Corporate Governance

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Policy

Accelerate decision-making and operational execution in response to management tasks and the changing management environment, and raise the level of management transparency and soundness to raise corporate value.

Through an integrated management system for fast decision-making and execution, we improve our operational speed and ensure sound, transparent management.

Names and biographies of the Daikin Industries, Ltd.'s Management.

We quickly and accurately get the big picture regarding risk, and we strive to reduce it by conducting cross-organizational risk management.
We confirm the status of compliance with the Group Conduct of Guidelines and ensure thorough legal compliance.

The Daikin group strives for fair business practices through measures for complying with laws.

We do our utmost to ensure that business entertainment and gift-giving related to business are conducted within the laws and customs of each country and region.

We have stipulated our Information Security Basic Policy and built an information management security system, and these are the basis for efforts to appropriately manage and use confidential information.

Intellectual property is a valuable company asset. We carry out proper and fair exercise of rights in response to violation of our intellectual property as well as respect other companies' intellectual property.

We take steps to ensure thorough tax compliance pursuant to the Group Conduct Guidelines.
Basic Policy

Further Boosting Corporate Value

Daikin believes that the role of corporate governance is to accelerate decision making and operational execution work in anticipation of and in response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby increasing the Group’s corporate value. The Group will continue to raise corporate value by ensuring the increasing sophistication of speedy management and still-higher levels of transparency and soundness. We will achieve this by constantly reviewing and implementing optimal corporate governance and by spreading best practices throughout the entire Daikin Group.
Corporate Governance Structure

Management and Operational Execution Systems

Rather than adopt a U.S.-style "committee system" that completely separates decision making and work supervision from operational execution, Daikin Industries, Ltd. has adopted an "integrated management" system that provides more advanced management. We believe that this system is effective in speeding up decision making and execution based on the Daikin Group's characteristics. In an integrated management system, directors quickly make strategic decisions and conduct sound and appropriate supervision and guidance, thus achieving management responsibility through cooperation across all management and at the same time achieving work execution responsibility through prompt action. Directors make decision, execute operations, and provide supervision and guidance in an integrated manner, thus executing their own decisions and taking responsibility for seeing these through. We appoint numerous external officers, who monitor the execution of operations from an independent perspective and offer appropriate supervision and advice during decision making, in the process taking responsibility for supporting our "integrated management" from the standpoint of transparency and soundness. To improve actual execution of operations, Daikin Industries, Ltd. has introduced an Executive Officer System, whose members are appointed by the Board of Directors. The goal of this system is to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

Directors are selected with an emphasis on having a diverse range of personnel representing people of varying genders, nationalities, and experience. This helps us globalize, expand our scope of business, and achieve diversity in management. With the guidepost of ensuring that our external, female, and non-Japanese national directors are independent of Daikin, represent a diverse group, and allow transparency, as of the end of June 2019, we have 10 directors (including one woman and two non-Japanese nationals). These directors oversee prompt and strategic decision making and sound supervision and guidance throughout the entire Group.

Daikin Industries, Ltd. appoints three external directors with no vested interest in our company. We ensure these external directors have abundant experience and deep insight and can, therefore, offer a sophisticated perspective on a broad range of issues as they participate in decision making and supervise management. Our main selection criterion therefore is directors of listed companies with a wealth of business experience.

We also ensure that our external directors have an average tenure of about 10 years and do not hold more than five positions (including their position with Daikin Industries, Ltd.).

To ensure that the external directors can effectively contribute to Daikin Industries, Ltd.'s corporate governance system, the employees in the Management Planning Office are assigned to provide the external directors with early notice of Board of Directors meetings. In addition, in the case that an external director is not able to attend a Board of Directors meeting, the assistants provide the external director with related materials and subsequently provide the external director with an explanation of the proceedings of the meeting and provide other assistance.
Audit System

Daikin Industries, Ltd. employs an Audit & Supervisory Board and seeks to nominate two or more outside members to its Audit & Supervisory Board. The principal nomination criteria for external Audit & Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company. As of June 2019, Daikin Industries, Ltd.'s four Audit & Supervisory Board members include two external Audit & Supervisory Board members.

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

To ensure effective audit functions, the Audit & Supervisory Board receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors.

To ensure the effectiveness of Audit & Supervisory Board members, there is the Office of Audit & Supervisory Board Members and support staff for assisting Audit & Supervisory Board members in their duties. Staff of the Office of Audit & Supervisory Board Members carry out their duties under the orders of corporate auditors. The opinions of the Audit and Supervisory Board are respected on matters related to personnel transfers, work evaluations, and other matters pertaining to the Office of Audit and Supervisory Board Member staff members.

The Audit & Supervisory Board stipulates Code of Audit and Supervisory Board Member Auditing Standards, in which it is written that members should strive to constantly educate themselves to improve the quality of audits.

One way they educate themselves is through participation in working groups and training events sponsored by the Japan Audit & Supervisory Board Members Association. The Audit & Supervisory Board communicates closely with accounting auditors. It also receives advice when necessary from outside experts such as certified public accountants and lawyers.

Organizational Structure Supports Speedy Management Implementation

We are striving to ensure prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues. Three organs—the Board of Directors Meeting, the Group Steering Meeting, and the Executive Officers Meeting—are the main management bodies and as a rule each is convened once a month.

