



Annual Report 2020

Fiscal Year Ended March 31, 2020



INTRODUCTION

As a group, we will overcome difficult situations and find solutions to social problems through air.

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.

Based on the "FUSION 20" slogan, "Co-create new value in the air and environment fields with wisdom and passion," Daikin has promoted the strengthening of its environmental solutions business on a global basis by the adoption of environmentally conscious products using inverter technology and refrigerants with lower global warming potential. Despite the harsh business environment, in the fiscal year ended March 31, 2020 (fiscal 2020), Daikin achieved record-high sales for a seventh consecutive fiscal year.

The current COVID-19 pandemic has brought about changes in economic activities and lifestyles.

Taking needs into consideration, such as healthy and safe lifestyles, as well as increasing interest in air quality and ventilation, Daikin will create new value in the air and environment fields—new value that will be linked to improvements in its corporate value—by both finding solutions to social problems and achieving business expansion.

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Forward-Looking Statements

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

Our 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

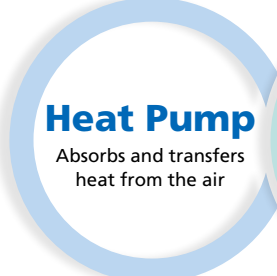
10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

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

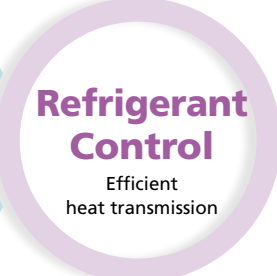
Daikin has developed three advanced air-conditioning technologies that form the basis for next-generation technology.



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, 2020)

Net Sales (Fiscal 2020)
¥2,550.3 billion

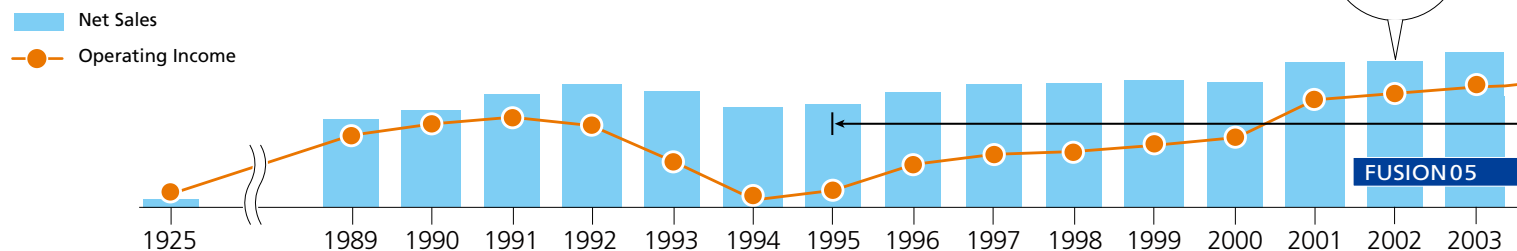
Employees
80,369

Group Companies
Consolidated Subsidiaries: **313**
(Japan: 29, Non-Japan: 284)

Global Business Presence
More than **150** Countries

Worldwide Production Bases
More than **100** Factories

Business Results



Ensuring a Competitive Edge through High Levels of Product Competitiveness and Production Technologies

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 air conditioner
- 2002** Nationwide expansion of the fluorocarbon recovery and destruction business
- 2002** Launch of "ECOCUTE" heat-pump water heater

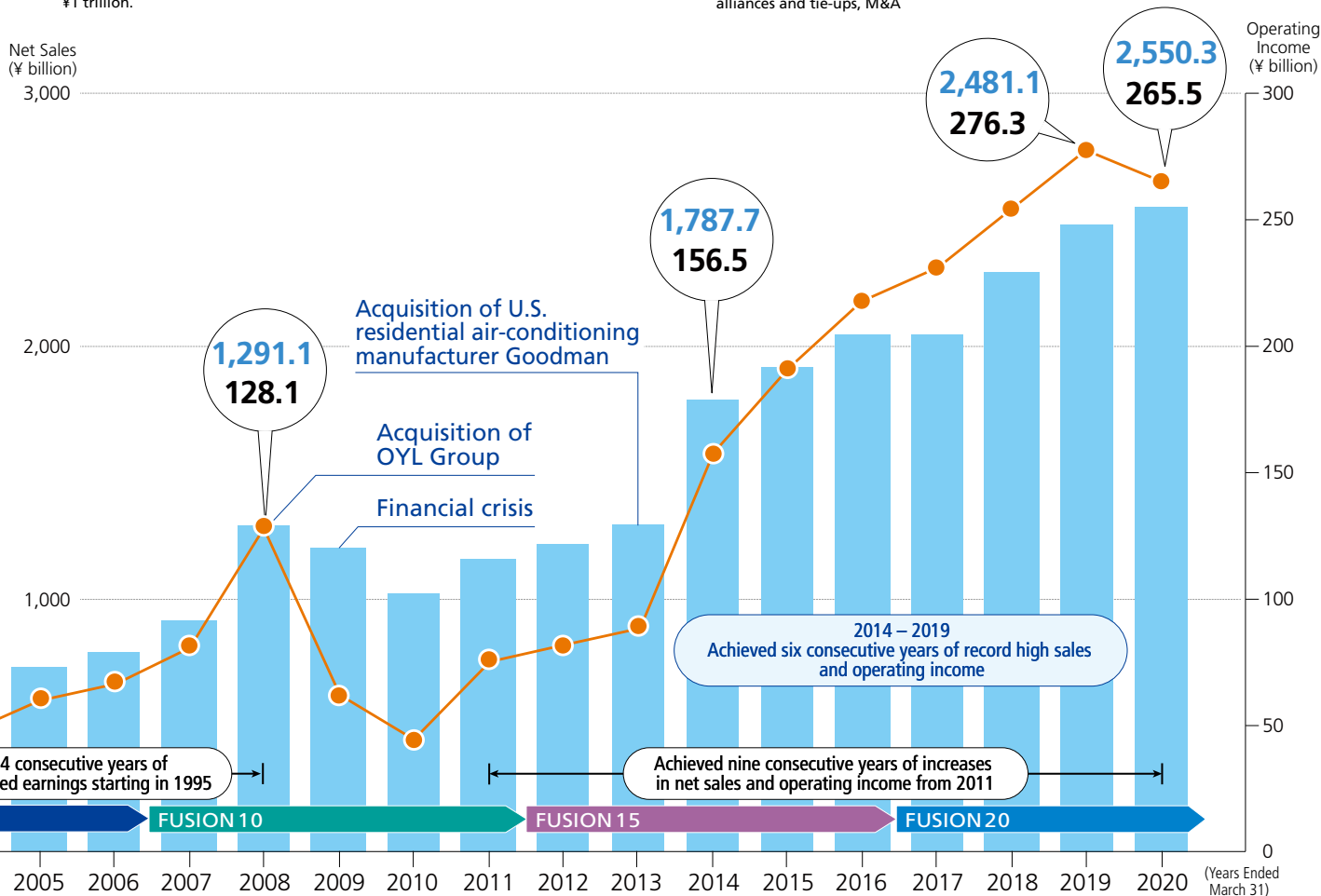
Accelerating the Pace of Global Expansion while Expanding the Scale of Business during the 2000s

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 manufacture
- 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
- 2015** Granting of worldwide free access to basic patents for using R32 refrigerant

FUSION 05 to 20 (Fiscal 2002 – Fiscal 2021)

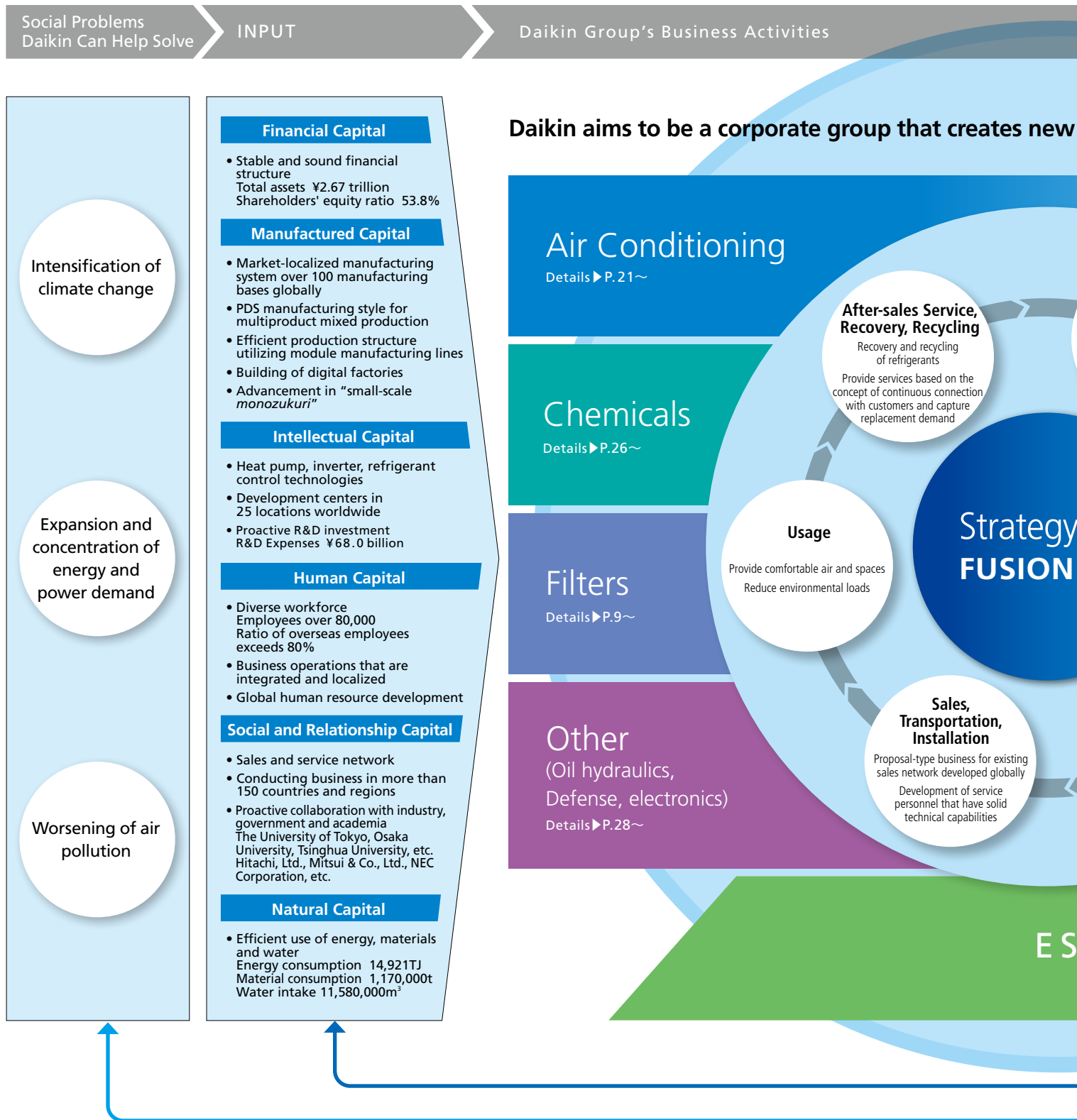
FUSION05	FUSION10	FUSION15	FUSION20
<p>Be a Company that Attracts People, Capital, and Information Establish a position as the global No. 2 in mainstay businesses, and build a foundation for future growth, including reaching an aggregate market value of ¥1 trillion.</p>	<p>Be the Global No.1 Air-conditioning Company</p> <ul style="list-style-type: none"> • Expand environment-related businesses • Business alliances and tie-ups, M&A 	<p>Be a Truly Global Excellent Company</p> <ul style="list-style-type: none"> • 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 	<p>Strengthen Existing Businesses and Expand Business Domains</p>



- | | |
|---|---|
| <p>2004 World's first successful application of streamer electric discharge technology</p> <p>2005 Opening of China's first dedicated showroom for large-scale air conditioners</p> <p>2006 Launch in Europe of "Daikin Altherma" air-to-water heat pump system</p> <p>2007 Launch of "DESICA" world's first humidity control air conditioner without water drainage or supply pipes</p> <p>2009 Establishment of the Daikin McQuay Applied Development Center in the U.S.</p> | <p>2010 Establishment of the Shanghai R&D Center</p> <p>2011 Opening of the Solution Plaza Fuha Tokyo</p> <p>2012 Launch of "Urusara 7" world's first residential air conditioner using new R32 refrigerant</p> <p>2013 Opening of the Solution Plaza Fuha Osaka</p> <p>2014 Launch of cooling-only inverter air conditioners for developing countries</p> <p>2015 Establishment of Technology Innovation Center</p> <p>2017 Establishment of Daikin Texas Technology Park, a production and technology development base</p> |
| <p>2015 Acquisition of the refrigerant business in Europe from major Belgian chemical group Solvay</p> <p>2016 Acquisition of U.S. filter manufacturer Flanders</p> <p>2016 Acquisition of Italian refrigerator/freezer manufacturer Zanotti</p> | <p>2016 Acquisition of Scandinavian filter manufacturer Dinair</p> <p>2019 Acquisition of Austrian refrigerating and freezing showcases manufacturer AHT</p> |

Process of Value Creation

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

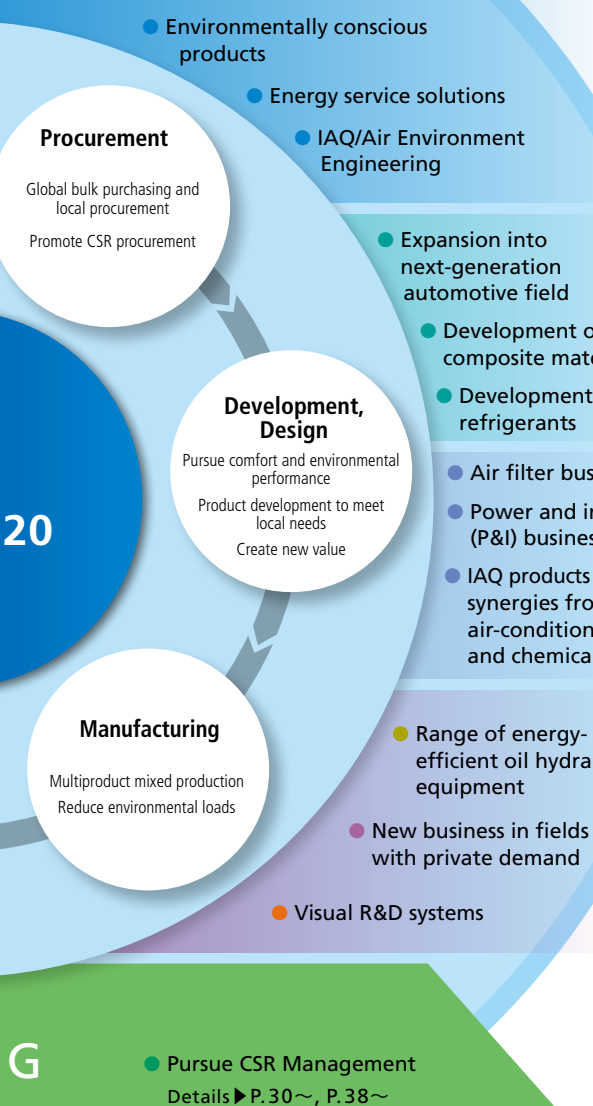


Global society is continually changing, and directly faces many problems related to climate change and other issues. Through its business, Daikin Group provides society with new value, and by contributing to the realization of a sustainable society, seeks growth for itself as well.

OUTPUT (Fiscal 2020)

Daikin's Aims for Value Creation

value in the air and environment fields.



Net sales	¥2.55 trillion
Overseas sales ratio	77%
Operating income	¥265.5 billion
Operating income margin	10.4%
Income before income taxes	¥256.2 billion
Equity ratio	53.8%
ROE	12.0%
Free cash flow (FCF)	¥146.0 billion
Ratio of highly skilled engineers	1 in 3.2 (Daikin Industries only)
No. of patent applications	More than 1,470 (Fiscal 2018, Daikin Industries only)
No. of female managers	63 (Daikin Industries only)
Ratio of non-Japanese subsidiaries with local nationals as president	47.1%
Customer satisfaction (Base year = 1.00)	Japan = 1.14 (Compared to Fiscal 2016)
Meetings with institutional investors/analysts over	400 Events
Environmentally conscious products as percentage of sales (residential air conditioners)	97%
Reduction in greenhouse gas emissions due to adoption of environmentally conscious products	68 million tonnes of CO₂
Reduction in greenhouse gas emissions from production/development stage	76% reduction (compared to Fiscal 2006)
Reduction in CO ₂ emissions due to forest conservation	7 million tonnes of CO₂

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



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.



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



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



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



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

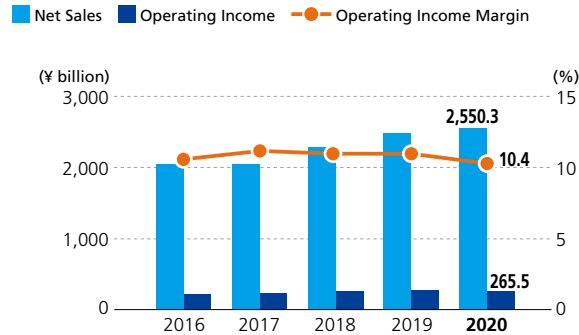


Take urgent action to combat climate change and its impacts
Spread of inverter products, refrigerants with lower global warming potential, and heat pump products

Financial and Non-Financial Highlights

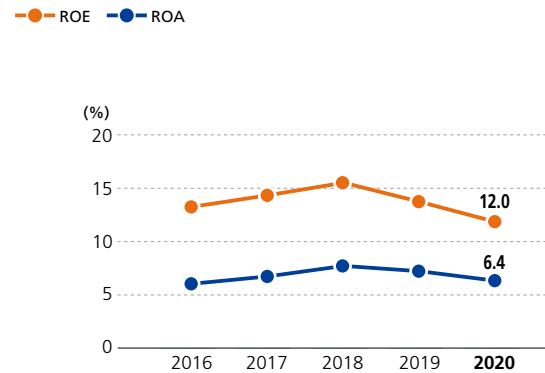
Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

Net Sales/Operating Income, Operating Income Margin



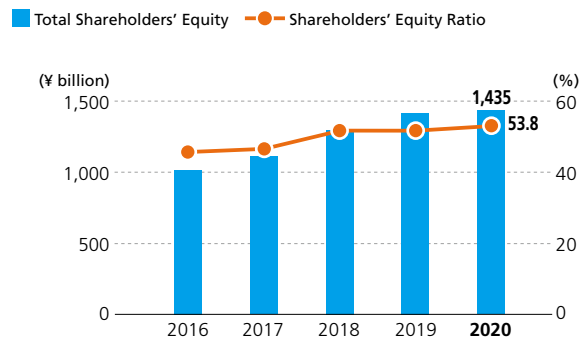
Steady progress was made on the full fiscal year plan through to the third quarter. Revenue increased while earnings decreased for the full fiscal year reflecting the abrupt halt in economic activity from the start of the fourth quarter as a result of the global COVID-19 pandemic.

ROE/ROA



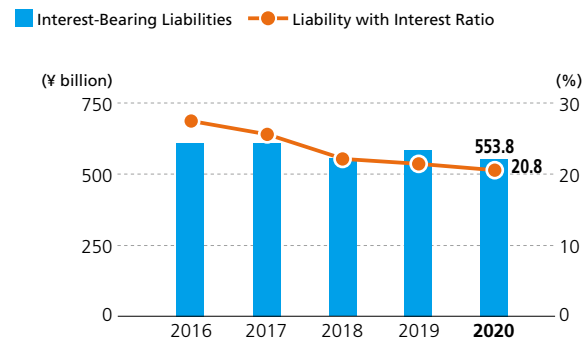
The Air Conditioning business is looking to undertake R&D as well as capital, acquisition, and other strategic investments on the back of a forecast increase in demand going forward. By steadily reaping returns on the aforementioned investments, we will work to boost our performance on a continuous basis and improve ROE/ROA.

Total Shareholders' Equity/Shareholders' Equity Ratio



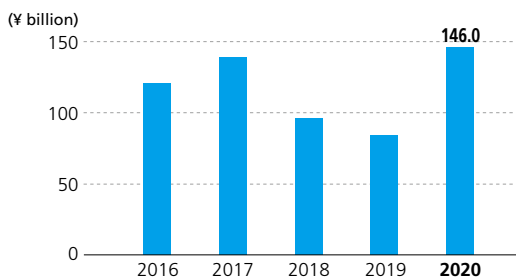
Daikin's shareholders' equity ratio came in at 53.8% for the fiscal year under review, exceeding 50% for the third consecutive year. The Company is taking positive steps to ensure its financial stability.

Interest-Bearing Liabilities/Liability with Interest Ratio



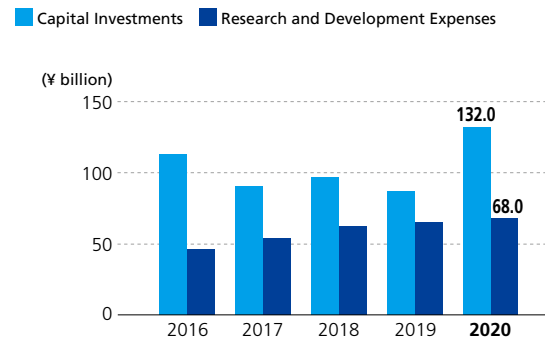
While our liability with interest ratio was temporarily high due to major acquisitions between 2010 and 2019, we have continued to steadily reduce the balance of interest-bearing liabilities by generating free cash flow and making effective use of Group funds.

Free Cash Flow



In addition to increasing earnings and improving investment efficiency, efforts are also being made to generate cash flow from a working capital perspective. This includes thoroughly reducing the balances of accounts receivable and inventory.

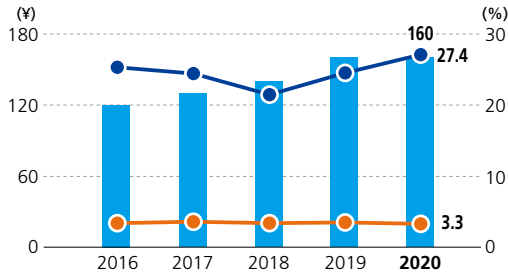
Capital Investments/Research and Development Expenses



From a capital investment perspective, energies are being directed toward upgrading and expanding sales networks and newly constructing plants while boosting production capacity, focusing on emerging countries and key markets where there has been remarkable growth. As far as research and development expenses are concerned, Daikin recognizes that strengthening technological competitiveness is the lifeblood of a manufacturer. On this basis, the Company is coordinating with its eight development sites worldwide and the Technology and Innovation Center (TIC) that serves as the Group's development control tower, and is accelerating the development of distinctive technologies and products.

DOE/Cash Dividends per Share, Dividend Payout Ratio

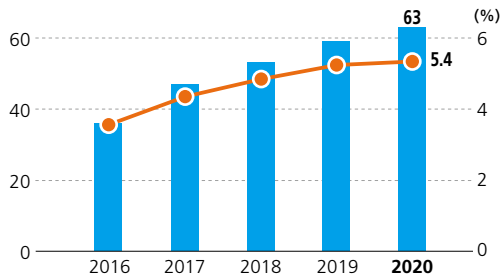
■ Cash Dividends per Share —●— DOE —●— Dividend Payout Ratio



Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% or higher based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

Number and Percentage of Women in Management Positions

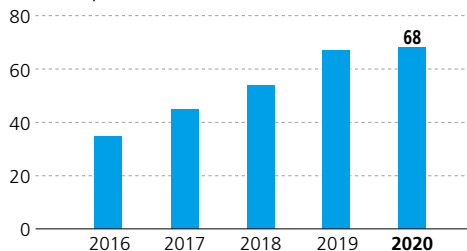
■ Women in Management Positions —●— Percentage



One of the Company's most important policies revolves around the empowerment of women in its workforce. Daikin is implementing various measures to accelerate the development of women in management and executive positions, change the mindset of men in management, and support the early return to work of its female employees after childcare leave.

Through the Adoption of Environmentally Conscious Products, Contribute to Reducing Greenhouse Gas Emissions

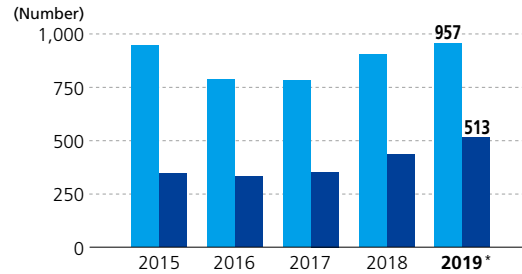
(million tonnes of CO₂)



Daikin's air conditioners, a mainstay product, emit particularly high levels of greenhouse gas emissions when in use. Accordingly, the Company is focusing on promoting the use of inverters and air conditioners that use low-global warming refrigerants. In fiscal 2020, Daikin reduced greenhouse gas emissions by 68 million tons-CO₂, compared to its target of limiting greenhouse gas emissions to 60 million tons-CO₂ by fiscal 2021.

Number of Patent Applications

■ Japan ■ Overseas

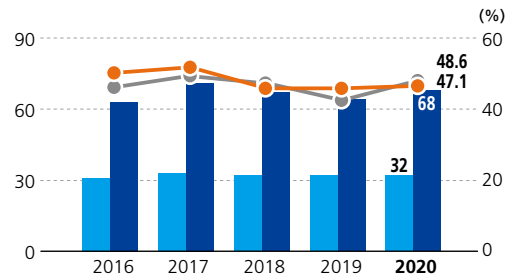


Daikin is working to stimulate employees' motivation to invent, spur the creation of intellectual property, increase the quality and quantity of patents in competitive fields, and increase the number of overseas patents in key technological fields in particular in emerging countries.

* The latest figures for the fiscal year ended March 31, 2019.

Number and Percentage of Overseas Bases Where Local Nationals Are President or Executive

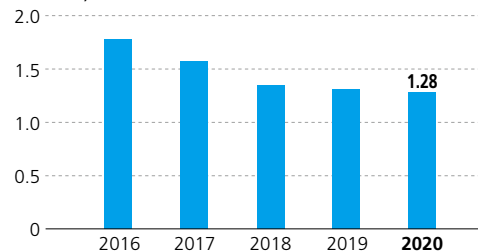
■ President ■ Executive —●— President ratio —●— Executive ratio



As Daikin's business globalizes, the Company is actively promoting more employees at overseas bases to managerial positions. Daikin holds the Global Daikin Leadership Development Program as a development measure to give locally hired managers the opportunity to run Daikin subsidiaries in their own countries.

Greenhouse Gas Emissions (during development and production)

(million tons of CO₂)

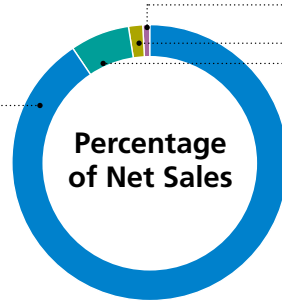


While Daikin emits two kinds of greenhouse gases during development and production processes: CO₂ from energy use, and fluorocarbons, every effort is being made to minimize environmental impact through production activities. Daikin achieved a 76% reduction (to 1.28 million tons-CO₂) in greenhouse gas emissions in fiscal 2020, compared to its target of a 70% reduction (to 1.58 million tons-CO₂) from the fiscal 2006 level in development and production greenhouse gas emissions for the Group as a whole in fiscal 2021.

