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Code Number: 6367

June 4, 2021

To Shareholders:

Masanori Togawa
President and CEO
Daikin Industries, Ltd.
Umeda Center Bldg.,
4-12, Nakazaki-Nishi 2-chome,
Kita-ku, Osaka

Convocation Notice of the 118th Ordinary General Meeting of Shareholders

We hereby inform you of the 118th Ordinary General Meeting of Shareholders of Daikin Industries, Ltd. (“Daikin” or the “Company”) to be held as indicated below.

In view of the ongoing COVID-19 situation, the Company has decided to hold the meeting subject to the implementation of appropriate measures for preventing the spread of infection.

We ask that shareholders refrain from coming to the venue on the day of the meeting if possible and exercise their voting rights in advance in writing (the Voting Rights Exercise Form) or via electronic means (the Internet).

Please review the “Reference Documents for the General Meeting of Shareholders” attached hereto, and exercise your voting rights by 5:30 p.m. on Monday, June 28, 2021, in accordance with “5. Guidance on Exercising Voting Rights” on the following page.

Particulars

1. Date and Time: 10:00 a.m., Tuesday, June 29, 2021 (The reception desk will open at 9:00 a.m.)

2. Venue: “Shion Hall” (4F), Hotel Hankyu International
19-19, Chayamachi, Kita-ku, Osaka, Japan

3. Meeting Agenda

Reports:

- 1: Business Report, Consolidated Financial Statements and the Non-Consolidated Financial Statements for the 118th fiscal year (from April 1, 2020, to March 31, 2021)
- 2: Audit Reports on the Consolidated Financial Statements for the 118th fiscal year (from April 1, 2020, to March 31, 2021) by the Independent Auditor and the Audit & Supervisory Board

Resolution Items:

- First Item:** Appropriation of Surplus
- Second Item:** Election of Eleven (11) Directors
- Third Item:** Election of One (1) Audit & Supervisory Board Member
- Fourth Item:** Election of One (1) Substitute Audit & Supervisory Board Member (external)

Fifth Item: Amounts of Compensation in the Form of Stock Options for Directors and Partial Revision of the Details of Stock Options for Directors

4. Procedural Rules Pertaining to the Convocation

Handling of Voting Rights in the Event of Multiple Exercise

- (1) In the event voting rights are exercised multiple times in writing, the last arriving vote shall be deemed to be effective.
- (2) In the event voting rights are exercised multiple times via electronic means, the last exercise of voting rights shall be deemed to be effective.
- (3) In the event voting rights are exercised in duplicate form by electronic means and in writing, the exercise of voting rights via electronic means shall be deemed to be effective.

5. Guidance on Exercising Voting Rights

Exercising Your Voting Rights in Writing (the Voting Rights Exercise Form)

On the enclosed Voting Rights Exercise Form, please indicate either approval or disapproval of each agenda and **return the form by 5:30 p.m., Monday, June 28, 2021.**

Exercising Your Voting Rights via Electronic Means (the Internet)

Please access the relevant website for the exercise of voting rights (<https://evote.tr.mufg.jp/>) using a personal computer, smartphone, or a mobile phone. Please enter the login code and password provided in the Voting Rights Exercise Form enclosed herein and follow the instructions to proceed with your votes by indicating either approval or disapproval.

You may also exercise your voting rights from the website for the exercise of voting rights for smartphones by reading the QR code for login provided in the Voting Rights Exercise Form with your smartphone, without entering the login code and password.

[Exercise deadline] by 5:30 p.m., Monday, June 28, 2021

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- Ⓞ **Please submit the enclosed Voting Rights Exercise Form to the reception desk upon your attendance at the meeting.**
 - Ⓞ In the event that any errors are found in the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements and the Non-Consolidated Financial Statements, corrections will be posted on our website.
 - Ⓞ Our website: <https://www.daikin.com/investor/stock/meeting/>

Reference Documents for the General Meeting of Shareholders

First Item: Appropriation of Surplus

The Company pays stable dividends to shareholders in comprehensive consideration of the ratio of dividends to consolidated net assets, consolidated dividend payout ratio, consolidated operating performance, financial situations, and capital demands.

We propose to pay a year-end dividend of ¥80 per share for the 118th fiscal year.

This dividend would result in an annual dividend—including the interim dividend—of ¥160 per share, remaining the same as the previous fiscal year.

Year-end dividends

(1) Amount of dividend assets to be allocated to shareholders

Cash of ¥80 per share of common stock of the Company

Total: ¥23,411,938,560

(2) Effective date of dividends from surplus

June 30, 2021

Second Item: Election of Eleven (11) Directors

The terms of office for all of the eleven (11) Directors will expire as of the conclusion of this general meeting of shareholders. Therefore, we propose the election of eleven (11) Directors including four (4) External Directors.

The candidates for Director are as follows.

Candidate number		Name	Current Positions at the Company
1	Reappointment	Noriyuki Inoue	Chairman of the Board and Chief Global Group Officer
2	Reappointment	Masanori Togawa	Representative Director, President, and CEO
3	Reappointment Candidate for External Director Candidate for Independent Director	Tatsuo Kawada	Director
4	Reappointment Candidate for External Director Candidate for Independent Director	Akiji Makino	Director
5	Reappointment Candidate for External Director Candidate for Independent Director	Shingo Torii	Director
6	New appointment Candidate for External Director Candidate for Independent Director Female	Yuko Arai	—
7	Reappointment	Ken Tayano	Representative Director and Senior Executive Officer
8	Reappointment	Masatsugu Minaka	Director and Senior Executive Officer
9	Reappointment	Takashi Matsuzaki	Director and Senior Executive Officer
10	Reappointment	Kanwal Jeet Jawa	Director and Senior Associate Officer
11	New appointment	Yoshihiro Mineno	Senior Executive Officer

Note: The Company has concluded a directors and officers (D&O) liability insurance contract with an insurance company, in which Directors of the Company are the insured. The insurance will cover any damages that may occur as a result that the insured take responsibility for liability with regard to their execution of duties or receive a claim for pursuing the liability. If all candidates for Director assume the position of Director, they will be the insured of the directors and officers (D&O) liability insurance contract. This contract will be renewed in July 2021.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
1	Noriyuki Inoue (March 17, 1935) Reappointment	<p>March 1957 Entered the Company</p> <p>February 1979 Director of the Company</p> <p>February 1985 Managing Director of the Company</p> <p>June 1989 Senior Managing Director of the Company</p> <p>June 1994 President, Representative Director of the Company</p> <p>May 1995 Chairman of the Board and President, Representative Director of the Company</p> <p>June 1996 President, Representative Director of the Company</p> <p>June 2002 Representative Director, Chairman of the Board, and CEO of the Company</p> <p>June 2014 Chairman of the Board and Chief Global Group Officer of the Company (Current position)</p> <p>[Significant positions concurrently held] External Director of Hankyu Hanshin Holdings, Inc. Chairman of The Daikin Foundation for Contemporary Arts Chairman of Kansai Philharmonic Orchestra</p>	67,700 shares
<p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Noriyuki Inoue has assumed a management role in the Company for many years, holding posts that include President, Representative Director, Chairman of the Board, and CEO. His management foresight has produced substantial results in global business expansion and enhancement of corporate value. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p>			

Notes:

The Company makes donations and provides sponsor fees to concurrent positions of Mr. Noriyuki Inoue.

- The Daikin Foundation for Contemporary Arts: makes donations
- Kansai Philharmonic Orchestra: provides sponsor fees
- Defense Society of Osaka: makes donations

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
2	Masanori Togawa (January 11, 1949) Reappointment	<p>April 1973 Entered the Company</p> <p>June 2002 Director of the Company</p> <p>June 2004 Director and Senior Executive Officer of the Company</p> <p>July 2006 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)</p> <p>June 2007 Director and Senior Executive Officer of the Company</p> <p>June 2011 Representative Director, President, and COO of the Company</p> <p>June 2014 Representative Director, President, and CEO of the Company (Current position)</p> <p>July 2016 Chairman of the Internal Control Committee of the Company (Current position)</p>	10,300 shares
<p>Reasons for Nominating Candidate for Director:</p> <p>As Representative Director, President and COO since June 2011, and as Representative Director, President and CEO since June 2014, Mr. Masanori Togawa has displayed strong leadership and contributed to the implementation of the strategic management plan and growth of the Group. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p>			

Note:

Mr. Masanori Togawa does not hold any special interests in the Company.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
3	Tatsuo Kawada (January 27, 1940) Reappointment Candidate for External Director Candidate for Independent Director	<p>March 1962 Entered Fukui Seiren Kako Co., Ltd. (Currently, Seiren Co., Ltd.)</p> <p>August 1981 Director of the above company</p> <p>August 1985 Managing Director of the above Company</p> <p>August 1987 President of the above company</p> <p>June 2003 President and COO of the above company</p> <p>October 2005 President, CEO, and COO of the above company</p> <p>June 2011 Chairman, President, CEO, and COO of the above company</p> <p>June 2014 Chairman and CEO of the above company (Current position)</p> <p>June 2016 Director of the Company (Current position)</p> <p>July 2016 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)</p> <p>[Significant positions concurrently held] Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company External Director of FUJIFILM Holdings Corporation</p>	0 shares

Reasons for Nomination and Outline of Expected Role:

Mr. Tatsuo Kawada has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Seiren Co., Ltd. Drawing on such track record, Mr. Kawada has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2016, and has been giving valuable advice on management policies and strategies. He has also been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as a Member of the HRM Advisory Committee and a Member of the Compensation Advisory Committee. For these reasons, we have appointed him to continue as External Director, expecting that he will continue to contribute to enhancement of the Company's corporate value by adequately fulfilling the duties of External Director and proactively making proposals from a broad and advanced perspective including viewpoint of shifting to new business models and generating innovation.

Attendance for Meetings of the Board of Directors:

Attended 13 out of 15 meetings (86.7%)

Notes:

1. Mr. Tatsuo Kawada does not hold any special interests in the Company.
2. There are no transactions between the Company and Seiren Co., Ltd., where Mr. Kawada serves as Representative Director.
3. Mr. Kawada is a candidate for External Director. The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Mr. Kawada will have been an External Director for five years.
5. The Company has concluded a limitation of liability agreement with Mr. Kawada, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act. In the event that his reelection is approved, the Company intends to continue the said agreement with him.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
4	Akiji Makino (September 14, 1941) Reappointment Candidate for External Director Candidate for Independent Director	March 1965 Entered Iwatani Corporation June 1988 Director of the above company June 1990 Executive Director of the above company June 1994 Senior Executive Director of the above company June 1998 Executive Vice President of the above company April 2000 President of the above company June 2004 President and Executive Officer of the above company June 2012 Chairman, CEO, and Executive Officer of the above company June 2016 Director of the Company (Current position) July 2016 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position) April 2019 Chairman and CEO of Iwatani Corporation (Current position) [Significant positions concurrently held] Chairman and CEO of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited	2,000 shares
<p>Reasons for Nomination and Outline of Expected Role:</p> <p>Mr. Akiji Makino has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Iwatani Corporation. Drawing on such track record, Mr. Makino has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2016 and has been giving valuable advice on management policies and strategies. He has also been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as a Member of the HRM Advisory Committee and a Member of the Compensation Advisory Committee. For these reasons, we have appointed him to continue as External Director, expecting that he will continue to contribute to enhancement of the Company's corporate value by adequately fulfilling the duties of External Director and proactively making proposals from a broad and advanced perspective including viewpoint of the energy and environmental fields and service businesses.</p> <p>Attendance for Meetings of the Board of Directors: Attended 14 out of 15 meetings (93.3%)</p>			

Notes:

1. Mr. Akiji Makino does not hold any special interests in the Company.
2. While there have been transactions, such as product sales and raw materials procurement, between the Company and Iwatani Corporation, where Mr. Makino serves as Representative Director, such transactions account for less than 1% of the consolidated net sales either of the Company or of Iwatani Corporation in the latest fiscal year.
3. Mr. Makino is a candidate for External Director. The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Mr. Makino will have been an External Director for five years.
5. The Company has concluded a limitation of liability agreement with Mr. Makino, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act. In the event that his reelection is approved, the Company intends to continue the said agreement with him.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
5	Shingo Torii (January 18, 1953) Reappointment Candidate for External Director Candidate for Independent Director	April 1980 Entered ITOCHU Corporation June 1983 Entered Suntory Limited (Currently, Suntory Holdings Limited) March 1992 Director of the above company March 1999 Managing Director of the above company March 2001 Representative Director and Senior Managing Executive Officer of the above company March 2003 Representative Director and Executive Vice President of the above company October 2014 Representative Director and Vice Chairman of the Board of the above company (Current position) June 2020 Director of the Company (Current position) July 2020 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position) [Significant positions concurrently held] Representative Director and Vice Chairman of the Board of Suntory Holdings Limited External Director of ROHTO Pharmaceutical Co., Ltd. Outside Director of Zojirushi Corporation	1,000 shares
<p>Reasons for Nomination and Outline of Expected Role: Mr. Shingo Torii has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Suntory Holdings Limited. Drawing on such track record, Mr. Torii has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2020 and has been giving valuable advice on management policies and strategies. He has also been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as a Member of the HRM Advisory Committee and a Member of the Compensation Advisory Committee. For these reasons, we have appointed him to continue as External Director, expecting that he will continue to contribute to enhancement of the Company's corporate value by adequately fulfilling the duties of External Director and proactively making proposals from a broad and advanced perspective including viewpoint of corporate management for proactively capturing customer needs, the enhancement of corporate value through ESG activities, and other areas.</p> <p>Attendance for Meetings of the Board of Directors: Attended 12 out of 13 meetings (held since appointment on June 26, 2020) (92.3%)</p>			

Notes:

1. Mr. Shingo Torii does not hold any special interests in the Company.
2. There are no transactions between the Company and Suntory Holdings Limited, where Mr. Torii serves as Representative Director.
3. Mr. Torii is a candidate for External Director. The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Mr. Torii will have been an External Director for one year.
5. The Company has concluded a limitation of liability agreement with Mr. Torii, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act. In the event that his reelection is approved, the Company intends to continue the said agreement with him.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
6	Yuko Arai (January 27, 1961) New appointment Candidate for External Director Candidate for Independent Director Female	April 1979 Entered ALL NIPPON AIRWAYS CO., LTD. April 2014 Corporate Executive Officer of the above company April 2016 Senior Executive Officer of the above company Director and Senior Vice President of ANA Sales Co., Ltd. (Currently, ANA Akindo Co., Ltd.) April 2021 Director and Senior Vice President of ANA Akindo Co., Ltd. (Current position) [Significant positions concurrently held] Director and Senior Vice President of ANA Akindo Co., Ltd. Outside Director of Aichi Steel Corporation	0 shares

Reasons for Nomination and Outline of Expected Role:

Ms. Yuko Arai has abundant experience and deep insight as a corporate manager gained through serving various positions such as Senior Executive Officer of ALL NIPPON AIRWAYS CO., LTD. We have appointed Ms. Arai as External Director, expecting that she will use her experience and insight to supervise the Company's management appropriately from an independent standpoint, and that she can contribute to enhancement of the Company's corporate value by proactively making proposals from a broad and advanced perspective including viewpoint of corporate management from customers' perspective and promotion of further participation by female employees.