The Board of Directors is the Group-wide decision-making body for items stipulated in laws, regulations, and articles of incorporation. It also provides sound, appropriate supervision and guidance in the execution of operations. The board periodically conducts self assessments with regards to its effectiveness. Each director is interviewed individually as a way to confirm his or her effectiveness. In fiscal 2018, the Board of Directors Meeting was convened 15 times, with external directors attending on average 93% of the meetings and external Audit & Supervisory Board members attending on average 87% of the meetings.
The highest deliberation organ for the Group's management system is the Group Steering Meeting, which strives to constantly speed up the pace at which the Daikin Group decides on future direction and solves issues related to important management policy and strategies. The Group Steering Meeting was convened four times in fiscal 2018.

In addition, with the introduction of the Executive Officer System, we have established the Executive Officers Meeting, a platform to promote speedy implementation and thorough deliberation regarding important management tasks related to operational execution.

To ensure that the interests of stakeholders other than shareholders are respected and protected, the Board of Directors oversees the Internal Control Committee, the Corporate Ethics and Risk Management Committee, the Information Disclosure Committee, and the CSR Committee.

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**Corporate Governance Structure (as of end of June 2019)**

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Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin Industries, Ltd. has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. As of the end of June 2019, the HRM Advisory Committee and the Compensation Advisory Committee consist of five members - three external directors, one internal director, and one Human Resources executive officer - and is charged by one of the three external directors.

The remuneration of directors and Audit & Supervisory Board members is determined so as to fall within the aggregate remuneration ceiling based on a report by the HRM Advisory Committee and the Compensation Advisory Committee. The directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Audit & Supervisory Board.

Daikin Industries, Ltd.'s corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium to long term and thereby contributing to a rise in the Group's corporate value.

Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term performance (net sales and operating income) and each director's job responsibilities, and "stock options" that reflect the Group's medium- to long-term performance. The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient.

The remuneration of external directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing data from an outside specialized institution on the remuneration of corporate officers active in just under 300 Japanese companies listed on the First Section of the Tokyo Stock Exchange.
## Corporate Officer Remuneration (Fiscal 2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Total compensation (Million yen)</th>
<th>Total of different types of compensation (millions of yen)</th>
<th>Persons paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>fixed compensation</td>
<td>Stock options</td>
</tr>
<tr>
<td>Director (Excluding external directors)</td>
<td>1,135</td>
<td>506</td>
<td>109</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board member (Excluding external Audit &amp; Supervisory Board members)</td>
<td>69</td>
<td>69</td>
<td>-</td>
</tr>
<tr>
<td>External corporate officers</td>
<td>76</td>
<td>76</td>
<td>-</td>
</tr>
</tbody>
</table>

## Corporate Officers with Compensation Over 100 Million Yen (Fiscal 2018)

<table>
<thead>
<tr>
<th>Name</th>
<th>Total consolidated compensation (Million yen)</th>
<th>Category</th>
<th>Company</th>
<th>Total consolidated compensation by types (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>fixed compensation</td>
</tr>
<tr>
<td>Noriyuki Inoue</td>
<td>418</td>
<td>Director</td>
<td>Daikin Industries, Ltd.</td>
<td>189</td>
</tr>
<tr>
<td>Masanori Togawa</td>
<td>278</td>
<td>Director</td>
<td>Daikin Industries, Ltd.</td>
<td>123</td>
</tr>
<tr>
<td>Ken Tayano</td>
<td>178</td>
<td>Director</td>
<td>Daikin Industries, Ltd.</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td></td>
<td>President</td>
<td>Daikin (China) Investment Co., Ltd. (Consolidated subsidiary)</td>
<td>11</td>
</tr>
<tr>
<td>Masatsugu Minaka</td>
<td>133</td>
<td>Director</td>
<td>Daikin Industries, Ltd.</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Director</td>
<td>Daikin Europe N.V. (Consolidated subsidiary)</td>
<td>74</td>
</tr>
<tr>
<td>Jiro Tomita</td>
<td>152</td>
<td>Director</td>
<td>Daikin Industries, Ltd.</td>
<td>58</td>
</tr>
</tbody>
</table>

## Accounting Auditor Compensation (Fiscal 2018)

| Auditing expenses            | 235 million yen                           |
Group-Wide Governance

To ensure governance throughout the entire Group, including companies acquired by Daikin, the Group Management Meeting aims for action based on unified opinion throughout the Group. It does this by sharing important Group policies and basic strategies, as well as providing support for problem-solving in Group companies.

In May 2018, a plan for the final three years of the Fusion 20 medium-term strategic management plan was formulated, with qualitative and quantitative targets for 2020 set accordingly. That same month, the Group Management Meeting was convened, with key members of Group companies discussing exactly what direction the three-year plan should take and formulating concrete measures toward this.

The Group Auditors Meeting, made up of auditors from the main Group companies, works to strengthen auditing and control functions throughout the Group and ensure that these functions are working to the fullest.

To further raise corporate governance and Group management as a multinational company, Daikin has put a Chief Global Group Officer position in place. Under this position, the Group strives to further improve cohesiveness across global operations.

Related information

- Management (About Daikin) (https://www.daikin.com/corporate/overview/summary/directors/)
Basic Policy and Management System

With the Daikin Group expanding rapidly around the globe, we have introduced company-wide, cross-organizational risk management in order to quickly get an overall picture of risks from a global point of view and reduce the risks. With our president as the highest ranking person in Daikin’s risk management structure, we carry out risk management in the following three areas.