At a Glance

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

Air Conditioning
90.6%



Chemicals
7.1%

Oil Hydraulics
1.6%

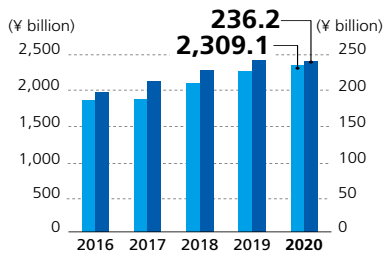
Defense
0.7%

Net Sales and Operating Income

Major Products

Description

Air Conditioning

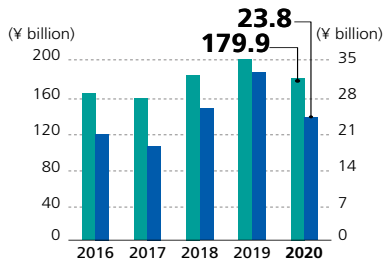


- Room air-conditioning systems
- Air purifiers
- Heat-pump hot-water-supply and room-heating systems
- Packaged air-conditioning systems
- Multiple air-conditioning systems for office buildings
- Air-conditioning systems for facilities and plants

- Absorption refrigerators
- Freezers
- Water chillers
- Turbo refrigerator equipment
- Air-handling units
- Air filters
- Industrial dust collectors
- Marine-type container refrigeration
- Refrigerating and freezing showcases

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

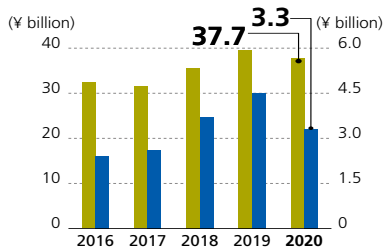


- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluoropaints
- Fluoro coating agents
- Semiconductor-etching products

- 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

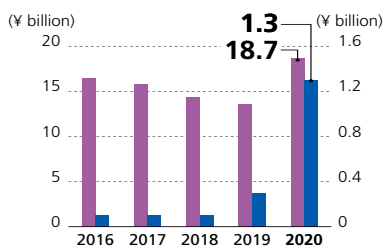


- Oil hydraulic pumps
- Oil hydraulic valves
- Cooling equipment and systems
- Inverter controlled pump motors

- 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



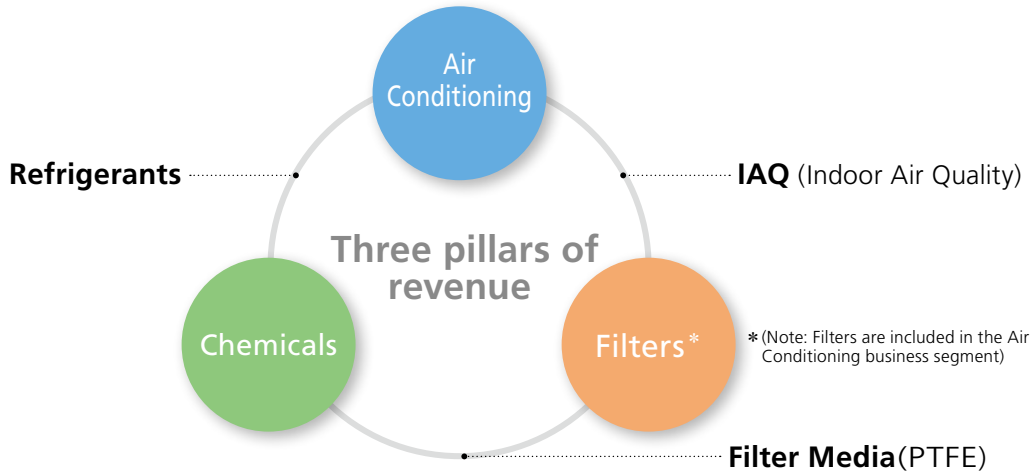
- Warheads for Japan's Ministry of Defense/ Warhead parts used in guided missiles for training purposes

- 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.

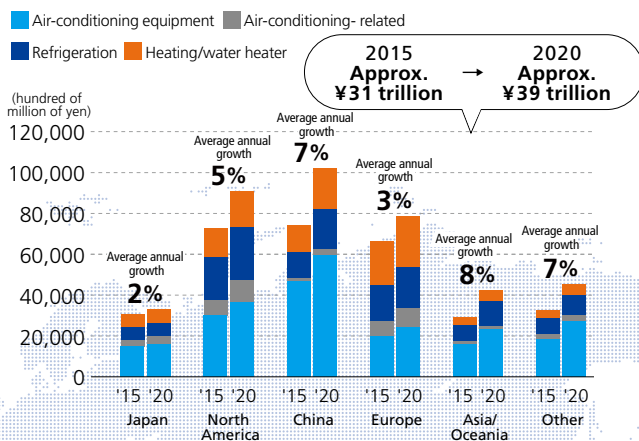
Market Size and Positioning of Each Business

Creation of synergies by utilizing the affinity of the Filter business with existing businesses, including Air Conditioning and Chemicals.



Air Conditioning Business

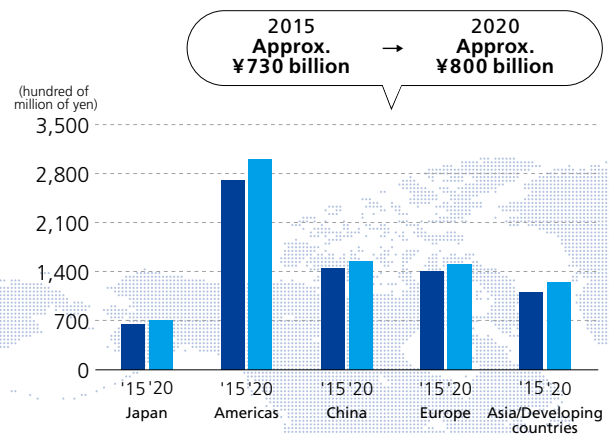
Global HVAC&R* Market Scale (Daikin estimates)



* Heating, Ventilating, Air-conditioning and Refrigerating

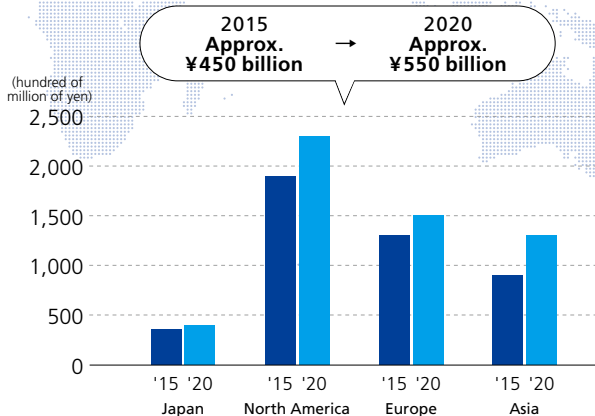
Chemicals Business

Global Fluorochemicals Market (Daikin estimates)

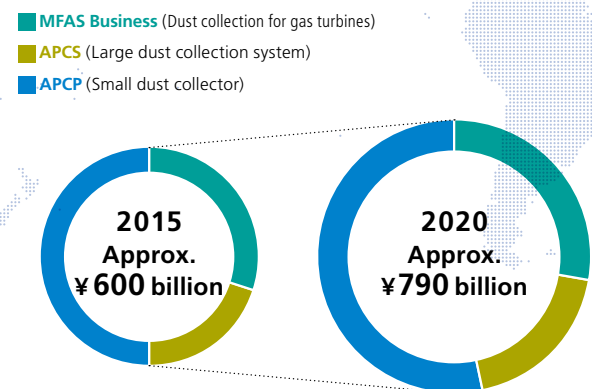


Filter Business

Global Air Filter Market Scale (Daikin estimates)



Global Power & Industrial (P&I) Market Scale (Daikin estimates)



Message from the CEO



Masanori Togawa

President and CEO

Minimizing the impact from COVID-19 to ensure an improvement in sales
Quickly implementing strategies to adapt to changing conditions and
targeting further growth by turning challenges into opportunities

As the spread of COVID-19 increases in severity, we will exercise our strength as a team to face this unprecedented crisis and create measures both defensive and offensive with the goal of being able to adapt to and overcome any situation. Daikin remains committed to achieving growth in our business and solving social issues by effectively responding to new needs in air quality.

Sympathies and gratitude

We would like to express our deepest sympathies to those suffering from COVID-19, as well as their families and friends. On behalf of the Company, I would also like to extend our most

sincere gratitude to those dedicated to preventing the spread of infections, including those operating in the fields of medicine and government.

Fiscal 2020 earnings and measures designed to minimize the impact of COVID-19

Amid a harsh operating environment characterized by a slowdown in the Chinese economy, the adverse effects from growing trade friction between the US and China, and reduced automotive-related demand, Daikin in fiscal 2020 enacted strategies aimed at achieving targets in our strategic management plan, "FUSION 20," expanded sales in all operating regions around the world and advanced total cost reductions, allowing the Company to meet its targets and secure sales and profit growth through the third quarter. The effects from the COVID-19 pandemic from the fourth quarter resulted in sales for the year in full reaching ¥2,550.3 billion, up 2.8% year on year, with operating profit coming in at ¥265.5 billion, down 3.9% year on year. The COVID-19 pandemic adversely impacted sales by about ¥45.0 billion and operating profit by about ¥22.0 billion, so if we were to exclude the effects from the outbreak, sales and profit would have been up for a tenth consecutive year and at an historic high performance for the seventh consecutive year. Net income attributable to owners of the parent dipped sharply in fiscal 2020, due in part to the booking of extraordinary losses on impairment losses in the US filter business. Absent this factor, net income would have been down just 3.8% year on year.

As COVID-19 began to spread around the world from the end of January 2020, one of my first acts as CEO was to assume leadership at the newly established response headquarters and alongside efforts to ensure the safety and health of our employees, quickly implement measures aimed at collecting, and then acting on, information that seemed to be changing by the minute. Economic activity in China came to a standstill from late February with the halting of production and the markets, which had a profound impact on our Company's sales. Economic activity was also sharply curtailed in Europe, with measures such as border closings and lockdowns going into effect first in Italy and then throughout the region. As the number of people infected rapidly expanded, there were forecasts for a sharp decline in earnings, though we were able to reduce sales opportunity losses by rapidly adjusting to supply chain disruptions in China and maintaining the supply of our products. In addition to focusing on an expansion in sales in Asia, the United States, and Japan, where the impact from the outbreak was relatively limited at the time, we were able to minimize the impact on earnings for the year through a variety of other measures, including those promoting further cost reductions.

FY2020 Forecast, Result, and Action Plan

	FY2020			FY2021
	Forecast	Result	COVID-19 Effect	Action Plan (Announced in May 2020)
Sales	2,610.0B JPY (+5% year on year)	2,550.3B JPY (+2.8% year on year)	-45.0B JPY	2,330.0B JPY (-9% year on year)
Operating Profit	285.0B JPY (+3% year on year) 10.9% profit margin	265.5B JPY (-3.9% year on year) 10.4% profit margin	-22.0B JPY	150.0B JPY (-44% year on year) 6.4% profit margin

Message from the CEO

Action plan for fiscal 2021

As the global economy is impacted by a decline in demand due to the global spread of COVID-19 and the emergent effects from restrictions on economic activity, there remains some degree of uncertainty as to when the spread of the virus and the resultant restrictions will be curtailed and how long it will take for demand to recover once that curtailment is assured. That said, I believe it is management's job to set goals and take action based on the reality of the present and not to assume that because the future is unclear, action should be left for a later date.

We have considered four scenarios in when assessing the level of impact from the COVID-19 pandemic and studied a variety of counter measures for each. The first scenario envisages the effects of the outbreak being brought under control in the first quarter of fiscal 2021, the second sees the effects last through the first half of the fiscal year, the third assumes the effects last through the third quarter, and the fourth assumes the worst, with the effects

lasting throughout the year. We have formulated our fiscal 2021 targets in line with our current outlook and have taken into account actual conditions and realities in each business and region. Accordingly, our action plan, announced in May, is in line with conditions that are close to the second scenario, in which the effects of the COVID-19 pandemic extend through the first half of the year.

With the launch of this action plan in fiscal 2021, we believe we have the potential to spur a rapid V-shaped recovery, depending of course on market trends and the severity of the effects from the COVID-19 pandemic. On the other hand, we are also prepared should the effects from the pandemic extend through the third quarter of the year, or in our worst-case scenario, throughout the entire year. Given the need to be able to respond flexibly to ever-changing conditions, we intend to review our action plan every one or two months, depending on the need.

"FUSION 20": Results so far and our efforts in the last year of the plan

The key aspects of FUSION center on the Company's ability to thoroughly execute initiatives in line with the planned strategy and maintain its commitment to achieving quantitative targets while at the same time promoting the advancement of flexibility in management. This flexibility allows the Company to anticipate changes in the operating environment and market trends as they occur and accordingly review key strategies in a timely manner.

The environment in which the Group operates is changing faster than previously expected, due in part to the rapid advancement of technologies such as IoT and AI, as well as a growing worldwide commitment to solving environmental issues, including issues related to reducing greenhouse gas emissions. Daikin sees these changes in the operating environment as opportunities and in June 2018 formulated its three-year "FUSION 2020" plan with the aim of strengthening our core businesses, expanding the scope of our business, and changing our business structure. In line with these goals, we have continued to implement the measures contained within plan and maintained related forward investment.

Even amid a tough operating environment, we focused in fiscal 2020 on achieving the goals outlined in the "FUSION 20" plan

through the implementation of 176 business division themes and ten Group-wide follow-up themes. Our fiscal 2021 targets focused on sales of ¥2.8 trillion and operating profit of ¥325.0 billion through January, when the effects from COVID-19 first emerged. Excluding the effects from exchange rates, reduced demand as a result of a slowdown in the Chinese economy and semiconductor-related demand we are targeting sales and operating profit for the final year of "FUSION 20" of ¥2.9 trillion and ¥348.0 billion, respectively.

We are spending the current year formulating our next strategic management plan, "FUSION 25." To achieve further growth, we believe it necessary to not only maintain our current initiatives, but also develop and implement new measures with the future in mind.

We expect our mainstay air conditioner business, which includes the service and solutions business, as well as the air quality-related business, to be a growth business even after COVID-19 is brought under control. We also believe it to be a business that can contribute to the needs of society and the resolution of social issues by supporting the health and safety of all.

Management Approach for the COVID-19

In addition to our focus on generating the results targeted for the final year in the "FUSION 20" strategic management plan, Daikin is enacting near-term measures and working to reform and

strengthen our operating structure in response to the challenges presented by COVID-19. Moreover, given the difficulty in predicting the operating environment moving forward, we have

launched six emergency projects addressing important management issues, and are working to further strengthen co-creation and cooperation within the group on a global basis, enact reforms to existing procedures and follow-up efforts, speed decision making, and increase overall speed and dynamic energy. We also recognize that the air-conditioning services business is a socially significant business that provides a life line to people, and in addition to focusing on capturing growing demand during the economic downturn, we are committed to leveraging our

strengths in services that connect us directly to our customers to create new businesses that provide a safe and healthy atmosphere to all.

Based on the "FUSION 20" theme, we are building strategies in the face of the rapidly escalating effects stemming from the COVID-19 pandemic. The first of these involve 43 defensive measures, including those aimed at reducing fixed costs and providing rapid support to our dealers and business partners. The second involves 31 proactive measures, including those aimed at

Management Approach for the COVID 19 Crisis

Measures Based on the Impact of the Sudden COVID-19 Outbreak

- **Defensive measures: 43 themes**
(Thorough suppression of fixed costs, rapid support to dealers and business partners, etc.)
- **Proactive measures: 31 themes**
(Strengthening of sales via the Internet, development of measures focused on changes in consumer mood and behavior)
- **Constitution strengthening and reform: 17 themes**
(Establishment of a lean, robust fixed cost structure, increased operational efficiency by utilizing AI and IoT in reform of business processes.)

Six Emergency Projects Addressing Important Management Issues

- ① Strengthening procurement, manufacturing, inventory, and logistics globally
- ② Outperforming rivals in response to global changes and declining demand; and strengthening sales and marketing capabilities to increase market share while maintaining selling price
- ③ Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation
- ④ Drastically cutting fixed costs (breakeven point and dramatic reduction in ratio of fixed costs to sales)
- ⑤ Prioritizing large-scale investments (capital investments and investments / loans) in the unprecedented uncertainty for the future of the business environment
- ⑥ Raising funds by having a detailed knowledge of the capital demand for the entire Group

Strategic Themes for Fusion 20

- 176 themes by business division Sales 2,800B JPY
 - 10 Group-wide follow up themes Operating Profit 325B JPY
- [Excluding the effect of foreign currency and decreased demand, the standard for the final year of Fusion 20 aims for sales of 2,900B JPY and operating profit of 348B JPY.]



strengthening sales using the Internet and developing services and products in line with changes in consumer sentiment and behavior after COVID-19 is brought under control. The third focuses on 17 measures targeting the reform and strengthening of the Daikin Group business structure, including those establishing a light yet robust fixed-cost structure and those increasing operational efficiency in the business process by advancing the use of technologies such as IoT and AI.

In addition to overcoming the current tough operating environment, we aim to lead our rivals in achieving a rapid V-shaped recovery when demand picks up after the effects from COVID-19 are brought under control, and recognizing that the key to winning is in understanding what kind of offensive measures we should take, how to turn a crisis into an opportunity to implement structural reforms, and how best to improve our competitive capabilities.

One of our goals in fiscal 2021 is to further strengthen our light yet robust operating structure by accelerating efforts beyond those in the action plan and entrenching fixed cost reductions, while at the same time differentiating ourselves from the competition through investment prioritization, and the active pursuit of R&D, capex and the hiring and training of human resources that are capable of contributing to the next generation of innovative ideas.

Addressing important management issues: six emergency projects and three important measures

Daikin has launched six emergency projects addressing management issues as part of its aim to strengthen co-creation and cooperation, fundamentally reform existing procedures and follow-up efforts, and increase speed and dynamic power within the Group. The six emergency projects are: 1) Strengthening procurement, manufacturing, inventory, and logistics globally; 2) Outperforming rivals in response to global changes and declining demand; and strengthening sales and marketing capabilities to increase market share while maintaining selling price; 3) Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation; 4) Drastically cutting fixed costs (sharp reduction in break even point and in ratio of fixed costs to sales); 5) Prioritizing large-scale investments (capital investments and investments/loans) in the unprecedented uncertainty for the future of the business environment; and 6) Raising funds by having a detailed knowledge of the capital demand for the entire Group.

Within the six emergency projects, three are especially

important in the Company's effort to achieve growth, even after COVID-19 is brought under control.

In the first project (strengthening procurement, manufacturing, inventory, and logistics globally), the goal is to create a structure where it is possible to have an almost instantaneous understanding of conditions regarding procurement, production, logistics, and sales in the five key regions of Asia/Oceania, Europe, North America, China, and Japan, and where the Company can quickly create and implement optimized measures to limit excess inventories and sales opportunity losses based on shifts in demand or changes in logistics or regulations. Moreover, should lockdowns occur again and demand deteriorates accordingly, the system would be able to enact production adjustments on a global scale to prevent excess inventories from being formed.

In regard to the second project (strengthening sales and marketing capabilities to increase market share in response to global changes and declining demand while maintaining selling price), topping our rivals and increasing market share is key to securing earnings in an environment characterized by reduced demand and a shrinking market. In this sense, the strength of the

ties in our sales network is worth noting. With that in mind, we are focused on bolstering support for our sales network, understanding trends in the markets and at our competitors in each region, as well as sales network conditions through close contact with our customers, and implementing measures that exceed those of our competitors. In addition, we will work to expand sales through new sales methods, including through the use of telecommuting, e-commerce, and other means that have been rapidly adopted with the increase in working from home.

The third project (expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation) focuses on capturing demand related to air

quality, ventilation, air purification, disinfection, and cleaning as global interest grows amid the COVID-19 pandemic. Production of residential air purifiers has greatly expanded amid a sharp increase in demand in all operating regions, though our efforts in this area focus not just on this, but also on promoting solutions, the rapid development of products, and a firm understanding of customer needs in potential markets. While demand for air-conditioning equipment appears likely to temporarily drop, we aim to increase sales in line with growing demand related to air quality. Finally, we are taking a medium- to long-term perspective and are also working on the development of high-performance filters and air purification units that fundamentally improve air quality.

Concrete measures for co-creation in three areas

As we focus on opportunities in an era characterized by ongoing changes, including the rapid progress of new technologies such as IoT and AI, climate change, and an increased focus on environmental issues, we believe co-creation essential to generating change on our own. More specifically, we believe that in a period of rapid change, we cannot find all the answers by ourselves, and when taking on the challenge of creating value, we should also seek to incorporate new ideas and knowledge. With this in mind, our efforts to transform our business are centered on the idea of co-creation in three areas. The first of these is "co-creation with our customers," which includes working to expand our business by revising the "product-out" strategy and adopting a "market-in," and "customer-in" philosophy for each customer and company on an individual basis. The second area of focus is "co-creation within the Group." In this area we will aim to achieve the highest level of optimization, including in research, development, production, sales, services, and marketing by strengthening Groupwide collaboration and focusing our collective efforts on creating new value. Finally, the third area of focus is "co-creation with the outside world." In an era of rapid change, it is imperative that we accelerate technological and product development through open innovation. In short, we believe that if you try to go it alone, you and your company will not be able to adapt to the changes in the business environment or the ongoing evolution of technology. With this in mind, we are collaborating with venture companies and academic institutions to not only contribute to the resolution of the previously mentioned social issues, but also the construction of a new business model.

Based on this concept, we launched an industry-academia collaborative effort with the University of Tokyo in February 2018 as a concrete example of "co-creation with the outside world." In

addition to technology held by the University of Tokyo and having, access to the entrepreneurs associated with University-linked venture companies, of which there are about 370, to rapidly move original ideas into practical use, we are working to develop a system in which workers would be able to move freely between our company, the University, and our overseas affiliates. To create solutions that can be recognized as new value, we believe that it is essential to make the best use of external resources, including start-ups with advanced technologies, innovative ideas, and the spirit to take on new challenges. With this in mind, Daikin in November 2019 established the Corporate Venture Capital Office (CVC Office) with investment capacity of ¥11.0 billion over five years at the Technology Innovation Center (TIC), our R&D facility, to promote co-creation efforts with start-up companies. The first project in this effort involved a ¥300 million investment in WASSHA, a company developing an electrical power service business through the rental of LED lanterns in the non-electrified areas of Tanzania. The project involves the development of a subscription-based business in which the mobile phones that are in growing use in the area are used to rent LED lanterns and solar panels for charging purposes. Customers are charged through their mobile device in advance and only for the time they actually use the equipment. We believe the WASSHA project can be seen as a leading effort in addressing a growing social need in emerging economies, such as those in Asia and Africa, where air conditioners are not yet commonly used but where there are expectations for their increased use as part of the region's infrastructure moving forward. Through efforts such as these, Daikin hopes to provide new value to the world as a global leader in air conditioning.

Contributing to the resolution of social issues to build a sustainable society

In support of the Paris Agreement adopted in 2015, Daikin is committed to providing safe and healthy air as part of its "Environmental Vision 2050," which targets the complete elimination of greenhouse gas emissions by 2050. The spread of COVID-19 has also increased global interest in air purification and ventilation, and we intend to respond quickly to this growing need with solutions that make the most of our technologies, products, and services.

Moreover, as ESG (environmental, social, governance) investment gains ground, investor focus increasingly appears centered on the climate change-related actions of companies. In other words, the perspective for selection in investment is shifting from how well a company is doing in terms of earnings to how the Company is contributing to the resolution of social issues focused on common global goals, including SDGs and the goals of the Paris Agreement. Moving forward, I think stakeholders in general will be increasingly focused on how companies act in regard to resolving social issues.

Over the past few years, Daikin has been looking for ways to grow our business while balancing the positives and negatives resulting from the spreading use of air conditioners.

Air conditioning has transformed the indoor environment in particularly hot areas, and in the process has become an important part of the infrastructure supporting modern society. Through our business, we have been able to contribute to people's health by preventing heat stroke and improving air quality while also contributing to regional economic development by improving worker efficiency. On the other hand, the increased use of air conditioning also increases the volume of electricity usage and contributes to global warming.

Driven by economic growth in emerging markets, demand for air conditioning is expected to expand more than three times by the year 2050. We believe it is our mission to provide healthy and comfortable air environments for people around the world while working to reduce the impact of global warming by as much as possible. In fiscal 2019, we launched "Environmental Vision 2050" with the goal of reducing greenhouse gas emissions to almost zero. We believe that through the development and dissemination of products and services that contribute to the conservation of energy and the prevention of global warming, we are contributing to the reduction of greenhouse gas emissions in society and at the same time further developing our business.

Daikin announced its support and agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD*) in May 2019. Together with the disclosure of financial information, we are committed to disclosing information related to our ESG efforts, including in regard to climate change. In particular, we analyze the risks and opportunities climate change presents to our business, and then reflect these findings in our management strategy and risk management. We also disclose our progress in related efforts and target further growth in our business as we work toward the decarbonization of society.

* TCFD was established by the Financial Stability Board in 2015. It recommends that companies evaluate business risks and business opportunities linked to climate change as well as identify financial impacts and make related disclosures.

Shareholder returns

Daikin showed an ongoing improvement in earnings through the third quarter of fiscal 2020. Even with the spread of COVID-19 in the fourth quarter, we were able to minimize its impact and pay an annual dividend in line with our ¥160 forecast.

While the full impact from the spread of COVID-19 remains uncertain, we have made a firm start in fiscal 2021 by formulating an action plan with specific measures based on actual conditions at each of our businesses and locations. Depending of course on market trends and the eventual scope of the COVID-19 impact, we are targeting a rapid V-shaped recovery in earnings while also making preparations should the effects from the pandemic prove more enduring than initially expected. We have not to set a forecast for the fiscal 2021 dividend at this time, mainly as we aim

to flexibly revise our approach to our business and review our action plan in line with the trends in an ever-changing business environment.

We will continue to strive toward maintaining a consolidated dividend on equity (DOE) ratio of 3.0% based on a policy aimed at ensuring stable and continuous dividend payments. We will determine our fiscal 2021 dividend forecast based on a comprehensive assessment of business performance, funding demand, and the payout ratio.

We will announce our forecasts for the impact on demand from the COVID-19 pandemic as soon as we can assess its impact on earnings with a sufficient degree of certainty.



A message to the stakeholders

With the full impact from the COVID-19 pandemic still unknown, I believe the operating environment moving forward is likely to remain severe. However, the Daikin Group will strive to respond flexibly to the ever-changing situation, working together as one to overcome the difficulties in front of us and secure both short-term earnings and medium- to long-term growth.

I am proud of the characteristic strength we have shown as a company in the face of this crisis. In addition, when looking ahead to the world after COVID-19, I believe we will advance toward our goal of ensuring growth by demonstrating this strength and contributing to a society in which people live and work in both health and safety.

On this note, we thank you for your understanding and kindly ask for your continued support as we move forward.

Masanori Togawa

President and CEO
June 2020

Financial Strategy

Deepening and Promoting "Ratio Management" Company Wide

Capital Cost-Oriented Financial Strategy

Daikin undertakes "ratio management" focusing on capital costs to increase corporate value. The background behind introducing "ratio management" started with our intention to pivot away from emphasizing monetary amounts (i.e., net sales, operating profit) on P/L statements, aiming to become global No. 1 under "FUSION" launched in 1996. We then began "ratio management" to focus more on operating profit "margin," profitability, and financial structure based on our aim to "become an attractive company that draws together people, capital, and information" under the revamped FUSION in 1999. "Ratio management" involves overseeing "profitability, cash, and financial structure" as a set using indicators such as free cash flow and DVA*1 along with ROE and ROA. Regarding DVA, we have shifted to ROIC (return on invested capital) and free cash flow as management indicators for each division in recent years, as all segments have reached the black.

*1 DVA: Daikin economic value added

We adopted DVA with the start of ratio management as an indicator that resonates easily by simplifying and fostering employee understanding of EVA (economic value added). Beyond simplifying the calculation formula, we focused on promoting DVA internally by

explaining DVA to employees in terms of corporate value rising when profits generated from business activities over an entire year exceed capital costs.

