measures.</p>

Enhancement of existing businesses

AC business in North America	AC business in Asia	Chemicals business	Filter business
<p>Sales and market share expanded by increased sales of unitary, VRV, and Applied equipment. Initiatives promoted for transforming the business structure into the Service Solutions business in addition to equipment sales.</p>	<p>No. 1 position achieved in the residential and commercial Direct Expansion business in many countries. Measures implemented to expand the Solutions business and become No. 1 in the Applied business.</p>	<p>Record-high profit achieved in fiscal 2018. Investment decisions made for future growth (establishing a 2nd plant in China, augmenting the U.S. plant, establishing the Innovation Center in Europe). Business expanded through applications development and polymer alloy/non-fluorine materials.</p>	<p>Filter Division established and the North America, Europe, and Power & Industrial (P&I) businesses reformed. New product development started to respond to IAQ needs.</p>

Risks and Opportunities That Affect Medium- to Long-Term Value Creation

Based on changes in the external environment, we identified the important social issues that affect the Daikin Group's medium- to long-term value creation, and extracted the risks and opportunities related to them. To respond appropriately to these risks and to take advantage of any opportunities while working to resolve social issues, we will recognize the strategic themes adopted in our "FUSION 25" strategic management plan as management materiality and realize further value creation.

	Changes in society	Issues
	Intensification of climate change	<ul style="list-style-type: none"> • Reduction of global warming
	Expansion and concentration of energy and power demand	<ul style="list-style-type: none"> • Reduction of energy/power consumption
	Increased interest in IAQ	<ul style="list-style-type: none"> • Preventing spread of infectious diseases • Value with air
	Occurrence of natural disasters	<ul style="list-style-type: none"> • Responses to supply chain disruptions
	Transition to a digital society	<ul style="list-style-type: none"> • Building of a business model utilizing digital technology • Increasing the efficiency of business processes



Risks	Responses/Opportunities	Management Materiality
<ul style="list-style-type: none"> ● Stricter environmental regulations ● Tight supply and demand for electricity 	<ul style="list-style-type: none"> ● Development of products, services and technologies that comply with environmental regulations ● Development of energy management / sustainable urban development <p style="text-align: right;">Details ▶ P.26~29, P.54~55</p> <p style="text-align: right;">Response to TCFD ▶ P.53</p>	<p style="text-align: center;">Three Growth Strategy Themes</p> <ul style="list-style-type: none"> ● Challenge to achieve carbon neutrality ● Promotion of Solutions business connected with customers ● Creating value with air
<ul style="list-style-type: none"> ● Stricter regulations on energy efficiency 	<ul style="list-style-type: none"> ● Acceleration of conversion to inverters ● Product development and technological innovation excelling in environmental performance ● Strengthening proposals for replacing environmentally conscious products ● Strengthening of energy management <p style="text-align: right;">Details ▶ P.26~29, P.54~55</p>	<p style="text-align: center;">One theme for focus regions</p> <ul style="list-style-type: none"> ● Air Conditioning business in North America
<ul style="list-style-type: none"> ● New regulations on existing air conditioners 	<ul style="list-style-type: none"> ● Product development to provide a safe and secure atmosphere ● Creation of indoor air quality (IAQ)/air environment (AE) that enriches people's lives <p style="text-align: right;">Details ▶ P.29</p>	<p style="text-align: center;">Five themes to enhance the management foundation</p> <ul style="list-style-type: none"> ● Strengthening technology development capabilities ● Establishing a robust supply chain ● Promoting digital transformation for innovation ● Creating market value/ enhancing advocacy activities ● Improving HR capabilities through advanced diversity management
<ul style="list-style-type: none"> ● Suspension of plant operations ● Stagnation of raw material/ parts procurement 	<ul style="list-style-type: none"> ● Stable supply through "market-localized production" on the basis of local production for local consumption <p style="text-align: right;">Details ▶ P.54~56</p>	<p style="text-align: right;">Details ▶ P.24~ Strategic Management Plan "FUSION 25"</p>
<ul style="list-style-type: none"> ● Obsolescence of existing products ● Lack of human resources in digital fields 	<ul style="list-style-type: none"> ● Technological developments, development of products and services, strengthening of sales activities that utilize IoT/AI ● Providing solutions for efficient energy management, etc. <p style="text-align: right;">Details ▶ P.28~29, P.56</p>	

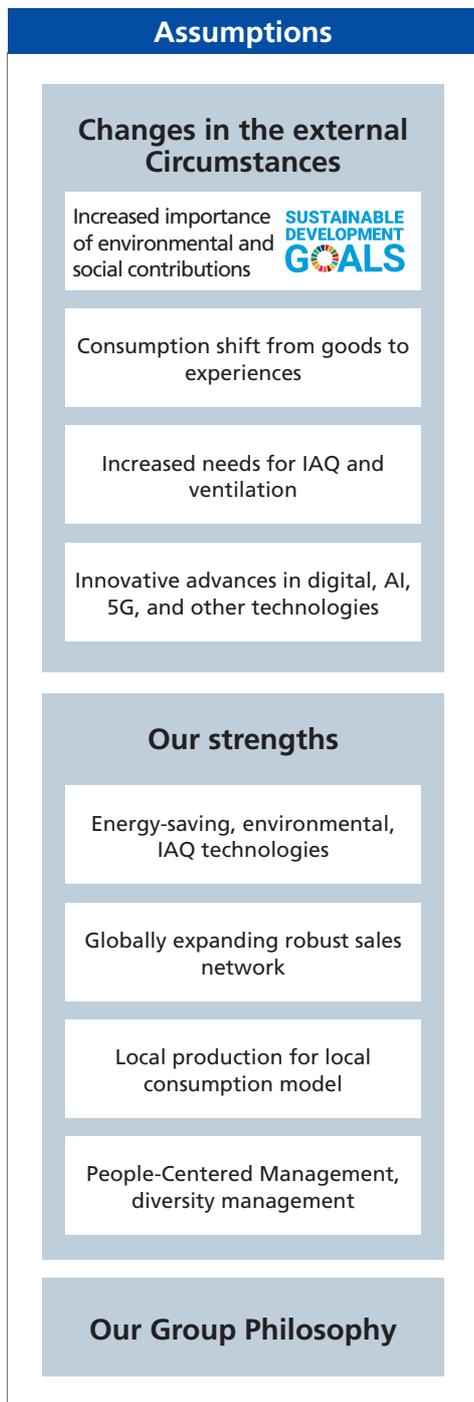
Strategic Management Plan “FUSION 25”

Formulating Strategic Management Plan “FUSION 25”

Daikin formulated Strategic Management Plan “FUSION 25” for the period covering fiscal 2021 to fiscal 2025. The premises on which the Plan is formulated include changes in the external circumstances surrounding the Company and the unique strengths that we have acquired to date. Based on these premises, the Plan illustrates the strategies to be implemented over the next five years by back-casting from the changes in the world that will take place over the next ten to twenty years, and from the ideal state of the Group at this time.

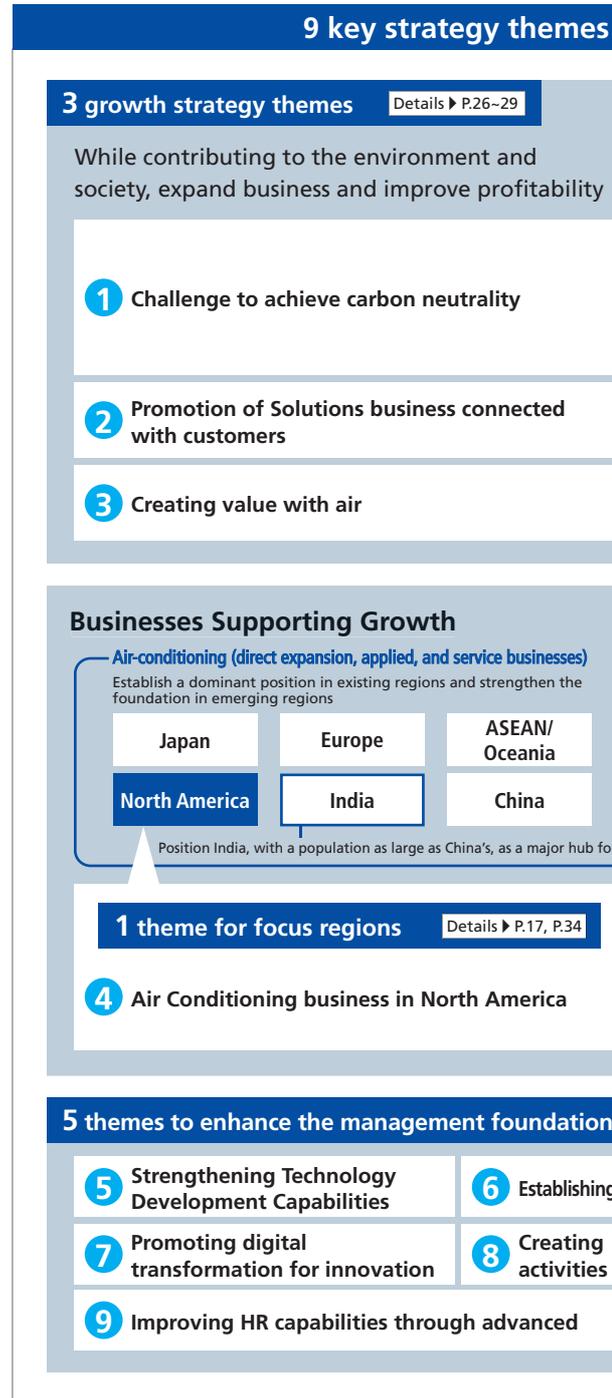
Our goal is to “offer new value for the environment and air to realize both contributions to a sustainable society and the Group’s growth.”

Specifically, we aim to expand the business and continue to achieve growth and development while contributing to



Viewing external environmental changes as a great opportunity, capitalize on our strengths to achieve further growth and development

Offer new value for the environment



the solutions for environmental and social issues. The three growth strategy themes for this purpose are “Challenge to achieve carbon neutrality,” “Promotion of Solutions business connected with customers,” and “Creating value with air,” while the one focus region theme for strengthening the existing business is the “Air Conditioning business in North America.” In terms of India, a market for which significant market growth is anticipated, we aim to transform the country into a major base of operations through strengthened local production and business expansion.

In addition, we set five themes to enhance the management foundation, namely “Strengthening technology development capabilities,” “Establishing a robust supply chain,” “Promoting digital transformation for innovation,” “Creating market value/enhancing advocacy activities,” and “Improving HR capabilities through advanced diversity management.” By implementing these nine key strategy themes, we aim to come out ahead in this age of a new normal and to create value.

and air to realize both contributions to a sustainable society and Group growth

- Expand the heat-pump and hot water heater and inverter business
- Spread the use of highly energy efficient products such as those using inverters
- Promote the adoption of low-GWP refrigerants as well as the recovery and recycling of fluorocarbons
- Reduce CO₂ emissions in manufacturing, etc.

- AC solutions
- Refrigeration solutions

- Establishing a large scale IAQ/Ventilation business
- Creation of IAQ/AE that enrich people's lives

Latin America

Africa
Middle East

the future

Chemicals

Filter

Refrigeration

Oil Hydraulics

Defense Systems

Electronics

Achieve the No. 1 in the AC market in North America, the largest market with great opportunities

- Expand the residential and light commercial businesses
- Expand the Solutions business
- Transform the market through environmental materials

Details ▶ P.54-57

a robust supply chain

market value/enhancing advocacy

diversity management

Ideal value creation

Economic value

FY 2025
Group targets
(Image)

Sales

3.6

trillion yen

Operating profit

430

billion yen

Operating profit margin

Approx. 12%

Environmental and social value

Net CO₂ emissions reductions
2025 target (from BAU)

30%+


7


9


12


13

Free humankind from heat and cold


3

Directly connect with customers and satisfy individual application needs


11

Offer safe, reliable, comfortable IAQ/AE


3

Contribute to reducing food loss


12

Participate in international rule making


17

Contribute to the growth of employees and local communities


8

9 key strategy themes **3 growth strategy themes**

In aims of expanding the business and continuing to achieve growth and development while we contribute to solutions for environmental and social issues, we set three growth strategy themes, namely "Challenge to achieve carbon neutrality," "Promotion of Solutions business connected with customers," and "Creating value with air."

1

Challenge to achieve carbon neutrality

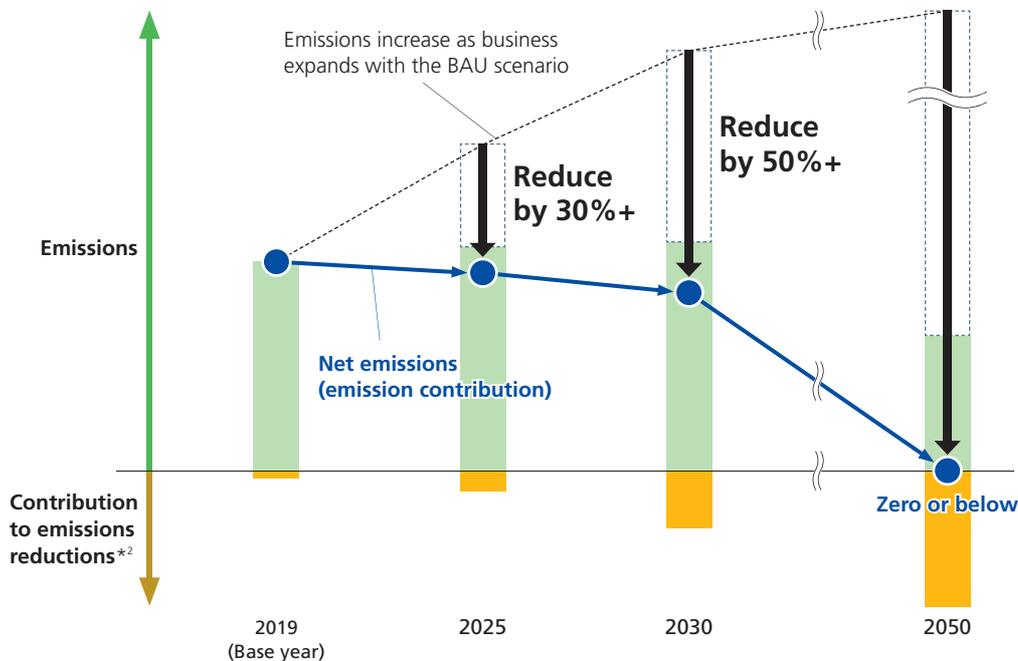
We formulated "Environmental Vision 2050" in aims of reducing greenhouse gas emissions to net zero by 2050. With the base year set at 2019, our goals are to reduce net greenhouse gas emissions*1 by 30% or more in 2025 and 50% or more in 2030, compared with emissions without measures (business as usual (BAU)).

Along with perfecting advanced environmental technologies and paving the way towards carbon neutrality to fulfill our social responsibility, we will work to reduce power consumption through the widespread use of heat pump space and water heaters, inverter units, and provision of other energy-saving equipment. We will also work to transition to the use of low-GWP refrigerants and establish a refrigerant eco-cycle

that includes recovery and reclamation aspects. The Heat Pump Space and Water Heating business positions Europe and North America, where combustion heaters are the main markets, as the most important regions. In these regions, we will leverage technologies cultivated in the Air Conditioning business to accelerate the shift from combustion heaters to heat pump space and water heaters. We will also undertake challenges such as participating in the Smart City Project, which is expected to help expand markets and reduce CO₂, as well as establishing new environment-related businesses, including energy creation.

*1 Net greenhouse gas emissions = Emissions - Contribution to emissions reductions

Challenge to Achieve Carbon Neutrality



*2 Contribution to emissions reductions
Efforts to reduce CO₂ emissions that contribute to society, including promotion of Daikin equipment with lower CO₂ emissions (replacing other companies' equipment with higher CO₂ emissions), energy creation, and forest conservation activities

1. CO₂ reductions during manufacturing (development/production processes)

Reduce emissions of energy induced CO₂ and HFCs/PFCs in development and production processes

- Make factories carbon neutral

2. Power consumption reductions during product use

Global acceleration of conversion to inverter units to lead other companies with environmental products (energy-saving equipment)

- Residential AC (RA) inverter ratio: 75% in 2019 ➔ 98%+ in 2025
- Develop elemental technology with high energy efficiency

3. Heat Pump Space and Water Heating business

Positioning Europe and North America as the priority regions to accelerate conversion of combustion heaters to heat pump space and water heaters

- Europe: Aim to achieve No. 1 share in major countries
- North America: Accelerate sales of inverter heat pump unitary products

4. Refrigerant initiatives supporting the AC business

Various measures connecting to refrigerant-induced CO₂ emissions reductions to lead the environmentally conscious society and industry

- Globally promote switching to R32.
 - R32 ratio in the global residential AC market : 83% in 2019 ➔ 95%+ in 2025
- Establish the refrigerant eco-cycle (recovery, reclamation, destruction)
- Develop next-generation refrigerants/equipment

5. Challenge to create new environment-related business

Initiatives toward market expansion and CO₂ reduction contributions

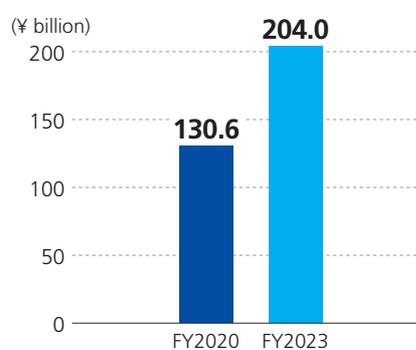
- Smart cities: Participate in projects around the world
- Energy creation: Enhance product lineup of micro-hydroelectric power generation

6. Technology development to realize a carbon neutral society

Research on leading-edge technologies on CO₂ decomposition, recovery, and reuse. Specific measures to obtain those technologies

- Explore technology for ambient temperature CO₂ separation, direct recovery, and reuse (collaborative innovation with Doshisha University)
- Establish a hypothesis for a net-zero CO₂ emissions society (collaborative innovation with the University of Tokyo)

Heat Pump Space and Water Heating business sales



Smart city project in Singapore

2

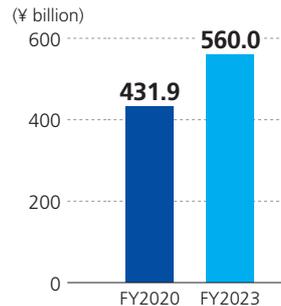
Promotion of Solutions business connected with customers

In terms of air conditioning solutions, we will establish an experience-based sales business model that satisfies a diverse range of customer needs by going beyond the provision of equipment to include a combination of control, engineering, and service. This effort will work to provide new value, such as the provision of individually optimized spaces and improvements in comfort and safety, by directly connecting with users by application and market, such as hospitals and factories, and by combining the use of equipment operation data, energy management, and IAQ technology.

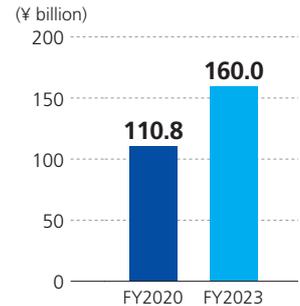
In terms of refrigeration solutions, we will repurpose the energy-saving and environmental technologies we have cultivated in the Air Conditioning business. We will undertake the challenge of establishing a store Solutions business through the promotion of one-stop solutions that include everything from air-conditioning equipment, refrigeration equipment, store design, installation, service, and maintenance. We will also

undertake the challenge of deploying a business that connects the entire cold chain from the place of production to the place of consumption. These efforts will contribute to reductions in food loss, ensuring food safety and security, and the solutions to other social issues.

AC Solutions business sales



Refrigeration Solutions business sales

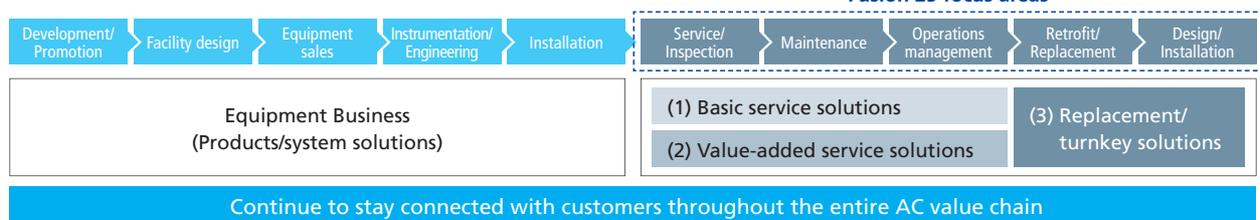


1. AC solutions

Three solutions for service/inspections, value added proposals during equipment operation, and retrofits/replacements to establish a business model that provides customers with experiences

- (1) Basic service solutions: Repair service, supply of parts and materials, customer support
- (2) Value added service solutions: Service, maintenance, IAQ diagnosis and improvements
- (3) Replacement/turnkey solutions: Total replacement solutions responding to customer needs such as engineering services combined with non-AC equipment and controls

Experience-based sales business model



Reinforcing proposal and response capabilities for each vertical market. Providing solutions menu satisfying diverse customer needs

Offices	Schools	Hospitals	Hotels	Factories
Comfort from airflow, even temperature distribution, ventilation, sound insulation	Facility management and technical support where there is no dedicated facility caretaker	Prevent entry and spread of viruses/bacteria, reduce the risk of cluster infection	Individual temperature control and advanced operability, i.e., multilingual support	Nonstop, highly reliable operations/energy savings toward achieving net zero carbon

2. Refrigeration solutions

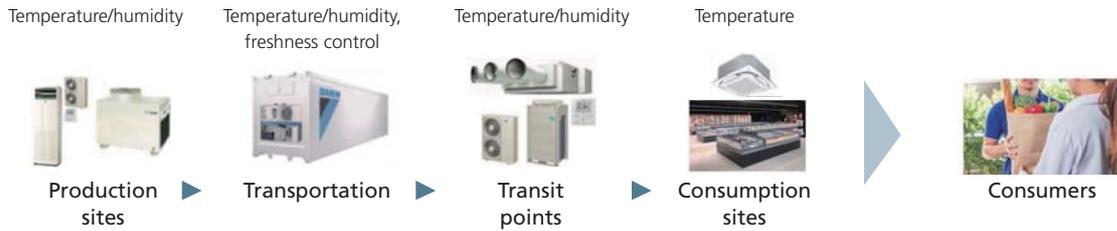
Global business expansion by deploying energy saving and environmental technologies Daikin has cultivated in the AC domain

- (1) Store Solutions business in Europe
- (2) Store Solutions business in Asia/Oceania markets with growth potential
- (3) Entire Cold Chain business (from production to consumption)

Value offered through Daikin's business entry

Initiatives towards CO₂ emissions reductions, food loss control/reduction throughout the entire supply chain

Contributing to safe/secure food life



3

Creating Value with Air

We aim to establish a large-scale, global IAQ and ventilation business by creating new products and services that address the increasing demand for IAQ and ventilation. In addition to taking on the healthcare domain, for example supporting bet-

ter health by accumulating and analyzing air conditioner data and vital data, we will engage in value creation through IAQ and AE that enriches people's lives.

