Integrated Report 2022

Fiscal Year Ended March 31, 2022
Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth

Founded in 1924, the Daikin Group 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.

In keeping with our Core Values of Absolute Credibility, Enterprising Management, and Harmonious Personal Relations, and based on our very own approach to diversity management, we have continued to grow and develop as an organization by ambitiously pursuing our goals together as a Group and demonstrating the ability to fully carry out our duties.

In light of the drastically changing business environment, the Daikin Group will work to refine its long-cultivated strengths to continue to create new value and, in turn, help resolve social and environmental issues while further growing and developing its businesses.
Introduction

History of the Daikin Group

Message from the CEO

Financial and Non-Financial Highlights

Strategies for Value Creation

Our Value Creation Process

Our Accumulated Strengths

Daikin’s Unique Business Model

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

Daikin’s Aims For Value Creation

Strategic Management Plan FUSION 25

Special Features

Daikin’s Organizational Strengths That Have Manifested in the Midst of a Crisis

Air Conditioner (AC) Subscription Service: For the Betterment of Society, Today and Tomorrow

Foundation for Value Creation

Strengthening Our Human Resource Capabilities

Strengthening Technological Capabilities

Environmental Initiatives

Information Disclosure based on the TCFD Framework

Supply Chain Management

Safety-Related Measures

Financial Strategy

A Governance System That Facilitates Value Creation

Corporate Governance

Messages from External Directors

Corporate Officers

Compliance and Risk Management

Business Strategies

Overview of Daikin’s Core Businesses and Global Network

Review of Operations

Air Conditioning

Chemicals

Oil Hydraulics

Defense Systems

Financial Summary

Eleven-Year Financial Highlights

On Publishing the Integrated Report 2022

Company Overview / Investor Information

Editorial Policy

In compiling this report, we referred to the International Integrated Reporting Framework of the IFRS Foundation, the Guidance for Collaborative Value Creation issued by Japan’s Ministry of Economy, Trade and Industry, and other guidelines. We have published this report to provide all of our stakeholders with detailed information on the Daikin Group’s strengths and business model, its unique corporate culture, and its growth strategies for realizing medium- to long-term growth and development.

Scope of Coverage

This report covers Daikin Industries, Ltd., and its consolidated subsidiaries. Environmental performance data, however, covers four production bases of Daikin Industries, Ltd., eight production subsidiaries in Japan, and 58 production subsidiaries overseas.

In this report, “the Group” refers to the Daikin Group overall, while “the Company” refers to Daikin Industries, Ltd.

Period of Coverage

This report covers the period from April 1, 2021 to March 31, 2022 (fiscal 2021)

Forward-Looking Statements

This 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 historical facts and are based on judgments made by the Company on the basis of information known at the time. Readers should therefore refrain from drawing conclusions based 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.

• Selected for inclusion in the MSCI Japan ESG Leaders Index
• Selected for inclusion in the MSCI ESG Select Leaders Index
• Selected for inclusion in the FTSE Blossom Japan Sector Relative Index
• Received five stars, the highest rating, and the Nikkei Smart Work Grand Prix 2022 in the FTSE Nikkei Smart Work Management Survey, a program sponsored by Nikkei Inc., which assesses companies on the variation and flexibility of their work practices

Company Overview / Investor Information

On Publishing the Integrated Report 2022

Company Overview / Investor Information
History of the Daikin Group

Our Founding

Akira Yamada, the founder of Daikin’s predecessor Osaka Kinzoku Kogyosho Limited Partnership, joined a private company as an engineer after working at the Osaka Artillery Arsenal. Despite a flood of orders for radiator tubes used on aircraft in 1923, the company’s management board at the time was reluctant to take on this business due to its poor financial situation. Nonetheless, convinced that the business would be a success, Yamada made it clear that he would take full responsibility for it and accepted orders for the radiator tubes on the condition that he would establish his own factory and assume production as a subcontractor. This factory laid the foundation for the establishment of Osaka Kinzoku Kogyosho. Despite being a company that specialized in metals, it funneled efforts into the research and development of chemicals thereafter, becoming the first to successfully produce refrigeration technology and fluoropolymers paved the way for the establishment of the backbone of our core business today, the Air Conditioning Business.

Over the first 50 years from our founding, we had to significantly reduce our workforce on three separate occasions as a result of recurring financial crises. Moreover, due to the effects of the first oil crisis, in 1973 we failed to turn a profit for the first time in a quarter century and were excessively overstaffed. It was in these circumstances that the then president Minoru Yamada put forth the Declaration for Avoiding Employee Layoffs and a crisis, in 1975 we failed to turn a profit for the first time in a quarter

Our Three-Pillar AC Business Plan and Global Expansion

After the collapse of the bubble economy in the early 1990s, Daikin continued to report losses in the areas of residential air conditioners and central air-conditioning systems for factories and buildings. Moreover, the domestic market for air conditioners, including for commercial use, had already matured by that time. In light of this situation, the then chairman Noriyuki Inoue, who had been recently appointed president, set out to pursue the overseas market. With the exception of the United States, air conditioners were not commonly used outside of Japan at the time. Moreover, Daikin and one other company were the only suppliers in the world of air conditioners for residential, commercial, and factory and building use. Inoue believed that directing Daikin’s attention to factory air conditioning, and residential use more than ever and unifying the strengths of its three business segments would clear the path to Daikin becoming the world’s leading comprehensive manufacturer of air conditioners. To that end, our Three-Pillar AC Business Plan was formulated with a view to harmoniously promoting the growth of our three business segments. In addition, to ensure the effectiveness of this plan, we made a series of major decisions that would turn out to be pivotal points in our history, including advancing into the Chinese market, expanding our European business, and conducting mergers and acquisitions (M&As) overseas, thereby establishing the platform for our growth into a global leader in the industry.

A Leading Air Conditioner Company

Daikin has spearheaded the growth of the air conditioner industry through the introduction of innovative products and technologies including those that were firsts in Japan, including packaged air conditioners that operate at the touch of a button (released in 1951), and multi-split air-conditioning systems for buildings (released in 1982). Our greatest invention, however, is Ururu Sarara, Daikin’s flagship product. Released in 1999, this room air conditioner can control humidity levels without the need for a water tank by drawing in moisture from the outside air. By using a reheat dehumidification system it can also dehumidify room air without lowering the room temperature. As a global leader in the air conditioner market, Daikin draws on its one-of-a-kind technology to continue to develop environment-friendly products and is cherished by its customers in the over 170 countries in which it currently operates.

Our Ambitious Pursuit of the Chinese Market

In 2008, inverters, one of our core technologies at the time, were a crucial element of our business strategy as the shift to more energy-efficient air conditioners played a major role in addressing the intensifying needs for more environmentally conscious products worldwide. This was also the case in China, a market that we could not avoid in our pursuit of becoming the top air conditioner manufacturer in the world. At the same time, we came to realize that gaining a foothold in China’s massive air conditioner market through our efforts alone would be a tall order. Therefore, we formed a business alliance with Gree Electric Appliances, the largest manufacturer of air conditioners in China, for the technology transfer of affordably priced inverter air conditioners. As a result, the use of inverter air conditioners, which offer exceptional environmental performance, caught on right away in China.
Introduction

History of the Daikin Group

Full-Fledged Entry into the U.S. Market

With the aim of strengthening our North American business while sustaining our low-priced room air conditioner business and Applied Systems (large-scale central air-conditioning systems), which had been a weakness of ours, in 2007 we acquired O.Y.L. Industries Bhd, a global leader in the manufacture of air conditioners. With a price tag of approximately ¥243.8 billion, this was Daikin’s first large-scale acquisition. In 2010, this acquisition served as a springboard for becoming the world’s top-selling air-conditioning business.

In North America, however, our presence was still minimal in the world’s largest market for air conditioners. Due to the substantial differences in the way air conditioners were designed and sold in this region compared with Japan, tapping into this market on our own was quite a challenge, and we were forced to pull out from both our attempts in 1981 and 1998.

We encountered a turning point, however, when we acquired the Goodman Global Group, Inc. in 2012. Through the participation of Goodman, which boasts the top share of the residential air-conditioning market in North America, the Daikin Group made a full-fledged entry into the residential unitary (central air-conditioning system) market and secured a business platform in North America.

Promoting the Use of R32 Refrigerants

R32 refrigerants are conducive to environmental sustainability with a global warming potential (GWP)* equivalent to one-third the level of our previous refrigerant, R410A. Despite their low resistance to heat, both have proven that there are no risks associated with the use of R32 refrigerants, as long as they are handled properly. In 1998, however, R32 was classified as flammable and treated in the same way as hydrogen and propane, according to standards that classified refrigerants as either flammable or nonflammable, thereby hampering its use in air-conditioning systems.

With the aim of heightening awareness of the safe use of R32 refrigerants, Daikin has been holding conferences around the world on safety and environmental performance and in 2014, was granted approval for a new international standard.

To enhance the profile of its environmental technology utilizing R32 refrigerants in Japan to the rest of the world and to promote refrigerant conversion worldwide, Daikin has granted free access to a total of 93 patents related to the manufacture of R32 air conditioning systems. In 2019, free access was granted globally for all of the patents that had been applied for since 2011.

More than 33 million units of our R32 air conditioners have been sold to date in over 100 countries across the globe. Combined with those of other manufacturers, a total of over 160 million units of R32 air conditioners have been sold, contributing to an estimated reduction of approximately 260 million tons of CO2 emissions (based on calculations by Daikin as of June 2021).

* A numerical value representing the potential global warming effect of a greenhouse gas
In fiscal 2021, we moved forward with a flexible management approach to ensure that we responded quickly to both upswings and downswings in our business environment in light of the uncertainties surrounding the COVID-19 pandemic.

Throughout the year, our business activities were greatly influenced by the ongoing global shortage of semiconductors, inadequate supply of electronic components, and surging raw material prices and logistics costs. Under these circumstances, the Company established seven key themes, including strategic selling price measures, sales expansion and market share increases, variable cost reductions, and fixed cost reductions, and incorporated them into specific measures that were thoroughly implemented in a timely manner.

Owing to these measures, we achieved record-high performances in both operating profit and net sales, which surpassed three trillion yen for the first time in our history.

Our first FUSION strategic management plan was unveiled in 1996. This series of execution-oriented management plans emphasize not only the achievement of qualitative goals but also the fulfillment of commitments to numerical results. The term “FUSION” was adopted in reflection of our commitment to realizing profits in the short term and growth and development over the medium to long term, or, in other words, the fusion of these two timelines. While profits could be made in the short term simply by reducing investments, this would come at the expense of our future growth. Our management must consider the means by which we will balance the pursuit of short-term profits with medium- to long-term growth.

Moreover, “FUSION” also refers to the consolidation of our Group companies. In general, as organizations get larger, barriers begin to form within the organization. As of today, the Company consists of 322 consolidated subsidiaries, of which 292 companies (91%) are based overseas. It is imperative that we remove the barriers that exist within the Group, align the vectors of our organization, and enhance our ability to execute through a collective Groupwide effort.

Even if we were to establish a plan for five years down the line when formulating our FUSION strategic management plan, our business environment would change constantly over time. While setting aside our ultimate goal for five years forward, we establish specific numerical targets and an action plan for the first three years. Two years into this plan, we then establish a plan for the remaining three years, consisting of specific targets and an action plan that we will work to achieve. This is the concept behind our FUSION strategic management plan.

Over the years, our FUSION formulation process has centered on the direction that the Group must take for it to realize its vision five years into the future, starting from the present and taking into account potential changes in our market and customers and the trends of our competitors. In formulating FUSION 25, however, we looked ahead to how the world would change in 10 to 20 years from now and where we wanted the organization to be at that time. By backwards from this scenario, we considered the measures that we needed to take now and set specific themes to be addressed over the five-year period of FUSION 25. At Daikin, we are committed to continuing to expand our business and grow and develop as an organization while helping to resolve social and environmental issues over this five-year period. Based on this commitment, under FUSION 25, we have set the goal of realizing both contributions to a sustainable society and Group growth and declared three growth strategy themes: “Challenge to achieve carbon neutrality,” “Promotion of Solutions Business connected with customers,” and “Creating value with air,” which I will briefly explain hereafter.

I would first like to talk about “Challenge to achieve carbon neutrality.” With expectations on society in general to take measures toward decarbonization, we believe that we have a significant social responsibility to fulfill in resolving environmental issues as the world’s only manufacturer of both air conditioners and refrigerators. Our ultimate goal is to realize net-zero GHG emissions. Prior to achieving this goal, we will strive to realize the targets that have been laid out in FUSION 25 of reducing net GHG-emissions by 30% in 2025 and by 50% in 2030 as compared with emissions in the case of normal business growth without implementing any countermeasures, with 2019 as the baseline year. Our efforts will specifically center on continuing to expand sales of heat pump space and water heaters, inverters, and other energy-saving equipment, in order to reduce energy use and contribute to reductions in GHG emissions. Furthermore, we are promoting the shift to refrigerants with low GWP and the refrigerant eco-cycle of recovery, reclamation, and destruction, while proceeding with measures to reduce GHG emissions throughout our manufacturing processes.
Among our current lineup of business segments, the Heat Pump Space and Water Heating Business in Europe has the greatest influence on our challenge to achieve carbon neutrality. In Europe, the introduction of the European Green Deal policy in 2019 has accelerated the movement toward decarbonization, which generates high levels of CO₂ emissions. Heat pump heaters were used by approximately 10% of consumers at the start of FUSION 25. However, we are now seeing a rapid shift from the use of combustion heaters to heat pump space and water heaters, due in part to the granting of subsidies. With demand expected to increase substantially over the next 10 years, we are in the process of expanding our supply system with a new factory in Poland due to commence operations in 2024.

With respect to our second growth strategy, the “Promotion of Solutions Business connected with customers”, it is essential that we continue to strengthen our approach to this growth strategy. Because we are a manufacturer whose business centers on air conditioners, every sale is still the main source of our earnings. In order to expand our Solutions Business, which centers on services and maintenance, we must first increase sales of heat source equipment and solidify our customer base. Whether it be a hospital, school, office, or data center, specific needs vary with each customer. In addition to selling equipment to dealers, we must increase our points of contact with customers through our sales and service network.

Only then can we respond to diverse needs and propose solutions of high added value. For that reason, we are working to acquire new sales and service companies and expedite the reinforcement of our sales and service network.

In terms of the Air Conditioning Business in North America, which we have identified as a focus region, the service solutions businesses of the three leading air conditioning manufacturers in the United States, which we regard as our competitors, account for 60% of their respective net sales, which is well above the 35% of net sales accounted for by our Solutions Business. Going forward, we will enhance the growth of our Solutions Business to expand our presence in the North American market.

I will now turn to our third growth strategy, “Creating value with air.” When it comes to air quality, customers expect safety and reliability as well as comfort and health. The COVID-19 pandemic has reminded us that such values are simply irreplaceable. We will anticipate the changes in the value expected by customers for air and devote our attention not only to sales of air conditioners but also the intrinsic value of air in terms of temperature, humidity, air purification, and airflow. In other words, we will funnel our efforts into both our manufacture of products and our creation of experiences with air.

The respective markets of our air purification and ventilation sectors have flourished on the back of higher demand arising from the COVID-19 pandemic, while the Company has also benefited as a result, through brisk sales of its air purifiers.

We believe that our air- and ventilation-related businesses can achieve tremendous growth over the medium term through the timely introduction of products that cater specifically to the needs and regulations of each country.

Over the long run, the growth of our business will hinge on our ability to ensure health, comfort, and happiness for customers. For instance, by using our own air conditioning data in combination with biometric data acquired through a joint effort with other organizations in the healthcare domain, we may be able to provide air that caters specifically to the needs of each individual to help ensure healthy lives and enhance sleep quality, learning potential, and productivity. We will continue to pursue new possibilities for creating value with air while working alongside universities, research institutes, and other companies to take on the challenge of creating new value that is essential to society.

Under FUSION 25, we plan to invest ¥137.0 billion in digital technology over a period of three years through to fiscal 2023. Digital technology will be utilized particularly for the two themes put forth in FUSION 25—business innovation and process innovation.

Under business innovation, we will look to create new businesses and expand existing ones through the use of digital technology. The world is undergoing rapid changes and so too is the playing field for the Air Conditioning Business. For instance, due to the advancement of the Internet of Things (IoT) and artificial intelligence (AI), we are already starting to see a future in which people’s lives are being controlled by platform providers in a number of consumer electronics. So, what exactly is business innovation when it comes to air conditioning? Business innovation offers the possibility of performing our optimal energy management processes automatically, through the use of our abundant air conditioner operation data. This entails the combining of our building, spatial, and various other kinds of data. We are also involved in joint projects with homebuilders and it is critical that the data we accumulate is used effectively to transform our business going forward.

As for process innovation, we will work to shorten development lead times and enhance supply chain efficiency with a view to further solidifying our management foundation. We will work to eliminate fixed ideas attached to each department and radically reform our production, development, and indirect operations.

Our employees are the key to proceeding further ahead with digital transformation. No matter how great your strategy is, you will not get anywhere without the people who will implement it. However, the reality is that securing highly skilled individuals who are well versed in digital technology is not as easy as it sounds. For this reason, in 2017 the Company established Daikin Information and Communications Technology College to develop its own team of IoT and AI specialists who are familiar with air-conditioning technology. New employees who enroll in the college fully devote their time to acquiring basic knowledge of AI and to understanding the use of AI technology over a period of two years, without engaging in day-to-day business. As of March 2022, 300 employees have graduated from the program and are currently working in their respective departments.

In addition to this program for new employees, we are developing programs for general employees and management aimed at accelerating the development of IoT and AI specialists at each level of the organization and developing 1,500 digital human resources6 by the end of fiscal 2022. Graduates of the program are already thriving as the centerpieces of our process innovation in their respective departments.

Our challenge going forward is to develop employees who are well versed in digital technology and who also have an in-depth knowledge of our business.6 Innovators in digital technology and AI with the ability to put their specialized knowledge into action and inspire others around them to do the same.
**Message from the CEO**

In 2018, the Company introduced its Environmental Vision 2050 with the aim of realizing net-zero GHG emissions by 2050. The IEA expects a rapid increase in global air conditioning demand by 2050, particularly in markets such as China, India, and Africa, whereas global electricity demand arising from the need for cooling is expected to triple from 2020 levels. The demand for electricity will increase three-fold as long as the energy efficiency of the air conditioners being used remains the same. However, in order to help ensure a comfortable and financially sound lifestyle for everyone while realizing a carbon-neutral society, we must find a way to suppress this increasing demand for electricity.

We will continue to evolve and promote the widespread use of our exceptionally energy-efficient products and technologies to address the increasing demand for air conditioning and contribute to reductions in GHG emissions. For instance, while almost all of the room air conditioners used in Japan and Europe are equipped with inverters, the more affordable but energy-inefficient non-inverter counterparts by downsizing compressors and other components and using less raw materials. While these ongoing measures are expected to reduce GHG emissions to a certain degree, further innovation is needed to realize a carbon-neutral society.

As a part of our mission as an air conditioning manufacturer, under FUSION 25, we are also engaged in future-oriented research. Through a collaboration between industry, government, and academia, the Company is pushing forward with practical research and development (R&D) on environmental issues, such as the development of CO2 capture, decomposition, and reuse technologies, magnetic refrigeration systems, and next-generation refrigerants.

At Daikin, we believe that achieving sustainable growth as an organization is impossible without both the creation of profit and contributions to society, including environmental initiatives. Our greatest value comes from being able to grow our business while helping resolve a range of social issues.