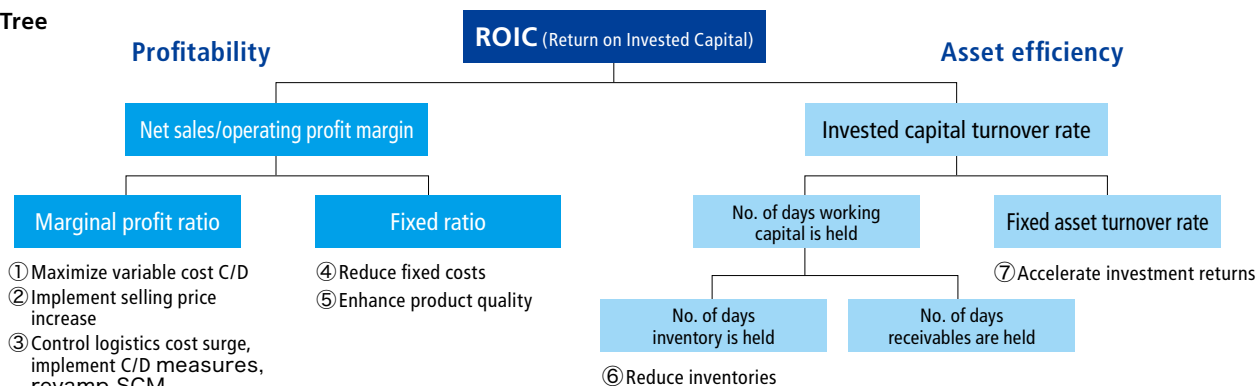
Companywide ROIC Tree

ROIC was introduced as an internal management indicator to monitor capital efficiency beginning with reducing inventories and to facilitate greater implementation among employees.

More specifically, we have positioned ROIC as an internal management indicator linked to Companywide ROE targets and then apply it to each business target as a means to specifically show how ROIC is connected to the duties of each employee. For example, during employee training we describe ROIC as a tree to explain concepts such as how inventory reduction improves ROIC and the relationship between selling prices and costs to increase profitability. Beyond Japanese employees, we use the "ROIC Tree" concept to explain to foreign staff how ROIC is linked to their daily duties.

We promote 10 key Companywide themes essential for achieving "FUSION 20" final year targets; 1-7 listed below show the connection between seven of those themes and the ROIC Tree.

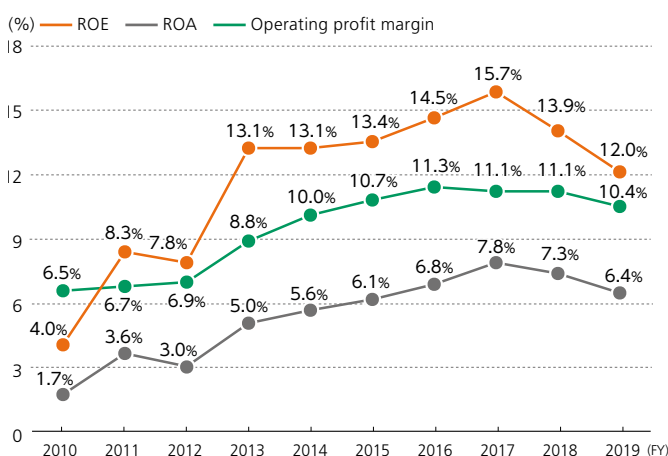
ROIC Tree



Financial Analysis over the Past Decade

Daikin achieved a V-shaped recovery amid major economic changes following the collapse of Lehman Brothers, achieving ten consecutive years of sales growth from fiscal 2011 through fiscal 2020 and nine consecutive years of operating profit for nine years straight through to fiscal 2019. This breakthrough earnings growth reflects Daikin's penetration of the North American air-conditioning market after acquiring major US air-conditioning manufacturer Goodman in 2012. In addition, we position operating profit margin as an indicator of profitability under "Ratio Management" and set a target of 12.0% for the final year target of "FUSION 20," while operating profit margin rose to 11.1% in fiscal 2019. We are working to reach targets for ROE of 14.0% and ROA of 8.4%, both of which serve as indicators of asset efficiency.

Management Indicators from Fiscal 2011



In fiscal 2021, the final year of "FUSION 20," we will work to enhance our financial structure through both defensive and offensive measures to reach the plan's targets despite severe conditions caused by COVID-19.

Daikin's market capitalization has grown by around 20 times over the 25 years between end-March 1995 and end-March 2020, being ranked eighth in market cap growth over the 30 years of the Heisei Era (1989-2019).

Notes: For companies listed on Japanese stock exchanges.
Comparisons between January 9, 1989 and April 26, 2019 (source: Nikkei).

Investment & Shareholder Returns

In the latter half of the "FUSION 20" three-year plan, we targeted growth investment of around ¥600 billion including capital investments and R&D (investment plan: ¥362 billion; R&D: ¥220 billion). Investments for M&A will continue to be aggressively implemented as part of our business strategy.

In addition to increasing production capacity, strengthening product development, and enhancing the sales and after sales service systems, we will work to strengthen business competitiveness through such activities as accelerating the air-conditioning solutions business using IoT/AI, building a digital factory, strengthening and improving environmental technologies to comply with tighter environmental regulations, acquiring advanced technologies through open innovation, and hiring and developing IT-related personnel.

In fiscal 2021, conditions remain severe with no end in sight for the COVID-19 outbreak, yet we target capital investments and

R&D at normal levels of ¥130 billion and ¥70 billion, respectively, as we view such investment as vital for future growth. Nevertheless, we will flexibly determine the feasibility of investment by carefully monitoring conditions and prioritizing investment. As for capital investments, we plan to keep aggressively investing in enhancing production capacity targeting North America, India, and SE Asia—all of which are key markets for the air conditioning business—and growth markets for the chemicals business.

As for shareholder returns, 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.

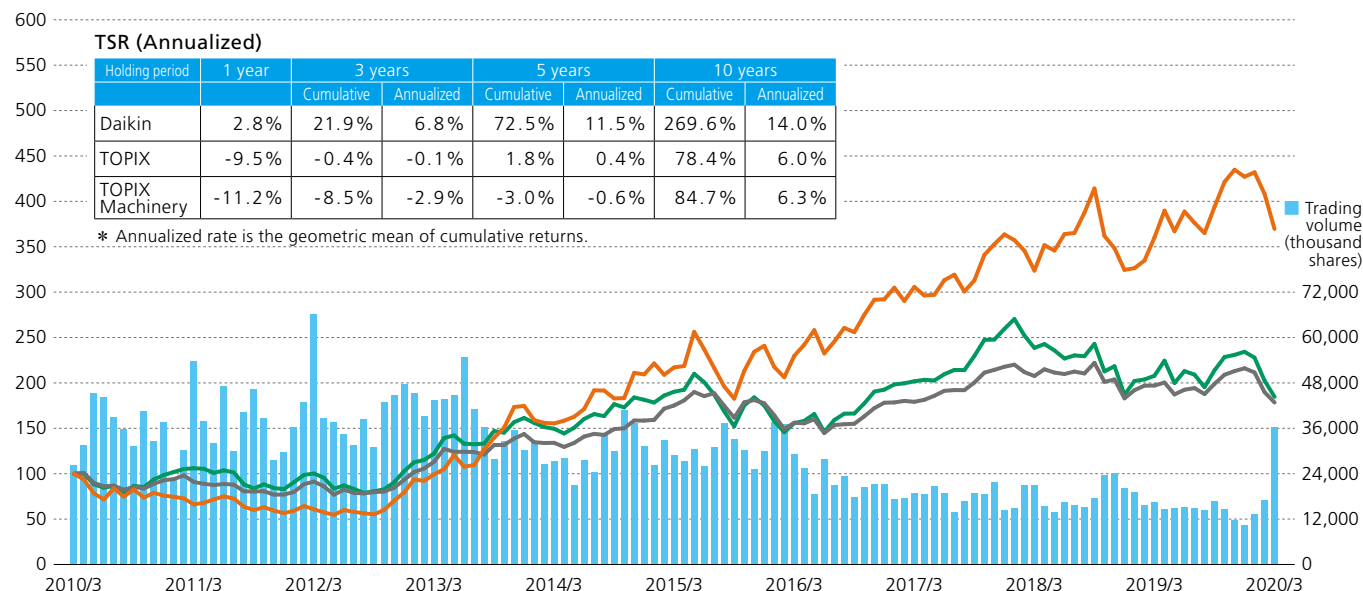
In fiscal 2020, despite economic conditions deteriorating sharply in the fourth quarter, annual dividend came to ¥160 owing to solid earnings growth seen through the third quarter. Internal reserves will be applied to strategic investments in order to expand business and increase competitiveness such as reinforcing management practices, promoting global businesses, and accelerating eco-conscious product development.

Total Shareholder Return (TSR)

Daikin's TSR outperformed TOPIX and TOPIX Machinery over a three-, five-, and ten-year period and TSR also surpassed cost of equity capital owing to stable shareholder returns and strong share price performance.

Total shareholder return (TSR^{*2})

(Index) — Daikin — TOPIX — TOPIX Machinery



* 2 TSR (Total Shareholder's Return): Factors in capital gains and dividends when measuring the total return generated by a stock

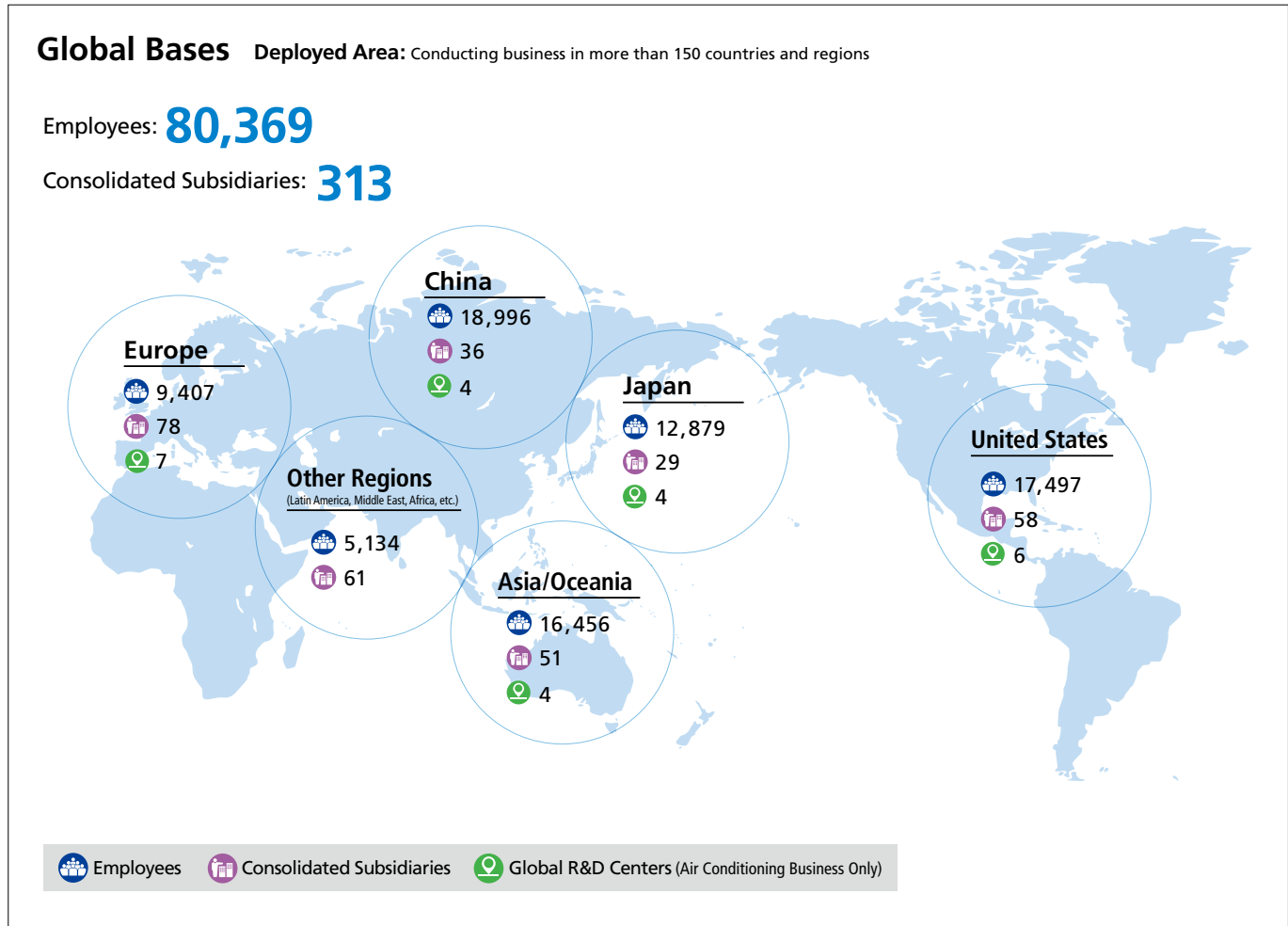
* TSR is calculated by Daikin using cumulative dividends and share price fluctuations whereas TOPIX is calculated using share prices indices including dividends (formulated by the Company based mainly on Bloomberg data)

* Graph values are indexed market prices in terms of TSR, with March 31, 2010 closing price data set at 100 (holding period through end-March 2020)

Review of Operations

Overview of Global Development

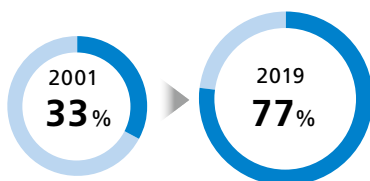
Conducting business in more than 150 countries and regions, Daikin has built more than 100 production bases underpinned by market-oriented production methods.



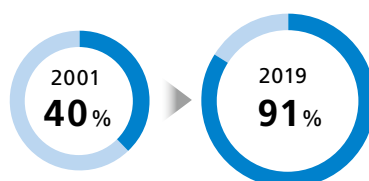
Expansion of Global Business Foundation

■ Japan ■ Non-Japan

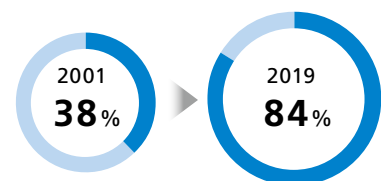
Net Sales



Subsidiaries



Employees



Note: Percentages in the center of each graph indicate the overseas ratio in domestic and overseas totals.



Air Conditioning

Japan

Business History

In 1951, Daikin launched Japan's first packaged air conditioner. Since then, we have pressed forward and diversified to provide air-conditioning systems that meet the needs of factories and ships, vehicles, buildings and residential housing. Daikin has

expanded its market share with a fine-tuned sales network and the pursuit of a broad lineup of high-value-added products that offer energy conservation and comfort.

Current status

Market Environment

The air-conditioning market in Japan is mature, and is anchored by replacement demand. As Japan's economy in fiscal 2020 is colored by increasingly darker shades recession, on top of the impact from a hike to the consumption tax, the spread of COVID-19 has had a chilling effect on consumption and investor sentiment.

Business Conditions

Together with capturing special procurements for industry-use air-conditioning systems for public elementary and junior high schools, we bolstered sales of "FIVE STAR ZEAS," "machi Multi," and "MULTI CUBE" products. Residential-use systems saw demand for a wide-range of the product lineup. Market share expanded on the back of the wall-mounted "Urusara X" with internal cleaning function for the indoor unit and "risora," which pursues both functionality and design.

Production and Development Sites

We are advancing high-end technology to raise energy efficiency and comfort. In addition, using "DAIKIN LAUNCH X," our newly established online platform, we can accurately ascertain the opinions of users, and swiftly apply them to product development. Daikin is also moving forward on IoT and AI to facilitate functions such as automated operation.

Products and Services in Line with Needs

- "Urusara X," a wall-mounted air conditioner that utilizes AI for automated control of temperature and humidity
- "MULTI CUBE" enables individual control of temperature and air volume, even in large spaces such as factories
- "Assinet Service" and "Kirei Watch" utilize IoT to inspect, maintain and manage industrial air-conditioning systems



Room air conditioner "Urusara X" that automatically controls temperature and humidity



"risora" that pursues both design and functionality

Outlook

Strategy Going Forward

In addition to special procurements by schools coming full circle, there has also been the impact incurred by the spread of COVID-19, and we anticipate that demand will decline. As concerns with regard to air quality rise, we will work to boost

market share and raise profitability by expanding sales of high-value-added products based on promoting the appeal of ventilator function. In tandem with continuing to build upon a flexible production structure, we will move forward on strengthening support for our dealerships.

New Value, New Solutions & Growth

The portable air conditioner "Carrime," representing Daikin's first determination to commercialize a product through the cloud funding service Makuake, has been honored by the world-renown design award iF DESIGN AWARD 2020, receiving the product category award. "Carrime" is a portable heat pump type air conditioner that can be hand-carried to a variety of locations, including kitchens, garages and other sites where it is difficult to install conventional air conditioners. In this product we have pursued an uncompromising design that is both easy to carry and blends in well with interior settings, that is compact, yet realizes full-blown cooling.



"Carrime" portable air conditioner

Americas

Business History

Daikin made its first attempt to enter the U.S., the world's largest air-conditioning market, in the 1980s. However, given the well-entrenched culture of ducted air conditioning, market entry proved difficult and a withdrawal was unavoidable. We subsequently revisited the idea of

establishing a U.S. presence during our advance to establish business globally, and after entering the year 2000, with the acquisition of the O.Y.L. Industries Bhd and Goodman Global Group, Inc., added ducted air conditioning products to our lineup marking the start of full-fledged operations in the U.S.

Current status

Market Environment

The air-conditioning market in the U.S. is similar to Japan in that it relies mainly on replacement demand. During the first half of fiscal 2020, demand was underpinned by personal consumption, but from March onward it stalled due to the spread of COVID-19.

Business Conditions

In the mainstay residential unitary product market Daikin successfully expanded its own distributor network and sales were brisk. In the ductless product domain, sales rose for low-cost models in the residential market. With "VRV", we bolstered our direct-to-user sales activities. In Applied Systems, in addition to growing equipment sales, we also expanded our services business.

Production and Development Sites

At Goodman's new factory, "Daikin Texas Technology Park," we are working to strengthen production capabilities and raise productivity. We are fortifying functionality as a digital factory by applying the latest Daikin technology and also spreading this to production sites in other regions. By newly establishing development sites we are enhancing our ability to develop products that meet customer needs.

Products and Services in Line with Needs

- Middle-zone (SEER* 15-17) inverter units
- "Daikin One" smart thermostat
- Development of "VRV" for the residential market
- Air conditioners for cold regions that can work when the external temperature is down to -15 degrees

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



"Daikin One" smart thermostat that provides an air-conditioning solution for an entire home



VRV system solution for the residential market

Outlook

Strategy Going Forward

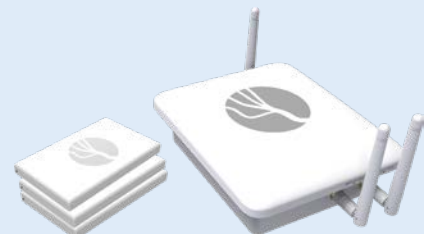
The spread of COVID-19 is stagnating personal consumption and capital investment, and demand is in decline. Given this situation, we will introduce new residential unitary products that will

serve specifically as replacements, strengthening technological online support for dealers and working to increase market share. In addition, we will pursue higher profit margins by enhancing productivity at new factories and reducing fixed costs.

New Value, New Solutions & Growth

In April 2020, Daikin made a substantial investment in Locix Inc., a Silicon Valley-based startup venture.

Locix employs spatial intelligence solutions that use a combination of indoor positioning technology, advanced AI, and Wi-Fi to acquire and analyze location, as well as spatial and visual data, to enable actionable insights. With this allocation, Daikin aims to reduce labor hours at installation sites through automated remote monitoring services, and by detecting and analyzing the presence and movement of people and assets in an office building. In this way Daikin expects to see a solutions business for office spaces emerge.



Examples of Locix location information sensors

China

Business History

Daikin entered the China market in the mid-1990s when there were already numerous Japanese air conditioner manufacturers with a presence there. Daikin, the latecomer, differentiated itself by applying its energy on establishing an image as a high-end brand,

and in building up its own dealer network. Moreover, we introduced ceiling-embedded indoor units and residential multi-split room air conditioners in our efforts to create a new type of air conditioning culture.

Current status

Market Environment

In fiscal 2020, the economy in China was already slowing down on account of trade friction with the U.S., and then added to this was the spread of COVID-19, which from February led to stagnation, and a sudden stall of economic activities.

Business Conditions

In the residential market, we pushed forward with the launch of “PROSHOP” specialty outlets located in regional cities where growth could be anticipated. In addition to products for mid- to high-end residences, we also enhanced our lineup of products for general residences. In the commercial market, the servicing and maintenance business expanded in line with the progress made to link devices to IoT, while we accelerated our pivot to the solutions business.

Production and Development Sites

We are focusing efforts on deploying the latest technology and services, and putting the Internet to use, we are introducing services such as “Intelligent VRV,” a system that offers centralized control of air conditioners, failure prediction and other services. In addition, for those residences and shops that place special emphasis on interior spaces, we continue to introduce products with exceptional design.

Products and Services in Line with Needs

- “New Life Multi” series for mid- to high-end residences allows simple selection and connectivity to not only air conditioners, but to floor heaters, bathroom dryers and others
- “Intelligent VRV” provides centralized control of air conditioners, failure prediction and other services via the Internet



“New Life Multi” series targeting middle- to upper-class residences (left: kitchen use; right: closet use)

Outlook

Strategy Going Forward

We will continue to develop sales outlets in regional cities, while working to expand sales of IoT products and grow our servicing and maintenance business that utilizes operational data. In

parallel with these efforts, we will also respond to rapidly rising air-quality needs triggered by the spread of COVID-19. In addition, we will keep an eye on the status of market recovery and aim for business expansion.

New Value, New Solutions & Growth

In our efforts to enhance communication with customers, we have established a comprehensive customer center in Shanghai, and also utilize telephone and SNS channels. Going beyond a passive response for repairs, such as with conventional call centers, we also work to actively contact customers likely to visit outlets or exhibits, and Daikin product users, which will lead to sales and replacement orders. Moreover, we are also performing sales activities in coordination with “PROSHOP” specialty outlets that aggregate query information. We continue to press forward with AI, and of the approximately 4,500 chat queries that take place in a month, 70% are handled via automated response.



Comprehensive customer center in Shanghai



Europe/The Middle East/Africa

Business History

Our presence in Europe started by establishing a production and sales base in Belgium in the early 1970s. We succeeded in bolstering sales in Italy, Spain, France, and other nations all across

the EU, and the scale of our business grew rapidly. After entering the year 2000, we also expanded into the Heating business and Refrigerator and Freezer business.

Current status

Market Environment

Despite Brexit issues in the UK and political instability in the Middle East giving rise to uncertainties, the European economy in fiscal 2020 was growing gradually. However, from February, Italy became an epicenter of the COVID-19 pandemic, and this led to severe economic deterioration.

Business Conditions

Given rising environmental consciousness, sales of high-value-added products increased. Sales of R32 refrigerant models for residential use expanded. Commercial sales also grew on the back of "VRV" that uses recycled refrigerants and for refrigerant-saving models. Heating business sales were favorable, and market share rose, owing to sales of heat pump type hot water heating systems.

Production and Development Sites

In Europe, which is highly environmentally conscious, we are taking the initiative to enhance our lineup with R32 models and refrigerant-saving models, staying a step ahead of competitors. We are also working on making heat pump type hot water heating system highly efficient, as they have experienced growing demand in recent years. In the Refrigerator and Freezer business, we continue to develop and launch products that set themselves apart with CO2 refrigerant and other environmental measures.

Products and Services in Line with Needs

- R32 model lineup ahead of other companies via room air conditioners and "SkyAir" (air conditioning for shops)
- "VRV L∞P" that uses recycled refrigerant
- "Daikin Altherma" heat pump type hot water heating system that leads to the suppression of greenhouse gas emissions.
- One-stop system proposals that cover the entire cold chain, from food shipping to storage



Accelerating the pace of overall cold chain business development



Refrigerant reclamation and destruction facility in Germany, part of a scheme for the recovery, reclamation and destruction of refrigerant

Outlook

Strategy Going Forward

The constraints placed on economic activities, including the lockdown of cities to combat the spread of COVID-19, portends falling demand. We aim to boost sales of environmentally conscious products for residential and industrial use. Moreover, we

will endeavor to raise market share in the Heating business by promoting the environmental characteristics of heat pump type hot water heating system. In the Refrigerator and Freezer business we will be uniting with Zanotti and AHT to accelerate business development across the cold chain.

New Value, New Solutions & Growth

Since November 2019, Daikin has partnered with WASSHA Inc., a company using IoT technology to develop an electrical power service business in Africa, to start a field trial of a new business model in Tanzania.

In the field trial, Daikin will introduce high-efficiency air conditioners to small stores and ordinary homes in Tanzania through a subscription method, and verify business feasibility, based on WASSHA's fee collection technology that works with mobile money. This will facilitate greater possibilities for the spread of air conditioners, even in low-income markets.

In June 2020, the two companies established a new company, "Baridi Baridi Inc.," and have since commenced full-fledged business activities.



Business model utilizing the subscription method in Africa

Asia and Oceania

Business History

Daikin began product exports and knockdown production from the 1960s, and from the 1990s, strengthened its sales network in countries around the region and advanced the introduction of energy-conserving and cooling-only models tailored to regional

needs. From 2010 onward, air conditioning demand soared in line with economic development, and Daikin reinforced its production capabilities with the establishment of plants in Thailand, India, Malaysia and Vietnam.

Current status

Market Environment

Asia is in the process of air-conditioning equipment adoption, making this a promising market for growth. The economy in Asia in fiscal 2020, already buffeted by a drop in emerging market currencies, was further hit by the spread of COVID-19, particularly due to its reliance on China, and economic stagnation followed.

Business Conditions

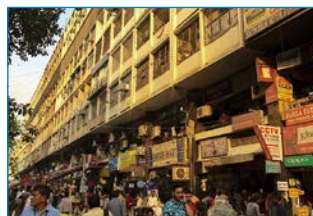
From major metropolises to regional cities in each country, together with enhancing our sales network, we fortified service structures and moved forward to increase our sales force personnel. In residential-use models, we expanded sales of products that stood out, such as cooling-only inverter air conditioners. Sales of industrial-use models also grew in each of the key countries as we promoted proposal sales tailored to applications and made efforts to nurture dealerships.

Production and Development Sites

In addition to cooling-only inverter air conditioners, we actively develop products that meet the needs of particular regions, such as air conditioners that can stand up to the over-50-degree heat of India, and air conditioners that can cool multiple rooms with the limited power supplies of Indonesia.

Products and Services in Line with Needs

- Cooling-only inverter air conditioners that strengthen cost competitiveness
- Air conditioners that can operate in oppressive outside temperatures and that can be transported over bad roads
- Air conditioners that stand up to unstable power supply situations



Burgeoning Asian market



Increasing production capacity in Asia, where air-conditioning demand is expanding

Outlook

Strategy Going Forward

As the spread of COVID-19 causes demand to fall, Daikin will continue its work to expand sales of products that stand out, and to enhance and nurture its dealerships. In addition, we will

continue to strengthen relationships with dealers by ensuring a stable supply of products, use technology and sales promotion support, and enhance training through online measures, while pursuing increased market share.

New Value, New Solutions & Growth

The penetration rate for air conditioners in India currently stands at less than 10%, while in 10 to 15 years that is expected to rise to the 60% level. This means that demand can be anticipated to surge. Moreover, this is a market with a huge demand for maintenance and servicing, given power fluctuations caused by frequent electricity outages and breakdowns of heat exchangers due to air pollution. Daikin has established its second Indian training center, which raises the number of service staff that can be trained in a year 1.7 times, to 50,000. We are also pressing forward on staff training in Vietnam and other locations, and by 2025, aim to increase service staff training in Asia to 200,000 per year.