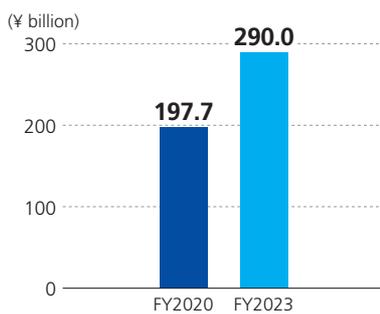
1. Establishing a large-scale IAQ/Ventilation business

Market creation from opportunities presented by growing IAQ/Ventilation demand

Creation of new products and services to establish a large-scale IAQ/Ventilation business

- Globally create a market for air purifiers, and sell 1 million units per year in each region
- Proposal optimal ventilation systems for each vertical market to expand sales of Heat Reclaim Ventilation (HRV)
- Launch a global base model for air purifiers, and comply with standards and regulations in each region

IAQ/Ventilation business sales



Product portfolio for establishing a large scale IAQ/Ventilation business



2. Creation of IAQ/AE that enrich people's lives

Accumulating and analyzing air-conditioning data and vital data to create value with IAQ/AE for people's physical and mental well-being

- Take on the challenge in the healthcare domain for people's better health
 - Establish a business through collaboration with universities and startups to establish methods for analyzing and improving health from obtained vital data
- Validate the value with air for each vertical market
 - Realization of air value for people to get better concentration, relaxation, and good sleep and PoC verification for commercialization
- Pursue new value with air
 - Examine a social integration course on creating value with air with the University of Tokyo

Financial Strategy

Deepening and Promoting “Ratio Management” Company Wide

Capital Cost-Oriented Financial Strategy

Daikin undertakes “ratio management” focusing on capital costs to increase corporate value. The background behind introducing “ratio management” started with our intention to pivot away from emphasizing monetary amounts (i.e., net sales, operating profit) on P/L statements, aiming to become global No. 1 under “FUSION” launched in 1996. We then began “ratio management” to focus more on operating profit “margin,” profitability, and financial structure based on our aim to “become an attractive company that draws together people, capital, and information” under the revamped FUSION in 1999.

“Ratio management” involves overseeing “profitability, cash, and financial structure” as a set using indicators such as free cash flow and DVA*1 along with ROE and ROA. Regarding DVA, we have shifted to ROIC (return on invested capital) and free cash flow as management indicators for each division in recent years, as all segments have reached the black.

*1 DVA: Daikin economic value added

We adopted DVA with the start of ratio management as an indicator that resonates easily by simplifying and fostering employee understanding of EVA (economic value added). Beyond simplifying the calculation formula, we focused on promoting DVA internally by explaining DVA to employees in terms of corporate value rising when profits generated from business activities over an entire year exceed capital costs.

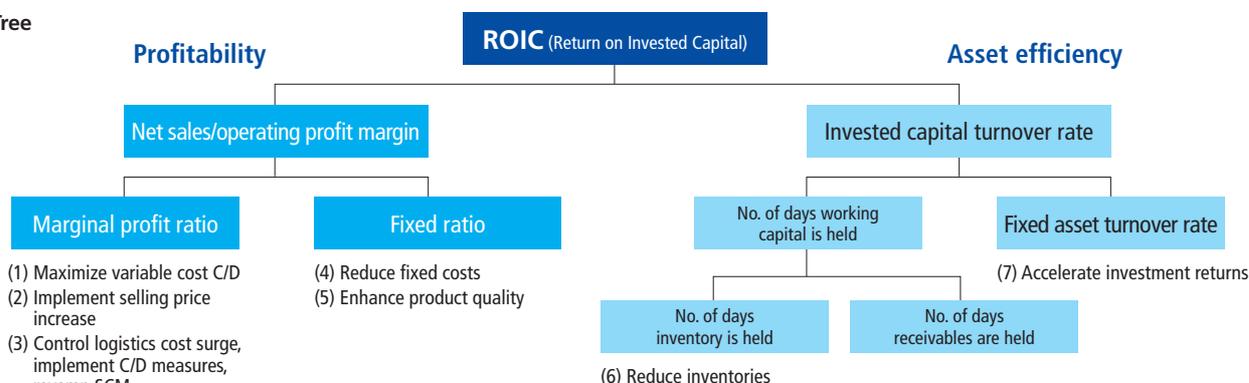
Companywide ROIC Tree

ROIC was introduced as an internal management indicator to monitor capital efficiency beginning with reducing inventories and to facilitate greater implementation among employees.

More specifically, we have positioned ROIC as an internal management indicator linked to Companywide ROE targets and then apply it to each business target as a means to specifically show how ROIC is connected to the duties of each employee. For example, during employee training we describe ROIC as a tree to explain concepts such as how inventory reduction improves ROIC and the relationship between selling prices and costs to increase profitability. In addition to staff in Japan, we use the “ROIC Tree” concept to explain to the employees of overseas bases how ROIC is linked to their daily duties.

We promoted 10 key Companywide themes essential for achieving FUSION 20 final year targets; 1-7 listed below show the connection between seven of those themes and the ROIC Tree. In addition, given the uncertain outlook from amid the COVID-19 pandemic of fiscal 2020, we are undertaking ROIC Tree-linked measures, namely six emergency projects that address important management issues as well as strategic 7 themes to be raised for fiscal 2021.

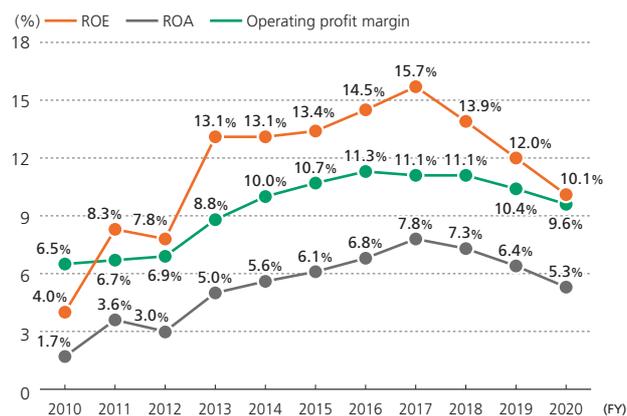
ROIC Tree



Financial Analysis over the Past Decade

Daikin achieved a V-shaped recovery amid major economic changes following the collapse of Lehman Brothers, achieving ten consecutive years of sales growth from fiscal 2010 through fiscal 2019 and nine consecutive years of operating profit for nine years straight through to fiscal 2018. This breakthrough earnings growth reflects Daikin’s penetration of the North American air-conditioning market after acquiring major US air-conditioning manufacturer Goodman in 2012. In addition, we position operating profit margin as an indicator of profitability under Ratio Management and set a target of 12.0% as the target of FUSION 20. While the operating profit margin rose to 11.1% in fiscal 2018, buffeted by the impact of COVID-19, actual results for fiscal 2020 amounted to 9.6%. Under FUSION 25, the goal we have set for ourselves is to

Management Indicators from Fiscal 2010



reach an operating profit margin around the 12.0% level by 2025, and with our medium-term action plan for fiscal 2023, an operating profit margin of 10.5%. For ROE, an indicator of asset efficiency, we are working toward the target of 11.0%.

Daikin's market capitalization has grown by around 33 times over the 26 years between the fiscal year ended March 1995 and the fiscal year ended March 2021, being ranked eighth*² in market cap growth over the 30 years of the Heisei Era (1989-2019).

*² For companies listed on Japanese stock exchanges. Comparisons between January 9, 1989 and April 26, 2019 (source: Nikkei).

Investment & Shareholder Returns

In fiscal 2021, we plan to invest ¥150 billion in capital expenditures, record ¥115 billion in depreciation and amortization, and ¥80 billion in R&D. Further business growth in the Air Conditioning business will mean making investments to expand production capacity in our plants in Vietnam and India, as well as compliance with CARB*³ regulations in California, a leading U.S. state in terms of the environment, and boosting the capacity of plants in Applied Systems and other areas. In the Chemicals business, we intend to proactively invest in production capacity expansion in China and the U.S. to meet the increasing demand for semiconductors and batteries. However, due to the uncertain outlook caused by COVID-19, we will keep a closer eye on determining priorities, timing of implementation, and amount of investments.

Under FUSION 25, we will continue aggressive investments

to realize our growth strategies and to leverage the changing times as opportunities for business growth. Covering capital investments, as well as investments into R&D, digital technology, and human resources, we plan to invest a cumulative total of ¥800 billion over the three-year period from fiscal 2021 to fiscal 2023 and a cumulative ¥1.3 trillion over the five-year period to fiscal 2025. Moreover, we envision M&A activities cumulatively amounting to approximately ¥600 billion over three years.

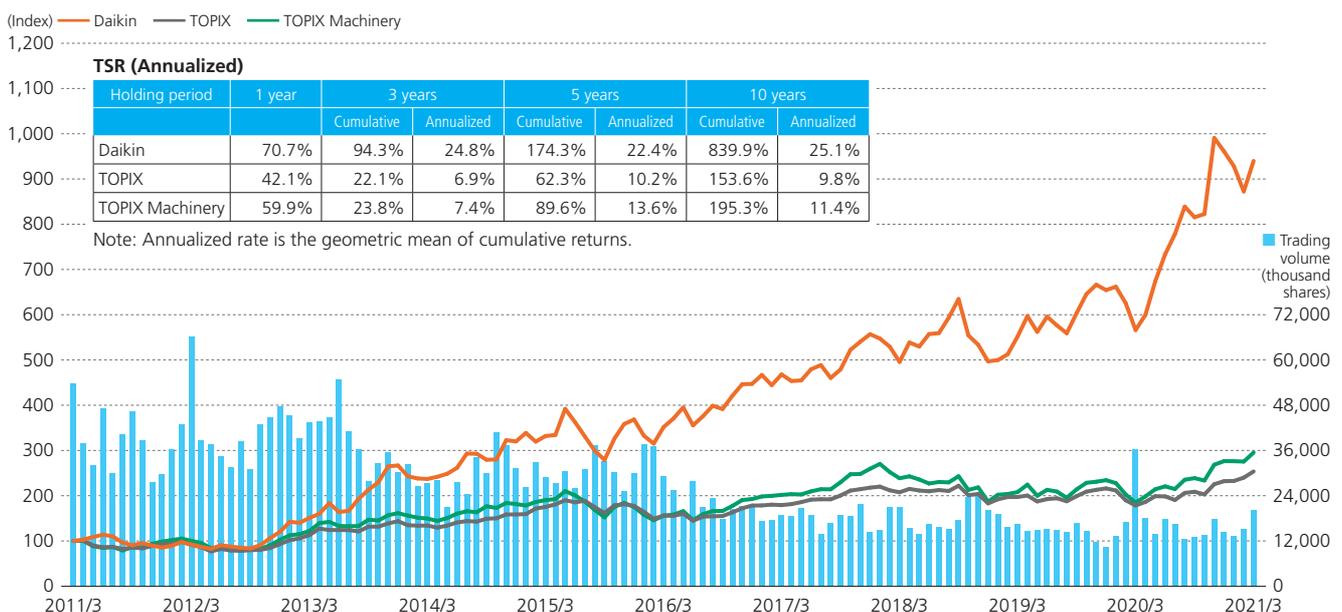
As for shareholder returns, by striving to maintain a consolidated ratio of dividend to net assets (Dividend on Equity, DOE) of 3.0% while at the same time aiming for an even higher consolidated dividend payout ratio, we will introduce initiatives to further increase returns to our shareholders with the core goal of stable and continuous dividends. In fiscal 2020, the annual dividend was set at ¥160. Internal reserves will be applied to strategic investments in order to expand business and increase competitiveness such as reinforcing management practices, promoting global businesses, and accelerating eco-conscious product development.

*³ CARB: California Air Resources Board

Total Shareholder Return (TSR)

Daikin's TSR outperformed TOPIX and TOPIX Machinery over a three-, five-, and ten-year period and TSR also surpassed cost of equity capital owing to stable shareholder returns and strong share price performance.

Total shareholder return (TSR*⁴)



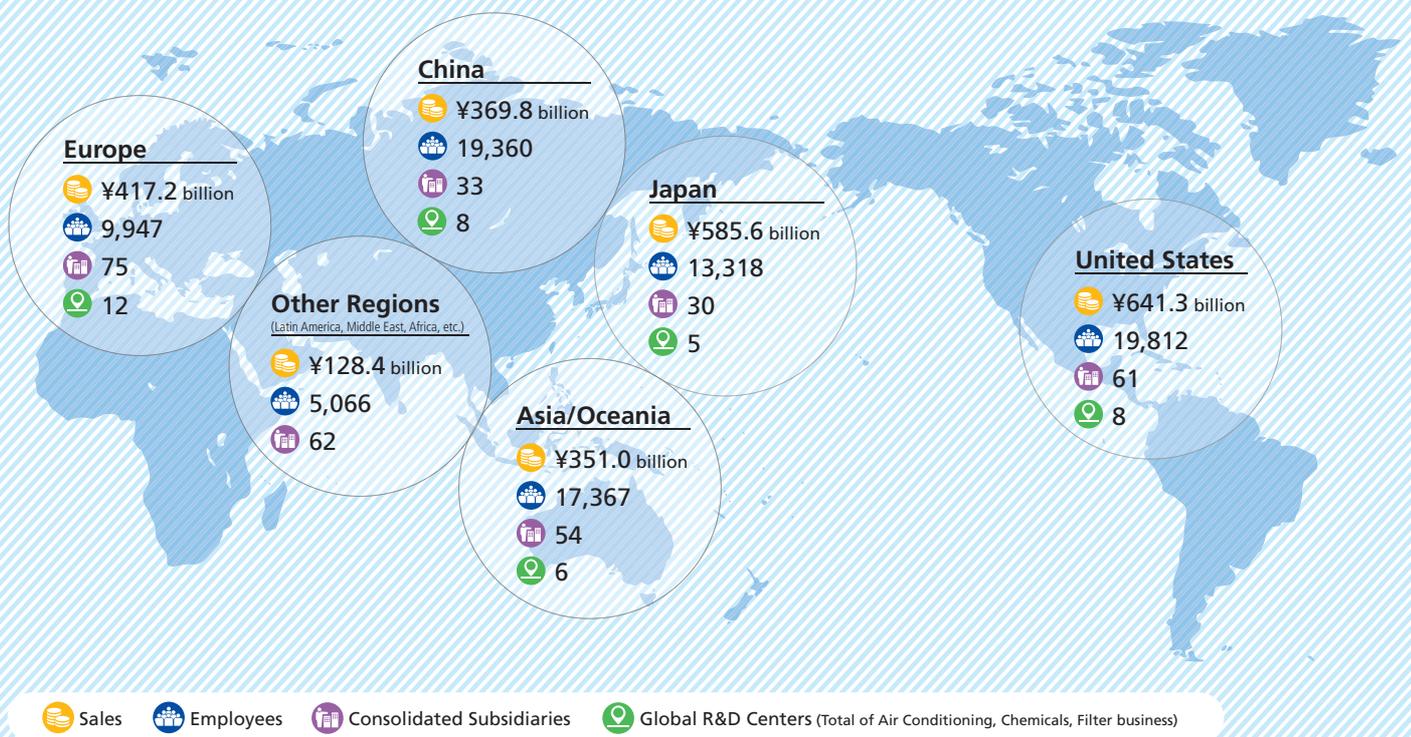
*⁴ TSR (Total Shareholder's Return): Factors in capital gains and dividends when measuring the total return generated by a stock
 Notes: TSR is calculated by Daikin using cumulative dividends and share price fluctuations whereas TOPIX is calculated using share prices indices including dividends (formulated by the Company based mainly on Bloomberg data)
 Graph values are indexed market prices in terms of TSR, with March 31, 2011 closing price data set at 100 (holding period through end-March 2021)

Overview of Global Development

Conducting business in more than 160 countries and regions, Daikin has built more than 100 production bases underpinned by market-localized production methods.

Employees: **84,870**

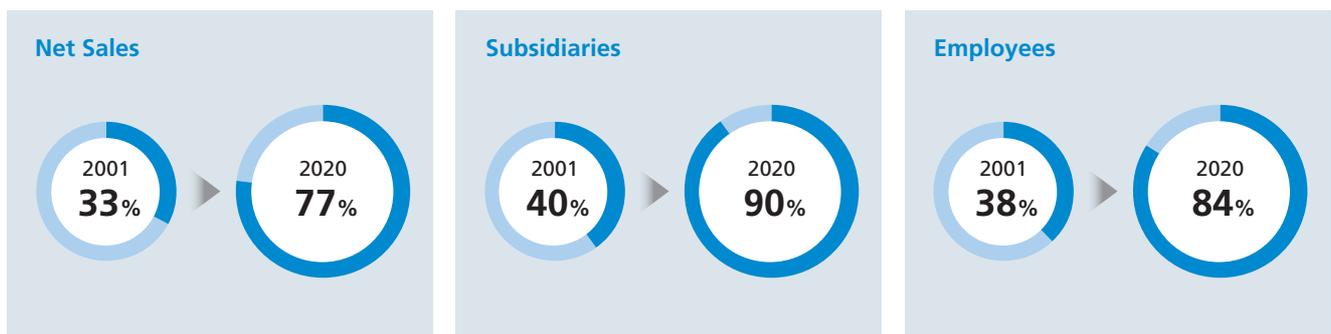
Consolidated Subsidiaries: **315**



Expansion of Global Business Foundation

Japan (light blue) Non-Japan (dark blue)

Note: Percentages in the center of each graph indicate the overseas ratio in domestic and overseas totals.





Air Conditioning

Japan

Business History

In 1951, Daikin launched Japan's first packaged air conditioner. Since then, we have pressed forward and diversified to provide air-conditioning systems that meet the needs of factories and ships, vehicles, buildings and residential housing. Daikin has

expanded its market share with a fine-tuned sales network and the pursuit of a broad lineup of high-value-added products that offer energy conservation and comfort.

Current status

Market Environment

The air-conditioning market in Japan is mature and anchored by replacement demand. In fiscal 2020, economic activity stagnated due to the spread of COVID-19 infections, and industry demand for commercial use fell. In contrast, demand for residential products exceeded the previous year due to pent-up demand and special cash payments, as well as the boost to sales caused by the intense summer heat.

Business Conditions

In the residential-use market, we heightened the appeal of our unique ventilation function and Streamer technology. Sales of high value-added products such as "Urusara X" increased. In the case of industry-use air-conditioning systems, we strengthened our system proposals, which combine air conditioners and ventilation products, and expanded our market share. For air purifiers, we expanded the product lineup, and sales grew significantly by capturing strong demand.

Production and Development Sites

In response to growing interest in indoor air quality (IAQ) and ventilation, we expanded our product lineup of room air conditioners, air purifiers, and heat reclaim ventilators. We also quickly boosted production capacity for air purifiers, for which demand has expanded rapidly.

Products and Services in Line with Needs

- "Urusara X" and "Urusara mini" room air conditioners equipped with ventilation functions
- The "Ururu Sarara Air Purifier" equipped with an antibacterial humidifying filter* developed by utilizing the antibacterial technology of Kobayashi Pharmaceutical Co., Ltd.
- Equipped with streamer technology, a UVC LED that irradiates deep ultraviolet rays and an antibacterial HEPA filter, the "UV Streamer Air Purifier" features improved virus and bacteria suppression performance
- "Air Navigation" and "Consultation Services" that address questions and issues relating to ventilation and IAQ

* Suppresses bacteria on the humidifying filter. Not effective against all bacteria.



UV Streamer Air Purifier

Outlook

Strategies for Fiscal 2021

In the residential-use market, we will expand sales of high-value-added products by strengthening promotion of ventilation and air purification functions within the reversal in demand. For cold regions, we will launch new products and attempt to further increase market share. For commercial-use products, we will expand sales based on a recovery in demand accompanying the resumption of economic activities. We intend to expand the lineup of heat reclaim ventilators and Streamer units, and increase sales. We will continue to expand sales of air purifiers for residential use and expand our lineup for commercial use as well.

FUSION25 Strategies

We will accelerate growth by building new sales models by utilizing digital technologies that capture changes in market conditions. We aim to establish a large-scale IAQ/ventilation business by, for example, launching new heat reclaim ventilator products suitable for renewal and retrofitting as well as by heightening the appeal of our unique ventilation function and streamer technology. In addition, we will enhance our solutions proposal capabilities by application and market, while developing solutions menus that meet diverse customer needs. Through such efforts, we aim to have the No. 1 share in all areas and markets. In addition, toward the realization of carbon neutrality, we will promote the switch of our "VRV" and chiller products to R32 refrigerant while aiming to build a scheme for the recovery, reclamation and destruction of refrigerants.

Air Conditioning

Americas

Business History

Daikin made its first attempt to enter the U.S., the world's largest air-conditioning market, in the 1980s. However, given the well-entrenched culture of ducted air conditioning, market entry proved difficult and a withdrawal was unavoidable. We subsequently revisited the idea of establishing a U.S. presence

during our advance to establish business globally, and in the 2000s, with the acquisition of the O.Y.L. Industries Bhd and Goodman Global Group, Inc., added ducted air-conditioning products to our lineup marking the start of full-fledged operations in the U.S.

Current status

Market Environment

The air-conditioning market in the U.S., having reached maturity, is based mainly on replacement demand. In fiscal 2021, government economic measures and strong personal spending bolstered the economy, and demand was steady in the housing market.

Business Conditions

In ducted unitary for houses, supply tightened due to a suspension of operations at the Goodman factory put in place in April to prevent the spread of COVID-19, and the subsequent impact of a shortage of manufacturing personnel. From the second half of the fiscal year, sales expanded with a normalization in supply, although full-year sales fell below those of the previous fiscal year. Ductless sales expanded in RA/SKY by capturing rising demand from the need for improvement in living spaces and higher demand due to favorable seasonal weather. For VRV systems, we strengthened our efforts at online sales activities, but were hit by lower demand from restaurants and other areas. In Applied Systems, we took advantage of ventilation needs and expanded our market share, primarily for air-handling units.

Production and Development Sites

We continue to strive to secure and stabilize manufacturing personnel at our Goodman factory, and our efforts to bolster production capacity and productivity remain ongoing. We are leveraging the latest production technology to bolster opera-

tions as a "digital factory," and to roll this out to production sites in other regions. Moreover, we are also enhancing product development to meet regional needs.

Products and Services in Line with Needs

- "FIT" Middle-zone (SEER* 15-17) inverter unitary
- "Daikin One" smart thermostat
- IAQ products, including high-performance filters, UV lighting, and ventilator equipment

* SEER: An acronym describing the Seasonal Energy Efficiency Ratio for cooling performance.



"FIT," inverter unitary product for the middle zone

Outlook

Strategies for Fiscal 2021

In ducted unitary for houses, we will focus on sales utilizing online tools and improving upon production capacity. We will introduce new products equipped with inverters specialized for replacement and expand sales. In ductless products, we will strengthen our sales network for "VRV" systems centering on the northeastern region. Staying a step ahead of the competition, in certain regions we will launch new room air conditioners that adopt R32 refrigerant, and pursue the market mainstreaming of R32. In Applied Systems, we will respond to differing application needs, and strengthen circular-type solution proposals, from sales and service of products to their replacement.