1. **Strategic risk**
   - Risk related to strategic decision-making in the management of Daikin (Division in charge: Corporate Planning Department)

2. **Internal control risk in financial reports**
   - Risk related to the reliability of financial reports (Division in charge: Finance and Accounting Division)

3. **Operational risk**
   - Management and operational risk related to internal and external causes (Division in charge: Corporate Ethics and Risk Management Committee)

Strategic risk is deliberated on by management members through platforms such as the Group Steering Meeting and the Executive Officers Meeting. As for risk related to the reliability of financial reports and operational risk, the Internal Control Committee, headed by the president, inspects these to ensure that they are being properly managed within the Group’s risk management and overall internal control structure.

**Related information**

- Risks and Opportunities (Page 93)
Principal Risks Associated with the Daikin Group's Operations

The following are possible risks affecting the Daikin Group’s financial situation, business performance, and other areas. Please note that forward-looking statements made here are based on knowledge current as of the end of March 2019.

Business-related and Other Risks

(1) Sudden changes in politico-economic conditions or supply-demand relationships in principal markets

The Daikin Group conducts activities such as development, manufacturing, sales, and procurement worldwide. In the regions and markets in which we operate, group performance can be affected by external factors such as politico-economic changes and the introduction of stricter environmental regulations, and by business environment matters such as intensifying competition with other companies and increased material prices. The Daikin Group has acquired other companies, such as Goodman Global Group, Inc. (acquired in fiscal 2012), and overseas dealers, and it has made investments and outlays in establishing facilities such as production bases. Although these have been carried out with the goal of expanding our production and sales network and increasing earnings of the Daikin Group, how well these moves progress affects our business performance.

(2) Changes in demand for air conditioners due to cold summer weather and other unusual weather patterns

Air-conditioning and refrigeration operations accounted for 89.6% of the Daikin Group’s consolidated net sales in fiscal 2014. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world’s principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group’s performance could be impacted.

(3) Large fluctuations in currency exchange rates

Overseas sales accounted for 76.3% of the Daikin Group’s consolidated net sales in fiscal 2017. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items, including sales, expenses, and assets, for Group operations in each global region, into Japanese yen. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because some of the Group transactions in raw materials and component procurement and in the sale of goods and services are foreign currency-denominated, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.
(4) Major product quality claims

The Daikin Group conducts the highest level of quality control on all products it manufactures, no matter what country they are manufactured in. In new product development, we strive to constantly improve quality, cost, and development speed by revamping all processes—starting in the pre-development stages—in a cooperative effort synchronizing the four facets of design, manufacturing technology, purchasing, and suppliers. Although the Group has liability insurance in case a product claim arises, there is still the possibility that major product quality claims could impact Group performance.

(5) Major problems in manufacturing

The Daikin Group takes every possible measure to prevent problems at its worldwide manufacturing bases, and it constantly works to improve its safety inspections and security measures, especially in the chemicals business. In preparation for potential manufacturing problems, the Group has insurance covering things like damage to equipment and lost profits. However, there is the possibility that major manufacturing problems could impact Group performance.

(6) Major changes in the market prices of securities

Securities of the Daikin Group are held mainly for the purpose of mutually expanding business with and strengthening relationships between Daikin and its business partners. However, factors such as fluctuations in the stock market and bankruptcy of business partners could possibly impact Daikin Group performance.

(7) Impairment of long-lived assets

The Daikin Group records a variety of tangible and intangible assets, including assets for business purposes and goodwill arising from the acquisition of another company. It may be necessary to book impairment losses on these assets; for example, due to a decline in business performance or in the market value of the assets, they may not generate the expected cash flow. Such impairment losses could impact Daikin Group performance.

(8) Natural disasters

Natural disasters such as earthquakes, typhoons, and floods can affect Daikin Group manufacturing, sales, and distribution bases, leading to a possible impact on Group performance.
Operational Risks

The directors and executive officers in charge of a duty have the authority and responsibility to create a Group-wide, cross-organizational system that covers the entire sphere of that duty; for example, in terms of product liability and quality, safety, production and sales activities, and disasters.

To deal with risk across the entire company, officers in charge of compliance and corporate ethics, through the legal department, identify major risks based on risk management principles, and these are deliberated by the Corporate Ethics and Risk Management Committee in order to formulate measures to deal with risk.

### Major Operational Risks in Fiscal 2018

- Natural disaster risk
- Product liability and quality
- Intellectual property
- Control of information leaks
- Overseas crisis management

All divisions and major group companies around the world carry out annual risk assessments to determine the most important risks. Based on this, companies propose and implement countermeasures to reduce risk. They also make reports on the progress of these measures and present and share them via the Corporate Ethics and Risk Management Committee.
Operational Risk Management

Board of Directors

- Corporate Ethics and Risk Management Committee
  Organizational body for promoting corporate ethics and risk management activities for the entire Group

- Officer in Charge of Compliance and Corporate Ethics
  Person in charge of promoting corporate ethics and risk management for the entire Group

- Legal Affairs, Compliance and Intellectual Property Center
  Staff under the officer in charge of compliance and corporate ethics

- Officer in Charge
  Divisions and Group Companies
  People in Charge of Corporate Ethics and Risk Management
  Person responsible for taking action on corporate ethics and risk management
  Compliance and Risk Management Leaders
  People in charge of promoting corporate ethics and risk management

Compliance and Risk Management Leaders Meeting
Preparing for Other Major Risks

Revamping Natural Disaster Risk Measures and Stepping Up Safety Measures

With natural disasters such as typhoons and torrential rains occurring with increasing frequency, Daikin Industries, Ltd. is taking measures against natural disasters as a whole, not just earthquakes. To this end, we have made disaster response a key company-wide theme and we are building stronger, more comprehensive disaster measures that include both hard and soft aspects.

