DAIKIN

Annual Report 2015

Fiscal Year Ended March 31, 2015

DAIKIN INDUSTRIES, LTD.

Daikin—Aiming to Be a Truly Global Excellent Company through Continued Reforms in Preparation for the 100th Anniversary of its Founding

In October 2014, Daikin celebrated the 90th anniversary of its founding. A company with core businesses in the fields of air-conditioning systems, fluorochemicals, oil hydraulics, and defense products, Daikin has continually evolved in step with the times and in response to social paradigm shifts.

In its pursuit of improved energy conservation performance and environment-friendliness, Daikin has repeatedly realized important innovations with respect to air-conditioning and refrigerant technologies. The Company's development of new applications for fluoroplastics, fluororubbers, and fluorochemicals has spurred major changes in people's work and lives. Our main market foci have been gradually shifting from Japan to overseas, and overseas sales have grown to account for more than 70% of our total net sales.

Going forward, we will sustain our efforts to augment our corporate value by increasing our contributions to global environmental conservation and energy control as well as our contributions to elevating levels of amenity and convenience in the daily lives of people throughout the world.

As we advance toward the 100th anniversary of our founding, we are striving to be a "Truly Global and Excellent Company," by implementing business model reforms and establishing organizational and management systems tailored to the requirements of a multinational enterprise.

Contents

Forward-Looking Statements

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

Our Group Philosophy

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

2 — Contribute to Society with World-Leading Technologies

3 — Realize Future Dreams by Maximizing Corporate Value

4 — Think and Act Globally

5 — Be a Flexible and Dynamic Group

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

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

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

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

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

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

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

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

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

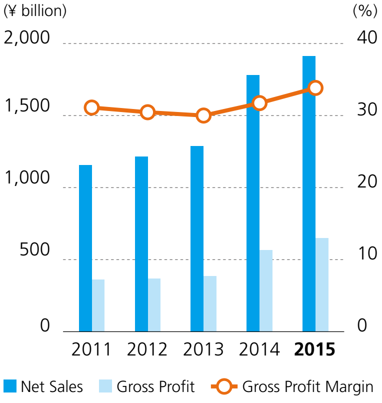
Financial Highlights

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

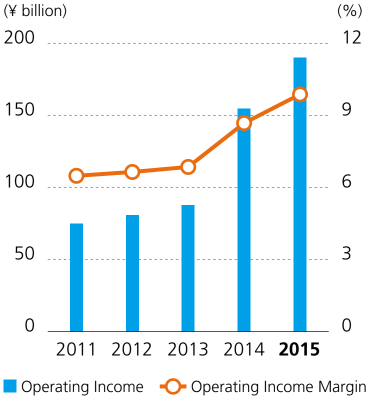
	Millions of yen	
	2014	**2015**
Operating Results (for the year):		
Net sales	¥1,787,679	**¥1,915,014**
Gross profit	568,323	**649,902**
Operating income	156,537	**190,588**
Net income	92,787	**119,675**
Cash Flows (for the year):		
Net cash provided by operating activities	¥179,713	**¥160,423**
Net cash used in investing activities	(80,835)	**(77,331)**
Free cash flow (Note 1)	98,878	**83,092**
Net cash used in financing activities	(38,249)	**(83,073)**
Financial Position (at year-end):		
Total assets	¥2,011,870	**¥2,263,990**
Total shareholders' equity	801,853	**1,024,725**
Per Share Data (yen):		
Net income (basic)	¥ 318.33	**¥ 410.19**
Shareholders' equity	2,748.08	**3,511.34**
Cash dividends	50.00	**100.00**
Cash flow per share	339	**285**
Ratios (%):		
Gross profit margin	31.79%	**33.94%**
Operating income margin	8.76	**9.95**
Return on shareholders' equity (ROE)	13.07	**13.10**
Shareholders' equity ratio	39.86	**45.26**

Notes: 1. Free cash flow = Net cash provided by operating activities + net cash used in investing activities.
2. Accompanying a change in accounting policy, effective from April 1, 2014, the consolidated financial statements for the fiscal year ending March 31, 2014 and subsequent years have been revised.

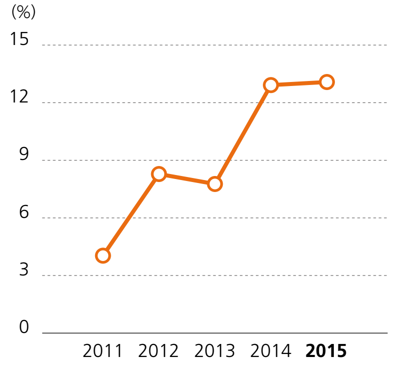
Net Sales, Gross Profit, and Gross Profit Margin



Operating Income and Operating Income Margin



ROE

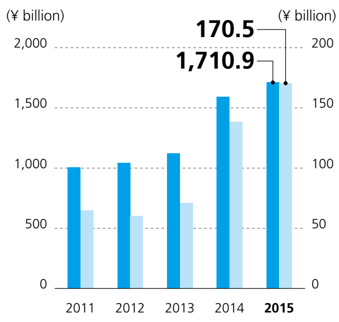


At a Glance

Percentage of Net Sales ▶

Net Sales and Operating Income (Loss) | Major Products | Description

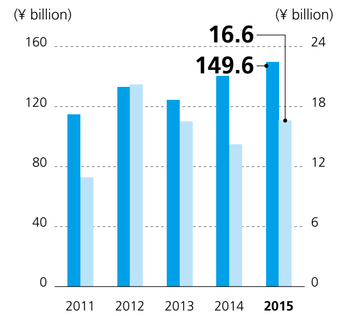
Air-Conditioning



- Room air-conditioning systems
- Heat-pump hot-water-supply and room-heating systems
- Packaged air-conditioning systems
- Multiple air-conditioning systems for office buildings
- Air-conditioning systems for facilities and plants
- Medium- and low-temperature air-conditioning systems
- Absorption refrigerators
- Humidity-adjusting external air-processing units
- Air purifiers
- Water chillers
- Air-handling units
- Marine-type container refrigeration

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

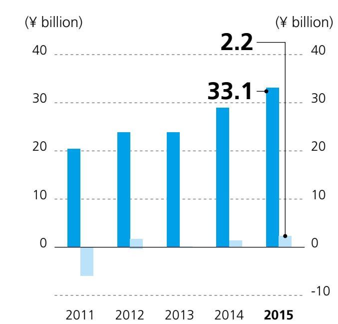
Chemicals



- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluoropaints
- Fluoro coatings
- Fluorinated oils
- Water and oil repellent agents
- Mold release agents
- Pharmaceuticals and intermediates
- Semiconductor-etching products
- Dry air suppliers

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

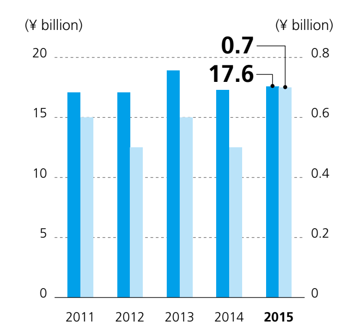
Oil Hydraulics



- Oil hydraulic pumps
- Oil hydraulic units
- Oil hydraulic valves
- Cooling equipment and systems
- Hydrostatic transmissions
- Centralized lubrication units and systems

Daikin's unique hydraulic technologies offer outstanding energy-conservation performance and are contributing to the development of industry by unleashing the potential of power control.

Defense



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

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

A Message from the CEO

Continuing the momentum of record results in fiscal 2014, Daikin has welcomed fiscal 2015, which is the 90th anniversary of our founding. Going forward, the Daikin Group will expand business globally while reforming its business model and improving the environmental performance of its products and technologies.

June 2015

Masanori Togawa

Masanori Togawa
President and CEO

Moving Further Ahead toward the 100th Anniversary of Daikin's Founding

In fiscal 2015, ended March 31, 2015, Daikin commemorated the 90th anniversary of its founding by attaining new record high levels of consolidated net sales and net income for the fifth consecutive year. In fiscal 2016, the Daikin Group will sustain its process of dynamic corporate reforms and evolution with the goal of overcoming fierce global competition as it proceeds toward its 100th anniversary.

In accordance with the fundamental policy of Daikin's FUSION 15 strategic management plan—concurrently achieving environmental contributions and business expansion—we have promoted broader-scale use of high-efficiency air-conditioner products, provided energy conservation solutions, undertaken environmental innovation-centered business, and taken many other similar initiatives. And we have implemented these measures on a global scale. Aiming to accelerate and increase the sophistication of our environmental technology development during fiscal 2016, we are preparing to inaugurate our new Technology Innovation Center. While broadening our focus from "air conditioning" to "air" and from "buildings" to "spaces," we are endeavoring to realize the innovations required to create a sustainable society.

Human resources are a key driver of the Daikin Group's growth, and we will be progressively increasing our emphasis on fostering human resource development going forward. Currently, our operations have expanded to include presences in 145 countries around the world, and non-Japanese employees have grown to account for approximately 80% of our human resources. While increasing the cohesiveness and integration of our operations with their respective countries and regions, we are striving to provide work environments that enable each and every employee—regardless of their nationality, age, or gender—to maintain high levels of vitality and motivation, make the most of their talents and skills, and achieve personal growth as employees and as individuals. In particular, within Japan, we are stepping up our efforts to promote the career development of our female employees as well as augmenting our support systems designed to make it easier for those employees to balance their work with their personal responsibilities.

Looking ahead toward the 100th anniversary of Daikin's founding, we intend to sustain the rapid pace of our corporate evolution and growth. While fulfilling our wide range of responsibilities to society, we will be doing our utmost to elevate our enterprise value. Being determined to generate business results that live up to the expectations of our shareholders as well as our great number of stakeholders throughout the world and inspire still further increases in the trust and confidence they have with respect to Daikin, we will seek to undertake management decision-making processes in an expeditious and optimal manner.

Comprehensively Completing FUSION 15 and Realizing the Objective of Making Daikin a "Truly Global and Excellent Company"

During fiscal 2015, Daikin attained new record high levels of revenue and profit. Fiscal 2015 was the penultimate year covered by the five-year FUSION 15 strategic management plan, and, during the year, Daikin was able to achieve the operating income target set for the final year of the plan, a year ahead of schedule. Fiscal 2016 will be a year in which Daikin makes further steady progress toward comprehensively completing FUSION 15 and realizing the objective of becoming a "truly global and excellent company."

Q1 Please explain the market environment in fiscal 2015 and Daikin's business results which have continued to reach record highs.

Concertedly Rallying the Group's Comprehensive Range of Strengths

Togawa: Regarding the global economy during fiscal 2015, the United States was able to expand its economy against the backdrop of robust domestic demand. The European economy got support from monetary easing and lower crude oil prices, but the trend of recovery was weak overall, and the pace of expansion in emerging country economies centered on China slackened. Economic recovery in Japan was sluggish owing to a drop in consumption following the consumption tax rate hike, and there continued to be many difficult-to-predict elements of the global situation.

Since the Daikin Group's overseas sales ratio has risen to approximately 74%, we faced a harsh operating environment during the year. However, we adopted a New Year Policy for 2014—a landmark year insofar as it marked the 90th anniversary of Daikin's founding—of "Let's all accomplish our goals now. ~keep on actions one after another~." In line with that policy, we strove to make strategy adjustments designed to enable us to attain the targets for the final year of the FUSION 15 strategic management plan a year ahead of schedule. In each of our businesses, we proactively responded to the changes taking place with respect to each geographic region and each product category. By taking measures to augment our marketing and sales power and reduce our fixed costs along with such measures as those to shift a portion of manufacturing operations to Japan in response to foreign exchange rate trends, we strove to elevate our performance.

Concertedly rallying Group strengths in accordance with the 2014 New Year Policy enabled us to achieve extremely robust performance. Consolidated net sales increased by 7.1% year over year, to ¥1,915,014 million. Consolidated operating income increased by 21.8%, to ¥190,588 million. Consolidated net

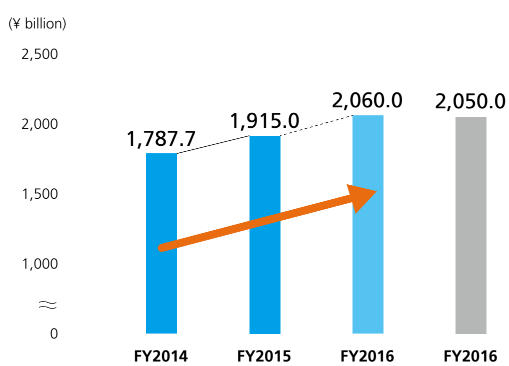
June 2015

Masanori Togawa
President and CEO

FUSION 15 Target for FY2016 (FY2014–2016)

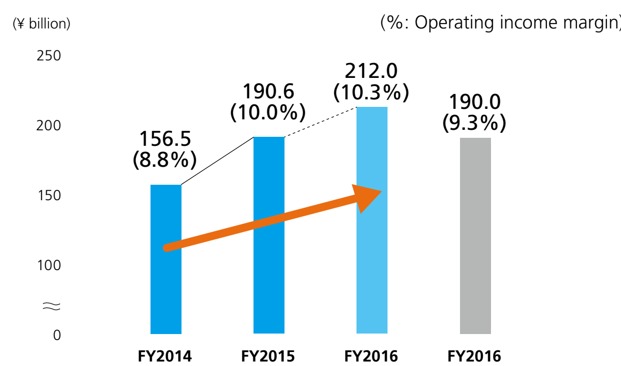
Net sales

Aiming to increase consolidated net sales to ¥2,060 billion—in excess of the FUSION 15 target



Operating income

Reached our target a year ahead of plan



income increased by 29.0%, to ¥119,675 million. This represented a second consecutive year in which we attained new record high levels of both revenue and profitability.

Moreover, we surpassed the FUSION 15 final-year operating income target of ¥190 billion a year ahead of schedule while boosting our operating income ratio to above 10%. It is also highly significant that our net income surpassed the ¥100 billion level for the first time in the Group's history.

Q2 What are your fundamental strategies for fiscal 2016, the final year of FUSION 15?

Strategic Adjustments for Attaining Still Higher Targets

Togawa: The quantitative targets of our plan (drafted in November 2013) for the last three years of FUSION 15 were ¥2,050 billion in consolidated net sales and ¥190 billion in consolidated operating income. However, we were able to attain the operating income target a year ahead of schedule, in fiscal 2015. In view of that, we have raised our fiscal 2016 targets to ¥2,060 billion in net sales (up 8% year on year) and ¥212 billion in operating income (up 11% year on year) and begun working to reach those targets. We have drafted and begun implementing appropriate plans for the measures required to attain the new targets, and we will continue adjusting our strategies as we move ahead. The current fiscal year is a period for comprehensively completing FUSION 15, and we are aiming to link the results of the plan to the characteristics of our next strategic management plan.

We are anticipating gradual expansion of the global economy, but there are risks of temporary deterioration in economic conditions in China and Europe. Euro depreciation and the general tendency to depreciate seen among emerging country currencies have a large negative impact on Daikin's performance, as we record considerable shares of our sales in Asian and European markets. To overcome this impact, we will continue augmenting our marketing and sales power, placing particular emphasis on the deeper cultivation of air-conditioning markets in North America and Asia, while seeking to expand our performance in each region of the world. Since building a solid and resilient business structure is of crucial importance, we are moving further ahead with such measures as those to reduce fixed costs.

Q3 Could you explain by region the details of the measures you are taking to more-deeply cultivate air-conditioning markets in North America and Asia?

Potential for Becoming No. 1 in North America and Already Becoming No. 1 in Asian Markets

Togawa: Regarding North American air-conditioning business, we achieved large sales growth during fiscal 2015 in each principal segment of our business—residential unitary products that are the mainstream products in that region, applied (large-scale commercial-use), and Japanese-style ductless products that offer outstanding energy conservation performance—and we were able to record growth in both revenue and profitability.

We are steadily realizing additional synergies with U.S.-based Goodman, which we acquired in 2012. In the second year following the acquisition, we moved further ahead with such rationalization measures as those designed to promote the integration of procurement functions and the elevation of distribution efficiency, and our full-scale efforts to promote greater sales of ductless products made a significant contribution to our performance. We are determined to achieve our target of increasing the cumulative amount of annual quantitative synergies generated to ¥24 billion in operating income in fiscal 2016, the third year following the acquisition.

Energy-conserving types of products have not yet greatly penetrated the North American market, and we believe that strongly promoting sales of such products will enable us to greatly expand our sales over the medium-to-long term.

Regarding the Asia region, we greatly increased our air-conditioner product sales in the region as a whole during fiscal 2015, and we were able to become the No. 1 company in terms of sales in Vietnam. We plan to continue augmenting our efforts to develop additional marketing outlets and promote greater sales of our VRV air-conditioning systems (multiple air-conditioning systems for office buildings). Aiming to expand our overall share of the residential market, we are promoting greater sales of residential-use high-value-added products from an extensive lineup that includes models using the new refrigerant R32, a new refrigerant with low global-warming potential (GWP), while concurrently launching additional volume-zone inverter products. We are aiming to become the No. 1 company in terms of sales in India and Thailand during fiscal 2016, and we are also seeking to attain the No. 1 position in Indonesia as early as possible.

Our air-conditioning business in China continues to face challenging market conditions, including a decline in large-scale investments and real estate projects stemming from the slackening of China's economic growth. To overcome those challenges, we are leveraging our powerful marketing systems centered on the nationwide Daikin PROSHOP network of specialty and ordinary retail sales outlets while stepping up our proposal-based marketing operations in the residential-use market, where demand is robust, as well as in the commercial-use market. Through those efforts, the launch of such new products as highly differentiated multiple air-conditioning systems for residential use, and sustained measures to reduce costs, we are working to expand our profitability in fiscal 2016.

In the Japanese air-conditioner market, we are aiming to alleviate the negative impact of yen depreciation by promoting greater sales of high-value-added products and moving further ahead with cost-cutting measures, and we, thereby, will endeavor to sustain growth in profitability during fiscal 2016. Moreover, taking full advantage of the opportunities presented by the increasing rigor of environmental regulations, we are working to increase our shares of markets for both residential- and commercial-use products by offering products and services that are increasingly appealing owing to our strong energy conservation technologies.

Fiscal 2016 will be a year during which we will be making full-scale efforts to obtain orders associated with the large-scale redevelopment projects being undertaken in preparation for the Tokyo Olympic Games in 2020. Since the capital region accounts for approximately 40% of Japan's total demand for air-conditioning products, we are shifting marketing staff to that region to intensify our marketing activities there to the greatest possible degree.

Regarding our air-conditioning business in Europe, harsh economic conditions along with challenges presented by such factors as cool summer weather in southern Europe caused our overall sales in the region to decline during fiscal 2015.

In fiscal 2016, we will be responding to conditions in each European region by reinforcing our product lineup as well as implementing marketing strategies finely tailored to address the needs of each region and, against the backdrop of increasingly strict environmental regulations, we will strive to expand our sales of heat-pump hot-water-supply and room-heating systems. We are continuing to strengthen our business systems in Europe as a means of preparing to quickly expand our profitability there when economic conditions improve in the future.

Q4 What kinds of measures will you be implementing in your Chemicals business?

Establishing a Full-Scale Presence in the European Refrigerants Market

Togawa: Despite challenges presented by the increasing strength of local chemical manufacturers in China, we are concertedly employing our research, technology, and marketing strengths to accelerate our development of new applications and expand our sales in such robust markets as those associated with automobiles, information terminals, and semiconductors.

