Annual Report 2019

Fiscal Year Ended March 31, 2019

Daikin combines technical strengths with unique strategies to create new value and find solutions to social problems.

Founded in 1924, Daikin has continued to expand with a focus on the Air-Conditioning and fluorochemicals businesses. We are the world's only general air-conditioning equipment manufacturer with in-house divisions covering both air conditioning and refrigerants.

Daikin has more than 100 production bases around the world, and conducts business in more than 150 countries and regions.

Under its strategic management plan "FUSION 20," Daikin achieved record high sales and operating income in fiscal 2019 for a sixth consecutive fiscal year. Looking ahead to the final year of this plan in fiscal 2021, we are expanding our business domains, strengthening existing businesses, and making proactive investments for the IoT and AI era, while also further accelerating measures to be an environmental leader and support the realization of a sustainable global society.

By providing solutions to social problems and achieving business growth, Daikin is creating new value for the air and environmental fields, and enhancing its corporate value.

CONTENTS

Forward-Looking Statements

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

Our Core Values

Absolute Credibility

Enterprising Management

Harmonious Personal Relations

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"**

A Path to Unique Solutions

Founded in Osaka in 1924, Daikin operates in more than 150 countries worldwide, focusing on the Air-Conditioning business. By providing solutions to the problems society and communities are facing while achieving business growth, Daikin supports healthy and comfortable lifestyles. As a global corporation creating new value in the air and environmental fields, Daikin continually meets the expectations and trust of people throughout the world.

Three Core Technologies

Daikin has developed three advanced air-conditioning technologies that form the basis for next-generation technology.

Heat Pump
Absorbs and transfers heat from the air

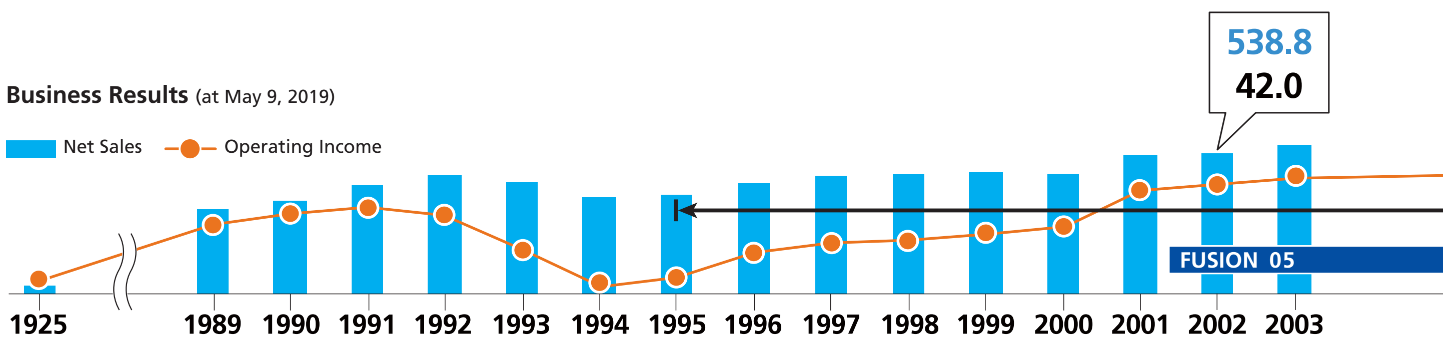
Inverter
Contributes to greater energy saving and comfort

Refrigerant Control
Efficient heat transmission

Business Scale (at March 31, 2019)

Net Sales (Fiscal 2019)	Employees (Consolidated)	Group Companies	Global Business Presence	Worldwide Production Bases
¥2,481.1 billion	**76,484**	**Consolidated Subsidiaries: 291** (Japan: 30, Non-Japan: 261)	**More than 150 Countries**	**More than 100 Factories**

Business Results (at May 9, 2019)



Business and Technology Development

1924	Founding of Osaka Kinzoku Kogyosho Limited Partnership
1935	Development of fluorocarbon refrigerant
1937	Development of Japan's first Freon-type refrigerator
1942	Freon production begins
1951	Launch of Japan's first packaged air conditioner
1958	Entry into the room air-conditioning business
1975	Launch of "Hikari Kurieru" air purifier
1982	Launch of Japan's first multi-type air-conditioning system for buildings
1999	Launch of "Ururu Sarara" world's first waterless humidifying room
2002	Nationwide expansion of the fluorocarbon recovery and destruction business
2002	Launch of "ECOCUTE" heat-pump water heater

Daikin's Evolution and Strategies

2007	Acquisition of OLY Group, a major global air-conditioning manufacturer
2008	Business alliance with Gree Electric Appliances, China's top air-conditioning manufacturer
2008	Acquisition of German heating manufacturer ROTEX
2011	Acquisition of Turkish air-conditioning manufacturer Airfel
2012	Acquisition of U.S. residential air-conditioning manufacturer Goodman

FUSION 05 to 20 (Fiscal 2002 – Fiscal 2021)

FUSION 05

Be a Company that Attracts People, Capital, and Information

Establish a position as the global No. 2 in mainstay businesses, and build a foundation for future growth, including reaching an aggregate market value of ¥1 trillion.

FUSION 10

Be the Global No.1 Air-conditioning Company

- Expand environment-related businesses
- Business alliances and tie-ups, M&A

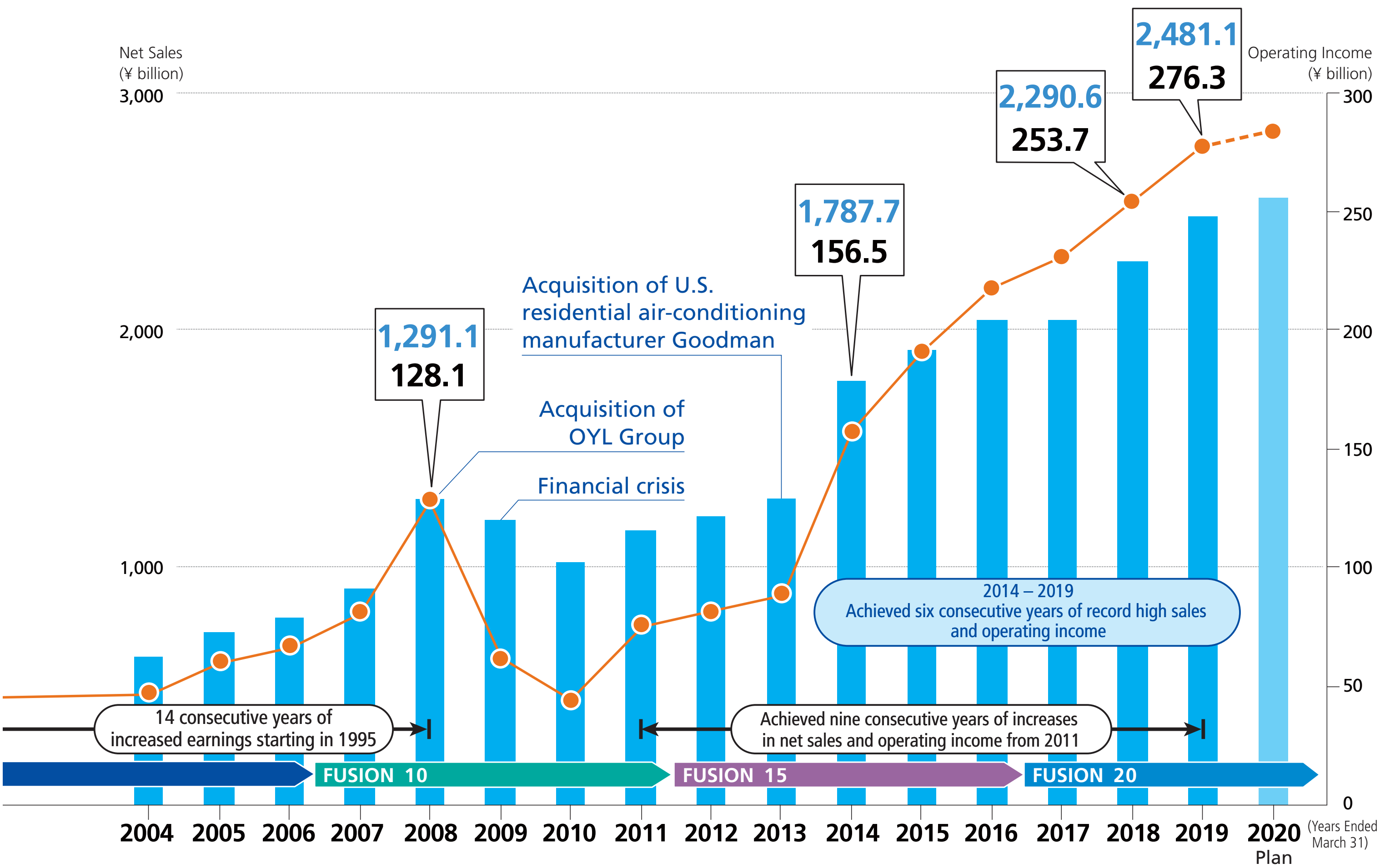
FUSION 15

Be a Truly Global Excellent Company

- Full-fledged entry into emerging markets and volume zone products
- Solutions Business / Environment Innovation Business
- Accelerate growth through business alliances and tie-ups, M&A

FUSION 20

Strengthen Existing Businesses and Expand Business Domains



2004	World's first successful application of streamer electric discharge technology
2005	Opening of China's first dedicated showroom for large-scale air conditioners
2006	Launch in Europe of "Daikin Altherma" air-to-water heat pump system
2007	Launch of "DESICA" world's first humidity control air conditioner without water drainage or supply pipes
2009	Establishment of the Daikin McQuay Applied Development Center in the U.S.
2010	Establishment of the Shanghai R&D Center
2011	Opening of the Solution Plaza Fuha Tokyo
2012	Launch of "Urusara 7" world's first residential air conditioner using new R32 refrigerant
2013	Opening of the Solution Plaza Fuha Osaka
2014	Launch of cooling-only inverter air conditioners for developing countries
2015	Establishment of Technology Innovation Center

2015	Granting of worldwide free access to basic patents for using R32 refrigerant
2016	Acquisition of U.S. filter manufacturer Flanders
2016	Acquisition of Italian refrigerator/freezer manufacturer Zanotti
2016	Acquisition of Scandinavian filter manufacturer Dinair
2017	Establishment of Daikin Texas Technology Park, new Goodman factory in U.S.

Through efforts to find solutions to social problems through our business, Daikin provides new value, and aims for sustainable growth.

Global society is continually changing, and directly faces many problems related to climate change and other issues. Through its business, Daikin Group provides society with new value, and by contributing to the realization of a sustainable society, seeks growth for itself as well.

Social Problems Daikin Can Help Solve

- Intensification of climate change
- Expansion and concentration of energy and power demand
- Worsening of air pollution

INPUT

Financial Capital
- Stable and sound financial structure
- Proactive R&D investment

Manufactured Capital
- Optimal market-oriented production and development structure
- PDS manufacturing style for multiproduct mixed production
- Efficient production structure utilizing module manufacturing lines
- Building of digital factories
- Advancement in "small-scale *monozukuri*"

Intellectual Capital
- Heat pump, inverter, refrigerant control technologies
- Development centers in 25 locations worldwide

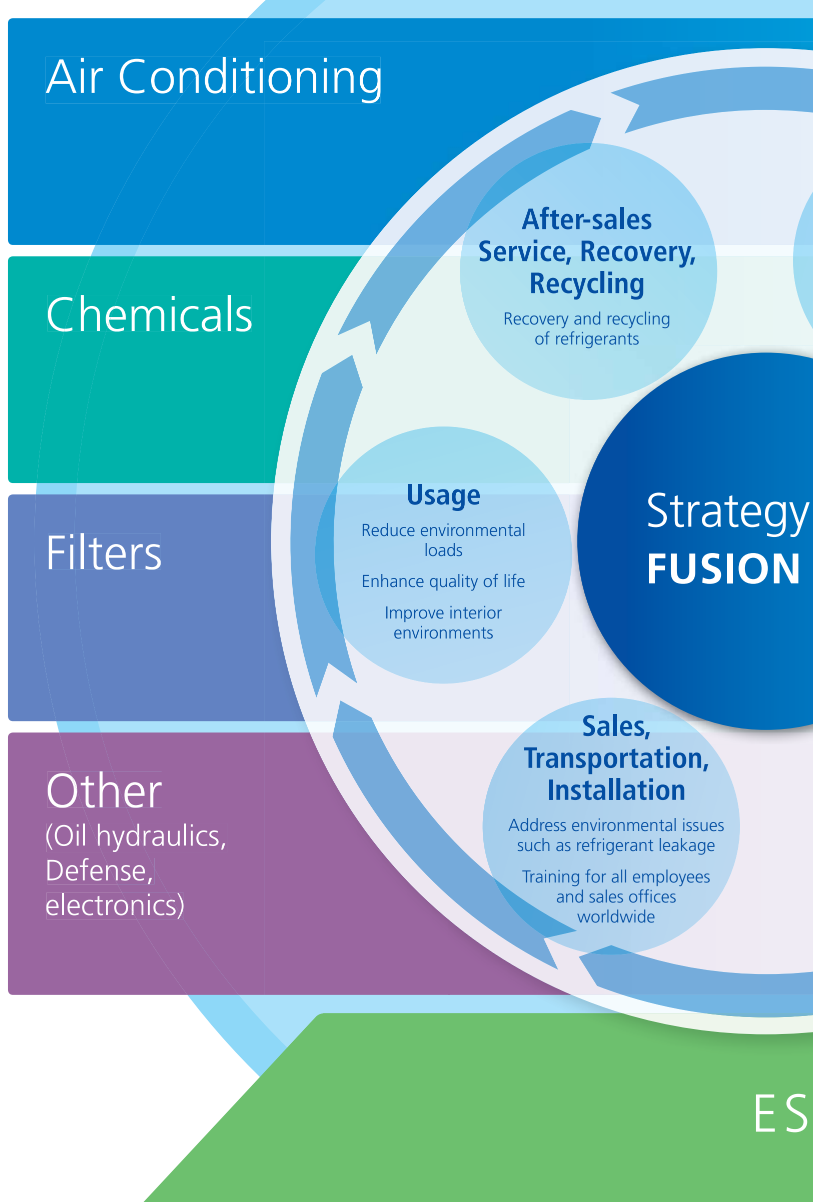
Human Capital
- Diverse workforce
- Local and integrated business operations
- Global human resource development
- Human asset diversity

Social and Relationship Capital
- Sales and service network
- Proactive collaboration with industry, government and academia
- Trust and brand
- Well-established relationships with stakeholders

Natural Capital
- Optimal energy utilization
- Environmental resources related to business activities
- Materials, water, energy, electricity

Daikin Group's Business Activities

Daikin aims to be a corporate group that creates new value in the air and environment fields.



Procurement

Mitigate procurement risks across the entire global supply chain

Development, Design

Superior comfort and environmental performance

Product development to meet local needs

Manufacturing

Improve production efficiency and manufacturing quality

Reduce environmental loads

20

G

- Environmentally conscious products
- Energy service solutions
- IAQ/Air Environment Engineering
- Expansion into next-generation automotive field
- Development of composite materials
- Development of new refrigerants
- Air filter business
- Power and industrial (P&I) business
- IAQ products utilizing synergies from air-conditioning and chemicals
- Range of energy-efficient oil hydraulic equipment
- New business in fields with private demand
- Visual R&D systems
- Pursue CSR Management

OUTPUT (Fiscal 2019)

Net sales **¥2.48** trillion

Operating income margin **11.1**%

Equity ratio **52.4**%

ROE **13.9**%

Free cash flow (FCF)
¥84.2 billion

Environmentally conscious products as percentage of sales (residential air conditioners) **93**%

Ratio of highly skilled engineers **1** in **2.9**
(Daikin Industries only)

No. of patent applications
More than **1,300**
(Fiscal 2018, Daikin Industries only)

No. of female managers
59 (Daikin Industries only)

Ratio of non-Japanese subsidiaries with local nationals as president
46%

Customer satisfaction
(Base year = 1.00)
Japan = **1.13**
(Compared to Fiscal 2016)

Reduction in greenhouse gas emissions due to adoption of environmentally conscious products
67 million tonnes of CO_2

Reduction in greenhouse gas emissions from production/development stage
75% reduction
(compared to Fiscal 2006)

Reduction in CO_2 emissions due to forest conservation
7 million tonnes of CO_2

Daikin's Aims for Value Creation

Provide new value that makes people and space healthier and more comfortable while at the same time reducing environmental impact.

Value Creation for the Earth

Reduce environmental impact through all business activities and contribute alleviating climate change

Value Creation for Cities

Contributing to solving energy-related issues arising from urbanization and contribute to the creation of sustainable cities

Value Creation for People

Pursue new possibilities for air and contribute to healthy, comfortable lifestyles

Human Resource Development Supports Value Creation

Foster human resources who spur innovation and who spread newly created value around the world.

Contribute to the growth of employees and local citizens

- Training of highly skilled personnel
- Job creation
- Contribution to local economic development
- Creation of new products and services that help raise people's lifestyles

Sustainable Development Goals (SDGs) Daikin is Contributing to

6 of the 17 Sustainable Development Goals Daikin is Contributing to through Its Business

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages
Prevention of heatstroke and infectious diseases, measures against air pollution, increase in productivity, etc.

7 AFFORDABLE AND CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all
Increase in energy efficiency, use and spread of renewable energy, etc.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

Build resilient infrastructure, promote sustainable industrialization and foster innovation
ZEB (net-zero energy buildings) initiatives, promotion of energy management and demand response, etc.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns
Initiatives for energy efficiency during production, recycling, resource efficiency, etc.

13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts
Spread of inverter products, refrigerants with lower global warming potential, and heat pump products

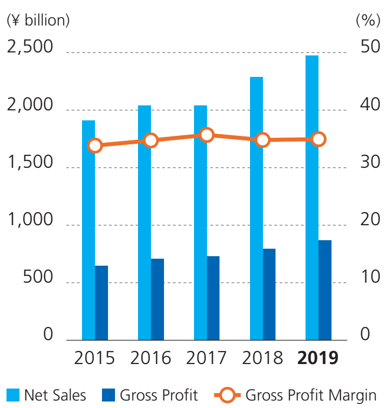
Financial Highlights

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

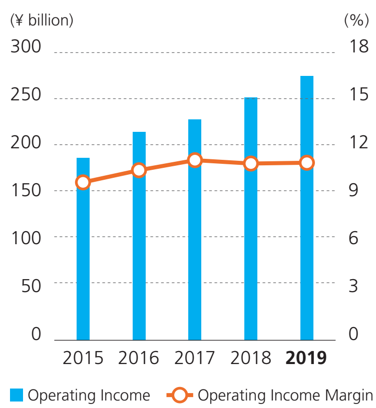
	Millions of Yen	
	2018	**2019**
Operating Results (for the year):		
Net sales	¥2,290,561	**¥2,481,109**
Gross profit	798,829	**868,923**
Operating income	253,740	**276,255**
Net income attributable to owners of the parent	189,052	**189,049**
Cash Flows (for the year):		
Net cash provided by operating activities	¥223,740	**¥250,009**
Net cash used in investing activities	(127,459)	**(165,773)**
Free cash flow (Note 1)	96,281	**84,236**
Net cash used in financing activities	(93,955)	**(68,721)**
Financial Position (at year-end):		
Total assets	¥2,475,708	**¥2,700,891**
Total shareholders' equity	1,296,553	**1,416,075**
Per Share Data (yen):		
Net income (basic)	¥ 646.53	**¥ 646.39**
Shareholders' equity	4,433.62	**4,841.15**
Cash dividends	140.00	**160.00**
Cash flow per share	329	**288**
Ratios (%):		
Gross profit margin	34.87%	**35.02%**
Operating income margin	11.08	**11.13**
Return on shareholders' equity (ROE)	15.70	**13.94**
Shareholders' equity ratio	52.37	**52.43**

Notes: 1. Free cash flow = Net cash provided by operating activities + net cash used in investing activities
2. Effective from April 1, 2018, the consolidated financial statements for the fiscal year ended March 31, 2018 have been revised in accordance with a change in accounting policy.

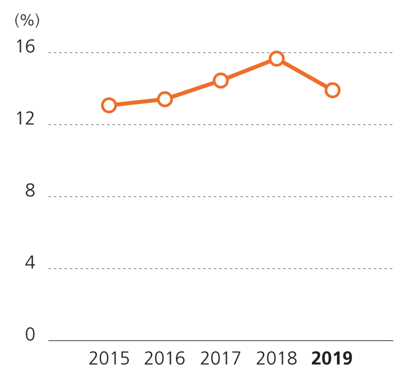
Net Sales, Gross Profit, and Gross Profit Margin



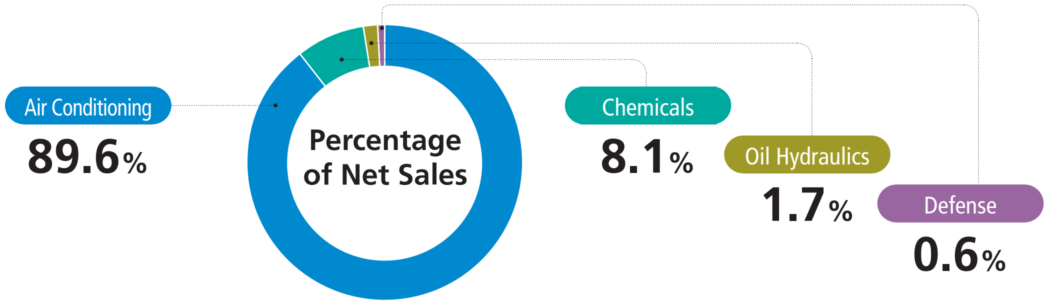
Operating Income and Operating Income Margin



ROE

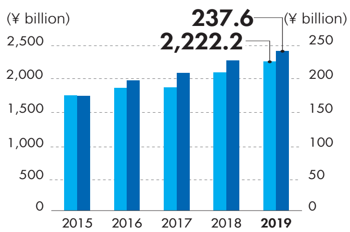


At a Glance



Net Sales and Operating Income | **Major Products** | **Description**

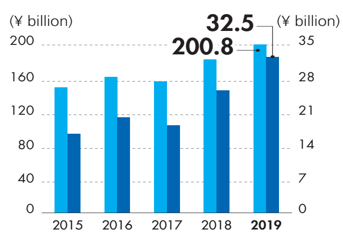
Air Conditioning



- Room air-conditioning systems
- Air purifiers
- 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
- Absorption refrigerators
- Freezers
- Water chillers
- Turbo refrigerator equipment
- Air-handling units
- Air filters
- Industrial dust collectors
- 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.

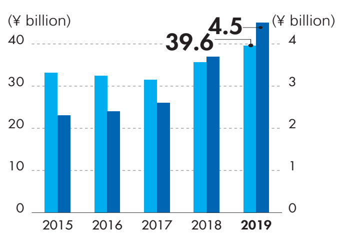
Chemicals



- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluoropaints
- Fluoro coating agents
- Semiconductor-etching products
- Water and oil repellent agents
- 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 1,800 fluorine compounds including gas, resin and rubber.

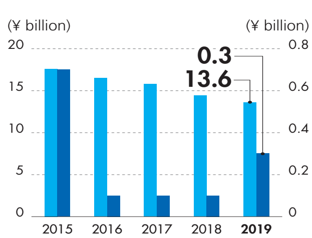
Oil Hydraulics



- 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 used in guided missiles for training purposes
- 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.

Message from the CEO

Masanori Togawa
President and CEO

Masanori Togawa

We are steadily promoting measures including Group strategies, growth investments, and M&As under the strategic management plan, "FUSION 20," while working to further boost its already high performance by responding flexibly to change and a business environment that is rapidly deteriorating.

In fiscal 2019, the first year of the latter three-year half of Daikin's strategic management plan "FUSION 20," business conditions were extremely harsh. Taking steps to boldly confront change and this harsh operating environment, the Daikin Group achieved record high net sales and operating income. With the aim of becoming a corporate group that "co-creates new value in the air and environment fields," we are committed to enhancing our corporate value by taking the dual approach of balancing solutions to social issues and achieving business growth.

Latest Results

In fiscal 2019, the first year of the latter three-year half of The Daikin Group's five-year strategic management plan "FUSION 20," formulated in fiscal 2017, business conditions were extremely harsh. In addition to the sharp rise in raw material prices and the negative impact of a depreciation in emerging country currencies, the operating environment was affected by such factors as the sudden slowdown in the rate of economic growth in China from the start of the second half. Despite these difficult conditions, we achieved a ninth consecutive year of increases in net sales and operating income and a sixth consecutive year of record high sales and operating income by flexibly carrying out a variety of measures in response to this changing environment. Among a host of endeavors, the Company took steps to strengthen its sales and marketing capabilities, introduce high-value-added products, and reduce total costs focusing on its mainstay Air Conditioning and Chemicals businesses.