Accelerating human resource development in India



Pursuing comprehensive cost-cutting such as reaping the benefits of softer raw materials prices amid severe business conditions led by lower semiconductor and automotive-related demand

Business Environment

Overall in the Chemicals segment net sales fell year over year due to the decline in demand worldwide in the semiconductor and automotive-related markets, the downturn in the gas market in Europe, and the impact of the spread of COVID-19 from the fourth quarter.

Initiatives

In fiscal 2020, we strengthened connections among our global business facilities, pursued application development themes, implemented business expansion themes, and promoted materials development with end-users based on the Daikin Group policy “3 Structures of Collaborative Innovation.” However, our existing businesses have been impacted by deteriorating operating conditions.

As for fluorocarbon gas, the impact of the drop in sales mainly due to the accumulation of distribution inventory was significant

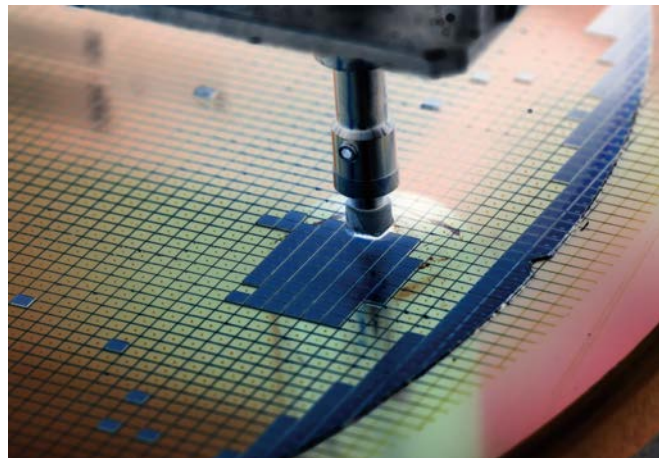
in the European market, where demand had been strong in the previous fiscal year. As a result, overall sales of gas decreased substantially year on year.

Despite relatively strong LAN cable-related demand, net sales of fluoropolymers decreased year on year due to declining demand for semiconductor and automotive-related applications worldwide. Net sales of fluoroelastomers also decreased year on year due to the impact of falling demand in the automotive field mainly in the U.S., European, and Chinese markets.

Among fine chemicals, overall sales were down compared to the previous fiscal year due to sluggish sales for anti-fouling surface coating agents, mainly in Asia, and stagnant demand for oil and water repellents in China and the United States.



Fluorinated materials contributing to the next-generation automotive trend “CASE”



Fluorinated materials supporting the miniaturization of semiconductor integrated circuits

Outlook

We will pursue initiatives to increase market share by capturing rising demand in the rapidly developing Chinese semiconductor market while accelerating the development of applications in the telecommunications field with the spread of 5G

Objective

We will accelerate the development of applications in the telecommunication and semiconductor fields—for which medium- to long-term growth looks promising—as well as for next-generation automotive materials.

Business Strategy

In addition to uncertainty about when the semiconductor and automotive markets will recover, business conditions are expected to remain severe, including constrained individual consumption and capital expenditures caused by the impact of COVID-19.

Daikin will continue working to increase its share of the semiconductor and telecommunication markets, develop next-generation automotive lithium-ion batteries, and bolster spec-in activities. In addition, Daikin will take advantage of the COVID-19 outbreak to develop businesses that meet market needs including higher demand for oil and water repellent agents used in protective medical clothing and masks as well as greater demand for tablet computers with the spread of online education and remote working as part of “new lifestyles.”



Accelerating the development of applications for fluorinated materials with excellent electrical properties in line with the spread of 5G



“OPTOOL” delivers excellent antifouling performance on touch screen surfaces

New Value, New Solutions & Growth

Using AI to Accelerate Product Development

Daikin Industries is accelerating the transformation of product development processes, such as using simulation technologies developed in-house. The fruits of our AI usage are emerging, such as achieving a more than eight-fold improvement in efficiency by drawing on the expertise and experience of researchers accumulated to date, verifying ideas through considerable experimental repetition, and utilizing MI (materials informatics) technology for selecting new materials synthesis routes. Looking ahead, we will accelerate the use of AI technology in R&D, including sensory evaluation using image analysis and materials design/process optimization using MI. Enhancing its relationships with industry and academia, Daikin will work to accelerate early market releases and application development by shortening new product development processes, thus leading to further business contributions.





Oil Hydraulics

Current status

Reported Record-high Sales in the Hydrostatic Transmissions (HST) Business

Business Environment

In terms of sales of oil hydraulic equipment for industrial machinery, the business environment of the Oil Hydraulics business was harsh due to factors that included the prolonged impact of the trade friction between the United States and China and the effects of stagnant demand mainly in the automobile industry. Demand for oil hydraulic equipment for construction machinery to customers in North America was firm.

Initiatives

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 2020, for our industrial machinery customers we promoted product development in accordance with user needs while working on market development, efforts to increase market share, and sales expansion. We also worked on productivity improvements and *monozukuri* reform by the operation of a new plant and process integration.

In the HST business, we reported record-high sales due to expansion in sales to customers in North America.

Outlook

Aim to increase domestic market share and accelerate expansion of global business scale

Target

In addition to customer development through the introduction of new products, we aim to expand sales by meeting the needs, which have been growing in recent years, for labor saving features and automation as well as for predictive maintenance and the status monitoring of equipment and machinery.

Business Strategy

In fiscal 2021, amid an expected significant decline in demand from lower capital investment, mainly in Japan and North America, we will work to improve our business structure. For example,

we will achieve this by enhancing our product capabilities through industry-academia collaboration and strengthening our sales and marketing capabilities.

We will also promote business expansion on a global basis and strengthen the newly launched e-commerce efforts in North America, where maintenance, repair and operation (MRO) business is being developed.

In the HST business, we aim to further expand sales by introducing new products for priority markets in Europe and the United States.

New Value, New Solutions & Growth

“Rakufil” Long-life Filters for Oil Cooling Units Developed

In collaboration with Nippon Muki, we have developed “Rakufil” long-life filters for oil cooling units.

Conventional oil cooling unit filters are prone to clogging and require frequent cleaning of the cooling fins as well as the replacement of the filter once every two weeks.

“Rakufil” eliminates the need to clean the cooling fins, because the filter microfibers collect oil mist and dust. In addition, since a large amount of mist can be collected by the proprietary filter element molding, the filter replacement frequency is once a year, and thus a significantly longer service life has been achieved.



“Rakufil” frees users of the need to maintain the cooling fins on oil cooling units.



Defense

Current status

Increase Sales in Defense and Civilian Fields

Business Environment

Ten years have passed since launching home-use oxygen therapy equipment on the market, with the number of units exceeding 30,000.

Initiatives

In the Defense Systems business, Daikin designs and manufactures products for Japan's Ministry of Defense based on the defense budget, with products supplied including various types of ordnance used for drills, and aircraft parts. In the private-sector, Daikin manufactures and sells home-use oxygen therapy

equipment. Daikin provides respiration synchronizers and oxygen concentrators, products that require the highest levels of precision, performance, functionality, and quality.

In fiscal 2020, Daikin released and has seen sales growth for the world's first oxygen concentrators equipped with communication functions that detect a patient's respiratory rate. Moreover, in the ten years since the launch of home-use oxygen therapy equipment on the market, the number of units has grown and, in turn, has increased earnings in the overhaul business.

Outlook

Work to increase sales of home-use oxygen therapy equipment in Japan and China

Target

We aim to expand the overhaul business while increasing for differentiated home-use oxygen therapy equipment.

Business Strategy

Assuming a decline in orders from Japan's Ministry of Defense, we will work to increase earnings in fiscal 2020 through aggressive efforts to increase sales of differentiated products in civilian fields.

Our oxygen concentrators are equipped with respiratory rate detection functions able to remotely identify changes in patient symptoms, and amid rising expectations among physicians, we aim to increase market share by enhancing our lineup of differentiated products. In the overhaul business, we target further earnings growth by raising customer satisfaction through improved operational efficiency.

New Value, New Solutions & Growth

Launch of the Oxygen Concentrator Equipped with Respiratory Rate Detection Function and Pulse Oximeter Capable of Measuring Blood Oxygen Levels without Drawing Blood

Daikin developed and began selling oxygen concentrators that not only monitor usage time and flow rate settings, but are also equipped with a respiratory rate detection function. In May 2020 we are launching the Litetec DP1 pulse oximeter, which through the use of light is able to easily measure blood oxygen levels without drawing blood. Moving forward, we intend to expand our product lineup through the effective use of IT.



Corporate Governance

Basic Policy of Corporate Governance

The Daikin Group strives to raise corporate value through corporate governance. We carry out decision-making with foresight, as well as by executing business with greater speed, transparency, and soundness in response to challenges and changes in the business environment.

We strive to improve our current integrated management framework, under which directors assume responsibility for both business execution and management. In this way, we fulfill our responsibility for management, making strategic decisions quickly and providing appropriate supervision. We also seek to improve the monitoring function conducted by third parties, including multiple external directors.

We aim for management with greater speed, soundness, and transparency. We will continue to boost corporate value by seeking and implementing new ways to achieve optimal corporate governance, pursuing 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 System

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. "Integrated management" 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. The multiple outside directors provide monitoring of the status of business execution from an independent perspective and take responsibility to support "integrated management" from the standpoint of transparency and integrity by offering appropriate oversight and advice with regard to decision making. 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 2020, there were 11 directors (including one female and one 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 four external directors (as of end of June 2020), 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. Accordingly, Daikin appoints outside directors with business experience, mainly as directors at listed companies, and that do not have concurrent outside director position at five or more companies.

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.

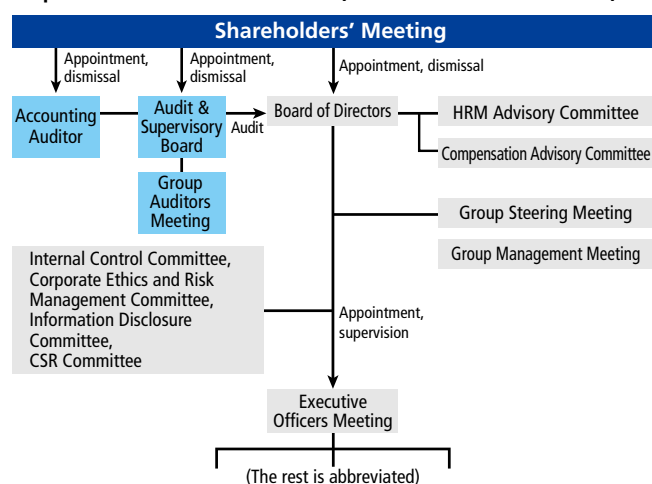
Audit System

Daikin employs an Audit and Supervisory Board System and has established the Audit and Supervisory Board. As of end of June 2020, 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 accounting 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 2020)



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 2020. Based on her abundant experience in management and high-level insight, she can provide appropriate supervision of the Company's 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 15 of the 15 Board of Directors meetings held during fiscal 2020. 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 changes in business models, innovation, and other matters.
Akiji Makino		Mr. Makino attended 15 of the 15 Board of Directors meetings held during fiscal 2020. 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 12 of the 14 Board of Auditors meetings held during fiscal 2020. Based on his abundant experience and high-level insight as a corporate manager, particularly from his broad and sophisticated 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 2020. 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 perspective developed through 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 and Representative Director of Art Group Holdings, Co., Ltd. Based on her abundant experience and high-level insight as a corporate manager, and with her broad and sophisticated 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 high-level 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 sophisticated 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 sophisticated perspective, contribute to increasing Daikin's corporate value.
Shingo Torii	External Audit and Supervisory Board Member	Mr. Torii has served as Representative Director and Vice Chairman of the Board of Suntory Holdings Limited and has abundant experience and deep insight as a corporate manager into corporate management that anticipates customer needs, improving corporate value through ESG activities, etc. Mr. Torii 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 sophisticated perspective, contribute to increasing Daikin's corporate value.
Ryu Yano		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 sophisticated 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 President and Representative Director of the Board at Teijin Limited, and has abundant experience and high-level 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

Corporate Governance

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 by keeping the number of directors at a minimum they secure expeditious decision making based on substantial discussion.

The Board of Directors, along with providing healthy business execution and appropriate 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. Individual interviews conducted with directors confirm the viability of their effectiveness. In fiscal 2020, 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 98% 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 2020, it met nine times.

The Executive Officers Meeting was established as a place where we can expedite thorough deliberations and prompt implementation of important management issues, and it met 17 times in fiscal 2020.

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 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. 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".

We will continue to improve board effectiveness, as well as engage in other initiatives, including discussions of cross-Group strategies and issues and enhanced reports of the status of business execution.

Corporate Officer Remuneration

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 July 2020, both committees comprised six members, including four 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 the report of the Compensation Advisory Committee within the maximum limit of total remuneration determined by the Annual General Meeting of Shareholders. 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 and in accordance with management policy, compensation for in-house directors is structured 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 corporate 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 2020)

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)	1,136	484	154	496	9
Audit and Supervisory Board Members (excluding external Audit & Supervisory Board members)	70	70	—	—	3
External Corporate Officers	78	78	—	—	5

Corporate Officers with Compensation over ¥100 Million (Fiscal 2020)

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	421	Director	Daikin Industries, Ltd.	189	38	193
Masanori Togawa	284	Director	Daikin Industries, Ltd.	123	38	123
Ken Tayano	167	Director	Daikin Industries, Ltd.	85	19	51
		Chairman	Consolidated Subsidiary, Daikin (China) Investment Co., Ltd.	11	—	—
Masatsugu Minaka	139	Director	Daikin Industries, Ltd.	5	19	34
		Director	Consolidated Subsidiary, Daikin Europe N.V.	73	—	6
Jiro Tomita	156	Director	Daikin Industries, Ltd.	59	19	77
		Director	Daikin Industries, Ltd.	12	10	—
Kanwal Jeet Jawa	108	Director	Consolidated Subsidiary Daikin Airconditioning India Pvt. Ltd.	54	—	31

Accounting Auditor Compensation (Fiscal 2020)

Auditing expenses	246 million yen
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Group-Wide Governance

To meet governance needs on a Group-wide basis, including companies acquired through M&A, Daikin holds meetings of the Group Steering Meeting to ensure the thorough sharing of important management policies and basic strategies. Moreover, Daikin aims for corporate action based on unified Group objectives by promoting and strengthening support for the resolution of challenges of Group companies. 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.

Corporate Officers

As of end of June 2020

Directors



Noriyuki Inoue
Chairman of the Board and
Chief Global Group Officer

Date of Birth	March 17, 1935
March	1957 Entered the Company
February	1979 Director of the Company
February	1985 Managing Director of the Company
June	1989 Senior Managing Director of the Company
June	1994 President, Representative Director of the Company
May	1995 Chairman of the Board and President, Representative Director of the Company
June	1996 President, Representative Director of the Company
June	2002 Representative Director, Chairman of the Board and CEO of the Company
June	2014 Chairman of the Board and Chief Global Group Officer of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
67

Significant Concurrent Posts

External Director of Hankyu Hanshin Holdings, Inc.
Chairman of The Daikin Foundation for Contemporary Arts
Chairman of Specified Nonprofit Corporation of Kansai
Philharmonic Orchestra



Masanori Togawa
Representative Director,
President and CEO

Date of Birth	January 11, 1949
April	1973 Entered the Company
June	2002 Director of the Company
June	2004 Director and Senior Executive Officer of the Company
July	2006 Member of the HRM and Compensation Advisory Committee of the Company (Current position)
June	2007 Director and Senior Executive Officer of the Company
June	2011 Representative Director, President and COO of the Company
June	2014 Representative Director, President and CEO of the Company (Current position)
July	2016 Chairman of the Internal Control Committee of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
10

Responsibilities and Assigned Items

Chairman of the Internal Control Committee



Chiyono Terada
Member of the Board (External)

Date of Birth	January 8, 1947
June	1976 Founded Art Hikkoshi Center
June	1977 Established Art Hikkoshi Center Co., Ltd. (Currently, Art Corporation), became a President and Representative Director of the above company
June	2002 Director of the Company (Current position)
July	2006 Chairman of the HRM and Compensation Advisory Committee of the Company (Current position)
April	2018 President and Representative Director of Art Group Holdings (Current position)
December	2019 Honorary Chairman of Art Corporation (Current position)

Number of the Company shares owned (Thousands of shares)
2

Significant Concurrent Posts

President and Representative Director of Art Group Holdings
Honorary Chairman of Art Corporation
Chairman and Representative Director of Art Childcare Corporation



Tatsuo Kawada
Member of the Board (External)

Date of Birth	January 27, 1940
March	1962 Entered Fukui Seiren Kako Co., Ltd. (Currently, Seiren Co., Ltd.)
August	1981 Director of the above company
August	1985 Managing Director of the above company
August	1987 President of the above company
June	2003 President and COO of the above company
October	2005 President, CEO and COO of the above company
June	2011 Chairman, President, CEO and COO of the above company
June	2014 Chairman and CEO of the above company (Current position)
June	2016 Director of the Company (Current position)
July	2016 Member of the HRM and Compensation Advisory Committee of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
—

Significant Concurrent Posts

Chairman and CEO of Seiren Co., Ltd.
External Director of Hokuriku Electric Power Company
External Audit & Supervisory Board Member of Hokuohoku
Financial Group, Inc.
External Director of FUJIFILM Holdings Corporation

Corporate Officers



Akiji Makino
Member of the Board (External)

Date of Birth	September 14, 1941
March 1965	Entered Iwatani Corporation
June 1988	Director of the above company
June 1990	Executive Director of the above company
June 1994	Senior Executive Director of the above company
June 1998	Executive Vice President of the above company
April 2000	President of the above company
June 2004	President and Executive Officer of the above company
June 2012	Chairman, CEO and Executive Officer of the above company
June 2016	Director of the Company (Current position)
July 2016	Member of the HRM and Compensation Advisory Committee of the Company (Current position)
April 2019	Chairman and CEO of Iwatani Corporation (Current position)

Number of the Company shares owned (Thousands of shares)
2

Significant Concurrent Posts
Chairman and CEO of Iwatani Corporation
Chairman of the Board of Iwatani Industrial Gases Corporation



Shingo Torii
Member of the Board (External)

Date of Birth	January 18, 1953
April 1980	Entered ITOCHU Corporation
June 1983	Entered Suntory Limited (Currently, Suntory Holdings Limited)
March 1992	Director of the above company
March 1999	Managing Director of the above company
March 2001	Representative Director and Senior Managing Executive Officer of the above company
March 2003	Representative Director and Executive Vice President of the above company
October 2014	Representative Director and Vice Chairman of the Board of the above company (Current position)
June 2020	Director of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
1

Significant Concurrent Posts
Representative Director and Vice Chairman of the Board of Suntory Holdings Limited
External Director of ROHTO Pharmaceutical Co., Ltd.
External Director of Zojirushi Corporation



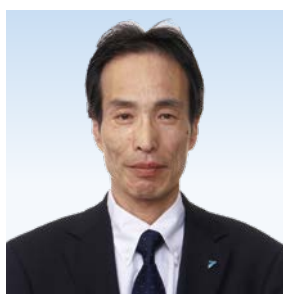
Ken Tayano
Representative Director, Senior Executive Officer

Date of Birth	January 12, 1947
April 1970	Entered the Company
June 2000	Associate Officer of the Company
June 2002	Senior Associate Officer of the Company
June 2004	Senior Executive Officer of the Company, Representative of China business of the Company (Current position), Member of Global Air-Conditioning Committee of the Company (Current position)
May 2009	Chairman of the Board and President of Daikin (China) Investment Co., Ltd. (Current position)
June 2011	Director and Senior Executive Officer of the Company
June 2013	In charge of air conditioning business in Japan of the Company (Current position)
June 2014	Representative Director and Senior Executive Officer of the Company (Current position)

December 2014 Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. (Current position)

Number of the Company shares owned (Thousands of shares)
5

Responsibilities and Assigned Items
Responsible for Domestic Air-Conditioning Business, Representative of China Region, Chairman of the Board and President of Daikin (China) Investment Co., Ltd., Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd., and Member of Global Air-Conditioning Committee



Masatsugu Minaka
Member of the Board, Senior Executive Officer

Date of Birth	July 9, 1953
October 1983	Entered the Company
July 2005	Director and President of Daikin Europe N.V. (Current position)
June 2007	Associate Officer of the Company, Member of Global Air-Conditioning Committee of the Company (Current position)
June 2008	Executive Officer of the Company
June 2010	Senior Executive Officer of the Company
June 2011	Director and Senior Executive Officer (Current position), Representative of air conditioning in Europe, the Middle East and Africa of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
8

Responsibilities and Assigned Items
Representative of Air-Conditioning Operations in the Europe/Middle East/Africa Region (excluding East Africa), Director and President of Daikin Europe N.V., and Member of Global Air-Conditioning Committee



Jiro Tomita

Member of the Board, Senior Executive Officer

Date of Birth August 7, 1949

April 1970 Entered the Company

June 2008 Associate Officer of the Company

November 2009 Director and Vice President of Daikin Europe N.V.

May 2010 Executive Officer of the Company

June 2010 Director and Senior Executive Officer of the Company

June 2011 Director and Senior Executive Officer of the Company

June 2015 In charge of Global Operation Division of the Company (Current position), In charge of Production Engineering of the Company (Current position)

June 2016 Director and Senior Executive Officer of the Company (Current position)

June 2017 In charge of PD Affiliation Alliance Promotion of the Company (Current position)

September 2019 Chairman of the Board (non-resident) of Goodman Global Group, Inc. (Current position)

Number of the Company shares owned (Thousands of shares)
5

Responsibilities and Assigned Items

Responsible for Global Operations Division, Production Engineering and PD Affiliation Alliance Promotion, Chairman of the Board (non-resident) of Goodman Global Group, Inc.



Takashi Matsuzaki

Member of the Board, Senior Executive Officer

Date of Birth December 23, 1958

April 1982 Entered the Company

June 2004 Executive Officer of the Company

June 2008 Director and Senior Executive Officer of the Company

June 2010 Senior Executive Officer of the Company

June 2012 Director and Senior Executive Officer of the Company

June 2015 In charge of R&D in North America (including applied solutions, commercial & industrial refrigeration, filter and dust collection) of the Company

June 2017 In charge of R&D in North America of the Company (Current position), In charge of Applied R&D Center of the Company (Current position), General Manager of Silicon Valley Technology Office of the Company

June 2018 Senior Executive Officer of the Company, In charge of Applied Solution Business of the Company (Current position), In charge of Daikin Open Innovation Lab Silicon Valley of the Company (Current position)

June 2019 Senior Executive Officer of the Company

June 2020 Director and Senior Executive Officer of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
8

Responsibilities and Assigned Items

Responsible for Applied Solution Business, R&D in North America, Applied R&D Center, Responsibility of Daikin Open Innovation Lab Silicon Valley



Kanwal Jeet Jawa

Member of the Board and Senior Associate Officer

Date of Birth November 10, 1959

1997 Regional Director (Asia Pacific) of Carrier Aircon Limited

2001 Regional Vice President (North&East) of Voltas Limited

2005 Senior Vice President of the above company

2006 Managing Director of Uniflair India Pvt. Ltd.

May 2010 Deputy Managing Director & COO of Daikin Airconditioning India Pvt. Ltd.

September 2010 Managing Director & COO of the above company

July 2017 Managing Director & CEO of the above company (Current position)

June 2018 Member of the Board and Associate Officer of the Company

June 2019 Member of the Board and Senior Associate Officer of the Company (Current position)

Number of the Company shares owned (Thousands of shares)
—

Responsibilities and Assigned Items

Regional General Manager of Air-Conditioning Business in India/ East Africa, Managing Director & CEO of Daikin Airconditioning India Pvt. Ltd.

Audit & Supervisory Board Members



Ryu Yano
Audit & Supervisory Board
Member (External)

Date of Birth April 21, 1940

April 1963 Entered Sumitomo Forestry Co., Ltd.

December 1988 Director of the above company

June 1992 Managing Director of the above company

June 1995 Representative Director and Senior Managing Director of the above company

April 1999 Representative Director and President of the above company

June 2002 Representative Director and Executive Officer of the above company

April 2010 Representative Director and Chairman of the Board of the above company

June 2013 Audit & Supervisory Board member of the Company (Current position)

April 2020 Director and Corporate Advisor of Sumitomo Forestry Co., Ltd.

June 2020 Chief Advisor of the above company (Current position)

Number of the Company shares owned (Thousands of shares)

—

Significant Concurrent Posts

Chief Advisor of Sumitomo Forestry Co., Ltd.



Toru Nagashima
Audit & Supervisory Board
Member (External)

Date of Birth January 2, 1943

April 1965 Entered Teijin Limited

June 2000 Director of the above company

June 2001 Managing Director of the above company

November 2001 President & Representative Director COO of the above company

June 2002 President & Representative Director CEO of the above company

June 2008 Chairman of the Board of the above company

April 2013 Director & Advisor of the above company

June 2013 Senior Advisor of the above company

June 2016 Audit & Supervisory Board member of the Company (Current position)

April 2018 Honorary Advisor of Teijin Limited (Current position)

Number of the Company shares owned (Thousands of shares)

—

Significant Concurrent Posts

Honorary Advisor of Teijin Limited



Kosei Uematsu
Audit & Supervisory Board
member (Standing)

Date of Birth January 21, 1952

February 1982 Entered the Company

June 2002 Director, General Manager of Global Operations Division of the Company, General Manager of DT Alliance Promotion Secretariat of the same division of the Company

June 2004 Executive Officer, Member of Global Air-Conditioning Committee of the Company

September 2004 Chairman and Member of the Board of Daikin U.S. Corporation

June 2007 Senior Executive Officer of the Company, General Manager of New York Office of the Company, President and Member of the Board of Daikin Holdings (USA), Inc., President and Member of the Board of Daikin U.S. Corporation

June 2015 Audit & Supervisory Board member of the Company (Current position)

Number of the Company shares owned (Thousands of shares)

8



Hisao Tamori
Audit & Supervisory Board
member (Standing)

Date of Birth July 31, 1960

August 1989 Entered the Company

July 2011 Department Manager of Accounting Group of Finance and Accounting Division of the Company, Director and President of Daikin Accounting Solutions Co., Ltd.