In February 2015, Daikin acquired the refrigerant business in Europe (FY2013 sales of approximately €53 million) of Solvay S.A., a major Belgium-based chemical group. In accordance with its special responsibility as the world's only enterprise with capabilities for manufacturing both air-conditioning equipment and refrigerants, the Daikin Group is seeking to promote the use of refrigerants with low global-warming coefficients and thereby help restrain the global-warming trend. The restrictions on fluoron gases that contribute to global warming are becoming stricter owing to Europe's F-Gas Regulations, which are requiring a shift to the use of refrigerants with relatively low global-warming coefficients. Using its new local capabilities for producing such low global-warming coefficient refrigerants, Daikin is undertaking measures to establish a full-scale presence in European refrigerant markets. The business acquisition will also allow Daikin to leverage Solvay's lineup of automobile-use refrigerants to further strengthen its relationships with automobile manufacturers and thereby expand the scope of its business operations.

Q5 You will be inaugurating a new strategic business plan from fiscal 2017. Please explain the kinds of measures you will be implementing during fiscal 2016 in preparation for initiatives during the five-year period of the upcoming plan.

Large-Scale Upfront Investments for a Consolidated Goodman Facility in the U.S. and for R&D System Renovation

Togawa: We are currently proceeding with the drafting of the new strategic business plan, and we are also implementing upfront investments that provide a strong foundation for a surge of corporate growth in the future.

Aiming to expand U.S.-based Goodman's air-conditioning product business in North America over the medium-to-long term, we are constructing a new facility in a suburb of Houston, Texas, where Goodman's headquarters is located. The new facility is designed to integrate the operations of Goodman's four manufacturing and distribution bases in the United States as well as to help consolidate marketing and support functions.

Besides augmenting manufacturing capabilities in preparation for future growth, the new facility will unify previously scattered manufacturing and distribution units in a way that will greatly shrink lead times and enable the building of manufacturing systems that can flexibly respond to demand trends. Moreover, by integrating Goodman's low-cost manufacturing technologies with Daikin's advanced manufacturing technologies, we anticipate realizing a large increase in manufacturing efficiency and the timely market launches of strategic products with a high level of cost-competitiveness. Through these initiatives, we will be progressively augmenting our presence in the U.S. market, which is the world's largest air-conditioning product market.

In November 2015, we plan to complete and begin operating our Technology Innovation Center (TIC) on the grounds of the Yodogawa Plant, in Osaka.

As the core R&D base for Daikin's global operations, the TIC will undertake R&D related to world-leading advanced technologies, and we intend to use the technologies created by the TIC to greatly increase the efficiency and speed of our programs to develop core technologies for such strong Daikin businesses as those in heat pumps, inverters, and fluorochemicals. We anticipate that the TIC will enable Daikin to generate a continuing series of new technologies, products, and services in line with the demands of our customers and of society at large. To do this, we will be deepening our relationships with universities, research institutions, and companies from diverse other industries throughout the world as we strive to promote collaborative creation of innovation that integrates the technologies and expertise of the various partners.

We believe this approach will enable us to make sustained contributions to global society while also allowing us to outcompete rival companies.

Q6 Please explain your thoughts about Daikin's fundamental policy on shareholder returns and about dividend levels in fiscal 2015 and fiscal 2016.

Strong Performance Reflected in Shareholder Returns

Togawa: Corporate operating environments are changing at a dizzying speed, and Daikin has responded to date by taking measures to accelerate its global business development and promote environmental innovation business as well as to realize speedy business expansion through acquisitions, alliances, and collaborations. We have decisively moved ahead with the implementation of growth-oriented investments, and we have been able to expand our business results by steadily reaping the fruits of those investments. Going forward, we do not intend to change this fundamental approach. Aiming to become a truly global and excellent company, we will proceed with measures to achieve FUSION 15 targets and prepare for an additional surge of business development and growth by undertaking strategic investments designed to promote global business development, the development of products with outstanding environment-friendly characteristics, and will tirelessly endeavor to upgrade our competitive power and our business performance. At the same time, aiming to build a highly sound financial position, we are accelerating our efforts to reduce our interest-bearing debt ratio, increase our working capital efficiency, and otherwise create a highly resilient corporate structure.

Moreover, we are intending to further augment shareholder returns.

In fiscal 2015, with the support of our shareholders, we were able to commemorate the 90th anniversary of Daikin's founding by recording growth in both revenue and profit for the fifth consecutive year, and we attained record high levels of both consolidated net sales and consolidated net income. Cash dividends applicable to fiscal 2015, including a special ¥10 dividend commemorating the 90th anniversary, amounted to ¥100 per share, a ¥50 increase from the previous fiscal year. For fiscal 2016, the Company plans to distribute a total annual cash dividend of ¥110 per share.

Q7 In the context of your pursuit of profits, what kind of CSR measures are you implementing? Also, please give us a concise message to Daikin's shareholders.

Endeavoring to Alleviate Climate Change, Promote High-Amenity Lifestyles, and Elevate Enterprise Value

Togawa: Since its principal business is focused on air-conditioning products, which account for a large share of electric power consumption, the Daikin Group is strongly conscious of its responsibility to undertake CSR activities that protect the global environment.

Besides providing products with outstanding energy conservation performance and other products and services that help restrain greenhouse gas emissions, the Daikin Group is emphasizing measures to promote the global diffusion of refrigerants with low global-warming coefficients. In addition, the Group has noted that forest destruction is another factor contributing to climate change, and it, therefore, began implementing its "Forests for the Air" project in fiscal 2015. We consider forests to be "the natural air conditioners of the earth," and we are, therefore, striving through the "Forests for the Air" project to protect virgin forests in the Amazon basin and six other regions of the world from the primary causes of forest loss.

In view of the many voices currently demanding that companies do a better job measuring and managing the diverse kinds of impact they exert on society, we are giving strong emphasis to further strengthening our corporate governance systems and expanding the scope of our CSR activities to encompass the entirety of our value chains.

Going forward, we will do our utmost to continue implementing FUSION 15 in ways that concurrently achieve environmental contributions and business expansion, help build a sustainable society, and elevate our enterprise value as well as our market value in the medium-to-long term. As we move ahead toward the 100th anniversary of Daikin's founding, I hope for your continued understanding and support.

Current

Highly Differentiated, High-Value-Added Offerings Support Strong Sales of Commercial-Use Products

While the Japanese commercial air-conditioning equipment market during fiscal 2015 was impacted by a demand slump following accelerated demand in advance of the consumption tax rate hike, support from an increase in capital investment and the government's energy conservation investment support policies kept the level of demand at roughly the same level as in the previous year. The Daikin Group moved ahead with its marketing promotion activities for such highly differentiated products as FIVE STAR ZEAS, which uses the low global-warming factor refrigerant R32, and Eco-ZEAS80 models as well as for such high-value-added products as those of the Ve-up series of multiple air-conditioning systems for office buildings, and the Group's sales of commercial-use products surpassed their level in the previous fiscal year.

In Japan's residential air-conditioning market, unfavorable summer weather trends and a delay in the post-consumption tax hike recovery of consumption kept demand lower than in the previous fiscal year. The Daikin Group worked to differentiate its products by making all its wall-mounted room air-conditioner models compatible with R32 refrigerant and worked to promote sales of the Urusara 7 room air conditioner, which met 2015 energy conservation standards prior to their introduction, and other high-value-added models, but the large impact of the decrease in overall demand caused the Group's sales of residential air-conditioning products to fall below their level in the previous fiscal year.

The Group's overall sales of commercial and residential air-conditioning products were higher than in the previous year. Reflecting this, selling price setting policies designed to reflect the rise in materials procurement costs owing to yen depreciation, and thorough cost reduction measures, a year-on-year increase in operating income was achieved.

Air Conditioning

The Japanese Market

Solutions business operations provide new value by addressing needs through means not limited to the marketing of equipment products.

Promoting sales of highly differentiated, high-value-added products with outstanding energy conservation performance and environment-friendliness

Such air-conditioning equipment demand-related economic indices as personal consumption, housing construction starts, and private-sector capital investments are all projected to show year-on-year increases during fiscal 2016.

In its domestic air-conditioning equipment business, Daikin will fully leverage the profit base it has built to date while strengthening its marketing activities tailored to the special situations of each region to accelerate the development of additional marketing outlets and markets and while undertaking fundamental reforms of its marketing capabilities. In addition, by thoroughly maintaining its selling price policies, the Company will aim to realize increases in both sales and profitability.

Regarding commercial air conditioners, Daikin will emphasize sale promotion programs for such highly differentiated products as the FIVE STAR ZEAS and Eco-ZEAS80. Because air-conditioning needs associated with the large-scale redevelopment projects being undertaken in preparation for the 2020 Tokyo Olympic Games are expected to become full-fledged during fiscal 2016, Daikin intends to augment and strengthen its marketing systems in the capital region and strive to obtain orders related to those projects. In addition, in response to the implementation of Japan's revised Act on the Rational Use of Energy (2013) and Act on the Rational Use and Proper Management of Fluorocarbons (2015) Daikin will endeavor to provide new value through its solutions business centered on energy-conserving equipment and related services and thereby aim to expand its market share.

With respect to residential air conditioners, Daikin will seek to promote greater sales of high-value-added products centered on Urusara 7 models while also further increasing its competitive power in the volume-zone product sector as a means of expanding its market share.

Reinforcing Marketing Systems with an Eye to the Upcoming Tokyo Olympic Games

Future

Air Conditioning

The Global Market

Current

Strong Performance in the United States, China, and Southeast Asia

During fiscal 2015, global air-conditioning equipment business sales grew in all countries and regions other than Europe, and overall sales surpassed their level in the previous year.

In North America, in advance of an increase in the rigor of energy-conservation regulations, Daikin recorded strong sales of its mainstay residential-use unitary air-conditioning equipment products as well as of ductless products, which are mainstream offerings in the Japanese market. The ductless product lineup centers on the VRV air-conditioning systems (multiple air-conditioning systems for office buildings) marketed through Goodman channels. As a result, year-on-year increases were achieved in sales of residential-use products and light commercial-use products for medium-scale office buildings. Sales in applied (large-scale commercial) air-conditioning equipment business also expanded, reflecting growing sales of high-value-added products.

In China, Daikin expanded its nationwide marketing network centered on ordinary retailers as well as exclusive Daikin PROSHOP retail sales outlets and was able to expand its sales, particularly sales of residential-use multiple air-conditioning systems. Applied business also grew, and overall sales in China were above the level in the previous year. In addition, such measures as those to increase the share of components internally produced at Daikin factories in China and to utilize Daikin's Shanghai R&D Center with respect to local procurement programs enabled improved profitability.

Increased sales were also recorded in the Asia and Oceania region. Major factors contributing to this increase included the forceful promotion of new marketing outlet development and the launch of highly differentiated products that offer superior energy-conservation performance and use R32 refrigerant. Strong performance was achieved in each country in which Daikin has established a presence, and particularly strong sales increases were recorded in Vietnam and Indonesia, where the expansion of demand for air conditioners has been especially large.

Although operations in Europe faced challenges stemming from the delay of a recovery in the EU economy as well as from relatively cool summer weather in southern European countries that are principal markets, Daikin's implementation of marketing policies focused on addressing recoveries in construction-related demand in the U.K. and Germany enabled strong performance in sales of commercial-use products. In France, which has increased the rigor of its environmental regulations, Daikin emphasized the marketing of heat-pump hot-water-supply and room-heating systems.

Promoting comprehensive cost-reduction measures, including those leveraging the Shanghai R&D Center's local component procurement capabilities

Strengthening marketing networks in China centered on the Daikin PROSHOP network of specialty and ordinary retail sales outlets

Launching new products designed to meet the different needs of each individual country's market

Utilizing Goodman's sales network to expand the scope of ductless air-conditioner marketing in the United States

During fiscal 2016, Daikin will implement global air-conditioning business marketing strategies that respond to changes in the markets of individual countries and regions.

In North America, Daikin will strive to leverage synergies with respect to residential-use unitary air-conditioning equipment products by making good use of Goodman's outstanding strengths regarding low-cost manufacturing operations. Amid expectations of a counter-reaction accompanying an increase in the strictness of energy-conservation regulations, Daikin will take such measures as those to launch highly differentiated ducted unitary inverter models with outstanding energy conservation performance. In applied business, the Company will strive to increase sales by strengthening its service system. The North American market for ductless products is rapidly growing owing to the high level of such products' energy-conservation performance, and Daikin will seek to expand its business in that market through such measures as those to launch new products and establish local manufacturing systems.

In the Asia and Oceania region, the development of additional retail marketing outlets has been a primary factor propelling Daikin's business expansion. Aiming to augment its profitability, the Company will forcefully promote additional marketing outlet development while also fostering close relations with outlets that have strong proposal-based marketing capabilities, and expand its lineup of residential-use high-value-added products as well as VRV and applied offerings. In Thailand and India, Daikin is aiming to be the No. 1 company in terms of net sales.

In China, factors including a tendency toward economic deceleration are continuing to create a harsh operating environment, but Daikin is leveraging its Daikin PROSHOP network of exclusive retail sales outlets to strengthen proposal-based marketing programs focused on newly launched New Life Multi Series residential-use multi air conditioners. Regarding commercial-use offerings, Daikin is emphasizing the broad-scale implementation of a bipolar marketing strategy focused on highly differentiated products and volume-zone products. The Company is aiming to expand its profitability by concertedly managing its development, manufacturing, marketing, and service systems in an integrated manner.

In Europe, Daikin is implementing a detailed marketing strategy adapted to the different characteristics of individual countries' operating environments. Regarding room-heating products, the Company is augmenting its lineup of both heat-pump and combustion-type offerings as it seeks to further expand sales. Daikin is also stepping up its efforts to realize greater profitability through fixed cost reductions and other measures designed to create a stronger business structure.

Aiming to earn the No. 1 share of India's growth market

Strengthening Global Marketing Power and Profitability

Future


Anti-smudge surface-coating agents for touch screens and other applications

Chemicals


Recording robust sales of fluororubber products for automotive applications in the United States and China


ZEFFLE anti-fouling and weather-resistance coatings used to improve the durability of solar- and wind-power equipment

Current

Growth in Sales and Profitability Achieved by Responding to Automobile-Related Demand

Despite differing demand trends seen with respect to individual products and regions during fiscal 2015, overall sales of Chemicals business operations were higher than in the previous year. Reflecting benefits stemming from the sustained forceful implementation of measures to reduce fixed costs and lower manufacturing costs, a year-on-year increase in operating income was also achieved.

Regarding fluoroplastics resins, despite the sluggishness of Chinese demand related to railway and communications infrastructure projects and of U.S. demand related to LAN cable and semiconductor applications, a year-on-year increase in sales was realized owing to such factors as the strength of U.S. demand for automotive applications. Despite slack Chinese demand for fluoroelastomers, Daikin was able to record a higher level of fluoroelastomer sales than in the previous year as a result of strong sales for automotive applications in the United States and Asia.

In the chemical products business, Daikin's sales of water and oil repellent agents were robust in Asia, Europe, and the United States. This and abundant Chinese demand for an anti-smudge surface coating agent for smartphone touch screens boosted chemical products sales to a level higher than that achieved in the previous year.

Demand for fluorocarbon gases decreased in Japan, China, and other Asian countries, and Daikin's restraint of marketing activities as a means of supporting the level of selling prices kept its fluorocarbon gas sales below the previous year's level.

Future

Responding to Opportunities in Diverse Fields

Diverse opportunities for new kinds of fluorochemical business are emerging with respect to numerous products and markets. Daikin is augmenting its application development operations and expanding its marketing of highly differentiated products, placing particular emphasis on applications related to automobiles, information terminals, semiconductors, and lithium-ion batteries as well as applications in the new energy field, such as coatings for wind-power generation equipment. Daikin is also strengthening its marketing capabilities in the United States and Europe, which have the world's highest levels of leading-edge needs. By coordinating business operations related to individual products as well as drafting common short- and medium- to long-term strategies for multiple products, the Company is strengthening its efforts to globally expand its fluorochemical business.

In February 2015, Daikin acquired the refrigerant gas business in Europe of Solvay S.A., a major Belgium-based chemical manufacturer. Besides enabling Europe-based refrigerant production and full-scale participation in business supplying refrigerants for automotive applications, the business acquisition will allow Daikin to leverage Solvay's base of business with automobile makers to promote its fluoroplastics resin sales and otherwise accelerate its business expansion.

As demand in Asian fluorochemical markets is expected to expand in the future, Daikin is emphasizing thorough marketing programs focused on end users as it seeks to greatly expand its shares of those markets.

To further strengthen its business structure, the Company is radically lowering inventory levels while also proceeding with comprehensive cost reduction programs involving such measures as those to streamline production processes and shrink production lead times.

An EcoRich energy-efficient oil hydraulic drive unit

Current

Robust Sales Performance in All Product Fields

In its oil hydraulics business operations, Daikin supplies diverse kinds of oil hydraulic equipment used to realize smooth movements on the parts of construction equipment and industrial equipment (such as processing machinery in factories, etc.) as well as tractors and other small-scale vehicles.

Oil hydraulics business sales in fiscal 2015 were higher than in the previous year. Daikin's sales of oil hydraulics equipment for industrial machinery surpassed the previous year's level by a large margin, as sales were effectively promoted by the Company's emphasis on high-value-added solutions business involving technical consultations, after-services, unit designs, and other processes designed to meet Japanese needs for electric power conservation. Sales of oil hydraulic equipment for construction equipment and motor vehicles also increased, reflecting Daikin's employment of integrated manufacturing and marketing systems to effectively respond to robust demand in Japan and overseas.

Oil Hydraulics

Future

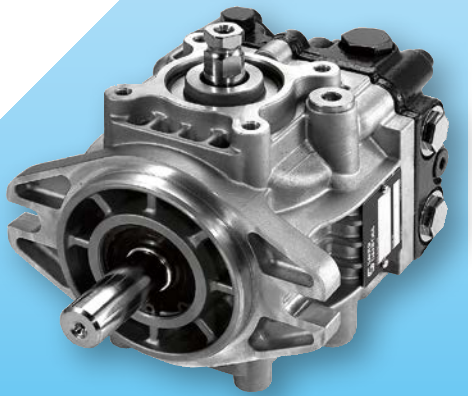
Elevating Profitability in Japan and Augmenting Efforts to Expand Global Operations

In Japan, the application of top runner standards* will be broadened to cover motors during fiscal 2016, and this is expected to act as a tailwind in supporting sales of high-value-added oil hydraulic units for applications related to high-efficiency IPM motors. Aiming to elevate the profitability of its operations in Japan, Daikin is taking measures to promote its sales of such units by increasing the proactiveness of its marketing activities based on systems proposals and hydraulic circuit proposals.

In China, Daikin is moving ahead with super unit (energy-saving high-performance oil hydraulic unit) development programs centered on needs in the molding equipment and general-use manufacturing equipment markets, and it is striving to strengthen its marketing, cost, and quality power with respect to such products. In addition, Daikin is aiming to expand its business supplying hydrostatic transmissions (HSTs) for such agricultural machinery as combines.

Daikin is working to expand its business base in the United States through measures centered on its maintenance, repair, and operations ("MRO") business, which has sustained strong performance.

The MRO business model also has great potential in European and Asian markets, and Daikin is making progress in preparing concrete plans for launching MRO business in those markets.



Oil hydraulic units providing drive power for construction equipment and vehicles

*Energy-consumption efficiency target standards have been greatly elevated based on the 2013 revision of Japan's Energy Conservation Law.

Defense

Current

Strong Sales in Both Defense and Civil-Sector Fields

Daikin's defense business encompasses operations designing and manufacturing various kinds of artillery shells, missile warheads, fuses, aircraft components, and other products for Japan's Ministry of Defense. Expanding the scope of its leveraging of associated precision processing technologies, the Company has undertaken the manufacture of other products requiring high levels of precision, functionality, and quality, such as home-use oxygen therapy equipment.

In fiscal 2015, defense business sales surpassed their level in the previous year, reflecting growth in orders from the Ministry of Defense for artillery shell components and aircraft components. Regarding oxygen concentration devices for home-use oxygen therapy, Daikin expanded sales by augmenting its product lineup through the launch of units offering improved performance with respect to ease of maintenance, energy-conservation performance, and other characteristics.

