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Code Number: 6367
June 1, 2015

To Shareholders:

Masanori Togawa
President and CEO
Daikin Industries, Ltd.
Umeda Center Bldg.,
4-12, Nakazaki-Nishi 2-chome,
Kita-ku, Osaka

Convocation Notice of the 112th Ordinary General Meeting of Shareholders

Shareholders are hereby called to attend the 112th Ordinary General Meeting of Shareholders of Daikin Industries, Ltd. (“Daikin” or the “Company”) to be held as indicated below.

If you are unable to attend the meeting, you may exercise your voting rights in writing (the Voting Rights Exercise Form) or via electronic means (the Internet). Please review the “Reference Documents for the General Meeting of Shareholders” attached hereto, and exercise your voting rights by 5:30 p.m. on Thursday, June 25, 2015, in accordance with “5. Guidance on Exercising Voting Rights” on the following page.

Particulars

1. Date and Time: 10:00 a.m., Friday, June 26, 2015

2. Venue: “Shion Hall” (4F), Hotel Hankyu International
19-19, Chayamachi, Kita-ku, Osaka, Japan

3. Meeting Agenda

Reports:

1: Business Report, Consolidated Financial Statements and the Non-Consolidated Financial Statements for the 112th fiscal year (from April 1, 2014, to March 31, 2015)

2: Audit Reports on the Consolidated Financial Statements for the 112th fiscal year (from April 1, 2014, to March 31, 2015) by the Independent Auditor and the Audit & Supervisory Board

Resolution Items:

First Item: Appropriation of Surplus
Second Item: Purchase of Treasury Shares
Third Item: Election of One (1) Audit & Supervisory Board Member
Fourth Item: Election of One (1) Substitute Audit & Supervisory Board Member
Fifth Item: Revision of the Details of Stock Options for Directors

4. Procedural Rules Pertaining to the Convocation

Handling of Voting Rights in the Event of Multiple Exercise

(1) In the event voting rights are exercised multiple times in writing, the last arriving vote shall be deemed to be effective.

(2) In the event voting rights are exercised multiple times via electronic means, the last exercise of voting rights shall be deemed to be effective.

(3) In the event voting rights are exercised in duplicate form by electronic means and in writing, the exercise of voting rights via electronic means shall be deemed to be effective.

5. Guidance on Exercising Voting Rights

Exercising Your Voting Rights in Writing (the Voting Rights Exercise Form)

On the enclosed Voting Rights Exercise Form, please indicate either approval or disapproval of each agenda and return the form by 5:30 p.m., Thursday, June 25, 2015.

Exercising Your Voting Rights via Electronic Means (the Internet)

Please access the relevant website for the exercise of voting rights (http://www.evote.jp/) using a personal computer, smartphone or a mobile phone. Please enter the login code and password provided in the Voting Rights Exercise Form enclosed herein, and follow the instructions to proceed with your votes by indicating either approval or disapproval of each agenda by 5:30 p.m., Thursday, June 25, 2015.

- ⊙ Please submit the enclosed Voting Rights Exercise Form to the reception desk upon your attendance at the meeting.
- ⊙ In the event that any errors are found in the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements and the Non-Consolidated Financial Statements, corrections will be posted on our website.
- ⊙ Our website: http://www.daikin.com/investor/shareholder/meeting/index.html

Business Report

1. Review of Operations

Changes have been made to accounting policies from the fiscal year ended March 31, 2015 (fiscal 2014). In accordance with these changes, figures for the previous fiscal year have been retrospectively adjusted for comparison purposes.

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

Looking at the overall world economy in fiscal 2014, the U.S. economy expanded against the backdrop of strong domestic demand. The European economy, while remaining basically weak, received support from quantitative easing and the low price of crude oil. The pace of economic growth is slowing down in the emerging economies, especially in China.

Turning to the Japanese economy, a retreat from the strong demand ahead of the consumption tax hike has been a heavy drag on economic recovery.

In such a business environment, the Daikin Group set its New Year's slogan for 2014 as "Let's All Accomplish Our Goals Now—Keep on actions one after another." From the beginning of the year, we concentrated group-wide efforts on improving results by strengthening sales and marketing capabilities and reducing fixed costs, in addition to measures in response to the exchange rate fluctuation, such as shifting production of some items to Japan and benefitting from the effects of yen depreciation. Amid uncertainty in the global situation, the Group worked to expand profit in order to achieve the objectives of "Fusion 15," the Group's strategic management plan that sets fiscal 2015 as its target year.

The Daikin Group reported record high net sales and profit in the fiscal year under review due to strong sales overseas, especially in China, Asia, and the Americas, in our mainstay Air-Conditioning and Refrigeration Equipment segment, as well as an increase in the yen-equivalent from the weakening yen. The Daikin Group's consolidated net sales increased by 7.1% year over year to ¥1,915,013 million. Consolidated operating income increased by 21.8% to ¥190,587 million, and consolidated ordinary income increased by 24.9% to ¥194,234 million. Consolidated net income increased by 29.0% to ¥119,674 million.

(2) Review of Operations by Business Segment

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment increased by 7.1% to ¥1,710,944 million. Operating income increased by 21.9% to ¥170,484 million.

In the Japanese commercial air-conditioning equipment market, there was a retreat from the strong demand ahead of the consumption tax hike, but industry demand remained flat against the previous fiscal year, helped by an increase in new construction of commercial facilities and medical and welfare facilities as well as demand due to government measures to support investment in energy saving. The Daikin Group worked on differentiation on the product front through the "FIVE STAR ZEAS" and "Eco-ZEAS80," air conditioners for stores and offices that are equipped with the new refrigerant HFC32 (R32) that has a global warming potential value one-third of conventional refrigerants and strove to expand sales of high value-added products such as the "Ve-Up" series of *VRV* air-conditioning systems. As a result, net sales grew year over year.

