DAIKIN

Annual Report 2016

Fiscal Year Ended March 31, 2016

Daikin—Working to Increase Its Corporate Value through Business Expansion and Contributing to the Sustainable Development of Society

Daikin Industries aims to become a Truly Global Excellent Company and is accelerating its global business development. Along with this, Daikin is drawing on the environment-related technologies it has accumulated to date to expand its business activities and contribute to environmental preservation.

Beginning this fiscal year, Daikin has begun to implement its "FUSION 20" strategic management plan. Under this plan, we will bring together our knowledge and passion, and, by working to create new value for the atmosphere and the natural environment, we will offer products and services that enrich the lives of our customers.

The world today confronts a wide range of issues, including the expansion in demand for air-conditioning systems, especially in the newly emerging countries, and the impact of this and other factors on climate change. Looking ahead, by working toward the substantially wider use of products and services that conserve energy and bring greater comfort to our lives, Daikin is endeavoring to find solutions to social issues as it continues to grow and develop its business activities.

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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"**

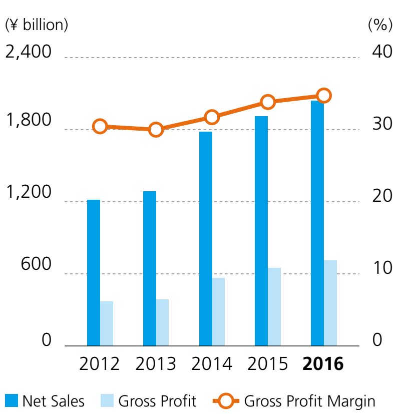
Financial Highlights

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

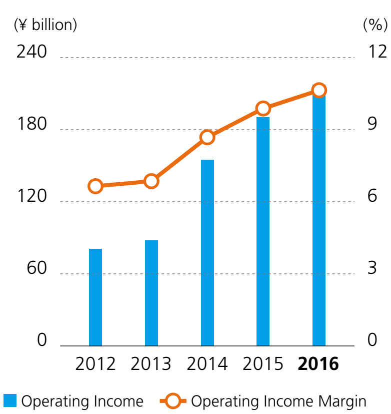
	Millions of yen	
	2015	2016
Operating Results (for the year):		
Net sales	¥1,915,014	**¥2,043,691**
Gross profit	649,902	**711,576**
Operating income	190,588	**217,872**
Net income attributable to owners of parent	119,675	**136,987**
Cash Flows (for the year):		
Net cash provided by operating activities	¥160,423	**¥226,186**
Net cash used in investing activities	(77,331)	**(105,493)**
Free cash flow (Note)	83,092	**120,693**
Net cash used in financing activities	(83,073)	**(85,422)**
Financial Position (at year-end):		
Total assets	¥2,263,990	**¥2,191,105**
Total shareholders' equity	1,024,725	**1,014,409**
Per Share Data (yen):		
Net income (basic)	¥ 410.19	**¥ 469.23**
Shareholders' equity	3,511.34	**3,473.54**
Cash dividends	100.00	**120.00**
Cash flow per share	285	**413**
Ratios (%):		
Gross profit margin	33.94%	**34.82%**
Operating income margin	9.95	**10.66**
Return on shareholders' equity (ROE)	13.10	**13.44**
Shareholders' equity ratio	45.26	**46.30**

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

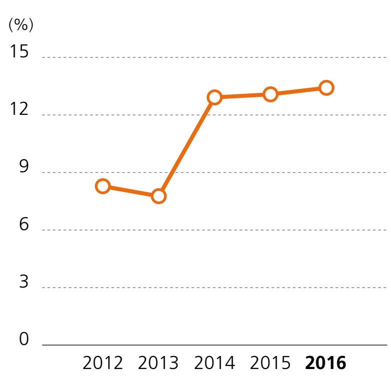
Net Sales, Gross Profit, and Gross Profit Margin



Operating Income and Operating Income Margin

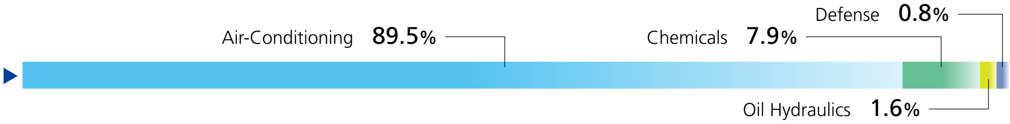


ROE



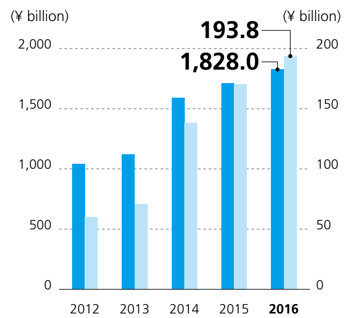
At a Glance

Percentage of Net Sales ▶



Net Sales and Operating Income	Major Products	Description

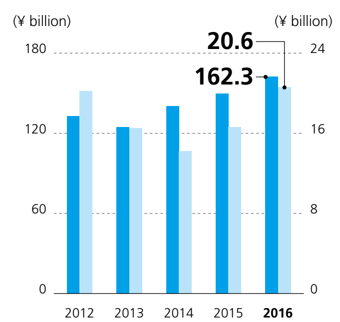
Air-Conditioning



- Room air-conditioning systems
- 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
- Air filters
- Marine-type container refrigeration

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

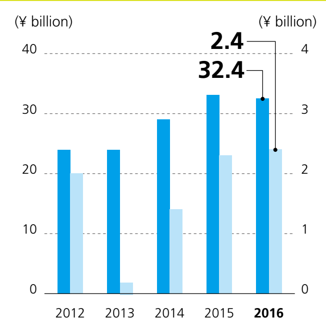
Chemicals



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

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

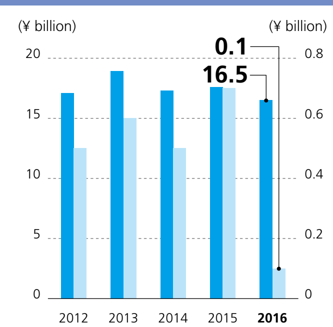
Oil Hydraulics



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

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

Defense



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

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

With the Accomplishments of the Strategic Plans as a Base, We Will to Implement Our Management

Daikin has steadily implemented its series of strategic management plans and by continuing to make reforms, it has created a strong business base. Under its new "FUSION 20" strategic management plan, Daikin will aim for further growth and development with an eye to generating consolidated annual net sales of ¥3 trillion.

Daikin has implemented a series of strategic management plans with terms of five years each. Under these plans, Daikin has expanded its businesses, made structural reforms, and continued management reforms.

Thus far, as we have implemented "FUSION" plans, under "FUSION 21" (covering fiscal 1997 to fiscal 2001), we built the base for reforming our earnings structure and for future development. Under "FUSION 05" (fiscal 2002 to fiscal 2006), we accelerated the global development of our air-conditioning business and reached a total market capitalization of ¥1 trillion. Then, under "FUSION 10" (fiscal 2007 to fiscal 2011), we expanded our environment-related businesses, and through tie-ups, alliances, and M&A, we built our position as the global No. 1 in the air-conditioning business. The accomplishments of "FUSION 15" (fiscal 2012 to fiscal 2016) included full-scale entry into emerging countries and development of our solutions business as well as acceleration in growth as we scaled up our entry into the U.S. market through M&A and implemented other strategies. As a result of our steady implementation of our strategic plans, we attained net sales of ¥2 trillion, an operating income ratio of 10%, an overseas sales ratio of 75%, and have developed to become an enterprise group with more than 60,000 personnel as well as created a powerful business base.

Under our "FUSION 20" new strategic management plan that we started this year, we will concentrate management resources in clearly defined priority areas and will take thoroughgoing initiatives to strengthen our position in our main businesses of air conditioning and chemicals. At the same time, we will expand our filters, heating and hot water supply, and energy solutions businesses, which will be future pillars of our business activities. We will also boldly take up the challenge of entering new businesses, including atmosphere and living space engineering, with the aim of creating new value-added living space for healthy and comfortable lives.

Going forward, the management environment, politics, the economy, technology, and other aspects of our lives will undergo a paradigm shift, and the issues facing society are expected to become increasingly complex. The competitive environment surrounding Daikin's business activities is assumed to become increasingly severe. Daikin will take action as quickly as possible to increase the sophistication of its technologies and its manufacturing excellence, and, to this end, we established our Technology Innovation Center last year. Through close collaboration with universities, research institutes, and a wide range of companies in other industries around the world, we will advance our collaborative innovation through the fusion of technology and knowledge, and develop a seamless series of differentiated products that are on the cutting edge. In addition, since air conditioning accounts for a considerable portion of energy consumption, we will create products and services that achieve both the objectives of energy conservation and eco-friendliness, through reducing greenhouse gas emissions, and improving comfort and convenience, with the ultimate aim of both helping to solve social issues and expand our businesses.

As we endeavor to realize the goals of "FUSION 20," the Daikin Group will respond to the expectations and trust of its stakeholders, and, in this endeavor, we look forward to your continuing support and understanding.

June 2016

Masanori Togawa

Masanori Togawa
President and CEO

“FUSION” Series of Proactively Continue Strategies.

Under "FUSION 20," Daikin will aim to be a strong corporate group that will win in severe competition amid a fast-changing competitive business environment.

Daikin aims to be a corporate group that attains sustainable growth, moving ahead of its rivals on a global scale as "an air-conditioning business" that has also set its sights on growth markets in the chemicals business and that will work to strengthen its filter business, which will be the third major segment of its operations. Looking to the future, Daikin will take up the challenge of creating new businesses and aim for sustained growth.

June 2016
Masanori Togawa
President and CEO

Masanori Togawa

Q1: Could you please review Daikin's performance in fiscal 2016 and your accomplishments in the latter half of the FUSION 15 strategic management plan?

Setting new records for net sales and income for three consecutive fiscal years

Togawa: Looking back at the world economy in fiscal 2016, first, firm consumer spending supported the U.S. economy. Although the economies of Europe showed a moderate recovery trend, negative factors included geopolitical risk. Among the emerging economies, mainly China and the resource-producing countries showed trends toward deceleration. In Japan, domestic demand, including private capital investment, was firm, but the lower growth in overseas economies was a factor putting downward pressure on the economy.

Amid this business environment, the Daikin Group adopted the policy at the beginning of 2015 of "Create the Future, Win in This Age of Change." Approaching the final year, 2015, of its strategic management plan "FUSION 15," the Daikin Group expanded sales through strengthening its sales and marketing power, introduced high-value-added and differentiated products, made major dramatic reductions in fixed costs, maximized reductions in variable costs, and took initiatives on a Company-wide basis.

Accomplishments in the latter half of FUSION 15 included the development of Daikin's position in newly emerging markets, including those in Asia, and accelerated global business development. In addition, through expansion in sales of energy-saving equipment and the broader adoption of the new refrigerant R32, Daikin focused on the expansion of its environmental innovation business. Moreover, other accomplishments included establishing a foothold in the U.S. air-conditioner market through a major acquisition and expansion in business through the development of high-value-added products. In addition, Groupwide efforts at total cost reductions moved forward.

Along with these activities, to move toward increasing the sophistication of technology and excellence in manufacturing, which are the lifelines of a manufacturing company, Daikin established its Technology Innovation Center (TIC) in fall 2015 and moved forward with the seamless development of differentiated technologies.

Over the five-year span of FUSION 15, net sales rose from about ¥1.2 trillion to ¥2 trillion, and the operating profit ratio increased from 6.5% to more than 10%, thus giving Daikin a double-digit operating profit ratio. The ratio of overseas sales rose to 75%, the number of Daikin Group employees climbed to more than 60,000, and Daikin's business base was substantially strengthened.

Q2: Under your new strategic management plan FUSION 20, what do you see as the principal management issues and how are you addressing these?

Structuring a management base that can win in competition

Togawa: Today, the world economy is in a period of slowdown because of trends in China, the low crude oil prices, and other factors. In addition, the speed of change in Daikin's operating environment is accelerating and uncertainty is increasing. At the same time, major changes are taking place in politics, economics, and other areas, just as the competitive environment is also at a major turning point. With these developments as a background, we believe that Daikin and its competitors are moving into a time of intense competition.

To win in this competitive environment, Daikin must continue to strengthen its capabilities for sales and marketing as well as increase its product development capabilities. Daikin is expanding its sales mainly in North America and Asia. In addition, Daikin is working to make total cost reductions, including dramatic cuts in fixed costs. At the same time, Daikin is strengthening the capabilities of its human resources and raising the sophistication of its product development, production, procurement, and its power for maintaining and increasing the quality of its products.

Over the five-year span of FUSION 15, net sales rose from about ¥1.2 trillion to ¥2 trillion, and the operating profit ratio increased from 6.5% to more than 10%, thus making Daikin's business base substantially stronger.

FUSION 15 Achievements

(¥ billion)	FY2011 Result	FY2016 Result	FUSION 15 Target
Net sales	1,160.3	2,043.7	2,050.0
Operating income	75.5	217.9	190.0
Operating income margin	6.5%	10.7%	9.3%
ROA	1.7%	6.3%	6.0%
ROE	4.0%	13.4%	13.0%
FCF (3-year cumulative)	+112.3 (2009–11 cumulative)	+217.3 (2014–16 cumulative)	+180.0 (2014–16 cumulative)
	Investment (3-year cumulative)	261.0	250.0

FUSION 20 Goals and Medium-term Implementation Plan

Goals (FY2021)

To achieve sales of ¥3.0 trillion and an operating income margin of 12%,
- Enhance existing businesses (AC, Chemicals, Filter)
- Expand new businesses (Heating/Water Heater, Energy Solutions, Commercial Refrigeration, Next-generation Refrigerant/Gas, IAQ/Air Environment (AE) Engineering)

Medium-term implementation plan for FY2019

(¥ billion)

	FY2016 Result	FY2017 Plan	FY2019 Target
Net sales	2,043.7	2,080.0	2,500.0
Operating income	217.9	220.0	270.0
Operating income margin	10.7%	10.6%	10.8%
FCF (3-year cumulative)	+217.3		+270.0
ROE	13.4%		13.5%
Exchange rates	USD1=JPY120 EUR1=JPY133 RMB1=JPY18.9	USD1=JPY110 EUR1=JPY125 RMB1=JPY17.0	USD1=JPY110 EUR1=JPY125 RMB1=JPY17.0

Investment plan

- Actively make investments mainly in North America and Asia in prioritized order

Investment plan (3-year cumulative)	FY2017–19
	325.0

12 Group Strategies

Basic approaches	12 Group strategies
Existing business domains (AC/Chemicals/Filter)	1) AC in North America 2) AC in Asia 3) Chemicals 4) Filter
New business domains/structure (Environment/energy IAQ/AE Engineering)	5) New businesses to quickly produce results: Heating/Water Heater Energy Solutions 6) Strategic businesses in the long term: Commercial Refrigeration Next-generation Refrigerant/Gas IAQ/Air Environment (AE) Engineering
Technologies and *monozukuri*	7) Differentiated technologies/products with the TIC 8) Enhanced *monozukuri* in the AC business
Corporate management	9) Lean and competitive fixed-cost structure 10) Optimal inventory aiming at cash flow maximization 11) Financial operations standardization and IT integration
Unique corporate philosophy	12) Enhanced HR based on people-centered management

Daikin will steadily make investments to expand the scale of its business activities, and, under FUSION 20, use this greater scope for further growth and development.

Q3: What will be the main objectives and priority policies under FUSION 20?

Setting our sights on annual net sales of ¥3 trillion by focusing resources on priority fields

Togawa: Under FUSION 20, which will cover the period from fiscal 2017 to fiscal 2021, we will clarify our priority fields and focus our resources accordingly. Also in line with the 12 Companywide themes that we have identified, we will strengthen our existing businesses, take up the challenges of entering new businesses, and work to strengthen our management base to support business development.

In the Air-Conditioning business, we will place priority on the North American market. Along with China, North America boasts the largest market scale, and growth above the world average is expected in this region. In addition, in North America, air conditioning has a long history, and, in terms of scale also, North America leads the world in terms of scale and other criteria. To really aim for being the global No. 1 in air conditioning, we are aware that we must win the battle in this market.

In addition, in Asia, the middle-income classes are expanding rapidly, bringing greater depth to the regional markets, and rapid expansion is forecast. Daikin also has positioned Asia as an expanding market, next in size and importance to North America and is, therefore, implementing a growth strategy. In this region, many countries have high electric power costs, and the need for higher-performance products is strong. Accordingly, Daikin aims to expand sales of inverter-type and unitary-type air conditioners, and will expand sales in the commercial and applied markets as it aims to become the overwhelming No. 1 air-conditioner company in Asia.

Moreover, even in China, Daikin will create new markets, and, by implementing its own original product and marketing strategies, will build on this to expand profits and continue to grow as the top foreign brand.

In the Chemicals business, Daikin will place priority on growing markets, such as automobiles, information and communications technology (ICT), and new energy sources and accelerate its development of new uses. Also, through combining fluoride materials and other materials and expanding into new business domains, such as the commercialization of non-fluoride materials to strengthen its earnings base.

In addition, filters are an area where major growth is anticipated in such areas as restraining air pollution, increasing comfort in living spaces and other buildings, as well as solving environmental problems. Moreover, there is a strong affinity between ways to improve the atmospheric environment in indoor spaces and the air-conditioning business, just as there is an affinity in the materials area and the chemicals business. Therefore, strong technological synergies are expected between Daikin's existing businesses. Accordingly, using the acquisition of Flanders, Inc., in the United States, as leverage, Daikin will enter high-end markets, including pharmaceuticals, and strengthen its cost-competitiveness and work to accelerate growth by making these fields Daikin's third major source of earnings.

