Annual Report 2018

Fiscal Year Ended March 31, 2018

Toward a sustainable global society by creating new value in the air and environment fields and enhancing our corporate value

The Daikin Group focuses on developing its air-conditioning business and fluorochemicals business in over 150 countries and is the world's only company developing, producing, and selling both air-conditioning equipment and refrigerants.

Begun in fiscal 2017, Daikin is promoting its strategic management plan "FUSION 20," the latter half of which commenced in April 2018. In tandem with strengthening its main businesses, Daikin contributes to realizing a sustainable global society by responding to the changing times through such measures as expanding the air-conditioning solutions business that takes advantage of the opportunities presented by the advance and spread of IoT and AI technology and strengthening of environmental technologies.

Daikin is creating new value in the air and environment fields through achieving its dual objectives of providing solutions to social issues and creating business growth and then links these efforts to the enhancement of corporate value.

CONTENTS

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

Our Group Philosophy

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

2. Contribute to Society with World-Leading Technologies

3. Realize Future Dreams by Maximizing Corporate Value

4. Think and Act Globally

5. Be a Flexible and Dynamic Group

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

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

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

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

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

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

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

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

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

Process of Value Creation

Environmental Awareness

Air conditioning as a part of society's infrastructure enables the creation of comfortable lives.

When our products are used, a large amount of electricity is consumed.

Reducing the impact on climate change is a top-priority issue for us.

Strategic Assumptions
SWOT

Strengths
- Heat pump technology
- Inverter technology
- Refrigerant control technology
- Sales and service network
- Development and production closest to market

Weaknesses
- Sales skewed towards main products (air conditioners)

Opportunities
- Global cooperation on climate change (Paris Agreement)
- Setting of sustainable development goals (UN SDGs)

Threats
- Changes in de facto standards for air conditioning

Strategy: "FUSION 20"
13 Group Strategies

Basic Approaches

Targeting changes to the external environments
1. Acceleration of AC solutions business
2. Action to lead the environment

New business domains/structure
3. Heating/Water Heaters, Commercial Refrigeration

Existing business domains
4. AC in North America
5. AC in Asia
6. Chemicals
7. Filters

Technologies and *monozukuri*
8. Differentiated technologies/products with the Technology and Innovation Center
9. Enhanced *monozukuri* in the AC business

Corporate management
10. Lean and competitive fixed-cost structure
11. Optimal inventory aiming at cash flow maximization
12. Financial operation standardization and IT integration

Unique corporate philosophy
13. Enhanced HR based on people-centered management

FY2021 Goals

Contribute to solving problems of customers and society while working to achieve sales of ¥2.9 trillion and an operating income margin of 12%

Create new value and contribute to the sustainable development of society through our business

Direction for Group Development

An enterprise group that will "Co-Create New Value in the Air and Environment Fields"

ESG

Corporate Governance, Environment, New Value Creation, Customer Satisfaction, Human Resources, Compliance Risk Management, Respect for Human Rights, Supply Chain Management, Stakeholder Engagement, Regional Society

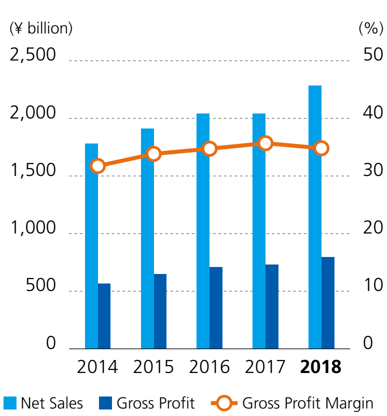
Financial Highlights

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

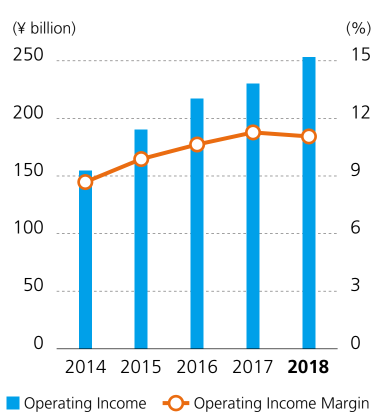
	Millions of Yen	
	2017	**2018**
Operating Results (for the year):		
Net sales	¥2,043,969	**¥2,290,561**
Gross profit	730,935	**798,829**
Operating income	230,769	**253,740**
Net income attributable to owners of the parent	153,939	**189,052**
Cash Flows (for the year):		
Net cash provided by operating activities	¥267,663	**¥223,740**
Net cash used in investing activities	(128,823)	**(127,459)**
Free cash flow (Note)	138,840	**96,281**
Net cash used in financing activities	(73,544)	**(93,955)**
Financial Position (at year-end):		
Total assets	¥2,356,149	**¥2,489,954**
Total shareholders' equity	1,111,636	**1,296,553**
Per Share Data (yen):		
Net income (basic)	¥ 526.81	**¥ 646.53**
Shareholders' equity	3,802.10	**4,433.62**
Cash dividends	130.00	**140.00**
Cash flow per share	475	**329**
Ratios (%):		
Gross profit margin	35.76%	**34.88%**
Operating income margin	11.29	**11.08**
Return on shareholders' equity (ROE)	14.48	**15.70**
Shareholders' equity ratio	47.18	**52.07**

Note: Free cash flow = Net cash provided by operating activities + net cash used in investing activities

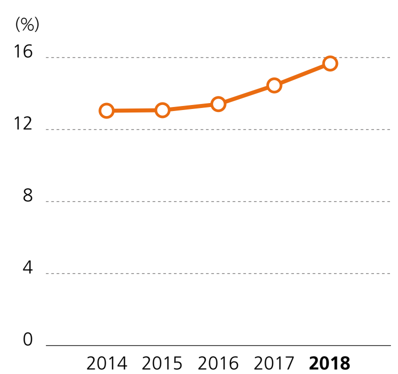
Net Sales, Gross Profit, and Gross Profit Margin



Operating Income and Operating Income Margin



ROE

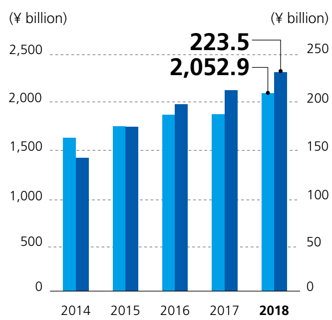


At a Glance

Percentage of Net Sales ▶

Net Sales and Operating Income | Major Products | Description

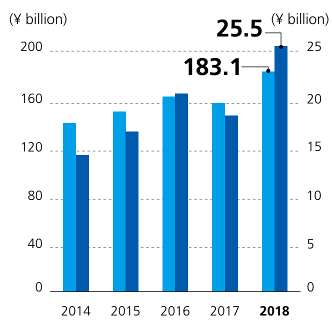
Air-Conditioning



- Room air-conditioning systems
- Air purifiers
- Heat-pump hot-water-supply and room-heating systems
- Packaged air-conditioning systems
- Multiple air-conditioning systems for office buildings
- Air-conditioning systems for facilities and plants
- Absorption refrigerators
- Freezers
- Water chillers
- Turbo refrigerator equipment
- Air-handling units
- Air filters
- Industrial dust collectors
- Marine-type container refrigeration

Since becoming the first in Japan to manufacture packaged air-conditioning systems in 1951, Daikin has supported comfortable living based on the strengths of technologies that it has itself nurtured as the world's sole manufacturer to create a full line of products from refrigerants to air conditioners.

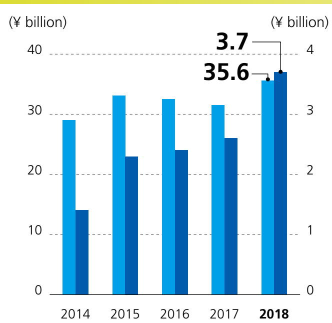
Chemicals



- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluoropaints
- Fluoro coating agents
- Semiconductor-etching products
- Water and oil repellent agents
- Pharmaceuticals and intermediates
- Dry air suppliers

In 1933, Daikin was the first in Japan to engage in research on fluorinated refrigerants. Today, our activities range from research and development to commercialization, and we offer a lineup of 1,800 fluorine compounds including gas, resin and rubber.

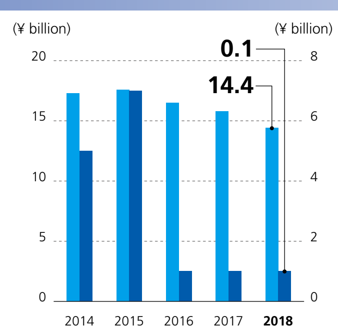
Oil Hydraulics



- Oil hydraulic pumps
- Oil hydraulic valves
- Cooling equipment and systems
- Inverter controlled pump motors
- Hydrostatic transmissions
- Centralized lubrication units and systems

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.

Defense



- Warheads for Japan's Ministry of Defense/Warhead parts for guided missiles
- Home-use oxygen therapy equipment

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

Message from the CEO

We are seizing on the opportunities presented in this era of change, by growing investment to further strengthen competitiveness and expanding business.

Our five-year strategic management plan "FUSION 20" entered its third year. In a period of rapid change, we expeditiously prepared an appropriate response and established our direction for the second half of the strategic management plan ending in March 31, 2021. We will balance business growth and solutions to social issues that envelope both local regions and global society to create corporate value.

June 2018

Masanori Togawa

Masanori Togawa
President and CEO

Since its creation in 1924, the Daikin Group has been developing business for more than 90 years in more than 150 countries. We are determinedly working to improve and develop air conditioners and refrigerants, and constantly providing products and services with new value. In addition, we are aiming for sustainable development through our distinctive management that creates a balance between short-term profitability and medium- to long-term growth.

In fiscal 2018, in tandem with securing short-term profits, we are aiming to reach our strategic management plan "FUSION 20," which targets fiscal 2021 as the year of completion, and we will develop further in the medium-to-long term and proactively grow investment to transform our business structure.

We are aggressively investing to acquire new technologies such as AI and IoT, strengthening production capacity in the United States and Asia, expanding our sales network and service system through acquisitions in each country, and enhancing the product development system beginning with the United States and then globally. At the same time, along with strengthening our sales force, service capabilities, technical strengths, and product development capabilities, we are working to further improve profitability by promoting comprehensive cost reductions.

As a result, in fiscal 2018, despite the severe business environment that included factors such as high raw material prices, we were able to achieve an eighth consecutive year of increases in net sales and income and a fifth consecutive year of record high consolidated business results.

In "FUSION 20," launched in fiscal 2017, we set sales of ¥3 trillion and an operating income margin of 12%, as our targeted position for fiscal 2021, and we worked to grow and develop further through the dual approach of strengthening our core businesses in air conditioning, chemistry, and filters and through changing our business structure and expanding into new business domains in challenging new fields, all of which are backed by Group strategy with 11 carefully defined themes.

In the first two years I believe we have established the foundations for development through steadily hammering out the measures to achieve "FUSION 20,"strengthening the profitability of our main businesses, and investing aggressively for future growth.

A feature of the Daikin Group's "FUSION" is the thorough implementation of policies by following a meticulously prepared strategy, which, at the same time, adheres to quantitative targets. In the event of changes to the business environment or movements in market trends, we are able to anticipate these changes and, with an agile business approach, review strategy priorities in a timely manner. On this occasion, we modified the latter half of the three-year plan due to rapid changes in the business environment surrounding the Daikin Group beyond what we envisioned.

New technologies such as IoT and AI have made rapid progress, and, with the practical uses of these technologies evolving, developments in business are also accelerating and expanding.

In addition, due to the Paris Agreement coming into force and revisions to the Montreal Protocol, environmental regulations have been further strengthened in such areas as reducing emissions of greenhouse gases and the phaseout of HFC production and consumption. We consider these changes to be opportunities. We take the dual approach of balancing solutions to social issues and achieving business growth. On the business side, this is achieved by accelerating the development of services and solutions business as well as energy-saving technologies in line with our long-term environmental vision for 2050 that outlines a reduction in emissions of CO_2 to zero. Accordingly, we are contributing to the realization of a low-carbon society through strengthening efforts to lead on environmental issues.

Since the introduction of "FUSION" from 1996, we have been able to achieve our quantitative targets and expand our business performance in all years except for the global financial crisis of 2008. In the future, we will continue to respond to the trust of our many stakeholders by striving to improve corporate value.

We look forward to your continuing support and understanding.

We are continuing investment growth and further strengthening profitability to achieve our strategic management plan "FUSION 20."

In fiscal 2018, we were able to achieve an eighth consecutive year of increases in net sales and income and a fifth consecutive year of record high consolidated business results. In an environment impacted by steeply rising raw material prices, we were able to overcome the negative factors, and, in tandem with firmly securing short-term profits, we actively grew investments for medium- to long-term business structure transformation and development. In the second phase of the strategic management plan "FUSION 20," we are looking to achieve further future growth.

Q1 Please outline the results and main contributing factors in fiscal 2018. Also, what is your assessment of the first half of "FUSION 20" (fiscal 2017 - fiscal 2018)?

Eight consecutive years of increases in income and five consecutive years of record high consolidated business results

In fiscal 2018, we made progress toward achieving "FUSION 20," which targets fiscal 2021 as its final year. Consolidated net sales increased by 12.1% year on year, to ¥2,290,561 million, and operating income increased by 10.0% year on year, to ¥253,740 million.

Sales grew in the air-conditioning business across all key regions, and, in the chemicals business, sales targeting semiconductor and automotive markets also grew. We were able to further boost our profitability by working to strengthen our sales force, service capabilities, technical strengths, and product development capabilities. The steeply rising prices of raw materials such as copper, aluminum, and steel significantly impacted the estimates made at the beginning of the fiscal year. However, we overcame these headwinds through an agile response to the changing conditions, such as growing sales, introducing high-value-added products, and promoting cost reductions.

Also, focusing on North America and Asia, we are stealing a march on other companies by strengthening production capacity and introducing the latest production technology, conducting aggressive mergers and acquisitions centering our carefully defined priorities such as filters and the commercial refrigeration business, and extensively strengthening our technical and product capabilities to be the core of our Technology and Innovation Center. I believe that through these efforts we have built the foundation for achieving "FUSION 20."

Q2 Please tell us about the environmental changes that occurred in the first two years after "FUSION 20" began and any issues that came up.

New technologies and issues associated with environmental regulations

The Daikin Group's operating environment is changing faster than expected. One of the changes is the advance of a fourth industrial revolution through accelerated progress, practical application, and spread of new technologies such as IoT and AI. With the significant influence these technologies have on the economic activities and lifestyles of people, the needs of both the market and customers have shifted from goods to services and from ownership to use. It is not only the products themselves that provide outstanding added value but also the variety of services generated from data. We regard these changes as an opportunity to accelerate the development of our services and solutions business, and to apply our special skills in energy-saving equipment.

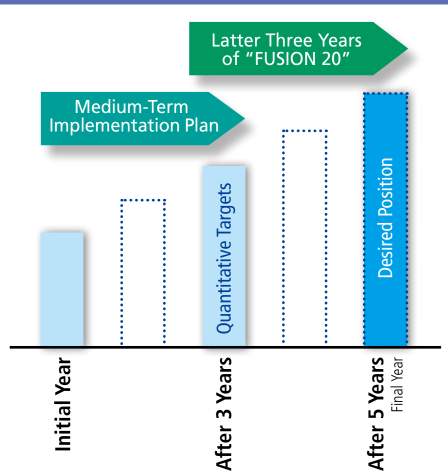
In another area, as the only manufacturer that has both air conditioners and refrigerants, I believe the Daikin Group can play an active role in responding further to strengthened environmental regulations and heightened environmental needs, through activities such as suppressing greenhouse gas emissions and the phasing out of the production and consumption of HFCs. Endeavoring to balance social issues and business growth, we are continuing to contribute to achieving a low-carbon society by further improving energy-saving and refrigerant technologies, an area of significant strength for the Daikin Group.

We view changes in our operating environment as opportunities, and we respond to these changes by updating and promoting our carefully defined Group strategy.

Strategic Management Plan "FUSION 20"

Setting Goals for "FUSION 20"

With two years of "FUSION 20" complete, we have clarified our Group Strategy, implementation themes and quantitative targets and now approach the final year of the plan with renewed outlook.



"FUSION 20" Latter 3-Year Plan

(¥ billion)

Quantitative Targets for FY2021

	FY2018 Result	FY2019 Plan	FY2021 Targets
Net Sales	2,290.6	2,480.0	2,900.0
Operating Income (Operating Income Margin)	253.7 (11.1%)	270.0 (10.9%)	348.0 (12.0%)

(¥ billion)

Growth Plan

Investment for Growth

	FY2019-2021 (Total of 3 years)
Investment Plan	360.0
R&D investment	220.0

A portion of M&A investment is not included in our investment plan

The thinking behind investment in long-term future growth

Strategic Group Themes and Responding to Generational Change

- Accelerate the AC Solutions Business
- Strengthen and advance environmental technology
- Acquire and educate IT-related human resources
- Build digital factories
- Acquire technology through open innovation

Q3 Please outline plans for the second half of "FUSION 20" (fiscal 2019 – fiscal 2021) that were formulated in response to issues that arose.

Two additional themes for our carefully defined Group Strategy

In formulating the second half of the plan, our basic policy was to expand our business with the dual approach of strengthening our core businesses and changing business structure by expanding our business domains into new fields. Therefore, in tandem with continuing to proactively implement the investments necessary for future growth and development, we will expand our business by promoting two new themes for our Group strategy. In this way, I believe we can maintain our lead in the industry.

The first of the new themes is to "accelerate the air-conditioning solutions business by making use of IoT and AI technology." In the air-conditioning business, we will make significant structural transformations to both sales of stand-alone energy saving equipment and to models that generate profits across the entire value chain. With the advance of IoT and AI technology, infrastructure for data storage and analysis is possible at low cost. Therefore, we will create new value for our customers by promoting the extensive systematization and networking of air conditioning, and providing comprehensive services in energy saving proposals, design and engineering for entire buildings, as well as providing services from maintenance and repair to troubleshooting.

The second of the new themes is to "incorporate initiatives to put us at the forefront of environmental issues". In addition to promoting the adoption of R32 refrigerant that has a lower global warming impact, we will strengthen the development of new refrigerants and equipment with lower global warming potential (GWP) even further.

Q4 Could you please describe investment strategies and targets for business results for the latter half of "FUSION 20"?

Seeking to raise the bar for quantitative targets and not rest on our laurels

For future growth investment, we will invest about ¥600 billion in capital investment and R&D over three years (¥360 billion for investment plans and ¥220 billion for R&D). Moreover, we will continue to implement an aggressive program of mergers and acquisitions as one part of this business strategy. However, since some of these mergers and acquisitions are currently still under consideration, they are not included in this investment amount.

The focus of our investment is to increase production capacity, strengthen product development capabilities, enhance the sales and service system, expedite the evolution to an air-conditioning solutions business making use of IoT and AI technology, and build digital factories. This investment strengthens and enhances technologies to respond to the toughened environmental regulations, and allows us to acquire advanced technology through open innovation as well as secure and nurture information-related human resources, all of which will enhance the competitiveness of our business.

We set consolidated performance targets for fiscal 2021 at ¥2.9 trillion in net sales, operating income of ¥348 billion, and an operating income margin of 12%. Personally, I haven't given up on reaching sales of ¥3 trillion, which was the favored position when we first established for "FUSION 20" in fiscal 2017. As well as clearly fixing the themes for our Group strategy, I would like to challenge the ¥3 trillion mark in net sales by preparing another theme on expanding business.

Q5 You mentioned earlier in the second question that one change in the Daikin Group's operating environment was strengthened global environmental regulations. How do you think you should respond to these changes?

Developing businesses that contribute to solving environmental issues

The world has made significant strides toward realizing a carbon-free society through global cooperation on climate change that include the Paris Agreement, and the Kigali Amendment to the Montreal Protocol. In addition, strong investor-led demand has arisen for companies to be assessed on their progress in identifying risks and opportunities from a long-term perspective, through the establishment of such organizations as Climate Action 100+ that call on companies to strengthen climate-change related financial disclosures.

Air conditioners, our core product, are also a key part of the infrastructure that supports society in ways such as bringing innovation to work and life in hot regions and contributing to economic growth and improving livelihoods. On the other hand, the increase in electricity consumption that follows the spread of air conditioners cannot be separated from environmental impacts such as climate change. Based on the concept that there is no business development without a contribution to solving environmental issues, we have always been committed to reducing the environmental impact caused by our products and businesses through our strategic management plan. We are promoting the development of businesses that take up the opportunities provided by regulation and strengthening our efforts to deliver environmentally friendly products throughout the world that use energy-saving inverter technology and R32 refrigerant that has a lower global warming potential. Such businesses also include energy services solution business and the heating and water heater business.

Group Strategy Themes for the Latter Three Years of "FUSION 20"

Identify the significant changes impacting the world and set new Group Strategy themes.

Basic approaches		13 Group strategies
New business domains/ structure	1	**Acceleration of AC solutions business** 1 Energy Service Solutions business 2 IAQ/Air Environment Engineering
	2	**Action to lead the environment** 1 Action for low GWP 2 Long-term environmental vision for 2050
	3	**New business domains** 1 Heating/Water Heater 2 Commercial Refrigeration
Existing business domains	4	**AC in North America**
	5	**AC in Asia**
	6	**Chemicals**
	7	**Filter**
Technologies and *monozukuri*	8	**Differentiated technologies/products with the TIC**
	9	**Enhanced *monozukuri* in the AC business**
Corporate management	10	**Lean and competitive fixed-cost structure**
	11	**Optimal inventory aiming at cash flow maximization**
	12	**Financial operations standardization and IT integration**
Unique corporate philosophy	13	**Enhanced HR based on people-centered management**

Targeting changes to external environments

Implementing the Group Strategy Themes

1-1	**Energy Service Solutions Business** In this business Daikin is creating a cyclical business linked to equipment updates and the provision of services. Daikin provides a broad range of comprehensive services including energy-saving for an entire building and covering the entire air-conditioning value chain (including equipment design, instrumentation and engineering, construction and trial operations, operation management, maintenance and after sales services).
1-2	**IAQ/Air Environment Engineering Business** Daikin launched innovative products differentiated from the products of our competitors in China and expanded the IAQ product business. We are building a new business model while executing trial business models such as improving office productivity through enhancing air circulation.
2-1	**Efforts to Lower GWP (Next-generation Refrigerant and Equipment Business)** Daikin is promoting global mainstream use of R32 in general air conditioning and developing next-generation refrigerants and equipment.
2-2	**Long-Term Environmental Vision for 2050** In support of the Paris Agreement, the Daikin Group aims to achieve the 2050 goal of zero CO_2 emissions while working to provide safe and healthy air environments. In the latter three "FUSION 20," we set quantitative targets for CO_2 reduction and will implement specific measures.
3-1	**Heating and Water Heater Business** With Europe as the mother base, Daikin is strengthening the development of heating equipment that uses heat-pump technology. We are establishing robust sales and service networks and accelerating the creation of the heat pump and heating market.
3-2	**Commercial Refrigeration Business** Daikin is providing one-stop proposals for European food retail chains and aided by the impetus provided by environmental regulation we are developing and selling CO_2 heat recovery systems that use Daikin's air-conditioner technology.
4	**Air Conditioner Business in North America** Daikin will launch differentiated products and reinforce our sales and service networks as well as bolster earning power by improving factory productivity. We will further accelerate expansion of our solutions business to build a foundation toward becoming No. 1 in North America.
5	**Air Conditioner Business in Asia** Daikin will work to further increase sales by developing differentiated products, expanding our sales networks, strengthening the commercial-use business, and establishing strong production and supply systems.
6	**Chemicals Business** Daikin will prioritize and expand business in the automotive field in which there are dramatic environmental changes such as a shift to next-generation vehicles. We will also promote development of hybrid materials combining fluorinated materials and other materials and take proactive measures including alliances, partnerships, and M&A in this field.
7	**Filter Business** Daikin will reinforce the organizational structure by establishing the Filter Division in 2018 and thereby target the development of future business in this area. We will leverage synergies with Air Conditioner Business and Chemicals Business to expand business into the IAQ/Air Environment Engineering Business.