Notes:

- Ms. Yuko Arai does not hold any special interests in the Company.
- There are no transactions between the Company and ANA Akindo Co., Ltd., where Ms. Arai serves as Director.
- Ms. Arai is a candidate for External Director. The Company will report her to Tokyo Stock Exchange, Inc., as Independent Director if she is selected as External Director.
- If Ms. Arai assumes the position of External Director, the Company intends to conclude a limitation of liability agreement with her, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
7	Ken Tayano (January 12, 1947) Reappointment	April 1970 Entered the Company June 2000 Associate Officer of the Company June 2002 Senior Associate Officer of the Company June 2004 Senior Executive Officer of the Company, Representative of China business of the Company (Current position), Member of Global Air Conditioning Committee of the Company (Current position) May 2009 Chairman of the Board and President of Daikin (China) Investment Co., Ltd. (Current position) June 2011 Director and Senior Executive Officer of the Company June 2013 In charge of air conditioning business in Japan of the Company (Current position) June 2014 Representative Director and Senior Executive Officer of the Company (Current position) December 2014 Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. (Current position) [Significant positions concurrently held] Chairman of the Board and President of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd.	5,300 shares
<p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Ken Tayano has been engaged in the air conditioning business in China over many years and has contributed significantly to the expansion of the business. Serving as Director and Senior Executive Officer since June 2011, and as Representative Director and Senior Executive Officer since June 2014, he is currently in charge of all lines of business operations of the Company in China and the air conditioning business in Japan. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p>			

Note:

Mr. Ken Tayano does not hold any special interests in the Company.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
8	Masatsugu Minaka (July 9, 1953) Reappointment	October 1983 Entered the Company July 2005 Director and President of Daikin Europe N.V. (Current position) June 2007 Associate Officer of the Company, Member of Global Air Conditioning Committee of the Company (Current position) June 2008 Executive Officer of the Company June 2010 Senior Executive Officer of the Company June 2011 Director and Senior Executive Officer of the Company (Current position), Representative of Air Conditioning in Europe, the Middle East and Africa of the Company June 2018 Representative of Air Conditioning in Europe, the Middle East and Africa (excluding East Africa) of the Company (Current position) [Significant positions concurrently held] Director and President of Daikin Europe N.V.	10,100 shares
<p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Masatsugu Minaka has been engaged in the air conditioning business in Europe over many years and has contributed significantly to the expansion of the business. Serving as Director and Senior Executive Officer since June 2011, he is currently in charge of the air conditioning business in Europe, the Middle East and Africa. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p>			

Note:

Mr. Masatsugu Minaka does not hold any special interests in the Company.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
9	Takashi Matsuzaki (December 23, 1958) Reappointment	<p>April 1982 Entered the Company</p> <p>June 2004 Executive Officer of the Company</p> <p>June 2008 Director and Senior Executive Officer of the Company</p> <p>June 2010 Senior Executive Officer of the Company</p> <p>June 2012 Director and Senior Executive Officer of the Company</p> <p>June 2015 In charge of North America R&D (including applied solutions, commercial & industrial refrigeration, filter and dust collection) of the Company</p> <p>June 2017 In charge of North America R&D of the Company (Current position), In charge of Applied Development Center of the Company (Current position), General Manager of Silicon Valley Technology Office of the Company</p> <p>June 2018 Senior Executive Officer of the Company, In charge of Applied Solutions Business of the Company (Current position), In charge of Daikin Open Innovation Lab Silicon Valley of the Company (Current position)</p> <p>June 2019 Senior Executive Officer of the Company (Current position)</p> <p>June 2020 Director of the Company (Current position)</p>	8,000 shares

Reasons for Nominating Candidate for Director:

Mr. Takashi Matsuzaki has been engaged in the air conditioning business over many years and has contributed significantly to the expansion of the business especially from the perspective of R&D. Serving as Senior Executive Officer since June 2019, and as Director and Senior Executive Officer since June 2020, he is currently in charge of Applied Solutions Business, as well as R&D in North America. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

Note:

Mr. Takashi Matsuzaki does not hold any special interests in the Company.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
10	Kanwal Jeet Jawa (November 10, 1959) Reappointment	1997 Regional Director (Asia Pacific) of Carrier Aircon Limited 2001 Regional Vice President (North&East) of Voltas Limited 2005 Senior Vice President of the above company 2006 Managing Director of Uniflair India Pvt. Ltd. May 2010 Deputy Managing Director & COO of Daikin Airconditioning India Pvt. Ltd. September 2010 Managing Director & COO of the above company July 2017 Managing Director & CEO of the above company (Current position) June 2018 Director and Associate Officer of the Company, Regional General Manager, Air Conditioning Business in India and East Africa, Global Operations Division of the Company (Current position) June 2019 Director and Senior Associate Officer of the Company (Current position) [Significant positions concurrently held] Managing Director & CEO of Daikin Airconditioning India Pvt. Ltd.	0 shares

Reasons for Nominating Candidate for Director:

Mr. Kanwal Jeet Jawa has been engaged in the air conditioning business in India over many years and has contributed significantly to the expansion of the business. Serving as Director and Associate Officer since June 2018, and as Director and Senior Associate Officer since June 2019, he is currently in charge of the air conditioning business in India and East Africa. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

Note:

Mr. Kanwal Jeet Jawa does not hold any special interests in the Company.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
11	Yoshihiro Mineno (May 14, 1953) New appointment	September 1978 Entered the Company May 2010 General Manager of Global Operations Division of the Company (Current position) June 2012 Executive Officer of the Company June 2016 Senior Executive Officer of the Company, Director of Goodman Global Group, Inc. (Current position), Director of Daikin Holdings (Houston), Inc. (Current position) June 2019 Senior Executive Officer of the Company (Current position), In charge of filter business of the Company (Current position), In charge of training of the Company (Current position)	6,500 shares

Reasons for Nominating Candidate for Director:

Mr. Yoshihiro Mineno has been engaged in the overseas air conditioning business over many years and has contributed significantly to the expansion of the business. Serving as Senior Executive Officer since June 2019, he is currently in charge of the air conditioning business in Asia and Oceania and the filter business. We have appointed Mr. Mineno as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

Note:

Mr. Yoshihiro Mineno does not hold any special interests in the Company.

Third Item: Election of One (1) Audit & Supervisory Board Member

The term of office for Audit & Supervisory Board Member Ryu Yano will expire as of the conclusion of this general meeting of shareholders. Therefore, we propose the election of one (1) Audit & Supervisory Board Member.

This proposal has been approved by the Audit & Supervisory Board.

The candidate for Audit & Supervisory Board Member is as follows.

Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
Ryu Yano (April 21, 1940) Reappointment Candidate for Audit & Supervisory Board Member (external) Candidate for Independent Director	April 1963 Entered Sumitomo Forestry Co., Ltd. December 1988 Director of the above company June 1992 Managing Director of the above company June 1995 Representative Director of the above company June 1995 Senior Managing Director of the above company April 1999 Director, President of the above company June 2002 President and Executive Officer of the above company April 2010 Director, Chairman of the Board of the above company June 2013 Audit & Supervisory Board Member of the Company (Current position) April 2020 Director Advisor of Sumitomo Forestry Co., Ltd. June 2020 Chief Corporate Advisor of the above company (Current position) [Significant positions concurrently held] Chief Corporate Advisor of Sumitomo Forestry Co., Ltd.	0 shares
<p>Reasons for Nominating Candidate for Audit & Supervisory Board Member (external): Mr. Ryu Yano has extensive experience and deep insight as a corporate manager, including a wealth of overseas business experience, serving as Representative Director of Sumitomo Forestry Co., Ltd. Drawing on such proven track record, Mr. Yano has appropriately performed his duties as Audit & Supervisory Board Member (external) of the Company since 2013. For these reasons, we have appointed him to continue as Audit & Supervisory Board Member (external), believing that he will continue to contribute to the monitoring of overall management and realizing even more appropriate audits.</p> <p>Attendance for Meetings of the Board of Directors and the Audit & Supervisory Board: Attended 15 out of 15 meetings of the Board of Directors (100%), and attended 15 out of 15 meetings of the Audit & Supervisory Board (100%)</p>		

Notes:

1. Mr. Ryu Yano does not hold any special interests in the Company.
2. While there have been transactions, such as product maintenance and services, between the Company and Sumitomo Forestry Co., Ltd., where Mr. Yano serves as Chief Corporate Advisor, such transactions account for less than 1% of the consolidated net sales either of the Company or of Sumitomo Forestry Co., Ltd. in the latest fiscal year.

3. Mr. Yano is a candidate for Audit & Supervisory Board Member (external). The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as Audit & Supervisory Board Member (external).
4. As of the conclusion of this general meeting of shareholders, Mr. Yano will have been an Audit & Supervisory Board Member (external) for eight years.
5. The Company has concluded a limitation of liability agreement with Mr. Yano, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act. In the event that his reelection is approved, the Company intends to continue the said agreement with him.
6. The Company has concluded a directors and officers (D&O) liability insurance contract with an insurance company, in which Audit & Supervisory Board Members of the Company are the insured. The insurance will cover any damages that may occur as a result that the insured take responsibility for liability with regard to their execution of duties or receive a claim for pursuing the liability. If Mr. Yano assumes the position of Audit & Supervisory Board Member, he will be the insured of the directors and officers (D&O) liability insurance contract. This contract will be renewed in July 2021.

Fourth Item: Election of One (1) Substitute Audit & Supervisory Board Member (external)
Based on the provisions of Article 329, Paragraph 3, of the Companies Act, we propose the election of one (1) Substitute Audit & Supervisory Board Member to prepare for the possibility that the number of Audit & Supervisory Board Members (external) as defined in Article 335, Paragraph 3, of the Companies Act may become insufficient. This proposal has been approved by the Audit & Supervisory Board.

The candidate for Substitute Audit & Supervisory Board Member (external) is as follows.

Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
Ichiro Ono (April 3, 1949)	April 1978 Registered as a lawyer (Current position) April 1990 Managing Partner of Higobashi Law Office April 2003 Vice Chairman of the Osaka Bar Association April 2009 Member, Mediation Committee, Osaka Family Court July 2012 Chairman, Information Disclosure Review Board, Osaka City July 2020 Senior Partner of Higobashi Law Office (Current position) [Significant positions concurrently held] Senior Partner of Higobashi Law Office	3,000 shares
Reasons for Nominating Candidate for Substitute Audit & Supervisory Board Member (external): Mr. Ichiro Ono has extensive experience and deep insight as a lawyer, including being involved in handling corporate legal affairs for many years. We have appointed Mr. Ono as Substitute Audit & Supervisory Board Member (external) in order to benefit from his experience and insight in the monitoring of overall management and to realize even more appropriate audits. Although Mr. Ono does not have experience of direct involvement in corporate management, we have judged him able to adequately fulfill the duties of Audit & Supervisory Board Member (external) for the reasons stated above.		

Notes:

1. Mr. Ichiro Ono does not hold any special interests in the Company.
2. There are no transactions between the Company and Higobashi Law Office, where Mr. Ono serves as Senior Partner.
3. Mr. Ono is a candidate for Substitute Audit & Supervisory Board Member (external). The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as Audit & Supervisory Board Member (external).
4. If Mr. Ono assumes the position of Audit & Supervisory Board Member, the Company intends to conclude a limitation of liability agreement with him, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act.
5. The Company has concluded a directors and officers (D&O) liability insurance contract with an insurance company, in which Audit & Supervisory Board Members of the Company are the insured. The insurance will cover any damages that may occur as a result that the insured take responsibility for liability with regard to their execution of duties or receive a claim for pursuing

the liability. If Mr. Ono assumes the position of Audit & Supervisory Board Member, he will be the insured of the directors and officers (D&O) liability insurance contract. This contract will be renewed in July 2021.

Fifth Item: Amounts of Compensation in the Form of Stock Options for Directors and Partial Revision of the Details of Stock Options for Directors

At the 112th Ordinary General Meeting of Shareholders held on June 26, 2015, the Company obtained approval to set the maximum amount of compensation in the form of share acquisition rights (hereinafter the “stock compensation-type stock options”) issued to Directors (excluding External Directors) of the Company at “no higher than ¥180 million annually,” while setting the maximum number of share acquisition rights issued within one (1) year from the date of the ordinary general meeting of shareholders for the corresponding fiscal year at 600.

Under the current stock compensation-type stock option system, the Company grants Directors (excluding External Directors), who have been allotted share acquisition rights, cash compensation equal to the total amount of the share acquisition rights, and offsets the claims to such compensation against the payment obligations to be paid for the share acquisition rights.

The stock compensation-type stock options shall, through granting certain numbers of share acquisition rights commensurate with executive ranks of recipients, function as sound incentive for motivating Directors of the Company to contribute to maintaining and improving sustainable corporate value, with a view to further encouraging Directors to share common value with shareholders on a medium- to long-term basis.

In view of the increasing significance of medium- to long-term compensation and stock-based compensation as part of the compensation of directors, the Company would ask shareholders to approve a partial revision of the stock compensation-type stock options in order to offer more medium- to long-term incentives to Directors of the Company. With this revision, the aforementioned maximum amount of compensation set at “no higher than ¥180 million annually” shall be changed to “no higher than ¥360 million annually,” and the maximum number of share acquisition rights issued within one (1) year from the date of the ordinary general meeting of shareholders for the corresponding fiscal year shall be changed from “600” to “450.”

Simultaneously, the system shall be partially reviewed and modified, to reflect certain areas of individual evaluation such as the status and achievements of each individual’s efforts to address short-term and medium- to long-term key issues, in determining the number of share acquisition rights offered to recipients, with a view to ensuring that Directors remain sharing common value with shareholders.

The Company adopted, at the Board of Directors’ meeting held on February 25, 2021, policies for determining compensation for individual Directors, as summarized in pages 36-39 of the Business Report. An item of such policies shall be changed as follows to establish new policies, subject to the shareholders’ approval of this proposal.

(The underlined text is the amended part)

Item	Current policy	New policy
(iv) Policy for determining the non-monetary compensation and the method for its computation	“Stock compensation-type stock options” shall be granted to the Directors excluding External Directors. In each fiscal year, the number of stock compensation-type stock options to be granted shall be calculated by dividing <u>the executive rank-based standard amount of compensation</u> , by the latest closing stock average. The granted stock compensation-type stock options shall be allowed to be exercised for a period of twelve (12) years after the lapse of three (3) years following the grant date.	“Stock compensation-type stock options” shall be granted to the Directors excluding External Directors. In each fiscal year, the number of stock compensation-type stock options to be granted shall be calculated by dividing <u>the amount of compensation, which is determined by reflecting the status and achievements of each individual’s efforts to address short-term and medium- to long-term key issues in the previous fiscal year, based on the executive rank-based standard amount of compensation</u> , by the latest closing stock average. The granted stock compensation-type stock options shall be allowed to be exercised for a period of twelve (12) years after the lapse of three (3) years following the grant date.

This proposal is in line with the policies after the aforementioned change, and the proposed stock compensation-type stock options are considered to work adequately as a medium- to long-term incentive factor for Directors as intended, thus believed to be appropriate.

This amount of compensation relating to share acquisition rights of “no higher than ¥360 million annually” will be separate from the maximum amount of compensation for Directors of “no higher than ¥1,300 million annually (including ¥100 million as the maximum annual amount of compensation for External Directors),” which was approved at the 111th Ordinary General Meeting of Shareholders held on June 27, 2014 and 117th Ordinary General Meeting of Shareholders held on June 26, 2020.