In addition to taking thoroughgoing measures in existing businesses, Daikin will move quickly to develop new business domains, such as "heating and hot water." In addition, Daikin will also take up the challenges of entering the "atmospheric and space engineering" field which seeks to develop high-value-added uses of available space. Through these activities, Daikin will endeavor to realize the goal it wants to reach in 2021, the final year of the plan, of consolidated net sales amounting to ¥3 trillion and an operating profit ratio of 12%.

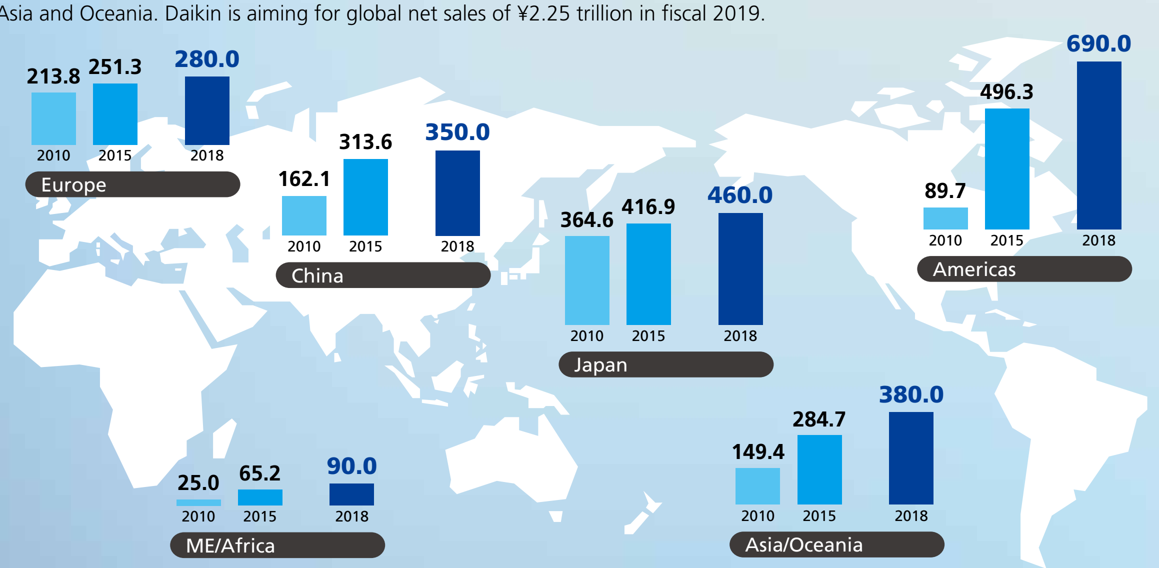
Note: For further details on FUSION 20, please access the following URL:
http://www.daikin.com/investor/management/strategy/index.html

Q4: What do you envision as your investment strategies for realizing the 12 Companywide strategic themes under FUSION 20?

Sales of the Air-Conditioning Business by Region (Includes sales of the filter business)

(¥ billion)

Daikin is developing its air-conditioning business placing highest priority on North America, which is the world's largest market, and the growth areas of Asia and Oceania. Daikin is aiming for global net sales of ¥2.25 trillion in fiscal 2019.



Accelerating growth by constructing new plants and M&A

Togawa: In the air-conditioning business, to expand in North America, Daikin is working to further develop and upgrade its production bases, including a new plant in Houston, Texas and its Mexico Plant. At the same time, in fall 2016, Daikin will open a North American R&D center and develop products that are tailored to that region. In Asia also, due to the rapid growth in demand and expansion in Daikin sales, production capacity is short. Daikin is, therefore, aiming to put into place a product supply system that will provide the necessary volumes in a timely fashion. Activities in this area include investments for increasing capacity in Thailand, Malaysia, and India. Daikin has decided to build a new plant in Vietnam, and consideration is being given to adding new plants in a number of countries.

In addition, in Europe, Daikin acquired Zanotti S.p.A. in Italy with the objective of strengthening its business base for its commercial refrigeration and freezer equipment business. Using Zanotti's broad product lineup and sales/service network, Daikin will work to build its position in these businesses from Europe where environmental regulations are the strictest. Also, in the future, Daikin will endeavor to attain further growth by bringing the know-how of the European market to areas where growth is expected, such as India and China.

Regarding the filters business also, in April 2016, Daikin completed the acquisition of Flanders, Inc., which gives Daikin a high share in the United States, which is the largest air filter market in the world. Daikin will work to strengthen its position in the high-end pharmaceutical, biochemical, food products, and other markets, where growth is anticipated and will endeavor to make the filters business its third major source of earnings.

Q5: What will be your policy regarding dividends and return to shareholders?

Raising dividend by ¥20 per share over the previous year, based on strong performance

Togawa: Regarding dividends, our basic policy will be to pay stable dividends on a steady and continuing basis and maintain a dividend to equity (DOE) ratio of 3.0% on a consolidated basis. We are taking initiatives to substantially increase the return to our shareholders by aiming for a high dividend payout ratio. Regarding retained earnings also, we are working to substantially strengthen our management and financial positions and will allocate retained earnings to accelerate Daikin's global development, to speed up the development of products that contribute to the earth's environment, and make other strategic investments that will expand Daikin's business activities and contribute to its competitiveness.

In view of its favorable performance in fiscal 2016, Daikin paid a dividend of ¥120 per share (¥55 as an interim dividend and ¥65 as a final dividend for the fiscal year), which was ¥20 per share higher than in the previous fiscal year. Note that if the ¥10 per share dividend paid for the previous fiscal year is excluded, the increase in the regular dividend was ¥30 per share. Daikin is scheduled to pay a dividend of ¥120 for fiscal 2017.

Daikin will continue to work to expand its business activities as it makes strategic investments, pursues a total cost-down policy, strengthens its financial position, and implements other measures to become a stronger enterprise. As a result of these initiatives, Daikin will aim to become a truly global excellent enterprise, while, at the same time, work to increase its enterprise value and raise its returns to shareholders.

Q6: As Daikin continues to grow, demands and expectations of society are rising. What CSR initiatives are you undertaking? Also, what message would you most like to emphasize to shareholders?

Creating new value to contribute to solving social issues

Togawa: For the Daikin Group, we are aware that restraining global warming is the social issue that we should give the most attention. We are endeavoring to spread the use of R32 refrigerant, which compared to other refrigerants has a low global warming

coefficient, for use in air conditioners around the world. In addition, we are taking initiatives to achieve wider usage of our inverter units, which have higher energy conservation features. These initiatives contributed in fiscal 2016 and were responsible for reducing emissions by 35 million tons. The demand for air conditioning, mainly in the emerging countries, is expected to continue to expand, but, as the Daikin Group progresses toward the fiscal year 2021, it aims to contribute by reducing emissions of greenhouse gases by 60 million tons.

Moreover, TIC, which was established last year, is collaborating with industry, the government, and academia in "cooperative creation" to contribute to providing solutions to issues society is facing, including those related to the environment and energy, health, and other areas.

Daikin, as a corporate group, aims to continue to "create new value for the atmosphere and natural environment through cooperative creation," and will endeavor to contribute to society in response to the expectations of our customers, shareholders, suppliers, the regional community, and our many other stakeholders. Daikin will continue to work toward the objectives of "FUSION 20" and looks forward to the continuing understanding and support of our shareholders.

Air Conditioning

Current

Attained double-digit growth in the Americas, Europe, and Asia/Oceania, Expanded operating income in China also

In the air-conditioning equipment business, performance was especially strong in fiscal 2016 in the Americas, Europe, and Asia/Oceania, and this business as a whole expanded 7% year on year.

Expanding sales of Urusara 7, an energy-saving, eco-friendly, differentiated air conditioner

Japan

Sales in Japan grew 1% over the previous fiscal year. Demand in the commercial market was weak, and the number of units sold was below the prior year. In Japan's residential air-conditioning market, demand was approximately level with the previous year, but Daikin worked to expand sales of energy-saving, differentiated products that use R32 as a refrigerant, including Urusara 7. As a result, sales in unit terms and Daikin's market share reached a level above the previous year.

Americas

Sales in the Americas expanded 13% year on year. Sales of the principal residential product, unitary air-conditioning equipment, experienced a reactionary decline in demand following the surge in demand in fiscal 2015 prior to the increase in the rigor of energy-conservation regulations. As a result of this and effects of warm winter weather, units sold were below the previous fiscal year. However, sales of ductless units expanded year on year, as a result of expansion in the product lineup, personnel, and the sales network, and sales of applied units rose because of strengthening of the sales network and focus on the service business.

China

In China, the business environment continued to be severe, and sales were slightly lower than in the previous fiscal year, but, on the other hand, operating income rose above the prior year. In the residential market, Daikin drew on the proposal and installation capabilities of specialized “PROSHOPs” that sell into the retail and shop markets and expanded sales of the “New Life Multi Series” that offers customers a greater diversity of lifestyles. Sales in the commercial market and sales of applied units began to return to a recovery trend in the latter half of the fiscal year as a result of expanded sales of differentiated products.

Europe

Sales in Europe expanded 11% over the previous fiscal year. In the residential-use market, Daikin responded to the rise in demand due to the hot summer weather with well-timed product supplies, and sales showed major expansion mainly in the southern and central European regions. In the commercial-use market, Daikin launched new VRV products, and, through a finely tailored program of calling on dealers, expanded sales in the countries of the region. In the heating business, Daikin expanded sales of heat pump type hot water heating units in France and the United Kingdom, where environmental regulations have been tightened.

Asia/Oceania

Sales in the Asia/Oceania region expanded 12% year on year. As in the previous fiscal year, Daikin placed emphasis on developing relationships with additional dealers and launched energy-saving, differentiated products that matched the needs of the countries of the region. Among these markets, Daikin captured the rising demand of the middle-income classes in Vietnam and Indonesia, where it has recently acquired a sales company, and reported a marked rise in sales. Also, in India and Thailand, Daikin expanded sales of residential and commercial products.

The New Life Multi Series offers customers in China a greater diversity of lifestyles.

Strengthening Daikin’s sales network in China through specialized shops

Capturing the rising demand of the middle-income classes in Vietnam and elsewhere

Air Conditioning

Future

Further sales expansion globally in all regions, particularly in North America and Asia

In the air-conditioning equipment business, in fiscal 2017, Daikin is aiming for a 2% increase in sales (compared with fiscal 2016), benefiting from the launching of differentiated products, maintenance of sales prices, and low procurement costs because of the appreciation of the yen.

Multi-air conditioners launched to meet the needs of differing regions and countries

Japan

Daikin will work to increase earnings by implementing a thoroughgoing policy of launching differentiated products and maintaining sales prices. Also, procurement costs are expected to be lower accompanying the appreciation of the yen. In addition to the Urusara 7 model air conditioners for residential use, Daikin is working to expand sales of its original, value-added air conditioners, such as multi-air conditioners and other types that offer superior design. In the commercial air-conditioner market, as recovery in demand has lagged, Daikin is working to capture demand from urban Tokyo redevelopment projects that are ongoing with a view to the 2020 Tokyo Olympics. Daikin is also continuing to strengthen and shape up its marketing activities tailored to specific regions.

Broadening the lineup of residential unitary products that feature high-efficiency inverters

Americas

In the residential-use market, Daikin is working to increase the cost-competitiveness of its unitary products in the high volume zone of the market. With a focus on high-end ductless VRVs, applied chillers, and other products, Daikin is endeavoring to substantially strengthen the appeal of its products and its marketing and sales capabilities. Also with a portion of Goodman's new plant in operation, Daikin is working to increase product supply. Other initiatives include upgrading product development functions and strengthening competitiveness.

China

Daikin is substantially strengthening its own nationwide sales network, including PROSHOPs that handle residential multi-air conditioners. New products introduced include the "New Life Multi Series" residential air conditioners. Also, in the commercial market, Daikin has introduced VRVs for large-scale buildings, air conditioners for small stores and general offices as well as a series of applied and other units to meet the needs of all market segments. Under severe market conditions, Daikin aims to increase profits by increasing the ratio of units made in-house, expanding the number of units procured locally, accelerating cost reduction efforts, and shifting to integrated development, production, sales, and service.

Europe

Viewing the signs of economic recovery in the EU as an opportunity, Daikin is implementing sales strategies carefully tailored by country and by product. Also, along with the shift to full-scale domestic production in Turkey and other developments, Daikin is continuing business structural reforms, including reduction in fixed costs and strengthening competitiveness, and aiming for higher profits than in the previous year when the weather was unseasonably hot. Moreover, Daikin is also placing emphasis on its heater business, including launching new combustion heater units. Using Zanotti S.p.A. of Italy, which Daikin finished acquiring in July 2016, as a foothold, Daikin is newly expanding its commercial freezer and refrigerator business.

Asia/Oceania

Although there are concerns about the economic slowdown in China and the impact of low resources prices, Daikin is developing sales networks and implementing product strategies that are carefully tailored to individual countries and is working to capture demand from the expanding middle-income classes, particularly in India and Vietnam. Daikin is also expanding its lineup of specialized inverter home air conditioners ahead of other companies. In the commercial air-conditioner field, Daikin is strengthening its activities related to variable refrigerant volume (VRV) units with built-in specifications, and its lineup of applied units as well as moving toward providing full-scale solutions services.

Planning for further business expansion in India

Daikin's plant in Turkey goes into full-scale operation.

Chemicals

Current

Strengthened sales capabilities in growth markets and attained increases in sales and income

In fiscal 2016, sales expanded mainly in fluoroplastic resins for use in semiconductors, fluoroelastomers for automotive applications, and an anti-smudge coating agent for smartphone touch screens. As a result of the effects of declines in sales prices in China and the United States, sales in this business expanded 9% over the previous fiscal year.

Market conditions for fluorocarbon gas weakened in China, and Daikin responded by restraining marketing activities. As a consequence, sales in China were below the previous year, but, because of the acquisition of European refrigerant gas business of Solvay S.A., Daikin's overall sales of refrigerant gas were above the previous year.

In the fluoroplastics resin business, although sales for use in cables for telecommunications bases decreased, Daikin captured semiconductor-related demand in Japan and the rest of Asia, and sales were above the previous year.

In the fluoroelastomer business, demand was favorable, mainly for use in automobiles, and sales were above the previous year.

In the chemical products business, Daikin expanded sales of water and oil repellent agents, mainly in the United States and China. Also, sales of the OPTOOL™ anti-smudge surface coating agent for smartphones were favorable. Sales of etching fluids for semiconductor cleaning expanded in Japan and the rest of Asia due to growth in related demand. In the intermediate materials business, sales in Europe expanded significantly for pharmaceutical and LCD use. As a result of these factors, overall sales of chemical products rose above the previous fiscal year.

Anti-smudge coating agent for smartphones

Sales of fluoroelastomers for automotive applications were favorable.

Future

Overall strengthening of capabilities for developing new uses, increasing product attractiveness, and technical marketing

Daikin aims to increase sales by 2% in its Chemicals business in fiscal 2017. Priority fields will be growth areas within ICT, automobiles, new energy, and other areas. Geographically, priority regions will be China, the United States, and the rest of Asia, and Daikin will implement thoroughgoing strategies to increase competitiveness. Daikin will upgrade the attractiveness of its products and expand sales in priority markets, which will include cable, semiconductors, automobiles, and IT terminals. Especially in the United States, where demand for LAN cable is increasing along with the spreading use of the Internet of Things (IoT), Daikin will focus on the LAN cable market and on the dynamic automobile and other markets in Europe and China. To expand sales, Daikin is working to raise its capabilities for technical marketing and proposal development to global levels.

To develop new uses for its products, Daikin will identify customer needs and prepare new use proposals. For example, Daikin is promoting the use of OPTOOL™, which is currently used as an anti-smudge agent for smartphones, first on wearable computers, and then will develop uses other than displays. Daikin is also moving forward with compound products with multiple layers of fluoromaterial products as a new business.

Also, in markets where demand for fluorochemical products is expected to expand, mainly in India and Vietnam, Daikin will strengthen its marketing activities by stationing marketing personnel with in-depth knowledge of specialized markets and developing new customers.

Fluoroplastics resins with high chemical resistance are indispensable in clean rooms for semiconductor manufacturing equipment.

Oil Hydraulics

Current

Strong performance of oil hydraulic equipment in many fields in the U.S. market

An EcoRich energy-efficient oil hydraulic unit for inverter drives

In its oil hydraulic business operations, Daikin supplies diverse kinds of oil hydraulic equipment that realize smooth movements of the parts of many kinds of machinery. Principal machinery types using hydraulic components are industrial machinery, including construction and factory processing equipment, tractors, and other small vehicles. The Daikin Group's hydraulic equipment helps to reduce energy and electricity consumption in many kinds of machinery.

Oil hydraulic business sales in fiscal 2016 exceeded those of the previous year as demand in the U.S. market for oil hydraulic equipment used in industrial machinery held strong. However, demand was stagnant in Japan's domestic market and other markets in Asia, and this had an adverse influence on sales. Nevertheless, demand for oil hydraulic equipment for construction machinery and vehicles for installation on products of major domestic customers for export to the United States continued to be firm.

Future

Accelerating Daikin's global drive for expansion of sales of oil hydraulic equipment for industrial machinery

Daikin has steadily increased its market share of domestic oil hydraulic equipment for use on industrial machinery. With a view to continuing to launch new products, the marketing and technological departments are working together and accelerating market development. In developing products, energy-saving technology created in the air-conditioning business is used in the oil hydraulic business, and Daikin is working to further increase the sophistication and differentiation of its products and will expand its eco-related businesses.