Q6 What are your thoughts on returns to shareholders?

Enhancing corporate value and providing returns to shareholders

In "FUSION 20," which targets further growth and development, we are enhancing corporate value further by growing our business while implementing strategic investment, accelerating the construction of a durable corporate position by improving business performance, and conducting reforms to our overall structure. In this way, we can expand further and provide even greater returns to shareholders.

In view of our favorable business performance in fiscal 2018, Daikin paid an annual dividend of ¥140, which is ¥10 higher than in the previous fiscal year. We will continue to maintain a consolidated dividend on equity (DOE) ratio of 3.0% based on stable and continuous dividend payments in the future and aim for an even higher consolidated dividend payout ratio.

Q7 In an environment where interest in ESG is rising, could you provide a message to stakeholders with your ideas for social issues?

Taking the dual approach of balancing solutions to social issues and achieving the growth and development of business

In line with the Paris Agreement and looking to 2050, we have formulated our long-term environmental vision that aims to reduce CO_2 emissions to zero. We are promoting the cuts to CO_2 emissions through the development and distribution of energy-efficient products and manufacturing activities with lower global warming potential. We are also providing air-conditioning solutions using IoT and AI technology, and, through such measures as enhancing the coordination between air conditioners and buildings, we can increase energy saving. Moreover, aiming at zero CO_2 emissions, we are facilitating a market for the collection and reuse of refrigerants.

Regarding human resources, the Group believes that "management based on people" is the source of its competitiveness, and, by promoting management that encompasses diversity and enables the dynamic use of diverse human resources, we are creating an environment where employees can demonstrate their full potential.

In addition, we support the United Nations Global Compact, which identifies 10 principles in four fields: human rights, labor, the environment, and anti-corruption. Across the entire value chain, we conduct our corporate activities with a comprehensive approach to transparency, integrity and ethics.

We are aiming at achieving a sustainable society by setting of sustainable development goals (SDGs). As a corporate group that creates new values in the air and environment, we take the dual approach of balancing solutions to social issues and achieving business growth. We do this in response to the expectations of our various stakeholders including customers, shareholders, suppliers, and local communities.

June 2018

Masanori Togawa

Masanori Togawa
President and CEO

Air Conditioning

Current

Expanding sales across each region glob

Business results achieve another record high; sales break through the

The Air Conditioning business experienced sharply rising raw material prices, and in response, Daikin further strengthened profitability by promoting initiatives focusing on cost reductions and strengthening sales, services, technical, and product development capabilities.

Expanded sales of the Urusara 7 products with excellent energy-saving and environmental performance to differentiate from competitors and provide high added value.

Japan

Sales in Japan rose 104% year on year.

In an operating environment where air conditioners for residential use are being replaced with energy-saving models, sales of air conditioners increased in line with strategies focusing on profitability, and on the flagship Urusara 7 equipped with its unique humidifier functions and mid-range models.

For commercial units, Daikin aimed at capturing demand generated by model updates and sales of the mainstay product Eco-ZEAS along with a new lineup of Machi Multi, a multi-split type room air conditioner that features individual room control from the one unit and a slim design.

In the market for large-scale commercial buildings that captures demand generated by redevelopment in the Tokyo metropolitan area, sales increased significantly.

Americas

Sales in the Americas rose 111% year on year.

With strong market conditions backed by robust consumer spending and capital investment, Daikin strengthened its production and development structure at the new Goodman Global Group production facilities in the United States and expanded our sales network.

Despite the impact of a hurricane in August 2017, sales of mainstay unitary products grew due to strengthening the sales capabilities in priority regions.

In the ductless market that is experiencing significant growth, Daikin expanded its market share in high-end residential-use markets by expanding the VRV product lineup and sales channels.

In the market for large-scale commercial buildings (applied systems), Daikin expanded its after-sales service business and equipment sales, strengthened its marketing structure, and expanded sales by acquiring an air-conditioning engineering company in Latin America.

Began full-scale operations of production facilities in the U.S. and expanded business

ally

¥2 trillion mark for the first time

The PROSHOP offers a total service from design and installation to after-sales services

China

Sales in China increased 115% year on year.

Adapting to changes in growth markets, Daikin expanded its sales network to regional cities, captured vigorous individual consumption and private-sector demand, and thereby increased sales in all regions and for all products.

In residential-use air conditioners, Daikin expanded sales in the mid- to high-end market by further strengthening proposal and installation capabilities focused on its proprietary store, PROSHOP, and creating the New Life Multi Series of residential multi-air units that facilitate the creation of new lifestyles for customers.

In the commercial-use market, Daikin expanded sales by responding to diverse market needs and by focusing on the VRV model, which offers enhanced energy-saving performance and design flexibility and strengthened proposal-type sales activities.

For applied units, Daikin delivered detailed sales activities, broadened its product lineup, and strengthened its service business.

Europe

Sales in Europe increased 120% year on year.

In residential-use air conditioners, Daikin increased sales mainly in France and Spain by actively marketing eco-friendly products and broadening its lineup of R32 refrigerant air conditioners from high-end models to popular models.

In the commercial-use market, we captured demand generated by renewal through the early introduction of the refrigerant R32.

Sales in the heater business increased by enhancing sales and service systems, and strengthened environmental regulations in France and Italy meant demand for residential heat pump-type water heating units increased.

Asia/Oceania

Sales in Asia/Oceania increased 114% year on year.

In residential-use air conditioners, Daikin increased sales mainly in India, Vietnam, and Indonesia and through strengthened dealer networks in regional cities, and its strengthened service structure, captured the demand of the growing middle-income groups.

In India, sales increased dramatically through aggressive investments in areas such as increased production capacity, dealer network development, and the introduction of new products.

Sales in the commercial-use market increased significantly in each country, especially in India, Vietnam, Thailand, and Australia, by strengthening dealerships and process specification activities.

In tandem with increasing sales in Asia, where demand is growing, we are strengthening our marketing system

Air Conditioning

Future

Targeting record highs for both sales and Expanding business through proactive in

Despite the significant and ongoing impact of the sharp rise in raw material prices, Daikin will continue to aim for further growth by focusing on the key strategic areas of Asia and North America, expanding sales in the major regions of Japan, China, and Europe, and initiating comprehensive cost reductions and sales price strategy.

Risora is a differentiated product that balances functionality and design.

Japan

Daikin will establish a sales system that is closely tailored to its integrated marketing activities, expand sales of high-value-added products, and strive to increase earnings by implementing such measures as cost reductions and sales price strategy. In the residential-use market, Daikin will create a new market for differentiated products like Risora, which combines functionality and design.

In the commercial-use market, we will strive to expand sales of high-value-added products such as slim-designed multi-split air conditioner Machi Multi and, in an industry first, we will launch the multi-split air conditioner GREEN Multi, which adopts the eco-friendly R32 refrigerant.

In applied systems, Daikin aims to grow its market share through enhanced process specification activities, and capturing demand generated by redevelopment in the greater Tokyo metropolitan area.

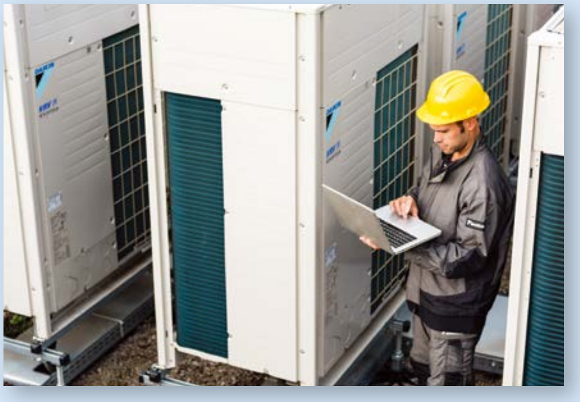
Americas

With a firm economic outlook as the backdrop, Daikin will initiate measures to enhance productivity and strengthen product development capabilities at the new production facilities of the Goodman Global Group, which started full-scale operation in the previous fiscal year as well as expand its business by broadening its in-house sales network and strengthen its development and service businesses.

In residential-use air conditioners, Daikin will broaden its product lineup by launching new products for inverter units, and, in the ductless market, Daikin is planning to increase sales of high-end products by strengthening user direct sales activities.

In applied systems, Daikin will accelerate the expansion of the direct sales network and its in-house service network to strengthen the service and solutions business as well as equipment sales.

Daikin will establish a business base in Latin America and, focusing mainly on Mexico, expand its engineering business.



Strengthening cyclical business by offering services across the entire air-conditioning value chain

operating income once again
vestment

Accelerating our brand strategy through such activities as establishing interactive showrooms (China)

China

Daikin is developing a sales network that extends throughout China from the large metropolitan areas to regional cities. In addition to launching differentiated products that respond to market changes brought about by government measures to curb real estate speculation, Daikin will expand sales and earnings by initiating further cost reductions though moving to greater in-house and automated production.

In residential-use air conditioners, Daikin, will expand its product lineup in response to growing air quality needs with the New Life Multi Series residential multi-air units and develop integrated marketing activities focusing on PROSHOP.

Moreover, Daikin will develop a new business model connecting customers' searches to sales and solutions by linking web-based, interactive showrooms and customer centers.

In the commercial-use market, Daikin will work to expand sales by strengthening its proposal-type capabilities and launching new products to meet the diversified needs of each market. In applied systems, Daikin will promote integrated proposal-type sales for small and medium-sized properties and will expand the services business and equipment sales.

Europe

Responding to strengthened environmental regulations, Daikin will grow sales and broaden its differentiated product line-up that utilizes R32 refrigerant, which has a lower impact on global warming, for both residential and commercial use. The applied business aims to increase orders for large properties focusing mainly on the Middle East, which is the largest market.

To grow new business, the heater business will encourage the development of dealers in countries such as France and Germany and launch new products for residential use including energy-efficient, heat-pump-type water heating units. In the commercial freezer and refrigerator business, Daikin will seek to increase sales of new products for small stores via the synergistic benefits with Zanotti S.p.A. of Italy.

Asia/Oceania

With demand for air conditioning expected to rise along with the growth of the middle-income class, Daikin will strive to significantly increase sales and will bolster supply capabilities by commissioning new factories in Vietnam and Malaysia, expand its sales network in each country, actively launch inverter products, and expand service businesses such as maintenance services.

In residential-use air conditioners, Daikin will strengthen the development of differentiated products such as multi air units and, focusing mainly on India, Vietnam, and Thailand, will increase sales of highly energy-efficient inverter air conditioners.

In the commercial-use market, Daikin will continue to focus on developing dealerships, and will launch inverter air conditioners that adopt R32 for cooling.

In applied systems Daikin will strengthen profitability by enhancing productivity through the commissioning of a new factory in Malaysia and expanding the service business.


Strengthening production capabilities in Asia where demand for air conditioners is expected increase dramatically

Chemicals

Current

Attracted strong demand in the semiconductor and automotive-related markets
Achieved record highs for operating results for the second consecutive fiscal year

The Chemicals business achieved substantial increases in revenue and profits in the year under review. The impact of soaring raw material prices was outweighed by an expansion in sales in well-performing sectors and initiatives focusing in areas such as cost reduction and pricing policy.

Sales of fluorocarbon gas increased significantly year on year as a result of higher sales prices in Europe in response to rising raw material prices, a tight supply-demand balance, and growing sales in Japan.

Net sales of fluoroplastic resin exceeded the previous fiscal year. The principal factor for this was robust demand for semiconductors, mainly in Japan, China, and the rest of Asia and was achieved despite a decline in the use of LAN cable applications in the U.S. market.

Net sales of fluoroelastomer significantly exceeded those of the previous fiscal year due to increased sales for automotive applications in Japan and other parts of the world.

In the chemical products business, overall, net sales exceeded the previous fiscal year. However, sales of the OPTOOL™ anti-smudge surface coating declined due to the impact of slow growth in demand in China and the rest of Asia. Sales for water and oil repellent agents increased due to initiatives to switch to new products in China and elsewhere in Asia. Sales of etchants for semiconductor cleaning applications increased in Asia, where demand was strong.

Accelerating the development of applications in the automotive field

Future

Accelerating the development of applications in growing business fields and striving for sustainable growth

Daikin is aiming for substantial increases in revenues and profits by accelerating the development of applications such as lithium-ion batteries for automobiles and capturing demand for semiconductors and automotive-related markets.

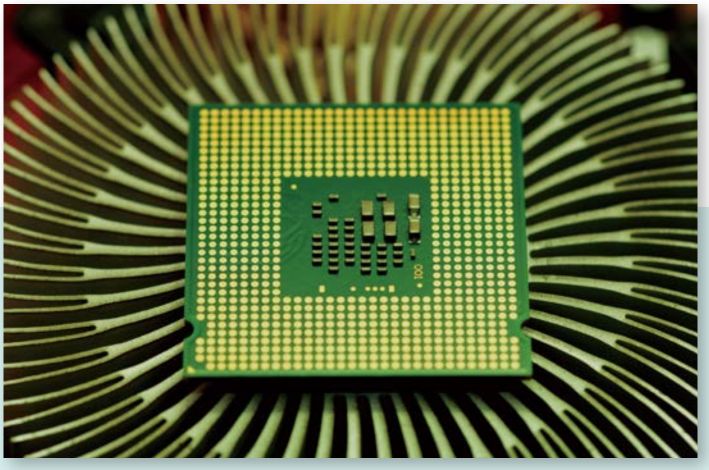
Daikin will expand sales of fluorocarbon gas for air conditioners in Asia and will capture demand, mainly in Europe, generated by the renewal of freezers and refrigerators with high environmental performance and refrigerants with low global warming impact.

Daikin will strengthen its fluoroplastic resin product-supply capabilities targeting the semiconductor market and capitalize on dynamic demand related to AI and IoT.

In the United States, Daikin will increase market share in the LAN cable market, where demand is contracting, by launching new products and strengthening marketing capabilities.

Daikin will expand its operations in Europe by entering the fluoropolymer compound business, and, to this end, in October 2017, the Company acquired Heroflon S.p.A. (Italy) in an effort to take advantage of synergistic effects.

In the water and oil repellent agent sector, Daikin aims to expand sales of environmentally friendly products. Daikin will prioritize the development of applications for the automotive field where the business environment is changing dramatically due to the spread of electric vehicles (EVs). Daikin is focusing on polyphenylene sulfide (PPS) compounds in such products as lithium battery binders, gaskets, and other components to respond to the need to reduce the weight of EVs.



Highly chemically resistant fluoroplastics products are essential for semiconductor manufacturing equipment

Oil Hydraulics

Current

Increasing sales in Japan and the United States
Business results at record highs

Oil hydraulic equipment for construction machinery and vehicles

The oil hydraulics business comprises a range of oil hydraulic equipment to facilitate the smooth movement of various types of machinery, contributing to energy efficiency and electrical power savings.

In the year ended March 31, 2018, sales in the oil hydraulics business increased significantly compared with the previous fiscal year. Sales of oil hydraulic equipment for construction machinery also grew in Japan and the United States, and Daikin launched differentiated products for industrial machinery.

In Japan, Daikin vigorously promoted business proposal-oriented sales by engineers and focused on maintenance, repair, and operation (MRO) and hydrostatic transmissions (HST) businesses in the United States.

Future

Raising competitiveness in Japan
Accelerating global business expansion

High function hydraulic unit contributes to energy efficiency in factories

In Japan, Daikin will enhance competitiveness by further refining its strengths in the hydraulic equipment business for industrial machinery, strengthen proposal-oriented sales, develop new products, and update factory production technology.

In the United States, Daikin will compete with leading manufacturers, initiate business expansion into new fields by leveraging MRO, and will establish a new local subsidiary in Mexico to ensure full-scale sales operations.

In Europe, Daikin has been preparing for full-scale entry into the market through its marketing activities, and looking forward, is building a marketing structure that can generate orders.

Current

Expansion of home-use oxygen therapy equipment in Japan and China

Daikin designs and manufactures products for Japan's Ministry of Defense based on the defense budget, including various types of artillery shells, warheads, and fuses, as well as aircraft parts. These precision processing technologies are also leveraged for private-sector purposes, including the manufacture and sale of home-use oxygen therapy equipment. Daikin provides respiration synchronizers and oxygen concentrators, products that require the highest levels of precision, performance, functionality, and quality.

Net sales in this segment declined in fiscal 2018 compared to the previous fiscal year. Sales of home-use oxygen therapy equipment increased in China, but orders from Japan's Ministry of Defense decreased.

Future

Private-sector expansion through the development of new business

With orders from Japan's Ministry of Defense expected to decline in fiscal 2019, Daikin will enhance profitability by focusing on the development of new private-sector business.

With a social environment of heightened requirements for home medical and nursing care, Daikin will strengthen sales and marketing capabilities in the home-use oxygen therapy equipment market in Japan and China. In addition, Daikin will leverage the technology of the air-conditioning business to develop new products and will also enhance cost-competitiveness. Focusing on Japan, Daikin plans to expand its private-sector operations by establishing preventive medicine as a new business domain.

Corporate Governance

Basic Policy of Corporate Governance

The role of corporate governance in the Daikin Group is to raise corporate value. This is achieved by continued vigilance on increasing the speed, transparency, and soundness of decision making and implementation in a manner that keeps a step ahead of both the Group's management tasks and the changing operating environment.

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

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

Management and Operational Execution Systems

Rather than adopting a U.S.-style "committee system" that completely separates decision making from operational execution, the Daikin Group has adopted an "integrated management" system, in view of the special characteristics of the Group's business, judging that this is a more-effective means of accelerating decision making and operational execution.

This means that the directors jointly take charge of both management responsibilities and business execution responsibilities. Directors also bear responsibility for the execution and completion of their decisions by carrying out their decision making, business execution, and supervision/guidance in an "integrated" manner. Daikin also appoints multiple external boards of directors who monitor the Group's business execution status from an independent standpoint and gives appropriate guidance and advice on decision making and is responsible for supporting the "integrated management" system in terms of transparency and sound management.

In addition, the Group has introduced an "executive officer system" to accelerate the speed of execution based on autonomous judgments and directions in units handling each region, division, and function. Appointments of executive officers are carried out by the Board of Directors.

Appointment of Directors

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

As of the end of June 2018, there were 10 directors (including one female and two non-Japanese directors), which was a reduction in the total number of directors by one from the previous year, and this ensures expeditious and strategic decision making as well as sound oversight and guidance.

Daikin's Board of Directors includes three external directors (as of June 2018), conditional upon them not having a relationship of interest with the Company. Daikin seeks to recruit external directors who can provide supervision and advice based on their abundant experience and deep insight. The main factors in the nomination of external directors are experience on boards of directors for listed companies or similar experience. Currently, all of Daikin's external directors have fewer than five concurrent posts.

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

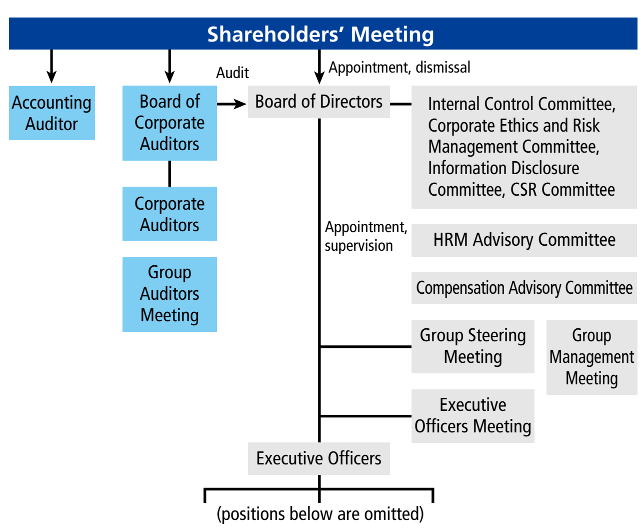
Audit System

Daikin employs an Audit and Supervisory Board System and has established the Audit and Supervisory Board. Daikin endeavors to appoint two or more external directors to the Board, and, as of June 2018, Daikin's four Audit and Supervisory Board members included two external Audit and Supervisory Board members.

The principal nomination criteria for external Audit and Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company.

The Audit and Supervisory Board members attend meetings of the Board of Directors, as well as other important meetings, and receive reports. In addition, they can express diverse opinions.

To ensure effective audit functions, the Audit and Supervisory Board receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors. In addition, the Audit and Supervisory Board Member Office has been established, and the staff perform their duties under the orders and direction of the Audit and Supervisory Board members. The opinions of the Audit and Supervisory Board are respected on matters related to personnel transfers, work evaluations, and other matters pertaining to Audit and Supervisory Board Member Office staff members.



External Director/Audit and Supervisory Board Members' Principal Activities

Name	Position	Principal Activities
Chiyono Terada	External Director	Ms. Terada attended 15 of the 16 Board of Directors meetings held during fiscal 2018. Based on her abundant experience and deep insight as a corporate manager, she provides appropriate supervision of Company management from an independent perspective; provides management with the consumers' point of view, including the importance of the Company's corporate brand; and makes proactive proposals for measures to further promote achievements of female employees.
Tatsuo Kawada		Mr. Kawada attended 13 of the 16 Board of Directors meetings held during fiscal 2018. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of management from an independent perspective and actively provides suggestions, from his broad and sophisticated perspective regarding changes in business models, innovation, and other matters.
Akiji Makino		Mr. Makino attended 12 of the 16 Board of Directors meetings held during fiscal 2018. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of the Company's management from an independent perspective and actively provides suggestions from his broad and sophisticated perspective regarding matters in the fields of energy, the natural environment, and service businesses.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano attended 12 of the 16 Board of Directors meetings held during fiscal 2018 as well as 13 of the 16 Board of Auditors meetings held in fiscal 2018. Based on his abundant experience and deep insight as a corporate manager, he accurately audits the supervision of the conduct of management by the directors. From his broad and advanced perspective developed over many years of experience in business overseas, he provides the necessary input in a timely fashion.
Toru Nagashima		Mr. Nagashima attended 15 of the 16 Board of Directors meetings held and 16 of the 16 Board of Auditors meetings held during fiscal 2018. Based on his abundant experience in management and high-level insight, he provides the necessary input in a timely fashion based especially on his broad and sophisticated experience in the management of global companies and manufacturing enterprises.