FUSION25 Strategies

Our goals for fiscal 2025 are to grow revenue up to the one-trillion-yen level and to become the No. 1 player in the North American air-conditioning market. In the residential-use market, bolstering Goodman's sales network will serve to expand our business in volume markets, and in tandem with this, will grow sales of premium residential-use products. In the light commercial domain as well, we will further strengthen sales of "VRV" and rooftop systems. In the Applied Systems market, we will bring together a team of specialists in key applications and market categories, and have full-scale development of the Solutions business. In addition, seizing upon environmental and energy efficiency regulations as a business chance, we will promote the spread of inverters, heat pumps and low-GWP refrigerants in the market.

China

Business History

Daikin entered the China market in the mid-1990s when there were already numerous Japanese air conditioner manufacturers with a presence there. Daikin, the latecomer, differentiated itself by applying its energy on establishing an image as a high-

end brand, and in building up its own dealer network. Moreover, we introduced ceiling-embedded indoor units and residential multi-split air conditioners in our efforts to create a new type of air-conditioning culture.

Current status

Market Environment

In addition to heading toward an early return to normal following COVID-19, the economy in China showed a recovery trend because of government economic policies and monetary easing.

Business Conditions

In addition to strengthening our lineup of IAQ and ventilation products, the needs for which are increasing, we promoted sales through the utilization of online tools, and sales exceeded those of the previous year. High profitability was maintained by cost reductions, including productivity improvements through automation, and reduction of fixed costs.

In the residential-use market, we focused on identifying new customers by online events and sales that used live broadcasts, and sales expanded for residential multi-split air conditioners. In the commercial market, we collaborated with major developers of large-scale projects and for stores and offices engaged in sales activities that promoted ventilation, cleaning, and disinfection.

Production and Development Sites

We are focusing efforts on deploying the latest technology and services, and putting the Internet to use, we are introducing services such as "Intelligent VRV," a system that offers centralized control of air conditioners, failure prediction and other services. We have also established a new Digital Innovation Center and are working on the development of web strategies, the construction of IT platforms, and big data analysis.

Products and Services in Line with Needs

- "New Life Multi" series for mid- to high-end residences allows simple selection and connectivity to not only air conditioners, but to floor heaters, bathroom dryers and others
- "Intelligent VRV" provides centralized control of air conditioners, failure prediction and other services via the Internet
- Compact heat reclaim ventilators and heat reclaim ventilators that are synchronized with IAQ sensors for homes
- AI utilized to analyze data collected by IAQ sensors to predict and notify CO₂ concentration levels



"New Life Multi" series for mid- to high-end residences

Outlook

Strategies for Fiscal 2021

Continuing to utilize online tools to promote sales, we will develop a web strategy to acquire customer information, such as building our own online site. Amid the growing interest in IAQ and energy management, we will also enhance our lineup of products and services. We will provide detailed solutions for each market and customer, including air conditioning, ventilation, and air quality improvement. In terms of production, we are promoting conversion to smart factories by building a system that can collect, store, and analyze a variety of data. We will work to improve productivity and quality.

FUSION25 Strategies

By combining offline activities, such as comprehensive customer centers and the New Life Station, with online sites and SNS, we will accelerate the shift to new business models. We will also integrate and analyze customer data by building our own IT platform and digitizing the content of contract negotiations to improve customer satisfaction and contract closing success rates. Furthermore, we will strengthen our proposals for air value centered on residential multi-split air conditioners and "VRV" while expanding our business in all markets. As the only global air-conditioning brand in China, we will create markets to achieve continuous growth.

Air Conditioning

Europe/The Middle East/Africa

Business History

Our presence in Europe started by establishing a production and sales base in Belgium in the early 1970s. We succeeded in bolstering sales in Italy, Spain, France, and other nations all across the EU, and the scale of our business grew rapidly. After

entering the 2000s, we also expanded into the Heating business and Refrigerator and Freezer business

Current status

Market Environment

In Europe, economic activities were stagnant due to lockdowns in countries across the region, but pent-up demand drove a return to brisk activity in the residential market. In addition, the Heating business benefited from strong demand together with incentives that worked to promote replacements of combustion-type heaters with heat-pump-type heaters.

Business Conditions

In the residential-use market, Daikin captured the recovery in demand in places such as France and Spain due to stable supply through localized production, and sales expanded. Widespread sales were even seen in Germany, the Netherlands, and Belgium. In the commercial-use market, system sales combining ventilation equipment such as heat reclaim ventilators strengthened, but a decline in demand at hotels, retail stores, and offices impacted results. In the Heating business, sales substantially increased by utilizing a wide product lineup of heat-pump-type heaters. We expanded market share by capitalizing on favorable demand resulting from rising environmental awareness and incentives. Applied Systems experienced strong sales of R32 chillers with high environmental performance.

Production and Development Sites

In Europe, which is highly environmentally conscious, we are taking the initiative to enhance our lineup with R32 models and refrigerant-saving models, staying a step ahead of competitors. We are also working on making heat-pump-type hot

water heating systems highly efficient, as they have experienced growing demand in recent years. In the Refrigerator and Freezer business, we continue to develop and launch products that set themselves apart with CO₂ refrigerant and other environmental measures.

Products and Services in Line with Needs

- R32 model lineup ahead of other companies via room air conditioners and “SkyAir”
- Room air conditioners equipped with a ventilation function
- “VRV L∞P” that uses recycled refrigerant
- “Daikin Altherma” heat-pump-type hot water heating system that leads to the suppression of greenhouse gas emissions
- One-stop system proposals that cover the entire cold chain, from food shipping to storage



Environmentally conscious, highly efficient, high-performance heat-pump heating

Outlook

Strategies for Fiscal 2021

In the residential use market, we will work to expand sales of high-value-added products by capturing the strong demand backed by continued investment for living environments. In the commercial-use market, we will strengthen sales to favorable areas such as IT infrastructure amid the slow recovery in demand. In the Heating business, we will strive to capture strong demand and increase market share by strengthening sales and marketing capabilities. In Applied Systems, we will enlarge the lineup of R32 chillers. In the Refrigerator and Freezer business, we intend to accelerate one-stop solution development to each market. We will enhance sales of environmentally conscious products using natural refrigerants such as CO₂ and propane.

FUSION25 Strategies

Daikin will strive to capture demand driven by raising environmental awareness and ongoing investments into living environments, and will launch and expand sales of differentiated products. Backed by the fair winds of the European Green Deal, together with substantially expanding the Heat Pump Heating business, we will also work in the refrigeration domain to bolster the business for one-stop solutions in stores, including for air conditioning and ventilation. In all the HVAC&R markets, we aim to be a solutions provider capable of responding with flexibility to customer needs as pertain to IAQ and energy. Moreover, we will also push forward on constructing a refrigerant eco-cycle (recovery, reclamation, destruction) among other initiatives that take the lead in environmentally conscious society and industry issues.

Business History

Daikin began product exports and knockdown production from the 1960s, and from the 1990s, strengthened its sales network in countries around the region and advanced the introduction of energy-conserving and cooling-only models tailored to

regional needs. From 2010 onward, air-conditioning demand soared in line with economic development, and Daikin reinforced its production capabilities with the establishment of plants in Thailand, India, Malaysia and Vietnam.

Current status

Market Environment

Asia is in the process of air-conditioning equipment adoption, making it a market for growth. However, the region took a substantial hit on the impact of falling demand and restrictions on activities on account of the spread of COVID-19. In Oceania, having succeeded in containing COVID-19 expansion, demand was brisk.

Business Conditions

As countries around the Asian region felt the effects of curtailed activities, we promoted dealer support by utilizing online tools. Inventories were strategically held, and sales significantly recovered from the second half, but the results could not compensate for the large decrease of the first half, and sales declined year on year. On another front, in Oceania, sales expanded based on strong demand, and sales exceeded the previous year.

In the residential-use market, we promoted sales utilizing our own dealer sales channels, together with endeavoring to strengthen relationships with dealers using such activities as online training. In commercial use, we focused on sales for public facilities, but sales declined due to sluggish capital investment on account of the economic downturn, delays in start of construction work due to insufficient workers at construction sites, and postponement of construction.

Production and Development Sites

In addition to cooling-only inverter air conditioners, we actively develop products that meet the needs of particular regions, such as air conditioners that can stand up to the over-50-degree heat of India, and air conditioners that can cool multiple rooms with the limited power supplies of Indonesia.

Products and Services in Line with Needs

- Cooling-only inverter air conditioners that strengthen cost competitiveness
- Air conditioners that can operate in oppressive outside temperatures and that can be transported over bad roads
- Air conditioners that stand up to unstable power supply situations



Dealer in India, where demand for air conditioning is growing

Outlook

Strategies for Fiscal 2021

As the impact of the COVID-19 pandemic remains in Asia, we aim to improve the percentage of inverter use by strengthening development sales network in regional cities and sales activities utilizing online tools. In the residential-use market where signs of recovery in demand are being seen, we will expand sales of high-value-added products by promoting air quality improvement. In the commercial-use market, the focus is on sales for public facilities where demand is anticipated because of government economic measures. In Applied Systems, we will aim to expand sales by improving the service network and strengthening product capabilities.

FUSION25 Strategies

Together with building out our sales network and product lineup in the Asian region, a market anticipated to experience further growth, we will work to boost cost competitiveness and to grow revenue streams. We also seek to increase sales of products with high environmental performance, and that lead the market in terms of adoption of inverters and R32 refrigerant. In the future, we aim to establish India as a major base, while working to further fortify a top sales share and to realize the No. 1 share in room air conditioning. Moreover, we will strengthen ties between production sites, and in addition to optimizing production throughout the region, will commence production of air purifiers in the region while endeavoring at market creation.



Chemicals

Current status

Although affected by reduced demand in the automotive market, there were increased sales of surface antifouling agents for tablet PCs due to the spread of remote working and of the repellent agents used in medical protective clothing.

Market Environment

Although we strengthened sales activities for semiconductors where the market is showing signs of a recovery as well as for surface anti-fouling coating agents and water and oil repellent agents, the impact of decreased demand due to COVID-19 was substantial. In the Chemicals segment overall net sales declined over the previous fiscal year.

Business Conditions

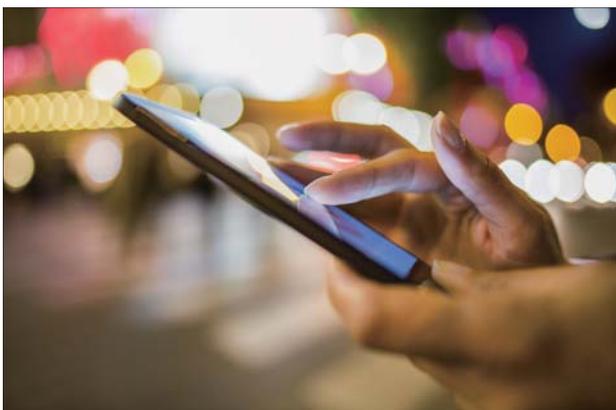
In fiscal 2020, amid the ongoing global spread of COVID-19 infections, Daikin was able to take thorough measures against infection and continue operations at all its production bases in Japan and overseas. We also worked to secure points of contact with our customers, for example by utilizing online tools to develop sales activities.

By product, sales of fluorocarbon gas dropped worldwide due to a decrease in demand, causing sales to fall against the previous fiscal year.

Fluoropolymers showed an increase in sales for infrastructure in China, but in addition to a decrease in first-half demand for

semiconductor and automotive markets, sales declined due in part to a drop in construction and aircraft-related demand in the United States. Fluoroelastomers saw sales expand to the automotive market in China, but other regions were significantly affected by a decrease in demand, causing sales to fall against the previous fiscal year.

In fine chemicals, sales of surface antifouling agents focused on tablet PCs, and sales expanded in China and Japan. Sales of water and oil repellent agents grew for medical-related and paper applications. Sales of etching gas expanded in China and Japan by capturing demand in the recovery for the semiconductor market.



"OPTOOL" anti-smudge coating used for the surfaces of information devices



"UNIDYNE" realizes non-woven fabrics with excellent water repellency and alcohol resistance

Outlook

In addition to expanding sales to the semiconductor and automotive markets, Daikin will implement upfront investments, such as increasing production capacity in preparation for future increases in demand.

Targets

Daikin will strengthen the development of lithium-ion battery materials for next-generation automobiles, demand for which is expected to grow in the years to come, and applications in the information and communications fields, while aiming to accelerate further sales expansion and measures designed to increase market share. We will also promote upfront investments to meet the increasing demand in the semiconductor market.

Strategies for Fiscal 2021

In the semiconductor market, where demand is expected to recover, Daikin will work to expand sales and increase market share, and capture the movement toward domestic production in China. In the automotive market, we are expanding sales of environmentally conscious products such as rubber for high-efficiency engines. In the information devices market, we will strengthen spec-in activities for repellents for tablet PCs. We will also strengthen spec-in activities for lithium-ion battery materials and accelerate the process for producing results from application developments.

In Japan, Daikin established the Integrated Production Center at its Kashima Plant in April 2021, thereby bringing to fruition a

high-quality, highly efficient production plant that utilizes IT. In preparation for future increases in semiconductor demand, we will also steadily implement upfront investments, such as expanding a fluoropolymer manufacturing plant in China.

FUSION25 Strategies

In addition to the accelerating movement toward the realization of a carbon-free society, such as the setting of penetration rate targets for EVs in each region of the world, the business environment is changing faster than expected, as evidenced by, for example, the movement of non-fluorination becoming apparent in food and apparel applications. Taking these changes as an opportunity to expand our business, we will implement a variety of measures ahead of our competitors. In addition to accelerating the creation of results centered on four key markets (semiconductors, automotive, information communications, and information devices) in applications development, Daikin will also develop and expand sales of highly functional, non-fluorine materials for further business expansion. We will also aggressively implement upfront investments, such as increasing production capacity, in preparation for growth in demand in the coming years.



Fluorine materials contribute to the higher performance of lithium-ion batteries



The Integrated Production Center at the Company's Kashima Plant aims to improve quality and productivity by integrating all of its people, organizations, and information



Oil Hydraulics

Current status

Significantly impacted by the spread of COVID-19, a harsh business environment

Market Environment

Demand for hydraulic equipment for industrial machinery declined as a result of stagnant capital investments. In hydraulic equipment for construction and vehicles, demand declined primarily in Japan, Europe, and the United States, triggered by the spread of COVID-19.

Business Conditions

The Oil Hydraulics business comprises a range of oil hydraulic equipment to facilitate the smooth movement of various types of machinery, contributing to energy efficiency. Amid the slow-down in capital investment caused by the spread of COVID-19, in fiscal 2021 Daikin strengthened cooperation with its dealers in each market and worked to secure sales of oil hydraulic equipment for industrial machinery. In the Hydrostatic Transmissions (HST) business, we captured demand for agricul-

tural machinery in China and strengthened profitability by reviewing procurement and improving productivity.



Comprising a piston pump and motor developed for small vehicles, an integrated, medium-duty hydraulic transmission

Outlook

Expand sales of high-efficiency products by capturing growing momentum for energy saving toward the elimination of carbon emissions

Targets

In its sales of oil hydraulic equipment for industrial machinery, Daikin will promote proposal sales by maintaining close contacts with its customers while aiming to increase its market share. We will make a full-scale entry into the European market and accelerate our global expansion. In the HST business, we will launch differentiated products mainly in the United States and China, and strengthen spec-in activities.

Strategies for Fiscal 2021

In its sales of oil hydraulic equipment for industrial machinery, Daikin will promote the development of dealers toward its full-scale entry into the European market. In Japan, we will respond to growing remote monitoring needs brought by the spread of COVID-19 infections. We will introduce new products equipped with sensors and communication functions, and work to increase our market share. In the HST business, we will strengthen spec-in activities centered on small-sized construction machinery in the United States and agricultural machinery in China, both markets where strong demand is expected.

FUSION25 Strategies

In response to the growing momentum for energy saving toward the elimination of carbon emissions, Daikin will expand its lineup of high-efficiency products that utilize the technological capabilities cultivated so far. For industrial machinery, we will expand our Solutions business in the United States and improve profitability in China and other Asian countries. In addition, we will make a full-scale entry into the European market centered on Germany and accelerate global business expansion. In the HST business, we will strengthen customer-oriented proposal sales in Japan and introduce highly efficient and durable differentiated products for small construction machinery in the United States to increase our market share.



Defense

Current status

Sales of oxygen concentrators and pulse oximeters were favorable

Market Environment

To secure more hospital beds for patients infected with COVID-19, the switch to home treatment for inpatients with respiratory diseases progressed, and demand for oxygen concentrators remained firm. Also, there was an improved level of awareness toward pulse oximeters, which measure oxygen saturation in the blood without collecting blood.

Business Conditions

In the Defense Systems business, Daikin obtains orders from Japan's Ministry of Defense based on the defense budget, while designing and manufacturing products. The products supplied include various types of ordnance used for drills, and aircraft parts. Daikin also manufactures and sells home-use oxygen therapy equipment. Daikin provides respiration synchronizers and oxygen concentrators, products that require the highest levels of reliability, performance, functionality, and quality.

In fiscal 2020, Daikin captured the demand from the switch to home treatment for hospital inpatients and the demand for medical facilities for people infected with COVID-19, causing sales of oxygen concentrators to increase against the previous fiscal year. Sales to the Ministry of Defense having decreased, as a result the Defense Systems business as a whole fell below the previous year's level, but profits increased.



Pulse oximeters can easily measure cardiopulmonary function

Outlook

In addition to expanding sales of home-use oxygen therapy equipment, Daikin will take on the challenge of expanding its business into the healthcare domain

Targets

We aim to increase our market share by expanding sales of differentiated products for the home-use oxygen therapy equipment market.

Strategies for Fiscal 2021

In the medical/healthcare domain, Daikin will work to expand sales of differentiated products that meet customer needs. We will strengthen our sales capabilities and expand sales by expanding the lineup and the durability as well as reliability of the items of equipment that represent our strengths. In China, we will widely promote our strengths and expand sales by utilizing e-commerce and other means.

FUSION25 Strategies

In the field of home-use oxygen therapy equipment, Daikin will introduce differentiated products mainly in Japan and China and work to increase its market share. In response to growing interest in preventive medicine, we will start full-scale business development in the healthcare domain. Utilizing the oxygen control technology cultivated in the development and production of our home-use oxygen therapy equipment, we will sell equipment for hypoxic training. Utilizing vital data acquired through devices, we also aim to develop new services that will lead to the promotion of health in our daily lives.

Corporate Governance

Basic Policy of Corporate Governance

The Daikin Group strives to raise corporate value through corporate governance. We carry out decision-making with foresight, as well as by executing business with greater speed, transparency, and soundness in response to 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. In this way, we fulfill our responsibility for management, making strategic decisions quickly and providing appropriate supervision. We also improve the monitoring function conducted by third parties, including multiple external directors.

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

Regarding Japan's Corporate Governance Code set by the Tokyo Stock Exchange, Daikin has already implemented all the principles contained in the revisions of June 1, 2018, including "enhancing information disclosure," "maintaining the effectiveness of the Board of Directors and the Audit and Supervisory Board," "defining roles and responsibilities of independent external directors," and "the policy of having constructive dialogue with shareholders." Going forward, Daikin will continue to enhance these initiatives.

Management and Operational Execution System

Rather than adopting a U.S.-style "committee system" that completely separates decision making and business oversight from operational execution, the Daikin Group has adopted an "integrated management system" in its aim to promote a higher level of management, in view of the special characteristics of the Group's business and in judging that this is a more-effective means of accelerating decision making and operational execution. "Integrated management" means that the directors jointly take charge of both management responsibilities and business execution responsibilities.

Directors also bear responsibility for the execution and completion of their own decisions by carrying out their decision making, business execution, and supervision/guidance in an "integrated" manner. The multiple external directors provide monitoring of the status of business execution from an independent perspective and take responsibility to support "integrated management" from the standpoint of transparency and integrity by offering appropriate oversight and advice with regard to decision making. In addition, the Group has introduced an "executive officer system" to accelerate the speed of execution based on autonomous judgments and directions in units handling each region, division, and function. Appointments of executive officers are carried out by the Board of Directors.

Appointment of Directors

When appointing directors, the Daikin Group gives emphasis to factors ranging from the globalization of the Group's businesses and the broadening of its business fields to a diverse range of background factors, such as nationality, gender, and career history.

As of the end of June 2021, there were 11 directors (including one female and one non-Japanese directors) who carry out expeditious and strategic decision making as well as sound oversight and guidance throughout the Group.

Daikin's Board of Directors includes four external directors (as of the end of June 2021), conditional upon them not having a conflict of interest with the Company. Daikin seeks external directors that can provide oversight and advice from a high-level perspective based on a wealth of experience and deep insight. Accordingly, Daikin appoints external directors with business experience, mainly as directors at listed companies, and that do not hold concurrent external director positions at five or more companies.

To ensure that the external directors can effectively contribute to Daikin's corporate governance system, assistants to the external directors are assigned in the Company. They strive to provide the external directors with information, early notice of Board of Directors meetings, and prior notice of Board of Directors meeting agenda items, as well as implementing prior explanations of particularly important agenda items. In addition, when external directors are unable to attend a Board of Directors meeting, the assistants provide them with related materials and subsequent explanations of meeting proceedings.

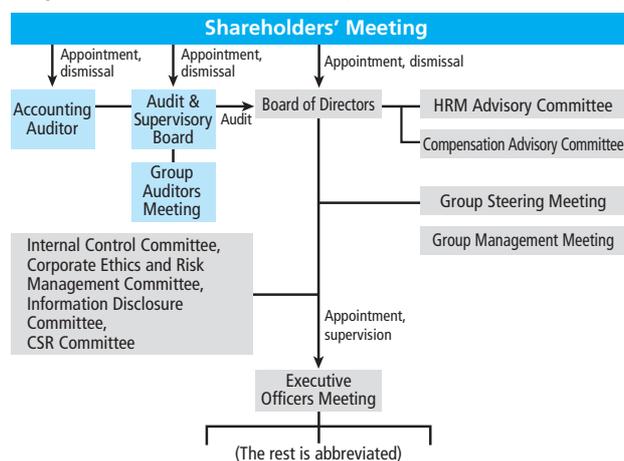
Audit System

Daikin employs an Audit and Supervisory Board System and has established the Audit and Supervisory Board. As of the end of June 2021, Daikin's four Audit and Supervisory Board members included two external Audit and Supervisory Board members. 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 conflict of interest with the Company.

Audit and Supervisory Board members attend meetings of the Board of Directors, as well as other important meetings, and receive reports. In addition, they can 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 accounting auditors. In addition, the Audit and Supervisory Board Member Office has been established, and the staff perform their duties under the orders and direction of Audit and Supervisory Board members. The opinions of the Audit and Supervisory Board are respected on matters related to personnel transfers, work evaluations, and other matters pertaining to Audit and Supervisory Board Member Office staff.