Looking at fiscal 2020, business conditions are expected to become increasingly uncertain. In addition to the growing impact of trade friction between the United States and China and a slowdown in Chinese demand, the operating environment is projected to suffer due to a slowdown in investment activities in the semiconductor market. Under these circumstances, and in connection with the Company's business results forecasts for fiscal 2020, Daikin estimates that net sales will come in at ¥2,670 billion. On the earnings front, operating income is expected to total ¥285 billion. Building on this outlook, we will work diligently to further expand sales by flexibly addressing changes in our business environment and maintain the upward trajectory in net sales and operating income while accelerating the pace of strategic investments in a bid to secure high business results that surpass established plans.

Taking Up the Challenge of "FUSION 20"

Under "FUSION 20," Daikin is looking to secure net sales of ¥2,900 billion and an operating income margin of 12% in fiscal 2021. Based on the assumptions that underpin our outlook for the macroeconomy and future operating conditions, including an economic slowdown in China, additional U.S. customs duties, and a downturn in foreign currency exchange rates, a gap is projected to emerge compared with numerical targets as actual results fall substantially short of forecasts set at the time the plan was initially formulated. Rather than review "FUSION 20" as it currently stands, we have decided to address the challenges that lie ahead by undertaking a raft of additional measures. Moving forward, we will take into consideration the need to secure a higher level of profitability that is appropriate for a global and excellent company.

Within the Group-wide strategies identified under "FUSION 20," two additional themes designed to address changes in the external environment are progressing steadily. First, we are converting our revenue structure in the Air Conditioning business to a configuration that not only achieves unit sales of energy-saving equipment, but also earns revenue throughout the entire value chain. On top of this, the advance of IoT and AI technologies is enabling the low-cost development of infrastructure that analyzes accumulated data. Leveraging these technologies, we are also promoting air-conditioning systematization and networking to create new customer value.

Second, we are strengthening our environment-leading initiatives by utilizing our position as the only manufacturer providing both air-conditioning equipment and refrigerant to promote the conversion to R32 and the development of energy-saving equipment. By further refining our strengths in heat pump, inverter, and refrigerant technologies, we are contributing to the realization of a low-carbon society while both solving social issues and expanding business.

Working Toward Sustainable Growth Through Three Structures of Collaborative Innovation

With the growing trend toward digitalization, the structure of industry and society is changing. We are also seeing signs of a shift in consumption patterns from goods to services and from ownership to use. Recognizing this change as an opportunity for growth, we are positioning the three structures of customer, internal, and external collaborative innovation at the heart of its business reform activities.

In a bid to promote collaborative innovation with customers, we will accelerate our transition to a business model that maintains direct points of contact. In addition to putting in place mechanisms that establish mutual lines of communication that allow us to accurately grasp customer needs, we will create products and services that make the most of customer feedback.

From an internal collaborative innovation perspective, we will increase the pace of issue resolution. In specific terms, we will learn from areas of commonality throughout the Group by drawing on those strengths, know-how, and other attributes inherent in each region and market. We will also heighten the sense of unity and vigorously engage in Group-wide activities that leverage collective strengths.

Turning to the third structure of external collaborative innovation, we acknowledge the critical need to accelerate the pace of technology and product development through open innovation in an era of digitalization, which continues to evolve rapidly. If the Company places too much emphasis on self-sufficiency, clearly it will fail in its efforts to adapt to changes in its business environment and technological advances. Guided by an awareness of current and potential issues, Daikin has dubbed open innovation activities as "external collaborative innovation," and is stepping up efforts to promote industrial collaboration including tie-ups with industry-academia, venture companies, and other entities. In short, these endeavors are expected to help capture differentiated technologies and hasten commercialization.

Looking ahead, the Daikin Group will continue to resolve social issues through its business activities as an organization that "co-creates new value in the air and environment fields." As we work toward achieving our goals, we will also endeavor to meet the expectations of stakeholders.

On this note, we kindly request your continued support and understanding.

June 2019

Masanori Togawa
President and CEO

Strengthening profitability and building a resilient corporate structure through aggressive investment in future growth

Daikin saw improved sales in the mainstay Air Conditioning and Chemicals businesses in fiscal 2019, resulting in net sales and operating income growth for a ninth consecutive year.
Promoting its strategic management plan "FUSION 20," Daikin is advancing management that continues to meet the expectations of stakeholders.

Q1 Please tell us about earnings in fiscal 2019.

Ninth consecutive year of sales and operating income growth; sixth consecutive year of record net sales and operating income

Fiscal 2019 was characterized by negative factors such as currency depreciation in emerging countries, sharply higher raw material prices, and the adverse effects from growing trade friction between China and the United States. Despite these factors, consolidated sales for Daikin Group improved 8.3% year on year to ¥2,481,109 million, which was up 10% year on year when excluding forex factors. The expansion in sales was attributable to improved sales in all major operating regions in the Air Conditioning business and an increase in sales of high added value products to the semiconductor and automotive markets in the Chemicals business. Backed by our efforts to bolster profitability through total cost reductions, operating income in fiscal 2019 expanded 8.9% year on year to ¥276,255 million and 14% year on year when excluding forex factors. Net income attributable to owners of the parent was roughly flat year on year at ¥189,049 million, largely in a reaction to the positive effects in fiscal 2018 from lower corporate taxes in the United States. When excluding this factor, net income attributable to owners of the parent was up 12% year on year. Sales and income exceeded our targets and rose for the ninth consecutive year, with the Group booking record-high net sales and operating income for the sixth year in a row.

By segment, sales and income rose in the Air Conditioning, Chemicals, and Other businesses.

Despite the adverse impact from additional tariffs in the United States and a sharp spike in raw material prices, the Air Conditioning business saw improved sales in each of its operating regions, and with the company also working to reduce costs, sales and operating income in the business when excluding the impact for forex factors improved 10% and 12% year on year, respectively. Cost reductions and favorable sales growth on expanding demand in automotive and semiconductor products contributed to sales and income in the Chemicals business, excluding the impact for forex factors, respectively rising 10% and an impressive 28% year on year.

In the Other business, sales were up 7% year on year while operating income improved 29%. Within the business, sales in the oil hydraulics business for industrial and construction equipment were firm in both Japan and the Americas.

Q2 The first year in the three latter years of the strategic management plan "FUSION 20" has concluded. What is the current state of progress?

Promoting proactive measures in line with the strategic themes for each field of business

The basic policies for the latter three years of the "FUSION 20" Strategic Plan focus on: 1) strengthening the core businesses; 2) expanding business domains and reforming the business structure; and 3) investing for growth. We are making steady progress in implementing measures in line with these three themes.

In terms of strengthening our core businesses, we have been able to secure strong sales in the North American and Asian Air Conditioning businesses, as well as a sharp improvement in the operating income margin for the Chemicals business. The North American Air Conditioning business saw sales in fiscal 2019 rise a strong 13% year on year, and the business is making favorable progress toward meeting its fiscal 2020 sales growth target of 10%. Amid ongoing strength in the market, we are bolstering our abilities in sales by enhancing our sales network and strengthening local product development through the establishment of R&D centers, allowing us to enhance our lineup of inverter-based products and promote the shift to inverters in the U.S. market, where the spread of energy-saving technologies appears to have been somewhat delayed. On the production front, U.S. subsidiary Goodman completed construction on Daikin Texas Technology Park, integrating four factories and two logistics sites for the company in the United States. The facility will not only increase production capacity, but also serve as a global production base as an enhanced digital factory that utilizes the latest production technologies.

Against a backdrop of an expanding middle class in the region, we expect the Asian Air Conditioning business to see an ongoing increase in air-conditioning demand. Sales in the business in fiscal 2019 rose 11% year on year, and are expected to rise 12% year on year in fiscal 2020. Given the strength of demand, the business is investing to rapidly increase production capacity, with investment being used to build a new plant in Vietnam for the production of room air conditioners. the Daikin Group is also moving forward on the development of a line-up of differentiated products based on the needs of each region, including sales of inverter units for an expanding middle class and growing its sales network in each of the countries in the region in which it operates, including both large and less-populated outlying cities. Growth is particularly strong in India, and the Group is expanding its market share in the country as it develops products specifically tailored to the market. We are also accelerating the establishment of a sales network focused on small to medium-sized regions and cities, and aim to further expand our business by bolstering development of commercial products to satisfy growing condominium demand.

While we expect overall demand for fluorochemical products to remain essentially flat year on year in fiscal 2020, we target improved sales in the Chemicals business on the back of an expansion in sales of high added value products, and improved sales in the field of batteries and in the field of information and communication, which are currently performing well. We also target improved income in the business for the year on the back of cost reductions and the implementation of sales price strategies.

For the filters business, we target an expansion in sales in the automotive market and in high-end markets such as biopharma and pharmaceuticals markets, which are expected to show favorable growth in Japan, Europe and Asia.

In regard to expanding our business domains and reforming our business structure, we have established three key goals: 1) accelerating growth in operations utilizing IoT and AI technologies in the Energy Service Solutions and IAQ/Air Environment Engineering businesses; 2) becoming a leading environmental company by working to reduce global warming potential (GWP) and promoting our long-term environmental vision for 2050; and 3) expanding the commercial refrigeration and heating/water heater businesses in the new business domains category. In terms of specific initiatives, for the first goal we launched sales in November 2018 of "Assisnet Service," which provides comprehensive inspection and maintenance support for commercial air conditioners subject to the Law Concerning the Discharge and Control of Fluorocarbons. In China, we are expanding through close contact with customers sales of "Intelligent VRV" systems, which through centralized monitoring allows the management of maintenance, repairs and replacements and offers the potential for a variety of value propositions. In North America, we are working to expand the market for services and solutions as we bolster our in-house sales and service networks through the acquisition of contractors and service companies. We are focused on using IoT and AI technologies to advance to systemization and networking of air conditioners, and target the creation of new value and a complete line of services, from energy saving proposals for entire buildings, to design and engineering, as well as repair, maintenance, and troubleshooting services. In regard to the second goal, we are expanding sales of air conditioners using HFC refrigerant gas R32, which does not contribute to ozone depletion. We also aim to reduce CO_2 emissions by reducing power consumption when an air conditioner is used by advancing the spread of highly efficient inverter units on a global basis and promoting the use of room air conditioners that adopt R32 in emerging markets, where air-conditioning demand appears likely to expand sharply moving forward. Lastly, in line with our responsibility as a manufacturer of both air conditioners and refrigerants, we are taking steps to prevent the release of refrigerants into the atmosphere over the life cycle of our products. In terms of the third goal, the Paris Agreement has increased environmental awareness in Europe and the accelerated development of heat pump products with minimal CO_2 emissions from combustion heating has contributed to a sharp expansion in related sales at Daikin. We launched a new model in 2018 that uses R32 and boasts even stronger environmental performance.

Turning to investment for growth, the Daikin Group acquired AHT Cooling Systems GmbH, an Austrian refrigerating and freezing showcase manufacturer for €881 million (about ¥114.5 billion). The acquisition itself was in line with the "FUSION 20" goal of bolstering the Group's commercial refrigeration business. Adding AHT showcases to its own wide range of products enables the Group to become a one-stop provider offering a complete line-up of air-conditioning and refrigeration products. The acquisition also contributes to an expansion in integrated services that handle everything from equipment installation to commissioning and maintenance. Daikin aims to expand through the acquisition its solutions business, which offers store-wide design and remote monitoring, control functions, troubleshooting, and proposals for optimum control in multi-store management.

Q3 Cooperative creation has become a buzzword as rapid progress in digitalization contributes to the transformation of industry and company structures. Please tell us about Daikin's cooperative creation efforts and goals for the future.

Establishing global leadership in technology with development centered on cooperative creation

In order to quickly adapt to changes in the business environment brought on by the advance of digitalization, we are reforming our business structure, with a focus not only on self-sufficiency, but also on cooperative creation.

Our cooperative creation efforts involve collaboration with a number of different organizations, including other companies, as well as universities and research institutes. More specifically, we are working with companies such as NEC Corporation (NEC), Hitachi, Ltd., NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION, Mitsui & Co., Ltd. and venture firm ABEJA, as well as educational institutions such as The University of Tokyo, Kyoto University, Osaka University, Kansai University, and Tsinghua University in China. We are also working with research institute RIKEN.

As an example of cooperative creation, Daikin launched the collaborative creation platform "CRESNECT," which uses data obtained from air conditioners and through cooperation with various partner companies has created new value and services related to air and space. As we cooperate with our partner companies to secure a wide variety of air-conditioning data, we are working to create new value and services by using this data to improve productivity and maintain health within the offices in which the equipment is used. As an example of our collaboration with universities, we signed Japan's largest industry-academia agreement, with The University of Tokyo, in December 2018. The agreement involves the promotion of three collaborative programs[1] focused on innovation and a "value of air" theme, and will include the exchange of human resources between the

two organizations. The effort focuses on envisioning society in the future and estimating the needs of that society based on the "value of air, " while simultaneously targeting solutions to a variety of issues using Daikin's strengths in mechatronics technology and knowhow alongside the technologies and specialized knowledge of researchers at The University of Tokyo.

In another collaboration, our comprehensive agreement with Osaka University includes professors at the University providing education to our employees and holding an in-house "Daikin Information and Communications Technology College" lecture to train human resources in the utilization of AI. Course participants are selected from internal departments throughout the Company to attend the nine-month program. Through this program, we expect to lift the number of employees working in AI from about 100 in 2017 to about 700 by 2020.

1 The three collaboration programs are: 1) Cooperative creation of future vision; 2) Co-creation of future technologies that are centered on the "value of air"; and 3) Implementing new value in society through collaboration with venture companies.

Q4 A company's stance on ESG has become an important issue in regard to achieving sustainable growth. Could you please tell us about Daikin's priorities in this respect?

Targeting zero greenhouse gas emissions in real terms by 2050 as part of our long-term environmental vision

The increased use of air conditioners, our leading product, has transformed both labor and lifestyles in particularly hot regions, bringing with it economic growth and an improved way of life. Air conditioners can indeed be said to be one form of infrastructure supporting modern society. On the other hand, increased air conditioner utilization has also brought an increase in the use of electricity and a growing impact on the environment. In addition to focusing on reducing the environmental impact from our air conditioners, we recognize current conditions as an opportunity to develop our business and are committed to popularizing environmentally conscious products that use energy-saving inverter technology and R32 refrigerant that has a lower global warming potential.

The Daikin Group established its "Environmental Vision 2050" as part of its long-term perspective on the issue of the environment. In addition to focusing on the development and distribution of refrigerants less likely to contribute to global warming as well as energy-efficient products and manufacturing activities, we are making progress in lowering greenhouse gas emissions by offering energy-saving solutions based on IoT and AI technologies. We also expect the promotion of refrigerant recovery and recycling operations to contribute to the Company achieving zero greenhouse gas emissions in real terms by 2050.

It would appear that the focus of investors when selecting companies now includes not only how strong earnings are, but also how the company is contributing to the resolution of social issues based on global goals such as the SDGs and the Paris Agreement. I expect stakeholders will in the days ahead be focused more than ever on our stance toward solving social issues.

Daikin announced its support and agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD[2]) in May 2019. International attention is currently focused on responding to social changes brought on by climate change, and we believe that business development moving forward will be impossible without resolving these social issues. As an advanced environmental company, Daikin analyses the risks and opportunities posed to its business by climate change, reflects them in its management strategy, and promotes the enhanced disclosure of information in line with recommendations.

2 TCFD is an abbreviation for Task Force on Climate-related Financial Disclosures. It is a task force established by the Financial Stability Board (FSB), which consists of central banks and financial regulators in major countries worldwide.

Q5 What are your thoughts on returns to shareholders?

Targeting stable and continuous shareholder returns

Backed by strong earnings, we increased the annual dividend in fiscal 2019 ¥20 per share year on year to ¥160. For fiscal 2020, we target an annual dividend of ¥160 per share, including an interim dividend of ¥80 and a year-end dividend of the same amount.

We will strive to maintain a consolidated dividend on equity (DOE) ratio of 3.0% based on a policy aimed at securing stable and continuous dividend payments. While focusing on improving market capitalization, accelerating the shift to an even stronger business structure, and expanding our business while enacting strategic investment in line with our goal of advancing future growth, Daikin also aims to further enhance shareholder returns.

With this in mind, we intend to continue meeting the expectations of our stakeholders as a company contributing to the creation of a sustainable society.

June 2019

Masanori Togawa

Masanori Togawa
President and CEO

Air Conditioning Current

Steadily expanded overseas sales mainly in Europe, the United States, and Asia; healthy results also in Japan with sales approaching the ¥2.2 trillion mark

Despite the negative impact of soaring raw material prices and additional U.S. custom duties attributable to trade friction between China and the United States, results in the Air Conditioning business surpassed those of the previous fiscal year in terms of both sales and operating income. These negative impacts were absorbed due to sales growth in each region and successful efforts to promote a reduction in total costs.

Japan

Sales in Japan rose 107% year on year.

In addition to brisk personal spending, the effect of an extremely hot summer helped drive up demand for residential-use air conditioners. Continuing to promote a sales strategy that focuses in profitability, sales grew for mid-range and high-end models such as "Urusara 7," a flagship product, and "risora," which pursues both functionality and design.

For commercial units, Daikin fully utilized its wide product lineup that includes "FIVE STAR ZEAS," "Eco-ZEAS," and the slim design "machi Multi" and strengthened proposal-type sales. Sales increase in each market segment from stores and offices to factories.

In Applied Systems, the Company achieved an industry first with the launch of new products featuring the low-GWP refrigerant R32. Sales increased by capitalizing on redevelopment demand in the Tokyo metropolitan area.

"risora," which pursues both functionality and design

Americas

Sales in the Americas rose 113% year on year.

Brisk personal spending arising from the large-scale tax cuts in the United States energized the market. Sales grew substantially on the back of efforts to upgrade and expand the sales network and launch new products. Facing higher prices for raw materials and the impact of additional tariffs due to trade friction between China and the United States, the Company initiated measures, such as raising sales prices and reducing costs, to ensure profitability.

In the residential unitary product market, Daikin expanded its own dealer network in important regions. In addition to promoting education and support for dealers, the Company's market share grew significantly thanks largely to the introduction of new inverter products for the middle zone (SEER* 15-17).

In the ductless market, sales grew significantly for multi-air conditioners for residential-use mainly in the Northeastern region, which is the largest market. Here, the Company realized an increase in market share.

Applied Systems experienced growth in equipment sales. This mainly reflected efforts to strengthen the sales network and expand the product lineup. The After Sales Service business also witnessed growth.

Production picks up in earnest at a new factory in the United States

* SEER: An acronym describing the Seasonal Energy Efficiency Ratio for cooling performance

China

Sales in China were unchanged from the previous fiscal year.

The severe market environment continued due to the economic slowdown resulting from trade friction between China and the United States coupled with the Chinese government's policy to curb new housing. Despite these difficult conditions, Daikin worked diligently to enhance its product lineup and expand sales in regional cities. Based on these endeavors, successful steps were made to secure sales at the previous fiscal year's level. By reducing costs through in-house production and automation, the Company also maintained high profits.

In residential-use air conditioners, Daikin increased the number of "PROSHOP" specialty stores, primarily in regional cities, while boosting sales of the "New Life Multi" series targeting middle-to-upper class residences. In large cities, the Company launched new products for general residences in response to market changes.

In the commercial-use market, Daikin utilized a wide product range and captured brisk restaurant, data center, and other demand. For large cities in mature markets, the Company launched the "Intelligent VRV" system, which links to customers via the Internet, while capturing replacement demand.

For Applied Systems, Daikin undertook detailed sales activities that extended from small- and medium-sized proposals to large-scale projects. In addition to higher equipment sales on the back of efforts to upgrade and expand the product lineup, sales also grew in the After Sales Service business.

"New Life Multi" series, residential multi-split room air conditioners that propose a variety of lifestyles for customers

● Europe/the Middle East/Africa

Sales in Europe, the Middle East, and Africa climbed 107% year on year.

In residential-use air conditioners, despite the lingering effects of unseasonable weather in Spain, sales of R32 units and other high value-added products increased mainly in France and Italy.

In the commercial-use market, Daikin strengthened spec-in activities for "VRV" systems in a bid to counter price markdowns by competing companies. Although sales of "SkyAir" (air conditioning for shops) grew in Europe for R32 units and other high value-added products, orders in the Middle East saw a decline.

In Heating, the Company expanded sales and after sales service networks and significantly pushed up sales of heat pump type hot water heating systems.

In Applied Systems, products including R32 chillers were launched in response to environmental regulations. At the same time, Daikin strengthened the sales system in each country. Sales grew significantly in the largest market of the Middle East as well as in France and Germany.

● Asia/Oceania

Sales in Asia and Oceania increased 110% year on year.

In residential-use air conditioners, sales grew substantially mainly in Thailand, Indonesia, and India as a result of the roll out of such differentiated products as cooling-only inverter units that meet stronger energy-saving regulations.

Sales in the commercial-use market expanded in all countries, and especially Vietnam, Thailand, and India. In addition to training dealers enabling them to handle everything from design to installation and sales, this sales growth was largely due to successful efforts aimed at strengthening sales and spec-in activities.

In Applied Systems, sales increased significantly on the back of improvements in product supply capabilities. This was mainly due to new plant operations in Malaysia.

Expanding sales in Asia which is exhibiting demand growth

Daikin's Unique Solutions

Increasing market share through the development of products and strategies aligned to each region

Daikin is the leader in sales in the air conditioning business in India, which is the second largest market in Asia after China. While India is the seventh largest country in the world, ranked by land area, both weather and infrastructure conditions differ dramatically from region to region. In this regard, Daikin has classified India into four distinct regions. The Company's competitive advantage is derived from the development of products that address the conditions of each region, and the implementation of region-specific strategies.

India is recognized for its extreme weather conditions, which depending on the region can range from heavy snowfalls to summer temperatures that exceed 50°C. Under these circumstances, Daikin markets air conditioners that can operate even at 54°C in high temperature areas. At the same time, the Company sells affordable air conditioners that can accommodate the short winter periods that are common in the mountains and plateaus of central India. In response to domestic wastewater issues and the increasingly severe impact that air pollution is having on the areas surrounding New Delhi, the nation's capital, Daikin has developed air conditioners that do not corrode even in environments that contain sulfuric acid. For the southeast coastal region, the Company markets products that do not break even if dropped from a height of one meter. This is important given the many bad roads that transverse the area and the prevalence of damage during transportation. By developing products that take into account the attributes of each region and match local conditions, Daikin is steadily expanding its market share.

Air Conditioning Future

Addressing changes in the business environment in a timely and flexible manner Maintaining our trend of increased sales and profits

Daikin is projecting an even more challenging business environment due to such factors as the growing impact of trade friction between China and the United States and a slowdown in demand in China. Under these circumstances, the Company will maintain its trend of increased sales and profits by further improving profitability while at the same time continuing to undertake forward-looking growth investments. Every effort will be made to achieve targets set at a high level while responding flexibly to changes in the business environment.

Japan

Industry demand for residential use is expected to decline compared with the previous fiscal year. This represents a reaction to the sharp surge in demand last fiscal year as a result of the summer heat wave. Meanwhile, industrial demand for commercial use is anticipated to increase year on year due to brisk capital investments and special procurements by schools for air conditioners. In addition to the sales promotion of high value-added products, Daikin will continue with efforts aimed at increasing profits. This includes promoting cost reductions and strictly maintaining selling prices.

In residential-use air conditioners, we will promote sales of such high value-added products as “Urusara 7” and “risora.”

In commercial-use air conditioners, we will expand sales of differentiated products including “MULTI CUBE,” a product that enables individual control even in large spaces like factories, and “Outer Tower,” an air conditioner that is invaluable for use outdoors as a measure against heat. Furthermore, production and installation capabilities are being strengthened to respond to demand by schools for air conditioning.

In Applied Systems, the After Sales Service business will be strengthened in addition to the sales promotion of R32 units.

“Outer Tower,” an air conditioner that is invaluable for use outdoors as a measure against heat

Americas

Amid bullish demand, Daikin aims to expand business and improve profitability. While residential investment is expected to slow, the Company will look to increase market share by enlarging its own dealer network and launching new products. With the completion of production transfer to the new Goodman factory projected during 2019, productivity is expected to improve even further.

In the residential unitary product market, Daikin will promote the inverter market by boosting sales of middle-zone (SEER 15-17) inverter units launched in the previous fiscal year in addition to further expanding sales in the volume zone market. A smart thermostat will also be newly launched, and steps will be taken to pursue energy savings from not only equipment, but also a software perspective.

In the ductless market, Daikin will enhance its product lineup for cold regions and work to increase sales over those of the previous year for residential-use products in the Northeast, Northwest and Canada, which are all cold regions.

In Applied Systems, the Company will work to boost sales of equipment such as chillers and air handling units in addition to reinforcing its service network. Even in Latin America, Daikin will strengthen its sales system centering on Mexico and work to bolster the Engineering business.

Daikin Texas Technology Park where production, development, logistics, sales, marketing and indirect departments work together to create a constant flow of innovation.

China

In light of market uncertainty, Daikin will conduct flexible business operations in line with market changes and work to build a new business model for continued business growth.