Future

Further Cultivating Japanese and Chinese Markets for Civil-Sector Fields

Based on the assumption that defense-related orders will tend to decline going forward, Daikin is seeking to reinforce its profitability by progressively implementing measures to increase operational efficiency and to concentrate its operations by strategically narrowing the scope of manufacturing processes and facilities. At the same time, the Company is determined to maintain and strengthen the special manufacturing skills and technologies it has developed for this business field.

Regarding civil-sector fields, Daikin is seeking to strengthen its base of business in home-use oxygen therapy equipment through efforts to reduce costs and develop new products as well as to strengthen marketing and sales capabilities in Japan. Plans for the global development of this business call for launching operations in China during fiscal 2015, building up business centered in the Shanghai region, and then promoting sales growth through the creation of marketing routes in the Beijing region.

Corporate Governance

Fundamental Corporate Governance Concept

The Daikin Group's corporate governance systems are designed to help accelerate decision making and operational execution work in anticipation of and response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby seeking to increase the Group's corporate value. Going forward, the Group will be striving to ensure the increasing sophistication of speedy management, the strengthening of consolidated management, and still-higher levels of soundness and transparency. In addition, to realize an increase in corporate value, the Group will continually consider and reevaluate its concepts regarding the most-appropriate forms of corporate governance as it pursues a diverse range of Group-level initiatives aimed at ensuring best practices throughout the Group.

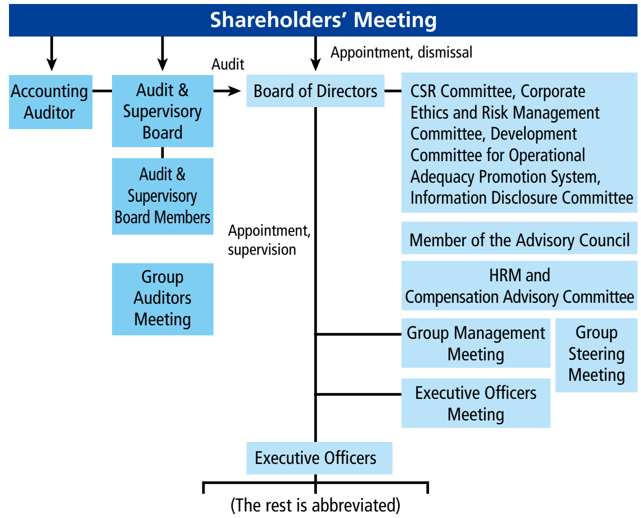
Management and Operational Execution Systems

Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management responsibilities as well as for operational execution responsibilities. In view of the special characteristics of the Group's business, it was judged that this is a more-effective means of accelerating decision making and operational execution. In addition, the Group has introduced an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

The Group appoints directors while giving emphasis to the diversity of directors' backgrounds regarding such characteristics as nationality, gender, and career history. As of June 2015, the Board of Directors included 12 members, including one female and two non-Japanese directors. The Board of Directors is making speedy strategic decisions and performing sound supervision for the entire Group.

Daikin's Board of Directors included two external directors as of June 2015. Daikin seeks to recruit external directors who, conditional upon their being free of any conflict of interest, have abundant experience and deep insight and can, therefore, offer a sophisticated perspective on a broad range of issues as they participate in decision making and supervise management. Accordingly, experience as a director, etc., in a listed enterprise is a principal nomination criterion for external director recruitment. None of Daikin's external directors have five or more concurrent posts.

To ensure that the external directors can effectively contribute to Daikin's corporate governance system, the external directors are assigned assistants in the Management Planning Office who strive to provide the external directors with Daikin-related information, early notice of Board of Directors meetings, and prior notice of Board of Directors meeting agenda items, as well as implementing prior explanations of particularly important agenda items. In addition, in the case that an external director is not able to attend a Board of Directors meeting, the assistants provide the external director with related materials and subsequently provide the external director with an explanation of the proceedings of the meeting and provide other assistance.



External Directors' Principal Activities

Name	Principal Activities
Chiyono Terada	Having attended 15 out of 16 meetings of the Board of Directors of the fiscal year under review, Chiyono Terada offered timely proposals as needed, based on her abundant experience and deep insight as a corporate manager and from her broad and advanced perspective, including proposals concerning management based on the viewpoints of consumers, such as the importance of the brand of the Company and measures to further promote achievements of female employees.
Kosuke Ikebuchi	Having attended 15 out of 16 meetings of the Board of Directors of the fiscal year under review, Kosuke Ikebuchi provided timely proposals as needed, based on his abundant experience and deep insight as a corporate manager and from his broad and advanced perspective, including viewpoints concerning manufacturing, such as production innovation, cost reduction, and enhancement of reliability and productivity.

Audit System

Daikin employs an Audit and Supervisory Board and seeks to nominate two or more outside members to its Audit and Supervisory Board. As of June 2015, Daikin's four Audit and Supervisory Board members included two external Audit and Supervisory Board members. The principal nomination criteria for external Audit and Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company.

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

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

External Audit and Supervisory Board Members' Principal Activities

Name	Principal Activities
Yoshiyuki Kaneda	Having attended all 16 meetings of the Board of Directors and all 14 meetings of the Audit and Supervisory Board of the fiscal year under review, from his broad and advanced perspective, Yoshiyuki Kaneda offered timely proposals as needed, regarding technology development, based on his abundant experience and deep insight as a corporate manager.
Ryu Yano	Having attended 14 out of 16 meetings of the Board of Directors and 13 out of 14 meetings of the Audit and Supervisory Board of the fiscal year under review, from his broad and advanced perspective, Ryu Yano offered timely proposals as needed, with respect to overseas business, based on his abundant experience overseas and deep insight as a corporate manager.

Systems for Supporting Speedy Management

Daikin has reduced the number of directors, and those directors are, therefore, able to realize speedy decision making based on substantive deliberations. Daikin has three main decision-making institutions—the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting—and each of these meets once per month.

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction of important management policies and strategies in a rapid and timely manner, thereby accelerating the resolution of issues. In fiscal 2015, it met eight times.

The Board of Directors is the decision-making institution for all matters related to the Group as a whole that are stipulated by laws and regulations and by the articles of incorporation, and it also performs supervision to ensure sound and appropriate operational execution. In fiscal 2015, it met 16 times, and the average attendance rates of external directors and external Audit and Supervisory Board members at those meetings were 94% and 94%, respectively.

The Group's management system also includes such units as an Advisory Council that offers opinions and advice regarding management issues from an independent standpoint.

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

Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the Compensation Advisory Committee. This committee engages in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. The Committee consists of four members, including two external directors and two in-house directors, with the Committee chairman being chosen from the external directors.

The remuneration of directors and Audit and Supervisory Board Members is determined so as to fall within the aggregate remuneration ceiling for directors and Audit and Supervisory Board Members as set by a resolution at the general shareholders' meeting. Based on a report from the Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors, while the Audit and Supervisory Board Members' remuneration is determined by a resolution of the Audit and Supervisory Board. Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and responds to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium-to-long term and thereby contributing to a rise in the Group's corporate value.

Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term performance (net sales and operating income) and each director's job responsibilities, and "stock options" that reflect the Group's medium- to long-term performance. The remuneration of external directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing data from an outside specialized institution on the remuneration of corporate officers active in approximately 200 Japanese companies listed on the First Section of the Tokyo Stock Exchange. The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient.

Total Compensation for Directors and Audit and Supervisory Board Members (Fiscal 2015)

Position	Number of Individuals	Fixed Compensation (Millions of yen)	Performance-linked Compensation (Millions of yen)		Total Compensation (Millions of yen)
		Basic	Stock Options	Bonus	
Directors	11	691	162	300	1,154
Audit and Supervisory Board Members	2	61	—	—	61
Total	13	752	162	300	1,215

Total Compensation for External Directors and External Corporate Auditors (Fiscal 2015)

Position	Number of Individuals	Fixed Compensation (Millions of yen)	Performance-linked Compensation (Millions of yen)		Total Compensation (Millions of yen)
		Basic	Stock Options	Bonus	
Total Compensation for External Directors and External Audit and Supervisory Board Members	4	59	—	—	59

Corporate Officers Receiving Total Compensation and Other Exceeding ¥100 Million (Fiscal 2015)

Name	Position	Company Name	Fixed Compensation (Millions of yen)	Performance-linked Compensation (Millions of yen)		Total Compensation (Millions of yen)
			Basic	Stock Options	Bonus	
Noriyuki Inoue	Director	Daikin Industries, Ltd.	177	33	83	294
Masanori Togawa	Director	Daikin Industries, Ltd.	117	33	53	204
Ken Tayano	Director	Daikin Industries, Ltd.	115	16	37	179
	Chairman	Consolidated Subsidiary, Daikin (China) Investment Co., Ltd.	9	—	—	
Masatsugu Minaka	Director	Daikin Industries, Ltd.	5	16	26	116
	Director	Consolidated Subsidiary, Daikin Europe N.V.	67	—	—	
Guntaro Kawamura	Director	Daikin Industries, Ltd.	68	16	27	112

Total Compensation and Other for Independent Auditors (Fiscal 2015)

Audit expense	242 (Millions of yen)

Group Governance

To meet governance needs on a Group basis including M&A-related Group companies, Daikin holds meetings of the Group Steering Meeting. By working to thoroughly ensure that all Group units share the Group's important management policies and by endeavoring to promote and strengthen support for the resolutions of challenges of Group companies, the Group Steering Meeting seeks to make the Group undertake corporate activities based on unified objectives. Principal Group companies appoint Group auditors to participate in Group Auditors' meetings, which seek to strengthen Groupwide auditing and auditing functions by undertaking activities to strengthen the operation of those functions.

To further strengthen corporate governance and Group management as a multinational company, Daikin has appointed a Chief Global Group Officer, who endeavors to further improve the Group's cohesiveness.

Directors, Audit and Supervisory Board Members, and Executive Officers (As of June 26, 2015)

Position(s)	Name	Responsibilities & Principal Jobs
Chairman of the Board and Chief Global Group Officer	**Noriyuki Inoue**	
President and CEO, Member of the Board	**Masanori Togawa**	
Member of the Board (external)	**Chiyono Terada**	President of Art Corporation
Member of the Board (external)	**Kosuke Ikebuchi**	Senior Advisor to the Board and Senior Technical Executive of Toyota Motor Corporation
Member of the Board and Senior Executive Officer	**Guntaro Kawamura**	Responsible for Chemicals Business and General Manager of Yodogawa Plant
Member of the Board and Senior Executive Officer	**Ken Tayano**	Responsible for Domestic Air-Conditioning Business, Representative of China Region, Chairman and President of Daikin (China) Investment Co., Ltd., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Masatsugu Minaka**	Representative of Air-Conditioning Operations in the Europe/Middle East/Africa Region, President of Daikin Europe N.V., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Jiro Tomita**	Responsible for Global Operations Division and Manufacturing Technology and Subleader of TIC Establishment Project
Member of the Board and Senior Executive Officer	**Takashi Matsuzaki**	Responsible for North America Research and Development (including Applied Solution Business, Refrigeration Business, and Filter and Dust Collection Business) and Subleader of TIC Establishment Project
Member of the Board and Senior Executive Officer	**Koichi Takahashi**	Responsible for Accounting, Finance, Budget Operations and IT Development, General Manager of the Finance and Accounting Division, Chairman of Information Disclosure Committee, Chairman of Development Committee for Operational Adequacy Promotion System
Member of the Board (non-resident)	**Frans Hoorelbeke**	Chairman of Daikin Europe N.V.
Member of the Board (non-resident)	**David Swift**	
Audit and Supervisory Board Member (external)	**Yoshiyuki Kaneda**	Former Officer of Sony Corporation
Audit and Supervisory Board Member (external)	**Ryu Yano**	Chairman of the Board of Sumitomo Forestry Co., Ltd.
Audit and Supervisory Board Member	**Kenji Fukunaga**	
Audit and Supervisory Board Member	**Kosei Uematsu**	
Senior Executive Officer	**Junichi Sato**	Representative of Air-Conditioning Operations in Central America and South America (including American Air Filter) and Member of Global Air-Conditioning Committee
Senior Executive Officer	**Yukio Hayashi**	Responsible for Liaison Business and Defense Systems Business and General Manager of Tokyo Office
Senior Executive Officer	**Shigeki Hagiwara**	Responsible for Applied Solution Business, Service Operations and Training, and General Manager of Applied Solution Business Division
Senior Executive Officer	**Shinya Okada**	Responsible for CSR, Global Environment Affairs, and Refrigeration Business and Chairman of CSR Committee
Senior Executive Officer	**Yoshikazu Tayama**	General Manager of Budget and Administration Group, Finance and Accounting Division
Senior Executive Officer	**Yoshiyuki Uemura**	Director of Goodman Global Group, Inc., EVP for Cooperation and Strengthening Technological Capabilities, and President of Daikin Holdings (Houston), Inc.
Senior Executive Officer	**Masayuki Moriyama**	Responsible for Applied Solutions Business in China, ASEAN and Oceania Regions, Director and Vice President of Daikin (China) Investment Co., Ltd., COO of McQuay China, Chairman (non-resident) of Daikin Refrigeration (Suzhou) Co., Ltd.
Senior Executive Officer	**Yasushi Yamada**	Responsible for Safety
Executive Officer	**Katsuyuki Sawai**	Responsible for Corporate Communication, Human Resources, and General Affairs and General Manager of Shiga Plant
Executive Officer	**Toshitaka Tsubouchi**	Vice President of Daikin Europe N.V. (in charge of existing business) and General Manager of Sales Division
Executive Officer	**Hiroo Sakai**	Responsible for Chemicals Environment/Safety and General Manager of Chemicals Division
Executive Officer	**Yoshihiro Mineno**	General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director of Daikin Holdings (Houston), Inc.
Executive Officer	**Hitoshi Jinno**	Responsible for PL/Quality, Air-Conditioning/Refrigeration/Applied, General Manager of Air-Conditioning Manufacturing Division, Chairman of PD Alliance Promotion Committee, and General Manager of Sakai Plant
Executive Officer	**Kota Miyazumi**	Responsible for Corporate Planning, General Manager of Marketing Research Division, Director of Planning Group in Marketing Research Division
Executive Officer	**Tsutomu Morimoto**	Responsible for Executive Secretarial Department, Goodman Group Business
Executive Officer	**Yuji Yoneda**	Responsible for Air-Conditioning Research and Development (including Applied Solution Business and Refrigeration Business) and Subleader of TIC Establishment Project
Executive Officer	**Masaki Saji**	General Manager of Human Resources Division
Executive Officer	**Masafumi Yamamoto**	Responsible for Corporate Ethics, Compliance, Legal Affairs, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Department Manager of Domestic Legal Affairs Group, and Chairman of Corporate Ethics and Risk Management Committee
Executive Officer	**Satoshi Funada**	General Manager of Air-Conditioning Sales Division

CSR (Corporate Social Responsibility)

Air-conditioning systems, Daikin's core business, are essential prerequisites for economic development and affluent lifestyles, and demand for air-conditioning products is expanding in emerging countries and elsewhere. As the industry's top specialist air-conditioning systems manufacturer, the Daikin Group aims to provide a comfortable and affluent lifestyle to people everywhere in the world while taking into account the impact of its entire value chain, using its accumulated technological expertise to reduce the burden on the environment, and thereby contributing to the sustainable development of society overall.

Given the nature and scope of its business, the Daikin Group has made "the environment," "quality and customer satisfaction," "human resources," and "contribution to society" its four strategically emphasized CSR themes. The Group promotes these CSR themes based on the ISO26000 international CSR standards, alongside its other fundamental initiatives in such areas as corporate governance, compliance, and human rights.

Environment

The Daikin Group considers climate change resulting from greenhouse gas emissions to be the largest societal problem that it should help solve, and it is leveraging its technological and human resource strengths to make related contributions.

Providing Energy-Saving Products: Through its products, Daikin is working to reduce CO_2 emissions by (1) promoting the widespread use of energy-saving inverter products, (2) promoting the widespread use of heat pump solutions that emit less CO_2 than previous combustion-type heating devices, (3) growing its energy-saving solutions business, and (4) developing next-generation refrigerants. Daikin's factory in Suzhou, China, which is one of the Group's largest, with annual capacity of 1.5 million units, is manufacturing inverter air conditioners that are sold globally. In fiscal 2015, Daikin developed high-volume-price-range inverters for regions in Asia that require only air-cooling functions. The products are progressively penetrating the markets of those regions, facilitated by the strengthening of energy conservation regulations in Southeast Asia and an increase in that region's consciousness of the need to conserve energy. Thanks to the benefits of these products and other factors, the Group estimates that it was able to reduce CO_2 emissions by 28 million tons in fiscal 2015. Its emissions reduction target for fiscal 2016 is 30 million tons. Going forward, Daikin will promote inverter products in North America as well as in emerging markets.

For heat pump heating solutions, Daikin is undertaking a large-scale project in the United Kingdom to verify the effectiveness of energy conservation methods related to heating and water heating. This project, taken on at the behest of Japan's New Energy and Industrial Technology Development Organization (NEDO), is scheduled for completion in March 2017. Through this project, Daikin is working to promote heat pump product usage in cooperation with national and local governments and energy providers.

Developing and Marketing Low Global-Warming Factor Refrigerant: Freon air-conditioner refrigerants have a greenhouse effect several hundred times to 2,000 times greater than that of CO_2. As a manufacturer of air-conditioning systems that employ low global-warming factor refrigerants, the Daikin Group believes it has a responsibility to proceed with the development of low global-warming factor refrigerants. It has judged the next-generation refrigerant R32, which has a global-warming factor of about one-third, to be optimal for household as well as commercial use air conditioners. R32 offers superior energy efficiency, with less refrigerant needed per air-conditioner unit, and has the added advantages of being easily recyclable and reusable. Daikin first launched residential-use air conditioners that use R32 in Japan, in fiscal 2013. Similar products were launched in Europe in 2013 and in Australia in 2014, and R32 models were being sold in 43 countries around the world at the end of fiscal 2015.

Daikin encourages other companies to easily adopt R32 as a low GWP refrigerant through offering free access to many of its patents to air conditioners, cooling equipment, and heat pump equipment using R32 as a single component refrigerant. Daikin also participates in support programs for emerging markets run by Japan's Ministry of Economy, Trade, and Industry and the Japan International Cooperation Agency (JICA). Further, the Group hosts groups of trainees from emerging countries and proactively offers technological support to local manufacturers and dealers.

Daikin also continues to seek alternative refrigerants that are optimal for each application, including those for such products as water heaters, chillers, refrigerators, and freezers.

Minimizing the Environmental Impact of Production Activities: Regarding the environmental impact of manufacturing operations, Daikin considers the reduction of greenhouse gas emissions to be its most-important challenge, and its FUSION 15 strategic management plan aims to reduce such emissions to one-third (67% below) of the fiscal 2006 level by fiscal 2016. As of fiscal 2015, a 65% reduction had been achieved. The Group is working steadily toward the attainment of its target by fiscal 2016. Daikin is also making efforts to reduce water usage. In fiscal 2015, water usage per production unit at domestic Group companies was 1% lower than fiscal 2011 levels and 13% lower at overseas Group companies. Emissions of chemicals subject to PRTR regulations were 30% lower than fiscal 2011 levels in fiscal 2015.

In fiscal 2006, Daikin established the "Green Heart Factory" in-house standards to certify factories with advanced environment-friendliness. As of fiscal 2015, 23 Daikin plants in Japan and abroad had been certified as Green Heart Factories, with seven of these receiving Super Green Factory certification.