Corporate Governance Structure (as of the end of June 2021)



Agile Management Support System

Daikin's three main management bodies are the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting and by keeping the number of directors at a minimum they secure expeditious decision making based on substantial discussion.

The Board of Directors, along with providing healthy business execution and appropriate supervision and guidance, is the decision-making institution for all matters related to the Group as a whole, as stipulated by laws and regulations as well as the Company's Articles of Incorporation, and for other important management matters. In fiscal 2020, the Board of Directors met 15 times, and the average attendance rates of external directors and

external Audit and Supervisory Board members at those meetings were 91% and 100%, respectively.

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction for important management guidelines and management strategies in a rapid and timely manner thereby accelerating the pace at which issues are resolved. In fiscal 2020, the Group Steering Meeting was held six times.

The Executive Officers Meeting was established as a place where we can expedite thorough deliberations and prompt implementation of important management issues, and it met 20 times in fiscal 2020.

In addition, to respect and protect the interests of diverse stakeholders other than stockholders, Daikin has, based on the Board of Directors, established its Internal Control Committee, Corporate Ethics and Risk Management Committee, Information Disclosure Committee, and CSR Committee.

Evaluation of the Effectiveness of the Board of Directors

Daikin analyzes the effectiveness and appropriateness of the Board of Directors and the corporate governance system through interviews with the directors and Audit and Supervisory Board members and deliberations by the Board of Directors. The Board of Directors of the Company is assessed as "making appropriate decisions through open and active discussions, and playing an effective role in enhancing corporate value over the medium to long term." We will continue to improve Board effectiveness, as well as engage in other initiatives, including discussions of cross-Group strategies and issues and enhanced reports of the status of business execution.

Corporate Officer Remuneration

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including corporate officer nomination criteria, candidates, and remuneration. As of July 2021, both committees comprised six members, including four external directors, one in-house director, and one executive officer in charge of personnel, with the committee chairman being chosen from the external directors.

The Compensation Advisory Committee reports its opinion to the Chairman of the Board of Directors within the maximum limit authorized at the Annual General Meeting of Shareholders, and the Chairman of the Board of Directors determines the remuneration of directors after receiving approval to reappointment from the Board of Directors. Remuneration for Audit and Supervisory Board members is determined through discussions among Audit and Supervisory Board members within the maximum limit determined by a resolution at the Annual General Meeting of Shareholders.

In response to the expectations of shareholders and in accordance with management policy, officer compensation is structured to motivate officers to continuously improve their performance over the medium to long term, and to contribute to increasing the value of the entire Group. Compensation for directors, excluding external directors, consists of fixed compensation, performance-linked remuneration that reflects short-term Group performance and the performance of the division in which a director is in charge, and stock compensation-type stock options that reflect medium- to long-term performance. In addition, the performance-linked ratio is set higher than the market rate to ensure sufficient incentives for performance improvement. External directors and Audit and Supervisory Board members receive fixed compensation only.

Daikin determines compensation levels based on the relative position of its performance and remuneration levels compared to other leading manufacturing companies in Japan after reviewing objective data from a specialized external institution on the remuneration of corporate officers active in approximately 300 Japanese

companies listed on the First Section of the Tokyo Stock Exchange. In specific terms, the three indices used by the Company are the sales growth rate, operating income margin and ROE, as well as the medium-to-long term increase in corporate value.

Regarding performance-linked compensation for directors other than external directors, three performance-linked indicators by which to assess Companywide performance: net sales, operating income margin, and operating income have been selected. These indicators have a clear and mutual relation to Daikin Industries' numerical management targets. Further, these indicators facilitate comparison with the performance of other companies in the industry. Net sales and operating income margin are calculated according to single-year performance versus budget. Operating income is calculated according to growth linked to medium- and long-term management plans.

Performance-linked compensation for the chairman and president uses a performance-linked coefficient derived from Companywide performance-linked indicators. Performance-linked compensation for directors other than the chairman or president is determined using a performance-linked coefficient derived from Companywide performance-linked indicators, adjusted by single-year performance versus budget for net sales and operating income for their respective divisions (serving as indicators that represent the targets of the work that each division carries out daily) and individual priority initiatives carried out over the short, medium, and long term.

The number of compensatory stock options paid to directors excluding external directors is determined each fiscal year by dividing a sum determined by taking into account the status and results of each individual's efforts on short-term, medium- and long-term priority issues in the previous fiscal year and that is based upon the standard for each position, by the average closing price of the most recent share price. These are exercisable from three to 12 years after the date of grant.

Total Compensation for Directors and Audit and Supervisory Board Members (Fiscal 2020)

Position	Total Compensation (Millions of yen)	Total of different types of compensation (Millions of yen)			Persons paid
		Fixed compensation	Stock Options	Performance-linked compensation	
Directors (excluding external directors)	1,217	518	178	520	8
Audit and Supervisory Board Members (excluding external Audit & Supervisory Board members)	70	70	—	—	2
External Corporate Officers	92	92	—	—	6

Accounting Auditor Compensation (Fiscal 2020)

Auditing expenses	250 million yen
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Group-Wide Governance

To meet governance needs on a Groupwide basis, including companies acquired through M&A, Daikin holds meetings of the Group Steering Meeting to ensure the thorough sharing of important management policies and basic strategies. Moreover, Daikin aims for corporate action based on unified Group objectives by promoting and strengthening support for the resolution of challenges of Group companies. In addition, to strengthen Group-based auditing and supervisory functions, Daikin is working to enhance its management at the Group Auditors Meetings, which comprise audit managers from major Group companies. From the perspective of further strengthening corporate governance and Group management as a multinational company, Daikin has appointed a Chief Global Group Officer, who works to further improve the Group's cohesiveness.

External Director/Audit and Supervisory Board Members' Principal Activities

Name	Position	Principal Activities
Chiyono Terada	External Director	Ms. Terada attended 14 of the 15 Board of Directors meetings held during fiscal 2020. Based on her abundant experience in management and high-level insight, she can provide appropriate supervision of the Company's management from an independent perspective; provides management with the consumers' point of view, including the importance of the Company's corporate brand; and makes proactive proposals for measures to further promote achievements of female employees.
Tatsuo Kawada		Mr. Kawada attended 13 of the 15 Board of Directors meetings held during fiscal 2020. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of the Company's management from an independent perspective and actively provides suggestions from his broad and sophisticated perspective regarding changes in business models, innovation, and other matters.
Akiji Makino		Mr. Makino attended 14 of the 15 Board of Directors meetings held during fiscal 2020. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of the Company's management from an independent perspective and actively provides suggestions from his broad and sophisticated perspective regarding matters in the fields of energy, environment, and service businesses.
Shingo Torii		Mr. Torii attended 12 of the 13 Board of Directors meetings (held since appointment) during fiscal 2020. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of the Company's management from an independent perspective and actively provides suggestions from his broad and sophisticated perspective, including views on corporate management for proactively capturing customer needs and enhancement of corporate value through ESG activities.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano attended 15 of the 15 Board of Directors meetings held and 15 of the 15 Board of Auditors meetings held during fiscal 2020. Based on his abundant experience in management and high-level insight, particularly from his broad and sophisticated perspective developed over many years of experience in business overseas, he provides the necessary input in a timely fashion.
Toru Nagashima		Mr. Nagashima attended 15 of the 15 Board of Directors meetings held and 15 of the 15 Board of Auditors meetings held during fiscal 2020. Based on his abundant experience in management and high-level insight, he provides the necessary input in a timely fashion based especially on his broad and sophisticated perspective developed through experience in the management of global companies and manufacturing enterprises.

Reasons for Election as External Director/Audit and Supervisory Board Member

Name	Position	Reasons for Election
Tatsuo Kawada	External Director	Mr. Kawada has served as Chairman and CEO of Seiren Co., Ltd., and has abundant experience and high-level insight as a corporate manager. Mr. Kawada was elected as external director to make use of this experience and to provide appropriate supervision of the conduct of management from an independent perspective, and, by offering proposals in relation to the overall management of the Company from his broad and sophisticated perspective, including views related to changing business models and innovation creation, to contribute to increasing Daikin's corporate value.
Akiji Makino		Mr. Makino has served as Chairman and CEO of Iwatani Corporation and has abundant experience and deep insight as a corporate manager. Mr. Makino was elected as external director to draw on this background and experience to provide appropriate supervision of the conduct of management from an independent point of view, and, by offering proposals regarding management from his broad and sophisticated perspective, including views related to the fields of energy and environment as well as the services business, to contribute to increasing Daikin's corporate value.
Shingo Torii		Mr. Torii has served as Representative Director and Vice Chairman of the Board of Suntory Holdings Limited and has abundant experience and deep insight as a corporate manager. Mr. Torii was elected as external director to draw on this background and experience to provide appropriate supervision of the conduct of management from an independent point of view, and, by offering proposals regarding management from his broad and sophisticated perspective, including views regarding corporate management that anticipates customer needs and improving corporate value through ESG activities, to contribute to increasing Daikin's corporate value.
Yuko Arai		Ms. Arai has served as Director and Senior Vice President of ANA Akindo Co., Ltd., and has abundant experience and deep insight as a corporate manager. Ms. Arai was elected as external director to apply her experience to provide appropriate supervision of the conduct of management from an independent standpoint, and, by offering proposals regarding overall management from her broad and sophisticated perspective, including views on corporate management from customers' perspectives and promotion of further participation by female employees, to contribute to increasing Daikin's corporate value.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano has served as Chief Advisor (former Representative Director) at Sumitomo Forestry Co., Ltd., and has abundant experience and deep insight as a corporate manager. Mr. Yano carries out his duties from a broad and sophisticated perspective cultivated, in particular, from his wealth of overseas business experience. Mr. Yano was elected as external auditor to draw on his experience to supervise overall management at Daikin and to significantly upgrade the appropriateness of the audit function.
Toru Nagashima		Mr. Nagashima has served as Honorary Advisor (former Representative Director) at Teijin Limited, and has abundant experience and high-level insight as a corporate manager, particularly in the field of implementing paradigm shifts from manufacturing products to creating services. Mr. Nagashima was elected as external auditor to draw on his experience to supervise overall management at Daikin and to significantly upgrade the appropriateness of the audit function.

Note: All of the Company's external directors and external auditors meet the qualifications for independence established by the Tokyo Stock Exchange

Message from the External Director

The Daikin Group strives to raise corporate value through corporate governance. We carry out decision-making with foresight, as well as by executing business with greater speed, transparency, and soundness in response to challenges and changes in the business environment.

This year we spoke with Tatsuo Kawada, one of the Group's external directors, about his thoughts on the characteristics of Daikin's Board of Directors and his expectations for the strategic management plan "FUSION 25."

“Open and Active Discussions Unique to Daikin”

Tatsuo Kawada
External Director

Tatsuo Kawada is the Chairman of Seiren Co., Ltd. During his many years as manager of this comprehensive textile manufacturer, he has succeeded in changing the company's business model, creating innovation, and transforming the corporate culture. He has abundant experience and a high level of insight as a corporate manager. He has served as an external director of the Group since 2016.



Characteristics and Effectiveness of the Board of Directors

I feel that the Group's Board of Directors is committed to appropriate decision-making through open and active discussions based on the concept of "integrated management." Under this concept, the Board members assume responsibility for both business execution and management, where they fulfill these responsibilities by coordinating on all aspects of management through rapid strategic decision-making and through sound, appropriate supervision.

My most important mission as an external director is to verify and ensure that decisions made by the Board of Directors are without question appropriate and relevant. In addition to sharing an outline of the agenda with the external directors prior to each Board meeting, the Group provides explanations on particularly important items ahead of time, which allows me to further deepen my understanding of these issues. Moreover, I feel that the meetings are extremely open because the Board's chairperson directs the proceedings in a manner that always provides an opportunity for participants to comment.

As a global corporation, the way in which the Group broadcasts its environmental initiatives will also become extremely important in the future. Although the Board of Directors has already decided to endorse the TCFD and is investigating specific measures to reduce greenhouse gas emissions in each business, I believe the Board of Directors will become more effective as it continues to discuss CSR and SDGs activities in a manner that includes goals.

And as a Global Excellent Company, I look forward to the Board of Directors becoming increasingly engaged through more expansive deliberations on cross-Group strategies and issues, as well as through more detailed reports on addressing risk, for example.

Strategic Management Plan "FUSION 25"

"FUSION 25" illustrates the Group's growth strategies in terms of both financial and non-financial aspects, including "Challenge to Achieve Carbon Neutrality," "Promotion of Solutions Business Connected with Customers," and "Creating Value with Air." I also believe the Plan is extremely clear in conveying its intent to solve social problems in light of the COVID-19 pandemic while growing the business, and therefore expect to see the Group achieve sustained growth and development into the future.

In contrast to Japan with its declining population, developing countries in Southeast Asia and other regions, as well as Africa, are likely to see further growth in the air-conditioning market. However, I felt, and therefore pointed out, that the Plan contained too few descriptions of specific initiatives regarding the strategy for developing countries and Africa during the formulation and review stages. Ultimately, in addition to covering the establishment of a dominant position in regions with existing business operations, the Plan mentioned strengthening the foundation in developing countries and Africa, so I expect to see specific developments here.

Along with the recent manifestation of industrial competition and trade competition between nations, I have also come to recognize the importance of increasing the Group's risk sensitivity as a global company and of reflecting this in medium-term planning, so I intend to monitor future developments in this area.

Corporate Officers

As of end of June 2021

Directors



Noriyuki Inoue

Chairman of the Board and Chief Global Group Officer

Date of Birth March 17, 1935

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)

Number of the Company shares owned 67,700

Significant Concurrent Posts

External Director of Hankyu Hanshin Holdings, Inc.
 Chairman of The Daikin Foundation for Contemporary Arts
 Chairman of Specified Nonprofit Corporation of Kansai Philharmonic Orchestra



Masanori Togawa

Representative Director, President and CEO

Date of Birth January 11, 1949

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 Advisory Committee of the Company (Current position), Member of the 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)

July 2016 Chairman of the Internal Control Committee of the Company (Current position)

Number of the Company shares owned 10,300

Responsibilities and Assigned Items

Chairman of the Internal Control Committee



Tatsuo Kawada

Member of the Board (External)

Date of Birth January 27, 1940

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)
 June 2016 Director of the Company (Current position)

July 2016 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)

Number of the Company shares owned —

Significant Concurrent Posts

Chairman and CEO of Seiren Co., Ltd.
 External Director of Hokuriku Electric Power Company
 External Director of FUJIFILM Holdings Corporation



Akiji Makino

Member of the Board (External)

Date of Birth September 14, 1941

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
 June 2016 Director of the Company (Current position)
 July 2016 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)

April 2019 Chairman and CEO of Iwatani Corporation (Current position)

Number of the Company shares owned 2,000

Significant Concurrent Posts

Chairman and CEO 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



Shingo Torii

Member of the Board (External)

Date of Birth January 18, 1953

April 1980 Entered ITOCHU Corporation

June 1983 Entered Suntory Limited (Currently, Suntory Holdings Limited)

March 1992 Director of the above company

March 1999 Managing Director of the above company

March 2001 Representative Director and Senior Managing Executive Officer of the above company

March 2003 Representative Director and Executive Vice President of the above company

October 2014 Representative Director and Vice Chairman of the Board of the above company (Current position)

June 2020 Director of the Company (Current position)

July 2020 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)

Number of the Company shares owned 1,000

Significant Concurrent Posts

Representative Director and Vice Chairman of the Board of Suntory Holdings Limited

External Director of ROHTO Pharmaceutical Co., Ltd.

Outside Director of Zojirushi Corporation



Yuko Arai

Member of the Board (External)

Date of Birth January 27, 1961

April 1979 Entered ALL NIPPON AIRWAYS CO., LTD.

April 2014 Corporate Executive Officer of the above company

April 2016 Senior Executive Officer of the above company Director and Senior Vice President of ANA Sales Co., Ltd. (Currently, ANA Akindo Co., Ltd.)

April 2021 Director and Senior Vice President of ANA Akindo Co., Ltd. (Current Position)

June 2021 Director of the Company (Current position)

Number of the Company shares owned —

Significant Concurrent Posts

Director and Senior Vice President of ANA Akindo Co., Ltd.

Outside Director of Aichi Steel Corporation



Ken Tayano

Representative Director, Senior Executive Officer

Date of Birth January 12, 1947

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

May 2009 Chairman of the Board and President of Daikin (China) Investment Co., Ltd.

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.

June 2021 Chairman of the Board of Daikin (China) Investment Co., Ltd. (Current position)

Number of the Company shares owned 5,300

Responsibilities and Assigned Items

Responsible for Air Conditioning Business in Japan, Representative of China Business, Chairman of the Board and President of Daikin (China) Investment Co., Ltd.,



Masatsugu Minaka

Member of the Board, Senior Executive Officer

Date of Birth July 9, 1953

October 1983 Entered the Company

July 2005 Director and President of Daikin Europe N.V.

June 2007 Associate Officer of the Company, Member of Global Air-Conditioning Committee of the Company

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

June 2018 Representative of Air Conditioning in Europe, the Middle East and Africa (excluding East Africa) of the Company

June 2021 Representative of Europe, the Middle East and Africa of the Company (Current position), Chairman of the Board of Daikin Europe N.V. (Current position)

Number of the Company shares owned 10,100

Responsibilities and Assigned Items

Representative of Europe, the Middle East and Africa of the Company

Chairman of the Board of Daikin Europe N.V.

Corporate Officers



Takashi Matsuzaki

Member of the Board, Senior Executive Officer

Date of Birth December 23, 1958

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

June 2015 In charge of R&D in North America (including applied solutions, commercial & industrial refrigeration, filter and dust collection) of the Company

June 2017 In charge of R&D in North America of the Company (Current position), in charge of Applied R&D Center of the Company (Current position), General Manager of Silicon Valley Technology Office of the Company

June 2018 Senior Executive Officer of the Company, in charge of Applied Solution Business of the Company (Current position), in charge of Daikin Open Innovation Lab Silicon Valley of the Company (Current position)

June 2019 Senior Executive Officer of the Company

June 2020 Director and Senior Executive Officer of the Company (Current position)

Number of the Company shares owned 8,000

Responsibilities and Assigned Items

Responsible for Applied Solution Business, R&D in North America, Applied R&D Center, Daikin Open Innovation Lab Silicon Valley



Yoshihiro Mineno

Member of the Board, Senior Executive Officer

Date of Birth May 14, 1953

September 1978 Entered the Company

May 2010 General Manager of Global Operations Division of the Company

June 2012 Executive Officer of the Company

June 2016 Senior Executive Officer of the Company, Director of Goodman Global Group, Inc. (Current position), Director of Daikin Holdings (Houston), Inc. (Current position)

June 2019 Senior Executive Officer of the Company, in charge of filter business of the Company (Current position), in charge of training of the Company (Current position)

June 2021 Director and Senior Executive Officer (Current position), in charge of Global Operations Division of the Company (Current position)

Number of the Company shares owned 6,500

Responsibilities and Assigned Items

Responsible for Global Operations Division, filter business, training, Director of Goodman Global Group, Inc. (non-resident), Director of Daikin Holdings (Houston), Inc. (non-resident)



Kanwal Jeet Jawa

Member of the Board and Senior Associate Officer

Date of Birth November 10, 1959

1997 Regional Director (Asia Pacific) of Carrier Aircon Limited

2001 Regional Vice President (North&East) of Voltas Limited

2005 Senior Vice President of the above company

2006 Managing Director of Uniflair India Pvt. Ltd.

May 2010 Deputy Managing Director & COO of Daikin Airconditioning India Pvt. Ltd.

September 2010 Managing Director & COO of the above company

July 2017 Managing Director & CEO of the above company (Current position)

June 2018 Member of the Board and Associate Officer of the Company, Regional General Manager of Air-Conditioning Business in India/East Africa of Global Operations Division of the Company (Current position)

June 2019 Member of the Board and Senior Associate Officer of the Company (Current position)

Number of the Company shares owned —

Responsibilities and Assigned Items

Regional General Manager of Air-Conditioning Business in India/ East Africa of Global Operations Division of the Company, Managing Director & CEO of Daikin Airconditioning India Pvt. Ltd.

Audit & Supervisory Board Members



Ryu Yano

Audit & Supervisory Board Member (External)

Date of Birth April 21, 1940

April 1963 Entered Sumitomo Forestry Co., Ltd.

December 1988 Director of the above company

June 1992 Managing Director of the above company

June 1995 Representative Director and Senior Managing Director of the above company

April 1999 Representative Director and President of the above company

June 2002 Representative Director and Executive Officer of the above company

April 2010 Representative Director and Chairman of the Board of the above company

June 2013 Audit & Supervisory Board member of the Company (Current position)

April 2020 Director and Corporate Advisor of Sumitomo Forestry Co., Ltd.

June 2020 Chief Advisor of the above company (Current position)

Number of the Company shares owned —

Significant Concurrent Posts

Chief Advisor of Sumitomo Forestry Co., Ltd.



Toru Nagashima

Audit & Supervisory Board Member (External)

Date of Birth January 2, 1943

April 1965 Entered Teijin Limited

June 2000 Director of the above company

June 2001 Managing Director of the above company

November 2001 President & Representative Director COO of the above company

June 2002 President & Representative Director CEO of the above company

June 2008 Chairman of the Board of the above company

April 2013 Director & Advisor of the above company

June 2013 Senior Advisor of the above company

June 2016 Audit & Supervisory Board member of the Company (Current position)

April 2018 Honorary Advisor of Teijin Limited (Current position)

Number of the Company shares owned —

Significant Concurrent Posts

Honorary Advisor of Teijin Limited



Kosei Uematsu

Audit & Supervisory Board member (Standing)

Date of Birth January 21, 1952

February 1982 Entered the Company

June 2002 Director, General Manager of Global Operations Division of the Company, General Manager of DT Alliance Promotion Secretariat of the same division of the Company

June 2004 Executive Officer, Member of Global Air-Conditioning Committee of the Company

September 2004 Chairman and Member of the Board of Daikin U.S. Corporation

June 2007 Senior Executive Officer of the Company, General Manager of New York Office of the Company, President and Member of the Board of Daikin Holdings (USA), Inc., President and Member of the Board of Daikin U.S. Corporation

June 2015 Audit & Supervisory Board member of the Company (Current position)

Number of the Company shares owned 8,000



Hisao Tamori

Audit & Supervisory Board member (Standing)

Date of Birth July 31, 1960

August 1989 Entered the Company

July 2011 Department Manager of Accounting Group of Finance and Accounting Division of the Company, Director and President of Daikin Accounting Solutions Co., Ltd.

