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Code Number: 6367

June 3, 2022

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 119th Ordinary General Meeting of Shareholders

We hereby inform you of the 119th Ordinary General Meeting of Shareholders of Daikin Industries, Ltd. (“Daikin” or the “Company”) to be held as indicated below.

To prevent the spread of COVID-19 infection, the Company will hold the meeting subject to the implementation of appropriate measures.

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 Tuesday, June 28, 2022, in accordance with “5. Guidance on Exercising Voting Rights” on the following page.

Particulars

1. Date and Time: 10:00 a.m., Wednesday, June 29, 2022 (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 119th fiscal year (from April 1, 2021, to March 31, 2022)
- 2: Audit Reports on the Consolidated Financial Statements for the 119th fiscal year (from April 1, 2021, to March 31, 2022) by the Independent Auditor and the Audit & Supervisory Board

Resolution Items:

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

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., Tuesday, June 28, 2022.**

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 or smartphone. 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., Tuesday, June 28, 2022

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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 for the 119th fiscal year as follows, which is a dividend increase of ¥30 per share from that of the preceding year, since we posted a higher profit for the fiscal year under review.

This dividend would result in an annual dividend—including the interim dividend—of ¥200 per share, an increase of ¥40.

Year-end dividends

- (1) Amount of dividend assets to be allocated to shareholders
 - Cash of ¥110 per share of common stock of the Company
 - Total: ¥32,195,797,150
- (2) Effective date of dividends from surplus
 - June 30, 2022

Second Item: Partial Amendments to the Articles of Incorporation

1. Reason for the amendments

The amending provisions provided in the proviso to Article 1 of the Supplementary Provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) will be enforced on September 1, 2022. To prepare for the implementation of a system for providing general shareholder meeting materials in electronic format, we propose to make the following amendments to the Company’s Articles of Incorporation.

- (1) The proposed amendment for Article 15, Paragraph 1 will define an electronic provision measure to be taken for information that constitutes the content of the Reference Documents for the General Meeting of Shareholders, etc.
- (2) The proposed amendment for Article 15, Paragraph 2 will establish a provision to limit the scope of the items to be stated in materials in paper-based format to be delivered to shareholders who request the delivery of materials in paper-based format.
- (3) We will delete the provision on Internet Disclosure and Deemed Provision of the Reference Documents for the General Meeting of Shareholders, etc. (Article 15 of the current Articles of Incorporation) as it will be no longer required.
- (4) Accompanying the new establishment and deletion described above, we will establish supplementary provisions regarding the effective date, etc.

2. Details of the amendments

Details of the amendments are as follows:

(The underlined text is the amended part)

Current Articles of Incorporation	Proposed Amendment
<p><u>(Internet Disclosure and Deemed Provision of the Reference Documents for the General Meeting of Shareholders, etc.)</u> <u>Article 15</u> <u>When the Company gives a convocation notice of a general meeting of shareholders, if it discloses information pertaining to matters that should be recorded or described in the Reference Documents for the General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements, and Consolidated Financial Statements in a manner utilizing the Internet in accordance with the provisions prescribed by ordinances of the Ministry of Justice, the Company may be deemed to have provided this information to shareholders.</u></p>	<p>(To be deleted)</p>

Current Articles of Incorporation	Proposed Amendment
(To be newly established)	<p><u>(Electronic Provision Measure, etc.)</u></p> <p><u>Article 15</u></p> <p><u>When the Company gives a convocation notice of a general meeting of shareholders, the Company shall take an electronic provision measure for information that constitutes the content of the Reference Documents for the General Meeting of Shareholders, etc.</u></p> <p><u>(2) The Company may omit to include all or part of the matters that are provided in electronic format as stipulated in ordinances of the Ministry of Justice, in materials in paper-based format to be delivered to shareholders who submit a request for the delivery of materials in paper-based format by the record date for voting rights.</u></p>
(To be newly established)	<p><u>Supplementary Provisions</u></p> <p><u>Article 1</u></p> <p><u>The amendment to Article 15 of the Articles of Incorporation shall be effective from September 1, 2022, the date of enforcement of the amending provisions provided in the proviso to Article 1 of the Supplementary Provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) (hereinafter, the “Enforcement Date”).</u></p> <p><u>Article 2</u></p> <p><u>Notwithstanding the preceding article, the Article 15 (Internet Disclosure and Deemed Provision of the Reference Documents for the General Meeting of Shareholders, etc.) of the current Articles of Incorporation shall remain in effect for a general meeting of shareholders to be held within six months from the Enforcement Date.</u></p> <p><u>Article 3</u></p> <p><u>These Supplementary Provisions shall be deleted after the later of either the date six months from the Enforcement Date or the date three months from the date of the general meeting of shareholders as provided in the preceding article.</u></p>

Third 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 Chairman of the Internal Control Committee Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee
3	Reappointment Candidate for External Director Candidate for Independent Director	Tatsuo Kawada	Director Chairman of the HRM Advisory Committee, Chairman of the Compensation Advisory Committee
4	Reappointment Candidate for External Director Candidate for Independent Director	Akiji Makino	Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee
5	Reappointment Candidate for External Director Candidate for Independent Director	Shingo Torii	Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee
6	Reappointment Candidate for External Director Candidate for Independent Director Female	Yuko Arai	Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee
7	Reappointment	Ken Tayano	Representative Director and Senior Executive Officer In charge of Air Conditioning Business in Japan, Representative of China business Chairman of the Board of Daikin (China) Investment Co., Ltd.

Candidate number		Name	Current Positions at the Company
8	Reappointment	Masatsugu Minaka	Director and Senior Executive Officer Representative of Europe, the Middle East and Africa Chairman of the Board of Daikin Europe N.V.
9	Reappointment	Takashi Matsuzaki	Director and Senior Executive Officer In charge of Applied Solutions Business, North America R&D, Applied Development Center, and Daikin Open Innovation Lab Silicon Valley
10	Reappointment	Yoshihiro Mineno	Director and Senior Executive Officer In charge of Global Operations Division, Filter Business and training Director of Daikin Comfort Technologies North America, Inc.
11	Reappointment	Kanwal Jeet Jawa	Director and Senior Associate Officer Regional General Manager, Air Conditioning Business in India and East Africa, Global Operations Division Managing Director & CEO of Daikin Airconditioning India Pvt. Ltd.

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 liability against them. 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 2022.

Candidate number	Name (Date of birth)		Number of the Company shares owned
1	Noriyuki Inoue (March 17, 1935) Reappointment	<p>[Brief personal history]</p> <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>[Current positions at the Company] Chairman of the Board and Chief Global Group Officer</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

Reasons for Nominating Candidate for Director:

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.

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)		Number of the Company shares owned
2	Masanori Togawa (January 11, 1949) Reappointment	<p>[Brief personal history]</p> <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> <p>[Current positions at the Company] Representative Director, President, and CEO Chairman of the Internal Control Committee, Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee</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)		Number of the Company shares owned
3	Tatsuo Kawada (January 27, 1940) Reappointment Candidate for External Director Candidate for Independent Director	<p>[Brief personal history]</p> <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, Member of the Compensation Advisory Committee of the Company</p> <p>July 2021 Chairman of the HRM Advisory Committee of the Company (Current position), Chairman of the Compensation Advisory Committee of the Company (Current position)</p> <p>[Current positions at the Company] Director Chairman of the HRM Advisory Committee, Chairman of the Compensation Advisory Committee</p> <p>[Significant positions concurrently held] Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company</p>	0 shares

Reasons for Nominating Candidate for External Director 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 a 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 Chairman of the HRM Advisory Committee and a Chairman 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 the viewpoint of shifting to new business models and generating innovation.

Attendance for Meetings of the Board of Directors:

Attended 14 out of 15 meetings (93.3%)

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 register him with 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 six 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)		Number of the Company shares owned
4	Akiji Makino (September 14, 1941) Reappointment Candidate for External Director Candidate for Independent Director	<p>[Brief personal history]</p> <p>March 1965 Entered Iwatani Corporation</p> <p>June 1988 Director of the above company</p> <p>June 1990 Executive Director of the above company</p> <p>June 1994 Senior Executive Director of the above company</p> <p>June 1998 Executive Vice President of the above company</p> <p>April 2000 President of the above company</p> <p>June 2004 President and Executive Officer of the above company</p> <p>June 2012 Chairman, CEO, and Executive Officer of the above company</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>April 2019 Chairman and CEO of Iwatani Corporation (Current position)</p> <p>[Current positions at the Company] Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee</p> <p>[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</p>	2,000 shares

Reasons for Nominating Candidate for External Director and Outline of Expected Role:

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 a 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 the viewpoint of the energy and environmental fields and service businesses.

Attendance for Meetings of the Board of Directors:

Attended 14 out of 15 meetings (93.3%)

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 register him with 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 six 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)		Number of the Company shares owned
5	Shingo Torii (January 18, 1953) Reappointment Candidate for External Director Candidate for Independent Director	<p>[Brief personal history]</p> <p>April 1980 Entered ITOCHU Corporation</p> <p>June 1983 Entered Suntory Limited (Currently, Suntory Holdings Limited)</p> <p>March 1992 Director of the above company</p> <p>March 1999 Managing Director of the above company</p> <p>March 2001 Representative Director and Senior Managing Executive Officer of the above company</p> <p>March 2003 Representative Director and Executive Vice President of the above company</p> <p>October 2014 Representative Director and Vice Chairman of the Board of the above company (Current position)</p> <p>June 2020 Director of the Company (Current position)</p> <p>July 2020 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)</p> <p>[Current positions at the Company] Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee</p> <p>[Significant positions concurrently held] Representative Director and Vice Chairman of the Board of Suntory Holdings Limited Outside Director of Zojirushi Corporation Chairperson of the Osaka Chamber of Commerce and Industry</p>	1,000 shares

Reasons for Nominating Candidate for External Director 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 a 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 the viewpoint of corporate management for proactively capturing customer needs, the enhancement of corporate value through ESG activities, and other areas.