The degree to which companies contribute to resolving environmental and social issues has recently become a major factor in students’ decisions on their place of employment. We are seeing an increasing number of young people who give serious consideration to how they can contribute to addressing social issues. I believe that extending the overlap between the dreams and aspirations of these individuals and the goals of the organization is also a major role of management.

**Daikin’s Social Responsibilities**

**Example Initiatives under FUSION 25**

**1. Challenge to achieve carbon neutrality**

Daikin will aim to achieve carbon neutrality by 2050. We will contribute to solving environmental issues, while at the same time expanding our business, by converting combustion heating to heat pumps, switching to lower GWP refrigerants and working to recover, reclaim, and destroy refrigerants.

**2. Promotion of Solutions Business connected with customers**

Daikin will expand the Solutions Business directly connected to customers with a focus on customer needs by application and market, and contribute to solutions to such issues as energy conservation and reducing food loss.

**3. Creating value with air**

Daikin will utilize its proprietary air-related technologies and products to significantly grow the indoor air quality (IAQ) and ventilation businesses and address the growing need for safe and reliable air.

**The world has encountered an unprecedented crisis in the form of the COVID-19 pandemic, heralding the age of the “New Normal.” In light of these circumstances, I constantly ask myself what I should do as the head of the Company. In order to sustainably grow our business in these times of change, we must determine which changes should and should not be made.**

Our management philosophy and the culture we have cultivated over the years could very well be defined as the Company’s DNA and we must continue to refine them as a source of competitiveness. Meanwhile, it is critical that our strategies and organization evolve in tune with the changes around us.

When adapting to change, the first thing we must do is envision multiple scenarios. Even then, we must be prepared for the unexpected. We must boldly decide on a direction, take action, and adjust our course quickly in response to change. When explaining this to our employees, we use the phrase “second-rate strategy with first-rate execution.” While a first-rate strategy with first-rate execution is most certainly ideal, a strategy is meaningless unless it is executed successfully and generates results. We want our employees to understand that execution is our foremost priority, and that “second-rate strategy with first-rate execution” is preferable to a “first-rate strategy with second-rate execution.”

To cite some specific examples, looking at the current external business environment, the conflict between Russia and Ukraine has heightened uncertainty about our future. This conflict has had serious implications for the Company in the form of surging costs of raw materials and energy, economic downturn in major markets, and global economic slowdown. Resource prices, logistics costs, and labor costs have soared to unprecedented levels and they must be closely monitored going forward.

Meanwhile, the surging cost of energy suggests a further increase in the need for energy conservation. As a manufacturer of energy-efficient products and services, these increasing needs mean greater opportunities for our business. The demand for heat pump space heaters and inverter air conditioners is projected to rise even further going forward, and we will respond to it in a timely manner.

**Just like the famous Japanese saying, “a swift wind knows a strong grass,” a person’s determination and true value come to light in the face of difficulties and hardships and this is no different in the case of the Company. We have framed the drastic changes in our business environment brought about by the COVID-19 pandemic as an opportunity to put Daikin’s true value to the test and to reorganize our corporate structure. One of the areas in which we have made particular improvements through our experience with the COVID-19 pandemic is our product development capabilities. Our air conditioners with ventilation functions were released to market ahead of our competitors during the pandemic, and we were highly recognized for our proactive efforts to address the latent need for ventilation. In a business environment where it can be difficult to predict demand for products, this turned out to be a rare occasion where we were convinced that the product would definitely sell if we brought it to market. In order to capitalize on this opportunity, we had to develop these air conditioners as quickly as possible.**

While ventilation functions had only been offered on Daikin’s high-end flagship models until that point, the Company immediately decided on a policy to develop and promote sales of mid- and low-end air conditioners with a ventilation function and proceeded with the development of these products. A process that would usually take 14 months was completed in a mere four months, allowing us to release a series of products designed to address ventilation needs.
People Are the Source of Our Competitiveness

I spoke earlier about distinguishing which changes should and should not be made, and one of the things I must not change is our fast and flat organizational culture. The Company’s Fast & Flat Management system is a flexible organizational management approach that draws on the advantages of both top-down and bottom-up approaches to management. Top-down decisions are made quickly but they do not necessarily have the support of employees. Conversely, bottom-up decisions are made by the higher ranks of the organization after considering the views of the frontline employees who may therefore be more likely to buy into them. Such decisions, however, take time to make.

Sharing valuable information with all employees on a daily basis is key to making timely decisions and ensuring that employees buy into them. At Daikin, the key details of deliberations at management meetings, including those of the Board of Directors, are shared with all employees whenever possible. Members of senior management and executive officers also ensure that the views of each employee are always heard and taken into consideration, facilitating the immediate communication of information about changes in the business environment from the front lines of our operations. Discussions are held based on the information from the front lines and any matters that arise are resolved by those in charge of decision-making. Once a matter has been discussed and resolved by everyone, the only thing left is to take action. I believe this organizational management approach has become one of our strengths, and spurred a sense of unity between management and employees.

The people in our organization are the source of our competitiveness. Strategies can be executed and changes made only by them. To enable each employee, who we were fortunate to welcome into our organization, to realize, if not the whole, then the greatest fulfillment in life, we worked to create a rewarding workplace environment where they can demonstrate their full potential. At Daikin, I believe that the sum of the potential of our employees, respecting their individualities, and acquiring time and human resources so that we continue to create innovation and expedite our business growth. In such cases, our underlying philosophy on human resources and organization management remains unchanged.

We take the time to ensure that a relationship of trust is built with each company that becomes a part of the Group. When it comes to acquisitions in particular, in addition to taking business strategies and synergies into account, we must carefully assess whether Daikin and the company we intend to acquire respect and accept each other’s corporate philosophy and culture. Once the acquisition is made, we do not assign a large number of our employees right away, interfere in the management and organization operations, or impose the Daikin Way on the newly acquired company. Instead, we entrust local management to the management team of the acquired company and actively support the director they wish to take toward further growth. In so doing, I believe we will be able to complement each other and unite. For instance, when we acquired the OYL Group in 2006, a joint meeting involving the management of both companies was held not in our respective countries of Malaysia or Japan, but rather in Hawaii. There, we held candid discussions on the actual state of both companies and the challenges they faced, as well as our expectations for each other. This allowed management from both sides to open up to each other, and agree to pursue the goal of establishing a new business together. I believe that the value we have placed on building relationships of trust is the reason behind the successful globalization of our business and the expansion of our overseas network.

Furthermore, we have also valued the importance of both cohesiveness and independence in our organizational management. Our overseas business has rapidly expanded through our proactive delegation of authority, enabling the acceptance of local cultures and the development of regionally rooted businesses. While our goal has been to strengthen the independence of our regional businesses through localization and speed up the expansion of our overseas business, there has always been the concern that the Group might fall apart if everything were to be entrusted to our local operations. For this reason, to ensure that our local operations do not lose sight of our direction, the head office shares strategies and information with them and has taken the leading role in managing these companies by demonstrating cohesiveness as a Group, with the aim of optimizing our entire global operations.

Our management team holds manager meetings each year in both Japan and overseas. In these types of settings, we convey Daikin’s corporate culture, organizational DNA, tacit knowledge, and other views on organizational management. While the meetings have been held online in recent years due to the COVID-19 pandemic, we have continued to provide opportunities for direct communication between our management team and local executives. Corporate management is, in essence, the management of people. We believe that the Company’s approach of believing in the potential of its employees, respecting their individualities, and enhancing their respective abilities is something that is appreciated worldwide regardless of differences in language or lifestyle. Through our organizational management that draws on cohesiveness and independence, we will bring out the full potential of each employee and work collectively toward the further growth and development of the Group.

Management’s Perspective

When I became president and CEO, Chairman Inoue said that it was the responsibility of the head of the Company to provide answers to questions where there simply were no answers. Since then, I have constantly reminded myself of these words. We have continued to grow over the years by anticipating the changes in our business environment and remaining one step ahead of our competitors. Having a broad perspective is essential to doing so and this depends on our ability to confront adversity. We must stand at the forefront of our industry and constantly keep track of market trends. In times of drastic change, we must ask ourselves what are the questions that need to be answered and strive to find these answers. This process must be repeated again and again. Whenever there are three possible solutions, A, B, or C, it is important, without a doubt, that these choices are fully examined and discussed. However, if we select A, we must commit to ensuring that A succeeds. Otherwise, we will not achieve any results.

My goal is to ensure that Daikin remains an attractive organization that people want to work for, do business with, and invest in. While it may sound abstract, achieving this aim will entail constantly putting into practice the approaches I have outlined above. Moving ahead, we remain firmly committed to increasing our corporate value by ambitiously pursuing and implementing growth strategies.

We look forward to your continued understanding and support of our business going forward.

Masanori Togawa
President and CEO
August 2022
Financial and Non-Financial Highlights

Introduction

In a capital investment perspective, energies are being directed toward upgrading and expanding sales networks and constructing new plants and enhancing existing ones. We are also broadening our capital expenditures, focusing on emerging countries and key markets where there has been remarkable growth. As far as R&D expenses are concerned, Daikin recognizes that strengthening technological competitiveness is the hallmark of a manufacturer. On this basis, the Company is continuing with its eight development bases world-wide 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.

Net Sales / Operating Profit / Operating Profit Margin

- Net sales: 10.2 billion yen for 2021
- Operating profit: 316.4 billion yen for 2021
- Operating profit margin: 6.2%

With the expectation that demand will not continue to increase going forward in the Air Conditioning Business, we will strive to aggressively engage in R&D and capital investments, acquisitions, and other strategic investments. Through the steady flow of returns from these investments, we will aim to continue to enhance our business results and our ROE/ROA.

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 / R&D Expenses

- Capital investments: 450 billion yen for 2021
- R&D expenses: 216 billion yen for 2021

Daikin’s shareholders’ equity ratio came in at 51.5%, exceeding 50% for the fifth consecutive year. The Company is taking positive steps to ensure its financial standing. Daikin’s ROE came in at 15% and ROA at 3.2% in 2021.

GHS Emissions (From Development and Production Processes)

- GHS emissions: 1.16 million tons-CO2 for fiscal 2021

Environmentally Conscious Products* as a Percentage of Sales Volume (Residential-Use Air Conditioners)

- Environmentally conscious products: 68% of sales volume for fiscal 2021

Note: The latest figures are for the fiscal year ended March 31, 2021.

Integrated Report 2022
Strategies for Value Creation

Our Value Creation Process

Drawing on its accumulated strengths and unique business model, the Daikin Group is striving to resolve environmental and social issues through its business activities. We are aware that the key themes declared in Strategic Management Plan FUSION 25 are priorities for management. Accordingly, we will address these themes over a period of five years, providing new value that contributes to the realization of a sustainable society and the continuous growth of our business.

Our Accumulated Strengths

1. People-Centered Management
2. Distinctive Technological Capabilities
3. Globally Expanding Robust Sales Network

Business Model

Vertically integrated production based on in-house production of core parts
Integrated product development consisting of manufacturing, sales, research, and procurement
Market-localized production based on local production for local consumption
Robust sales network based on our globally expanding dealer network

After-Sales Service, Recovery, and Recycling

The Foundation of Our Business Activities in Pursuit of Sustainable Growth

Environmental Vision 2050

Key Sustainability Themes

• Response to climate change
• Provision of safe and reliable air environments
• Increase of the value-added nature of air
• Co-creation of innovation
• Quality and customer satisfaction
• Human resource development
• Diversity management

FUSION 25

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

Based on a backcasting approach that uncovers solutions and issues with the ideal state of the Daikin Group as the starting point, we established specific themes to address over the five-year period of FUSION 25.

Three Growth Strategy Themes

1. Challenge to achieve carbon neutrality
2. Promoting a Circular Business with customers
3. Creating value with air

One Theme for Focus Regions

Air Conditioning Business in North America

Five Themes to Enhance the Management Foundation

1. Strengthening technology development capabilities
2. Creating market value/enhancing advocacy activities
3. Improving human resource capabilities through advanced diversity management

Daikin’s Aims for Value Creation

We will provide new value in the form of healthy and comfortable lifestyles and spaces while helping realize a better environment.
People-Centered Management can be regarded as the tacit knowledge, or even the corporate culture, that has been nurtured through our years in business since our founding. It is deeply ingrained in all of our ideals, including our Core Values, Group Philosophy, and Annual Group Policy.

People-Centered Management is based on belief in the unlimited potential of people, that the source of a company’s competitiveness is in people, and that the cumulative growth of each individual is the foundation of a company’s growth. It is a line of thinking that draws out the enthusiasm and understanding of the people who work in an organization, and that strengthens and raises the capabilities of the organization by having all members further refine their own individuality, achieve growth, and demonstrate their full potential.

This capitalizing on the diversity in the characteristics and abilities of each and every member as the strength of the organization is precisely the definition of diversity management. As long as management is a human activity, a company cannot be managed unless emphasis is placed on how to enhance the enthusiasm and understanding of the people who work there. People-Centered Management is the tacit knowledge that our Group has nurtured since its foundation through making serious efforts to prioritize its people.

Every business activity—including strategy execution, various reforms, R&D, production, and sales—is carried out by people who work within the company. Business management depends on the potential and individualities of the people who take actions as well as the awareness with which they act. At the same time, people rejoice when they are happy, cry when they are sad, trust people at times, and distrust them at other times. While upholding enthusiasm and ambition to grow and succeed, people sometimes fear failure and flinch at taking on a challenge in a new realm. Those feelings and emotions are common to all people, regardless of nationality, race, or gender, and transcend differences in culture, customs, and history.

There is not a company in the world that would not say that it values its people. Through genuine efforts to this end, we would like to make People-Centered Management one of the sources of competitive advantage of the Daikin Group.
Strategies for Value Creation

Daikin’s Unique Business Model

The Daikin Group operates its business, which encompasses R&D, manufacturing, and sales and services, in all corners of the globe, with its Air Conditioning Business at the core. By drawing on our accumulated strengths and forging our unique business model, we continue to provide comfortable air to people around the world.

Overview of Business Activities

Daikin is the only comprehensive air-conditioning manufacturer in the world that specializes both in air-conditioners and refrigerants.

Integrating product development

- Ensuring manufacturing, sales, research, and procurement functions

Vertically integrated production

- Based on in-house production of core parts

Market-localized production

- Based on local production for local consumption

Robust sales network

- Based on our globally expanding dealer network

Process-Based Measures

- Global bulk purchasing and local procurement
- Promotion of socially responsible procurement
- Pursuit of comfort and environmental performance
- Product development to meet local needs
- Creation of new value
- Multiple product mixed production
- Reduction of environmental loads
- Development of technically skilled sales engineers
- Provision of comfortable air and spaces
- Reduction of environmental loads
- Recovery and recycling of refrigerants
- Provision of services based on the concept of continuous connection with customers and capture of replacement demand

As a manufacturer that engages in the production and sales both of air conditioners and refrigerants, we constantly strive to improve the energy efficiency of our air conditioners and reduce their environmental impact through the development of new refrigerants and the provision of high-value-added solutions. Moreover, through comprehensive measures such as converting to new refrigerants as well as reducing the change amount, minimizing leaks, and promoting recovery and recycling methods, we will help resolve social issues through a united Groupwide effort.

At Daikin, we draw on the R&D capabilities of our major production basest around the world as well as our integrated product development system, comprising our regional sales and procurement functions, to develop and manufacture products that cater to the diverse needs of each region. Our various divisions that contribute along the process from production through to sales work closely together to consistently monitor the inventory of products and materials.

The status of this inventory is reflected in our plans for procurement, development, and production in a timely manner. We work to ensure that opportunities do not go to waste and that our products are delivered to our customers as efficiently and swiftly as possible.

The core components of Daikin’s air conditioners, including compressors, motors, and printed circuit boards, are all developed and manufactured in-house. This allows us not only to develop elemental technologies but also to build up our bank of technical know-how used in our manufacturing processes. This, by extension, has enabled us to develop and manufacture products in accordance with changes in product standards required by the regulations of each market, the climate and lifestyles of each region, and other customer needs as quickly as possible. In addition, by integrating our in-house production, we have eliminated the possibility of component shortages and excess inventory, thereby working collectively as an organization to efficiently address the highly volatile demand for air conditioners stemming from changing climate conditions.

Rather than focusing production specifically in one region, we have established a system in five key regions globally whereby Daikin’s procurement, development, and production processes are all conducted in close proximity to our sales markets, allowing us to address the needs of each region. This system has served as a catalyst for the timely supply of products and the adoption of a sales strategy for swiftly addressing changes in regional demand stemming from climate and economic conditions. Moreover, by using the same basic components throughout our global network and centrally managing the entire Group’s inventory of products and components, we have been able to minimize the drawbacks that come with the geographic dispersal of production bases, such as by providing products to regions that experience sudden one-off increases in demand and capitalizing on the versatility of our supply of components from production bases.

Daikin’s network of dealers who engage directly with the users of our products play an integral role in addressing the various needs of each region in line with the different climates and lifestyles. Based on a direct-sales strategy that relies on its own sales network, the Group provides dealers with detailed information on the features and added value of products generated on the features and added value of products generated by market-localized production, as well as with training on installation and maintenance services. These efforts have led to the establishment of a sales system that extends seamlessly to the provision of installation and maintenance services and to a solid relationship of trust with our dealers.

In the process from production through to sales, work closely together to develop and manufacture products that cater to the diverse needs of each region. Our various divisions that contribute along the process from production through to sales work closely together to consistently monitor the inventory of products and materials. The status of this inventory is reflected in our plans for procurement, development, and production in a timely manner. We work to ensure that opportunities do not go to waste and that our products are delivered to our customers as efficiently and swiftly as possible.

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Integrated Report 2022
Strategies for Value Creation

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

Based on changes in the external environment, we have identified the important social issues that affect the creation of medium- to long-term value throughout the Daikin Group’s value chain, and extracted the risks and opportunities related to each of them. In order to respond appropriately to the risks and to take advantage of the opportunities as we work to resolve these social issues, we will recognize the strategic themes adopted in our FUSION 25 strategic management plan as management materiality and realize further value creation.

<table>
<thead>
<tr>
<th>Changes in Society</th>
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</thead>
<tbody>
<tr>
<td>Identification of climate change</td>
</tr>
<tr>
<td>Equitable and concentrated energy and power demand</td>
</tr>
<tr>
<td>Increased threat in AQ</td>
</tr>
<tr>
<td>Occurrence of natural disasters</td>
</tr>
<tr>
<td>Increasing digitalization</td>
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</tbody>
</table>

Identifying Key Sustainability Themes and Incorporating Them into Management Materiality

We assessed the impact of our business activities on society throughout the value chain and identified seven themes that are particularly important both to Daikin and society as key sustainability themes. These themes have also been incorporated into our FUSION 25 strategic management plan as core management materiality themes.

Of these themes, we are monitoring responses to climate change in particular. The surging demand for air conditioners, primarily in developing countries, represents a significant opportunity for a company like Daikin whose business centers on air-conditioning systems. The use of air conditioners helps address both the issue of climate change and the increasing need for air purification that has arisen as a result of the COVID-19 pandemic. On the other hand, the use of air conditioners also involves certain risks such as GHG emissions generated through the use of energy, and the continuing growth in demand for air conditioners is likely to have even bigger consequences going forward. At the Daikin Group, we see it as our mission to address the air-related needs of society while contributing to the realization of a carbon-free society. We have adopted the achievement of net-zero GHG emissions as part of our long-term vision and have also incorporated this goal as a core theme in our FUSION 25 strategic management plan.

1. Understanding stakeholder interests and impacts

We compiled a list of the key factors affecting our business based on social issues (global risk), international frameworks, various external evaluations, and dialogue with stakeholders.