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

Name	Position	Reasons for Election
Chiyono Terada	External Director	Ms. Terada makes full use of her abundant experience and deep insight as a corporate manager, and she provides appropriate supervision from an independent perspective. With her broad and deep understanding, she provides management with the consumers' perspective, including the importance of the corporate brand, and makes proactive proposals for measures to further promote achievements of female employees. Ms. Terada was elected as external director to continue to contribute to the Company's corporate value looking forward.
Tatsuo Kawada		Mr. Kawada has served as representative director of SEIREN CO., LTD., and has abundant experience and deep insight as a corporate manager. His experience includes changing his company's business model, innovation creation, and reforming corporate cultures. Mr. Kawada was elected as external director to make use of this experience and provide appropriate supervision of the conduct of management from an independent perspective, and, by offering proposals in relation to the overall management of the Company from his broad and high-level perspective, contribute to increasing Daikin's corporate value.
Akiji Makino		Mr. Makino has served as representative director of Iwatani Corporation and has abundant experience and deep insight as a corporate manager, especially in the fields of energy and the natural environment as well as the services business. Mr. Makino was elected as external director to draw on this background and experience to provide appropriate supervision of the conduct of management from an independent point of view, and, offering proposals regarding management from his broad and high-level perspective, contribute to increasing Daikin's corporate value.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano has served as representative director at Sumitomo Forestry Co., Ltd., and has abundant experience and deep insight as a corporate manager, particularly in the field of expanding business operations overseas. Mr. Yano was elected as external auditor to draw on his experience to supervise overall management at Daikin and to significantly upgrade the appropriateness of the audit function.
Toru Nagashima		Mr. Nagashima has served as representative director at TEIJIN LIMITED, and has abundant experience and deep insight as a corporate manager, particularly in the field of implementing paradigm shifts from manufacturing to services. Mr. Nagashima was elected as external auditor to draw on his experience to significantly upgrade the appropriateness of the audit function.

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

Agile Management Support System

Daikin's three main management bodies are the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting.

The Board of Directors is the decision-making institution for all matters related to the Group as a whole, as stipulated by laws and regulations and by the articles of incorporation, and by minimizing the number of directors Daikin is ensuring expeditious decision making based on substantive discussion. It also performs supervision and guidance to ensure sound and appropriate execution of the Company's operations. In fiscal 2018, the Board of Directors met 16 times, and the average attendance rates of external directors and external Audit and Supervisory Board members at those meetings were 83% and 84%, respectively.

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction for important management guidelines and management strategies in a rapid and timely manner. In fiscal 2018, it met eight times.

The Executive Officers Meeting establishes a place where we can expedite thorough deliberations and prompt implementation of important management issues, and it met 13 times in fiscal 2018.

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

Evaluation of the effectiveness of the Board of Directors

Daikin analyzes and evaluates the effectiveness and appropriateness of the Board of Directors and the corporate governance system through interviews with the Directors and Corporate Auditors and deliberations by the Board of Directors. As a result, the Board of Directors of Daikin is assessed on its ability "to perform appropriate decision making through open and active discussions and play an effective role in improving corporate value over the medium-to-long term".

Going forward, we plan to further enhance the provision of information to external directors and raise the effectiveness of the Board of Directors even further.

Corporate Officer Renumeration

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including nomination criteria for such positions as directors and executive officers, and for corporate officer, corporate officer candidates, and for remuneration. As of the end of June 2018, both committees comprised five members, including three external directors, one in-house director, and one executive officer, with the committee chairman being chosen from the external directors.

The remuneration of directors and Audit and Supervisory Board members is based on both the maximum limit of total remuneration and on the report of the "Compensation Advisory Committee". Based on a report from the Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors, while the Audit and Supervisory Board members' remuneration is determined by a resolution of the Audit and Supervisory Board.

In doing so, Daikin determines compensation levels based on the relative position of its performance and remuneration levels compared to other leading manufacturing companies in Japan after reviewing the data from a specialized institution on the remuneration of corporate officers active in Japanese companies listed on the First Section of the Tokyo Stock Exchange.

In response to the expectations of shareholders, compensation for in-house directors is divided into fixed compensation to maintain the motivation of in-house directors at a high level continuously over the medium-to-long term towards enhancing the Daikin Group's performance and performance-linked remuneration to reflect short-term Group performance and performance of divisions in which a director is in charge and stock options to reflect medium- to long-term performance. External directors and corporate auditors receive "fixed compensation" only.

Total Compensation for Directors and Audit and Supervisory Board Members (Fiscal 2018)

Position	Total Compensation (Millions of yen)	Total Compensation by Type (Millions of yen)			Number of Individuals
		Basic	Stock Options	Bonus	
Directors (excluding external directors)	1,250	746	133	370	8
Audit and Supervisory Board Members (excluding external auditors)	64	64	—	—	2
External Directors	76	76	—	—	5

Corporate Officers Receiving Total Compensation and Other Exceeding ¥100 Million (Fiscal 2018)

Name	Total Consolidated Compensation (Millions of yen)	Position	Company Name	Total Consolidated Compensation by Type (Millions of yen)		
				Basic	Stock Options	Bonus
Noriyuki Inoue	410	Director	Daikin Industries, Ltd.	263	29	116
Masanori Togawa	273	Director	Daikin Industries, Ltd.	166	29	76
Ken Tayano	170	Director	Daikin Industries, Ltd.	99	14	45
		Chairman	Consolidated Subsidiary, Daikin (China) Investment Co., Ltd.	11	—	—
Masatsugu Minaka	132	Director	Daikin Industries, Ltd.	8	14	36
		Director	Consolidated Subsidiary, Daikin Europe N.V.	72	—	—
Jiro Tomita	147	Director	Daikin Industries, Ltd.	92	14	40
Takashi Matsuzaki	109	Director	Daikin Industries, Ltd.	66	11	32

Total Compensation and Other for Independent Accounting Auditors (Fiscal 2018)

Audit expense	243 (Millions of yen)

Group Governance

To meet governance needs on a Group-wide basis, including M&A-related companies, Daikin holds meetings of the Group Steering Meeting to ensure the thorough sharing of important management policies and basic strategies. Moreover, Daikin works to promote and strengthen support for the resolution of challenges of Group companies through activities based on unified objectives. In addition, to strengthen Group-based auditing and supervisory functions, Daikin is working to enhance its management at the Group Auditors meetings, which comprise audit managers from major Group companies.

From the perspective of further strengthening corporate governance and Group management as a multinational company, Daikin has appointed a Chief Global Group Officer, who works to further improve the Group's cohesiveness.

Directors, Audit and Supervisory Board Members, and Executive Officers (As of June 29, 2018)

Position(s)	Name	Responsibilities & Principal Jobs
Chairman of the Board and Chief Global Group Officer	**Noriyuki Inoue**	
President and CEO, Member of the Board	**Masanori Togawa**	Chairman of Internal Control Committee
Member of the Board (external)	**Chiyono Terada**	President of Art Corporation
Member of the Board (external)	**Tatsuo Kawada**	Chairman and CEO of SEIREN CO., LTD.
Member of the Board (external)	**Akiji Makino**	Chairman and CEO of Iwatani Corporation
Member of the Board and Senior Executive Officer	**Ken Tayano**	Responsible for Domestic Air-Conditioning Business, Representative of China Region, Chairman of Daikin (China) Investment Co., Ltd., Chairman of Daikin Fluorochemicals (China) Co., Ltd., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Masatsugu Minaka**	Representative of Air-Conditioning Operations in the Europe/Middle East/Africa Region (excluding East Africa), President of Daikin Europe N.V., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Jiro Tomita**	Responsible for Global Operations Division, Manufacturing Technology and Promoting PD Alliances
Member of the Board (non-resident)	**Yuan Fang**	Regional General Manager of Air-Conditioning Business in emerging nations in the ASEAN/Oceania Region of Global Operations Division, Vice Chairman of Daikin (China) Investment Co., Ltd., Chairman of Daikin Airconditioning (Hong Kong) Limited
Member of the Board (non-resident)	**Kanwal Jeet Jawa**	Regional General Manager of Air-Conditioning Business in India/East Africa, President of Daikin Airconditioning India Private Limited
Audit and Supervisory Board Member (external)	**Ryu Yano**	Chairman of Sumitomo Forestry Co., Ltd.
Audit and Supervisory Board Member (external)	**Toru Nagashima**	Honorary Advisor of TEIJIN
Audit and Supervisory Board Member	**Kenji Fukunaga**	
Audit and Supervisory Board Member	**Kosei Uematsu**	
Senior Executive Officer	**Takashi Matsuzaki**	Responsible for Applied Solution Business, R&D in North America, Applied R&D Center, Silicon Valley Technology Office
Senior Executive Officer	**Koichi Takahashi**	Responsible for Finance and Accounting/Budget Operations, IT Development, IoT/AI business promotion, General Manager of the Finance and Accounting Division
Senior Executive Officer	**Yoshikazu Tayama**	General Manager of Budget and Administration Group in Finance and Accounting Division
Senior Executive Officer	**Masayuki Moriyama**	Responsible for Applied Solution Business in China/ASEAN/Oceania Region, Refrigeration business, Director of Daikin (China) Investment Co., Ltd., COO of McQuay China
Senior Executive Officer	**Yoshihiro Mineno**	Responsible for Filter business training, General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director (non-resident) of Daikin Holdings (Houston), Inc.
Senior Executive Officer	**Satoshi Funada**	Responsible for Service Operations, General Manager of Air-Conditioning Sales Division
Senior Executive Officer	**Naofumi Takenaka**	Responsible for SCM, Logistics, Deputy Manager of Air-Conditioning Sales Division (Responsible for Business Strategy), General Manager of Business Strategy Department in Air-Conditioning Sales Division, General manager of Tokyo Office.
Senior Executive Officer	**Yasushi Yamada**	Responsible for Safety
Executive Officer	**Katsuyuki Sawai**	Responsible for Corporate Communication, Human Resources, and General Affairs and General Manager of Shiga Plant
Executive Officer	**Hitoshi Jinno**	General Manager of Filter Division
Executive Officer	**Kota Miyazumi**	Responsible for Corporate Planning, General Manager of Marketing Research Division, Director of Planning Group in Marketing Research Division
Executive Officer	**Tsutomu Morimoto**	Responsible for Goodman Group Business, Executive Secretarial Department
Executive Officer	**Yuji Yoneda**	Responsible for Air-Conditioning Product Development (including Applied Solution Business and Refrigeration Business) and General Manager of Technology and Innovation Center
Executive Officer	**Masaki Saji**	General Manager of Human Resources Division and Department Manager of Diversity Promotion Group in Human Resources Division
Executive Officer	**Masafumi Yamamoto**	Responsible for CSR, Global Environment Affairs, Corporate Ethics, Compliance, Legal Affairs, Information security, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Chairman of CSR Committee, Chairman of Corporate Ethics and Risk Management Committee and Chairman of Information Disclosure Committee
Executive Officer	**Akira Murai**	Responsible for Oil Hydraulics business and Defense systems business, Co-Creation Projects member of Technology and Innovation Center, and General Manager of Yodogawa plant
Executive Officer	**Makio Takeuchi**	Responsible for Global Procurement, Deputy Manager of Air-Conditioning Manufacturing Division (Product Development), Product Development Promotion in Refrigeration Division, Co-Creation Projects member of Technology and Innovation Center
Executive Officer	**Yoshiyuki Hiraga**	Responsible for Chemical Business and Chemical Environment/Safety
Executive Officer	**Toshio Ashida**	Responsible for Strategy office of Technology and Innovation Center, General Manager of Corporate Planning
Executive Officer	**Hideki Maruoka**	General Manager of Oil Hydraulics Division
Executive Officer	**Shigeki Morita**	Responsible for PL/Quality (Air Conditioning/Applied/Refrigeration), Alliance Promotion with Gree Electric Appliances Inc., General Manager of Air-Conditioning Manufacturing Division, and General Manager of Sakai Plant

ESG Summary

The Daikin Group's core business of air conditioning is essential for economic development and a comfortable lifestyle, and demand for air conditioning continues to expand in developing nations and around the world. The Daikin Group sets CSR priority themes for internal use and the sustainable development of society. By evaluating the overall impact on society, Daikin provides people around the world with comfortable and rich lifestyles, while working to limit environmental impact by leveraging its accumulated technologies.

Materiality

In fiscal 2016, along with the establishment of a strategic management plan known as "FUSION 20," the Group's relevance has been evaluated. In the course of this evaluation, priority themes were selected according to two core topics: "The interests of stakeholders and what impacts on them," which includes stakeholder engagement and global guidelines and requirements from the SRI research institution, and the "Importance of Daikin" based on management philosophy as well as mid-and-long-term management strategies.

Stakeholder Interest and Influence

	Preservation of Biodiversity	Atmospheric pollution Respect for Human Rights Stakeholder Engagement Regional Society Chemical Substance Control and Reduction	Dealing with Climate Change Efficient Use of Resources and Energy New Value Creation Ensuring Product Quality and Safety Pursuit of Customer Satisfaction Most Important
	Prohibition of Bribery Free Competition and Fair Trade	Industrial Safety and Health Labor-Management Relations Supply Chain Management Information Security	Human Resource Development Ensuring Human Resource Diversity Corporate Governance
	Important	Waste and Water Reduction	

Importance for Daikin

Nine Priority Initiatives

With the Group's relevance established as the CSR priority for sustainable development of both the corporation and society, the Group has focused on four"Value Delivery" themes and five"Grounding" themes. Attention to these initiatives in management activities is incorporated into our strategic management plan, "FUSION 20" and implemented across the entire Group.

Daikin Group CSR

CSR for Value Provision	
We aim to provide a healthy, comfortable air environment to all across the world, through efforts to minimize environmental impact.	● Environment ● New Value Creation ● Customer Satisfaction ● Human Resources

Fundamental CSR	
We are responding to societal demands for greater transparency and more open business practices.	● Corporate Governance ● Respect for Human Rights ● Supply Chain Management ● Stakeholder Engagement ● Communities

CSR Activity Plan 2020

Category		Priority Initiatives	FY2021 Target	FY2018 Result
E Environmental	CSR for Value Provision	**Environment**	**Introduce state-of-the-art technologies to the market to address environmental and energy issues.** • Reduced emissions of global warming gas by 60 million tons of CO_2 through the distribution of environmentally friendly products globally • Reduced emissions of global warming gas resulting from the manufacturing process across the entire Group by 70% from fiscal 2006 levels • Implementing and expanding environmental activities in coordination with stakeholders	We measure our contribution to reducing emissions of global warming gas based on the distribution of environmentally friendly products and our reduction in global warming gas resulting from the manufacturing process. Daikin reduced global warming gas by 54 million tons of CO_2, representing a reduction of global warming gas emissions of 74% from fiscal 2006 levels.
S Social	CSR for Value Provision	**New Value Creation**	**Sharing dreams and future with people inside and outside Daikin and creating a comfortable lifestyle with the power of air** • Connecting society and customers via IoT and AI and creating new value through open innovation	The amount of investment to create new value is measured based on the amount of new technology created. Research and Development expenses reached ¥62.1 billion and the number of patent applications, 780 (including overseas patent applications of 352 in fiscal 2017 on a consolidated basis).
S Social	CSR for Value Provision	**Customer Satisfaction**	**Offering peace of mind and reliability focusing on customer-oriented approach, experience, business performance and superior technology** • Build a service network encompassing the entire globe • Building product development capabilities that can satisfy the needs of customers worldwide • Maintaining optimum levels of quality	We measure satisfaction through the after-sales service customer satisfaction rating. In fiscal 2006, the customer satisfaction rating was 1.11 for Japan, 1.03 for Singapore, 1.01 for China and 1.00 for Italy.
S Social	CSR for Value Provision	**Human Resources**	**We recognize that by respecting individuality and value systems and by drawing out the unlimited potential of individuals, we make both our organization and society stronger.** • Achieve a ratio of experts and highly experienced personnel of four to one • Achieve a ratio of women in management positions of 10% (unconsolidated) • Increase the ratio of local presidents • Reducing the frequency of industrial accidents to zero	As a means of fostering our human resources, we measure the number of personnel that are at a level to provide guidance in *monozukuri* (creating things), maintain diversity and move toward appointing more presidents at local overseas production facilities. In the area of occupational, health and safety, we measure the safety of operations at production facilities. We achieved a ratio of experts and highly experienced personnel of 3.4 to one (unconsolidated), a ratio of women in management positions of 4.9%, a ratio of local presidents of 46% (overseas Group companies) and frequency rate of industrial accidents throughout the Group of 1.33.
S Social	Fundamental CSR	**Respect for Human Rights**	Committed to respecting human rights	We measure how thoroughly respect for human rights has been adopted by our employees through the completion rate for the self-inspection. The completion rate for the self-inspection was 99%.
S Social	Fundamental CSR	**Supply Chain Management**	Implementation of CSR through the procurement process	To measure the level of implementation of the CSR by suppliers, we created a questionnaire for suppliers. We began running this survey from fiscal 2019.
S Social	Fundamental CSR	**Stakeholder Engagement**	Management that reflects a constructive dialogue with stakeholders	As an indication of our performance in the area of engagement, we track the number of events held by our Air Conditioner Forums (Konwakai), an event that comprehensively covers the industry and provides an opportunity for dialogue between experts in air conditioning. The Air Conditioner Forum was held six times across five different regions worldwide.
S Social	Fundamental CSR	**Regional Society**	Activities contributing to society through the environment, education, and local regions	The amount of support in terms of donations both financial and material provides an indication of our contribution to regional society. This amount across the entire Group stands at ¥1.6 billion.
G Governance	Fundamental CSR	**Corporate Governance**	Thorough compliance	We measure the status of our efforts in corporate governance compliance through the completion rate by employees of the self-inspection. The completion rate for the self-inspection was 99%.
G Governance	Fundamental CSR	**Corporate Governance**	Maintaining independence, diversity and transparency of the Board of Directors	We also have a ten-member Board of Directors, including three external directors, one female member, and two non-Japanese members.

CSR (Corporate Social Responsibility)

Environment

■ Materiality of Environmental Measures

While air conditioners, the main product of the Daikin Group, support the enhancement of economic growth and quality of life in hot regions, they consume a lot of electricity during use and also have an impact on climate change through the fluorocarbon used as a refrigerant.

In recognition of this, the Daikin Group strives to contribute to the sustainable growth of global society as the only comprehensive air-conditioner manufacturer that develops and manufactures both air conditioners and refrigerants. The Daikin Group focuses on the spread of environmentally friendly products using inverter technology, low environmental impact refrigerants worldwide and its services solution business.

■ Daikin's Initiatives

Promotion of Eco-Friendly Technologies and Products

The Daikin Group develops and distributes environmentally friendly products globally that satisfy either or both a reduction in power consumption by 30% or more compared to conventional models and use of refrigerants with a lower global warming potential of a third or less compared to conventional refrigerants.

In fiscal 2018, the percentage of sales of environmentally friendly products related to residential air conditioners was 83%, representing a reduction in emissions of greenhouse gases* of 54 million tons of CO_2. As a measure to reduce CO_2 emissions resulting from the energy consumption of air conditioners, Daikin is working to broaden the global distribution of inverter units. For example, in Southeast Asia, Daikin has developed low-cost inverter units targeting regions requiring cooling-only air conditioners, and, due to a rising energy-conservation consciousness along with strengthened regulations and steeply rising electricity prices, these low-cost inverter units are flourishing.

Also, in Latin America and the Middle East, Daikin is cooperating with government and industry bodies to support the establishment of energy efficiency assessment standards, through the introduction of indicators, standards, and an improved energy labelling system.

* Difference between emissions from the total sales by Daikin of environmentally friendly products and a baseline of emissions from air conditioners using non-inverter units and conventional refrigerants, combustion-type heating, and hot water heaters.

Spread of energy-saving air conditioners in Sri Lanka Support for measures to recover, recycle, and dispose of refrigerants

The Daikin Group recognizes its responsibility as a comprehensive air-conditioning manufacturer with both air conditioners and refrigerants. The Group is also engaged in activities to prevent refrigerants from being discharged into the atmosphere throughout the life cycle of air conditioners.

Continuing from the previous year, in fiscal 2018, Daikin was entrusted by Japan's Ministry of the Environment with a survey aimed at supporting developing countries. In collaboration with the United Nations Environment Programme, we worked in Sri Lanka to distribute energy-efficient air-conditioning units and establish recovery, recycling, and disposal schemes for refrigerants. Based on the survey results obtained over two years, we prepared policy recommendations and presented our proposals to the government of Sri Lanka. In addition, we held a local seminar to report on the findings in the survey, and more than 70 participants from government, academia, and industry attended.

Supporting the Rollout of R32 Refrigerant in Emerging Economies

In 2011, the Daikin Group released 93 basic patents related to the manufacture and sale of air conditioners using R32 royalty-free for emerging countries allowing for the manufacturers in each country to introduce the lower global warming potential (GWP) R32 refrigerant. In 2015, this royalty-free use of R32 as a refrigerant was expanded worldwide.

In addition, Daikin provides technical support in emerging countries by cooperating with governments and international organizations throughout the world and provides information and technical support through international conferences, academic conferences, and papers on the impact and countermeasures in relation to refrigerants and global warming.

For example, in India, Thailand, and Malaysia, seminars were held for government officials and air-conditioning industry groups to promote understanding of R32, and we conducted training for local air-conditioning installation and service technicians on the appropriate handling of R32.

In Mexico, Daikin was commissioned by the Japan International Cooperation Agency (JICA) to handle private-sector technology promotion projects in an expanded range of activities, including the distribution of air conditioners with R32 refrigerant and initiatives to create energy-efficient markets.

As of December 2017, the Daikin Group had sold more than 12 million R32 air conditioners worldwide in 53 countries. We estimate that the global market for R32 air conditioners, when our competitors are included, exceeded 43 million units.

Early Achievement of Reduction Targets by Fiscal 2026

Greenhouse gases emitted by the Daikin Group during the production process across the entire business are classified by energy use into two main categories: CO_2 and fluorocarbons.