June 2016 Associate Officer of the Company

June 2019 Audit & Supervisory Board member of the Company (Current position)

Number of the Company shares owned (Thousands of shares)

1

Executive Officers

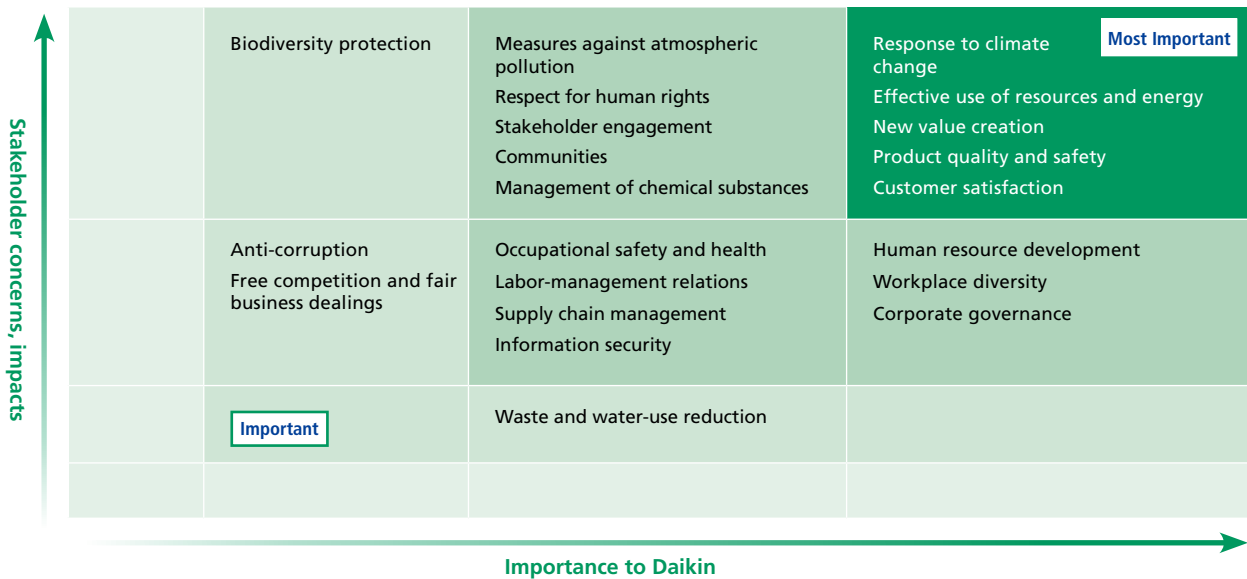
Position (s)	Name	Responsibilities and Assigned Items
Senior Executive Officer	Yoshihiro Mineno	Responsible for Filter business training, General Manager of Global Operations Division, Director (non-resident) of Goodman, Global Group, Inc., Director (non-resident) of Daikin Holdings (Houston), Inc.
Senior 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 Human Resources, and General Affairs
Senior Executive Officer	Yasushi Yamada	Responsible for Safety
Executive Officer	Katsuyuki Sawai	Responsible for CSR, Global Environment Affairs, Public Relations, General Manager of Public Relations Tokyo Office, Chairman of CSR Committee
Executive Officer	Hitoshi Jinno	General Manager of Filter Division
Executive Officer	Kota Miyazumi	Responsible for Marketing, Corporate Communication, General Manager of Marketing Research Division, Director of Planning Group in Marketing Research Division, and Chairman of Information Disclosure Committee
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 Corporate Ethics, Compliance, Legal Affairs, Information Security, General Manager of the Legal Affairs, Compliance and Intellectual Property Center Chairman of Corporate Ethics and Risk Management Committee
Executive Officer	Akira Murai	Responsible for Defense systems business, SCM, Logistics, Co-Creation Projects member of Technology and Innovation Center, and General Manager of Yodogawa plant
Executive Officer	Makio Takeuchi	Responsible for Global Procurement
Executive Officer	Yoshiyuki Hiraga	Responsible for Chemical Business and Chemical Environment/Safety
Executive Officer	Toshio Ashida	Responsible for Corporate Planning, electronics business, Strategy office of Technology and Innovation Center
Executive Officer	Hideki Maruoka	Responsible for Oil Hydraulics business
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
Executive Officers	Katsumi Kawahara	Deputy General Manager of Technology and Innovation Center (Responsible for promoting industry, government and academia collaboration)
Executive Officers	Shoji Uehara	Deputy General Manager of Global Operations Division
Executive Officers	Hiroaki Ueda	General Manager of Corporate Planning

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.



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	
We aim to provide a healthy, comfortable air environment to all across the world, through efforts to minimize environmental impact.	<ul style="list-style-type: none"> ● Environment ● New Value Creation ● Customer Satisfaction ● Human Resources

Fundamental CSR	
We are responding to societal demands for greater transparency and more open business practices.	<ul style="list-style-type: none"> ● Corporate Governance ● Respect for Human Rights ● Supply Chain Management ● Stakeholder Engagement ● Communities

		Key CSR Themes	FY2021 Target	FY2020 Result
E Environmental	CSR for Value Provision	Environment	<p>Introduce state-of-the-art technologies to the market in order to address environmental and energy issue</p> <ul style="list-style-type: none"> Reduced emissions of greenhouse gas by 60 million tons of CO₂ 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 68 million tons of CO ₂ , representing a reduction of greenhouse gas emissions of 76% from fiscal 2006 levels.
		New Value Creation	<p>Share dreams and ambitions inside and outside Daikin to realize a healthy, comfortable lifestyle through air</p> <ul style="list-style-type: none"> 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 ¥68.0 billion and the number of patent applications were 957 in Japan and 513 overseas in fiscal 2018 on a consolidated basis.
		Customer Satisfaction	<p>Provide peace of mind and reliability through a focus on customer orientation, experience, performance, and advanced technologies</p> <ul style="list-style-type: none"> 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 last fiscal year taken as 1, the customer satisfaction ratings were: Japan 1.14 (compared to fiscal 2016); Singapore 1.00 (compared to fiscal 2016); Indonesia 1.03 (compared to fiscal 2018); India 1.13 (compared to fiscal 2017); and Spain 1.12 (compared to 2017).
		Human Resources	<p>Respect individual personalities and values, and maximize the potential of each employee so that they can benefit Daikin and society as a whole</p> <ul style="list-style-type: none"> Achieve a ratio of excellent or advanced skilled engineers in manufacturing of four to one 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 <i>monozukuri</i> (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 3.2 to one (unconsolidated), a ratio of local presidents of 47% (overseas Group companies) and frequency rate of industrial accidents throughout the Group of 1.26.
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%.
		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 2020 was 97%.
		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 (125 participants from 31 countries participated and attendees included university professors and experts in their field).
		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 ¥1.5 billion.
		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			Degree of independence from the company, diversity, and transparency of the Board of Directors (Daikin Industries, Ltd. only)	We also have an eleven-member Board of Directors, including four external directors, one female member, and one non-Japanese member. (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 2020, the percentage of sales of environmentally conscious products related to residential air conditioners was 97%, representing a reduction in emissions of greenhouse gases* of 68 million tons of CO₂. As a measure to reduce CO₂ 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

Daikin is supporting the conversion of refrigerants even in emerging countries to expand the use of R-32. In addition, in 2011 we offered free access to 93 patents for the application of R-32 equipment and in 2019 we offered free access to about 180 patents, so that air conditioning manufacturers around the world can develop equipment using R-32. As of December 2019, Daikin has sold approximately 23 million units of R-32 residential air conditioner and heat pump, while the total market including other manufacturers is estimated to exceed 100 million units.

• Target Achieved: GHG Emissions Reduced by 76% Compared with Fiscal 2006

The greenhouse gases (GHGs) emitted by Daikin in its development and production processes are roughly categorized into CO₂ due to energy use and fluorocarbons. With a view to reducing CO₂ emissions by 75% in fiscal 2026 compared with fiscal 2006, the Company set a 70% reduction target for fiscal 2021.

In fiscal 2020, for example, Daikin Device Czech Republic s.r.o. switched all the power used to green power, and Daikin Malaysia Sdn. Bhd. added a 1MW solar power system. In addition, although production volume in fiscal 2020 was almost unchanged compared with that of the previous year, the Company was able to reduce CO₂ emissions from energy by 1% on a year-on-year basis. As a result, GHG emissions in fiscal 2020 were 1.28 million tons-CO₂ (a 76% reduction from fiscal 2006).

• Solidarity with TCFD Recommendations

In May 2019, Daikin announced its support and agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As a comprehensive air conditioning manufacturer, Daikin has endeavored to mitigate the environmental impact of air conditioners—for example by promoting the widespread adoption of energy-saving inverter technology and the low global warming potential refrigerant R32—in the belief that “a company cannot grow its business unless it contributes to solving environmental problems.” We will analyze the risks and opportunities that climate change presents to our business and reflect them in our management strategies and risk management. At the same time, we will also disclose our progress in this area in an appropriate manner and aim for further growth while contributing to the decarbonization of society as a whole.

New Value, New Solutions & Growth

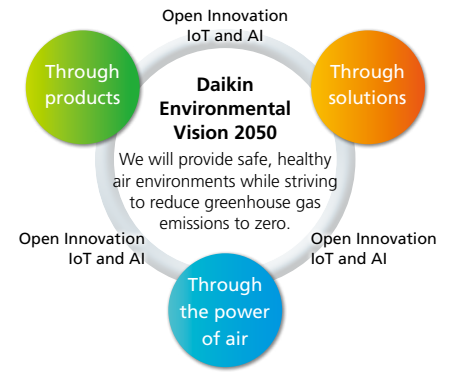
New Service Aimed at Refrigerant Circular Economy

Amid the progress being made in Europe with fluorinated greenhouse gas (F-gas) regulations* on the total consumption of hydrofluorocarbon (HFC) refrigerants, Daikin launched a service that enables the circular use of refrigerant. Previously reclaimed and destroyed when air conditioners are discarded, refrigerant can now be reused repeatedly by removing any impurities and reclaimed. Daikin has established a new refrigerant reclamation facility in Germany by leveraging its strengths of having both an air conditioning business and a chemical business, and has also established a channel in cooperation with UK-based company A-Gas, which recovers and reclaims refrigerant. In June 2019, Daikin launched the “VRV L∞P” commercial-use, multi-type air conditioner that uses recycled refrigerant and sold 14,000 units in 10 months. The Company has reduced the amount of new refrigerant contained in commercial use, multi-type air conditioners sold in Europe by approximately 40%. To further promote the recycling of refrigerant, we are proposing a package service that combines refrigerant collection with the sale of VRV L∞P as the replacement when an air conditioner is being discarded. We are working to provide peace of mind to customers who are concerned about future refrigerant shortages by temporarily holding the recovered refrigerant and guaranteeing the stock of necessary refrigerant during maintenance.

* Under the European F-gas regulations, the total consumption of HFCs ([production + amount imported – amount exported] converted to global warming impact) is being gradually reduced.

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.



Philosophy toward net zero greenhouse gas emissions

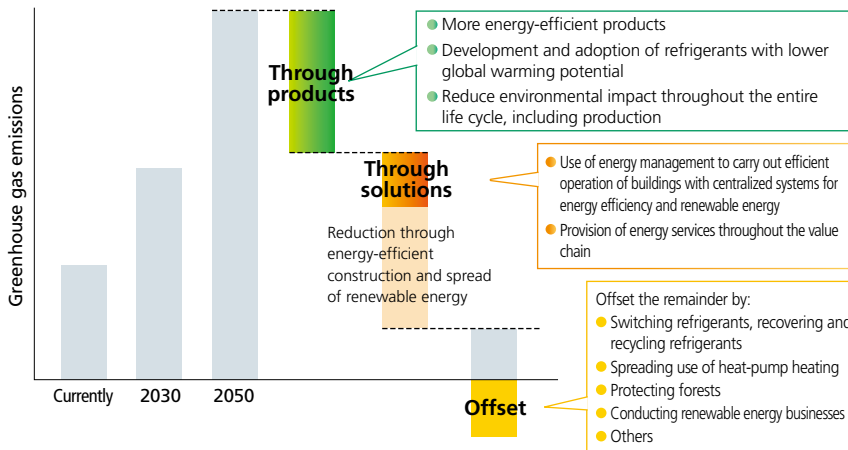
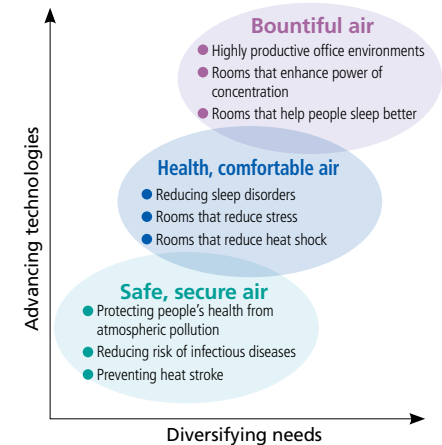


Image: The power of air



• 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.

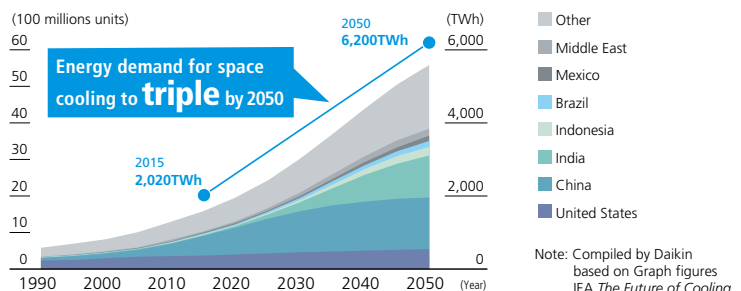
We aim to respond to these risks by turning them into opportunities. We will do this by reducing our environmental impact by, for example, developing and spreading the use of high-efficiency air conditioners, creating solutions for buildings that utilize energy effectively throughout the entire facility, 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



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

• Aiming for Innovation in Field Work with Remote Work Support Solution

In November 2019, Daikin and Fairy Devices Inc., a venture company with links to The University of Tokyo, jointly started efforts to bring about improvements in work efficiency and work quality by creating connected workers¹ in service operations, such as the maintenance and repair of air conditioners. This is an effort to jointly solve problems in service operations by linking the voice recognition, Edge AI, and data analysis technologies that Fairy Devices possesses with the frontline knowledge that Daikin has been cultivating on a global scale.

Specifically, our two companies have developed a remote work support solution, which combines the Fairy Devices-developed THINKLET™ wearable smart devices and a technology stack² with a Daikin-developed business support web app and enables skilled service engineers to support and train remote workers. With this solution, we will improve the technical prowess and judgment of each and every worker not only in Japan but throughout the world and realize high-efficiency, high-quality field work without the need for any reworking while aiming for the early development of excellent service engineers.

¹ A collective term for field workers who can obtain a variety of information and receive various kinds of support by wearing wearable devices and sensors.

² A platform, such as an API or AI engine, capable of bringing together a variety of technologies and making them function individually or in an integrated manner in a digital product.

• Co-creation toward "Comfortable, Healthy Spaces"

In 2016, Daikin teamed up with RIKEN, Japan's only comprehensive research institution dedicated to the natural sciences, to launch the RIKEN-DAIKIN Wellness Life Collaboration Program. The program also engages in research to extend healthy life expectancy under the theme of "comfortable, healthy spaces." In 2019, an agreement was signed with RIKEN subsidiary RIKEN Innovation Co., Ltd. with the aim of implementing the results of R&D and creating innovation.

• Comprehensive Collaboration Aims to Realize Co-created Innovation

In 2016, we established the Daikin Collaborative Research Institute at Osaka University and in 2017, as a new initiative in the field of information science, launched the Daikin Information Science Research Unit (Di-CHILD), a program in which Osaka University researchers and Daikin engineers work together to realize co-created innovation. In fiscal 2020, we put out an open call for research themes covering all the faculties, including not only chemistry, engineering, and information science but also pharmaceutical sciences and the humanities. Meanwhile, from the research themes we have been conducting so far, we have established the technology in six themes and are moving to the demonstration phase on the way to commercialization.

In March 2020, Daikin entered into comprehensive collaborative cooperation with Doshisha University in Kyoto aimed at practical R&D on the theme of environmental issues. Toward reducing GHG emissions, a theme that Daikin addresses through its business, the Company will utilize Doshisha University's unique knowledge of environmental technologies and related fields aiming to return the academic results to society as well as the university's practical academic research capabilities that are aiming for practical use in the real world. Both parties will work on the practical application of CO₂ capture, decomposition, and reuse technologies, and further increase the efficiency of air conditioners. They will also foster collaborative innovation human resources through joint research.

New Value, New Solutions & Growth

Ideathon for African Start-up Companies Held

In December 2019, Daikin and Samurai Incubate Inc. held the "AirTech BootCamp Africa" ideathon that targeted start-up companies across Africa. Aiming to expand its business in Africa, where significant economic growth is expected in the years to come, the Company held this event for the purpose of creating innovative ideas that would bring about the more widespread adoption of air conditioning products. Of the 160 companies that had applied, the nine companies that made it through the selection process participated in this event, and lively discussions and presentations of various ideas were conducted. In the same way as previous global development strategies, in Africa the Company aims to develop local human resources, build strong sales and service networks, and expand its business with a lineup of high-quality products with excellent energy efficiency. In the meantime, along with companies that proposed good ideas at this event, Daikin is also looking into the possibilities of expanding its business by building new business models and considering the verification of ideas locally.

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.

In fiscal 2020, a video manual was newly added to the customer support page of the website so that it is possible to check operating conditions that are difficult to determine using the instruction manual alone.

Overseas also, we respond to the various demands in each country and region by establishing an after-sales service network under the slogan "fast, accurate and friendly." We are working to improve customer satisfaction by establishing a call center and providing technical information on our website.

• 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 *fureiai surveys* (relationship surveys), and, in fiscal 2020, the overall satisfaction score was 4.63 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."

Customer feedback is also utilized in product development. The Company opened its DAIKIN LAUNCH X online platform in November 2019, via which product release information, including for products still under development, is publicized and the pros and cons of sales as well as specifications are decided based on user evaluations and opinions. The "Carrime" portable air conditioner arose from feedback that said "I want to spend time comfortably in places where it is difficult to install air conditioners," which garnered a lot of support through crowdfunding and led to its commercialization.

• 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.

Positioned as the second mother R&D center in response to the theme of a distribution base in each region of the world and focusing key technology that was previously managed by Japan and allocating it to fields of excellence in each region such as for India where outside temperatures are very high and for heating in Europe.

New Value, New Solutions & Growth

Developing Products That Support Digital Society through Co-creation with Customers

Due to the rapid spread of information and telecommunications networks, there is a demand for technology that can send large amounts of data quickly and compactly. Daikin is taking on the challenge of value creation in cooperation with customers in order to contribute to the evolution of the information and communications field by taking advantage of the characteristics of fluorine. In addition to satisfying the costs and ease of processing required by our direct component processing manufacturers and manufacturing equipment manufacturers in the semiconductor field, where higher degrees of miniaturization and integration are being investigated, Daikin has in recent years focused on activities developing innovation proposals as a development partner. We are working together to solve the technical issues of end-user semiconductor device manufacturers. For example, the integration rate of semiconductors has increased more than 10-fold in the last 10 years. Daikin's etching agent also contributes to the miniaturization of semiconductor circuits, which have played a part in technological innovation. We will engage in the proposal of solutions that utilize fluorine chemical technology, which contributes to the development of society, in the years to come.

CSR (Corporate Social Responsibility)

• Grand Prize at Contact Center Awards 2019

Daikin Contact Center won the Grand Prize, the highest award in the operation category at the Contact Center Awards 2019 event sponsored by RIC Telecom Co., Ltd. Daikin's unique operator recruitment efforts and AI-based system construction were among those factors that were highly rated.

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 Initiative

• **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-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 2020, the number of qualified personnel in Japan was one in 3.2 people. In conjunction with the expansion of our business overseas, we are also strengthening our global training. Meanwhile, we are working to enhance training opportunities that includes Off-JT such as: 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. In fiscal 2020, the ratio of local presidents at overseas bases was 47%, and the ratio of directors was 49%.

• Promoting Achievements of Non-Japanese National Employees

Having 93 non-Japanese national employees working in Japan as of March 31, 2020, Daikin is working to create environments in which employees are able to fully harness their abilities regardless of nationality. In fiscal 2020, we held Japanese classes, set up a consultation desk, held workshops to facilitate non-Japanese national employee networking, and conducted cross-cultural communication seminars to learn tips on how to demonstrate their abilities at a Japanese company. We also created a guidebook that provides tips on how to work together geared toward the workplaces where non-Japanese national employees are assigned.

• Management System Established to Reduce Workplace Related Accidents to Zero

To ensure operational and employee safety at its production facilities in each region worldwide, the Group has created occupational health and safety management systems (OHSAS) at 59 facilities and is acquiring certification for international standards, such as OHSAS 18001.

Chaired by the director in charge of safety, the Global Safety Meeting is held twice a year with the aim of improving safety levels of the entire group. With the aim of achieving zero workplace accidents, the Company is implementing safety education and training and undertaking safety patrols at each site in Japan and overseas. In fiscal 2020, the frequency rate of industrial accidents throughout the Group was 1.26, an improvement of 0.12 from fiscal 2019.

New Value, New Solutions & Growth

Developing IoT/AI Human Resources That Create Innovation

By fiscal 2022, Daikin plans to conduct training for about 1,000 people, including existing and new employees, to ensure they can use IoT/AI. With the cooperation of Osaka University, with which Daikin had signed a comprehensive cooperation agreement centering on the field of information science, we started the in-house Daikin Information and Communications Technology College course in 2017. In addition to lectures from professors of Osaka University to learn the basic knowledge of AI and how to use AI technology, the course develops experts who can use IoT/AI in business development and technology development. This is supported by incorporating Project-Based Learning (PBL), which draws on actual issues from each department. Since fiscal 2019, we have also been conducting IoT/AI human resource development courses for new employees. Not only demonstrating knowledge and skills, they are expected to play an active role as "bridge people" who promote the use of IoT/AI on a Companywide basis and create connections between inside and outside the Company and between Company departments. We are also working to improve internal literacy so that these human resources can play an active role.

- **Launch of Educational Program to Maximize the Talents of Women**
Daikin commenced two educational programs with Osaka University in October 2019. Under the Leadership Development Program for Female Engineers, our young female engineers learn their own unique style of leadership with female graduate students. Under the Childcare Leave Career Advancement Support Program, Daikin employees take classes at Osaka University during childcare leave.

These are pioneering examples of educational programs jointly conducted by a university and a company, which are leading to the advancement of women’s careers and skills.

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.

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 2020, 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 Conduct Guidelines**

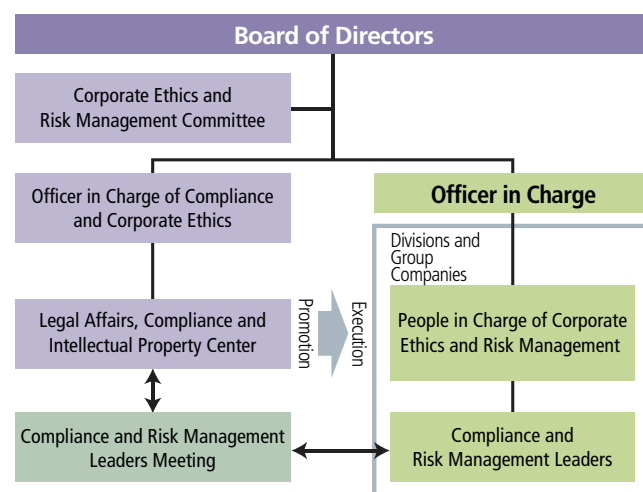
The Daikin Group established its Group Conduct Guidelines that clearly outlines required conduct for individual officers and employees and, to ensure thorough compliance, appointed a Compliance and Risk Management Leader (CRL) for each division and for each of the main Group companies in Japan and overseas. CRLs encourage adherence to the Group Conduct Guidelines, 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 2020, Daikin Industries made efforts toward key themes such as “Natural disaster risk,” “Product liability and quality risk,” “Intellectual property risk,” “Control of information leaks,” and “Overseas crisis management.”

Corporate Ethics and Risk Management



Human Resources

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 Group Conduct Guidelines against child labor and forced labor.

• Respect for Human Rights in the Self-Assessment

The Daikin Group is committed to respecting the human rights of all its employees as stipulated in Group Conduct Guidelines 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 Conduct Guidelines, we established an item relating to respect for human rights in the annual self-assessment 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. In fiscal 2020, on the basis of the tightening of regulations and the development of laws in each country—including the General Data Protection Regulation (GDPR), which is the regulation covering all EU residents—we worked to improve the systems of local subsidiaries and establish internal rules, not only in Europe and North America, where traditionally strict measures have been required, but also in China, Southeast Asia, and Latin America.

• 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 2020, the Company held training for executives under the theme of “Perspectives Required by Companies in the Development of Action Plans Based on the Guiding Principles on Business and Human Rights” by outside experts. This training deepened officers' knowledge on human rights.

• Establishment of Help-Line for Corporate Ethics

Daikin Industries has established a help-line for corporate ethics 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 follow-

ing discussions with the department in charge.

To make the existence of the help-line for corporate ethics 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 2020, a CSR survey was conducted targeting domestic and overseas suppliers, which account for 80% of the total procurement amount. The CSR procurement implementation rate in Japan was 97%.

We are also working to instill an understanding within the Company of CSR procurement. In Japan, we conducted CSR procurement education for all procurement buyers in fiscal 2019. Overseas, we had held CSR procurement briefing sessions for CSR procurement managers at 14 locations in the United States, Canada, Mexico, and China by fiscal 2020.

• 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.

Both in Japan and overseas the Daikin Group conducts regular inspections of product quality at the local manufacturing facilities of our suppliers, and through dialogue in relation to improved quality, we support the enhancement of technological capabilities along with the efforts to enhance quality in coordination with suppliers. Moreover, the Group supports efforts to prevent workplace-related accidents through measures such as holding regular meetings on safety.

Daikin Malaysia Sdn. Bhd. regularly visits its suppliers to support their quality improvements. By providing guidance on how to analyze the factors in the event of a quality problem, Daikin Malaysia is supporting suppliers to enable them to conduct appropriate investigations, analyses, and countermeasures to improve quality. Engineers from Daikin in Japan accompany local staff and offer guidance. This assistance is useful not only for our business partners but also for improving the quality improvement skills of engineers at Daikin Malaysia.

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 2020, we held a total of six events in five regions at which 125 people from a total of 31 countries participated.

At the fiscal 2020 Latin American Air Conditioner Forum, which was held for the first time in Brazil, the largest market in the region, 24 experts from the Brazilian and Japanese governments and international organizations participated under the theme of air conditioning solutions to realize a sustainable society.

• 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%.

Every year, we hold a Sustainability Briefing at which we explain the Company's sustainability efforts and seek opinions. In fiscal 2020, more than 70 analysts and institutional investors participated, and we explained how we contribute to the sustainable development goals (SDGs) through our business and exchanged 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 313 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 2020, 130 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. In 2020, the pro-am tournament and the main tournament, along with all the official pre-tournament evening events, were canceled due to the spread of COVID-19. However, with the support of those who had been planning to participate in the official pre-tournament evening events and the pro-am tournament, we were able to present the Orchid Bounty.

Eleven-Year Financial Highlights

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

	2010	2011	2012	2013
Operating Results (for the year):				
Net sales	¥1,023,964	¥1,160,331	¥1,218,701	¥1,290,903
Gross profit	319,301	361,665	371,902	388,046
Selling, general and administrative expenses	275,263	286,210	290,709	299,419
Research and development expenses (Note 1)	28,220	30,771	32,987	33,569
Operating income	44,038	75,455	81,193	88,627
EBITDA (Note 2)	96,462	127,168	131,719	140,151
Net income attributable to owners of the parent	19,391	19,873	41,172	43,585
Cash Flows (for the year):				
Net cash provided by operating activities	¥129,227	¥78,411	¥44,967	¥103,161
Net cash used in investing activities	(39,848)	(23,306)	(62,955)	(218,386)
Free cash flow (Note 3)	89,379	55,105	(17,988)	(115,225)
Net cash provided by (used in) financing activities	(34,942)	(37,623)	(1,113)	143,520
Financial Position (at year-end):				
Total assets	¥1,139,656	¥1,132,507	¥1,160,564	¥1,735,836
Total interest-bearing liabilities	399,313	372,481	389,891	705,871
Total shareholders' equity	496,179	487,876	502,309	618,118
Per Share Data (yen):				
Net income (basic)	¥ 66.44	¥ 68.14	¥ 141.37	¥ 149.73
Shareholders' equity	1,701.29	1,672.74	1,725.64	2,123.10
Free cash flow	306	189	(62)	(396)
Cash dividends	32.00	36.00	36.00	36.00
Ratios (%):				
Gross profit margin	31.19%	31.17%	30.52%	30.06%
Operating income margin	4.30	6.50	6.66	6.87
EBITDA margin	9.42	10.96	10.81	10.86
Return on shareholders' equity (ROE)	4.01	4.04	8.30	7.78
Shareholders' equity ratio	43.54	43.08	43.28	35.61

Notes: 1. R&D expenses are included within general and administrative expenses and manufacturing expenses.