2. Assessing the impact of our business on society throughout the value chain

We analyzed Daikin’s business characteristics and risks and opportunities by comprehensively considering the impact of our business on society throughout the value chain, the expectations of Daikin, and our priority initiatives.

3. Identifying sustainability themes material both to Daikin and society

After assessing the impact of our business on society and determining our priority initiatives, the CSR Committee identified sustainability themes that were of the highest significance both to Daikin and society, which were then deliberated by the Board of Directors.

In our FUSION 25 strategic management plan, we established nine key strategy themes, such as “challenge to achieve carbon neutrality,” based on the changes to our external business landscape, our strengths as an organization, and our key sustainability themes. Through the execution of this management plan, we aim to help build a better society while ensuring the continuous growth of the Daikin Group.

### Issues Related to Social Change

<table>
<thead>
<tr>
<th>Risks</th>
<th>Responses / Opportunities</th>
</tr>
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<tbody>
<tr>
<td>Reducing global warming</td>
<td></td>
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<tr>
<td>• Stricter environmental regulations</td>
<td></td>
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<tr>
<td>• Tight supply and demand for electricity</td>
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<tr>
<td>• Development of products, services, and technologies that comply with environmental regulations</td>
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<tr>
<td>• Development of energy management/sustainable urban development</td>
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<tr>
<td>Reducing energy/power consumption</td>
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<tr>
<td>• Stricter regulations on energy efficiency</td>
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<tr>
<td>• Acceleration of conversion to inverters</td>
<td></td>
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<tr>
<td>• Product development and technological innovation excelling in environmental performance</td>
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<tr>
<td>• Strengthening proposals for environmentally conscious products</td>
<td></td>
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<tr>
<td>• Strengthening of energy management</td>
<td></td>
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<tr>
<td>Preventing the spread of infectious diseases and creating value with air</td>
<td></td>
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<tr>
<td>• New regulations on existing air conditionians</td>
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<tr>
<td>• Development of products that provide safe and secure air quality</td>
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<tr>
<td>• Creation of IAQ/Air environments (AE) that enrich people’s lives</td>
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<tr>
<td>Responding to supply chain disruptions</td>
<td></td>
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<tr>
<td>• Suspension of plant operations</td>
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<tr>
<td>• Stagnation of raw material/parts procurement</td>
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<tr>
<td>• Stable supply through market-localized production based on local production for local consumption</td>
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<tr>
<td>Building a business model utilizing digital technology and increasing the efficiency of business processes</td>
<td></td>
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<tr>
<td>• Obsolescence of existing products</td>
<td></td>
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<tr>
<td>• Lack of human resources with digital expertise</td>
<td></td>
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<tr>
<td>• Technological developments, development of products and services, strengthening of sales activities that utilize the IoT/IIoT</td>
<td></td>
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<tr>
<td>• Providing solutions for efficient energy management</td>
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**FUSION 25**

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

**Three Growth Strategy Themes**

1. Challenge to achieve carbon neutrality

2. Promotion of solutions businesses connected with customers

3. Creating value with air

**Five Themes to Enhance the Management Foundation**

4. Strengthening technology development capabilities

5. Establishing a robust supply chain

6. Providing HR for innovation

**One Theme for Focus Regions**

- Air Conditioning Business in North America

Integrated Report 2022
At Daikin, our goal is to contribute to a greener environment and a society that helps realize healthy and comfortable lifestyles for everyone. Air conditioners, Daikin’s flagship product, originated in the early 20th century and continue to revolutionize lifestyles and work settings around the world. The use of air conditioners, however, has spurred increases in the use of electricity and environmental impacts, particularly climate change. For these reasons, Daikin will continue to strive to provide new value through solutions for the air and environment and thereby resolve these global issues.

We will provide new value in the form of healthy and comfortable lifestyles and spaces while helping realize a better environment.

Strategies for Value Creation

Daikin’s Aims For Value Creation

Value Creation for the Earth
Helping mitigate climate change by reducing environmental impact through business activities
- Further raise the environmental performance of our products
- Promote and help sustain their inherent functions

Value Creation for CITIES
Contributing to the creation of sustainable cities by solving energy-related issues arising from urbanization
- Use energy efficiently throughout buildings and cities
- Build systems for recycling-based societies
- Create new types of energy

Value Creation for People
Contributing to healthy and comfortable lifestyles by expanding the possibilities of air
- Provide safe and reliable air environments
- Improve indoor environments to support people's healthy and comfortable lifestyles
- Raise productivity to contribute to economic advancement

Reducing CO2 Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

Value Creation for the Earth/Value Creation for CITIES

Value Creation for People

Contributing to Decarbonization through the Growth of Our Heat Pump Space and Water Heating Businesses

Looking at the global heating market in terms of heat source, the market for heat pumps is a mere $8 billion in comparison with the $3.3 trillion market for combustion heaters, such as gas boilers, that generate heat by burning fossil fuels. This data indicates that consumers are still opting for the more affordable and quicker solution to heating in the form of combustion heaters despite the large amounts of CO2 emissions they generate.

Meanwhile, in Europe, a region where particularly large amounts of energy are consumed, we have seen significant strides toward decarbonization as a result of the European Green Deal policy put forth in 2019. The heat pump market in Europe continues to thrive, thanks to a series of subsidy programs and tax refunds that have been put in place. Moreover, according to the IEA,** conversion to heat pumps is key to reforming social systems from the standpoint of achieving decarbonization and securing stable amounts of energy, given the soaring prices and unstable supply of fossil fuels arising from political instability in recent years.

In view of this, in 2006, we launched our Daikin Altherma heat-pump space and water heater to the European market. We have continued to gradually expand these product lineups in accordance with the climate conditions and needs of each country. Sales of Daikin Althermas are four and a half times higher than in fiscal 2014, which attests to the efforts of our finely tuned installation and maintenance services.

Contributing to Decarbonization through the Growth of Our Heat Pump Space and Water Heating Businesses

Meanwhile, we will continue to strive to increase the adoption of inverter products across the globe, reduce energy use throughout our operations, and drive the industry forward by virtue of our environmentally conscious products.

** Based on calculations by Daikin, citing data on North America, Europe, and China.

Measures in Pursuit of Carbon Neutrality

Contributing to Decarbonization through the Growth of Our Heat Pump Space and Water Heating Businesses

Reducing CO2 Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

Global CO2 emissions from the use of air conditioners are expected to grow to 80% in 2024.*1

In Brazil, the energy efficiency standards for air conditioners were revised to 2025, which will triple by 2050.

In India, we urged the introduction of evaluation criteria and an energy labeling system. The market share of inverter air conditioners expanded from almost zero in fiscal 2010 to 55% in fiscal 2020, and is expected to grow to 80% in 2024.*1

In Brazil, the energy efficiency standards for air conditioners were revised to 2025, which will triple by 2050.

Reducing CO2 Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

Reducing CO2 Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

CO2 emissions from the use of air conditioners can be traced not only to energy consumption but also to the fluorocarbons contained in refrigerants.

We are therefore working to reduce the impact of refrigerants on the environment.

When deciding on the development of next-generation refrigerants, we must not only assess their overall performance from an environmental, safety, and cost-efficiency point of view but also ensure they are put to the least possible use in air conditioners, water heaters, freezers, and other applications. Through a process of in-house assessments that were held on an international scale, the Daikin Group determined that R32 refrigerants were ideal for use in residential and commercial-use air conditioners, due to the fact that their GWP is equivalent to roughly one-third of the GWP of conventional refrigerants. Accordingly, we have been promoting the adoption of R32 refrigerants worldwide. Moreover, in 2011, Daikin began granting free access to multiple patents related to the manufacture and sales of air conditioners utilizing R32 refrigerants. By ensuring that R32 air conditioners can be produced by manufacturers all over the world, we will help mitigate global warming.

We will continue to pursue a host of measures that include promoting the use of R32 refrigerants, establishing a refrigerant eco-cycle (recovery, recycling, and destruction), and developing next-generation refrigerants, in a bid to reduce the level of CO2 emissions generated by refrigerants.

Reducing CO2 Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

Establishing an Effective Recovery and Recycling Cycle for Used Refrigerants

Nowadays, used refrigerants are mostly destroyed when disposing of air conditioners to prevent refrigerant leaks into the atmosphere. From a circular economy perspective, companies are being urged to do more to recover and recycle used refrigerants. In fiscal 2019, the Group commenced sales of air conditioners utilizing recycled refrigerants in Europe, more than 40,000 units of which have been sold as of the end of fiscal 2021. Going forward, we will work together with government agencies and other companies to commercialize the recovery and recycling of refrigerants, which have been destroyed until now, and aim to improve the recycling rate of refrigerants, which still remains at a low level.
Strategies for Value Creation

Strategic Management Plan FUSION 25

In fiscal 2020, Daikin formulated Strategic Management Plan FUSION 25 for the period covering fiscal 2021 to fiscal 2025. By taking into account the changes in our external business environment and our unique strengths cultivated to date, the Plan illustrates the strategies to be implemented over the five-year period by backcasting from the changes in the world that will take place over the next ten to twenty years, and from the ideal state of the Daikin Group.

Our Goal

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

Our Aims for Value Creation

<table>
<thead>
<tr>
<th>Economic Value</th>
<th>Environmental and Social Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2023 Quantitative Group Targets</td>
<td>Net CO₂ emissions reductions 2025 target (from BAU)</td>
</tr>
<tr>
<td>Net sales</td>
<td>30% or more</td>
</tr>
<tr>
<td>Operating profit</td>
<td>10.5%</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

Fiscal 2025 Quantitative Group Targets (Forecast)

| Net sales | ¥3.6 trillion |
| Operating profit | ¥430 billion |
| Operating profit margin | Approx. 12.0% |

Nine Key Strategy Themes (Management Priorities)

Three Growth Strategy Themes

1. Challenge to achieve carbon neutrality
2. Promotion of Solutions Business connected with customers
3. Creating value with air

One Theme for Focus Regions

Air Conditioning Business in North America

Five Themes to Enhance the Management Foundation

4. Strengthening technology development capabilities
5. Establishing a robust supply chain
6. Promoting R&D for innovation

Our Group Philosophy

- "Creating market value/ enhancing advocacy activities" and "Contributing to the growth of employees and local communities"

Assumptions

Changes in our External Circumstances

- Increased importance of environmental and social contributions
- Consumption shift from goods to experiences
- Increased needs for IAQ and ventilation
- Innovative advances in digital, AI, 5G, and other technologies

Our Strengths

- Energy saving, environmental, IAQ technologies
- Globally expanding robust sales network
- Local production for local consumption model
- People-Centered Management, diversity management

Progress of Key Initiatives in Year One

To expand the use of heat pump heaters and water heating systems, local governments, particularly in Europe, have been granting subsidies to those using heat pumps and enforcing stricter regulations on combustion heaters. Riding the tailwind of these government actions, we have been shifting our focus to heat pump space and water heating systems, which has led to a substantial improvement in sales. Sales for the Heat Pump Space and Water Heating Business for the Group as a whole came to approximately ¥325.0 billion in fiscal 2021. Having fallen just short of reaching our fiscal 2023 target of ¥304.0 billion, the achievement of this target is well within our sights for fiscal 2022, a year ahead of our goal.

With respect to increasing the use of Inverter units, we have established the goal of installing them in over 98% of all room air conditioners sold globally by the end of fiscal 2025, compared with 71% as of the end of fiscal 2021. With the percentage of air conditioners with inverter units climbing to 79% as of the end of fiscal 2021, we are making steady progress toward achieving our goal.

In terms of the shift to low-GWP refrigerants, we are promoting the widespread use of R32 Low-GWP refrigerants and have set the goal of installing them in over 95% of room air conditioners available to the global market by the end of fiscal 2025, compared with 83% as of the end of fiscal 2019.

Progress of Three Growth Strategy Themes and the Theme for Focus Regions

1. Challenge to Achieve Carbon Neutrality

We will help realize a greener environment and an enriched society while working to continue to expand our business and earnings.

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

Progress of Key Initiatives in Year One

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As indicated by the increasing percentage of air conditioners with R32 refrigerants, which accounted for 91% of all air conditioners as of the end of fiscal 2021, the transition to R32 refrigerants is progressing at a steady pace. Even in North America, we released our first R32-equipped room air conditioner in December 2021, despite the sluggish growth in the use of R32 refrigerants in this region.

We have also set the goal of reducing GHG emissions from our development and production processes to 1.2 million tons CO₂ (a 34% reduction from fiscal 2013) by fiscal 2025. In fiscal 2021, despite our higher production volume stemming from the increasing demand for air conditioners, we reduced the GHG emissions from our development and production processes to 1.16 million tons CO₂ (a 36% decline from fiscal 2015), achieving our fiscal 2025 target well ahead of schedule.

Going forward, we will continue to forge ahead with these initiatives in pursuit of our FUSION 25 objectives of reducing net CO₂ emissions by 36% in fiscal 2025 and by 50% in fiscal 2030. As for our net-zero CO₂ emissions by 2050, we see the need for the development of new technologies and the creation of new themes in which to engage from a business perspective, and we will steadily move forward in addressing them.

In fiscal 2021, the inaugural year of Strategic Management Plan FUSION 25, we achieved our net sales target for fiscal 2023 two years in advance while surpassing our initially set yearly target for operating profit. Both net sales and operating profit were our highest results on record.
Promotion of Solutions Business Connected with Customers

In light of the rapidly changing values and needs of our customers, we will accommodate these new needs through the creation of new experiences, the establishment of our Solutions Business, and the realization of qualitative growth.

Air Conditioning (AC) Solutions Business

We will offer a solution lineup by identifying the various needs of customers in each vertical market, including offices, schools, hospitals, hotels, and factories. For instance, we aim to create new values by optimizing air conditioning for each user through the management of customer information and equipment operation data, creating safe environments by ensuring the visibility of air quality and using ventilation, disinfection, and other IAQ technologies, and managing energy usage throughout our facilities.

Progress of Key Initiatives in Year One

In the first year of FUSION 25, we worked to develop a solution lineup and strengthen our human resources in each region toward the creation of our experience-based sales business model. In North America, a region of focus under FUSION 25, we acquired instrumentation and engineering companies as well as retailer businesses with strong customer ties and solutions capabilities in order to strengthen the platform for the future of our Solutions Business. We are also in the process of developing products and solutions for energy management in each vertical market.

In addition, our DK-CONNECT cloud-based air conditioning management service was introduced to the Japanese market in June 2021. This service is designed to address the installation, operation, maintenance, and renewal needs of each customer for commercial-use air conditioning in buildings, commercial establishments, hospitals, and other facilities by providing greater comfort, improving energy efficiency, and reducing management workloads. With the aim of providing new values based on air conditioning, we are developing a solution lineup for each vertical market that utilizes our DK-CONNECT service.

We are also developing the foundation for addressing customer needs through measures that include hiring our service structure in Europe and Asia and creating value using digital technology in China.

By virtue of these initiatives, sales by the AC Solutions Business have been progressing as planned, with the business posting sales of approximately ¥500.0 billion in fiscal 2021 and on course to achieving its fiscal 2023 target of ¥650.0 billion.

Refrigeration Solutions Business

We will expand our global network for the Refrigeration Solutions Business by deploying the energy-saving and environmental technologies that have been cultivated to date in the Air Conditioning Business to the refrigeration domain. In Europe, we will look to establish the Store Solutions Business to enable the appropriate management of food temperatures, provide safe and secure store environments, facilitate remote monitoring of products for food retailers, and enhance management of energy use. By establishing this new business, we intend to expand the Refrigeration Solutions Business to other markets, including Asia and Oceania. In addition, we will help reduce food loss, ensure the supply of safe and reliable food, and resolve other social issues by connecting the entire cold chain from producers to consumers. We will also seek our sights on establishing a highly profitable business model.

Progress of Key Initiatives in Year One

The Marine Container Business experienced substantial growth in fiscal 2021 on the strength of particularly solid demand. With an eye to establishing our Store Solutions Business, we are in the process of reinforcing our business foundation and expanding our Cold Chain Business. Owing to these measures, we are proceeding ahead of schedule with sales for the Refrigeration Solutions Business, which amounted to approximately ¥150.0 billion in fiscal 2021, on pace to achieve our target of ¥160.0 billion in fiscal 2023.

Overview of DK-CONNECT Cloud-Based Air Conditioning Management Service

The DK-CONNECT cloud-based air conditioning management service enables customers to monitor and control their air conditioner, other devices, and sensors by means of their computer, smartphone, or tablet device through an exclusive network terminal called DK-CONNECT edge.

Creating Value with Air

We will strive to establish a large-scale IAQ/ventilation Business by utilizing the opportunities presented by the growing needs for IAQ and ventilation, establishing new markets across the globe through a Groups pledge, and developing new products and services.

Progress of Key Initiatives in Year One

Sales of air purifiers, heat reclaim ventilators, and filters flourished in the first year of FUSION 25 as the ongoing impact of the COVID-19 pandemic spurred demand for safe and secure air. Sales of commercial-use heat reclaim ventilators fared particularly well, led by our Vert-Air series, a total heat exchanger unit with an efficient installation design that can be retrofitted relatively easily on the interior walls, ceilings, and under the eaves of buildings. We have also been working alongside the University of Tokyo to create a reference manual to mitigate the risk of respiratory infections and to educate students within a classroom setting on the effective means and precautions for the use of heat reclaim ventilators and air purifiers. These efforts have contributed to a steady progress in our sales for the IAQ/Ventilation Business, which amounted to approximately ¥230.0 billion in fiscal 2021 and are on course to achieve our target of ¥450.0 billion in fiscal 2023.

Refrigeration Solutions Business

We are also in the process of developing products and solutions for energy management in each vertical market. In North America, a region of focus

Creating of IAQ that enrich people’s lives

In the healthcare domain, we will strive to expand our business that utilizes air conditioning and biometric data to enhance people’s physical and mental well-being. We will also look to create new values with air through solutions that facilitate improvements in concentration, relaxation, and sleep. These initiatives will be implemented as a part of the ongoing Smart City project in Japan and the resulting findings and outcomes will be utilized to forge a range of solutions and to establish a business model geared to creating value with IAQ/E, that enhances people’s physical and mental well-being.

Progress of Key Initiatives in Year One

In the first year of FUSION 25, we conducted demonstration experiments on the impact on human health of using air ventilators in two-room settings, as a part of our efforts in the healthcare domain to ensure better health for people. The insight and know-how gained as a result of this experiment will be deployed in a range of social settings, including offices, schools, and government agencies. To address the growing needs for IAQ, we have also teamed up with a startup company that has a competitive advantage in the real-time detection of allergens, such as pollen, ticks, and mold. Going forward, we will accelerate the growth of our AC Solutions Business to be fully capable of continuing to provide safe and secure air.

Also, in collaboration with the University of Electro-Communications in Tokyo, Daikin conducted research on the impact on naps of maintaining an optimal thermal environment. Through this research, we aim to create new value with air by helping people to improve their concentration through better naps. Our next step in this research is to test our findings within an actual office setting.

Air Conditioning Business in North America

The ongoing changes in energy-saving and environmental regulations in North America are, we believe, an opportunity for us to transform the market and expand our business in this region by capitalizing on our strengths in inverters, heat pumps, and low-GWP refrigerants. We are aiming to elevate our regional sales in North America for the Air Conditioning Business from fourth highest in this segment in fiscal 2020 to the top position in fiscal 2025.

Progress of Key Initiatives in Year One

In our first year, we tapped into the robust demand for the residential-use market by honing our supply and sales capabilities and introducing new energy-efficient products. In particular, we saw significant improvements in the market awareness and yearly sales of FIT inverter units. FIT inverters are a line of environment-friendly strategic products that enhance the energy efficiency of newly constructed residential air conditioners, which are commonly used in the United States, by combining them with our inverter technology. Meanwhile, in the commercial-use market, where demand has yet to get back on track, VRV systems captured the leading share of the light commercial market in North America for the first time.