June 2016 Associate Officer of the Company

June 2019 Audit & Supervisory Board member of the Company (Current position)

Number of the Company shares owned 1,000

Executive Officers

Position	Name	Responsibilities and Assigned Items
Senior Executive Officer	Koichi Takahashi	Responsible for Finance, Accounting/Budget Operations, Promoting Operational Efficiency, General Manager of Finance and Accounting Division
Senior Executive Officer	Masayuki Moriyama	Responsible for Applied Solution Business in China Region, Refrigeration Business, Director of Daikin (China) Investment, COO of McQuay China
Senior Executive Officer	Satoshi Funada	Responsible for Service Operations, General Manager of Air Conditioning Sales Division
Senior Executive Officer	Naofumi Takenaka	Responsible for Human Resources, General Affairs
Senior Executive Officer	Yoshikazu Tayama	Department Manager of Budget and Administration Group in Finance and Accounting Division
Senior Executive Officer	Katsuyuki Sawai	Responsible for CSR, Global Environment Affairs, Public Relations, General Manager of Tokyo Office, Manager of Public Relations Department in Tokyo Office, Chairman of CSR Committee
Senior Executive Officer	Tsutomu Morimoto	Responsible for Goodman Group Business, Executive Secretarial Department, Cooperation within North America
Senior Executive Officer	Yuji Yoneda	Responsible for Air-Conditioning Product Development (including Applied Solution and Refrigeration), General Manager of Technology and Innovation Center
Senior Executive Officer	Masaki Saji	General Manager of Human Resources Division, Department Manager of Diversity Promotion Group in Human Resources Division
Senior Executive Officer	Toshio Ashida	Responsible for Corporate Planning, Electronics Business, Technology Innovation Strategy Office in Technology and Innovation Center
Senior Executive Officer	Yasushi Yamada	Responsible for Safety
Executive Officer	Hitoshi Jinno	General Manager of Filter Division
Executive Officer	Kota Miyazumi	Responsible for Marketing, Corporate Communication, General Manager of Marketing Research Division, Department Manager of Planning Group in Marketing Research Division, Chairman of Information Disclosure Committee
Executive Officer	Masafumi Yamamoto	Responsible for Corporate Ethics, Compliance, Legal Affairs, Information Security, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Chairman of Corporate Ethics and Risk Management Committee

Position	Name	Responsibilities and Assigned Items
Executive Officer	Akira Murai	Responsible for Defense Systems Business, SCM, Logistics, Co-Creation Projects member of Technology and Innovation Center, General Manager of Yodogawa Plant
Executive Officer	Makio Takeuchi	Responsible for Global Procurement
Executive Officer	Yoshiyuki Hiraga	Responsible for Chemicals Business, Chemical Environment/Safety
Executive Officer	Hideki Maruoka	Responsible for Oil Hydraulics Business
Executive Officer	Shigeki Morita	Responsible for PL/Quality (Air Conditioning/Applied/Refrigeration), Alliance Promotion with Gree Electric Appliances Inc., PD Affiliation Alliance Promotion, Concurrent Development Promotion, General Manager of Air-Conditioning Manufacturing Division, General Manager of Sakai Plant
Executive Officer	Katsumi Kawahara	Deputy General Manager of Technology and Innovation Center (Responsible for Promoting Industry, Government and Academia Collaboration)
Executive Officer	Shoji Uehara	General Manager of Global Operations Division
Executive Officer	Hiroaki Ueda	Responsible for DX Strategy Promotion, General Manager of Corporate Planning Department
Executive Officer	Katsuya Miura	General Manager of Chemicals Division, Manager of Planning Department in Chemicals Division
Executive Officer	Kenji Matsuba	Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for Business Strategy), Manager of Planning Department in Air-Conditioning Manufacturing Division
Executive Officer	Kimikazu Hatou	Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for Product Development), Manager Responsible for Product Development in Refrigeration Division, General Manager of Shiga Plant
Executive Officer	Tomohiro Mizuguchi	Responsible for IT Promotion, Manager of General Affairs Department, Manager of General Affairs Group in General Affairs Department
Executive Officer	Keiko Mori	Responsible for Human Resource Development and Maximizing the Talents of Women, Department Manager Responsible for Executive Secretarial in Executive Secretarial Department

Compliance/Risk Management

Taking an Integrated Approach to Promoting Compliance and Risk Management

At Daikin, the Internal Control Committee, chaired by the President, checks and confirms that internal controls, including risk management, are functioning properly throughout the Group. On top of this, the Corporate Ethics and Risk Management Committee promotes the management of operational risk and thorough compliance.

Chaired by the officer in charge of corporate ethics and compliance, the Corporate Ethics and Risk Management Committee is comprised of each department head and the presidents of major Group companies in Japan. In principle, the Committee meets twice a year to identify issues that need to be strengthened and promote their resolution, and to report on the status of initiatives at overseas Group companies.

Steps are also taken to formulate and develop comprehensive common rules to tackle compliance and risk management for overseas Group companies.

The Daikin Group established its Group Conduct Guidelines that clearly outline required conduct for individual officers and employees and appointed a Compliance and Risk Management Leader (CRL) for each division and each of the main Group companies in Japan and overseas to ensure thorough compliance. By regularly checking the status of compliance and risk management, sharing information, and disseminating these Guidelines, every effort is being made to foster “culture free of compliance violations” and to elevate “mechanisms to ensure that there are no compliance violations.”

In fiscal 2020, compliance meetings were held in Asia, Oceania, Europe, and China to share information on self-assessment as well as on education and training initiatives.

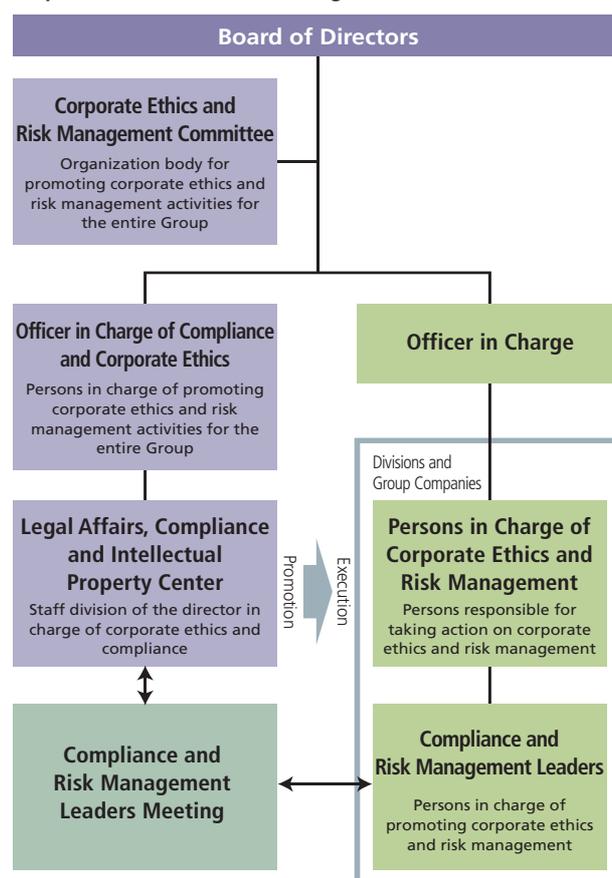
Self Assessment System to Check the Status of Conduct Guidelines Compliance

Once a year, Daikin uses its unique self assessment system to ensure that the Group is in thorough compliance with the Group Conduct Guidelines. Using self assessments, employees check their own actions based on the Group Conduct Guidelines. Drawing on the results, employees identify issues for the organization and put in place countermeasures. The issues identified and countermeasures are reported to and shared with the Corporate Ethics and Risk Management Committee.

Identification of Important Risks and Planning and Implementation of Countermeasures

With the rapid expansion of the Group’s business, the Daikin Group has introduced risk management across the Group to gain an overall picture of risks from a global perspective in an accurate and prompt manner and to reduce risks. Every year, each division and main Group companies overseas and in Japan identify critical risks through risk assessments. Based on the findings, each Group company puts forward and implements countermeasures and works diligently to reduce these risks. The status of each company’s risk reduction measures is shared with and reported to the Corporate Ethics and Risk Management Committee. For example, in fiscal 2020, Daikin Industries made efforts toward key themes such as “Information management risk,” “Economic security risk,” “Quality risk,” “Natural disaster risk,” “Strengthening overseas crisis management functions,” and “Harassment prevention.”

Corporate Ethics and Risk Management



Response to TCFD

For Daikin, climate change represents one important issue affecting its business continuity. Daikin endorses the recommendation of the Task Force on Climate-Related Financial Disclosures (TCFD)* intended to mitigate the risk of instability in financial markets attributed to climate change. We are now working to analyze and reflect the risks and opportunities of climate change as they are related to our business operations into our management strategies and risk management. We will disclose the progress of such appropriately as we aim for further growth while contributing to a decarbonized society.

* TCFD was established in 2015 by the Financial Stability Board. It recommends that companies disclose information about the financial impacts of climate change after evaluating related business risks and opportunities.

Daikin's Response to TCFD's Recommended Disclosures

Governance The organization's governance around climate-related risks and opportunities	<ul style="list-style-type: none"> Establish climate-related issues as important CSR issues of Daikin and manage them at the executive management level through the CSR Committee, chaired by the officer in charge of CSR The CSR Committee discusses Daikin's initiatives, targets, risks and opportunities concerning climate change, follows up on results, and reports to the Board of Directors
Strategy The actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy and financial planning	<ul style="list-style-type: none"> Analyze the climate scenarios based on <i>The Future of Cooling</i> by the International Energy Agency (IEA) Demand for air conditioning is expected to more than triple current levels by 2050. While there is the risk of stricter energy regulations for air conditioning and tighter regulations on refrigerants with a high global warming potential, this will also be an opportunity for Daikin to expand its strengths of highly environmentally conscious products and services Environmental Vision 2050 calls for net zero greenhouse gas emissions by 2050; and we have incorporated greenhouse gas reduction targets and main measures into the FUSION 25 Strategic Management Plan
Risk Management Process for identifying, assessing and managing climate-related risks	<ul style="list-style-type: none"> Gather information on climate risks from business bases around the world based on scenario analysis, evaluate priorities, and specify climate risks that should be reflected in strategy Recognize climate risks as risks that significantly impact Daikin's business strategy, and integrate them into the company-wide risk management process Check the status of company-wide risk management by the Internal Control Committee chaired by the President and CEO, and report to the Board of Directors
Metrics and Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities	<ul style="list-style-type: none"> Under Environmental Vision 2050, aim to reduce greenhouse gas emissions to net zero by 2050 Under the FUSION 25 Strategic Management Plan, set targets to reduce greenhouse gas emissions from our own business operations (30% or more by 2025 and 50% or more by 2030 compared to BAU with 2019 as the base year)

Climate Related Risks and Opportunities and Potential Impacts

Category		Impact on Daikin's business	Probability of occurrence	Potential financial impacts
Risks	Transition	Stricter regulations on refrigerants If regulations on refrigerants become too strict, there is a possibility that existing air conditioners no longer compliant with these regulations will become obsolete.	High	Large
		Tight supply and demand for electricity There is a possibility that the spread of air conditioners in emerging countries will increase electricity usage and make it difficult to increase sales of air conditioners due to electricity shortages.	High	Large
	Physical	Damage to production bases There is a possibility that flooding caused by typhoons could cause our plants to shut down or stop the supply of parts due to the shutdown of suppliers.	Medium	Medium
Opportunities	Transition	Stricter regulations on refrigerants Companies without technologies compliant with regulations on refrigerants will be weeded out, resulting in increased sales of air conditioners using refrigerants with lower global warming potential, which is our strength.	High	Large
		Stricter regulations on energy efficiency Companies without technologies compliant with stricter regulations on energy efficiency will be weeded out, resulting in increased sales of air conditioners with high energy efficiency, which is our strength.	High	Large
		Stricter regulations on the use of fossil fuels Regulations on the use of fossil fuels continue to become stricter, and since combustion heaters will be subject to them, there will be an increase in sales on growing demand for heat pump heaters, which is our strength.	High	Large

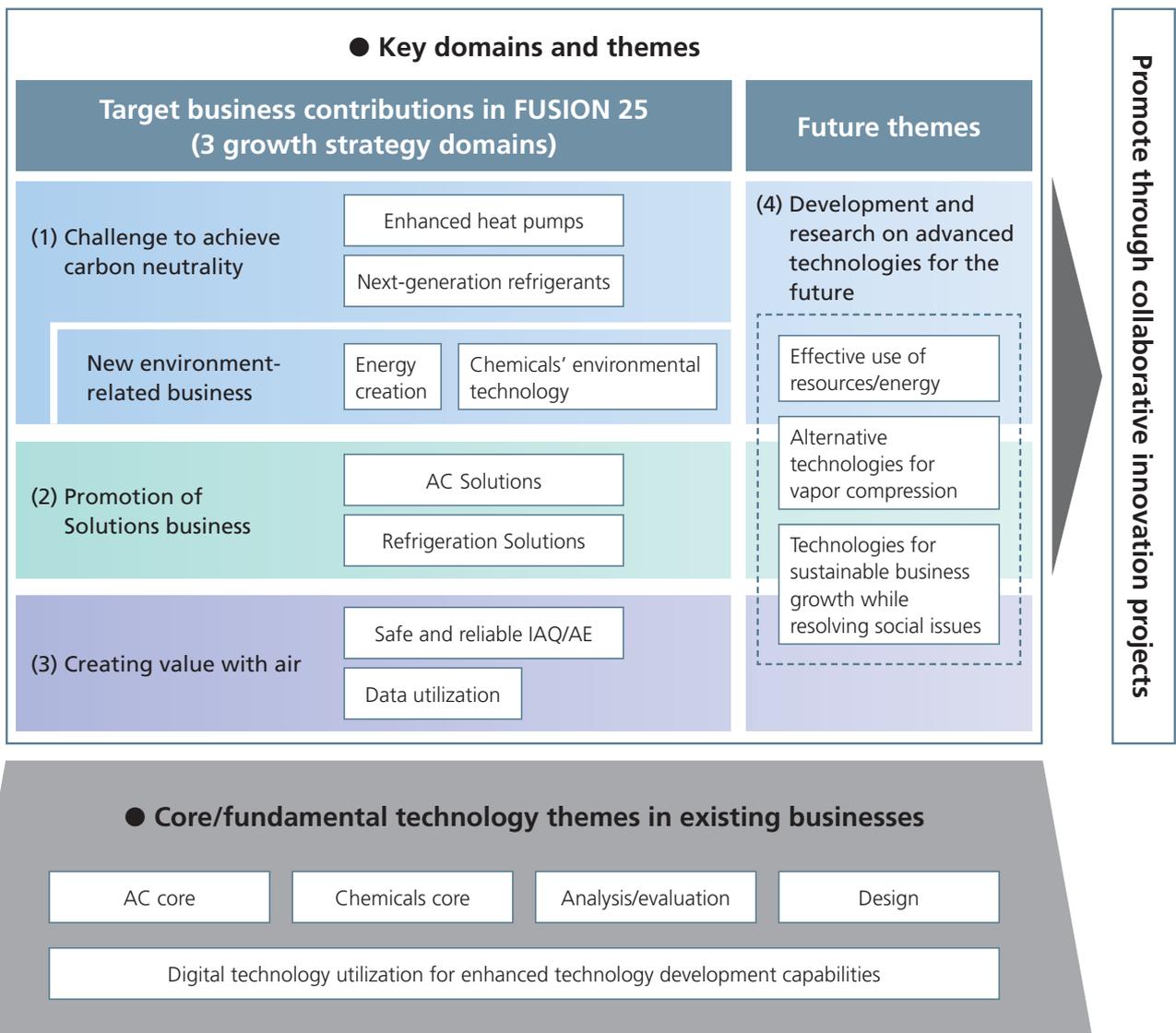
Enhancing the Management Foundation

As part of "FUSION 25," Daikin raised five themes to enhance the management foundation: "Strengthening Technology Development Capabilities," "Establishing a Robust Supply Chain," "Promoting Digital Transformation for Innovation," "Creating Market Value/Enhancing Advocacy Activities," and "Improving HR Capabilities Through Advanced Diversity Management."

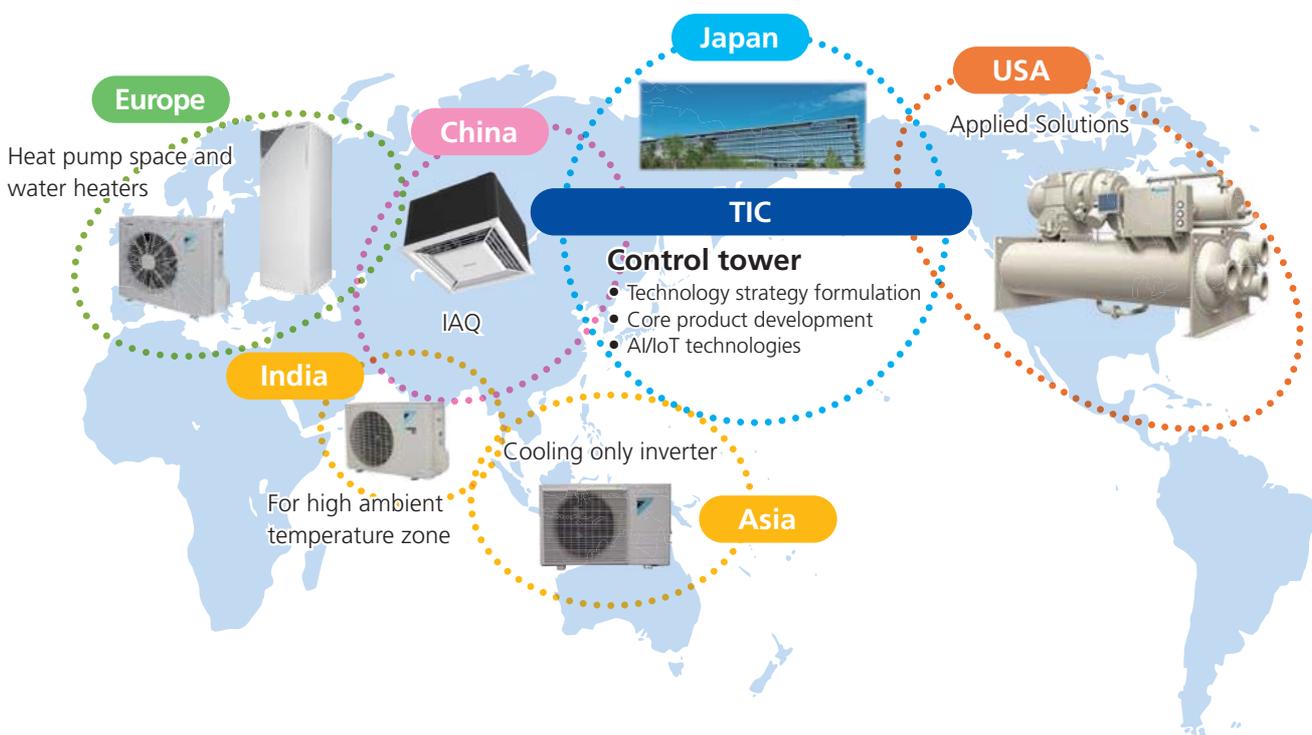
Strengthening Technology Development Capabilities

We believe that technological development capability is the lifeline of a manufacturer. Amid rapidly changing external conditions, we will accelerate the development of distinctive technologies and products, and their contribution to business expansion, by promoting both internal and external co-creation

that includes collaboration among industry and academia. We will focus on allocating resources with the establishment of four key domains (three growth strategy domains + one domain with future themes).



Enhanced overseas R&D bases as well as recruitment and development of human resources to promote innovation to accelerate business contributions globally



We will pursue technology development through internal and external collaborative innovation projects centering on the Technology and Innovation Center—the technology control tower of Daikin Group—to accelerate the creation of results. In

order to promote key domains and strategic themes globally, we will strengthen development capabilities and collaboration among our overseas development sites while working to recruit and train personnel.

Aiming to Implement New Technologies in Society by Promoting Industry-Academia Collaboration

In partnership with professors from the University of Tokyo and related venture companies, we are working on creating and deploying in society future technologies and business models in pursuit of “new value with air.” In February 2021, we invested in Fairy Devices Inc., a University of Tokyo-based start-up. We will expand the supply system in Japan and overseas for THINKLET®—a smart wearable device we are jointly developing that constitutes a remote work support solution for training air-conditioning service engineers—and accelerate the strengthening of our global service business and the transmission of expertise. With Kyoto University, we reviewed joint R&D themes in terms of healthcare, the environment, energy, and air-conditioning culture in Asia and Africa, with a view to a new normal era. We have established five co-creation programs and will pursue them based on an integrated approach to the arts and sciences. In addition, we will partner with the information science departments at Osaka University to create safe and reliable IAQ/AE and realize next-generation smart buildings using the new campus (at Minoh, Japan).



Service engineers wearing THINKLET® are supported by skilled personnel from remote locations

Establishing a Robust Supply Chain

We are working to further solidifying our supply system while uncertainties such as global supply chain disruptions and increasing decoupling on a global scale are rapidly growing.

To that end, we are taking steps to shift to region-based procurement to achieve local production for local consumption and establish concurrent production and backup systems to

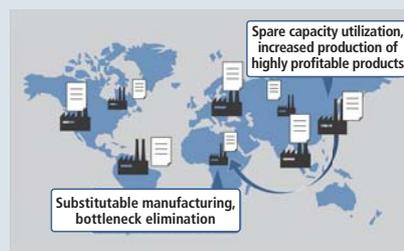
avoid risks. In addition, we aim to centralize supply chain information utilizing digital tools to realize optimized SCM. The introduction and use of simulation tools will enable us to respond to demand fluctuations, make more sophisticated decisions in the event of abnormalities, and achieve overall optimal planning.

Making practical use of solutions that support the planning and execution of optimal production and sales plans that respond immediately to changes in demand

As part of IoT-based collaboration with Hitachi, Ltd., Daikin has applied Hitachi Group's SCM optimization simulation technology*1 in the Company's Chemicals business to put into practical use solutions that support the planning and implementation of optimal production and sales plans that respond immediately to demand fluctuations. Until now, manufacturing and sales measures—such as which products to produce, how much and at which locations, and where to sell them—had to be formulated manually by those in charge, making the process very time-consuming. Based on the supply-demand balance of multiple manufacturing and sales bases, this solution can automatically present manufacturing/sales measures and production plans that are optimized to maximize key performance indicators (KPIs) including for sales and profits. We have confirmed that it is possible to create about 60 times as many patterns in a short period of time as conventional methods, and that the time required for decision making can be reduced by about 95% since consensus can be formed quickly based on quantitative simulation results*2. Going forward, we will continue to use digital technology to enhance the sophistication of ECM and SCM.

*1 Technology that simulates optimal production bases, production volume, sales volume, and total costs, etc., using mathematical optimization methods developed by Hitachi Solutions, Ltd.

*2 Survey examples during the Daikin and Hitachi demonstration. The number of patterns created per unit of time, and the time to determine whether production is possible after demand is known.



Supporting the planning and execution of production and sales plans by connecting global manufacturing and sales bases

Promoting Digital Transformation for Innovation

We will work to create new products, services, and business models and fundamental business process innovations with significantly enlarged digital investments.

We will build a platform for linking and analyzing data to expand the Solutions business as well as a system to manage customer information and utilize it to offer value throughout the AC equipment lifecycle. In addition, we will increase connected equipment to obtain equipment data as well as obtain data on people, buildings, and others that lead to future busi-

ness development through external collaboration. Furthermore, we will reform processes for ECM, SCM, and development, construct systems for upgrading the management foundation, and increase the efficiency of indirect operations using robotic process automation and AI.