As for the amount of compensation for Directors, the amount still excludes a salary portion for a Director who also holds an employee post.

At the conclusion of this general meeting of shareholders, the number of Directors, excluding External Directors, will be seven (7) and the number of External Directors will be four (4).

While no substantial change is intended in the stock compensation-type stock options, shareholders would be asked to approve a new form of the stock compensation-type stock options reflecting revisions to the existing form already approved, in accordance with the latest amendment to the Companies Act. The revisions are summarized as follows.

<Overview of stock compensation-type stock options>

(1) Total number of share acquisition rights

The maximum number of share acquisition rights issued within one (1) year from the date of the ordinary general meeting of shareholders for the corresponding fiscal year shall be 450.

(2) Type and number of shares to be issued for share acquisition rights

The type of shares to be issued for the share acquisition rights shall be common stock of the Company and the number of shares to be issued for one (1) share acquisition right (hereinafter

the “number of granted shares”) shall be 100 shares. Provided, however, that in the event the Company conducts a merger, issuance of offered shares, company split, share split, consolidation of shares, etc., and a change in the number of shares is required, the Company shall conduct adjustments as it sees fit.

(3) Amount to be paid for share acquisition rights

The amount to be paid for one (1) share acquisition right shall be the amount decided at the Company’s Board of Directors’ meeting to determine the terms and conditions for the offering of the share acquisition rights, based on the fair value of the share acquisition rights calculated using a fair calculation method, such as the Black-Scholes Model at the allotment of the share acquisition rights.

(4) Amount of assets to be contributed upon exercise of the share acquisition rights

The amount of assets to be contributed upon exercise of each share acquisition right shall be an amount obtained by multiplying the amount to be paid for a share granted through the exercise of the share acquisition rights, which shall be ¥1 per share, by the number of shares granted.

(5) Period during which the share acquisition rights may be exercised

The period during which the share acquisition rights may be exercised shall be determined by the Board of Directors within the period up to twelve (12) years from the day following the day when three (3) years have passed since the allotment date.

(6) Restriction on the acquisition of the share acquisition rights by way of transfer

Approval by the Board of Directors shall be required for the acquisition of share acquisition rights by way of transfer.

(7) Conditions for exercise of share acquisition rights

Allottees of share acquisition rights shall, once having ceased to hold office of Director, Executive Officer, employee or any other certain office in the Company or its subsidiary, be entitled to exercise share acquisition rights during a certain period as determined by the Board of Directors of the Company, and no other person than the allottees may be entitled to exercise share acquisition rights. An allottee shall not be entitled to exercise share acquisition rights, in the event of certain circumstances as prescribed by the Board of Directors of the Company such as the allottee having committed certain wrongdoings, having assumed the position of officer or employee at another company without the Company’s prior consent, or having been sentenced to imprisonment or a greater punishment. Other conditions for exercise of share acquisition rights than the aforementioned shall be decided at the Company’s Board of Directors’ meeting to determine the terms and conditions for the offering of share acquisition rights.

(8) Circumstances and conditions that warrant the Company’s acquisition of share acquisition rights

The Company shall, on the date as separately determined by the Board of Directors of the Company, be entitled to acquire the share acquisition rights without compensation, if the General Meeting of Shareholders of the Company (or the Board of Directors where resolution by the General Meeting of Shareholders is not required) approves proposal for a merger agreement where the Company is the absorbed company, an absorption-type company split agreement or an incorporation-type company split plan where the Company is the splitting company, or a share exchange agreement or a share transfer plan where the Company becomes a wholly-owned subsidiary. If a holder of share acquisition rights becomes, pursuant to the provisions of (7) above, unable to exercise share acquisition rights before exercising the share acquisition rights, the Company shall be entitled to acquire such share acquisition rights without compensation.

Business Report

1. Review of Operations

(1) Progress and Results of Operations of the Company Group

In the fiscal year ended March 31, 2021 (fiscal 2020), the overall world economy slowed significantly as economic activity stagnated due to the global spread of the coronavirus (COVID-19). While some countries saw a recovery, there were also regions where the infection spread again, prolonging the impact of the disease. Although the U.S. economy slowed due to a decline in personal consumption in the first half of the period, it showed signs of recovery from the second half of the period as government economic measures and strong online sales provided support for consumption. The European economy was supported by recovery of exports, despite the continued slowdown in personal consumption due to prolonged restrictions on activities. In the economies of Asia and emerging countries, domestic demand was sluggish due to restrictions on activities, but there were signs of economic recovery, helped by gains in exports and government spending. The Chinese economy continued a recovery trend from quick resumption of economic activities and increases in exports and government infrastructure investment in the information and telecommunication and energy sectors. The Japanese economy, despite export gains to China and recovering production activities, experienced downward pressure from sluggish personal consumption.

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

In addition, the Daikin Group set “Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change” (3 Structures of Collaborative Innovation: Collaborative Innovation with Customers, Collaborative Innovation with External Bodies, and Collaborative Innovation within the Group) as the slogan for its Annual Group Policy for 2020. The Group made efforts to strengthen sales and marketing capabilities; foster new product development; build flexible production and procurement systems; improve quality; enhance human resources capabilities; and reduce both fixed and variable costs in each region around the world.

The Daikin Group’s net sales decreased by 2.2% year over year to ¥2,493,386 million for the fiscal year under review. As for profits, operating profit decreased by 10.1% to ¥238,623 million, ordinary profit decreased by 10.7% to ¥240,248 million, and profit attributable to owners of parent decreased by 8.5% to ¥156,249 million.

(2) Review of Operations by Business Segment

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment decreased by 1.5% year over year to ¥2,273,821 million. Operating profit decreased by 5.5% to ¥223,110 million.

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

In the Japanese residential air-conditioning equipment market, industry demand for both room air conditioners and air purifiers exceeded the previous fiscal year because of demand for additional purchases of air conditioning equipment due to changes in residential applications including remote work, as well as growth in demand for home appliances due to people spending more time at home. The Group responded to market needs by launching a series of high value-added products utilizing proprietary technologies, such as the Streamer disinfection unit, waterless humidification, and room air conditioner air supply ventilation, including the room air conditioners

“Urusara X” and “Ururu Sarara Air Purifier.” Additionally, despite disruptions to its supply chain caused by COVID-19, the Group worked to maintain a stable supply system and increased sales. Through these efforts, the Group’s net sales of residential air-conditioning systems increased year over year.

In the Americas, net sales decreased year over year as a whole due to the impact from the spread of COVID-19. Residential air-conditioning systems received a positive effect on demand from more time spent at home and greater adoption of remote work, as well as favorable weather conditions. However, net sales declined year over year owing to the impact of the spread of infection throughout the United States and a period of tight supplies resulting from the temporary closure of factories. Net sales of commercial air-conditioning systems also declined year over year due to the review and suspension of projects in certain industries, including the retail and restaurant industries. In the market for large buildings (Applied Systems), the Group worked to strengthen its sales network and expand sales of ventilation products, particularly of rooftop units and air handling units (large commercial air-conditioning systems that meet a wide variety of air-conditioning needs depending on the type of business and room application). However, net sales fell below the level of the previous fiscal year due to a slowdown in the market caused by the spread of infection.

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

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

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

tools amid this difficult market environment and the restrictions placed on sales activities such as visits to customers and worksites, net sales of commercial air-conditioning systems decreased year over year.

In the Middle and Near East and Africa, sales of residential air-conditioning systems increased year over year. However, overall net sales decreased year over year because sales of commercial air-conditioning systems were sluggish due to a decrease in the number of projects caused by low crude oil prices. In Turkey, net sales in the local currency increased year over year, driven by sales of residential air-conditioning systems and heating systems, but yen-equivalent net sales remained at the same level year over year due to the impact of the sharp depreciation of the Turkish lira.

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

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

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 8.7% year over year to ¥164,165 million. Operating profit decreased by 52.2% to ¥11,371 million.

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

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

Among specialty chemicals, net sales of anti-fouling surface coating agents increased year over year as a result of strong sales in China. In addition, net sales of semiconductor etching agents increased year over year due to sales expansion to meet recovering demand. However, due in part to the general decline in demand from the impact of COVID-19, overall net sales of specialty chemicals remained at the same level year over year.

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

(iii) Other Divisions

Overall sales of the "Others" segment decreased by 9.6% year over year to ¥55,399 million. Operating profit decreased by 25.5% to ¥4,132 million.

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

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

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

On a non-consolidated basis, the Company's net sales decreased by 4.3% year over year to ¥563,243 million. Operating profit decreased by 33.8% year over year to ¥35,675 million. Ordinary profit decreased by 34.3% year over year to ¥100,673 million, and profit decreased by 38.4% year over year to ¥87,720 million.

(3) Capital Expenditures

Adhering to the basic strategy of “Focusing Management Resources on More Profitable Areas,” the Daikin Group’s capital expenditures were mainly allocated to Air-Conditioning and Refrigeration Equipment and Chemicals segments, and the total amounted to ¥136,985 million.

Breakdown of capital expenditures

(Millions of yen)		
Business segment	Name of company	Amount of capital expenditure
Air-Conditioning and Refrigeration Equipment	Daikin Industries, Ltd.	9,346
	Goodman Global Group, Inc. Group	17,847
	Daikin Europe N.V. Group	16,238
	Daikin (China) Investment Co., Ltd. Group	12,513
	Daikin Applied Americas Inc. Group	9,492
	Daikin Malaysia Sdn. Bhd. Group	5,626
Chemicals	Daikin Industries, Ltd.	10,234
	Daikin Fluorochemicals (China) Co., Ltd. Group	20,566
Others	Daikin Industries, Ltd.	1,397

(4) Financing Activities

The funds for the above capital expenditures were primarily raised through bank borrowings and funds on hand. In addition, bank borrowings through syndicated loans and issuance of straight bonds were performed to prepare for stagnant economic activities due to the spread of COVID-19.

(5) Succession of Rights and Obligations Relating to Other Corporations’ Business due to Transfer of Business, Division by Absorption or Division by Incorporation, Succession of Business from Other Companies, Acquisition or Disposal of Other Companies’ Stock or Other Interests or Share Acquisition Rights and Merger and Acquisition or Division by Absorption

Nothing material to report.

(6) Operating Results and the Status of Assets

	115th Business Year (from April 1, 2017, to March 31, 2018)	116th Business Year (from April 1, 2018, to March 31, 2019)	117th Business Year (from April 1, 2019, to March 31, 2020)	118th Business Year (from April 1, 2020, to March 31, 2021)
Net sales (Millions of yen)	2,290,560	2,481,109	2,550,305	2,493,386
Ordinary profit (Millions of yen)	255,019	277,074	269,025	240,248
Profit attributable to owners of parent (Millions of yen)	189,051	189,048	170,731	156,249
Earnings per share (Yen)	646.53	646.39	583.61	533.97
Total assets (Millions of yen)	2,475,708	2,700,890	2,667,512	3,239,662
Net assets (Millions of yen)	1,324,321	1,446,849	1,462,591	1,698,495

Note: From the 116th Business Year, the Group has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. Figures for the 115th Business Year were adjusted retrospectively.

In the 115th term, the Group’s Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable sales both in Japan and in each region overseas. The Chemicals segment also increased sales and profits due to expanded sales to the semiconductor and automotive markets.

In the 116th term, the Group strengthened its earnings capabilities by promoting reductions in overall costs and implementing thorough selling price measures despite the impact of soaring market prices of raw materials and the depreciation of emerging countries’ currencies. The Group’s Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable sales in major regions including Japan, the Americas, and Europe. The Chemicals segment also increased sales and profits due to expanded sales mainly to the semiconductor market.

In the 117th term, the Group’s sales were affected by a harsh operating environment such as the decline in demand due to a warm winter, a slow recovery in the semiconductor market, and expansion of the negative impact from foreign exchange rates until the third quarter and the global spread of COVID-19 in the fourth quarter. The Group’s Air-Conditioning and Refrigeration Equipment segment increased sales but decreased profits because the impact of the spread of COVID-19 in China was significant despite the efforts to expand sales of high-value-added products in each region around the world. The Chemicals segment decreased sales and profits due to the decline in demand in the semiconductor and automotive markets.

The results of our operations during the 118th term are as described in (1) Progress and Results of Operations of the Company Group.

(7) Issues the Group Ought to Contend With

The global economy is expected to take an upward turn thanks to the spread of COVID-19 vaccines and the large-scale measures to boost economies in various countries. Economic expansion in China and the United States, which continue large-scale fiscal spending, is expected to precede. Although the timing will be later than the aforementioned countries, gradual economic recovery is expected in Europe and Japan as well.

Under such circumstances, for this year (2021), we set “Taking ‘Overwhelming Changes’ as Opportunity, Let’s Challenge New Initiatives” as the Group’s slogan for its Annual Group Policy. We will make efforts to strengthen our solutions business, which is not limited to unit sales of equipment, further expand sales of heat pump heating systems and water heaters, establish the refrigeration business that connects cold chains from places of production to places of consumption, provide products and services with a focus on demand for air and ventilation as well as solutions for global environmental issues and climate change problems, strengthen sales and marketing capabilities using digital technology, make production and procurement flexible, improve quality, enhance human resources capabilities, and reduce both fixed and variable costs. Furthermore, in technology development, we will strive to acquire differentiated technologies by engaging in academic-industrial collaboration and collaborating with other members of industry, including venture capital companies.

According to the International Energy Agency (IEA), demand for air-conditioning equipment is expected to be more than triple in 2050 as emerging countries develop. This is a great opportunity for the Daikin Group, whose

main business is air-conditioning. On the other hand, with climate change becoming a global issue and the need for decarbonization increasing, we must devote ourselves to the challenge of curbing greenhouse gas emissions by reducing electricity consumption associated with air-conditioning equipment, reducing the use of fossil fuels, and preventing the leakage of refrigerants that cause the greenhouse effect. Failure to do so may become a risk to the Daikin Group. For this reason, we are working to reduce environmental impact by developing and promoting the use of refrigerants with low global warming potential, developing and promoting the use of high-efficiency air conditioners, and creating solutions that make efficient use of energy throughout buildings. In 2018, we formulated “Environmental Vision 2050,” with a target of reducing greenhouse gas emissions to net zero by 2050 while providing a safe and healthy air environment. Furthermore, we endorsed the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. Taking climate change as an important issue that affects our business continuity, we will analyze the risks and opportunities that climate change poses to our business and reflect them in our management strategies as we aim for further growth while contributing to the resolution of climate change and other social issues.