In the residential-use market, the Company will enlarge its sales networks in regional cities where growth is expected. At the same time, energies will be directed toward strengthening the product lineup for general residences, which are rapidly increasing in large cities. Customer search will be linked to sales and solutions through such activities as brand appeal of unique Daikin products available on newly established E-commerce sites that are directly managed as well as the creation of customer centers in March 2019.

In the commercial-use market, Daikin will expand sales of "Intelligent VRV" systems that use the Internet to connect with customers and provide value to customers over the entire air conditioning lifecycle, including energy-saving diagnostics, failure prediction, and replacement proposals. Furthermore, the Company will roll out a new sales model that extends beyond equipment sales with servicing and maintenance.

In Applied Systems, efforts will be made to promote proposals in the markets that are expected to grow such as those for data centers and semiconductor factories. In addition to equipment sales centered on chillers, Daikin will expand the After Sales Service business.

Wuhan New Life Station, newly opened to promote the Daikin brand in the Midwest region

● Europe/the Middle East/Africa

The business environment in Europe is being affected by such factors as an economic slowdown in Germany and Italy as well as the U.K.'s decision to withdraw from the EU. Amid the growing trend toward increasingly strict environmental regulations, Daikin will work to expand high value-added products.

In the residential-use market, the Company will upgrade and expand its product lineup of R32 units in addition to boosting sales.

In the commercial-use market, Daikin will promote sales of "SkyAir" using R32 and focus mainly on the large markets of Spain and France. For "VRV" systems, the Company will respond to the tightening of fluorocarbon regulations by moving ahead of other companies in the introduction of new products that use recycled refrigerants.

In the Heating business, the intention is to capture bullish demand and increase market share by appealing to customers with the environmental performance of the Company's heat pump type hot water heating systems.

In Applied Systems, Daikin will enhance marketing capabilities in each country centering on the Middle East, the largest market, and work to expand orders by launching new products of energy-saving and low-GWP refrigerant equipment that comply with stricter environmental regulations.

In the Refrigerator and Freezer business, efforts will be made to mutually use the sales networks and product lineups of Zanotti and AHT and work to expand the overall business for cold chain.

Accelerating the pace of overall cold chain business rollout through the acquisition of AHT

● Asia/Oceania

With an ever-increasing expansion of the middle class, air conditioning demand is expected to grow. To meet this demand, Daikin will extend its sales network in every country from large to regional cities. In addition to launching differentiated products based on regional needs, the Company will work to expand its After Sales Service business and significantly increase sales.

In the residential-use market, together with accelerating the market shift to inverters in each country, Daikin will expand sales of differentiated products such as residential-use multi-split air conditioners. In India, the Company will accelerate the establishment of sales networks in regional cities and significantly increase sales.

In the commercial-use market, Daikin will continue to focus on fostering dealers. In "SkyAir," steps will be taken to promote sales centering on Thailand and Vietnam for cooling-only R32-refrigerant inverter air conditioners, which feature greater cost competitiveness. In "VRV" systems, the Company will develop differentiated products in line with regional needs and strengthen spec-in activities. Energies will be directed toward promoting detailed proposal-type sales by application such as for schools and hospitals.

In Applied Systems, Daikin will strengthen the recruitment and fostering of system engineering human resources and expand the After Sales Service business including servicing, inspection, and maintenance.

Boosting production capacity in Asia where demand for air conditioning is projected to grow

Chemicals

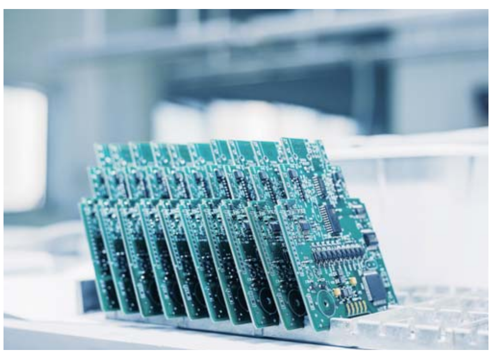
Current

Attracted strong demand in the semiconductor- and automotive-related markets
Sales broke through the ¥200 billion mark

The Chemicals Business achieved a substantial increase in sales in Japan and Asia. Buoyed also by robust results in Europe and the United States, Daikin maintained a high profit margin despite the surge in market prices for raw materials.

Daikin greatly expanded sales by capitalizing on demand in the semiconductor and automotive markets. Amid a surge in market prices for raw materials, the Company raised selling prices and promoted total cost reductions. These actions led to gains that significantly exceeded the previous fiscal year in both sales and operating income.

Fluorocarbon gas in Europe showed a sharp increase in distribution stock from the second half of the fiscal year while sales in Japan and Asia expanded.



Fluoropolymers and etching products essential in the manufacture of semiconductors

For fluoropolymers, in addition to capturing demand in the semiconductor market mainly in Japan, China, and Asia, sales of new products for LAN cables in the United States also greatly increased.

For fluoroelastomers, sales expanded mainly in the automotive market in the United States and Japan.

In fine chemicals, although sales decreased for the surface antifouling agent “OPTOOL,” sales grew for water and oil repellent agents in China and Asia.

Fluoroelastomer with superior heat resistance used in automobile internal combustion engines

Chemicals

Future

Working to expand sales in robust fields
Targeting increases in both sales and profits

Amid forecast sluggish demand for semiconductor- and automotive-related products, Daikin will accelerate the pace of application development in fields that are expected to experience medium- to long-term growth. This includes an upswing in demand for lithium-ion batteries attributable to the widespread use of electric vehicles and products that cater to the 5G next-generation communication standard.

There is a chance that the business environment will become increasingly difficult due mainly to a forecast decline in demand as the semiconductor market enters a readjustment phase. Against this backdrop, in addition to promoting sales in the favorable fields of batteries as well as information and communications, Daikin will work to secure profits by expanding sales of high value-added products, reducing costs, and through selling price measures in order to achieve increases in both sales and profits.

Contributing to the evolution of next-generation vehicles through fluorine chemical products for battery materials

In fluorocarbon gas, despite the downturn in demand in Europe, Daikin will globally promote sales of low-GWP refrigerants for refrigerators and freezers.

In the semiconductor market, together with efforts to secure an increased share by strengthening marketing capabilities, the Company is expecting a recovery in demand relating to IoT and AI from 2020 and beyond and will accordingly reinforce its capabilities to supply and develop differentiated products.

In the automotive market, Daikin intends to strengthen spec-in activities and expand sales of the lithium ion battery materials used for next-generation vehicles.

In the information and communications field, the Company will work to expand sales to the LAN cable market in which demand is increasing in the United States.

Daikin's Unique Solutions

Established a fluorinated materials information center in Shenzhen, China

Representing a new initiative in its Chemicals business, Daikin established DAIKIN Dream Gallery in Shenzhen City, China to promote the many outstanding functions inherent in fluorine. Rather than merely exhibit each product, Dream Gallery places greater emphasis on product functionality. In this instance, the goal is to shine a light on the functions that products provide and the potential for a wide-range of new applications born from the functions that these product have. As opposed to the one product-one function concept, Dream Gallery allows visitors to view the many functions inherent in fluorine in a single location. This facility was set up in conjunction with client engineers as a space to showcase the use of composite-type functions. Looking ahead, plans are in place to attract customers through various initiatives including seminars on cutting-edge technologies and markets. The facility is expected to serve as a forum to draw out ideas while examining functions. Here in Shenzhen, which is regarded as China's Silicon Valley, every effort will be made to uncover the potential of new businesses, promote the development of innovative applications, and cultivate markets.

Moreover, Daikin will also pursue a variety of endeavors including the development of optimal battery and substrate materials for next-generation vehicles in collaboration with Tsinghua University.

DAIKIN Dream Gallery

Oil Hydraulics Current

Continued strong performance in Japan and North America Following on from the previous fiscal year, reported record high business results

The Oil Hydraulics business comprises a range of oil hydraulic equipment to facilitate the smooth movement of various types of machinery, contributing to energy efficiency and electrical power savings. In fiscal 2019, revenue increased on the back of upswings in industrial and construction equipment sales in Japan and North America.

In the Hydrostatic Transmissions (HST) business, sales increased steadily in Japan. The Company reported record high sales and operating income for the fiscal year under review.

Oil Hydraulics Future

Solidifying business in Japan and working to strengthen market in Europe and the United States

Business conditions are projected to remain challenging in fiscal 2020. Despite expectations of growing uncertainty, Daikin will work to increase its competitiveness in Japan while continuing to improve profitability.

Furthermore, energies will be directed toward expanding business in the global market. In the United States, where Daikin already has a foothold, steps will be taken to launch e-commerce activities as a new sales channel aimed at expanding the areas in which the Company conducts its maintenance, repair, and operation (MRO) business. In its HST business, Daikin will work to expand local production models while optimizing local customer supply.

Industry-leading hydraulic motor that realizes small size, light weight and high efficiency

Daikin's Unique Solutions

Developed water-cooled oil coolers; alleviating air conditioning load in factories

Water-cooled oil cooler that conserves energy by alleviating the burden on air conditioning systems in factories

Similar to an air conditioner cooling the air, an oil cooling unit maintains the oil used in a given machine at an appropriately cool level. The water-cooled oil coolers being developed by Daikin have a number of outstanding features. Firstly, excluding the heat released from electrical components, the units release no exhaust heat, as any heat from the product is cooled by the water. By limiting the build-up of heat and reducing the burden on air-conditioning systems in the factory, the units contribute to the conservation of energy. In addition, the water-cooled oil coolers do not have the air filters that are commonly used in conventional air-cooled oil coolers, thus reducing man-hours previously spent on cleaning the air filters. Third, the condenser, which is considered the key component in the unit, has a specialized double tube structure, making it resistant to clogging.

Defense Current

Strong performance in differentiated home-use oxygen therapy equipment

Daikin designs and manufactures products for Japan's Ministry of Defense based on the defense budget, with products supplied including various types of artillery shells, warheads, and fuses all used for drills, as well as aircraft parts. These precision machining technologies are also leveraged for private-sector purposes, including the manufacture and sale of home-use oxygen therapy equipment. Daikin provides respiration synchronizers and oxygen concentrators, products that require the highest levels of precision, performance, functionality, and quality.

Despite favorable sales of home-use oxygen therapy equipment, net sales in this segment declined in fiscal 2019 compared to the previous fiscal year due to a downturn in artillery shell sales to Japan's Ministry of Defense.

Defense Future

Targeting an expansion in medical equipment sales by offering the highest levels of technology

Amid expectations for ongoing severity in orders from Japan's Ministry of Defense in fiscal 2020, Daikin will continue to focus on bolstering earnings in its private-sector business.

In the home-use medical equipment business, we expect insurance to begin covering telemedicine used in home-use oxygen therapy in fiscal 2021, contributing to an increase in shipment volume for devices equipped with communication functions. With this in mind, we are focused on the development of an oxygen concentrator that is capable of remote monitoring and is also high-quality and price competitive.

Daikin's Unique Solutions

Contributing to the Aviation and Medical Fields with Advanced Precision Machining Technologies

Daikin's unique precision machining technologies continue to meet the various needs of our customers, including in the fields of medical equipment and aviation-related products, where there is always demand for the most advanced and precise technologies available. This expertise is seen in particular in the Daikin fire extinguishers installed near the engines in airplanes. Should a fire originating in the engine break out, these devices play a vital role in ensuring aircraft safety by discharging a fire extinguishing agent with force to smother the fire. In home oxygen therapy equipment, Daikin supports the lives of patients with chronic respiratory ailments through the manufacture and sale of respiration synchronizers and oxygen concentrators.

Corporate Governance

Basic Policy of Corporate Governance

The role of corporate governance in the Daikin Group is to raise corporate value. This is achieved by continued vigilance on increasing the speed, transparency, and soundness of decision making and implementation in a manner that keeps a step ahead of both the Group's management tasks and the changing operating environment.

Aiming for management with even greater speed, transparency, and soundness, we will continue to boost corporate value by seeking and implementing new ways to achieve optimal corporate governance as we undertake best practices in all facets and at all levels of the Daikin Group.

Regarding Japan's Corporate Governance Code set by the Tokyo Stock Exchange, Daikin has already implemented all the principles contained in the revisions of June 1, 2018, including "enhancing information disclosure," "maintaining the effectiveness of the Board of Directors and the Audit and Supervisory Board," "defining roles and responsibilities 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 adopting a U.S.-style "committee system" that completely separates decision making and business oversight from operational execution, the Daikin Group has adopted an "integrated management" system in its aim to promote a higher level of management, in view of the special characteristics of the Group's business and in judging that this is a more-effective means of accelerating decision making and operational execution. This means that the directors jointly take charge of both management responsibilities and business execution responsibilities. Directors also bear responsibility for the execution and completion of their own decisions by carrying out their decision making, business execution, and supervision/guidance in an "integrated" manner.

In addition, the Group has introduced an "executive officer system" to accelerate the speed of execution based on autonomous judgments and directions in units handling each region, division, and function. Appointments of executive officers are carried out by the Board of Directors.

Appointment of Directors

When appointing directors, the Daikin Group gives emphasis to factors ranging from the globalization of the Group's businesses and the broadening of its business fields to a diverse range of background factors, such as nationality, gender, and career history.

As of the end of June 2019, there were 10 directors (including one female and two non-Japanese directors) who carry out expeditious and strategic decision making as well as sound oversight and guidance throughout the Group.

Daikin's Board of Directors includes three external directors (as of June 2019), conditional upon them not having a relationship of interest with the Company. Daikin seeks outside directors that can provide oversight and advice from a high-level perspective based on a wealth of experience and deep insight. To ensure that the external directors can effectively contribute to Daikin's corporate governance system, assistants to the external directors are assigned in the Company. They strive to provide the external directors with 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, when external directors are unable to attend a Board of Directors meeting, the assistants provide them with related materials and subsequent explanations of meeting proceedings.

Audit System

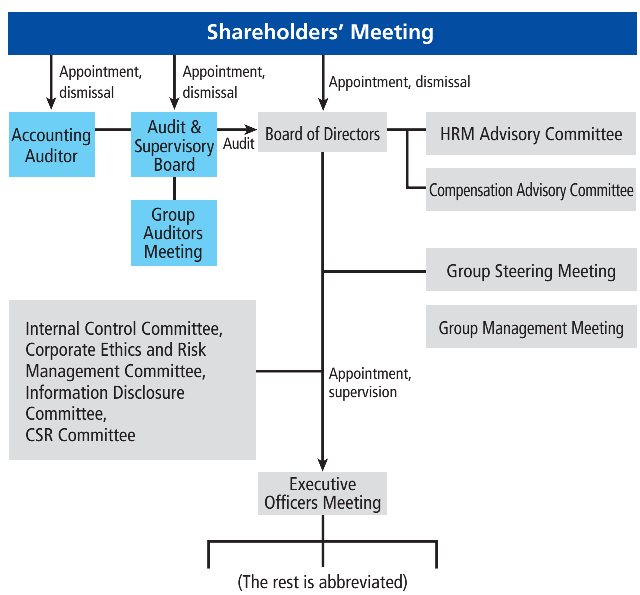
Daikin employs an Audit and Supervisory Board System and has established the Audit and Supervisory Board. Daikin endeavors to appoint two or more external directors to the Board, and, as of end of June 2019, Daikin's four Audit and Supervisory Board members included two external Audit and Supervisory 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 Audit and Supervisory Board members attend meetings of the Board of Directors, as well as other important meetings, and receive reports. In addition, they can 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, and the staff perform their duties under the orders and direction of the Audit and Supervisory Board members. The opinions of the Audit and Supervisory Board are respected on matters related to personnel transfers, work evaluations, and other matters pertaining to Audit and Supervisory Board Member Office staff members.

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



External Director/Audit and Supervisory Board Members' Principal Activities

Name	Position	Principal Activities
Chiyono Terada	External Director	Ms. Terada attended 14 of the 15 Board of Directors meetings held during fiscal 2019. Based on her abundant experience and deep insight as a corporate manager, she provides appropriate supervision of Company management from an independent perspective; provides management with 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.
Tatsuo Kawada		Mr. Kawada attended 14 of the 15 Board of Directors meetings held during fiscal 2019. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of management from an independent perspective and actively provides suggestions, from his broad and sophisticated perspective regarding changes in business models, innovation, and other matters.
Akiji Makino		Mr. Makino attended 14 of the 15 Board of Directors meetings held during fiscal 2019. Based on his abundant experience in management and high-level insight, he can provide appropriate supervision of the Company's management from an independent perspective and actively provides suggestions from his broad and sophisticated perspective regarding matters in the fields of energy, the natural environment, and service businesses.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano attended 12 of the 15 Board of Directors meetings held and 13 of the 14 Board of Auditors meetings held during fiscal 2019. Based on his abundant experience and deep insight as a corporate manager, particularly from his broad and advanced perspective developed over many years of experience in business overseas, he provides the necessary input in a timely fashion.
Toru Nagashima		Mr. Nagashima attended 14 of the 15 Board of Directors meetings held and 14 of the 14 Board of Auditors meetings held during fiscal 2019. Based on his abundant experience in management and high-level insight, he provides the necessary input in a timely fashion based especially on his broad and sophisticated experience in the management of global companies and manufacturing enterprises.

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

Name	Position	Reasons for Election
Chiyono Terada	External Director	Ms. Terada has served as president of Art Corporation. Based on her abundant experience and deep insight as a corporate manager, and with her broad and high-level perspective, she appropriately carries out her management duties and measures to further promote the achievements of female employees, taking a consumers' standpoint, including on the importance of the corporate brand. Ms. Terada was elected as external director to continue to contribute to the Company's corporate value looking forward.
Tatsuo Kawada		Mr. Kawada has served as chairman and CEO 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 transforming corporate cultures. Mr. Kawada was elected as external director to make use of this experience and to provide appropriate supervision of the conduct of management from an independent perspective, and, by offering proposals in relation to the overall management of the Company from his broad and high-level perspective, to contribute to increasing Daikin's corporate value.
Akiji Makino		Mr. Makino has served as chairman and CEO 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. Mr. Makino was elected as external director to draw on this 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.
Ryu Yano	External Audit and Supervisory Board Member	Mr. Yano has served as Chairman of the Board and representative director at Sumitomo Forestry Co., Ltd., and has abundant experience and deep insight as a corporate manager. Mr. Yano carries out his duties from a broad and high-level perspective cultivated, in particular, from his wealth of overseas business experience. Mr. Yano was elected as external auditor to draw on his experience to supervise overall management at Daikin and to significantly upgrade the appropriateness of the audit function
Toru Nagashima		Mr. Nagashima has served as an honorary advisor 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. Mr. Nagashima was elected as external auditor to draw on his experience to significantly upgrade the appropriateness of the audit function.

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

Agile Management Support System

Daikin's three main management bodies are the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting and they secure expeditious decision making based on substantial discussion and keeping the number of directors at a minimum.

The Board of Directors, along with providing healthy business execution and approprite supervision and guidance, is the decision-making institution for all matters related to the Group as a whole, as stipulated by laws and regulations and by the articles of incorporation. In addition, we periodically conduct a self-evaluation of the Board of Directors' effectiveness. Individual interviews conducted with directors confirm the viability of their effectiveness. In fiscal 2019, the Board of Directors met 15 times, and the average attendance rates of external directors and external Audit and Supervisory Board members at those meetings were 93% and 87%, respectively.

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction for important management guidelines and management strategies in a rapid and timely manner. In fiscal 2018, it met four times.

The Executive Officers Meeting establishes a place where we can expedite thorough deliberations and prompt implementation of important management issues, and it met 19 times in fiscal 2018.

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.

Evaluation of the effectiveness of the Board of Directors

Daikin analyzes and evaluates the effectiveness and appropriateness of the Board of Directors and the corporate governance system through interviews with the Directors and Corporate Auditors and deliberations by the Board of Directors. As a result, the Board of Directors of Daikin is assessed on its ability "to perform appropriate decision making through open and active discussions and play an effective role in improving corporate value over the medium-to-long term".

Going forward, we plan to further enhance the provision of information to external directors and raise the effectiveness of the Board of Directors even further.

Corporate Officer Renumeration

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including corporate officer nomination criteria, candidates, and remuneration. As of the end of June 2019, both committees comprised five members, including three external directors, one in-house director, and one executive officer in charge of personnel, with the committee chairman being chosen from the external directors.

The remuneration of directors and Audit and Supervisory Board members is based on both the maximum limit of total remuneration and on the report of the "Compensation Advisory Committee". 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.

In response to the expectations of shareholders, compensation for in-house directors is divided into fixed compensation to maintain the motivation of in-house directors at a high level continuously over the medium-to-long term so as to contribute to enhancing the Daikin Group's value. Performance-linked remuneration reflects short-term Group performance and performance of divisions in which a director is in charge, and stock options reflect medium- to long-term performance. External directors and corporate auditors receive "fixed compensation" only.

Daikin determines compensation levels based on the relative position of its performance and remuneration levels compared to other leading manufacturing companies in Japan after reviewing the data from a specialized external institution on the remuneration of corporate officers active in just under 300 Japanese companies listed on the First Section of the Tokyo Stock Exchange. The three indices used by the Company are the sales growth rate, operating income margin and ROE, as well as the medium-to-long term increase in corporate value.

Total Compensation for Directors and Audit and Supervisory Board Members (Fiscal 2019)

Position	Total Compensation (Millions of yen)	Total of different types of compensation (Millions of yen)			Persons paid
		Fixed compensation	Stock Options	Performance-linked compensation	
Directors (excluding external directors)	1,135	506	109	519	9
Audit and Supervisory Board Members (excluding external Audit & Supervisory Board members)	69	69	—	—	2
External Corporate Officers	76	76	—	—	5

Corporate Officers with Compensation over ¥100 Million (Fiscal 2019)

Name	Total Consolidated Compensation (Millions of yen)	Position	Company	Total Consolidated Compensation by Type (Millions of yen)		
				Fixed compensation	Stock Options	Performance-linked compensation
Noriyuki Inoue	418	Director	Daikin Industries, Ltd.	189	26	202
Masanori Togawa	278	Director	Daikin Industries, Ltd.	123	26	128
Ken Tayano	178	Director	Daikin Industries, Ltd.	97	14	55
		Chairman	Consolidated Subsidiary, Daikin (China) Investment Co., Ltd.	11	—	—
Masatsugu Minaka	133	Director	Daikin Industries, Ltd.	—	14	38
		Director	Consolidated Subsidiary, Daikin Europe N.V.	74	—	6
Jiro Tomita	152	Director	Daikin Industries, Ltd.	58	14	79

Accounting Auditor Compensation (Fiscal 2019)

Auditing expenses	235 million yen

Group-Wide Governance

To meet governance needs on a Group-wide basis, including M&A-related companies, Daikin holds meetings of the Group Steering Meeting to ensure the thorough sharing of important management policies and basic strategies. Moreover, Daikin works to promote and strengthen support for the resolution of challenges of Group companies through activities based on unified objectives. In addition, to strengthen Group-based auditing and supervisory functions, Daikin is working to enhance its management at the Group Auditors meetings, which comprise audit managers from major Group companies.

From the perspective of further strengthening corporate governance and Group management as a multinational company, Daikin has appointed a Chief Global Group Officer, who works to further improve the Group's cohesiveness.