In the Applied and Solutions businesses, we expanded the scope of each segment and secured additional human resources and know-how through the acquisition of new businesses.

Diving into these initiatives, sales for the Air Conditioning Business in North America reached a record-high of approximately ¥790.0 billion in fiscal 2021, surpassing our target for the year and on track to achieve our target of ¥290.0 billion in fiscal 2023.

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In the COVID-19 era, we have seen a shift in people’s lifestyles and behavior patterns, along with a considerable difference in their views on indoor air environments and room ventilation. In this section, we will explain some of the initiatives Daikin is undertaking to deliver value through ventilation as a company that provides solutions with air.

Daikin’s Organizational Strengths That Have Manifested in the Midst of a Crisis

In the COVID-19 era, we have seen a shift in people’s lifestyles and behavior patterns, along with a considerable difference in their views on indoor air environments and room ventilation. In this section, we will explain some of the initiatives Daikin is undertaking to deliver value through ventilation as a company that provides solutions with air.

Recent Activities Related to Air-Conditioning and Ventilation Products

- June 2020: Establishment of Air Consultation Service
- Dec. 2020: Simultaneous release of five air purifier models
- Nov. 2020: Launch of the mini model, commercial use features remote ventilation that can be controlled
- May 2021 onward: Launch of three Vertical models, commercial use features remote ventilation that can be controlled
- Oct. 2021: Launch of Ururu Sarara X (R series) room air conditioners

Market Environment

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Sales (¥trillion)</th>
<th>(% Change yoy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2018</td>
<td>Sales decreased due to the absence of pent-up demand in the latter half of the previous year in advance of the consumption tax hike and the impact of the relatively warm winter in fiscal 2019.</td>
<td></td>
</tr>
<tr>
<td>Fiscal 2019</td>
<td>Sales increased due to the effects of pent-up demand, special cash payments from local governments in relation to COVID-19, and the lowest temperature in November in 20 years.</td>
<td></td>
</tr>
<tr>
<td>Fiscal 2020</td>
<td>Sales increased due to the effects of pent-up demand and the impact of the unusually cold summer weather.</td>
<td></td>
</tr>
<tr>
<td>Fiscal 2021</td>
<td>Sales increased due to the effects of pent-up demand, special cash payments from local governments in relation to COVID-19, and the lowest temperature in November in 20 years.</td>
<td></td>
</tr>
</tbody>
</table>

Uruna Sarara was released in 1999 and was the first air conditioner to feature a ventilation function. While ventilation functions on air conditioners are not new, this is an area we had not ventured into deeply due to the lack of consumer interest in ventilation until recently. The spread of COVID-19, however, has triggered great interest in ventilation among consumers. We have adapted swiftly to such market changes by fully embracing ventilation functions and consistently enhancing our product lineup.

The Domestic Air Conditioning Sales Division, which I am in charge of, is responsible for providing the products that are deemed essential by customers. The cooperation of local dealers, whom we regard as important business partners, is essential to our ability to propose products that reflect the specific needs of each region. Our role extends beyond the sale of products to distributors. We must assume responsibility for everything from installation through to after-sales services as well. This is a policy that we at Daikin adhere to and apply throughout our global operations. While installation work is an essential element of the air-conditioning business, it is nearly impossible for Daikin to undertake this work entirely on its own. Because of this, the key to forging Daikin’s service network is the dealers who take on this role. Daikin has developed a close relationship with its dealers, by providing them with technical training, support for human resource development and recruitment, and information about customers who have approached it for consultations. If its network of dealers were to diminish due to poor financial performance as a result of the COVID-19 pandemic, Daikin’s business would certainly diminish as well. Therefore, an air of crisis was hanging over the front lines of the business.

With the increasing number of people working from homes and preventive measures being enforced as a result of COVID-19, we have had fewer opportunities to interact directly with customers and had to deal with many other restrictions to our sales activities. On the other hand, we believe the increasing focus on ventilation as a form of added value could serve as an opportunity to attract the interest of new customers. In these uncertain times, it has been hard to know the correct approach to take. Nonetheless, we have engaged in a series of unprecedented efforts simply by leveraging our sales capabilities. Our central focus has been to increase the number of contact points with users. We have strengthened our provision of information through video streaming and our corporate website, established the Air Consultation Service, whereby technical advisors address customer concerns, and identified and delivered information on the needs of each region through the efforts of our dealers and the Domestic Air Conditioning Sales Division. Through these and other distinct measures, we have continued to move forward with our sales activities.

Our Pioneering Spirit and Sales Network That Have Turned Crisis into Opportunity

Despite the difficult circumstances, we have captured the rising demand for ventilation and disinfection arising from the COVID-19 pandemic, through ongoing efforts to increase user contact points and actively propose new products. From a sales perspective, we were able to exceed the overall market growth rate by a significant margin.

One shift in perception can unlock the future, even in a time of crisis. Once again, I am reminded that a spirit of taking on challenges that will open the door to the future is deeply ingrained within our organization. As a company that provides solutions with air, we will ambitiously pursue new challenges to continue to fulfill the expectations of all of our stakeholders going forward.
### Daikin’s Organizational Strengths That Have Manifested in the Midst of a Crisis

#### Rapid Development by Virtue of Modular Design and Fast & Flat Management System

In September 2020, Daikin declared its aim to adopt a ventilation function on its entire series of air conditioners. In April 2020, air conditioner sales had dropped nearly 50% from the previous year, so we embarked on a development project involving personnel from the manufacturing and procurement divisions with the belief that this decline in sales volume and the unfavorable circumstances stemming from the COVID-19 pandemic could prove to be an opportunity. Seeing it as our duty to only manufacturer of ventilation-equipped air conditioners, we strove to bring them to market as quickly as possible through an all-out Groupwide effort. The production team, including me, was expected to develop these air conditioners within a short period of time. While the development process usually takes 14 months, with this project, we aimed to complete the entire process within the fiscal year—or in other words, four months. What turned out to be key to the rapid development was the modular design of our air conditioners (please refer to page 35). The conversion to modular design had been extremely difficult as it conflicted greatly with our conventional design concept and required a change in the perceptions of those on the front lines. Regardless, we continued to embark on new challenges without being content with the status quo and adopted modular design on our models from 2019. Accordingly, we added a humidifier module to our entire series of air conditioners to serve as a functional module, and the fact that we were then able to simply add our air dehumidification and ventilation function to the basic module led to a drastic reduction in the development period.

Moreover, we also encountered a myriad of challenges head on from a procurement point of view, particularly with the shortage of semiconductors. We faced a number of situations in which not even the ordinary components that are used throughout our manufacturing sites were available in sufficient quantities. We were often left trying to decide which manufacturing sites should have priority for the use of these components. From March 2021, when we began to see fluctuations in the supply of semiconductors, the heads of our global production bases and the members of the Global Procurement Division and the Production Division in Japan would convene each week to seek an optimal solution to allocating components throughout the Group. At Daikin, we have always had a system in place that constantly maintains production through the procurement of alternative secondary and tertiary components whenever primary components are unavailable, based on our bill of materials that is used for the manufacture of each product. Whenever none of the components on this bill of materials is available, the Development and Procurement divisions work together to see if an alternative component can be found. If a suitable component is found, development and verification processes are undertaken to ensure that it can be utilized. This development method, which we refer to as “alternative development,” has been ingrained in Daikin since March 2011, when we were forced to overcome a supply shortage as a result of the Great East Japan Earthquake.

Alternative development would not be possible if we were to simply rely on the Procurement Division to resolve supply shortage issues. The procurement, development, and sales divisions must each overcome their respective hurdles and work together to figure out what needs to be done to address their issues. And the culture conducive to successfully enforcing these measures exists throughout the Daikin Group. While the term “Fast & Flat” has been incorporated into our Group Philosophy, I believe this approach has become universal throughout our organization in the true sense of the word.

These concerted Groupwide efforts have led to the realization of our rapid development and manufacturing processes and stable supply in the COVID-19 era, and the establishment of our brand slogan, “Daikin is the solution to all your ventilation needs.”

### Global Rollout of Module Development Scheme

In 2017, we embarked on the conversion to modular design, which was adopted on models released from 2019 onwards. These events proved to be the springboard for our rapidly expanding lineup of ventilation functions.

Modular design consists of two types of modules: a basic module and a functional module. The basic module offers universal functions and features that are used throughout the Group and cannot be modified by any of our business sites or developers. Meanwhile, the functional module provides the necessary functions that can be created by the developers at our respective business sites and used on air conditioners. Based on a design that combines these modules, we are able to address the varying needs of each market and enhance the speed of product development.

We will look to adopt modular design on all of our air conditioners that are currently on the global market by the end of fiscal 2023. The achievement of this goal is expected to reduce fixed costs and prevent opportunity loss through an increase in product development speed and cost reductions that stem from the shared use of components.

### Creating New Value with Air

The COVID-19 pandemic has raised concerns over the safety and reliability of air quality inside factories, offices, stores, houses, and other buildings. Uncovering and creating new value with air is our duty as a manufacturer of air-conditioning systems. Going forward, as a company that provides solutions with air, we will continue to provide value in the form of comfortable and environment-friendly solutions.

#### Start of Trial Operations for Hypoxic System

In April 2022, we commenced trial operations of our hypoxic system in partnership with point 0 Inc. This initiative aims to examine the impacts on human health of doing brief workouts in low-oxygen settings, in order to explore the creation of health-enhancing environments. Recent research has shown that working out in low-oxygen settings may increase a person’s physical strength, help prevent lifestyle-related diseases, and promote health-related outcomes such as weight loss, healthy skin, and anti-aging effects.

By merging our respective technologies and knowledge, a new hypoxic room will be established inside point 0 marunouchi, a membership-based shared workspace operated by point 0. To ensure the oxygen concentration of indoor spaces is optimal for hypoxic training, we will utilize Daikin’s hypoxic system, which was developed through the application of our technology for separating oxygen and nitrogen in the air and controlling oxygen concentration. We will also collect and analyze the biometric data of research participants and assess the impacts of hypoxic training on their health. In the future, we will continue to build up our bank of knowledge with the aim of displaying it in a range of social settings.

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**Special Features**

**Global Rollout of Module Development Scheme**

**Creating New Value with Air**
In Tanzania, the lowest priced air conditioner would cost approximately US$500. For most residents of Tanzania, a country with an average annual salary of US$200, air conditioners are a luxury item. For that reason, they are used by only 1% of all residents. Also, they are often in poor condition due to the lack of repairs, service parts, and specialists, as a result of which around 70% of the air conditioners installed are left unused.

In April 2021, Daikin unveiled Baridi Baridi Inc., an AC subscription service established in partnership with WASSHA Inc. This business was set up to provide highly efficient, environment-friendly air conditioners incorporating our long-cultivated inverter technology through a subscription-based format. Many of the subscribers are restaurants and drug stores, where the cooling effects of these air conditioners have a direct influence on sales.

These high-performance inverter air conditioners can be used only when needed simply through the payment of installation costs and the purchase of a daily, weekly, or monthly plan through a smartphone app utilizing WASSHA’s billing system. While electricity costs are borne by the user, since these air conditioners reduce energy use by around 60% or more compared with their low-priced counterparts the overall operating costs are minimal, even with all of the other costs included. The AC subscription service offers significant benefits from an environmental perspective as well. One such benefit is the ability to recover refrigerants, which also contributes to reductions in GHG emissions along with the lower use of energy. As refrigerants used for air conditioners have a greenhouse effect 6,500 to 20,000 times that of CO2, GHGs are discharged into the atmosphere by air conditioners that have malfunctioned and been left unused. For this service, however, since the air conditioners remain the property of Baridi Baridi, all of the systems and refrigerants are ultimately returned.

Looking back on its history, the use of air conditioners has taken off enormously in developing countries once they reach a certain level of gross domestic product (GDP). If low-priced air conditioners, which offer poor energy efficiency, were to become widespread instead, this poses a threat to the environment. Baridi Baridi’s business was put in place to offer a low-cost approach to the use of air conditioners that offer comfort and environmental friendliness in light of such circumstances. Going forward, Daikin will continue to develop business models that are geared to earning high profits in all markets, including smaller yet-to-mature markets, and explore the possibility of expanding its business to other immature markets in the years ahead.

### Financial Costs of Use over a Five-Year Period

#### Low-Priced AC
- Initial cost per AC: US$500
- Operating costs: US$100
- Cleaning costs: US$50
- Repair and other costs: none

#### Baridi Baridi
- Initial cost per AC: US$500
- Operating costs: US$100
- Cleaning costs: US$50
- Repair and other costs: US$50
- Subscription fee: US$1,500

Note: Calculations are based on the assumption that 1,000 days of use = 200 days per year × five years.

### Benefits

**Environmental**
- Non-refrigerants, which do not deplete ozone, are used.
- Refrigerants do not contribute to a greenhouse effect.
- Refrigerants are recovered through the subscription format and returned.

**Economic**
- Energy use reduced by roughly 60% through the use of high-performance air conditioners.
- Operating costs are minimal, even with all of the other costs included.
- Repair and other costs are reimbursed.
- Ability to receive all refrigerants, as the subscription format entails the eventual return of all air conditioning systems to Baridi Baridi.

**Societal**
- Generates profits through the receipt of continuous payments by virtue of highly durable air conditioners.
- Power悖 for the use of air conditioners.
- Impact of lower electricity costs outweighs the cost of using air conditioners.

**Social**
- Roughly 70% of installed air conditioners have malfunctioned and been left unused due to the lack of specialists and maintenance services.
- Air conditioners are used by only 1% of all residents. Also, they are often in poor condition due to the lack of repairs, service parts, and specialists, as a result of which around 70% of the air conditioners installed are left unused.

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### Integration of Demand and Supply in Tanzania

Tanzania’s Existing Air Conditioner Market
- Air conditioners are used by 2% of all residents.
- Non-inverter air conditioners, which offer poor energy efficiency, account for around 98% of all air conditioners used.
- Refrigerants discharge GHGs into the atmosphere, having a greenhouse effect approximately 5000 to 10,000 times that of CO2.
- Roughly 70% of installed air conditioners have malfunctioned and been left unused due to the lack of specialists and maintenance services.

Introduce high-performance inverter air conditioners in markets where inefficient air conditioners have become widespread and establish a business model aimed at providing comfort and environmental value.

### Special Features

• Generates profits through the receipt of continuous payments by virtue of highly durable air conditioners.
• Power悖 for the use of air conditioners.
• Ability to receive all refrigerants, as the subscription format entails the eventual return of all air conditioning systems to Baridi Baridi.
• Non-refrigerants, which do not deplete ozone, are used.
• Refrigerants do not contribute to a greenhouse effect.
• Refrigerants are recovered through the subscription format and returned.
• Energy use reduced by roughly 60% through the use of high-performance air conditioners.
• Operating costs are minimal, even with all of the other costs included.
• Repair and other costs are reimbursed.
• Ability to receive all refrigerants, as the subscription format entails the eventual return of all air conditioning systems to Baridi Baridi.
• Roughly 70% of installed air conditioners have malfunctioned and been left unused due to the lack of specialists and maintenance services.

### For the Betterment of Society, Today and Tomorrow

Located in eastern Africa, Tanzania is incredibly hot and humid throughout the year. Despite its climate, which makes air-conditioning a necessity year-round, air conditioners are seldom used in this country. This paved the way for the introduction of our air conditioner (AC) subscription service in Tanzania through which we have been striving to provide comfortable air while reducing environmental impact.

Baridi Baridi’s AC Subscription Service

- Pay only for the selected term of use through a smartphone app.
- User can change the terms of subscription according to the usage of air conditioners.
- Generates profits through the receipt of continuous payments by virtue of highly durable air conditioners.
- Energy use reduced by roughly 60% through the use of high-performance air conditioners.
- Operating costs are minimal, even with all of the other costs included.
- Repair and other costs are reimbursed.
- Ability to receive all refrigerants, as the subscription format entails the eventual return of all air conditioning systems to Baridi Baridi.

### Conclusion

We have received feedback from those who have adopted our subscription service indicating that their electricity costs have declined substantially and that these air conditioners are true value and beyond anything they have used to date. Conversely, we have also received feedback about the lack of clarity in our service offerings. Recognizing the fact that not all customers will be completely satisfied with what we offer, we are conducting promotional activities to enhance the awareness of the scope of our services. The success of our business brings more joy to people in need in Tanzania and leads to a brighter future for the environment. It also translates into better lifestyles and possibly even more jobs through the formation of individuals who are highly knowledgeable and skilled in the area of air conditioners. Moreover, our efforts were to inspire more people in Japan to work with enthusiasm, there is nothing more gratifying. Thank you.

### Bringing New Value to Society through Co-Creation

WASSHA Inc. is a startup company associated with the University of Tokyo. Through a kiosk network of small stores handling basic necessities in Tanzania, from the suburbs to villages without electricity, the company provides LED lanterns through a pay-as-you-go system, in which users pay only for the electricity they use. Our collaboration with WASSHA in the AC subscription service began as a result of an industry–academia co-creation alliance formed with the University of Tokyo in December 2018. Daikin has decided to invest up to ¥11.0 billion in startup companies across the globe over a five-year period to 2024. To ensure that decisions are made in a timely manner, a framework has been put in place to enable investments within this limit to be made through the approval of the general manager of each division. Our investment in WASSHA is the first project undertaken as a part of this investment scheme. Moving forward, we will continue to engage in co-creation activities with those outside of our organization with a view to creating new value.
Advancing Diversity Management

At Daikin, our approach to diversity stems from our commitment to People-Centered Management. We believe that people are what drive a company's competitiveness. We also believe that the creation of new products and services through the efforts of a diverse team of employees who respect their mutual differences as well as the various ideas, ways of thinking, and values of one another will make us stronger as an organization.

The Daikin Group's workforce consists of over 88,000 employees, of whom more than 80% are based overseas. What has helped sustain our growth as a global company to date is none other than the people in our organization who are full of passion and vitality. As our business continues to grow rapidly through partnerships, collaborations, and M&As that span the globe, we are selecting a diversification of not only of the members of our organization but also our values as well. We have a unique diversity management system in place that unites our diverse group of employees, who differ in culture, ethnicity, generation, lifestyle, and other aspects, and leverages the individuality and strengths of each member to drive innovation and enhance the Group’s comprehensive capabilities and competitiveness.

Promoting the Advancement of Women

In 2011, we launched a project under the direct control of management through which we have been fully devoted to promoting the advancement of women. Our main focus has been to expand the scope of measures for changing the perceptions of management and female employees, accelerating the development of female leaders, helping women work to return as early as possible after childcare leave, and promoting active roles after returning to work. We also encourage male employees to participate in childcare and take childcare leave, as part of our commitment to providing a workplace environment that is conducive to balancing work and childcare regardless of gender.

To accelerate the development of female employees for management and other leadership roles, we have continued to implement a range of measures that include our Female Leader Development Program, a sponsorship program in which the Company’s executives provide direct support to female employees toward their individual growth, and a mentorship program in which employees can consult with and receive advice from more experienced employees in other departments. In particular, our Female Leader Development Program, in which 20 participants enroll each year and a total of 250 participants have enrolled to date, is an opportunity for those pursuing management and leadership positions to develop the right mindset and behaviors.

As a result of such efforts, the number of female managers was 68 (5.7%) as of the end of fiscal 2021, increasing roughly threefold from the 20 (2.1%) female managers in 2011 when our initiatives to promote women’s advancement were first introduced. We will continue to push forward with developing and securing female managers.