Furthermore, even from a global perspective, Daikin will use the U.S. market as a bridgehead for expanding sales of oil hydraulic equipment for industrial machinery. With its MRO (maintenance, repair, and operation) business and hybrid hydraulic systems that combine oil hydraulic technology and inverter motor technology as the focal points, Daikin will endeavor to strengthen its marketing base. Also, with plans for entering the Mexican market near realization, Daikin will work to strengthen its business position in Europe and move forward to achieve deeper penetration of the Chinese and other Asian markets.

Oil hydraulic drives power construction machinery and rolling stock

Defense

Current

Expanding sales of home-use oxygen therapy equipment in Japan and China

In the defense business, Daikin designs and manufactures various products for Japan's Ministry of Defense, including artillery shells, warheads, and fuses. Using the processing technology employed in these products, for private-sector purposes, Daikin has developed home-use oxygen therapy equipment as a core business in this segment. Daikin manufactures and sells portable oxygen tanks, respiration synchronizers, and oxygen concentration apparatus, which can enable persons with chronic respiratory failure to play roles in society.

In fiscal 2016, sales of this segment were below the previous year. Although Daikin expanded sales of home-use oxygen therapy equipment in Japan and China, orders for practice ammunition from the Ministry of Defense decreased.

Future

Strengthening business development activities in private-sector fields

The Japanese government has been reducing its defense budgets for some time, and an issue for Daikin has been to shift into private-sector related businesses.

In the home-use oxygen therapy equipment business, Daikin is endeavoring to expand its market share and sales based on high quality and reliability, and it has launched new products in the domestic market. Also, in the Chinese market, Daikin is working to expand its sales routes, beginning with the development of relationships with additional local dealers. In addition, in the field of oral care and other areas, Daikin is actively considering responding to other medical needs.

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.

Regarding Japan's Corporate Governance Code, Daikin has already implemented the principles of "enhancing information disclosure," "making effective use of independent external directors," and "the policy of having constructive dialogue with shareholders." Going forward, Daikin will continue to enhance these initiatives.

Management and Operational Execution Systems

Rather than 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 2016, 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 three external directors as of June 2016. 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.

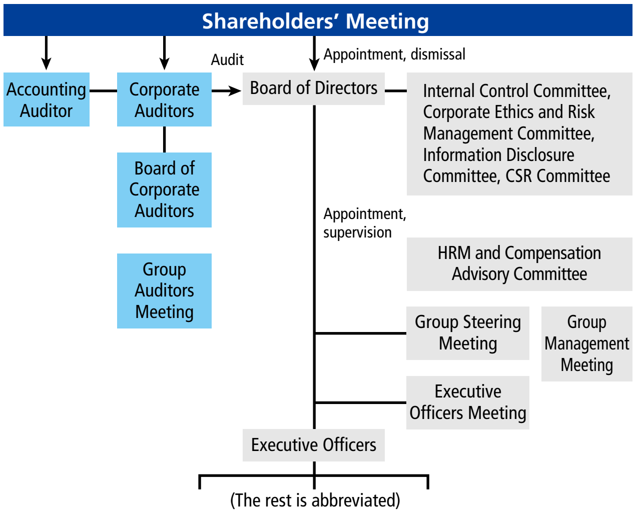
To ensure that the external directors can effectively contribute to Daikin's corporate governance system, the external directors are assigned assistants in the Management Planning Office who strive to provide the external directors with Daikin-related information, early notice of Board of Directors meetings, 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.

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 2016, 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 Director/Audit and Supervisory Board Members' Principal Activities

Name	Position	Principal Activities
Chiyono Terada	External Director	Ms. Terada attended 14 of the 16 Board of Directors meetings held during the fiscal year. Based on her abundant experience and deep insight as a corporate manager, she provides appropriate supervision of Company management from an independent perspective; advises management from the consumers' point of view, including the importance of the Company's corporate brand; and makes proactive proposals for measures to further promote achievements of female employees.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano attended 12 of the 16 Board of Directors meetings held during the fiscal year as well as 13 of the 15 Board of Auditors meetings held. Based on his abundant experience and deep insight as a corporate manager, he accurately audits the supervision of the conduct of management by the directors. From his broad and advanced perspective developed over many years of experience overseas, he makes necessary statements in a timely fashion.

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

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

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

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, in general, 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 2016, it met six 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 2016, it met 16 times, and the average attendance rates of external directors and external Audit and Supervisory Board members at those meetings were 91% and 84%, respectively.

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

Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the HRM and 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 five members, including three external directors and one in-house director, and one executive officer responsible for human resources, 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 2016)

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	10	775	128	350	1,254
Audit and Supervisory Board Members	3	65	—	—	65
Total	13	840	128	350	1,319

Total Compensation for External Directors and External Audit and Supervisory Board Members (Fiscal 2016)

Number of Individuals	Fixed Compensation (Millions of yen)	Performance-linked Compensation (Millions of yen)		Total Compensation (Millions of yen)
	Basic	Stock Options	Bonus	
4	59	—	—	59

Corporate Officers Receiving Total Compensation and Other Exceeding ¥100 Million (Fiscal 2016)

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.	213	27	97	338
Masanori Togawa	Director	Daikin Industries, Ltd.	138	27	65	230
Ken Tayano	Director	Daikin Industries, Ltd.	109	13	41	176
	Chairman	Consolidated Subsidiary, Daikin (China) Investment Co., Ltd.	12	—	—	
Guntaro Kawamura	Director	Daikin Industries, Ltd.	75	13	30	119
Masatsugu Minaka	Director	Daikin Industries, Ltd.	6	13	29	117
	Director	Consolidated Subsidiary, Daikin Europe N.V.	67	—	—	
Jiro Tomita	Director	Daikin Industries, Ltd.	61	10	33	105
Takashi Matsuzaki	Director	Daikin Industries, Ltd.	61	10	31	103

Total Compensation and Other for Independent Auditors (Fiscal 2016)

Audit expense	201 (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 29, 2016)

Position(s)	Name	Responsibilities & Principal Jobs
Chairman of the Board and Chief Global Group Officer	**Noriyuki Inoue**	
President and CEO, Member of the Board	**Masanori Togawa**	Chairman of Internal Control Committee
Member of the Board (external)	**Chiyono Terada**	President of Art Corporation
Member of the Board (external)	**Tatsuo Kawada**	Chairman and CEO of SEIREN CO., LTD.
Member of the Board (external)	**Akiji Makino**	Chairman and CEO at Iwatani Corporation
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., Chairman of Daikin Fluorochemicals (China) Co., Ltd., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Masatsugu Minaka**	Representative of Air-Conditioning Operations in the Europe/Middle East/Africa Region, 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
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)
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
Member of the Board (non-resident)	**David Swift**	
Member of the Board (non-resident)	**Yuan Fang**	Regional General Manager of Air-Conditioning Business in emerging nations in the ASEAN and Oceania of Global Operations Division, Vice Chairman and Vice President of Daikin (China) Investment Co., Ltd., Chairman of Daikin Airconditioning (Hong Kong) Limited
Audit and Supervisory Board Member (external)	**Ryu Yano**	Chairman of the Board of Sumitomo Forestry Co., Ltd.
Audit and Supervisory Board Member (external)	**Toru Nagashima**	Advisor of TEIJIN LIMITED
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	**Yoshikazu Tayama**	General Manager of Budget and Administration Group, Finance and Accounting Division
Senior Executive Officer	**Masayuki Moriyama**	Responsible for Applied Solution Business in China, ASEAN and Oceania Regions, Director and Vice President of Daikin (China) Investment Co., Ltd., COO of McQuay China
Senior Executive Officer	**Yoshihiro Mineno**	General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director of Daikin Holdings (Houston), Inc.
Senior Executive Officer	**Yasushi Yamada**	Responsible for Safety
Executive Officer	**Katsuyuki Sawai**	Responsible for Corporate Communication, Human Resources, and General Affairs and General Manager of Shiga Plant
Executive Officer	**Hitoshi Jinno**	Responsible for PL/Quality, Air-Conditioning/Refrigeration/Applied, Responsible for Alliance Promotion with Gree Electric Appliances Inc., 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 General Manager of Technology and Innovation Center
Executive Officer	**Masaki Saji**	General Manager of Human Resources Division and Department Manager of Diversity Promotion Group
Executive Officer	**Masafumi Yamamoto**	Responsible for CSR, Global Environment Affairs, Corporate Ethics, Compliance, Legal Affairs, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Department Manager of Domestic Legal Affairs Group, Chairman of CSR Committee, Chairman of Corporate Ethics and Risk Management Committee and Chairman of Information Disclosure Committee
Executive Officer	**Satoshi Funada**	General Manager of Air-Conditioning Sales Division
Executive Officer	**Makio Takeuchi**	Responsible for Global Procurement, Deputy Manager of Air-Conditioning Manufacturing Division (Research and Development), Responsible for Refrigeration Division, Research and Development, Co-Creation Projects member of Technology Innovation Center
Executive Officer	**Yoshiyuki Hiraga**	Responsible for Chemical Business and Chemical Environment/Safety
Executive Officer	**Toshio Ashida**	General Manager of Corporate Planning

CSR (Corporate Social Responsibility)

Daikin's core business of air conditioning is essential for economic development and a comfortable lifestyle, and demand for air conditioning continues to expand in developing nations and around the world. As an industry-leading specialized manufacturer, the Daikin Group aims for the sustainable development of society in general, and in accordance with its four newly designated priority themes for CSR, leverages its accumulated technologies to limit the impact on the environment while taking into account the overall valuation, and provides the people of the world with comfortable and rich lifestyles.

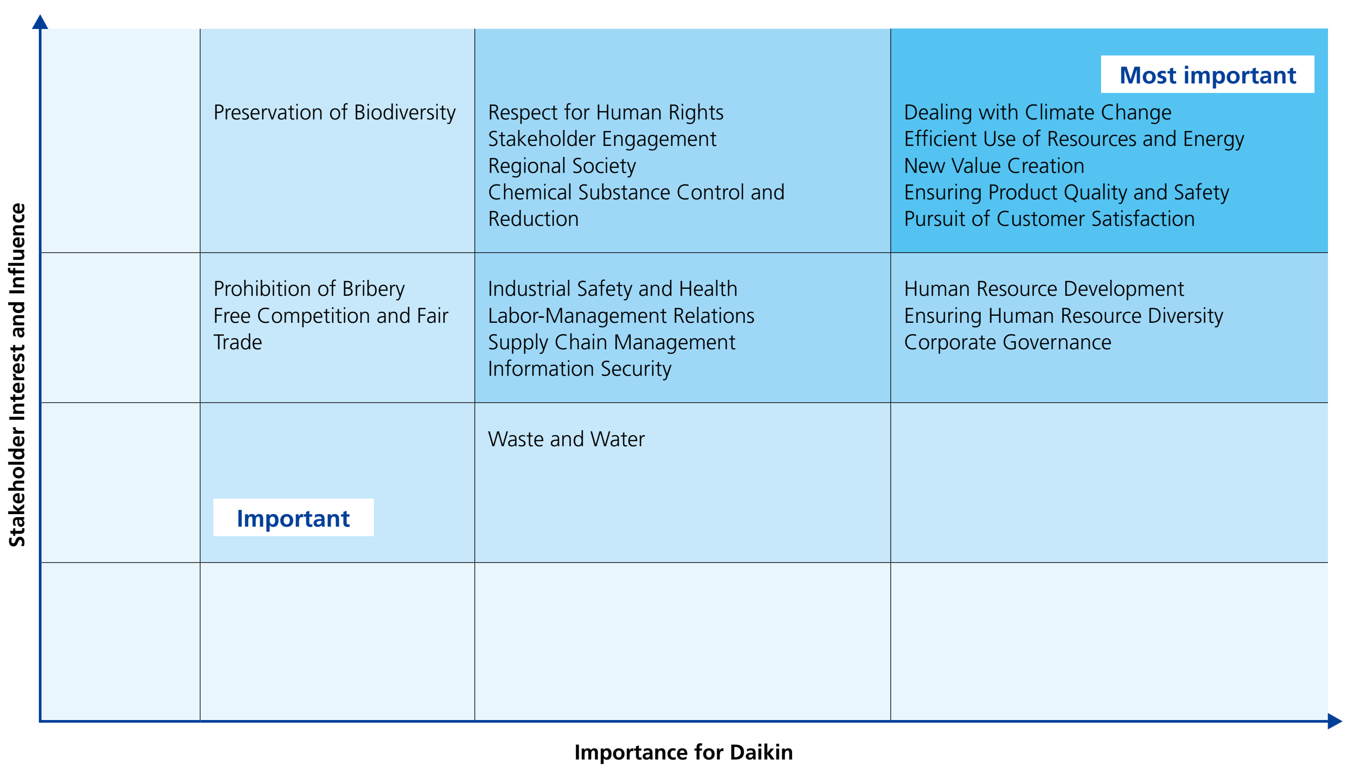
Materiality

In fiscal 2016, Daikin revised its stance on materiality in conjunction with the formulation of the FUSION 20 strategic management plan, setting as its four priority CSR themes for sustainable corporate and social development Environment, New Value Creation, Customer Satisfaction, and Human Resources.

These priorities have also been incorporated into the FUSION 20 plan as key management considerations. We plan to formulate CSR targets and plans in accordance with these four themes that take into account the impact our strategies and increasingly global business operations have on society.

■ The Materiality Determination Process

Daikin has selected two priorities for determining materiality: 1) Stakeholder interest or impact, based on the principles of stakeholder engagement, international guidelines, and the requirements of socially responsible investment (SRI) evaluation agencies; and 2) Material according to Daikin, based on such factors as our management principles and strategic management plans. Going forward, we plan to seek further external opinions on a broad basis, and reflect this feedback in our medium-term CSR targets and plans.



Environment

■ Materiality of Environmental Measures

Climate change and other environmental issues need to be addressed by society as a whole. Air conditioners, the main product of the Daikin Group, have a close connection with climate change, as they consume a lot of electricity during use, and the fluorocarbon used as a refrigerant contributes to the greenhouse effect.

For this reason, the Daikin Group believes that providing for both business development and environmental protection is essential for sustainable growth. Accordingly, we take steps to reduce emissions of greenhouse gases throughout the entire supply chain, as well as work to develop and provide products and services that mitigate climate change, and provide technical training to support widespread market adoption. By bringing energy conservation technologies, eco-friendly refrigerants and other leading-edge technologies together with markets, we are contributing to the resolution of environmental and energy issues.

■ Daikin's Initiatives

Promotion of Environmental Engineering

The impact on climate change stemming from energy consumption and the fluorocarbon used as refrigerant is the priority social issue for Daikin, and we consider it important to promote the widespread adoption of energy-efficient air conditioners that use refrigerants with low global warming potential.

Daikin, based on the international consensus and its own evaluation, has determined that at present R-32 is the refrigerant best suited for residential and commercial air conditioners, and is working to promote the adoption of R-32 air conditioners throughout the world. As of the end of fiscal 2016 (March 2016), more than 6.5 million R-32 AC units are in use in 48 countries around the world.

Royalty-Free Use of Patents

To encourage the further adoption of R-32 air conditioners, in 2011 Daikin designated a total of 93 basic patents related to the manufacture and sale of air conditioners using R-32 as a refrigerant for royalty-free use in developing countries. Further, in September 2015 we broadened the scope of this arrangement worldwide, allowing royalty-free use of patents in developed nations, where regulations are continually tightening.

Looking ahead, if all of the AC units using R410A, the conventional refrigerant in developed countries, are converted to R-32, by 2030 the potential reduction in impact on global warming as a result of hydrofluorocarbon (HFC) is estimated at around 800 million tonnes in units of CO_2 equivalent (CO_2e), a decrease of 19% compared to continued use of the current refrigerant.

Creation of a Market Environment in India

Considering that use of air conditioning is projected to increase particularly in emerging nations along with their economic growth, promoting the use energy-efficient AC units with low environmental impact refrigerants in these areas will make a considerable contribution to controlling global warming overall.

In fiscal 2013, Daikin was entrusted with the Global Warming Mitigation Technology Promotion Project sponsored by Japan's Ministry of Economy, Trade and Industry (METI), and began promoting the adoption of the R-32 air conditioners in India. We conducted demonstration tests of R-32 inverter air conditioners in cities throughout India, demonstrating that the combination of R-32 refrigerant and inverter technology could reduce CO_2 emissions by more than 30% compared to conventional units. We conducted training for local AC installation and service engineers in order to raise technical standards related to R-32 and establish a foundation to support the spread of the technology. We also held seminars for Indian government officials and air conditioning industry groups to present the results of the demonstration tests, explain the benefits of R-32, and enhance technical standards.

In India, since Daikin began selling R-32 air conditioners there in 2014, these units have accounted for more than 10% of annual AC unit sales, including from local manufacturers.

Daikin Receives the METI Minister Award

Daikin also provided technical support and other assistance for the conversion to R-32 refrigerant in Thailand and Malaysia, working in cooperation with the Japanese government, local governments, and international organizations. In both of these countries, rather than simply develop sales channels and conduct marketing to promote the adoption of R-32, Daikin worked to establish the market environment, including training engineers and supporting the development of standards.

In fiscal 2016, Daikin received the METI Minister Award in recognition of its comprehensive measures contributing to the curbing of global warming through worldwide promotion of R-32 air conditioners.

New Value Creation

■ Materiality of New Value Creation

In today's society, globalization and technological advancements are progressing at a remarkable pace, making differentiation from rival products difficult. To achieve sustainable growth, a company must integrate cutting-edge technologies, and generate technologies and products that contribute to the resolution of social issues such as energy, the environment, and health. Companies need to offer the world unprecedented new value.