To promote such digital transformation, we will pursue the development of 1,500 human resources in digital fields through the Daikin Information and Communications Technology College and other initiatives.

Selected for "DX Stocks 2020"

The Company was selected as one of the "Digital Transformation Stocks (DX Stocks) 2020" by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. The "DX Stocks" category selects companies that are actively engaged in "DX" activities, such as using data and digital technologies to transform their products, services and business models, as well as radically reforming their business processes.

We are actively pursuing the use of AI/IoT technology to provide high-value-added air-conditioning to society. For example, we launched the spatial data co-creation platform "CRESNECT" with partner companies. As its first project, we opened the co-working space "point 0 Marunouchi" in 2019. Combining the Company's cutting-edge technology, data, and expertise, we are conducting field tests aimed at creating "office spaces of the future" that will improve productivity and maintain health. Looking ahead, we will continue to create innovations that help solve social issues by steadily advancing DX through collaborative creation both internally and externally.



Lecture at the Daikin Information and Communications Technology College

Creating Market Value/Enhancing Advocacy Activities

As a driving force in the industry, we will participate in the creation of common global rules and the formation of international public opinion. We will continue to increase our market value by gaining the understanding of a wide range of stakeholders regarding our technologies and products that lead to the resolution of social issues, such as realizing carbon neutrality and helping to improve air quality.

To mitigate global warming, we will work to expand the use of R32, inverter units, and heat pump space and water heaters, while promoting the recovery and recycling of refrigerants.

To create new value for air, we will engage with universities, research institutes, and industry in an effort to create new safety and security standards.

Selected among “Clarivate Top 100 Global Innovators 2021”

Daikin was selected among “Clarivate Top 100 Global Innovators 2021,” a list of the world’s most innovative companies and institutions based on analysis of patent data by global information services company Clarivate Plc. This year marks the eighth time overall and the seventh consecutive year that Daikin has been selected.

As an air-conditioning manufacturer with global business operations, Daikin allows the use of some of its patents by other companies in order to contribute to the reduction of greenhouse gases for the industry overall. For example, Daikin granted free access worldwide to 93 patents related to air-conditioning equipment utilizing R32, a refrigerant with low global warming potential (GWP). Since 2019, Daikin has expanded the scope of patents and pledged the non-assertion of those patents to support conversion to refrigerants with high energy savings and low GWP. In recognition of these efforts, Daikin was awarded the “Minister of Economy, Trade and Industry Award” at the Intellectual Property Achievement Awards for fiscal 2020 conducted by the Ministry of Economy, Trade and Industry and the Japan Patent Office.

Daikin will continue to work on R&D activities for creating innovation that provides new value to society as it further strengthens the intellectual property activities that support them.



Improving HR Capabilities through Advanced Diversity Management

Responding to the changing times, we will further refine our corporate culture and organizational DNA based on “people-centered management”—which is the foundation of our growth and development—and will work to ensure that such initiatives are thoroughly implemented and take hold Groupwide. We will develop human resource measures that

enable all employees around the world to maximize their diverse individuality and unlimited potential for growth. As the impact of COVID-19 changes the way we work and live, we will flexibly respond to the “new normal” in order to create new value and achieve further growth and development.

Granted “Nadeshiko Brand” Designation in Fiscal 2020 for the Eighth Time over Seven Consecutive Years

The Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (TSE) jointly selects and publicizes TSE-listed enterprises that are outstanding in terms of maximizing the talents of women in the workplace under the “Nadeshiko Brand.” Daikin was granted the Nadeshiko Brand designation in fiscal 2020, marking the eighth time over seven consecutive years.

Daikin considers diversity management to be a pillar of its management approach. In particular, we have been working on maximizing the talents of women under a project directly controlled by top management that was launched in 2011. In fiscal 2020, the number of female managers and the ratio of female employees increased, as did the number of candidates for management positions. We have been steadily expanding the scope of our activities through a series of concrete measures. The proactive nature of these efforts was evaluated highly, and we believe that this led to the Company being granted the “Nadeshiko Brand” designation.

We have also formulated an action plan for maximizing the talents of women toward the end of fiscal 2025, setting quantitative goals such as increasing the number of female executives appointed internally to at least one position and the number of female managers to 120, as well as maintaining a parental leave utilization rate of at least 90% for both men and women.

Going forward, we will accelerate our efforts to promote diversity management with the aim of creating an environment where every employee can demonstrate their full potential.



Eleven-Year Financial Highlights

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

	2011	2012	2013	2014
Operating Results (for the year):				
Net sales	¥1,160,331	¥1,218,701	¥1,290,903	¥1,787,679
Gross profit	361,665	371,902	388,046	568,323
Selling, general and administrative expenses	286,210	290,709	299,419	411,786
Research and development expenses (Note 1)	30,771	32,987	33,569	40,177
Operating income	75,455	81,193	88,627	156,537
EBITDA (Note 2)	127,168	131,719	140,151	235,439
Net income attributable to owners of the parent	19,873	41,172	43,585	92,787
Cash Flows (for the year):				
Net cash provided by operating activities	¥78,411	¥44,967	¥103,161	¥179,713
Net cash used in investing activities	(23,306)	(62,955)	(218,386)	(80,835)
Free cash flow (Note 3)	55,105	(17,988)	(115,225)	98,878
Net cash provided by (used in) financing activities	(37,623)	(1,113)	143,520	(38,249)
Financial Position (at year-end):				
Total assets	¥1,132,507	¥1,160,564	¥1,735,836	¥2,011,870
Total interest-bearing liabilities	372,481	389,891	705,871	693,944
Total shareholders' equity	487,876	502,309	618,118	801,854
Per Share Data (yen):				
Net income (basic)	¥ 68.14	¥ 141.37	¥ 149.73	¥ 318.33
Shareholders' equity	1,672.74	1,725.64	2,123.10	2,748.08
Free cash flow	189	(62)	(396)	339
Cash dividends	36.00	36.00	36.00	50.00
Ratios (%):				
Gross profit margin	31.17%	30.52%	30.06%	31.79%
Operating income margin	6.50	6.66	6.87	8.76
EBITDA margin	10.96	10.81	10.86	13.17
Return on shareholders' equity (ROE)	4.04	8.30	7.78	13.07
Shareholders' equity ratio	43.08	43.28	35.61	39.86

Notes: 1. R&D expenses are included within general and administrative expenses and manufacturing expenses.

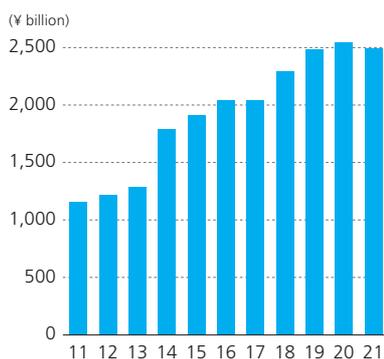
2. EBITDA = Operating income + depreciation and amortization.

3. Free cash flow = Net cash provided by operating activities + net cash used in investing activities.

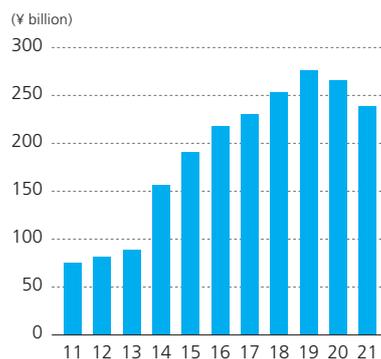
4. Accompanying a change in accounting policy, effective from April 1, 2014, the consolidated financial statements for the fiscal year ended March 31, 2014 and subsequent years have been revised.

5. Effective from April 1, 2018, the consolidated financial statements for the fiscal year ended March 31, 2018 have been revised in accordance with a change in accounting policy.

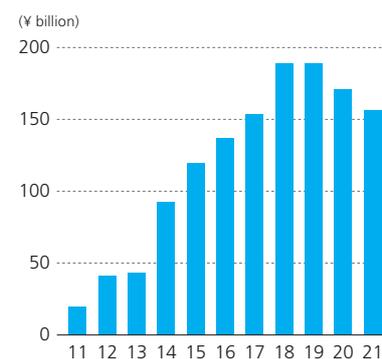
Net Sales



Operating Income



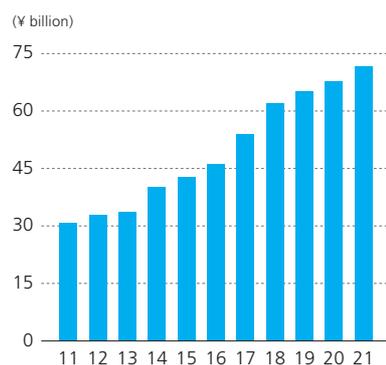
Net Income Attributable to Owners of the Parent



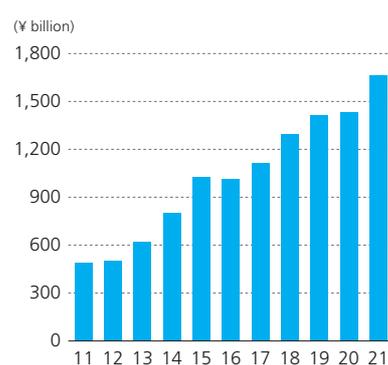
Millions of Yen

	2015	2016	2017	2018	2019	2020	2021
	¥1,915,014	¥2,043,691	¥2,043,969	¥2,290,561	¥2,481,109	¥2,550,305	¥2,493,387
	649,902	711,576	730,935	798,829	868,923	884,898	864,136
	459,314	493,704	500,166	545,089	592,668	619,385	625,513
	42,892	46,138	53,870	62,051	65,216	67,968	71,738
	190,588	217,872	230,769	253,740	276,255	265,513	238,623
	268,354	302,075	315,798	348,574	375,570	393,999	372,217
	119,675	136,987	153,939	189,052	189,049	170,731	156,250
	¥160,423	¥226,186	¥267,663	¥223,740	¥250,009	¥302,167	¥374,691
	(77,331)	(105,493)	(128,823)	(127,459)	(165,773)	(156,187)	(159,667)
	83,092	120,693	138,840	96,281	84,236	145,980	215,024
	(83,073)	(85,422)	(73,544)	(93,955)	(68,721)	(169,934)	98,942
	¥2,263,990	¥2,191,105	¥2,356,149	¥2,475,708	¥2,700,891	¥2,667,513	¥3,239,663
	662,413	608,981	609,430	554,371	585,642	553,807	751,213
	1,024,725	1,014,409	1,111,636	1,296,553	1,416,075	1,434,968	1,665,689
	¥ 410.19	¥ 469.23	¥ 526.81	¥ 646.53	¥ 646.39	¥ 583.61	¥ 533.97
	3,511.34	3,473.54	3,802.10	4,433.62	4,841.15	4,904.46	5,691.85
	285	413	475	329	288	499	735
	100.00	120.00	130.00	140.00	160.00	160.00	160.00
	33.94%	34.82%	35.76%	34.87%	35.02%	34.70%	34.66%
	9.95	10.66	11.29	11.08	11.13	10.41	9.57
	14.01	14.78	15.45	15.22	15.14	15.45	14.93
	13.10	13.44	14.48	15.70	13.94	11.98	10.08
	45.26	46.30	47.18	52.37	52.43	53.79	51.42

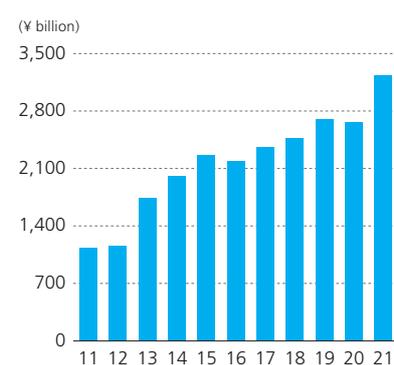
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Summary of the Period

During the fiscal year ended March 31, 2021, the overall world economy slowed significantly as economic activity stagnated due to the global spread of the coronavirus (COVID-19). While some countries saw a recovery, there were also regions where the infection spread again, prolonging the impact of the disease. Although the U.S. economy slowed due to a decline in personal consumption in the first half of the period, there were signs of a recovery from the second half as government economic measures and strong online sales laid the groundwork for increased consumption. The European economy was supported by a recovery in exports, despite the continued slowdown in personal consumption attributable to prolonged restrictions on activities. In the economies of Asia and emerging countries, domestic demand was sluggish due to restrictions on activities, but there were signs of economic recovery, helped by gains in exports and government spending. The Chinese economy continued a recovery trend buoyed by the quick resumption of economic activities and increases in exports and government infrastructure investment in the information and telecommunication as well as energy sectors. Despite export gains to China and a recovery in production activities, sluggish personal consumption placed downward pressure on the Japanese economy.

Amid this environment, the Daikin Group launched cross-divisional projects, and focused on dealing with the COVID-19 pandemic in terms of business operations, including production, procurement, and sales. In particular, the Group worked to develop and launch new products related to air quality, such as air purifiers and ventilation products, by capitalizing on the growing awareness for the safety and assurance of indoor air quality and air environments. In addition, while procurement from sales networks, production sites, and suppliers was affected in each country, the Group worked to maintain its product supply system. Although market environments vary according to country and region, sales are returning to a recovery trend, particularly in residential air-conditioning equipment.

In addition, the Daikin Group set "Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change" (3 Structures of Collaborative Innovation: Collaborative Innovation with Customers, Collaborative

Innovation with External Bodies, and Collaborative Innovation within the Group) as the slogan for its Annual Group Policy for 2020. The Group made efforts to strengthen sales and marketing capabilities; foster new product development; build flexible production and procurement systems; improve quality; enhance human resources capabilities; and reduce both fixed and variable costs in each region around the world.

In the fiscal year under review, the Daikin Group's net sales fell to ¥2,493.4 billion (a year-on-year decrease of 2.2%). As for profits, consolidated operating income dropped to ¥238.6 billion (a decline of 10.1% from the previous fiscal year). Net income attributable to owners of the parent decreased 8.5%, to ¥156.3 billion.

Performance by Business Segment

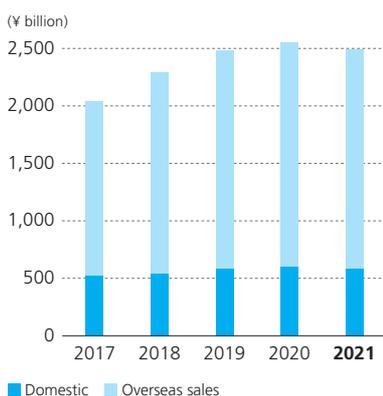
Air-Conditioning and Refrigeration Equipment

Total sales of the Air-Conditioning and Refrigeration Equipment segment decreased 1.5% from the previous fiscal year, to ¥2,273.8 billion. Operating income declined 5.5% year on year, to ¥223.1 billion.

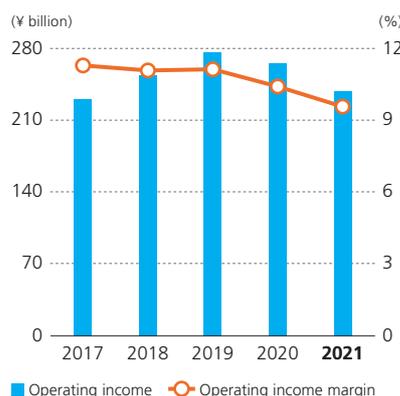
• Japan

In the Japanese commercial air-conditioning equipment market, industry demand declined, particularly in the market for stores, due to the spread of COVID-19. As air quality needs rose for ventilation and disinfection, the Daikin Group expanded its proposals for air environments using systems that combine air-conditioning equipment and ventilation equipment. This includes the launch of new products in the "Heat Reclaim Ventilator" lineup, high-performance ventilation equipment that can ventilate a room without affecting the room's temperature. The Group strengthened its efforts to convey its value to the market in order to meet expectations as an air-conditioner manufacturer, such as by developing "untact" sales utilizing online activities, stimulating demand through advertising focused on ventilation and disinfection, and opening an "Air Consultation Service" to directly answer customer concerns. However, net sales of commercial air-conditioning systems were lower year on year due to factors including reduced demand.

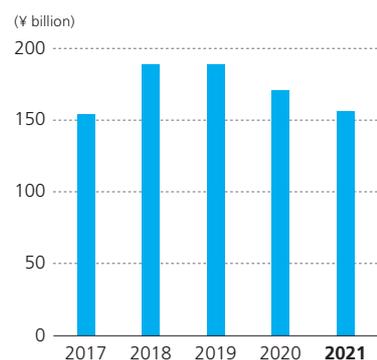
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income Attributable to Owners of the Parent



In the Japanese residential air-conditioning equipment market, industry demand for both room air conditioners and air purifiers exceeded the previous fiscal year because of demand for additional purchases of air-conditioning equipment due to changes in residential applications including remote work, as well as growth in demand for home appliances due to people spending more time at home. The Group responded to market needs by launching a series of high value-added products utilizing proprietary technologies, such as the Streamer disinfection unit, waterless humidification, and room air conditioner air supply ventilation, including the room air conditioners “Urusara X” and “Ururu Sarara Air Purifier.” Additionally, despite disruptions to its supply chain caused by COVID-19, the Group worked to maintain a stable supply system and increased sales. Through these efforts, the Group’s net sales of residential air-conditioning systems increased year on year.

• **Americas Region**

In the Americas, net sales decreased year on year as a whole due to the impact of COVID-19. Residential air-conditioning system demand was positively affected by people spending more time at home, increased adoption of remote work, and favorable weather conditions. However, net sales declined year on year as the pandemic took hold throughout the United States, which contributed to tight supply as a result of the temporary closure of factories. Net sales of commercial air-conditioning systems also declined year on year due to the review and suspension of projects in the retail and restaurant as well as certain other industries. In the market for large buildings (Applied Systems), the Group worked to strengthen its sales network and expand sales of ventilation products, particularly of rooftop units and air-handling units (large commercial air-conditioning systems that meet a wide variety of air-conditioning needs depending on the type of business and room application). Despite these endeavors, net sales fell below the level of the previous fiscal year due to a slowdown in the market caused by the spread of infection.

• **China**

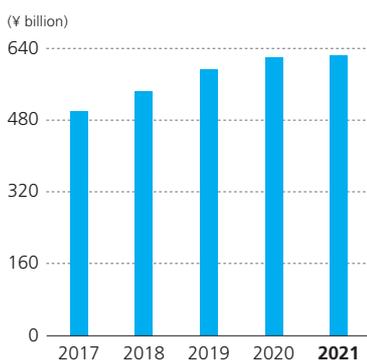
In China, the Group strengthened its lineup of air and ventilation products to meet the changes in the market and expanded online sales. In April and May, there was some impact from sales activities restrictions, but sales recovered from July

onwards, and annual net sales exceeded the previous fiscal year. The Group maintained a high level of profits by reducing fixed costs and promoting cost reductions. Recovery was rapid for residential air-conditioning systems, and the Group expanded sales by developing sales that combined the Internet with its “PROSHOP” specialty shops, and simultaneously strengthening online sales in order to capture new customers and demand for replacements. In the commercial retail market where recovery in demand was slow for stores and offices, the Group expanded customer contact points by leveraging ventilation and cleaning and captured replacement as well as additional demand. In the large-scale projects market, the Group promoted collaboration with major developers in order to secure net sales. In the Applied Systems air-conditioning equipment market, the Group strengthened sales in growth fields, such as infrastructure, data centers and other information-related businesses, as well as in repair and maintenance.

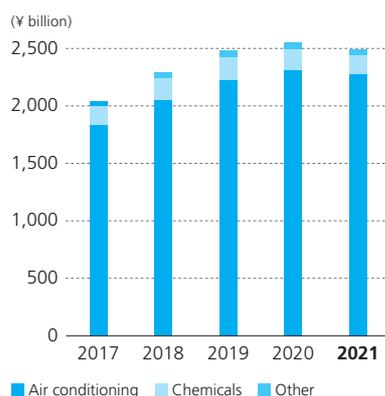
• **Asia/Oceania Region**

In Asia and Oceania, sales dropped significantly due to the suspension of business activities in many countries in April because of governmental decrees in response to the spread of COVID-19. However, the Group exploited growing demand from the relaxation of restrictions by strengthening sales from May onwards, and sales for the fourth quarter (January to March) recovered to nearly the same level year on year. As restrictions were eased in residential air-conditioning systems, the Group captured demand, despite the remaining restrictions in place on business activities, as people spent more time at home and from a rebound in the decline in demand when business activities were suspended. In addition, the Group promoted sales through its own dealer channels as shopping malls leasing space to home electronics retailers were closed in many countries due to restrictions on business activities. In commercial air-conditioning systems, a difficult situation continued as the spread of infection caused delays in construction starts and construction schedules across the market due to a shortage of workers and mandatory COVID-19 testing at construction sites. For the full fiscal year, net sales decreased year on year as a whole due to the significant impact of the spread of infection in the first quarter (April to June), which is the peak season for air-conditioning use in Asia.

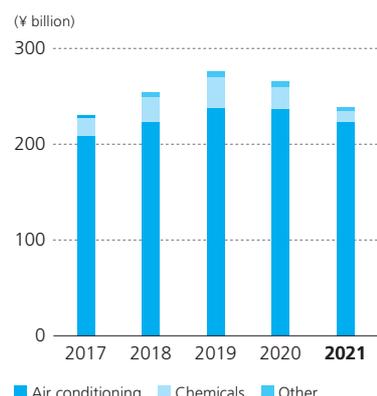
Selling, General and Administrative Expenses



Sales by Segment



Segment Profit



Financial Review

• Europe/The Middle and Near East/Africa

In Europe, the impact of strict lockdowns in response to the spread of COVID-19 in various countries forced the Group to start in a harsh business environment. However, the Group established a stable intra-regional production and supply system even while having to perform sales and promotional activities online and ensure social distancing. In addition, the Group improved business performance by capturing new needs that arose due to the COVID-19 pandemic, such as demand from remote work and staying at home, and increased awareness of air quality such as ventilation and disinfection. As a result, overall net sales were higher year over year. Demand for residential air-conditioning systems rapidly increased due to intense heat waves in France, Spain, and other countries, as well as demand from staying at home. The Group capitalized on this demand by taking full advantage of its nearest factories in the Czech Republic and Turkey to provide supply. In addition, the Group strengthened its sales network by developing new dealers and expanded sales of residential heat pump hot water heating systems, aided by new and greater subsidies under the European Green Deal, an economic stimulus measure for European nations aimed at achieving greenhouse gas reduction targets for 2030. In particular, sales increased significantly in Germany and Italy thanks to the effects of introducing new models and strengthening marketing capabilities. As a result of these factors, overall net sales of residential air-conditioning systems increased year over year. As for commercial air-conditioning systems, demand from offices, hotels, restaurants, and stores, which are major applications, declined due to the repeatedly imposed lockdowns in various countries. Even at food retailers with strong performance, new store construction and renovation projects were cancelled or postponed. Although sales were maximized through the use of proposal-based sales effectively leveraging online tools amid this difficult market environment and the restrictions placed on sales activities such as visits to customers and worksites, net sales of commercial air-conditioning systems decreased year over year.