From fiscal 2017, we reviewed estimate calculations and the management targets for companies in the Group that have been in place since 2010. We set targets to reduce greenhouse gas emissions from fiscal 2006 levels by 75% in fiscal 2026, and by 70% in fiscal 2021.

However, in fiscal 2018, at Daikin America, Inc., replacement and recovery of fluorocarbons was under way resulting in emissions greenhouse gases of 1.35 million tons of CO_2.

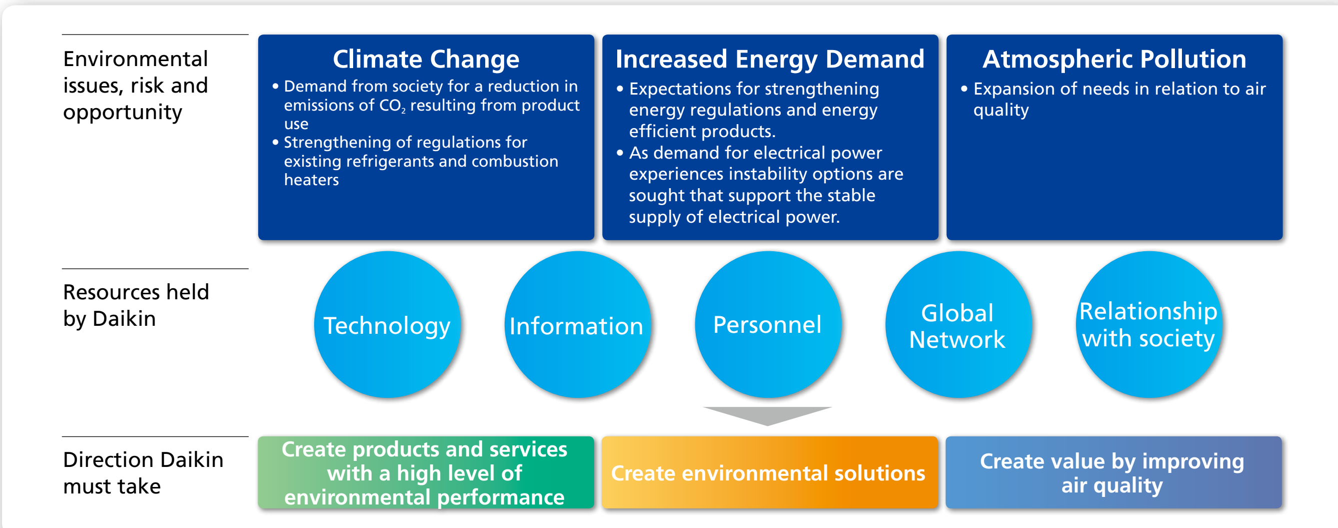
This is a 74% reduction compared to fiscal 2006, putting us on track to reach the fiscal 2026 target early.

Environmental Vision for 2050

Taking a long-term perspective to addressing serious global environmental issues, the Daikin Group established its "Environmental Vision 2050." With the aim of reducing to zero our emissions of CO_2 that occur as part of our business activities, products and services, we established our goals and measures every five years in our strategic management plan FUSION.

Daikin's Direction and Views of Risk and Opportunity

Environmental issues that involve Daikin's business and the global environment contain both risk and opportunity. To resolve such issues, Daikin has embarked on a direction to promote the resolution of these issues using the resources it holds.



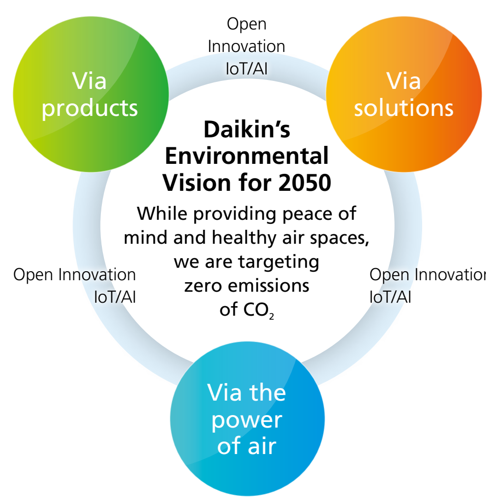
Environmental Vision for 2050

The directions Daikin must take as we look toward the strategies set in our Environmental Vision for 2050 are outlined above.

Reduction in CO_2 emissions from Daikin's products across the entire lifecycle.

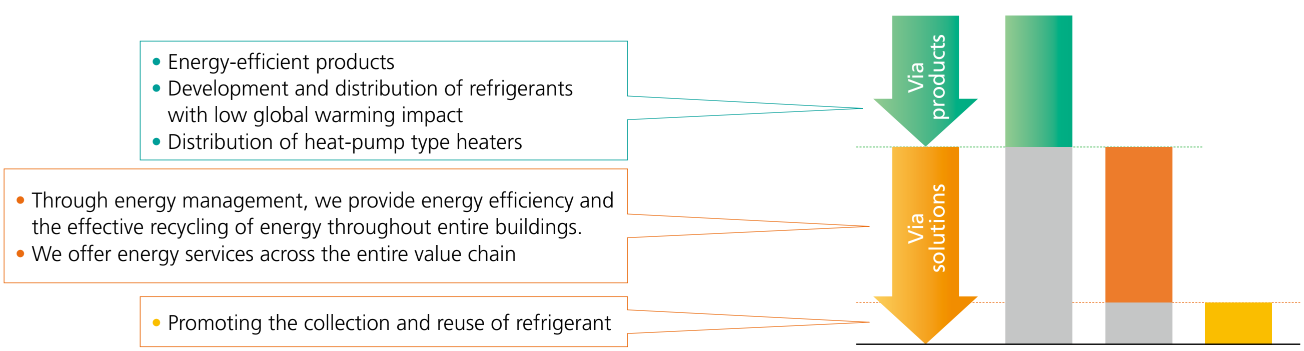
Creating solutions linking society and customers and aiming for zero emissions of CO_2 in collaboration with our stakeholders.

Daikin is contributing to the resolution of global environmental issues through the use of IoT, AI and open innovation. While at the same time Daikin satisfies the demand related to air throughout the world and provides peace of mind and healthy air spaces.



Considerations in relation to achieving zero CO_2 emissions

While reducing emissions of CO_2 resulting from products and solutions, we are also targeting zero emission through the collection and reuse of refrigerant.



New Value Creation

■ Materiality of New Value Creation

Daikin Group believes that to achieve sustainable growth in an environment where change and progress in both globalization and technology are accelerating remarkably, it is important to provide unparalleled new value. Making use of IoT and AI technology, we aim to integrate cutting-edge technologies from different fields through open innovation. We will pursue new value to make people and indoor spaces healthy and comfortable through technologies and products that contribute to the resolution of social issues such as energy, the environment, and health.

■ Daikin's Initiative

Creation of New Air and Space

As a part of open innovation, the Daikin Group established the RIKEN-DAIKIN Wellness Life Collaboration Program with RIKEN, a comprehensive research institution dedicated to the natural sciences, in October 2016 to jointly research the creation of healthy and comfortable spaces. The Daikin Group's air-conditioning control technology creates new values that contribute to society and we are bringing that together with RIKEN's knowledge on fatigue, health and life sciences, to verify the relationship between temperature, humidity and fatigue. In a trial where subjects were recruited and tested from December 2017, the Japanese Society of Fatigue Science announced their research results in May 2018 on the "Relationship between Temperature and Humidity by Gender and the Degree of Physiological Fatigue". During fiscal 2019, we plan to establish a fatigue index based on environmental heat and to develop scientifically based products that can realize "spaces that alleviate fatigue".

Creation of a Business for the Micro-Hydroelectric Power Generating System

In June 2017, Daikin established subsidiary DK-Power Co., Ltd., which is a commercial electricity producer using a micro-hydro-electric power generation system. DK-Power develops its renewable energy power-generation business by installing micro-hydropower generation systems in the water facilities owned by local governments. With power generation systems introduced to Kobe City and Nagaokakyo City in fiscal 2018, power plants now operate at six sites in Japan. DK-Power was a start-up company and is the first project to be commercialized from the research themes of the Technology and Innovation Center (TIC), a technology development base established in 2015.

Creating Value from Data in Relation to Air and Space

Daikin launched the collaborative creation platform CRESNECT to use data obtained from air conditioners and by cooperating with various partner companies has created new values and services related to air and space. Initially, CRESNECT's main target is office space.

With the air conditioner as the information terminal, we can acquire data such as temperature and humidity, brightness and sound, the number and position of people and how these people are moving. In collaboration with our partner companies, we are investigating how to use this data to create new value and services that enhance productivity and maintain health.

Inauguration of the Mite Allergy Countermeasure Society

In a consortium of four companies, Sangetsu Co., Ltd., Shionogi & Co., Ltd., and Teijin Frontier Co., Ltd., Daikin launched the Mite Allergy Countermeasure Society to raise awareness and provide education on measures to deal with these allergies. In 2004, as part of creating an indoor-air environment that is healthy and comfortable, we developed our own Streamer technology to decompose allergens such as mites, fungi, pollen and suppress bacteria and viruses.

While looking into possible further uses of Streamer technology and leveraging the knowledge and know-how of companies across different industries, the Mite Allergy Countermeasure Society is endeavoring to provide society with a comfortable and healthy lifestyle through the joint creation of new value in air and space.

Cooperative Creation That Makes Use of IoT in Skill Transfer

Daikin and Hitachi, Ltd. embarked on a collaborative project to create the next-generation production model using IoT to support skills transfers from expert workers as of October 2017. More specifically, we are proceeding with a joint demonstration of the viability of a new production model. The system uses such technologies as advanced image analysis, which is the solution core of Hitachi's IoT platform, Lumada, and through digitalization, the system enables the comparison and analysis of the skills of expert workers and trainees.

The current demonstration involves the brazing process, which forms part of the manufacturing process for air conditioners at Daikin's Shiga Plant (Shiga Prefecture).

In the future, we will move to full-scale production using this system and with the objective of ensuring consistent quality and improved productivity and developing human resources, we aim to expand to other Japanese and overseas production locations.

Customer Satisfaction

■ Materiality of Customer Satisfaction

Daikin is developing business in over 150 countries around the world. To provide maximum satisfaction to customers in each individual country, Daikin takes into consideration climate, culture, and regulations to provide products and services that meet local needs. At the same time, it is vital to maintain the highest standards of quality.

To more precisely match customer needs, Daikin is focused on customer-oriented business activities and regularly addresses the frank opinions of customers worldwide, making use of their views in areas such as product development.

■ Daikin's Initiatives

Implementing Global Quality Guidelines

In its Global Quality Guarantee Rules, the Daikin Group has prescribed its basic stance on quality standards across its Group companies and outlined the responsibility and authority structure to ensure the seamless implementation of measures for quality monitoring and correction.

We have acquired ISO9001 certification at all production facilities, and, through our quality management system, we thoroughly implement quality maintenance and management in all development, procurement, and production divisions. Furthermore, we are also working to enhance quality with the cooperation of our outsourcing partners.

To assess the operating status of the quality management system, the Daikin Group conducts evaluations through internal audits and maintains a continuous cycle of implementation, evaluation, and improvement.

In addition, every year, we plan and implement a quality assurance program for the fiscal year that outlines quality priority measures and targets for each business division based on the Group's annual policy guidelines.

Launched SBM in the European Heater Business

In Europe, the ratio of CO_2 emissions due to heating is high, and currently there is a move away from heaters using fuels such as gas and kerosene for combustion heaters to lower environmental impact heat-pump room heaters that absorb heat energy from the air rather create heat via combustion.

As a part of this move, the Daikin Group believes that it is vital to have a mechanism that can provide peace of mind for customers and dealers to improve the level of recognition and encourage greater distribution of heat-pump heaters in Europe. To achieve this, in 2017, we developed a cloud-based platform providing a three-way linkup among customers, dealers, and Daikin. We called this system stand-by me (SBM) to emphasize that we are always by your side. The system demonstrates its true value for warranties, maintenance, and after-sales service.

Developing Our Service Structure in Japan and Abroad

The Daikin Contact Center is a general inquiry service that accepts inquiries regarding repair requests, technical consultations, and purchasing information 24 hours a day, 365 days a year, from customers in Japan.

Overseas, we have put in place an after-sales service structure that is "fast, reliable, and friendly" to respond to the variety of requests specific to each country or region

In fiscal 2018, Daikin opened a contact center specialized in B2C to strengthen the heating business in the U.K. In addition, to enhance training in relation to quality, in the future we will establish call centers and provide technical information online.

Collecting and Reflecting the Views of Customers

The Daikin Group measures customer satisfaction through its after-sales services and uses these results to enhance customer satisfaction. In Japan, we conduct our Relationship Survey, and, in fiscal 2018, the overall satisfaction score was 4.49 out of a total of 5.0 points, our highest rating to date.

We believe this result reflects our education and training in such areas as "enhancing technical capabilities" and "improving our response to customers" as well as a focus on "speed from reception to completion" and "repairs completed in one visit". Meanwhile, customers' opinions collected at showrooms, shops, and websites are used for product development.

Launched in March 2018, Risora, a wall-mounted air conditioner that combines design and the latest functions while seeking harmony with the décor, was developed in response to opinions demanding stylish air conditioning.

Highly appraised for design and functionality in Japan and abroad, the Risora was awarded the Good Design Award in fiscal 2017 and an international award for design, the iF Design Award 2018.

Protecting Customers' Personal Information

The Daikin Group created in-house rules to ensure customers' personal information is appropriately handled through its Personal Information Protection Policy.

For example, in Japan, information managers located in each division ensure appropriate management and strict use of personal information in accordance with in-house rules. To put this all together, we hold an information management conference to address risk reduction related to confidential and personal information.

In May 2017, in response to the amendment to the Act on the Protection of Personal Information in Japan, we re-examined our in-house regulations and guidelines and conducted e-learning training programs for all employees.

Human Resources

■ Importance of Initiatives Related to Human Resources

In response to the expectations of our various stakeholders and for the Daikin Group to realize on a global level its strengths in the "environment", "new value creation" and "customer satisfaction", the personnel who can take on the responsibility to perform these activities are critical. Therefore, Daikin has positioned "People-Centered Management" as its foundation and to respect individuals and their values we are promoting the creation of an organization that can maximize the power that each individual possesses.

■ Daikin's Initiatives

Enhancing Opportunities for Human Resource Development

One of the corporate philosophies of the Daikin Group is the idea that "the cumulative growth of all Group members serves as the foundation for the Group's development. In addition, based on the concept that "people grow through job experience," we have positioned OJT as the basis of human resource development and, including off-the-job training (Off JT), are working to enhance growth opportunities.

We are also focusing on nurturing the human resources for the next generation of skills that will become the basis of manufacturing. The goal is to have one in every four employees in our global production rated as "outstanding skilled workers and highly skilled workers". In fiscal 2018, the number of qualified personnel in Japan was one in 3.4 people.

Meanwhile, in December 2017, we held the Daikin Information Technology University, an in-house lecture to train the personnel responsible for technological and business development in the AI field.

The personnel were selected from a wide range of divisions within the company to take lectures by Osaka University faculty members in basic AI knowledge and training included data analysis exercises. This training aims to develop innovators with a strong command of AI technology

Establishing the "Dojo" Training Center for US Production Division

Beginning operations in May 2017, Daikin North America launched Texas Technology Park in which we established a training center called "Dojo" in the manufacturing division to facilitate the systematic acquisition of technical skills. The Center demonstrates the skills necessary for career advancement to all employees including temporary staff and conveys a future where there is equal opportunity to participate in the world. As a result, employees plan out a long-term career vision and gain a purpose and motivation to work. In fiscal 2018, prize winners at our Service Olympics (a global skills competition targeting production bases) showed a marked increase in skill level.

In addition, the drop in the defect rate of products shows that the development of human resources is also linked to enhanced quality.

Appointment of Local People in Executive Positions at Overseas Facilities

In conjunction with the globalization of the Daikin Group's business, we are also advancing with efforts to globalize our management team and are aggressively promoting local employees at overseas bases to executive and positions. At the end of fiscal 2018, 46% of the presidents at our overseas bases and 48% of the directors were local employees.

Accelerating the Active Role of Women in Japan

The Daikin Group is working to promote the active participation and success of women, aiming at an environment that can fully demonstrate each individual's ability regardless of gender. As a goal, by the end of fiscal 2021, we aim to have at least one female director of Daikin. Moreover, we aim to increase our percentage of female managers to 10% (approximately 100 people) from the current level of 4.9% (53 people) as of the end of fiscal 2018. We also have measures in place promoting the early development of female managers and reforming the awareness of managers and employees in relation to women's issues. In addition, we are enhancing measures that support the early return from maternity leave.

From fiscal 2017, we have been promoting active participation of talented women in technical and skills-based fields. We hold forums for female engineers jointly with other companies, and in collaboration with Osaka University and the National Institutes of Biomedical Innovation, Health and Nutrition. We have hosted joint research by leading female researchers, personnel exchanges, and events for girls' high school students in the sciences.

Daikin's stance on accelerating female success in this way has been highly acclaimed by society. Daikin was recognized with five stars in the First Nikkei Smart Work Management Survey (sponsored by Nihon Keizai Shimbun) and also received the Jury Special Award.
This award selects advanced companies that challenge the productivity reforms through work style reforms

Initiatives to Reduce Workplace Related Accidents to Zero

To ensure operational and employee safety at its production facilities in each region worldwide, the Daikin Group has created occupational health and safety management systems (OHSAS) at 73 facilities and is acquiring certification for international standards, such as OHSAS18001.

We hold Groupwide joint safety and security meetings twice a year to improve safety levels. With the aim of achieving zero workplace accidents, our efforts include education and safety patrols. In fiscal 2018, the frequency rate of industrial accidents throughout the Group was 1.33, an improvement of 0.17 from fiscal 2017.

CSR Management/Compliance Risk Management

■ CSR Management

The Daikin Group established the important themes of "value-providing CSR" and "fundamental CSR," to enable it to realize sustainable development both as a corporation and a member of society.

The CSR & Global Environment Center, a staff division, was established under the CSR Committee (chairman: director in charge of CSR), which sets the overall direction of activities and monitors the execution of those activities and promotes comprehensive and Groupwide CSR.

In fiscal 2018, at the CSR Committee, we discussed the necessity and content of our long-term environmental vision encompassing the Paris Agreement's aim to keep the rise in temperature below 2°C, and the sustainable development goals (SDGs) adopted by the United Nations and reported to the president.

■ Compliance Risk Management

Taking an Integrated Approach to Promoting Compliance and Risk Management

At the Daikin Group, the Internal Control Committee, chaired by the President, checks and confirms that internal controls, including risk management, are functioning properly Groupwide.

Chaired by the officer in charge of corporate ethics and compliance, the Corporate Ethics and Risk Management Committee is held twice a year in Japan as a general rule and comprises each department head and the presidents of major Group companies to ensure the management of operational risk and thorough compliance.

Overseas Group companies formulate and develop comprehensive common rules to tackle compliance and risk management. The issues faced by each company and the progress toward resolution are reported to the Corporate Ethics and Risk Management Committee.

In April 2018, Compliance and Risk Management Leaders (CRL) from around the world participated in our Global Legal and Compliance Conference and shared the status on implementation in each region and updates on the latest laws and regulations.

The Thorough Implementation of Group Guidelines

The Daikin Group established its Group Code of Conduct that clearly outlines required conduct for individual officers and employees and, to ensure thorough compliance, appointed a Compliance and Risk Management Leader (CRL) for each division and for each of the main Group companies in Japan and overseas. CRLs encourage adherence to the Group Code of Conduct, while regularly checking the status of compliance and risk management and sharing information, and they are focused on fostering a "culture free of compliance violations" and to elevating "mechanisms to ensure that there are no compliance violations."

■ Identification of Most Important Risks and Planning and Implementing Countermeasures

With the rapid expansion of Daikin's business, the Daikin Group introduced its risk management system, to gain an overall picture of risks from a global perspective in an accurate and prompt manner and to reduce risk across the entire Group.

Each division and main Group company overseas and in Japan identify and select critical risks through risk assessments, and each Group company works to reduce this risk. The status of risk reduction measures is shared with and reported to the Corporate Ethics and Risk Management Committee.

For example, in fiscal 2018, Daikin Industries made efforts toward key themes such as "Earthquake Risk," "PL Quality Risk," "Intellectual Property Risk," "Information Leakage Risk," and "Overseas Crisis Management".

Self-Inspection of Code of Conduct Compliance

The Daikin Group aims for thorough compliance and has established its own "self-inspection" system in which each employee annually carries out a selfcheck to ensure compliance with the Group Code of Conduct. Based on the results, organizational issues are identified and the necessary countermeasures are implemented. These issues and countermeasures are reported to and shared with the Corporate Ethics and Risk Management Committee. In addition to the self-inspection, compliance with the Group's Code of Conduct and laws and ordinances is also confirmed in the Legal Department's legality audit and the Audit Department's operational audit.

Corporate Ethics and Risk Management

Respect for Human Rights

Based on the laws and ordinances of countries and regions around the world, the Daikin Group respects basic human rights in accordance with the various international norms. The Daikin Group participates in the United Nations Global Compact for supporting, and putting into practice, universally accepted principles relating to such matters as human rights and labor. We respect human rights, diverse values, and the individual's sense of work, and have stipulated in our Group Code of Conduct policies against child labor and forced labor.

Respect for Human Rights in the Self-Inspection

The Daikin Group is committed to respecting the human rights of all its employees as stipulated in the Group Code of Conduct that clearly outlines the conduct to be adhered to by each and every officer and employee. We have identified the human rights issues of our business and have begun to appraise the risks that should be prioritized across the entire value chain.

Also, to ensure compliance with the Group Code of Conduct, we established an item relating to respect for human rights in the annual self-inspection that checks to ensure there are no human rights violations and, where necessary, establishes measures to address any issues.

An item was also included in the Supply Chain CSR Promotion Guidelines, formulated in 2017, and we are also asking for thorough compliance from our suppliers.

Protection of Personal Privacy

The Daikin Group has established guidelines for the protection of personal information, and based on these guidelines, each Group company develops its own systems to promote the guidelines and rules. We also established personal data handling rules to ensure compliance with the EU General Data Protection Regulations (GDPR) which came into effect from May 2018, and we are working to ensure thorough compliance at each Group company.

Regular Human Rights Awareness and Education

Daikin conducts human rights education and awareness activities each year for all of its directors, new employees, including those of affiliates, and newly appointed managers. In addition, we publish a series of human rights articles in the Company newsletter to raise awareness of human rights.

In fiscal 2018, we conducted training to provide education on diversity management and deepened understanding in relation to diversity issues.

Supply Chain Management

In 1992, the Daikin Group established the Basic Procurement Guidelines and is working to ensure fair trade with its suppliers. In 2017, we established the Supply Chain CSR Promotion Guidelines and recognize that our social responsibility extends beyond the Group to the entire supply chain. In line with this, we are promoting CSR initiatives related to the environment, quality, occupational safety, and human rights.