Daikin is deepening its collaborative creation across a broad range in the areas of energy, space, and the environment, in pursuit of new value creation centered on air conditioning. Daikin's diverse workforce, along with external researchers and engineers, shares dreams and ambitions, offers the world new value through the power of air, and resolves social issues.

■ Daikin's Initiatives

Collaborative Creation Inside and Outside the Company

The key to new value creation in modern society is collaborative innovation, the crossing of existing borders to bring together many various types of expertise and technologies.

Daikin believes the essence of collaborative innovation to be effectively bringing together capabilities from inside and outside the Company in order to generate new products and services that bring about changes in lifestyles, as well as to generate new technologies that help resolve the problems of modern society, such as environmental, health, and medical issues. Based on this principle, in November 2015 we established the Technology Innovation Center (TIC).

Daikin's Core Facility, the Technology Innovation Center (TIC)

The TIC is Daikin's main facility for technological development, bringing together engineers from various fields within the Company. Through each step of the process, from exploration of development themes to the researching, development, and commercialization of new technologies, the TIC and other internal departments cross boundaries in pursuit of collaborative creation, seeking to generate technologies and swift product development.

In addition, the TIC focuses on cooperation and partnerships with companies, universities, and research institutions that possess unique technologies in varied industries and fields. Attracting people, information, and technology from around the world, and generating innovation through collaborative creation with external experts, was one of the aims in establishing the TIC.

Through collaborative innovation, in addition to regulating air and space through the use of air conditioning, Daikin is expanding the scope of its research themes from residential spaces, communities, and cities, to community infrastructure, conducting research that extends to the physiological and psychological relationship between the air environment and human body, and generating new lifestyle value.

Utilization of Airitmo in the Next-Generation Office

Fifteen years ago, Daikin began focusing on sensing technologies that detect a person's condition, and conducting R&D to improve the sleeping environment through air conditioning, leading to the development of Airitmo. This unique sensing technology uses vibrations of air in tubes to measure physical data such as heart rate, breathing, movement, sleep status, and stress. Further, we utilized this technology to create products such as Soine, a special controller for sleep periods that measures the depth of sleep, and optimally regulates the air conditioning.

In March 2016, office chairs incorporating Airitmo were placed in 3×3LabFuture, a business exchange facility established by Mitsubishi Estate. The aim is to create an office space that realizes an atmospheric environment suited to an individual's physical condition and structures a next generation office environment that is pleasant and improves productivity.

The TIC Research Environment and Industry-Academia Collaboration

The TIC applies ingenuity in various ways to bring about collaborative creation, such as the Future Lab for dialogue with partners from inside and outside the Company, and the Chi-no-mori ("forest of knowledge") to deepen the exchange of ideas while observing Daikin's core technologies and cutting-edge technologies currently in development. We have also established a Fellow Room that can be freely used by university professors and opinion leaders from Japan and overseas. This facility has been utilized for engineering guidance from Purdue University Distinguished Professor and Nobel Prize recipient Eiichi Negishi, and as a satellite office for the industry-academia departments of Kyoto University and Osaka University.

Customer Satisfaction

■ Materiality of Customer Satisfaction

Daikin is accelerating its business development in 145 countries around the world, mainly in emerging nations where demand for air conditioning is expanding. Providing products and services that satisfy local customers is essential to achieve sustainable growth in the future.

With consideration to the climate, culture, and regulations of each area, Daikin works to enhance customer satisfaction by ensuring high quality standards that customers can trust, and providing products and services that meet local needs.

■ Daikin's Initiatives

Working Out Global Quality Guidelines

In April 2014, the Daikin Group worked out its Global Quality Guarantee Rules prescribing Daikin's basic stance on quality standards across the corporate group, as well as the responsibilities and authority for quality monitoring of the efficient implementation of corrective measures. We have also acquired ISO9001 certification at all production facilities, and put in place a quality assurance system based on those standards.

The various aspect of the quality assurance system are internally audited by each business division and their operating status evaluated, in a continual cycle of implementation, evaluation, and improvement. Further, each year quality priority measures and targets for each business division based on the Group's annual policy guidelines are set, establishing and implementing a quality program for the fiscal year.

Strengthening of Marketing Research

In order to more accurately and quickly assess the needs of each overseas area, and utilize this information for product development, Daikin shifted its air-conditioning development structure from a single Japan-centered model to an autonomous distributed network in which product development and research is conducted regionally, strengthening our marketing research functions worldwide. With our primary R&D centers in China and Europe, we are strengthening our development functions at the North American and Asia/Oceania facilities.

Improving Customer Satisfaction in the Turkish Market

Through a local market survey in Turkey, Daikin learned that needs were strong for air conditioners that match modern interiors. Based on this result, Daikin launched a new model specifically for the Turkish market with an emphasis on interior design. The Daikin Miyora received the Good Design Award 2015.

Daikin is also focusing on providing information through its website, incorporating a system that allows customers to enter information about their rooms to automatically calculate air-conditioning performance, and shows them the ideal unit. In addition, we conducted the Daikin Turkey Academy for employees, sales agents, and retail stores as part of an effort to provide high-quality advice and service.

In China, for example, we have developed and offer products to improve the lifestyles of customers, such as air conditioners to counter PM2.5 air pollution, interior units specifically for kitchens able to cope with intense oily smoke, and interior units for baths with upgrade dehumidification systems.

Local Service Structure for Areas throughout the World

For customers in Japan, Daikin operates the Daikin Contact Center, a 24/7 general service center for repair requests, technical consultations, and purchasing information.

Overseas, we have put in place an after-sale service structure based on the principle of "fast, reliable, and friendly" in order to respond to the variety of requests specific to each country or region. We have established call centers, and by providing technical information online, have increased customer satisfaction.

Using Survey Results to Enhance Customer Satisfaction

The Daikin Group regularly conducts customer surveys, soliciting and analyzing feedback with the aim of enhancing customer satisfaction.

The Air-Conditioning Division conducts a survey following completion of after-sales service on air conditioners, sending postcards to customers selected at random. The satisfaction rate has been consistently high, with overall satisfaction in fiscal 2016 at 4.05 out of a total 5.0 points. We believe these solid evaluations are the result of the division's effort to put customers first and complete a repair in a single visit, as well as a training program focused on enhancing technical capabilities and customer service.

The Chemicals Division conducts an annual customer survey. In the fiscal 2016 survey, Daikin maintained its high marks in such areas as quality, delivery, and technical service, though the survey also revealed the need for greater responsiveness. We are working to improve our service through closer communication with customers.

Human Resources

■ Importance of Initiatives Related to Human Resources

Daikin has advanced with rapid globalization in the last 10 years, and the number of employees working overseas has increased approximately five-fold. In order to meet the expectations of its various stakeholders in the midst of this effort and to realize the strengths of the Daikin Group including the "Environment", "New Value Creation", and "Customer Satisfaction", "human resources" have become of utmost importance as the team responsible for these activities.

Daikin has positioned "People-Centered Management", which emphasizes that the source of a company's competitiveness is its people, at its very core, and gets its organizational strength by respecting individuality and value systems, and by drawing out the unlimited potential of individuals.

■ Efforts by Daikin

Human Resource Development Policy

One of the corporate philosophies of the Daikin Group is the idea that "the cumulative growth of all Group members serves as the foundation for the Group's development." Based on the concept that "people grow through job experience," we have positioned OJT as the basis of human resource development to thereby identify the comfort levels of each individual and challenge individuals by entrusting them with jobs.

We also supplement this training with off-the-job training (Off JT) such as the "Daikin Leadership Development Program" to train executives who can play an active role on the front lines of global business operations and the "Overseas Base Practical Training" to foster young employees who are globally minded. We also support our employees' efforts to take courses for language training, communication-related education, etc., and provide opportunities for independent learning. Since fiscal year 2016, we have also held the "Global Daikin Leadership Development Program" to foster global executives responsible for Group management and management of Daikin's overseas bases.

Global "Meister System" for Passing Down Technical Skills

The "baby boomer generation" has developed advanced technical skills, but when that generation begins to retire, production overseas will have to be expanded sharply, and therefore Daikin is advancing with efforts to pass the technical production skills that form the basis for manufacturing to its overseas bases. To achieve this, we launched committees for passing down technical skills both in Japan and at four locations overseas, and are designating technicians who have mastered their skills as "meisters", and candidates for becoming meisters as "trainers", and are fostering skilled technicians both in Japan and abroad. We also hold a "Technical Skills Olympics" once every two years on a global scale, and are aiming to pass down technical skills by designating technicians who have accumulated superior results as trainer candidates.

Promotion of Local Personnel at Overseas Bases

In conjunction with the globalization of the Daikin Group's business, we are also advancing with efforts to globalize our management team, and are aggressively promoting local employees at overseas bases to executive and managerial positions. As of the end of fiscal year 2016, local employees accounted for 51% of the presidents at our overseas bases and 47% of the directors. Furthermore, 13 of our 20 sales companies in Europe have local employees serving as presidents.

Promoting the Active Role of Women

Daikin Industries is targeting a work environment that allows all employees to fully exhibit their capabilities regardless of gender, and is making an effort to promote the active role of women.

As a goal, by the end of fiscal year 2021, we aim to have at least one female director, and to increase our percentage of female managers to 10% (approximately 100 people) from the current level of 3.6%. In fiscal year 2016, we established a "Female Feeder (education) Position" as a managerial post for promoting women in each division, started fostering female managerial personnel in a planned manner, and began the "Youth Challenge Program" for young women wanting to become future executives. We are also providing support for female employees by introducing on a trial basis a "Sponsor System" in which superiors support female executive and managerial candidates for whom they are directly responsible, and through introducing a "Mentor System" to provide career and workplace related advice.

These types of efforts to promote women in the workplace have been recognized, and in March 2016, Daikin Industries was selected by the Ministry of Economy, Trade and Industry (METI) as one of the "100 top companies for new diversity management", and was granted the "Nadeshiko Brand" by METI and the Tokyo Stock Exchange.

Acquired OHSAS 18001 and Other Such Certification

In order to ensure safe plant operations and employee safety, the Daikin Group is independently creating occupational health and safety management systems (OHSAS) at each base, and is acquiring certification for international standards such as OHSAS 18001. As of the end of fiscal year 2016, three manufacturing facilities in Japan and 21 companies overseas had received OHSAS 18001 and other such certification.

The Daikin Group also holds joint safety and security meetings twice each year for the purpose of improving the safety level of the entire Group and to share expertise. Every Daikin facility both in Japan and abroad also carries out its own safety activities such as education and safety patrols aimed at achieving zero workplace accidents.

Compliance Risk Management / Risk Management / CSR Promotion System

■ Compliance Risk Management

Integration of Compliance and Risk Management

Compliance violations are one type of risk, and thus the Daikin Group deals with compliance and risk management in an integrated matter.

The "Corporate Ethics and Risk Management Committee" is chaired by the director in charge of corporate ethics and compliance, and is configured from the managers of each division and the presidents of each of the main Group companies in Japan. As a general rule, the committee meets twice each year to identify issues that need to be reinforced and find the necessary solutions, and the details of deliberations held by the committee are reported to top management.

A Compliance Risk Management Leader (CRL) is appointed in each division and for each of the main Group companies in Japan. Meetings of the CRL are held each month to confirm the compliance risk management efforts being made by each division and each main Group company in Japan, to share information, and to conduct compliance education and training, and efforts are made to foster a "culture free of (compliance violations)" and to elevate "mechanisms to ensure that there are no (compliance violations)".

Bidirectional Enhancement of Activities with Overseas Group Companies

Overseas, members of the Corporate Ethics and Risk Management Group visit overseas Group companies periodically, and participate also in compliance committees in each region. The purpose is to confirm the status of efforts relating to compliance risk management and to share information, and, for example, efforts are made to enhance activities such as incorporating cutting-edge efforts made by Group companies overseas in Daikin Industries.

■ Risk Management

With the expansion of the Group's business, the overall image of risks on a global level must be understood and alleviated. To achieve this, laterally based risk management is being introduced Companywide.

"Self-Inspection" of Laws and Ordinances

Each year, a self-check from the perspective of laws and ordinances is conducted by each division and each Group company through an independent "self-inspection" in order to promote compliance.

Based on the results, a "legality audit" is implemented by the Legal Department in each division and Group company to confirm adherence to laws and ordinances.

Each year, all divisions implement a risk assessment to identify and select critical risks, and then the divisions formulate necessary countermeasures. The most-critical risks for the entire Company are also identified from the assessment results, and efforts are made to develop and implement countermeasures to thereby reduce those risks. In fiscal year 2016, six key themes were selected for risk management including "Earthquake Risk", "PL Quality Risk", "Intellectual Property Risk", "Information Leakage Risk", "Overseas Crisis Management", and "Risk of Improper Accounting".

■ CSR Promotion System

The purpose of CSR efforts is to fulfill our responsibility to society through the business activities of the Daikin Group based on corporate ethics and thorough adherence to laws and ordinances.

The "CSR Committee", chaired by the director in charge of CSR, sets the overall direction of CSR activities and monitors the execution status of those activities, and the "CSR & Global Environment Center", which is the staff division, was established to promote CSR activities.

Based on external environmental changes, in fiscal year 2016, the responsibilities that should be fulfilled by the Company, and the value that should be provided were discussed by members of the CSR Committee. A form that aims for the creation of social value and sustainable growth for both society and the Company through business activities was then incorporated into the FUSION 20 strategic management plan through fiscal year 2021.

Respect for Human Rights / Supply Chain Management

■ Respect for Human Rights

Based on the laws and ordinances of countries and regions around the world, the Daikin Group respects basic human rights in accordance with the various international norms.

The Daikin Group participates in the "United Nations Global Compact" for supporting and putting into practice universally accepted principles relating to matters such as human rights and labor. Our "Group Compliance Guidelines" stipulate policies for respecting human rights, diverse values, and sense of work, and policies for no child labor or forced labor.

Self-Inspection

The "Corporate Ethics Handbook" stipulates "Group Compliance Guidelines", which summarize the laws, regulations, and conduct that the Daikin Group in Japan must follow. It also clearly specifies respect for human rights in the workplace. In addition, an item relating to respect for human rights was included as part of the "self-inspection" that is conducted each year from the viewpoint of compliance, and now the inspection includes confirming that there are no human rights violations or other such problems.

Group companies overseas are also creating their own "Corporate Ethics Handbooks" based on the "Group Compliance Guidelines", and are making efforts to ensure total respect for human rights in the workplace.

The Daikin Group also participates in the activities of the Global Compact Japan Network, through which we learn from experts and cases at other companies regarding global human rights issues, and this helps us improve our own efforts in this area.

Human Rights Awareness and Education

Daikin Industries conducts human rights education and awareness activities each year for all of its directors, new employees, newly appointment managers, and mid-level employees. We also publish a series of human rights articles in the Company newsletter to raise awareness of human rights. At Daikin America, focus is centered on creating a workplace environment that respects coworkers, and all employees are educated in this area each year.

■ Supply Chain Management

In 1992, the Daikin Group prepared Basic Procurement Guidelines, and based on those guidelines, we aim to engage in fair trade practices with our suppliers. At Daikin, we believe that our scope of social responsibility is not limited to just our Group, but also includes our entire supply chain, and therefore in addition to green procurement, we promote CSR activities by our supply chain as well from perspectives such as quality, human rights, and labor.

Strengthening Relationships of Trust with Suppliers

The Daikin Group aims to build strong relationships of trust with all suppliers, to meet mutual expectations, and to build growing and expanding relationships. We periodically conduct quality audits at the production sites of our suppliers both in Japan and overseas, have ongoing dialog relating to quality improvements, and collaborate with our suppliers in quality improvement efforts. More specifically, we dispatch "meisters" (see p. 26), encourage participation in the Technical Skills Olympics, and engage in other various efforts to improve technical capabilities. We also hold safety-related briefing sessions for our suppliers in order to support efforts to prevent work-related accidents before they occur.

In China, Daikin Air-conditioning (Shanghai) Co., Ltd. has been engaged in efforts since fiscal year 2016 to reinforce the quality control of its suppliers, and the number of suppliers participating in the efforts has expanded to 97 companies from 20 companies the previous year. The efforts include educating and testing the quality control managers of suppliers regarding fundamental knowledge, and then having those managers who have passed testing submit improvement proposals relating to quality problems. Thus far, 10 companies have been recognized for their excellent performance.

Supply Chain CSR Promotion Guidelines

Among CSR activities in our supply chain, we are endeavoring in particular to understand CO_2 emission levels and to properly control substances subject to international regulations such as designated chemical substances and conflict minerals.

We recognize that the occurrence of supply problems due to earthquakes or other such natural disasters, the occurrence of supply problems due to bankruptcy from a slump in supply management, violations of laws or ordinances, accidents, and a suspension of international distribution due to country risks are all risks with respect to supply chains. Therefore, we are building an in-house system that enables us to immediately make a decision regarding a supplier that has been affected in some way, and are constantly updating our database so that we can strengthen our ability to respond when a problem occurs.

In fiscal year 2017, we plan to devise Supplier CSR Promotion Guidelines and to explain those guidelines to our suppliers.

Stakeholder Engagement / Regional Society

■ Stakeholder Engagement

The Daikin Group believes that stakeholder engagement is of significant importance, and in order to continue contributing to society, the Daikin Group routinely uses every means possible to listen to the opinions of our stakeholders, report these to Company officers, and utilize those opinions in business management.

Dialog with Experts—Exchanging Opinions on Air Conditioning and Environmental Problems

The Daikin Group holds air-conditioner forums both in Japan and abroad where we can exchange opinions relating to the "future of air conditioning" with experts in the field. We exchange opinions about our Company's technologies, and utilize that information in product and business development. In fiscal year 2016, we held discussions about energy conservation technologies and next-generation refrigerants in North America and Mexico, and in Europe, expectations are high for the activities of the Technology Innovation Center.