In the Japanese residential air-conditioning equipment market, industrial shipments for the full year were down year over year, continuing the trend from the first half, due to unseasonal weather in the summer and a slowdown in recovery of consumption following the consumption tax hike. The Group worked on differentiation by equipping all wall-mounted room air conditioner models with the new refrigerant HFC32 (R32) and strove to expand sales of high value-added products such as the super energy-saving room air conditioner "Urusara 7," which foreshadowed 2015 energy-saving standards. However, net sales fell year over year due to the large impact from the decrease in demand.

In Europe, although fourth quarter net sales slightly increased year over year, continuing the trend from the third quarter, full-year net sales decreased year over year, reflecting the impact of unseasonal weather during the peak demand period of July–August in Southern Europe, our main market in the region. Net sales of residential air-conditioning systems fell year over year, as increased sales of design-focused high-end products developed in Europe and continued efforts to strengthen sales in the low-price range failed to make up for the cool summer in the Southern Europe. On the other hand, net sales of commercial air-conditioning systems increased year over year thanks to increased sales in the U.K. and Germany, where construction demand is recovering, as well as comprehensive dealer follow-up and sales activities in each country. Net sales of heat pump hot water heating systems also increased year over year, as the Group was able to capture increased demand from tighter environmental regulations and expand sales significantly in France, a major market in the region. In emerging markets, sales grew in the Middle East and Africa due to expansion of the business base. Meanwhile, in Turkey, sales of residential air-conditioning systems declined significantly as a result of the impact of the economic slowdown and the cool summer. The situation in Ukraine also had an impact, resulting in a decrease in sales year over year in emerging markets overall.

In China, while large-scale real estate investments are decreasing amid a trend toward a slowdown in the economy, general consumption remained firm. The Group's sales in China overall increased year over year, mainly because the Group focused on retail stores. Sales are expanding from major cities to suburban cities. In particular, in the residential market, the Group strengthened its sales network of its own specialty "PROSHOPs" and expanded sales with the launch of new products such as "New Life Multi." In the large-scale air-conditioning (Applied Systems) market, sales grew year over year as a result of growth in sales of centrifugal chillers, air handling units, and other equipment, despite sluggish growth in demand due to restraint in capital investment associated with a slowdown in the economy.

In Asia and Oceania, sales were strong, backed by an increase in demand for residential equipment in Australia. In Thailand, we made concerted efforts to visit customers as the political situation started to settle down, and sales rose year over year. In emerging countries where we had been building sales networks, we captured the expanding demand for residential and commercial equipment in Vietnam and Indonesia, and sales grew considerably from the previous fiscal year. As a result of these factors, sales grew year over year in the region as a whole.

In the Americas, sales grew year over year in the residential air-conditioning market and light commercial air-conditioning market for medium-scale office buildings as a result of efforts to increase market share by capturing the surge in demand ahead of stronger regulations regarding energy-saving performance and developing fine-tuned sales strategies for each regional dealers, despite the impact from the cool summer, especially in the U.S. northeast. In the Applied Systems market, sales grew year over year despite demand remaining flat from the previous fiscal year. This was thanks to increased sales of equipment, especially of air handling units.

In the marine vessels business, air conditioners and refrigeration units for marine vessels performed strongly due to robust demand in the domestic shipbuilding market. Meanwhile, sales of marine container refrigeration units declined compared to the previous fiscal year.

(ii) Chemicals

Overall sales of the Chemicals segment increased by 6.3% to ¥149,558 million and operating income increased by 15.6% year over year to ¥16,550 million.

Sales of fluoropolymers in China decreased year over year due to the impact of an overall slowdown in infrastructure demand, mainly in railroads and telecommunications, and deteriorating market conditions. In the United States, although demand for LAN cables and semiconductors stagnated, sales grew year over year due to strong demand in automobiles and other areas. Sales of fluoroelastomers increased year over year, thanks to brisk demand mainly for automobiles in the United States and Asia, despite sluggish demand in China. Despite slowing demand in some fields in each region and market, overall sales of fluoropolymers increased from the previous fiscal year.

Turning to specialty chemicals, demand for oil and water repellants was strong for use in fabrics for clothing in Asia and Europe and for new applications in the United States, and sales grew year over year. Sales of anti-fouling surface coating agents used in devices, such as touch panels, increased significantly compared to the previous fiscal year, due to robust demand in China. Demand for semiconductor-etching products was also strong in Japan and Asia, resulting in an increase in sales year over year. As a result, overall sales of specialty chemicals were up compared to the previous fiscal year.

As for fluorocarbon gas, overall sales of gas declined year over year due to the impact of stagnant demand in Japan and a downswing in sales to local air conditioner manufacturers in China and Asia.

(iii) Other Divisions

Overall sales of the "Others" segment rose by 9.3% to ¥54,510 million. Operating income increased by 50.9% to ¥3,583 million.

Sales of oil hydraulic equipment for industrial machinery grew year over year from strong performance in the Japanese and U.S. markets. Sales of oil hydraulic equipment for construction machinery and vehicles were up year over year due to increased demand both in domestic and overseas markets of our key customers in Japan.

Sales of defense systems-related products grew year over year, reflecting strong sales in products for the Ministry of Defense and home oxygen equipment.

In the electronics business, sales of data base systems for design, development and quality sectors increased thanks to the increased demand in the IT system that improves the product quality and promotes information sharing around the globe.

On a non-consolidated basis, the Company's net sales decreased by 5.2% to ¥477,579 million. Operating income increased by 8.0% to ¥24,675 million. Ordinary income increased by 69.5% to ¥75,668 million, and net income increased by 50.9% to ¥64,254 million.

(3) Capital Expenditures

Adhering to the basic strategy of "Focusing Management Resources on More Profitable Areas," the Daikin Group's capital expenditures were mainly allocated to Air-Conditioning and Refrigeration Equipment and Chemicals segments, and the total amounted to ¥78,359 million.