Directors, Audit and Supervisory Board Members, and Executive Officers (As of the end of June, 2019)

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 of Iwatani Corporation
Member of the Board and Senior Executive Officer	Ken Tayano	Responsible for Domestic Air-Conditioning Business, Representative of China Region, Chairman 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 (excluding East Africa), 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, Manufacturing Technology and Promoting PD Alliances
Member of the Board	Yuan Fang	Regional General Manager of Air-Conditioning Business in emerging nations in the ASEAN/Oceania Region of Global Operations Division, Vice Chairman of Daikin (China) Investment Co., Ltd., Chairman of Daikin Airconditioning (Hong Kong) Limited
Member of the Board	Kanwal Jeet Jawa	Regional General Manager of Air-Conditioning Business in India/East Africa, President of Daikin Airconditioning India Private Limited
Audit and Supervisory Board Member (external)	Ryu Yano	Chairman of Sumitomo Forestry Co., Ltd.
Audit and Supervisory Board Member (external)	Toru Nagashima	Honorary Advisor of Teijin Limited
Audit and Supervisory Board Member	Kosei Uematsu	
Audit and Supervisory Board Member	Hisao Tamori	
Senior Executive Officer	Takashi Matsuzaki	Responsible for Applied Solution Business, R&D in North America, Applied R&D Center, Responsibility of Daikin Open Innovation Lab Silicon Valley
Senior Executive Officer	Yoshihiro Mineno	Responsible for Filter business training, General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director (non-resident) of Daikin Holdings (Houston), Inc.
Senior Executive Officer	Koichi Takahashi	Responsible for Finance and Accounting/Budget Operations, IT Development, IoT and AI business promotion, General Manager of the Finance and Accounting Division
Senior Executive Officer	Yoshikazu Tayama	General Manager of Budget and Administration Group in Finance and Accounting Division
Senior Executive Officer	Masayuki Moriyama	Responsible for Applied Solution Business in China/ASEAN/Oceania Region, Refrigeration business, Director of Daikin (China) Investment Co., Ltd., COO of McQuay China
Senior Executive Officer	Satoshi Funada	Responsible for Service Operations, General Manager of Air-Conditioning Sales Division
Senior Executive Officer	Naofumi Takenaka	Responsible for SCM, Logistics, Deputy Manager of Air-Conditioning Sales Division (Responsible for Business Strategy), General Manager of Business Strategy Department in Air-Conditioning Sales Division, General manager of Tokyo Office.
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	General Manager of Filter Division
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 Goodman Group Business, Executive Secretarial Department
Executive Officer	Yuji Yoneda	Responsible for Air-Conditioning Product 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 in Human Resources Division
Executive Officer	Masafumi Yamamoto	Responsible for CSR, Global Environment Affairs, Corporate Ethics, Compliance, Legal Affairs, Information security, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Chairman of CSR Committee, Chairman of Corporate Ethics and Risk Management Committee and Chairman of Information Disclosure Committee
Executive Officer	Akira Murai	Responsible for Oil Hydraulics business and Defense systems business, Co-Creation Projects member of Technology and Innovation Center, and General Manager of Yodogawa plant
Executive Officer	Makio Takeuchi	Responsible for Global Procurement, Deputy Manager of Air-Conditioning Manufacturing Division (Product Development), Product Development Promotion in Refrigeration Division, Co-Creation Projects member of Technology and Innovation Center
Executive Officer	Yoshiyuki Hiraga	Responsible for Chemical Business and Chemical Environment/Safety
Executive Officer	Toshio Ashida	Responsible for Strategy office of Technology and Innovation Center, General Manager of Corporate Planning
Executive Officer	Hideki Maruoka	General Manager of Oil Hydraulics Division
Executive Officer	Shigeki Morita	Responsible for PL/Quality (Air Conditioning/Applied/Refrigeration), Alliance Promotion with Gree Electric Appliances Inc., General Manager of Air-Conditioning Manufacturing Division, and General Manager of Sakai Plant

CSR Management System

The Daikin Group'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. The Daikin Group sets key CSR themes for internal use and the sustainable development of society. By evaluating the overall impact on society, Daikin provides people around the world with comfortable and rich lifestyles, while working to limit environmental impact by leveraging its accumulated technologies.

Materiality

In fiscal 2016, along with the establishment of a strategic management plan known as "FUSION 20," the Group's relevance has been evaluated. In the course of this evaluation, priority themes were selected according to two core topics: "stakeholders concerns and impact," which includes stakeholder engagement and global guidelines and requirements from the SRI research institution, and the "Importance to Daikin" based on management philosophy as well as mid-and-long-term management strategies.

Stakeholder concerns, impacts

	■ Biodiversity protection	■ Measures against atmospheric pollution ■ Respect for human rights ■ Stakeholder engagement ■ Communities ■ Management of chemical substances	**Most Important** ■ Response to climate change ■ Effective use of resources and energy ■ New value creation ■ Product quality and safety ■ Customer satisfaction
	■ Anti-corruption ■ Free competition and fair business dealings	■ Occupational safety and health ■ Labor-management relations ■ Supply chain management ■ Information security	■ Human resource development ■ Workplace diversity ■ Corporate governance
	Important	■ Waste and water-use reduction	

Importance to Daikin

■ Environment ■ New value creation, Customer satisfaction, Human resources ■ Fundamental CSR

Nine Key CSR Themes

With the Group's relevance established as the CSR priority for sustainable development of both the corporation and society, the Group has focused on four"Value Provision" themes and five"Fundamental" themes. Attention to these initiatives in management activities is incorporated into our strategic management plan, "FUSION 20" and implemented across the entire Group.

Daikin Group CSR

CSR for Value Provision		Fundamental CSR	
We aim to provide a healthy, comfortable air environment to all across the world, through efforts to minimize environmental impact.	● Environment ● New Value Creation ● Customer Satisfaction ● Human Resources	We are responding to societal demands for greater transparency and more open business practices.	● Corporate Governance ● Respect for Human Rights ● Supply Chain Management ● Stakeholder Engagement ● Communities

CSR Action Plan 2020

		Key CSR Themes	FY2021 Target	FY2019 Result
E Environmental	CSR for Value Provision	**Environment**	**Introduce state-of-the-art technologies to the market in order to address environmental and energy issue** • Reduced emissions of greenhouse gas by 60 million tons of CO_2 through the distribution of environmentally conscious products globally • Reduced emissions of greenhouse gas resulting from the manufacturing process across the entire Group by 70% from fiscal 2006 levels • Implementing and expanding environmental activities in coordination with stakeholders	We measure our contribution to reducing emissions of greenhouse gas based on the distribution of environmentally conscious products and our reduction in greenhouse gas resulting from the manufacturing process. Daikin reduced greenhouse gas by 67 million tons of CO_2, representing a reduction of greenhouse gas emissions of 75% from fiscal 2006 levels.
S Social	CSR for Value Provision	**New Value Creation**	**Share dreams and ambitions inside and outside Daikin to realize a healthy, comfortable lifestyle through air** • Connecting society and customers via IoT and AI and creating new value through open innovation	The amount of investment to create new value is measured based on the amount of new technology created. Research and Development expenses reached ¥65.2 billion and the number of patent applications were 904 in Japan and 434 overseas in fiscal 2018 on a unconsolidated basis).
S Social	CSR for Value Provision	**Customer Satisfaction**	**Provide peace of mind and reliability through a focus on customer orientation, experience, performance, and advanced technologies** • Build a service network encompassing the entire globe • Building product development capabilities that can satisfy the needs of customers worldwide • Maintaining optimum levels of quality	We measure satisfaction through the after-sales service customer satisfaction rating. With the customer satisfaction rating in the lase fiscal year taken as 1, the customer satisfaction ratings were: Japan 1.13 (compared to fiscal 2016); Singapore 1.00 (compared to fiscal 2016); Indonesia 1.03 (compared to fiscal 2018); India 1.09 (compared to fiscal 2017); and Spain 1.15 (compared to 2017).
S Social	CSR for Value Provision	**Human Resources**	**Respect individual personalities and values, and maximize the potential of each employee so that they can benefit Daikin and society as a whole** • Achieve a ratio of excellent or advanced skilled engineers in manufacturing of four to one • Achieve a level of 100 females in management positions (unconsolidated) • Increase the ratio of local presidents • Reducing the frequency of industrial accidents to zero	As a means of fostering our human resources, we measure the number of personnel that are at a level to provide guidance in *monozukuri* (creating things), maintain diversity and move toward appointing more presidents at local overseas production facilities. In the area of occupational, health and safety, we measure the safety of operations at production facilities. We achieved a ratio of excellent or advanced skilled engineers in manufacturing of 2.9 to one (unconsolidated), 59 female in management positions (unconsolidated), a ratio of local presidents of 46% (overseas Group companies) and frequency rate of industrial accidents throughout the Group of 1.38.
S Social	Fundamental CSR	**Respect for Human Rights**	Thoroughness of respect for human rights	We measure how thoroughly respect for human rights has been adopted by our employees through the completion rate for the self-assessment. The completion rate for the self-assessment was 99%.
S Social	Fundamental CSR	**Supply Chain Management**	Conduct CSR procurement	To measure the level of implementation of the CSR by suppliers, we created a questionnaire for suppliers. We began running this survey of CSR through the procurement process in fiscal 2019. The CSR procurement ratio in fiscal 2019 was 94%.
S Social	Fundamental CSR	**Stakeholder Engagement**	Engage in dialogue with stakeholders and reflect this dialogue into management	As an indication of our performance in the area of engagement, we track the number of events held by our Air Conditioner Forums (Konwakai), an event that comprehensively covers the industry and provides an opportunity for dialogue between experts in air conditioning. The Air Conditioner Forum was held six times across five different regions worldwide (114 participants from 37 countries participated and attendees included university professors and experts in their field).
S Social	Fundamental CSR	**Communities**	Contribution to environmental conservation, education support, and cooperation with the local community	The amount of support in terms of donations both financial and material provides an indication of our contribution to regional society. This amount across the entire Group stands at ¥1.4 billion.
G Governance	Fundamental CSR	**Corporate Governance**	Thoroughness of compliance	We measure the status of our efforts in corporate governance compliance through the completion rate by employees of the self-assessment. The completion rate for the self-assessment was 99%.
G Governance	Fundamental CSR	**Corporate Governance**	Degree of independence from the company, diversity, and transparency of the Board of Directors (Daikin Industries, Ltd. only)	We also have a ten-member Board of Directors, including three external directors, one female member, and two non-Japanese members. (Unconsolidated)

CSR (Corporate Social Responsibility)

Environment

■ Materiality of Environmental Measures

While air conditioners, the main product of the Daikin Group, support the enhancement of economic growth and quality of life in hot regions, they consume a lot of electricity during use and also have an impact on climate change through the fluorocarbon used as a refrigerant.

In recognition of this, the Daikin Group strives to contribute to the sustainable growth of global society as the only comprehensive air-conditioner manufacturer that develops and manufactures both air conditioners and refrigerants. The Daikin Group focuses on the spread of environmentally conscious products using inverter technology, refrigerants with lower global warming potential worldwide and its services solution business.

■ Daikin's Initiatives

Promotion of Eco-Friendly Technologies and Products

The Daikin Group develops and distributes environmentally conscious products globally that satisfy either or both a reduction in power consumption by 30% or more compared to conventional models and use of refrigerants with a lower global warming potential of a third or less compared to conventional refrigerants.

In fiscal 2019, the percentage of sales of environmentally conscious products related to residential air conditioners was 93%, representing a reduction in emissions of greenhouse gases* of 67 million tons of CO_2. As a measure to reduce CO_2 emissions resulting from the energy consumption of air conditioners, Daikin is working to broaden the global distribution of inverter units. For example, in Southeast Asia, Daikin has developed low-cost inverter units targeting regions requiring cooling-only air conditioners, and, due to a rising energy-conservation consciousness along with strengthened regulations and steeply rising electricity prices, these low-cost inverter units are flourishing.

Also, in Latin America and the Middle East, Daikin is cooperating with government and industry bodies to support the establishment of energy efficiency assessment standards, through the introduction of indicators, standards, and an improved energy labelling system.

* Difference between emissions from the total sales by Daikin of environmentally conscious products and a baseline of emissions from air conditioners using non-inverter units and conventional refrigerants, combustion-type heating, and hot water heaters.

Supporting the Rollout of R32 Refrigerant in Emerging Economies

In 2011, the Daikin Group released 93 basic patents related to the manufacture and sale of air conditioners using R32 royalty-free for emerging countries allowing for the manufacturers in each country to introduce the lower global warming potential (GWP) R32 refrigerant. In 2015, this royalty-free use of R32 as a refrigerant was expanded worldwide.

In addition, Daikin provides technical support in emerging countries by cooperating with governments and international organizations throughout the world and provides information and technical support through international conferences, academic conferences, and papers on the impact and countermeasures in relation to refrigerants and global warming.

For example, in India, Thailand, and Malaysia, seminars were held for government officials and air-conditioning industry groups to promote understanding of R32, and we conducted training for local air-conditioning installation and service technicians on the appropriate handling of R32.

In Mexico, Daikin was commissioned by the Japan International Cooperation Agency (JICA) to handle private-sector technology promotion projects in an expanded range of activities, including the distribution of air conditioners with R32 refrigerant and initiatives to create energy-efficient markets.

As of December 2018, the Daikin Group had sold more than 17 million R32 air conditioners worldwide in 60 countries. We estimate that the global market for R32 air conditioners, when our competitors are included, exceeded 68 million units.

Reduction of Greenhouse Gases by 75% Compared to Fiscal 2006 Levels, Goals Achieved

Greenhouse gases emitted by the Daikin Group during the production process across the entire business are classified by energy use into two main categories: CO_2 and fluorocarbons. From fiscal 2017, we reviewed estimate calculations and the management targets for companies in the Group that have been in place since 2010. We set targets to reduce greenhouse gas emissions from fiscal 2006 levels by 70% in fiscal 2021 (reduction to 1.58 million tons-CO_2).

In fiscal 2019, at Daikin America, Inc., replacement and recovery of fluorocarbons was under way resulting in a 75% reduction of greenhouse gas emissions compared to fiscal 2006 levels (reduction to 1.31 million tons-CO_2).

Realization of ZEB (Net-Zero Energy Buildings) at Existing Buildings

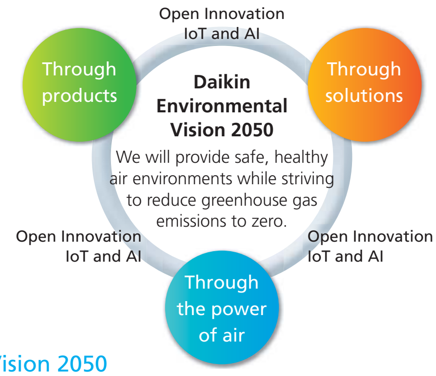
Daikin's branch office in Fukuoka, being a medium-sized office building, was lagging behind in efforts to become energy efficient. However, owing to a facility upgrade combined with off-the-shelf technology as well as thorough operational management, we were able achieve "ZEB Ready"* status. Upgrading conventional, existing buildings to ZEB status had, in the past, required complicated technologies as well as enormous deployment costs. At the Fukuoka building, our first stage in reducing energy consumption was to upgrade facilities and thoroughly centralize management of air conditioning, ventilation, and lighting, which are large consumers of electricity. As a second stage, we installed double-paned windows and a solar power system, which enabled a 67% decline in annual energy consumption (fiscal2018 results) compared to ordinary buildings on the same scale. This knowhow will, we believe, provide a major contribution to spreading ZEB to medium-sized office buildings.

Daikin has been recognized for such efforts, and was awarded the Director-General Prize from Agency for Natural Resources and Energy.

* Buildings achieving a reduction of greater than 50% compared to the energy saving standard for ordinary buildings.

Environmental Vision 2050

In the Paris Agreement adopted in 2015, the declared goals were to reduce greenhouse gas emissions to zero in the second half of this century and to keep the global average temperature rise below 2°C compared with before the Industrial Revolution. To demonstrate its approval of the Paris Agreement, the Daikin Group has formulated its "Environmental Vision 2050" to aim for zero greenhouse gas emissions in 2050. Reflected in the latter half of "FUSION 20," our three-year Strategic Management Plan, we have also started to develop a medium- to long-term strategy targeting 2030.



Development of Medium- to Long-Term Strategy toward Realization of Environmental Vision 2050

To create new added value from the air generated by our products across the world and to aim for zero greenhouse gas emissions by means of our products and solutions, we analyzed the future of the air-conditioning business. From the results of that analysis, we are developing and implementing measures under "FUSION," our Strategic Management Plan formulated with an eye toward 2030.

Through products | **Through solutions** | **Through the power of air**

Philosophy toward net zero greenhouse gas emissions

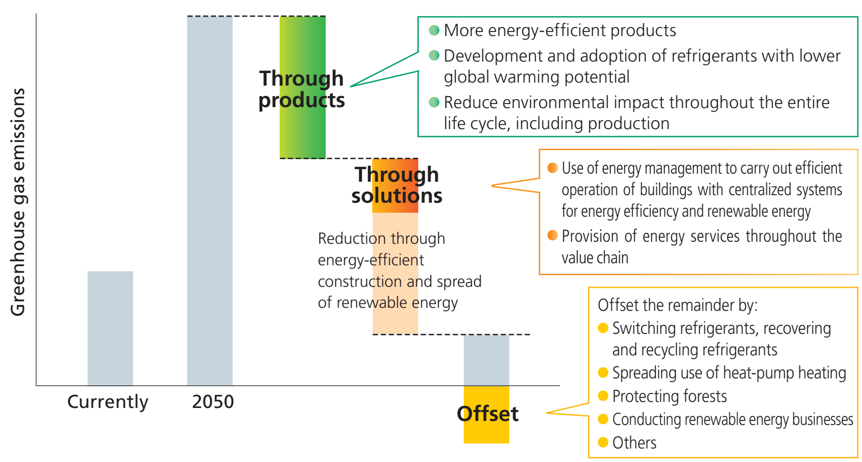
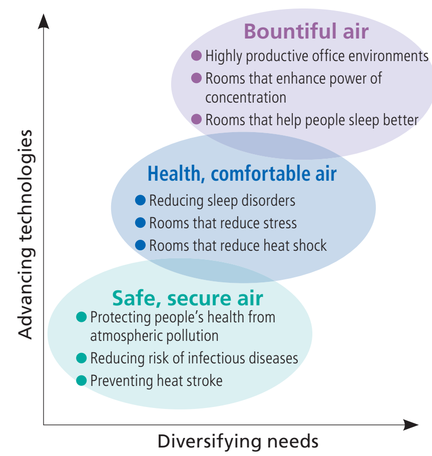


Image: The power of air



Growth Strategy Based on Risks and Opportunities

The forecast for rapidly increasing demand for air condition — Daikin's main business — presents us with a huge opportunity. But along with this comes risks for the continuation of our air conditioning business: increased air conditioning means greater energy needs, increasing electricity provision costs, and higher greenhouse gas emissions.

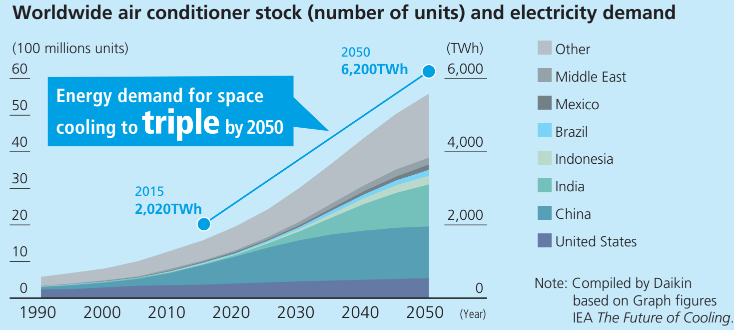
We aim to respond to these risks by turning them into opportunities. We will do this by reducing our environmental impact by, for example, developing and spreading the use of high-efficiency air conditioners, creating solutions for buildings that utilize energy effectively throughout the entire facility, and developing and spreading the use of refrigerants with lower global warming potential. In this way, we aim to protect the environment while growing our business.

IEA *The Future of Cooling* Forecast

In May 2018, the International Energy Agency (IEA) released The *Future of Cooling*. The report looks at air conditioning and how the rise in its use is driving global energy demand.

According to *The Future of Cooling*, estimates are for air conditioning demand to rise rapidly and for energy demand for space cooling to triple by 2050.

Worldwide air conditioner stock (number of units) and electricity demand



Note: Compiled by Daikin based on Graph figures IEA *The Future of Cooling*.

New Value Creation

■ Materiality of New Value Creation

Daikin Group believes that to achieve sustainable growth in an environment where change and progress in both globalization and technology are accelerating remarkably, it is important to provide unparalleled new value. Making use of IoT and AI technology, we aim to integrate cutting-edge technologies from different fields through open innovation. We will pursue new value to make people and indoor spaces healthy and comfortable through technologies and products that contribute to the resolution of social issues such as energy, the environment, and health.

■ Daikin's Initiative

Creating Value from Data in Relation to Air and Space

Daikin launched the collaborative creation platform "CRESNECT" to use data obtained from air conditioners and by cooperating with various partner companies has created new values and services related to air and space.

As the first project, in July 2019, we started a trial experiment to realize "Future Office Creation" together with partner companies in a member-type workspace in Tokyo's Marunouchi district. By having users experience the spatial content—"space where they can work more efficiently", "a space where they can work more healthily"—created by integrating the latest technology, data, and know-how possessed by each participating company, we aim to create new products and services by demonstrating the creation of healthy and comfortable office spaces.

Cooperative Creation That Makes Use of IoT in Skill Transfer

Daikin and Hitachi, Ltd. embarked on a collaborative project to create the next-generation production model using IoT to support skills transfers from expert workers as of October 2017. More specifically, we are proceeding with a joint demonstration of the viability of a new production model. The system uses such technologies as advanced image analysis, which is the solution core of Hitachi's IoT platform, "Lumada," and through digitalization, the system enables the comparison and analysis of the skills of expert workers and trainees.

The current demonstration involves the brazing process, which forms part of the manufacturing process for air conditioners at Daikin's Shiga Plant.

In the future, we will move to full-scale production using this system and with the objective of ensuring consistent quality and improved productivity and developing human resources, we aim to expand to other Japanese and overseas production locations.

In fiscal 2019, we introduced brazing skill training support systems at three technical skill *dojos* (training centers) in Japan and commenced operations. Starting in the current fiscal year, we plan to deploy the systems at overseas locations.

Providing Comfortable Air-Conditioned Spaces in Buildings for Fixed Monthly Fees

Daikin Airtechnology & Engineering Co., Ltd., a wholly owned subsidiary of Daikin Industries, established Air as a Service, Ltd. (AaaS) jointly with Mitsui & Co., Ltd. Owning air-conditioning equipment on behalf of facility owners, AaaS offers subscription-type services that provide users with comfortable air-conditioned spaces for a fixed monthly fee.

Typically, the air-conditioning equipment in buildings and commercial facilities is bought in bulk and owned by the building owners, who usually conduct routine inspections, repairs, and maintenance at their own expense. The maintenance management and replacement of air-conditioning equipment, however, requires a lot of money and effort, and the equipment is often used far beyond its service life and not properly maintained, which leads to deterioration in air-conditioning effectiveness and a rise in energy costs. On behalf of the facility owners and for a fixed monthly fee, AaaS provides services ranging from air-conditioning equipment installation and updates to the operational management of the equipment. By maintaining energy-saving and comfortable air-conditioned spaces, the company also reduces the burden on the owner and improves tenant satisfaction.

Increasing Outdoor Comfort with "Outer Tower" Outdoor Air Conditioner

Daikin Industries has launched "Outer Tower," an outdoor-use air conditioner that brings comfort to outdoor spaces where the heat can become a problem, such as café terrace seating and public spaces in midsummer. This product delivers cold air from the sides of its tower-shaped body in all four directions—to the front, back, left, and right—to a distance of about three meters. Since the structures of a general indoor air conditioner unit and an outdoor unit have been integrated into one self-contained unit, refrigerant piping work is unnecessary, and thus an "Outer Tower" can be installed anywhere you like. Cool spots can be created outdoors.

Customer Satisfaction

■ Materiality of Customer Satisfaction

Daikin is developing business in over 150 countries around the world. To provide maximum satisfaction to customers in each individual country, Daikin takes into consideration climate, culture, and regulations to provide products and services that meet local needs. At the same time, it is vital to maintain the highest standards of quality.

To more precisely match customer needs, Daikin is focused on customer-oriented business activities and regularly addresses the frank opinions of customers worldwide, making use of their views in areas such as product development.

■ Daikin's Initiatives

Implementing Global Quality Guidelines

In its Global Quality Guarantee Rules, the Daikin Group has prescribed its basic stance on quality standards across its Group companies and outlined the responsibility and authority structure to ensure the seamless implementation of measures for quality monitoring and correction. We have acquired ISO9001 certification at all production facilities, and, through our quality management system, we thoroughly implement quality maintenance and management in all development, procurement, and production divisions. Furthermore, we are also working to enhance quality with the cooperation of our outsourcing partners.

To assess the operating status of the quality management system, the Daikin Group conducts evaluations through internal audits and maintains a continuous cycle of implementation, evaluation, and improvement.

In addition, every year, we plan and implement a quality assurance program for the fiscal year that outlines quality priority measures and targets for each business division based on the Group's annual policy guidelines.

Developing Our Service Structure in Japan and Abroad

The Daikin Contact Center is a general inquiry service that accepts inquiries regarding repair requests, technical consultations, and purchasing information 24 hours a day, 365 days a year, from customers in Japan.

Overseas, we have put in place an after-sales service structure with "speed, accuracy, and good mangers" to respond to the variety of requests specific to each country or region.

In fiscal 2019, we renewed our existing customer inquiry service in China. In addition to repairs and other problems that have traditionally formed part of the service, we have created a system whereby air-conditioning professionals can provide advice, such as on model selection and usage suggestions, as a general inquiry service.

Collecting and Reflecting the Views of Customers

The Daikin Group measures customer satisfaction through its after-sales services and uses these results to enhance customer satisfaction. In Japan, we conduct our Relationship Survey, and, in fiscal 2019, the overall satisfaction score was 4.56 out of a total of 5.0 points, our highest rating to date.

We believe this result reflects our education and training in such areas as "enhancing technical capabilities" and "improving our response to customers" as well as a focus on "speed from reception to completion" and "repairs completed in one visit". Meanwhile, customers' opinions collected at showrooms, shops, and websites are used for product development. In fiscal 2019, we responded to feedback from customers in Japan who were worried about humidity countermeasures for homes that had been left vacant for long periods of time by launching "Karaie," which dehumidifies homes with no need to throw away water. We also answered calls for diversification of interior design by launching "risora," the front panel of which can be painted in the customer's favorite from a choice of 600 colors.