(8) Major Operations of the Company Group (as of March 31, 2021)

The Group is engaged in the manufacture and sale of the following products:

Air-Conditioning and Refrigeration Equipment

- For residential use: Room air conditioners, Air purifiers, Heat pump-water heaters, Far-infrared electric heaters, Heat-pump type floor heating systems
- For commercial use: Packaged air conditioning systems, Spot air conditioners, Air purification systems, Deodorizers, Far-infrared electric heaters, Total heat exchangers, Duct ventilating fans, Water chilling units, Ammonia water chilling units, Centrifugal chillers, Screw-type chillers, Fan-coil units, Air handling units, Rooftops, Packaged air conditioners for low temperatures, Freezers, Refrigerating and freezing showcases, Air filters, Industrial dust collectors
- For marine vessels: Container refrigeration units, Marine vessel air conditioners and refrigeration units

Chemicals

- Fluorocarbon gas: Refrigerants
- Fluoropolymers: Ethylene tetrafluoride resins, Molten type resins, Fluoroelastomers, Fluoro paints, Fluoro coatings
- Chemicals: Semiconductor-etching products, Oil and water repellants, Mold release agents, Surface acting agents, Fluorocarbons, Fluorinated oils, Pharmaceutical agricultural intermediates
- Chemical engineering machinery: Solvent deodorizing equipment, Dry air suppliers

Others

Oil Hydraulics Division

Hydraulic equipment and systems for industrial use:

Pumps, Valves, Hydraulic systems, Oil cooling units, Inverter-controlled pumps and motors

Hydraulic equipment for construction machinery and vehicles:

Hydraulic transmissions, Valves

Centralized lubrication units and systems:

Grease pumps, Control and stack valves

Defense Systems Division

Ammunitions, components for guided missiles, and aircraft components for the Ministry of Defense, Home oxygen equipment

Electronics Division

Process-improvement and knowledge-sharing systems for the design and development sector, IT infrastructure management systems (network, security, and asset management), Computer graphics solutions such as CAD systems for facility design

(9) Principal Bases and Employee Breakdown of the Group (as of March 31, 2021)

1) Principal bases

The Company	Head Office	Osaka (Kita-ku)
	Manufacturing bases	Kanaoka Factory, Sakai Plant (Kita-ku, Sakai, Osaka) Rinkai Factory, Sakai Plant (Nishi-ku, Sakai, Osaka) Yodogawa Plant (Settsu, Osaka) Shiga Plant (Kusatsu, Shiga) Kashima Plant (Kamisu, Ibaraki)
	Sales bases	Tokyo Office (Minato-ku, Tokyo)
	Overseas offices	New York Office Washington, D.C. Office Beijing Office Guangzhou Office North America R&D Center
Subsidiaries	Japan	Daikin Applied Systems Co., Ltd. (Minato-ku, Tokyo) Daikin Airtechnology & Engineering Co., Ltd. (Sumida-ku, Tokyo) Daikin HVAC Solution Tokyo Co., Ltd. (Shibuya-ku, Tokyo) Daikin-Sauer-Danfoss Ltd. (Settsu, Osaka)
	Overseas	Daikin (China) Investment Co., Ltd. Daikin Air-conditioning (Shanghai) Co., Ltd. Daikin Air-conditioning (Suzhou) Co., Ltd. McQuay Central Air Conditioning (China) Co., Ltd. Daikin Industries (Thailand) Ltd. Daikin Airconditioning India Pvt. Ltd. Daikin Malaysia Sdn. Bhd. Daikin Australia Pty., Ltd. Daikin Europe N.V. (Belgium) Daikin Industries Czech Republic s.r.o. AHT Cooling Systems GmbH (Austria) Goodman Global Group, Inc. (America) Daikin Applied Americas Inc. American Air Filter Company, Inc. Daikin Fluorochemicals (China) Co., Ltd. Daikin America, Inc.

2) Employee breakdown

Business segment	Number of employees	Increase (decrease) from the previous year
Air-Conditioning and Refrigeration Equipment	78,923	4,457
Chemicals	3,864	(12)
Others	1,090	13
Corporate	993	43
Total	84,870	4,501

Notes:

1. The number of employees is based on the number of employees at work.
2. The number of employees of the Company (the number of employees at work) is 7,732 (an increase of 233 from the previous fiscal year).

(10) Principal subsidiaries (as of March 31, 2021)

Name of company	Share holding	Capital	Principal operations
Daikin Applied Systems Co., Ltd.	100%	300 million JPY	Manufacture, sale, design, and installation of air conditioning equipment and refrigeration equipment
Daikin Airtechnology & Engineering Co., Ltd.	100%	275 million JPY	Sale and installation of air conditioning equipment
Daikin HVAC Solution Tokyo Co., Ltd.	100%	330 million JPY	Sale of air conditioning equipment
Daikin (China) Investment Co., Ltd.	100%	242,025 thousand USD	Controlling company of Chinese operations
Daikin Air-conditioning (Shanghai) Co., Ltd.	*87.4%	82,600 thousand USD	Manufacture and sale of air conditioning equipment
Daikin Air-conditioning (Suzhou) Co., Ltd.	*100%	1,200 million CNY	Manufacture and sale of air conditioning equipment
McQuay Central Air Conditioning (China) Co., Ltd.	100%	50 million CNY	Manufacture and sale of air conditioning equipment
Daikin Industries (Thailand) Ltd.	100%	1,300 million THB	Manufacture and sale of air conditioning equipment
Daikin Airconditioning India Pvt. Ltd.	100%	8,029 million INR	Manufacture and sale of air conditioning equipment
Daikin Malaysia Sdn. Bhd.	100%	276,254 thousand MYR	Manufacture and sale of air conditioning equipment
Daikin Australia Pty., Ltd.	100%	10,000 thousand AUD	Manufacture and sale of air conditioning equipment
Daikin Europe N.V.	100%	155,065 thousand EUR	Manufacture and sale of air conditioning equipment
Daikin Industries Czech Republic s.r.o.	*100%	1,860 million CZK	Manufacture and sale of air conditioning equipment
AHT Cooling Systems GmbH	*100%	8,000 thousand EUR	Manufacture and sale of refrigerating and freezing showcases
Goodman Global Group, Inc.	*100%	— thousand USD	Manufacture and sale of air conditioning equipment
Daikin Applied Americas Inc.	*100%	250 thousand USD	Manufacture and sale of air conditioning equipment
American Air Filter Company, Inc.	*100%	— thousand USD	Manufacture and sale of air filter products, etc.
Daikin Fluorochemicals (China) Co., Ltd.	*96.0%	161,240 thousand USD	Manufacture and sale of fluorochemicals
Daikin America, Inc.	*100%	85,000 thousand USD	Manufacture and sale of fluorochemicals
Daikin-Sauer-Danfoss Ltd.	55.0%	400 million JPY	Manufacture and sale of oil hydraulic equipment, etc.

Note: Figures with an asterisk represent percentages including investments by subsidiaries, etc.

(11) Principal borrowings (as of March 31, 2021)

Creditors	Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan (Note 1)	235,000
Sumitomo Mitsui Banking Corporation U.S. dollar-denominated syndicated loan (Note 2)	74,397
The Norinchukin Bank	26,261
Sumitomo Mitsui Banking Corporation	16,606
MUFG Bank, Ltd.	9,963

Notes:

- Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan is co-financed by a group of banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.
- Sumitomo Mitsui Banking Corporation U.S. dollar-denominated syndicated loan is co-financed by a group of banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.

2. Status of Shares (as of March 31, 2021)

(1) Number of Shares Authorized: 500,000 thousand shares

(2) Number of Shares Issued: 293,113 thousand shares

(3) Number of Shareholders: 25,559 (Decrease of 1,469 from the previous fiscal year)

(4) Top 10 Shareholders

Shareholders	Number of shares held (Thousands of shares)	Shareholding (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	40,334	13.8
Custody Bank of Japan, Ltd. (Trust account)	19,595	6.7
Sumitomo Mitsui Banking Corporation	9,000	3.1
Custody Bank of Japan, Ltd. (Trust account 7)	5,953	2.0
Custody Bank of Japan, Ltd. (Retirement Benefit Trust Account for The Norinchukin Bank, re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	4,999	1.7
MUFG Bank, Ltd.	4,900	1.7
Custody Bank of Japan, Ltd. (Trust account 4)	4,612	1.6
Government of Norway	4,559	1.6
SSBTC CLIENT OMNIBUS ACCOUNT	4,112	1.4
Custody Bank of Japan, Ltd. (Trust account 5)	3,906	1.3

Notes:

1. Percentage shareholdings are rounded off to one decimal point.

2. Percentage shareholdings are calculated after deducting treasury shares (464 thousand shares).

3. Share Acquisition Rights

(1) Share acquisition rights held by Directors and Audit & Supervisory Board Members at the end of the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of share acquisition rights	Number of holders
No. 14 (2015)	¥1	Common stock 100 shares per unit of share acquisition rights	July 14, 2018, to July 13, 2030	14	1 Director
No. 15 (2016)	¥1	Common stock 100 shares per unit of share acquisition rights	July 15, 2019, to July 14, 2031	14	1 Director
No. 16 (2017)	¥1	Common stock 100 shares per unit of share acquisition rights	July 15, 2020, to July 14, 2032	11	1 Director
				6	1 Audit & Supervisory Board Member
No. 17 (2018)	¥1	Common stock 100 shares per unit of share acquisition rights	July 14, 2021, to July 13, 2033	96	7 Directors
				5	1 Audit & Supervisory Board Member
No. 18 (2019)	¥1	Common stock 100 shares per unit of share acquisition rights	July 13, 2022, to July 12, 2034	128	7 Directors
No. 19 (2020)	¥1	Common stock 100 shares per unit of share acquisition rights	July 11, 2023, to July 10, 2035	105	7 Directors

Note: Share acquisition rights held by Audit & Supervisory Board Members were granted during their tenure as employees.

(2) Share acquisition rights issued to Daikin Industries employees during the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of share acquisition rights	Number of holders
No. 19 (2020)	¥1	Common stock 100 shares per unit of share acquisition rights	July 11, 2023, to July 10, 2035	285	57 Daikin Industries employees

4. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2021)

Position	Name	Responsibility or significant positions concurrently held
Chairman of the Board and Chief Global Group Officer	Noriyuki Inoue	External Director of Hankyu Hanshin Holdings, Inc. Chairman of The Daikin Foundation for Contemporary Arts Chairman of Kansai Philharmonic Orchestra
Representative Director, President and CEO, Member of the Board	Masanori Togawa	Chairman of the Internal Control Committee Member of the HRM Advisory Committee Member of the Compensation Advisory Committee
Member of the Board (external)	Chiyono Terada	Chairman of the HRM Advisory Committee Chairman of the Compensation Advisory Committee President and Representative Director of Art Group Holdings, Co., Ltd. Honorary Chairman of Art Corporation Chairman and Representative Director of Art Childcare Corporation Outside Statutory Auditor of Sumitomo Realty & Development Co., Ltd.
Member of the Board (external)	Tatsuo Kawada	Member of the HRM Advisory Committee Member of the Compensation Advisory Committee Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company External Director serving as Audit & Supervisory Committee Member of Hokuhoku Financial Group, Inc. External Director of FUJIFILM Holdings Corporation
Member of the Board (external)	Akiji Makino	Member of the HRM Advisory Committee Member of the Compensation Advisory Committee Chairman and CEO of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited
Member of the Board (external)	Shingo Torii	Member of the HRM Advisory Committee Member of the Compensation Advisory Committee Representative Director and Vice Chairman of the Board of Suntory Holdings Limited External Director of ROHTO Pharmaceutical Co., Ltd. Outside Director of Zojirushi Corporation
Representative Director, Member of the Board, and Senior Executive Officer	Ken Tayano	In charge of air conditioning business in Japan and Representative of China business Chairman of the Board and President of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. Member of Global Air Conditioning Committee
Member of the Board and Senior Executive Officer	Masatsugu Minaka	Representative of Air Conditioning in Europe, the Middle East and Africa (excluding East Africa) President and Member of the Board of Daikin Europe N.V. Member of Global Air Conditioning Committee
Member of the Board and Senior Executive Officer	Jiro Tomita	In charge of Global Operations Division, production engineering and PD Affiliation Alliance Promotion Chairman of the Board of Goodman Global Group, Inc.
Member of the Board and Senior Executive Officer	Takashi Matsuzaki	In charge of Applied Solutions Business, North America R&D, Applied Development Center and Daikin Open Innovation Lab Silicon Valley
Member of the Board and Senior Associate Officer	Kanwal Jeet Jawa	Regional General Manager, Air Conditioning Business in India and East Africa, Global Operations Division Managing Director and CEO of Daikin Airconditioning India Pvt. Ltd.
Audit & Supervisory Board Member (external)	Ryu Yano	Chief Corporate Advisor of Sumitomo Forestry Co., Ltd.
Audit & Supervisory Board Member (external)	Toru Nagashima	Honorary Advisor of Teijin Limited
Audit & Supervisory Board Member (full time)	Kosei Uematsu	
Audit & Supervisory Board Member (full time)	Hisao Tamori	

Notes:

1. The Company reported the appointment of External Directors Chiyono Terada, Tatsuo Kawada, Akiji Makino and Shingo Torii and Audit & Supervisory Board Members (external) Ryu Yano and Toru Nagashima to the Tokyo Stock Exchange, Inc. as Independent Directors and Audit & Supervisory Board Members.
2. Audit & Supervisory Board Member Hisao Tamori has considerable knowledge of finance and accounting, having been involved in accounting and financial operations of the Company for many years.
3. Shingo Torii and Takashi Matsuzaki were elected as Members of the Board at the 117th Ordinary General Meeting of Shareholders of the Company held on June 26, 2020, and assumed the office on the same day.
4. Yuan Fang resigned as a Member of the Board at the conclusion of the 117th Ordinary General Meeting of Shareholders of the Company held on June 26, 2020, due to the expiration of his term of office.
5. External Director Chiyono Terada assumed the office of Outside Statutory Auditor of Sumitomo Realty & Development Co., Ltd. on June 26, 2020.
6. External Director Akiji Makino assumed the office of Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited on June 1, 2020.
7. Member of the Board Noriyuki Inoue was External Director of The Kansai Electric Power Co., Inc. until June 25, 2020.
8. Audit & Supervisory Board Member (external) Ryu Yano was Director Advisor of Sumitomo Forestry Co, Ltd. until June 23, 2020.
9. Audit & Supervisory Board Member (external) Toru Nagashima was External Director of AEON Co., Ltd. until May 22, 2020.

(2) Compensation for Directors and Audit & Supervisory Board Members

(i) Total compensation for Directors and Audit & Supervisory Board Members

Position	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			Number of recipients (Persons)
		Fixed compensation	Performance- linked compensation	Stock options	
Directors [of which, External Directors]	1,281 [63]	582 [63]	520 [—]	178 [—]	12 [4]
Audit & Supervisory Board Members [of which, Audit & Supervisory Board Members (external)]	99 [28]	99 [28]	—	—	4 [2]

Notes:

1. Performance-linked compensation includes provision for bonuses for directors (and other officers) recorded in the fiscal year under review, and stock options refer to the fiscal year's expense which is associated with share acquisition rights offered to Directors (excluding External Directors).
2. Total compensation includes the compensation for services of one Director who retired at the conclusion of the 117th Ordinary General Meeting of Shareholders while he was in office.

(ii) Matters concerning the policies for determining compensation for individual Directors and Audit & Supervisory Board Members

The outline of the policies for determining compensation for individual Directors and Audit & Supervisory Board Members of the Company (“compensation”) is as follows. The policies are determined by the resolution of the Board of Directors of the Company in consideration of deliberations and proposals made by the Compensation Advisory Committee.

a) Basic policy on compensation

The compensation system for Directors and Audit & Supervisory Board Members shall be established with an aim to enhance their motivation to continuously improve medium- to long-term business performance and to contribute to the increase of the value of the Daikin Group as a whole in accordance with the management policy in order to meet the expectations of shareholders and other stakeholders.

(b) Policy for determining the amount and composition ratio by type of compensation for individual Directors (including performance-linked compensation, non-monetary compensation, and other fixed compensation)

Compensation for the Directors excluding External Directors shall be comprised of “fixed compensation,” “performance-linked compensation” that reflects the short-term results of the Group and its departments and “stock compensation-type stock options” that reflect medium- to long-term results.