Breakdown of capital expenditures

(Millions of yen)

Business segment	Name of company	Amount of capital expenditure
Air-Conditioning and Refrigeration Equipment	Daikin Industries, Ltd.	17,965
	Goodman Global Group, Inc.	7,817
	Daikin Europe N.V. Group	5,793
	Daikin Applied Americas Group	5,515
	Daikin Industries (Thailand) Ltd.	3,101
Chemicals	Daikin Industries, Ltd.	8,133
	Daikin Fluorochemicals (China) Co., Ltd.	5,737
	Daikin America, Inc.	1,195
Others	Daikin Industries, Ltd.	2,190

(4) Financing Activities

The funds for the above capital expenditures were primarily raised through bank loans payable and funds on hand. In addition, straight bonds were issued to provide for the redemption of existing bonds.

(5) Succession of Rights and Obligations Relating to Other Corporations' Business due to Transfer of Business, Succession of Business from Other Companies, Acquisition or Disposal of Other Companies' Stock or Other Interests or Subscription Rights to Shares and Merger and Acquisition or Division by Absorption

Nothing material to report.

(6) Operating Results and the Status of Assets

	109th Business Year (from April 1, 2011, to March 31, 2012)	110th Business Year (from April 1, 2012, to March 31, 2013)	111th Business Year (from April 1, 2013, to March 31, 2014)	112th Business Year (from April 1, 2014, to March 31, 2015)
Net sales (Millions of yen)	1,218,700	1,290,903	1,787,679	1,915,013
Ordinary income (Millions of yen)	81,756	94,145	155,570	194,234
Net income (Millions of yen)	41,171	43,584	92,787	119,674
Net income per share (Yen)	141.37	149.73	318.33	410.19
Total assets (Millions of yen)	1,160,564	1,735,836	2,011,870	2,263,989
Net assets (Millions of yen)	515,920	635,996	823,858	1,048,311

Note: The Company and its domestic consolidated subsidiaries had formerly recognized revenue mainly on a shipping basis. However, starting from this fiscal year, the Company and its domestic consolidated subsidiaries have changed to recognize revenue on a delivery date basis under the terms and conditions of contracts. Accordingly, figures for the 111th Business Year have been adjusted retrospectively to reflect this change in the accounting policy.

In the 109th term, the Group increased its revenues despite a drastic decline in the business conditions in Europe. Contributing to this was increased sales in its Air-Conditioning and Refrigeration Equipment segment in Japan and the emerging countries centering on China, and increased sales in its Chemicals segment worldwide, especially in China. Profits increased thanks to the strong performance of the Chemicals segment. Consolidated net income increased thanks to improvements from the previous fiscal year, in which a large amount of loss on valuation of investment securities was recorded.

In the 110th term, the Group's fluorochemicals business had a significant decrease in sales and income due to a drop in the selling prices for fluorocarbon gas. Despite continued sluggish demand in Europe, the Air-Conditioning and Refrigeration Equipment segment overall increased sales and income due to such factors as increased sales in Japan, China, Asia, and other regions, as well as an increase in the yen-equivalent resulting from the weakening yen. Consolidated net income increased slightly, as a loss on valuation of investment securities was recorded as extraordinary loss.

In the 111th term, the Group's mainstay Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to strong sales in Japan, China, Asia, and other regions, as well as an increase in the yen-equivalent resulting from the weakening yen. The impact of sales and profits of newly consolidated Goodman Group, a company acquired in November 2012, also contributed to these increased sales and profits. In the Chemicals segment, sales increased while profit decreased, reflecting the positive effect of the weakening yen, coupled with a fall in prices associated with the deterioration in the balance between supply and demand against a backdrop of increased supply. Consolidated net income increased, due in part to a large decrease in loss on valuation of investment securities from the previous fiscal year.

The results of our operations during the 112th term are as described in (1) Progress and Results of Operations of the Company Group.

(7) Issues the Group Ought to Contend with

With regard to the global economy in the future, we expect the recovery of the U.S. economy to speed up, mainly in personal consumption, while in Europe, expansion in exports associated with quantitative easing and the weak euro are expected to contribute to economic recovery. In emerging economies, the pace of economic growth is slowing, mainly in China.

We expect the Japanese economy to be supported by a rally in personal consumption and recovery in exports thanks to the weak yen as well as the government's economic measures.

Amid this business environment, for this year (2015), the final year of the strategic management plan "Fusion 15," we set as the Group's New Year's slogan "Create the Future, Exceed in a Changing World." We will not miss the signs of structural change in the global economic system, taking these changes as opportunities and linking them to expansion of our business.

Specifically, we will further refine our efforts to improve the "manufacturer's lifeline" of product development, production, procurement, and quality capabilities, and to create a sales network, strengthen human resources capabilities, and reduce fixed costs, in order to accomplish our growth strategies including the areas adopted as core strategies: the emerging countries and volume zone business, solutions business, and environment-related innovation business. In addition, we will work to draw up a new strategic management plan with the aim of sustainable development in the medium and long term and enhancement of the corporate structure.

(8) Major Operations of the Company Group (as of March 31, 2015)

The Group is engaged in the manufacture and sale of the following products:

Air-Conditioning and Refrigeration Equipment

For residential use:	Room air conditioners, Air purifiers, Dehumidifiers, CO_2 heat pump-water heaters, Far-infrared electric heaters, Heat-pump type floor heating systems
For commercial use:	Packaged air conditioning systems, Spot air conditioners, Water chilling units, Centrifugal chillers, Screw-type chillers, Fan-coil units, Air handling units, Packaged air conditioners for low temperatures, Air purification systems, Total heat exchangers, Duct ventilating fans, Deodorizers, Far-infrared electric heaters, Freezers, Ammonia water chilling units, Air filters, Industrial dust collectors, Rooftops
For marine vessels:	Container refrigeration units, Marine vessel air conditioners and refrigeration units

Chemicals

Fluorocarbon gas:	Refrigerants, Cleaning agents
Fluoropolymers:	Ethylene tetrafluoride resins, Molten type resins, Fluoroelastomers, Fluoro paints, Fluoro coatings
Chemicals:	Semiconductor-etching products, Oil and water repellants, Mold release agents, Surface acting agents, Fluorocarbons, Fluorinated oils, Pharmaceutical agrichemical intermediates
Chemical engineering machinery:	Solvent deodorizing equipment, Dry air suppliers