Attendance for Meetings of the Board of Directors:

Attended 14 out of 15 meetings (93.3%)

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 register him with 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 two years.
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)		Number of the Company shares owned
6	<p>Yuko Arai (January 27, 1961)</p> <p>Reappointment Candidate for External Director Candidate for Independent Director Female</p>	<p>[Brief personal history]</p> <p>April 1979 Entered ALL NIPPON AIRWAYS CO., LTD.</p> <p>April 2014 Corporate Executive Officer of the above company</p> <p>April 2016 Senior Executive Officer of the above company Director and Senior Vice President of ANA Sales Co., Ltd. (Currently, ANA Akindo Co., Ltd.)</p> <p>April 2021 Director and Senior Vice President of ANA Akindo Co., Ltd.</p> <p>June 2021 Director of the Company (Current position)</p> <p>July 2021 Member of the HRM Advisory Committee of the Company (Current position), Member of the Compensation Advisory Committee of the Company (Current position)</p> <p>April 2022 Senior Advisor of ANA Akindo Co., Ltd. (Current position)</p> <p>[Current positions at the Company] Director Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee</p> <p>[Significant positions concurrently held] Senior Advisor of ANA Akindo Co., Ltd. Outside Director of Aichi Steel Corporation</p>	0 shares

Reasons for Nominating Candidate for External Director 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. Drawing on such a track record, Ms. Arai has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2021 and has been giving valuable advice on management policies and strategies. She 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 her to continue as External Director, expecting that she 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 the viewpoint of corporate management from customers' perspective and promotion of further participation by female employees.

Attendance for Meetings of the Board of Directors:

Attended 12 out of 12 meetings (held since appointment on June 29, 2021) (100%)

Notes:

1. Ms. Yuko Arai does not hold any special interests in the Company.
2. There are no transactions between the Company and ANA Akindo Co., Ltd., where Ms. Arai serves as Senior Advisor.
3. Ms. Arai is a candidate for External Director. The Company will register her with Tokyo Stock Exchange, Inc., as Independent Director if she is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Ms. Arai will have been an External Director for one year.
5. The Company has concluded a limitation of liability agreement with Ms. Arai, 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 her reelection is approved, the Company intends to continue the said agreement with her.

Candidate number	Name (Date of birth)		Number of the Company shares owned
7	Ken Tayano (January 12, 1947) Reappointment	<p>[Brief personal history]</p> <p>April 1970 Entered the Company</p> <p>June 2000 Associate Officer of the Company</p> <p>June 2002 Senior Associate Officer of the Company</p> <p>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</p> <p>May 2009 Chairman of the Board of Daikin (China) Investment Co., Ltd. (Current position) President of Daikin (China) Investment Co., Ltd.</p> <p>June 2011 Director and Senior Executive Officer of the Company</p> <p>June 2013 In charge of Air Conditioning Business in Japan of the Company (Current position)</p> <p>June 2014 Representative Director and Senior Executive Officer of the Company (Current position)</p> <p>December 2014 Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd.</p> <p>[Current positions at the Company] Representative Director and Senior Executive Officer In charge of Air Conditioning Business in Japan, Representative of China business</p> <p>[Significant positions concurrently held] Chairman of the Board of Daikin (China) Investment Co., Ltd.</p>	5,300 shares

Reasons for Nominating Candidate for Director:

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.

Note:

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

Candidate number	Name (Date of birth)		Number of the Company shares owned
8	Masatsugu Minaka (July 9, 1953) Reappointment	<p>[Brief personal history]</p> <p>October 1983 Entered the Company</p> <p>July 2005 Director and President of Daikin Europe N.V.</p> <p>June 2007 Associate Officer of the Company, Member of Global Air Conditioning Committee of the Company</p> <p>June 2008 Executive Officer of the Company</p> <p>June 2010 Senior Executive Officer of the Company</p> <p>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</p> <p>June 2018 Representative of Air Conditioning in Europe, the Middle East and Africa (excluding East Africa) of the Company</p> <p>June 2021 Representative of Europe, the Middle East and Africa of the Company (Current position), Chairman of the Board of Daikin Europe N.V. (Current position)</p> <p>[Current positions at the Company] Director and Senior Executive Officer Representative of Europe, the Middle East and Africa</p> <p>[Significant positions concurrently held] Chairman of the Board of Daikin Europe N.V.</p>	8,100 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 all lines of business operations of the Company 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)		Number of the Company shares owned
9	Takashi Matsuzaki (December 23, 1958) Reappointment	<p>[Brief personal history]</p> <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> <p>[Current positions at the Company] Director and Senior Executive Officer In charge of Applied Solutions Business, North America R&D, Applied Development Center, and Daikin Open Innovation Lab Silicon Valley</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 the 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)		Number of the Company shares owned
10	Yoshihiro Mineno (May 14, 1953) Reappointment	<p>[Brief personal history]</p> <p>September 1978 Entered the Company</p> <p>May 2010 General Manager of Global Operations Division of the Company</p> <p>June 2012 Executive Officer of the Company</p> <p>June 2016 Senior Executive Officer of the Company, Director of Goodman Global Group, Inc. (Currently, Daikin Comfort Technologies North America, Inc.) (Current position)</p> <p>June 2019 Senior Executive Officer of the Company, In charge of Filter Business of the Company (Current position), In charge of training of the Company (Current position)</p> <p>June 2021 Director and Senior Executive Officer of the Company (Current position), In charge of Global Operations Division of the Company (Current position)</p> <p>[Current positions at the Company] Director and Senior Executive Officer In charge of Global Operations Division, Filter Business and training</p>	6,500 shares
<p>Reasons for Nominating Candidate for Director:</p> <p>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, and as Director and Senior Executive Officer since June 2021, he is currently in charge of the air conditioning business in Asia and Oceania and the filter business. We have appointed Mr. Mineno 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. Yoshihiro Mineno does not hold any special interests in the Company.

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

<Reference>

[Skill set of our company's board of directors: experience and knowledge of each director]

- Our company strives to materialize advanced management with an “integrated management” system in which directors quickly make strategic decisions and conduct sound and appropriate supervision and guidance, thus achieving collective management responsibility across all management, and at the same time, assume work execution responsibility through prompt action. We believe this integrated management system is effective in speeding up decision making and execution. Directors make decisions, 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 multiple external officers who monitor the execution of operations from an independent perspective and offer appropriate supervision and advice during decision making. Through this process they take responsibility for supporting our “integrated management” from the standpoint of transparency and soundness.

- In appointing directors, we emphasize that they have diverse background including nationality, gender, and career from a perspective of business globalization, expanding business, and practicing diversity management.

Furthermore, our company believes that the competence sought in directors are qualities necessary in corporate management, namely, leadership that draws out the potential of people and drives an organization to enhance action-taking capabilities, speedy action to materialize foresight and insight that are a half step ahead of society gained through staying at the *genba* (actual site) where information originates, willpower and decisiveness to derive solutions to issues without answers, and capability to pass down and further develop the respected philosophy and value of companies.

Based on the abovementioned appointment policies, directors are appointed, and for independent directors we require that they have work experience such as directors of listed companies.

- With an aim to boost the corporate value of our Group and increasingly expand our global businesses and accomplish the key strategies set forth in Fusion 25, our company will further enhance corporate governance through our board consisting of corporate managers with extensive experience and deep insight.

All our company's 11 candidates for directors with their extensive experience and deep insight as corporate managers generated significant results in their respective fields thus far. We believe the attributes possessed by each director are necessary skills for further improving our Group's corporate value.

The seven candidates for internal director, while carrying out their respective operations, possess the necessary skills in further expanding global businesses, promoting and executing initiatives on environmental strategies and the solutions business, and focusing efforts in accomplishing them.

The four candidates for independent directors are selected for their participation in making decisions and supervising management from an independent and neutral point of view. Current members with experiences in their own companies and knowledge in their respective areas, possess the necessary skills in contributing to the Group's accomplishment of the important strategies.

Furthermore, for the functions of management base such as sales, production, finance & accounting, legal affairs, and digital transformation, executive officers are appointed to dedicate themselves in executing operations. At the same time, each officer attends the board

meeting in accordance with the agenda of the board meeting to secure the effectiveness of decision-making and supervision of the board.

If the Third Item is approved as originally proposed, the Board of Directors of the Company will consist of the members who have the experience and expertise as listed on the following page.

No.	Name	Experience and knowledge of each director and their expected role
1	Noriyuki Inoue	Mr. Inoue has been in charge of the management of our company over many years and has achieved significant results in globally expanding business and improving corporate value using business judgement with foresight and Group management capabilities capitalizing on diversity. He will promote building a management model looking ahead to a new era.
2	Masanori Togawa	As the Representative Director, President and CEO, Mr. Togawa made efforts in executing the strategic management plan and in developing the Group. He will continually strive to attain the Fusion 25 plan as well as demonstrate his strong leadership to promote measures flexibly and quickly under the ever-changing environment for further business expansion.
3	Tatsuo Kawada	Leveraging the abundant experience and deep insight as a corporate manager at Seiren Co., Ltd., Mr. Kawada provides advice and supervision to our company's management matters from an extensive and advanced insight as an independent director with a focus on his viewpoints regarding business model transition, innovation creation, and others.
4	Akiji Makino	Leveraging the abundant experience and deep insight as a corporate manager at Iwatani Corporation, Mr. Makino provides advice and supervision to our company's management matters from an extensive and advanced insight as an independent director with a focus on his perspectives regarding energy, environmental fields, service business, and others.
5	Shingo Torii	Leveraging the abundant experience and deep insight as the corporate manager of Suntory Holdings Limited, Mr. Torii provides advice and supervision from an extensive and advanced insight as an independent director with a focus on perspectives regarding corporate management anticipating customers' needs, corporate activities on SDGs and ESG, and others.
6	Yuko Arai	Leveraging the abundant experience and deep insight as the corporate executive of the ANA Group, Ms. Arai provides advice and supervision from an extensive and advanced insight as an independent director with a focus on perspectives regarding customer-centric corporate management and business development, and the further promotion of the activities of female employees.
7	Ken Tayano	Mr. Tayano has been in charge of the air conditioning business in China over many years and significantly contributed to business expansion. Today he is in charge of the overall businesses in the China region and air conditioning business in Japan as well as reinforcing sales and marketing capabilities of the entire Group. Leveraging his capability in responding to rapid changes in China and management capability that capitalizes local human resources, he aims to further expand business.
8	Masatsugu Minaka	Mr. Minaka has been in charge of the air conditioning business in Europe over many years to significantly contribute to business expansion. Today he is in charge of the overall businesses in Europe, the Middle East, and Africa. Leveraging his capability in responding to environmental issues advanced in Europe and management capabilities to integrate diverse local human resources, he aims to further expand business.
9	Takashi Matsuzaki	Mr. Matsuzaki has engaged in the air conditioning business for many years and significantly contributed to expanding business particularly in terms of R&D and product development. Currently he is in charge of R&D and the applied solutions business in North America. He will develop leading-edge technology beyond AC equipment and create new businesses.