Since fiscal year 2014, Daikin Industries has also held the "Daikin Air Forum", a platform for discussion between outside experts and Daikin engineers regarding social issues with regards to "air". In fiscal year 2016 as well, we also exchanged opinions regarding "new social values" with experts from various fields such as air conditioning, construction, livelihood, and medical science.

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.

■ Regional Society

The Daikin Group is made up of 213 Group companies worldwide, has production bases in over 80 locations, and is expanding business in over 145 countries. Premised on fulfilling our social responsibility of expanding regional employment and cooperating with local companies, our basic policy is to develop strong bonds with local communities as a member of the regional society operating a business while respecting the culture and history of each country and region.

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

Environmental Protection—Forest Preservation Activities

Daikin Industries is advancing with efforts to protect and regenerate nature in collaboration with all types of people such as governments, local residents, NGOs, and Group employees. In June 2014, we partnered with Conservation International, an international NGO, and the Shiretoko Nature Foundation to launch the "Forests for the Air" project. We are engaged in efforts to promote the coexistence of the lifestyles of local residents with the preservation of forests and biodiversity in seven locations, including the Shiretoko Peninsula, which is a world natural heritage site, as well as in Indonesia, Brazil, Cambodia, India, China, and Liberia.

Supporting Education

Providing Environmental Education for Elementary School Students

Since 2010, Daikin has offered a "Circle of Life" environmental education program for elementary school children centered on a theme of biodiversity. The course is based on four classroom lessons taught by school teachers, and when desired, schools can request to have Daikin employees come to the school to teach lessons as well. In fiscal year 2016, approximately 2,000 students from 30 schools participated in the program.

Constructing Preschools and Schools

Daikin Europe built a preschool in Gambia, West Africa that is now attended by 181 students.

Daikin Airconditioning India repaired the walls and doors, installed toilets, fans, and drinking water equipment, and provided other support, including supplying desks and chairs at four public schools.

Symbiosis with Regional Societies

Supporting the Activation of Okinawa

Since 1988, Daikin Industries has held the "Daikin Orchid Ladies Golf Tournament", and by promoting sports, we are endeavoring to activate Okinawa and encourage economic interchange with the local area.

In conjunction with this tournament, we solicit donations that we then present as an "Orchid Bounty" on an ongoing basis to individuals and organizations that promote areas such as the arts, culture, education and sports in Okinawa.

Bon Festival

Daikin is engaged in efforts to deepen interchange with local residents and build relationships of trust. As part of those efforts, the "Bon Festival", which is planned and operated by Daikin employees, is a large event that attracts attention by numerous local residents. In addition to manufacturing plants in Japan, the festival is also held at our main production bases in China, the United States, and other areas.

Eleven-Year Financial Highlights

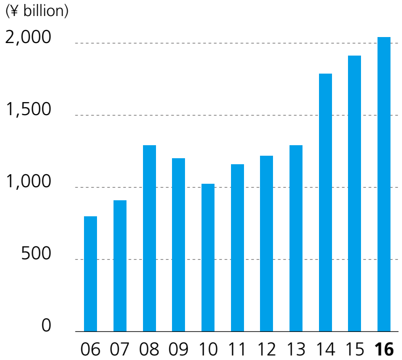
Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

	2006	2007	2008	2009
Operating Results (for the year):				
Net sales	¥792,837	¥911,749	¥1,291,081	¥1,202,420
Gross profit	269,906	312,688	441,549	363,660
Selling, general and administrative expenses	203,359	231,934	313,451	302,266
Research and development expenses (Note 1)	26,648	27,204	32,075	30,535
Operating income	66,547	80,754	128,098	61,394
EBITDA (Note 2)	95,816	115,315	179,469	118,325
Net income attributable to owners of parent	40,146	45,420	74,822	21,755
Cash Flows (for the year):				
Net cash provided by operating activities	¥63,511	¥ 83,725	¥103,329	¥62,238
Net cash used in investing activities	(63,420)	(305,251)	(76,428)	(99,302)
Free cash flow (Note 3)	91	(221,526)	26,902	(37,065)
Net cash provided by (used in) financing activities	(4,284)	245,975	3,367	48,382
Financial Position (at year-end):				
Total assets	¥716,440	¥1,161,364	¥1,210,094	¥1,117,418
Total interest-bearing liabilities	172,995	456,074	356,928	417,919
Total shareholders' equity	340,523	397,542	545,641	471,686
Per Share Data (yen):				
Net income (basic)	¥ 152.11	¥ 172.66	¥ 262.24	¥ 74.51
Shareholders' equity	1,293.41	1,511.47	1,867.79	1,615.98
Cash dividends	22.00	28.00	38.00	38.00
Ratios (%):				
Gross profit margin	34.04%	34.30%	34.20%	30.24%
Operating income margin	8.39	8.86	9.92	5.11
EBITDA margin	12.09	12.65	13.90	9.84
Return on shareholders' equity (ROE)	13.11	12.31	15.87	4.28
Shareholders' equity ratio	47.53	34.23	45.09	42.21

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.

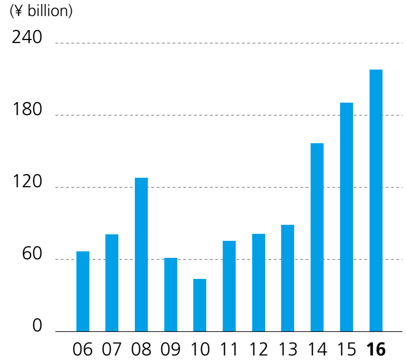
Net Sales

(¥ billion)



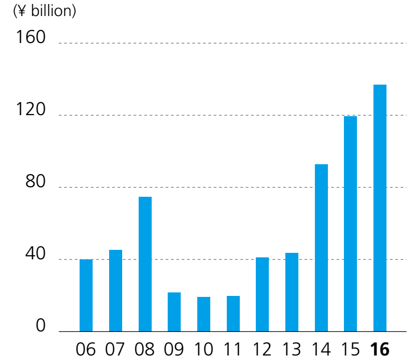
Operating Income

(¥ billion)



Net Income Attributable to Owners of Parent

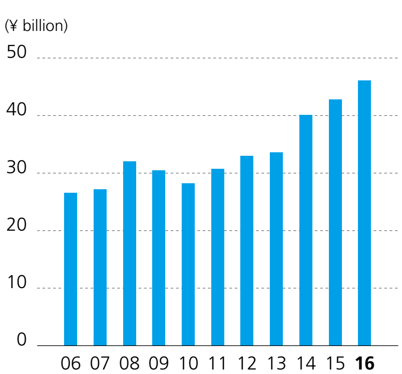
(¥ billion)



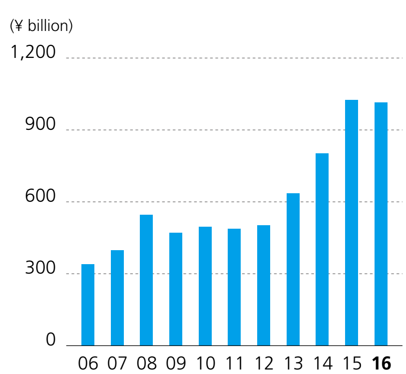
Millions of yen

2010	2011	2012	2013	2014	2015	2016
¥1,023,964	¥1,160,331	¥1,218,701	¥1,290,903	¥1,787,679	¥1,915,014	**¥2,043,691**
319,301	361,665	371,902	388,046	568,323	649,902	**711,576**
275,263	286,210	290,709	299,419	411,786	459,314	**493,704**
28,220	30,771	32,987	33,569	40,177	42,892	**46,138**
44,038	75,455	81,193	88,627	156,537	190,588	**217,872**
96,462	127,168	131,719	140,151	235,439	268,354	**302,075**
19,391	19,873	41,172	43,585	92,787	119,675	**136,987**
¥129,227	¥78,411	¥44,967	¥103,161	¥179,713	¥160,423	**¥226,186**
(39,848)	(23,306)	(62,955)	(218,386)	(80,835)	(77,331)	**(105,493)**
89,379	55,105	(17,988)	(115,225)	98,878	83,092	**120,693**
(34,942)	(37,623)	(1,113)	143,520	(38,249)	(83,073)	**(85,422)**
¥1,139,656	¥1,132,507	¥1,160,564	¥1,735,836	¥2,011,870	¥2,263,990	**¥2,191,105**
399,313	372,481	389,891	705,871	693,944	662,413	**608,981**
496,179	487,876	502,309	618,118	801,853	1,024,725	**1,014,409**
¥ 66.44	¥ 68.14	¥ 141.37	¥ 149.73	¥ 318.33	¥ 410.19	**¥ 469.23**
1,701.29	1,672.74	1,725.64	2,123.10	2,748.08	3,511.34	**3,473.54**
32.00	36.00	36.00	36.00	50.00	100.00	**120.00**
31.19%	31.17%	30.52%	30.06%	31.79%	33.94%	**34.82%**
4.30	6.50	6.66	6.87	8.76	9.95	**10.66**
9.42	10.96	10.81	10.86	13.17	14.01	**14.78**
4.01	4.04	8.30	7.78	13.07	13.10	**13.44**
43.54	43.08	43.28	35.61	39.86	45.26	**46.30**

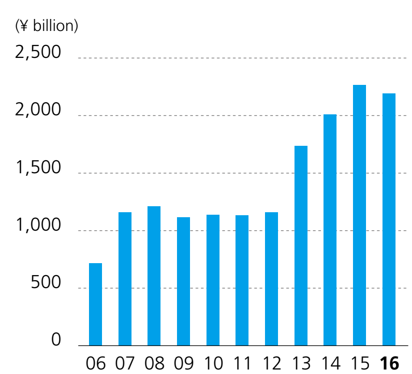
Research and Development Expenses



Shareholders' Equity



Total Assets



Summary of the Period

Looking at economic conditions throughout the world during fiscal 2016, the U.S. economy was supported by robust personal consumption. Although the economies of Europe were on a moderate recovery trend, negative factors included geopolitical risks. The newly emerging economies, principally China and the resource-producing countries, reported slower growth. In the Japanese economy, domestic demand, including private capital investment, continued to be firm, but the deceleration in overseas economies was a factor placing downward pressure on the economy. Amid this business environment, the Daikin Group took initiatives to create demand around the world from the beginning of the year, placing particular focus on structuring an original sales network, introducing differentiated products one after another, and implemented measures to further develop its business activities. The Group expanded sales of its principal products and services, focusing on the air-conditioning business in China and elsewhere in Asia. In addition, the Group stepped up its total cost reduction activities and endeavored to address its core themes to reach the objectives of the FUSION 15 strategic management plan and expand income.

Turning to performance, overseas sales, principally in the Americas, Asia, and Europe, were favorable. In China also, the Group worked to expand sales of high-value-added products. As a result of these factors and the decline in the value of the yen, mainly against the U.S. dollar, which increased sales in yen terms, consolidated net sales amounted to ¥2,043.7 billion, representing a 6.7% increase year on year.

Consolidated operating income was ¥217.9 billion, an increase of 14.3% year on year, and net income attributable of the owners of the parent company amounted to ¥137.0 billion (an increase of 14.5% year on year).

Among consolidated cash flows, as a result of an increase in income before income taxes and a rise in trade notes and accounts payable, net cash provided by operating activities rose ¥65.8 billion, to ¥226.2 billion. Among investing cash flows, payment for purchases of property, plant and equipment increased, and, as a consequence, net cash used in investing activities was ¥28.2 billion lower and amounted to net cash used in investing activities of ¥105.5 billion. Among financing activities, as a result of proceeds from the issuance of bonds in the previous fiscal year, net cash used in financing activities was ¥2.3 billion lower than in the prior fiscal year, and amounted to an outflow of ¥85.4 billion. As a consequence of these factors, the balance of cash and cash equivalents at the end of the fiscal year was ¥291.2 billion, ¥4.3 billion higher than in the previous fiscal year.

In addition, interest-bearing debt decreased ¥53.4 billion due to repayments of long-term debt and amounted to ¥609.0 billion at fiscal year-end. The interest-bearing debt ratio (interest-bearing debt divided by total assets) decreased to 27.8%, compared with 29.3% at the end of the previous fiscal year.

Currency Exchange Rates

During the fiscal year, the yen depreciated against the U.S. dollar, but it appreciated against the euro. The average exchange rates for the yen were ¥120 to one U.S. dollar and ¥133 to one euro. The impact of exchange rate fluctuations on Company sales was +¥62.0 billion, and the effect on operating income was +¥2.0 billion.

	Fiscal 2015	**Fiscal 2016**
Yen-U.S. dollar rate	¥110	**¥120**
Yen-euro rate	¥139	**¥133**

SG&A Expenses and Operating Income

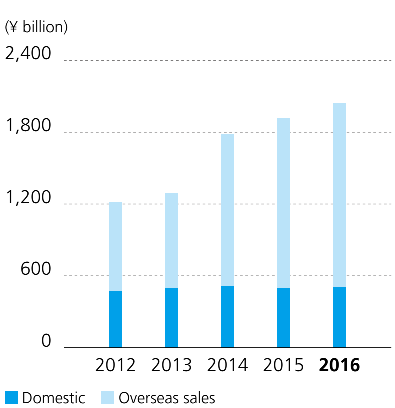
Selling, general and administrative expenses rose 7.5%, to ¥493.7 billion, because of an increase in employee salaries and rose to 24.2% of net sales.

Consolidated operating income rose 14.3%, to ¥217.9 billion, and the operating income ratio increased 0.7 percentage point to 10.7%.

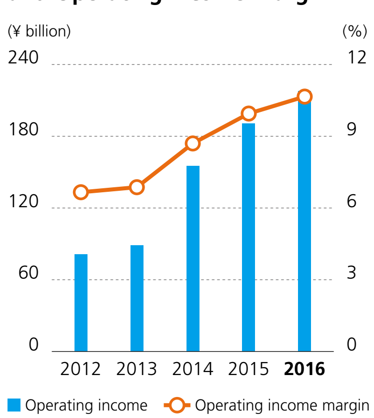
R&D Expenses

In response to an increase in worldwide concern regarding global warming and energy issues, the Group is engaged in leading-edge R&D programs

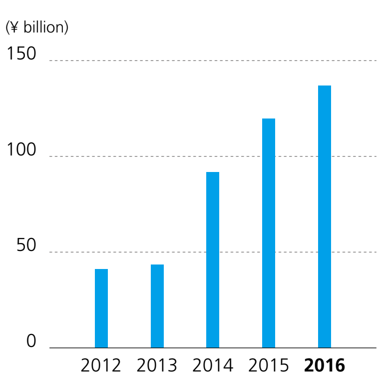
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income Attributable to Owners of Parent



designed to proactively contribute to the resolution of global environmental issues, while also expanding the Group's business operations.

In 2015, the Group established its Technology Innovation Center (TIC) in Osaka, which is the core facility for the technology and product development of the Daikin Group. This center is responsible for the R&D within the Group and for combining the world's knowledge, including that of industries, academia, and the government, to conduct R&D on cutting-edge technologies and basic technologies as well as develop and provide customers with new value-added and differentiated products.

In fiscal 2016, R&D expenses included in cost of goods sold and SG&A expenses amounted to ¥46.1 billion.

• Air-Conditioning and Refrigeration Equipment

R&D expenses for air-conditioning and refrigeration equipment operations totaled ¥39.8 billion.

Wall-mounted-type Urusara 7, which is for residential use, demonstrates standard heating performance even when the outside temperature is minus 15 degrees centigrade and gives the same high level of heating performance in cold regions. In addition, in a first for the industry, Daikin developed the first "vertical direct air flow" along the wall below the unit to the floor. This unit controls the flow of air, preventing direct flows to the people in the room and gives the pleasant feeling of a built-in floor heating system. These units continue to feature the waterless humidifier system of previous units and just-right control of humidity and temperature, but have the added feature of air flow control, which secures an even more pleasant air-conditioning experience. For cooling, these units also feature "Premium Cooling," which allows temperature adjustments in 0.5 degree centigrade units and have a "circulation air flow" feature, not available on other units, that maintains a pleasant air-conditioning experience throughout the year.

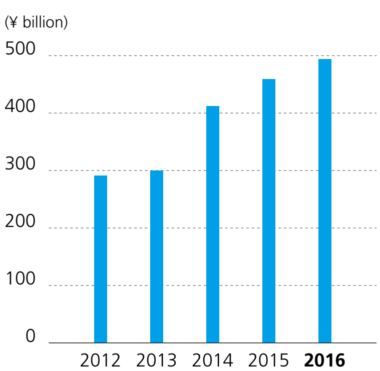
In the commercial-use air-conditioner business, in October 2015, Daikin introduced its FIVE STAR ZEAS system for stores and offices. To respond to needs for air-conditioner renewal, Daikin adopted an all-aluminum double micro-channel heat exchange unit that is highly efficient and realizes a high level of energy conservation. Even when these systems have their heat exchange units replaced, compared to previous ion-pattern air conditioners, they realize about 70% energy conservation. Also, as a result of the reduction in coolant used, their effect on earth warming is lowered by about 76%. Moreover, Daikin has substantially expanded its lineup of indoor units which can use the new HFC32 (R32) refrigerant. The FIVE STAR ZEAS series has pursued and taken to a high level the five key features needed in commercial air conditioners of energy conservation, environmental friendliness, comfort, safe and reliable design, and ease of installation. Daikin is working to further expand the usage of this series.