Others

Oil Hydraulics Division

Hydraulic equipment and systems for industrial use:	Pumps, Valves, Hydraulic systems, Oil cooling units, Inverter-controlled pumps and motors
Hydraulic equipment for construction machinery and vehicles:	Hydraulic transmissions, Valves
Centralized lubrication units and systems:	Grease pumps, Control and stack valves

Defense Division	Ammunitions, components for guided missiles, and aircraft components for the Ministry of Defense, Home oxygen equipment
Electronics Division	Process-improvement and knowledge-sharing systems for the design and development sector, IT infrastructure management systems (network, security, and asset management), Computer graphics solutions such as CAD systems for facility design

(9) Principal Bases and Employee Breakdown of the Group (as of March 31, 2015)

1) Principal bases

The Company	Head office	Osaka (Kita-ku)
	Manufacturing bases	Sakai Plant, Kanaoka Factory (Kita-ku, Sakai City, Osaka) Sakai Plant, Rinkai Factory (Nishi-ku, Sakai City, Osaka) Yodogawa Plant (Settsu City, Osaka) Shiga Plant (Kusatsu City, Shiga) Kashima Plant (Kamisu City, Ibaraki)
	Sales bases	Tokyo Office (Minato-ku, Tokyo)
	Overseas offices	New York Office Beijing Office Shanghai Office Guangzhou Office
Subsidiaries	Japan	Daikin Applied Systems Co., Ltd. (Minato-ku, Tokyo) Daikin Airtechnology & Engineering Co., Ltd. (Sumida-ku, Tokyo) Daikin HVAC Solution Tokyo Co., Ltd. (Shibuya-ku, Tokyo) Daikin Hydraulic Engineering Co., Ltd. (Settsu City, Osaka)
	Overseas	Daikin (China) Investment Co., Ltd. Daikin Airconditioning (Shanghai) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Daikin Industries (Thailand) Ltd. Daikin Compressor Industries, Ltd. (Thailand) OYL Manufacturing Company Sdn. Bhd. (Malaysia) Daikin Airconditioning India Pvt. Ltd. Daikin Australia Pty. Ltd. Daikin Europe N.V. (Belgium) Daikin Industries Czech Republic s.r.o. Daikin Airconditioning France S.A. Daikin Isitma Ve Soğutma Sįstemlerį Sanayį Ve Tįcaret A.Ş. (Turkey) Goodman Global Group, Inc. (America) Daikin Applied Americas Inc. Daikin Fluorochemicals (China) Co., Ltd. Daikin America, Inc.

2) Employee breakdown

Business segment	Number of employees	Increase (decrease) from the previous year
Air-Conditioning and Refrigeration Equipment	53,918	2,879
Chemicals	3,431	27
Others	1,157	26
Corporate	673	7
Total	59,179	2,939

Notes:
1. The number of employees is based on the number of employees at work.
2. The number of employees of the Company (the number of employees at work) is 6,845 (an increase of 112 from the previous fiscal year).

(10) Principal subsidiaries (as of March 31, 2015)

Name of company	Share holding	Capital	Principal operations
Daikin Applied Systems Co., Ltd.	100%	300 million JPY	Manufacture, sale, design, and installation of air conditioning equipment and refrigeration equipment
Daikin Airtechnology & Engineering Co., Ltd.	100%	275 million JPY	Sale and installation of air conditioning equipment
Daikin HVAC Solution Tokyo Co., Ltd.	100%	330 million JPY	Sale of air conditioning equipment
Daikin (China) Investment Co., Ltd.	100%	242,025 thousand USD	Controlling company of Chinese operations
Daikin Airconditioning (Shanghai) Co., Ltd.	*87.4%	82,600 thousand USD	Manufacture and sale of air conditioning equipment
Daikin Device (Suzhou) Co., Ltd.	*100%	11,910 million JPY	Manufacture and sale of compressors for air conditioning equipment
Daikin Industries (Thailand) Ltd.	100%	1,300 million THB	Manufacture and sale of air conditioning equipment
Daikin Compressor Industries Ltd.	100%	3,300 million THB	Manufacture and sale of compressors for air conditioning equipment
OYL Manufacturing Company Sdn. Bhd.	100%	276,254 thousand MYR	Manufacture and sale of air conditioning equipment
Daikin Airconditioning India Pvt. Ltd.	100%	8,029 million INR	Manufacture and sale of air conditioning equipment
Daikin Australia Pty. Ltd.	100%	10,000 thousand AUD	Manufacture and sale of air conditioning equipment
Daikin Europe N.V.	100%	155,065 thousand EUR	Manufacture and sale of air conditioning equipment
Daikin Industries Czech Republic s.r.o.	*100%	1,860 million CZK	Manufacture and sale of compressors for air conditioning equipment
Daikin Airconditioning France S.A.	*100%	1,524 thousand EUR	Sale of air conditioning equipment
Daikin Isitma Ve Soğutma Sįstemlerį Sanayį Ve Tįcaret A.Ş.	*100%	150 million TRY	Manufacture and sale of air conditioning equipment
Goodman Global Group, Inc.	*100%	— thousand USD	Manufacture and sale of air conditioning equipment
Daikin Applied Americas Inc.	*100%	250 thousand USD	Manufacture and sale of air conditioning equipment
Daikin Fluorochemicals (China) Co., Ltd.	*96.0%	161,240 thousand USD	Manufacture and sale of fluorochemicals
Daikin America, Inc.	*100%	85,000 thousand USD	Manufacture and sale of fluorochemicals
Daikin Hydraulic Engineering Co., LTD.	100%	30 million JPY	Manufacture and sale of oil hydraulic equipment

Note: Figures with an asterisk represent percentages including investments by subsidiaries, etc.

(11) Principal borrowings (as of March 31, 2015)

Creditors	Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation dollar-denominated syndicated loan (Note 1)	162,202
Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan (Note 2)	80,000
The Norinchukin Bank	56,000
Development Bank of Japan Inc.	20,000
Bank of Tokyo-Mitsubishi UFJ, Ltd	16,000

Notes:
1. Sumitomo Mitsui Banking Corporation dollar-denominated syndicated loan is co-financed by three banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.
2. Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan is co-financed by three banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.