The level of compensation shall be determined as a result of analyzing and comparing compensation data of large Japanese manufacturing companies, using the objective compensation survey data collected by an external institution specializing in research of executive compensation (“Executive Compensation Database” by Willis Towers Watson), which is used by nearly 300 corporations listed on the First Sections of Japanese stock exchanges. Specifically, three indexes shall be used as basic benchmarks, namely, “net

sales growth,” “operating profit margin” and “ROE (return on equity),” and the level of compensation shall be determined by examining the relative positions of the Company’s performance and compensation level among comparative companies, as well as those in relation to the medium- to long-term enhancement of corporate value. The linkage ratio used for the Company’s performance-linked compensation shall be set higher than large Japanese manufacturing companies in order to secure sufficient incentives for the Directors.

In addition to the above, upon retirement a Director may, in consideration of achievements during his/her tenure, be granted compensation (including non-monetary compensation) as deemed appropriate depending on the level of such merit.

The External Directors and Audit & Supervisory Board Members shall be paid “fixed compensation” only.

(c) Policy for determining performance indicators for performance-linked compensation and the method for its computation

For the assessment scaling exponent linked to the group-wide performance, which is used in determining the performance-linked compensation for the Directors excluding External Directors, three indexes of “net sales,” “operating profit margin” and “operating profit” shall be selected as performance-linked indicators in consideration of the group-wide numerical targets under the Company’s indicator-based management, the indexes’ mutual relevancy and simplicity, and the trend of other companies. The performance-linked coefficient shall be determined reflecting “net sales” and “operating profit margin” as calculated based on the degree of achievement of the budget for a single fiscal year, and “operating profit” as calculated based on the growth rate linked to the medium- to long-term management plan.

The performance-linked compensation for the Chairman and the President shall be based on a performance-linked coefficient derived from group-wide performance-linked indicators. The performance-linked compensation for the Directors excluding the Chairman and the President shall be based on a performance-linked coefficient derived from group-wide performance-linked indicators, and determined in consideration of the degrees of achievement of the single-fiscal-year budgets for “net sales” and “operating profit” of the department supervised, which are targets for day-to-day business operations, and the status of each individual’s efforts to address key issues over the short term and the medium to long term.

The actual net sales figure was ¥2,493,386 million against the target of ¥2,400 billion, while the actual operating profit margin figure was 9.6% against the target of 8.3%. The actual operating profit figure was ¥238,623 million.

(d) Policy for determining the non-monetary compensation and the method for its computation

“Stock compensation-type stock options” shall be granted to the Directors excluding External Directors. In each fiscal year, the number of stock compensation-type stock options to be granted shall be calculated by dividing the executive rank-based standard amount of compensation, by the latest closing stock average. The granted stock compensation-type stock options shall be allowed to be exercised for a period of 12 years after the lapse of three years following the grant date.

Outline of the “stock compensation-type stock options” and the status of the granting thereof are as stated in “3. Share Acquisition Rights.”

In addition, as a condition for exercising share acquisition rights as stock compensation-type stock options, an allottee of share acquisition rights may not conduct disposal of the share acquisition rights including a transfer to a third party, and shall not be entitled to exercise the share acquisition rights in the event of the following:

- If, during the exercise period of share acquisition rights, one year has passed after an allottee of the share acquisition rights ceased to hold the office of Director, Executive Officer, Associate Officer, or employee of the Company, or Director or employee of its subsidiary (where such one-year period includes the day on which the allottee ceased to hold such office).

However, if the day on which one year has passed after the allottee ceased to hold such office (where such one-year period includes the day on which the allottee ceased to hold such office) is outside the exercise period of the share acquisition rights, the allottee shall not be entitled to exercise the share acquisition rights as from the expiry of the exercise period, prior to the passage of the one-year period.

If an allottee of share acquisition rights ceases to hold the office of Director, Executive Officer, Associate Officer, or employee of the Company, or Director or employee of its subsidiary, before the arrival of the inception date of the exercise period, the allottee shall be entitled to exercise the share acquisition rights only during a one-year period from the first day of the exercise period.

(e) Re-consent to discretionary decision on the procedural method for determining the compensation and on the details of individual compensation

Policies for determining the compensation for Directors and the details of the compensation shall be deliberated based on consultations with the Chairman, at the Compensation Advisory Committee chaired by an External Director with a majority of its members comprising External Directors. The Compensation Advisory Committee shall propose opinions to the Chairman of the Board, with reference to the information and advice presented by the compensation advisor from an external specialist organization, with a view to enhancing the Committee's functional effectiveness as an advisory body, while ensuring independence of its judgment. The Chairman of the Board and Chief Global Group Officer, Mr. Noriyuki Inoue, given the Board of Directors' re-consent to his discretionary decision, shall decide on the amounts of compensation for individual Directors, with reference to the proposed opinions.

The reason for delegating these authorities is the judgment that Mr. Inoue is the most qualified to evaluate each individual Director and the department he/she supervises, based on a wider view of the management of the Company and the group-wide performance. The Compensation Advisory Committee is chaired by an External Director and composed of six members excluding the Chairman of the Board, namely, four External Directors, one in-house Director, and one Executive Officer who is in charge of HRM.

With respect to the compensation in consideration of achievements during the tenure of the Directors, a committee with all its members comprising External Directors, which is established separately from the Compensation Advisory Committee, shall deliberate whether to grant such compensation or not and the details of such compensation, and the Board of Directors shall determine its specific details and its amount along with the procedure for granting.

The amounts of compensation for individual Audit & Supervisory Board Members shall be determined by consultations at the Audit & Supervisory Board.

(iii) Matters concerning the resolution of the General Meeting of Shareholders on the compensation for Directors and Audit & Supervisory Board Members

The amounts of compensation for Directors and Audit & Supervisory Board Members were determined by the resolution of the 111th Ordinary General Meeting of Shareholders held on June 27, 2014, and the 112th Ordinary General Meeting of Shareholders held on June 26, 2015. The allowable total amount of compensation for all Directors was determined at ¥1.3 billion per annum in the form of fixed compensation and performance-linked compensation, which includes ¥100 million for External Directors (determined by the resolution of the 117th Ordinary General Meeting of Shareholders held on June 26, 2020), and at ¥180 million per annum in the form of stock options, while the allowable total amount of compensation for all Audit & Supervisory Board Members was determined at ¥190 million per annum in the form of fixed compensation. At the conclusion of the 117th Ordinary General Meeting of Shareholders, the number of Directors was eleven (11) (including four (4) External Directors) and the number of Audit & Supervisory Board Members was four (4). At the conclusion of the 111th and 112th Ordinary General Meetings of Shareholders, the number of Directors was twelve (12) (including two (2) External Directors) and the number of Audit & Supervisory Board Members was four (4).

(iv) The reason for the decision of the Board of Directors that the details of the compensation for individual Directors are in line with the policies as set out in (ii) above

The details of the compensation for individual Directors were determined to be appropriate, as they were based on the multifaceted review of various aspects, including the consistency of the method for computing the performance-linked portion, the performance-linked coefficient, and the level of compensation with the aforementioned policies, at as many as six meetings of the Compensation Advisory Committee.

(3) External Directors and Audit & Supervisory Board Members (External)

(i) Significant positions concurrently held by External Directors and Audit & Supervisory Board Members (External)

There is no special relationship between the Company and other companies at which External Directors and Audit & Supervisory Board Members (external) hold their concurrent significant positions as listed in “(1) Directors and Audit & Supervisory Board Members.”

(ii) Activities by External Directors and Audit & Supervisory Board Members (External)

Position	Name	Attendance record of Board of Directors' meetings	Principal activities
External Director	Chiyono Terada	Attended 14 out of 15 meetings (93.3%)	We expect Chiyono Terada to appropriately supervise the Company's management from an independent standpoint, based on her abundant experience and deep insight as a corporate manager, and also to make suggestions on overall management from a broad and advanced perspective including management based on the viewpoints of consumers and measures to further promote achievements of female employees. For the fiscal year under review, she appropriately fulfilled her role as External Director such as by providing supervision and advice on execution of business operations, including making suggestions on the importance of dissemination of the company-wide strategy and the company-wide policy in the expanding group and the development of products related to air quality based on the viewpoints of consumers amid the COVID-19 pandemic.
	Tatsuo Kawada	Attended 13 out of 15 meetings (86.7%)	We expect Tatsuo Kawada to appropriately supervise the Company's management from an independent standpoint, based on his abundant experience and deep insight as a corporate manager, and also to make suggestions on overall management from a broad and advanced perspective including the viewpoint of shifting to new business models and generating innovation. For the fiscal year under review, he appropriately fulfilled his role as External Director such as by providing supervision and advice on execution of business operations, including making suggestions on important regions in the company-wide strategy and the preparation for risks associated with business expansion.
	Akiji Makino	Attended 14 out of 15 meetings (93.3%)	We expect Akiji Makino to appropriately supervise the Company's management from an independent standpoint, based on his abundant experience and deep insight as a corporate manager, and also to make suggestions on overall management from a broad and advanced perspective including viewpoints concerning the energy and environmental fields and service businesses. For the fiscal year under review, he appropriately fulfilled his role as External Director such as by providing supervision and advice on execution of business operations, including making suggestions on zero CO ₂ emissions at manufacturing bases.
	Shingo Torii	Attended 12 out of 13 meetings (92.3%)	We expect Shingo Torii to appropriately supervise the Company's management from an independent standpoint, based on his abundant experience and deep insight as a corporate manager, and also to make suggestions on overall management from a broad and advanced perspective including viewpoints on corporate management for proactively capturing customer needs, the enhancement of corporate value through ESG activities, and other areas. For the fiscal year under review, he appropriately fulfilled his role as External Director such as by providing supervision and advice on execution of business operations, including making suggestions on opportunities and risks that environmental problems may bring to the business development of the Group.

Position	Name	Attendance record of meetings		Principal activities
		Board of Directors	Audit & Supervisory Board	
Audit & Supervisory Board Member (external)	Ryu Yano	Attended 15 out of 15 meetings (100%)	Attended 15 out of 15 meetings (100%)	Ryu Yano offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from a broad and advanced perspective cultivated through his overseas business experience. For the fiscal year under review, he made suggestions on the importance of monitoring of risks associated with the expansion of the group and the strengthening of the functions of the Board of Directors such as the scrutinization of agendas.
	Toru Nagashima	Attended 15 out of 15 meetings (100%)	Attended 15 out of 15 meetings (100%)	Toru Nagashima offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from a broad and advanced perspective cultivated through his experience in global business management and as a manager of a manufacturing company. For the fiscal year under review, he made suggestions on the strengthening of monitoring of important investments.

Notes: 1. In addition to the above-stated number of Board of Directors' meetings held, there was one written resolution deemed to have been passed at a Board of Directors' meeting, pursuant to the provision of Article 370 of Japan's Companies Act and Article 23, Paragraph 4 of the Company's Articles of Incorporation.

2. Shingo Torii assumed the office of External Director at the 117th Ordinary General Meeting of Shareholders held on June 26, 2020, and accordingly, his attendance record of Board of Directors' meetings is on and after that date.

- (iii) Contract liability limitation for External Directors and Audit & Supervisory Board Members (External)
Complying with Article 427, Paragraph 1, of Japan's Companies Act, as well as Articles 25 and 33 of the Company's Articles of Incorporation, all External Directors and Audit & Supervisory Board Members (external) sign a contract which limits their liabilities under the Article 423, Paragraph 1, of the Companies Act. This contract states that the maximum liability equals to the minimum liability stipulated under Article 425, Paragraph 1, of the Companies Act.

5. Independent Auditors

(1) Name of the Independent Auditors to the Company	Deloitte Touche Tohmatsu LLC (Audit Corporation)
(2) Total amount of compensation to be paid by the Company to the Independent Auditors for the current fiscal year	¥275 million
(3) Reasons for approval of the Audit & Supervisory Board for the amount of compensation to be paid to the Independent Auditors	The Audit & Supervisory Board obtained necessary materials and reports from Directors, relevant departments within the Company, and the Independent Auditors to investigate past activity achievements and compensation records of the Independent Auditors together with its activity plans and the calculation basis of the estimated compensation for the fiscal year under review and discussed the amount of compensation to be paid to the Independent Auditors. As a result, the Board judged this to be appropriate in this regard, hence, pursuant to Article 399, Paragraph 1 of the Companies Act, the Board approved the amount of compensation to be paid to the Independent Auditors.
(4) Non-auditing services provided to the Company by the Independent Auditors	The Company consigns to the Independent Auditors the following services that fall outside the scope of the audit certification services under Article 2, Paragraph 1, of the Certified Public Accountant Law, and pays consideration for the services. Advice concerning CSR (Corporate Social Responsibility)
(5) Policy on dismissal of or resolution not to re-engage the Independent Auditors	In addition to reasons for dismissal stipulated in each item of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will present a movement for dismissal of or resolution not to re-engage the Independent Auditors to the General Meeting of Shareholders, if it is recognized that it is difficult for the Independent Auditors to effectively perform their duties due mostly to the occurrence of cases that damage the eligibility or independence of the Independent Auditors.
(6) Total amount of compensation to be paid by the Company and its subsidiaries to the Independent Auditors	¥275 million
(7) Other items	Major subsidiaries of the Company engaging certified public accounts or audit corporations other than the Company's Independent Auditors to conduct their audits (under Japan's Companies Act or Financial Instruments and Exchange Act, or the overseas equivalents) are as follows: Daikin (China) Investment Co., Ltd. Daikin Air-conditioning (Shanghai) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Daikin Air-conditioning (Suzhou) Co., Ltd. Daikin Fluorochemicals (China) Co., Ltd. McQuay Central Air Conditioning (China) Co., Ltd.

6. Outline of Resolutions to Establish a System to Confirm Operational Appropriateness

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

The Daikin Group's system and major activities to confirm operational appropriateness based on Japan's Companies Act and its Enforcement Regulations are outlined below. The "Internal Control Committee" inspects and confirms the status and activities of internal control based on the system's various initiatives, and reports to the Board of Directors.

(Major activities in the fiscal year under review)

- The "Internal Control Committee" held two meetings.

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

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

Specific measures follow:

- (i) In accordance with the management basic direction and code of conduct stipulated in Our Group Philosophy (2002), Handbook for Corporate Ethics and other directives, we will be diligent in execution of duties, use initiative, and apply these principles.
- (ii) We have established a "Corporate Ethics and Risk Management Committee" made up of Directors and department managers. This committee oversees Legal Affairs, Compliance and Intellectual Property Department, which spearheads thorough legal compliance Group-wide. Each department and Group

company assigns a compliance, risk management leader to ensure thorough compliance in the Company, their respective departments and Group companies. We hold the “Compliance, Risk Management Leader Meeting” and the “Group Compliance, Risk Management Leader Meeting” to share information, address issues, and promote implementation of policies.