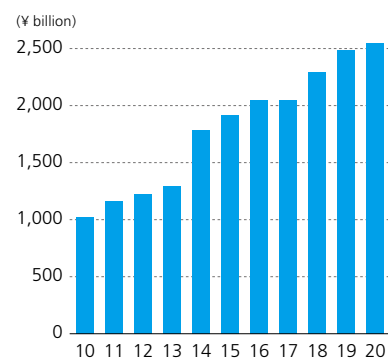
2. EBITDA = Operating income + depreciation and amortization.

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

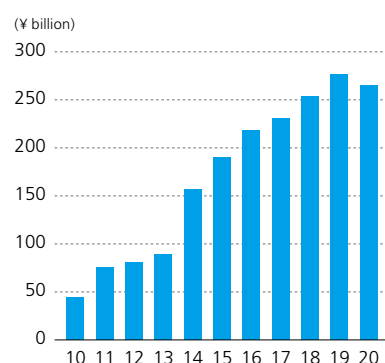
4. Accompanying a change in accounting policy, effective from April 1, 2014, the consolidated financial statements for the fiscal year ending March 31, 2014 and subsequent years have been revised.

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.

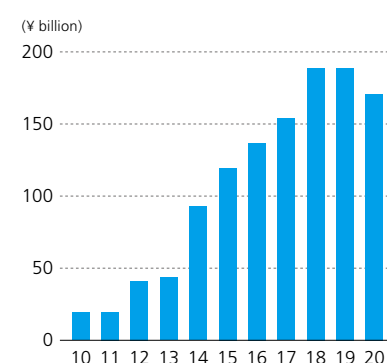
Net Sales



Operating Income



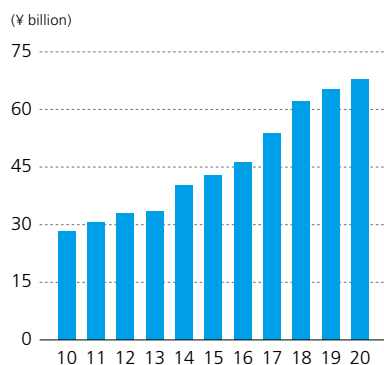
Net Income Attributable to Owners of the Parent



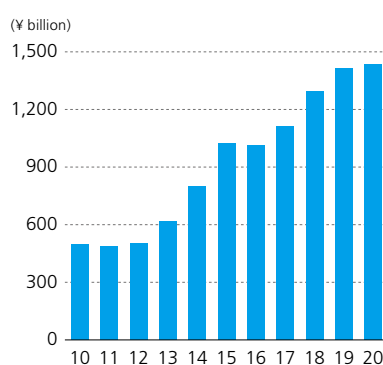
Millions of Yen

	2014	2015	2016	2017	2018	2019	2020
	¥1,787,679	¥1,915,014	¥2,043,691	¥2,043,969	¥2,290,561	¥2,481,109	¥2,550,305
	568,323	649,902	711,576	730,935	798,829	868,923	884,898
	411,786	459,314	493,704	500,166	545,089	592,668	619,385
	40,177	42,892	46,138	53,870	62,051	65,216	67,968
	156,537	190,588	217,872	230,769	253,740	276,255	265,513
	235,439	268,354	302,075	315,798	348,574	375,570	393,999
	92,787	119,675	136,987	153,939	189,052	189,049	170,731
	¥179,713	¥160,423	¥226,186	¥267,663	¥223,740	¥250,009	¥302,167
	(80,835)	(77,331)	(105,493)	(128,823)	(127,459)	(165,773)	(156,187)
	98,878	83,092	120,693	138,840	96,281	84,236	145,980
	(38,249)	(83,073)	(85,422)	(73,544)	(93,955)	(68,721)	(169,934)
	¥2,011,870	¥2,263,990	¥2,191,105	¥2,356,149	¥2,475,708	¥2,700,891	¥2,667,513
	693,944	662,413	608,981	609,430	554,371	585,642	553,807
	801,854	1,024,725	1,014,409	1,111,636	1,296,553	1,416,075	1,434,968
	¥ 318.33	¥ 410.19	¥ 469.23	¥ 526.81	¥ 646.53	¥ 646.39	¥ 583.61
	2,748.08	3,511.34	3,473.54	3,802.10	4,433.62	4,841.15	4,904.46
	339	285	413	475	329	288	499
	50.00	100.00	120.00	130.00	140.00	160.00	160.00
	31.79%	33.94%	34.82%	35.76%	34.87%	35.02%	34.70%
	8.76	9.95	10.66	11.29	11.08	11.13	10.41
	13.17	14.01	14.78	15.45	15.22	15.14	15.45
	13.07	13.10	13.44	14.48	15.70	13.94	11.98
	39.86	45.26	46.30	47.18	52.37	52.43	53.79

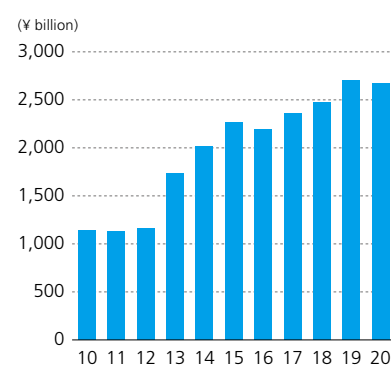
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Summary of the Period

During the fiscal year ended March 31, 2020, the overall world economy expanded moderately in the first half of the period.

In the fourth quarter, however, the global economy slowed sharply due to the COVID-19 pandemic. The U.S. economy experienced a slowdown in personal consumption and negative growth from January to March 2020. The European economy was also hit by a serious economic downturn, particularly in the automobile industry. The Chinese economy stalled due to trade friction with the United States and the impact of COVID-19. The economies of Asia and emerging countries, which are highly dependent on China, also faced a significant slowdown. The Japanese economy has entered a recessionary phase since last autumn as consumer and investment sentiment cooled due to the impact of the spread of COVID-19, in addition to the consumption tax rate hike against a backdrop of an increasingly slowing economy. In response to the spread of COVID-19, the Daikin Group worked to minimize the impact on its business and management including sales, production, and procurement.

Amid this environment, consolidated net sales rose to ¥2,550.4 billion (a year on year increase of 2.8%) due in part to the Daikin Group's solid performance up to the third quarter. As for profits, consolidated operating income fell to ¥265.5 billion (a decline of 3.9% from the previous fiscal year) due partly to COVID-19 and other factors. Net income attributable to owners of the parent decreased 9.7%, to ¥170.7 billion partly due to the effect of recording of an impairment loss despite a gain on sales of investment securities.

Performance by Business Segment

Air-Conditioning and Refrigeration Equipment

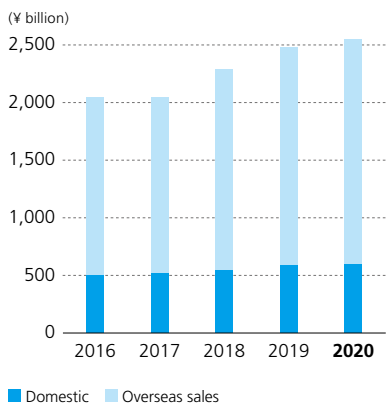
Total sales of the Air-Conditioning and Refrigeration Equipment segment increased 3.9% from the previous fiscal year, to ¥2,309.1 billion. Operating income edged down 0.6% year on year, to ¥236.2 billion.

• Japan

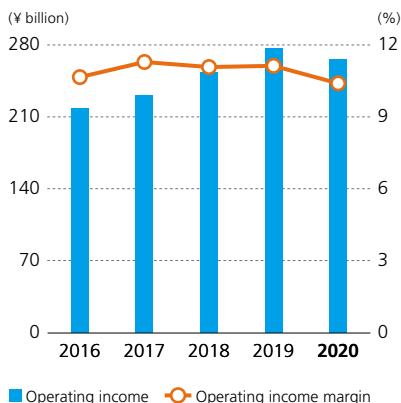
In the Japanese commercial air-conditioning equipment market, activity within the industry rose year on year due to firm demand for the installation of air conditioning at public elementary and middle schools. In the market for stores and offices, the Daikin Group worked to strengthen sales through such measures as expanding indoor unit variation in the "SkyAir" series and strengthening proposals for the "machi Multi" series, multi-split type air conditioners that feature individual operation and a slim design. In the market for buildings and facilities, observing an increase in the need for work environment improvements, the Group increased sales of proposal-based products to meet user applications, including the "VRV" series, which has high energy-saving performance and installation flexibility, and "MULTI CUBE," which realizes comfortable individual air conditioning in large spaces such as factories. As a result, net sales of commercial air-conditioning systems exceeded that of the previous fiscal year.

In the Japanese residential air-conditioning equipment market, industry demand fell short of the previous fiscal year as a result of a drop in demand due to the rebound from the rush in demand prompted by the consumption tax hike in September as well as the warm winter. Against this demand background, the Group marked the 20th anniversary of the launch of the "Ururu Sarara" series, which features the Group's unique water supply-free humidification technology, by expanding its product lineup with the launch of "Ururara X," which uses this technology to improve cleanliness, "Ururara mini," which is suitable for bedrooms and children's rooms, and "Ururu air purifier." Furthermore, the Group improved the value and promotion of products, including expanding the product lineup of "risora," an air conditioner combining design

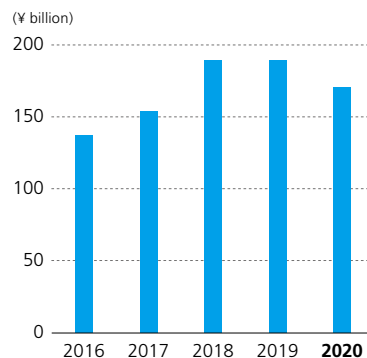
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income Attributable to Owners of the Parent



with functionality. Nonetheless, net sales of residential air-conditioning systems were flat year on year.

• **Americas Region**

In the Americas, although the spread of COVID-19 had an impact in March, the effects on the entire year was limited, and net sales increased year on year as a whole due to the success of sales strategies in addition to strong demand. Net sales of residential air-conditioning systems rose year on year as a result of new product launches such as a mini-split in a low-cost model and “FIT,” the industry’s first unitary product with a side discharge inverter, and efforts to develop a new sales network and to increase selling prices. In the market for large buildings (Applied Systems), net sales increased year on year as reinforcement of the sales network and enhancement of the product lineup underpinned by strong market growth led to an increase in sales for systems mainly for rooftops and also to the expansion of the after sales service business.

• **China**

In China, sales were higher than the previous fiscal year up to the third quarter thanks to the development of product and sales strategies in response to rapid changes in the market environment to take advantage of the effects of softening raw material market conditions, and the promotion of cost reductions as the expansion of in-house production. However, in the fourth quarter, production and sales were suspended in February due to the spread of COVID-19, and sales declined in March due to market disruption despite a recovery in production. As a result, net sales decreased from the previous fiscal year. In the residential-use market, in order to respond to changes, the Group strengthened its “PROSHOP” specialty shops by shifting sales resources mainly to the regional cities where growth is anticipated. In addition, the Group worked to expand sales of residential multi-split type air conditioners by enhancing its product lineup for the general residential market in addition to the “New Life Multi” series aimed at the mid-range and high-end residential market. In the commercial-use market, while there was a decline in large-scale real estate investment, the Group responded to steady demand for retail properties such as

restaurants and renovations of small and medium-sized properties and captured renewal demand through the introduction of “Intelligent VRV systems” that use the Internet to connect with customers in the mature markets of big cities. In the Applied Systems air-conditioning equipment market, the Group promoted proposal-based sales in fields with growing demand, such as the field for data centers.

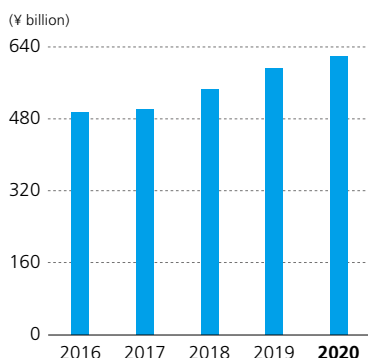
• **Asia/Oceania Region**

In Asia and Oceania, net sales for March fell year on year due to the suspension or restriction of business activities in Malaysia, the Philippines, India, and other countries as a result of governmental decrees in response to the spread of COVID-19. Meanwhile, throughout the year, the Group worked to develop independent dealer networks covering urban and regional areas and implement measures aimed at differentiating the Group from its competitors by improving its service technology strengths. As a result, net sales increased year on year for the entire region.

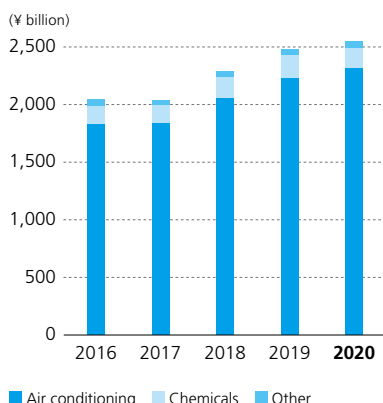
• **Europe/The Middle and Near East/Africa**

In Europe, net sales increased year on year as a whole. Net sales of residential air-conditioning systems increased year on year due to strong sales in the northern European regions including northern France, Belgium, the Netherlands, and Germany as a result of the summer heat wave and reinforcement of the Group’s sales capabilities. Net sales of residential heating systems increased significantly year on year, boosted by various countries promoting heat pump hot water heating systems that are effective at reducing CO₂ emissions. Net sales of commercial air-conditioning systems also grew year on year due to the expansion of sales to stores, offices, and hotels by visiting contractors and architectural firms in each country, reinforcing ‘spec-in’ activities, strengthening project management of inquiries, and further promoting differentiated products using environmentally-conscious, recycled refrigerant and air conditioners using R32 refrigerant. However, net sales for March fell year on year as a result of restrictions on economic activity due to the announcement of state of emergency declarations and border closures in various countries in response to the spread of COVID-19

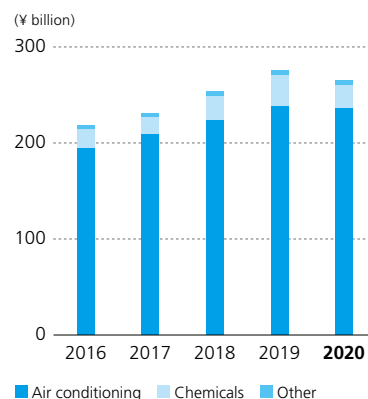
Selling, General and Administrative Expenses



Sales by Segment



Segment Profit



Financial Review

in Italy and throughout Europe.

In the Middle and Near East and Africa, amid the economic slowdown in Dubai, which is a major market, net sales in local currencies were at the same level as the previous fiscal year, led by Egypt and Saudi Arabia, which had strengthened their own sales systems. However, net sales after translation into yen decreased from the previous fiscal year due to the effect of exchange rates. In Turkey, although demand for air-conditioning systems has been sluggish due to the economic downturn following the plunge of the Turkish lira in August 2018, net sales in the local currency increased year on year due to strong sales of heating equipment. However, 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 decreased 10.4% from the previous fiscal year, to ¥179.9 billion and operating income fell 26.9% year on year, to ¥23.8 billion. The general conditions for overall sales of fluorochemical products was harsh and affected by the decline in demand worldwide, mainly in the semiconductor and automotive fields and the downturn in the gas market in Europe, and this combined with the impact of the spread of COVID-19 from the fourth quarter. Despite relatively strong LAN cable-related demand, net sales of fluoropolymers decreased year on year due to declining demand for semiconductor and automotive-related applications worldwide. Net sales of fluoroelastomers also decreased year on year due to the impact of falling demand in the automotive field mainly in the U.S., European, and Chinese markets. Among specialty chemicals, net sales of anti-fouling surface coating agents fell year on year due to sluggish sales, mainly in Asia. With regard to oil and water repellents, net sales fell year on year due to stagnant demand in China and the United States. As a result of these factors, overall sales of specialty chemicals were down compared to the previous fiscal year. As for fluorocarbon gas, the impact of the drop in sales mainly due to the accumu-

lation of distribution inventory was significant in the European market, which was affected by the rebound following the rush demand in the previous fiscal year. As a result, overall sales of gas decreased substantially year on year.

Other Operations

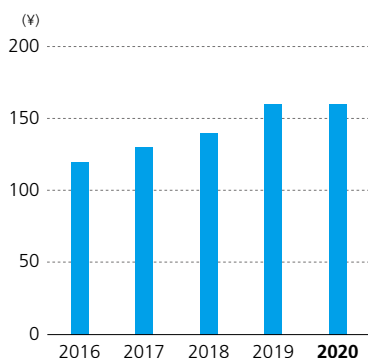
Overall sales of the "Others" segment increased 5.4% compared to the previous fiscal year to ¥61.3 billion. Operating income decreased 8.5% year on year to ¥5.5 billion.

Sales of oil hydraulic equipment for industrial machinery fell year on year due to stagnant demand in the Japanese, Asian, European, and U.S. markets. On the other hand, sales of oil hydraulic equipment for construction machinery and vehicles were up year on year due to robust sales to key customers in Japan.

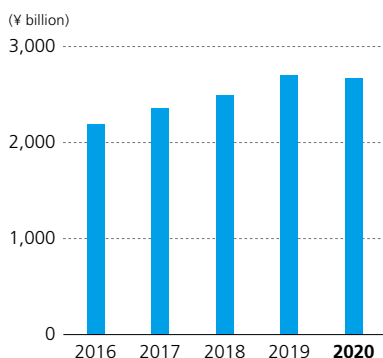
In defense systems-related products, sales of ammunition to the Ministry of Defense rose. As a result, net sales increased year on year. Net sales of home oxygen equipment were also up year on year due to robust sales of oxygen concentrators.

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, as well as favorable sales of the related new product "Smart Innovator" and CG creation systems.

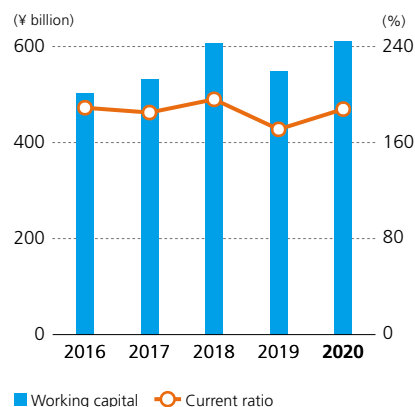
Cash Dividends per Share



Total Assets



Working Capital and Current Ratio



Currency Exchange Rates

In foreign currency markets, the yen's average annual exchange rate was ¥2 higher against the U.S. dollar and ¥7 higher against the euro compared to the previous fiscal year. The average rates for the fiscal year under review were US\$1=¥109 and €1=¥121.

Fluctuations in currency exchange rates resulted in a decrease of ¥75.0 billion in sales and ¥20.0 billion in operating income below what they would have been in the absence of fluctuations.

	2019	2020
Yen-U.S. dollar rate	¥111	¥109
Yen-euro rate	¥128	¥121

SG&A Expenses and Operating Income

As a result of increases in personnel costs and other factors, SG&A expenses rose 4.5% over the previous fiscal year, to ¥619.4 billion. Consolidated operating income declined 3.9% year on year, to ¥265.5 billion, while the operating income margin came in at 10.4%.

Assets, Liabilities, and Total Equity

Assets

At the end of fiscal 2020, consolidated total assets amounted to ¥2,667.5 billion, down ¥33.4 billion from the previous fiscal year-end.

Current assets were down ¥13.2 billion from the end of the previous fiscal year, to ¥1,304.4 billion, because of a decrease in trade notes receivable and other factors. Noncurrent assets decreased ¥20.2 billion from the previous fiscal year-end, to ¥1,363.1 billion, due mainly to a decline in investment securities resulting from sales.

Liabilities and Net Assets

Consolidated total liabilities decreased ¥49.1 billion compared to the end of the previous fiscal year, to ¥1,204.9 billion. This was largely due to the decline in short-term borrowings and other fac-

tors. Net assets grew ¥15.7 billion from the previous fiscal year-end, to ¥1,462.6 billion, due to net income attributable to owners of the parent and other factors. As a result of the aforementioned, the shareholders' equity ratio climbed from 52.4% as of the end of the previous fiscal year, to 53.8%. Net assets per share improved to ¥4,904.46 from ¥4,841.15 for the previous fiscal year.

Total interest-bearing liabilities stood at ¥553.9 billion as of March 31, 2020, down ¥31.8 billion compared to the end of the previous fiscal year. This mainly reflected the decrease in short-term borrowings and other factors. The interest-bearing liability ratio (interest-bearing liabilities / total assets) decreased from 21.7% to 20.8%.

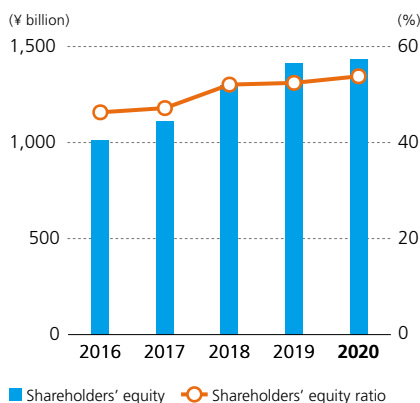
Cash Flows

During the fiscal year under review, net cash provided by operating activities was ¥302.2 billion, an increase of ¥52.2 billion from the previous fiscal year, principally due to a decrease in the amount of increase in trade receivables. Net cash used in investing activities was ¥156.2 billion, a decrease of ¥9.6 billion from the previous fiscal year, primarily due to a decrease in expenditures for the acquisition of consolidated subsidiaries. Net cash used in financing activities was ¥169.9 billion, an increase of ¥101.2 billion from the previous fiscal year, mainly due to a decrease in short-term borrowings. After including the effect of foreign exchange rate change to these results, net decrease in cash and cash equivalents for the fiscal year under review, amounted to ¥46.0 billion, a decrease of ¥56.2 billion from the previous fiscal year.

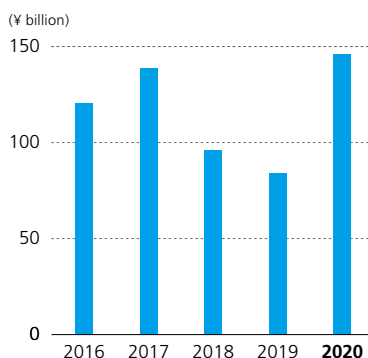
Capital Investment

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 ¥132.0 billion. In the air-conditioning and refrigeration equipment field, Daikin invested ¥11.1 billion, centered on

Total Shareholders' Equity and Shareholders' Equity Ratio



Free Cash Flow



Capital Investment and Depreciation and Amortization



Financial Review

research and development as well as the rationalization of room air conditioners and package air conditioners. At Goodman Global Group, Inc., investments of ¥17.7 billion were made primarily to increase capacity and to attain rationalization objectives. In the chemicals field, Daikin invested ¥9.3 billion, mainly to increase capacity and meet rationalization objectives. In addition, Daikin Fluorochemicals (China) Co., Ltd. made investments of ¥8.5 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.

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 technology 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. Through this comprehensive collaboration, both organizations are going beyond joint research and development to create a vision for the future, conducting reciprocal personnel exchange and working together on venture companies related to the University of Tokyo, among other endeavors, in what will become a far-ranging relationship. In addition, Daikin has already formed collaborative ties with a number of other tertiary institutions including Kyoto University and a comprehensive collaboration contract with Osaka University to train human resources in the utilization of AI focusing on the information sciences field, and Tsinghua University and Peking University in China in 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.

Building on the wealth of data gained from open spaces, in 2019 the Company established "point 0 marunouchi," a membership-type workspace being field trialed to realize the "office of the future," which is the first project 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 2020, R&D expenses included in Groupwide SG&A expenses as well as the cost of goods sold came to ¥68.0 billion.

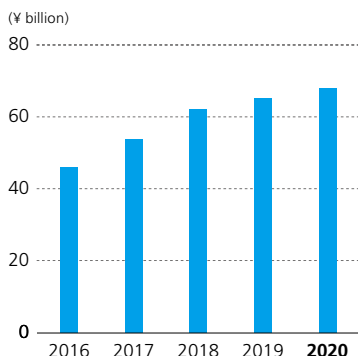
Air-Conditioning and Refrigeration Equipment

R&D expenses for air-conditioning and refrigeration operations totaled ¥59.1 billion.

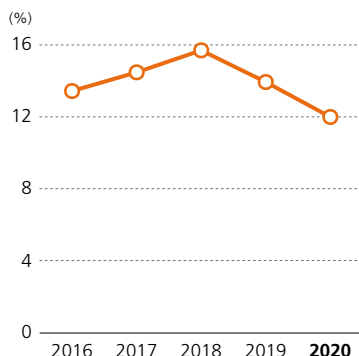
Daikin has newly launched the "Ururu Sarara" series brand line of air-conditioning products for residential and commercial air conditioners with superior humidity control technology, which is essential for creating healthy and comfortable spaces. From November 2019, the Company also conducted a steady stream of launches with the wall-mounted room air conditioners "Urusara X" and "Urusara mini," the dehumidifying streamer air purifier "Ururu Sarara air purifier" and "Ururu Sarara ZEAS," a store and office air conditioner.

Daikin was quick off the mark to discern the importance of humidity in air and space, and in 1999 we launched "Ururu Sarara," the world's first room air conditioner loaded with humidity control technology. Marking its 20th anniversary, the development of this brand has heightened an awareness of humidity among consumers, and is providing support through the creation of healthy and comfortable spaces throughout the year in a variety of environments, whether they be living rooms or bedrooms, children's rooms, offices or stores, hospitals or whatever spaces in which people live. In "Urusara X," Daikin has put to use a humidity control technology to regulate humidification and dehumidification, and has developed a technology to clean heat exchangers in room air conditioners. This means that indoor units will maintain their cleanliness throughout the year, whether it be in summer or

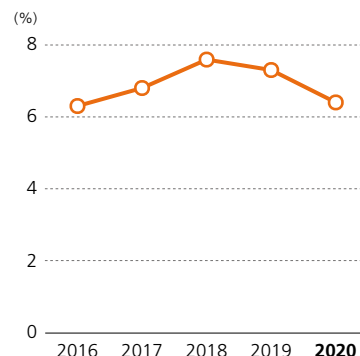
Research and Development Expenses



ROE



ROA



winter. Air supply systems also come equipped with a ventilation function, making for a comfortable interior environment with room air conditioning that brings air in from outside. While “Urusara mini” has a humidifying function on par with that of “Urusara X,” it has a thin-type indoor unit design. The Company is developing this as an Ururu Sarara entry model for bedrooms and small rooms. “Ururu Sarara air purifier” features humidification, dehumidification, air purifying and deodorizing functions. Moreover, Daikin has newly developed an interlocking function for its wall-mounted air conditioners, and even those units not equipped with humidity regulating technology are able to dehumidify or humidify.

In addition, residential air-conditioning equipment includes the “risora,” a wall-mounted air conditioner that pursues harmony with interior settings and comes with a front panel that is available in the customer’s preferred color, while in June 2019 the Company jointly made plans with Sangetsu Co., Ltd. to offer “risora custom style,” a fee-based service that replicates the textured surfaces of wood, marble, leather or other materials. Customers can enjoy selecting combinations of wallpaper and room air conditioners in tune with their image of what the interior should be, which contributes to a space that only they themselves could create.