2. Status of Shares (as of March 31, 2015)

(1) Number of Shares Authorized: 500,000 thousand shares

(2) Number of Shares Issued: 293,113 thousand shares

(3) Number of Shareholders: 29,856 (Decrease of 4,942 from the previous fiscal year)

(4) Top 10 Shareholders

Shareholders	Number of shares held (Thousands of shares)	Shareholding (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	19,446	6.7
Japan Trustee Services Bank, Ltd. (Trust account)	15,600	5.3
Sumitomo Mitsui Banking Corporation	9,000	3.1
Japan Trustee Services Bank, Ltd. (Nippon Steel & Sumitomo Metal Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	6,477	2.2
The Bank of New York Mellon SA/NV 10	5,226	1.8
Japan Trustee Services Bank, Ltd. (The Norinchukin Bank Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	4,999	1.7
Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,900	1.7
State Street Bank and Trust Company 505225	4,472	1.5
Japan Trustee Services Bank, Ltd. (Trust account 4)	4,389	1.5
BNP Paribas Securities (Japan) Limited	3,794	1.3

Notes:

1. Percentage shareholdings are rounded off to one decimal point.
2. Percentage shareholdings are calculated after deducting treasury shares (1,276 thousand shares).

3. Subscription Rights to Shares

(1) Subscription rights to shares held by Directors and Audit & Supervisory Board Members at the end of the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of subscription rights to shares	Number of holders
No. 9 (2010)	¥3,050	Common stock 100 shares per unit of subscription rights to shares	July 15, 2012, to July 14, 2016	60	1 Director
No. 10 (2011)	¥2,970	Common stock 100 shares per unit of subscription rights to shares	July 15, 2013, to July 14, 2017	60	1 Director
No. 11 (2012)	¥2,186	Common stock 100 shares per unit of subscription rights to shares	July 14, 2014, to July 13, 2018	80	1 Director
No. 12 (2013)	¥4,500	Common stock 100 shares per unit of subscription rights to shares	July 13, 2015, to July 12, 2019	940	9 Directors
No. 13 (2014)	¥6,715	Common stock 100 shares per unit of subscription rights to shares	July 15, 2016, to July 14, 2020	960	9 Directors

(2) Subscription rights to shares issued to Daikin Industries employees during the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of subscription rights to shares	Number of holders
No. 13 (2014)	¥6,715	Common stock 100 shares per unit of subscription rights to shares	July 15, 2016, to July 14, 2020	2,140	45 Daikin Industries employees

4. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

Position	Name	Responsibility or significant positions concurrently held
Chairman of the Board and Chief Global Group Officer	Noriyuki Inoue	External Director of The Kansai Electric Power Co., Inc. External Director of Hankyu Hanshin Holdings, Inc. Chairman of The Daikin Foundation for Contemporary Arts Chairman of Specified Nonprofit Corporation of Kansai Philharmonic Orchestra
Representative Director, President and CEO	Masanori Togawa	Member of the HRM and Compensation Advisory Committee
Member of the Board External	Chiyono Terada	Chairman of the HRM and Compensation Advisory Committee President and Representative Director of ART CORPORATION Chairman and Representative Director of ART CHILDCARE CORPORATION External Director of Rock Field Co., Ltd.
Member of the Board External	Kosuke Ikebuchi	Member of the HRM and Compensation Advisory Committee Senior Advisor to the Board and Senior Technical Executive of Toyota Motor Corporation External Audit & Supervisory Board Member of DAIHATSU MOTOR CO., LTD.
Member of the Board and Senior Executive Officer	Guntaro Kawamura	In charge of chemicals business General Manager of Yodogawa Plant, Member of the HRM and Compensation Advisory Committee
Representative Director and Senior Executive Officer	Ken Tayano	In charge of air conditioning business in Japan and Representative of China business Chairman of the Board and President of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. Member of Global Air Conditioning Committee
Member of the Board and Senior Executive Officer	Masatsugu Minaka	Representative of air conditioning in Europe, the Middle East and Africa President and Member of the Board of Daikin Europe N.V. Member of Global Air Conditioning Committee
Member of the Board and Senior Executive Officer	Jiro Tomita	General Manager of Air Conditioning Manufacturing Division Chairman of PD Alliance Promotion Committee, General Manager of Sakai Plant Subleader of TIC Establishment Project Subleader of ATT Project, Leader of AGH Project
Member of the Board and Senior Executive Officer	Takashi Matsuzaki	In charge of air conditioning products development (incl. applied solutions, commercial & industrial refrigeration) and global procurement, General Manager of Shiga Plant, Subleader of TIC Establishment Project
Member of the Board and Senior Executive Officer	Koichi Takahashi	In charge of finance, accounting, budget and IT development, General Manager of Finance and Accounting Division, Chairman of Information Disclosure Committee, Chairman of Development Committee for Operational Adequacy Promotion System, Leader of IZS Project
Member of the Board (non-resident)	Frans Hoorelbeke	Chairman of the Board of Daikin Europe N.V.
Member of the Board (non-resident)	David Swift	Director of Serta Simmons Bedding, LLC Executive Business Partner of Advent International Corporation
External Audit & Supervisory Board Member	Yoshiyuki Kaneda	Former officer of Sony Corporation
External Audit & Supervisory Board Member	Ryu Yano	Chairman of the Board and Representative Director of Sumitomo Forestry Co., Ltd.
Audit & Supervisory Board Member (full time)	Shigeru Murakami	
Audit & Supervisory Board Member (full time)	Kenji Fukunaga	

Notes:

1. The Company reported the appointment of External Directors Chiyono Terada and Kosuke Ikebuchi and External Audit & Supervisory Board Members Yoshiyuki Kaneda and Ryu Yano to the Tokyo Stock Exchange, Inc. as Independent Directors.
2. Audit & Supervisory Board Member Shigeru Murakami has for a long time been engaged in accounting-related business at the Company and has considerable knowledge concerning finance and accounting.
3. David Swift was elected as a Member of the Board at the 111th Ordinary General Meeting of Shareholders held on June 27, 2014, and assumed the office on the same day.