In addition, since 2011, we have introduced a series of measures that have contributed to realizing a better balance between work and childcare. One of these measures is designed to enable employees to return to work quickly after taking childcare leave, as a result of which the number of people returning to work within a year of taking childcare leave increased from roughly nine people (32%) in 2011 to 50 people (56.9%) as of the end of fiscal 2021. Moreover, the percentage of male employees taking childcare leave was at a high of 84.4%.

Going forward, we will work to foster a corporate culture that brings out the best in all of our employees, regardless of gender, while enabling them to find the right balance between their work and family life.

Action Plan for Promoting the Advancement of Women

Details of initiative

-Accelerate the development of female employees for management and leadership roles.
- Foster a corporate culture conducive to balancing work and childcare, regardless of gender.
- Promote a mindset that enables diverse employees to shine

Plan Period: April 1, 2021 to March 31, 2022

<table>
<thead>
<tr>
<th>Initiative</th>
<th>FY 2021 Target</th>
<th>Actual Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of female directors appointed internally</td>
<td>One or more (by the end of fiscal 2021)</td>
<td>Achieved</td>
</tr>
<tr>
<td>Number of female managers</td>
<td>120 (by the end of fiscal 2021)</td>
<td>88</td>
</tr>
<tr>
<td>Childcare leave taken</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female employees</td>
<td>At least 90% for both full-time and female employees</td>
<td>Achieved</td>
</tr>
<tr>
<td>Average of 10 or more consecutive days of leave for male employees</td>
<td>Female employees: 100% Male employees: 94.4% Average number of calendar days of leave taken by female employees: 12.9</td>
<td></td>
</tr>
</tbody>
</table>

Daikin Information and Communications Technology College

In December 2017, Daikin Information and Communications Technology College was established with the full cooperation of Osaka University, with which Daikin signed a comprehensive cooperation agreement centered on the field of information science. Established with the aim of developing digital human resources who are able to adapt to the drastically changing structures of industry and society, this training program selects employees from a wide range of divisions and follows Daikin’s own unique curriculum. With a view to nurturing experts who are adept at infusing AI and the IoT into our business and technology development, professors from universities, such as Osaka University, and leading-edge research institutes give courses on the fundamentals of AI and the uses of AI technology, in addition to incorporating project-based learning (PBL), which is based on actual issues surrounding each division.

In fiscal 2018, we also introduced a program geared to new employees that develops them into highly skilled AI and IoT human resources. A total of 440 new employees have enrolled in this two-year training program at Daikin Information and Communications Technology College to date. In their first year, trainees acquire specialized knowledge of AI and the IoT and learn about Daikin’s air-conditioning technology and other core technologies. In their second year, trainees engage in actual on-site exercises either individually or in pairs on a specific theme from among the themes compiled by our development, manufacturing, and sales divisions. This PBL develops trainees to be able to apply the knowledge and skills on AI and the IoT acquired in their first year on the front lines of operations by obtaining information on on-site needs and issues from the people in charge of various divisions and addressing them. Upon completion of the program, in addition to applying the knowledge and skills they have gained on-site, trainees are expected to act as a bridge between our internal and external operations as well as between our various divisions so that AI and the IoT become embedded throughout our operations.

In April 2022, the program’s third group of trainees completed their two-year training and were assigned to their respective divisions, where they are engaged in new themes related to creating new businesses and improving work efficiency centered on the use of digital technology.

Through Daikin Information and Communications Technology College, we have expedited the development of our management, existing employees, and new employees toward our goal of developing 1,500 digital human resources by the end of fiscal 2022.

* Employees learn and acquire the general knowledge, technical know-how, skills, and commitment necessary for their work through actual work experiences.

Human Resource Development Policy

The Daikin Group has declared as one of the principles of its Group Philosophy that “the cumulative growth of all Group members serves as the foundation for the Group’s development.” Based on the belief that people grow through work experience, we offer a variety of opportunities for personal development to complement our on-the-job training (OJT), which challenges each individual by assigning tasks that are suited to their aptitudes.

Opportunities include our Next-Generation Executive Development Program aimed at continuously developing global business leaders; an internal course on fostering specialists in the development of AI technology; training programs geared to nurturing young employees into global professionals; and a HR development program built on stronger ties with various universities. These programs are a part of our efforts to provide more opportunities for employees to grow as individuals in accordance with the Group’s strategies and business direction as well as the changing times.

Initiative

- Next-Generation Executive Development Program
- Overseas Base Functional Training
- Global Training Program for Overseas Personnel

Details

- Next-Generation Executive Development Program: 38 participants
- Overseas Base Functional Training: 28 participants
- Global Training Program for Overseas Personnel: 30 participants

Achievements in Fiscal 2021

- Next-Generation Executive Development Program: 38 participants
- Overseas Base Functional Training: 28 participants
- Global Training Program for Overseas Personnel: 30 participants

* Employees learn and acquire the general knowledge, technical know-how, skills, and commitment necessary for their work through actual work experiences.
Strengthening Technological Capabilities

The Technology and Innovation Center (TIC) is the control tower for all of the Group’s technologies. With TIC at the core, we will promote the development of technologies and generate results in a timelier manner through our external and internal co-creation projects. Moreover, in order to move ahead with our key domains and themes on a global scale, we will enhance the development capabilities of our technological development sites overseas, strengthen coordination between these sites, and recruit and develop the right personnel.

Foundation for Value Creation

Managing Energy Use Across an Entire Building and Community

At the Daikin Group, we work not only to mitigate the environmental impact of each conditioner through the use of our environmental technology, but also to ensure that air-conditioning, peripheral equipment buildings, and renewable energy are all managed together in the best possible manner.

For instance, we participate in smart city projects in Manchester (England), Lisbon (Portugal), Singapore, and other locations to facilitate energy conservation throughout each community. Through the optimal control of district heating and cooling systems, we will reduce energy use across entire communities and address energy-related issues that stem from urbanization.

Next-Generation Refrigerants for Electric Vehicles (EVs)

The Group is moving ahead with the development of next-generation refrigerants for automotive air-conditioning systems.

Due to the challenges involved in the use of exhaust heat for air conditioning on battery electric vehicles (BEVs), heat pumps are used instead on these vehicles. However, our current R1234yf refrigerants are limited in their capacity to generate heat in low outdoor temperature settings. This necessitates the use of electric heaters, which reduces the cruising distance of BEVs.

The new refrigerant, which is currently undergoing development, will enable the use of heaters in low outdoor temperature environments without the use of electric heaters, thereby increasing the cruising distance of BEVs by up to about 50%. Another merit of this new refrigerant is the fact that it has a GWP of less than 1. Going forward, we will continue to assess the performance of this new refrigerant with the aim of installing it on production models.

Innovation through Co-Creation between Industry, Government, and Academia

Digitalization continues to progress rapidly while industry and social structures are shifting drastically. There is a sense of urgency to transition to a business model that looks ahead to an era where experiences are valued over things and customers and consumers reign supreme. At Daikin, we define co-creation as a comprehensive approach that involves breaking away from the principle of self-development, establishing close interaction between the leaders, management, and employees of each organization, having them work together to find the right answers, and creating new value. Through collaborations between industry, government, and academia, we are working to realize innovation through co-creation.

Establishment of Research Unit with The University of Tokyo in Pursuit of a Circular Economy

The Group is forming comprehensive partnerships with various universities and research institutes to develop a new business that will help resolve social issues around the world. We have also formed an industry–academia partnership with The University of Tokyo toward the creation of innovation and new businesses. As a part of this agreement, the Circular economy modeling towards cleaner air Research Unit was jointly established in 2021.

Circular economy represents a transformation from the traditional linear economic model of mass production, mass consumption, and mass disposal to an economic model whereby value is created through the recycling of resources. We will identify the technology, systems, and infrastructure necessary for realizing a circular economy, conduct trial operations, and aim to propose a new sustainable economic model in 2026.
Reducing Greenhouse Gas Emissions to Net Zero

In 2018, we formulated Environmental Vision 2050 with the aim of reducing greenhouse gas (GHG) emissions to net zero by 2050. We recognize climate change as the most important issue for management. Our approach to it is reflected in Environmental Vision 2050 and our medium- to long-term environmental targets. We will continue to proceed with a variety of climate change-related measures toward the achievement of our five-year strategic management plan.

Environmental Vision 2050

Establishment of Reduction Targets Aimed at Realizing Environmental Vision 2050

Based on analysis of the future of its business operations, Daikin has established a GHG emissions reduction target to reduce its emissions to net zero and bring added value to people around the world through its air solutions.

Through Products

Target for Reducing GHG Emissions to Net Zero

Through Solutions

GHG and CO2 Emissions Reduction Targets

With the base year set at 2019, we aim to reduce GHG emissions by 30% or more in 2025 and by 50% or more in 2030 compared with emissions without measures (BAU). Fiscal 2021 result: 30% reduction

Enforcing Various Measures in Line with Our Management Plan Themes

The three themes of this growth strategy for achieving Environmental Vision 2050 have been incorporated into the nine key strategy themes of our FUSION 25 strategic management plan. Through the implementation of this plan, we will aim to help resolve social issues and continue to expand our business.

Through Products

Challenge to achieve carbon neutrality

• Reduce emissions of energy-induced CO2 and hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs) in development and production processes
• Accelerate global conversion to inverter units to lead other companies with environmental products (energy-saving equipment)
• Expand business globally by deploying energy-saving and environmental technologies

Promotion of Solutions business connected with customers

• Provide solutions for service/inspections, value-added proposals during equipment operation, and refurbishments/implantations to establish a business model centered on providing new experiences
• Expand business globally by deploying energy-saving and environmental technologies

Through the Power of Air

Creating value with air

• Create markets from opportunities presented by growing IAQ/ventilation demand, and create new products and services to establish a large-scale IAQ/ventilation Business
• Accumulate and analyze air-conditioning data and vital data to create value with IAQ/ventilation for people's physical and mental well-being
For Daikin, climate change represents an important issue affecting its business continuity. Daikin endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*, which are intended to mitigate the risk of instability in financial markets as a result of climate change. We are now working to analyze and reflect the risks and opportunities of climate change as related to our business operations into our management strategies and risk management. We will appropriately discriminate the progress of such efforts as we aim for further growth while contributing to the decarbonization of society.

* TCFD was established in 2015 by the Financial Stability Board. It recommends the type of information that companies should disclose to investors, lenders, and insurance underwriters to appropriately assess and determine the cost of risk related to climate change.

Daikin’s Response to TCFD’s Recommended Disclosures

Governance
The organization’s governance presents climate-related risks and opportunities

- The CSR Committee, which is chaired by the officer in charge of CSR, discusses and confirms the progress of issues on risks and opportunities, policies, and targets concerning climate change and other environmental-related matters.
- Climate change in particular is an important issue for the Company as our business centers on air conditioning. Accordingly, “Challenge to achieve carbon-neutrality” has been declared as one of our growth strategy themes in the FUSION 25 strategic management plan and progress on this theme is regularly reported to the Board of Directors.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning

- We analyze the climate scenarios based on Future of Cooling by the EA.
- Demand for air conditioning is expected to increase 2.5 times from current levels by 2050. While there is the risk of stricter energy regulations for air conditioning and tighter regulations on refrigerants with a high GWP, this will also be an opportunity for Daikin to expand its strengths in providing highly environmentally conscious products and services.
- Environmental Vision 2050 calls for net zero GHG emissions by 2050 and we have incorporated GHG reduction targets and main measures into our FUSION 25 strategic management plan.

Climate Related Risks and Opportunities and Potential Impacts

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact on Daikin’s business</th>
<th>Probability of occurrence</th>
<th>Potential financial impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Needs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High temperature</td>
<td>Higher operating costs would be incurred due to increased energy costs</td>
<td>High</td>
<td>Large</td>
</tr>
<tr>
<td>Physical</td>
<td>Physical damage to facilities may occur in areas affected by increased energy costs</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Opportunities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High temperature</td>
<td>Production delays due to water shortages</td>
<td>High</td>
<td>Large</td>
</tr>
<tr>
<td>Physical</td>
<td>Product failures may occur in areas affected by increased energy costs</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Risk Management
Process for identifying, assessing, and managing climate-related risks

- Based on scenario analysis, gather climate-related risks from business sites around the world, assess them for their degree of importance, and identify them from the perspective of incorporation into our strategies.
- Recognize climate-related risks as risks that could have a significant impact on our business strategies and integrate them into our Group-wide risk management strategies.
- Confirm the progress of the Group’s risk management through the Internal Control Committee, which is 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 related risks and opportunities

- Under Environmental Vision 2050, aim to reduce GHG emissions to net zero by 2050.
- Under the FUSION 25 strategic management plan, set targets to reduce GHG emissions from our own business operations.

GHG Emissions Reduction Targets

<table>
<thead>
<tr>
<th>Scope</th>
<th>Reduction Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduce net GHG emissions from internal business activities by 30% or more in 2025, by 50% or more in 2030, and by 80% or more in 2050.</td>
</tr>
<tr>
<td>2</td>
<td>Reduce net GHG emissions from the Group’s overall manufacturing (development and production) processes to 1.2 million tons-CO2 by fiscal 2025.</td>
</tr>
</tbody>
</table>

Supply Chain Management

Establishing a Flexible and Robust Supply Chain

Many supply chains around the world are being burdened by the drastic increase in disruptions, decoupling, and other forms of uncertainty. In order to further strengthen our supply system, it is essential that we continue to enhance our risk mitigation measures, such as increasing the visibility of our supply chain and acquiring components from multiple suppliers, in addition to conducting procurement activities and establishing a supply chain that is geared to local production for local consumption. In view of this,

Optimizing Supply Chain Management Using Digital Technology

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of a Global Production System Adaptable to Changes in Demand</td>
<td>To mitigate the risk of supply disruptions, the Daikin Group has remained true to its market-localized production approach over the years. A single heat wave will drive up demand for air conditioners, which are considered a lifeline at such times. To be fully capable of responding quickly to such sudden changes in demand, all of our manufacturing sites have implemented a variable-mix, variable-volume production system, which adjusts production quantities and quantities on a daily and weekly basis. In terms of procurement, we have a system that manages both centralized procurement, which is handled by the Procurement Division at Daikin’s headquarters in Japan, and local production for local consumption, whereby procurements are made locally under the leadership of our global business sites. Despite having such a flexible system in place, escaping the consequences of the floods in Thailand and the Great East Japan Earthquake that occurred in 2011 was a daunting task. For this reason, the Group is strengthening its business continuity plan (BCP) with the aim of establishing a highly resilient supply chain. The hallmark of this BCP is the close bond that is formed between our suppliers and each Group company and department based on the shared objective of constantly maintaining production. For instance, after the Great East Japan Earthquake, our Product Development Division was forced to change product specifications so that the alternative components we had obtained could be used. Having been through this experience, we have incorporated into our BCP a system for swiftly developing alternative components and products in times of emergencies.</td>
</tr>
</tbody>
</table>

| Respect for Human Rights | At the Daikin Group, we have declared respect for human rights in our Group Conduct Guidelines, which specify the standards of conduct that must be adhered to by all executives and employees of the Group, and we are engaging in efforts to promote human rights across our entire value chain. We also endorse and participate in the United Nations Global Compact for supporting and putting into practice universally accepted principles relating to such issues as labor and human rights. Respect for human rights forms part of the self-assessments we conduct each year to ensure that the Group is in thorough compliance with the Group Conduct Guidelines. We verify the existence of human rights violations and related issues through this assessment and take the necessary measures in response. Issues that are uncovered as a result of these assessments and any countermeasures taken are reported to and shared with the Corporate Ethics and Risk Management Committees and the compliance committees for each region of operation in order to mitigate any associated risks. With regard to the supply chain, respect for human rights is included in our Supply Chain CSR Promotion Guidelines in order to eliminate all forms of child labor and forced labor, as well as acts of discrimination on the grounds of race or gender. In addition, we are asking for thorough compliance with these guidelines from our business partners both in Japan and overseas. In fiscal 2022, Daikin enhanced its understanding of promoting respect for human rights along the supply chain through lectures given by specialists and by learning from the CSR procurement activities of other companies, which is utilizing to improve its efforts in this area. |
Foundation for Value Creation

Safety-Related Measures

**Product Safety**

**Policy On Product Safety**

At the Daikin Group we believe that providing customers with safe and quality products that ensure their satisfaction by meeting their needs is the most important task for management. We have therefore formulated our basic policy on product quality in an effort to provide even higher levels of safety and quality in our products. We must ensure that our products can be operated safely not only under normal conditions but also in unexpected situations. In the case of accidents, we must minimize damage as much as possible. With this in mind, we formulated our Global Product Safety Standards, which are standards on product safety common to all members of Daikin’s global operations to ensure that our products are designed for the utmost safety.

**Quality Management System**

**Establishment of a Global Policy on Quality Management**

In the Global Quality Guarantee Rules, the Daikin Group has prescribed its basic stance on quality standards across the Group and specified the responsibility and authority structure for seamlessly monitoring and improving quality. Moreover, we have obtained ISO 9001 certification at all of our production bases, with the standard forming the basis of our quality management system. We work to ensure consistently high levels of product quality through the extensive management of quality standards by our development, procurement, and production divisions. We also work together with our outsourcing partners to continue to strive for higher standards in our quality. Each aspect of our quality management system is assessed by conducting internal audits and evaluating its operational status for each business division, and maintaining a continuous cycle of implementation, evaluation, and improvement.

In addition, a quality assurance program is planned and implemented each fiscal year, outlining priority quality measures and targets for each business division based on the Group’s annual policy guidelines.

Promotion of Occupational Safety and Health

**Establishment of a Management System in Pursuit of Zero Workplace Accidents**

To ensure operational and employee safety at its production bases around the world, the Group has established occupational health and safety management systems at each base and has obtained certification for ISO 45001 and other international standards at 61 production bases.

Chaired by the director in charge of safety, the Global Safety Meeting is held twice a year with the aim of improving safety standards throughout the Group. We also conduct safety education and training and undertake safety patrols at each base in Japan and overseas with the goal of realizing zero workplace accidents. In fiscal 2021, the frequency rate* of lost-time occupational accidents was 1.19.

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency Rate of Lost-Time Occupational Accidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/19</td>
<td>1.26</td>
</tr>
<tr>
<td>2018/18</td>
<td>1.01</td>
</tr>
<tr>
<td>2017/17</td>
<td>1.19</td>
</tr>
</tbody>
</table>

* Frequency rate = Number of deaths or injuries caused by occupational accidents / Total actual working hours 

Financial Strategy

**Basic Policy**

The Daikin Group will continue to focus on expanding its business while strategically investing its assets. We will enhance our management structure with a view to realizing further growth in the years ahead through the implementation of comprehensive cost-reduction measures and the strengthening of our financial position.

The basic approach behind our capital policy is to implement upfront investments in digital technology, R&D, human resources, and other areas of our business based on the key strategic themes outlined in FUSION 25, while increasing our cash flow by expanding the scope of our business and enhancing profitability.

The cash generated as a result will be used in capital investments, M&As, and other avenues in which we will invest actively toward further growth. We will also use it to further increase shareholder returns. 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Cash Flow (dollars of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021/21</td>
<td>+170,000</td>
</tr>
<tr>
<td>2022/22</td>
<td>+210,000</td>
</tr>
<tr>
<td>2023/23</td>
<td>+250,000</td>
</tr>
</tbody>
</table>

**Ratio Management and Our Targeted Management Indicators**

At Daikin, we engage in ratio management based on the awareness that the maximization of our corporate value is the issue of highest priority for management. The background behind introducing ratio management started with our intention to pivot away from emphasizing monetary amounts (i.e., net sales, operating profit) on our profit and loss (PAL) statements, and instead aim to become global No. 1 under our FUSION strategic management plan, which was launched in 1999. 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” set forth in the revamped version of FUSION in 1999.