In preparation for earthquake risk, we have made and are implementing proposals in areas including reinforcement of earthquake resistance at our plants and flooding measures at our chemical plants, as well as evacuation drills to prepare for flooding.

Despite numerous instances of earthquakes, typhoons, and torrential rains in fiscal 2018, the measures that we had in place allowed us to avoid any fatal damage.

We are also creating a business continuity plan (BCP), identifying risks, and making and implementing proposals to, for example, prevent production equipment from toppling and ensure stable procurement of parts and materials.

In fiscal 2018, in addition to existing BCP measures, to prevent the effects of the aforementioned natural disasters, we created measures in divisions such as those related to materials procurement and distribution.

Group companies are also proceeding with their own BCPs.

Measures to Deal with Information Leak

Daikin has made preventing information leaks one of its key company-wide themes. IT-related divisions and compliance-related divisions cooperate closely, and personal information managers and information security leaders in each division lead efforts to minimize the risk of information leaks.

Related information

▷ Information Security (Page 332)
Basic Policy

The Group Conduct Guidelines set forth the basic premises to observe as a basic framework for corporate ethics compliance for all group companies as well as each and every one of their executives and employees in the worldwide expansion of Daikin. We strive for compliance by committing to thorough compliance measures under our CSR Action Plan 2020, a medium-term plan that follows our key CSR themes.

Related information

➢ “Group Conduct Guidelines” (CSR Philosophy) (Page 34)
Management System

The Corporate Ethics and Risk Management Committee is the organ for leading group-wide corporate ethics activities. It is headed by the officer in charge of compliance and corporate ethics and made up of general managers and presidents of major group companies in Japan. At meetings held twice a year, the committee focuses on solving key issues and reports on efforts by overseas group companies to tackle compliance issues.

Our Group Conduct Guidelines stipulate the appropriate behavior of our directors and employees, and compliance and risk management leaders (CRLs) are appointed in each division and major worldwide group company to ensure thorough compliance. By regularly confirming the state of compliance and risk management efforts, sharing information, and making the Group Conduct Guidelines second nature to everyone, we aim to cultivate a corporate culture and improve a system in which all employees ensure that they and their colleagues are always in compliance.
Compliance Efforts

Ensuring Constant Compliance with Conduct Guidelines through Self Assessments, a Daikin Initiative

Once a year, we use our unique self assessment system to check that we are in thorough compliance and are following the Group Conduct Guidelines. Using self assessments, employees check their own actions based on the Group Conduct Guidelines. Based on these self assessment results, they create a to-do list of issues and appropriate solutions in their workplace. They also present and share these issues and solutions via the Corporate Ethics and Risk Management Committee.

In addition, the legal department conducts legal audits in divisions and group companies, while the Internal Auditing Department confirms legal compliance through audits.

Formulating Common Worldwide Rules and Sharing Them with Overseas Group Companies

Daikin has formulated common worldwide rules that it shares with overseas group companies so that all Daikin bases around the world can carry out compliance and risk management. Each overseas group company has created a compliance and risk management system for its own region based on these common worldwide rules.

Each of these systems has compliance committees and Corporate Ethics Handbooks, and they conduct regular self assessments and risk management checks.

In addition, members of the legal department of Daikin Industries, Ltd. regularly visit overseas group companies and join compliance committee meetings in efforts to confirm the state of compliance and risk management and to share information. We held an Asian and Oceanian region compliance committee meeting at Daikin Malaysia Sdn. Bhd. in July 2018 and a European region global legal and compliance meeting at Daikin Chemical Europe GmbH in October 2018. In January 2019, we took part in a compliance information exchange meeting for China.
Handbook for Corporate Ethics Uses Concrete Examples to Familiarize Employees with Group Conduct Guidelines

Our Group Conduct Guidelines stipulate the appropriate behavior of our directors and employees. To help them act in accordance with these guidelines, we have also created the Handbook for Corporate Ethics, which uses concrete examples to help all employees attain a thorough understanding of compliance.

For example, Daikin Industries, Ltd. gives employees, along with this handbook, compliance cards that they must carry with them at all times so that they can be sure they are following rules and always be aware of the importance of compliance. In the area of legal compliance, compliance and risk management leaders (CRLs) in each division head efforts to gather the latest legal information and check to see if laws are reflected in company rules and manuals. There are also daily triple checks to ensure everyone is following laws and company rules and manuals.

Handbook for Corporate Ethics

Related information

» “Ensuring Legal Compliance in the Entire Supply Chain” (Working Closely with Suppliers)
Education

Focus on Educating Employees Toward Thorough Compliance

We strive to make every employee constantly aware of compliance through a special emphasis on educational activities. We constantly improve these through better compliance education tools and improved ways to relay the importance of compliance.

For example, employees who are studying look at case studies related to legal matters in specific areas, such as sales, production, and procurement. Education is also divided by employee category, with courses for directors, new employees, newly appointed managers, CRLs, and other kinds of employees. Moreover, to raise employees' compliance awareness, training is supplemented by sessions with individual division heads and managers, who repeatedly remind workplace employees about the importance of compliance from their own experience.