4. Takeshi Ebisu resigned as a Member of the Board at the conclusion of the 111th Ordinary General Meeting of Shareholders held on June 27, 2014.
5. The following changes were made as of June 27, 2014.

Name	After	Before
Noriyuki Inoue	Chairman of the Board and Chief Global Group Officer	Representative Director, Chairman of the Board and CEO
Masanori Togawa	Representative Director, President and CEO	Representative Director, President and COO
Ken Tayano	Representative Director and Senior Executive Officer	Member of the Board and Senior Executive Officer

(2) Compensation for Directors and Audit & Supervisory Board Members

(i) Total compensation for Directors and Audit & Supervisory Board Members

Position	Number of Directors and Audit & Supervisory Board Members	Total compensation (Millions of yen)
Directors	13	1,185
Audit & Supervisory Board Members	4	90
Total	17	1,275

Notes:
1. Total compensation includes provision for directors' bonuses recorded in the fiscal year under review as well as the fiscal year's cost which is associated with subscription rights to shares (as stock options) offered to Directors (excluding External Directors).
2. Total compensation includes the compensation for the service of one Director who retired at the conclusion of the 111th Ordinary General Meeting of Shareholders while he was in office.

(ii) Total compensation for External Directors and External Audit & Supervisory Board Members

	Number of Directors and Audit & Supervisory Board Members	Total compensation (Millions of yen)
Total compensation for External Directors and External Audit & Supervisory Board Members	4	59

(iii) Computation and determination of compensation for Directors and Audit & Supervisory Board Members

The Company's compensation system for Directors and Audit & Supervisory Board Members is designed to enhance their motivation for improved results, contribute to the increase of the value of the Daikin Group as a whole in accordance with the management policy on a sustained and a medium-to-long-term basis in order to meet the expectations of the shareholders. With regard to the Directors, their compensation system is comprised of "fixed compensation" and "performance-linked compensation" that reflects the short-term results of the company as a whole and departments, and "stock options" that reflect medium-to-long-term results. As to External Directors as well as External Audit & Supervisory Board Members, only "fixed compensation" is provided.

The level of compensation is determined as a result of analyzing and comparing compensation data of large Japanese manufacturing companies using research data collected by an external institution specializing in research of compensation for Directors and Audit & Supervisory Board Members, which are used by nearly 200 corporations listed on the First Sections of Japanese stock exchanges. Specifically, the Company uses three indexes as basic benchmarks, which are "net sales," "operating income" and "ROE (return on equity)." In determining the level of compensation, we examine the relative position of the Company's performance position and its compensation level among comparative companies.

The performance linkage ratio used for the Company's performance-linked compensation is set higher than the market in order to secure sufficient incentives for the Directors and Audit & Supervisory Board Members.

As to the assessment scaling exponent linked to the performance of the company as a whole, two indexes of "net sales" and "operating income" have been selected as performance-linked indicators in consideration of the Company's numerical targets for the entire company's administration of the management figures, the indexes' mutual relevancy and simplicity, and other company trends. With regard to the assessment scaling exponent linked to the results of departments, we have selected each department's "net sales" and "operating income" as performance-linked indicators, as they serve as targets for day-to-day business operations.

Compensations for Directors and Audit & Supervisory Board Members are determined by the resolutions of the Board of Directors and consultations among Audit & Supervisory Board Members respectively. The allowable total compensation for each of Directors and Audit & Supervisory Board Members is determined at the general meeting of shareholders. These compensations are based on the proposals made by the Compensation Advisory Committee, which is led by an External Director and is composed of four Directors excluding Chairman.

(3) External Directors and External Audit & Supervisory Board Members

(i) Significant Positions Concurrently Held by External Directors and External Audit & Supervisory Board Members

There is no special relationship between the Company and other companies at which External Directors and External Audit & Supervisory Board Members hold their concurrent significant positions as listed in "(1) Directors and Audit & Supervisory Board Members."

(ii) Activities by External Directors and External Audit & Supervisory Board Members

Position	Name	Attendance record of Board of Directors' meetings	Principal activities
External Director	Chiyono Terada	Attended 15 out of 16 meetings (93.7%)	Chiyono Terada offered timely proposals as needed, based on her abundant experience and deep insight as a corporate manager and especially from broad and advanced perspective, including proposals concerning management based on the viewpoints of consumers, such as the importance of the brand of the Company, and measures to further promote achievements of female employees.
	Kosuke Ikebuchi	Attended 15 out of 16 meetings (93.7%)	Kosuke Ikebuchi provided timely proposals as needed, based on his abundant experience and deep insight as a corporate manager and especially from broad and advanced perspective, including viewpoints concerning manufacturing, such as production innovation, cost reduction and enhancement of reliability and productivity.

Position	Name	Attendance record of meetings		Principal activities
		Board of Directors	Audit & Supervisory Board	
External Audit & Supervisory Board Member	Yoshiyuki Kaneda	Attended 16 out of 16 meetings (100%)	Attended 14 out of 14 meetings (100%)	Yoshiyuki Kaneda offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from broad and advanced perspective including the viewpoint concerning technology development.
	Ryu Yano	Attended 14 out of 16 meetings (87.5%)	Attended 13 out of 14 meetings (92.8%)	Ryu Yano offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from broad and advanced perspective cultivated through his overseas business experience.

(iii) Contract liability limitation for External Directors and External Audit & Supervisory Board Members

Complying with Article 427, Paragraph 1, of Japan's Companies Act, as well as Articles 25 and 33 of the Company's Articles of Incorporation, all External Directors and External Audit & Supervisory Board Members sign a contract which limits their liabilities under the Article 423, Paragraph 1, of the Companies Act. This contract states that the maximum liability equals to the minimum liability stipulated under Article 425, Paragraph 1, of the Companies Act.