- (iii) We have introduced our unique “Self-assessment Checklist” through which each division and Group company conducts an annual autonomous check from the standpoint of legality and risk. Using the results of this check, the Legal Affairs, Compliance and Intellectual Property Department carries out a legal audit on each division and Group company, and legal compliance is checked in a business audit conducted by the Internal Auditing Department.
- (iv) We have established a Helpline for Corporate Ethics. The Legal Affairs, Compliance and Intellectual Property Department investigates reports made to this facility and forms strategies to prevent recurrence after deliberations with the manager of the relevant division. We have established a system to promote swift adoption of such measures Company-wide.
- (v) As stated clearly in our Handbook for Corporate Ethics, we, as a business entity, stand firmly against antisocial forces that damage social order and healthy corporate activities.
- (vi) We carry out and are currently improving capacities for periodic and occasional compliance and corporate ethics education across management and employee strata.

(Major activities in the fiscal year under review)

- The “Corporate Ethics and Risk Management Committee” held two meetings, in which it shared company-wide compliance issues and deliberated on measures to deal with these issues. We held the “Compliance, Risk Management Leader Meeting” 10 times to ensure thorough compliance. We also held the “Regional Legal and Compliance Meeting” in the Asia & Oceania, Europe, and Chinese regions.
- Based on the “Self-assessment Checklist,” each division and Group company conducted the self- inspection and risk assessment. The results were deliberated by the “Corporate Ethics and Risk Management Committee.”
- We conducted Director training on human rights and harassment prevention and employee training on compliance, etc.

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

The minutes of important committee and other meetings are retained for a storage period in accordance with the stipulations of separate in-house regulations. Regarding disclosure of important information outside the Company, the “Disclosure Committee” ensures completeness and appropriateness of important disclosure and is working to improve accountability.

(Major activities in the fiscal year under review)

- We have retained the minutes of important committees and other meetings, including the Board of Directors’ Meeting, in accordance with the stipulations of in-house regulations.
- We regularly held the “Disclosure Committee” meetings before the disclosure of quarterly results to deliberate the appropriateness of the information provided in documents related to financial results. We also deliberated on other important disclosure on a case-by-case basis.

(3) Rules and other systems relating to risk management

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

(Major activities in the fiscal year under review)

- We specified a list of major risks for the fiscal year under review, comprising those related to natural disasters, product liability and quality, harassment prevention, information management, economic security and overseas crises management. Subsequently, we deliberated in the “Corporate Ethics and Risk Management Committee” meeting and implemented countermeasures to these risks.

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

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

We have established the “Group Steering Meeting,” which acts as the supreme deliberating body that manages our Group. Important management policies and strategies are determined promptly and in a timely manner, resulting in faster problem-solving processes. We have also implemented a system which allows our Directors and Executive Officers to appropriately and effectively execute their duties through administrative authority and decision-making rules that are based on various internal regulations and centered on the Board of Directors’ regulations, the Executive Officers Meeting regulations and collective decision-making regulations. This initiative encourages participation, advice and guidance in management decision-making from an independent and neutral external standpoint and provides a check function to raise appropriate and effective execution of duties by Directors and Executive Officers. This is achieved through permanently maintaining four or more External Directors with no conflicting interests with the Company.

(Major activities in the fiscal year under review)

- The Board of Directors convened 15 meetings, most of which were attended by the four External Directors, who provided appropriate comments concerning management problems.
- We held the Executive Officers Meeting 20 times in which the Executive Officers participated.
- We held the “Group Steering Meeting” six times to deliberate on the next strategic management plan, “Fusion 25.”

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

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

The departments responsible for management and support for Group companies are determined at the Head Office, and we promote strategies for continuous cooperation in day-to-day operations. Simultaneously, we have established “Group Management Meeting” to share information and familiarize basic strategies group by group and to facilitate and strengthen support for solving problems and tasks of the Group companies.

We strive to handle important decisions and business execution in subsidiaries through pre-emptive consultation and involvement and regular ascertainment of business conditions based on the stipulations of the “Limits of Authority of Daikin Group Companies,” which was updated and further subdivided in April 2008.

To respond to the internal control reporting system (Financial Instruments and Exchange Act), the Company began revising and upgrading its internal control systems related to financial reporting in August 2005, and subsequently develops and establishes systems designed to ensure the appropriateness of all operational processes throughout the Daikin Group that could affect financial reporting. In order to submit valid and appropriate internal control reports as stipulated in Article 24.4.4 of the Financial Instruments and Exchange Act, the Company will carry out ongoing evaluations and make required corrections to ensure that the structures established to date are functioning properly and also continually ensure conformity with the Financial Instruments and Exchange Act and other related laws and ordinances. In addition to its internal control systems, in fiscal 2008 the Company established global accounting rules and is working to ensure familiarity with these rules at a global level and make further improvements with respect to the validity and accuracy of accounting and financial reporting.

Furthermore, the Company strengthened accounting functions in business divisions and subsidiaries throughout the company, implemented accounting audits by the Finance and Accounting Division, implemented special audits by the Internal Audit Department, developed and strengthened self-monitoring in each business division, carried out training for persons in charge of accounting, and implemented monitoring by the Finance and Accounting Division. Furthermore, the Company is working to establish and strengthen appropriate systems to support the preparation of reliable financial reports such as strengthening

communication functions of the Legal Affairs, Compliance and Intellectual Property Department to convey the importance of compliance.

(Major activities in the fiscal year under review)

- The details of discussions and results of the Board of Directors' Meetings and Executive Officers' Meetings were reported to each division and Group company to share information concerning company-wide issues.
- We made an assessment on the status and activities of our internal control systems related to financial reporting. We made required corrections and reported the results to the Board of Directors.
- To confirm the appropriateness of accounting procedures, we implemented measures including accounting audits and special audits. The operational status of these measures was reviewed by the "Corporate Ethics and Risk Management Committee."

(6) Ensuring effectiveness of the audit by the Audit & Supervisory Board Members

In addition to the Board of Directors' Meeting, Audit & Supervisory Board Members attend the Executive Officers Meetings and technology/product strategy meetings to receive reports and deliver opinions. In addition, to ensure effectiveness of the audit, a system is in place by which the Audit & Supervisory Board is updated on important items that influence management and performance. In that respect, Directors, Executive Officers and employees of the Company and its Group companies report matters regarding the execution of duties that need to be reported to the Audit & Supervisory Board Members appropriately and in a timely manner. The Company also notifies Executive Officers and employees of the Company and its Group companies that disadvantageous treatment on account of having made such reports is prohibited.

The Audit & Supervisory Board Members meet periodically to exchange opinions with the Representative Directors, the Executive Officers and the Independent Auditors. They also attend various types of important meetings and verify investigations and documents on related departments, and we make sure their authority extends throughout the Group without restraint. To support this system, the Group Auditors have been appointed to each of the major Group companies, ensuring smooth flow of information. The Audit & Supervisory Board Members also periodically assemble "Group Auditors' Meeting" in order to exchange information and make improvements to auditing procedures. In addition, the Company bears the expenses necessary for the execution of duties by the Audit & Supervisory Board Members as they are incurred.

Auditing staff members to the Audit & Supervisory Board Members have been appointed, and Audit Office has been established to assist with their duties. The Audit Office members act on the order of the Audit & Supervisory Board Member, and their transfer and performance assessments are conducted based on the opinions of the Audit & Supervisory Board.

(Major activities in the fiscal year under review)

- To exchange opinions, the Audit & Supervisory Board Members had two meetings with the Representative Directors, 25 with Directors and Executive Officers and 12 with the Independent Auditors. Also, the Audit & Supervisory Board Members had the "Group Auditors' Meeting" by convening Group Auditors of the major Group companies at home and abroad.

Consolidated Balance Sheet
As of March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	1,733,361	Current liabilities	765,984
Cash and deposits	736,098	Notes and accounts payable – trade	229,746
Notes and accounts receivable – trade	468,330	Short-term borrowings	40,754
Merchandise and finished goods	326,591	Current portion of bonds payable	10,000
Work in process	34,766	Current portion of long-term borrowings	66,278
Raw materials and supplies	108,039	Lease obligations	20,639
Other	72,608	Accrued expenses	153,898
Allowance for doubtful accounts	(13,074)	Income taxes payable	20,756
		Provision for bonuses for directors (and other officers)	315
		Provision for product warranties	62,255
		Other	161,339
Non-current assets	1,506,301		
Property, plant and equipment	647,410	Non-current liabilities	775,182
Buildings and structures	270,455	Bonds payable	130,000
Machinery, equipment and vehicles	198,184	Long-term borrowings	418,803
Land	58,879	Lease obligations	64,736
Leased assets	2,336	Deferred tax liabilities	118,605
Construction in progress	68,857	Retirement benefit liability	14,539
Other	48,697	Other	28,496
Intangible assets	542,761	Total liabilities	1,541,167
Goodwill	268,684	(Net Assets)	
Customer relationship	177,967	Shareholders' equity	1,530,740
Other	96,109	Share capital	85,032
		Capital surplus	84,214
Investments and other assets	316,129	Retained earnings	1,363,505
Investment securities	213,909	Treasury shares	(2,012)
Long-term loans receivable	1,151	Accumulated other comprehensive income	134,948
Deferred tax assets	31,692	Valuation difference on available-for-sale securities	68,699
Retirement benefit asset	19,959	Deferred gains or losses on hedges	1,292
Other	50,633	Foreign currency translation adjustment	69,470
Allowance for doubtful accounts	(1,216)	Remeasurements of defined benefit plans	(4,513)
		Share acquisition rights	2,019
		Non-controlling interests	30,787
		Total net assets	1,698,495
Total assets	3,239,662	Total liabilities and net assets	3,239,662

Consolidated Statement of Income
From April 1, 2020, to March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

Net sales		2,493,386
Cost of sales		1,629,250
Gross profit		864,136
Selling, general and administrative expenses		625,513
Operating profit		238,623
Non-operating income		
Interest income	6,482	
Dividend income	4,214	
Share of profit of entities accounted for using equity method	7	
Foreign exchange gains	547	
Subsidy income	1,392	
Other	2,416	15,060
Non-operating expenses		
Interest expenses	8,791	
Other	4,642	13,434
Ordinary profit		240,248
Extraordinary income		
Gain on sales of investment securities	325	
Gain on liquidation of subsidiaries and associates	0	
Gain on reversal of share acquisition rights	7	334
Extraordinary losses		
Loss on disposal of non-current assets	1,207	
Loss on sales of land	115	
Loss on sales of investment securities	12	
Loss on valuation of investment securities	472	
Loss on liquidation of subsidiaries and associates	5	
Impairment loss	225	
Other	1	2,039
Profit before income taxes		238,543
Income taxes – current	72,054	
Income taxes – deferred	3,743	75,797
Profit		162,746
Profit attributable to non-controlling interests		6,496
Profit attributable to owners of parent		156,249

Consolidated Statement of Changes in Equity

From April 1, 2020, to March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	83,898	1,254,072	(2,264)	1,420,739
Changes in items during period					
Dividends of surplus			(46,818)		(46,818)
Profit attributable to owners of parent			156,249		156,249
Effect of changes in accounting period of subsidiaries			0		0
Purchase of treasury shares				(9)	(9)
Disposal of treasury shares		316		261	577
Net changes in items other than shareholders' equity					
Total changes in items during period	—	316	109,432	251	110,000
Balance at end of current period	85,032	84,214	1,363,505	(2,012)	1,530,740

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	29,764	(2,797)	(5,051)	(7,687)	14,228	1,886	25,736	1,462,591
Changes in items during period								
Dividends of surplus								(46,818)
Profit attributable to owners of parent								156,249
Effect of changes in accounting period of subsidiaries								0
Purchase of treasury shares								(9)
Disposal of treasury shares								577
Net changes in items other than shareholders' equity	38,934	4,089	74,521	3,173	120,719	132	5,050	125,903
Total changes in items during period	38,934	4,089	74,521	3,173	120,719	132	5,050	235,903
Balance at end of current period	68,699	1,292	69,470	(4,513)	134,948	2,019	30,787	1,698,495

Notes to the Consolidated Financial Statements

Basis for Presenting the Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries and names of major companies among them

Number of consolidated subsidiaries: 315

Major subsidiaries: Omitted as they are described in “(10) Principal subsidiaries” of “1. Review of Operations” in the Business Report.

Increase/decrease in the number of consolidated subsidiaries during the consolidated fiscal year under review

(Newly added) Due to acquisition:

Don Stevens Acquisitions, LLC and its 2 subsidiaries, ABCO Refrigeration Supply Corp., Robinson Plumbing & Heating Supply Company, Inc., ElitAire LLC, Citizen Industries Ltd.

Due to new establishment:

Baridi Inc., Suita School Air Conditioning Co., Ltd., Daikin Advanced Materials Korea Co., Ltd., Baridi Tanzania Ltd., AHT Cooling Systems Asia Pacific Pte. Ltd.

(Excluded) Due to liquidation:

Daikin Air-Conditioning Technology (Beijing), Ltd., McQuay Technology (Shenzhen) Co., Ltd., Daikin Air-Conditioning Technology (Guangzhou), Ltd., DS Newco, LLC

Due to merger of consolidated subsidiaries:

IBARAKI NIPPON MUKI CO., LTD., AAF International Oy, Heracles S.r.l., Daikin Refrigerants Europe GmbH, Don Stevens Acquisitions, LLC, Robinson Plumbing & Heating Supply Company, Inc.

(2) Names of major non-consolidated subsidiaries

A major non-consolidated subsidiary: Kyohei Kasei Industries, Ltd.

Reason for exclusion of the non-consolidated subsidiaries from consolidation:

The non-consolidated subsidiaries are small in corporate size and the impact of their aggregate total assets, net sales, profit (loss) attributable to owners of parent (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others on the respective consolidated financial statements is insignificant. For this reason, these companies are excluded from the scope of consolidation.

2. Application of the Equity Method

(1) Number of major non-consolidated subsidiaries and affiliated companies accounted for by the equity method and names of major companies among them

Number of affiliated companies accounted for by the equity method: 18

Major affiliated companies: Zhuhai Gree Daikin Device Co., Ltd.

affiliated companies:

Significant changes to the scope of application of the equity method:

(Excluded) Due to sales of equities:

Riptide IO Inc., Riptide IO India Private Limited

(2) Names of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

Major	(Non-consolidated subsidiary)
companies:	Kyoei Kasei Industries, Ltd.
	(Affiliated company)
	Daimics Co., Ltd.

Reason for not applying the equity method to these companies:

The impact of excluding these non-consolidated subsidiaries and affiliated companies without applying the equity method on the consolidated financial statements is insignificant in view of the profit (loss) attributable to owners of parent (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others, and their intra-group positioning is immaterial on the whole. For this reason, the equity method is not applied to these companies.

3. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

(i) Securities:

Available-for-sale securities

Available-for-sale securities for which the fair market values are readily determinable:	Mainly valued at market at the end of the fiscal year. (Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.)
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Available-for-sale securities for which the fair market values are not readily determinable:	Mainly valued at cost determined by the moving-average method.
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(ii) Derivatives: Derivative instruments are valued at fair market value.

(iii) Inventories: Mainly valued at cost determined by the gross average method (write-down of book values due to the decline in profitability) for inventories at domestic companies, whereas mainly the lower of cost or market determined by the gross average method is adopted for inventories at overseas consolidated subsidiaries.

(2) Depreciation method of major depreciable assets

(i) Property, plant and equipment (excluding leased assets)

The depreciation of property, plant and equipment is computed by the straight-line method.

(ii) Intangible assets

The amortization of intangible assets is computed by the straight-line method.

Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years). Customer relationship is amortized by the straight-line method over its useful life (mainly 30 years).

The amounts of goodwill are equally amortized over 6 to 20 years on a straight-line basis.