In the Middle and Near East/Africa, sales of residential air-conditioning systems increased year over year. However, overall net sales decreased year over year because sales of commercial air-conditioning systems were sluggish due to a decrease in the number of projects caused by low crude oil prices. In Turkey, net sales in the local currency increased year

over year, driven by sales of residential air-conditioning systems and heating systems, but yen-equivalent net sales remained at the same level year over year due to the impact of the sharp depreciation of the Turkish lira.

In the filter business, while the global commercial market declined due to the spread of COVID-19, the Group expanded sales of high value-added products that contribute to higher air quality and launched infection control products ahead of competitors. Sales of high-performance filters mainly for residential use were strong in the United States, and sales of negative pressure units and air purifiers grew in Japan thanks to subsidies. In Europe, however, there was a severe impact from lockdowns because sales mainly consist of end users for commercial applications, and there was also customer restraint on investments in commercial dust collection systems for gas turbines, large plants, and similar facilities. As a result, overall net sales in the filter business remained at the same level year over year.

In the marine vessels business, net sales increased year over year due to an increase in unit sales of marine container refrigeration units.

Chemicals

Overall sales of the Chemicals segment decreased by 8.7% year over year to ¥164.2 billion. Operating income decreased by 52.2% to ¥11.4 billion.

The general condition regarding overall sales of fluorochemical products was harsh due to a decline in demand affected by the spread of COVID-19 in a wide range of fields, including semiconductors and automobiles, and a decline in demand in the European gas market.

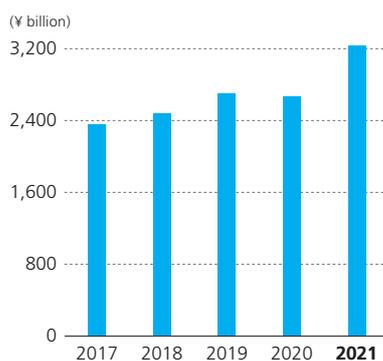
Net sales of fluoropolymers decreased year over year due to the major drop during the first half of the period, as well as a decline in demand for construction and aircraft in the United States, despite the recovery trend of global demand for semiconductor and automotive-related applications especially in the Chinese market. Net sales of fluoroelastomers also decreased year over year, despite a recovery in demand in the automotive field centering on the Chinese market.

Among specialty chemicals, net sales of anti-fouling surface coating agents increased year over year as a result of strong sales in China. In addition, net sales of semiconductor etching agents increased year over year due to sales expansion to meet

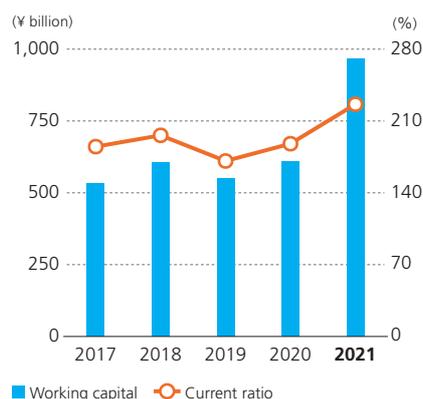
Cash Dividends per Share



Total Assets



Working Capital and Current Ratio



recovering demand. However, due in part to the general decline in demand from the impact of COVID-19, overall net sales of specialty chemicals remained at the same level year over year.

As for fluorocarbon gas, the impact of the decline in global sales was significant, and as a result, overall sales of gas decreased substantially year over year.

Other Operations

Overall sales of the “Others” segment decreased by 9.6% year over year to ¥55.4 billion. Operating income decreased by 25.5% to ¥4.1 billion.

In oil hydraulic equipment, net sales of oil hydraulic equipment for industrial machinery declined year over year as a result of a decline in capital investment in Japan and declining demand in Asian, European, and U.S. markets triggered by the spread of COVID-19. In addition, net sales of oil hydraulic equipment for construction machinery and vehicles declined year over year due to the impact of decreased demand in the Japanese, European, and U.S. markets resulting from the spread of infection.

In defense systems-related products, net sales decreased year over year as a result of a reduction in sales of ammunition to the Ministry of Defense, despite an increase of sales of home oxygen equipment due to robust sales of oxygen concentrators as well as the capture of demand for pulse oximeters (medical devices that can easily measure blood oxygen saturation without blood collection) in response to the spread of COVID-19.

In the electronics business, net sales decreased year over year due to a decline in sales of “SpaceFinder,” a database system for design and development sectors that is sold mainly to manufacturers, which suffered from a decline in investment associated with the spread of COVID-19.

Current Exchange Rates

In foreign currency markets, the yen’s average annual exchange rate was ¥3 stronger against the U.S. dollar and ¥3 weaker against the euro compared to the previous fiscal year. The average rates for the fiscal year under review were US\$1=¥106 and €1=¥124. Fluctuations in currency exchange rates resulted in a

decrease of ¥22.5 billion in sales and ¥5.0 billion in operating income below what they would have been in the absence of fluctuations.

	2020	2021
Yen-U.S. dollar rate	¥109	¥106
Yen-euro rate	¥121	¥124

SG&A Expenses and Operating Income

SG&A expenses rose 1.0% over the previous fiscal year, to ¥625.5 billion mainly as a result of increases in personnel costs.

Consolidated operating income declined 10.1% year on year, to ¥238.6 billion, while the operating income margin came in at 9.6%.

Assets, Liabilities, and Total Equity

Assets

Total assets increased by ¥572.2 billion from the end of the previous fiscal year to ¥3,239.7 billion.

Current assets increased by ¥428.9 billion from the end of the previous fiscal year to ¥1,733.4 billion, mainly due to an increase in cash and deposits.

Non-current assets increased by ¥143.2 billion from the end of the previous fiscal year to ¥1,506.3 billion, primarily due to an increase in investment securities resulting from market value fluctuation.

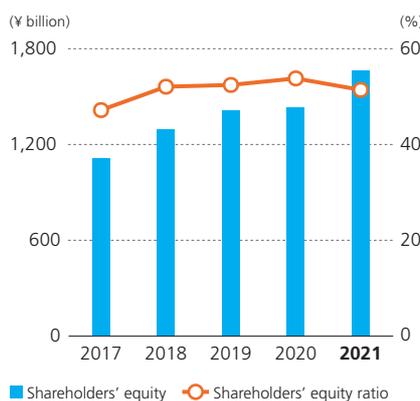
Liabilities and Net Assets

Liabilities increased by ¥336.2 billion from the end of the previous fiscal year to ¥1,541.2 billion, mainly due to an increase in long-term borrowings.

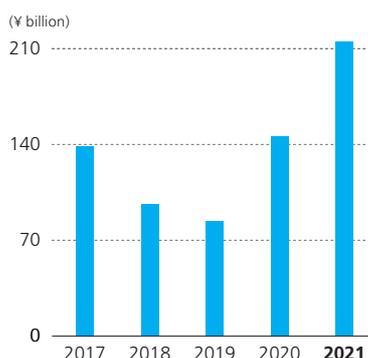
Net assets increased by ¥235.9 billion from the end of the previous fiscal year to ¥1,698.5 billion, primarily due to an increase caused by posting of net income attributable to owners of parent.

As a result of the aforementioned, the shareholders’ equity ratio declined from 53.8% as of the end of the previous fiscal year, to 51.4%. Net assets per share improved to ¥5,691.85

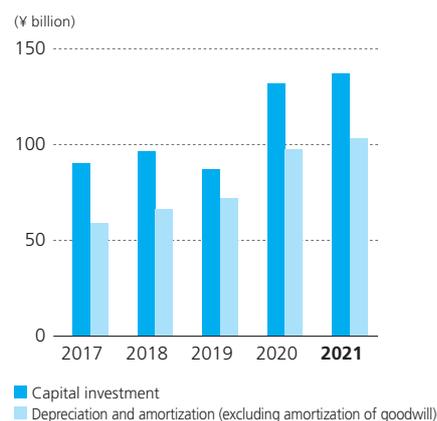
Total Shareholders’ Equity and Shareholders’ Equity Ratio



Free Cash Flow



Capital Investment and Depreciation and Amortization



Financial Review

from ¥4,904.46 for the previous fiscal year.

Total interest-bearing liabilities stood at ¥751.2 billion as of March 31, 2021, up ¥197.5 billion compared to the end of the previous fiscal year. This mainly reflected the increase in long-term borrowings and other factors. The interest-bearing liability ratio (interest bearing liabilities / total assets) increased from 20.8% to 23.2%.

Cash Flows

During the fiscal year under review, net cash provided by operating activities was ¥374.7 billion, an increase of ¥72.5 billion from the previous fiscal year, principally due to an increase in trade payables. Net cash used in investing activities was ¥159.7 billion, an increase of ¥3.5 billion from the previous fiscal year, primarily due to a decrease in proceeds from sales of investment securities. Net cash provided by financing activities was ¥98.9 billion, an increase of ¥268.9 billion from the previous fiscal year, mainly due to an increase in proceeds from long-term borrowings. After including the effect of foreign exchange rate change to these results, net increase in cash and cash equivalents for the fiscal year under review, amounted to ¥341.2 billion, an increase of ¥387.2 billion from the previous fiscal year.

Capital Investment

Considering investment as the foundation of growth, the Daikin Group will strive to expand its business through investment, as well as to strengthen its financial position, further increase its corporate value, and improve shareholder returns. Specifically, in addition to capital investments for new products and investments to improve productivity and expand production capacity, the Group will implement each strategic investment to expand its business globally and strengthen its competitiveness. The funds required for these investments will be procured by borrowing mainly from financial institutions and bonds as necessary, in addition to the Group's own funds based on the accumulation of internal reserves. During the fiscal year under review, net cash provided by operating activities

was ¥374.7 billion, exceeding net cash used in investment activities of ¥159.7 billion.

R&D Expenses

In view of the rising concern about global warming on a world-wide scale and issues related to energy, the Daikin Group working mainly through its Technology and Innovation Center (TIC) engages in leading-edge technology research and development programs designed to proactively contribute to the resolution of global environmental issues, while also expanding the Group's business operations.

In addition to upgrading of its core proprietary technologies, the Daikin Group is taking steps to acquire technology in cooperation with outside parties.

In fiscal 2019, Daikin established the Technology and Innovation Center CVC Office to play a role in all corporate venture capital activities related to investment in and support for start-up companies around the world.

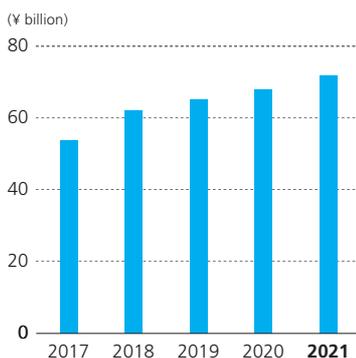
In fiscal 2020, the Group entered into a comprehensive collaborative cooperation with Doshisha University in Kyoto. Based on this, both parties worked on the practical application of CO₂ capture, decomposition, and reuse technologies, and further increasing the efficiency of air conditioners in order to reduce greenhouse gas emissions. In addition, in response to the increasing global demand for air quality, we have developed a "moisture-permeable membrane total heat exchanger element" for ventilation equipment and "low-pressure loss air filter material" for large air conditioners in cooperation with Daicel Corporation.

We will work to innovate through collaborative creation, solve environmental and social issues, and expand our business by promoting industry-government-academia collaboration, including with the University of Tokyo, China's Tsinghua University, and start-up companies, with which we already formed partnerships.

Through these efforts utilizing our global R&D infrastructure, we will work to greatly improve the efficiency and speed of R&D to create differentiated products in each region of the world.

In fiscal 2020, R&D expenses included in the Groupwide

Research and Development Expenses



ROE



ROA



SG&A and manufacturing costs totaled ¥71.7 billion, and the main initiatives, results, and R&D expenses by business segment for the fiscal year under review are as follows.

Air-Conditioning and Refrigeration Equipment

R&D expenses for air-conditioning and refrigeration operations totaled ¥63.1 billion.

In the domestic air-conditioning business, people's awareness of air quality is increasing due to COVID-19, while in the residential market we have applied our proprietary "waterless humidifying" technology to the "Urusara X," a room air conditioner that can ventilate while cooling and heating that was launched in November 2019. Subsequently, we expanded our lineup of "air conditioners with ventilation" in order to support "ventilation," which has become the norm in homes, sequentially launching the "Urusara X," "Urusara mini," "V Series," "Ururu Sarara Ceiling Mounted Cassette-Shape Single Flow Type," and "Ururu Sarara Floor Mounted Type" from November 2020.

In facilities used by an unspecified large number of people—such as restaurants, stores, and offices—"ventilation" and "virus suppression" are urgently needed. Accordingly, in May 2020 we released "titanium apatite filters" that absorb bacteria and viruses for use in commercial air conditioners.

Moreover, in September 2020 we launched "Venti-air," an exposed installation total heat exchanger unit that can be retrofitted. The "Venti-air" system not only eliminates the need to replace ceilings when installing additional equipment in existing buildings, but also can be installed in a variety of ways, including on the ceiling, interior walls, and under the eaves, making it easier to install ventilation equipment. We have also developed three new products that are set to be released sometime from May 2021: the industry's first "outdoor installation type" that can be installed outside; a "ceiling-suspension type" suitable for retrofitting in schools and other facilities where there is no ceiling space; and an "exposed installation type (150 m³/h type)" that can be used in small spaces.

Furthermore, we plan to release from April 2021 the "UV Streamer Air Purifier," which quickly and effectively suppressing viruses in spaces that are difficult to ventilate, such as small windowless spaces and conference rooms that are constant use. Developed in cooperation with Asahi Kasei Corporation, this air purifier is the industry's first to use UVC LEDs, which emit deep UV rays with a wavelength of 265nm that are highly effective in inhibiting viruses and bacteria.

The "UV Streamer Air Purifier" irradiates viruses and bacteria captured by the "Antibacterial HEPA Filter—a dust collection filter with an antibacterial agent attached to conventional electrostatic HEPA filters—using our unique powerful decomposing "streamer" and 265nm deep UV rays, which are highly effective in inhibiting viruses and bacteria. This product suppresses viruses by more than 99% in 30 minutes and bacteria by about 10 times faster than conventional streamer air purifiers. We will establish a supply system based on domestic production in order to respond to fluctuations in demand and rapidly supply this product.

We will continue to develop devices useful for "ventilation" and "virus control" by utilizing air purification technology that combines "streamer technology" and "UVC LED," as well as expand our product lineups in order to help further improve air quality.

In the residential market, there is a growing demand for new air conditioners to be installed in rooms not equipped with air conditioners in light of more time being spent at home working or studying. In order to meet this demand, we launched a new series of products in March 2021: "risora" a wall-mounted type room air conditioner that features a design that blends in with the room based on its thinness and texture; and the "Cocotas," a small space multi-cassette type for small private rooms, corridors, washrooms and other non-residential rooms.

The "risora" has a new look, featuring two types of front panels for indoor units. The "natural wood" panel, with its soft color and wood texture, blends into the room with a relaxing look amid people spending more time at home. The other new panel, "aluminum silver" is designed to appear different depending on the viewing angle and lighting.

"Cocotas" was previously designed as a multi-type air conditioner in which two or more indoor units were connected to one outdoor unit. In order to meet the increasing demand for air conditioning in small spaces, however, we have developed a pair-type air conditioner that connect one indoor unit to one outdoor unit, making installation easier.

In the commercial market, we launched the waterless humidification unit "Ururu Unit" in June 2020 for store users who require humidification such as clinics, cram schools and nursery schools. Applying waterless humidification technology cultivated in room air conditioners enables humidification along with ventilation, resulting in improved room air quality. In February 2021, we released an outdoor installation-compatible version of our "beltless type" air conditioner for facilities. Indoor facility space can be effectively utilized by installing the indoor unit outdoors. In addition, during installation, maintenance and servicing, work can be done without entering the room, thus reducing the impact on factory operating hours. The "outdoor air control mode" is used to increase the amount of ventilation in order to meet growing ventilation needs without creating new installation space in rooms.

In Applied Systems, we released a new dedicated outside air treatment system (DOAS) model in July 2020 in North America, featuring improved operating efficiency that reduces energy consumption for outdoor air intake. We also released the industry's smallest indoor air handling unit in October 2020. This new unit uses a compact design featuring significant installation freedom, while also realizing the same functionality and performance as larger models. In addition, it uses high-performance air filters and an anti-contamination design to provide better indoor air quality.

In Europe, we launched in September 2020 a water-cooled screw heat pump chiller that uses the low-GWP refrigerant R1234ze. In combination with our air-cooled heat pump chiller already on the market, this product can be used not only for air conditioning but also for supplying hot water.

In China, we launched a modular magnetic bearing turbo chiller in April 2020, featuring a never-seen-before compact and lightweight design, and it can be transported by forklift or passenger elevator. In addition, units can be connected (cooling capacity expansion) through simple on-site installation to meet the demand for partial upgrades, expansion and split investment of existing properties. In March 2021, we released a modular scroll chiller equipped with a free-cooling function that can significantly improve server cooling efficiency for small and medium-sized data centers.

Chemicals

R&D expenses for Chemicals operations totaled ¥6.7 billion.

Daikin conducts R&D for new products and new applications based on its rich experience in fluorine products and fluorochemical technology. In the fluoropolymer resin and fluoroelastomer fields, fluorochemicals exhibit good heat resistance, low drug reactivity, and dielectric properties. Using these properties, Daikin is developing new differentiated products for automotive, semiconductor, wire and cable (IT field), and other applications. Daikin also develops coatings based on the non-adhesive and chemical resistant properties of fluoride-based substances, and develops textile treatment materials and carpet treatment materials based on the water and oil repellent properties. In addition, Daikin engages in a wide range of fluoride-related R&D, including the development of telecommunication and information terminal materials based on the functionality of fluorine containing compounds and the provision of contracted synthesis research for pharmaceutical intermediates.

In addition to these developments, as part of R&D in peripheral areas aimed at developing new techniques and applications, Daikin is working on the development of film process products and multilayered materials and conducts advanced materials research related to the medical, optical, environmental, electric power battery, and energy areas. Through these initiatives, Daikin is endeavoring to further secure the global No. 1 position and become the sole provider of fluorochemical solutions. Especially, in the automotive battery field, Daikin is making concerted efforts to grow its ties globally and further expand its markets. In addition, we are pursuing the development of various environmentally friendly products from an SDGs perspective.

By furthering and accelerating its R&D, the TIC, which has the mission of new product development in Daikin's Chemicals business, is seeking to develop technologies that will lead on next-generation themes.

Other Operations

R&D expenses for the Other operations totaled ¥2.0 billion. In oil hydraulics, Daikin is drawing on the special features of its hybrid oil hydraulic systems technology, which combines oil hydraulic technology and inverter technology to realize energy conservation and high functionality that could not be realized with previously existing hydraulic systems. In addition, besides the medium- to low- and small-volume markets, where Daikin is working to expand the adoption in Japan and overseas, the Group is also developing units for high-pressure and high-volume applications.

In the industrial press and other industrial machinery applications, Daikin's "Super Unit" has won high acclaim for its low electric power consumption. It also contributes to improvement in the workplace environment and reduction in environmental impact because of its lower noise, reduced heat emission, and smaller tank size.

Moreover, Daikin has launched a large-scale extruder system that equals electric power as a motive force for its responsiveness and energy conservation. By expanding the lineup of units in this series to meet the special needs of countries in Asia and other regions for handling multiple voltages and other features, Daikin will promote the adoption of this system for presses and other machines and move forward with sales

expansion globally.

Also, Daikin is proceeding with the development of an energy conservation system for use on special vehicles. One of these units, a hydraulic hybrid system for use on vehicles, has already been adopted. In addition to conventional hydraulic systems, Daikin is proceeding with the development of advanced environmentally responsive products and technology that go beyond existing frameworks and will find applications globally.

In defense systems, Daikin mainly conducts R&D related to artillery shell and guided missiles components, for Japan's Ministry of Defense, as well as equipment used in home oxygen therapy.

Dividend Policy and Dividends Applicable to the Fiscal Year

The Company will continue to focus on expanding its businesses while investing its assets strategically and improving its financial structure by such means as proceeding with the reduction of overall costs and enhancing its financial position. Through these initiatives, we are committed to being a truly global and excellent company while at the same time further improving our corporate value and enhancing profit returns to our shareholders.

Specifically, by striving to maintain a consolidated ratio of dividend to net assets (Dividend on Equity, DOE) of 3.0% while at the same time aiming for an even higher consolidated dividend payout ratio, we will introduce initiatives to further increase returns to our shareholders with the core goal of stable and continuous dividends.

In addition, internal reserves will be applied to strategic investments to expand business and increase competitiveness such as reinforcing the structure of management, promoting global businesses, and accelerating eco-conscious product development.

For the fiscal year ended March 31, 2021, the Company has proposed an annual cash dividend of ¥160 (¥80 for the interim dividend and ¥80 for the year-end dividend). For the fiscal year ending March 31, 2022, the Company plans an annual cash dividend of ¥180 (¥90 for the interim dividend and ¥90 for the year-end dividend).

Outlook for Fiscal 2021

Going forward, the global economy is expected to start expanding due to the widespread use of COVID-19 vaccines and economic measures taken by various countries. China and the U.S. continue to engage in major fiscal spending and thus are expected to lead the economic expansion, while Europe and Japan are also expected to see a gradual economic recovery, albeit later on. Against this backdrop, we adhere to under the Group's slogan for its Annual Group Policy for 2021, "Taking 'Overwhelming Changes' as Opportunity, Let's Challenge New Initiatives." Accordingly, we will take the following initiatives. We will strengthen our Solutions business, which is not limited to the sale of single units; further increase sales of heat-pump heaters and hot-water units; build a low-temperature business that links the cold chain from pro-

duction sites to consumption areas; provide products and services that address growing needs for air and ventilation, and solutions to global environmental and climate change issues; strengthen our sales and marketing capabilities by utilizing digital technologies; engage in flexible production and procurement; improve quality; enhance human resources; and reduce fixed and variable costs. As for technological development, we will also strive to acquire differentiated technologies by collaborating with venture companies and academic institutions.

In addition, the International Energy Agency (IEA) foresees demand for air conditioning more than tripling by 2050, from today's levels, in line with the development of emerging countries. While this represents a huge opportunity for the Daikin Group with its main business in air conditioning, there is the worldwide issue of climate change. Amidst growing demand for decarbonization, there are issues such as curbing energy consumption associated with air conditioning, lowering the use of fossil fuels, and preventing leaks of refrigerants that cause greenhouse effects. Unless we make a concerted effort to control greenhouse gas emissions, these could become a risk for the Group. The Daikin Group aims to respond to these risks by reducing its environmental impact by, for example, developing and spreading the use of refrigerants with lower global warming potential, developing and spreading the use of high-efficiency air conditioners, and creating solutions for buildings that utilize energy efficiently throughout the entire facility. In 2018, the Daikin Group formulated its "Environmental Vision 2050" to aim for zero greenhouse gas emissions in 2050, while offering a safe and healthy air environment. Daikin announced its support and agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. An important issue is the impact climate change will exert on business continuity, and as such, Daikin analyzes the risks and opportunities it will have on business, and together with reflecting that to management strategy, the Group contributes to solutions to climate change and other social problems while also aiming for further growth.