5. Independent Auditors

(1) Name of the Independent Auditors to the Company	Deloitte Touche Tohmatsu LLC (Audit Corporation)
(2) Total amount of compensation to be paid by the Company to the Independent Auditors for the current fiscal year	¥242 million
(3) Non-auditing services provided to the Company by the Independent Auditors	The Company consigns to the Independent Auditors the following services that fall outside the scope of the audit certification services under Article 2, Paragraph 1, of the Certified Public Accountant Law, and pays consideration for the services. Advice and guidance concerning the International Financial Reporting Standards (IFRS)
(4) Policy on dismissal of or resolution not to re-engage the Independent Auditors	In addition to reasons for dismissal stipulated under Article 340 of the Companies Act, a movement for dismissal of or resolution not to re-engage the Independent Auditors will be presented to the General Meeting of Shareholders if it is recognized that it is difficult for the Independent Auditors to effectively perform their duties.
(5) Total amount of compensation to be paid by the Company and its subsidiaries to the Independent Auditors	¥242 million
(6) Other items	Major subsidiaries of the Company engaging certified public accounts or audit corporations other than the Company's Independent Auditors to conduct their audits (under Japan's Companies Act or Financial Instruments and Exchange Act, or the overseas equivalents) are as follows: Daikin (China) Investment Co., Ltd. Daikin Airconditioning (Shanghai) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Shenzhen McQuay Air Conditioning Co., Ltd. Daikin Fluorochemicals (China) Co., Ltd. McQuay Central Air Conditioning (China) Co., Ltd.

6. Outline of Resolutions to Establish a System to Confirm Operational Appropriateness

<Basic Philosophy on and Status of an Internal Control System>

The Daikin Group's system to confirm operational appropriateness based on Japan's Companies Act and its Enforcement Regulations is outlined below.

(1) System to ensure compliance with laws and regulations by Directors and employees in execution of their duties

We establish a compliance system that tackles and swiftly responds to compliance issues Group-wide. Specific measures follow:

(i) In accordance with the management basic direction and code of conduct stipulated in Our Group Philosophy (2002), Handbook for Corporate Ethics (revised in 2008) and other directives, we will be diligent in execution of duties, use initiative, and apply these principles.

(ii) We have established a Corporate Ethics & Risk Management Committee made up of Directors and department managers. This committee oversees Legal Affairs, Compliance and Intellectual Property Department, which spearheaded thorough legal compliance Group-wide. Each department and Group company assigns a compliance, risk management leader to ensure thorough compliance in the Company, their respective departments and Group companies. We hold Compliance, Risk Management Leader and Group Compliance, Risk Management Leader Meetings to share information, address issues, and promote implementation of policies.

(iii) We have introduced a unique self-inspection system through which each division and Group company conducts an annual autonomous check from the standpoint of legality and risk. Using the results of this check, the Legal Affairs, Compliance and Intellectual Property Department carries out a legal audit on each division and Group company, and legal compliance is checked in a business audit conducted by the Internal Auditing Department.

(iv) We have established a Helpline for Corporate Ethics. The Legal Affairs, Compliance and Intellectual Property Department investigates reports made to this facility and forms strategies to prevent recurrence after deliberations with the manager of the relevant division. We have established a system to promote swift adoption of such measures Company-wide.

(v) As stated clearly in our Handbook for Corporate Ethics, we, as a business entity, stand firmly against antisocial forces that damage social order and healthy corporate activities.

(vi) We carry out and are currently improving capacities for periodic and occasional compliance and corporate ethics education across management and employee strata.

(2) System for data storage, management, and disclosure relating to execution of duties by Directors

The minutes of important committee and other meetings are retained for a storage period based on the stipulations of separate in-house regulations. Regarding disclosure of important information outside the Company, the Disclosure Committee ensures completeness and appropriateness of important disclosure and is working to improve accountability.

(3) Rules and other systems relating to risk management

Executive Officers and the Directors responsible for operations have the authority and responsibility for building risk management systems, which oversee the entire Group. Each of them in their own domain focuses on product liability, quality, safety, production, sales activities and natural disasters in a cross-sectoral manner. Regarding Company-wide risks, the Officer responsible for Corporate Ethics and Compliance supervises risk management, and operates through the Legal Affairs, Compliance and Intellectual Property Department, in order to specify major risks based on risk assessment, and to formulate countermeasures after deliberations with the Corporate Ethics and Risk Management Committee.

(4) System to ensure efficient execution of duties by Directors

We have introduced the efficient execution framework dubbed "Executive Officer system," which allows us to achieve prompt decisions through substantive discussions by the reduced number of Directors. It also accelerates the Directors' self-directed decision-making process in each business division, geographical location, and corporate function.

We have established the "Group Steering Meeting," which acts as the supreme deliberating body that manages our Group. Important management policies and strategies are determined promptly and in a timely manner, resulting in faster problem-solving processes. We have also implemented a system which allows our Directors and Executive Officers to appropriately and effectively execute their duties through administrative authority and decision-making rules, based on various internal regulations, centered on the Board of Directors' regulations, the Executive Officers Meeting regulations and collective decision-making regulations. This initiative encourages participation, advice and guidance in management decision-making from an independent and neutral external standpoint and provides a check function to raise appropriate and effective execution of duties by Directors and Executive Officers. This is achieved through permanently maintaining two or more External Directors with no conflicting interests with the Company. At the same time, we have established the Advisory Committee system to garner advice and opinions from an independent standpoint for management problems facing the Group.

(5) System to ensure fair business practices in the Group comprising Daikin Industries, its parent company, and subsidiaries

To raise corporate value throughout the Group and fulfill social responsibilities, the Company and its subsidiaries aspire to conduct that upholds Our Group Philosophy, strengthens links of direction, orders, and communication between Group companies, and ensures fair business practices Group-wide, while carrying out guidance, advice, and assessment. Important items determined by the Board of Directors and Executive Officers meeting are promptly shared throughout the Group, with the exclusion of data that could be construed as insider information. Thus through corporate behavior based on unanimous intent, we aim to cultivate an understanding and secure fair business practices.

The departments responsible for management and support for Group companies are determined at the Head Office, and we promote strategies for continuous cooperation in day-to-day operations. Simultaneously, we have established Group Management Meeting to share information and familiarize basic strategies group by group and to facilitated and strengthen support for solving problems and tasks of the Group companies.