With respect to multiple air-conditioning systems for office buildings, Daikin has been developing systems that will reduce building energy usage to a net zero figure and make "net zero energy buildings" a reality. As a result of this development activity, Daikin launched its VRV X series, which greatly improves annual running efficiency. This series substantially reduces annual electric power costs through the introduction of a new-type scroll pressure unit that significantly increases running efficiency during low-load operating periods and a new refrigerant control that automatically regulates refrigerant temperature to match heat loads. In addition, this series can operate even under very difficult conditions when the outside temperature is 50 degrees centigrade. This series also increases the range of options for tube connections, and, therefore, can be installed in a diversity of places and ways.

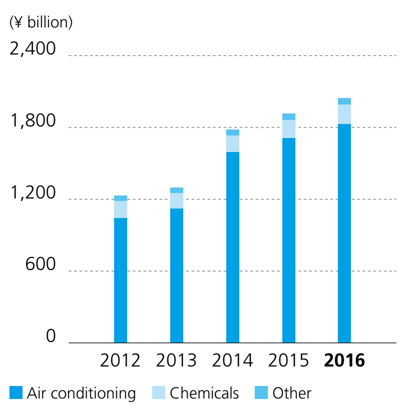
In the resident air cleaner business, Daikin conducted a thorough zero-based review of its work and installation components, and launched a completely new residential air cleaning system. Until now, components were installed from the front of the unit to the rear. In the new units, the parts are stacked from the bottom, and the unit assumes a tower-like shape, thus saving about 20% of the area where the unit is placed compared with previous units. The audible sound of the unit is substantially reduced, and, keeping with the stylish look of the unit, it achieves much better performance.

In North America, Daikin launched its new-type inverter screw chiller in December 2015. This new unit features increased capacity in the volume zone in comparison with cooler scroll chillers.

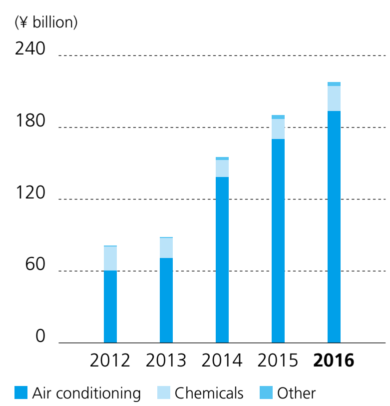
Selling, General and Administrative Expenses



Sales by Segment



Segment Profit



In China, Daikin expanded its lineup of module chillers and two-stage turbo refrigerator equipment to meet expected demand for the renewal and replacement of existing equipment. Daikin also further developed its lineup to meet demand for magnetic bearing turbo models for the high IPLV market. In addition, water-cooled screw chillers were converted to AC inverter types, and air-cooled screw chillers were converted to micro-channel types.

In Europe, Daikin introduced new models of air-cooled inverter screw chillers to spread the use of these high-efficiency units. These models are installed with micro-channel heat exchangers, and, to meet differing control requirements, made simplified unit number control functions a standard feature on the lineup.

• Chemicals

R&D expenses for Chemicals operations totaled ¥5.0 billion.

Daikin 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, wire and cable (IT field), and other applications. In coating materials development, Daikin makes use of the non-adhesive and chemical resistance properties of fluoride-based substances. During the year under review, Daikin developed and marketed a new fry pan coating material (that combines ceramic and fluoride technologies) in collaboration with Kyocera Corporation. In addition, Daikin developed water and oil repellent textiles treatment materials as well as carpet treatment materials. Daikin is also developing materials for LCD-related applications that draw on the functionality of fluorocompounds, and has received an order for a project to develop intermediate materials for medical use. In these and a wide range of other areas, Daikin engages in fluoride-related R&D.

In addition to the development of materials, as part of R&D in peripheral areas to develop technologies and applications, Daikin is working on the development of film process products, multilayered materials, and advanced materials research related to the medical, optical, and environmental areas, and, by probing the depths of fluoro-related research and applications, is aiming to become fluoride "global No. 1, only 1" in the development of chemical solutions. Especially in the energy field, Daikin is concentrating on 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.

In the refrigerant field, Daikin acquired a production facility of Solvay S.A. to expand its activities globally. Daikin is also conducting R&D related to next-generation refrigerants to cope with environmental regulations. In addition to being applicable for use in building and home air-conditioning equipment, Daikin has also made a full-scale entry in the automobile-related business.

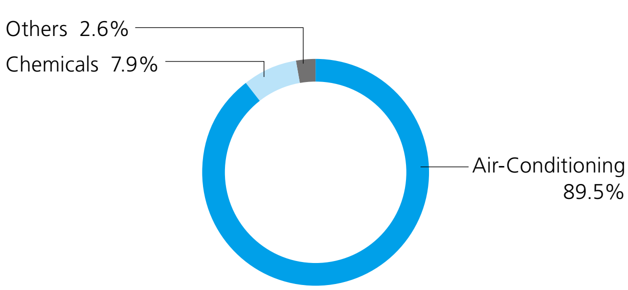
Daikin will accelerate its R&D in these areas, and in its Chemical Research and Development Center seamlessly develop new products and next-generation products. Through its Technical Service Center, Daikin will respond swiftly to user requests and take responsibility for addressing properly short- to medium-term themes. In addition, in TIC, Daikin is exploring the next generation of themes.

• Other Operations

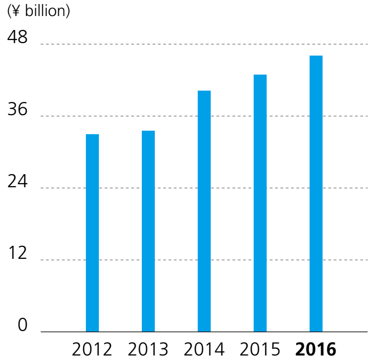
R&D expenses for Other operations totaled ¥1.4 billion.

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 the industrial press business, Daikin's "Super Unit" has won high acclaim for its low electric power consumption and resulting energy

Composition of Sales



Research and Development Expenses



conservation. It also features low noise and lower heat emissions, and it contributes to the work environment through the use of a reduced-size oil tank, and reduces the burden on the environment.

In addition, Daikin has launched a large-scale extruder system that equals electric power as a motive force for its responsiveness and energy conservation. This system can handle multiple voltages and has other features needed in Asia and other regions where adaptation to local conditions is needed. Daikin will expand this system's lineup, and it is being adopted in many locations where presses and other machines are needed. Daikin is adapting its products to additional uses globally and will move forward with sales expansion.

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

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

Net Income Attributable to Owners of Parent

Net income attributable to the owners of the parent company rose 14.5%, to ¥137.0 billion.

Dividend Policy and Dividends Applicable to the Fiscal Year

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. The aim of these initiatives is to become a truly global excellent company and, at the same time, substantially augment corporate value.

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

Internal reserves will be applied to strengthen the Daikin Group's business and financial position to accelerate the development of global businesses, further the development of environment-friendly products, and make strategic investments to expand business activities and strengthen competitiveness.

For the fiscal year ended March 31, 2016, Daikin increased its total cash dividend by ¥20 per share to ¥120 per share (including an interim dividend of ¥55 per share and a year-end dividend of ¥65 per share). For the current fiscal year ending March 31, 2017, the Company plans to distribute a total annual dividend of ¥120 per share (comprising an interim dividend of ¥60 per share and a year-end dividend of ¥60 per share).

Performance by Business Segment

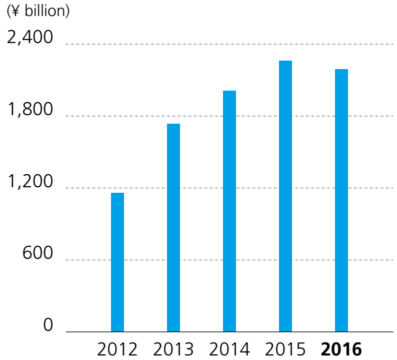
• Air-Conditioning and Refrigeration Equipment

Total sales of the Air-Conditioning and Refrigeration Equipment segment increased to ¥1,828.0 billion, up 6.8% from the previous fiscal year. Operating income increased 13.7%, to ¥193.8 billion.

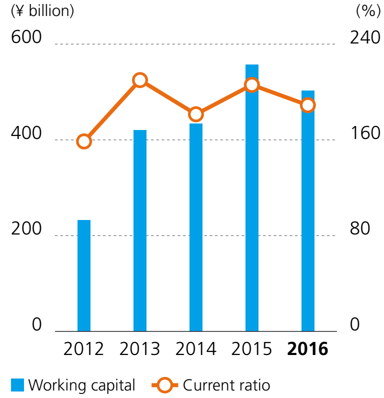
Japan

In Japan's commercial air-conditioning market, as a result of the weakness in new construction starts, industry demand was below the previous year. The Daikin Group was also influenced by effects of weak demand, and units sold were below the levels of the previous fiscal year. However, Daikin worked to expand sales of its store and home use units, namely, the FIVE STAR ZEAS series, Eco-ZEAS series, and its large-scale (applied) units, all of which use the new HFC32 (R32) refrigerant.

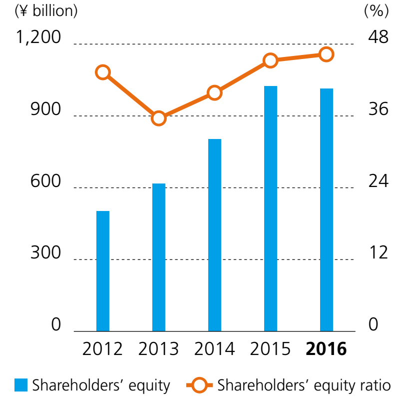
Total Assets



Working Capital and Current Ratio



Total Shareholders' Equity and Shareholders' Equity Ratio



Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2016)

(1,000 units)

	First half	Year on year	Second half	Year on year	Full year	Year on year
Residential use	5,185	98%	2,980	104%	8,165	100%
Commercial use	408	92%	365	91%	773	92%

In the residential air-conditioning equipment market in Japan, although overall demand was adversely influenced by unseasonable weather during the prime selling seasons of summer and winter, demand for the full year was at about the same level as in the previous fiscal year. The Daikin Group drew on the brand power of its Urusara 7 air conditioners and worked to expand sales of the full lineup, and, as a consequence, sales were about the same as in the previous year.

Europe

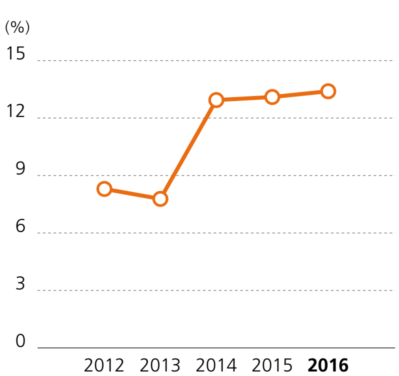
In Europe, demand in the principal markets of southern Europe and central Europe took a turn for the better along with the improved summer weather. Taking full advantage of its strengths in local production, Daikin supplied products in a timely fashion and strengthened its sales promotion activities, and, as a consequence, sales of residential air-conditioning equipment rose substantially over the previous year. In the United Kingdom and Germany, even commercial air-conditioning equipment sales rose over the prior year, despite a slowing of the recovery in building construction, as Daikin strengthened its sales visits in these countries and improved its follow-up activities. In addition, even heat-pump type water heating equipment sales expanded in France, the principal market, where Daikin seized demand triggered by tightening of regulations.

In the emerging markets, in the Middle East and Africa, major projects were delayed at customers' convenience against a background of the prolonged slump in crude oil prices in the Gulf region and rising geopolitical risks. However, because Daikin strengthened its order-taking initiatives for small and medium-sized projects and because shipments for projects that had been delayed commenced, sales rose significantly over the previous year. In addition, in Russia and Turkey also, as a result of stepped-up order-taking activities, sales rose over the previous year.

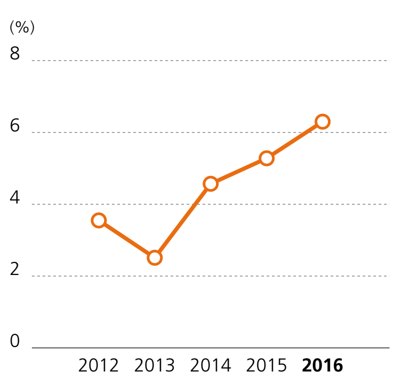
China

In China, conditions in the business environment continued to be severe due to declines in major investments and real estate projects, but the Daikin Group focused on sales through retailers and town shops to capture firm consumer spending. In the latter half of the year, although the slowing of the economy had some impact, Daikin launched new products from the latter half of the year onward, and sales recovered to the levels of the previous year. Also, because of cost reductions centered around shifting to in-house parts production, weakening of prices in raw materials markets, and positive effects of foreign currency fluctuations, Daikin was able to secure sales in all regions at previous year levels, and operating income rose above the prior year. In the residential air-conditioner business, Daikin drew on the strengths of specialist retailers and town shops, so-called "pro shops," for preparing proposals that offer new lifestyles to customers and for implementing installation work, and expanded sales of its "New Life Multi Series." Sales of residential air conditioners were at the same level as in the previous year, but sales were driven by residential multi-air conditioners into the middle-class residential market, and sales in the second half rose above the previous period. In the large-scale air-conditioning system field, amid the effects of the economic slowdown, Daikin is working to expand sales for remodeling needs in the shops and general office market, where demand is relatively strong, and demand will begin to recover in the latter half of the year, but, for the year as a whole, sales will be below the previous fiscal year.

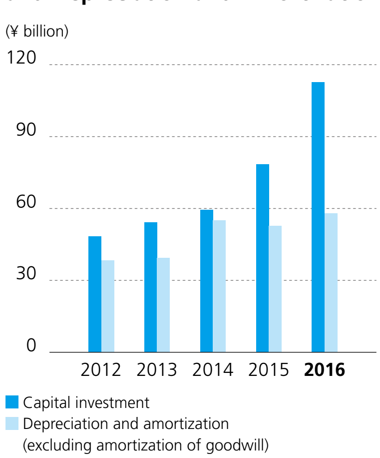
ROE



ROA



Capital Investment and Depreciation and Amortization



Asia/Oceania Region

In the Asia/Oceania region, as a result of initiatives to strengthen the sales network, sales in the region as a whole were above the previous year. In particular, Daikin worked to seize demand in Vietnam and Indonesia, where demand for residential air-conditioning equipment is expanding along with growth in the middle-class market. As a result, sales expanded substantially over the previous year.

Americas Region

In the Americas region, sales for the region as a whole were above the level of the previous year. Industry demand for residential air-conditioning equipment was below the previous year because of the reactionary decline in demand following the surge in the previous year triggered by tightening of energy conservation restrictions and the unseasonably warm winter. However, Daikin's equipment sales were above the previous year.

For light commercial equipment (commercial air-conditioning equipment for medium-sized buildings), Daikin has developed sales policies by routes, and sales were above the previous year. Demand for applied equipment was above the previous year, and, in this operating environment, sales of air-handling unit chillers and other equipment as well as maintenance services for these units in Central America and South America expanded and were above the previous year.

• Chemicals

Total sales in the Chemicals segment rose 8.5% year on year, to ¥162.3 billion, and operating income amounted to ¥20.6 billion, 24.6% above the previous year.

Regarding fluorochemical resins, performance was influenced by the effects of low-priced sales by competitors in the Chinese market, the decline in sales of wire and cable for telecommunications stations, competition in the U.S. market, and low pricing of products made in China and India. However, demand remained favorable in semiconductor-related products, mainly in Japan and the rest of Asia, and, as a result, sales were above the previous year.

In the chemical products business, as a result of entry into the water and oil repellent chemicals market, sales, mainly in the United States and China, expanded and were above the previous year. Sales of surface protection coating materials, which are used for touch panels, were supported by strong demand, and sales were above the prior year. Sales of etching agents, which are used for cleaning semiconductors, expanded in Japan and the rest of Asia due to strong demand in related fields, and sales were up over the previous year. In Europe, sales of intermediate materials for use in pharmaceuticals and LCDs were favorable and showed significant expansion. As a result of these developments, overall sales of chemical products were above the previous year.

In the fluorocarbon gas business, because sales were restrained in response to the deterioration in market conditions in China, sales were below the previous year, but with the addition of the European gas business of Solvay, sales of gases overall rose markedly over the previous year.

• Other operations

Total sales in this segment amounted to ¥53.4 billion, 2.0% lower year on year, and operating income decreased 1.5% year on year, to ¥3.5 billion. Daikin recorded robust sales of oil hydraulic equipment for industrial use in the U.S. market, but, because of the effects of stagnation in demand in Japan and the markets in the rest of Asia, sales were approximately the same as in the previous year. Sales of oil hydraulic equipment for construction equipment and motor vehicles to major Japanese customers for export to the United States continued to be strong, but in Japan, there was a reactionary decline to a surge in the previous year in anticipation of the tightening of exhaust gas restrictions. As a result, sales were at the same level as in the previous year.

In the specialized machinery businesses, sales of home-use oxygen therapy products were firm, but sales of artillery shells for Japan's Ministry of Defense decreased year on year.

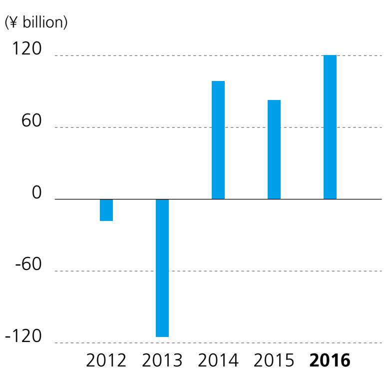
In the electronic systems business, IT investments are rising moderately, and sales, mainly of database systems for design and development purposes, expanded.

Outlook for Fiscal 2017

The outlook for the world economy is that personal consumption will support the economy of the United States and that the European economies will remain on a moderate recovery trend. In Japan, against a background of lower interest rates, residential housing and capital investment will continue to be firm, but, on the other hand, the deceleration in overseas economies will be a factor placing downward pressure on the economy.