At Daikin Industries, Ltd., every two months employees receive an email newsletter called Daikin Compliance News, which uses familiar case studies to raise employee awareness of the importance of compliance. In addition, whenever there is an important revision to a relevant law or regulation, all employees take e-learning on the matter.

Since 2014, Daikin’s in-house magazine has been running an ongoing series on compliance to keep employees constantly aware of its importance.

Since 2017, group training, led by outside lawyers, has been held on an ongoing basis for young employees on the basics of contracts and Japan’s Anti-Monopoly Act and Subcontract Act.

Major Legal Violations in Daikin in Fiscal 2018

The Daikin Group makes it a rule to publicly announce all instances of major legal violations related to business operations.

There were no cases of business-related major legal violations in fiscal 2018 at Daikin.
Help-Line

Help-Line for Corporate Ethics Offers Counseling and Gathers Opinions both Inside and Outside Daikin Industries, Ltd.

Daikin Industries, Ltd. has a Help-Line for Corporate Ethics both inside and outside the company, where employees can give opinions or receive consultation on all corporate ethics matters. Through the helpline, all advice sought and opinions expressed are kept strictly confidential, and reported matters are dealt with promptly and appropriately. No retribution is taken against either those persons reporting problems and seeking advice, or those persons helping investigate the reported matters. Department heads and managers also receive education on harassment in newly appointed manager training, etc. so that they can appropriately deal with the information provided during counseling with their staff.

The legal department investigates all queries and opinions to the Help-Line, and works with related company divisions to decide on measures to prevent the reoccurrence of problems. This makes for the smooth creation of measures and the solution of problems.

To ensure that the help-line is well publicized, the help-line's contact information is provided on the compliance card that all employees carry with them at all times.
Corporate Governance

FREE COMPETITION AND FAIR BUSINESS DEALINGS

Basic Policy

Ensuring thorough legal compliance and conducting fair business practices

Based on our Group Conduct Guidelines, which state that we conduct free competition and fair business dealings, Daikin conducts fair business practices.

Group Conduct Guidelines

2. Free Competition and Fair Trading

We shall observe all applicable laws and regulations relating to fair competition and fair trade of each country and region, including antimonopoly laws. Furthermore, we shall conduct fair sales and procurement activities based on proper corporate ethics and in accordance with sound business practices and social norms.

Specific Guidelines

1. Observance of the Anti-Monopoly Act
   1. To ensure free competition, we shall not enter into agreements with our competitors in any country to predetermine pricing, production and sales quantity, production and sales models, business partners, sales territory, date of product launch, or similar anti-competitive action.
   2. In the case of tendered bids and quotations, we shall not enter into any agreements with our competitors to predetermine bid price or bid recipient.
   3. We shall not set the resale prices of Daikin products sold by dealers, nor shall we set the listed price in promotional campaigns or in retail stores.
   4. We shall not unfairly inhibit our dealers from selling other companies’ products, nor shall we restrict their sales territories, sales routes, purchase routes, or take any similar action in violation of the Anti-Monopoly Act or other fair-trade laws.
2. Observance of Act against Unjustifiable Premiums and Misleading Representations
   1. When indicating quality, performance, place or origin, terms and conditions and other matters related to our products and services, we shall use accurate and appropriate expressions to ensure that our products and services are not misrepresented to our customers.
   2. Any and all premiums (giveaways, discounts, etc.) given in connection with our sales transactions shall fully comply with the Act against Unjustifiable Premiums and Misleading Representations.

3. Strict Observance of Procurement Rules and the Subcontract Act
   1. When selecting suppliers, we shall widely open our door to companies worldwide to provide fair and equal business opportunities. In addition, we shall grow together with our suppliers, maintaining friendly yet tense competitive relations so that we can develop our business together with our suppliers.
   2. We shall promote the understanding and cooperation of our suppliers in our Group to strive together in legal compliance, respect for human rights, preservation of the environment, and contribution to the development of a sustainable society.
   3. We shall strictly observe the Subcontract Act (Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors) in regard to transactions with our suppliers as we follow sound business and work to protect our business partners.

Daikin Industries, Ltd. strives to always comply with laws on antimonopoly, misleading representations, and subcontracting. For example, annual training plans are made based on the needs of each division. As necessary, we assign experts such as lawyers and employees in the legal department as instructors for these division-based training courses. In this way, communication with each division ensures the most effective training. At the same time, self assessments include checks that relevant laws are being obeyed.

**Related information**

- "Education" (Compliance) (Page 325)
- "Compliance Effort" (Compliance) (Page 323)
- Philosophy on Suppliers (Page 355)
Corporate Governance

PROHIBITING Bribes

Basic Policy

Daikin’s Group Conduct Guidelines state that we practice moderation in entertainment and gift exchanges. We strictly implement our corporate ethics and risk management system, which covers matters such as prohibiting bribes.

Group Conduct Guidelines

13. Practicing Moderation in Entertainment and Gift Exchanges

We shall exercise moderation and perform within the acceptable range of social norms and obey the laws and regulations of each country and region in regards to entertainment, the exchange of presents, and invitations relating to the development of our global business. In particular, we shall not entertain, provide gifts of monetary value to, or extend invitations to public officials in Japan or abroad that violate the applicable laws and regulations in each respective country and region.

Specific Guidelines

1. Maintaining sound and transparent relationships with government and municipal offices
   1. We shall not provide entertainment, the exchange of presents, or invitations to any public servants in government offices in accordance to such laws as the National Public Service Ethics Act.
   2. In the expansion of global business, we shall not provide entertainment, the exchange of presents, or invitations to any public servants in overseas government offices that are prohibited by national or regional laws and regulations.