Global Product Development System to Meet Diverse Regional Needs

The functions and performance required of air conditioners vary greatly from region to region, depending on factors that include the climate, culture, power supply situation, and income levels. To rapidly develop products in line with such local circumstances, we have R&D centers in 25 locations around the world and have established a system that allows us to offer local products at competitive prices. We also share the know-how gained at each base and utilize that expertise throughout the entire Group to accelerate the development of products that satisfy our customers.

Of the 25 locations, five locations in Europe, the United States, India, China, and Japan are designated as mother R&D centers. Previously, R&D responsibilities were shared by areas of expertise assigned to specific regions. For example, Japan was solely responsible for bringing together key technologies, India for the Company's responses to high ambient temperatures, and Europe for heating, and each region fulfilled a global mother function.

First Place in "Corporate Telephone Answering Contest"

At the 22nd "Corporate Telephone Answering Contest," sponsored by the Japan Telecom Users Association (JTUA), the Daikin Contact Center received a Directors Award (ranked first overall). Also, for the second consecutive year, Daikin was selected as a Gold Ranked Company. Highly rated criteria in the gaining the awards were the quick, polite, and detailed explanations, and the friendly way in which inquiries are handled.

"Assisnet Service" Supports Maintenance Management of Air-conditioning Equipment

Daikin Industries launched its "Assisnet Service" to support, at low cost, the maintenance management of air-conditioning equipment in buildings and commercial facilities. The service covers the periodic inspections required under the Fluorocarbons Emission Reduction Act, the notification of abnormal air conditioner operations, and the ascertaining of cumulative operating hours. Making inspections mandatory is extremely important from the viewpoint of preventing global warming. On the other hand, these add new duties on top of the normal equipment maintenance and management tasks for employees in small and medium-sized buildings and stores. As they do not have dedicated equipment managers, and their workload is greatly increased, reductions are being requested. The "Assisnet Service" provides comprehensive support for inspections and maintenance management, enabling increased efficiency in the management operations of air-conditioning equipment.

Human Resources

■ Importance of Initiatives Related to Human Resources

In response to the expectations of our various stakeholders and for the Daikin Group to realize on a global level its strengths in the "environment", "new value creation" and "customer satisfaction", the personnel who can take on the responsibility to perform these activities are critical. Therefore, Daikin has positioned "People-Centered Management" as its foundation and to respect individuals and their values we are promoting the creation of an organization that can maximize the power that each individual possesses.

■ Daikin's Initiatives

Enhancing Opportunities for Human Resource Development

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. In addition, based on the concept that "people grow through job experience," we have positioned OJT as the basis of human resource development and, including off-the-job training (Off-JT*), are working to enhance growth opportunities.

We are also focusing on nurturing the human resources for the next generation of skills that will become the basis of manufacturing. The goal is to have one in every four employees in our global production rated as "outstanding skilled workers and highly skilled workers". In fiscal 2019, the number of qualified personnel in Japan was one in 2.9 people. Meanwhile, we are working to enhance training opportunities in the form of Off-JT that include: the Daikin Leadership Development Program, which fosters the executives who can play an active role on the front line of our global business; overseas base practical training to develop young, globally minded human resources; and the "Daikin Information and Communications Technology College," an in-house lecture to train the personnel responsible for technological and business development in the AI field.

* Off-the-Job Training, a method of learning away from work to gain extra knowledge and skills

Appointment of Local People in Executive Positions at Overseas Facilities

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 positions. At the end of fiscal 2019, 46% of the presidents at our overseas bases and 43% of the directors were local employees.

Accelerating the Active Role of Women in Japan

The Daikin Group is working to promote the active participation and success of women, aiming at an environment that can fully demonstrate each individual's ability regardless of gender.

As goals, we are aiming to have at least one female director at Daikin Industries and increase the number of female managers to 100 by the end of fiscal 2021. As of the end of fiscal 2019, there were 59 female managers, and we are reforming the awareness of managers and employees with regard to women's issues, while expanding the support measures designed to assist in balancing work and childcare. In March 2019, having been evaluated as an outstanding enterprise in encouraging women's success in the workplace, it was announced that Daikin Industries had been granted Nadeshiko Brand designation—for the sixth time, and the fifth consecutive year—by both the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

New Factory Commences Full-Scale Operations in Vietnam, Spreading Adoption of Energy-saving Air Conditioners

Due to the expense of electricity bills that take away a large part of people's incomes, air conditioners that offer high energy savings, such as inverter air conditioners, are in demand in Vietnam. To provide for the stable supply of high-quality, energy-saving air conditioners, Daikin Air Conditioning Vietnam established a new factory near Hanoi in May 2018. In fiscal 2021, production capacity will be doubled compared with fiscal 2019 to one million units per year, and the company is planning to increase the number of employees in Vietnam as a whole from 1,779 in fiscal 2019 to 2,250. The company will also focus on developing human resources, such as sales and services staff, who are indispensable in the adoption of Daikin air conditioners. There having been roughly a five-fold increase in demand for air conditioners in Vietnam between 2008 and 2018, it is expected that the expansion trend will continue in the years to come.

Promoting Understanding of LGBT Issues

At Daikin Industries, the understanding of LGBT issues has been deepened by holding practical training, including basic knowledge of LGBT issues and workplace responses, for around 500 directors, managers, and team leaders. In addition, the definitions of "marriage" and "gender" were clarified in personnel terms, and "actual marriage (including same-sex partners)" and "gender through self-identity (gender with which someone identifies)" recognized.

Overseas Bases Becoming Main Centers for Developing Human Resources That Support Adoption of Air Conditioners

The Daikin Group is advancing the building of manufacturing systems around the world. Daikin Industries (Thailand) Ltd. is spearheading the training of the technicians involved in manufacturing at the Daikin Air Conditioning Vietnam plant, which commenced operations in May 2018.

The new factory in Vietnam has a shortage of skilled technicians who have the basic skills to manufacture air conditioners. Training for about 60 management-level employees from the Vietnamese company was therefore held at the Thai factory even before the new factory had commenced operations. Daikin in Japan provided guidance for the introduction of the latest technologies, such as the utilization of IoT technology for the production control system, which is the first of its kind in Asia and Oceania. This has naturally led to Daikin Air Conditioning Vietnam training the Thai company technicians that had instructed the Vietnamese. Such intercountry exchanges provide opportunities for both the instructors and trainees to improve their leadership and technical skills, while serving to increase their motivation.

Initiatives to Reduce Workplace Related Accidents to Zero

To ensure operational and employee safety at its production facilities in each region worldwide, the Daikin Group has created occupational health and safety management systems (OHSAS) at 44 facilities and is acquiring certification for international standards, such as OHSAS18001.

We hold Groupwide joint safety and security meetings twice a year to improve safety levels. With the aim of achieving zero workplace accidents, our efforts include education and safety patrols. In fiscal 2019, the frequency rate of industrial accidents throughout the Group was 1.38, an improvement of 0.05 from fiscal 2018.

CSR Management/ Compliance Risk Management

■ CSR Management

The Daikin Group established the important themes of "CSR for value provision" and "Fundamental CSR," to enable it to realize sustainable development both as a corporation and a member of society.

The CSR & Global Environment Center, a staff division, was established under the CSR Committee (chairman: director in charge of CSR), which sets the overall direction of activities and monitors the execution of those activities and promotes comprehensive and Groupwide CSR.

In fiscal 2018, at the CSR Committee, we discussed the necessity and content of our long-term environmental vision encompassing the Paris Agreement's aim to keep the rise in temperature below 2°C, and the sustainable development goals (SDGs) adopted by the United Nations and reported to the president.

■ Compliance Risk Management

Taking an Integrated Approach to Promoting Compliance and Risk Management

At the Daikin Group, the Internal Control Committee, chaired by the President, checks and confirms that internal controls, including risk management, are functioning properly Groupwide. Chaired by the officer in charge of corporate ethics and compliance, the Corporate Ethics and Risk Management Committee is held twice a year in Japan as a general rule and comprises each department head and the presidents of major Group companies to ensure the management of operational risk and thorough compliance.

Overseas Group companies formulate and develop comprehensive common rules to tackle compliance and risk management. The issues faced by each company and the progress toward resolution are reported to the Corporate Ethics and Risk Management Committee.

In fiscal 2019, compliance meetings were held in Asia, Oceania, Europe, and China to share information on self-assessment as well as on education and training initiatives.

The Thorough Implementation of Group Guidelines

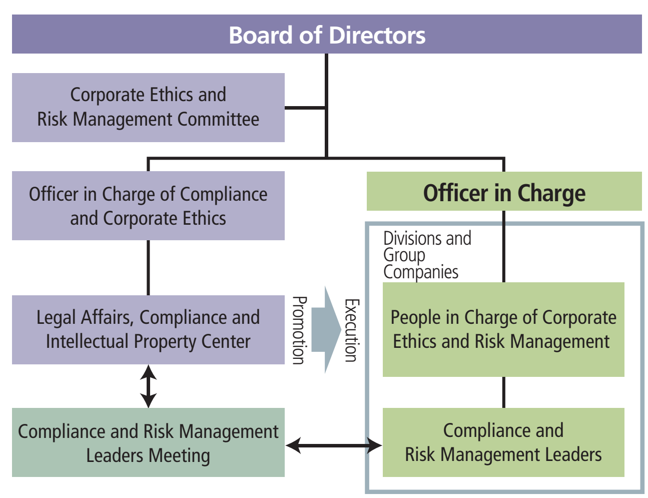
The Daikin Group established its Group Code of Conduct that clearly outlines required conduct for individual officers and employees and, to ensure thorough compliance, appointed a Compliance and Risk Management Leader (CRL) for each division and for each of the main Group companies in Japan and overseas. CRLs encourage adherence to the Group Code of Conduct, while regularly checking the status of compliance and risk management and sharing information, and they are focused on fostering a "culture free of compliance violations" and to elevating "mechanisms to ensure that there are no compliance violations."

■ Identification of Most Important Risks and Planning and Implementing Countermeasures

With the rapid expansion of Daikin's business, the Daikin Group introduced its risk management system, to gain an overall picture of risks from a global perspective in an accurate and prompt manner and to reduce risk across the entire Group. Each division and main Group company overseas and in Japan identify and select critical risks through risk assessments, and each Group company works to reduce this risk. The status of risk reduction measures is shared with and reported to the Corporate Ethics and Risk Management Committee.

For example, in fiscal 2019, Daikin Industries made efforts toward key themes such as "Earthquake Risk," "PL Quality Risk," "Intellectual Property Risk," "Information Leakage Risk," and "Overseas Crisis Management".

Corporate Ethics and Risk 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 such matters as human rights and labor. We respect human rights, diverse values, and the individual's sense of work, and have stipulated in our Group Code of Conduct policies against child labor and forced labor.

Respect for Human Rights in the Self-Assesment

The Daikin Group is committed to respecting the human rights of all its employees as stipulated in the Group Code of Conduct that clearly outlines the conduct to be adhered to by each and every officer and employee. We have identified the human rights issues of our business and have begun to appraise the risks that should be prioritized across the entire value chain. Also, to ensure compliance with the Group Code of Conduct, we established an item relating to respect for human rights in the annual self-assesment that checks to ensure there are no human rights violations and, where necessary, establishes measures to address any issues.

An item was also included in the Supply Chain CSR Promotion Guidelines, formulated in 2017, and we are also asking for thorough compliance from our suppliers.

Protection of Personal Privacy

The Daikin Group has established guidelines for the protection of personal information, and based on these guidelines, each Group company develops its own systems to promote the guidelines and rules. We also established personal data handling rules to ensure compliance with the EU General Data Protection Regulations (GDPR) which came into effect from May 2018, and we are working to ensure thorough compliance at each Group company.

Regular Human Rights Awareness and Education

Daikin conducts human rights education and awareness activities each year for all of its directors, new employees, including those of affiliates, and newly appointed managers. In addition, we publish a series of human rights articles in the Company newsletter to raise awareness of human rights.

In fiscal 2019, e-learning was conducted for all employees in Japan to raise human rights awareness and prevent harassment. Using recent social trends and specific examples of harassment, we worked to raise the awareness of each and every employee.

Establishment of Consultation Desk

Daikin Industries has established a Corporate Ethics Consultation Desk that gives consultations and receives opinions on general corporate ethics from employees. We also conduct harassment training geared toward department heads and managers, including training for newly appointed managers, to alert them with regard to the handling of information when consulted.

We have in place a system for taking prompt measures by which the Legal Affairs Department investigates the content of reports and tip-offs and decides on measures to prevent recurrence following discussions with the department in charge.

To make the existence of the Corporate Ethics Consultation Desk common knowledge, its contact information is listed on the Compliance Card carried by employees.

Supply Chain Management

In 1992, the Daikin Group established the Basic Procurement Guidelines and is working to ensure fair trade with its suppliers. In 2017, we established the Supply Chain CSR Promotion Guidelines and recognize that our social responsibility extends beyond the Group to the entire supply chain. In line with this, we are promoting CSR initiatives related to the environment, quality, occupational safety, and human rights.

Implementation of the Supply Chain CSR Promotion Guidelines

Supply Chain CSR Promotion Guidelines that the Daikin Group implemented in April 2017 are guidelines to promote CSR at suppliers also, and aim to achieve stable, sustained business growth. In addition to general requirements such as management and compliance with laws and regulations, suppliers are requested to work on CSR across the board, including environment, quality, occupational health and safety, human rights, and the prohibition of trade with conflict zones.

In fiscal 2019, we conducted a CSR survey of 135 major business partners in Japan, as a result of which the CSR procurement implementation rate was found to be 94%. We conduct interviews with suppliers who are judged to be at risk and provide suggestions on how to improve and guidance according to the guidelines. From the current fiscal year, we will work to further improve the CSR level of domestic suppliers and roll out this initiative globally.

Enhancing Quality from Suppliers and Supporting the Development of Human Resources

For the Daikin Group to provide products that satisfy the trust of customers, cooperation from suppliers is vital. Therefore, while working hard within a strong relationship of trust with all suppliers, the Daikin Group endeavors to continue to meet its mutual expectations as well as to build relationships in which we can both grow and develop.

Daikin Group companies both in Japan and abroad periodically conduct dialogue at the production sites of its suppliers on quality audits and quality improvements, collaborating with its suppliers on quality improvement efforts and providing support to enhance the required technological capabilities. In addition, we hold regular safety meetings to help prevent work-related injuries.

In fiscal 2019, we introduced "chemSHERPA," the scheme for communicating information on chemical substances contained in products recommended by the Ministry of Economy, Trade and Industry, and requested its introduction by our business partners. We aim to manage chemical substances efficiently by having the Company and our business partners use standardized report forms and databases.

Stakeholder Engagement

Stakeholder Engagement

The Daikin Group's main stakeholders are the customers to whom we provide products and services, the shareholders and investors who have a direct impact on our business, our suppliers, our employees, and everyone in the regional societies that our business evolution affects. In addition, the spread of air-conditioning technologies and the enhancement of the environmental friendliness of our products and services involve national and local governments and industry associations. The Daikin Group believes that it is important to understand the concerns and expectations of these stakeholders through proactive dialogue, so management can use this information in our business.

Continuing Exchange of Opinions with Experts

Since 1995, the Daikin Group has held the Air Conditioner Forum (Konwakai) in Japan where it can exchange opinions relating to the "future of air conditioning" with experts in the field.

In addition, in light of the rapid global development of our business, since fiscal 2008, we have expanded the extent of these events to five regions and held forums in Europe, China, the United States, Asia/Oceania, and Central America/South America. Exchanging opinions with experts from each region about environmental and energy issues, we use that information in our technology as well as product and business development. In fiscal 2019, we held a total of six events in five areas.

The U.S. consul general in Osaka was invited as a special guest to a North American social gathering held at Daikin Ales Aoya, our Global Training Center in the city of Tottori City. Daikin's energy-saving technologies and environmental strategies were explained, and lively discussions held on the potential of IoT and AI technologies.

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 focuses on augmenting its profitability while lowering the levels of its trade receivables and inventories. Furthermore, Daikin works to stably maintain its consolidated ratio of dividends on equity (DOE) at 3.0%.

In addition, to increase its management transparency, Daikin is executing diverse kinds of IR activities. As part of this, we held a Sustainability Briefing in fiscal 2019. Having explained our environmental efforts, such as our Environmental Vision 2050 that we formulated in 2018, and our approach to human resource development, we received many opinions.

To make it easier for shareholders to exercise their voting rights at ordinary general meetings of shareholders, the Japanese and English versions of convocation notices are posted on our website and that of the Tokyo Stock Exchange prior to being sent. The exercise of voting rights on PCs, smartphones and mobile phones is also possible.

Regional Society

The Daikin Group is made up of 291 consolidated subsidiaries worldwide and is expanding business in over 150 countries. The expansion of this global business is accelerating in line with the growth in demand for air conditioners, particularly in emerging countries and regions such as China, India, and Latin America.

The basic policy for overseas operations is to develop a strong bond with regions through respect for their local cultural and historical backgrounds and is premised on increasing employment in the local region and cooperation with local companies.

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

Forest and Biodiversity Preservation

To protect the environment in the vicinity of our facilities throughout the world, the Daikin Group is working to preserve biodiversity through its efforts to conserve forests and other natural assets such as the oceans and rivers.

For example, Daikin Industries participates in the Osaka Prefectural Government's "Adopt a Forest System" and has been conducting activities to improve the prefecture's ecosystems by re-establishing satoyama (a forested natural area forming the border between the mountains and the habited regions). In fiscal 2019, a total of 190 people participated in the activity. Daikin Compressor Industries, Ltd. (Thailand) also conducts conservation activities for mangrove forests. This contributes to conservation of biodiversity and protects the lives of people engaged in traditional fishing.

Supporting the Regional Revitalization of Okinawa

Since 1988, Daikin Industries has held the "Daikin Orchid Ladies Golf Tournament," and, through promoting sports, we are helping to revitalize Okinawa and encourage economic exchange 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 such areas as the arts, culture, education, and sports in Okinawa.

Holding "Bon Festival" in Japan and Abroad

Daikin has deepened exchanges with local residents through regional festivals and sports, building 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, festivals are also held at our main production bases in China, the United States, and other areas.

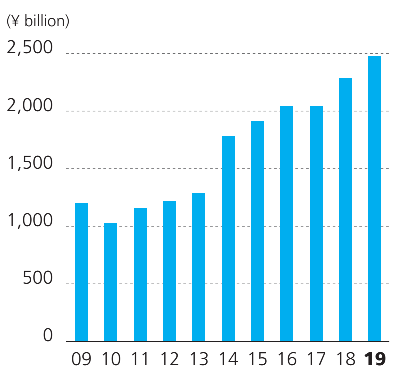
Eleven-Year Financial Highlights

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

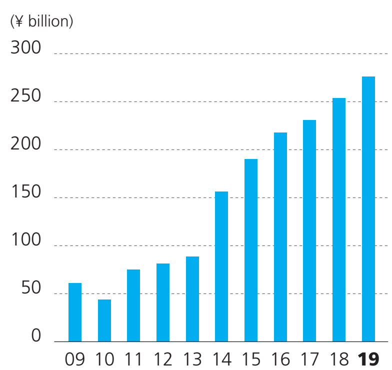
	2009	2010	2011	2012
Operating Results (for the year):				
Net sales	¥1,202,420	¥1,023,964	¥1,160,331	¥1,218,701
Gross profit	363,660	319,301	361,665	371,902
Selling, general and administrative expenses	302,266	275,263	286,210	290,709
Research and development expenses (Note 1)	30,535	28,220	30,771	32,987
Operating income	61,394	44,038	75,455	81,193
EBITDA (Note 2)	118,325	96,462	127,168	131,719
Net income attributable to owners of the parent	21,755	19,391	19,873	41,172
Cash Flows (for the year):				
Net cash provided by operating activities	¥62,238	¥129,227	¥78,411	¥44,967
Net cash used in investing activities	(99,302)	(39,848)	(23,306)	(62,955)
Free cash flow (Note 3)	(37,065)	89,379	55,105	(17,988)
Net cash provided by (used in) financing activities	48,382	(34,942)	(37,623)	(1,113)
Financial Position (at year-end):				
Total assets	¥1,117,418	¥1,139,656	¥1,132,507	¥1,160,564
Total interest-bearing liabilities	417,919	399,313	372,481	389,891
Total shareholders' equity	471,686	496,179	487,876	502,309
Per Share Data (yen):				
Net income (basic)	¥ 74.51	¥ 66.44	¥ 68.14	¥ 141.37
Shareholders' equity	1,615.98	1,701.29	1,672.74	1,725.64
Free cash flow	(127)	306	189	(62)
Cash dividends	38.00	32.00	36.00	36.00
Ratios (%):				
Gross profit margin	30.24%	31.19%	31.17%	30.52%
Operating income margin	5.11	4.30	6.50	6.66
EBITDA margin	9.84	9.42	10.96	10.81
Return on shareholders' equity (ROE)	4.28	4.01	4.04	8.30
Shareholders' equity ratio	42.21	43.54	43.08	43.28

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.
5. Effective from April 1, 2018, the consolidated financial statements for the fiscal year ended March 31, 2018 have been revised in accordance with a change in accounting policy.

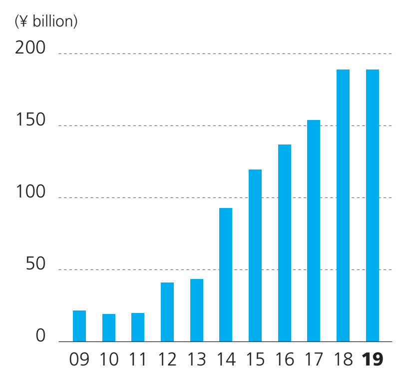
Net Sales



Operating Income



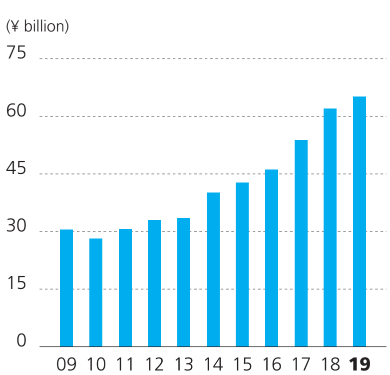
Net Income Attributable to Owners of the Parent



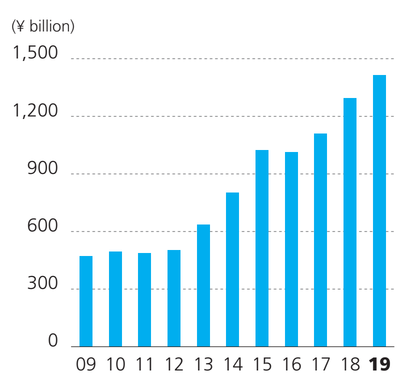
Millions of Yen

2013	2014	2015	2016	2017	2018	2019
¥1,290,903	¥1,787,679	¥1,915,014	¥2,043,691	¥2,043,969	¥2,290,561	**¥2,481,109**
388,046	568,323	649,902	711,576	730,935	798,829	**868,923**
299,419	411,786	459,314	493,704	500,166	545,089	**592,668**
33,569	40,177	42,892	46,138	53,870	62,051	**65,216**
88,627	156,537	190,588	217,872	230,769	253,740	**276,255**
140,151	235,439	268,354	302,075	315,798	348,574	**375,570**
43,585	92,787	119,675	136,987	153,939	189,052	**189,049**
¥103,161	¥179,713	¥160,423	¥226,186	¥267,663	¥223,740	**¥250,009**
(218,386)	(80,835)	(77,331)	(105,493)	(128,823)	(127,459)	**(165,773)**
(115,225)	98,878	83,092	120,693	138,840	96,281	**84,236**
143,520	(38,249)	(83,073)	(85,422)	(73,544)	(93,955)	**(68,721)**
¥1,735,836	¥2,011,870	¥2,263,990	¥2,191,105	¥2,356,149	¥2,475,708	**¥2,700,891**
705,871	693,944	662,413	608,981	609,430	554,371	**585,642**
618,118	801,854	1,024,725	1,014,409	1,111,636	1,296,553	**1,416,075**
¥ 149.73	¥ 318.33	¥ 410.19	¥ 469.23	¥ 526.81	¥ 646.53	**¥ 646.39**
2,123.10	2,748.08	3,511.34	3,473.54	3,802.10	4,433.62	**4,841.15**
(396)	339	285	413	475	329	**288**
36.00	50.00	100.00	120.00	130.00	140.00	**160.00**
30.06%	31.79%	33.94%	34.82%	35.76%	34.87%	**35.02%**
6.87	8.76	9.95	10.66	11.29	11.08	**11.13**
10.86	13.17	14.01	14.78	15.45	15.22	**15.14**
7.78	13.07	13.10	13.44	14.48	15.70	**13.94**
35.61	39.86	45.26	46.30	47.18	52.37	**52.43**

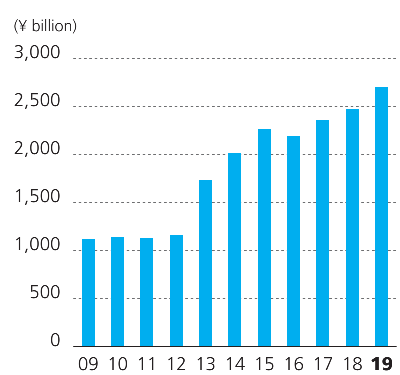
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Summary of the Period

During the fiscal year ended March 31, 2019, the overall world economy expanded moderately in the first half of the period; however, increasing uncertainty and signs of a slowdown in growth were seen from the latter half of the period onward. In the U.S. economy, although residential investment slowed, personal consumption remained strong due to large tax cuts. The growth of the European economy slowed from the latter half of the period due to the stagnation of the German economy and concerns about the U.K.'s exit from the EU without a withdrawal agreement. The Chinese economy slowed down from the latter half of the period onward due to increasingly serious trade friction between the United States and China, and inventory adjustments for high-tech products. The growth of the Japanese economy was sluggish due to a slowdown in exports, despite firm personal consumption and capital investment.