No.	Name	Experience and knowledge of each director and their expected role
10	Yoshihiro Mineno	Mr. Mineno has engaged in the overseas air conditioning business, particularly in Asia and Oceania over many years to significantly contribute to business expansion. Currently he is in charge of the air conditioning business in the Asia/Oceania region, including India, and the filter business. Leveraging his overseas working experience and business generation capabilities in new fields, he aims to further expand business as well as globally reinforce sales and marketing capabilities.
11	Kanwal Jeet Jawa	Mr. Jawa has engaged in the air conditioning business in India over many years to significantly contribute to business expansion. Currently he is in charge of the air conditioning business in India and East African regions. Leveraging his rich experience in the air conditioning business and capability in developing business in emerging regions, he aims to further expand business.

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)		Number of the Company shares owned
Ichiro Ono (April 3, 1949)	[Brief personal history] 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 register him with 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 liability

against them. 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.

Business Report

1. Review of Operations

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

In the fiscal year ended March 31, 2022 (fiscal 2021), economic activities continued to resume in various countries in conjunction with rising vaccination rates, but the overall world economy grew slowly due to resurgences of the coronavirus (COVID-19), disruptions to logistics networks, and the rising prices of goods, including energy prices. In the U.S. economy, despite the resurgence of infections and growing inflationary pressure, economic policies proved successful, and the economic climate was strong. In the European economy, household demand rapidly recovered due to the resumption of economic activities following vaccination progress. However, from autumn onward, the number of infections rose again, and the prices of goods climbed, slowing the pace of demand growth. The economies of Asia and emerging countries were affected by infection trends and activity restriction measures, and while economic conditions varied from country to country, the regional economies saw only a gradual recovery overall. The Chinese economy saw an increase in exports and new infrastructure investment by the government during the first half of the fiscal year, but a resurgence of COVID-19 in the second half of the fiscal year resulted in the government putting severe activity restrictions in place that exerted downward pressure on personal consumption, and the economy experienced a slowdown. The growth of the Japanese economy stagnated due to sluggish service consumption caused by the spread of infections as well as the decrease in production due to supply constraints.

In such a business environment, the Daikin Group responded flexibly and speedily to changes in the environment and strove to improve profitability with an “aggressive” and “challenging” mindset that anticipates future changes and is grounded in a lean, robust management structure. Specifically, we worked to build a flexible production and supply system that can respond to changes in demand, increase market shares by expanding sales of new products that meet new needs, implement total cost reductions such as material substitution from copper to aluminum in response to soaring raw material prices, promote sales price policies by introducing differentiated products that are recognized for their value by the market and customers, reduce fixed costs, and improve logistics efficiency.

In addition, we formulated the strategic management plan “Fusion 25” with a target year of the fiscal year ending March 31, 2026, and implemented initiatives based on nine key themes, including the three growth strategy themes of the “Challenge to achieve carbon neutrality,” “Promotion of solutions business connected with customers,” and “Creating value with air.”

The Daikin Group’s net sales increased by 24.7% year over year to ¥3,109,106 million for the fiscal year under review. As for profits, operating profit increased by 32.6% to ¥316,350 million, ordinary profit increased by 36.3% to ¥327,496 million, and profit attributable to owners of parent increased by 39.3% to ¥217,709 million.

(2) Review of Operations by Business Segment

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment increased by 24.4% year over year to ¥2,828,499 million. Operating profit increased by 26.6% to ¥282,404 million.

In the Japanese commercial air-conditioning equipment market, while the impact of COVID-19 remained, industry demand recovered in comparison to the previous fiscal year, when the market suffered a major drop, and resulted in year-over-year growth. The Group reinforced product appeal by launching new products, such as the “VRV” and “SkyAir” series, that respond to the air conditioning industry’s issue of a shortage of installation engineers by simplifying construction work and ensuring consistent construction quality. We also issued proposals for improving environments to tackle customers’ air-related problems by combining the Group’s ventilation and disinfection products, such as the “Heat Reclaim Ventilator” total heat exchanger unit and the “Commercial Streamer Air Purifier,” with air-conditioning systems. As a result of the product lineup reinforcement and proposal expansion, net sales of commercial air-conditioning systems increased year over year.

In the Japanese residential air-conditioning equipment market, industry demand declined year over year due to the effects of the long rains and cool temperatures during the summer season, together with the subsiding of pent-up demand from people staying at home. The Group enhanced product appeal by launching a new model of the room air conditioner “Urusara X,” which is equipped with proprietary functions such as waterless humidification, air supply ventilation, and exhaust ventilation, and by performing a model change for the room air conditioner “risora” with close attention paid to design. Air purifiers continued to enjoy solid demand, and we reinforced our product lineup with the launch of a new “UV Streamer Air Purifier,” which combines the Daikin Group’s proprietary Streamer air purification technologies with deep ultraviolet (UVC) LEDs and whose high wavelengths

are effective at controlling viruses and bacteria. As a result of these efforts, net sales of residential air-conditioning systems increased year over year.

In the Americas, there was a period in the previous fiscal year when supply capacity was affected due to the spread of COVID-19 and partial shutdown of factories. In the fiscal year under review, however, despite the labor shortages and parts supply problems across North America, the Group steadily increased both production and sales as a result of efforts to improve its supply capacity. Market share of residential air-conditioning systems improved due to the increase in sales, and net sales increased significantly year over year as a result of efforts to strengthen our sales network through acquisitions and steadily implement pricing policies. In the market for large buildings (Applied Systems), net sales increased year over year against the backdrop of a recovery in the market, which had been stagnant due to the impact of COVID-19, as a result of efforts for sales expansion of Applied Systems equipment, expansion of the after sales service business, and sales increase contributed by the companies acquired at the end of the previous fiscal year and the fiscal year under review.

In China, personal consumption was strong during the fiscal year although the economy slowed in the second half of the fiscal year. The Group strengthened its product lineup of residential system products, indoor air quality (IAQ) and ventilation products, and environmentally appealing products, while reinforcing online sales in addition to sales at its “PROSHOP” specialty shops, which has been its strength to date. Consequently, net sales significantly increased year over year. In terms of profits, the Group maintained high levels by expanding sales of high value added products and working to reduce costs and curb fixed costs, despite being affected by the sharp rise in raw material prices and a shortage of semiconductors. In the residential-use market, the Group promoted sales activities that combined traditional in-store sales and online sales and focused on searching for new customers and capturing demand for replacements. In addition, consistent with its promotion of carbon neutrality policies, the Group strengthened proposals of systems combined with heat pump hot water heating systems and other equipment, and greatly expanded sales of residential multi-split type air conditioners. In the commercial-use market, the Group expanded customer contact points by leveraging ventilation and cleaning for stores and offices and captured demand for replacement and additional purchase of equipment. In the large-scale projects market, the Group strengthened its proposals for air, energy, and other solutions. In the factory market, the Group captured demand for replacement to energy-saving equipment in response to environmental measures. In the Applied Systems air-conditioning equipment market, the Group shifted management resources to growth fields such as semiconductors-related and also strengthened the repair and maintenance business.

In Asia and Oceania, the market environment remained difficult due to lockdowns and tighter restrictions on business activities from May onward in India, Malaysia, Thailand, Vietnam, and other Asian countries and from July onward in Australia as a result of the renewed spread of COVID-19. Especially in commercial air-conditioning systems, a difficult situation continued that included delays in construction starts and suspension or postponement of construction across the market due to the shortage of workers and mandatory COVID-19 testing at construction sites. In the second half of the fiscal year, activity restrictions gradually eased and economic activities slowly resumed. The Group undertook initiatives that included capturing recovery demand in every country, especially India, achieving strong sales in Oceania, and steadily implementing pricing policies. As a result, overall net sales for both commercial use and residential use increased year over year.

In Europe, from the beginning of the fiscal year, the Group continued to face various business risks, such as logistical disruptions due to the stranded ship accident in the Suez Canal, soaring raw material prices and logistics costs, tight supply of parts, and the worsening of the Russia-Ukraine situation, and the business environment remained harsh. Nevertheless, overall net sales significantly exceeded the previous fiscal year’s record high, thanks to a stable production and supply system based on strengthened cooperation among divisions as well as enhanced sales and marketing capabilities. In residential air-conditioning systems, while sales declined in France, Spain, Germany, and other countries due to the cool summer, sales expanded as a result of capturing increased demand from the intense heat wave in Greece, Bulgaria, and other southeastern parts of Europe and demand backed by subsidies for energy-saving equipment in Italy. In residential heat pump hot water heating systems, subsidy programs implemented by the governments of various countries with a view to driving economic recovery from the pandemic and reducing CO₂ emissions helped drive sales. As demand for replacements of gas and oil boilers expanded dramatically, the Group worked to capture as much demand as possible by strengthening its sales capabilities through support for subsidy applications and by strengthening its production and supply capabilities at nearest factories. As a result of these factors, net sales of residential air-conditioning and heating systems were significantly higher year over year. In commercial air-conditioning systems, although lockdowns and other tighter restrictions imposed once again from November onward affected the recovery of demand from offices and hotels, sales increased through our efforts to capture as much demand as possible from projects that were suspended as a result of the pandemic. As a result, net sales of commercial air-conditioning systems were higher year over year. In the refrigeration business, despite the impact of parts shortages, the Group strengthened sales mainly to the food supermarket industry, and net sales significantly increased year over year.