Amid this business environment, the Daikin Group selected "Each and everyone of us should secure a firm foothold and make major progress through polishing our strengths," [Create the Future, Exceed in a Changing

Free Cash Flow



World] as its policy for 2016, and amid the uncertainty in the world situation going forward, we must aim to generate results. Specifically, we should take continuing initiatives to enhance our sales and marketing capabilities; improve our product development, production, procurement, and quality; and strengthen our human resource and other capabilities. We should also pursue themes that will lead to further growth as we also select our investments carefully, make dramatic reductions in fixed costs, and step up our measures aimed at establishing a profitable earnings structure. The bottom line of these various initiatives should be to achieve gains in sales and profits.

The Daikin Group's performance outlook on a consolidated basis for fiscal 2017 is for a 1.8% increase in net sales, to ¥2,080.0 billion, a 1.0% gain in operating income, to ¥220.0 billion, and a 2.2% increase in net income attributable to owners of the parent, to ¥140.0 billion. Foreign currency exchange rates assumed for fiscal 2017 are ¥110/U.S. dollar and ¥125/euro.

Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2016, consolidated total assets amounted to ¥2,191.1 billion, down ¥72.9 billion from the previous fiscal year-end. Current assets were down ¥15.8 billion from the previous year-end, to ¥1,066.8 billion because of declines in inventories. Noncurrent assets declined ¥57.0 billion, to ¥1,124.3 billion, due to amortization of goodwill, changes in valuation of investment securities, as well as other factors.

• Liabilities and Total Equity

Consolidated total liabilities decreased ¥62.0 billion from the end of the previous fiscal year and amounted to ¥1,153.6 billion at the end of fiscal 2016 because of repayments of long-term debt and other factors. The interest-bearing debt to total assets ratio improved to 27.8%, from 29.3% at the end of the previous fiscal year.

Although Daikin reported net income attributable to the owners of the parent company, net assets decreased ¥10.8 billion, to ¥1,037.5 billion, because of the payment of cash dividends and foreign currency translation adjustments.

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 ¥112.7 billion in fiscal 2016, largely in the air-conditioning and chemicals business fields. In the air-conditioning field, Daikin invested ¥27.9 billion, including research on room air conditioners and package air-conditioner investments for rationalization objectives. At Goodman Global Group, Inc., investments of ¥32.9 billion were made primarily to increase capacity. In the chemicals field, the Group invested ¥12.5 billion, primarily to increase capacity and for rationalization objectives. In addition, Daikin Fluorochemicals (China) Co., Ltd., made ¥2.4 billion in investments for increasing capacity.

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

Cash Flows

Net cash provided by operating activities rose ¥65.8 billion, to ¥226.2 billion, as a result of an increase in income before income taxes and a rise in trade notes and accounts payable.

Among investing cash flows, payment for purchases of property, plant and equipment increased, and, as a consequence, net cash used in investing activities was ¥28.2 billion lower and amounted to net cash used in investing activities of ¥105.5 billion. Among financing activities, as a result of proceeds from the issuance of bonds in the previous fiscal year, net cash used in financing activities was ¥2.3 billion lower than in the prior fiscal year and amounted to an outflow of ¥85.4 billion. As a consequence of these factors, the balance of cash and cash equivalents at the end of the fiscal year was ¥291.2 billion, ¥4.3 billion higher than in the previous fiscal year.

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).

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 89.4% of the Daikin Group's consolidated net sales in fiscal 2016. 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 75.4% of the Daikin Group's consolidated net sales in fiscal 2016. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items for Group operations in each global region, including sales, expenses, and assets. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because the Group engages in foreign currency-denominated transactions in raw materials and component procurement and in the sale of goods and services, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

Major product quality claims

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

Major problems in manufacturing

The Group strives to implement thorough preventative maintenance measures at all its production facilities, regardless of whether they are in Japan or overseas. In addition, particularly with respect to the 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, 2016

	Millions of yen	
ASSETS	**2016**	2015
Current assets:		
Cash and cash equivalents (Notes 9 and 16)	**¥ 291,206**	¥ 286,950
Trade receivables (Notes 8 and 16):		
Notes	**50,730**	54,064
Accounts	**304,917**	300,417
Allowance for doubtful receivables	**(6,279)**	(6,897)
Inventories (Note 4)	**333,652**	354,159
Deferred tax assets (Note 13)	**33,987**	38,746
Prepaid expenses and other current assets	**58,556**	55,176
Total current assets	**1,066,769**	1,082,615
Property, plant and equipment:		
Land	**36,364**	37,562
Buildings and structures	**280,346**	260,576
Machinery and equipment	**495,660**	493,647
Furniture and fixtures	**163,060**	164,070
Lease assets (Note 15)	**5,692**	5,890
Construction in progress	**50,132**	33,834
Total	**1,031,254**	995,579
Accumulated depreciation	**(646,154)**	(647,823)
Net property, plant and equipment	**385,100**	347,756
Investments and other assets:		
Investment securities (Notes 6, 9 and 16)	**170,487**	200,451
Investments in and advances to unconsolidated subsidiaries and associated companies	**19,100**	20,336
Goodwill (Note 7)	**329,753**	369,965
Customer relationships	**124,672**	137,971
Other intangible assets	**64,436**	68,789
Deferred tax assets (Note 13)	**3,475**	2,933
Assets for retirement benefits (Note 10)	**11,540**	19,427
Other assets	**15,773**	13,747
Total investments and other assets	**739,236**	833,619
Total	**¥2,191,105**	¥2,263,990

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2016	2015
Current liabilities:		
Short-term borrowings (Notes 9 and 16)	¥ 54,675	¥ 57,898
Current portion of long-term debt (Notes 9 and 16)	72,941	39,010
Current portion of long-term lease obligations (Note 15)	1,943	1,913
Trade payables (Note 16):		
Notes	7,959	8,362
Accounts	148,079	145,576
Income taxes payable (Note 16)	11,511	21,515
Deferred tax liabilities (Note 13)	24,581	22,659
Provision for product warranties	46,567	50,547
Accrued expenses (Note 8)	98,801	96,376
Other current liabilities (Note 8)	96,670	81,768
Total current liabilities	563,727	525,624
Long-term liabilities:		
Long-term debt (Notes 9 and 16)	477,492	560,875
Long-term lease obligations (Note 15)	1,930	2,718
Liabilities for retirement benefits (Note 10)	10,982	10,710
Deferred tax liabilities (Note 13)	78,029	95,116
Other long-term liabilities	21,475	20,635
Total long-term liabilities	589,908	690,054
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 2016 and 2015	85,032	85,032
Capital surplus	83,585	83,444
Stock acquisition rights	1,119	993
Retained earnings	720,548	617,129
Treasury stock, at cost: 1,075,356 shares in 2016 and 1,280,652 shares in 2015	(4,598)	(5,221)
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	46,320	67,819
Deferred loss on derivatives under hedge accounting	(2,124)	(464)
Foreign currency translation adjustments	93,798	179,566
Remeasurements of defined benefit plans	(8,152)	(2,580)
Subtotal	1,015,528	1,025,718
Noncontrolling interests	21,942	22,594
Total equity	1,037,470	1,048,312
Total	¥2,191,105	¥2,263,990

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen	
	2016	2015
Net sales (Note 8)	**¥2,043,691**	¥1,915,014
Cost of sales (Note 14)	**1,332,115**	1,265,112
Gross profit	**711,576**	649,902
Selling, general and administrative expenses (Notes 7, 8 and 14)	**493,704**	459,314
Operating income	**217,872**	190,588
Other (expenses) income:		
Interest and dividend income	**10,637**	8,874
Interest expense	**(8,495)**	(9,064)
Exchange (losses) gains	**(11,279)**	2,955
Subsidy income	**1,951**	1,121
Gain on sales of land		43
Losses on disposals of property, plant and equipment and other intangible assets	**(1,078)**	(481)
Losses on impairment of long-lived assets (Note 5)	**(491)**	(4,578)
Gains on sales of investment securities (Note 6)	**112**	4,007
Impairment of investment securities (Notes 6 and 16)	**(605)**	
Equity in (losses) earnings of unconsolidated subsidiaries and associated companies	**(83)**	880
Gains on reversal of stock acquisition rights	**4**	101
Loss on termination of a defined benefit plan (Note 10)		(812)
Loss on restructuring of subsidiaries	**(1,294)**	
Other—net	**(1,068)**	(1,126)
Other (expenses) income—net	**(11,689)**	1,920
Income before income taxes	**206,183**	192,508
Income taxes (Note 13)**:**		
Current	**59,389**	60,969
Deferred	**4,702**	6,996
Total income taxes	**64,091**	67,965
Net income	**142,092**	124,543
Net income attributable to noncontrolling interests	**(5,105)**	(4,868)
Net income attributable to owners of parent	**¥ 136,987**	¥ 119,675

	Yen	
Amounts per common share (Note 19)**:**		
Basic net income	**¥469.23**	¥410.19
Diluted net income	**468.84**	409.75
Cash dividends applicable to the year	**120.00**	100.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen	
	2016	2015
Net income	**¥142,092**	¥124,543
Other comprehensive (loss) income (Note 18)**:**		
Unrealized (losses) gains on available-for-sale securities	**(21,498)**	27,752
Deferred losses on derivatives under hedge accounting	**(1,659)**	(1,071)
Foreign currency translation adjustments	**(86,963)**	93,434
Remeasurements of defined benefit plans	**(5,573)**	2,318
Share of other comprehensive (loss) income in affiliates accounted for using the equity method	**(809)**	1,674
Total other comprehensive (loss) income	**(116,502)**	124,107
Comprehensive income	**¥ 25,590**	¥248,650
Total comprehensive income attributable to:		
Owners of parent	**¥ 22,489**	¥240,224
Noncontrolling interests	**3,101**	8,426

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

		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 on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total	Noncontrol-ling Interests	Total Equity
Balance, April 1, 2014 (as previously reported)	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**
Net income					**136,987**						**136,987**		**136,987**
Cash dividends, ¥120 per share					**(33,568)**						**(33,568)**		**(33,568)**
Repurchase of treasury stock	**(53,704)**					**(479)**					**(479)**		**(479)**
Disposal of treasury stock	**259,000**		**183**			**1,102**					**1,285**		**1,285**
Change in parent's ownership interest due to transactions with noncontrolling interests			**(42)**								**(42)**		**(42)**
Net change in the year				**126**			**(21,499)**	**(1,660)**	**(85,768)**	**(5,572)**	**(114,373)**	**(652)**	**(115,025)**
Balance, March 31, 2016	**292,038,617**	**¥85,032**	**¥83,585**	**¥1,119**	**¥720,548**	**¥(4,598)**	**¥46,320**	**¥(2,124)**	**¥ 93,798**	**¥(8,152)**	**¥1,015,528**	**¥21,942**	**¥1,037,470**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen	
	2016	2015
Operating activities:		
Income before income taxes	**¥206,183**	¥192,508
Adjustments for:		
Income taxes—paid	**(72,930)**	(60,214)
Depreciation and amortization	**84,203**	77,767
Losses on impairment of long-lived assets	**491**	4,578
Gains on sales of investment securities	**(112)**	(4,007)
Impairment of investment securities	**605**	
Losses on disposals of property, plant and equipment and other intangible assets	**1,078**	481
Equity in losses (earnings) of unconsolidated subsidiaries and associated companies	**83**	(880)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(19,940)**	(18,997)
Inventories	**1,494**	(16,631)
Other current assets	**(2,869)**	2,777
Assets for retirement benefits	**7,998**	(4,303)
Trade notes and accounts payable	**10,318**	(16,557)
Accrued expenses	**7,733**	6,059
Other current liabilities	**10,166**	3,685
Liabilities for retirement benefits	**708**	497
Other—net	**(9,023)**	(6,340)
Total adjustments	**20,003**	(32,085)
Net cash provided by operating activities	**226,186**	160,423
Investing activities:		
Payments for purchases of property, plant and equipment	**(96,697)**	(71,760)
Proceeds from sales of property, plant and equipment	**992**	1,773
Payment for acquisition of newly consolidated subsidiary, net of cash and cash equivalents acquired	**(1,311)**	
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	**(358)**	(1,324)
Payments for transfer of business	**(3,182)**	
Proceed from transfer of business	**121**	
Payments for acquisition of investment securities	**(2,587)**	(10,698)
Proceeds from sales of investment securities (Note 6)	**193**	7,452
Other—net	**(2,664)**	(4,567)
Net cash used in investing activities	**(105,493)**	(77,331)
Financing activities:		
Net (decrease) increase in short-term borrowings	**(2,839)**	13,346
Increase in long-term debt		24,909
Repayments of long-term debt	**(40,076)**	(95,922)
Cash dividends paid to owners of parent	**(33,568)**	(19,546)
Cash dividends paid to noncontrolling interests	**(6,529)**	(2,257)
Other—net	**(2,410)**	(3,603)
Net cash used in financing activities	**(85,422)**	(83,073)
Effect of exchange rate changes on cash and cash equivalents	**(31,015)**	29,837
Net increase in cash and cash equivalents	**4,256**	29,856
Effect of change of the fiscal year-end of consolidated subsidiaries		(201)
Cash and cash equivalents, beginning of year	**286,950**	257,295
Cash and cash equivalents, end of year	**¥291,206**	¥286,950

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classification used in 2016.

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, 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 ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method - In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," which was subsequently revised in line with the revisions to PITF No. 18 above, 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; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. 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, 2016 and 2015.

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 5 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 primarily include 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. Employees' Retirement Benefits - The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans. 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 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, 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 and income before income taxes for the year ended March 31, 2015, is insignificant.

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 options or the goods or services received. In the consolidated balance sheet, the stock options are presented as a stock acquisition right as a separate component of equity until exercised.

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 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.

The Group files a tax return under the consolidated corporate-tax system from the annual period beginning on April 1, 2015, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

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 the 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

Tax Effect Accounting - On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which includes certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets. The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc. The new guidance does not change such basic framework however, in limited cases, it allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period. The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for the annual period ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected in retained earnings or accumulated other comprehensive income at the beginning of the reporting period. The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and the application is not expected to have an impact on the consolidated financial statements.

Leases - On January 13, 2016, the International Accounting Standards Board issued IFRS16 Leases. On February 25, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02 Leases (Topic 842). These standards require lessees to recognize most leases on the balance sheet there by resulting in the recognition of lease assets and liabilities. The Company expects to apply IFRS16 for annual periods beginning on or after January 1, 2019. The Company expects to apply ASU 2016-02 for annual periods beginning after December 15, 2019 and for the first quarter within annual periods beginning after December 15, 2020. The Group is currently assessing the impact of these new standards will have on the consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

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 noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is 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 previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income - In the consolidated statement of income, "net income before minority interests" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is 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 previous 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 previous 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 the 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 applied 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 occurred on or after April 1, 2015, and the impact of these changes was insignificant. (See Note 19 for the impact of this change on basic net income per share (EPS) and diluted net EPS).

4. INVENTORIES

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen	
	2016	2015
Finished products and merchandise	**¥232,018**	¥248,027
Semifinished products and work in process	**40,028**	40,494
Raw materials and supplies	**61,606**	65,638
Total	**¥333,652**	¥354,159

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2016 and 2015. Impairment losses recognized were mainly as follows:

(1) 2016

Use	Location	Asset Category	Millions of yen
Held for use	Settsu City, Osaka Prefecture	Machinery and equipment	**¥450**

The Group recognized impairment losses recorded in other expenses for those assets as the profitability of oil hydraulics business for industrial machinery is expected to decline due to the economic downturn and sluggish demand in the Chinese market. The carrying amounts of the related assets were written down to the recoverable amount. The recoverable amounts of these assets were measured at value in use and the discount rate used for computation of the present value of future cash flows was 5%.

(2) 2015

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 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 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.

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, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥98,754**	**¥63,907**	**¥(2,975)**	**¥159,686**
Debt securities	**350**	**1**		**351**
Total	**¥99,104**	**¥63,908**	**¥(2,975)**	**¥160,037**

	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

Available-for-sale securities that were sold during the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥168	¥98	

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

The impairment losses on marketable available-for-sale securities for the year ended March 31, 2016 was ¥0.1 million. No impairment loss was recognized for the year ended March 31, 2015.