2. Practicing moderation in entertainment and gift exchanges with suppliers
   In relations with suppliers and other business partners, we shall obey the laws and regulations of each country and region and maintain sound business practices by refraining from taking part in any entertainment, exchange of presents, or invitations outside the realm of social norms.
Thoroughly Implementing Compliance Guidelines for Preventing Bribery of Public Officials, Etc.

In fiscal 2014, with the approval of our board of directors, we created our Compliance Guidelines for Preventing Bribery of Public Officials, Etc., which give detailed directives related to entertaining, gift-giving, and invitations for government officials. These guidelines are being strictly implemented throughout the Daikin Group.

Daikin’s Compliance Guidelines for Preventing Bribery of Public Officials, Etc. stipulate policies in areas such as entertainment, gift exchanges, and invitations for public officials, and outsourcing to third parties. The goal is to have standards and approval processes regarding dining and other interactions with public officials and others. The guidelines are also for preventing the dispersion of profit indirectly to public officials and others via third parties such as by hiring dealers, agents, or consultants. To this end, third party business partners are selected through a strict screening and are required to sign a contract covering anticorruption.

When there are questions regarding interpretation and application of laws and with regards to these guidelines, we have a consultation hotline in the legal department, which we constantly encourage concerned parties to make use of.

Every year, we confirm compliance with our Group Conduct Guidelines by conducting inspections through our unique self assessment system. Any compliance problems found are shared by reporting them to the Corporate Ethics and Risk Management Committee.

Educational Activities

Daikin holds training for managers and employees so that each and every one is knowledgeable and aware of compliance with laws and company regulations. The training is conducted to ensure that employees obey rules on sound and transparent relations with government offices, are compliant with the Political Funds Control Law and the Public Officials Election Act, and conduct moderate entertainment and gift-giving with suppliers. Since guidelines were introduced in fiscal 2014, we have striven to ensure they are familiar to all employees by holding briefings for each division and group company around the world and providing e-learning for all employees of Daikin Industries, Ltd. For employees of divisions and group companies in frequent contact with public officials, members of our legal department visit and lead periodic educational sessions.
Monitoring

Since formulating the Compliance Guidelines for Preventing Bribery of Public Officials, Etc., we have carried out audits in divisions and group companies that do business in countries and regions where corruption is prevalent to ensure that bribes are not occurring. Guideline-related issues discovered during the audits are dealt with by creating solutions in collaboration with relevant divisions and groups, and these are reported to the Board of Directors and the Internal Control Committee. In addition, issues and successful countermeasures are shared via the Corporate Ethics and Risk Management Committee and Global Legal and Compliance Meetings attended by compliance and risk management leaders in each worldwide region.

In fiscal 2018, we introduced our Compliance Guidelines for Preventing Bribery of Public Officials, Etc., at group companies recently acquired by the Daikin Group with a particularly high risk of problems underwent a special audit to ensure they are in compliance with laws to prevent bribery. A resolution was passed on these audits at the Internal Control Committee, and audit results were reported to the Board of Directors.

Related information

➤ "Compliance Effort" (Compliance) (Page 323)

Help-Line System

Daikin Industries, Ltd. has a Help-Line for Corporate Ethics, through which employees can give opinions or receive consultation on all corporate ethics matters, including bribe-related issues. In fiscal 2018, there were no incidents involving bribe-related violations or sanctions.

Related information

➤ "Help-Line" (Compliance) (Page 326)
Corporate Governance

INFORMATION SECURITY

Basic Policy on Information Security

Proper Management and Use of All Confidential Information Including That of Other Companies

Daikin's Group Conduct Guidelines state that we manage and use confidential information appropriately. Our Information Security Basic Policy was formulated to clarify our basic philosophy and action on information security. Daikin stipulates that information leaks from internal information systems, Daikin products and services, and plant equipment systems constitute a major company-wide risk. Therefore, information managers in each division lead efforts in making Basic Regulations of Information Security and Common Security Guidelines based on our Information Security Basic Policy. We also strictly manage confidential information we are holding that is the property of other companies.

And with the increasingly widespread problems of companies losing information over the Internet, we are striving to raise the awareness of employee regarding managing their information; for example, we have strict company policy regarding employees' use of social media.

Group Conduct Guidelines

5. Proper Management and Utilization of Information

We shall properly manage and effectively utilize the confidential information of our company, the confidential information obtained from other companies, and the personal information of our customers and employees and shall not obtain any information through improper means. We shall thoroughly execute IT security management for our computer systems and the data-resources saved on them.
The Daikin Group recognizes that one of our most important management issues is to deliver safe and highly reliable products and services and protect our information assets as well as customers’ information assets in our possession from various types of threats by addressing information security risks which increase on a daily basis. To deal with these issues, we establish the Group basic information security policy and unite as the Daikin Group to further reinforce information security.

1. Our Group complies with rules and regulations, national guidelines, and other social standards in connection with information security.

2. Our Group establishes and complies with internal rules related to information security based on the basic information security policies.

3. Our Group implements appropriate security measures from personnel, organizational, and technological perspectives to protect and manage information.

4. Our Group provides continuous education and awareness programs for information security to all employees.

5. Our Group properly collects information and quickly reports to top management in the event that a security problem occurs on information assets. In addition, we rapidly investigate the cause and strive to minimize the damage and prevent recurrence.