Amid this environment, the Daikin Group's consolidated net sales rose to ¥2,481.1 billion (a year-on-year increase of 8.3%). As for profits, consolidated operating income rose to ¥276.3 billion (a gain of 8.9% from the previous fiscal year). Net income attributable to owners of the parent decreased by 0.0% to ¥189.0 billion, partly owing to the decrease in income taxes in the previous fiscal year resulting from tax revisions in the United States.

Performance by Business Segment

• Air-Conditioning and Refrigeration Equipment

Total sales of the Air-Conditioning and Refrigeration Equipment segment increased 8.2% from the previous fiscal year, to ¥2,222.2 billion. Operating income rose 6.3% year on year, to ¥237.6 billion.

Japan

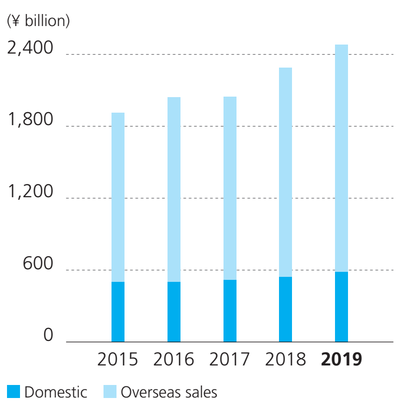
In the Japanese commercial air-conditioning equipment market, industry demand rose year on year due to strong capital investment. In the market for stores and offices, the Daikin Group expanded sales thanks to the strong performance of the "SkyAir" series, including "FIVE STAR ZEAS" and "Eco-ZEAS," and "machi Multi," which features individual operation and a slim design. In the market for buildings and facilities, a new model was released in the "VRV" series, further improving energy-saving performance and installation flexibility. Furthermore, backed by robust demand and the increasing need for improvements in the work environment, mainly for offices and factories, sales expanded for proposal-based products that meet user applications, including "MULTI CUBE," which enables individual control of temperature and air volume even in a large space. As a result, net sales of commercial air-conditioning systems increased over the previous fiscal year.

In the Japanese residential air-conditioning equipment market, industry demand remained firm owing to the summer heat wave. In addition to the launch of the new "Urusara 7," a high-end model equipped with a function that even controls humidity with the Group's proprietary AI, sales of "risora," an air conditioner combining design with functionality, showed a robust performance. As a result, net sales of residential air-conditioning systems exceeded that of the previous fiscal year.

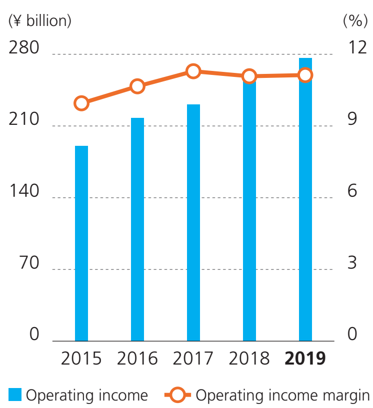
Americas Region

In the Americas, net sales increased year on year as a whole due to the success of both sales strategies and strong demand. Net sales of residential air-conditioning systems rose over the previous fiscal year as a result of the launch of new products such as a low-cost mini split model and a unitary product with an inverter, and efforts to develop a new sales network as well as increase selling prices. Net sales grew year on year in light commercial air-conditioning systems for medium-sized office buildings due to expanded

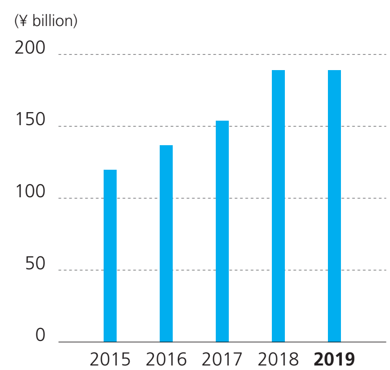
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income Attributable to Owners of the Parent



sales of the "VRV" series. In the market for large buildings (Applied Systems), reinforcement of the sales network and enhancement of the product lineup amid strong demand led to sales expansion of Applied Systems mainly for rooftops. In addition, sales expansion in the after-sales service business led to an increase in net sales over the previous fiscal year.

China

In China, amid the increasingly harsh market environment resulting from the trade friction with the United States as well as government policies to restrict new housing construction, the Group changed its product strategies and expanded sales to regional cities. As a result, net sales remained flat year on year. At the same time, the Group maintained high earnings by minimizing the impact of changes in currency exchange rates and increases in purchasing costs, reducing fixed costs, and promoting cost reductions. In the residential-use market, in addition to the "New Life Multi" series aimed at the mid-range and high-end residential market, the Group responded to changes in the market by expanding the "Affordable Multi" series to capture a share of the general residential market. As the number of real estate projects fell, the Group expanded the sales network of its "PROSHOP" specialty outlets mainly in the regional cities where sales were relatively strong. In the commercial-use market, while the number of large-scale projects such as new buildings fell, the Group invested its resources in such growing markets as the restaurant, medical, and information fields. In the big cities, the Group focused on capturing replacement demand through "Intelligent VRV" systems, which use the Internet to connect with customers. In the Applied Systems air-conditioning equipment market, the Group proposed systems tailored to the needs of diverse customers and increased equipment sales for projects ranging from such large-scale projects as infrastructure investment to small- to medium-scale projects, and also expanded sales in the maintenance and after sales service business as well.

Asia/Oceania Region

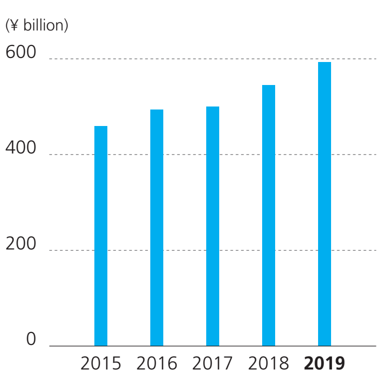
In the Asia and Oceania regions, net sales rose year on year as a whole. Sales of residential air-conditioning systems in Southeast Asia were strong due to the development of dealer networks covering urban and regional areas, with net sales increasing over the previous fiscal year. Net sales of commercial air-conditioning systems grew year on year mainly due to the expansion of dealer networks and successful efforts to bolster 'spec-in' activities. In India, sales of residential air-conditioning systems increased due to the expansion of dealer networks and sales expansion in regional cities. Sales of commercial air-conditioning equipment were also strong. As a result, net sales expanded over the previous fiscal year.

Europe/The Middle East/Africa

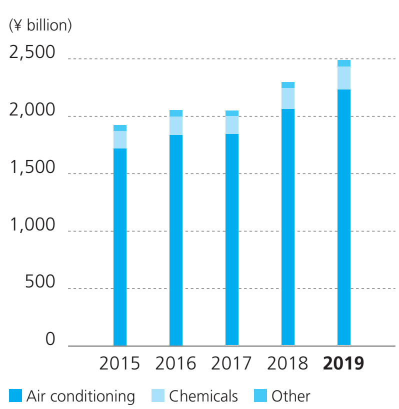
In Europe, while a deceleration was seen in the economy, net sales increased year on year as a whole as the Group's efforts to bolster sales capabilities and the launch of new products in European countries resulted in sales growth, especially in such major countries as France. Sales of residential air-conditioning systems rose in each major country due to the expansion of sales of air-conditioning systems with low global warming potential (low-GWP systems) and as the result of efforts aimed at the summer heat wave in Northern Europe. Net sales of commercial air-conditioning systems grew year on year due to new construction and the capture of replacement demand, along with other factors such as the promotion of low-GWP systems in the market for stores. Net sales of heat pump hot water heating systems grew significantly year on year due to a reinforcement of the Group's dedicated sales system, the development of heating system sales routes, and the introduction of new products.

In the Middle East and Africa, net sales increased year on year as a whole amid instability in the political scene, such as the reinstatement of sanctions on Iran. In the Middle East, the Group expanded its sales network and reinforced

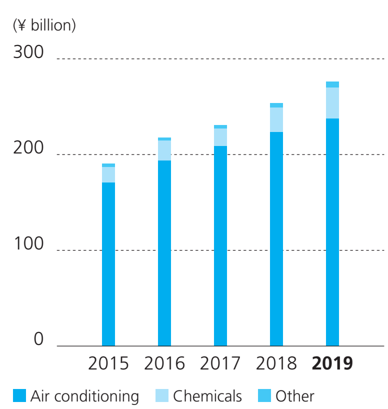
Selling, General and Administrative Expenses



Sales by Segment



Segment Profit



its management of projects for which orders had been received. In Africa, sales of residential and commercial air-conditioning systems also increased. In Turkey, even as inflation negatively impacted personal consumption and building investment, the Group raised prices and expanded sales of relatively strong residential heating systems. As a result, net sales increased significantly year on year in the local currency. On the other hand, yen-equivalent net sales decreased year on year due to the impact of the sharp depreciation of the Turkish lira. In the marine vessels business, net sales rose year on year due to an increase in unit sales of marine container refrigeration units.

• Chemicals

Overall sales of the Chemicals segment increased by 9.6% from the previous fiscal year to ¥200.8 billion and operating income grew by 27.5% year on year to ¥32.5 billion. Net sales of fluoropolymers rose year on year due to the expansion of sales of new products for LAN cable applications in the U.S. market and strong demand for semiconductor-related applications in each region around the world. Net sales of fluoroelastomers also increased year on year due to robust demand in the automotive and semiconductor fields in the Japanese and U.S. markets. Among specialty chemicals, net sales of anti-fouling surface coating agents fell year on year due to the significant effects of declining demand in China. On the other hand, net sales of oil and water repellents grew year on year due to firm demand in Japan, China, and Asia. As a result of these factors, overall sales of specialty chemicals were up compared to the previous fiscal year. As for fluorocarbon gas, overall sales of gas increased substantially year on year as a result of price revisions undertaken primarily in Japan and Europe to address rising prices of raw materials and a tight supply-demand balance.

• Other Operations

Overall sales of the "Others" segment increased by 6.6% compared to the previous fiscal year to ¥58.1 billion. Operating income expanded by 27.5% year on year to ¥6.1 billion.

Sales of oil hydraulic equipment for industrial machinery grew year on year due to strong performance in the Japanese and U.S. markets. Sales of oil hydraulic equipment for construction machinery and vehicles were up year on year due to robust sales to key customers in Japan and the United States.

In defense systems-related products, net sales of home oxygen equipment were strong, while sales of ammunition to the Ministry of Defense fell. As a result, overall net sales decreased compared to the previous fiscal year.

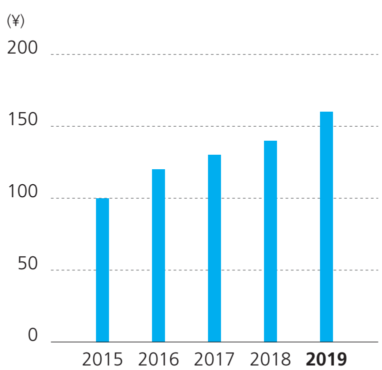
In the electronics business, net sales grew year on year, as a result of strong sales of "SpaceFinder," a database system for the design and development sectors in line with customer needs such as solutions for quality issues, shortened design and development periods, and support for cost reductions, and sale of "Smart Innovator," a business application development system.

Currency Exchange Rates

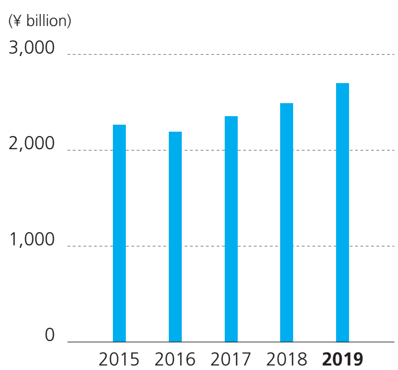
In foreign currency markets, the yen remained essentially unchanged against the U.S. dollar while appreciating ¥2 against the euro. The average rates for the fiscal year under review were US$1=¥111 and €1=¥128. Fluctuations in currency exchange rates resulted in a decrease of ¥28.0 billion in sales and ¥14.0 billion in operating income below what they would have been in the absence of fluctuations.

	Fiscal 2018	**Fiscal 2019**
Yen-U.S. dollar rate	¥111	**¥111**
Yen-euro rate	¥130	**¥128**

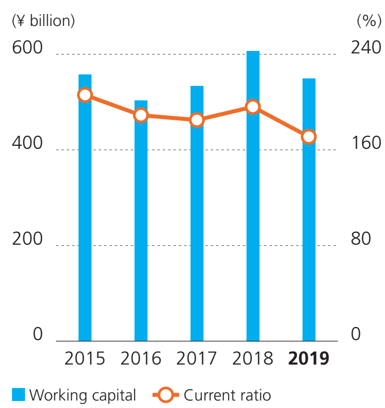
Cash Dividends per Share



Total Assets



Working Capital and Current Ratio



SG&A Expenses and Operating Income

As a result of increases in personnel costs and other factors, SG&A expenses rose 8.7% over the previous fiscal year, to ¥592.7 billion.

Consolidated operating income expanded 8.9% year on year, to ¥276.3 billion, while the operating income remained unchanged compared to the previous fiscal year at 11.1%.

Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2019, consolidated total assets amounted to ¥2,700.9 billion, up ¥225.2 billion from the previous fiscal year-end. Current assets were up ¥112.3 billion from the end of the previous fiscal year, to ¥1,317.6 billion, because of an increase in trade accounts receivable and other factors. Noncurrent assets rose by ¥112.9 billion from the previous fiscal year-end, to ¥1,383.3 billion, due mainly to an upswing in the incidence of customer-related assets resulting from the acquisition of consolidated subsidiaries.

• Liabilities and Net Assets

Consolidated total liabilities increased by ¥102.7 billion compared to the end of the previous fiscal year, to ¥1,254.0 billion. This was largely due to an upswing in short-term borrowings and other factors. Net assets grew ¥122.5 billion from the previous fiscal year-end, to ¥1,446.9 billion, due to net income attributable to owners of the parent and other factors. As a result of the aforementioned, the shareholders' equity ratio remained at the same level as the previous fiscal year-end at 52.4%. Net assets per share improved to ¥4,841.15 from ¥4,433.62 for the previous fiscal year.

Cash Flows

During the fiscal year under review, net cash provided by operating activities was ¥250.0 billion, an increase of ¥26.3 billion from the previous fiscal year, principally due to an increase in income before income taxes. Net cash used in investing activities was ¥165.8 billion, an increase of ¥38.3 billion from the previous fiscal year, primarily due to an increase in expenditures for the acquisition of consolidated subsidiaries. Net cash used in financing activities was ¥68.7 billion, a decrease of ¥25.2 billion from the previous fiscal year, mainly due to an increase in short-term borrowings. After including the effect of foreign exchange rate changes to these results, the net increase in cash and cash equivalents for the fiscal year under review, amounted to ¥10.2 billion, a decrease of ¥2.7 billion from the previous fiscal year.

Capital Investment

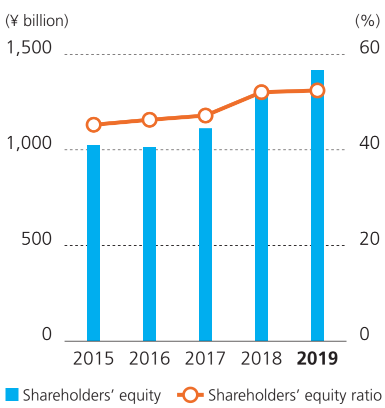
Adhering to the basic strategy of "Focusing Management Resources on More Profitable Areas," the Daikin Group's capital expenditures were mainly allocated to the Air-Conditioning and Refrigeration Equipment and Chemicals segments, with the total amounting to ¥87.2 billion.

In the air-conditioning and refrigeration equipment field, Daikin invested ¥14.1 billion, centered on research and development as well as the rationalization of room air conditioners and package air conditioners. At Daikin Europe N.V. Group, investments of ¥9.4 billion were made primarily to increase capacity and to attain rationalization objectives.

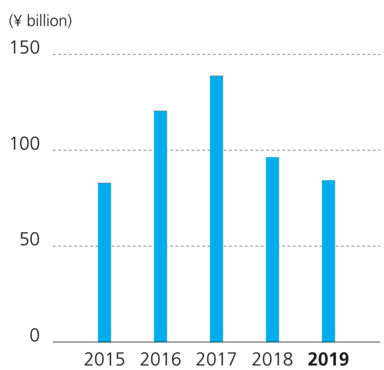
In the chemicals field, Daikin invested ¥8.4 billion, mainly to increase capacity and meet rationalization objectives. In addition, Daikin America, Inc. made investments of ¥4.0 billion for increasing capacity.

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.

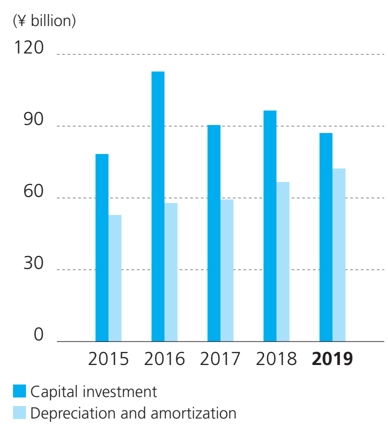
Total Shareholders' Equity and Shareholders' Equity Ratio



Free Cash Flow



Capital Investment and Depreciation and Amortization



R&D Expenses

In view of the rising concern about global warming on a worldwide scale and issues related to energy, the Daikin Group working mainly through its Technology and Innovation Center (TIC) engages in leading-edge research and development programs designed to proactively contribute to the resolution of global environmental issues, while also expanding the Group's business operations. In 2018, Daikin concluded an "academia-industry collaboration agreement" with the University of Tokyo. Both organizations are adopting a comprehensive approach toward joint research and development as well as personnel exchange. Steps are also being taken to promote increasingly sophisticated collaboration with venture companies related to the University. Daikin has already formed collaborative ties with a number of other tertiary institutions including Kyoto University as well as Tsinghua University and Peking University in China in its efforts to promote academia-industry collaboration. The Company is also pursuing opportunities through cooperation with the corporate sector. By actively advancing collaborative ties, Daikin is endeavoring to generate innovation, help resolve a wide-range of complex social issues, and create new businesses. At the same time, energies are being directed toward the creation of the "office of the future." Building on the wealth of data gained from open spaces, the Company contributed to the establishment of "CRESNECT," a co-creation platform for spatial data, in a bid to generate new value and services while harnessing the know-how inherent within each participating partner. Through this initiative, positive steps will be taken to substantially increase the efficiency and pace of research and development, and to create differentiated products in each region worldwide. In fiscal 2019, R&D expenses included in Group-wide SG&A expenses as well as the cost of goods sold came to ¥65.2 billion.

• Air-Conditioning and Refrigeration Equipment

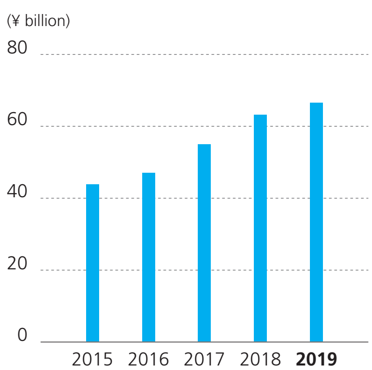
R&D expenses for air-conditioning and refrigeration operations totaled ¥56.7 billion.

In its wall-mounted-type "Urusara 7" series of air-conditioning units for residential use, Daikin developed a new "automated AI-based comfort" operating function that automatically regulates the thermal environment to preferred levels in line with changes in the weather and season. The Company has taken an interest in monitoring the impact of humidity on the body's temperature for a long period of time. While successful in developing a technology that controls humidification and dehumidification, this is the first product in its series to combine proprietary humidity and other control technologies with the learning function that AI provides in delivering a preferred thermal environment and a comfortable indoor environment all year round.

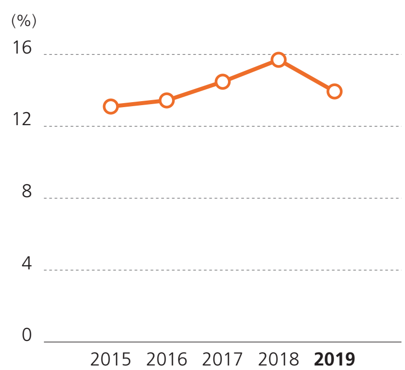
In the field of equipment for residential use, Daikin has also looked closely at the damage caused to and mold found in houses and their stored items by humidity depending on the location of the house and use of rooms. This led to the release in February 2019 of the residential-use wall-mounted "Karaie" dehumidification dryer, which eliminates the need to dispose of water, and can be operated on a continuous basis 24 houses a day, 365 days a year. This dryer applies the water supply-free humidification technology equipped on Daikin's "Urusara 7" room air conditioners. This humidification technology uses an absorption material (desiccant element) to absorb moisture contained in indoor air and exhausts the absorbed moisture as high-humidity air in gaseous form to the outside, thereby enabling dehumidification without the need to dispose of water.

In regard to commercial air conditioning equipment, Daikin released the "FIVE STAR ZEAS" series and "Eco-ZEAS" series as new models in the

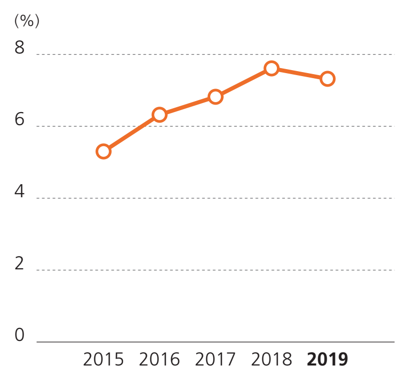
Research and Development Expenses



ROE



ROA



"SkyAir" lineup of store and office air conditioners in April 2018. These series are the only air conditioners in the industry to realize a higher level of comfort than ever before by simultaneously setting the temperature and dehumidification level. These air conditioners are also newly equipped with a "dehumidifying cooling mode" that realizes a more comfortable environment than ever before during hot and humid summers. Moreover, applying its proprietary streamer discharge technology, Daikin newly developed "Streamer Internal Cleaning," a function designed to suppress the growth of mold, a cause of unpleasant odors, inside indoor units. Daikin also newly developed a "night-time watch" function that provides a warning using an LED light and buzzer when it detects a person during the night when no one is around. Daikin offers these for restaurants and hospitals. In addition, Daikin also released the "VRV X" series, a flagship model, and the "VRV A" series, a standard model, for its commercial-use multi-split type air conditioners in July 2018. The newly developed outdoor unit for these models is equipped with a compact, high-efficiency all aluminum microchannel heat exchanger. This heat exchanger reduces the installation footprint by 7% compared with conventional units equipped with copper and aluminum heat exchangers. These models are also effective in limited rooftop spaces. Equipped with a high-capacity compressor and through improved heat exchange efficiency, the heat exchangers in these outdoor units demonstrate a cooling capacity up to an outdoor temperature of 41°C while also enabling operations at an outdoor temperatures of 50°C. The release of these models has improved operating capacity during the intense heat of recent years. In August 2018, Daikin released the commercial-use "GREEN Multi" multi-split type air conditioner, which is the first air conditioner in the industry to adopt the low-GWP refrigerant HFC-32 (R32) for a far greater environmental performance than conventional models. HFC-32 has a lower global warming potential (GWP) than the conventional R-410A. Distinguished by its outstanding energy efficiency and ability to reduce refrigerant charging volume, the environmental impact resulting from the refrigerant used in this product realizes a 76% reduction compared with the conventional model. This percentage is equivalent to the reduction targets for 2029 under the Kigali Amendment. Moreover, the high energy-savings, even during periods of use, reduce CO_2 emissions and thus mitigate the environmental impact.

In regard to applied units, in North America, Daikin expanded its high-efficiency product and function lineup with the release (May 2018) of high-efficiency, high air density rooftop air conditioners and small- and medium-sized rooftop "Rebel" air conditioners equipped with a total heat exchange function. In Europe, against a backdrop of increasing pressure to shift to low-GWP refrigerants due to fluorine gas and energy-savings regulations, in July 2018 Daikin was the first in the industry to release a non-inverter scroll chiller using R32 refrigerant. Daikin also released a free cooling model in November 2018. In China, Daikin released turbo chillers and screw chillers that comply with new GB standards, and released an air-cooled heat pump module chiller for cold regions using R32 refrigerant.