7. GOODWILL

Amortization expenses for goodwill were ¥26,282 million and ¥24,920 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015 were as follows:

(1) 2016

(a) The Company

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2016	Account	2016
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commission for moving business and delivery business	¥535	Accrued expenses and other current liabilities	¥76

(b) The Company's consolidated subsidiaries

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2016	Account	2016
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥ 55	Accrued expenses and other current liabilities	¥ 5
			Sales of products and other	119	Accounts receivable	16

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) 2015

(a) The Company

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2015	Account	2015
Chiyono Terada	External 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

Name	Description of Post	Ownership of the Company (%)	Millions of yen: Transactions: Description of Transaction	2015	Resulting Account Balances: Account	2015
Chiyono Terada	External 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.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2016 and 2015 consisted of the following:

	Millions of yen	
	2016	2015
Bank overdrafts and notes to banks	**¥40,675**	¥41,898
Commercial paper	**14,000**	16,000
Total	**¥54,675**	¥57,898

Unused short-term bank credit lines were ¥150,000 million at March 31, 2016. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2016 and 2015 were 1.00% and 1.25%, respectively. The weighted-average interest rates of commercial paper at March 31, 2016 and 2015 were 0.00% and 0.09%.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen	
	2016	2015
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**	10,000
1.20% unsecured bonds, due 2022	**30,000**	30,000
0.68% unsecured bonds, due 2024	**10,000**	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 0.90% to 4.00% (2016) and from 0.58% to 5.76% (2015), due through 2022	**140,816**	169,862
Unsecured loans from banks and others with interest ranging from 0.15% to 3.62% (2016) and from 0.22% to 3.58% (2015), due through 2023	**249,617**	270,023
Total	**550,433**	599,885
Less current portion	**(72,941)**	(39,010)
Long-term debt, less current portion	**¥477,492**	¥560,875

Annual maturities of long-term debt outstanding at March 31, 2016 were as follows:

Year Ending March 31	Millions of yen
2017	¥ 72,941
2018	72,911
2019	73,709
2020	88,296
2021	84,895
2022 and thereafter	157,681
Total	¥550,433

At March 31, 2016, investment securities with book values of ¥800 million and a time deposit with a book value of ¥525 million were 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, 2016 and 2015 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of yen	
	2016	2015
Balance at beginning of year (as previously reported)	**¥91,059**	¥89,633
Cumulative effect of accounting change		(4,788)
Balance at beginning of year (as restated)	**91,059**	84,845
Service cost	**5,229**	4,210
Interest cost	**1,913**	1,985
Net actuarial losses	**3,688**	5,404
Past service cost	**150**	(1,349)
Benefits paid	**(4,072)**	(3,796)
Effect of changes in the scope of consolidation	**266**	
Decrease due to the termination of a defined benefit plan		(2,145)
Foreign currency translation adjustments	**(3,018)**	1,909
Others	**180**	(4)
Balance at end of year	**¥95,395**	¥91,059

(2) The changes in plan assets for the years ended March 31, 2016 and 2015 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of yen	
	2016	2015
Balance at beginning of year	**¥102,450**	¥ 92,229
Expected return on plan assets	**3,796**	3,396
Net actuarial (losses) gains	**(4,690)**	6,985
Contributions from the employer	**3,186**	3,622
Benefits paid	**(3,576)**	(3,455)
Decrease due to the termination of a defined benefit plan		(2,145)
Foreign currency translation adjustments	**(2,488)**	1,832
Others	**1**	(14)
Balance at end of year	**¥ 98,679**	¥102,450

(3) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015 using the simplified method were as follows:

	Millions of yen	
	2016	2015
Balance at beginning of year	**¥2,674**	¥2,501
Periodic benefit cost	**1,046**	980
Benefits paid	**(994)**	(807)
Balance at end of year	**¥2,726**	¥2,674

(4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2016 and 2015 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of yen	
	2016	2015
Funded defined benefit obligation	**¥(92,760)**	¥(89,278)
Plan assets	**98,679**	102,450
Total	**5,919**	13,172
Unfunded defined benefit obligation	**(5,361)**	(4,455)
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 558**	¥ 8,717
Liabilities for retirement benefits	**¥(10,982)**	¥(10,710)
Assets for retirement benefits	**11,540**	19,427
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 558**	¥ 8,717

(5) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Service cost	¥5,229	¥4,210
Interest cost	1,913	1,985
Expected return on plan assets	(3,796)	(3,396)
Recognized net actuarial (gains) losses	(103)	163
Amortization of past service cost	(218)	(208)
Periodic benefit cost calculated by the simplified method	1,046	980
Others	255	69
Subtotal (net periodic benefit costs)	4,326	3,803
Loss on termination of a defined benefit plan		812
Total	¥4,326	¥4,615

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Past service cost	¥ 205	¥(1,298)
Net actuarial losses	7,887	(2,245)
Total	¥8,092	¥(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, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Unrecognized past service cost	¥ (1,112)	¥(1,317)
Unrecognized net actuarial losses	12,443	4,557
Total	¥11,331	¥ 3,240

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2016 and 2015, consisted of the following:

	2016	2015
Domestic debt securities	6%	5%
Domestic equity securities	8	8
Foreign debt securities	25	24
Foreign equity securities	18	21
Insurance assets (general account)	17	16
Cash and cash equivalents	1	0
Real estate	2	2
Others	23	24
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, 2016 and 2015 were as follows:

	2016	2015
Discount rate	Mainly 0.3%	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 3.5%	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 ¥4,742 million and ¥4,832 million for the years ended March 31, 2016 and 2015, 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, 2016, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2015 Stock Option	9 directors 46 employees	53,200 shares	2015.7.13	¥ 1	From July 14, 2018 to July 13, 2030

The stock option activity was as follows:

	Shares							
	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option
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	
Year Ended March 31, 2016								
Vested								
April 1, 2015—Outstanding		8,000	16,000	36,000	87,000	286,000	310,000	
Granted								53,200
Exercised		(4,000)	(10,000)	(16,000)	(51,000)	(178,000)		
Canceled		(4,000)						
March 31, 2016—Outstanding			6,000	20,000	36,000	108,000	310,000	53,200
Exercise price	¥5,924	¥3,250	¥3,050	¥ 2,970	¥ 2,186	¥ 4,500	¥ 6,715	¥ 1
Average stock price at exercise	¥6,655	¥8,486	¥8,378	¥ 8,500	¥ 8,698	¥ 8,273		
Fair value price at grant date	¥ 803	¥ 899	¥1,113	¥ 935	¥ 676	¥ 1,220	¥ 1,697	¥ 7,726

The assumptions used to measure fair value of 2015 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	38.9%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥90 per share
Risk-free interest rate:	0.4%

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 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Deferred tax assets:		
Provision for product warranties	¥ 14,946	¥ 16,276
Inventories	14,293	16,862
Investment securities	6,774	6,165
Tax loss carryforwards	5,641	6,805
Deferred revenue	5,505	5,803
Software and other intangible assets	5,345	4,782
Accrued bonus	3,529	3,556
Liabilities for retirement benefits	2,246	2,119
Allowance for doubtful receivables	1,425	1,238
Foreign income tax credit	733	1,635
Other	17,664	21,225
Less valuation allowance	(16,669)	(21,141)
Total deferred tax assets	¥ 61,432	¥ 65,325
Deferred tax liabilities:		
Intangible assets	¥ 64,087	¥ 68,259
Undistributed earnings of consolidated subsidiaries	33,019	30,455
Unrealized gain on available-for-sale securities	14,694	24,817
Assets for retirement benefits	3,574	6,070
Deferred gains on sales of property	1,187	1,729
Other	10,019	10,091
Total deferred tax liabilities	¥126,580	¥141,421
Net deferred tax liabilities	¥ (65,148)	¥ (76,096)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016 was as follows:

	2016
Normal effective statutory income tax rate	33.0%
Differences in foreign subsidiaries' tax rates	(6.5)
Amortization of goodwill	4.0
Taxes and tax effects on dividends from foreign subsidiaries	3.7
Valuation allowance	(1.4)
Permanently non-taxable income, such as dividend income	(1.2)
Tax credit for research and development	(1.1)
Permanently non-deductible expenses, such as entertainment expenses	0.5
Other - net	0.1
Actual effective income tax rate	31.1%

A reconciliation of the 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 year ended March 31, 2015.

On March 29, 2016, the 2016 Tax Reform Act was enacted in Japan to reduce the normal effective statutory tax rate from 32.2% to 30.8% for the fiscal year beginning on or after April 1, 2016, and to 30.6% for fiscal years beginning on or after April 1, 2018. The effect of these changes was to decrease deferred tax liabilities, net of deferred tax assets, by ¥1,106 million, income taxes-deferred by ¥435 million, deferred loss on derivatives under hedge accounting by ¥27 million, remeasurements of defined retirement benefit plans by ¥87 million, and increase unrealized gain on available-for-sale securities by ¥785 million.

At March 31, 2016, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating ¥20,496 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
2017	¥ 328
2018	1,175
2019	389
2020	1,616
2021	592
2022 and thereafter	16,396
Total	¥20,496

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥46,138 million and ¥42,892 million for the years ended March 31, 2016 and 2015, 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, 2016 were as follows:

	Millions of yen	
	Finance Leases	Operating Leases
Due within one year	**¥1,943**	**¥15,412**
Due after one year	**1,930**	**30,351**
Total	**¥3,873**	**¥45,763**

Pro forma information for the years ended March 31, 2016 and 2015

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, 2016 and 2015, was as follows:

	Millions of yen					
	2016			2015		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	**¥4**	**¥6**	**¥10**	¥36	¥52	¥88
Accumulated depreciation	**3**	**6**	**9**	33	47	80
Net leased property	**¥1**	**¥0**	**¥ 1**	¥ 3	¥ 5	¥ 8

Obligations under finance leases were as follows:

	Millions of yen	
	2016	2015
Due within one year	**¥1**	¥7
Due after one year		1
Total	**¥1**	¥8

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	
	2016	2015
Lease payments	**¥7**	¥17
Depreciation expense	**7**	17

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

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

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

Fair values of financial instruments

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

	Millions of yen		
	March 31, 2016		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥291,206	¥291,206	
Trade notes and accounts receivable	355,647	355,647	
Investment securities	160,037	160,037	
Total	¥806,890	¥806,890	
Trade notes and accounts payable	¥156,038	¥156,038	
Short-term borrowings	54,675	54,675	
Income taxes payable	11,511	11,511	
Long-term debt	550,433	560,212	¥9,779
Total	¥772,657	¥782,436	¥9,779
Derivatives	¥ (3,444)	¥ (3,444)	

	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)	

Assets

Cash and cash equivalents

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

Trade notes and accounts receivable

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

Investment securities

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

Long-term debt

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

Derivatives

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

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

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
	March 31, 2016			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 5,535		¥ 65	¥ 65
EUR	42,015		(49)	(49)
USD	18,385		103	103
AUD	5,869		(281)	(281)
ZAR	655		(15)	(15)
CZK	1,813		7	7
HKD	1,261		23	23
PLN	188		(0)	(0)
SGD	2,027		(55)	(55)
MYR	985		(58)	(58)
TRY	8,214		(48)	(48)
BRL	18		(3)	(3)
IDR	2,947		(59)	(59)
INR	676		(6)	(6)
Buying: CNY	1,391		(67)	(67)
MYR	9,353		411	411
Commodity future contracts:				
Buying: Metal	¥ 688		¥ (39)	¥ (39)

	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)

Derivative transactions to which hedge accounting is applied

		Millions of yen		
		March 31, 2016		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 7,378**		**¥ 291**
EUR	Receivables	**41,319**		**(212)**
USD	Receivables	**2,455**		**73**
ZAR	Receivables	**885**		**6**
CZK	Receivables	**7,596**		**(259)**
PLN	Receivables	**1,156**		**(21)**
TRY	Receivables	**3,528**		**(64)**
Buying: CNY	Payables	**4,521**		**(131)**
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	**¥174,601**	**¥162,776**	**¥(3,057)**
Fixed-rate payment, floating-rate receipt*	Long-term debt	**149,600**	**129,200**	

	Hedged Item	Millions of yen March 31, 2015 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	

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

Financial instruments whose fair values cannot be readily determinable

	Millions of yen Carrying Amount 2016	2015
Nonlisted equity securities	¥ 9,565	¥8,265
Investments in limited partnerships and other investments	885	943
Total	¥10,450	¥9,208

The impairment losses on nonlisted equity securities for the year ended March 31, 2016 were ¥605 million.

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen March 31, 2016 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	¥291,206			
Trade notes and accounts receivable	355,599	¥48		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)	25	25		¥300
Total	¥646,830	¥73		¥300

	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		

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

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2016 totaled approximately ¥22,795 million.

At March 31, 2016, contingent liabilities for trade notes endorsed and repurchase obligation for liquidation of notes receivables totaled ¥3,670 million and ¥1,174 million, respectively.

18. COMPREHENSIVE INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Unrealized (losses) gains on available-for-sale securities:		
(Losses) gains arising during the year	**¥ (31,523)**	¥ 43,015
Reclassification adjustments to profit or loss	**(98)**	(4,007)
Amount before income tax effect	**(31,621)**	39,008
Income tax effect	**10,123**	(11,256)
Total	**¥ (21,498)**	¥ 27,752
Deferred losses on derivatives under hedge accounting:		
(Losses) gains arising during the year	**¥ (3,786)**	¥ (1,024)
Reclassification adjustments to profit or loss	**1,278**	(479)
Amount before income tax effect	**(2,508)**	(1,503)
Income tax effect	**849**	432
Total	**¥ (1,659)**	¥ (1,071)
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥ (86,950)**	¥ 93,374
Reclassification adjustments to profit or loss	**(13)**	60
Amount before income tax effect	**(86,963)**	93,434
Income tax effect		
Total	**¥ (86,963)**	¥ 93,434
Remeasurements of defined benefit plans:		
Adjustments arising during the year	**¥ (7,771)**	¥ 2,804
Reclassification adjustments to profit or loss	**(321)**	739
Amount before income tax effect	**(8,092)**	3,543
Income tax effect	**2,519**	(1,225)
Total	**¥ (5,573)**	¥ 2,318
Share of other comprehensive income in affiliates accounted for using the equity method:		
Adjustments arising during the year	**¥ (809)**	¥ 1,674
Total other comprehensive (loss) income	**¥(116,502)**	¥124,107

19. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2016	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥136,987**	**291,942**	**¥469.23**
Effect of dilutive securities:			
Stock options		**239**	
Diluted EPS:			
Net income for computation	**¥136,987**	**292,181**	**¥468.84**

	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

As stated in Note 3, the Company applied the revised accounting standard 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, effective April 1, 2015, and (d) provisional accounting treatments for a business combination which occurred on or after April 1, 2015.

However, the impact of these changes on basic and diluted EPS for the year ended March 31, 2016 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."

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

	Millions of yen						
	March 31, 2016						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,828,012	¥162,286	¥1,990,298	¥53,393	¥2,043,691		¥2,043,691
Intersegment sales	614	10,295	10,909	500	11,409	¥ (11,409)	
Total	1,828,626	172,581	2,001,207	53,893	2,055,100	(11,409)	2,043,691
Segment profit	193,786	20,621	214,407	3,529	217,936	(64)	217,872
Segment assets	1,798,333	189,508	1,987,841	35,370	2,023,211	167,894	2,191,105
Other:							
Depreciation	¥ 44,326	¥ 12,055	¥ 56,381	¥ 1,527	¥ 57,908		¥ 57,908
Amortization of goodwill	26,183	99	26,282		26,282		26,282
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	11,815	6,798	18,613		18,613		18,613
Investment in property, plant and equipment and intangible assets	90,617	18,157	108,774	3,938	112,712		112,712

	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

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 ¥173,176 million and ¥202,383 million at March 31, 2016 and 2015, 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, 2016						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥502,233	**¥484,951**	**¥349,266**	**¥304,626**	**¥276,587**	**¥126,028**	**¥2,043,691**

	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

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, 2016						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥140,641	**¥91,187**	**¥77,981**	**¥34,957**	**¥31,379**	**¥8,955**	**¥385,100**

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

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

	Millions of yen				
	March 31, 2016				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets	**¥41**		**¥450**		**¥491**

Note: The impairment losses reported in "Other" are related to the Oil Hydraulics 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, 2016 and 2015 was as follows:

	Millions of yen				
	2016				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	**¥329,753**				**¥329,753**

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

21. SUBSEQUENT EVENTS

a. Acquisition of Flanders Holdings LLC

At the Board of Directors' meeting held on February 9, 2016, the Company resolved to acquire all equity interests of Flanders Holdings LLC (hereinafter, "Flanders") through American Air Filter Company, Inc. (hereinafter, "AAF") and entered into an equity transfer agreement with Flanders Investment Holdings LLC. On April 27, 2016, the Company completed the acquisition of all equity interests and turned Flanders into a subsidiary.

1. Outline of the business combination

(1) Name and business contents of the acquiree

Name: Flanders Holdings LLC

Business contents: Manufacture and sale of air filters and other related products

Location: Wilmington, Delaware, United States of America

Size of Company (as of December 2015) Total assets: US$238 million (¥28,722 million)

Net sales: US$298 million (¥36,198 million)

(2) Main reason for the business combination

With this acquisition, the Flanders business will be integrated into AAF and enable AAF to leverage its global sales network to market the cleanroom equipment and high-end air filter products that are the strengths of Flanders. In addition to making AAF the leading manufacturer in the United States, which is reportedly the largest air filter market in the world, this merger will also position AAF as a leading company in the global market.

(3) Date of the business combination

April 27, 2016

(4) Legal form of the business combination

Acquisition of equity interests for cash considerations

(5) Name of the acquiree after business combination

Flanders Holdings LLC

(6) Ratio of equity interests acquired

100%

(7) Basis for determination of the acquirer

AAF, a subsidiary of the Company, is regarded as the acquiring company since AAF acquired all equity interests of Flanders for cash consideration.

2. Amount and breakdown of the acquisition costs

Payment for acquisition of equity interests: US$204 million (¥22,796 million)

Acquisition cost is based on a tentative calculation and will be determined after adjusting variances in working capital and others based on the contract. Cost that is directly related to the acquisition has yet to be determined at this time.

3. Fundraising method

Internally generated funds and bank loans were used to fund this acquisition.

b. Appropriations of Retained Earnings

Resolutions approved by the Company's Board of Directors at the meeting held on May 10, 2016 are subject to approval at the general shareholders' meeting planned to be held on June 29, 2016.

Payment of year-end cash dividends of ¥65 per share to shareholders at March 31, 2016, totaling ¥18,983 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, 2016, 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, 2016, 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 27, 2016

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2016)

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	28,927
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. • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • The Bank of New York Mellon SA/NV 10 • Japan Trustee Services Bank, Ltd. (Trust Account 4) • Trust & Custody Services Bank, Ltd. (Securities Inv. Trust Account) • Sumitomo Life Insurance Company
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 213 Affiliates: 13
Number of Employees	60,805 (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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