Quality and CS (Customer Satisfaction)

In April 2014, the Daikin Group established the "Regulations for Global Quality Assurance." The Group continues to expand its product development, production, and sales operations globally. In view of this, these regulations define the approach to quality that is to be shared by the entire Group, as well as defining the scope of related responsibilities and authority to promote the smooth implementation of quality monitoring and correction measures.

All of Daikin's production bases have ISO9001 certified quality control systems to thoroughly ensure quality control and quality level maintenance in every division from development and procurement to manufacturing.

Further, based on each year's Group New Year policy, each business division determines its top-priority quality issues and sets related targets. For fiscal 2015, the air-conditioning business addressed quality control issues while focusing on three goals—ensuring a level of product development quality that eliminates new lot claims, undertaking post-shipment product monitoring to effectively minimize problems at early stages, and comprehensively assessing quality-related situations on a global level and implementing timely quality improvement measures at each location.

Pursuing Customer Satisfaction: To further raise customer satisfaction levels, it is crucial to quickly and accurately grasp needs in each overseas market and make use of this understanding within product development operations. In this connection, Daikin is strengthening its global marketing research functions by shifting from a unipolar R&D system centered on Japan to a system in which bases in overseas regions also autonomously conduct R&D. Regional bases unearth local needs and preferences by, for instance, conducting surveys to learn about local design preferences or getting local customers to try products out before their official launches. Daikin Group companies in Japan and overseas also undertake customer satisfaction surveys, and the feedback from those surveys is employed to further enhance product and service quality.

Customer Support: In Japan, for the air-conditioning business, the Daikin Contact Center accepts inquiries from all customers, 24 hours a day, 365 days a year. Every year, the Service Division implements a questionnaire survey to gain an understanding of the level of customer satisfaction with the Group's after-sales services. The overall satisfaction level for fiscal 2015 was 4.10 on a five-point scale, indicating that customer satisfaction continues to improve by the year.

Overseas as well, Daikin has established strong after-sales service systems that emphasize the concepts "fast, accurate, and kind" as they strive to respond to customers' diverse requests in line with conditions in each country and region. Daikin has contact centers in major countries, and via this support system strives to increase customer satisfaction.

Human Resources (Labor Practices)

The Daikin Group considers people to be a fundamental source of competitive strength. The Group works to create organizations that accept and respect individual differences regarding gender, nationality, and ethnicity, seek harmony among all members, and enable each individual member to develop their talents and abilities to the maximum.

Evaluation and Working Conditions: Daikin seeks to build workplaces characterized by equality of opportunity and fairness of outcome, where people with the desire to grow are rewarded for taking advantage of opportunities and producing results.

Promoting Diversity: Daikin is an organization that employs diverse people who respect different value systems irrespective of age, gender, nationality, race, temporary or permanent employment status, and traditional or mid-career joining status. Daikin employees seek to leverage this diversity to improve their organizational strength and endeavor to attain ambitious goals. Daikin believes that this kind of organization serves as a primary source of the Group's dynamic strength. Accordingly, the Group Compliance Guidelines state "We shall respect the diversity in values and approach to work of all employees, accept differences, seek harmony, and gather strengths so that each and every employee can pursue his or her dreams boldly with passion and tenacity."

Daikin Industries has also been systematically promoting the appointment of women in managerial roles, and the number of women in management has been increasing steadily. In March 2015, the Company was selected by the Tokyo Stock Exchange and Japan's Ministry of Economy, Trade and Industry, as *Nadeshiko Meigara* (company that cherishes female workers) for fiscal 2015 because of its excellent work in promoting the active participation of women.

The Daikin Group also actively employs people with disabilities. In Japan, Daikin has established Daikin Sunrise Setsu, Inc., as a special subsidiary company, and as of the end of March 2015, people with disabilities accounted for 2.19% of domestic employees, which is above the legal requirement. In China, Daikin Air-conditioning (Shanghai) Co., Ltd. actively employs people with disabilities; currently, 65 such persons are at the company. The Company was recognized by China as a vocational training base for people with disabilities in April 2014. Daikin works to help people with disabilities improve their skills, and 12 of its employees won individual prizes at a regional vocational skills contest for people with disabilities. In addition, Daikin Industries (Thailand) Ltd. employs 23 people with disabilities, and Daikin Compressor Industries, Ltd. employs 19 such persons.

Work-Life Balance: Daikin Industries has introduced diverse work policies that offer flexible work modes and time schedules suitable for diverse employees. In particular, Daikin has strengthened its childcare leave and childcare support system, and encourages male employees to use these systems as well.

In fiscal 2014, to support smooth transitions back to workplaces after childcare leaves, Daikin established the "*Hokatsu* Concierge." As an authorized company under the Act on Advancement of Measures to Support Raising Next-Generation Children, in fiscal 2015, Daikin began implementing the fourth action plan, which aims to create a workplace environment that promotes balancing work and child rearing. As a part of this, it has increased the menu of choices in the childcare support cafeteria plan system* available to employees returning early from childcare leave. Daikin is also expanding support by further increasing subsidies for early returners. In fiscal 2015, in an effort to help full-time employees demonstrate their work skills while preserving a good work-life balance, the Group allowed them to work from home for up to once a week on a trial basis. The Group aims to transform this scheme into a full-scale system in fiscal 2016.

* Childcare support cafeteria plan system: a subsidy system for childcare services used when dual-income family employees with children work overtime or go on business trips, or when the children are sick

Labor Relations: The Daikin Group believes good labor relations to be fundamental in management and considers partnership and mutual trust between management and labor to be highly important. At Daikin Industries, all employees except for manager-class and contract employees are labor union members. Daikin and the union hold dynamic discussions, and when business plans are formulated, Daikin holds meetings to explain the new plans to the union. In fiscal 2015, such meetings were held 24 times.

Occupational Safety and Health: In accordance with the Group Compliance Guidelines, which state that "in addition to ensuring safety in the workplace, the Group shall take all possible precautions for safe operations based on a "safety first" attitude, in order to gain the trust of the local community," Daikin endeavors to ensure that all employees and employees of subcontractors have safe work environments. To this end, and to promote the peace of mind of people in communities near Group facilities, Daikin strives to realize a "zero accident" workplace at each of its facilities.

The Group's domestic and overseas production facilities all have their own occupational health and safety management system (OHSMS), and at the end of fiscal 2015, three domestic plants and 19 overseas Group companies had received the OHSAS18001 certification, which is the international standard for occupational health and safety. The Group also implements safety training and safety patrols aimed at achieving zero workplace injuries. In fiscal 2015, the O.Y.L. Manufacturing Company raised awareness of workplace safety via a training program involving the simulation of operations-related dangers associated with accidents, and 1,329 employees participated in that program. With a view to sharing expertise and increasing safety levels across the Group, joint sessions on safety and disaster prevention are held twice a year.

Human Resource Development: Daikin considers realizing its management philosophy of "The pride and enthusiasm of each employee is the driving force of our Group" and utilizing people-centered management methods to be essential bases for the Group's growth. The Group's corporate philosophy states that "The combined growth of all Group employees, regardless of nationality or specific Group unit they are with, is the basis for the Group's advancement." Based on the concept that "people grow by means of work experience," Daikin believes that on-the-job training (OJT)[*1] is a fundamental human resource development method for discovering the characteristics of each employee and assigning jobs that will bring motivation. To supplement the OJT, Daikin is bolstering various off-the-job-training (Off-JT)[*2] programs, including the Daikin Managers' School for developing managers for the front lines of the Group's global business operations. Overseas office training for younger employees is another example. Further, to improve management capabilities of manager-class employees, Daikin launched the Management Dojo training program for division managers in fiscal 2014. In fiscal 2015, it expanded the program to include section managers. Over a period of two years, a total of 450 people have undergone training at this Dojo.

*1 OJT: at-the-workplace learning of skills, knowledge, technologies, and attitudes needed for the job

*2 Off-JT: off-site learning of skills, knowledge, technologies, and attitudes needed for the job

Social Contribution

As a global organization with business interests in many communities throughout the world, the Daikin Group organizes employee-driven social contribution activities centering on the themes of "environmental protection," "support for education," and "coexistence with local communities" in an effort to put down roots in the communities where it does business.

Environmental Protection: In 2014, to commemorate the 90th year of its founding, Daikin Industries began its "Forests for the Air" project in seven countries around the world, with the aim of contributing to the future of the planet by nurturing and cultivating forests, which help freshen the air around us. Daikin began its efforts to help harmonize the residents' lifestyles with the conservation of forests and biodiversity in Shiretoko Peninsula, a UNESCO World Heritage Site, in Japan, and is currently working to expand these efforts to communities in Indonesia, Brazil, Cambodia, India, China and Liberia. Apart from this, Daikin also conducts activities to restore forests and waterways in many locations around the world.

Support for Education: Since 2010, Daikin Industries has been providing elementary school children in Japan with learning materials related to its environmental education program on the topic of biodiversity called Circle of Life. It also conducts visiting lectures by its employees. In fiscal 2015, about 1,900 children from 30 schools participated in this program, and visiting lectures were held at 16 of these schools. The same year, the program won the Award of Excellence within MITI's Fifth Career Education Awards in recognition of outstanding education support activities conducted by business communities.

Daikin offers student scholarships in support of the Ministry of Education's "Tobitate! Ryugaku Japan!" ("Go abroad! Study overseas, Japan!") public-private partnership program to encourage high school and university students to study overseas while representing Japan. Apart from this, Daikin offers scholarships and internships mainly aimed at science-stream students from emerging countries to help expand student job opportunities.

Overseas, Daikin Air Conditioning, Italy, supports the Roma Tre University team in the Solar Decathlon competition, which challenges student teams from around the world to design and build next-generation solar-powered houses. Daikin supports its team by supplying products, providing financial assistance, and loaning the services of its younger engineers. The Roma Tre University team won the Solar Decathlon Europe 2014.

Apart from this, Daikin Group companies around the world proactively organize factory tours for students in an effort to encourage their interest in technology.

Coexistence with Local Communities—Contribution to Sports: Since 1988, Daikin Industries has organized the Daikin Orchid Ladies Golf Tournament, an LPGA of Japan Tour event held, in an effort to revitalize the economy of Okinawa as well as promote economic exchanges with the local community. Daikin uses the event as a fund-raising opportunity which it has named "Orchid Bounty," and later presents those funds to organizations working to promote art, culture, education, and sports in Okinawa. Daikin also provides support for sports clubs and events in numerous other locations throughout the world.

Coexistence with Local Communities—Contribution to Art and Culture: Daikin supports the activities of the Kansai Philharmonic Orchestra and the National Museum of Art, both of which are based in Osaka, Daikin's birthplace. In the Czech Republic, Daikin Industries Czech Republic s.r.o. supports the Pilsen Philharmonic Orchestra, and in China, Daikin (China) Investment Co., Ltd., has sponsored concerts each year since 2007 with the goal of promoting artistic and cultural activities.

Fundamental Initiatives

■ Compliance

The Daikin Group has established the Corporate Ethics and Risk Management Committee with the purpose of undertaking the integrated promotion of compliance (business ethics and legal compliance) and risk management throughout the Group. The senior executive in charge of corporate ethics and compliance serves as the chair, and other Committee members include all division managers and presidents of the principal domestic Group companies. The Committee meets twice each year, in principle.

A compliance and risk management leader (CRL) is assigned to each division and principal domestic Group company and plays a central role in ensuring rigorous compliance. Compliance committees are also established at the overseas Group companies, taking into account the state of affairs in those companies, and at the various overseas business regions. The Daikin *Handbook for Corporate Ethics* is published and widely circulated, and self-assessments and risk assessments are implemented. Further, the members of the Daikin Industries Corporate Ethics and Risk Management Group make regular visits to the various overseas Group companies to confirm what efforts are being undertaken and to share information. Through this process, Daikin works toward a mutual enhancement of activities, such as by introducing the advanced efforts being undertaken at the various overseas Group companies to Daikin Industries as well.

■ Risk Management

Regarding risk management, in light of the Group's rapid business expansion, Daikin is endeavoring to accurately and quickly execute comprehensive risk assessments from a global perspective and institute Group-wide systems for alleviating risks. Each year, after conducting divisional risk assessments to identify major risks, Daikin drafts and implements countermeasures for each division separately. Based on the assessment results, the most-serious risks for the company as a whole are identified. In fiscal 2015, efforts were made to mitigate six kinds of risks: risks related to earthquakes, product liability and quality, intellectual property, information leakage risks, overseas crisis management, and inappropriate accounting processes.

Strengthening Information Leakage Risk Measures: In dealing with the risk of information leakage, positioned as one of the most-serious risks faced by the Group in fiscal 2015, the IT and Compliance divisions worked together, and information managers and IT security managers assigned to each division led the efforts to mitigate the risk. In addition to educating employees about targeted email attacks, the threat of which has increased in recent years, the Group also conducts mock targeted email attack drills a few times a year, in an effort to strengthen damage prevention.

Strengthening Earthquake Risk Measures: In dealing with the risk of earthquakes, also positioned as one of the most-serious risks faced by the Group in fiscal 2015, individual issues were identified and separate teams were set up and assigned to tackle each issue. For instance, based on disaster damage scenarios (extremely strong earthquakes, extremely high tsunamis, etc.) from Japan's Central Disaster Prevention Council, Daikin has reinforced production facilities for greater earthquake resistance, implemented tsunami plans for chemicals facilities, and formulated and held evacuation drills at locations susceptible to tsunamis. Daikin is also further building its business continuity planning (BCP) system, assessing many risks, and formulating and enacting action policies in this process. Group companies are also taking similar measures regarding natural disaster risks.

Increasing Transparency Related to Client Entertainment and Gift Giving: The Daikin Group has instituted a compliance policy regarding client entertainment and gift giving of "Client entertainment and gift giving in moderation and according to social norms, following all national and regional regulations." The Group has also established policies on "Maintaining fair and transparent relationships with government officials," "Complying with the Political Funds Control Act and Public Offices Election Act," and "Entertainment and gift giving in moderation to business partners." The Group implements in-house training to ensure thorough compliance with these rules. In fiscal 2015, the Group drafted behavioral guidelines for entertainment and gift giving for public officials both domestically and overseas, and circulated these guidelines across the Group globally.

Group Compliance Guidelines (formulated 2008)
http://www.daikin.com/csr/management/management_09.html

■ R&D and Intellectual Property

Respect for Intellectual Property Rights: Daikin considers intellectual property (IP) to be an important corporate asset, and Daikin's Group Compliance Guidelines clearly articulate the need to endeavor to protect IP and use it effectively. The guidelines also make clear that other firms' IP is to be respected and not infringed upon. With this in mind, Daikin has incorporated specific compliance points in its Compliance Policies. The policies call for R&D managers to realize that they are responsible for patents, and for R&D staff to realize that "IP activities are the essence of these efforts," and proactively obtain patents, use them, and prevent infringement.

Daikin has a patent and compliance review system in place as part of the design review process for new product and technology development. Also, when cooperating with other companies in R&D, Daikin works to separate technologies and know-how into those that must be kept secret and those that need not be. Those determined to be secret are shown in black-box form.

To actively support R&D staff, IP efforts at Daikin are undertaken mainly by legal and compliance teams and the IP Center. IP officers are also placed in R&D teams in all business lines. These IP managers work together to handle day-to-day IP work (including patent applications, application follow-ups, analyzing infringement risk of other companies' patents, and dealing with infringements on Daikin patents). The officers also implement IP training programs for Daikin employees in different functions and at different seniority levels, promote new inventions, and promote the strategic use of IP. To this end, together with R&D staff, the IP officers are strengthening functions to build an effective patent network as well as functions in Daikin's global patent research.

■ Human Rights

The Daikin Group fundamentally respects human rights. It tries to grasp and apply the various international norms related to human rights, taking into account the laws of various countries and regions. Since 2008, the Group has participated in the UN's Global Compact—a strategic policy initiative representing universal principles on human rights, treatment of labor, and environmental protection—and has been promoting staff education and awareness with the aim of building an organization that values people and is rich in diversity and creativity. The Group has also incorporated human rights-related topics into the yearly self-assessments undertaken by all employees, thereby encouraging them to increase their consciousness of human rights issues.

Respect for Human Rights: The Daikin Group Compliance Guidelines, in accordance with labor regulations, prohibit child labor and forced labor, and mandate respecting human rights and diversity in values and attitudes to work. In fiscal 2016, the Group plans to formulate Supply Chain CSR Promotion Guidelines, which will include guidelines for respecting human rights throughout the Group's supply chains.

Human Rights Education: The Daikin Group conducts human rights awareness training separately for different levels of staff, including all senior executives, newly appointed managers including those of affiliated companies, and new employees. Daikin's employee newsletter contains articles on human rights, and production facilities have held human rights catchphrase contests. Through these kinds of measures, Daikin is working to elevate human rights consciousness among employees.

■ Responsibility to Shareholders and Investors

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

Stable Levels of Cash Dividends: Daikin works to maintain its consolidated ratio of dividends on equity (DOE) at 3.0% or higher, and it is seeking to set stable levels of dividends based on a comprehensive consideration of such factors as consolidated performance, financial position, and funding requirements.

Respect for the Exercise of Voting Rights: To enable shareholders to exercise voting rights after due consideration of resolution items, Daikin provides shareholders with invitations to general shareholders' meetings and ancillary materials a week or more in advance of the statutory deadline. Non-Japanese institutional investors are provided with English-language versions of the invitations and ancillary materials, and both English- and Japanese-language versions of the invitations and ancillary materials are posted on the Company's website.

Furthermore, Daikin has established systems that enable shareholders to exercise their voting rights via personal computers and mobile phones.

Information Disclosure: Recognizing that it has an important responsibility to increase its management transparency from the perspectives of shareholders and investors, Daikin is proactively working to disclose relevant information by executing diverse kinds of IR activities.

For analysts and institutional investors, Daikin holds performance explanation briefings when announcing its second-quarter and full-year financial results, and telephone conference briefings are organized when announcing first-quarter and third-quarter financial results. The Company also undertakes visits to institutional investors in Japan and overseas and organizes meetings and other modes of interaction with individual investors.

Daikin's website offers access to such legally mandated materials as securities reports (*yuka shoken hokoku-sho*) as well as other corporate performance-related materials that are posted as soon as they are prepared. Daikin endeavors to post these reports and materials in a fair and timely manner.

Daikin has also undertaken diverse management measures in response to the feedback that it receives from its shareholders and investors.