Implementation of the Supply Chain CSR Promotion Guidelines

Supply Chain CSR Promotion Guidelines that the Daikin Group implemented in April 2017 are guidelines to promote CSR at suppliers also, and aim to achieve stable, sustained business growth. In addition to general requirements such as management and compliance with laws and regulations, suppliers are requested to work on CSR across the board, including environment, quality, occupational health and safety, human rights, and the prohibition of trade with conflict zones.

For fiscal 2018, we explained the CSR Promotion Guidelines for 34 suppliers in Japan who participated in the Air-Conditioning Cooperation Meeting aimed at sharing information among suppliers and providing cross-industry exchange.

Enhancing Quality from Suppliers and Supporting the Development of Human Resources

For the Daikin Group to provide products that satisfy the trust of customers, cooperation from suppliers is vital. Therefore, while working hard within a strong relationship of trust with all suppliers, the Daikin Group endeavors to continue to meet its mutual expectations as well as to build relationships in which we can both grow and develop.

Daikin Group companies both in Japan and abroad periodically conduct dialogue at the production sites of its suppliers on quality audits and quality improvements, collaborating with its suppliers on quality improvement efforts and providing support to enhance the required technological capabilities. In addition, we hold regular safety meetings to help prevent work-related injuries.

For example, at Daikin Industries (Thailand) Limited, a training workshop is offered to provide knowledge and skills in relation to quality improvement. In fiscal 2018, 170 companies attended the training workshop. In addition, top management visits suppliers and conducts its Quality Patrol to review the status of quality improvement efforts.

Stakeholder Engagement

■ Stakeholder Engagement

The Daikin Group's main stakeholders are the customers to whom we provide products and services, the shareholders and investors who have a direct impact on our business, our suppliers, our employees, and everyone in the regional societies that our business evolution affects. In addition, the spread of air-conditioning technologies and the enhancement of the environmental friendliness of our products and services involve national and local governments and industry associations. The Daikin Group believes that it is important to understand the concerns and expectations of these stakeholders through proactive dialogue, so management can use this information in our business.

Continuing Exchange of Opinions with Experts

Since 1995, the Daikin Group has held the Air Conditioner Forum (Konwakai) in Japan where it can exchange opinions relating to the "future of air conditioning" with experts in the field.

In addition, in light of the rapid global development of our business, since fiscal 2008, we have expanded the extent of these events to five regions and held forums in Europe, China, the United States, Asia/Oceania, and Central America/South America. Exchanging opinions with experts from each region about environmental and energy issues, we use that information in our technology as well as product and business development. In fiscal 2018, we held a total of six events in five areas.

In addition, in March 2018, management staff had discussion about initiatives aimed at environmental policy in the United States with such organizations as the Natural Resources Defense Council (NRDC) and Alliance to Save Energy (ASE), both NGOs in the United States concerned with issues such as climate change and energy conservation. Events were also held on technology exchange.

Responsibility to Shareholders and Investors

To live up to the expectations of shareholders and investors, the Daikin Group believes that it must increase its corporate value. It therefore, emphasizes free cash flow as a source of corporate value and focuses on augmenting its profitability while lowering the levels of its trade receivables and inventories.

Furthermore, Daikin works to stably maintain its consolidated ratio of dividends on equity (DOE) at 3.0%. In addition, to increase its management transparency, Daikin is executing diverse kinds of IR activities.

Furthermore, to enable shareholders to exercise voting rights easily at general shareholders' meetings, Daikin sends out convocation notices early and produces Japanese- and English-language versions on the web pages of both the Tokyo Stock Exchange and Daikin. We also enable shareholders to exercise their voting rights via personal computers, smartphones, and mobile phones.

Regional Society

The Daikin Group is made up of 245 consolidated subsidiaries worldwide and is expanding business in over 150 countries. The expansion of this global business is accelerating in line with the growth in demand for air conditioners, particularly in emerging countries and regions such as China, India, and Latin America.

The basic policy for overseas operations is to develop a strong bond with regions through respect for their local cultural and historical backgrounds and is premised on increasing employment in the local region and cooperation with local companies.

With our employees taking the initiative, we carry out social activities mainly in the areas of "environmental protection," "education support," and "living symbiotically with the local region" and are contributing to the resolution of social issues from a global perspective based on sustainable development goals (SDGs).

Forest and Biodiversity Preservation

To protect the environment in the vicinity of our facilities throughout the world, the Daikin Group is working to preserve biodiversity through its efforts to conserve forests and other natural assets such as the oceans and rivers.

For example, Daikin Industries participates in the Osaka Prefectural Government's Adopt a Forest System and has been conducting activities to improve the prefecture's ecosystems by re-establishing *satoyama* (a forested natural area forming the border between the mountains and the habited regions). In fiscal 2018, a total of 150 people participated in the activity. Daikin Compressor Industries, Ltd. (Thailand) also conducts conservation activities for mangrove forests. This contributes to conservation of biodiversity and protects the lives of people engaged in traditional fishing.

Supporting the Regional Revitalization of Okinawa

Since 1988, Daikin Industries has held the "Daikin Orchid Ladies Golf Tournament," and, through promoting sports, we are helping to revitalize Okinawa and encourage economic exchange with the local area. In conjunction with this tournament, we solicit donations that we then present as an "Orchid Bounty" on an ongoing basis to individuals and organizations that promote such areas as the arts, culture, education, and sports in Okinawa.

Holding "Bon Festival" in Japan and Abroad

Daikin has deepened exchanges with local residents through regional festivals and sports, building relationships of trust. As part of those efforts, the Bon Festival, which is planned and operated by Daikin employees, is a large event that attracts attention by numerous local residents. In addition to manufacturing plants in Japan, festivals are also held at our main production bases in China, the United States, and other areas.

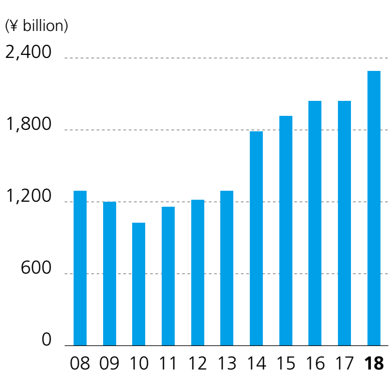
Eleven-Year Financial Highlights

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

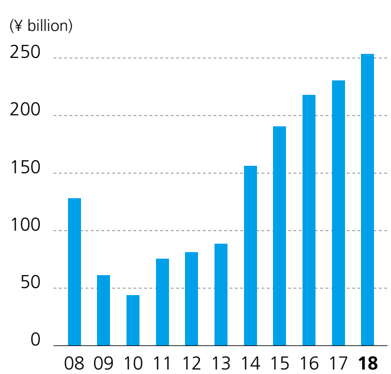
	2008	2009	2010	2011
Operating Results (for the year):				
Net sales	¥1,291,081	¥1,202,420	¥1,023,964	¥1,160,331
Gross profit	441,549	363,660	319,301	361,665
Selling, general and administrative expenses	313,451	302,266	275,263	286,210
Research and development expenses (Note 1)	32,075	30,535	28,220	30,771
Operating income	128,098	61,394	44,038	75,455
EBITDA (Note 2)	179,469	118,325	96,462	127,168
Net income attributable to owners of the parent	74,822	21,755	19,391	19,873
Cash Flows (for the year):				
Net cash provided by operating activities	¥103,329	¥62,238	¥129,227	¥78,411
Net cash used in investing activities	(76,428)	(99,302)	(39,848)	(23,306)
Free cash flow (Note 3)	26,902	(37,065)	89,379	55,105
Net cash provided by (used in) financing activities	3,367	48,382	(34,942)	(37,623)
Financial Position (at year-end):				
Total assets	¥1,210,094	¥1,117,418	¥1,139,656	¥1,132,507
Total interest-bearing liabilities	356,928	417,919	399,313	372,481
Total shareholders' equity	545,641	471,686	496,179	487,876
Per Share Data (yen):				
Net income (basic)	¥ 262.24	¥ 74.51	¥ 66.44	¥ 68.14
Shareholders' equity	1,867.79	1,615.98	1,701.29	1,672.74
Free cash flow	94	(127)	306	189
Cash dividends	38.00	38.00	32.00	36.00
Ratios (%):				
Gross profit margin	34.20%	30.24%	31.19%	31.17%
Operating income margin	9.92	5.11	4.30	6.50
EBITDA margin	13.90	9.84	9.42	10.96
Return on shareholders' equity (ROE)	15.87	4.28	4.01	4.04
Shareholders' equity ratio	45.09	42.21	43.54	43.08

Notes: 1. R&D expenses are included within general and administrative expenses and manufacturing expenses.
2. EBITDA = Operating income + depreciation and amortization.
3. Free cash flow = Net cash provided by operating activities + net cash used in investing activities.
4. Accompanying a change in accounting policy, effective from April 1, 2014, the consolidated financial statements for the fiscal year ending March 31, 2014 and subsequent years have been revised.

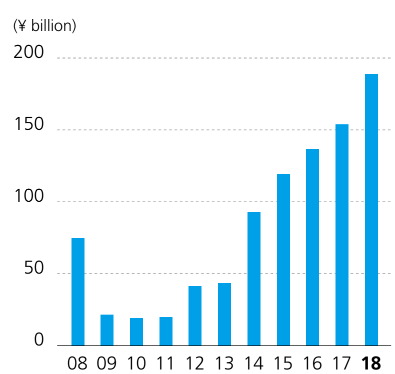
Net Sales



Operating Income



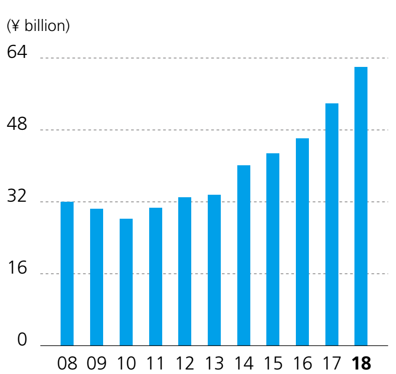
Net Income Attributable to Owners of the Parent



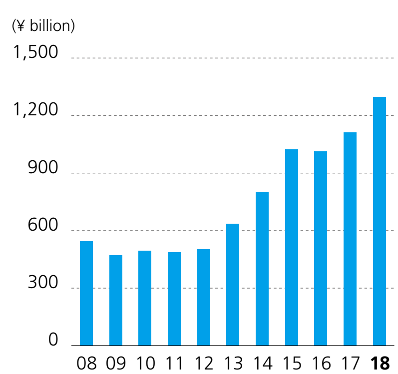
Millions of Yen

	2012	2013	2014	2015	2016	2017	**2018**
	¥1,218,701	¥1,290,903	¥1,787,679	¥1,915,014	¥2,043,691	¥2,043,969	**¥2,290,561**
	371,902	388,046	568,323	649,902	711,576	730,935	**798,829**
	290,709	299,419	411,786	459,314	493,704	500,166	**545,089**
	32,987	33,569	40,177	42,892	46,138	53,870	**62,051**
	81,193	88,627	156,537	190,588	217,872	230,769	**253,740**
	131,719	140,151	235,439	268,354	302,075	315,798	**348,574**
	41,172	43,585	92,787	119,675	136,987	153,939	**189,052**
	¥44,967	¥103,161	¥179,713	¥160,423	¥226,186	¥267,663	**¥223,740**
	(62,955)	(218,386)	(80,835)	(77,331)	(105,493)	(128,823)	**(127,459)**
	(17,988)	(115,225)	98,878	83,092	120,693	138,840	**96,281**
	(1,113)	143,520	(38,249)	(83,073)	(85,422)	(73,544)	**(93,955)**
	¥1,160,564	¥1,735,836	¥2,011,870	¥2,263,990	¥2,191,105	¥2,356,149	**¥2,489,954**
	389,891	705,871	693,944	662,413	608,981	609,430	**554,371**
	502,309	618,118	801,854	1,024,725	1,014,409	1,111,636	**1,296,553**
	¥ 141.37	¥ 149.73	¥ 318.33	¥ 410.19	¥ 469.23	¥ 526.81	**¥ 646.53**
	1,725.64	2,123.10	2,748.08	3,511.34	3,473.54	3,802.10	**4,433.62**
	(62)	(396)	339	285	413	475	**329**
	36.00	36.00	50.00	100.00	120.00	130.00	**140.00**
	30.52%	30.06%	31.79%	33.94%	34.82%	35.76%	**34.88%**
	6.66	6.87	8.76	9.95	10.66	11.29	**11.08**
	10.81	10.86	13.17	14.01	14.78	15.45	**15.22**
	8.30	7.78	13.07	13.10	13.44	14.48	**15.70**
	43.28	35.61	39.86	45.26	46.30	47.18	**52.07**

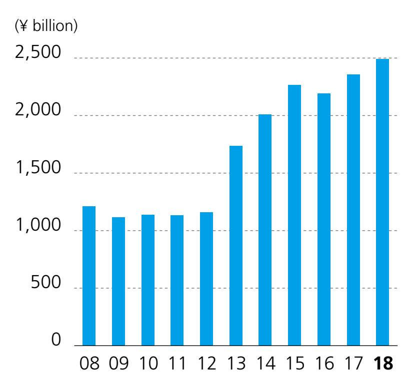
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Summary of the Period

During the fiscal year ended March 31, 2018, the global economy continued to show robust expansion, despite some turmoil in financial and currency markets at the end of the fiscal year. In the United States, economic conditions held firm owing to expansion in personal consumption and private capital investment. In Europe, recovery in consumption supported improvement in the region, and, in Asia and the emerging countries, exports recovered along with expansion in the industrialized countries, thus leading to general economic stability. In China also, personal consumption and private capital investment continued on a recovery trend.

Amid this environment, the Daikin Group's consolidated net sales rose to ¥2,290.6 billion (a year-on-year rise of 12.1%). As for profits, consolidated operating income rose to ¥253.7 billion (a gain of 10.0% from the previous fiscal year). In part because of corporate income tax law revisions in the United States that led to a decline in income taxes paid in that country, net income attributable to the owners of the parent company increased to ¥189.1 billion (a year-on-year rise of 22.8%).

Performance by Business Segment

• Air-Conditioning and Refrigeration Equipment

Total sales of the Air-Conditioning and Refrigeration Equipment segment increased 11.9% from the previous year, to ¥2,052.9 billion. Operating income rose 7.0%, to ¥223.5 billion.

Japan

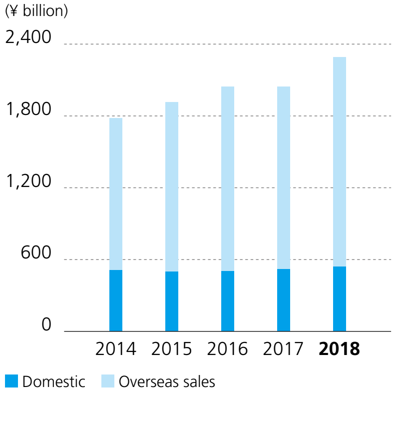
In the Japanese commercial air-conditioning equipment market, industry demand exceeded the level of the previous fiscal year because of strong capital investment and new construction starts. The Daikin Group expanded sales in the store and office market to capture market demand through marketing products in its SKY AIR Series, including its principal "Eco-ZEAS" units and its newly added lineup of the "machi multi" multi-air-conditioner series featuring sub-units that can function individually and have a slim, space-saving design. In addition, in the market for multi-air conditioners for commercial buildings, Daikin expanded sales of units in its "VRV" series against a background of favorable demand from the office, factory, and other markets, and net sales increased year on year.

In the Japanese residential air-conditioning equipment, industry demand was strong as a result of the heat wave in the first half of the fiscal year, and sales continued to be robust in the second half of the fiscal year. The Daikin Group expanded sales of its top-of-the-line Urusara 7 air conditioners that incorporate its original humidifier function as well as sales of mid-market units, and net sales exceeded those of the previous fiscal year.

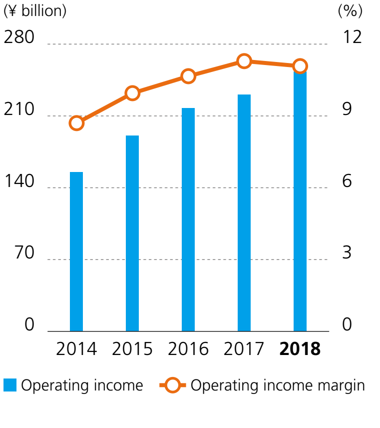
Americas Region

In the Americas, net sales increased year on year in the region as a whole because of strong demand and the success of Daikin's sales strategy. In the residential air-conditioning systems market, Daikin expanded and strengthened its sales network, and, as a result of these initiatives and in part because of the positive impact of hurricanes on sales, sales increased over the level of the previous fiscal year. For light commercial equipment (commercial air-conditioning equipment for medium-sized buildings), Daikin has advanced with sales policies for its building-use multi-air conditioners and for specific routes, and sales were above the previous fiscal year. In the Applied Systems field, in the large-scale building (applied) air-conditioning system area, despite difficulties presented by deterioration in the raw materials market, Daikin strengthened its sales network and expanded its lineup of products and was to expand sales of Applied Systems and expand after-sales service revenues. In addition, as a result of the acquisition of an air-condi-

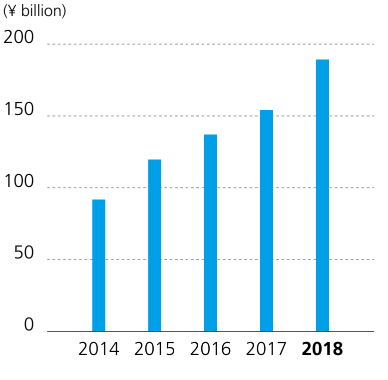
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income Attributable to Owners of the Parent



tioning engineering company in Latin America, Daikin expanded its sales in the region, and total sales exceeded the previous year.

China

In China, consumer spending and private-sector demand remain strong, and growth is spreading to the regional cities. Along with changes in the market, the Daikin Group is working to capture consumption and is expanding its sales network into the regional cities. As a result of these initiatives, sales expanded in all regions and for all products, and increased over the level of the previous year. To deal with the recent rise in raw material prices, Daikin has begun to produce parts in house and is pursuing other cost reduction measures, and, as a result, operating income increased year on year. In the residential-use market, the Group has focused on its own specialty "PROSHOPS" and strengthened its proposal and installation capabilities to expand sales mainly in the mid-range and high-end residential market with the "New Life Multi Series," residential multi-split type room air conditioners that propose a variety of lifestyles for customers. In the commercial-use market, the Group expanded sales by focusing on marketing the commercial-use multi-air conditioner "VRV-X" series. The Group has strengthened its proposal sales capabilities to meet a diverse range of customer needs and is directing its sales drive at wide segments of the market, from buildings to general retail stores and from newly built structures to upgrades of existing buildings. Moreover, the Group is strengthening its capabilities for providing units to design offices and developers according to their built-in specifications ("spec-in" activities) and approaching major users directly. As a result of these activities, Daikin received a larger number of inquiries than in the previous year. In the Applied Systems air-conditioner market, the Group expanded its sales by broadening its product lineup to compete with U.S. air-conditioner manufacturers and reinforced its after-sales service business.

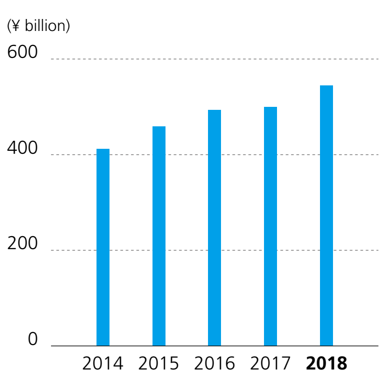
Asia/Oceania Region

Overall sales in the Asia/Oceanian region rose over the level of the previous fiscal year. Sales of residential air conditioners in the region in the first quarter decreased because of unseasonable weather conditions, but, from the second quarter onward, they increased year on year, and sales for the full year were at approximately the same level as in the previous year. Sales of commercial air-conditioning equipment in Southeast Asia exceeded the previous year because of expansion in Daikin's sales network. In India also, sales of both residential and commercial use air conditioners expanded as a result of expansion in the sales network and other factors.

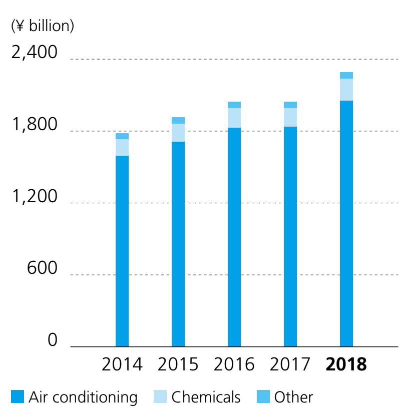
Europe

In Europe, sales in the region as a whole expanded over the previous year against a background of solid economic performance. Sales of residential-use air conditioners were robust in the principal countries of the region, including France and Spain. In Italy also, the largest market in the region, business conditions, including a return to appropriate inventory levels in the distribution chain, took a turn for the better, and, as a consequence of measures to strengthen sales of residential-use multi products, sales recovered, but, because sales in the first quarter were below the same period of the previous year, sales for the full year were at about the same level as in the prior year. On the other hand, in the commercial air-conditioner business, Daikin focused on sales of new construction and replacement demand, and, because of the positive effect of the introduction of new air-conditioner products for store use, sales were favorable and exceeded the previous year. In addition, in the heat pump type hot water heater business, Daikin strengthened its exclusive sales system and introduced new products. As a result, sales expanded in the principal countries of Europe, including France, and sales were above the previous year.

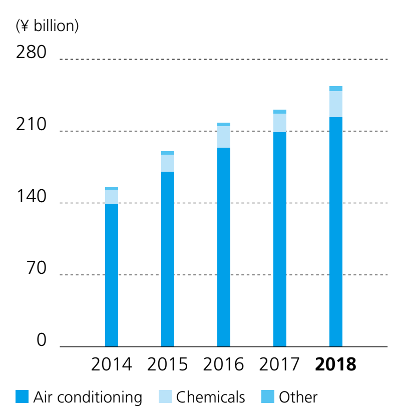
Selling, General and Administrative Expenses



Sales by Segment



Segment Profit



In the Middle East and Africa, despite geopolitical instabilities, the decline in crude oil prices, and the shrinkage in orders from the public sector because of the impact of fiscal stringency, Daikin stepped up its marketing activities to obtain orders from Saudi Arabia and other countries in the region for smaller projects in the private sector and equipment renewal and replacement. As a result, sales rose above the previous year. In Turkey, following the failed *coup de'tat* attempt in 2016, political instability has subsided, and, as a result of strong personal consumption and accelerated marketing activities for air conditioners and heating systems for residential use, sales expanded substantially over the previous year. In the equipment for shipping business, the number of freezer systems sold for use on ocean-going containers increased and sales expanded over the prior year.