In the Middle and Near East and Africa, net sales increased year over year, led by strengthened sales in Saudi Arabia, Egypt, and Qatar. In Turkey, sales of residential air-conditioning systems increased substantially due to the intense heat wave and a surge in demand prior to price revisions. We also maximized the capture of strong demand for commercial air-conditioning systems for use in factories and hospitals. Yen-equivalent net sales also significantly grew year over year due to pricing policies, despite the impact of the depreciation of the Turkish lira.

In the filter business, despite the prolonged impact of COVID-19, demand was on a gradual recovery trend with the resumption of global economic activities. In the United States, sales increased in the commercial-use market, which includes equipment for use in factories. In Europe, sales were strong in high-end markets such as the pharmaceutical market. In Asia, sales of high-performance filters used in semiconductor factories were strong, driven by the brisk semiconductor market, and in Japan, sales of infection control products increased, backed partly by the subsidy program. In the gas turbine and dust collection systems business, the oil and gas industry's appetite for investment recovered as crude oil prices rose, and demand was strong for industrial dust collection systems due to growing environmental awareness. As a result, net sales of the filter business overall increased year over year.

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

(ii) Chemicals

Overall sales of the Chemicals segment increased by 29.4% year over year to ¥212,424 million. Operating profit increased by 140.1% to ¥27,301 million.

Compared to the previous fiscal year when sales fell sharply due to the global outbreak of COVID-19, overall sales of fluorochemical products were significantly higher year over year due to the development of aggressive sales expansion measures and a recovery in demand in a wide range of fields, particularly semiconductors and automobiles.

Net sales of fluoropolymers were significantly higher year over year due to the development of sales expansion measures capturing a recovery in global demand for semiconductor and automotive-related applications. Net sales of fluoroelastomers also significantly increased year over year with a marked recovery in demand, especially in the automotive field, due to the development of sales expansion measures and the implementation of pricing policies.

Among specialty chemicals, there was a recovery in demand for oil and water repellents and semiconductor etching agents, despite stagnant demand for anti-fouling surface coating agents. As a result, overall net sales of specialty chemicals increased year over year.

As for fluorocarbon gas, net sales significantly increased year over year due to efforts such as sales expansion measures and the steady implementation of pricing policies.

(iii) Other Divisions

Overall sales of the "Others" segment increased by 23.1% year over year to ¥68,182 million. Operating profit increased by 60.9% to ¥6,647 million.

In the oil hydraulic equipment business, net sales of oil hydraulic equipment for industrial machinery significantly increased year over year due to increased sales in the Japanese market, especially to machine tools, as well as increased sales to Asia, Europe, and the United States. In addition, net sales of oil hydraulic equipment for construction machinery and vehicles significantly increased year over year due to increased sales to major customers in Japan and the United States.

In the defense systems-related product business, net sales increased year over year due to increased orders for ammunition to the Ministry of Defense and the capture of increased demand for oxygen concentrators and 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, customer demand for IT investment increased, boosted by the promotion of digital transformation (DX), primarily by large companies. Net sales increased year over year, as a result of the strong sales of "SpaceFinder," a database system for design and development sectors in line with customer needs such as solutions for quality issues, shortened design and development periods, and support for cost reductions, as well as the strong sales of the related system, "Smart Innovator."

On a non-consolidated basis, the Company's net sales increased by 21.1% year over year to ¥681,899 million. Operating profit increased by 68.3% year over year to ¥60,048 million. Ordinary profit increased by 69.6% year over year to ¥170,705 million, and profit increased by 75.3% year over year to ¥153,800 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 ¥156,371 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.	17,514
	Daikin Europe N.V. Group	26,761
	Goodman Global Group, Inc. Group	21,714
	Daikin (China) Investment Co., Ltd. Group	17,698
	Daikin Applied Americas Inc. Group	8,284
Chemicals	Daikin Industries, Ltd.	10,966
	Daikin Fluorochemicals (China) Co., Ltd. Group	6,713
	Daikin America, Inc. Group	5,790
Others	Daikin Industries, Ltd.	1,399

(4) Financing Activities

The funds for the above capital expenditures were primarily raised through bank borrowings and funds on hand. In addition, straight bonds were issued and part of the raised funds was appropriated to the redemption of existing straight bonds.

(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

	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)	119th Business Year (from April 1, 2021, to March 31, 2022)
Net sales (Millions of yen)	2,481,109	2,550,305	2,493,386	3,109,106
Ordinary profit (Millions of yen)	277,074	269,025	240,248	327,496
Profit attributable to owners of parent (Millions of yen)	189,048	170,731	156,249	217,709
Earnings per share (Yen)	646.39	583.61	533.97	743.88
Total assets (Millions of yen)	2,700,890	2,667,512	3,239,662	3,823,998
Net assets (Millions of yen)	1,446,849	1,462,591	1,698,495	2,008,109

Note: From the 119th Business Year, the Group has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. The operating results and the status of assets for the 119th Business Year show the figures based on this Accounting Standard, etc.

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.

In the 118th term, in the midst of the ongoing impact of COVID-19, the Group secured short-term business results and reinforced its management structure with an “aggressive” and “challenging” mindset. The Group’s Air-Conditioning and Refrigeration Equipment segment decreased sales and profits due to the spread of COVID-19, despite increases in sales of residential air-conditioning systems for which there was strong demand and ventilation and air purification products for which there was a great deal of interest due to the pandemic. The Chemicals segment decreased sales and profits due mainly to a decline in demand affected by the spread of COVID-19 in a wide range of fields, including the semiconductor and automotive markets, and a decline in demand in the European gas market, despite expanded sales of products used in tablet computers and protective medical gear.

The results of our operations during the 119th 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’s recovery from the COVID-19 pandemic is expected to stall due to the Russian invasion of Ukraine and sanctions being levied on Russia by Japan, the United States, Europe, and other major countries. The interruption of the supply of rare resources from Russia and Ukraine will place further supply constraints on the automotive and semiconductor industries. Combined with other factors, such as rising wages, inflationary pressures that push up costs are expected to be felt around the world. The increased cost of resources resulting from a prolonged Ukraine crisis is expected to cause greater global economic stagnation.

Taking these risks into consideration, we have envisioned multiple scenarios for fiscal 2022, from the perspectives of both upward and downward trends in the business environment. Based on these scenarios, we will continue to enhance our initiatives in the following six areas.

- Promoting sales price policies by introducing differentiated products that are recognized for their value by the market and customers

- Strengthening our sales and marketing capabilities in the commercial air-conditioning and other businesses
- Improving the efficiency of fixed costs while actively investing and improving profitability
- Reducing variable costs in order to respond to declining raw material market conditions and soaring resource prices
- Improving the efficiency of logistics costs as a measure to respond to further soaring logistics expenses
- Enhancing our procurement and supply capabilities with a medium- to long-term perspective

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 and usage 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 global warming 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. “Challenge to achieve carbon neutrality” is one of the growth strategy themes of “Fusion 25,” the strategic management plan formulated in 2021 with a target year of the fiscal year ending March 31, 2026. Led by this theme, we have set interim targets with the goal of ultimately achieving net zero greenhouse gas emissions in 2050. With the base year set at 2019, we aim to reduce net greenhouse gas emissions (= emissions – contribution to emissions reductions) by 30% or more in 2025 and 50% or more in 2030, compared with the greenhouse gas emissions we would produce if our business expanded with no measures taken.

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.

At the same time, there have been some promising changes in markets with which the Group is highly involved, such as the growth of medical and health-related markets. We see changes in the world as opportunities. Leveraging the Group’s strengths, we will take on the challenge and innovation themes that lead to a next leap from the following perspectives to stay ahead of our rivals.

- Accelerate the creation of results in the areas outlined in “Fusion 25,” such as heat pump heating systems and water heaters, air quality and ventilation, and solutions
- Respond to advances in digital transformation (DX) and transform our business models and business processes that leverage digital technologies

(8) Major Operations of the Company Group (as of March 31, 2022)

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, 2022)

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	82,737	3,814
Chemicals	3,845	(19)
Others	1,132	42
Corporate	984	(9)
Total	88,698	3,828

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 7,652 (a decrease of 80 from the previous fiscal year).

(10) Principal Subsidiaries (as of March 31, 2022)

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, 2022)

Creditors	Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan (Note 1)	220,000
Sumitomo Mitsui Banking Corporation U.S. dollar-denominated syndicated loan (Note 2)	59,359
The Norinchukin Bank	44,899
Sumitomo Mitsui Banking Corporation	43,591
MUFG Bank, Ltd.	11,015

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, 2022)**(1) Number of Shares Authorized:** 500,000 thousand shares**(2) Number of Shares Issued:** 293,113 thousand shares**(3) Number of Shareholders:** 29,906 (Increase of 4,347 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)	61,402	21.0
Custody Bank of Japan, Ltd. (Trust account)	20,035	6.8
Sumitomo Mitsui Banking Corporation	9,000	3.1
JPMorgan Chase Bank 385632	7,763	2.7
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
SSBTC CLIENT OMNIBUS ACCOUNT	4,729	1.6
Custody Bank of Japan, Ltd. (Trust account 4)	4,621	1.6
State Street Bank West Client - Treaty 505234	4,059	1.4
Sumitomo Life Insurance Company	3,595	1.2

Notes:

1. Percentage shareholdings are rounded off to one decimal point.
2. Percentage shareholdings are calculated after deducting treasury shares (424 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. 17 (2018)	¥1	Common stock 100 shares per unit of share acquisition rights	July 14, 2021, to July 13, 2033	12	1 Director
No. 18 (2019)	¥1	Common stock 100 shares per unit of share acquisition rights	July 13, 2022, to July 12, 2034	124	7 Directors
No. 19 (2020)	¥1	Common stock 100 shares per unit of share acquisition rights	July 11, 2023, to July 10, 2035	103	7 Directors
No. 20 (2021)	¥1	Common stock 100 shares per unit of share acquisition rights	July 17, 2024, to July 16, 2036	114	7 Directors

(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. 20 (2021)	¥1	Common stock 100 shares per unit of share acquisition rights	July 17, 2024, to July 16, 2036	353	70 Daikin Industries employees

4. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2022)

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)	Tatsuo Kawada	Chairman of the HRM Advisory Committee Chairman of the Compensation Advisory Committee Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company 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 Chairperson of the Osaka Chamber of Commerce and Industry
Member of the Board (external)	Yuko Arai	Member of the HRM Advisory Committee Member of the Compensation Advisory Committee Director and Senior Vice President of ANA Akindo Co., Ltd. Outside Director of Aichi Steel 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 of Daikin (China) Investment Co., Ltd.
Member of the Board and Senior Executive Officer	Masatsugu Minaka	Representative of Europe, the Middle East and Africa Chairman of the Board of Daikin Europe N.V.
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 Executive Officer	Yoshihiro Mineno	In charge of Global Operations Division, Filter Business and training
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 registered the appointment of External Directors Tatsuo Kawada, Akiji Makino, Shingo Torii and Yuko Arai 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. Yuko Arai and Yoshihiro Mineno were elected as Members of the Board at the 118th Ordinary General Meeting of Shareholders of the Company held on June 29, 2021, and assumed the office on the same day.
4. Chiyono Terada and Jiro Tomita resigned as Members of the Board at the conclusion of the 118th Ordinary General Meeting of Shareholders of the Company held on June 29, 2021, due to the expiration of their terms of office.
5. External Director Shingo Torii assumed the office of Chairperson of the Osaka Chamber of Commerce and Industry on March 29, 2022.
6. External Director Tatsuo Kawada was External Director serving as Audit & Supervisory Committee Member of Hokuohoku Financial Group, Inc. until June 25, 2021.

(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]	1,364 [70]	588 [70]	540 [—]	235 [—]	14 [5]
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, and two Directors who retired at the conclusion of the 118th Ordinary General Meeting of Shareholders, while they were 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. With respect to the key issues, targets according to each individual's duties shall be set in accordance with the nine key strategy themes set forth in the strategic management plan "Fusion 25."

The targets and actual figures of the group-wide performance-linked indicators for the consolidated fiscal year under review are as shown in the table below.

	Net sales (Millions of yen)	Operating profit margin (%)	Operating profit (Millions of yen)
Targets (for the consolidated fiscal year under review)	2,750,000	9.8	270,000
Actual figures (for the consolidated fiscal year under review)	3,109,106	10.2	316,350

(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 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, 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. With respect to the key issues, targets according to each individual's duties shall be set in accordance with the nine key strategy themes set forth in the strategic management plan "Fusion 25."

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 deliberate on the matters based on an objective perspective and propose opinions to the Chairman of the Board, after examining the relative positions of the Company's performance and compensation level among comparative companies as well as the Company's status including its operating profit growth rate from multifaceted perspectives, and confirming the proposed amounts of compensation for individual Directors, 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 ultimately 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 conduct an accurate and well-informed evaluation of 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 among Audit & Supervisory Board Members.

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

	Type of compensation	Outline of the resolution of the General Meeting of Shareholders	Date, etc. of the resolution of the General Meeting of Shareholders
Directors	Fixed compensation and performance-linked compensation	Maximum amount of ¥1.3 billion per annum (including ¥100 million for External Directors)	June 26, 2020 (117th Ordinary General Meeting of Shareholders) Number of Directors at the time of resolution: 11 Directors (including four External Directors)
	Stock options	No higher than ¥360 million annually, with the maximum number of share acquisition rights issued within one year from the date of the ordinary general meeting of shareholders set at 450 (excluding External Directors)	June 29, 2021 (118th Ordinary General Meeting of Shareholders) Number of Directors at the time of resolution: 11 Directors (including four External Directors)
Audit & Supervisory Board Members	Fixed compensation	No higher than ¥190 million annually	June 27, 2014 (111th Ordinary General Meeting of Shareholders) Number of Audit & Supervisory Board Members at the time of resolution: four Audit & Supervisory Board Members

(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, after deliberations based on objective and sufficient collected information at as many as four meetings of the Compensation Advisory Committee.

The schedule of and matters deliberated at the Compensation Advisory Committee concerning the decision of the details of the compensation for individual Directors for the fiscal year under review are shown in the table below.

Schedule of and matters deliberated at the Compensation Advisory Committee

	Matters deliberated
November 26, 2021	<ul style="list-style-type: none"> - Latest environment surrounding executive compensation - Activities of the compensation system for Directors and Audit & Supervisory Board Members for fiscal 2021 - Whether or not to correct the policies on compensation for fiscal 2022
February 22, 2022	<ul style="list-style-type: none"> - Requests from institutional investors and others pertaining to details of disclosure of executive compensation - Status of large Japanese manufacturing companies pertaining to details of disclosure of executive compensation - Direction of disclosure of executive compensation
March 30, 2022	<ul style="list-style-type: none"> - Details pertaining to performance-linked coefficient of performance-linked compensation for fiscal 2021 - Disclosure of executive compensation (draft)
April 26, 2022	<ul style="list-style-type: none"> - Details pertaining to performance-linked coefficient of performance-linked compensation for fiscal 2021 - Disclosure of executive compensation (draft)

Note: The compensation advisor of Willis Towers Watson attended three out of four meetings to provide information and advice from an objective standpoint.

(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	Tatsuo Kawada	Attended 14 out of 15 meetings (93.3%)	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 the preparation for risks associated with expansion of manufacturing bases in the company-wide strategy and the importance of connection between management and business sites.
	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 the direction of ESG management combining business strategies and environmental strategies.
	Shingo Torii	Attended 14 out of 15 meetings (93.3%)	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 implications of the diversification and direction of the Chemicals segment and suggestions on sustainability initiatives including the Group's response to human rights risks.
	Yuko Arai	Attended 12 out of 12 meetings (100%)	We expect Yuko Arai 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 including management from consumers' perspective and measures to promote further participation of female employees from a broad and advanced perspective. 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 safety consciousness that should be thoroughly ensured once again in the expanding Group and the importance of price policies for recognition on the market.

Position	Name	Attendance record of meetings		Principal activities
		Board of Directors	Audit & Supervisory Board	
Audit & Supervisory Board Member (external)	Ryu Yano	Attended 13 out of 15 meetings (86.7%)	Attended 13 out of 14 meetings (92.9%)	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 risks to the globally expanding Group.
	Toru Nagashima	Attended 15 out of 15 meetings (100%)	Attended 14 out of 14 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 for business expansion, among other matters.

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. Yuko Arai assumed the office of External Director at the 118th Ordinary General Meeting of Shareholders held on June 29, 2021, and accordingly, her 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.

(4) Outline of Directors and Officers (D&O) Liability Insurance Contract

The Company has concluded a directors and officers (D&O) liability insurance contract, in which Directors, Audit & Supervisory Board Members, Executive Officers, and Associate Officers of the Company, and Directors and Audit & Supervisory Board Members of its subsidiaries are the insured. This insurance contract 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 liability against them. However, this insurance contract will not cover any damages that may occur as a result of acts performed by the insured while recognizing that the acts violate laws and regulations. The Company bears the full amount of the insurance contract premium.

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	¥273 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	¥273 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 and take the initiative in applying 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 the Americas 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 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 important disclosure including non-financial information 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 information management, product liability and quality, economic security, prevention of improper accounting, overseas crises management, countermeasures against natural disasters, and harassment prevention. 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” three times to deliberate on the key themes of the strategic management plan “Fusion 25,” namely, refrigerants business, space and water heating business, and global air-conditioning manufacturing strategy.

(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, 26 with Directors and Executive Officers and 15 with the Independent Auditors. Also, the Audit & Supervisory Board Members had the web-based "Group Auditors' Meeting" with Group Auditors of the major Group companies at home and abroad.

Consolidated Balance Sheet
As of March 31, 2022

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	2,165,623	Current liabilities	1,306,239
Cash and deposits	817,619	Notes and accounts payable – trade	302,621
Notes and accounts receivable – trade, and contract assets	595,076	Short-term borrowings	97,376
Merchandise and finished goods	450,974	Current portion of bonds payable	30,000
Work in process	44,931	Current portion of long-term borrowings	334,528
Raw materials and supplies	175,556	Lease obligations	25,876
Other	98,392	Accrued expenses	206,002
Allowance for doubtful accounts	(16,928)	Income taxes payable	36,745
		Provision for bonuses for directors (and other officers)	354
Non-current assets	1,658,374	Provision for product warranties	72,443
Property, plant and equipment	743,364	Other	200,290
Buildings and structures	302,601	Non-current liabilities	509,649
Machinery, equipment and vehicles	225,064	Bonds payable	120,000
Land	64,665	Long-term borrowings	140,526
Leased assets	3,832	Lease obligations	76,508
Construction in progress	94,706	Deferred tax liabilities	121,353
Other	52,493	Retirement benefit liability	16,116
Intangible assets	578,288	Other	35,144
Goodwill	270,467	Total liabilities	1,815,888
Customer relationship	202,223	(Net Assets)	
Other	105,596	Shareholders' equity	1,697,128
Investments and other assets	336,722	Share capital	85,032
Investment securities	200,187	Capital surplus	83,834
Long-term loans receivable	668	Retained earnings	1,530,107
Deferred tax assets	41,345	Treasury shares	(1,846)
Retirement benefit asset	26,332	Accumulated other comprehensive income	272,558
Other	69,465	Valuation difference on available-for-sale securities	59,534
Allowance for doubtful accounts	(1,275)	Deferred gains or losses on hedges	3,436
		Foreign currency translation adjustment	212,278
		Remeasurements of defined benefit plans	(2,691)
		Share acquisition rights	2,546
		Non-controlling interests	35,876
Total assets	3,823,998	Total net assets	2,008,109
		Total liabilities and net assets	3,823,998