6. Our Group inspects the information security management system and its initiatives and continuously reviews and improves them.
Information Security Management System

Daikin's Information Security Committee, chaired by the officer in charge of information security, was established to strengthen the group-wide security management system. This committee is a cross-organizational information security deliberation body, and it revises and discusses group-wide information security strategy, policy measures, and common rules (regulations and guides). It operates under the Corporate Ethics and Risk Management Committee, to which it reports important information security matters, as well as notifications that must be sent to all employees and strictly followed. Matters decided on by the Corporate Ethics and Risk Management Committee are reported to the Internal Control Committee, chaired by the President, as well as to the Board of Directors. At overseas group companies, the results of information security inspections are used to prioritize bases most susceptible to major risk. At such bases, information security leaders are appointed and in-house rules are formulated in order to strengthen the security management system.
Information Security Education

Daikin Industries, Ltd. strives to raise information security awareness among all members through training for officers, managers, and employees. In fiscal 2018, training was held for information security committee members to learn about recent trends in security risk and what companies can do about these risks. For information security leaders, training covered following in-house rules and guidelines in carrying out their roles, and common security risks and how to deal with them. General employees took courses on in-house rules in which they conducted self-assessments to confirm how well they are complying with the Group Conduct Guidelines. There were also articles in Daikin’s in-house magazine aimed at raising security awareness.

In addition to training and other educational sessions, once a year we send employees training emails that give them practice in dealing with malicious targeted email attacks.

Security Assessments and Results

Daikin Industries, Ltd. holds self-checks every year to determine the state of compliance with the Group Conduct Guidelines. These checks include Daikin's proprietary self-assessment system and information security matters.

We are also strengthening measures in other ways. We have outside experts diagnose the vulnerability of our security systems, and we inspect how well our information leak measures are being implemented in line with the Ministry of Economy, Trade and Industry's Management Guidelines for Trade Secrets. Our IT division, legal division, and internal auditing division collaborate to conduct legal and internal audits to confirm and improve the state of compliance at all divisions.

As a result of audits and inspections, problems that have come to light and their countermeasures are reported to the Information Security Committee. As for major issues and matters that all employees must be notified of and strictly follow, these are reported to the Corporate Ethics and Risk Management Committee, the Internal Control Committee, and the Board of Directors.

Self Assessment System

Refer to Compliance. (Page 321)
Measures Against Information Leak Risk

» Refer to Risk Management. (Page 315)

Personal Information

» Refer to Protecting Customer Information. (Page 262)

Response to Personal Data Regulations for EU Citizens

» Refer to "Response to Personal Data Regulations for EU Citizens (Dealing with Human Rights Risks)" (Respect for Human Rights). (Page 350)
Basic Policy

Acquire Intellectual Property Rights While Respecting That of Other Companies as Well

Daikin understands that intellectual property rights constitute a valuable company asset. We thus strive to both protect these rights and use them effectively. Our Group Conduct Guidelines state that we will respect other companies' intellectual property rights and ensure that our inventions do not infringe on these rights.

Group Conduct Guidelines

4. Respect and Protection of Intellectual Property Rights

Recognizing that intellectual property rights are important company assets, we shall strive to protect and maintain our intellectual property rights and effectively utilize them. Furthermore, we shall respect and make every effort not to infringe upon the intellectual property rights of other companies.

Specific Guidelines

1. Acquiring, protecting, and utilizing intellectual property rights
   1. Recognizing that intellectual property is an important company asset and a strength of the Daikin Group, we shall properly maintain, manage, and protect our intellectual property rights while utilizing them effectively.
   2. Being conscious that our company products and technology are globally developed, we shall actively acquire intellectual property rights worldwide, such as patents that are results of advanced, creative research and development, and endeavor to protect our intellectual property rights through the entire global Group.
   3. We shall assemble information concerning intellectual property rights generated from all Group companies, including overseas companies, as we strive to fully understand and utilize intellectual property rights management as a Group.
   4. We shall appropriately execute our rights in regards to infringement by third parties.
2. Respecting the intellectual property rights of other companies
   1. When developing new products and technology, we shall confirm from a global standpoint that we are not infringing on the intellectual property rights of others.
   2. In the legal licensing of intellectual property rights from other companies, we shall observe the scope of use specified in the contract when using those property rights and refrain from actions such as the unauthorized copying of software.

3. Prohibiting the copying of other companies’ products
   In the interests of fair competition, we shall not imitate the products of any other companies during the development, manufacture, or sale of our products.

Based on the Group Conduct Guidelines, we formulated more detailed points in our Compliance Action Guidelines, which state that we will acquire patents and avoid infringement by having the person in charge of R&D at Daikin be the person responsible for a patent and having the researcher/developer understand that he/she is the sole developer of the product or invention.

In new product and new technology development, part of the design review process involves verifying that these products and technologies do not infringe on existing patents. In collaborations with other companies, we distinguish between open technologies and confidential technologies, and confidential technologies are designated as such and kept out of reach.
System for Protection of Intellectual Property

**Intellectual Property Manager in Research Department**

To actively support researchers/developers, the legal department assigns an intellectual property manager in each division.

The intellectual property managers keep in contact with each other, and manage the variety of intellectual property matters that come up daily (filing/acquisition of rights, reduction of risk of infringement upon and infringement by other companies, etc.). They also educate employees at various levels on intellectual property and reward Daikin patent awardees. And to ensure strategic implementation of intellectual property activities, they form patent networks with researchers/developers and strengthen global intellectual property survey functions.