Under ratio management, we actively expand our business and enhance our management structure on the basis of free cash flow (FCF), return on invested capital (ROIC), return on assets (ROA), and return on equity (ROE) as key management indicators. We place particular emphasis on FCF as a source of corporate value and as an integrated indicator that serves to enhance all management indicators. In addition to increasing earnings and improving investment efficiency, we are proceeding with the measures necessary to generate cash flow from a working capital perspective, which includes thoroughly reducing the balances of accounts receivable and inventory.
Foundation for Value Creation

Financial Strategy

Promoting Internal Awareness of Our ROIC Tree

We are working to enhance internal awareness of ROIC as a management indicator for each division. To facilitate greater implementation among employees, we have positioned ROIC as an internal management indicator linked to Companywide ROE targets and then applied it to each business target as a means to show specifically how ROIC is connected to the duties of each employee.

For example, during employee training we describe ROIC as a tree as a way to explain concepts such as how inventory reduction improves ROIC and how adjusting the relationship between selling prices and costs can increase profitability. We use the ROIC Tree concept to explain to our employees both in Japan and at our overseas bases how ROIC is linked to their daily duties.

ROIC Tree

- Marginal profit ratio
  - Maximum variable cost reductions
  - Implement selling price increases
  - Central logistics cost savings, implement cost-reduction measures, reusing supply chain management (SCM)
  - Reduce fixed costs
  - Enhance product quality

- Fixed ratio
  - No. of days inventory is held
  - No. of days working capital is held

- No. of days receivables are held

- Fixed asset turnover rate
  - Reduce inventory

- Invested capital turnover rate

- Profitability

- Asset efficiency

Investment Plan under FUSION 25

We will actively invest our assets to realize the growth strategies set forth in FUSION 25 and to capitalize on the opportunities for business growth arising from the changing times. Our plan is to allocate roughly ¥800.0 billion over a three-year period spanning fiscal 2021 to fiscal 2023 and approximately ¥1,300.0 billion over the course of three years spanning fiscal 2021 to fiscal 2023 and over ¥1 Trillion over the five-year period of the plan. When considering the possibility of M&As, emphasis is placed on whether their objectives align with the key priority themes set forth in our FUSION strategic management plans, whether they function as a business strategy that parallels the direction of the Group’s growth and development, and whether they are likely to generate sufficient synergies. Based on these factors, under FUSION 25, we are examining the possibility of acquiring heating manufacturers and refrigeration service companies in Europe; service and engineering companies in Asia and North America; and sales and wholesale companies in North America in order to strengthen our sales network in the region.

M&As

At Daikin, we believe that alliances, collaborations, and M&As are essential to increasing the pace of our business expansion. M&As have been actively taken into account for FUSION 25, with plans to invest approximately ¥600.0 billion over the course of three years spanning fiscal 2021 to fiscal 2023 and over ¥1 Trillion over the five-year period of the plan. When considering the possibility of M&As, emphasis is placed on whether their objectives align with the key priority themes set forth in our FUSION strategic management plans, whether they function as a business strategy that parallels the direction of the Group’s growth and development, and whether they are likely to generate sufficient synergies. Based on these factors, under FUSION 25, we are examining the possibility of acquiring heating manufacturers and refrigeration service companies in Europe; service and engineering companies in Asia and North America; and sales and wholesale companies in North America in order to strengthen our sales network in the region.

Policy on Cross-Shareholdings

As our business becomes more complex and wide-ranging, alliances and partnerships with other organizations in diverse fields are becoming increasingly important for our continuous growth. We have determined it appropriate to hold shares in companies with potential for improvements in corporate value. This policy is the result of a strategic decision to engage in alliances and partnerships to rapidly expand our business and to enhance our corporate value over the medium to long term.

Dividend Policy

Based on our policy of providing stable dividends on a continuous basis, we strive to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% while aiming to further increase our dividend payout ratio. In addition, we will implement upfront investments with the aim of continuing to grow as an organization while expanding the scope of our business. We will also strive to increase our corporate value and market capitalization and provide even greater returns to shareholders in the process.
Ensures Management Is Always a Step Ahead

Our Vision for Corporate Governance: A System That Facilitates Value Creation

A Governance System That Facilitates Value Creation

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Key Points

1) Our Unique Integrated Management Framework

Under this unique integrated management framework, Daikin seeks to increase the speed of management's decision-making and actions, while its directors work together in assuming responsibility for management and business execution in response to the increasingly complex and wide-ranging issues and challenges faced by management and the Daikin Group as a whole.

2) Executive Officer System and Board Composition

Daikin has implemented an executive officer system aimed at increasing efficiency through independent assessments and decision-making conducted in each of its businesses, regions of operation, and functions. Under this system, executive officers engage in prompt and strategic decision-making, and sound management. The number of directors maintained is well suited to carrying out appropriate discussions and decision-making on all issues. The Company appoints a minimum of four external directors at all times. Currently, the Board of Directors consists of 11 members, including four external directors (including one female director) and one non-Japanese director.

3) Management System

The Group Steering Meeting is the highest deliberative body in the Company's management system. Its function is to accelerate the pace at which Daikin decides future strategies and solves issues related to important management policies and strategies. Meanwhile, the Group Management Meeting aims to establish a general consensus regarding all corporate actions and policies taken, which is accomplished by Group-wide sharing of all major Group management policies and basic strategies, and by more effectively supporting Group companies in solving their problems. The Group Auditors Meeting strengthens auditing and control functions throughout the Daikin Group, including those at overseas subsidiaries. In this way, the Group Auditors Meeting ensures these functions are working effectively.

4) Enhancement of Group Cohesiveness

The chief global officer leads efforts to strengthen the cohesiveness of the Daikin Group. This officer is also responsible for enhancing corporate governance and the organizational management of Daikin as a multinational company.

5) Officer Personnel and Compensation System

The HRM Advisory Committee and the Compensation Advisory Committee are chaired by external directors. The role of these committees is to improve the transparency and appropriateness of decisions related to personnel matters and compensation for officers.

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Basic Philosophy

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, soundness, and transparency 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 seek to 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.
A Governance System That Facilitates Value Creation

Corporate Governance

Daikin’s Governance at a Glance

Organizational System: Company with Audit and Supervisory Board

Number of Directors: 11
(5 of whom are non-Japanese directors and one is a female director)

Number of Audit & Supervisory Board Members: 4

Corporate Governance System (As of June 30, 2022)

A Governance System That Facilitates Value Creation

Composition of the Board of Directors and Other Committees

Ratio of Independent, External Directors

Four out of 11 members 36%

Four out of six members 67%

Two out of four members 50%

Daikin’s Governance at a Glance

Policy for Appointment of Directors

The Company strives to realize effective and appropriate management via an integrated management system. Through this system, directors efficiently make strategic decisions and conduct sound and appropriate supervision and governance—freely exercising their responsibility for all facets of management—while assuming responsibility for business execution through prompt action. Accordingly, Daikin believes this integrated management system is effective in accelerating decision-making and business execution. Directors make decisions, execute operations, and provide supervision and guidance in an integrated manner, thus independently making decisions and taking responsibility for the outcomes thereof.

The Company appoints multiple external directors who monitor the execution of operations from an independent perspective and offer appropriate supervision and advice during decision-making. Through this process, external directors take responsibility for supporting the Company’s integrated management system from the standpoint of transparency and soundness. Daikin prioritizes diversity when appointing directors in terms of their nationality, gender, and experience, with a particular emphasis on business expansion, globalization, and diversity management. Furthermore, the Company seeks in director candidates the expertise and competencies required for carrying out effective corporate management, namely, leadership skills that bring out the potential of employees and lead an organization to enhance its business execution capabilities; the ability to act swiftly based on foresight and insight gained from frontline operations, where trends first emerge and can be understood; the determination and decisiveness to create solutions to unresolved issues; and the capacity to put into practice the Group Philosophy and Core Values of the Daikin Group and pass them down to future employees.

A Corporate Governance System

Auditors

Accounting auditors

Company with Audit and Dismissal

Outside Group Management Auditors

Outside Group and Company Auditors Meeting

Supervisory Board Members

Number of Audit & Supervisory Board Members:

Four out of six members 67%

Two out of four members 50%

Directors

Four out of 11 members 36%

Number of Directors:

Noriyuki Inoue

Tatsuo Kawada

Yoshihiro Mineno

Kanwal Jeet Jawa

Masatsugu Minaka

Noriyuki Inoue has been conversing the Company’s management for many years and has achieved significant results in globally expanding Daikin’s businesses and improving corporate value through sound judgment and foresight in Group management capabilities that enable the Group to achieve its goals. He will promote the building of a business model looking ahead to a new era.

Masaomi Togawa

Ken Taya

Masatoshi Miki

Kenta Matsuoka

Yoshinori Mino

Ken Taya has been in charge of the Air Conditioning Business in China for many years and has significantly contributed to business expansion. He is currently in charge of all business operations in China and the Air Conditioning Business in Japan, while monitoring the sales and marketing capabilities of the Daikin Group. Leveraging his ability to respond to rapid changes in China and management skills that maintain the potential of local human resources, the Company expects that he will further expand business.

Masatoshi Miki has been in charge of the Air Conditioning Business in Europe for many years, thereby significantly contributing to business expansion. He is currently in charge of all business operations in Europe, the Middle East, and Africa. Leveraging his ability to respond to environmental issues in Europe and achieve management skills to make synergies among diverse business segments, the Company expects that he will further expand business.

Kenta Matsuoka has been in charge of the Air Conditioning Business in India for many years and has significantly contributed to business expansion, particularly in terms of R&D and product development. He is currently in charge of R&D and the Applied Solutions Business in North America. The Company expects that he will develop leading-edge technology based on conditioning equipment and create new businesses.

Kentarō Ito

Tatsuo Kowada

Akiyuki Makino

Shingo Torii

Yoko Arai

Kentarō Ito possesses extensive experience in the Air Conditioning Business in India and has a deep understanding of India’s society. Leveraging his vast experience in India and the Middle East, he is committed to creating a business model that will further expand business.

Tatsuo Kowada

Akiyuki Makino

Shingo Torii

Yoko Arai

Leveraging his abundant experience and deep insight as a corporate director at Daikin Industries Co., Ltd., Tatsuo Kowada provides advice and supervises the Company’s management efforts based on extensive and deep insight as an independent director, with a focus on utilizing the peoples’ perspectives regarding the energy and environmental fields, sales businesses, and other matters.

Akiyuki Makino

Leveraging his abundant experience and deep insight as a corporate manager of Daikin Industries Co., Ltd., Akiyuki Makino provides advice and supervises the Company’s management efforts based on extensive and deep insight as an independent director, with a focus on utilizing the peoples’ perspectives regarding the energy and environmental fields, sales businesses, and other matters.

Shingo Torii

Leveraging his abundant experience and deep insight as a corporate executive of Shingo Torii Engineering Co., Ltd., Shingo Torii provides advice and carries out operations based on extensive and deep insight as an independent director, with a focus on utilizing the peoples’ perspectives regarding corporate management and customer needs, corporate activities pertaining to the SDGs, and ESG, and other matters.

Yoko Arai

Leveraging her abundant experience and deep insight as a corporate executive at the ARA Group, Yoko Arai provides advice and carries out operations based on extensive and deep insight as an independent director, with a focus on utilizing the peoples’ perspectives regarding customer-centric corporate management and business development as well as the further empowerment of female employees in the workplace.

Expertise and Knowledge of Each Director and Their Expected Roles

Skill Sets of Directors

Corporate Governance System (As of June 30, 2022)
A Governance System That Facilitates Value Creation

**Corporate Governance**

Dakin evaluates the effectiveness and appropriateness of its Board of Directors and the corporate governance system. Dakin has established the CSR Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including executive officer nomination criteria, candidates, and compensation levels. To fulfill the expectations of shareholders and other stakeholders, Dakin’s officer compensation system is designed to enhance the evaluation of internal directors to continuously improve the Company’s performance over the medium to long term and to contribute to increasing the overall value of the Daikin Group in accordance with its management policies. Compensation of directors, excluding external directors, consists of fixed compensation, merit-based compensation, and reimbursement. To ensure the transparency of management by executive officers and the deliberations by the Directors and the corporate governance system through interviews with directors and Audit & Supervisory Board members and deliberations by the Board of Directors. The Board of Directors of the Company has been deemed to be making appropriate decisions through open and active discussions, and to be playing an effective role in enhancing corporate value over the medium to long term. Dakin will continue to improve Board effectiveness as well as engage in other initiatives, including discussions on Groupwide strategies and issues and improvement of reporting regarding the status of business execution.

**Officer Compensation System**

To ensure the transparency of management by executive officers and of compensation processes, Dakin has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including executive officer nomination criteria, candidates, and compensation levels. To ensure that the expectations of shareholders and all other stakeholders are aligned with the Company’s strategy, the Board of Directors and the Audit & Supervisory Board have been established with the purpose of continuously improving the Company’s performance over the medium to long term and contributing to increasing the overall value of the Daikin Group in accordance with its management policies. Compensation of directors, excluding external directors, consists of fixed compensation, merit-based compensation, and reimbursement. To ensure the transparency of management by executive officers and the deliberations by the Directors and the corporate governance system through interviews with directors and Audit & Supervisory Board members and deliberations by the Board of Directors. The Board of Directors of the Company has been deemed to be making appropriate decisions through open and active discussions, and to be playing an effective role in enhancing corporate value over the medium to long term. Dakin will continue to improve Board effectiveness as well as engage in other initiatives, including discussions on Groupwide strategies and issues and improvement of reporting regarding the status of business execution.

**Evaluation of the Effectiveness of the Board of Directors**

At the Daikin Group, we believe corporate governance serves to enhance corporate value by allowing us to make and act on decisions quickly so that we can ensure that we are constantly one step ahead and to continuously improve the transparency and soundness of our business operations in relation to our management issues and the changes in our business environment. In this section, our external directors explain the features of Daikin’s Board of Directors and their stance as external directors.

**Messages from External Directors**

Tatsuo Kawada
Chairman of the Compensation Advisory Committee
Chief Officer and CEO of Suntory Co., Ltd.
Chairman of the Daikin Electric Power Company

At the Company’s Board of Directors meetings, agendas are set from the perspective of employees on the front lines of our operations and are discussed in detail, allowing me to feel connected to the front line at all times. For instance, the views of frontline employees in regard to the direction that the Company should take and the strategies it should execute were firmly incorporated into the discussion and formulation processes of the FUSION 25 strategic management plan. For that reason, the strategies or the so-called ‘Gen principles’ (gen (spirit) of people, gen (spirit) of products, gen (spirit) of business, gen (spirit) of teams, gen (spirit) of leaders) are fully embodied by the people on the front lines of our business. Dakin’s business environment has undergone drastic changes as a result of the COVID-19 pandemic. However, as the Group continues to expand its business with a focus on air, we are seeing a substantial increase in possibilities going forward.

While management’s priority to date has been to improve profits and business results, environmental and social contributions have been emphasized to a greater degree heretofore. As an external director, I will continue to monitor the gap between the ideal state of Daikin’s business and its actual business growth, and work to realize a corporate governance that fulfills the expectations of its shareholders and all other stakeholders. In so doing, I will help ensure that the Group continues to grow and develop as an organization while realizing social issues in the years ahead.

Shingo Torii
Member of the CSR Advisory Committee
Senior Advisor of ANA Akindo Co., Ltd.
Member of the Board of Directors of Central Sekiyu Gas Corporation Limited

At the Company’s Board of Directors meetings, agendas are set from the perspective of employees on the front lines of our operations and are discussed in detail, allowing me to feel connected to the front line at all times. For instance, the views of frontline employees in regard to the direction that the Company should take and the strategies it should execute were firmly incorporated into the discussion and formulation processes of the FUSION 25 strategic management plan. For that reason, the strategies or the so-called ‘Gen principles’ (gen (spirit) of people, gen (spirit) of products, gen (spirit) of business, gen (spirit) of teams, gen (spirit) of leaders) are fully embodied by the people on the front lines of our business. Dakin’s business environment has undergone drastic changes as a result of the COVID-19 pandemic. However, as the Group continues to expand its business with a focus on air, we are seeing a substantial increase in possibilities going forward.

While management’s priority to date has been to improve profits and business results, environmental and social contributions have been emphasized to a greater degree heretofore. As an external director, I will continue to monitor the gap between the ideal state of Daikin’s business and its actual business growth, and work to realize a corporate governance that fulfills the expectations of its shareholders and all other stakeholders. In so doing, I will help ensure that the Group continues to grow and develop as an organization while realizing social issues in the years ahead.

**Total Compensation for Directors and Audit & Supervisory Board Members (Fiscal 2021)**

<table>
<thead>
<tr>
<th>Position</th>
<th>Total compensation (Millions of yen)</th>
<th>Total of different types of compensation (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>3,294</td>
<td>250</td>
</tr>
<tr>
<td>Director (excluding external directors)</td>
<td>2,401</td>
<td>151</td>
</tr>
<tr>
<td>Director (excluding external audit &amp; Supervisory Board member)</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>General executive officer</td>
<td>99</td>
<td>99</td>
</tr>
</tbody>
</table>

**Message from External Directors**

Akiji Makino
Member of the CSR Advisory Committee
Member of the Compensation Advisory Committee
Significant concurrent post:
Chairman and CEO of Abex Corporation
Significant concurrent post:
Director and Chairman of the Board of Midori Industrial Grene Corporation

At the Company’s Board of Directors meetings, monthly budget progresses are reported in detail from a front-line perspective, while at the same time, under the direction of the chair of the Board of Directors, executive officers and directors, including external directors, come together to discuss the market environment (opportunities and risks) of each region and business. I am convinced that the outcomes of these discussions have led to strong business results.

Specific measures are being developed and implemented for the growth strategy themes in FUSION 25, such as “Challenge to achieve carbon neutrality,” and I believe that the Company is making exceptional progress with these measures. By continuing to facilitate lively discussions, I will contribute to sustainable increases in the Company’s corporate value and its further growth and development as an organization.

**Compensation for Certified Public Accountants (Fiscal 2021)**

<table>
<thead>
<tr>
<th>Compensation for audit certification dates</th>
<th>Amount (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>25</td>
</tr>
</tbody>
</table>
A Governance System That Facilitates Value Creation

Corporate Officers (As of June 30, 2022)

**Directors**

**Noriyuki Inoue**
Chairman of the Board and Chief Global Group Officer

- Date of birth March 17, 1935
- March 1970: Joined the Company
- June 1970: Director of the Company
- June 1977: Managing Director of the Company
- June 1988: Senior Executive Officer of the Company
- July 2000: Member of the HMG Advisory Committee and the Compensation Advisory Committee of the Company (Current position)
- June 2002: Director and CEO of the above company
- September 2003: Chairman of the Board and CEO of the above company
- June 2004: Director and President of the Company
- June 2019: General Manager of the HRM Advisory Committee of the Company (Current position)

Number of Company shares owned: 4,970

Significant concurrent posts:
- Chairman of the Board of Directors for Contemporary Arts
- Chairman of the Board of Directors for Kansai Philharmonic Orchestra

**Masanori Togawa**
Representative Director, President and CEO

- Date of birth January 11, 1949
- April 1970: Joined the Company
- June 1998: Director of the Company
- July 2000: Member of the HMG Advisory Committee and the Compensation Advisory Committee of the Company (Current position)
- June 2002: Director and CEO of the above company
- July 2007: Director and CEO of the Company
- December 2009: Representative Director, President and CEO of the Company (Current position)
- July 2014: Director and CEO of the Company (Current position)

Number of Company shares owned: 15,500

Significant concurrent posts:
- Member of the Board of Directors of Iwatani Industrial Gases Corporation
- Significant concurrent posts:
  - Chairman of the Board and President of Mitsubishi Electric Corporation
  - Director of the Board of Directors of Mitsubishi Heavy Industries, Ltd.