(iii) Leased assets

Leased assets related to the finance lease transactions other than those that transfer ownership right is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

(3) Accounting standards for important reserves

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

(ii) Provision for bonuses for directors (and other officers)

The provision for bonuses for directors (and other officers) is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

(iii) Provision for product warranties

The provision for product warranties is provided for possible free repair costs of sold products at an amount considered necessary based on the past track record plus projected future guarantees.

(4) Other important matters as the basis for presenting the consolidated financial statements

(i) Important hedge accounting

(a) Hedge accounting method

The Group adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(b) Hedging instruments and hedged items

For the purpose of hedging exposure to exchange rate fluctuation risk, the Group adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Group adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank borrowings as hedged items.

(c) Hedging policy and method of assessing hedging effectiveness

The Group's risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for the purpose of circumventing an unexpectedly huge loss. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Group. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary. A similar check system is adopted by the consolidated subsidiaries with regard to the assessment of hedging effectiveness.

(ii) Accounting policy for retirement benefits

(a) Method of attributing expected benefit to periods of service

The method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on the benefit formula.

(b) Method of recognizing actuarial gains/losses and prior service costs

Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Prior service costs are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

(iii) Accounting for consumption tax

Consumption tax and local consumption tax are excluded from each transaction amount.

(iv) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

With regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group tax sharing system, pursuant to the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company and some domestic consolidated subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

(Additional information)

With regard to COVID-19, while it is difficult to predict when the situation will return to normal, the Daikin Group has made accounting estimates such as impairment of non-current assets, based on the assumption that

socio-economic activities will recover gradually due to the broad-based vaccination and the economic measures adopted by governments.

Change in Presentation Method

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

From the beginning of the consolidated fiscal year under review, the Group has applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020). Accordingly, notes to accounting estimates have been presented in Notes to the Consolidated Financial Statements.

Accounting Estimates

(Valuation of goodwill and intangible assets)

On the consolidated balance sheet as of March 31, 2021, goodwill, customer relationship, and other under intangible assets (hereinafter, “goodwill, etc.”) were recorded at ¥268,684 million, ¥177,967 million and ¥96,109 million, respectively.

In valuation of goodwill, etc., the Company assesses whether or not there is an indication that goodwill, etc., may be impaired. With regard to the goodwill, etc., that have an indication of impairment, it is assessed whether or not impairment losses need to be recognized, based on the future cash flows.

An indication of impairment includes continuous operating losses, remarkable deterioration of management environment, and discrepancy from a business plan.

Future cash flows are based on a business plan approved by management, and future periods are estimated in consideration of future uncertainties. A significant assumption in estimating future cash flows is the net sales growth and the rate of return for the business plan and beyond. In addition, a significant assumption in calculating the discounted present value of future cash flows is the discount rate. These assumptions are affected by future uncertain economic conditions and the business conditions of the Company, and may have a material impact on the consolidated financial statements for the following consolidated fiscal years. The Company continuously monitors its business performance and strives to take measures before it becomes difficult to recover its investment.

Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

(1) Time deposits	(Millions of yen)
There is no debt secured by the above collateral.	919

(2) Notes receivable	(Millions of yen)
Debt secured by the above collateral	1,496
Notes payable	(Millions of yen)
	3,806

(3) Assets pledged as collateral for borrowings advanced to investee companies from financial institutions	(Millions of yen)
Investment securities	800

2. Accumulated depreciation of property, plant and equipment	(Millions of yen)
	885,895

3. Amount of notes endorsed	(Millions of yen)
	2,634

Notes to the Consolidated Statement of Income

Impairment loss

In the fiscal year ended March 31, 2021, an impairment loss of ¥225 million was recorded for business assets of Daikin Refrigerants Frankfurt GmbH, etc., consolidated subsidiaries.

The book value has been reduced to the recoverable value as these subsidiaries plan to suspend production due to changes in the environment caused by the F-gas regulations, etc. in Europe.

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of shares issued as of March 31, 2021

Common shares: 293,113,973 shares

2. Dividends

(1) Dividend amounts paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 26, 2020	Common shares	23,407	80	March 31, 2020	June 29, 2020
Board of Directors' meeting held on November 5, 2020	Common shares	23,410	80	September 30, 2020	December 2, 2020

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2021, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2022

Planned date of resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 29, 2021	Common shares	Retained earnings	23,411	80	March 31, 2021	June 30, 2021

3. Type and number of shares subject to share acquisition rights at March 31, 2021 (excluding those for which the first day of the exercise period has not yet arrived)

Common shares: 30,100 shares

Notes to Financial Instruments

1. Status of Financial Instruments

(1) Policy on treatment of financial instruments

The Group raises necessary funds (mainly, bank borrowings and bond issuance) in the light of business capital expenditure projects. For short-term working capital, funds are raised from bank borrowings and commercial papers, and temporary surplus funds are being managed with secure financial funds. We use derivatives trading for actual demand only, and do not use it for speculation purposes, in order to mitigate the risks described below. The Group does not use any special type of derivatives trading (leveraged trading) that involves high price volatility.

(2) Details of financial instruments, their risks, and risk management systems

Operating receivables, namely, notes and accounts receivable – trade are exposed to customer credit risk. In order to deal with these risks, in accordance with the credit management policy and global accounting rules, we have a system to check the credit status of our key business partners as well as a system to control due dates and balances of each business partner.

For notes and accounts payable – trade, payment due dates are usually within one year.

The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using forward exchange contracts, currency swaps, etc., in principle against the net amount of the debts and credits in the same currency. Also, depending on the foreign exchange market conditions, similar derivatives transactions are used in respect of the foreign currency debts and credits, which are expected to incur from the anticipated transactions.

Investment securities are mainly shares in the companies, which are business partners for the purpose of business alliances or capital tie-ups. While investment securities are exposed to market value fluctuation risks, we review the market value and the financial conditions of the issuers (business partners) on a regular basis and continuously review the status of the shareholdings by taking into account relationships with business partners.

Short-term borrowings and commercial papers are mainly used as working capital. Long-term borrowings and bonds payable are used mainly for the purpose of procuring funds necessary for capital expenditures. While the operating debts, borrowings and bonds payable are exposed to liquidity risk, the Finance and Accounting Division manages such risk by timely planning and updating the cash management planning and is prepared for liquidity risk by setting up a commitment credit line so that funds settlement may be done if there is any sudden change in

the fund-raising markets. Part of the long-term borrowings on a floating rate basis, which is exposed to interest rate fluctuation risks, is hedged by the use of derivative transactions such as interest rate swaps, etc.

Derivative transactions are transactions which include forward exchange contracts, etc., for the purpose of hedging exchange fluctuation risks of the debts and credits denominated in foreign currencies, interest rates swap transactions, etc., for the purpose of hedging interest fluctuation risks of borrowings, and commodity futures transactions for the purpose of hedging the market price fluctuation risks of the raw materials. Derivative transactions are entered into in accordance with Regulation of Derivatives Trading, which set out the authority for transactions, the maximum amount, etc. Derivative transactions are conducted by the Finance and Accounting Division and monitored daily by the Corporate Planning Department for internal checking and are regularly reported to the Company's Board of Directors. A similar management system is also adopted by consolidated subsidiaries. Derivative transactions are entered into only with financial institutions with high credit ratings in order to mitigate credit risk.

With respect to derivative transactions, which satisfy the hedge accounting criteria, hedge accounting is applied. Hedging instruments and hedged items related to hedge accounting, hedge policies and methods for evaluating effectiveness of hedges are set forth in "Important hedge accounting method" under "Basis for Presenting the Consolidated Financial Statements."

(3) Supplementary explanation of matters concerning fair market value, etc., of financial instruments

Methods for determining fair market value of financial instruments include pricing based on market price, and where there is no market price, a price which is calculated using reasonable methods. Variable factors are considered in calculating the pricing, and therefore the pricing may fluctuate if different assumptions are applied.

2. Matters concerning fair market value, etc., of financial instruments

The prices recorded in the consolidated balance sheet, fair market value and the difference between those as of March 31, 2021 (consolidated financial closing date for the fiscal year under review), are as follows. Instruments for which it is deemed extremely difficult to ascertain the fair market value are not included in the below chart (see Note 2).

	(Millions of yen)		
	Amount recorded in the consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	736,098	736,098	—
(2) Notes and accounts receivable – trade	468,330	468,330	—
(3) Investment securities			
Available-for-sale securities	193,122	193,122	—
Total assets	1,397,552	1,397,552	—
(1) Notes and accounts payable – trade	229,746	229,746	—
(2) Short-term borrowings	40,754	40,754	—
(3) Income taxes payable	20,756	20,756	—
(4) Bonds payable	140,000	140,480	480
(5) Long-term borrowings	485,081	484,703	(378)
(6) Lease obligations	85,376	87,170	1,794
Total liabilities	1,001,716	1,003,612	1,896
Derivative Transactions (*)	659	659	—

(*) Net credits/debts arising from derivative transactions are shown at net value, and items that total to a net debt are shown in parentheses.

Note 1: Method for calculating fair market value of financial instruments

Assets

(1) Cash and deposits

All deposits are liquid in the short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(2) Notes and accounts receivable – trade

These instruments are settled in a short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(3) Investment securities

The fair market value of shares is stated at the price on the relevant stock exchange, and the fair market value of bonds is stated at the present value of the total of principal and interest discounted by an interest rate adjusted for the remaining period to bond maturity and credit risk.

Liabilities

(1) Notes and accounts payable – trade, (2) Short-term borrowings, and (3) Income taxes payable

These instruments are settled in a short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(4) Bonds payable

The fair market value of bonds payable issued by the Company is stated at the market price.

(5) Long-term borrowings

The fair market value of long-term borrowings has been determined by discounting the total of principal and interest by the interest rate on similar new borrowings. For borrowings with variable interest, the fair market value of long-term borrowings subject to special treatment such as interest rate swaps has been determined by discounting the total of principal and interest stated in association with the interest rate swap by an interest rate reasonably estimated from that applied to similar borrowings.

(6) Lease obligations

The fair market value of lease obligations is calculated by discounting the total amount of principal and interest by the interest rate that would be assumed if similar new lease transactions were conducted.

Derivatives transactions

The fair market value of currency-related instruments is stated at the futures exchange market value or the price from the supplying financial institution. The fair market value of interest-related instruments is stated at the price presented by the transacting financial institution. The fair market value of commodity is stated at the market value of futures listed on the future exchange. Interest rate swaps subject to special treatment are stated in association with hedged long-term borrowings and their fair market value is therefore included in the fair market value of the relevant long-term borrowings.

Note 2: Unlisted shares (amount recorded in the consolidated balance sheet was ¥11,500 million), investments, etc., in investment funds (amount recorded in the consolidated balance sheet was ¥1,754 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥7,532 million) are not included in “(3) Investment securities,” as it is deemed to be extremely difficult to ascertain the fair market value as those instruments have no market prices, and it is not possible to estimate their future cash flows.

Per Share Information

Net assets per share:	¥5,691.85
Earnings per share:	¥533.97

Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

Deferred tax assets:

Provision for product warranties	15,592
Tax loss carryforwards	13,695
Software and other assets	12,246
Unrealized profit of inventories	9,707
Inventories	6,546
Provision for bonuses	5,890
Retirement benefit liabilities	4,050
Investment securities	3,753
Allowance for doubtful accounts	2,892
Deferred revenue	2,786
Foreign income tax credit	1,034
Other	23,741
Subtotal of deferred tax assets	101,937
Valuation allowance for tax loss carryforwards (Note)	(10,544)
Valuation allowance for future deductible temporary differences, etc.	(8,197)
Subtotal of valuation allowance	(18,742)
Total deferred tax assets	83,194

Deferred tax liabilities:

Intangible assets	(63,239)
Undistributed earnings of consolidated subsidiaries	(49,390)
Valuation difference on available-for-sale securities	(26,074)
Retirement benefit assets	(6,380)
Reserve for tax purpose reduction entry of non-current assets	(1,700)
Other	(23,323)
Total deferred tax liabilities	(170,108)
Net deferred tax assets (liabilities)	(86,913)

(Note) Tax loss carryforwards and related deferred tax assets amounts by expiration years

(Millions of yen)

	Within a year	1 year less than 2 years	2 years less than 3 years	3 years less than 4 years	4 years less than 5 years	5 years or more	Total amount
Tax loss carryforwards (*)	70	154	107	461	386	12,515	13,695
Valuation allowance	(62)	(128)	(89)	(128)	(177)	(9,959)	(10,544)
Deferred tax assets	7	26	18	333	209	2,556	3,150

(*) Tax loss carryforwards are amounts calculated by multiplying the statutory tax rate.

Retirement Benefits

1. Outline of the retirement benefit plans adopted

The Company and its domestic consolidated subsidiaries have a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans. Retirement benefit liabilities and retirement benefit expenses for certain of the retirement lump-sum plans held by the Company and its domestic consolidated subsidiaries are calculated using the simplified method.

2. Defined benefit plan

(1) Adjustment table for the beginning and ending balances for projected benefit obligation (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for projected benefit obligation	111,469
Service cost	5,449
Interest cost	1,174
Actuarial losses (gains) arising during the period	2,633
Prior service cost arising during the period	53
Amount of retirement benefits paid	(4,965)
Foreign currency translation adjustment	4,463
Other	211
<u>Ending balance for projected benefit obligation</u>	<u>120,491</u>

(2) Adjustment table for the beginning and ending balances for plan assets (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for plan assets	113,894
Expected return on plan assets	3,293
Actuarial losses (gains) arising during the period	8,280
Employer contributions	4,052
Amount of retirement benefits paid	(4,437)
Foreign currency translation adjustment	3,671
Other	(26)
<u>Ending balance for plan assets</u>	<u>128,729</u>

(3) Adjustment table for the beginning and ending balances for retirement benefit liabilities under the simplified method

	(Millions of yen)
Beginning balance for retirement benefit liabilities	2,759
Retirement benefit expenses	1,006
Amount of retirement benefits paid	(864)
Other	(84)
<u>Ending balance for retirement benefit liabilities</u>	<u>2,817</u>

(4) Adjustment table for the ending balances for projected benefit obligation and plan assets, and retirement benefit liabilities and assets recorded on the consolidated balance sheet

	(Millions of yen)
Retirement benefit obligation (funded)	(114,520)
Plan assets	128,729
<u>Retirement benefit obligation (unfunded)</u>	<u>(8,788)</u>
Net amount for assets and liabilities recorded on the consolidated balance sheet	5,419
Retirement benefit liabilities	(14,539)
Retirement benefit assets	19,959
<u>Net amount for assets and liabilities recorded on the consolidated balance sheet</u>	<u>5,419</u>

Note: Including the benefit plan applying the simplified method

(5) Amount of retirement benefit expenses and its breakdown

	(Millions of yen)
Service cost	5,449
Interest cost	1,174
Expected return on plan assets	(3,293)
Recognized actuarial losses (gains) during the period	405
Amortization of prior service cost during the period	53
Retirement benefit expenses calculated by the simplified method	1,006
Other	115
<u>Total</u>	<u>4,912</u>

(6) Remeasurements of defined benefit plans

Breakdown of the items (before adoption of tax-effect accounting) recorded in remeasurements of defined benefit plans is as follows:

	(Millions of yen)
Unrecognized prior service cost	726
Unrecognized actuarial gain	4,602
<u>Total</u>	<u>5,328</u>

(7) Plan assets

(i) Breakdown of plan assets

Percentages of major asset classes to total plan assets are as follows:

Domestic bonds	0%
Domestic equities	0%
International bonds	35%
International equities	21%
Insurance assets (general account)	16%
Cash and deposits	1%
Alternative investments	27%
<u>Total</u>	<u>100%</u>

(ii) Method for setting the expected long-term rate of return on plan assets

Current and expected allocation of plan assets and long-term rate of return on various assets composing the plan assets are taken into account in determining the expected long-term rate of return on plan assets.