Moreover, with the globalization of our R&D bases, we are appointing intellectual property managers at each of these bases.

We will continue to strive to better manage our intellectual property rights by acquiring and using a greater number of patents and higher quality patents.

**Strengthening the Intellectual Property Rights System in Line with Globalization of Business and R&D Bases**

We are also strengthening our intellectual property rights systems at our overseas R&D bases. At Daikin Industries, Ltd. and at overseas group R&D bases, starting with those of our Group companies in China, we are striving to obtain various intellectual property rights. We also continue to offer classroom and e-learning, and on-the-job training for intellectual property managers and developers at overseas R&D bases.

China has overtaken the U.S. as the country with the most patent applications. It also has more intellectual property court cases than the U.S. Against this background, Daikin is actively acquiring intellectual property rights in China, and is stepping up applications for patents, utility models, devices, and trademarks. In emerging countries like India and Brazil, and in emerging countries in southeast Asia, we are stepping up device applications as a way to effectively prevent product copying and boost patent applications.

In fiscal 2018, we gave our R&D bases more autonomy over intellectual property duties based on a five-year plan to strengthen intellectual property rights at these bases. We also held global intellectual property conferences at which participants shared and discussed common issues and which gave intellectual property managers the chance to strengthen ties.

In fiscal 2019, we will continue these efforts as we further step up group-wide governance of intellectual property.
Encouraging Employees to Create Intellectual Property

Refer to "Spurring the Creation of Intellectual Property" (Management Structure) (Page 225)

Scientific Technology Transfer

Worldwide Free Access to Patents for Equipment Using Next-Generation Refrigerant

Daikin Industries, Ltd. has been offering free access to a cumulative total of 93 basic patents necessary for companies to develop and commercialize air conditioners that use HFC-32 refrigerant. The company has been doing this in emerging countries since September 2011 and worldwide including industrialized countries since September 2015. The aim is to promote the use of HFC-32 worldwide.

Related information

- Low Environmental Impact Refrigerants  (Page 129)
- Key Activities of Fiscal 2015: Environment — Creating a New Market that Contributes to the Mitigation of Global Warming (https://www.daikin.com/csr/feature2015/01.html)
Basic Policy and Implementation System

Daikin is working to improve tax transparency pursuant to Proper Handling of Accounting Procedures set forth in the Daikin’s Group Conduct Guidelines. Based on these guidelines, we clarify our basic approach toward tax compliance and ensure thorough tax compliance. Tax related risks are overseen by the officer in charge of accounting and finance and reported to the board of directors. In case of uncertainty over the application or interpretation of tax laws, we respond appropriately after seeking out the advice of external professionals.

Group Conduct Guidelines

12. Proper Handling of Accounting Procedures

We shall comply with all accounting standards and tax laws of each country and region as well as internal company rules in properly performing accounting procedures.

Specific Guidelines

1. Paying expenses properly

2. Ensuring appropriate accounting
   We shall observe appropriate accounting standards based on the generally accepted accounting principles in order to ensure the accuracy of our accounting and financial data. Likewise, we shall build and maintain an appropriate internal control system to ensure the accuracy of financial reporting.

3. Observance of tax laws
   1. We shall pay taxes in accordance with relevant tax laws.
   2. For cross border transactions, including those transactions involving companies of the global Group, we shall carefully check the tax laws of the relevant country as well as those tax laws in Japan.
1. Approach to Risk Management and Governance Arrangements in relation to Taxation

At Daikin, we consider the payment of tax to be a critical element of our corporate social responsibilities (CSR). We believe that our tax payments play an important role in the development of the countries and regions in which we operate, which in turn results in the sustainable development and corporate value enhancement of the Daikin Group.

Recognizing that tax related risk is an important element among the many business risks facing the Daikin Group, we address tax related risks in accordance with our Group's risk management principles.

2. Tax Compliance

We are committed to full compliance with the applicable laws and regulations in each of the jurisdictions in which the Daikin Group operates.

We also respect not only the letter but the spirit of the law.

3. Prohibition of Tax Avoidance and Attitude toward Tax Planning

Daikin does not undertake tax planning that lacks commercial substance, or which involves artificial or aggressive transactions or structures undertaken solely for tax reasons.

All intercompany transactions within the Group are conducted on an arm's length basis as described in the OECD Transfer Pricing Guidelines, and consistent with local laws and regulations.

4. Level of Tax Risk Accepted

External advice may be sought if issues are significantly uncertain or complex.

To mitigate risks, including the risk of double taxation, we routinely consider effective measures to increase certainty in our positions, such as Advance Pricing Arrangements ("APA") and Mutual Agreement Procedures ("MAP") for transfer pricing.

5. Approach to Dealing with Tax Authorities - Trust and Transparency

We strive to act in good faith and maintain an open, constructive and cooperative relationship with tax authorities. Through the approach described above, we aim to achieve a robust and predictable tax position.

We demonstrate our commitment to transparency by disclosing information required under applicable laws and regulations, when requested by taxation authorities.
Tax Payment History

We disclose the amount of the Group's corporate income tax liability, including the differences from the statutory effective tax rate in our Securities Report and Annual Report.

Related information

- Securities Report (available in Japanese only) (https://www.daikin.co.jp/investor/library/securities/)
- Annual Report (https://www.daikin.com/investor/library/annual/)