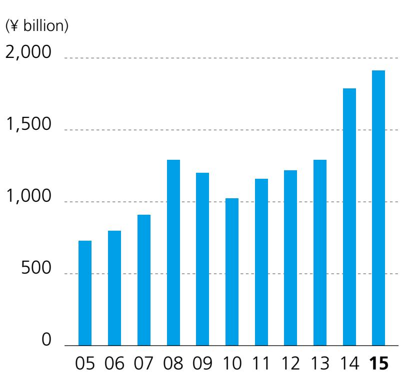
Eleven-Year Financial Highlights

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

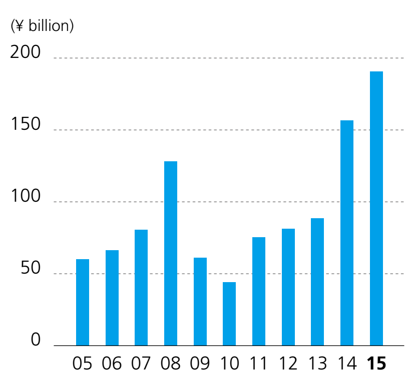
	2005	2006	2007	2008
Operating Results (for the year):				
Net sales	¥729,414	¥792,837	¥911,749	¥1,291,081
Gross profit	256,289	269,906	312,688	441,549
Selling, general and administrative expenses	196,083	203,359	231,934	313,451
Research and development expenses (Note 1)	24,583	26,648	27,204	32,075
Operating income	60,206	66,547	80,754	128,098
EBITDA (Note 2)	83,630	95,816	115,315	179,469
Net income	38,083	40,146	45,420	74,822
Cash Flows (for the year):				
Net cash provided by operating activities	¥43,970	¥63,511	¥ 83,725	¥103,329
Net cash used in investing activities	(42,091)	(63,420)	(305,251)	(76,428)
Free cash flow (Note 3)	1,879	91	(221,526)	26,902
Net cash provided by (used in) financing activities	3,534	(4,284)	245,975	3,367
Financial Position (at year-end):				
Total assets	¥615,596	¥716,440	¥1,161,364	¥1,210,094
Total interest-bearing liabilities	166,442	172,995	456,074	356,928
Total shareholders' equity	271,716	340,523	397,542	545,641
Per Share Data (yen):				
Net income (basic)	¥ 144.24	¥ 152.11	¥ 172.66	¥ 262.24
Shareholders' equity	1,031.73	1,293.41	1,511.47	1,867.79
Cash dividends	18.00	22.00	28.00	38.00
Ratios (%):				
Gross profit margin	35.14%	34.04%	34.30%	34.20%
Operating income margin	8.25	8.39	8.86	9.92
EBITDA margin	11.47	12.09	12.65	13.90
Return on shareholders' equity (ROE)	15.06	13.11	12.31	15.87
Shareholders' equity ratio	44.14	47.53	34.23	45.09

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

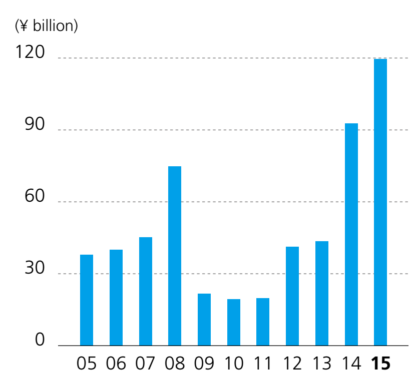
Net Sales



Operating Income



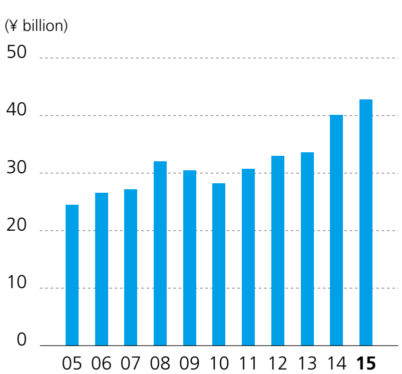
Net Income



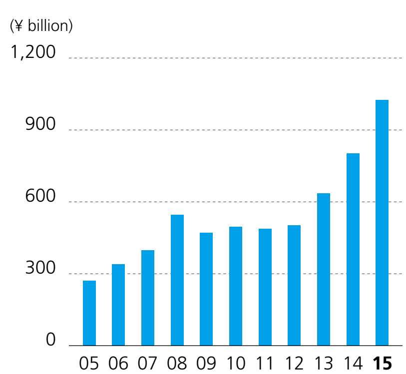
Millions of yen

2009	2010	2011	2012	2013	2014	2015
¥1,202,420	¥1,023,964	¥1,160,331	¥1,218,701	¥1,290,903	¥1,787,679	**¥1,915,014**
363,660	319,301	361,665	371,902	388,046	568,323	**649,902**
302,266	275,263	286,210	290,709	299,419	411,786	**459,314**
30,535	28,220	30,771	32,987	33,569	40,177	**42,892**
61,394	44,038	75,455	81,193	88,627	156,537	**190,588**
118,325	96,462	127,168	131,719	140,151	235,439	**268,354**
21,755	19,391	19,873	41,172	43,585	92,787	**119,675**
¥62,238	¥129,227	¥78,411	¥44,967	¥103,161	¥179,713	**¥160,423**
(99,302)	(39,848)	(23,306)	(62,955)	(218,386)	(80,835)	**(77,331)**
(37,065)	89,379	55,105	(17,988)	(115,225)	98,878	**83,092**
48,382	(34,942)	(37,623)	(1,113)	143,520	(38,249)	**(83,073)**
¥1,117,418	¥1,139,656	¥1,132,507	¥1,160,564	¥1,735,836	¥2,011,870	**¥2,263,990**
417,919	399,313	372,481	389,891	705,871	693,944	**662,413**
471,686	496,179	487,876	502,309	618,118	801,853	**1,024,725**
¥ 74.51	¥ 66.44	¥ 68.14	¥ 141.37	¥ 149.73	¥ 318.33	**¥ 410.19**
1,615.98	1,701.29	1,672.74	1,725.64	2,123.10	2,748.08	**3,511.34**
38.00	32.00	36.00	36.00	36.00	50.00	**100.00**
30.24%	31.19%	31.17%	30.52%	30.06%	31.79%	**33.94%**
5.11	4.30	6.50	6.66	6.87	8.76	**9.95**
9.84	9.42	10.96	10.81	10.86	13.17	**14.01**
4.28	4.01	4.04	8.30	7.78	13.07	**13.10**
42.21	43.54	43.08	43.28	35.61	39.86	**45.26**

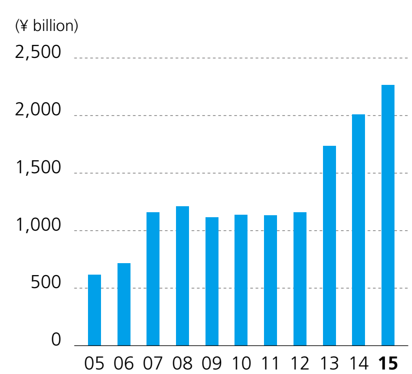
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Overview of Net Sales

Looking at economic conditions throughout the world during fiscal 2015, the U.S. economy expanded against the backdrop of robust domestic demand. The fundamental state of conditions in the European economy remained weak, but quantitative expansion measures and lower oil prices had a supportive effect. In emerging countries centered on China, the pace of economic growth slackened. In Japan, the reaction to the consumption tax rate hike caused economic conditions to become more sluggish. The entire Daikin Group has worked concertedly to improve its performance by augmenting marketing and sales capabilities and reducing fixed costs while also shifting a portion of component manufacturing operations to Japan and taking other measures aimed at realizing the potential benefits from yen depreciation and otherwise responding to foreign exchange rate trends. The Group's performance benefitted from strong overseas sales of its mainstay air-conditioning business centered on the markets of China, other Asian countries, and the United States. The strength of overseas sales along with the higher yen-denominated value of those sales owing to yen depreciation helped the Group attain new record high levels of both sales and profitability. Consolidated net sales totaled ¥1,915.0 billion, up 7.1% from the level in the previous fiscal year. Consolidated operating income was ¥190.6 billion (up 21.8%). Net income totaled ¥119.7 billion (up 29.0%). The levels of net sales and operating income were the highest ever recorded by the Group, and the operating income target within the FUSION 15 strategic management plan (¥190.0 billion) was attained a year ahead of schedule.

Currency Exchange Rates

The yen depreciated substantially against the U.S. dollar and euro compared to the previous year's levels, and the average currency exchange rate during the fiscal year was ¥110 to one U.S. dollar and ¥139 to one euro. As a result of these movements in foreign currency exchange rates, Daikin consolidated net sales were estimated to be ¥86.0 billion higher and operating income ¥10.0 billion higher, compared with the previous year, than they would have been without movements in exchange rates.

	Fiscal 2014	**Fiscal 2015**
Yen-U.S. dollar rate	¥100	**¥110**
Yen-euro rate	¥134	**¥139**

SG&A Expenses and Operating Income

As a result of a rise in personnel expenses and product shipping costs, SG&A expenses increased to ¥459.3 billion (11.5% higher year on year). The ratio of SG&A expenses to net sales was 24.0%, almost the same level as in the previous fiscal year. Operating income grew 21.8%, to ¥190.6 billion, and the operating income margin rose 1.2 percentage points, to 10.0%.

R&D Expenses

In response to an increase in worldwide concern regarding global warming and energy issues, the Group is engaging in leading-edge R&D programs designed to proactively contribute to the resolution of global environmental issues while also expanding the Group's business operations. In fiscal 2015, R&D expenses included in cost of goods sold and SG&A expenses amounted to ¥42.9 billion and corresponded to 2.2% of net sales.

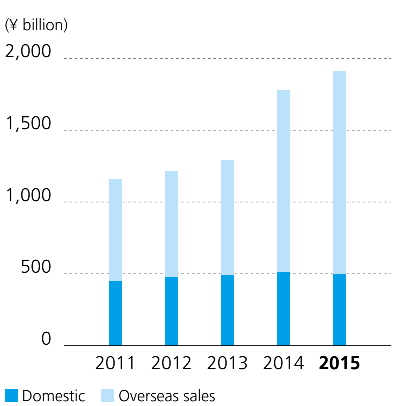
• Air-Conditioning and Refrigeration Equipment

R&D expenses for air-conditioning and refrigeration equipment operations totaled ¥37.5 billion.

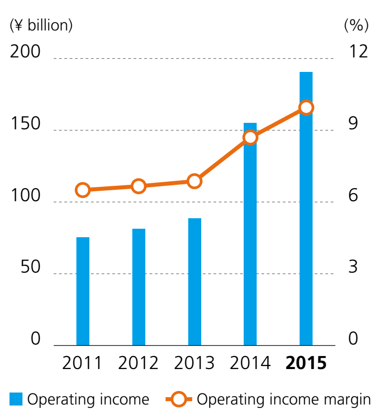
In Japanese residential-use air-conditioner business, Daikin offers housing multi air-conditioner models that are the first of their type to employ the new refrigerant HFC32 (R32) and provide improved energy conservation performance while also realizing a degree of compactness that enables them to be placed in restricted spaces available on apartment balconies. Wall-mounted-type Urusara 7 models during the air-conditioning season offer even more-precise temperature control than was previously possible along with fully sufficient dehumidification capabilities and during the winter offer humidification functions, so that optimal humidity levels can be maintained throughout the year.

Regarding commercial-use air-conditioner business, leveraging the technologies and experience that boosted cumulative production volume of commercial air conditioners past the 10 million unit landmark level, in May 2014, Daikin launched FIVE STAR ZEAS and Eco-ZEAS air-conditioning systems for stores and offices that use R32 refrigerant and realize high levels of energy-saving performance. With respect to multiple air-conditioning systems for office buildings, Daikin has emphasized the development of technology to boost efficiency during the low-load operating periods that account for about 90% of annual operating time, and it has thereby been able to realize improved energy conservation in the context of actual operating conditions.

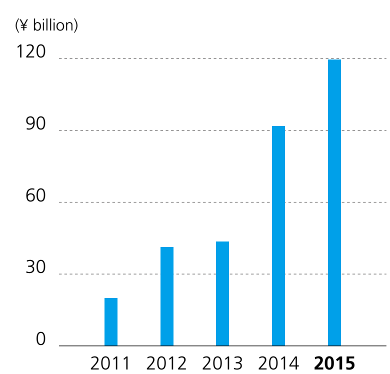
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income



In North America, Daikin responded to the market's energy-conservation needs in September 2014 by expanding the scope of the WME 700-ton magnetic bearing chiller series to include large-scale models with capacities of up to 1,500 tons.

In China, Daikin responded to rising consciousness of environmental issues by launching high-efficiency, two-stage turbo inverter models and high-efficiency, magnetic bearing turbo models equipped with economizers.

With respect to Europe, in October 2014, Daikin launched energy-conserving, compact air-handling unit models that are compact but offer heat-recovery functions.

• Chemicals

R&D expenses for Chemicals operations totaled ¥4.4 billion.

Daikin's chemicals business conducts R&D for new products and new applications based on rich experience in fluorine products and fluorochemical technology. In fluoropolymer resins and fluororubbers, using fluorochemicals' good properties in heat resistance, low drug reactivity, and dielectric properties, Daikin is developing new differentiated products for automotive, semiconductor, IT field, and other applications.

Also emphasizing the next-generation energy field, Daikin is developing such products as electrolyte solutions, additives, positive electrode binders, gaskets, and other components needed to increase the capacity and safety of lithium ion secondary batteries. During fiscal 2015, the Company launched the VW700 series of PVDF binder products for use as a positive electrode binder material.

• Other operations

R&D expenses for oil hydraulics, defense systems, and other operations totaled ¥1.0 billion.

In oil hydraulics, Daikin is commercializing a large-capacity series of products and developing new applications by leveraging the special characteristics of its hybrid oil hydraulic system technology that combines oil hydraulic technology and inverter technology to realize energy conservation and high functionality that could not be attained with previously existing hydraulic systems.

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

Other Income (Expenses) and Net Income

Despite the recording of impairment losses as extraordinary losses, consolidated net income amounted to ¥119.7 billion, 29.0% higher than in the previous fiscal year.

Dividend Policy and Dividends Applicable to the Fiscal Year

With the goal of augmenting corporate value and elevating shareholder returns, Daikin continues to make strategic investments and expand its business while also proceeding with such structural reforms as those to promote comprehensive cost reductions and strengthen its financial position.

Specifically, in accordance with its fundamental goal of providing stable and continuous returns to shareholders, Daikin is striving to keep its consolidated ratio of dividends on equity (DOE) at levels of 3.0% or above while also seeking to increase its consolidated dividend payout ratio and thereby further expand shareholder returns.

Internal reserves will be applied to strategic investments aimed at expanding business operations and increasing competitiveness by such means as further strengthening management systems, accelerating the development of global businesses, and accelerating the development of environment-friendly products.

For the fiscal year ended March 31, 2015, including a special ¥10 dividend commemorating the 90th anniversary of its founding that was included in the interim dividend, Daikin distributed a total annual cash dividend of ¥100 per share (an interim dividend of ¥40 per share and a year-end dividend of ¥60 per share), a ¥50 increase from the previous fiscal year. For the current fiscal year ending March 31, 2016, the Company plans to distribute a total annual cash dividend of ¥110 per share (an interim dividend of ¥55 per share and a year-end dividend of ¥55 per share).

Performance by Business Segment

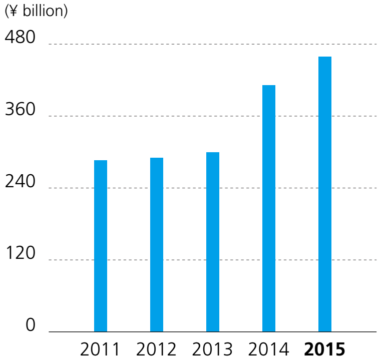
• Air-Conditioning and Refrigeration Equipment

Total sales of the Air-Conditioning and Refrigeration Equipment segment increased to ¥1,710.9 billion, up 7.1% from the previous fiscal year. Operating income increased 21.9%, to ¥170.5 billion.

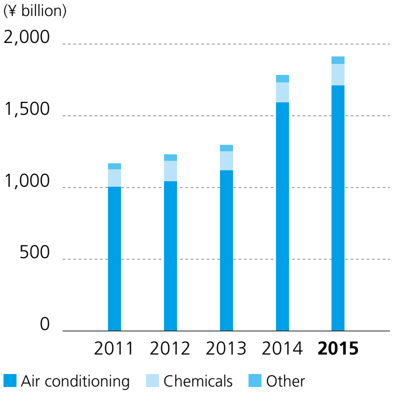
Japan

In Japan's commercial air-conditioning equipment market, Daikin moved ahead with its marketing promotion activities for such highly differentiated products as FIVE STAR ZEAS (which uses the low global-warming factor refrigerant R32, which has a global-warming potential only one-third that of conventional refrigerants) and Eco-ZEAS80 models as well as for such high-value-added products as those of the Ve-up series of multiple air-conditioning systems for office buildings,

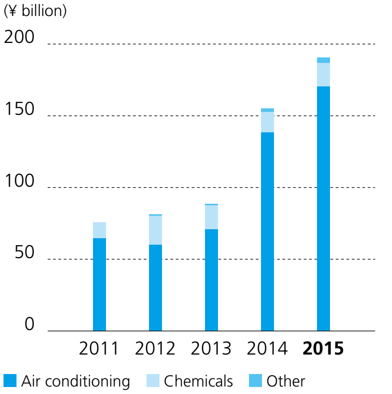
Selling, General and Administrative Expenses



Revenues by Segment



Segment Profit



Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2015)

(1,000 units)

	First half	Year on year	Second half	Year on year	Full year	Year on year
Residential use	5,248	91%	2,845	78%	8,094	86%
Commercial use	441	101%	398	100%	839	101%

and its sales of commercial-use products surpassed their level in the previous fiscal year.

In Japan's residential air-conditioning equipment market, industry shipments showed period-on-period decreases with respect to the first half of the fiscal year as well as the fiscal year as a whole. The Daikin Group worked to differentiate its products by making all its wall-mounted room air-conditioner models compatible with R32 refrigerant and worked to promote sales of the Urusara 7 room air conditioner, which met 2015 energy-conservation standards prior to their introduction, and other high-value-added models, but the large impact of the decrease in overall demand caused the Group's sales of residential air-conditioning products to fall below their level in the previous fiscal year.

Overseas

• *Europe Region*

In Europe, Daikin recorded slight year-on-year sales increases in the third and fourth quarters of fiscal 2015, but the impact of relatively cool weather during July and August in southern European countries that are principal markets kept sales for the fiscal year as a whole below the level in the previous year. Regarding residential air-conditioning equipment, sales expansion was achieved for premium models developed in Europe with an emphasis on design elegance, and Daikin continued to strengthen its sales promotion efforts for relatively inexpensive models, but the considerable impact of the cool summer weather in southern European countries caused the Company's sales to decline year on year. Regarding commercial-use products, however, Daikin was able to realize a year-on-year increase in sales owing to its implementation of marketing policies focused on addressing recoveries in construction-related demand in the U.K. and Germany along with its highly detailed retailer-focused follow-up measures and order-acquisition campaigns in each of the region's countries. Daikin also recorded a year-on-year increase in sales of heat-pump hot-water-supply and room-heating systems, reflecting a sales surge in the mainstay market of France. With respect to emerging country markets, Daikin's sales in Middle Eastern and African markets increased as a result of the Company's efforts to expand its business foundation. Because the impact of economic deceleration and cool summer weather in Turkey caused a large drop in sales of residential air conditioners in that country, however, Daikin's overall sales in emerging country markets within the Europe region were below the level in the previous year.

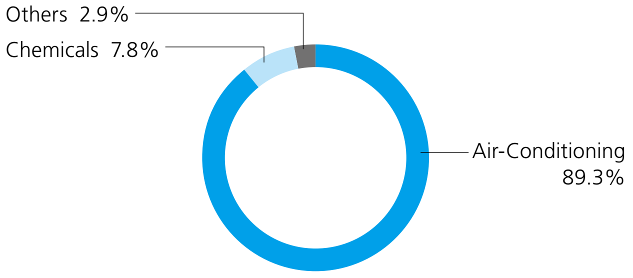
• *China*

In China, the Daikin Group emphasized sales through retailers and was able to realize a year-on-year increase in its overall sales in China. The Group's marketing network has been extended from major cities to encompass an increasing number of regional cities. Particularly with respect to the residential air-conditioner market, the strengthening of the Daikin PROSHOP network of exclusive retail sales outlets and the launch of such new offerings as New Life Multi Series residential-use multi air conditioners led to sales expansion. In the large-scale air-conditioning system (applied) field, although capital investment restraint accompanying economic deceleration has been causing demand growth to slacken, Daikin's sales of such products as turbo chillers and air-handling units grew, supporting a year-on-year rise in the Company's net sales.