In commercial air-conditioning equipment, Daikin launched the “FIVE STAR ZEAS” series and the “Eco-ZEAS” series as new models in the “SkyAir” lineup of air conditioners for stores and offices to realize greater cleanliness and energy conservation in April 2020. The new products are equipped with “mold proof with water” function, and when the cooling and dehumidifying cooling modes are turned off, dust in the heat exchanger is washed away by condensed water and the air conditioner’s interior is cleansed with blower operation and heating that dries the interior portion. In consideration of creating healthy, clean spaces, Daikin combines this with “Streamer Internal Cleaning,” which it launched in April 2018 to suppress the growth of mold, a cause of unpleasant odors inside indoor units. The high-capacity type (8-10 horsepower) is the first in the industry to adopt R32 refrigerant, which has a low impact on global warming, raising environmental performance. With an energy-saving performance of approximately 20% higher than conventional equipment, and at a compact 19kg (8 horsepower), burden is alleviated not just for users, but for builders as well.

Daikin released “VRV X” series models in April 2020 for use in medium- to large-scale buildings. Natural disasters such as extreme heat and typhoons have increased in recent years, and with an eye toward the increasingly harsh conditions in which outdoor units are placed, we have reinforced the frame structure of this model so that it can better stand up to earthquakes and windy conditions. In tests it successfully cleared a seismic intensity of seven and wind speeds up to 60m/s. In addition, being equipped with a high-efficiency microchannel heat exchanger it can maintain its rated coolant capacity in exterior temperatures up to 41°C, providing a stable cooling function even in environments of intense heat.

In response to the shortages of equipment installers in recent years, Daikin has reduced the installation workload by adopting the “gradient-free method” for both “VRV X” and “Skyair.” This method simplifies the drain piping work that had been a large burden when installing indoor units. Moreover, Daikin’s aim is to enhance operational efficiencies from the process of developing

air-conditioning equipment design, through installation to test running. By having customers utilize “DK-BIM” (Daikin BIM – building information modeling), which supports the design of air-conditioning systems by using the cloud to automate calculation and assignment of air-conditioning burden, and create materials, or other applications such as “air conditioning delivery specification creation support (provisional name).” Daikin aims to substantially reduce manhours at every point along the process, until the completion of air-conditioning equipment.

To improve upon conventional equipment in terms of energy conservation, installation tasks and low-maintenance features, Daikin developed a “beltless type” of air-conditioning system for facilities such as plants and warehouses characterized by large spaces. Conventional air conditioners for facilities requires adjustments and maintenance by seasoned technicians, and incurs costs and manhours as well. However, by adopting a “direct-drive method” that directly connects the fan and motor, this product enables major reductions to these drawbacks. Moreover, even with operations to replace the existing equipment, which accounts for a majority of the market, being equipped with a function that automatically adjusts air volume means that installation time is drastically shortened. Labor shortages in connection with installation and maintenance have in recent times become an issue shared throughout the air-conditioning industry. Going forward, as an air-conditioning equipment manufacturer, Daikin will continue to generate products that work to solve this problem.

In Applied Systems, Daikin released to the North American market new medium- and large-sized rooftop units that offer enhanced efficiency and customization in September 2019. In addition, Daikin launched air cooled chillers equipped with a free-cooling function that offers high-energy saving performance making its design optimal for the rapidly growing data center cooling market in March 2020. In Europe, against a backdrop of increasingly stringent control of fluorine gas, Daikin first sent to market a turbo chiller that adopts R513A refrigerant in December 2019, and then in quick succession in January 2020, a scroll heat pump chiller that adopts R32 refrigerant. Continuing on from the previous year, Daikin expanded adoption of low-GWP refrigerants. In China, Daikin released large-scale turbo chillers that expand the range of use from general air conditioning units equipped with new compressors to high-temperature heat pumps and ice storage in December 2019. In November 2019, Daikin also launched magnetic bearings for turbo chillers that adopt low-pressure refrigerant with a low environmental impact, which is in demand in South East Asia and other overseas markets.

Financial Review

Chemicals

R&D expenses for Chemicals operations totaled ¥6.7 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 become the sole provider of fluorochemical solutions. Especially, in the automotive battery field, Daikin is making concerted efforts to grow its ties globally and further expand its markets.

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 ¥2.1 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, besides the medium- to low- and small-volume markets, where Daikin is working to expand the adoption in Japan and overseas, the Group 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 and technology that go beyond existing frameworks and will find applications globally.

In defense systems, Daikin mainly conducts R&D related to artillery shell and guided missiles components, 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.

In addition, internal reserves will be applied to strategic investments to expand business and increase competitiveness such as reinforcing management structure, promoting global businesses, and accelerating eco-conscious product development.

For the fiscal year ended March 31, 2020, the Company has proposed an annual cash dividend of ¥160 (¥80 for the interim dividend and ¥80 for the year-end dividend).

For the fiscal year ending March 31, 2021, the Company's annual cash dividend plans are pending.

Outlook for Fiscal 2021

Upon entering March, the World Health Organization (WHO) issued a declaration to the effect that COVID-19 had become a pandemic, and its spread in and outside of Japan continues unabated. Amidst limitations on outdoor and commercial activities, and restrictions on moving between countries that are growing stricter worldwide, depressed sentiment toward consumption, fragmentation of supply chains and other issues have led to a rapid contraction of overall economic activities. Given ominous signs that the impact of COVID-19 will be prolonged, it appears that the future of the world economy will continue to be severe. However, Daikin is focusing its efforts on the business operation front, such as with production, procurement, and sales, so as to minimize impact on the Group and to swiftly recover when the pandemic has abated. The Group will also be making efforts to discover new markets and opportunities in order to further contribute to the world as a manufacturer of air conditioners.

On top of this, for this year (2020), the Daikin Group aims to generate results by setting "Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change!" (Three Structures: customer, internal and external) as the Group's New

Year's slogan. The Group will work together to continue to refine its efforts to strengthen sales and marketing capabilities, improve product development, production, procurement, and quality capabilities, enhance the capabilities of its human resources, and reduce both fixed and variable costs in each region around the world. Furthermore, the Daikin Group will respond to the changes in the structure of the economy and society brought about by escalating global competition and advances in the digital economy. The Group will do this 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 build new business segments.

In addition, the International Energy Agency (IEA) foresees demand for air conditioning more than tripling by 2050, from today's levels, in line with the development of emerging countries. While this represents a huge opportunity for the Daikin Group with its main business in air conditioning, there is the worldwide issue of global warming and along with that, climate change. Amidst growing demand for decarbonization, issues such as curbing energy consumption associated with air conditioning, lowering the use of fossil fuels, and preventing leaks of refrigerants that cause greenhouse effects. Conversely, if no action were to be taken to control greenhouse gas emissions, these could become a risk for the Group. Daikin aims to respond to these risks by reducing its environmental impact by, for example, developing and spreading the use of refrigerants with lower global warming potential, developing and spreading the use of high-efficiency air conditioners, and creating solutions for buildings that utilize energy efficiently throughout the entire facility. In 2018, the Daikin Group formulated its "Environmental Vision 2050" to aim for zero greenhouse gas emissions in 2050, while offering a safe and healthy air environment. Daikin announced its support and agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. An important issue is the impact climate change will exert on business continuity, and as such, Daikin analyzes the risks and opportunities it will have on business, and together with reflecting that to management strategy, the Group contributes to solutions to climate change and other social problems while also aiming for further growth.

For the fiscal year ending March 31, 2021, Daikin forecasts an 8.6% decrease in consolidated net sales, to ¥2,330.0 billion, with operating income expected to fall 43.5% year on year, to ¥150.0 billion, and net income attributable to owners of the parent contracting 41.4%, to ¥100.0 billion. The estimated exchange rates for the fiscal year are ¥108 to the US dollar and ¥120 to the euro.

Principal Risks Associated with the Daikin Group's Operations

Management recognizes the following principal risks that may influence decisions made by investors given their significant impact on business conditions as stated in the securities report, and among matters pertaining to accounting status, consolidated companies' financial status and business performance, as well as cash flows.

The following have been determined as of the end of the con-

solidated fiscal year under review.

(1) Risks related to the market environment

① Risks related to changes in the market environment

The Group develops, procures, manufactures, and sells goods and services in each of its business domains, chiefly air conditioning, as it grows its business globally. In principal countries and regions throughout the world, the Group strives to raise market share by strengthening its sales network, offer competitive products and services, and to cut fixed costs in order to expand its business and enhance profitability.

Nonetheless, in the event of rising instability in the political situation, economic contraction, inclement weather, sweeping pandemic or other cause of deteriorating market conditions, there is a possibility that demand will decline in countries and regions in which the Group has operations, or also for its products, and that business expansion and increases in profitability will not progress as planned. As a result, there is a possibility of an impact on the Group's financial situation and management performance.

② Risks related to fluctuations in currency exchange rates and funds procurement environment

Overseas sales accounted for a high ratio of the Daikin Group's consolidated net sales in fiscal 2020. 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 parts procurement and in the sale of goods and services, there is a possibility that fluctuations 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 fluctuations in currency exchange rates.

In addition, the Daikin Group procures funds necessary for its business activities through loans from financial institutions, or by using commercial paper or bonds. When the economic environment fluctuates, the lending posture of financial institutions and the situation in funds procurement markets will change, and there is the risk that necessary funds cannot be procured, or that the funding rate will rise. In response to such risks, we set commitment lines, and use interest swaps and other measures to fix the interest rate, among other efforts. However, there is a possibility that fund procurement costs will rise, and that there will be an impact on the Group's financial situation and management performance.

Financial Review

③ Risk related to fluctuation in market value of securities

The Daikin Group takes a strategic approach to holding corporate stock that can be anticipated to enhance Company value. However, stock market trends could cause a decline in the value of these stocks, and potentially impact the Group's financial situation and management performance.

(2) Risks related to business activities

① Risks related to technology, products, and services

The Daikin Group aims to generate customer value and social value, and makes concerted efforts to develop the technology, products, and services that will consistently lead to customer satisfaction. However, the emergence of new technology, products or services that differ from those anticipated by the Group, or abrupt changes to the market such as rapidly escalating competition, including from new market entrants, may lead to the necessity to amend or transform technology or product strategy.

In that event, delays in bringing about new products or services, or launching new businesses, will cause the Group to lose its advantageous position against competitors or new market entrants. As a result, this may impact the Group's financial situation and management performance.

② Risks related to acquisitions and alliances with other companies

The Daikin Group has in the past utilized corporate acquisitions, in addition to organic growth leveraging existing management resources in order to grow its business globally and to strengthen its product lineup and sales structure. Going forward, to expand its business domains and accelerate the transformation of its business structure, it will aggressively undertake alliances, collaboration, and M&A activities. In the project evaluation stage, the Group not only assessed strategy toward business expansion but also considered the risk in terms of business operation, and following project execution, will strive to ensure that business integration occurs smoothly. Nonetheless, after a project is executed, there is a possibility that integration will not proceed according to plan due to a deteriorating market environment, the inability to fully utilize the management resources of the target company, and the lack of smooth cooperation with the target company, or other reason. As a result, there is a possibility that there will be an impact on the Group's financial situation and management performance.

③ Product and service quality and responsibility

The Daikin Group operates in over 150 countries worldwide, and endeavors to provide products and services that are in tune with local needs. In addition, it undertakes strict design overviews and quality audits for each respective region, and does its utmost to assure quality and safety. However, by any chance that a problem with regard to safety arises, it gives first consideration to the safety of the customer. To prevent reoccurrence or expansion of the accident, the Group will repair or exchange, and will through newspapers or other means notify and disclose information to sales vendors and other relevant third parties, fulfilling its responsibilities based on the Product Liability Law.

As these countermeasures may incur large expense, we have enrolled in product liability insurance, however, in the event that expenses exceed the limit of compensation or if sales decline as a

result of a deteriorated brand image, there is a possibility of an adverse impact on the Group's financial situation and management performance.

④ Risks related to procurement

In the event management conditions at suppliers deteriorates, or if natural disasters or accidents occur, the Daikin Group makes efforts to ensure that raw materials, parts, and other items are supplied in a stable and timely manner, and at reasonable prices. This can be achieved by diversifying its suppliers and dispersing sourcing geographically, as well as by creating parts commonalities and standardization, among other efforts. However, in the short term, it may be difficult to take the measures described above, and in the event of an unforeseen situation, the Group could experience shortages of raw materials and parts, delays in delivery, and other problems. In this case, there is a possibility that this may have an impact on the Group's business.

In addition, the Daikin Group and its suppliers set prices of raw materials and parts in accordance with a contract. The Group strives to enable procurement at stable prices through long-term contracts and other means, although abrupt changes in the supply and demand environment or fluctuations in exchange rates may make sharp rises in procurement prices unavoidable.

In such an event, there is a possibility that there will be an impact on the Group's financial situation and management performance.

⑤ Legal regulations

The Daikin Group, which operates in over 150 countries worldwide, is subject to laws and regulations covering competition, the prevention of bribery, labor and safety, the environment, and other areas in all nations and regions around the world. In each country the introduction of ever more severe laws and regulations and changes in the legal interpretations and operating guidelines of local authorities may lead to limitations of the Group's business activities. The Group conducts an array of training sessions with the aim of thorough compliance, along with the introduction of an annual "self-check" to confirm whether or not daily business is being performed in adherence to laws and regulations. Together with raising a consciousness of compliance, the Group conducts audits and confirms the status of adherence.

Nonetheless, in the event that violations of the law occur, there is a possibility that the Group will face administrative action for the payment of monetary penalties. In addition, a decline in brand image has the potential to impact the Group's financial situation and management performance.

⑥ Information security

In the course of carrying out its business, the Daikin Group obtains confidential information from third parties and personal information from customers, in addition, the Group also handles its own proprietary confidential information. For that reason, there is a possibility of unauthorized access by hackers or being the subject of a cyber-attack that causes external leaks of personal or confidential information, which could halt production lines at each location or logistics systems, and exert a serious impact on business.

To prevent any of these situations from arising, the Group is putting into place countermeasures that include strengthening infor-

mation security systems, thoroughly controlling confidential notifications, restricting external access, maintaining internal regulations, and conducting education and training. However, in the event such situations were to occur, there may be requirements to pay large-scale damages or fines. Moreover, the payment of enormous countermeasure costs has the potential to impact the Group's financial situation and management performance.

(3) Risks related to climate change and other environmental issues

Based on the Group Philosophy to "Be a Company that Leads in Applying Environmentally Friendly Practices," the Daikin Group develops and spreads energy-conserving, high-efficiency air conditioners and refrigerants with lower global warming potential, and generates solutions for the efficient use of energy throughout entire buildings. In this way it is taking aggressive action to curb greenhouse gas (CO₂, fluorocarbons) emissions, and to protect the global environment. However, given deepening global environmental problems, in the event that regulations covering use and emissions of greenhouse effect-causing refrigerant gas, and regulations pertaining to energy conservation become more stringent, there is a possibility of increased costs necessary to adhere to such regulations. In addition, in the event that taking a sufficient response to these regulations is difficult and delays occur, product sales may be hindered, and there may be an impact on smooth business operations.

In addition, The Daikin Group takes every possible measure to prevent environmental pollution from our business activities, including not only compliance with regulations but also the establishment of even stricter voluntary standards. However, in the event that chemical substances released by the Group effectively give rise to environmental problems, it will be necessary to respond by undertaking purification treatment, paying damages, and other measures, and it is possible that costs will be incurred to address such situations.

The emergence of such risks entails a possibility of an impact on the Group's financial situation and management performance.

(4) Others

① Impairment of long-lived assets

The Daikin Group records various tangible and intangible long-lived assets, including assets used in operations and goodwill arising from acquisitions. These assets are assessed for any indication of impairment loss. If there is an indication of impairment, steps are taken to estimate the total amount of undiscounted future cash flows to determine the existence of loss. The undiscounted future cash flows required to make these determinations are based on management plans and are estimated after factoring in future uncertainties. If an impairment loss is recognized in the future due to fluctuations in business performance or other factors, the financial position and results of operations of the Group may be affected. Meanwhile, the Group monitors its performance on an ongoing basis and strives to take action before it becomes difficult to recover investments.

② Natural disasters, etc.

The Daikin Group possesses R&D, manufacturing, sales, and service bases around the world. In recent years, Japan has experienced

earthquakes, tsunamis, typhoons, torrential rain, and other natural disasters. In preparation for such natural disasters, the Company takes measures to reinforce each business site against earthquakes, and also acts to put in place countermeasures against tsunamis, significant rainfall, flooding, and other disasters. In addition, it also formulates disaster prevention regulations pertaining to natural disasters, and periodically conducts disaster prevention training in efforts to minimize the impact of natural disasters. Nonetheless, there is a possibility that a major natural disaster will significantly impact business activities, and that harm will come to the Group's employees, production facilities, systems, and other assets. At overseas locations as well, in addition to various types of natural disasters, terrorism, riots, wars, and other incidents could conceivably cause harm not only to the Group's business bases, but also to supply chains and customers. This holds a possibility of hindering the Group's business activities and causing delays.

Furthermore, an enormous risk for the Daikin Group's business has become the spread of contagious disease. This year the Group has been buffeted by the worldwide spread of COVID-19, and among the things that have had a major impact have been the suspension of operations at certain plants located outside of Japan, product warehouses that have gone into lockdown, delayed logistics, and fallen sales. When the pandemic will abate remains unclear, and it is also difficult to predict to what extent the impact will be on the Group's business activities. However, the Group has made securing the health and safety of its employees the top priority, and has promoted working from home while pressing forward with efforts to bolster health management at work sites. Along with this, the Group has put in place various measures to minimize impact of the spread of the pandemic, and in line with dissipation, intends to swiftly recover business activities.

In the event the Group should be hit with the aforementioned natural disasters or the spread of contagious disease, there is a possibility of an impact on the Group's financial situation or management performance.

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries

March 31, 2020

ASSETS	Millions of Yen	
	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents (Notes 8 and 16)	¥ 321,152	¥ 367,189
Short-term investments (Note 16)	49,641	592
Trade receivables (Notes 7, 8 and 16):		
Notes	48,613	58,725
Accounts	392,142	389,106
Allowance for doubtful receivables	(10,562)	(9,148)
Inventories (Note 3)	433,783	436,358
Prepaid expenses and other current assets	69,658	74,783
Total current assets	1,304,427	1,317,605
PROPERTY, PLANT AND EQUIPMENT:		
Land	56,891	43,492
Buildings and structures	444,781	374,356
Machinery and equipment	631,138	582,500
Furniture and fixtures	193,840	200,912
Lease assets (Note 15)	3,614	3,427
Construction in progress	46,120	34,824
Total	1,376,384	1,239,511
Accumulated depreciation	(796,403)	(756,548)
Net property, plant and equipment	579,981	482,963
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 5, 8 and 16)	157,329	198,698
Investments in and advances to unconsolidated subsidiaries and associated companies	17,439	24,647
Goodwill (Note 6)	281,969	322,319
Customer relationships	169,766	189,365
Other intangible assets	90,921	106,457
Deferred tax assets (Notes 2 and 12)	26,794	25,057
Assets for retirement benefits (Note 9)	12,885	14,510
Other assets	26,002	19,270
Total investments and other assets	783,105	900,323
TOTAL	¥ 2,667,513	¥ 2,700,891

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen	
	2020	2019
CURRENT LIABILITIES:		
Short-term borrowings (Notes 8 and 16)	¥ 48,938	¥ 146,066
Current portion of long-term debt (Notes 8 and 16)	105,900	92,386
Current portion of long-term lease obligations (Note 15)	17,301	1,242
Trade payables (Note 16):		
Notes	10,007	14,541
Accounts	179,837	189,994
Income taxes payable (Note 16)	19,894	25,576
Provision for product warranties	52,850	52,602
Accrued expenses (Note 7)	142,069	135,180
Other current liabilities (Note 7)	117,162	111,229
Total current liabilities	693,958	768,816
LONG-TERM LIABILITIES:		
Long-term debt (Notes 8 and 16)	323,185	335,989
Long-term lease obligations (Note 15)	58,483	9,959
Liabilities for retirement benefits (Note 9)	13,219	11,098
Deferred tax liabilities (Notes 2 and 12)	90,087	101,956
Other long-term liabilities	25,990	26,223
Total long-term liabilities	510,964	485,225
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	83,899	83,650
Stock acquisition rights	1,887	1,721
Retained earnings	1,254,073	1,133,101
Treasury stock, at cost: 529,837 shares in 2020 and 605,740 shares in 2019	(2,265)	(2,589)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	29,765	57,686
Deferred gains on derivatives under hedge accounting	(2,797)	619
Foreign currency translation adjustments	(5,052)	63,808
Remeasurements of defined benefit plans	(7,687)	(5,232)
Subtotal	1,436,855	1,417,796
Noncontrolling interests	25,736	29,054
Total equity	1,462,591	1,446,850
TOTAL	¥ 2,667,513	¥ 2,700,891

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2020

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
NET SALES (Note 7)	¥ 2,550,305	¥ 2,481,109
COST OF SALES (Note 14)	<u>1,665,407</u>	<u>1,612,186</u>
Gross profit	884,898	868,923
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 7 and 14)	<u>619,385</u>	<u>592,668</u>
Operating income	<u>265,513</u>	<u>276,255</u>
OTHER (EXPENSES) INCOME:		
Interest and dividend income	13,114	12,249
Interest expense	(11,008)	(11,852)
Equity in earnings of associated companies	166	2,119
Exchange gains (losses)	461	(4,848)
Subsidy income	3,239	2,570
Gains on sales of land	658	0
Losses on disposals of property, plant and equipment and other intangible assets	(454)	(803)
Loss on sales of land		(7)
Losses on impairment of long-lived assets (Note 4)	(23,555)	
Gains on sales of investment securities (Note 5)	10,810	40
Impairment losses on investment securities (Notes 5 and 16)	(579)	(315)
Gains on reversal of stock acquisition rights	25	
Gains on insurance claims	255	
Losses from natural disasters		(679)
Other – net	<u>(2,465)</u>	<u>582</u>
Other expenses – net	<u>(9,333)</u>	<u>(944)</u>
INCOME BEFORE INCOME TAXES	<u>256,180</u>	<u>275,311</u>
INCOME TAXES (Note 12):		
Current	81,132	77,607
Deferred	<u>(2,150)</u>	<u>2,039</u>
Total income taxes	<u>78,982</u>	<u>79,646</u>
NET INCOME	<u>177,198</u>	<u>195,665</u>
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(6,467)</u>	<u>(6,616)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 170,731</u>	<u>¥ 189,049</u>
	Yen	
AMOUNTS PER COMMON SHARE (Note 19):		
Basic net income	¥583.61	¥646.39
Diluted net income	583.22	645.95
Cash dividends applicable to the year	160.00	160.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2020

	Millions of Yen	
	2020	2019
NET INCOME	<u>¥ 177,198</u>	<u>¥ 195,665</u>
OTHER COMPREHENSIVE LOSS (Note 18):		
Unrealized losses on available-for-sale securities	(27,921)	(16,899)
Deferred losses on derivatives under hedge accounting	(3,416)	(109)
Foreign currency translation adjustments	(69,587)	(8,109)
Remeasurements of defined benefit plans	(2,457)	448
Share of other comprehensive loss in affiliates accounted for using the equity method	(495)	(1,167)
Total other comprehensive loss	<u>(103,876)</u>	<u>(25,836)</u>
COMPREHENSIVE INCOME	<u>¥ 73,322</u>	<u>¥ 169,829</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥68,079	¥163,451
Noncontrolling interests	5,243	6,378

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2020

	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2018	292,436,934	¥ 85,032	¥ 84,389	¥ 1,511	¥ 987,547	¥(2,894)
Net income					189,049	
Cash dividends, ¥160 per share					(42,407)	
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2.a)					(1,088)	
Repurchase of treasury stock	(201)					(2)
Disposal of treasury stock	71,500		178			307
Change in parent's ownership interest due to transactions with noncontrolling interests			(917)			
Net change in the year				210		
BALANCE, MARCH 31, 2019	292,508,233	85,032	83,650	1,721	1,133,101	(2,589)
Net income					170,731	
Cash dividends, ¥160 per share					(49,731)	
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2.a)					(28)	
Repurchase of treasury stock	(97)					(2)
Disposal of treasury stock	76,000		287			326
Change in parent's ownership interest due to transactions with noncontrolling interests			(38)			
Net change in the year				166		
BALANCE, MARCH 31, 2020	<u>292,584,136</u>	<u>¥ 85,032</u>	<u>¥ 83,899</u>	<u>¥ 1,887</u>	<u>¥ 1,254,073</u>	<u>¥(2,265)</u>

See notes to consolidated financial statements.

Millions of Yen						
Accumulated Other Comprehensive Income (Loss)						
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
¥ 74,586	¥ 728	¥ 72,834	¥(5,669)	¥ 1,298,064	¥ 26,258	¥ 1,324,322
				189,049 (42,407)		189,049 (42,407)
				(1,088)		(1,088)
				(2)		(2)
				485		485
				(917)		(917)
<u>(16,900)</u>	<u>(109)</u>	<u>(9,026)</u>	<u>437</u>	<u>(25,388)</u>	<u>2,796</u>	<u>(22,592)</u>
57,686	619	63,808	(5,232)	1,417,796	29,054	1,446,850
				170,731 (49,731)		170,731 (49,731)
				(28)		(28)
				(2)		(2)
				613		613
				(38)		(38)
<u>(27,921)</u>	<u>(3,416)</u>	<u>(68,860)</u>	<u>(2,455)</u>	<u>(102,486)</u>	<u>(3,318)</u>	<u>(105,804)</u>
<u>¥ 29,765</u>	<u>¥(2,797)</u>	<u>¥ (5,052)</u>	<u>¥(7,687)</u>	<u>¥ 1,436,855</u>	<u>¥ 25,736</u>	<u>¥ 1,462,591</u>

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2020

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES:		
Income before income taxes	¥ 256,180	¥ 275,311
Adjustments for:		
Income taxes – paid	(87,360)	(71,415)
Depreciation and amortization	128,486	99,315
Losses on impairment of long-lived assets	23,555	
Gains on sales of investment securities	(10,810)	(40)
Impairment losses on investment securities	579	315
Losses on disposals of property, plant and equipment and other intangible assets	454	803
Equity in earnings of associated companies	(166)	(2,119)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	591	(36,847)
Inventories	(14,315)	(38,790)
Other current assets	(1,624)	(4,920)
Assets for retirement benefits	1,695	291
Trade notes and accounts payable	(6,365)	8,619
Accrued expenses	11,347	9,213
Other current liabilities	6,223	13,126
Liabilities for retirement benefits	2,606	(137)
Other – net	(8,909)	(2,716)
Total adjustments	45,987	(25,302)
Net cash provided by operating activities	<u>302,167</u>	<u>250,009</u>
INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(98,095)	(85,487)
Proceeds from sales of property, plant and equipment	3,963	1,822
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 13)	(13,190)	(67,932)
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	(99)	(80)
Payments for transfer of business		(6,161)
Payments for acquisition of investment securities	(1,595)	(1,444)
Proceeds from sales of investment securities (Note 5)	22,585	47
Net increase in time deposits	(52,908)	(592)
Other – net	(16,848)	(6,015)
Net cash used in investing activities	<u>(156,187)</u>	<u>(165,773)</u>
FINANCING ACTIVITIES:		
Net (decrease) increase in short-term borrowings	(93,943)	100,640
Proceeds from long-term debt	102,562	
Repayments of long-term debt (Note 13)	(98,196)	(118,172)
Cash dividends paid to owners of the parent	(49,731)	(42,407)
Cash dividends paid to noncontrolling interests	(9,859)	(4,414)
Repayments of lease obligations	(20,919)	(1,520)
Other – net	152	(2,848)
Net cash used in financing activities	<u>(169,934)</u>	<u>(68,721)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(22,029)</u>	<u>(5,286)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45,983)	10,229
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>367,189</u>	<u>357,027</u>
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM EXCLUSION OF SUBSIDIARIES FROM CONSOLIDATION	(47)	
EFFECT OF CHANGE OF THE FISCAL YEAR-END OF CONSOLIDATED SUBSIDIARIES (Note 2.a)	(7)	(67)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 321,152</u>	<u>¥ 367,189</u>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2020

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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 313 (291 in 2019) 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 20 (19 in 2019) 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 9 (10 in 2019) subsidiaries and 9 (9 in 2019) 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, 2020, Tewis Smart Systems, S.L. changed its fiscal year-end from December 31 to March 31. The Company included the subsidiary's 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 subsidiary.