**Tatsuo Kawada**
Member of the Board (External)

- Date of birth January 27, 1940
- June 1979: Joined the Company
- March 1987: Managing Director of the Company
- March 1989: Managing Director of the Company
- March 2001: Managing Director of the Company
- March 2008: Managing Director of the Company
- April 2009: Managing Director of the Company
- April 2010: Managing Director of the Company
- April 2011: Member of the Board and Senior Associate Officer of the Company
- July 2012: Member of the Board and Senior Executive Officer of the Company (Current position)
- August 2012: Member of the Board and Senior Executive Officer of the Company
- July 2014: Member of the Board and Senior Executive Officer of the Company
- July 2016: Member of the Board and Senior Executive Officer of the Company (Current position)
- December 2018: Member of the Board of Directors of Daikin Industries, Ltd.

Number of Company shares owned: 3,700

Significant concurrent posts:
- Member of the Board and President of Daikin (China) Investment Co., Ltd.

**Ken Tayano**
Representative Director, Senior Executive Officer

- Date of birth July 12, 1957
- May 1979: Joined the Company
- March 2000: Director and Chief Officer of the Company
- June 2003: General Manager of the Global Air Conditioning Committee of the Company (Current position)
- June 2008: Executive Officer of the Company
- June 2010: Director and Senior Executive Officer of the Company
- June 2013: Director and Senior Executive Officer of the Company (Current position)
- July 2016: Chairman of the Internal Control Committee of the Company (Current position)
- June 2019: Member of the Board and Senior Executive Officer of the Company (Current position)
- April 2022: Senior Advisor of ANA Akindo Co., Ltd.

Number of Company shares owned: 5,700

Significant concurrent posts:
- Member of the Board of Directors of Daikin Europe N.V.

**Masatsugu Minaka**
Member of the Board, Senior Executive Officer

- Date of birth July 8, 1953
- October 1980: Joined the Company
- April 2000: Executive Officer of the Company
- June 2001: Director and CEO of the Company
- June 2005: Senior Executive Officer of the Company
- June 2008: Executive Officer of the Company
- June 2010: General Manager of the Company
- June 2013: Director and Senior Executive Officer of the Company
- June 2016: Director and Senior Executive Officer of the Company (Current position)
- July 2016: Chairman of the Management Committee of the Company (Current position)
- June 2021: President of Daikin (Europe) N.V.

Number of Company shares owned: 6,100

Significant concurrent posts:
- Member of the Board of Directors of Daikin Europe N.V.

**Takashi Matsuoka**
Member of the Board, Senior Executive Officer

- Date of birth December 23, 1958
- April 1980: Joined the Company
- June 2000: Executive Officer of the Company
- June 2003: Director and General Manager of the Company
- June 2013: Director and Senior Executive Officer of the Company
- June 2015: Director and Senior Executive Officer of the Company (Current position)
- June 2016: Director and Senior Executive Officer of the Company (Current position)
- June 2018: Director and Senior Executive Officer of the Company (Current position)
- June 2021: President of Daikin (North America) LLC

Number of Company shares owned: 6,000

Significant concurrent posts:
- Senior Advisor of ANA Akindo Co., Ltd.

**Akiji Makino**
Member of the Board (External)

- Date of birth September 14, 1941
- March 1966: Joined the Company
- June 1968: Senior Executive Officer of the Company
- April 1970: Director of the Company
- December 2016: Member of the Company (Current position)
- April 2020: Director of the Company (Current position)
- April 2021: Director of the Company (Current position)

Number of Company shares owned: 2,000

Significant concurrent posts:
- Director of the Board of Directors of the Kansai Industrial Service Corporation
- Significant concurrent posts:
  - Chairman of the Board and President of Mitsubishi Electric Corporation
  - Member of the Board (External) of Kansai Philharmonic Orchestra

**Shingo Torii**
Member of the Board (External)

- Date of birth January 10, 1953
- April 1979: Joined the Company
- June 1985: Director of the Company
- March 1990: Director of the Company (Currently, All Nippon Airways Co., Ltd.)
- March 1999: Managing Director of the Company
- March 2000: Director and CEO of the Company
- March 2008: Managing Director and CEO of the Company
- October 2010: Managing Director and CEO of the Company (Current position)
- July 2014: Director of the Internal Control Committee of the Company (Current position)
- July 2016: Director of the Company (Current position)

Number of Company shares owned: 1,500

Significant concurrent posts:
- Director of the Board of Directors of the All Nippon Airways Co., Ltd.
- Director of the Board of Directors of the Kansai Philharmonic Orchestra

**Yuko Arai**
Member of the Board (External)

- Date of birth July 27, 1959
- March 1982: Joined the Company
- June 1996: Director of the Company
- June 2002: Director of the Company
- March 2003: Representative Director and Executive Vice President of the Company
- April 2006: Representative Director and Executive Vice President of the Company
- July 2007: CEO of the Company (Currently, Suntory Holdings Limited)
- June 2014: Representative Director, President and CEO of the Company
- July 2016: Chairman of the Internal Control Committee of the Company (Current position)
- June 2019: Representative Director, President and CEO of the Company (Current position)
- July 2021: Chairperson of the Board of Directors of Daikin Industries, Ltd.

Number of Company shares owned: 6,100

Significant concurrent posts:
- Chairman of the Board and President of Daikin (China) Investment Co., Ltd.

**Yoshihiro Mineno**
Member of the Board, Senior Executive Officer

- Date of birth May 14, 1953
- December 1979: Joined the Company
- May 1990: Managing Director of the Company
- June 2003: Director and General Manager of the Company
- June 2005: Managing Director of the Company
- June 2010: Executive Officer of the Company
- June 2013: Director and Senior Executive Officer of the Company
- July 2016: Managing Director and CEO of the Company (Current position)
- June 2019: Senior Executive Officer of the Company (Current position)
- April 2022: Senior Executive Officer of the Company (Current position)

Number of Company shares owned: 4,500

Significant concurrent posts:
- Director of Daikin Comfort Technologies North America, Inc.

**Kanwaj Jeet Jawa**
Member of the Board, Senior Associate Officer

- Date of birth November 10, 1959
- December 1979: Joined the Company
- June 1989: Senior Executive Officer of the Company
- May 2001: Managing Director of the Company
- May 2003: Managing Director and CEO of the Company
- September 2010: Managing Director and CEO of the Company (Current position)
- July 2017: Managing Director and CEO of the Company (Current position)
- June 2018: Member of the Board and Senior Associate Officer of the Company
- October 2021: Member of the Board and Senior Associate Officer of the Company (Current position)

Number of Company shares owned: 1,000

Significant concurrent posts:
- Managing Director and CEO of Daikin Airconditioning India Pvt. Ltd.
**Audit & Supervisory Board Members**

**Ryu Yano**
Audit & Supervisory Board Member (External)

- Date of birth: April 21, 1940
- Joined the Company: August 1989
- Current position: Honorary Advisor of Teijin Limited

**Toru Nagashima**
Audit & Supervisory Board Member (External)

- Date of birth: January 2, 1943
- Joined the Company: February 1982
- Current position: Executive Officer, Member of Global Air-Conditioning Manufacturing Division

**Kosei Uematsu**
Audit & Supervisory Board Member (Standing)

- Date of birth: January 21, 1952
- Joined the Company: June 1992
- Current position: Senior Executive Officer of the Company, General Manager of Technology and Innovation Center

**Hisao Tamori**
Audit & Supervisory Board Member (Standing)

- Date of birth: July 31, 1960
- Joined the Company: February 1989
- Current position: Executive Officer, Member of Global Operations Division

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**Executive Officers**

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Main Responsibilities / Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Executive Officer</td>
<td>Keiko Mori</td>
<td>Responsible for Finance, Accounting/Budget Operations, Promoting Operational Efficiency, General Manager of Finance and Accounting Division</td>
</tr>
<tr>
<td>Senior Executive Officer</td>
<td>Tomohiro Mizuguchi</td>
<td>Responsible for Applied Solutions Business in China Region, Promoting Operational Efficiency, General Manager of Applied Solutions Business in China</td>
</tr>
<tr>
<td>Senior Executive Officer</td>
<td>Kenji Matsuba</td>
<td>Responsible for Sales, General Manager of Domestic Air-Conditioning Sales Division</td>
</tr>
<tr>
<td>Senior Executive Officer</td>
<td>Hiroaki Ueda</td>
<td>Responsible for Human Resources, General Affairs</td>
</tr>
<tr>
<td>Senior Executive Officer</td>
<td>Hideki Maruoka</td>
<td>Department Manager of Budget and Administration Group in Finance and Accounting Division</td>
</tr>
<tr>
<td>Senior Executive Officer</td>
<td>Yoshiyuki Hiraga</td>
<td>Responsible for CSR, Global Environment Affairs, Public Relations, General Manager of Tokyo Office, Chairman of CSR Committee</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Kosei Uematsu</td>
<td>Responsible for Air-Conditioning Product Development (Including Applied solutions and Refrigeration), General Manager of Technology and Innovation Center</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Masaharu Sato</td>
<td>General Manager of Human Resources Division, Department Manager of Diversity Promotion Group in Human Resources Division</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Yoshiyuki Endo</td>
<td>Responsible for Corporate Planning, Electronics Business, Technology Innovation Strategy Office in Technology and Innovation Center</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Hideki Ueda</td>
<td>General Manager of Finance, Accounting/Budget Operations, Promoting Operational Efficiency, General Manager of Finance and Accounting Division</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Tatsuo Katozawa</td>
<td>Responsible for Human Resource Development and Maximizing the Talents of Women, Senior Manager in Charge of Executive Secretarial Department</td>
</tr>
</tbody>
</table>
A Governance System That Facilitates Value Creation

Compliance and Risk Management

Taking an Integrated Approach to Promoting Compliance and Risk Management

At Daikin, the Internal Control Committee, chaired by the president and CEO, 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 operational risk management and ensures thorough compliance.

In principle, the Corporate Ethics and Risk Management Committee meets twice a year to identify issues that need to be addressed 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 concerning compliance and risk management for overseas Group companies.

Self-Checks and Audits to Monitor Status of Compliance with Group Conduct Guidelines

Daikin uses a unique self-assessment system to enable employees to assess their own actions in relation to the Group Conduct Guidelines. Each year, departments and Group companies are selected to take part in legal audits held by the Legal Affairs Department to assess the status of their compliance activities. The results of the self-assessments are shared with the Internal Auditing Department and the Finance and Accounting Division and used in our various audits.

Identifying Important Risks and Planning and Implementing Countermeasures

With the rapid expansion of its business, Daikin has introduced risk management across the Group to gain a timely, accurate, overall picture of risks from a global perspective and to mitigate them. Every year, each division and the main Group companies overseas and in Japan use risk assessments to identify critical risks. Based on these findings, each Group company puts forward plans for risk management activities for the entire Group.

The Daikin Group has established its Group Conduct Guidelines that clearly outline required conduct for individual officers and employees. In addition, it has 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 with these guidelines. By regularly checking the status of compliance and risk management, sharing information, and disseminating the guidelines, Daikin is making every effort to foster a “culture free of compliance violations” and to elevate “mechanisms to ensure that there are no compliance violations.”

In fiscal 2021, compliance meetings were held in the United States, Asia, Oceania, and Europe to share information on self-assessment, risk management, and education and training initiatives.

Preventing Bribery and Corruption

The globalization of the economy has led to a growing need for preventing corruption and a tightening of regulations among businesses not only in Japan but throughout the world. At Daikin, the Group Conduct Guidelines outline our stance on Free Competition and Fair Trading, Practicing Moderation in Entertainment and Gift Exchanges, and Maintaining a Firm Attitude against Anti-Social Activities, and various measures have been put in place to prevent corruption.

Specific Measures

• Established Compliance Guidelines for Preventing Bribery of Public Officials, Etc.
• Utilized self-assessment system to assess compliance with the Group Conduct Guidelines
• Conducted audits of divisions and Group companies that do business in countries and regions with high rates of corruption and monitored their progress on bribery prevention measures
• Provided consultations to employees on all matters concerning corporate ethics, including those related to bribery, through our Help-Line for Corporate Ethics

Group Management

The Company and Daikin Group companies strive to enhance corporate value and fulfill corporate social responsibility through actions based on our Group Philosophy. Group companies maintain close communication to share directives and orders, as well as to share guidance, advice, and feedback, while ensuring that business is conducted appropriately throughout the Group.

With the exception of inside information, the details of key decisions made by the Board of Directors and the Executive Officers Meeting are shared promptly within the Group. Decisions on corporate activities are made based on consensus to ensure satisfaction and agreement by all relevant parties and the appropriateness of operations.

The head office establishes divisions responsible for managing and supporting Group companies and promotes measures to constantly provide operational support. At the same time, the Group Steering Meeting has been established to promote the sharing of information on a Groupwide basis, raise awareness of basic policies, and help address the issues facing Group companies. When establishing and revising our FUSION strategic management plans, the Group Management Meeting convenes to deliberate on and establish a course of action for achieving the plan through the sharing of Groupwide policies and specific issues by the heads of each global business site. In addition, regional manager meetings are held regularly to ensure our head office management determine regional business strategies and face-to-face discussions with the heads of each Group company.

Furthermore, important matters at our subsidiary companies are determined and addressed in accordance with our Management Regulations to Limit Authority of Daikin Group Companies, which were revised in April 2008, as well as through prior consultations and engagements and the regular monitoring of the status of their business conditions.
Overview of Daikin’s Core Businesses and Global Network

The Daikin Group has expanded its global business to over 170 countries, comprising more than 100 production bases focused on market-localized production.

### Employees: 88,698

### Consolidated Subsidiaries: 322

#### Ratio of Net Sales

- **Air Conditioning**: 91%
- **Chemicals**: 7%
- **Oil Hydraulics**: 1%
- **Defense Systems**: 1%

#### Sales

- **Global R&D centers** (Total for Air Conditioning, Chemicals, and Filter businesses)
  - Air Conditioning: ¥172.8 billion
  - Chemicals: ¥478.1 billion
  - Oil Hydraulics: ¥840.5 billion
  - Defense Systems: ¥426.1 billion

#### Other Regions

- **Latin America, Middle East, and Africa**: ¥638.4 billion
- **Japan**: ¥478.1 billion
- **China**: ¥426.1 billion
- **Europe**: ¥553.2 billion
- **Asia and Oceania**: ¥840.5 billion
- **U.S.**: ¥840.5 billion
- **Other Regions**: ¥172.8 billion

#### Major Products

- **Air Conditioning**
  - Room air-conditioning systems
  - Air purification
  - Heat-pump hot-water supply and norm-heating systems
  - Packaged air-conditioning systems
  - Multi-air-conditioning systems for office buildings
  - Air-conditioning systems for facilities and plants
  - Air reclaim ventilators

- **Chemicals**
  - Fluorocarbon gas
  - Fluoropolymers
  - Fluorinatedacers
  - Fluoroplastics
  - Fluorine-cooling agents
  - Semiconductor-etching products
  - Water- and oil-repellent agents
  - Pharmaceuticals and intermediates
  - Dry air suppliers

- **Oil Hydraulics**
  - Oil hydraulic pumps
  - Oil hydraulic valves
  - Cooling equipment and systems
  - Inverter controlled pump-motors

- **Defense Systems**
  - Warheads for Japan’s Ministry of Defense
  - Waterproof parts used in guided missiles for training purposes
  - Home-use oxygen therapy equipment
Air Conditioning

From the familiar living spaces of residences and offices to the large spaces of factories and airports, our Air Conditioning Business utilizes a wealth of air-conditioning solutions to provide customers with comfortable spaces. Solutions extend even to the unique spaces of hospitals and kitchens as Daikin continues to meet the needs of various climates around the world.

**Review of Operations**

**Business Strategies**

**Market Environment**

The air-conditioning market in Japan is mature and anchored by replacement demand. In fiscal 2021, demand for residential-use products declined from the previous year due to the impact of unseasonable weather in the summer and the end of pent-up demand. Conversely, demand for commercial-use products increased from the previous year through a gradual renewal of economic activities.

**Review of Fiscal 2021**

In the residential-use market, Daikin launched its Urusara X, a new air conditioner that can switch between air supply and air exhaust ventilation functions. Sales grew on the back of our response to increasing interest in energy saving as a result of people spending more time indoors and the growing need for IAQ. In the commercial-use market, sales increased through our strengthening of proposals for systems combining air conditioners with ventilation products such as heat reclaim ventilators. As for air purifiers, we saw an increase in market share owing to the expansion of our product lineup.

**Strategies for Fiscal 2022**

In the residential-use market, we will look to expand sales of high-value-added products by promoting the merits of ventilation and air-purification functions. In the commercial-use market, we will enhance our lineup of heat reclaim ventilators that can be easily retrofitted, and of ultraviolet (UV) steamer units, which are highly effective in suppressing viruses and bacteria, thereby strengthening our proposal-based sales. In terms of air purifiers, we will aim to boost sales for both residential and commercial use.

**FUSION 25 Strategies**

We will accelerate growth by building new sales models that utilize digital technologies to 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, with a view to realizing carbon neutrality, we will switch to the use of R32 refrigerant for our VRV (multi-split air conditioner) and chiller products while aiming to build a scheme for the recovery, reclamation, and destruction of refrigerants.
Review of Operations

**Business Strategies**

**Americas**

Daikin made its first attempt to enter the United States, 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 withdrawal from the market was unavoidable. We subsequently revisited the idea of establishing a U.S. presence during our push to establish our business globally, and in the 2000s, with the acquisition of 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 United States.

* Renamed as Daikin Comfort Technologies North America, Inc. in April 2022.

**Review of Fiscal 2021**

In Ducted Unitary for Houses, we honored our supply capabilities by moving ahead with initiatives to improve the employee turnover rate and increase the number of manufacturing personnel at our Goodman factory. The introduction of new inverter products spurred a growth in sales. In Ductless, we improved sales by capturing the growing demand for RA/SKY in the residential-use market. Sales of VRV systems were favorable for both residential and commercial use. In Applied Systems, we strengthened our Solutions Business in each market while capitalizing on market recovery to increase sales of chillers. The After-Sales Service Business also posted a growth in sales.

**Market Environment**

The air-conditioning market in the United States, has reached maturity and 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.

**Strategies for Fiscal 2022**

In Ducted Unitary for Houses, we will focus on improving sales of inverter products by enhancing our lineup of products complying with energy-saving regulations and strengthening our support for dealers. In Ductless products, we will continue to promote sales in the northeastern and northwestern regions of the Americas. In Applied Systems, we will work to increase sales of equipment to markets with robust demand while expanding the Solutions Business by increasing service personnel and broadening the coverage of after-sales services.

*Fusion 25 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 opportunity, we will promote in the market the spread of inverters, heat pumps, and refrigerants with low GWP.

**China**

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 focusing on establishing an image as a high-end brand, and on building up its own dealer network. Moreover, in an effort to create a new type of air-conditioning culture, we introduced ceiling-embedded indoor units and residential multi-split air conditioners.

**Review of Fiscal 2021**

In the residential-use market, we moved ahead with sales activities incorporating both online and conventional sales at our PROSHOP specialty stores and focused on identifying new customers and capturing replacement demand. We reinforced our proposals for systems combining heat-pump hot-water heaters and other products and bolstered sales of residential multi-split air conditioners. In the commercial-use market, we expanded our contact points with customers by leveraging the interest of stores and offices in ventilation and air purification. We also seized demand for equipment replacements and additional purchases. As for factories and other large-scale projects, we improved sales by tapping into the replacement demand for energy-saving equipment, which is increasing in line with the tightening of environmental regulations.