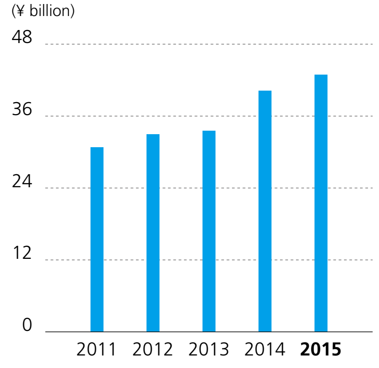
• *Asia/Oceania Region*

In Australia, growing demand for residential-use air-conditioning products enabled Daikin to record a robust performance, and the Company's sales in Thailand also exceeded their level in the previous fiscal year. Daikin has progressively strengthened its marketing networks in the region's emerging countries, and the Company's responsiveness to expanding demand for both residential- and commercial-use products in Vietnam and Indonesia enabled sales in those countries to surpass their level in the previous year by considerable margins. As a result, Daikin realized a year-on-year increase in its overall sales in the Asia/Oceania region.

Composition of Sales



Research and Development Expenses



• *Americas Region*

In the Americas region, year-on-year increases were achieved in Daikin's sales of residential-use products and light commercial-use products for medium-scale office buildings. Although cool summer weather impacted sales in some regions, the sales increase year on year reflected the Company's ability to respond to accelerated demand prior to an increase in the rigor of energy-conservation regulations as well as the Company's success in increasing its market share through its implementation of highly detailed marketing measures focused on individual retail outlets in the region. While demand in the market for applied products was roughly the same as in the previous year, growth in sales of Daikin products centered on air-handling units enabled the Company to realize a year-on-year sales increase in that market.

• Chemicals

Daikin's Chemicals segment's total sales increased 6.3% from the previous year, to ¥149.6 billion, and the segment's operating income grew to ¥16.6 billion, up 15.6% from the previous year.

Regarding fluorochemical resins, the sluggishness of Chinese demand related to railway and communications infrastructure projects kept sales in China below the previous year's level. The strength of U.S. demand for automotive and other applications enabled the Company to realize a year-on-year sales increase in the United States. With respect to fluoroelastomers, Daikin was able to record a higher level of sales than in the previous year as a result of strong sales centered on sales for automotive applications in the United States and Asia. Despite deceleration of demand growth for certain application fields in each region and market, the Company's overall sales of fluorochemical resins exceeded the level in the previous year.

In the chemical products business, robust demand for Daikin's water and oil repellent agents enabled the Company to record a year-on-year increase in its sales of those products. Abundant Chinese demand for anti-smudge surface coating agents for touch screens and other applications boosted Daikin's sales of those agents to considerably above the previous year's level. Demand for semiconductor-related etching agents was robust in Japan and other Asian countries, and the Company's sales of those agents surpassed the previous year's level. As a result, the Company's overall sales of chemical products were higher than in the previous year.

With respect to fluorocarbon gases, sluggish demand in Japan and decreased sales to air-conditioner manufacturers in China and other Asian countries caused Daikin's fluorocarbon gas sales to fall below the previous year's level.

• Other operations

Total sales in the Others segment amounted to ¥54.5 billion, up 9.3% from the previous fiscal year. The segment's operating income surged 50.9%, to ¥3.6 billion.

Daikin recorded robust sales of oil hydraulics equipment for industrial machinery in Japan and the United States, and its overall sales of such products were higher than in the previous year. Sales of oil hydraulic equipment for construction equipment and motor vehicles also increased, reflecting the strength of demand from principal customers in Japan as well as the strength of overseas demand.

Regarding defense business, Daikin recorded robust sales of products for Japan's Ministry of Defense as well as of home-use oxygen therapy products, and its overall sales of such products were higher than in the previous year.

With respect to electronic systems business, sales of database systems for design and development applications exceeded the level in the previous year, reflecting an increase in product quality and growth in demand for IT systems.

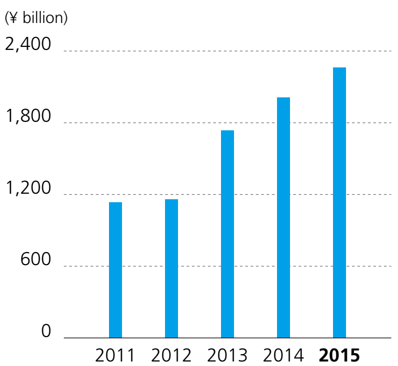
Outlook for Fiscal 2016

For fiscal 2016, the last year of the period covered by the FUSION 15 strategic management plan, the Daikin Group has adopted the slogan "Create the Future, Exceed in a Changing World." In accordance with that slogan, the Group is endeavoring to perspicaciously identify incipient structural changes in the world's economic and societal systems and take full advantage of the opportunities associated with those changes to expand its business operations going forward.

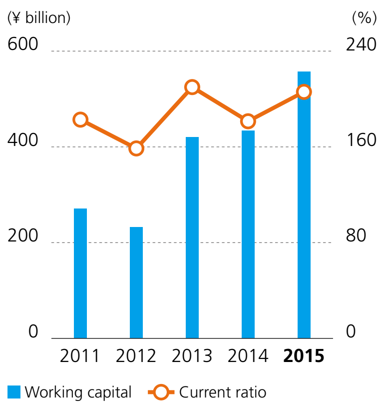
Specifically, the Group intends to upgrade its capabilities for product development, manufacturing, procurement, and quality assurance; build resiliently strong marketing networks; and further increase the sophistication of its human resource development programs. It is moving ahead with the implementation of such core growth strategies within its strategic management plan as those calling for the expansion of volume-zone business in emerging countries, solutions business, and environmental innovation business. At the same time, the Group will seek to realize growth in both sales and profitability by promoting a highly selective approach to investments, radical reductions of fixed costs, and other measures designed to build a highly profitable business structure.

The Daikin Group's performance outlook on a consolidated basis for fiscal 2016 is for a 7.6% increase in net sales, to ¥2,060.0 billion, an 11.2% increase in operating income, to ¥212.0 billion, and an 8.6% increase in net income attributable to owners of the parent, to ¥130.0 billion. Foreign currency exchange rates assumed for fiscal 2016 are ¥115/U.S. dollar and ¥125/euro.

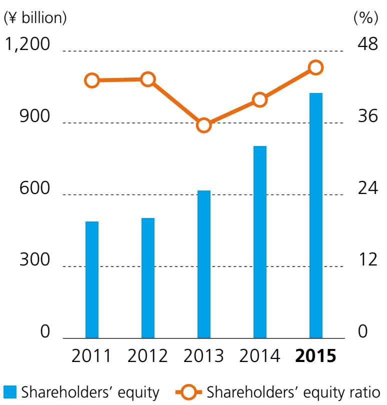
Total Assets



Working Capital and Current Ratio



Attributable to Owners of the Parent Shareholders' Equity and Shareholders' Equity Ratio



Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2015, total assets amounted to ¥2,264.0 billion, up ¥252.1 billion from the end of the previous fiscal year. Current assets amounted to ¥1,082.6 billion, up ¥115.4 billion from the end of the previous fiscal year, owing to factors including an increase in cash and cash equivalents and trade receivables. Noncurrent assets were ¥136.7 billion higher than at the end of the previous fiscal year, at ¥1,181.4 billion, due to purchases and valuation changes of investment securities as well as other factors.

• Liabilities and Total Equity

Total liabilities rose to ¥1,215.7 billion, up ¥27.7 billion from the end of the previous fiscal year, reflecting a rise in deferred tax liabilities and other factors. The interest-bearing debt to total assets ratio improved to 29.3%, from 34.5% at the end of the previous fiscal year.

Despite a decrease due to cash dividend payments, net assets increased ¥224.5 billion, to ¥1,048.3 billion, due to factors including net income for the year and foreign currency translation adjustments booked in equity.

As a result, the equity ratio rose to 45.3%, from 39.9% at the end of the previous fiscal year, and shareholders' equity per share grew to ¥3,511.34, from ¥2,748.08 at the end of the previous fiscal year.

Capital Investment and Depreciation and Amortization

In accordance with the Daikin Group's fundamental strategy of concentrating management assets in business fields that offer high profitability, the Group made total capital investment of ¥78.4 billion in fiscal 2015, largely in the air-conditioning and chemicals business fields. In the air-conditioning field, Daikin invested ¥18.0 billion, mainly for R&D related to room air conditioners and package air conditioners and for rationalization objectives. At Goodman Global Group, Inc., investments of ¥7.8 billion were made primarily to increase capacity.

In the chemicals field, the Group invested ¥8.1 billion, mainly for increasing production capacity and for rationalization objectives, and Daikin Fluorochemicals (China) Co., Ltd., implemented ¥5.7 billion in capital investments, mainly for increasing its production capabilities.

The main sources of funds for these investments were bank borrowings and retained earnings.

Depreciation and amortization expense amounted to ¥52.8 billion, down ¥2.3 billion from the previous fiscal year.

Cash Flows

Net cash provided by operating activities amounted to ¥160.4 billion, down ¥19.3 billion compared with the previous fiscal year, due to factors including the increase in income before income taxes and minority interests as well as a decrease in trade payables. Net cash used in investing activities amounted to ¥77.3 billion, ¥3.5 billion less than that used in the previous fiscal year, owing to factors including a decrease in expenditure for the acquisition of investment securities. Net cash used in financing activities amounted to ¥83.1 billion, ¥44.8 billion more than that used in the previous fiscal year, owing to an increase of expenditure for the repayment of long-term borrowings and other factors.

As a result of these changes, cash and cash equivalents as of March 31, 2015 amounted to ¥287.0 billion, up ¥29.7 billion from the previous fiscal year-end.

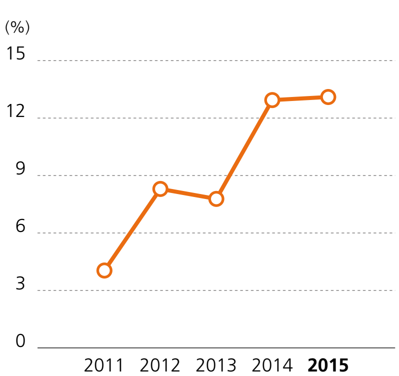
Principal Risks Associated with the Daikin Group's Operations

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

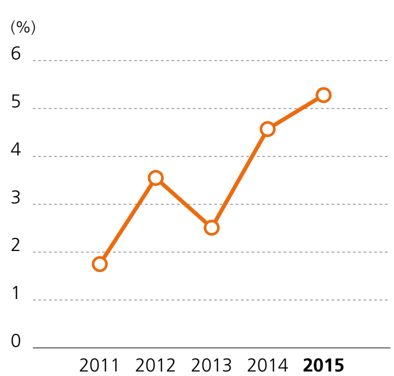
The Group provides goods and services throughout the world, and there is a possibility that Group performance could be impacted if politico-economic changes occur in such markets as Japan, Europe, North America, China, and other countries in the Asian region.

In particular, the Group is proactively developing business operations outside Japan through measures including constructing new air-conditioning equipment manufacturing facilities and acquiring air-conditioning equipment dealers in Europe as well as establishing manufacturing and marketing companies in China. There is, thus, a possibility that the Group's performance could be impacted by business environment changes in one or more global regions. These changes could include the deterioration of economic conditions, raw material price surges, and/or the intensification of competition with other companies. In the United States, on November 1, 2012, Daikin completed all procedures for the acquisition of Goodman Global Group, Inc. (Head Office: Houston, Texas—hereinafter, "Goodman") for a purchase price of US$3.7 billion (including the refinancing of Goodman's existing debt).

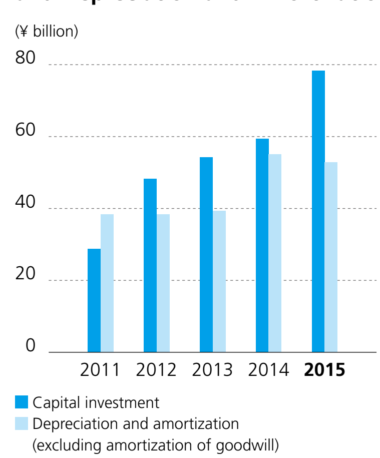
ROE



ROA



Capital Investment and Depreciation and Amortization



By means of this acquisition, Daikin intends to reinforce Goodman's sales network—the largest sales network in the U.S. residential and commercial air-conditioning equipment market—through the launch of environment-friendly products incorporating Daikin's state-of-the-art environmental technologies. Doing this, Daikin aims to bring about new trends in the U.S. air-conditioner market that will enable the Group to realize business expansion and contribute to environmental protection. Furthermore, Daikin hopes to further improve its competitiveness by leveraging Goodman's low-cost management know-how to develop business in emerging economies and volume-zone markets. Daikin also hopes to use this know-how to reform the Group's earnings structure, including at operations in advanced economies. There is a possibility that the degree of progress toward realizing those objectives could impact the Daikin Group's performance.

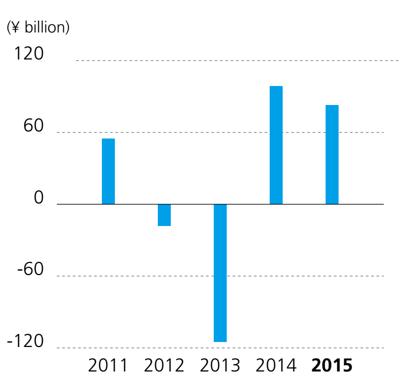
• *Cold summer weather and other unusual weather patterns accompanied by changes in demand for air conditioners*

Air-conditioning and refrigeration operations accounted for 89.3% of the Daikin Group's consolidated net sales in fiscal 2015. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world's principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group's performance could be impacted.

• *Large fluctuations in currency exchange rates*

Overseas sales accounted for 74.0% of the Daikin Group's consolidated net sales in fiscal 2015. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items for Group operations in each global region, including sales, expenses, and assets. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because the Group engages in foreign currency-denominated transactions in raw materials and component procurement and in the sale of goods and services, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

Free Cash Flow



• *Major product quality claims*

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

• *Major problems in manufacturing*

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

• *Major changes in the market prices of securities and other assets*

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

• *Impairment of long-lived assets*

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

• *Natural disasters*

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

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2015

	Millions of yen	
ASSETS	**2015**	2014
Current assets:		
Cash and cash equivalents (Notes 9 and 16)	**¥ 286,950**	¥ 257,295
Trade receivables (Notes 8 and 16):		
Notes	**54,064**	59,984
Accounts	**300,417**	257,601
Allowance for doubtful receivables	**(6,897)**	(6,598)
Inventories (Note 4)	**354,159**	317,561
Deferred tax assets (Note 13)	**38,746**	29,898
Prepaid expenses and other current assets	**55,176**	51,469
Total current assets	**1,082,615**	967,210
Property, plant and equipment:		
Land	**37,562**	33,624
Buildings and structures	**260,576**	235,076
Machinery and equipment	**493,647**	450,213
Furniture and fixtures	**164,070**	148,450
Lease assets (Note 15)	**5,890**	6,139
Construction in progress	**33,834**	21,899
Total	**995,579**	895,401
Accumulated depreciation	**(647,823)**	(595,684)
Net property, plant and equipment	**347,756**	299,717
Investments and other assets:		
Investment securities (Notes 6 and 16)	**200,451**	154,360
Investments in and advances to unconsolidated subsidiaries and associated companies	**20,336**	17,175
Goodwill (Note 7)	**369,965**	361,667
Customer relationships	**137,971**	123,700
Other intangible assets	**68,789**	60,389
Deferred tax assets (Note 13)	**2,933**	6,236
Assets for retirement benefits (Note 10)	**19,427**	10,070
Other assets	**13,747**	11,346
Total investments and other assets	**833,619**	744,943
Total	**¥2,263,990**	¥2,011,870

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2015	2014
Current liabilities:		
Short-term borrowings (Notes 9 and 16)	¥ 57,898	¥ 43,325
Current portion of long-term debt (Notes 9 and 16)	39,010	95,886
Current portion of long-term lease obligations (Note 15)	1,913	1,731
Trade payables (Note 16):		
Notes	8,362	9,380
Accounts	145,576	152,704
Income taxes payable (Note 16)	21,515	17,429
Deferred tax liabilities (Note 13)	22,659	13,356
Provision for product warranties	50,547	46,113
Accrued expenses (Note 8)	96,376	84,618
Other current liabilities (Note 8)	81,768	68,925
Total current liabilities	525,624	533,467
Long-term liabilities:		
Long-term debt (Notes 9 and 16)	560,875	550,475
Long-term lease obligations (Note 15)	2,718	2,526
Liabilities for retirement benefits (Note 10)	10,710	9,975
Deferred tax liabilities (Note 13)	95,116	73,300
Other long-term liabilities	20,635	18,269
Total long-term liabilities	690,054	654,545
Commitments and contingent liabilities (Notes 15 and 17)		
Equity (Notes 11, 12 and 21)**:**		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2015 and 2014	85,032	85,032
Capital surplus	83,444	83,550
Stock acquisition rights	993	842
Retained earnings	617,129	514,093
Treasury stock, at cost: 1,280,652 shares in 2015 and 1,326,704 shares in 2014	(5,221)	(4,549)
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	67,819	40,066
Deferred (loss) gain on derivatives under hedge accounting	(464)	606
Foreign currency translation adjustments	179,566	87,938
Remeasurements of defined benefit plans	(2,580)	(4,883)
Subtotal	1,025,718	802,695
Minority interests	22,594	21,163
Total equity	1,048,312	823,858
Total	¥2,263,990	¥2,011,870

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of yen	
	2015	2014
Net sales (Note 8)	**¥1,915,014**	¥1,787,679
Cost of sales (Note 14)	**1,265,112**	1,219,356
Gross profit	**649,902**	568,323
Selling, general and administrative expenses (Notes 7, 8 and 14)	**459,314**	411,786
Operating income	**190,588**	156,537
Other income (expenses):		
Interest and dividend income	**8,874**	6,478
Interest expense	**(9,064)**	(9,454)
Exchange gains	**2,955**	483
Gain on sales of land	**43**	159
Losses on disposals of property, plant and equipment and other intangible assets	**(481)**	(335)
Losses on impairment of long-lived assets (Note 5)	**(4,578)**	
Gains on sales of investment securities (Note 6)	**4,007**	54
Impairment losses on investment securities (Notes 6 and 16)		(1,531)
Equity in earnings of unconsolidated subsidiaries and associated companies	**880**	1,652
Gains on reversal of stock acquisition rights	**101**	209
Loss on termination of a defined benefit plan (Note 10)	**(812)**	
Other—net	**(5)**	(137)
Other income (expenses)—net	**1,920**	(2,422)
Income before income taxes and minority interests	**192,508**	154,115
Income taxes (Note 13)**:**		
Current	**60,969**	50,390
Deferred	**6,996**	5,569
Total income taxes	**67,965**	55,959
Net income before minority interests	**124,543**	98,156
Minority interests in net income	**(4,868)**	(5,369)
Net income	**¥ 119,675**	¥ 92,787

	Yen	
Amounts per common share (Note 19)**:**		
Basic net income	**¥410.19**	¥318.33
Diluted net income	**409.75**	317.94
Cash dividends applicable to the year	**100.00**	50.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of yen	
	2015	2014
Net income before minority interests	**¥124,543**	¥ 98,156
Other comprehensive income (Note 18)**:**		
Unrealized gains on available-for-sale securities	**27,752**	21,632
Deferred (losses) gains on derivatives under hedge accounting	**(1,071)**	1,218
Foreign currency translation adjustments	**93,434**	59,499
Remeasurements of defined benefit plans	**2,318**	
Share of other comprehensive income in affiliates accounted for using the equity method	**1,674**	2,823
Total other comprehensive income	**124,107**	85,172
Comprehensive income	**¥248,650**	¥183,328
Total comprehensive income attributable to:		
Company's shareholders	**¥240,224**	¥176,479
Minority interests	**8,426**	6,849