• Chemicals

R&D expenses for Chemicals operations totaled ¥6.6 billion.

Daikin conducts R&D for new products and new applications based on its rich experience in fluorine products and fluorochemical technology. In the fluoropolymer resin and fluoroelastomer fields, fluorochemicals exhibit good heat resistance, low drug reactivity, and dielectric properties. Using these properties, Daikin is developing new differentiated products for automotive, semiconductor, wire and cable (IT field), and other applications. Daikin also develops coatings based on the non-adhesive and chemical resistant properties of fluoride-based substances, and develops textile treatment materials and carpet treatment materials based on the water and oil repellent properties. In addition, Daikin engages in a wide range of fluoride-related R&D, including the development of liquid crystal related materials based on the functionality of fluorine-containing compounds and the provision of contracted synthesis research for pharmaceutical intermediates. In the coolants field, Daikin is accelerating the development of next-generation coolants that utilize artificial intelligence and that comply with environmental regulations. In addition to these developments, as part of R&D in peripheral areas aimed at developing new techniques and applications, Daikin is working on the development of film process products and multilayered materials and conducts advanced materials research related to the medical, optical, environmental, electric power battery, and energy areas. Through these initiatives, Daikin is endeavoring to further secure the global No. 1 position and sole provider of fluorochemical solutions. Especially, in the next-generation power semiconductor field, using its original fluoropolymer resins, Daikin has developed new materials that find application in the film condenser field that have five times the conductivity ratios of polypropylene-based materials.

By furthering and accelerating its R&D, the TIC, which has the mission of new product development in Daikin's Chemicals business, is seeking to develop technologies that will lead on next-generation themes.

• Other Operations

R&D expenses for the Other operations totaled ¥1.9 billion.

In oil hydraulics, Daikin is drawing on the special features of its hybrid oil hydraulic systems technology, which combines oil hydraulic technology and inverter technology to realize energy conservation and high functionality that could not be realized with previously existing hydraulic systems. In addition, in Japan and overseas, besides the medium- to low- and small-volume markets, where use is expanding, Daikin is also developing units for high-pressure and high-volume applications. In the industrial press and other industrial machinery applications, Daikin's "Super Unit" has won high acclaim for its low electric power consumption. It also contributes to improvement in the workplace environment and reduction in environmental impact because of its lower noise, reduced heat emission, and smaller tank size. Moreover, Daikin has launched a large-scale extruder system that equals electric power as a motive force for its responsiveness and energy conservation. By expanding the lineup of units in this series to meet the special needs of countries in

Asia and other regions for handling multiple voltages and other features, Daikin will promote the adoption of this system for presses and other machines and move forward with sales expansion globally.

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

In defense systems, Daikin conducts R&D related to artillery shell and guided missiles components, mainly for Japan's Ministry of Defense, as well as equipment used in home oxygen therapy.

Dividend Policy and Dividends Applicable to the Fiscal Year

The Company will continue to focus on expanding its businesses while investing its assets strategically and improving its financial structure by such means as proceeding with the reduction of overall costs and enhancing its fiscal position. Through these initiatives, we are committed to being a truly global and excellent company while at the same time further improving our corporate value and enhancing profit returns to our shareholders.

Specifically, by striving to maintain a consolidated ratio of dividend to net assets (Dividend on Equity, DOE) of 3.0% while at the same time aiming for an even higher consolidated dividend payout ratio, we will introduce initiatives to further increase returns to our shareholders with the core goal of stable and continuous dividends.

Internal reserves will be applied to strategic investments in order to expand business and increase competitiveness such as reinforcing management practices, promoting global businesses, and accelerating eco-conscious product development.

For the fiscal year ended March 31, 2019, the Company has proposed an annual cash dividend of ¥160 (¥70 for the interim dividend and ¥90 for the year-end dividend), representing a ¥20 increase over the previous fiscal year. For the fiscal year ending March 31, 2020, the Company plans to pay an annual cash dividend of ¥160 (¥80 for the interim dividend and ¥80 for the year-end dividend).

Outlook for Fiscal 2020

With regard to the global economy in the future, we expect a gradual slowdown. In addition to the slowdown of the Chinese economy, reduced housing investment in the United States, and the economic downturn in Europe, factors such as a reduced interest in investment due to China-U.S. trade friction can put further downward pressure on the global economy. We forecast a downturn in the Japanese economy due to a slowdown in exports and capital expenditure adjustments. Amid this business environment, for this year (2019), we set "With Our 3 Structures of Collaborative Innovation, Let Each of Us Act Quickly and Decisively" as the Group's New Year's slogan with the aim of generating results. Specifically, in the face of this growing stagnation in the global economy, we will work together to continue to refine our efforts to strengthen our sales and marketing capabilities, improve product development, production, procurement, and quality capabilities, enhance our human resources capabilities, and reduce both fixed and variable costs in each region around the world. Furthermore, we will respond to the changes in the structure of industry and society brought about by advances in digital technology, by creating new products and services through mutual communication with customers, engaging in academic-industrial collaboration in technology development, and collaborating with other members of industry, including venture capital companies, to acquire differentiated technologies and search for new business segments.

For the fiscal year ending March 31, 2020, we are forecasting a 7.6% increase in consolidated net sales, to ¥2,670.0 billion, with operating income expected to climb 3.2% year on year, to ¥285.0 billion, and net income attributable to owners of the parent expanding 2.1%, to ¥193.0 billion. The estimated exchange rates for the fiscal year are ¥108 to the US dollar and ¥125 to the euro.

Principal Risks Associated with the Daikin Group's Operations

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

The Group develops, manufactures, sells, and procures goods and services throughout the world, and there is a possibility that Group performance could be impacted due to changes in the business environment in the markets or regions in which the Group operates, such as political or economic trends, the introduction of more-stringent environmental regulations, increased competition from competitors, or sudden rises in the cost of raw materials. In addition, Daikin is attempting to further expand its manufacturing and sales network and enhance Groupwide profitability through investment such as the acquiring of air-conditioning equipment dealers or companies, such as the Goodman Global Group, Inc. (completed in fiscal 2013), and the establishment of manufacturing facilities. However, there is a possibility that the Group's performance could be impacted, depending on the state of progress of such activities.

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

Air-conditioning and refrigeration operations accounted for 89.6% of the Daikin Group's consolidated net sales in fiscal 2019. 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 76.4% of the Daikin Group's consolidated net sales in fiscal 2019. 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 Chemicals 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, 2019

	Millions of Yen	
ASSETS	**2019**	2018
Current assets:		
Cash and cash equivalents (Notes 8 and 16)	**¥ 367,189**	¥ 357,027
Short-term investments (Note 16)	**592**	
Trade receivables (Notes 7, 8 and 16):		
Notes	**58,725**	62,764
Accounts	**389,106**	338,401
Allowance for doubtful receivables	**(9,148)**	(8,834)
Inventories (Note 3)	**436,358**	387,226
Prepaid expenses and other current assets	**74,783**	68,710
Total current assets	**1,317,605**	1,205,294
Property, plant and equipment:		
Land	**43,492**	42,997
Buildings and structures	**374,356**	346,768
Machinery and equipment	**582,500**	555,628
Furniture and fixtures	**200,912**	183,591
Lease assets (Note 15)	**3,427**	4,063
Construction in progress	**34,824**	34,014
Total	**1,239,511**	1,167,061
Accumulated depreciation	**(756,548)**	(712,227)
Net property, plant and equipment	**482,963**	454,834
Investments and other assets:		
Investment securities (Notes 5, 8 and 16)	**198,698**	221,251
Investments in and advances to unconsolidated subsidiaries and associated companies	**24,647**	24,184
Goodwill (Note 6)	**322,319**	309,282
Customer relationships	**189,365**	130,851
Other intangible assets	**106,457**	75,926
Deferred tax assets (Notes 2 and 12)	**25,057**	21,213
Assets for retirement benefits (Note 9)	**14,510**	14,735
Other assets	**19,270**	18,138
Total investments and other assets	**900,323**	815,580
Total	**¥2,700,891**	¥2,475,708

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2019	2018
Current liabilities:		
Short-term borrowings (Notes 8 and 16)	¥ 146,066	¥ 45,530
Current portion of long-term debt (Notes 8 and 16)	92,386	76,989
Current portion of long-term lease obligations (Note 15)	1,242	1,499
Trade payables (Note 16):		
Notes	14,541	13,890
Accounts	189,994	170,101
Income taxes payable (Note 16)	25,576	21,496
Provision for product warranties	52,602	48,009
Accrued expenses (Note 7)	135,180	122,057
Other current liabilities (Note 7)	111,229	103,760
Total current liabilities	768,816	603,331
Long-term liabilities:		
Long-term debt (Notes 8 and 16)	335,989	421,051
Long-term lease obligations (Note 15)	9,959	9,302
Liabilities for retirement benefits (Note 9)	11,098	10,551
Deferred tax liabilities (Notes 2 and 12)	101,956	83,261
Other long-term liabilities	26,223	23,890
Total long-term liabilities	485,225	548,055
Commitments and contingent liabilities (Notes 15 and 17)		
Equity (Notes 10, 11 and 21)**:**		
Common stock—authorized 500,000,000 shares; issued 293,113,973 shares	85,032	85,032
Capital surplus	83,650	84,389
Stock acquisition rights	1,721	1,511
Retained earnings	1,133,101	987,547
Treasury stock, at cost: 605,740 shares in 2019 and 677,039 shares in 2018	(2,589)	(2,894)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	57,686	74,586
Deferred gains on derivatives under hedge accounting	619	728
Foreign currency translation adjustments	63,808	72,834
Remeasurements of defined benefit plans	(5,232)	(5,669)
Subtotal	1,417,796	1,298,064
Noncontrolling interests	29,054	26,258
Total equity	1,446,850	1,324,322
Total	¥2,700,891	¥2,475,708

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	Millions of Yen	
	2019	2018
Net sales (Note 7)	**¥2,481,109**	¥2,290,561
Cost of sales (Note 14)	**1,612,186**	1,491,732
Gross profit	**868,923**	798,829
Selling, general and administrative expenses (Notes 6, 7 and 14)	**592,668**	545,089
Operating income	**276,255**	253,740
Other (expenses) income:		
Interest and dividend income	**12,249**	11,284
Interest expense	**(11,852)**	(10,656)
Equity in earnings of associated companies	**2,119**	2,547
Exchange losses	**(4,848)**	(1,675)
Subsidy income	**2,570**	1,521
Gains on sales of land	**0**	33
Losses on disposals of property, plant and equipment and other intangible assets	**(803)**	(496)
Loss on sales of land	**(7)**	
Gains on sales of investment securities (Note 5)	**40**	223
Impairment losses on investment securities (Notes 5 and 16)	**(315)**	(1)
Loss on restructuring of a subsidiary		(2,919)
Losses from natural disasters	**(679)**	
Other—net	**582**	(1,744)
Other expenses—net	**(944)**	(1,883)
Income before income taxes	**275,311**	251,857
Income taxes (Note 12)**:**		
Current	**77,607**	77,158
Deferred	**2,039**	(20,250)
Total income taxes	**79,646**	56,908
Net income	**195,665**	194,949
Net income attributable to noncontrolling interests	**(6,616)**	(5,897)
Net income attributable to owners of the parent	**¥ 189,049**	¥ 189,052

	Yen	
Amounts per common share (Note 19)**:**		
Basic net income	**¥646.39**	¥646.53
Diluted net income	**645.95**	646.08
Cash dividends applicable to the year	**160.00**	140.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	Millions of Yen	
	2019	2018
Net income	**¥195,665**	¥194,949
Other comprehensive (loss) income (Note 18)**:**		
Unrealized (losses) gains on available-for-sale securities	**(16,899)**	21,543
Deferred (losses) gains on derivatives under hedge accounting	**(109)**	848
Foreign currency translation adjustments	**(8,109)**	11,673
Remeasurements of defined benefit plans	**448**	1,043
Share of other comprehensive (loss) income in affiliates accounted for using the equity method	**(1,167)**	560
Total other comprehensive (loss) income	**(25,836)**	35,667
Comprehensive income	**¥169,829**	¥230,616
Total comprehensive income attributable to:		
Owners of the parent	**¥163,451**	¥224,280
Noncontrolling interests	**6,378**	6,336

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

		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 Gains on Available-for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
Balance, April 1, 2017	292,374,313	¥85,032	¥84,545	¥1,080	¥ 837,968	¥(3,160)	¥53,042	¥(120)	¥61,037	¥(6,708)	¥1,112,716	¥22,893	¥1,135,609
Net income					189,052						189,052		189,052
Cash dividends, ¥140 per share					(39,473)						(39,473)		(39,473)
Repurchase of treasury stock	(379)					(4)					(4)		(4)
Disposal of treasury stock	63,000		174			270					444		444
Change in parent's ownership interest due to transactions with noncontrolling interests			(330)								(330)		(330)
Net change in the year				431			21,544	848	11,797	1,039	35,659	3,365	39,024
Balance, March 31, 2018	**292,436,934**	**85,032**	**84,389**	**1,511**	**987,547**	**(2,894)**	**74,586**	**728**	**72,834**	**(5,669)**	**1,298,064**	**26,258**	**1,324,322**
Net income					**189,049**						**189,049**		**189,049**
Cash dividends, ¥160 per share					**(42,407)**						**(42,407)**		**(42,407)**
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2.a)					**(1,088)**						**(1,088)**		**(1,088)**
Repurchase of treasury stock	**(201)**					**(2)**					**(2)**		**(2)**
Disposal of treasury stock	**71,500**		**178**			**307**					**485**		**485**
Change in parent's ownership interest due to transactions with noncontrolling interests			**(917)**								**(917)**		**(917)**
Net change in the year				**210**			**(16,900)**	**(109)**	**(9,026)**	**437**	**(25,388)**	**2,796**	**(22,592)**
Balance, March 31, 2019	**292,508,233**	**¥85,032**	**¥83,650**	**¥1,721**	**¥1,133,101**	**¥(2,589)**	**¥57,686**	**¥ 619**	**¥63,808**	**¥(5,232)**	**¥1,417,796**	**¥29,054**	**¥1,446,850**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	Millions of Yen	
	2019	2018
Operating activities:		
Income before income taxes	**¥275,311**	¥251,857
Adjustments for:		
Income taxes – paid	**(71,415)**	(83,239)
Depreciation and amortization	**99,315**	94,834
Gains on sales of investment securities	**(40)**	(223)
Impairment losses on investment securities	**315**	1
Losses on disposals of property, plant and equipment and other intangible assets	**803**	496
Equity in earnings of associated companies	**(2,119)**	(2,547)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(36,847)**	(23,214)
Inventories	**(38,790)**	(26,537)
Other current assets	**(4,920)**	(9,250)
Assets for retirement benefits	**291**	(1,907)
Trade notes and accounts payable	**8,619**	4,399
Accrued expenses	**9,213**	11,787
Other current liabilities	**13,126**	(6,170)
Liabilities for retirement benefits	**(137)**	(1,964)
Other—net	**(2,716)**	15,417
Total adjustments	**(25,302)**	(28,117)
Net cash provided by operating activities	**250,009**	223,740
Investing activities:		
Payments for purchases of property, plant and equipment	**(85,487)**	(85,680)
Proceeds from sales of property, plant and equipment	**1,822**	2,393
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 13)	**(67,932)**	(25,332)
Cash and cash equivalents acquired from acquisition of newly consolidated subsidiaries, net of considerations paid	**21**	
Proceed from merger	**48**	
Increase in investments in and advances to an unconsolidated subsidiary and associated companies	**(80)**	(2,980)
Decrease in investment in and advances to an associated company		1,517
Payments for transfer of business	**(6,161)**	
Proceed from transfer of business		369
Payments for acquisition of investment securities	**(1,444)**	(12,481)
Proceeds from sales of investment securities (Note 5)	**47**	1,094
Increase in time deposits	**(592)**	
Other—net	**(6,015)**	(6,359)
Net cash used in investing activities	**(165,773)**	(127,459)
Financing activities:		
Net decrease in short-term borrowings	**100,640**	(14,337)
Proceeds from long-term debt		45,181
Repayments of long-term debt (Note 13)	**(118,172)**	(77,180)
Cash dividends paid to owners of the parent	**(42,407)**	(39,473)
Cash dividends paid to noncontrolling interests	**(4,414)**	(5,413)
Other—net	**(4,368)**	(2,733)
Net cash used in financing activities	**(68,721)**	(93,955)
Effect of exchange rate changes on cash and cash equivalents	**(5,286)**	10,607
Net increase in cash and cash equivalents	**10,229**	12,933
Cash and cash equivalents, beginning of year	**357,027**	344,094
Effect of change of the fiscal year-end of consolidated subsidiaries (Note 2.a)	**(67)**	
Cash and cash equivalents, end of year	**¥367,189**	¥357,027

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

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 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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 291 (269 in 2018) 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 19 (18 in 2018) 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 10 (14 in 2018) subsidiaries and 9 (10 in 2018) 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, 2019, Zanotti S.p.A and seven other companies changed their fiscal year-ends 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 the effect of the change in 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," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP") (Financial Accounting Standards Board Accounting Standards Codification) 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," adjustments are to be 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 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. Business Combinations - Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. 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. 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. 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. 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 a capital surplus as long as the parent retains control over its subsidiary.

The Group acquired 100% of the equity interest of Cool International Holding GmbH on February 22, 2019 and accounted for this acquisition by the purchase method of accounting (see Note 4).

e. Cash Equivalents - Cash equivalents are short-term investments that are readily convertible into cash and 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.

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

g. 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 value.

h. Property, Plant and Equipment - Property, plant and equipment is 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 dependent on the terms of the respective leases.

i. Asset Retirement Obligations - An asset retirement obligation is recorded for 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 the 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 adjusted 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.

j. 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.

k. Leases - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases.

l. 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.

m. 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 6 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).

n. 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 past experience and an evaluation of potential losses on the product warranties.

o. 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.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. 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 are recognized in profit or loss over certain periods (mainly 10 years) no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

p. Stock Options - The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to non-employees based on the fair value of either the stock options of 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.

q. 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.

r. 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.

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

t. 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.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥32,518 million and deferred tax liabilities of ¥27,399 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet. Deferred tax assets and liabilities of the same taxpayer are offset, and both total assets and total liabilities decreased by ¥14,246 million compared with those before the change.

Also, in the note on Income Taxes (Note 12), the content prescribed in Paragraphs 3 to 5 of the Partial Amendments of Accounting Standard for Tax Effect Accounting has been added. However, the content related to the previous fiscal year is not described in accordance with the transitional treatment prescribed in Paragraph 7 of the Partial Amendments of Accounting Standard for Tax Effect Accounting.

u. 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 futures 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.

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

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

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

w. New Accounting Pronouncements

Revenue Recognition - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Leases - On January 13, 2016, the International Accounting Standards Board issued IFRS 16 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 thereby resulting in the recognition of lease assets and liabilities. The consolidated foreign subsidiaries expect to apply IFRS 16 and ASU 2016-02 for annual periods beginning on April 1, 2019. The Group expects that the adoption of these accounting standards will result in an increase of approximately ¥60.8 billion in both assets and liabilities. The Group does not anticipate any material impact on its operating results.

3. INVENTORIES

Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of Yen	
	2019	2018
Finished products and merchandise	**¥293,446**	¥264,867
Semifinished products and work in process	**50,746**	45,199
Raw materials and supplies	**92,166**	77,160
Total	**¥436,358**	¥387,226

4. BUSINESS COMBINATIONS

Acquisition of an Entity during the Year Ended March 31, 2019

1. Outline of the business combination:

(1) Name and business contents of the acquiree:

Name: Cool International Holding GmbH

Business contents: Holding company for manufacturing and sales companies for commercial refrigerating and freezing showcases

(2) Main reason for the business combination:

The business combination with AHT Cooling Systems GmbH (hereinafter, "AHT"), which was owned by Cool International Holding GmbH, and the addition of AHT's refrigerating and freezing showcases to the products of the Company enables the Company to become a one-stop provider offering products and services based on its wide range of air-conditioning and refrigeration equipment products, new energy saving and environmental solutions, and total coordination of comfortable shopping spaces. This is expected to further strengthen the Company's business as a comprehensive air-conditioning and refrigeration equipment manufacturer.

(3) Date of the business combination: February 22, 2019

(4) Legal form of the business combination: Acquisition of equity interest for cash consideration

(5) Name of the acquiree after business combination: Cool International Holding GmbH

(6) Ratio of equity interests acquired: 100%

(7) Basis for determination of the acquirer:

Daikin Europe N.V., a subsidiary of the Company, is regarded as the acquiring company since Daikin Europe N.V. acquired all equity interests of Cool International Holding GmbH for cash consideration.

2. Period of operating results of the acquiree included in the consolidated financial statements:

The operating results of the acquiree were not included because the deemed acquisition date was March 31, 2019, and the consolidated balance sheet of this subsidiary was consolidated based on the financial statements of the subsidiary as of March 31, 2019.

3. Amount and breakdown of the acquisition costs:

Payment for acquisition of equity interests: Cash EUR578 million (¥72,068 million)

4. Amount and breakdown of the main acquisition-related costs:

Expenses related directly to the acquisition, including mainly advisory expenses:
EUR10 million (¥1,381 million)

5. Amount of goodwill recognized, reason for recognition, and method and period for amortization of goodwill:

(1) Amount of goodwill recognized: EUR241 million (¥30,137 million)

(2) Reason for recognition: Future business activities are expected to generate excess profitability.

(3) Method and period for amortization of goodwill: Straight-line method over 10 years

6. Amount and breakdown of the assets acquired and liabilities assumed at the acquisition date:

	Millions of EUR	Millions of Yen
Current assets	€202	¥ 25,233
Fixed assets	753	93,823
Total assets	€955	¥119,056
Current liabilities	€130	¥ 16,189
Long-term liabilities	490	61,077
Total liabilities	€620	¥ 77,266

7. Amount of identifiable intangible assets other than goodwill, its details, and major weighted-average useful life:

	Millions of EUR	Millions of Yen	Weighted-Average Useful Life
Customer relationships	€452	¥56,301	23 years
Trademarks	199	24,788	Non-amortization
Technologies	35	4,412	7 years
Total	€686	¥85,501	

8. Unaudited summaries of estimated impact on consolidated financial statement of income:

Estimated impact of this acquisition on the consolidated financial statement of income for the fiscal year ended March 31, 2019, which shows the effects of the acquisition as if it had been completed on April 1, 2018, are as follows:

	Millions of Yen
Net sales	¥63,032
Operating income	2,037
Income before income taxes	(1,575)
Net income	(1,030)

	Yen
Amount per common share	¥(3.52)

These summaries of estimated impact were based on the assumption that this business combination had been completed on April 1, 2018, i.e., at the beginning of the fiscal year ended March 31, 2019. Amortization of goodwill and other intangible assets arising from this acquisition for the period from April 1, 2018 to March 31, 2019 is not reflected in the estimated impact.

These summaries have not been audited by an independent auditor.

5. MARKETABLE AND INVESTMENT SECURITIES

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2019 and 2018 were as follows:

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥110,707**	**¥79,198**	**¥(2,340)**	**¥187,565**
Debt securities	**300**			**300**
Total	**¥111,007**	**¥79,198**	**¥(2,340)**	**¥187,865**

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥110,840	¥101,665	¥(1,346)	¥211,159
Debt securities	300			300
Total	¥111,140	¥101,665	¥(1,346)	¥211,459

Marketable available-for-sale securities that were sold during the year ended March 31, 2018 were as follows:

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥938	¥223	

There were no marketable available-for-sale securities that were sold during the year ended March 31, 2019.

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2019 and 2018 were ¥44 million and ¥1 million, respectively.

6. GOODWILL

Amortization expenses for goodwill were ¥26,992 million and ¥28,180 million for the years ended March 31, 2019 and 2018, respectively, which were included in selling, general and administrative expenses.