• Chemicals

Overall sales of the Chemicals segment increased 16.8%, to ¥183.1 billion, and operating income rose 39.4%, to ¥25.5 billion.

In the fluoropolymers business, overall sales of fluoropolymers rose year on year. Although demand for these products decreased for use in LAN cable applications in the United States, demand conditions for use in semiconductor-related uses were favorable in Japan, China, and the rest of Asia, and total sales were above the previous year. In addition, in the fluoroelastomer business, demand in the automotive-related businesses was firm throughout the world, and sales were substantially above the prior year.

In the specialty chemicals business, net sales of oil and water repellents increased year on year as the switchover to new products proceeded in China and the rest of Asia. Sales of anti-fouling surface coating agents fell below the previous year because of weakness in demand in China and the rest of Asia. Sales of etchant for cleaning semiconductors increased substantially year on year, as demand conditions for related products in Asia were favorable. As a result of these various developments, sales of chemical products as a whole rose over the previous year. In the fluorocarbon gas business, Daikin responded to the rise in raw material costs and tight supply/demand conditions by revising its prices, mainly in Europe, and sales of gas as a whole were significantly above the previous year.

• Other Operations

Overall sales of the "Others" segment rose 5.2%, to ¥54.5 billion. Operating income increased 26.9%, to ¥4.8 billion.

Sales of hydraulic equipment for industrial machinery rose over the prior year as demand continued to be strong in Japan and in the U.S. market. Hydraulic equipment for construction machinery and vehicles exceed the previous year as sales to customers in Japan and major U.S. customers continued to be strong.

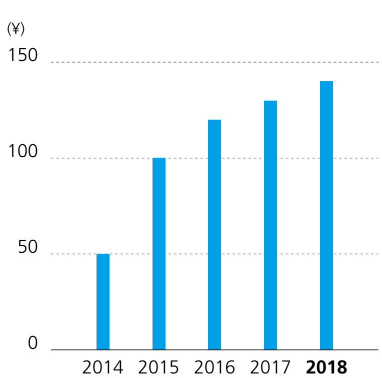
In the specialized machinery business, sales of ammunition to Japan's Ministry of Defense decreased, and sales of medical equipment for home use were at about the same level as in the prior year.

In the electronics systems business, sales remained at about the same level as in the prior year. In its data base systems business, which endeavors to design and develop mainstay products, Daikin continues to work to maintain global quality standards and shorten product development times as it works to create products matched to customer needs.

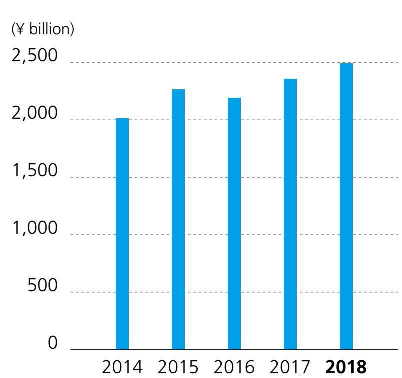
Currency Exchange Rates

In foreign currency markets, the yen grew weaker against the U.S. dollar and the euro. The average rates for the fiscal year were US$1=¥111 and €1=130. Fluctuations in currency exchange rates resulted in an increase of

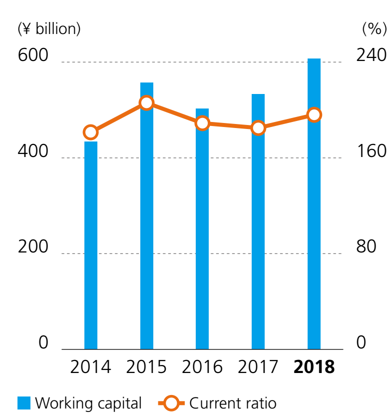
Cash Dividends per Share



Total Assets



Working Capital and Current Ratio



¥67.0 billion in sales and ¥3.0 billion in operating income above what they would have been in the absence of fluctuations.

	Fiscal 2017	Fiscal 2018
Yen-U.S. dollar rate	¥108	**¥111**
Yen-euro rate	¥119	**¥130**

SG&A Expenses and Operating Income

As a result of increases in personnel costs and other factors, SG&A expenses rose 9.0% over the previous year, to ¥545.1 billion. Consolidated operating income expanded 10.0%, to ¥253.7 billion, and the operating income ratio decreased 0.2 percentage point, to 11.1%.

Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2018, consolidated total assets amounted to ¥2,490.0 billion, up ¥133.9 billion from the previous fiscal year-end. Current assets were up ¥77.9 billion from the previous year-end, to ¥1,237.8 billion, because of an increase in notes and accounts receivable, trade and other factors. Noncurrent assets increased by ¥55.9 billion, to ¥1,252.1 billion, due to an increase in the market value of securities investments and other factors.

• Liabilities and Net Assets

Consolidated total liabilities decreased ¥55.0 billion, to ¥1,165.6 billion, as a result of reductions in long-term borrowings and other factors. Net assets increased by ¥188.7 billion, to ¥1,324.3 billion, because of the recording of net income attributable to owners of the parent company and other factors. As a result, the shareholders' equity ratio increased to 52.1%, from 47.2% at the end of the previous fiscal year, and net assets per share increased to ¥4,433.62 from ¥3,802.10 for the previous year.

Cash Flows

During the fiscal year under review, net cash provided by operating activities was ¥223.7 billion, a decrease of ¥43.9 billion from the previous fiscal year, due to an increase in income taxes paid and other factors. Net cash used in investing activities was ¥127.5 billion, ¥1.4 billion lower than in the previous year, primarily due to a decrease in expenditures for the acquisition of consolidated subsidiaries. Net cash used in financing activities was ¥94.0 billion, an increase of ¥20.4 billion from the previous year, due a reduction in short-term borrowings and other factors. As a result of these various factors, and after including the effect of foreign exchange rate changes, cash and cash equivalents in the fiscal year under review increased ¥12.9 billion from the beginning of the year. This represented a decline of ¥40.0 billion for the net increase in cash and cash equivalents compared to the previous fiscal year.

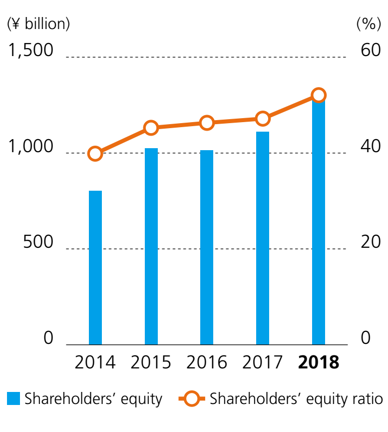
Capital Investment

Concentrating management assets in business fields that offer high profitability is the Daikin Group's fundamental strategy. In fiscal 2018, the Group made total capital investments of ¥97.0 billion, largely in the air-conditioning/refrigeration equipment and chemicals business fields.

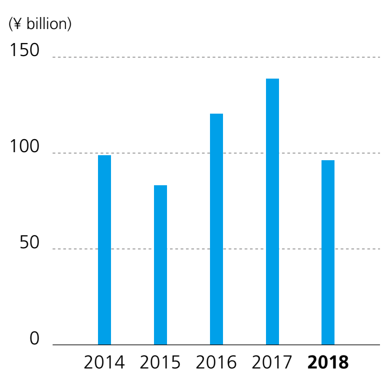
In the air-conditioning and refrigeration equipment field, Daikin invested ¥22.0 billion, centered on research and development and rationalization of room air conditioners and package air conditioners. At Goodman Global Group, Inc., investments of ¥11.7 billion were made primarily to increase capacity and to attain rationalization objectives.

In the chemicals field, the Daikin Group invested ¥7.2 billion, mainly to increase capacity and meet rationalization objectives. In addition, Daikin Fluorochemicals (China) Co., Ltd. made investments of ¥2.3 billion for increasing capacity.

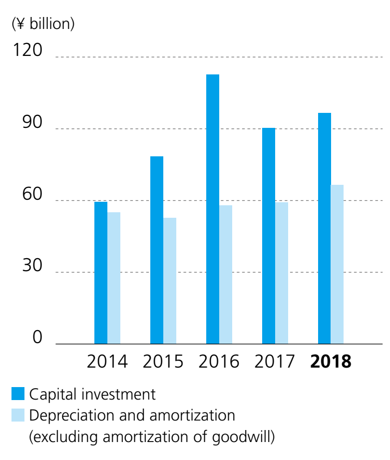
Total Shareholders' Equity and Shareholders' Equity Ratio



Free Cash Flow



Capital Investment and Depreciation and Amortization



The main sources of funds for these investments were bank borrowings and retained earnings. Note that the Daikin Group did not make any major disacquisitions of equipment or facilities during the fiscal year under review.

R&D Expenses

In view of the rising concern about global warming on a worldwide scale and issues related to energy, the Daikin Group engages in leading-edge research and development programs designed to proactively contribute to the resolution of global environmental issues, while also expanding the Group's business operations. In 2015, the Group established its Technology and Innovation Center (TIC), which is the core facility for the technology and product development of the Group. This center has the role of conducting research and development on cutting-edge technologies as well as basic technologies. Through its activities, the TIC works to develop and provide customers with new value-added and differentiated products by combining now only expertise within the Group but also the world's wisdom, including that of industries, academia, and the government. Furthermore, the Group is working to strengthen the development functions of Daikin's global locations, including Europe and China, and using new technologies created by R&D departments in Japan, and seeks to develop products that suit local needs around the world. Also, in 2016, Daikin established a technology office in Silicon Valley, where the latest technologies are concentrated. Through these various activities, Daikin is working to substantially increase the efficiency and speed of research and development to produce differentiated products around the world.

In fiscal 2018, R&D expenses included in the cost of goods sold and SG&A expenses amounted to ¥62.1 billion.

• Air-Conditioning and Refrigeration Equipment

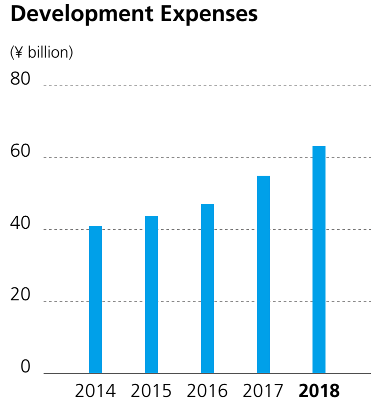
R&D expenses for air-conditioning and refrigeration equipment operations totaled ¥54.1 billion.

Daikin's wall-mounted-type Urusara 7, which is for residential use, features a pleasant airflow control system and has been well received by customers. Urusara 7 limits direct airflows to the people in the room when the unit is set on cooling and provides circulating airflows instead, but when the unit is in heating mode, it allows direct airflows. Also, in cooling mode, Urusara 7's "premium air conditioning" provides for control of both temperature and humidity. To realize the Urusara 7 pleasant ambient space as quickly as possible after the unit is turned on, Daikin has further perfected its system for regulating the compressor and the airflow, and, when in cooling mode, the time required to reach the pleasant space is reduced by 40%.

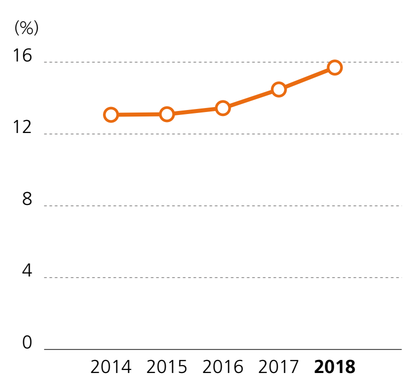
In addition, along with the trends toward more diverse and individualistic interiors as well as the installation of larger indoor air-conditioner units and use of front-cover plastics that are difficult to harmonize with interiors, Daikin launched its "Risora" air conditioner in March 2018. This new model is only 185mm thick and is the thinnest of the indoor units available on the market, while also satisfying energy conservation standards and being in keeping with interior decorating requirements. The "Risora" also incorporates the Urusara 7 comfortable ambience features previously mentioned.

In the field of equipment for residential use, accompanying the trends toward demographic aging of the population and wider usage of air-conditioning units in the home, attention has focused on the wide difference between temperatures in living quarters and other parts of the house, such as washstands and corridors. This increased attention has been due to the possibility of "heat shock" that may result when home residents move from one household area to another and encounter wide differences in temperatures. To respond to this emerging need, Daikin introduced its "Cocotas"

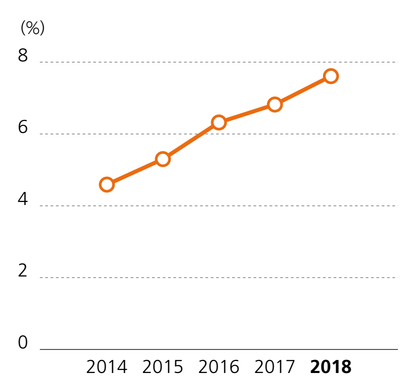
Research and Development Expenses



ROE



ROA



units in February 2018. These units are the smallest multi-cassette type air conditioner and can be installed in relatively small spaces. Compared with previous cassette types that are installed in the ceiling, the front panel has been reduced in size by about 68% to create a compact unit. Moreover, in response to increasing diversity in lifestyles, spaces in the home that were not really comfortable before become more livable through the installation of "Cocotas" units, and these units enable residents to create more individualistic living spaces based on their own original ideas.

In the commercial-use air-conditioner business, to meet the need for shop and office multi-air conditioners that can be installed in more-crowded sites built on small plots of land, Daikin introduced new units meeting these needs in April 2017. These units are lighter and more compact, making them easier to bring to the site and install, and they adopt lateral blowoff for improved ventilation in close quarters. As result of these features, these units can reduce the space needed for installation by up to 58%. These units are available in a wide range of sizes, ranging from 4 to 12 horsepower, and can be used in a wide range of building types, with all units in one building connected to a single multi-air conditioner and each unit operated separately. In addition, Daikin newly introduced the "FIVE STAR ZEAS" air conditioner that can be used simultaneously in shops and office locations. Also, to increase convenience for all participants in the supply/usage chain, from users to installation personnel, Daikin has introduced an "intuitive remote control unit." Along with the development of air conditioners that create more-comfortable spaces, are more energy conserving, and are more convenient to use, remote control units have become more complex. Daikin has reviewed its remote control units and made them easier to use for seniors and for foreign visitors to Japan. In the field of multi-air conditioner units used indoors, Daikin has also begun to offer "multi-cube" air-conditioners units for use in providing comfortable workspaces for personnel in factories and other workplaces. By installing large propeller fans in cube-type compact indoor units, Daikin makes it possible to control airflow output temperatures when the units are operated in air-conditioning mode. This makes it possible to control air-conditioning effectiveness for individuals on a spot basis. With this system, it is also possible to turn individual units on and off, thus eliminating wasted operation time and restraining electric power losses. Also, with the use of long piping, it has become possible to re-layout large spaces as desired. The "multi-cube" system makes it possible to eliminate the installation of ducts that were previously used for air-conditioning purposes on factory work lines. This makes it possible to make changes in production line configurations more flexibly.

Recent developments in the applied equipment have included the following. In North America, in June 2017, Daikin launched its air-handling units for use in small spaces. In addition, in October 2017, Daikin introduced a high volume fan coil unit. Moreover, to respond to customer needs, Daikin launched high-efficiency water cooled screw chillers in April 2017. In Europe, Daikin developed an inverter screw chiller for handling external atmosphere for use in the Middle East in May 2017. Also, in January 2018, Daikin developed and introduced optional equipment (for marine and recovery applications) for the high-efficiency inverter screw chillers it launched in 2017 and equipment for use in the rapidly expanding HFO coolant applications. Besides these launches, to respond to the issuance of more-stringent regulations (for eco-design), in 2018, Daikin worked to develop more-efficient mini-chiller scroll chillers and chillers that remove cold and warm water to meet heat recovery demands. In China, new GB restrictions were issued for chiller performance, and along with the change in standards, Daikin introduced model changes to improve performance of existing single stage compressors (WSC).

• Chemicals

R&D expenses for Chemicals operations totaled ¥6.2 billion.

Daikin conducts R&D for new products and new applications based on its rich experience in fluorine products and fluorochemical technology. In the fluoropolymer resin and fluororubber fields, fluorochemicals exhibit good heat resistance, low drug reactivity, and dielectric properties. Using these properties Daikin is developing new differentiated products for automotive, semiconductor, wire and cable (IT field), and other applications. In coating materials development, Daikin makes use of the non-adhesive and chemical resistant properties of fluoride-based substances and develops water and oil repellent textile treatment materials, non-adhesive materials for use in keeping touch screens clean, as well as carpet treatment materials. In addition, Daikin engages in a wide range of fluoride-related R&D and has, for example, received an order for a project to develop intermediate materials for medical use and is continuing the development of next-generation coolants to meet environmental restrictions.

In addition to these developments, as part of R&D in peripheral areas aimed at developing new techniques and applications, Daikin is working on the development of film process products and multilayered materials and conducts advanced materials research related to the medical, optical, environmental, electric power battery, and energy areas. Through these initiatives, Daikin is endeavoring to further develop its position as the No. 1 fluorochemical solutions provider. Especially, in the next-generation power semiconductor field, using its original fluoropolymer resins, Daikin has developed new materials that find application in the film condenser field that have five times the conductivity ratios of polypropylene-based materials. By furthering and accelerating its R&D, the TIC, which has the mission of new product development in Daikin's Chemicals business, is seeking to develop technologies that will lead on next-generation themes. Also, in Southeast Asia, where markets are expanding, Daikin has established Daikin Chemical Southeast Asia to provide marketing and technology support. This company is working to develop products that meet customer needs and accelerate the development of the customer base as well as work toward further expansion of Daikin's fluorochemicals business.

• Other Operations

R&D expenses for the Other operations totaled ¥1.8 billion.

In oil hydraulics, Daikin is drawing on the special features of its hybrid oil hydraulic systems technology, which combines oil hydraulic technology and inverter technology to realize energy conservation and high functionality that could not be realized with previously existing hydraulic systems. In addition, in Japan and overseas, besides the medium- to low- and small-volume markets, where usage is expanding, Daikin is also developing units for high-pressure, high-volume applications. In the industrial press and other industrial machinery applications, Daikin's "Super Unit" has won high acclaim for its low electric power consumption. It also contributes to improvement in the workplace environment and reduction in the load on the environment because of its lower noise, reduced heat emission, and smaller tank size. Moreover, Daikin has launched a large-scale extruder system that equals electric power as a motive force for its responsiveness and energy conservation. By expanding the lineup of units in this series to meet the special needs of countries in Asia and other regions for handling multiple voltages and other features, Daikin will promote the adoption of this system for presses and other machines and move forward with sales expansion globally.

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

In defense systems, Daikin conducts R&D related to artillery shell and guided missiles components, mainly for Japan's Ministry of Defense.

Dividend Policy and Dividends Applicable to the Fiscal Year

Daikin will continue to make strategic investments and expand its business, while also proceeding with such structural reforms as those to promote comprehensive cost reductions and strengthen its financial position. The aim of these initiatives is to become a truly global excellent company and, at the same time, substantially increase its corporate value.

Specifically, in accordance with its fundamental goal of providing a stable and continuous return to shareholders, Daikin is striving to keep its consolidated ratio of dividends on equity (DOE) at levels of 3% or higher while also seeking to increase its consolidated dividend payout ratio and thereby further expand shareholder returns.

Internal reserves will be applied to strengthen the Daikin Group's business and financial position to accelerate the development of global business, further the development of environmentally friendly products, make strategic investments to expand business activities, and strengthen competitiveness. For the fiscal year ended March 31, 2018, Daikin increased its total cash dividend by ¥10 per share, to ¥140 per share (comprising an interim dividend of ¥65 per share and a year-end dividend of ¥75 per share). For the current fiscal year, ending March 31, 2019, the Company plans to distribute a total annual dividend of ¥140 per share (comprising an interim dividend of ¥70 per share and a year-end dividend of ¥70 per share).

Outlook for Fiscal 2019

During fiscal 2019, ending March 31, 2019, our outlook is for continued economic expansion, centered around moderate growth in the United States. On the other hand, there is a possibility that rising geopolitical risk and growing protectionism will have an impact on the world economy and foreign currency markets. Therefore, we believe that uncertainty will continue going forward. Amid this economic environment, we will pass an interim milestone in our medium- to long-term growth strategy under our FUSION 20 management plan. We will continue to aim to attain our quantitative goals for fiscal 2019, and, as we advance toward fiscal 2020 and draw on the results and positive impact of investment that have resulted from our initiatives thus far. By taking the initiatives to overcome our rivals, we will continue to move ahead of the game and tackle new themes as we accelerate our drive to implement structural reforms and improve profitability.

In terms of specific policies, we will make strategic investments aimed at reforming our business structure, and, in parallel with this, we will expand sales in all regions globally and pursue total cost reduction. To overcome rising material costs and the negative impact of foreign currency fluctuations we will maintain the upward trends in sales and income as we set a course for further growth and development in the medium-to-long term.

For the fiscal year ending March 31, 2019, we are forecasting an 8.3% increase in consolidated net sales, to ¥2,480.0 billion, with operating income rising 6.4%, to ¥270.0 billion, and net income attributable to owners of the parent company decreasing 4.8%, to ¥180.0 billion. The estimated exchange rates for the fiscal year are ¥105 to US$1 and ¥130 to €1.

Principal Risks Associated with the Daikin Group's Operations

Sharp changes in politico-economic conditions or supply-demand relationships in principal markets

The Group develops, manufactures, sells, and procures goods and services throughout the world, and there is a possibility that Group performance could be impacted due to changes in the business environment in the markets or regions in which the Group operates, such as political or economic trends, the introduction of more-stringent environmental regulations, increased competition from competitors, or sudden rises in the cost of raw materials. In addition, Daikin is attempting to further expand its manufacturing and sales network and enhance Groupwide profitability through investment such as the acquiring of air-conditioning equipment dealers or companies, such as the Goodman Global Group, Inc. (completed in 2012), and the establishment of manufacturing facilities. However, there is a possibility that the Group's performance could be impacted, depending on the state of progress of such activities.

Cold summer weather and other unusual weather patterns accompanied by changes in demand for air conditioners

Air-conditioning and refrigeration operations accounted for 89.6% of the Daikin Group's consolidated net sales in fiscal 2018. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world's principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group's performance could be impacted.

Large fluctuations in currency exchange rates

Overseas sales accounted for 76.3% of the Daikin Group's consolidated net sales in fiscal 2018. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items for Group operations in each global region, including sales, expenses, and assets. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because the Group engages in foreign currency-denominated transactions in raw materials and component procurement and in the sale of goods and services, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

Major product quality claims

The Group strives to ensure thorough quality management for all its products, regardless of whether they are manufactured in Japan or overseas. With respect to new product development, all four related elements—design, production technology, and purchasing units and suppliers—work in an integrated manner to concurrently move ahead with the collaborative development of process innovation measures, aiming to implement innovations related to quality, costs, and product development speed. The Group also has purchased liability insurance to cover unexpected quality-related claims, but, in the case that a major quality claim situation were to occur, there is a possibility that it could have an impact on the Group's performance.