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; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- 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; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- 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.

- 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** – Non-ownership finance lease transactions and right-of-use assets within the scope of IFRS 16 "Leases" and Accounting Standards Update (ASU) 2016-02 "Leases" are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

All other leases are accounted for as operating leases.

Notes to Consolidated Financial Statements

From the beginning of the fiscal year ended March 31, 2020, the foreign consolidated subsidiaries have applied "Leases" (IFRS 16, January 13, 2016; ASU 2016-02, February 25, 2016). Following the application of these accounting standards, as of March 31, 2020, "property, plant and equipment" increased by ¥63,099 million, "current portion of long-term lease obligations" under "current liabilities" increased by ¥15,951 million, and "long-term lease obligations" under "non-current liabilities" increased by ¥48,129 million. In addition, ¥12,257 million of leasehold interests in land hitherto included in "other intangible assets" under "intangible assets" have been included in "land" under "property, plant and equipment" from fiscal year under review.

- 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.

With regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group tax sharing system, pursuant to the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company and some domestic subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

- 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 income per share 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).

Notes to Consolidated Financial Statements

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.

Fair Value Measurement – On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, non-marketable available-for-sale equity securities are stated at fair value, while under the current accounting standards, non-marketable available-for-sale securities are stated at cost. The Group expects to apply the New Accounting Standards for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the Standards in future applicable periods.

x. *Additional Information*

Decline in demand due to worldwide expansion of new coronavirus (COVID-19) infectious disease and effects of regulations on economic activity have now manifested. It is unclear when the spread of infection will end and when demand will recover after it ends. Although it is difficult to predict the extent of the impact on our Group's business activities, the Company made accounting estimates such as impairment of long-lived assets based on the assumption that the impact of COVID-19 will generally continue into the first half of the following fiscal year.

3. INVENTORIES

Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Finished products and merchandise	¥ 292,580	¥ 293,446
Semi-finished products and work in process	49,686	50,746
Raw materials and supplies	<u>91,517</u>	<u>92,166</u>
Total	<u>¥ 433,783</u>	<u>¥ 436,358</u>

4. LONG-LIVED ASSETS

The Group recognized impairment losses for the year ended March 31, 2020. The details were as follows:

<u>March 31, 2020</u>			
<u>Use</u>	<u>Location</u>	<u>Asset Category</u>	<u>Millions of Yen</u>
Other Business use	North Carolina, United States	Goodwill	¥ 12,965
		Customer relationships	<u>10,590</u>
		Total	<u>¥23,555</u>

At Flanders Holdings LLC, a consolidated subsidiary engaged in the manufacture and sale of filter and clean equipment, goodwill and customer relationships were recorded upon the acquisition of equity interest based on anticipated excess earnings. However, the business conducted by the subsidiary is under-performing compared with the business plan established at the time of the acquisition despite the subsidiary's efforts to strengthen its production and sales structure. As a result of the conservative review of its medium-term business plan, the book value has been reduced to the recoverable value, and the amount of such reduction has been recognized as impairment losses.

The recoverable amounts of these assets were measured by value in use, and the discount rate used to determine the present value of future cash flows was 8.8%.

No impairment loss was recognized for the year ended March 31, 2019.

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, 2020 and 2019 were as follows:

	<u>Millions of Yen</u>			
	<u>2020</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 98,394	¥ 46,087	¥ (6,299)	¥ 138,182
Debt securities	<u>300</u>			<u>300</u>
Total	<u>¥ 98,694</u>	<u>¥ 46,087</u>	<u>¥ (6,299)</u>	<u>¥ 138,482</u>
	<u>Millions of Yen</u>			
	<u>2019</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 110,707	¥ 79,198	¥ (2,340)	¥ 187,565
Debt securities	<u>300</u>			<u>300</u>
Total	<u>¥ 111,007</u>	<u>¥ 79,198</u>	<u>¥ (2,340)</u>	<u>¥ 187,865</u>

Notes to Consolidated Financial Statements

Marketable available-for-sale securities that were sold during the year ended March 31, 2020 were as follows:

March 31, 2020	Millions of Yen	
	Proceeds	Realized Gains / Realized Losses
Available-for-sale: Equity securities	¥22,585	¥10,810

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, 2020 and 2019 were ¥579 million and ¥44 million, respectively.

6. GOODWILL

Amortization expenses for goodwill were ¥30,684 million and ¥26,992 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

(1) 2020

(a) The Company

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length

(2) 2019

(a) The Company

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/Chief Executive Officer (CEO) and President of Art Corporation	0.00

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2020	Account	2020
Commissions for moving business and delivery business	¥466	Accrued expenses and other current liabilities	¥39

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2020	Account	2020
Commissions for moving business and delivery business	¥ 74	Accrued expenses and other current liabilities	¥ 8
Sales of products	332	Accounts receivable	44

basis and by reference to the normal market price.

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2019	Account	2019
Commissions for moving business and delivery business	¥524	Accrued expenses and other current liabilities	¥47

Notes to Consolidated Financial Statements

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/CEO and President of Art Corporation	0.00

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2020 and 2019 consisted of the following:

	Millions of Yen	
	2020	2019
Bank overdrafts and notes to banks	¥ 48,938	¥ 136,066
Commercial paper		10,000
Total	¥ 48,938	¥ 146,066

Unused short-term bank credit lines were ¥204,415 million at March 31, 2020. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2020 and 2019 were 1.02% and 0.49%, respectively. The weighted-average interest rate of commercial paper at March 31, 2019 was (0.01)%.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of Yen	
	2020	2019
1.86% unsecured bonds, due 2019		¥ 40,000
0.72% unsecured bonds, due 2019		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
0.13% unsecured bonds, due 2026	15,000	
0.18% unsecured bonds, due 2029	15,000	
Unsecured loans from government-sponsored banks, with interest of 1.75%, due through 2019		6,400
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.00% to 4.50% (2020) and from 0.00% to 3.75% (2019), due through 2026	214,083	171,971
Unsecured loans from banks and others with interest ranging from 0.17% to 3.49% (2020) and from 0.17% to 3.69% (2019), due through 2023	125,002	140,004
Total	429,085	428,375
Less current portion	(105,900)	(92,386)
Long-term debt, less current portion	¥ 323,185	¥ 335,989

Millions of Yen

Transactions		Resulting Account Balances	
Description of Transaction	2019	Account	2019
Commissions for moving business and delivery business	¥ 69	Accrued expenses and other current liabilities	¥ 6
Sales of products	247	Accounts receivable	30

basis and by reference to the normal market price.

Notes to Consolidated Financial Statements

Annual maturities of long-term debt outstanding at March 31, 2020 were as follows:

	Millions of Yen
2021	¥ 105,900
2022	74,816
2023	152,222
2024	16,031
2025	26,015
2026 and thereafter	<u>54,101</u>
Total	<u>¥ 429,085</u>

The assets pledged as collateral at March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Time deposits	¥ 368	¥ 677
Note receivables	1,279	2,246
Debt corresponding to the above:		
Note payables	2,685	4,033

In addition, investment securities pledged as collateral for the investee's borrowings from financial institutions at March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
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, 2020 and 2019 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	¥ 110,871	¥ 107,786
Service cost	5,961	5,330
Interest cost	1,424	1,326
Net actuarial losses	2,300	6
Past service cost	(5)	771
Benefits paid	(6,576)	(4,456)
Effect of changes in the scope of consolidation	199	837
Effect of change of the fiscal year-end		(15)
Foreign currency translation adjustments	(2,800)	(723)
Others	96	9
	<u>¥ 111,470</u>	<u>¥ 110,871</u>

- (2) The changes in plan assets for the years ended March 31, 2020 and 2019 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	¥ 116,790	¥ 114,476
Expected return on plan assets	3,522	3,568
Net actuarial losses	(2,022)	(410)
Contributions from the employer	3,888	3,620
Benefits paid	(6,046)	(3,938)
Foreign currency translation adjustments	(2,222)	(582)
Others	(16)	56
	<u>¥ 113,894</u>	<u>¥ 116,790</u>

- (3) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019 using the simplified method were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	¥ 2,507	¥ 2,506
Periodic benefit cost	972	832
Benefits paid	(719)	(831)
	<u>¥ 2,760</u>	<u>¥ 2,507</u>

Notes to Consolidated Financial Statements

- (4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2020 and 2019 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Funded defined benefit obligation	¥ (105,617)	¥ (106,176)
Plan assets	113,894	116,790
Total	<u>8,277</u>	<u>10,614</u>
Unfunded defined benefit obligation	<u>(8,611)</u>	<u>(7,202)</u>
Net amount of liabilities and assets recorded in the consolidated balance sheet	<u>¥ (334)</u>	<u>¥ 3,412</u>
Liabilities for retirement benefits	¥ (13,219)	¥ (11,098)
Assets for retirement benefits	<u>12,885</u>	<u>14,510</u>
Net amount of liabilities and assets recorded in the consolidated balance sheet	<u>¥ (334)</u>	<u>¥ 3,412</u>

- (5) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Service cost	¥ 5,961	¥ 5,330
Interest cost	1,424	1,326
Expected return on plan assets	(3,522)	(3,568)
Recognized net actuarial losses	266	1,286
Amortization of past service cost	(65)	(127)
Periodic benefit cost calculated by the simplified method	972	831
Others	<u>152</u>	<u>88</u>
Total	<u>¥ 5,188</u>	<u>¥ 5,166</u>

- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Past service cost	¥ 308	¥ 873
Net actuarial gains (losses)	<u>3,160</u>	<u>(1,476)</u>
Total	<u>¥ 3,468</u>	<u>¥ (603)</u>

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Unrecognized past service cost	¥ 631	¥ 323
Unrecognized net actuarial gains	<u>9,579</u>	<u>6,419</u>
Total	<u>¥ 10,210</u>	<u>¥ 6,742</u>

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Domestic debt securities	1%	2%
Domestic equity securities	0	2
Foreign debt securities	38	35
Foreign equity securities	16	18
Insurance assets (general account)	18	19
Cash and deposits	1	5
Alternative investments	<u>26</u>	<u>19</u>
Total	<u>100%</u>	<u>100%</u>

(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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
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 were ¥5,976 million and ¥5,913 million for the years ended March 31, 2020 and 2019, 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.

Notes to Consolidated Financial Statements

(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, 2020, were as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Options Granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Exercise Period</u>
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
2019 Stock Option	7 directors 54 employees	46,100 shares	2019.7.12	¥1	From July 13, 2022 to July 12, 2034

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	2019 Stock Option
<u>Year Ended March 31, 2019</u>								
<u>Vested</u>								
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	
<u>Year Ended March 31, 2020</u>								
<u>Vested</u>								
April 1, 2019 - Outstanding			40,000	22,700	58,100	48,800	42,700	
Granted								46,100
Exercised			(32,000)	(10,500)	(33,500)			
Canceled					(1,000)	(800)	(700)	
March 31, 2020 - Outstanding			8,000	12,200	23,600	48,000	42,000	46,100
Exercise price	¥2,186	¥4,500	¥6,715	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise	¥12,956	¥12,491	¥14,520	¥14,280	¥14,436			
Fair value price at grant date	¥676	¥1,220	¥1,697	¥7,726	¥7,859	¥10,711	¥11,670	¥12,777

The assumptions used to measure the fair value of 2019 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	29.7%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥160 per share
Risk-free interest rate:	(0.2)%

Notes to Consolidated Financial Statements

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% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Provision for product warranties	¥ 13,625	¥ 12,795
Tax loss carryforwards	11,655	10,427
Software and other intangible assets	10,256	8,668
Unrealized profit on inventories	9,271	9,307
Inventories	6,059	5,135
Accrued bonus	4,628	4,368
Investment securities	3,871	5,421
Liabilities for retirement benefits	3,538	2,498
Deferred revenue	2,933	3,100
Allowance for doubtful receivables	2,343	1,994
Foreign income tax credit	70	77
Other	22,445	20,293
Total of tax loss carryforwards and temporary differences	<u>90,694</u>	<u>84,083</u>
Less valuation allowance for tax loss carryforwards	<u>(8,707)</u>	<u>(8,206)</u>
Less valuation allowance for temporary differences	<u>(6,374)</u>	<u>(6,947)</u>
Total valuation allowance	<u>(15,081)</u>	<u>(15,153)</u>
Total deferred tax assets	<u>¥ 75,613</u>	<u>¥ 68,930</u>
Deferred tax liabilities:		
Intangible assets	¥ 64,092	¥ 68,816
Undistributed earnings of consolidated subsidiaries	40,385	39,862
Unrealized gains on available-for-sale securities	10,131	19,342
Assets for retirement benefits	4,131	4,662
Deferred gains on sales of property	1,705	1,722
Other	<u>18,462</u>	<u>11,425</u>
Total deferred tax liabilities	<u>¥ 138,906</u>	<u>¥ 145,829</u>
Net deferred tax liabilities	<u>¥ (63,293)</u>	<u>¥ (76,899)</u>

The expiration of tax loss carryforwards, related valuation allowances, and the resulting net deferred tax assets as of March 31, 2020 were as follows:

March 31, 2020	Millions of Yen						Total
	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	
Deferred tax assets relating to tax loss carryforwards	¥ 134	¥ 37	¥ 137	¥ 384	¥ 265	¥10,698	¥ 11,655
Less valuation allowances for tax loss carryforwards	(130)	(29)	(137)	(248)	(190)	(7,973)	(8,707)
Net deferred tax assets relating to tax loss carryforwards	4	8		136	75	2,725	2,948

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective tax rate is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2020.

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 year ended March 31, 2019, was as follows:

	<u>2019</u>
Normal effective statutory income tax rate	30.6%
Differences in foreign subsidiaries' tax rates	(5.5)
Taxes and tax effects on dividends from foreign subsidiaries	3.7
Amortization of goodwill	2.7
Tax credit for research and development	(2.2)
Permanently non-deductible expenses, such as entertainment expenses	0.5
Valuation allowance	0.1
Permanently non-taxable income, such as dividend income	(0.1)
Other – net	<u>(0.9)</u>
Actual effective income tax rate	<u>28.9%</u>

Notes to Consolidated Financial Statements

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

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 ¥67,968 million and ¥65,216 million for the years ended March 31, 2020 and 2019, respectively.

15. LEASES

The Group mainly leases certain buildings, land and vehicles.

Obligations for future minimum payments on non-cancelable operating leases at March 31, 2020 was as follows:

	Millions of Yen
	<u>Operating Leases</u>
Due within one year	¥ 1,172
Due after one year	<u>7,716</u>
Total	<u>¥8,888</u>

(Note) As foreign consolidated subsidiaries have adopted IFRS 16 "Leases" or ASU 2016-02 "Leases" since the fiscal year ended March 31, 2020, they are included in the book value by type of "property, plant and equipment" in the consolidated balance sheet for the fiscal year.

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.

Notes to Consolidated Financial Statements

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, 2020		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 321,152	¥ 321,152	
Short-term investments	49,641	49,641	
Trade notes and accounts receivable	440,755	440,755	
Investment securities	<u>138,482</u>	<u>138,482</u>	
Total	<u>¥ 950,030</u>	<u>¥ 950,030</u>	
Trade notes and accounts payable	¥ 189,844	¥ 189,844	
Short-term borrowings	48,938	48,938	
Income taxes payable	19,894	19,894	
Long-term debt	429,085	430,452	¥ 1,367
Lease obligations	<u>75,784</u>	<u>78,156</u>	<u>2,372</u>
Total	<u>¥ 763,545</u>	<u>¥ 767,284</u>	<u>¥ 3,739</u>
Derivatives	¥(6,055)	¥(6,055)	

	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	<u>187,865</u>	<u>187,865</u>	
Total	<u>¥ 1,003,477</u>	<u>¥ 1,003,477</u>	
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
Lease obligations	<u>11,201</u>	<u>12,776</u>	<u>1,575</u>
Total	<u>¥ 815,753</u>	<u>¥ 820,279</u>	<u>¥ 4,526</u>
Derivatives	¥969	¥969	

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.

Lease obligations

The fair market value of lease obligations is calculated by discounting the total amount of principal and interest by the interest rate that would be used if similar new lease transactions were entered into.

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.

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Derivative transactions to which hedge accounting is not applied

		Millions of Yen		
		March 31, 2020		
		Contract Amount	Fair Value	Unrealized Gain (Loss)
		Contract Amount	Due after One Year	Fair Value
Forward exchange contracts:				
Selling:	GBP	¥ 5,470		¥ (86)
	EUR	22,901		(223)
	USD	49,711		(3,753)
	AUD	5,144		38
	NZD	453		10
	ZAR	15		0
	CZK	4,088		205
	HKD	1,567		(98)
	SGD	2,753		(63)
	MYR	2,738		(7)
	TRY	4,591		842
	IDR	4,990		670
	INR	653		1
	NOK	445		(33)
	QAR	392		(10)
	PHP	1,474		(3)
	HUF	175		2
	THB	114		2
	CNY	122		1
	AED	1,172		3
Buying:	CNY	2,143		(24)
	EUR	186		0
Commodity futures contracts:				
Buying:	Metal	¥985		¥(102)

		Millions of Yen		
		March 31, 2019		
		Contract Amount	Fair Value	Unrealized Gain (Loss)
		Contract Amount	Due after One Year	Fair Value
Forward exchange contracts:				
Selling:	GBP	¥ 9,881		¥ 5
	EUR	14,697		(11)
	USD	33,144		(142)
	AUD	1,729		98
	NZD	753		3
	ZAR	196		(2)
	CZK	3,089		(3)
	HKD	1,264		5
	SGD	1,893		(3)
	MYR	863		0
	TRY	420		(43)
	BRL	128		(0)
	IDR	4,886		(44)
	INR	1,221		10
	PHP	830		3
	THB	2		0
	AED	1,568		(0)
Buying:	CNY	1,976		50
	EUR	241		(1)
Commodity futures contracts:				
Buying:	Metal	¥722		¥47

Derivative transactions to which hedge accounting is applied

		Millions of Yen		
		March 31, 2020		
		Contract	Contract	Fair
		Amount	Due after	Value
		Amount	One Year	Value
		Hedged		
		Item		
Forward exchange contracts:				
Selling:	GBP	Receivables	¥ 7,533	¥ 218
	EUR	Receivables	34,299	(1,155)
	USD	Receivables	5,224	39
	CZK	Receivables	5,519	263
	TRY	Receivables	2,962	158
Buying:	CNY	Payables	9,033	(71)
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt		Long-term debt	¥141,417	¥92,680
Fixed-rate payment, floating-rate receipt (*)		Long-term debt	63,000	10,000
Commodity futures contracts:		Raw materials	¥ 13,708	¥(2,006)

		Millions of Yen		
		March 31, 2019		
		Contract	Contract	Fair
		Amount	Due after	Value
		Amount	One Year	Value
		Hedged		
		Item		
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
Fixed-rate payment, floating-rate receipt (*)		Long-term debt	63,000	63,000
Commodity futures contracts:		Raw materials	¥ 7,223	¥161

(*) 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	
		2020	2019
Nonlisted equity securities		¥ 11,060	¥ 9,549
Investments in limited partnerships and other investments		1,076	1,284
Total		<u>¥ 12,136</u>	<u>¥ 10,833</u>

Notes to Consolidated Financial Statements

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	March 31, 2020			
	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	¥ 321,152			
Short-term investments	49,641			
Trade notes and accounts receivable	440,752	¥ 3		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				¥ 300
Total	¥ 811,545	¥ 3		¥ 300

	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

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

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2020 totaled approximately ¥25,689 million.

The Group had the following contingent liabilities at March 31, 2020 and 2019.

	Millions of Yen	
	2020	2019
Trade notes endorsed	¥1,835	¥1,733

18. COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	<u>2020</u>	<u>2019</u>
Unrealized losses on available-for-sale securities:		
Losses arising during the year	¥ (26,901)	¥(23,504)
Reclassification adjustments to profit or loss	(10,231)	4
Amount before income tax effect	<u>(37,132)</u>	<u>(23,500)</u>
Income tax effect	9,211	6,601
Total	<u>¥ (27,921)</u>	<u>¥(16,899)</u>
Deferred losses on derivatives under hedge accounting:		
(Losses) gains arising during the year	¥ (3,859)	¥ 505
Reclassification adjustments to profit or loss	(568)	(698)
Amount before income tax effect	<u>(4,427)</u>	<u>(193)</u>
Income tax effect	1,011	84
Total	<u>¥ (3,416)</u>	<u>¥ (109)</u>
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ (69,568)	¥ (8,393)
Reclassification adjustments to profit or loss	(19)	284
Amount before income tax effect	<u>(69,587)</u>	<u>(8,109)</u>
Total	<u>¥ (69,587)</u>	<u>¥ (8,109)</u>
Remeasurements of defined benefit plans:		
Adjustments arising during the year	¥ (3,670)	¥ (556)
Reclassification adjustments to profit or loss	202	1,159
Amount before income tax effect	<u>(3,468)</u>	<u>603</u>
Income tax effect	1,011	(155)
Total	<u>¥ (2,457)</u>	<u>¥ 448</u>
Share of other comprehensive income in affiliates accounted for using the equity method:		
Losses arising during the year	¥ (495)	¥ (1,167)
Total other comprehensive loss	<u>¥(103,876)</u>	<u>¥(25,836)</u>

Notes to Consolidated Financial Statements

19. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2020 and 2019 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares Weighted- Average Shares</u>	<u>Yen EPS</u>
	<u>Net Income</u>		
<u>Year Ended March 31, 2020</u>			
Basic EPS:			
Net income available to common shareholders	<u>¥ 170,731</u>	<u>292,546</u>	<u>¥ 583.61</u>
Effect of dilutive securities:			
Stock options		<u>193</u>	
Diluted EPS:			
Net income for computation	<u>¥ 170,731</u>	<u>292,739</u>	<u>¥ 583.22</u>
<u>Year Ended March 31, 2019</u>			
Basic EPS:			
Net income available to common shareholders	<u>¥ 189,049</u>	<u>292,470</u>	<u>¥ 646.39</u>
Effect of dilutive securities:			
Stock options		<u>197</u>	
Diluted EPS:			
Net income for computation	<u>¥ 189,049</u>	<u>292,667</u>	<u>¥ 645.95</u>

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."

Notes to Consolidated Financial Statements

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

	Millions of Yen			
	March 31, 2020			
	Reportable Segment			
	Air			Other
	Conditioning	Chemicals	Total	
Sales:				
Sales to external customers	¥ 2,309,117	¥ 179,884	¥ 2,489,001	¥ 61,304
Intersegment sales	871	13,850	14,721	699
Total	<u>2,309,988</u>	<u>193,734</u>	<u>2,503,722</u>	<u>62,003</u>
Segment profit	<u>236,185</u>	<u>23,770</u>	<u>259,955</u>	<u>5,549</u>
Segment assets	<u>2,228,944</u>	<u>239,069</u>	<u>2,468,013</u>	<u>35,297</u>
Other:				
Depreciation	¥ 81,373	¥14,618	¥ 95,991	¥1,802
Amortization of goodwill	30,497	187	30,684	
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	13,760	9,434	23,194	
Investment in property, plant and equipment and intangible assets	101,113	28,209	129,322	2,633

	Millions of Yen			
	March 31, 2019			
	Reportable Segment			
	Air			Other
	Conditioning	Chemicals	Total	
Sales:				
Sales to external customers	¥ 2,222,173	¥ 200,790	¥ 2,422,963	¥ 58,146
Intersegment sales	714	18,124	18,838	646
Total	<u>2,222,887</u>	<u>218,914</u>	<u>2,441,801</u>	<u>58,792</u>
Segment profit	<u>237,646</u>	<u>32,534</u>	<u>270,180</u>	<u>6,066</u>
Segment assets	<u>2,230,118</u>	<u>230,736</u>	<u>2,460,854</u>	<u>41,009</u>
Other:				
Depreciation	¥57,166	¥13,489	¥70,655	¥1,667
Amortization of goodwill	26,792	200	26,992	
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	13,552	10,097	23,649	
Investment in property, plant and equipment and intangible assets	68,982	15,914	84,896	2,266

- Notes: 1. The Other segment is the aggregation of other operating segments which are not included in the reportable Hydraulics segment, the Defense segment and the Electronics segment.
2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets amounted to ¥175,010 million and ¥211,637 million at March 31, 2020 and 2019, respectively, which consisted 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.

<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
¥ 2,550,305		¥ 2,550,305
15,420	¥ (15,420)	
<u>2,565,725</u>	<u>(15,420)</u>	<u>2,550,305</u>
265,504	9	265,513
<u>2,503,310</u>	<u>164,203</u>	<u>2,667,513</u>

¥ 97,793		¥ 97,793
30,684		30,684

23,194		23,194
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131,955		131,955
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<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
¥ 2,481,109		¥ 2,481,109
19,484	¥ (19,484)	
<u>2,500,593</u>	<u>(19,484)</u>	<u>2,481,109</u>
276,246	9	276,255
<u>2,501,863</u>	<u>199,028</u>	<u>2,700,891</u>

¥72,322		¥72,322
26,992		26,992

23,649		23,649
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87,162		87,162
--------	--	--------

segments and consists of the Oil

included in "Reconciliations"
mainly of the Company's cash,

Notes to Consolidated Financial Statements

4. Supplemental information

(1) Information about geographical areas

(a) Sales

Millions of Yen						
March 31, 2020						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥596,978	¥666,305	¥341,284	¥395,462	¥405,611	¥144,665	¥2,550,305

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

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, 2020						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥165,554	¥176,687	¥80,095	¥83,741	¥58,710	¥15,194	¥579,981

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

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

Millions of Yen					
March 31, 2020					
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets		¥23,555			¥23,555

(3) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2020 and 2019 was as follows:

	Millions of Yen				
	2020				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥281,061	¥908			¥281,969

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

21. SUBSEQUENT EVENT

a. Borrowing of Significant Amount of Funds

The Company entered into a syndicated loan financing arrangement on May 26, 2020. The following is the overview of the syndicated loan.

Overview of the syndicated loan

- (1) Amount of borrowing: ¥200,000 million
- (2) Lender: Sumitomo Mitsui Banking Corporation and other 17 financial institutions
- (3) Date of contract conclusion: May 26, 2020
- (4) Date of borrowing: May 29, 2020
- (5) Due date: May 31, 2022
(Provided, however, that repayment before maturity is permitted)
- (6) Use of funds: The Group's ongoing operations
- (7) Applicable interest rate: Tibor+0.3%
- (8) Provision of security: None

b. Appropriations of Retained Earnings

Resolutions approved by the Company's Board of Directors' at the meeting held on May 12, 2020 are subject to approval at the general shareholders' meeting planned to be held on June 26, 2020.

Payment of year-end cash dividends of ¥80 per share to shareholders at March 31, 2020, totaling ¥23,407 million is to be settled.

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Daikin Industries, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Member of
Deloitte Touche Tohmatsu Limited

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor' s Report

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2020

Corporate Data

(As of March 31, 2020)

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	27,028
Major Shareholders	<ul style="list-style-type: none">• 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 7)• 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.• JP Morgan Chase Bank 385151 (Standing proxy Mizuho Bank Settlement Sales Department)• Japan Trustee Services Bank, Ltd. (Trust Account 4)• Government of Norway (Standing proxy Citibank, N. A., Tokyo Branch)
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 313 Affiliates: 20
Number of Employees	80,369 (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 <i>Nikkei Shimbun</i> .
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

DAIKIN INDUSTRIES, LTD.



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<http://www.daikin.com>