(8) Basis for computation used in actuarial calculation

Basis for computation used in major actuarial calculation

Discount rate	mainly 0.3%
Expected long-term rate of return on plan assets	mainly 2.5%
Expected rate of salary increases	mainly 5.9%

3. Defined contribution plan

Amount of contribution required to defined contribution plan paid by the Company and its consolidated subsidiaries is ¥6,374 million.

Non-Consolidated Balance Sheet
As of March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	560,083	Current liabilities	285,469
Cash and deposits	266,683	Notes payable – trade	3,580
Notes receivable – trade	831	Accounts payable – trade	45,363
Accounts receivable – trade	83,401	Short-term borrowings	38,702
Merchandise and finished goods	47,191	Current portion of bonds payable	10,000
Work in process	13,076	Current portion of long-term borrowings	53,238
Raw materials and supplies	13,352	Lease obligations	398
Prepaid expenses	2,329	Accounts payable – other	24,368
Short-term loans receivable	93,942	Accrued expenses	10,912
Accounts receivable – other	15,472	Income taxes payable	7,385
Other	23,802	Advances received	1,307
Allowance for doubtful accounts	(1)	Deposits received	73,254
		Provision for bonuses for directors (and other officers)	315
		Provision for product warranties	5,397
		Notes payable – facilities	956
		Accounts payable – facilities	9,350
		Other	937
Non-current assets	1,122,928	Non-current liabilities	473,380
Property, plant and equipment	157,200	Bonds payable	130,000
Buildings	63,712	Long-term borrowings	327,978
Structures	6,984	Lease obligations	544
Machinery and equipment	43,403	Long-term accounts payable – other	275
Vehicles	87	Provision for retirement benefits	1,991
Tools, furniture and fixtures	12,313	Deferred tax liabilities	12,462
Land	24,458	Other	127
Leased assets	862		
Construction in progress	5,377	Total liabilities	758,850
Intangible assets	2,150	(Net assets)	
Patent right, etc.	2,150	Shareholders' equity	854,219
Investments and other assets	963,577	Share capital	85,032
Investment securities	204,197	Capital surplus	85,542
Shares of subsidiaries and associates	577,297	Legal capital surplus	82,977
Investments in capital of subsidiaries and associates	108,671	Other capital surplus	2,564
Long-term loans receivable from subsidiaries and associates	55,156	Proceeds from disposal of treasury shares	2,564
Long-term loans receivable	180	Retained earnings	685,648
Long-term prepaid expenses	102	Legal retained earnings	6,066
Prepaid pension cost	12,340	Other retained earnings	679,582
		Reserve for tax purpose reduction entry of non-current assets	3,860
Guarantee deposits	4,236	Reserve for specific stocks purchase	86
Other	1,838	General reserve	146,210
Allowance for doubtful accounts	(443)	Retained earnings brought forward	529,425
		Treasury shares	(2,004)
		Valuation and translation adjustments	67,922
		Valuation difference on available-for-sale securities	67,833
		Deferred gains or losses on hedges	88
		Share acquisition rights	2,019
		Total net assets	924,161
Total assets	1,683,011	Total liabilities and net assets	1,683,011

Non-Consolidated Statement of Income
From April 1, 2020, to March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

Net sales		563,243
Cost of sales		391,070
Gross profit		172,173
Selling, general and administrative expenses		136,497
Operating profit		35,675
Non-operating income		
Interest income	2,139	
Interest on securities	19	
Dividend income	68,040	
Foreign exchange gains	274	
Other	1,054	71,528
Non-operating expenses		
Interest expenses	3,548	
Interest on bonds	571	
Arrangement fee	1,227	
Sales discounts	199	
Other	983	6,531
Ordinary profit		100,673
Extraordinary income		
Gain on sales of investment securities	325	
Gain on liquidation of subsidiaries and associates	434	
Gain on reversal of share acquisition rights	7	768
Extraordinary losses		
Loss on disposal of non-current assets	181	
Loss on sales of investment securities	12	
Loss on valuation of investment securities	472	
Loss on liquidation of subsidiaries and associates	5	
Other	1	673
Profit before income taxes		100,768
Income taxes – current	13,636	
Income taxes – deferred	(588)	13,047
Profit		87,720

Non-Consolidated Statement of Changes in Equity
From April 1, 2020, to March 31, 2021

(Millions of yen, rounded down to the nearest million yen)

	Shareholders' equity										
	Share capital	Capital surplus			Retained earnings						Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings					
			Proceeds from disposal of treasury shares			Reserve for tax purpose reduction entry of non-current assets	Reserve for specific stocks purchase	General reserve	Retained earnings brought forward		
Balance at beginning of current period	85,032	82,977	2,248	85,225	6,066	3,867	—	146,210	488,602	644,746	
Changes in items during period											
Dividends of surplus									(46,818)	(46,818)	
Reversal of reserve for tax purpose reduction entry of non-current assets						(7)			7	—	
Provision of reserve for specific stocks purchase							86		(86)	—	
Profit									87,720	87,720	
Purchase of treasury shares											
Disposal of treasury shares			316	316							
Net changes in items other than shareholders' equity											
Total changes in items during period	—	—	316	316	—	(7)	86	—	40,823	40,902	
Balance at end of current period	85,032	82,977	2,564	85,542	6,066	3,860	86	146,210	529,425	685,648	

	Shareholders' equity		Valuation and translation adjustments			Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	(2,256)	812,748	29,154	(291)	28,862	1,886	843,497
Changes in items during period							
Dividends of surplus		(46,818)					(46,818)
Reversal of reserve for tax purpose reduction entry of non-current assets		—					—
Provision of reserve for specific stocks purchase		—					—
Profit		87,720					87,720
Purchase of treasury shares	(9)	(9)					(9)
Disposal of treasury shares	261	577					577
Net changes in items other than shareholders' equity			38,679	380	39,059	132	39,192
Total changes in items during period	252	41,471	38,679	380	39,059	132	80,663
Balance at end of current period	(2,004)	854,219	67,833	88	67,922	2,019	924,161

Notes to the Non-Consolidated Financial Statements

Significant Accounting Policies

1. Valuation basis and method for assets

(1) Securities

Shares of subsidiaries and affiliated companies: Valued at cost determined by the moving-average method.

Available-for-sale securities

Available-for-sale securities for which the fair market values are readily determinable:

Valued at market as of the balance sheet date.

(Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.)

Available-for-sale securities for which the fair market values are not readily determinable:

Valued at cost determined by the moving-average method.

(2) Derivatives: Derivative instruments are valued at fair market value.

(3) Inventories: Valued at cost determined by the gross average method (write-down of book values due to the decline in profitability).

2. Depreciation method of non-current assets:

(1) Property, plant and equipment (excluding leased assets)

The depreciation of property, plant and equipment at the Company is computed by the straight-line method.

(2) Intangible assets

The amortization of intangible assets is computed by the straight-line method.

Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years).

(3) Leased assets

Leased assets related to the finance lease transactions other than those that transfer ownership right is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

3. Accounting standards for reserves

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

(2) Provision for bonuses for directors (and other officers)

The provision for bonuses for directors (and other officers) is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

(3) Provision for product warranties

The provision for product warranties is provided for possible free repair costs of sold products at an amount considered necessary based on the past track record plus projected future guarantees.

(4) Provision for retirement benefits

- The provision for retirement benefits is provided for possible payment of employees' post-retirement benefits at the amount to be accrued at the balance sheet date and is calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date. The provision for retirement benefits and the retirement benefit expenses are calculated and amortized as follows:

(i) Method of attributing expected benefit to periods of service

The method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on benefit formula.

- (ii) Method of recognizing actuarial gains/losses and prior service costs
Actuarial gains and losses are amortized by the straight-line method over a certain period (10 years), which is within the average remaining service period of employees at the time of recognition, and the allocated amounts are expensed from the fiscal year following the respective fiscal year of recognition. Prior service costs are amortized by the straight-line method over a certain period (10 years), which is within the average remaining service period of employees at the time of recognition.
- Unrecognized actuarial gains or losses and unrecognized past service costs on the non-consolidated balance sheet are treated differently from on the consolidated balance sheet.

4. Other important matters as the basis for presenting the non-consolidated financial statements

(1) Hedge accounting

(i) Hedge accounting method

The Company adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(ii) Hedging instruments and hedged items

For the purpose of hedging exposure to exchange rate fluctuation risk, the Company adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Company adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank borrowings as hedged items.

(iii) Hedging policy and method of assessing hedging effectiveness

The Company's risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for the purpose of circumventing an unexpectedly huge loss. The Company has formulated the Risk Management Rules, which outline a risk management method and other details such as a cap on the amount of funds that can be used for derivative transactions. Derivative transactions are routinely conducted by the Finance and Accounting Division and routine risk management operations by the Corporate Planning Department based on the Rules, and the status of derivative trading is regularly reported to the Company's Board of Directors. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Company. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary.

(2) Accounting for the consumption tax

Consumption tax and local consumption tax are excluded from each transaction amount.

(3) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

With regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group tax sharing system, pursuant to the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

Change in Presentation Method

(Non-Consolidated Statement of Income)

From the fiscal year under review, "arrangement fee" which was included in "other" under "non-operating expenses" in the prior fiscal year, has been presented separately, as the quantitative impact on the financial statements has become significant.

Notes to the Non-Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

Assets pledged as collateral for borrowings advanced to investee companies from financial institutions	(Millions of yen)
Investment securities	800

2. Accumulated depreciation of property, plant and equipment	(Millions of yen)
	375,182

3. Liabilities on guarantee

(1) Guarantees

Guarantees on the bank borrowings of the following affiliated companies payable to financial institutions	(Millions of yen)
Daikin Chemical Europe GmbH	948
AAF S.A.U	763
American Air Filter Brasil Ltda.	235
American Air Filter Company, Inc.	208
Goodman Global, Inc.	106
Six (6) other companies	107
Total	<u>2,369</u>

(2) Commitments to guarantee

Commitments to guarantee on the bank borrowings of the following affiliated companies payable to financial institutions

	(Millions of yen)
AAF-McQuay UK Limited	2,702
Daikin America, Inc.	2,048
Daikin Applied Americas Inc.	1,685
Daikin Air Conditioning (Vietnam) Joint Stock Company	1,193
AAF S.A.U	957
Eight (8) other companies	1,732
Total	<u>10,319</u>

4. Monetary receivables/payables from/to affiliated companies (excluding those separately presented under the respective account titles)

	(Millions of yen)
Short-term monetary receivables	189,707
Short-term monetary payables	101,562
Long-term monetary payables	9

Notes to the Non-Consolidated Statement of Income

Volume of transactions with affiliated companies

	(Millions of yen)
Operating transactions	
Sales amount	395,082
Purchase amount	142,067
Non-operating transactions	117,834

Notes to the Non-Consolidated Statement of Changes in Equity

Type and number of shares of treasury shares as of March 31, 2021

Common shares: 464,741 shares

Tax Effect Accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

Deferred tax assets:

Investment securities	20,391
Software and other assets	12,199
Provision for bonuses	2,659
Inventories	2,313
Provision for product warranties	1,650
Provision for retirement benefits	608
Enterprise tax payable	490
Allowance for doubtful accounts	142
Long-term accounts payable – other	84
Other	1,315
Subtotal of deferred tax assets	41,857
Less valuation allowance	(23,097)
Total deferred tax assets	18,759

Deferred tax liabilities:

Valuation difference on available-for-sale securities	(25,671)
Prepaid pension cost	(3,773)
Reserve for tax purpose reduction entry of non-current assets, etc.	(1,777)
Total deferred tax liabilities	(31,222)
Net deferred tax assets (liabilities)	(12,462)

2. Reconciliation between the normal statutory effective income tax rate and the actual effective tax rate after the adoption of tax-effect accounting

	(%)
Normal statutory effective income tax rate	30.6
(Reconciliation items)	
Dividends income and others that are permanently excluded from taxable income	(19.1)
Foreign income tax withheld relating to dividends from foreign subsidiaries	4.8
Tax credit for experimentation and research expense, etc.	(3.6)
Valuation allowance	0.9
Unrecognized tax effect on foreign income tax credit	(0.7)
Entertainment expenses and others that are permanently excluded from taxable loss	0.5
Per capita inhabitant's tax	0.1
Other	(0.5)
Actual effective income taxes rate after the adoption of tax-effect accounting	12.9

Transactions with Related Parties

Directors, Audit & Supervisory Board Members, major individual shareholders, etc.

Attribute	Name	Business line or occupation	Ownership percentage of voting rights (%)	Description of transactions	Transaction amount (Millions of yen)	Account title	Year-end balance (Millions of yen)
Director/ Audit & Supervisory Board Member	Chiyono Terada	External Director of the Company President and Representative Director of Art Group Holdings, Co., Ltd.	0.00 (held)	Commissioned removal and merchandise distribution business (Notes 1, 2, 3)	426	Accounts payable – other, and accrued expenses	45

Notes:

1. Refers to so-called arm's length transactions.
2. The above transactions are determined by taking into account the market price and other factors similar to those for general transactions.
3. The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.

Subsidiaries

Attribute	Company name	Ownership percentage of voting rights (%)	Relationship with the Company	Description of transactions	Transaction amount (Millions of yen)	Account title	Year-end balance (Millions of yen)
Subsidiary	Daikin HVAC Solution Tokyo Co., Ltd.	100% (directly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Notes 1, 2)	70,594	Accounts receivable – trade	4,698
	Daikin Consumer Marketing Co., Ltd.	100% (directly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Notes 1, 2)	69,298	Accounts receivable – trade	6,851
	Goodman Global Group, Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	14,596	Short-term loans receivable	23,802
				Loan	—	Long-term loans receivable from subsidiaries and associates (incl. current portion)	49,819
				Repayment of loan	58,932		
				Interest income (Note 3)	939	Other current assets	116
	Daikin Applied Americas Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	22,123	Short-term loans receivable	17,835
				Interest income (Note 3)	275	Other current assets	25
	American Air Filter Company, Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	25,825	Short-term loans receivable	28,563
				Interest income (Note 3)	414	Other current assets	30

Notes:

1. The terms applicable to transactions have been determined with reference to the market price in the same way as with the terms applicable to transactions in general.
2. The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.
3. The interest rate has been determined in accordance with the market interest rate.
4. Borrowing and loan are related to CMS (Cash Management System), and transaction amount shows the average balance during the period.

Per Share Information

Net assets per share:	¥3,151.01
Earnings per share:	¥299.77

The above represents a translation, for reference and convenience only, of the original notice issued in Japanese. We did our utmost to ensure accuracy in our translation and believe it to be of the highest standard. However, due to differences of accounting, legal and other systems, as well as of language, this English version might contain inaccuracies and therefore might be inconsistent with the original intent imported from the Japanese. In the event of any discrepancies between the Japanese and English versions, the former shall prevail as the official version.