Major problems in manufacturing

The Group strives to implement thorough preventative maintenance measures at all its production facilities, regardless of whether they are in Japan or overseas. In addition, particularly with respect to the Chemicals business, the Group is working to strengthen its facility safety audits, security management systems, and other related systems. Moreover, with respect to manufacturing problems, the Group has purchased insurance to cover facility damage and foregone earnings, but, in the case that a major problem were to occur in manufacturing operations, there is a possibility that it could have an impact on the Group's performance.

Major changes in the market prices of securities and other assets

The Group's holdings of securities are primarily holdings designed to strengthen collaborative business expansion measures in cooperation with business partners and to strengthen relationships with business partners. However, in the case of large fluctuations in securities markets, bankruptcies of business partners, and similar situations, there is a possibility that it could have an impact on the Group's performance.

Impairment of long-lived assets

In connection with its business assets, goodwill generated on the occasion of corporate acquisitions, and similar items, the Group records various types of tangible and intangible long-lived assets. With respect to these assets, in cases going forward when such factors as performance trends and market price drops prevent the generation of expected cash flows, there may be cases in which the assets in question may require impairment treatment. In the case of such impairment of long-lived assets, there is a possibility that it could have an impact on the Group's performance.

Natural disasters

In the case that such natural disasters as major earthquakes and typhoons occur and exert an impact on the Group's manufacturing, marketing, and distribution bases, there is a possibility that it could have an impact on the Group's performance.

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2018

	Millions of Yen	
ASSETS	**2018**	2017
Current assets:		
Cash and cash equivalents (Notes 7 and 15)	**¥ 357,027**	¥ 344,094
Trade receivables (Notes 6, 7 and 15):		
Notes	**62,764**	51,154
Accounts	**338,401**	317,907
Allowance for doubtful receivables	**(8,834)**	(8,216)
Inventories (Note 3)	**387,226**	358,303
Deferred tax assets (Note 11)	**32,518**	35,786
Prepaid expenses and other current assets	**68,710**	60,857
Total current assets	**1,237,812**	1,159,885
Property, plant and equipment:		
Land	**42,997**	37,589
Buildings and structures	**346,768**	335,654
Machinery and equipment	**555,628**	515,027
Furniture and fixtures	**183,591**	167,119
Lease assets (Note 14)	**4,063**	4,610
Construction in progress	**34,014**	29,592
Total	**1,167,061**	1,089,591
Accumulated depreciation	**(712,227)**	(665,064)
Net property, plant and equipment	**454,834**	424,527
Investments and other assets:		
Investment securities (Notes 4, 7 and 15)	**221,251**	179,206
Investments in and advances to unconsolidated subsidiaries and associated companies	**24,184**	20,260
Goodwill (Note 5)	**309,282**	330,876
Customer relationships	**130,851**	135,774
Other intangible assets	**75,926**	70,314
Deferred tax assets (Note 11)	**2,941**	5,048
Assets for retirement benefits (Note 8)	**14,735**	13,034
Other assets	**18,138**	17,225
Total investments and other assets	**797,308**	771,737
Total	**¥2,489,954**	¥2,356,149

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2018	2017
Current liabilities:		
Short-term borrowings (Notes 7 and 15)	¥ 45,530	¥ 57,699
Current portion of long-term debt (Notes 7 and 15)	76,989	77,178
Current portion of long-term lease obligations (Note 14)	1,499	1,798
Trade payables (Note 15):		
Notes	13,890	8,971
Accounts	170,101	164,176
Income taxes payable (Note 15)	21,496	27,770
Deferred tax liabilities (Note 11)	27,399	23,769
Provision for product warranties	48,009	49,751
Accrued expenses (Note 6)	122,057	108,279
Other current liabilities (Note 6)	103,760	107,286
Total current liabilities	630,730	626,677
Long-term liabilities:		
Long-term debt (Notes 7 and 15)	421,051	463,292
Long-term lease obligations (Note 14)	9,302	9,463
Liabilities for retirement benefits (Note 8)	10,551	11,940
Deferred tax liabilities (Note 11)	70,108	87,994
Other long-term liabilities	23,890	21,174
Total long-term liabilities	534,902	593,863
Commitments and contingent liabilities (Notes 14 and 16)		
Equity (Notes 9, 10 and 20)**:**		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares	85,032	85,032
Capital surplus	84,389	84,545
Stock acquisition rights	1,511	1,080
Retained earnings	987,547	837,968
Treasury stock, at cost: 677,039 shares in 2018 and 739,660 shares in 2017	(2,894)	(3,160)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	74,586	53,042
Deferred gains (losses) on derivatives under hedge accounting	728	(120)
Foreign currency translation adjustments	72,834	61,037
Remeasurements of defined benefit plans	(5,669)	(6,708)
Subtotal	1,298,064	1,112,716
Noncontrolling interests	26,258	22,893
Total equity	1,324,322	1,135,609
Total	¥2,489,954	¥2,356,149

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen	
	2018	2017
Net sales (Note 6)	**¥2,290,561**	¥2,043,969
Cost of sales (Note 13)	**1,491,732**	1,313,034
Gross profit	**798,829**	730,935
Selling, general and administrative expenses (Notes 5, 6 and 13)	**545,089**	500,166
Operating income	**253,740**	230,769
Other (expenses) income:		
Interest and dividend income	**11,284**	10,431
Interest expense	**(10,656)**	(9,910)
Equity in earnings of associated companies	**2,547**	920
Exchange (losses) gains	**(1,675)**	330
Gains on sales of land	**33**	452
Losses on disposals of property, plant and equipment and other intangible assets	**(496)**	(927)
Gains on sales of investment securities (Note 4)	**223**	25
Impairment losses on investment securities (Notes 4 and 15)	**(1)**	
Loss on restructuring of a subsidiary	**(2,919)**	
Other—net	**(223)**	(1,481)
Other expenses—net	**(1,883)**	(160)
Income before income taxes	**251,857**	230,609
Income taxes (Note 11)**:**		
Current	**77,158**	70,217
Deferred	**(20,250)**	471
Total income taxes	**56,908**	70,688
Net income	**194,949**	159,921
Net income attributable to noncontrolling interests	**(5,897)**	(5,982)
Net income attributable to owners of the parent	**¥ 189,052**	¥ 153,939

	Yen	
Amounts per common share (Note 18)**:**		
Basic net income	**¥646.53**	¥526.81
Diluted net income	**646.08**	526.43
Cash dividends applicable to the year	**140.00**	130.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen	
	2018	2017
Net income	**¥194,949**	¥159,921
Other comprehensive income (loss) (Note 17)**:**		
Unrealized gains on available-for-sale securities	**21,543**	6,721
Deferred gains on derivatives under hedge accounting	**848**	2,004
Foreign currency translation adjustments	**11,673**	(32,609)
Remeasurements of defined benefit plans	**1,043**	1,448
Share of other comprehensive income (loss) in affiliates accounted for using the equity method	**560**	(1,142)
Total other comprehensive income (loss)	**35,667**	(23,578)
Comprehensive income	**¥230,616**	¥136,343
Total comprehensive income attributable to:		
Owners of the parent	**¥224,280**	¥131,348
Noncontrolling interests	**6,336**	4,995

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

		Millions of Yen											
							Accumulated Other Comprehensive Income (Loss)						
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
Balance, April 1, 2016	292,038,617	¥85,032	¥83,585	¥1,119	¥720,548	¥(4,598)	¥46,320	¥(2,124)	¥93,798	¥(8,152)	¥1,015,528	¥21,942	¥1,037,470
Net income					153,939						153,939		153,939
Cash dividends, ¥130 per share					(36,519)						(36,519)		(36,519)
Repurchase of treasury stock	(304)					(3)					(3)		(3)
Disposal of treasury stock	336,000		960			1,441					2,401		2,401
Net change in the year				(39)			6,722	2,004	(32,761)	1,444	(22,630)	951	(21,679)
Balance, March 31, 2017	**292,374,313**	**85,032**	**84,545**	**1,080**	**837,968**	**(3,160)**	**53,042**	**(120)**	**61,037**	**(6,708)**	**1,112,716**	**22,893**	**1,135,609**
Net income					**189,052**						**189,052**		**189,052**
Cash dividends, ¥140 per share					**(39,473)**						**(39,473)**		**(39,473)**
Repurchase of treasury stock	**(379)**					**(4)**					**(4)**		**(4)**
Disposal of treasury stock	**63,000**		**174**			**270**					**444**		**444**
Change in parent's ownership interest due to transactions with noncontrolling interests			**(330)**								**(330)**		**(330)**
Net change in the year				**431**			**21,544**	**848**	**11,797**	**1,039**	**35,659**	**3,365**	**39,024**
Balance, March 31, 2018	**292,436,934**	**¥85,032**	**¥84,389**	**¥1,511**	**¥987,547**	**¥(2,894)**	**¥74,586**	**¥ 728**	**¥72,834**	**¥(5,669)**	**¥1,298,064**	**¥26,258**	**¥1,324,322**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen	
	2018	2017
Operating activities:		
Income before income taxes	**¥251,857**	¥230,609
Adjustments for:		
Income taxes—paid	**(83,239)**	(55,253)
Depreciation and amortization	**94,834**	85,029
Gains on sales of investment securities	**(223)**	(25)
Impairment losses on investment securities	**1**	
Losses on disposals of property, plant and equipment and other intangible assets	**496**	927
Equity in earnings of associated companies	**(2,547)**	(920)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(23,214)**	(13,440)
Inventories	**(26,537)**	(23,384)
Other current assets	**(9,250)**	364
Assets for retirement benefits	**(1,907)**	(1,333)
Trade notes and accounts payable	**4,399**	14,406
Accrued expenses	**11,787**	8,940
Other current liabilities	**(6,170)**	16,432
Liabilities for retirement benefits	**(1,964)**	1,289
Other—net	**15,417**	4,022
Total adjustments	**(28,117)**	37,054
Net cash provided by operating activities	**223,740**	267,663
Investing activities:		
Payments for purchases of property, plant and equipment	**(85,680)**	(88,335)
Proceeds from sales of property, plant and equipment	**2,393**	2,253
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 12)	**(25,332)**	(32,998)
Proceed from sales of shares of subsidiary resulting in change in the scope of consolidation		705
Increase in investments in and advances to an unconsolidated subsidiary and associated companies	**(2,980)**	(1,508)
Decrease in investment in and advances to an associated company	**1,517**	
Payments for transfer of business		(1,870)
Proceed from transfer of business	**369**	
Payments for acquisition of investment securities	**(12,481)**	(165)
Proceeds from sales of investment securities (Note 4)	**1,094**	46
Other—net	**(6,359)**	(6,951)
Net cash used in investing activities	**(127,459)**	(128,823)
Financing activities:		
Net decrease in short-term borrowings	**(14,337)**	(1,243)
Proceeds from long-term debt	**45,181**	60,295
Repayments of long-term debt (Note 12)	**(77,180)**	(91,263)
Cash dividends paid to owners of the parent	**(39,473)**	(36,519)
Cash dividends paid to noncontrolling interests	**(5,413)**	(4,265)
Proceeds from issuance of shares to noncontrolling interests		233
Other—net	**(2,733)**	(782)
Net cash used in financing activities	**(93,955)**	(73,544)
Effect of exchange rate changes on cash and cash equivalents	**10,607**	(12,408)
Net increase in cash and cash equivalents	**12,933**	52,888
Cash and cash equivalents, beginning of year	**344,094**	291,206
Cash and cash equivalents, end of year	**¥357,027**	¥344,094

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daikin Industries, Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRSs).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classification used in 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies - The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Group applies the equity method of accounting for investments in unconsolidated subsidiaries and associated companies except for certain insignificant companies. Investments in such insignificant companies are stated at cost, except investments for which the value has been permanently impaired, for which appropriate write-downs are recorded. If these subsidiaries and associated companies had been consolidated or accounted for using the equity method, respectively, the effect on the accompanying consolidated financial statements would not have been material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements - In accordance with the Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method - In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," adjustments are to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP") tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. Business Combinations - Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. Cash Equivalents - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, which mature within three months of the date of acquisition. Time deposits that mature in more than three months, but within a year of the date of acquisition, are recorded as short-term investments. The Group had no short-term investments at March 31, 2018 and 2017.

f. Allowance for Doubtful Accounts - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in receivables outstanding.

g. Inventories - Inventories of the Company and its consolidated domestic subsidiaries are stated at the lower of cost, principally determined by the average method, or net selling value. Inventories of consolidated foreign subsidiaries are stated at the lower of cost, principally determined by the average method, or market.

h. Property, Plant and Equipment - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the assets.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 5 to 15 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

i. Asset Retirement Obligations - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Long-Lived Assets - The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

k. Leases - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases.

l. Investment Securities - All marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is principally determined based on the moving-average method.
Non-marketable available-for-sale securities are stated at cost principally determined by the moving-average method.
For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by charging such losses to income.

m. Goodwill and Intangible Assets - Goodwill and intangible assets arise principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over a period of 6 to 20 years. Intangible assets primarily include customer relationships. Customer relationships are amortized using the straight-line method over the estimated useful lives (mainly 30 years).

n. Provision for Product Warranties - The Group repairs or exchanges certain products without charge under specific circumstances. The provision for product warranties is stated in amounts considered to be appropriate based on the past experience and an evaluation of potential losses on the product warranties.

o. Employees' Retirement Benefits - The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over certain periods (mainly 10 years) no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

p. Stock Options - The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to nonemployees based on the fair value of either the stock options of the goods or services received. In the consolidated balance sheet, the stock options are presented as a stock acquisition right as a separate component of equity until exercised.

q. Foreign Currency Transactions - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as "foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

s. Bonuses to Directors and Audit & Supervisory Board Members - Bonuses to Directors and Audit & Supervisory Board Members are accrued at the year-end to which such bonuses are attributable. Accrued bonuses are included in accrued expenses.

t. Income Taxes - The provision for current income taxes is computed based on income before income taxes included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

u. Derivative Financial Instruments - The Group uses foreign exchange forward contracts, currency swaps and currency options to manage foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group uses mainly interest rate swaps and interest rate options to manage its exposure to fluctuations in interest rates.

The Group uses commodity futures contracts to manage the risk of fluctuation of commodity prices for materials.

The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) derivatives are principally recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

v. Amounts Per Common Share - Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net EPS of common stock assumes full exercise of the outstanding stock options which have a dilutive effect at the beginning of year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of year.

w. New Accounting Pronouncements

Revenue Recognition - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Leases - On January 13, 2016, the International Accounting Standards Board issued IFRS 16 Leases. On February 25, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02 Leases (Topic 842). These standards require lessees to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities. The consolidated foreign subsidiaries expect to apply IFRS 16 for annual periods beginning on or after January 1, 2019. The consolidated foreign subsidiaries expect to apply ASU 2016-02 for annual periods beginning after December 15, 2019 and for the first quarter within annual periods beginning after December 15, 2020. The Group is in the process of measuring the effects of applying the accounting standards in future applicable periods.

3. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen	
	2018	2017
Finished products and merchandise	**¥264,867**	¥249,487
Semifinished products and work in process	**45,199**	42,250
Raw materials and supplies	**77,160**	66,566
Total	**¥387,226**	¥358,303

4. MARKETABLE AND INVESTMENT SECURITIES

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥110,840**	**¥101,665**	**¥(1,346)**	**¥211,159**
Debt securities	**300**			**300**
Total	**¥111,140**	**¥101,665**	**¥(1,346)**	**¥211,459**

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥99,121	¥71,961	¥(2,300)	¥168,782
Debt securities	325	1		326
Total	¥99,446	¥71,962	¥(2,300)	¥169,108

Available-for-sale securities that were sold during the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	**¥938**	**¥223**	

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥40	¥25	

The impairment losses on marketable available-for-sale securities for the year ended March 31, 2018 were ¥1 million. No impairment loss was recognized for the year ended March 31, 2017.

5. GOODWILL

Amortization expenses for goodwill were ¥28,180 million and ¥25,735 million for the years ended March 31, 2018 and 2017, respectively, which were included in selling, general and administrative expenses.

6. RELATED PARTY TRANSACTIONS

Material transactions and balances with related parties for the years ended March 31, 2018 and 2017 were as follows:

(1) 2018

(a) The Company

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	**2018**	Account	**2018**
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commissions for moving business and delivery business	**¥470**	Accrued expenses and other current liabilities	**¥43**

(b) The Company's consolidated subsidiaries

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	**2018**	Account	**2018**
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00	Commissions for moving business and delivery business	**¥ 60**	Accrued expenses and other current liabilities	**¥ 4**
			Sales of products	**176**	Accounts receivable	**23**

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length basis and by reference to the normal market price.

(2) 2017

(a) The Company

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2017	Account	2017
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥488	Accrued expenses and other current liabilities	¥47

(b) The Company's consolidated subsidiaries

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2017	Account	2017
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥ 56	Accrued expenses and other current liabilities	¥ 5
			Sales of products	143	Accounts receivable	22

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length basis and by reference to the normal market price.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen	
	2018	2017
Bank overdrafts and notes to banks	**¥45,530**	¥57,699

Unused short-term bank credit lines were ¥195,152 million at March 31, 2018. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2018 and 2017 were 1.39% and 2.51%, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen	
	2018	2017
0.46% unsecured bonds, due 2017		¥ 10,000
1.86% unsecured bonds, due 2019	**¥ 40,000**	40,000
0.72% unsecured bonds, due 2019	**10,000**	10,000
0.38% unsecured bonds, due 2021	**10,000**	10,000
1.20% unsecured bonds, due 2022	**30,000**	30,000
0.68% unsecured bonds, due 2024	**10,000**	10,000
0.21% unsecured bonds, due 2026	**10,000**	10,000
Unsecured loans from government-sponsored banks, with interest of 1.75%, due through 2019	**13,200**	20,000
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.00% to 4.00% (2018) and from 0.00% to 4.00% (2017), due through 2026	**184,833**	171,256
Unsecured loans from banks and others with interest ranging from 0.12% to 3.74% (2018) and from 0.11% to 3.60% (2017), due through 2023	**190,007**	229,214
Total	**498,040**	540,470
Less current portion	**(76,989)**	(77,178)
Long-term debt, less current portion	**¥421,051**	¥463,292

Annual maturities of long-term debt outstanding at March 31, 2018 were as follows:

Year Ending March 31	Millions of Yen
2019	¥ 76,989
2020	91,510
2021	93,296
2022	62,203
2023	138,311
2024 and thereafter	35,731
Total	¥498,040

At March 31, 2018, time deposits with book values of ¥525 million were pledged as collateral without corresponding borrowings. Note receivables with book values of ¥3,066 million were pledged as collateral for note payables of ¥3,987 million. In addition, investment securities with book values of ¥800 million were pledged as collateral for the investee's borrowings from financial institutions.

As is customary in Japan, additional securities must be provided if requested by a lending bank. Certain banks have the right to offset cash deposited against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders have ever exercised these rights with respect to debt of the Group.

8. SEVERANCE INDEMNITIES AND PENSION PLANS

Under the Group's severance indemnities and pension plans, employees terminating their employment are, in most circumstances, entitled to severance and pension payments based on their average pay during their employment, length of service and certain other factors.

The Group accounts for part of the defined benefit obligations and benefit costs for retirement lump-sum payment using the simplified method.

1. Defined benefit plans

(1) The changes in defined benefit obligations for the years ended March 31, 2018 and 2017 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen	
	2018	2017
Balance at beginning of year	**¥ 99,159**	¥95,395
Service cost	**4,965**	4,751
Interest cost	**1,127**	1,164
Net actuarial losses	**7,451**	4,647
Past service cost	**(3)**	
Benefits paid	**(5,177)**	(3,752)
Effect of changes in the scope of consolidation	**74**	165
Foreign currency translation adjustments	**226**	(3,205)
Others	**(36)**	(6)
Balance at end of year	**¥107,786**	¥99,159

(2) The changes in plan assets for the years ended March 31, 2018 and 2017 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2018	2017
Balance at beginning of year	**¥102,957**	¥ 98,679
Expected return on plan assets	**3,609**	3,269
Net actuarial gains	**7,560**	4,257
Contributions from the employer	**4,910**	3,068
Benefits paid	**(4,569)**	(3,342)
Effect of changes in the scope of consolidation		(231)
Foreign currency translation adjustments	**23**	(2,726)
Others	**(14)**	(17)
Balance at end of year	**¥114,476**	¥102,957

(3) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017 using the simplified method were as follows:

	Millions of Yen	
	2018	2017
Balance at beginning of year	**¥2,703**	¥2,726
Periodic benefit cost	**901**	1,196
Benefits paid	**(1,098)**	(1,219)
Balance at end of year	**¥2,506**	¥2,703

(4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2018 and 2017 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2018	2017
Funded defined benefit obligation	**¥(104,213)**	¥ (95,868)
Plan assets	**114,476**	102,957
Total	**10,263**	7,089
Unfunded defined benefit obligation	**(6,079)**	(5,995)
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 4,184**	¥ 1,094
Liabilities for retirement benefits	**¥ (10,551)**	¥ (11,940)
Assets for retirement benefits	**14,735**	13,034
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 4,184**	¥ 1,094

(5) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Service cost	**¥4,965**	¥4,751
Interest cost	**1,127**	1,163
Expected return on plan assets	**(3,609)**	(3,269)
Recognized net actuarial losses	**2,061**	2,039
Amortization of past service cost	**(183)**	(144)
Periodic benefit cost calculated by the simplified method	**901**	1,196
Others	**4**	(4)
Subtotal (net periodic benefit costs)	**5,266**	5,732
Total	**¥5,266**	¥5,732

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Past service cost	**¥ 131**	¥ 432
Net actuarial gains	**(1,723)**	(2,826)
Total	**¥(1,592)**	¥(2,394)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Unrecognized past service cost	**¥ (549)**	¥ (680)
Unrecognized net actuarial gains	**7,894**	9,617
Total	**¥7,345**	¥8,937

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2018 and 2017, consisted of the following:

	2018	2017
Domestic debt securities	3%	6%
Domestic equity securities	9	8
Foreign debt securities	29	22
Foreign equity securities	17	20
Insurance assets (general account)	18	17
Cash and deposits	1	1
Alternative investments	23	26
Total	100%	100%

(b) Method of determining the expected rate of return on plan assets

To determine the expected long-term rate of return on plan assets, we consider current and target asset allocations, as well as historical and expected returns on various categories of plan assets.