Consolidated Statement of Income
From April 1, 2021, to March 31, 2022

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

Net sales		3,109,106
Cost of sales		2,051,767
Gross profit		1,057,338
Selling, general and administrative expenses		740,987
Operating profit		316,350
Non-operating income		
Interest income	8,186	
Dividend income	4,702	
Share of profit of entities accounted for using equity method	1,401	
Foreign exchange gains	4,492	
Subsidy income	2,192	
Other	2,387	23,363
Non-operating expenses		
Interest expenses	8,824	
Other	3,392	12,216
Ordinary profit		327,496
Extraordinary income		
Gain on sale of land	311	
Gain on sale of investment securities	5,749	
Gain on sale of investments in capital of subsidiaries and associates	226	
Gain on liquidation of subsidiaries and associates	18	6,306
Extraordinary losses		
Loss on disposal of non-current assets	581	
Loss on sale of land	65	
Loss on valuation of investment securities	307	
Loss on sale of shares of subsidiaries and associates	32	
Impairment loss	3,667	
Loss on disaster	1,091	
Other	0	5,746
Profit before income taxes		328,056
Income taxes – current	110,657	
Income taxes – deferred	(7,870)	102,786
Profit		225,269
Profit attributable to non-controlling interests		7,560
Profit attributable to owners of parent		217,709

Consolidated Statement of Changes in Equity
From April 1, 2021, to March 31, 2022

(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	84,214	1,363,505	(2,012)	1,530,740
Changes in items during period					
Dividends of surplus			(49,752)		(49,752)
Profit attributable to owners of parent			217,709		217,709
Effect of changes in accounting period of subsidiaries			(1,354)		(1,354)
Purchase of treasury shares				(7)	(7)
Disposal of treasury shares		265		172	438
Change in ownership interest of parent due to transactions with non-controlling interests		(646)			(646)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	(380)	166,602	165	166,388
Balance at end of current period	85,032	83,834	1,530,107	(1,846)	1,697,128

	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	68,699	1,292	69,470	(4,513)	134,948	2,019	30,787	1,698,495
Changes in items during period								
Dividends of surplus								(49,752)
Profit attributable to owners of parent								217,709
Effect of changes in accounting period of subsidiaries								(1,354)
Purchase of treasury shares								(7)
Disposal of treasury shares								438
Change in ownership interest of parent due to transactions with non-controlling interests								(646)
Net changes in items other than shareholders' equity	(9,164)	2,143	142,808	1,822	137,610	527	5,089	143,226
Total changes in items during period	(9,164)	2,143	142,808	1,822	137,610	527	5,089	309,614
Balance at end of current period	59,534	3,436	212,278	(2,691)	272,558	2,546	35,876	2,008,109

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: 322

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:

UNI-Klima-und Gebaudetechnik GmbH and its 1 subsidiary, Conserve It Pty Ltd, Thermal Supply, Inc., Air Repts, LLC, Dynamic Controls LLC and its 2 subsidiaries, Groupe BV SAS and its 4 subsidiaries, Thermal-Netics LLC, TriState HVAC Equipment, LLC

Due to new establishment:

Daikin Nigeria & West Africa Office Ltd, IRS International B.V.

(Excluded) Due to liquidation:

ROTEX Heating Systems SARL, HEROFLON USA CORPORATION, Daikin Refrigerants Trading (Shanghai) Co., Ltd., Daikin Klima Pazarlama Limited Sirketi, HF DO BRASIL IMPORTAÇÃO E COMÉRCIO DE POLÍMEROS TÉCNICOS FLUORADOS LTDA.

Due to merger of consolidated subsidiaries:

AHT Holding GmbH, Cool Holding GmbH, AHT Beteiligungs GmbH, BV Froid Amiens SAS, BV Services Amiens SAS

(2) Names of major non-consolidated subsidiaries

A major non-consolidated subsidiary: Kyoei 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: 15

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

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

(Excluded) Due to sales of equities:

Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd, 9193-9710 Québec Inc., Shanghai Valqua Fluorocarbon Products Co., Ltd

(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

Securities other than shares that do not have a market value: Valued at fair market value.
(Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.)

Shares that do not have a market value: Mainly valued at cost determined by the moving-average method.

Investments in investment limited partnerships and similar partnerships (investments deemed to be securities pursuant to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) Valued at the net amount proportionate to the Company's equity, based on the latest financial statements available depending on the reporting date specified in the partnership agreement.

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

The Company and some domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system from the following fiscal year. However, 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. From the beginning of the following fiscal year, the Company and some domestic consolidated subsidiaries will apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case of applying the group tax sharing system.

(iv) Recognition criteria for revenue and expenses

The Group primarily manufactures and sells air-conditioning and refrigeration equipment for residential, commercial and marine vessel use, chemical products such as fluorine products, oil hydraulics-related products such as hydraulic equipment, defense systems-related products such as ammunition, components for guided missiles for the Ministry of Defense, and electronics-related products. The Group deems that its principal performance obligation is to deliver finished goods to customers. As a rule, such performance obligation is deemed to have been satisfied when control over the product is transferred to the customer on the delivery date, etc., under the terms of contracts, etc., and revenue is recognized at that point of time. In addition, the Group provides services such as construction contracts or maintenance services. In those services, the control of goods or services is transferred to customers and the Group’s performance obligation is satisfied, over a certain period of time. Therefore, as a rule, revenue is recognized according to the degree of progress or the period. Revenue is measured at the amount of consideration promised in a contract with a customer, from which discount, rebate, etc., are deducted. Consideration in the product sales contract is collected primarily within one year from the date when the product is delivered to the customer. In such product sales contracts, no material financial elements are involved.

(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.

Changes in Accounting Policy

(Application of the Accounting Standard for Revenue Recognition, etc.)

From the beginning of the consolidated fiscal year under review, the Group has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”), etc. Accordingly, revenue is recognized when control of the promised goods or services is transferred to the customer, in the amount expected to be received in exchange for those goods or services.

The impact of this change on the consolidated financial statements is immaterial.

The application of the Revenue Recognition Standard, etc., is in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Standard, and there is no impact on the beginning balance of retained earnings and per share information for the consolidated fiscal year under review.

Due to the application of the Revenue Recognition Standard, etc., “notes and accounts receivable – trade,” which was presented in “current assets” on the consolidated balance sheet for the previous consolidated fiscal year, is included in “notes and accounts receivable – trade, and contract assets” for the consolidated fiscal year under review.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

From the beginning of the consolidated fiscal year under review, the Group has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc. In accordance with the transitional treatment provided for in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement, etc., will be applied in the future. This change has no impact on the consolidated financial statements.

Accounting Estimates

(Valuation of goodwill and intangible assets)

On the consolidated balance sheet as of March 31, 2022, goodwill, customer relationship, and other under intangible assets (hereinafter, “goodwill, etc.”) were recorded at ¥270,467 million, ¥202,223 million and ¥105,596 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

	(Millions of yen)
Cash and deposits	569
Notes and accounts receivable – trade, and contract assets	4,419
Buildings and structures	341
Machinery, equipment and vehicles	96
Land	390
Construction in progress	7
Other (property, plant and equipment)	36
Debt secured by the above collateral	
Notes and accounts payable – trade	12,811
Short-term borrowings	106
Current portion of long-term borrowings	300
Long-term borrowings	12
In addition to the above, the following assets are pledged as collateral for borrowings, etc. advanced to investee companies from financial institutions.	
Investment securities	800
In addition to the above, the following assets that are eliminated in consolidation are pledged as collateral.	
Shares of consolidated subsidiaries eliminated in consolidation	11

	(Millions of yen)
2. Accumulated depreciation of property, plant and equipment	1,009,123

	(Millions of yen)
3. Amount of notes endorsed	3,368

Notes to the Consolidated Statement of Income

Impairment loss

In the fiscal year ended March 31, 2022, an impairment loss of ¥3,667 million was recorded for goodwill of the group of Zanotti S.p.A., a consolidated subsidiary.

The group, which manufactures and sells commercial freezing and refrigeration equipment, etc., has been underperforming the business plan initially formulated at the time of acquisition. As a result of strengthening its production and sales systems and conservatively reviewing its medium-term business plan, the book value has been reduced to the recoverable value.

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of shares issued as of March 31, 2022

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 29, 2021	Common shares	23,411	80	March 31, 2021	June 30, 2021
Board of Directors' meeting held on November 4, 2021	Common shares	26,340	90	September 30, 2021	December 2, 2021

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2022, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2023

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, 2022	Common shares	Retained earnings	32,195	110	March 31, 2022	June 30, 2022

3. Type and number of shares subject to share acquisition rights at March 31, 2022 (excluding those for which the first day of the exercise period has not yet arrived)

Common shares: 32,000 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

Variable factors are considered in calculating fair market value of financial instruments, 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, 2022 (consolidated financial closing date for the fiscal year under review), are as follows. Shares, etc., that do not have a market price are not included in the below chart (see Note 1). “Cash and deposits,” “notes and accounts receivable – trade, and contract assets,” “notes and accounts payable – trade,” “short-term borrowings,” and “income taxes payable” are omitted because they are cash, or they are settled in a short period of time and their fair market value approximates their book value.

(Millions of yen)			
	Amount recorded in the consolidated balance sheet	Fair market value	Difference
(1) Investment securities			
Available-for-sale securities	177,049	177,049	—
Total assets	177,049	177,049	—
(1) Bonds payable	150,000	149,668	(332)
(2) Long-term borrowings	475,054	472,909	(2,144)
(3) Lease obligations	102,385	101,272	(1,113)
Total liabilities	727,439	723,849	(3,589)
Derivative Transactions (Note 3)	3,362	3,362	—

Note 1: Unlisted shares, etc. (amount recorded in the consolidated balance sheet was ¥12,026 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥8,629 million) are treated as shares, etc. that have no market prices, and are not included in “(1) Investment securities.”

Note 2: Investments in partnerships and other similar business entities that are recorded in the consolidated balance sheet in the net amount proportionate to the Company’s equity, are omitted. The amount of such investments recorded in the consolidated balance sheet was ¥2,481 million.

Note 3: Net credits/debts arising from derivative transactions are shown at net value, and items that total to a net debt are shown in parentheses.

3. Matters concerning the breakdown, etc. of financial instruments by appropriate fair market value level

The fair market value of financial instruments is classified into the following three levels, based on the observability and the materiality of the inputs for the calculation of fair market value.

Level 1 fair market value: Fair market value calculated using the quoted market price, formed in an active market, for an asset or liability for which such fair market value is calculated, among the observable inputs for the calculation of fair market value.