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2015

		Millions of yen											
							Accumulated Other Comprehensive Income (Loss)						
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total	Minority Interests	Total Equity
Balance, April 1, 2013 (as previously reported)	291,139,930	¥85,032	¥83,017	¥1,335	¥438,671	¥(6,772)	¥18,431	¥ (146)	¥ (115)		¥ 619,453	¥16,544	¥ 635,997
Cumulative effect of accounting change (Note 3. a)					(1,398)						(1,398)		(1,398)
Balance, April 1, 2013 (as restated)	291,139,930	85,032	83,017	1,335	437,273	(6,772)	18,431	(146)	(115)		618,055	16,544	634,599
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2. a)					(4,021)						(4,021)		(4,021)
Net income					92,787						92,787		92,787
Cash dividends, ¥50 per share					(11,946)						(11,946)		(11,946)
Repurchase of treasury stock	(663)					(4)					(4)		(4)
Disposal of treasury stock	648,002		533			2,227					2,760		2,760
Net change in the year				(493)			21,635	752	88,053	¥(4,883)	105,064	4,619	109,683
Balance, March 31, 2014 (as restated)	**291,787,269**	**85,032**	**83,550**	**842**	**514,093**	**(4,549)**	**40,066**	**606**	**87,938**	**(4,883)**	**802,695**	**21,163**	**823,858**
Cumulative effect of accounting change (Note 2. n)					**3,064**						**3,064**		**3,064**
Balance, April 1, 2014 (as restated)	**291,787,269**	**85,032**	**83,550**	**842**	**517,157**	**(4,549)**	**40,066**	**606**	**87,938**	**(4,883)**	**805,759**	**21,163**	**826,922**
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2. a)					**(157)**						**(157)**		**(157)**
Net income					**119,675**						**119,675**		**119,675**
Cash dividends, ¥100 per share					**(19,546)**						**(19,546)**		**(19,546)**
Repurchase of treasury stock	**(310,948)**					**(2,095)**					**(2,095)**		**(2,095)**
Disposal of treasury stock	**357,000**		**(106)**			**1,423**					**1,317**		**1,317**
Net change in the year				**151**			**27,753**	**(1,070)**	**91,628**	**2,303**	**120,765**	**1,431**	**122,196**
Balance, March 31, 2015	**291,833,321**	**¥85,032**	**¥83,444**	**¥ 993**	**¥617,129**	**¥(5,221)**	**¥67,819**	**¥ (464)**	**¥179,566**	**¥(2,580)**	**¥1,025,718**	**¥22,594**	**¥1,048,312**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of yen	
	2015	2014
Operating activities:		
Income before income taxes and minority interests	**¥192,508**	¥154,115
Adjustments for:		
Income taxes—paid	**(60,214)**	(45,874)
Depreciation and amortization	**77,767**	78,901
Losses on impairment of long-lived assets	**4,578**	
Gains on sales of investment securities	**(4,007)**	(54)
Impairment losses on investment securities		1,531
Losses on disposals of property, plant and equipment and other intangible assets	**481**	335
Equity in earnings of unconsolidated subsidiaries and associated companies	**(880)**	(1,652)
Changes in assets and liabilities, without net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(18,997)**	(36,125)
Inventories	**(16,631)**	(5,088)
Other current assets	**2,777**	(1,315)
Assets for retirement benefits	**(4,303)**	499
Trade notes and accounts payable	**(16,557)**	19,140
Accrued expenses	**6,059**	12,846
Other current liabilities	**3,685**	9,238
Liabilities for retirement benefits	**497**	5,512
Other—net	**(6,340)**	(12,296)
Total adjustments	**(32,085)**	25,598
Net cash provided by operating activities	**160,423**	179,713
Investing activities:		
Payments for purchases of property, plant and equipment	**(71,760)**	(53,647)
Proceeds from sales of property, plant and equipment	**1,773**	1,738
Payments for acquisition of shares of newly consolidated subsidiaries, after deduction for net of cash and cash equivalents acquired		(857)
Proceeds from sales of shares of subsidiaries resulting in change in the scope of consolidation	**1,793**	
Payment for acquisition of shares of associated company	**(1,324)**	
Payments for acquisition of investment securities	**(10,698)**	(26,742)
Proceeds from sales of investment securities (Note 6)	**7,452**	84
Payment for transfer of business		(410)
Other—net	**(4,567)**	(1,001)
Net cash used in investing activities	**(77,331)**	(80,835)
Financing activities:		
Net increase (decrease) in short-term borrowings	**13,346**	(19,180)
Increase in long-term debt	**24,909**	15
Repayments of long-term debt	**(95,922)**	(5,024)
Cash dividends paid to the Company's shareholders	**(19,546)**	(11,946)
Cash dividends paid to minority interests	**(2,257)**	(2,604)
Proceeds from issuance of shares to minority interests		297
Other—net	**(3,603)**	193
Net cash used in financing activities	**(83,073)**	(38,249)
Effect of exchange rate changes on cash and cash equivalents	**29,837**	10,896
Net increase in cash and cash equivalents	**29,856**	71,525
Effect of change of the fiscal year-end of consolidated subsidiaries	**(201)**	199
Cash and cash equivalents, beginning of year	**257,295**	185,571
Cash and cash equivalents, end of year	**¥286,950**	¥257,295

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2015

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

In addition, certain reclassifications have been made in the 2014 consolidated financial statements to conform to the classification used in 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

For the year ended March 31, 2014, Goodman Global Group, Inc. and 21 other companies changed their fiscal year-end from December 31 to March 31. For the year ended March 31, 2015, PT. Daikin Applied Solutions Indonesia and one other company changed their fiscal year-end from December 31 to March 31.

The Company included the subsidiaries' operating results for the 12-month period in the consolidated statement of income and included their operating results for the 3-month period in the consolidated statement of changes in equity by directly charging to retained earnings as an effect of the change of the fiscal year-end of certain consolidated subsidiaries.

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements - In accordance with the Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America (U.S. GAAP) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income (see Note 2.v).

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method - In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," adjustments are made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRSs or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in the equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income (see Note 2.v).

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

Cash equivalents include time deposits, which mature within three months of the date of acquisition. Time deposits that mature in more than three months, but within a year of the date of acquisition, are recorded as short-term investments. The Group had no short-term investments at March 31, 2015 and 2014.

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

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

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

The range of useful lives is from 15 to 50 years for buildings and structures, and from 8 to 15 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

h. Asset Retirement Obligations - In accordance with ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

j. Leases - In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company and its consolidated domestic subsidiaries continue to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

k. Investment Securities - All marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is principally determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost principally determined by the moving-average method.

For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by charging such losses to income.

l. Goodwill and Intangible Assets - Goodwill and intangible assets arise principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over a period of 9 to 20 years. Intangible assets include primarily customer relationships. Customer relationships are amortized using the straight-line method over the estimated useful lives (mainly 30 years).

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

n. Employee' Retirement Benefits - The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans. In calculating the projected benefit obligation, expected benefit is attributed to the current period on a benefit formula basis. Actuarial gains and losses are amortized by the straight-line method over certain periods (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Past service costs are amortized by the straight-line method over certain periods (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liabilities for retirement benefits) or asset (assets for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 18).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, net defined benefit assets and retained earnings as of April 1, 2014, increased by ¥4,788 million and ¥3,064 million, respectively. The impact of this change on the operating income, income before income taxes and minority interests for the year ended March 31, 2015, is insignificant (see Note 19 for the impact of this change on basic net income per share (EPS) and diluted net EPS).

o. Stock Options - In accordance with ASBJ Statement No. 8, "Accounting Standard for Stock Options," the Company measures the cost of employee stock options based on the fair value at the date of grant and recognizes compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

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

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

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

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

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

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

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

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

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

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

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

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

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

v. New Accounting Pronouncements

Business Combinations - In September, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest - A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet - In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income - In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs - Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs that occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in consolidated financial statements containing the first-time application of the revised standards and guidance.

The revised accounting standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance for (a), (b), (c) and (e) above from April 1, 2015, and for (d) above for a business combination which will occur on or after April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

3. CHANGES IN ACCOUNTING POLICIES

a. Changes in Revenue Recognition Standard - The Company and its domestic consolidated subsidiaries formerly recognized revenue mainly upon shipment. However, from April 1, 2014, the Company and its domestic consolidated subsidiaries changed their accounting policy and recognize revenue upon delivery in accordance with the terms and conditions of the contracts.

While the Company and its domestic consolidated subsidiaries previously recognized revenue mainly upon shipment, its foreign consolidated subsidiaries recognized revenue in accordance with IFRSs or U.S. GAAP upon delivery in accordance with the terms and conditions of the contracts. The Company and its domestic consolidated subsidiaries reconsidered the revenue recognition policies given the recent further expansion of the Group's business overseas. The Company and its domestic consolidated subsidiaries determined that the unification of revenue recognition would be crucial to the Group's business from a management standpoint.

Consequently, the Company and its domestic consolidated subsidiaries, by referencing Accounting Practice Committee Research Report No. 13 "Research Report on Revenue Recognition in Japan (interim report)" from the Japanese Institute of Certified Public Accountants, reconsidered the revenue recognition policies of the Company and its domestic consolidated subsidiaries. As a result of such consideration, the Company determined that it is appropriate to unify the policies within the Group and recognize revenue upon delivery in accordance with the terms and conditions of the contracts from April 1, 2014, when the relevant computer systems and the operational management improvements for such recognition had been completed.

This change in accounting policy was applied retrospectively and the consolidated financial statements for the year ended March 31, 2014 were restated.

As a result, net sales for the year ended March 31, 2014, increased by ¥4,602 million, and operating income, income before income taxes and minority interests each increased by ¥1,462 million as compared with the figures prior to the retrospective application. Net assets at April 1, 2013, have been adjusted to retrospectively reflect the cumulative effects of change, which resulted in a decrease of ¥1,398 million in retained earnings (see Note 19 for the impact of this change on basic net EPS and diluted net EPS).

b. Changes in Depreciation Method of Property, Plant and Equipment - The Company and its domestic consolidated subsidiaries formerly depreciated property, plant and equipment using the declining-balance method (with the exception of buildings acquired on or after April 1, 1998, which are depreciated using the straight-line method). However, from April 1, 2014, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment to the straight-line method.

In "Fusion 15," the Group's strategic management plan that sets fiscal 2016 as its target year, the Group aims for further expansion of overseas business while focusing on enhancing a system that optimizes local production on a global scale and developing new products that meet diverse consumer needs. Under this plan, the Group has been transferring its production bases overseas; and in Japan, it has been advancing toward the standardization of its facilities and parts and materials in line with a review of the production system to meet domestic needs, as well as increasing its investments in research and development facilities. In light of the above, it was determined that, as the domestic facilities are expected to be utilized stably in the long term, depreciation using the straight-line method would better reflect the actual state of use and that the unification of accounting treatments with the foreign consolidated subsidiaries, which apply the straight-line method, would contribute to enhancing the precision of business management.

As a result, depreciation for the year ended March 31, 2015, decreased by ¥4,723 million, and operating income, income before income taxes and minority interests each increased by ¥4,013 million as compared with the figures calculated using the previous method.

4. INVENTORIES

Inventories at March 31, 2015 and 2014 consisted of the following:

	Millions of yen	
	2015	2014
Finished products and merchandise	**¥248,027**	¥218,671
Semifinished products and work in process	**40,494**	40,977
Raw materials and supplies	**65,638**	57,913
Total	**¥354,159**	¥317,561

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the year ended March 31, 2015. As a result, the Group recognized impairment losses recorded in other expenses for those assets which were mainly deemed to be idle assets with no future plan for utilization. The carrying amounts of those assets exceeded their fair values. Impairment losses recognized for the year ended March 31, 2015 were mainly as follows:

Use	Location	Asset Category	Millions of yen
Idle assets with no future plan for utilization	Jiujiang City, People's Republic of China	Buildings and structures	**¥1,337**
		Machinery and equipment	**2,822**
		Total	**¥4,159**

The carrying amounts of the related assets were written down to the recoverable amount. The recoverable amounts of these assets were measured by the net selling price at disposition.

No impairment loss was recognized for the year ended March 31, 2014.

6. MARKETABLE AND INVESTMENT SECURITIES

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2015 and 2014 were as follows:

	Millions of yen			
	2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥98,536**	**¥92,951**	**¥(320)**	**¥191,167**
Debt securities	**75**	**1**		**76**
Total	**¥98,611**	**¥92,952**	**¥(320)**	**¥191,243**

	Millions of yen			
	2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥91,916	¥54,030	¥(432)	¥145,514
Debt securities	100	2		102
Total	¥92,016	¥54,032	¥(432)	¥145,616

Available-for-sale securities that were sold during the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		
March 31, 2015	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	**¥7,452**	**¥4,007**	

	Millions of yen		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥84	¥55	¥(1)

The impairment losses on marketable available-for-sale securities for the year ended March 31, 2014 were ¥1,529 million. No impairment loss was recognized for the year ended March 31, 2015.

7. GOODWILL

Amortization expenses for goodwill were ¥24,920 million and ¥23,784 million for the years ended March 31, 2015 and 2014, respectively, which were included in selling, general and administrative expenses.

8. RELATED PARTY TRANSACTIONS

Material transactions and balances with related parties for the years ended March 31, 2015 and 2014 were as follows:

(1) 2015

(a) The Company

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	**2015**	Account	**2015**
Chiyono Terada	Outside Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commission for moving business and delivery business	**¥469**	Accrued expenses and other current liabilities	**¥45**

(b) The Company's consolidated subsidiaries

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	**2015**	Account	**2015**
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	**¥67**	Accrued expenses and other current liabilities	**¥ 7**
			Sales of products and other	**71**	Accounts receivable	**14**

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

(2) 2014

(a) The Company

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2014	Account	2014
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥435	Other current liabilities	¥39

(b) The Company's consolidated subsidiaries

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2014	Account	2014
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥64	Other current liabilities	¥ 4
			Sales of products and other	88	Accounts receivable	24

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

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2015 and 2014 consisted of the following:

	Millions of yen	
	2015	2014
Bank overdrafts and notes to banks	**¥41,898**	¥43,325
Commercial paper	**16,000**	
Total	**¥57,898**	¥43,325

Unused short-term bank credit lines were ¥150,000 million at March 31, 2015. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2015 and 2014 were 1.25% and 1.67%, respectively. The weighted-average interest rate of commercial paper at March 31, 2015 was 0.09%.

Long-term debt at March 31, 2015 and 2014 consisted of the following:

	Millions of yen	
	2015	2014
1.00% unsecured bonds, due 2014		¥ 30,000
1.42% unsecured bonds, due 2016	**¥ 30,000**	30,000
0.46% unsecured bonds, due 2017	**10,000**	10,000
1.86% unsecured bonds, due 2019	**40,000**	40,000
0.72% unsecured bonds, due 2019	**10,000**	10,000
0.38% unsecured bonds, due 2021	**10,000**	
1.20% unsecured bonds, due 2022	**30,000**	30,000
0.68% unsecured bonds, due 2024	**10,000**	
Unsecured loans from government-sponsored banks, with interest of 1.75%, due through 2019	**20,000**	20,000
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.58% to 5.76% (2015) and from 0.59% to 5.90% (2014), due through 2022	**169,862**	161,334
Unsecured loans from banks and others with interest ranging from 0.22% to 3.58% (2015) and from 0.26% to 3.59% (2014), due through 2023	**270,023**	315,027
Total	**599,885**	646,361
Less current portion	**(39,010)**	(95,886)
Long-term debt, less current portion	**¥560,875**	¥550,475

Annual maturities of long-term debt outstanding at March 31, 2015 were as follows:

Year Ending March 31	Millions of yen
2016	¥ 39,010
2017	75,501
2018	74,026
2019	74,826
2020	89,426
2021 and thereafter	247,096
Total	¥599,885

At March 31, 2015, a time deposit with a book value of ¥130 million was pledged as collateral without corresponding borrowing.

Certain loan agreements provide that the lender may require the Group to submit proposals for paying dividends, issuing additional long-term debt and certain other matters, for prior approval. As is customary in Japan, security must be given if requested by a lending bank. Certain banks have the right to offset cash deposited with them against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders have ever exercised these rights with respect to debt of the Group.

10. SEVERANCE INDEMNITIES AND PENSION PLANS

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

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

1. Defined benefit plans

(1) The changes in defined benefit obligations for the years ended March 31, 2015 and 2014 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of yen	
	2015	2014
Balance at beginning of year (as previously reported)	**¥89,633**	¥83,770
Cumulative effect of accounting change	**(4,788)**	
Balance at beginning of year (as restated)	**84,845**	83,770
Service cost	**4,210**	4,098
Interest cost	**1,985**	1,919
Net actuarial losses (gains)	**5,404**	(993)
Past service cost	**(1,349)**	8
Benefits paid	**(3,796)**	(4,065)
Effect of changes in the scope of consolidation		72
Effect of change of the fiscal year-end		(121)
Decrease due to the termination of a defined benefit plan	**(2,145)**	
Foreign currency translation adjustments	**1,909**	5,079
Others	**(4)**	(134)
Balance at end of year	**¥91,059**	¥89,633

(2) The changes in plan assets for the years ended March 31, 2015 and 2014 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of yen	
	2015	2014
Balance at beginning of year	**¥ 92,229**	¥80,088
Expected return on plan assets	**3,396**	3,057
Net actuarial gains	**6,985**	3,908
Contributions from the employer	**3,622**	4,839
Benefits paid	**(3,455)**	(3,733)
Effect of change of the fiscal year-end		168
Decrease due to the termination of a defined benefit plan	**(2,145)**	
Foreign currency translation adjustments	**1,832**	3,845
Others	**(14)**	57
Balance at end of year	**¥102,450**	¥92,229

(3) The changes in defined benefit obligation for the years ended March 31, 2015 and 2014 using the simplified method were as follows:

	Millions of yen	
	2015	2014
Balance at beginning of year	**¥2,501**	¥ 301
Periodic benefit cost	**980**	2,963
Benefits paid	**(807)**	(763)
Balance at end of year	**¥2,674**	¥2,501

(4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2015 and 2014 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of yen	
	2015	2014
Funded defined benefit obligation	**¥ (89,278)**	¥(88,051)
Plan assets	**102,450**	92,229
Total	**13,172**	4,178
Unfunded defined benefit obligation	**(4,455)**	(4,083)
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 8,717**	¥ 95
Liabilities for retirement benefits	**¥ (10,710)**	¥ (9,975)
Assets for retirement benefits	**19,427**	10,070
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 8,717**	¥ 95

(5) The components of net periodic benefit costs for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Service cost	**¥4,210**	¥4,098
Interest cost	**1,985**	1,919
Expected return on plan assets	**(3,396)**	(3,057)
Recognized net actuarial losses (gains)	**163**	(113)
Amortization of past service cost	**(208)**	(42)
Periodic benefit cost calculated by the simplified method	**980**	2,963
Others	**69**	70
Subtotal (net periodic benefit costs)	**3,803**	5,838
Loss on termination of a defined benefit plan	**812**	
Total	**¥4,615**	¥5,838

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the year ended March 31, 2015 was as follows:

	Millions of yen
	2015
Past service cost	**¥(1,298)**
Net actuarial losses	**(2,245)**
Total	**¥(3,543)**

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Unrecognized past service cost	**¥(1,317)**	¥ (18)
Unrecognized net actuarial losses	**4,557**	6,801
Total	**¥ 3,240**	¥6,783

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2015 and 2014, consisted of the following:

	2015	2014
Domestic debt securities	5%	6%
Domestic equity securities	8	8
Foreign debt securities	24	24
Foreign equity securities	21	18
Insurance assets (general account)	16	17
Cash and cash equivalents	0	2
Real estate	2	2
Others	24	23
Total	100%	100%

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

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

(9) Assumptions used for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	Mainly 1.2%	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 4.5%	Mainly 4.5%

2. Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Company and its subsidiaries were ¥4,832 million and ¥4,181 million for the years ended March 31, 2015 and 2014, respectively.