7. RELATED PARTY TRANSACTIONS

Material transactions and balances with related parties for the years ended March 31, 2019 and 2018 were as follows:

(1) 2019

(a) The Company

			Millions of Yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2019	Account	2019
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥524	Accrued expenses and other current liabilities	¥47

(b) The Company's consolidated subsidiaries

			Millions of Yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2019	Account	2019
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥ 69	Accrued expenses and other current liabilities	¥ 6
			Sales of products	247	Accounts receivable	30

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) 2018

(a) The Company

			Millions of Yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2018	Account	2018
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥470	Accrued expenses and other current liabilities	¥43

(b) The Company's consolidated subsidiaries

			Millions of Yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2018	Account	2018
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00	Commissions for moving business and delivery business	¥ 60	Accrued expenses and other current liabilities	¥ 4
			Sales of products	176	Accounts receivable	23

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.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2019 and 2018 consisted of the following:

	Millions of Yen	
	2019	2018
Bank overdrafts and notes to banks	¥136,066	¥45,530
Commercial paper	10,000	
Total	¥146,066	¥45,530

Unused short-term bank credit lines were ¥205,495 million at March 31, 2019. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2019 and 2018 were 0.49% and 1.39%, respectively. The weighted-average interest rate of commercial paper at March 31, 2019 was (0.01)%.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of Yen	
	2019	2018
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
0.21% unsecured bonds, due 2026	10,000	10,000
Unsecured loans from government-sponsored banks, with interest of 1.75%, due through 2019	6,400	13,200
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.00% to 3.75% (2019) and from 0.00% to 4.00% (2018), due through 2026	171,971	184,833
Unsecured loans from banks and others with interest ranging from 0.17% to 3.69% (2019) and from 0.12% to 3.74% (2018), due through 2023	140,004	190,007
Total	428,375	498,040
Less current portion	(92,386)	(76,989)
Long-term debt, less current portion	¥335,989	¥421,051

Annual maturities of long-term debt outstanding at March 31, 2019 were as follows:

Year Ending March 31	Millions of Yen
2020	¥ 92,386
2021	94,415
2022	63,327
2023	141,812
2024	4,108
2025 and thereafter	32,327
Total	¥428,375

The assets pledged as collateral at March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Time deposits	¥ 677	¥ 524
Note receivables	2,246	3,065
Debt corresponding to the above:		
Note payables	4,033	3,987

In addition, investment securities pledged as collateral for the investee's borrowings from financial institutions at March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Investment securities	¥800	¥800

As is customary in Japan, additional securities must be provided if requested by a lending bank. Certain banks have the right to offset cash deposited 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.

9. 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, 2019 and 2018 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen	
	2019	2018
Balance at beginning of year	**¥107,786**	¥ 99,159
Service cost	**5,330**	4,965
Interest cost	**1,326**	1,127
Net actuarial losses	**6**	7,451
Past service cost	**771**	(3)
Benefits paid	**(4,456)**	(5,177)
Effect of changes in the scope of consolidation	**837**	74
Effect of change of the fiscal year-end	**(15)**	
Foreign currency translation adjustments	**(723)**	226
Others	**9**	(36)
Balance at end of year	**¥110,871**	¥107,786

(2) The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2019	2018
Balance at beginning of year	**¥114,476**	¥102,957
Expected return on plan assets	**3,568**	3,609
Net actuarial (losses) gains	**(410)**	7,560
Contributions from the employer	**3,620**	4,910
Benefits paid	**(3,938)**	(4,569)
Foreign currency translation adjustments	**(582)**	23
Others	**56**	(14)
Balance at end of year	**¥116,790**	¥114,476

(3) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018 using the simplified method were as follows:

	Millions of Yen	
	2019	2018
Balance at beginning of year	**¥2,506**	¥2,703
Periodic benefit cost	**832**	901
Benefits paid	**(831)**	(1,098)
Balance at end of year	**¥2,507**	¥2,506

(4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2019 and 2018 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2019	2018
Funded defined benefit obligation	**¥(106,176)**	¥(104,213)
Plan assets	**116,790**	114,476
Total	**10,614**	10,263
Unfunded defined benefit obligation	**(7,202)**	(6,079)
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 3,412**	¥ 4,184
Liabilities for retirement benefits	**¥ (11,098)**	¥ (10,551)
Assets for retirement benefits	**14,510**	14,735
Net amount of liabilities and assets recorded in the consolidated balance sheet	**¥ 3,412**	¥ 4,184

(5) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Service cost	**¥5,330**	¥4,965
Interest cost	**1,326**	1,127
Expected return on plan assets	**(3,568)**	(3,609)
Recognized net actuarial losses	**1,286**	2,061
Amortization of past service cost	**(127)**	(183)
Periodic benefit cost calculated by the simplified method	**831**	901
Others	**88**	4
Total	**¥5,166**	¥5,266

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Past service cost	**¥ 873**	¥ 131
Net actuarial gains	**(1,476)**	(1,723)
Total	**¥ (603)**	¥(1,592)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Unrecognized past service cost	**¥ 323**	¥ (549)
Unrecognized net actuarial gains	**6,419**	7,894
Total	**¥6,742**	¥7,345

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2019 and 2018, consisted of the following:

	2019	2018
Domestic debt securities	2%	3%
Domestic equity securities	2	9
Foreign debt securities	35	29
Foreign equity securities	18	17
Insurance assets (general account)	19	18
Cash and deposits	5	1
Alternative investments	19	23
Total	100%	100%

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

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

(9) Assumptions used for the years ended March 31, 2019 and 2018 were as follows:

	2019	2018
Discount rate	Mainly 0.3%	Mainly 0.3%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 3.5%	Mainly 3.5%

2. Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Group was ¥5,913 million and ¥5,855 million for the years ended March 31, 2019 and 2018, respectively.

10. 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 the normal two-year 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 certain limitations 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. Purchase of treasury stock acquisition rights are presented as either a separate component of equity and any purchased stock acquisition rights deducted directly from stock acquisition rights.

11. STOCK OPTIONS

The stock options outstanding at March 31, 2019, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2016 Stock Option	8 directors 53 employees	58,100 shares	2016.7.14	¥ 1	From July 15, 2019 to July 14, 2031
2017 Stock Option	8 directors 53 employees	48,800 shares	2017.7.14	¥ 1	From July 15, 2020 to July 14, 2032
2018 Stock Option	7 directors 59 employees	42,700 shares	2018.7.13	¥ 1	From July 14, 2021 to July 13, 2033

The stock option activity was as follows:

	Shares						
	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Year Ended March 31, 2018							
Vested							
April 1, 2017—Outstanding	17,000	32,000	95,000	53,200	58,100		
Granted						48,800	
Exercised	(13,000)	(5,000)	(45,000)				
Canceled							
March 31, 2018—Outstanding	4,000	27,000	50,000	53,200	58,100	48,800	
Year Ended March 31, 2019							
Vested							
April 1, 2018—Outstanding	4,000	27,000	50,000	53,200	58,100	48,800	
Granted							42,700
Exercised	(4,000)	(27,000)	(10,000)	(30,500)			
Canceled							
March 31, 2019—Outstanding			40,000	22,700	58,100	48,800	42,700
Exercise price	¥ 2,186	¥ 4,500	¥ 6,715	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥12,956	¥12,491	¥13,439	¥13,388			
Fair value price at grant date	¥ 676	¥ 1,220	¥ 1,697	¥ 7,726	¥7,859	¥10,711	¥11,670

The assumptions used to measure the fair value of 2018 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	30.61%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥140 per share
Risk-free interest rate:	(0.0)%

12. 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 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Deferred tax assets:		
Provision for product warranties	**¥ 12,795**	¥ 11,832
Tax loss carryforwards	**10,427**	9,027
Unrealized profit on inventories	**9,307**	9,436
Software and other intangible assets	**8,668**	7,108
Investment securities	**5,421**	6,769
Inventories	**5,135**	4,397
Accrued bonus	**4,368**	4,094
Deferred revenue	**3,100**	3,075
Liabilities for retirement benefits	**2,498**	2,291
Allowance for doubtful receivables	**1,994**	1,768
Foreign income tax credit	**77**	68
Other	**20,293**	20,442
Total of tax loss carryforwards and temporary differences	**84,083**	80,307
Less valuation allowance for tax loss carryforwards	**(8,206)**	
Less valuation allowance for temporary differences	**(6,947)**	
Total valuation allowance	**(15,153)**	(14,537)
Total Deferred tax assets	**¥ 68,930**	¥ 65,770
Deferred tax liabilities:		
Intangible assets	**¥ 68,816**	¥ 44,858
Undistributed earnings of consolidated subsidiaries	**39,862**	37,534
Unrealized gains on available-for-sale securities	**19,342**	25,943
Assets for retirement benefits	**4,662**	4,721
Deferred gains on sales of property	**1,722**	1,742
Other	**11,425**	13,020
Total deferred tax liabilities	**¥145,829**	¥127,818
Net deferred tax liabilities	**¥ (76,899)**	¥ (62,048)

The expiration of tax loss carryforwards, related valuation allowances, and the resulting net deferred tax assets as of March 31, 2019 were as follows:

	Millions of Yen						
March 31, 2019	One Year or Less	After One Year through Two Years	After Two Years through Three Years	After Three Years through Four Years	After Four Years through Five Years	After Five Years	Total
Deferred tax assets relating to tax loss carryforwards	**¥177**	**¥92**	**¥5**	**¥410**	**¥356**	**¥9,387**	**¥10,427**
Less valuation allowances for tax loss carryforwards	**(175)**	**(90)**	**(5)**	**(268)**	**(119)**	**(7,549)**	**(8,206)**
Net deferred tax assets relating to tax loss carryforwards	**2**	**2**		**142**	**237**	**1,838**	**2,221**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2019 and 2018, were as follows:

	2019	2018
Normal effective statutory income tax rate	30.6%	30.8%
Differences in foreign subsidiaries' tax rates	(5.5)	(4.9)
Taxes and tax effects on dividends from foreign subsidiaries	3.7	4.6
Amortization of goodwill	2.7	3.2
Tax credit for research and development	(2.2)	(2.0)
Permanently non-deductible expenses, such as entertainment expenses	0.5	0.5
Valuation allowance	0.1	(0.9)
Permanently non-taxable income, such as dividend income	(0.1)	(0.5)
Impact from tax reform in the United States		(7.7)
Other - net	(0.9)	(0.5)
Actual effective income tax rate	28.9%	22.6%

13. SUPPLEMENTAL CASH FLOW INFORMATION

The Group acquired Cool International Holding GmbH and its subsidiaries during the year ended March 31, 2019.

Reconciliation between cash paid for the equity interest of Cool International Holding GmbH and payment for the acquisition of these newly consolidated subsidiaries, net of cash and cash equivalents acquired, was as follows:

	Millions of Yen
	2019
Current assets	¥25,233
Fixed assets	93,823
Goodwill	30,137
Current liabilities	(16,188)
Long-term liabilities	(61,077)
Noncontrolling interests	140
Cash paid for the equity interest	72,068
Cash and cash equivalents of consolidated subsidiaries	(7,358)
Payment for acquisition of equity interest of newly consolidated subsidiaries, net of cash and cash equivalents acquired	¥64,710

Repayments of long-term debt included ¥40,389 million for repayments of long-term debt by Cool International Holding GmbH and the other companies which the Group acquired for the year ended March 31, 2019.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥65,216 million and ¥62,051 million for the years ended March 31, 2019 and 2018, respectively.

15. LEASES

The Group leases certain computer equipment and other assets.

Obligations under finance leases and future minimum payments under non-cancelable operating leases at March 31, 2019 were as follows:

	Millions of Yen	
	Finance Leases	Operating Leases
Due within one year	**¥ 1,242**	**¥24,742**
Due after one year	**9,959**	**64,310**
Total	**¥11,201**	**¥89,052**

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 not used 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 terms 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 risk from changes in interest rates, which is hedged by mainly using interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps and commodity futures 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 were based on quoted price in active markets. If a quoted price were not available, another rational valuation technique were used instead. Instruments whose fair values could not be readily determined were not included in the following.

	Millions of Yen		
	March 31, 2019		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥ 367,189**	**¥ 367,189**	
Short-term investments	**592**	**592**	
Trade notes and accounts receivable	**447,831**	**447,831**	
Investment securities	**187,865**	**187,865**	
Total	**¥1,003,477**	**¥1,003,477**	
Trade notes and accounts payable	**¥ 204,535**	**¥ 204,535**	
Short-term borrowings	**146,066**	**146,066**	
Income taxes payable	**25,576**	**25,576**	
Long-term debt	**428,375**	**431,326**	**¥2,951**
Total	**¥ 804,552**	**¥ 807,503**	**¥2,951**
Derivatives	**¥ 969**	**¥ 969**	

	Millions of Yen		
	March 31, 2018		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥357,027	¥357,027	
Trade notes and accounts receivable	401,165	401,165	
Investment securities	211,459	211,459	
Total	¥969,651	¥969,651	
Trade notes and accounts payable	¥183,991	¥183,991	
Short-term borrowings	45,530	45,530	
Income taxes payable	21,496	21,496	
Long-term debt	498,040	502,054	¥4,014
Total	¥749,057	¥753,071	¥4,014
Derivatives	¥ (1,262)	¥ (1,262)	

Assets

Cash and cash equivalents

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

Short-term investments

The carrying values of short-term investments 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 5.

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, 2019			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 9,881		¥ 5	¥ 5
EUR	14,697		(11)	(11)
USD	33,144		(142)	(142)
AUD	1,729		98	98
NZD	753		3	3
ZAR	196		(2)	(2)
CZK	3,089		(3)	(3)
HKD	1,264		5	5
SGD	1,893		(3)	(3)
MYR	863		0	0
TRY	420		(43)	(43)
BRL	128		(0)	(0)
IDR	4,886		(44)	(44)
INR	1,221		10	10
PHP	830		3	3
THB	2		0	0
AED	1,568		(0)	(0)
Buying: CNY	1,976		50	50
EUR	241		(1)	(1)
Commodity futures contracts:				
Buying: Metal	¥ 722		¥ 47	¥ 47

	Millions of Yen			
	March 31, 2018			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 7,686		¥ (74)	¥ (74)
EUR	52,559		(44)	(44)
USD	38,210		573	573
AUD	7,712		245	245
ZAR	536		(0)	(0)
CZK	2,572		0	0
PLN	341		(0)	(0)
HKD	1,462		42	42
SGD	2,455		19	19
MYR	721		(1)	(1)
TRY	11,682		61	61
BRL	53		1	1
IDR	3,843		59	59
PHP	250		6	6
THB	28		0	0
Buying: CNY	2,200		15	15
Commodity futures contracts:				
Buying: Metal	¥12,067		¥(383)	¥(383)

Derivative transactions to which hedge accounting is applied

		Millions of Yen		
		March 31, 2019		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 6,307**		**¥(158)**
EUR	Receivables	**32,091**		**92**
USD	Receivables	**1,620**		**(4)**
CZK	Receivables	**5,704**		**77**
TRY	Receivables	**1,418**		**6**
Buying: CNY	Payables	**7,576**		**101**
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	**¥173,215**	**¥154,886**	**¥ 722**
Fixed-rate payment, floating-rate receipt*	Long-term debt	**63,000**	**63,000**	
Commodity futures contracts:				
Buying: Metal	Raw materials	**¥ 7,223**		**¥ 161**

	Hedged Item	Millions of Yen March 31, 2018 Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 4,540		¥ (26)
EUR	Receivables	38,638		(15)
USD	Receivables	3,910		12
ZAR	Receivables	536		(32)
CZK	Receivables	5,221		(16)
TRY	Receivables	1,781		38
Buying: CNY	Payables	8,122		35
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥196,864	¥179,739	¥(1,777)
Fixed-rate payment, floating-rate receipt*	Long-term debt	98,000	63,000	

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

Financial instruments whose fair values cannot be readily determinable

	Millions of Yen Carrying Amount 2019	2018
Nonlisted equity securities	¥9,549	¥9,263
Investments in limited partnerships and other investments	1,284	529
Total	¥10,833	¥9,792

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen March 31, 2019 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	¥367,189			
Short-term investments	592			
Trade notes and accounts receivable	447,792	¥39		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				¥300
Total	¥815,573	¥39		¥300

	Millions of Yen March 31, 2018 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	¥357,027			
Trade notes and accounts receivable	401,166			
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				¥300
Total	¥758,193			¥300

Please see Note 8 for annual maturities of long-term debt.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2019 totaled approximately ¥7,490 million.

The Group had the following contingent liabilities at March 31, 2019 and 2018.

	Millions of Yen	
	2019	2018
Trade notes endorsed	¥1,733	¥2,154
Guarantees on the borrowings of Air as a Service., LTD.	70	

18. COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen	
	2019	2018
Unrealized (losses) gains on available-for-sale securities:		
(Losses) gains arising during the year	¥(23,504)	¥30,981
Reclassification adjustments to profit or loss	4	(223)
Amount before income tax effect	(23,500)	30,758
Income tax effect	6,601	(9,215)
Total	¥(16,899)	¥21,543
Deferred (losses) gains on derivatives under hedge accounting:		
Gains arising during the year	¥ 505	¥ 1,850
Reclassification adjustments to profit or loss	(698)	(598)
Amount before income tax effect	(193)	1,252
Income tax effect	84	(404)
Total	¥ (109)	¥ 848
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ (8,393)	¥11,612
Reclassification adjustments to profit or loss	284	61
Amount before income tax effect	(8,109)	11,673
Total	¥ (8,109)	¥11,673
Remeasurements of defined benefit plans:		
Adjustments arising during the year	¥ (556)	¥ (286)
Reclassification adjustments to profit or loss	1,159	1,878
Amount before income tax effect	603	1,592
Income tax effect	(155)	(549)
Total	¥ 448	¥ 1,043
Share of other comprehensive income in affiliates accounted for using the equity method:		
(Losses) gains arising during the year	¥ (1,167)	¥ 560
Total other comprehensive (loss) income	¥(25,836)	¥35,667

19. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2019	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥189,049**	**292,470**	**¥646.39**
Effect of dilutive securities:			
Stock options		**197**	
Diluted EPS:			
Net income for computation	**¥189,049**	**292,667**	**¥645.95**

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2018	Net Income	Weighted-Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	¥189,052	292,409	¥646.53
Effect of dilutive securities:			
Stock options		204	
Diluted EPS:			
Net income for computation	¥189,052	292,613	¥646.08

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, 2019						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	**¥2,222,173**	**¥200,790**	**¥2,422,963**	**¥58,146**	**¥2,481,109**		**¥2,481,109**
Intersegment sales	**714**	**18,124**	**18,838**	**646**	**19,484**	**¥(19,484)**	
Total	**2,222,887**	**218,914**	**2,441,801**	**58,792**	**2,500,593**	**(19,484)**	**2,481,109**
Segment profit	**237,646**	**32,534**	**270,180**	**6,066**	**276,246**	**9**	**276,255**
Segment assets	**2,230,118**	**230,736**	**2,460,854**	**41,009**	**2,501,863**	**199,028**	**2,700,891**
Other:							
Depreciation	**¥ 57,166**	**¥ 13,489**	**¥ 70,655**	**¥ 1,667**	**¥ 72,322**		**¥ 72,322**
Amortization of goodwill	**26,792**	**200**	**26,992**		**26,992**		**26,992**
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	**13,552**	**10,097**	**23,649**		**23,649**		**23,649**
Investment in property, plant and equipment and intangible assets	**68,982**	**15,914**	**84,896**	**2,266**	**87,162**		**87,162**

	Millions of Yen						
	March 31, 2018						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥2,052,884	¥183,147	¥2,236,031	¥54,530	¥2,290,561		¥2,290,561
Intersegment sales	586	15,388	15,974	428	16,402	¥(16,402)	
Total	2,053,470	198,535	2,252,005	54,958	2,306,963	(16,402)	2,290,561
Segment profit	223,463	25,511	248,974	4,757	253,731	9	253,740
Segment assets	1,981,546	216,296	2,197,842	37,624	2,235,466	240,242	2,475,708
Other:							
Depreciation	¥ 52,054	¥ 12,988	¥ 65,042	¥ 1,605	¥ 66,647		¥ 66,647
Amortization of goodwill	28,148	32	28,180		28,180		28,180
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	13,791	9,463	23,254		23,254		23,254
Investment in property, plant and equipment and intangible assets	82,751	11,873	94,624	1,966	96,590		96,590

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 ¥211,637 million and ¥244,909 million at March 31, 2019 and 2018, 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, 2019						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥585,107	**¥625,041**	**¥379,628**	**¥387,093**	**¥366,670**	**¥137,570**	**¥2,481,109**

	Millions of Yen						
	March 31, 2018						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥542,726	¥551,819	¥381,666	¥349,190	¥332,956	¥132,204	¥2,290,561

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, 2019						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥161,703	**¥134,542**	**¥70,657**	**¥61,803**	**¥44,607**	**¥9,651**	**¥482,963**

	Millions of Yen						
	March 31, 2018						
	Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
	¥154,690	¥123,080	¥70,958	¥57,418	¥39,801	¥8,887	¥454,834

(2) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2019 and 2018 was as follows:

	Millions of Yen				
	2019				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	**¥321,183**	**¥1,136**			**¥322,319**

	Millions of Yen				
	2018				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥307,868	¥1,414			¥309,282

21. SUBSEQUENT EVENT

Resolutions approved by the Company's Board of Directors' at the meeting held on May 9, 2019 are subject to approval at the general shareholders' meeting planned to be held on June 27, 2019.

Appropriations of Retained Earnings

Payment of year-end cash dividends of ¥90 per share to shareholders at March 31, 2019, totaling ¥26,326 million is to be settled.

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

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, 2019, 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, 2019, 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 25, 2019

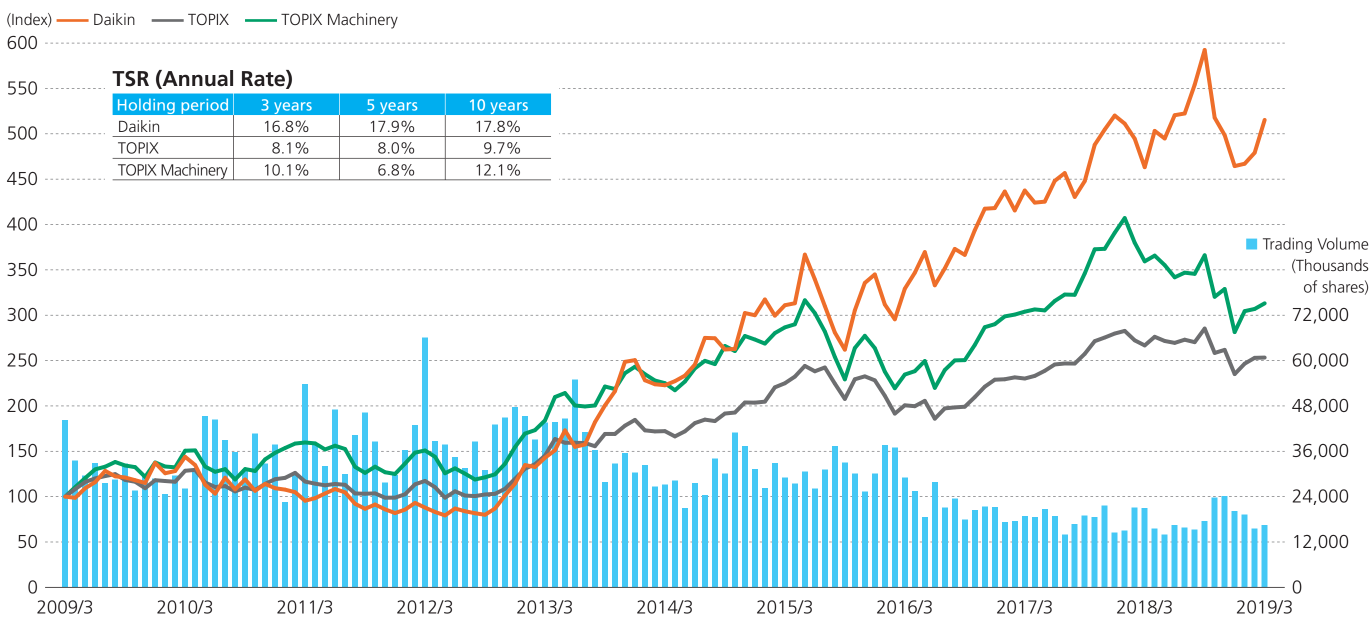
Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2019)

Company Name	Daikin Industries, Ltd.
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	26,643
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. (Trust Account 5) • Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account for The Norinchukin Bank, re-entrusted by Sumitomo Mitsui Trust Bank, Limited) • MUFG Bank, Ltd. • Japan Trustee Services Bank, Ltd. (Trust Account 4) • Japan Trustee Services Bank, Ltd. (Trust Account 7) • Government of Norway (Standing proxy Citibank, N. A., Tokyo Branch) • JP Morgan Chase Bank 385151 (Standing proxy Mizuho Bank Settlement Sales Department)
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 291 Affiliates: 19
Number of Employees	76,484 (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

Trends in Total Shareholders' Return (TSR*1)



TSR (Annual Rate)

Holding period	3 years	5 years	10 years
Daikin	16.8%	17.9%	17.8%
TOPIX	8.1%	8.0%	9.7%
TOPIX Machinery	10.1%	6.8%	12.1%

*1 TSR (Total Shareholders' Return): Total rate of return on investment that combines capital gains with dividends.

Notes: 1. Daikin calculates TSR utilizing the cumulative dividend amount and stock price fluctuation; TOPIX calculates TSR based on the stock market index inclusive of dividends (Source: Prepared by the Company based on Bloomberg and other data)

2. Graph data represents market prices indexed by TSR with closing price data as of March 31, 2009 as a base of 100 (holding period up to March 31, 2019)

DAIKIN INDUSTRIES, LTD.

This report is printed on paper certified by the Forest Stewardship Council (FSC)—an international labeling scheme that provides a credible guarantee that the raw materials used in the product come from an environmentally well-managed forest—and with vegetable ink for waterless printing (non-VOC ink) that does not contain volatile organic compounds.

Printed in Japan

http://www.daikin.com