Level 2 fair market value: Fair market value calculated using observable inputs for the calculation of fair market value other than the Level 1 inputs.

Level 3 fair market value: Fair market value calculated using unobservable inputs for the calculation of fair market value.

When multiple inputs that have a significant impact on the calculation of fair market value are used, fair market value is classified to the level with the lowest priority in the calculation of fair market value among the levels to which each of those inputs belongs.

(1) Financial instruments recorded at fair market value in the consolidated balance sheet

(Millions of yen)

	Fair market value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	176,655	—	—	176,655
Bonds (bonds payable)	—	301	—	301
Bonds (other)	—	92	—	92
Total assets	176,655	393	—	177,049
Derivative transactions (Note)				
Currency-related instruments	—	1,293	—	1,293
Interest-related instruments	—	109	—	109
Commodity	—	1,959	—	1,959

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

(2) Financial instruments other than financial instruments recorded at fair market value in the consolidated balance sheet

(Millions of yen)

	Fair market value			
	Level 1	Level 2	Level 3	Total
Bonds payable	—	149,668	—	149,668
Long-term borrowings	—	472,909	—	472,909
Lease obligations	—	101,272	—	101,272
Total liabilities	—	723,849	—	723,849

Note: Explanation of valuation methods used in the calculation of fair market value and inputs for the calculation of fair market value

Investment securities

Since listed shares are traded on active markets, their fair market value is classified as Level 1 fair market value. The fair market value of bonds payable, etc., is calculated mainly by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the bonds and credit risk, and is classified as Level 2 fair market value.

Derivative transactions

The fair market value of foreign exchange contracts, currency swaps, interest rate swaps, and commodity futures is calculated by the discounted present value method, etc., using observable inputs such as interest rates, foreign exchange rates and the market value of futures, and is classified as Level 2 fair market value.

Bonds payable

The fair market value of bonds payable issued by the Company is valued at the market price. The Company's bonds are classified as Level 2 fair market value because they have a market price but are not traded on an active market.

Long-term borrowings

The fair market value of long-term borrowings is calculated by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the obligation and credit risk, and is classified as Level 2 fair market value. The fair market value of long-term borrowings with variable interest rates that are subject to the preferential treatment for interest rate swaps is calculated by the discounted present value method based on the total amount of principal and interest treated together with the interest rate swap, and an interest rate that takes into account the remaining term of the obligation and credit risk, and is classified as Level 2 fair market value.

Lease obligations

The fair market value of lease obligations is calculated by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the obligation and credit risk, and is classified as Level 2 fair market value.

Revenue Recognition

1. Information on the breakdown of revenue from contracts with customers

(Millions of yen)

	Reported segment			Others (Note)	Total
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal		
Net sales					
Japan	523,927	58,439	582,367	56,080	638,447
U.S.	792,956	39,912	832,869	7,586	840,455
Europe	518,740	33,530	552,270	943	553,214
China	424,744	51,187	475,932	2,189	478,121
Asia and Oceania	397,956	27,067	425,024	1,083	426,107
Other	170,172	2,286	172,459	299	172,758
Revenue from contracts with customers	2,828,499	212,424	3,040,923	68,182	3,109,106
Other revenue	—	—	—	—	—
Sales to outside customers	2,828,499	212,424	3,040,923	68,182	3,109,106

Note: The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related products business, and the electronics business.

2. Basic information for understanding revenue from contracts with customers

Basic information for understanding revenue is as described in “Basis for Presenting the Consolidated Financial Statements, 3. Summary of Significant Accounting Policies, (4) Other important matters as the basis for presenting the consolidated financial statements, (iv) Recognition criteria for revenue and expenses.”

3. Information for understanding the amount of revenue for the consolidated fiscal year under review and following consolidated fiscal years

(1) Balance of contract assets and contract liabilities

Breakdown of receivables from contracts with customers, contract assets and contract liabilities is as follows:

(Millions of yen)

	Beginning of the fiscal year under review (April 1, 2021)	End of the fiscal year under review (March 31, 2022)
Receivables from contracts with customers	451,063	579,390
Contract assets	17,267	15,685
Contract liabilities	72,249	90,456

Contract assets relate primarily to the Group’s rights to consideration for performance obligations that have been recognized as revenue but not yet invoiced, in contracts where the performance obligation is fulfilled over a specific period of time. Contract assets are reclassified to receivables when the right to consideration becomes unconditional. Contract liabilities mainly consist of consideration received by the Group from customers prior to the delivery of products and the completion of services.

The volume of transactions for which revenue was recognized in the consolidated fiscal year under review and that was included in the beginning balance of contract liabilities, amounted to ¥56,069 million.

For the consolidated fiscal year under review, the amount of revenue recognized from performance obligations that were fulfilled (or partially fulfilled) in prior periods was immaterial.

(2) Transaction price allocated to remaining performance obligations

The amount of transaction price allocated to unfulfilled (or partially fulfilled) performance obligations as of the end of the consolidated fiscal year under review and the expected timings of revenue recognition for such amount are as follows. The Group applies the convenience method of accounting in practice and does not provide information on remaining performance obligations with original expected terms of one year or less.

(Millions of yen)

	Remaining performance obligations	Expected timing of revenue recognition	
		Year-end balance	Year-end balance
		Within a year	1 year or more
As of March 31, 2022	78,616	42,482	36,133

Per Share Information

Net assets per share:	¥6,729.73
Earnings per share:	¥743.88

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	17,497
Tax loss carryforwards	16,399
Software and other assets	14,295
Unrealized profit of inventories	13,113
Inventories	8,003
Provision for bonuses	7,242
Allowance for doubtful accounts	4,025
Deferred revenue	3,910
Investment securities	3,370
Retirement benefit liabilities	3,171
Foreign income tax credit	1,035
Other	35,786
Subtotal of deferred tax assets	127,852
Valuation allowance for tax loss carryforwards (Note)	(13,876)
Valuation allowance for future deductible temporary differences, etc.	(7,192)
Subtotal of valuation allowance	(21,069)
Total deferred tax assets	106,783
Deferred tax liabilities:	
Intangible assets	(66,473)
Undistributed earnings of consolidated subsidiaries	(60,889)
Valuation difference on available-for-sale securities	(22,376)
Retirement benefit assets	(8,001)
Reserve for tax purpose reduction entry of non-current assets	(1,697)
Other	(27,352)
Total deferred tax liabilities	(186,791)
Net deferred tax assets (liabilities)	(80,008)

(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 (*)	217	83	134	416	563	14,984	16,399
Valuation allowance	(193)	(29)	(75)	(161)	(303)	(13,113)	(13,876)
Deferred tax assets	24	53	59	255	260	1,870	2,523

(*) 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	120,491
Service cost	3,024
Interest cost	1,135
Actuarial losses (gains) arising during the period	(1,762)
Prior service cost arising during the period	(2,347)
Amount of retirement benefits paid	(5,645)
Effect of changes in accounting period	17
Foreign currency translation adjustment	2,947
Other	37
Ending balance for projected benefit obligation	117,898

(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	128,729
Expected return on plan assets	3,695
Actuarial losses (gains) arising during the period	(258)
Employer contributions	1,951
Amount of retirement benefits paid	(4,976)
Foreign currency translation adjustment	2,193
Other	82
Ending balance for plan assets	131,417

(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	2,817
Retirement benefit expenses	899
Amount of retirement benefits paid	(413)
Ending balance for retirement benefit liabilities	3,302

(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)	(111,118)
Plan assets	131,417
	20,299
Retirement benefit obligation (unfunded)	(10,083)
Net amount for assets and liabilities recorded on the consolidated balance sheet	10,215
Retirement benefit liabilities	(16,116)
Retirement benefit assets	26,332
Net amount for assets and liabilities recorded on the consolidated balance sheet	10,215

Note: Including the benefit plan applying the simplified method

(5) Amount of retirement benefit expenses and its breakdown

	(Millions of yen)
Service cost	3,024
Interest cost	1,135
Expected return on plan assets	(3,695)
Recognized actuarial losses (gains) during the period	(378)
Amortization of prior service cost during the period	(317)
Retirement benefit expenses calculated by the simplified method	899
Other	120
Total	786

(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	(1,255)
Unrecognized actuarial gain	3,895
Total	2,640

(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	29%
International equities	12%
Insurance assets (general account)	16%
Cash and deposits	1%
Alternative investments	42%
Total	100%

(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 ¥8,762 million.

Non-Consolidated Balance Sheet
As of March 31, 2022

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	669,409	Current liabilities	626,389
Cash and deposits	287,602	Notes payable – trade	4,008
Notes receivable – trade	1,085	Accounts payable – trade	52,534
Accounts receivable – trade	126,496	Short-term borrowings	63,038
Merchandise and finished goods	57,099	Current portion of bonds payable	30,000
Work in process	15,848	Current portion of long-term borrowings	323,627
Raw materials and supplies	17,573	Lease obligations	358
Prepaid expenses	2,891	Accounts payable – other	23,894
Short-term loans receivable	93,593	Accrued expenses	12,092
Accounts receivable – other	16,771	Income taxes payable	16,274
Other	50,446	Contract liabilities	1,585
Allowance for doubtful accounts	(1)	Deposits received	81,689
		Provision for bonuses for directors (and other officers)	354
		Provision for product warranties	5,745
		Notes payable – facilities	1,120
		Accounts payable – facilities	8,983
		Other	1,080
Non-current assets	1,145,111	Non-current liabilities	166,926
Property, plant and equipment	164,103	Bonds payable	120,000
Buildings	62,272	Long-term borrowings	38,207
Structures	6,697	Lease obligations	462
Machinery and equipment	46,842	Long-term accounts payable – other	259
Vehicles	83	Provision for retirement benefits	2,380
Tools, furniture and fixtures	13,102	Deferred tax liabilities	5,105
Land	24,407	Other	511
Leased assets	745		
Construction in progress	9,951	Total liabilities	793,316
Intangible assets	4,795	(Net assets)	
Patent right, etc.	4,795	Shareholders' equity	958,698
Investments and other assets	976,211	Share capital	85,032
Investment securities	189,634	Capital surplus	85,808
Shares of subsidiaries and associates	623,361	Legal capital surplus	82,977
Investments in capital of subsidiaries and associates	107,299	Other capital surplus	2,830
Long-term loans receivable from subsidiaries and associates	34,806	Proceeds from disposal of treasury shares	2,830
Long-term loans receivable	171	Retained earnings	789,696
Long-term prepaid expenses	33	Legal retained earnings	6,066
Prepaid pension cost	14,502	Other retained earnings	783,630
		Reserve for tax purpose reduction entry of non-current assets	3,853
Guarantee deposits	5,607	Reserve for specific stocks purchase	104
Other	1,238	General reserve	146,210
Allowance for doubtful accounts	(443)	Retained earnings brought forward	633,462
		Treasury shares	(1,838)
		Valuation and translation adjustments	59,958
		Valuation difference on available-for-sale securities	58,931
		Deferred gains or losses on hedges	1,026
		Share acquisition rights	2,546
		Total net assets	1,021,203
Total assets	1,814,520	Total liabilities and net assets	1,814,520