For the fiscal year ending March 31, 2022, Daikin forecasts a 10.3% increase in consolidated net sales, to ¥2,750.0 billion, with operating income expected to rise 13.1% year on year, to ¥270.0 billion, and net income attributable to owners of the parent expanding 13.3%, to ¥177.0 billion. The estimated exchange rates for the fiscal year are ¥105 to the US dollar and ¥125 to the euro.

Principal Risks Associated with the Daikin Group's Operations

Management recognizes the following principal risks that may influence decisions made by investors given their significant impact on business conditions as stated in the securities report, and among matters pertaining to accounting status, consolidated companies' financial status and business performance, as well as cash flows.

The following have been determined as of the end of the consolidated fiscal year under review.

(1) Risks related to the market environment

① Risks related to changes in the market environment

The Group develops, procures, manufactures, and sells goods

and services in each of its business domains, chiefly air conditioning, as it grows its business globally. The Group strives to raise market share by strengthening its sales network, offering competitive products and services, and cutting fixed costs in order to expand its business and enhance profitability.

Nonetheless, in the event that market conditions deteriorate in countries and regions in which the Group has operations, due to, for example, rising instability in the political and diplomatic situation, trade friction, economic contraction, extreme weather, and outbreak of a pandemic, such as COVID-19, there is a possibility that business expansion and increases in profitability will not progress as planned. As a result, there is a possibility of an impact on the Group's financial situation and management performance.

② Risks related to fluctuations in currency exchange rates and funds procurement environment

Overseas sales accounted for a high ratio of the Daikin Group's consolidated net sales in fiscal 2020. 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 for Group operations in each global region, including sales, expenses, and assets. 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 the Group engages in foreign currency-denominated transactions in raw materials and parts procurement and in the sale of goods and services, there is a possibility that fluctuations 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 fluctuations in currency exchange rates.

In addition, the Daikin Group procures funds necessary for its business activities through loans from financial institutions, or by using commercial paper or bonds. When the economic environment fluctuates, the lending posture of financial institutions and the situation in funds procurement markets will change, and there is the risk that necessary funds cannot be procured, or that the funding rate will rise. In response to such risks, we set commitment lines, and use interest swaps and other measures to fix the interest rate, among other efforts. However, there is a possibility that fund procurement costs will rise, and that there will be an impact on the Group's financial situation and management performance.

③ Risk related to fluctuation in market value of securities

The Daikin Group takes a strategic approach to holding corporate stock that can be anticipated to enhance Company value. However, stock market trends could cause a decline in the value of these stocks, and potentially impact the Group's financial situation and management performance.

(2) Risks related to business activities

① Risks related to technology, products, and services

The Daikin Group aims to generate customer value and social value, and makes concerted efforts to develop the technology, products, and services that will consistently lead to customer satisfaction. However, the emergence of new technology, products or services that differ from those anticipated by the Group, or abrupt changes to the market such as rapidly escalating competition, including from new market entrants, may lead to the necessity to amend or transform technology or product strategy.

In that event, delays in bringing about new products or services, or launching new businesses, will cause the Group to lose its advantageous position against competitors or new market entrants. As a result, this may impact the Group's financial situation and management performance.

② Risks related to acquisitions and alliances with other companies

The Daikin Group has in the past utilized corporate acquisitions, in addition to organic growth leveraging existing management resources in order to grow its business globally and to strengthen its product lineup and sales structure. Going forward, to expand its business domains and accelerate the transformation of its business structure, it will aggressively undertake alliances, collaboration, and M&A activities. In the project evaluation stage, the Group not only assessed strategy toward business expansion but also considered the risk in terms of business operation, and following project execution, will strive to ensure that business integration occurs smoothly. Nonetheless, after a project is executed, there is a possibility that integration will not proceed according to plan due to a deteriorating market environment, the inability to fully utilize the management resources of the target company, and the lack of smooth cooperation with the target company, or other reason. As a result, there is a possibility that there will be an impact on the Group's financial situation and management performance.

③ Product and service quality and responsibility

The Daikin Group operates in over 160 countries worldwide, and endeavors to provide products and services that are in tune with local needs. In addition, it undertakes strict design overviews and quality audits for each respective region, and does its utmost to assure quality and safety. However, by any chance that a problem with regard to safety arises, it gives first consideration to the safety of the customer. To prevent reoccurrence or expansion of the accident, the Group will repair or exchange, and will through newspapers or other means notify and disclose information to sales vendors and other relevant third parties, fulfilling its responsibilities based on the Product Liability Law.

As these countermeasures may incur large expense, we have enrolled in product liability insurance, however, in the event that expenses exceed the limit of compensation or if sales decline as a result of a deteriorated brand image, there is a possibility of an adverse impact on the Group's financial situation and management performance.

④ Risks related to procurement

In the event management conditions at suppliers deteriorates,

or if natural disasters or accidents occur, the Daikin Group makes efforts to ensure that raw materials, parts, and other items are supplied in a stable and timely manner, and at reasonable prices. This can be achieved by diversifying its suppliers and transitioning to domestic and local procurement, as well as by creating parts commonalities and standardization, among other efforts. However, in the short term, it may be difficult to take the measures described above, and in the event of an unforeseen situation, such as the spread of a global pandemic or large-scale disaster, the Group could experience shortages of raw materials and parts, delays in delivery, and other problems. In this case, there is a possibility that this may have an impact on the Group's business.

In addition, the Daikin Group and its suppliers set prices of raw materials and parts in accordance with a contract. The Group strives to enable procurement at stable prices through long-term contracts and other means, although abrupt changes in the supply and demand environment or fluctuations in exchange rates may make sharp rises in procurement prices unavoidable.

In such an event, there is a possibility that there will be an impact on the Group's financial situation and management performance.

⑤ Legal regulations

The Daikin Group, which operates in over 160 countries worldwide, is subject to laws and regulations covering competition, the prevention of bribery, human rights, labor and safety, the environment, and other areas in all nations and regions around the world. In each country the introduction of ever more severe laws and regulations and changes in the legal interpretations and operating guidelines of local authorities may lead to limitations of the Group's business activities. The Group conducts an array of training sessions with the aim of thorough compliance, along with the introduction of an annual "self-check" to confirm whether or not daily business is being performed in adherence to laws and regulations. Together with raising a consciousness of compliance, the Group conducts audits and confirms the status of adherence.

Nonetheless, in the event that violations of the law occur, there is a possibility that the Group will face administrative action for the payment of monetary penalties. In addition, a decline in brand image has the potential to impact the Group's financial situation and management performance.

⑥ Information security

In the course of carrying out its business, the Daikin Group obtains confidential information from third parties and personal information from customers, in addition, the Group also handles its own proprietary confidential information. For that reason, there is a possibility of unauthorized access by hackers or being the subject of a cyber-attack that causes external leaks of personal or confidential information, which could halt production lines at each location or logistics systems, and exert a serious impact on business.

To prevent any of these situations from arising, the Group is putting into place countermeasures that include strengthening information security systems, thoroughly controlling confidential notifications, restricting external access, maintaining internal regulations, and conducting education and training. However, in the event such situations were to occur, there may

be requirements to pay large-scale damages or fines. Moreover, the payment of enormous countermeasure costs has the potential to impact the Group's financial situation and management performance.

(3) Risks related to climate change and other environmental issues

Climate change is one of the social problems that the Group must tackle on a global basis. Based on the Group Philosophy to "Be a Company that Leads in Applying Environmentally Friendly Practices," the Daikin Group therefore develops and spreads energy-conserving, high-efficiency air conditioners and refrigerants with lower global warming potential, and generates solutions for the efficient use of energy throughout entire buildings. In this way it is taking aggressive action to curb greenhouse gas (CO₂, fluorocarbons) emissions, and to mitigate climate change. However, in the event that regulations covering use and emissions of greenhouse effect-causing refrigerant gas, and regulations pertaining to energy conservation become more stringent as the shift to a low-carbon society progresses, there is a possibility of increased costs necessary to adhere to such regulations. In addition, in the event that taking a sufficient response to these regulations is difficult and delays occur, product sales may be hindered, and there may be an impact on smooth business operations. One of the physical risks here is damage to the Group's employees, manufacturing facilities, systems, and supply chains in the event of a large-scale disaster associated with abnormal weather, which presents the potential for significant impact on business activities.

In addition, The Daikin Group takes every possible measure to prevent environmental pollution from our business activities, including not only compliance with regulations but also the establishment of even stricter voluntary standards. However, in the event that chemical substances released by the Group effectively give rise to environmental problems, it will be necessary to respond by undertaking purification treatment, paying damages, and other measures, and it is possible that costs will be incurred to address such situations.

The emergence of such risks entails a possibility of an impact on the Group's financial situation and management performance.

(4) Others

① Impairment of long-lived assets

The Daikin Group records various tangible and intangible long-lived assets, including assets used in operations and goodwill arising from acquisitions. These assets are assessed for any indication of impairment loss. If an indication of impairment is identified, steps are taken to estimate the total amount of future cash flows to determine the existence of loss. The future cash flows required to make these determinations are based on management plans and are estimated after factoring in future uncertainties. If an impairment loss is recognized in the future due to fluctuations in business performance or other factors, the financial position and results of operations of the Group may be affected. Meanwhile, the Group monitors its performance on an ongoing basis and strives to take action before it becomes difficult to recover investments.

② Natural disasters, etc.

The Daikin Group possesses R&D, manufacturing, sales, and

service bases around the world. In recent years, Japan has experienced earthquakes, tsunamis, typhoons, torrential rain, and other natural disasters. In preparation for such natural disasters, the Company takes measures to reinforce each business site against earthquakes, and also acts to put in place countermeasures against tsunamis, significant rainfall, flooding, and other disasters. In addition, it also formulates disaster prevention regulations pertaining to natural disasters, and periodically conducts disaster prevention training in efforts to minimize the impact of natural disasters. Nonetheless, there is a possibility that a major natural disaster will significantly impact business activities, and that harm will come to the Group's employees, production facilities, systems, and other assets. At overseas locations as well, in addition to various types of natural disasters, terrorism, riots, wars, and other incidents could conceivably cause harm not only to the Group's business bases, but also to supply chains and customers. This holds a possibility of hindering the Group's business activities and causing delays.

Furthermore, the spread of contagious diseases has become a risk for the Daikin Group's business. In response to the spread of COVID-19, the Group has made securing the health and safety of its employees the top priority in exerting every effort to prevent the spread of infection. The Group has also engaged in addressing important management issues, such as strengthening procurement, manufacturing, inventory, and logistics globally; promoting online sales that address declines in demand and changes in consumer purchasing behavior; expanding sales of ventilation products that seize upon the greater awareness of air quality and ventilation; and developing products that stand out. At the same time, vaccination is also progressing in countries around the world. However, given that it is difficult to foresee when the COVID-19 pandemic will come to an end due to factors such as the spread of variants, there is a possibility of an impact on the Group's financial situation or management performance.

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2021

ASSETS	Millions of Yen	
	2021	2020
CURRENT ASSETS:		
Cash and cash equivalents	¥ 662,267	¥ 321,152
Short-term investments	73,831	49,641
Trade receivables :		
Notes	59,954	48,613
Accounts	408,377	392,142
Allowance for doubtful receivables	(13,074)	(10,562)
Inventories	469,398	433,783
Prepaid expenses and other current assets	72,608	69,658
Total current assets	1,733,361	1,304,427
PROPERTY, PLANT AND EQUIPMENT:		
Land	61,429	56,891
Buildings and structures	493,194	444,781
Machinery and equipment	691,285	631,138
Furniture and fixtures	214,586	193,840
Lease assets	3,955	3,614
Construction in progress	68,857	46,120
Total	1,533,306	1,376,384
Accumulated depreciation	(885,895)	(796,403)
Net property, plant and equipment	647,411	579,981
INVESTMENTS AND OTHER ASSETS:		
Investment securities	206,377	157,329
Investments in and advances to unconsolidated subsidiaries and associated companies	24,277	17,439
Goodwill	268,684	281,969
Customer relationships	177,968	169,766
Other intangible assets	96,110	90,921
Deferred tax assets	31,692	26,794
Assets for retirement benefits	19,960	12,885
Other assets	33,823	26,002
Total investments and other assets	858,891	783,105
TOTAL	¥ 3,239,663	¥ 2,667,513

<u>LIABILITIES AND EQUITY</u>	Millions of Yen	
	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES:		
Short-term borrowings	¥ 40,755	¥ 48,938
Current portion of long-term debt	76,279	105,900
Current portion of long-term lease obligations	20,639	17,301
Trade payables :		
Notes	11,914	10,007
Accounts	217,832	179,837
Income taxes payable	20,757	19,894
Provision for product warranties	62,255	52,850
Accrued expenses	154,214	142,069
Other current liabilities	<u>161,340</u>	<u>117,162</u>
Total current liabilities	<u>765,985</u>	<u>693,958</u>
LONG-TERM LIABILITIES:		
Long-term debt	548,803	323,185
Long-term lease obligations	64,737	58,483
Liabilities for retirement benefits	14,540	13,219
Deferred tax liabilities	118,606	90,087
Other long-term liabilities	<u>28,497</u>	<u>25,990</u>
Total long-term liabilities	<u>775,183</u>	<u>510,964</u>
COMMITMENTS AND CONTINGENT LIABILITIES		
EQUITY :		
Common stock - authorized 500,000,000 shares; issued 293,113,973 shares	85,032	85,032
Capital surplus	84,215	83,899
Stock acquisition rights	2,019	1,887
Retained earnings	1,363,505	1,254,073
Treasury stock, at cost: 469,595 shares in 2021 and 529,837 shares in 2020	(2,013)	(2,265)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	68,700	29,765
Deferred gain (loss) on derivatives under hedge accounting	1,293	(2,797)
Foreign currency translation adjustments	69,470	(5,052)
Remeasurements of defined benefit plans	<u>(4,513)</u>	<u>(7,687)</u>
Subtotal	1,667,708	1,436,855
Noncontrolling interests	30,787	25,736
Total equity	<u>1,698,495</u>	<u>1,462,591</u>
TOTAL	<u>¥ 3,239,663</u>	<u>¥ 2,667,513</u>

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2021

	Millions of Yen	
	2021	2020
NET SALES	¥ 2,493,387	¥ 2,550,305
COST OF SALES	<u>1,629,251</u>	<u>1,665,407</u>
Gross profit	864,136	884,898
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>625,513</u>	<u>619,385</u>
Operating income	<u>238,623</u>	<u>265,513</u>
OTHER (EXPENSES) INCOME:		
Interest and dividend income	10,696	13,114
Interest expense	(8,791)	(11,008)
Equity in earnings of associated companies	7	166
Exchange gains	547	461
Subsidy income	1,393	3,239
Gain on sales of land		658
Losses on disposals of property, plant and equipment and other intangible assets	(1,208)	(454)
Loss on sales of land	(115)	
Losses on impairment of long-lived assets	(225)	(23,555)
Gains on sales of investment securities	313	10,810
Impairment losses on investment securities	(472)	(579)
Gains on reversal of stock acquisition rights	8	25
Gain on insurance claims		255
Gain on liquidation of a subsidiary	1	
Loss on liquidation of an unconsolidated subsidiary	(5)	
Other – net	<u>(2,228)</u>	<u>(2,465)</u>
Other expenses – net	<u>(79)</u>	<u>(9,333)</u>
INCOME BEFORE INCOME TAXES	<u>238,544</u>	<u>256,180</u>
INCOME TAXES :		
Current	72,055	81,132
Deferred	<u>3,743</u>	<u>(2,150)</u>
Total income taxes	<u>75,798</u>	<u>78,982</u>
NET INCOME	<u>162,746</u>	<u>177,198</u>
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(6,496)</u>	<u>(6,467)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 156,250</u>	<u>¥ 170,731</u>
	Yen	
AMOUNTS PER COMMON SHARE :		
Basic net income	¥533.97	¥583.61
Diluted net income	533.66	583.22
Cash dividends applicable to the year	160.00	160.00

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2021

	Millions of Yen	
	<u>2021</u>	<u>2020</u>
NET INCOME	¥ 162,746	¥ 177,198
OTHER COMPREHENSIVE INCOME (LOSS) :		
Unrealized gain (loss) on available-for-sale securities	38,934	(27,921)
Deferred gain (loss) on derivatives under hedge accounting	4,090	(3,416)
Foreign currency translation adjustments	75,637	(69,587)
Remeasurements of defined benefit plans	3,184	(2,457)
Share of other comprehensive income (loss) in affiliates accounted for using the equity method	260	(495)
Total other comprehensive income (loss)	<u>122,105</u>	<u>(103,876)</u>
COMPREHENSIVE INCOME	<u>¥ 284,851</u>	<u>¥ 73,322</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥276,969	¥68,079
Noncontrolling interests	7,882	5,243

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2021

	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2019	292,508,233	¥ 85,032	¥ 83,650	¥ 1,721	¥ 1,133,101	¥ (2,589)
Net income					170,731	
Cash dividends, ¥160 per share					(49,731)	
Effect of change of the fiscal year-end of a certain consolidated subsidiary					(28)	
Repurchase of treasury stock	(97)					(2)
Disposal of treasury stock	76,000		287			326
Change in parent's ownership interest due to transactions with noncontrolling interests			(38)			
Net change in the year				166		
BALANCE, MARCH 31, 2020	292,584,136	85,032	83,899	1,887	1,254,073	(2,265)
Net income					156,250	
Cash dividends, ¥160 per share					(46,818)	
Effect of change of the fiscal year-end of a certain consolidated subsidiary						
Repurchase of treasury stock	(458)					(9)
Disposal of treasury stock	60,700		316			261
Change in parent's ownership interest due to transactions with noncontrolling interests						
Net change in the year				132		
BALANCE, MARCH 31, 2021	<u>292,644,378</u>	<u>¥ 85,032</u>	<u>¥ 84,215</u>	<u>¥ 2,019</u>	<u>¥ 1,363,505</u>	<u>¥ (2,013)</u>

Millions of Yen						
Accumulated Other Comprehensive Income (Loss)						
Unrealized Gains on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
¥ 57,686	¥ 619	¥ 63,808	¥(5,232)	¥ 1,417,796	¥ 29,054	¥ 1,446,850
				170,731		170,731
				(49,731)		(49,731)
				(28)		(28)
				(2)		(2)
				613		613
				(38)		(38)
<u>(27,921)</u>	<u>(3,416)</u>	<u>(68,860)</u>	<u>(2,455)</u>	<u>(102,486)</u>	<u>(3,318)</u>	<u>(105,804)</u>
29,765	(2,797)	(5,052)	(7,687)	1,436,855	25,736	1,462,591
				156,250		156,250
				(46,818)		(46,818)
				(9)		(9)
				577		577
<u>38,935</u>	<u>4,090</u>	<u>74,522</u>	<u>3,174</u>	<u>120,853</u>	<u>5,051</u>	<u>125,904</u>
<u>¥ 68,700</u>	<u>¥ 1,293</u>	<u>¥ 69,470</u>	<u>¥(4,513)</u>	<u>¥ 1,667,708</u>	<u>¥ 30,787</u>	<u>¥ 1,698,495</u>

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows Year Ended March 31, 2021

	Millions of Yen	
	2021	2020
OPERATING ACTIVITIES:		
Income before income taxes	¥ 238,544	¥ 256,180
Adjustments for:		
Income taxes – paid	(67,588)	(87,360)
Depreciation and amortization	133,594	128,486
Losses on impairment of long-lived assets	225	23,555
Gains on sales of investment securities	(313)	(10,810)
Impairment losses on investment securities	472	579
Losses on disposals of property, plant and equipment and other intangible assets	1,208	454
Equity in earnings of associated companies	(7)	(166)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	511	591
Inventories	(7,748)	(14,315)
Other current assets	(4,026)	(1,624)
Assets for retirement benefits	(7,064)	1,695
Trade notes and accounts payable	25,037	(6,365)
Accrued expenses	5,702	11,347
Other current liabilities	43,375	6,223
Liabilities for retirement benefits	469	2,606
Other – net	12,300	(8,909)
Total adjustments	<u>136,147</u>	<u>45,987</u>
Net cash provided by operating activities	<u>374,691</u>	<u>302,167</u>
INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(104,971)	(98,095)
Proceeds from sales of property, plant and equipment	4,724	3,963
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired	(28,571)	(13,190)
Decrease (increase) in investments in and advances to an unconsolidated subsidiary and associated companies	55	(99)
Payment for transfer of business	(346)	
Payments for acquisition of investment securities	(1,829)	(1,595)
Proceeds from sales of investment securities	607	22,585
Net increase in time deposits	(17,957)	(52,908)
Other – net	(11,379)	(16,848)
Net cash used in investing activities	<u>(159,667)</u>	<u>(156,187)</u>
FINANCING ACTIVITIES:		
Net decrease in short-term borrowings	(9,253)	(93,943)
Proceeds from long-term debt	293,218	102,562
Repayments of long-term debt	(105,904)	(98,196)
Cash dividends paid to owners of the parent	(46,721)	(49,731)
Cash dividends paid to noncontrolling interests	(4,357)	(9,859)
Repayments of lease obligations	(28,085)	(20,919)
Other – net	44	152
Net cash provided by (used in) financing activities	<u>98,942</u>	<u>(169,934)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>27,207</u>	<u>(22,029)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	341,173	(45,983)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>321,152</u>	<u>367,189</u>
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM EXCLUSION OF SUBSIDIARIES FROM CONSOLIDATION		(47)
EFFECT OF CHANGE OF THE FISCAL YEAR-END OF CONSOLIDATED SUBSIDIARIES	(58)	(7)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 662,267</u>	<u>¥ 321,152</u>

Corporate Data

(As of March 31, 2021)

Company Name	Daikin Industries, Ltd.
Head Office	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan Phone: 81-6-6373-4312 URL: https://www.daikin.com/
Tokyo Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan Phone: 81-3-6716-0111
Fiscal Year-End Date	March 31
Date of Founding	October 25, 1924
Date of Establishment	February 11, 1934
Paid-in Capital	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	25,559
Major Shareholders	<ul style="list-style-type: none"> • The Master Trust Bank of Japan, Ltd. (Trust Account) • Custody Bank of Japan, Ltd. (Trust Account) • Sumitomo Mitsui Banking Corporation • Custody Bank of Japan, Ltd. (Trust Account 7) • Custody Bank of Japan, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank • MUFG Bank, Ltd. • Custody Bank of Japan, Ltd. (Trust Account 4) • Government of Norway • SSBTC CLIENT OMNIBUS ACCOUNT • Custody Bank of Japan, Ltd. (Trust Account 5)
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 315 Affiliates: 18
Number of Employees	84,870 (Consolidated)
Stock Exchange Listing	Tokyo
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (https://www.daikin.co.jp/e-koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the <i>Nikkei Shimbun</i> .
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

DAIKIN INDUSTRIES, LTD.

<https://www.daikin.com>