**Market Environment**

In the first half of fiscal 2021, the Chinese economy gained momentum to a certain degree through the increase of exports and new government-led infrastructure investments. In the latter half, however, the number of COVID-19 cases increased once again, prompting the government to impose strict restrictions on activities, which drove both personal consumption and the Chinese economy downward.

**Strategies for Fiscal 2022**

Along with expediting our user-direct proposal-based sales, we will expand our lineup of products and services by capitalizing on the growing interest for better solutions for ventilation, IAQ, and energy efficiency. For the residential-use market, we will push forward with sales activities incorporating online methods, and direct our focus on improving sales of residential multi-split air conditioners. In the commercial-use market, we will look to expand sales by providing comprehensive solutions for each market and customer.

*Fusion 25 Strategies*

By combining online activities—such as comprehensive customer centers and the Daikin New Life Station—with online sites and social media, 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 our success rate for closing contracts. 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.
Daikin aims to improve sales in fiscal 2022

Heat-pump hot-water heater for outdoor use, a product for which heaters in place of combustion heaters.

Incentives aimed at promoting the use of heat-pump hot-water economic activities due to the upswing in COVID-19 cases.

From November 2021 as a result of price hikes and restrictions on from the previous year. In the residential-use market, sales increased on the back of a tailwind resulting from a subsidy system introduced in Italy and an intense heat wave that hit Greece and other parts of southeastern Europe. In the commercial-use market, we enhanced our sales to hospitals and food retailers. Sales improved through our proposals of better solutions for IAQ. The Heating Business saw a significant improvement in sales behind its extensive lineup of heat-pump hot-water heaters. The Refrigerator and Freezer Business accelerated the rollout of one-stop solutions and expanded sales to food retailers, where demand continues to be strong.

Our presence in Europe started with the establishment of a production and sales base in Belgium in the early 1970s. We succeeded in bolstering sales in Italy, Spain, France, and other nations across the European Union (EU), and the scale of our business grew rapidly. From the 2000s, we also expanded into the Heating and the Refrigerator and Freezer businesses.

In Europe, the demand for residential-use products tapered off from November 2021 as a result of price hikes and restrictions on on economic activities due to the upswing in COVID-19 cases. Meanwhile, demand was steady in the Heating Business owing to incentives aimed at promoting the use of heat-pump hot-water heaters in place of combustion heaters.

Market Environment

Review of Fiscal 2021

Despite restrictions on economic activities due to another upswing in COVID-19 cases, sales of residential air conditioners and heat-pump hot-water heaters grew while sales for the region overall climbed substantially from the previous year. In the residential-use market, sales increased on the back of a tailwind resulting from a subsidy system introduced in Italy and an intense heat wave that hit Greece and other parts of southeastern Europe. In the commercial-use market, we enhanced our sales to hospitals and food retailers. Sales improved through our proposals of better solutions for IAQ. The Heating Business saw a significant improvement in sales behind its extensive lineup of heat-pump hot-water heaters. The Refrigerator and Freezer Business accelerated the rollout of one-stop solutions and expanded sales to food retailers, where demand continues to be strong.

Strategies for Fiscal 2022

In the residential-use market, we will take advantage of the growing interest in energy conservation stemming from rising energy costs, with the aim of improving sales of high-value-added products. In the commercial-use market, we anticipate a recovery in demand for offices and hotels due to the increasing interest in the environment and energy conservation. The Heating Business will look to increase its market share by capturing the growing demand for heat-pump hot-water heaters, which were developed in pursuit of decarbonization. The Refrigerator and Freezer Business will aim to increase sales to food retailers while forging a business foundation in the medical field.

Daikin will strive to capture demand, which is being driven by increasing 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 Space and Water 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 pertaining to IAQ and energy. Moreover, we will also push forward with developing a refrigerant eco-cycle (recovery, reclamation, and destruction) among other initiatives that take the lead in environmentally conscious society and industry issues.

Daikin began production exports and knock-down 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.

In Asia, where demand will likely bounce back, we will seek to bolster our manufacturing systems and expand sales. In the residential-use market, we will launch a highly cost-competitive inverter unit and promote its widespread use primarily in Malaysia, Indonesia, and other markets where restrictions on economic activities were relatively relaxed, the effect of selling prices contributed to an increase in regional sales over the previous year. In the residential-use market, sales grew in Indonesia and Australia. Sales also increased in India behind the expansion of our dealer network and the forging of stronger ties with dealers. In the commercial-use market, we expanded sales to public facilities, where demand is relatively stable, despite the ongoing impact of the scale-down of capital investment due to the economic downturn and delays in construction work and the lengthening of construction periods resulting from labor shortages at building sites.

In Asia, we anticipate a recovery in demand for offices and hotels due to the increasing interest in the environment and energy conservation. The Refrigerator and Freezer Business will aim to increase sales to hospitals, schools, and other markets with growth potential.

Daikin dealers in Asia, where a recovery in demand is expected

Daikin dealers in Asia, where a recovery in demand is expected

Daikin dealers in Asia, where a recovery in demand is expected

Daikin dealers in Asia, where a recovery in demand is expected

In Asia is in the process of adopting air-conditioning equipment and systems, making it a market for growth. In fiscal 2021, we felt the impact of COVID-19 in regions where demand failed to recover and restrictions on economic activities remained in force. Meanwhile, demand was relatively stable in Oceania.

In light of the significant impact on demand posed by yet another upswing in COVID-19 cases, we expanded our sales network and strengthened our support for dealers through the use of online tools. In addition to sales growth in Oceania and countries in Asia where restrictions on economic activities were relatively relaxed, the effect of selling prices contributed to an increase in regional sales over the previous year. In the residential-use market, sales grew in Indonesia and Australia. Sales also increased in India behind the expansion of our dealer network and the forging of stronger ties with dealers. In the commercial-use market, we expanded sales to public facilities, where demand is relatively stable, despite the ongoing impact of the scale-down of capital investment due to the economic downturn and delays in construction work and the lengthening of construction periods resulting from labor shortages at building sites.

In Asia, where demand will likely bounce back, we will seek to bolster our manufacturing systems and expand sales. In the residential-use market, we will launch a highly cost-competitive inverter unit and promote its widespread use primarily in Malaysia, Indonesia, and other markets where inverters have yet to catch on. In the commercial-use market, we will reinforce our product appeal and proposal-based sales while emphasizing sales to hospitals, schools, and other markets with growth potential.

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Chemicals

Fluoropolymers offer exceptional capabilities in the form of heat and chemical resistance, water and oil repellency, and lubricity. Through its distinctive technology that utilizes these properties, Daikin will continue to expand its Chemicals Business worldwide, where its fluoropolymers are considered an indispensable material for household products, automobiles, semiconductors, air conditioner refrigerants, and in a variety of other fields.

Market Environment
While the market was hit hard in fiscal 2020 due to the global impact of the COVID-19 pandemic, demand recovered in fiscal 2021 for a variety of sectors, including semiconductors and automobiles.

Review of Fiscal 2021
We increased sales and market share primarily in the semiconductor and automotive markets, which continue to enjoy strong demand, as sales for the business overall improved remarkably from fiscal 2020. Sales of fluorocarbon gas flourished as a result of greater demand in existing markets. Fluoropolymers saw sales grow for the semiconductor market and the information and communications market, including local area network (LAN) cables. Sales also grew for fluoroelastomers in the automotive market. Fine chemicals achieved sales growth, particularly in Europe, China, and Asia, led by the solid results of water and oil repellent agents. We also saw sales of etching gas improve in Japan and China through our anticipation of the recovery in demand for the semiconductor market.

Strategies for Fiscal 2022
We will look to increase sales and market share by introducing differentiated products and strengthening our supply capabilities particularly in the semiconductor, automotive, and information and communications markets, where demand is expected to remain strong. For the textile and food product markets, we will distinguish ourselves from the competition by launching non-fluorine water repellent agents and oil resistant agents that reflect sustainability needs and drawing on their exceptional performance and ease of processing. We will also ramp up our application development particularly in lithium-ion battery materials and the information and communications market in response to the rising demand for EVs and 5G technology.

FUSION 25 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. For example, the movement toward non-fluorination is 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-fluorinated 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.
### Oil Hydraulics

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.

**Overview of Business Activities**

In 1929, Daikin became the first company in Japan to handle lubrication equipment for shipbuilding and engine manufacturers, and since then the Oil Hydraulics Business has been contributing to worldwide industrial development. Applying the energy-saving technologies acquired through the Air Conditioning Business, we develop and manufacture environmentally conscious oil hydraulic pumps and oil hydraulic units under the themes of higher machine precision, quieter operation, and further miniaturization.

**Market Environment**

The demand for hydraulic equipment for industrial machinery was solid at a global level for the machine tools market. Demand was also brisk for hydraulic equipment for construction machinery and vehicles, particularly in the United States, where housing starts have remained steady.

**Strategies for Fiscal 2022**

In the area of hydraulic equipment for industrial machinery, we will draw on the acquisition of Duplomatic MS S.p.A. to build a business foundation for the European market with the aim of helping realize a better environment and expanding our business. In hydraulic equipment for construction machinery and vehicles, we will look to differentiate ourselves from the competition with products that reflect customer needs and expand our market share on a global scale.

**FUSION 25 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. In hydraulic equipment 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 hydraulic equipment for construction machinery and vehicles, 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 Systems

Daikin’s superior machining and quality control technologies are used in the production of defense-related products, medical products, and other industries where high levels of reliability and performance are critical.

**Overview of Business Activities**

In the Defense Systems Business, we design and manufacture various products for Japan’s Ministry of Defense (MOD), including aircraft parts and missile components and fuses, particularly for ammunition used in training. We continue to expand the scope of manufacturing in this business by drawing on the high-precision processing technology that has been refined through our research and development and manufacture of defense-related products, which form part of Daikin’s series of special technologies that contribute to the realization of safe, healthy, and comfortable lifestyles. Daikin also engages in the manufacture and sales of home-use oxygen therapy equipment as well as in the supply of oxygen concentrators, which require the highest levels of reliability, performance, functionality, and quality.

**Market Environment**

The need for oxygen concentrators has increased substantially among government-operated medical facilities such as oxygen stations and in-home treatments of patients infected with COVID-19. The demand for pulse oximeters, a medical device that measures oxygen saturation in the blood without the need to take blood samples, has also risen dramatically due to its effectiveness for monitoring and maintaining the health of COVID-19 patients.

**Strategies for Fiscal 2022**

As the effects of COVID-19 ease and demand returns to its pre-pandemic level, we will address customer needs and boost sales by enhancing the durability of our oxygen concentrators.

In addition, we will commence sales of our hypoxic system, which enhances physical performance by controlling the oxygen concentration in the air, to fitness centers and other businesses with a view to expanding our operations in the medical and healthcare fields.

**FUSION 25 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 the growing interest from society for preventive medicine, we will move full steam ahead with the development of our Healthcare Business. Utilizing the oxygen control technology cultivated in the development and production of our oxygen concentrators, we will expand sales of our hypoxic system. By acquiring and drawing on a multitude of vital data, we also aim to develop new services that will lead to the promotion of health in our daily lives.
### Financial Summary

#### Eleven-Year Financial Highlights

**Daikin Industries, Ltd. and Consolidated Subsidiaries (For the Years Ended March 31)**

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</thead>
<tbody>
<tr>
<td><strong>Net sales (Millions of Yen)</strong></td>
<td>¥1,218,701</td>
<td>¥1,290,903</td>
<td>¥1,787,679</td>
<td>¥1,915,014</td>
<td>¥2,043,691</td>
<td>¥2,043,969</td>
<td>¥2,290,561</td>
<td>¥2,481,109</td>
<td>¥2,550,305</td>
<td>¥2,493,387</td>
<td>¥3,109,106</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>371,902</td>
<td>388,046</td>
<td>568,323</td>
<td>649,902</td>
<td>711,576</td>
<td>730,166</td>
<td>500,166</td>
<td>545,089</td>
<td>592,668</td>
<td>619,385</td>
<td>625,513</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>290,709</td>
<td>299,419</td>
<td>411,786</td>
<td>459,314</td>
<td>500,166</td>
<td>500,166</td>
<td>545,089</td>
<td>592,668</td>
<td>619,385</td>
<td>625,513</td>
<td>671,386</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>81,193</td>
<td>88,627</td>
<td>156,537</td>
<td>190,588</td>
<td>217,872</td>
<td>230,769</td>
<td>253,740</td>
<td>276,255</td>
<td>287,667</td>
<td>304,782</td>
<td>316,351</td>
</tr>
<tr>
<td><strong>Research and development expenses (Note 1)</strong></td>
<td>32,987</td>
<td>33,569</td>
<td>40,177</td>
<td>42,892</td>
<td>46,138</td>
<td>53,870</td>
<td>62,051</td>
<td>65,216</td>
<td>67,968</td>
<td>71,738</td>
<td>81,535</td>
</tr>
<tr>
<td><strong>EBITDA (Note 2)</strong></td>
<td>131,719</td>
<td>140,151</td>
<td>235,439</td>
<td>268,354</td>
<td>302,075</td>
<td>315,798</td>
<td>348,574</td>
<td>375,570</td>
<td>393,999</td>
<td>446,413</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit attributable to owners of the parent</strong></td>
<td>41,172</td>
<td>43,585</td>
<td>92,787</td>
<td>119,675</td>
<td>136,987</td>
<td>153,939</td>
<td>189,052</td>
<td>189,049</td>
<td>170,731</td>
<td>156,250</td>
<td>217,710</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities (Millions of Yen)</strong></td>
<td>¥44,967</td>
<td>¥103,161</td>
<td>¥179,713</td>
<td>¥160,423</td>
<td>¥226,186</td>
<td>¥267,663</td>
<td>¥223,740</td>
<td>¥250,009</td>
<td>¥302,167</td>
<td>¥374,691</td>
<td>¥245,071</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities (Millions of Yen)</strong></td>
<td>(62,955)</td>
<td>(218,386)</td>
<td>(80,835)</td>
<td>(77,331)</td>
<td>(105,493)</td>
<td>(128,823)</td>
<td>(125,459)</td>
<td>(165,773)</td>
<td>(156,187)</td>
<td>(159,667)</td>
<td>(180,790)</td>
</tr>
<tr>
<td><strong>Free cash flow (Note 3)</strong></td>
<td>(17,988)</td>
<td>(115,225)</td>
<td>98,878</td>
<td>83,092</td>
<td>120,693</td>
<td>138,840</td>
<td>96,281</td>
<td>84,236</td>
<td>145,980</td>
<td>215,024</td>
<td>64,282</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities (Millions of Yen)</strong></td>
<td>(1,113)</td>
<td>143,520</td>
<td>(38,249)</td>
<td>(83,073)</td>
<td>(85,422)</td>
<td>(73,544)</td>
<td>(93,955)</td>
<td>(68,721)</td>
<td>(169,934)</td>
<td>98,942</td>
<td>(48,698)</td>
</tr>
<tr>
<td><strong>Total assets (Billions of Yen)</strong></td>
<td>¥1,160,564</td>
<td>¥1,735,836</td>
<td>¥2,011,870</td>
<td>¥2,263,990</td>
<td>¥2,191,105</td>
<td>¥2,356,149</td>
<td>¥2,475,708</td>
<td>¥2,700,891</td>
<td>¥2,667,513</td>
<td>¥3,239,663</td>
<td>¥3,823,998</td>
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<tr>
<td><strong>Total interest-bearing liabilities</strong></td>
<td>389,891</td>
<td>705,871</td>
<td>693,944</td>
<td>662,413</td>
<td>608,981</td>
<td>609,430</td>
<td>554,371</td>
<td>585,642</td>
<td>553,807</td>
<td>751,213</td>
<td>824,874</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
<td>502,309</td>
<td>618,118</td>
<td>801,854</td>
<td>1,024,725</td>
<td>1,014,409</td>
<td>1,111,636</td>
<td>1,296,553</td>
<td>1,416,075</td>
<td>1,434,968</td>
<td>1,665,689</td>
<td>1,969,687</td>
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<tr>
<td><strong>Per Share Data (yen)</strong></td>
<td></td>
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<td><strong>Cash dividends (Billions of Yen)</strong></td>
<td></td>
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<td><strong>Ratios (%)</strong></td>
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</tr>
<tr>
<td>Gross profit margin</td>
<td>30.52%</td>
<td>30.06%</td>
<td>31.79%</td>
<td>33.94%</td>
<td>34.82%</td>
<td>35.76%</td>
<td>34.87%</td>
<td>35.02%</td>
<td>34.70%</td>
<td>34.66%</td>
<td>34.01%</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>6.66</td>
<td>6.87</td>
<td>8.76</td>
<td>9.95</td>
<td>10.66</td>
<td>11.29</td>
<td>11.08</td>
<td>11.13</td>
<td>10.41</td>
<td>9.57</td>
<td>10.17</td>
</tr>
<tr>
<td>Return on shareholders' equity (ROE)</td>
<td>8.30</td>
<td>7.78</td>
<td>13.07</td>
<td>13.10</td>
<td>13.44</td>
<td>14.48</td>
<td>13.94</td>
<td>11.98</td>
<td>10.08</td>
<td>11.98</td>
<td>11.98</td>
</tr>
<tr>
<td>Shareholders' equity ratio</td>
<td>43.28</td>
<td>35.61</td>
<td>39.86</td>
<td>45.26</td>
<td>46.30</td>
<td>50.00</td>
<td>52.37</td>
<td>52.43</td>
<td>53.79</td>
<td>51.42</td>
<td>51.51</td>
</tr>
</tbody>
</table>

**Notes:**
1. R&D expenses are included within general and administrative expenses and manufacturing expenses.
2. Earnings before interest, taxes, depreciation, and amortization (EBITDA) = Operating profit + 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.
The Daikin Group has been issuing its Integrated Report since fiscal 2020 to provide all shareholders and investors with information on the initiatives it is taking to increase corporate value over the medium to long term. By working alongside all our stakeholders, including customers, business partners, employees, and local communities, we will help overcome social and environmental issues while continuing to develop our business and grow as an organization. Daikin Group’s ultimate goal is to help realize a sustainable society and this report incorporates detailed information on our approach to achieving this goal. This report has been compiled with reference to guidelines such as the International Integrated Reporting Framework of the IFRS Foundation and the Guidance for Collaborative Value Creation of Japan’s Ministry of Economy, Trade and Industry.

The report outlines our value creation process with reference to our accumulated strengths, our business model that draws on these strengths, and our FUSION strategic management plan in the following sections respectively: Our accumulated Strengths (pages 20–21), Daikin’s Unique Business Model (pages 22–23), and Daikin’s Aims for Medium- to Long-Term Value Creation (pages 24–25), identifies major social issues affecting the Group’s value creation over the medium to long term based on the changing business environment, and sets out related risks and opportunities.

Strategic Management Plan FUSION 25 (pages 28–31) provides an overview of our FUSION 25 strategic management plan, which was launched in fiscal 2021, and details the progress of key initiatives as of the end of the first year of the plan. FUSION 25 sets out key strategy themes, including “Challenge to achieve carbon neutrality.” These themes are based on our commitment to continue to grow and develop as an organization by contributing to a better society and environment while expanding the scope and profitability of our business, as well as our vision of offering new value for the environment and air to realize both contributions to a sustainable society and Group growth. This section explains the specific measures the Group will undertake to realize this vision by fiscal 2025, the final year of FUSION 25, from both a financial and non-financial perspective.

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.