11. EQUITY

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

(a) Dividends

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

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

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

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

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

(c) Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

12. STOCK OPTIONS

The stock options outstanding at March 31, 2015, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2008 Stock Option	8 directors 44 employees	308,000 shares	2008.7.14	¥5,924	From July 15, 2010 to July 14, 2014
2009 Stock Option	8 directors 42 employees	294,000 shares	2009.7.13	¥3,250	From July 14, 2011 to July 13, 2015
2010 Stock Option	8 directors 41 employees	290,000 shares	2010.7.14	¥3,050	From July 15, 2012 to July 14, 2016
2011 Stock Option	10 directors 39 employees	296,000 shares	2011.7.14	¥2,970	From July 15, 2013 to July 14, 2017
2012 Stock Option	10 directors 41 employees	300,000 shares	2012.7.13	¥2,186	From July 14, 2014 to July 13, 2018
2013 Stock Option	10 directors 38 employees	286,000 shares	2013.7.12	¥4,500	From July 13, 2015 to July 12, 2019
2014 Stock Option	9 directors 45 employees	310,000 shares	2014.7.14	¥6,715	From July 15, 2016 to July 14, 2020

The stock option activities were as follows:

	Shares							
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option
Year Ended March 31, 2014								
Vested								
April 1, 2013—Outstanding	202,000	220,000	212,000	251,000	296,000	300,000		
Granted							286,000	
Exercised	(8,000)	(40,000)	(186,000)	(219,000)	(195,000)			
Canceled	(194,000)	(10,000)						
March 31, 2014—Outstanding		170,000	26,000	32,000	101,000	300,000	286,000	
Year Ended March 31, 2015								
Vested								
April 1, 2014—Outstanding		170,000	26,000	32,000	101,000	300,000	286,000	
Granted								310,000
Exercised		(49,000)	(14,000)	(16,000)	(65,000)	(213,000)		
Canceled		(121,000)	(4,000)					
March 31, 2015—Outstanding			8,000	16,000	36,000	87,000	286,000	310,000
Exercise price	¥4,640	¥5,924	¥3,250	¥3,050	¥2,970	¥2,186	¥4,500	¥6,715
Average stock price at exercise		¥6,655	¥7,452	¥6,970	¥7,149	¥7,206		
Fair value price at grant date	¥1,035	¥ 803	¥ 899	¥1,113	¥ 935	¥ 676	¥1,220	¥1,697

The assumptions used to measure fair value of 2014 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	34.0%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥50 per share
Risk-free interest rate:	0.1%

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 35.6% and 37.9% for the years ended March 31, 2015 and 2014, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Deferred tax assets:		
Inventories	**¥ 16,862**	¥ 13,798
Provision for product warranties	**16,276**	13,857
Tax loss carryforwards	**6,805**	7,169
Investment securities	**6,165**	8,105
Software and other intangible assets	**4,782**	4,083
Accrued bonus	**3,556**	4,012
Liabilities for retirement benefits	**2,119**	2,439
Foreign income tax credit	**1,635**	1,736
Allowance for doubtful receivables	**1,238**	1,160
Other	**27,028**	20,584
Less valuation allowance	**(21,141)**	(20,056)
Total deferred tax assets	**¥ 65,325**	¥ 56,887
Deferred tax liabilities:		
Intangible assets	**¥ 68,259**	¥ 58,123
Undistributed earnings of consolidated subsidiaries	**30,455**	21,084
Unrealized gain on available-for-sale securities	**24,817**	13,561
Assets for retirement benefits	**6,070**	3,586
Deferred gains on sales of property	**1,729**	1,906
Other	**10,091**	9,149
Total deferred tax liabilities	**¥141,421**	¥107,409
Net deferred tax liabilities	**¥ (76,096)**	¥ (50,522)

A reconciliation of difference between the normal effective statutory tax rates and the actual effective tax rates is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the years ended March 31, 2015 and 2014.

On March 31, 2015, the 2015 Tax Reform Act was enacted in Japan to reduce the normal effective statutory tax rate from 35.6% to 33.0% for the fiscal year beginning on or after April 1, 2015, and to 32.2% for fiscal years beginning on or after April 1, 2016. The effect of these changes was to decrease deferred tax liabilities, net of deferred tax assets, by ¥2,927 million, income taxes-deferred by ¥391 million, remeasurements of defined retirement benefit plans by ¥25 million, and to increase deferred loss on derivatives under hedge accounting and unrealized gain on available-for-sale securities by ¥16 million and ¥2,577 million, respectively.

At March 31, 2015, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating ¥22,290 million, which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen
2016	¥ 83
2017	819
2018	2,628
2019	1,883
2020	1,524
2021 and thereafter	15,353
Total	¥22,290

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥42,892 million and ¥40,177 million for the years ended March 31, 2015 and 2014, respectively.

15. LEASES

The Group leases certain computer equipment and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases at March 31, 2015 were as follows:

	Millions of yen	
	Finance Leases	Operating Leases
Due within one year	**¥1,913**	**¥16,283**
Due after one year	**2,718**	**22,365**
Total	**¥4,631**	**¥38,648**

Pro forma information for the years ended March 31, 2015 and 2014

As discussed in Note 2.j, the Company and its consolidated domestic subsidiaries account for leases which existed at the transition date of ASBJ Statement No. 13 and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, and depreciation expense on an "as if capitalized" basis for the years ended March 31, 2015 and 2014, was as follows:

	Millions of yen					
	2015			2014		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	**¥36**	**¥52**	**¥88**	¥98	¥95	¥193
Accumulated depreciation	**33**	**47**	**80**	87	81	168
Net leased property	**¥ 3**	**¥ 5**	**¥ 8**	¥11	¥14	¥ 25

Obligations under finance leases were as follows:

	Millions of yen	
	2015	2014
Due within one year	**¥7**	¥17
Due after one year	**1**	8
Total	**¥8**	¥25

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense.
Lease payments and depreciation expense under finance leases were as follows:

	Millions of yen	
	2015	2014
Lease payments	**¥17**	¥25
Depreciation expense	**17**	25

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, was computed using the straight-line method.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group policy for financial instruments

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

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

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

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

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

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

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

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

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

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

Fair values of financial instruments

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

	Millions of yen		
	March 31, 2015		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥286,950**	**¥286,950**	
Trade notes and accounts receivable	**354,481**	**354,481**	
Investment securities	**191,243**	**191,243**	
Total	**¥832,674**	**¥832,674**	
Trade notes and accounts payable	**¥153,938**	**¥153,938**	
Short-term borrowings	**57,898**	**57,898**	
Income taxes payable	**21,515**	**21,515**	
Long-term debt	**599,885**	**608,496**	**¥8,611**
Total	**¥833,236**	**¥841,847**	**¥8,611**
Derivatives	**¥ (787)**	**¥ (787)**	

	Millions of yen		
	March 31, 2014		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥257,295	¥257,295	
Trade notes and accounts receivable	317,585	317,585	
Investment securities	145,616	145,616	
Total	¥720,496	¥720,496	
Trade notes and accounts payable	¥162,084	¥162,084	
Short-term borrowings	43,325	43,325	
Income taxes payable	17,429	17,429	
Long-term debt	646,361	654,516	¥8,155
Total	¥869,199	¥877,354	¥8,155
Derivatives	¥ 751	¥ 751	

Assets

Cash and cash equivalents

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

Trade notes and accounts receivable

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

Investment securities

The fair values of equity securities are measured at the quoted market prices of the stock exchange for the equity instruments, and the fair values of debt securities are measured at the amounts to be received through maturity discounted at the Group's assumed corporate discount rate. Fair value information for investment securities by classification is included in Note 6.

Liabilities

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

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

Long-term debt

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

Derivatives

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

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

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
	March 31, 2015			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 4,088		¥ (15)	¥ (15)
EUR	44,002		(26)	(26)
USD	21,741		(119)	(119)
AUD	5,867		256	256
NZD	533		(25)	(25)
ZAR	1,412		4	4
CZK	3,223		29	29
HKD	2,813		13	13
SGD	2,543		75	75
MYR	935		18	18
TRY	9,955		(57)	(57)
CNY	2,459		(227)	(227)
IDR	261		4	4
INR	240		(4)	(4)
Buying: CNY	1,616		128	128
MYR	9,000		(71)	(71)
THB	9,642		92	92
Commodity future contracts:				
Buying: Metal	¥ 1,893		¥(160)	¥(160)

	Millions of yen			
	March 31, 2014			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 3,108		¥ (21)	¥ (21)
EUR	43,964		(126)	(126)
USD	18,473		147	147
AUD	4,879		(82)	(82)
NZD	321		42	42
ZAR	1,893		(15)	(15)
CZK	4,957		29	29
NOK	26			
HKD	1,279		1	1
SGD	2,495		(9)	(9)
MYR	1,447		(10)	(10)
TRY	8,288		(310)	(310)
BRL	231		(3)	(3)
INR	1,337		(29)	(29)
Buying: CNY	1,580		2	2
Commodity future contracts:				
Buying: Metal	¥ 628		¥ (70)	¥ (70)

Derivative transactions to which hedge accounting is applied

		Millions of yen		
		March 31, 2015		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 8,616**		**¥ (330)**
EUR	Receivables	**32,116**		**375**
USD	Receivables	**3,256**		**(89)**
ZAR	Receivables	**1,185**		**(20)**
CZK	Receivables	**7,482**		**667**
PLN	Receivables	**1,114**		**(35)**
TRY	Receivables	**2,582**		**(13)**
Buying: EUR	Payables	**2,603**		**(98)**
CNY	Payables	**5,595**		**127**
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	**¥193,542**	**¥180,926**	**¥(1,286)**
Fixed-rate payment, floating-rate receipt*	Long-term debt	**170,000**	**149,600**	

	Hedged Item	Millions of yen March 31, 2014 Contract Amount	 Contract Amount Due after One Year	 Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 7,465		¥ (70)
EUR	Receivables	32,906		(311)
USD	Receivables	545		3
ZAR	Receivables	1,025		3
CZK	Receivables	8,110		17
PLN	Receivables	1,051		(8)
TRY	Receivables	3,580		15
Buying: CNY	Payables	7,864		(161)
Commodity future contracts:				
Buying: Metal	Raw materials	¥ 1,310		¥ 27
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥188,024	¥177,222	¥1,690
Fixed-rate payment, floating-rate receipt*	Long-term debt	215,000	165,000	

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

Financial instruments whose fair values cannot be readily determined

	Millions of yen Carrying Amount 2015	 2014
Nonlisted equity securities	¥8,265	¥8,178
Investments in limited partnerships and other investments	943	566
Total	¥9,208	¥8,744

The impairment losses on nonlisted equity securities for the year ended March 31, 2014 were ¥2 million.

Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen			
	March 31, 2015			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**¥286,950**			
Trade notes and accounts receivable	**353,532**	**¥949**		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)	**25**	**50**		
Total	**¥640,507**	**¥999**		

	Millions of yen			
	March 31, 2014			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥257,295			
Trade notes and accounts receivable	317,266	¥319		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)	25	75		
Total	¥574,586	¥394		

Please see Note 9 for annual maturities of long-term debt.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2015 totaled approximately ¥34,875 million.

At March 31, 2015, contingent liabilities for trade notes endorsed and repurchase obligation for liquidation of notes receivables totaled ¥5,345 million and ¥1,198 million, respectively.

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Unrealized gains on available-for-sale securities:		
Gains arising during the year	**¥ 43,015**	¥25,373
Reclassification adjustments to profit or loss	**(4,007)**	1,474
Amount before income tax effect	**39,008**	26,847
Income tax effect	**(11,256)**	(5,215)
Total	**¥ 27,752**	¥21,632
Deferred (losses) gains on derivatives under hedge accounting:		
(Losses) gains arising during the year	**¥ (1,024)**	¥ 4,152
Reclassification adjustments to profit or loss	**(479)**	(2,366)
Amount before income tax effect	**(1,503)**	1,786
Income tax effect	**432**	(568)
Total	**¥ (1,071)**	¥ 1,218
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥ 93,374**	¥59,500
Reclassification adjustments to profit or loss	**60**	(1)
Amount before income tax effect	**93,434**	59,499
Income tax effect		
Total	**¥ 93,434**	¥59,499
Remeasurements of defined benefit plans:		
Adjustments arising during the year	**¥ 2,804**	
Reclassification adjustments to profit or loss	**739**	
Amount before income tax effect	**3,543**	
Income tax effect	**(1,225)**	
Total	**¥ 2,318**	
Share of other comprehensive income in affiliates accounted for using the equity method:		
Adjustments arising during the year	**¥ 1,674**	¥ 2,823
Total other comprehensive income	**¥124,107**	¥85,172

19. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2015	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥119,675**	**291,756**	**¥410.19**
Effect of dilutive securities			
Stock options		**309**	
Diluted EPS:			
Net income for computation	**¥119,675**	**292,065**	**¥409.75**

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2014	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	¥92,787	291,485	¥318.33
Effect of dilutive securities			
Stock options		353	
Diluted EPS:			
Net income for computation	¥92,787	291,838	¥317.94

As stated in Note 3.a, the change in accounting policy for revenue recognition has been retrospectively applied to the consolidated financial statements for the year ended March 31, 2014. As a result, basic and diluted EPS for the year ended March 31, 2014, increased by ¥3.12 and ¥3.11, respectively.

As stated in Note 2.n, the Company applied the revised accounting standard and guidance for retirement benefits effective April 1, 2014, and changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment. However, the impact of these changes on basic and diluted EPS for the year ended March 31, 2015 was insignificant.

20. SEGMENT INFORMATION

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

1. Description of reportable segments

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

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

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

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

(Change in revenue recognition standard)

As stated in Note 3.a, the Company and its domestic consolidated subsidiaries, from April 1, 2014, recognize revenues upon delivery under the terms and conditions of contracts, which were recognized upon shipment previously.

The new accounting policy for revenue recognition is applied retrospectively to segment information for the year ended March 31, 2014. Consequently, as compared with the figures prior to the retrospective application, sales to external customers and segment profit of the Air Conditioning segment increased by ¥4,304 million and ¥1,371 million, respectively. Sales to external customers and segment profit of the Chemicals segment increased by ¥453 million and ¥129 million, respectively, while sales to external customers and segment profit of the Other segment decreased by ¥155 million and ¥38 million, respectively.

(Change in the depreciation method of property, plant and equipment)

As stated in Note 3.b, the Company and its domestic consolidated subsidiaries, from April 1, 2014, changed their method of depreciating property, plant and equipment from the declining-balance method to the straight-line method.

As a result of this change, segment profit of the Air Conditioning segment, Chemicals segment, and Other segment for the fiscal year ended March 31, 2015 increased by ¥2,319 million, ¥1,419 million, and ¥275 million, respectively, as compared with the figures calculated using the previous method.

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

	Millions of yen						
	March 31, 2015						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,710,945	¥149,559	¥1,860,504	¥54,510	¥1,915,014		¥1,915,014
Intersegment sales	875	8,051	8,926	476	9,402	¥ (9,402)	
Total	1,711,820	157,610	1,869,430	54,986	1,924,416	(9,402)	1,915,014
Segment profit	170,484	16,550	187,034	3,584	190,618	(30)	190,588
Segment assets	1,847,343	190,047	2,037,390	34,225	2,071,615	¥192,375	2,263,990
Other:							
Depreciation	¥ 41,235	¥ 10,222	¥ 51,457	¥ 1,373	¥ 52,830		¥ 52,830
Amortization of goodwill	24,920		24,920		24,920		24,920
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	12,243	7,555	19,798		19,798		19,798
Investment in property, plant and equipment and intangible assets	57,914	17,508	75,422	2,937	78,359		78,359

	Millions of yen						
	March 31, 2014						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,597,188	¥140,631	¥1,737,819	¥49,860	¥1,787,679		¥1,787,679
Intersegment sales	842	7,453	8,295	407	8,702	¥ (8,702)	
Total	1,598,030	148,084	1,746,114	50,267	1,796,381	(8,702)	1,787,679
Segment profit	139,849	14,319	154,168	2,375	156,543	(6)	156,537
Segment assets	1,617,724	175,858	1,793,582	30,973	1,824,555	¥187,315	2,011,870
Other:							
Depreciation	¥ 41,304	¥ 12,111	¥ 53,415	¥ 1,671	¥ 55,086		¥ 55,086
Amortization of goodwill	23,767	17	23,784		23,784		23,784
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	10,880	5,605	16,485		16,485		16,485
Investment in property, plant and equipment and intangible assets	37,113	20,359	57,472	1,878	59,350		59,350

Notes: 1. The Other segment is the aggregation of other operating segments which are not included in the reportable segments and consists of the Oil Hydraulics segment, the Defense segment and the Electronics segment.
2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amounted to ¥202,383 million and ¥196,125 million at March 31, 2015 and 2014, respectively, which consisted mainly of the Company's cash, time deposits and investment securities.
3. The aggregated amount of segment profit equals operating income in the consolidated statement of income.
4. Intersegment sales are recorded at values that approximate market prices.

4. Supplemental information

(1) Information about geographical areas

(a) Sales

	Millions of yen						
	March 31, 2015						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥498,683	**¥432,423**	**¥353,377**	**¥272,373**	**¥243,566**	**¥114,592**	**¥1,915,014**

	Millions of yen						
	March 31, 2014						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥517,356	¥359,122	¥322,884	¥239,633	¥247,059	¥101,625	¥1,787,679

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

(b) Property, plant and equipment

	Millions of yen						
	March 31, 2015						
	Japan	China	USA	Asia and Oceania	Europe	Other	Consolidated
	¥113,028	¥91,106	¥66,245	¥37,209	¥30,845	¥9,323	¥347,756

	Millions of yen						
	March 31, 2014						
	Japan	China	USA	Asia and Oceania	Europe	Other	Consolidated
	¥95,318	¥80,119	¥52,375	¥31,595	¥34,485	¥5,825	¥299,717

(2) Significant impairment losses on long-lived assets by reportable segment

	Millions of yen				
	March 31, 2015				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets		¥4,159	¥419		¥4,578

Note: The impairment losses reported in "Other" are related to the Oil Hydraulics segment.

(3) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2015 and 2014 was as follows:

	Millions of yen				
	2015				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥369,965				¥369,965

	Millions of yen				
	2014				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥361,667				¥361,667

21. SUBSEQUENT EVENTS

Resolutions approved by the Company's Board of Directors' at the meeting held on May 12, 2015 are subject to approval at the general shareholders' meeting planned to be held on June 26, 2015.

Appropriations of Retained Earnings

Payment of year-end cash dividends of ¥60 per share to shareholders at March 31, 2015, totaling ¥17,510 million was approved.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Daikin Industries, Ltd. and its consolidated subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daikin Industries, Ltd. and its consolidated subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2015

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2015)

Head Office	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan Phone: 81-6-6373-4312 URL: http://www.daikin.com/
Tokyo Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan Phone: 81-3-6716-0111
Fiscal Year-End Date	March 31 on an annual basis
Date of Founding	October 25, 1924
Date of Establishment	February 11, 1934
Paid-in Capital	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	29,856
Major Shareholders	• The Master Trust Bank of Japan, Ltd. (Trust Account) • Japan Trustee Services Bank, Ltd. (Trust Account) • Sumitomo Mitsui Banking Corporation • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for Nippon Steel & Sumitomo Metal Industries, Ltd. • The Bank of New York Mellon SA/NV 10 • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • State Street Bank and Trust Company 505225 • Japan Trustee Services Bank, Ltd. (Trust Account 4) • BNP Paribas Securities (Japan) Limited
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 210 Affiliates: 10
Number of Employees	59,179 (Consolidated)
Stock Exchange Listing	Tokyo
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (http://www.daikin.co.jp/e-koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the *Nikkei Shimbun*.
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

DAIKIN INDUSTRIES, LTD.

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