(9) Assumptions used for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate	Mainly 0.3%	Mainly 0.3%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 3.5%	Mainly 3.5%

2. Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Group was ¥5,855 million and ¥4,965 million for the years ended March 31, 2018 and 2017, respectively.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account that was charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding at March 31, 2018, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option	10 directors 41 employees	300,000 shares	2012.7.13	¥2,186	From July 14, 2014 to July 13, 2018
2013 Stock Option	10 directors 38 employees	286,000 shares	2013.7.12	¥4,500	From July 13, 2015 to July 12, 2019
2014 Stock Option	9 directors 45 employees	310,000 shares	2014.7.14	¥6,715	From July 15, 2016 to July 14, 2020
2015 Stock Option	9 directors 46 employees	53,200 shares	2015.7.13	¥ 1	From July 14, 2018 to July 13, 2030
2016 Stock Option	8 directors 53 employees	58,100 shares	2016.7.14	¥ 1	From July 15, 2019 to July 14, 2031
2017 Stock Option	8 directors 53 employees	48,800 shares	2017.7.14	¥ 1	From July 15, 2020 to July 14, 2032

The stock option activity was as follows:

	Shares							
	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
Year Ended March 31, 2017								
Vested								
April 1, 2016—Outstanding	6,000	20,000	36,000	108,000	310,000	53,200		
Granted							58,100	
Exercised	(6,000)	(20,000)	(19,000)	(76,000)	(215,000)			
Canceled								
March 31, 2017—Outstanding			17,000	32,000	95,000	53,200	58,100	
Year Ended March 31, 2018								
Vested								
April 1, 2017—Outstanding			17,000	32,000	95,000	53,200	58,100	
Granted								48,800
Exercised			(13,000)	(5,000)	(45,000)			
Canceled								
March 31, 2018—Outstanding			4,000	27,000	50,000	53,200	58,100	48,800
Exercise price	¥3,050	¥ 2,970	¥ 2,186	¥ 4,500	¥ 6,715	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥8,817	¥10,512	¥13,192	¥11,564	¥11,704			
Fair value price at grant date	¥1,113	¥ 935	¥ 676	¥ 1,220	¥ 1,697	¥7,726	¥7,859	¥10,711

The assumptions used to measure the fair value of 2017 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	37.8%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥130 per share
Risk-free interest rate:	0.1%

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Deferred tax assets:		
Inventories	**¥ 13,833**	¥ 14,552
Provision for product warranties	**11,832**	14,696
Tax loss carryforwards	**9,027**	9,908
Software and other intangible assets	**7,108**	6,012
Investment securities	**6,769**	6,911
Accrued bonus	**4,094**	3,973
Deferred revenue	**3,075**	6,485
Liabilities for retirement benefits	**2,291**	2,487
Allowance for doubtful receivables	**1,768**	1,747
Foreign income tax credit	**68**	184
Other	**20,442**	20,614
Less valuation allowance	**(14,537)**	(16,728)
Total deferred tax assets	**¥ 65,770**	¥ 70,841
Deferred tax liabilities:		
Intangible assets	**¥ 44,858**	¥ 69,574
Undistributed earnings of consolidated subsidiaries	**37,534**	33,483
Unrealized gains on available-for-sale securities	**25,943**	16,727
Assets for retirement benefits	**4,721**	4,216
Deferred gains on sales of property	**1,742**	1,375
Other	**13,020**	16,395
Total deferred tax liabilities	**¥127,818**	¥141,770
Net deferred tax liabilities	**¥ (62,048)**	¥ (70,929)

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2018 was as follows:

	2018
Normal effective statutory income tax rate	30.8%
Impact from tax reform in the United States	(7.7)
Differences in foreign subsidiaries' tax rates	(4.9)
Taxes and tax effects on dividends from foreign subsidiaries	4.6
Amortization of goodwill	3.2
Tax credit for research and development	(2.0)
Valuation allowance	(0.9)
Permanently non-taxable income, such as dividend income	(0.5)
Permanently non-deductible expenses, such as entertainment expenses	0.5
Other - net	(0.5)
Actual effective income tax rate	22.6%

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective tax rate is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2017.

The Tax Cuts and Jobs Act was enacted in the United States on December 22, 2017 (local time), which mainly featured the reduction of federal income tax rates. In accordance with this change, deferred tax assets and deferred tax liabilities have been calculated using the legal effective tax rate based on the revised tax rates. As a result, deferred tax liabilities (net of deferred tax assets) and income taxes - deferred recorded in the year ended March 31, 2018 under review decreased by ¥18,660 million and ¥19,470 million, respectively.

At March 31, 2018, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating ¥31,251 million, which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen
2019	¥ 357
2020	787
2021	476
2022	697
2023	706
2024 and thereafter	28,228
Total	¥31,251

12. SUPPLEMENTAL CASH FLOW INFORMATION

The Group acquired Flanders Holdings LLC and its subsidiaries during the year ended March 31, 2017.

Reconciliation between cash paid for the equity interest of Flanders Holdings LLC and payment for the acquisition of these newly consolidated subsidiaries, net of cash and cash equivalents acquired, was as follows:

	Millions of Yen
	2017
Current assets	¥11,880
Fixed assets	27,501
Goodwill	18,991
Current liabilities	(24,703)
Long-term liabilities	(10,382)
Cash paid for the equity interest	23,287
Cash and cash equivalents of consolidated subsidiaries	(834)
Payment for acquisition of equity interest of newly consolidated subsidiaries, net of cash and cash equivalents acquired	¥22,453

Repayments of long-term debt included ¥18,336 million for repayments of long-term debt by Flanders Holdings LLC and the other companies which the Group acquired for the year ended March 31, 2017.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥62,051 million and ¥53,870 million for the years ended March 31, 2018 and 2017, respectively.

14. LEASES

The Group leases certain computer equipment and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases at March 31, 2018 were as follows:

	Millions of Yen	
	Finance Leases	Operating Leases
Due within one year	**¥ 1,499**	**¥19,925**
Due after one year	**9,302**	**46,237**
Total	**¥10,801**	**¥66,162**

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group policy for financial instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Short-term bank loans and commercial paper are used to fund the Group's ongoing operations, and cash surpluses are invested in low-risk financial assets. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described below.

Nature and extent of risks arising from financial instruments and risk management for financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables based on the internal policies, which include monitoring of payment terms and balances of major customers to identify the default risk of the customers.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Although receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the net position of receivables and payables in each foreign currency is hedged by using mainly forward foreign currency contracts and currency swaps. In addition, receivables and payables in foreign currencies which are expected from forecasted transactions are hedged by using forward foreign currency contracts and currency swaps.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are periodically managed by monitoring market values and financial position of issuers.

Short-term bank loans and commercial papers are mainly used to fund the Group's ongoing operations. Long-term bank loans and bonds are used mainly for capital expenditures. Although the payables such as trade notes and trade accounts, bank loans and bonds are exposed to liquidity risk, the Group manages the liquidity risk through adequate financial planning by the corporate finance department. In addition, the Group has short-term bank credit lines. Some long-term bank loans are exposed to market risks from changes in interest rates, which are hedged by mainly using interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps and commodity futures contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, interest rates of bank loans, and market value fluctuation of raw materials.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Because the counterparties to these derivatives are limited to financial institutions with high creditworthiness, the Group does not anticipate any losses arising from credit risk.

Fair values of financial instruments

The carrying amounts, fair values and unrealized loss of significant financial instruments were as follows. Fair values of financial instruments are based on quoted price in active markets. If a quoted price is not available, another rational valuation technique is used instead. Instruments whose fair values cannot be readily determined are not included in the following.

	Millions of Yen		
	March 31, 2018		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥357,027**	**¥357,027**	
Trade notes and accounts receivable	**401,165**	**401,165**	
Investment securities	**211,459**	**211,459**	
Total	**¥969,651**	**¥969,651**	
Trade notes and accounts payable	**¥183,991**	**¥183,991**	
Short-term borrowings	**45,530**	**45,530**	
Income taxes payable	**21,496**	**21,496**	
Long-term debt	**498,040**	**502,054**	**¥4,014**
Total	**¥749,057**	**¥753,071**	**¥4,014**
Derivatives	**¥ (1,263)**	**¥ (1,263)**	

	Millions of Yen		
	March 31, 2017		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥344,094	¥344,094	
Trade notes and accounts receivable	369,061	369,061	
Investment securities	169,108	169,108	
Total	¥882,263	¥882,263	
Trade notes and accounts payable	¥173,147	¥173,147	
Short-term borrowings	57,699	57,699	
Income taxes payable	27,770	27,770	
Long-term debt	540,470	546,631	¥6,161
Total	¥799,086	¥805,247	¥6,161
Derivatives	¥ (1,363)	¥ (1,363)	

Assets

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Trade notes and accounts receivable

The carrying values of trade notes and accounts receivable approximate fair value because of their short maturities.

Investment securities

The fair values of equity securities are measured at the quoted market prices of the stock exchange for the equity instruments, and the fair values of debt securities are measured at the amounts to be received through maturity discounted at the Group's assumed corporate discount rate. Fair value information for investment securities by classification is included in Note 4.

Liabilities

Trade notes and accounts payable, short-term borrowings and income taxes payable

The carrying values of trade notes and accounts payable, short-term borrowings and income taxes payable approximate fair value because of their short maturities.

Long-term debt

The fair values of bonds are determined at the quoted market prices of the over-the-counter market for the corporate bonds, and the fair values of long-term loans are determined by discounting the cash flows related to the loans at the Group's assumed corporate borrowing rate. The fair values of long-term loans with floating interest rates, which are hedged by the interest rate swaps that qualify for hedge accounting and meet specific matching criteria, are determined by discounting the cash flows related to the loans and the interest rate swaps at the Group's assumed corporate borrowing rate.

Derivatives

The fair values of derivatives are measured at the quoted price obtained from the financial institution.

The contracts or notional amounts of derivatives that are shown in the table below do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting is not applied

	Millions of Yen			
	March 31, 2018			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 7,686		¥ (74)	¥ (74)
EUR	52,559		(44)	(44)
USD	38,210		573	573
AUD	7,712		245	245
ZAR	536		(0)	(0)
CZK	2,572		0	0
PLN	341		(0)	(0)
HKD	1,462		42	42
SGD	2,455		19	19
MYR	721		(1)	(1)
TRY	11,682		61	61
BRL	53		1	1
IDR	3,843		59	59
PHP	250		6	6
THB	28		0	0
Buying: CNY	2,200		15	15
Commodity futures contracts:				
Buying: Metal	¥12,067		¥(383)	¥(383)

	Millions of Yen			
	March 31, 2017			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 4,777		¥ (31)	¥ (31)
EUR	32,805		158	158
USD	39,742		431	431
AUD	7,263		21	21
ZAR	731		6	6
CZK	2,769		27	27
HKD	1,041		24	24
SGD	1,445		16	16
MYR	744		(3)	(3)
TRY	1,757		2	2
IDR	3,163		(8)	(8)
INR	1,458		(37)	(37)
Buying: CNY	1,140		16	16
Commodity futures contracts:				
Buying: Metal	¥ 2,699		¥ 2	¥ 2

Derivative transactions to which hedge accounting is applied

		Millions of Yen		
		March 31, 2018		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 4,540**		**¥ (26)**
EUR	Receivables	**38,638**		**(15)**
USD	Receivables	**3,910**		**12**
ZAR	Receivables	**536**		**(32)**
CZK	Receivables	**5,221**		**(16)**
TRY	Receivables	**1,781**		**38**
Buying: CNY	Payables	**8,122**		**35**
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	**¥196,864**	**¥179,739**	**¥(1,777)**
Fixed-rate payment, floating-rate receipt*	Long-term debt	**98,000**	**63,000**	

	Hedged Item	Millions of Yen March 31, 2017 Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 5,701		¥ (5)
EUR	Receivables	37,769		(276)
USD	Receivables	6,340		20
ZAR	Receivables	1,138		(10)
CZK	Receivables	6,743		53
PLN	Receivables	1,220		(30)
TRY	Receivables	2,310		24
Buying: CNY	Payables	5,702		9
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥184,898	¥171,996	¥(1,773)
Fixed-rate payment, floating-rate receipt*	Long-term debt	129,200	98,000	

* The above interest rate swaps that qualify for hedge accounting and meet specific matching criterion are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair values of such interest rate swaps are included in long-term debt.

Financial instruments whose fair values cannot be readily determinable

	Millions of Yen Carrying Amount 2018	2017
Nonlisted equity securities	¥9,263	¥ 9,413
Investments in limited partnerships and other investments	529	685
Total	¥9,792	¥10,098

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen March 31, 2018 Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥357,027			
Trade notes and accounts receivable	401,166			
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				¥300
Total	¥758,193			¥300

	Millions of Yen March 31, 2017 Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥344,094			
Trade notes and accounts receivable	369,032	¥29		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)	25			¥300
Total	¥713,151	¥29		¥300

Please see Note 7 for annual maturities of long-term debt.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2018 totaled approximately ¥5,786 million.

At March 31, 2018, contingent liabilities for trade notes endorsed totaled ¥2,154 million.

17. COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Unrealized gains on available-for-sale securities:		
Gains arising during the year	**¥30,981**	¥ 8,780
Reclassification adjustments to profit or loss	**(223)**	(25)
Amount before income tax effect	**30,758**	8,755
Income tax effect	**(9,215)**	(2,034)
Total	**¥21,543**	¥ 6,721
Deferred gains on derivatives under hedge accounting:		
Gains arising during the year	**¥ 1,850**	¥ 3,487
Reclassification adjustments to profit or loss	**(598)**	(395)
Amount before income tax effect	**1,252**	3,092
Income tax effect	**(404)**	(1,088)
Total	**¥ 848**	¥ 2,004
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥11,612**	¥(32,921)
Reclassification adjustments to profit or loss	**61**	312
Amount before income tax effect	**11,673**	(32,609)
Total	**¥11,673**	¥(32,609)
Remeasurements of defined benefit plans:		
Adjustments arising during the year	**¥ (286)**	¥ 502
Reclassification adjustments to profit or loss	**1,878**	1,892
Amount before income tax effect	**1,592**	2,394
Income tax effect	**(549)**	(946)
Total	**¥ 1,043**	¥ 1,448
Share of other comprehensive income in affiliates accounted for using the equity method:		
Gains (losses) arising during the year	**¥ 560**	¥ (1,142)
Total other comprehensive income (loss)	**¥35,667**	¥(23,578)

18. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2018	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥189,052**	**292,409**	**¥646.53**
Effect of dilutive securities:			
Stock options		**204**	
Diluted EPS:			
Net income for computation	**¥189,052**	**292,613**	**¥646.08**

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2017	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	¥153,939	292,208	¥526.81
Effect of dilutive securities:			
Stock options		214	
Diluted EPS:			
Net income for computation	¥153,939	292,422	¥526.43

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regularly evaluated by the Company's Board of Directors in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the Air Conditioning segment and the Chemicals segment.

The Air Conditioning segment manufactures, distributes and installs air conditioning and refrigeration equipment. The Chemicals segment manufactures and distributes chemicals.

2. Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of each reportable segment are generally consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit, assets and other items

	Millions of Yen						
	March 31, 2018						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥2,052,884	¥183,147	¥2,236,031	¥54,530	¥2,290,561		¥2,290,561
Intersegment sales	586	15,388	15,974	428	16,402	¥ (16,402)	
Total	2,053,470	198,535	2,252,005	54,958	2,306,963	(16,402)	2,290,561
Segment profit	223,463	25,511	248,974	4,757	253,731	9	253,740
Segment assets	1,995,203	216,884	2,212,087	37,625	2,249,712	240,242	2,489,954
Other:							
Depreciation	¥ 52,054	¥ 12,988	¥ 65,042	¥ 1,605	¥ 66,647		¥ 66,647
Amortization of goodwill	28,148	32	28,180		28,180		28,180
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	13,791	9,463	23,254		23,254		23,254
Investment in property, plant and equipment and intangible assets	82,751	11,873	94,624	1,966	96,590		96,590

	Millions of Yen						
	March 31, 2017						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,835,377	¥156,754	¥1,992,131	¥51,838	¥2,043,969		¥2,043,969
Intersegment sales	389	12,265	12,654	520	13,174	¥ (13,174)	
Total	1,835,766	169,019	2,004,785	52,358	2,057,143	(13,174)	2,043,969
Segment profit	208,750	18,302	227,052	3,750	230,802	(33)	230,769
Segment assets	1,943,887	191,049	2,134,936	34,641	2,169,577	186,572	2,356,149
Other:							
Depreciation	¥ 46,057	¥ 11,600	¥ 57,657	¥ 1,621	¥ 59,278		¥ 59,278
Amortization of goodwill	25,735		25,735		25,735		25,735
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	11,596	6,709	18,305		18,305		18,305
Investment in property, plant and equipment and intangible assets	76,389	12,552	88,941	1,404	90,345		90,345

Notes: 1. The Other segment is the aggregation of other operating segments which are not included in the reportable segments and consists of the Oil Hydraulics segment, the Defense segment and the Electronics segment.
2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amounted to ¥244,909 million and ¥190,001 million at March 31, 2018 and 2017, respectively, which consisted mainly of the Company's cash, time deposits and investment securities.
3. The aggregated amount of segment profit equals operating income in the consolidated statement of income.
4. Intersegment sales are recorded at values that approximate market prices.

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4. Supplemental information

(1) Information about geographical areas

(a) Sales

	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	Millions of Yen						
	March 31, 2018						
	¥542,726	**¥551,819**	**¥381,666**	**¥349,190**	**¥332,956**	**¥132,204**	**¥2,290,561**

	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	Millions of Yen						
	March 31, 2017						
	¥518,453	¥503,489	¥329,247	¥303,417	¥274,055	¥115,308	¥2,043,969

Note: Sales are classified by country or region based on the physical locations of customers.

(b) Property, plant and equipment

	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	Millions of Yen						
	March 31, 2018						
	¥154,690	**¥123,080**	**¥70,958**	**¥57,418**	**¥39,801**	**¥8,887**	**¥454,834**

	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	Millions of Yen						
	March 31, 2017						
	¥140,563	¥128,484	¥70,230	¥43,093	¥33,093	¥9,064	¥424,527

(2) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2018 and 2017 was as follows:

	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
	Millions of Yen				
	2018				
Goodwill	**¥307,868**	**¥1,414**			**¥309,282**

	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
	Millions of Yen				
	2017				
Goodwill	¥330,876				¥330,876

22. SUBSEQUENT EVENTS

Resolutions approved by the Company's Board of Directors' at the meeting held on May 9, 2018 are subject to approval at the general shareholders' meeting planned to be held on June 28, 2018.

Appropriations of Retained Earnings

Payment of year-end cash dividends of ¥75 per share to shareholders at March 31, 2018, totaling ¥21,933 million is to be resolved.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daikin Industries, Ltd.:

We have audited the accompanying consolidated balance sheet of Daikin Industries, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daikin Industries, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2018

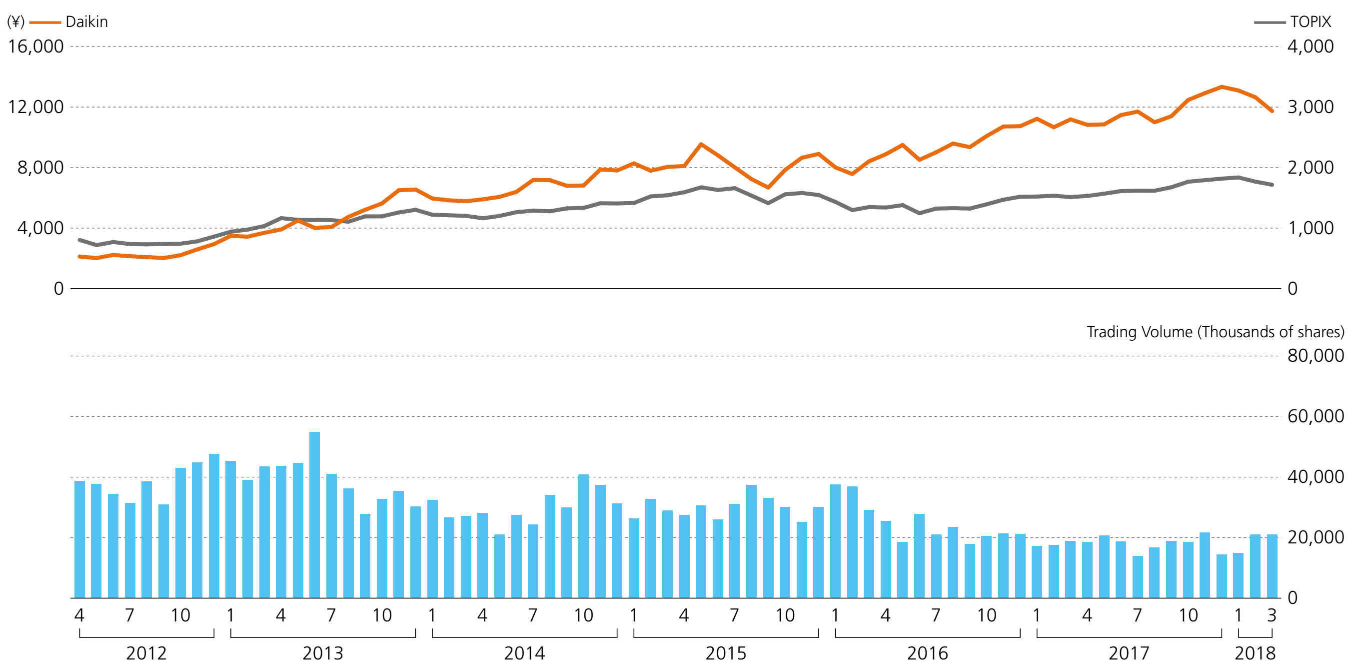
Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2018)

Company Name	Daikin Industries, Ltd.
Head Office	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan Phone: 81-6-6373-4312 URL: http://www.daikin.com/
Tokyo Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan Phone: 81-3-6716-0111
Fiscal Year-End Date	March 31 on an annual basis
Date of Founding	October 25, 1924
Date of Establishment	February 11, 1934
Paid-in Capital	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	26,635
Major Shareholders	• The Master Trust Bank of Japan, Ltd. (Trust Account) • Japan Trustee Services Bank, Ltd. (Trust Account) • Sumitomo Mitsui Banking Corporation • Japan Trustee Services Bank, Ltd. (Trust Account 5) • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • Japan Trustee Services Bank, Ltd. (Trust Account 4) • Government of Norway • State Street Bank West Client Treaty 505234 • State Street Bank and Trust Company
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 269 Affiliates: 18
Number of Employees	70,263 (Consolidated)
Stock Exchange Listing	Tokyo
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (http://www.daikin.co.jp/e-koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the *Nikkei Shimbun*.
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

Trends in Daikin's Stock Price



DAIKIN INDUSTRIES, LTD.

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