Non-Consolidated Statement of Income
From April 1, 2021, to March 31, 2022

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

Net sales		681,899
Cost of sales		469,234
Gross profit		212,664
Selling, general and administrative expenses		152,616
Operating profit		60,048
Non-operating income		
Interest income	1,562	
Interest on securities	20	
Dividend income	108,018	
Foreign exchange gains	4,615	
Other	860	115,077
Non-operating expenses		
Interest expenses	2,409	
Interest on bonds	570	
Loss on valuation of derivatives	589	
Other	850	4,419
Ordinary profit		170,705
Extraordinary income		
Gain on sale of investment securities	5,568	
Gain on sale of investments in capital of subsidiaries and associates	496	6,065
Extraordinary losses		
Loss on disposal of non-current assets	186	
Loss on sale of land	25	
Loss on valuation of investment securities	307	
Other	0	518
Profit before income taxes		176,252
Income taxes – current	26,632	
Income taxes – deferred	(4,180)	22,452
Profit		153,800

Non-Consolidated Statement of Changes in Equity
From April 1, 2021, to March 31, 2022

(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	2,564	85,542	6,066	3,860	86	146,210	529,425	685,648	
Changes in items during period											
Dividends of surplus									(49,752)	(49,752)	
Reversal of reserve for tax purpose reduction entry of non-current assets						(6)			6	—	
Provision of reserve for specific stocks purchase							17		(17)	—	
Profit									153,800	153,800	
Purchase of treasury shares											
Disposal of treasury shares			265	265							
Net changes in items other than shareholders' equity											
Total changes in items during period	—	—	265	265	—	(6)	17	—	104,036	104,047	
Balance at end of current period	85,032	82,977	2,830	85,808	6,066	3,853	104	146,210	633,462	789,696	

	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	(2,004)	854,219	67,833	88	67,922	2,019	924,161
Changes in items during period							
Dividends of surplus		(49,752)					(49,752)
Reversal of reserve for tax purpose reduction entry of non-current assets		—					—
Provision of reserve for specific stocks purchase		—					—
Profit		153,800					153,800
Purchase of treasury shares	(6)	(6)					(6)
Disposal of treasury shares	172	438					438
Net changes in items other than shareholders' equity			(8,902)	938	(7,964)	527	(7,437)
Total changes in items during period	166	104,479	(8,902)	938	(7,964)	527	97,042
Balance at end of current period	(1,838)	958,698	58,931	1,026	59,958	2,546	1,021,203

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

Securities other than shares that do not have a market value: Valued at fair market value. (Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.)

Shares that do not have a market value: Valued at cost determined by the moving-average method.

Investments in investment limited partnerships and similar partnerships (investments deemed to be securities pursuant to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) Valued at the net amount proportionate to the Company's equity, based on the latest financial statements available depending on the reporting date specified in the partnership agreement.

(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. Recognition criteria for revenue and expenses

The Company primarily manufactures and sells air-conditioning and refrigeration equipment for residential, commercial and marine vessel use, chemical products such as fluorine products, oil hydraulics-related products such as hydraulic equipment, defense systems-related products such as ammunition, components for guided missiles for the Ministry of Defense, and electronics-related products. The Company deems that its principal performance obligation is to deliver finished goods to customers. As a rule, such performance obligation is deemed to have been satisfied when control over the product is transferred to the customer on the delivery date, etc., under the terms of contracts, etc., and revenue is recognized at that point of time. In addition, the Company provides services such as maintenance services. In those services, the control of goods or services is transferred to customers and the Company's performance obligation is satisfied, over a certain period of time. Therefore, as a rule, revenue is recognized according to the degree of progress or the period. Revenue is measured at the amount of consideration promised in a contract with a customer, from which discount, rebate, etc., are deducted. Consideration in the product sales contract is collected primarily within one year from the date when the product is delivered to the customer. In such product sales contracts, no material financial elements are involved.

5. 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) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

The Company will transition from the consolidated taxation system to the group tax sharing system from the following fiscal year. However, 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. From the beginning of the following fiscal year, the Company will apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case of applying the group tax sharing system.

Changes in Accounting Policy

(Application of the Accounting Standard for Revenue Recognition, etc.)

From the beginning of the fiscal year under review, the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”), etc. Accordingly, revenue is recognized when control of the promised goods or services is transferred to the customer, in the amount expected to be received in exchange for those goods or services.

The impact of this change on the non-consolidated financial statements is immaterial.

The application of the Revenue Recognition Standard, etc., is in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Standard, and there is no impact on the beginning balance of retained earnings and per share information for the fiscal year under review.

Due to the application of the Revenue Recognition Standard, etc., “advances received,” which was presented in “current liabilities” on the non-consolidated balance sheet for the previous fiscal year, is included in “contract liabilities” for the fiscal year under review.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

From the beginning of the fiscal year under review, the Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc. In accordance with the transitional treatment provided for in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement, etc., will be applied in the future. This change has no impact on the non-consolidated financial statements.

Change in Presentation Method

(Non-Consolidated Statement of Income)

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

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)
383,027

3. Liabilities on guarantee

(1) Guarantees

Guarantees on the bank borrowings of the following affiliated companies payable to financial institutions
(Millions of yen)

Daikin ArCondicionado Brasil Ltda.	1,782
Daikin Chemical Europe GmbH	893
AAF S.A.U	451
American Air Filter Company, Inc.	196
AsureCare Corp.	41
Four (4) other companies	37
Total	<u>3,403</u>

(2) Commitments to guarantee

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

	(Millions of yen)
Daikin America, Inc.	3,895
AAF-McQuay UK Limited	1,988
Daikin Applied Americas Inc.	1,547
American Air Filter Company, Inc.	1,032
Daikin Airconditioning India Pvt. Ltd.	883
Eight (8) other companies	1,379
Total	<u>10,726</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	254,378
Short-term monetary payables	104,274
Long-term monetary payables	7

Notes to the Non-Consolidated Statement of Income

Volume of transactions with affiliated companies

	(Millions of yen)
Operating transactions	
Sales amount	480,988
Purchase amount	205,336
Non-operating transactions	166,258

Notes to the Non-Consolidated Statement of Changes in Equity

Type and number of shares of treasury shares as of March 31, 2022

Common shares: 424,908 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	20,248
Software and other assets	14,250
Inventories	3,055
Provision for bonuses	2,911
Provision for product warranties	1,757
Enterprise tax payable	1,190
Provision for retirement benefits	573
Allowance for doubtful accounts	142
Long-term accounts payable – other	79
Other	2,406
Subtotal of deferred tax assets	<u>46,616</u>
Less valuation allowance	<u>(21,497)</u>
Total deferred tax assets	<u>25,118</u>

Deferred tax liabilities:

Valuation difference on available-for-sale securities	(22,081)
Prepaid pension cost	(4,280)
Reserve for tax purpose reduction entry of non-current assets, etc.	<u>(3,862)</u>
Total deferred tax liabilities	<u>(30,223)</u>
Net deferred tax assets (liabilities)	<u>(5,105)</u>

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	(17.3)
Foreign income tax withheld relating to dividends from foreign subsidiaries	3.6
Tax credit for experimentation and research expense, etc.	(2.9)
Valuation allowance	(0.9)
Unrecognized tax effect on foreign income tax credit	(0.6)
Entertainment expenses and others that are permanently excluded from taxable loss	0.2
Per capita inhabitant's tax	0.1
Other	<u>(0.1)</u>
Actual effective income taxes rate after the adoption of tax-effect accounting	<u>12.7</u>

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 (Note 1)	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 2, 3, 4)	101	Accounts payable – other, and accrued expenses	60

Notes:

- Ms. Chiyono Terada resigned as External Director of the Company on June 29, 2021.
- Refers to so-called arm's length transactions.
- The above transactions are determined by taking into account the market price and other factors similar to those for general transactions.
- The transaction amount is the amount for the period up to the time of resignation, and the year-end balance is the amount as of the time of resignation.

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 (Note 1)	79,071	Accounts receivable – trade	6,848
	Daikin Consumer Marketing Co., Ltd.	100% (directly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Note 1)	72,407	Accounts receivable – trade	9,236
	Goodman Manufacturing Company, L.P.	100% (indirectly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Note 1)	48,772	Accounts receivable – trade	30,756
	Goodman Global Group, Inc.	100% (indirectly holding)	Loan	Loan (Note 3)	19,052	Short-term loans receivable	36,717
				Loan	—	Long-term loans receivable from subsidiaries and associates (incl. current portion)	
				Repayment of loan	16,670		
				Interest income (Note 2)	353	Other current assets	
	Daikin Applied Americas Inc.	100% (indirectly holding)	Loan	Loan (Note 3)	23,787	Short-term loans receivable	35,352
				Loan	19,641	Long-term loans receivable from subsidiaries and associates (incl. current portion)	
				Repayment of loan	2,066		
				Interest income (Note 2)	445	Other current assets	
	Daikin Holdings America Inc.	100% (directly holding)	Capital increase	Underwriting of capital increase	42,037	—	—

Notes:

- 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.
- The interest rate has been determined in accordance with the market interest rate.

3. 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:	¥3,480.34
Earnings per share:	¥525.51

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.