We strive to handle important decisions and business execution in subsidiaries through pre-emptive consultation and involvement and regular ascertainment of business conditions based on the stipulations of the Limits of Authority of Daikin Group Companies, which was updated and further subdivided in April 2008.

To respond to the internal control reporting system (Financial Instruments and Exchange Law), the Company began revising and upgrading its internal control systems related to financial reporting in August 2005, and subsequently develops and establishes systems designed to ensure the appropriateness of all operational processes throughout the Daikin Group that could affect financial reporting. In order to submit valid and appropriate internal control reports as stipulated in Article 24.4.4 of the Financial Instruments and Exchange Law, Daikin will carry out ongoing evaluations and make required corrections to ensure that the structures established to date are functioning properly and also continually ensure conformity with the Financial

Instruments and Exchange Law and other related laws and ordinances. In addition to its internal control systems, in fiscal 2008 Daikin established global accounting rules and is working to ensure familiarity with these rules at a global level and make further improvements with respect to the validity and accuracy of accounting and financial reporting.

Furthermore, it was revealed in March 2009 that the After Sales Service Division of the Company and its subsidiary had been applying inappropriate accounting procedures. In response, the Company strengthened accounting functions in business divisions and subsidiaries throughout the company, implemented accounting audits by the Finance and Accounting Division, implemented special audits by the Internal Audit Department, developed and strengthened self-monitoring in each business division, carried out training for persons in charge of accounting, and implemented monitoring by the Finance and Accounting Division, as was the case in the previous fiscal year. Furthermore, Daikin formulated and implemented company-wide preventative measures such as strengthening communication functions of the Legal Affairs, Compliance and Intellectual Property Department to convey the importance of compliance, and established and strengthened appropriate systems to support the preparation of reliable financial reports.

(6) Ensuring effectiveness of the audit by the Audit & Supervisory Board Members

In addition to the Board of Directors' Meeting, Audit & Supervisory Board Members attend meetings of the Executive Officers Meeting and Company-wide technology meetings to receive reports and deliver opinions. In addition, to ensure effectiveness of the audit, a system is in place by which the Audit & Supervisory Board is updated on important items that influence management and performance. In that respect, Directors, Executive Officers and employees of the Company and its Group companies report matters regarding the execution of duties that need to be reported to the Audit & Supervisory Board Members appropriately and in a timely manner. The Company also notifies Executive Officers and employees of the Company and its Group companies that disadvantageous treatment on account of having made such reports is prohibited.

The Audit & Supervisory Board Members meet periodically to exchange opinions with Representative Directors, Executive Officers and the Independent Auditors. They also attend various types of important meetings and verify investigations and documents on related departments, and we make sure their authority extends throughout the Group without restraint. To support this system, Group Auditors have been appointed to each of the major Group companies, ensuring smooth flow of information. Audit & Supervisory Board Members also periodically assemble Group Auditors' Meetings in order to exchange information and make improvements to auditing procedures. In addition, the Company bears the expenses necessary for the execution of duties by Audit & Supervisory Board Members as they are incurred.

Auditing staff members to the Audit & Supervisory Board Members have been appointed, and Audit Office has been established to assist with their duties. Audit Office members act on the order of the Audit & Supervisory Board Member, and their transfer and performance assessment are conducted based on the opinions of the Audit & Supervisory Board.

7. Basic Policy on Company Control

The Company publicly announced on May 10, 2006, that its Board of Directors at a meeting held on the same day adopted the DAIKIN Shareholder Relationship Policy (hereinafter the "DSR Policy"), a basic policy that refers to the persons who control the Company's decisions on financial matters and business policies, in accordance with Article 118, Paragraph 3, of the Enforcement Regulations of the Companies Act, and that the Board of Directors determined the Company's special commitment guidelines to implement this basic policy, in accordance with Item 3 b (1) of the same Article.

The DSR Policy is intended to ensure that we provide sufficient information to our shareholders in the event of a large-scale acquisition of the Company's shares and defines the Company's unique policy for responding to such acquisition. The policy does not envision measures to counter such an acquisition using allocation of subscription rights to shares or new shares. It calls for the formation of an Independent Committee, which consists of third-parties who are independent from the Company. The Independent Committee will demand information from the purchaser, such as the purpose of the purchase and the management policy, and after sufficiently studying the information, communicate its opinion to our shareholders within a predetermined period. The policy thus enables each shareholder to make his or her decision with reference to the opinion expressed by the Independent Committee.

Although the Company periodically reviews its policy for responding to such acquisitions, looking at the recent market conditions, it believes that it is vital to maintain the DSR Policy. For these reasons, the Company decided to renew the DSR Policy at the Board of Directors' meeting held on May 10, 2012.

(1) Basic policy content

As the sole global air-conditioner manufacturer of both refrigerants and air conditioning equipment, the Company is proactively committed to ensuring and improving its corporate value and the common interests of shareholders by creating new affluence through long-accumulated core technologies for air conditioning and chemicals.

Given the increasingly intense competition in the air conditioning and chemical industries, it is essential for the Daikin Group to ensure its sustainable growth through a corporate culture that cultivates new demand and markets based on technological innovations independent of conventional ideas and constraints. In this context, we believe the capability to implement future innovations and challenges come from the power derived from people and organization, such as strong teamwork, underlying a "people-centered management" infrastructure. The Company intends to aggressively promote among its employees its three "Our Core Values"— "Absolute Credibility," "Enterprising Management" and "Harmonious Personal Relations"—detailed in "Our Group Philosophy" formulated in August 2002. The successful growth of the Daikin Group to date has been supported by the strong human resources created through strong relationships and mutual trust between management and employees, and also by the aforementioned management policies.

Moreover, it is necessary for the Group to globalize further in order to maintain rapid growth from a medium- to long-term basis. For inevitable globalization, the Company must build powerful production bases and sales networks in various regions, and maintain a multinational corporate culture that supports and promotes such initiatives. Also we must maintain trust among diverse stakeholders, including customers, suppliers and employees worldwide by increasing the level of reliance and recognition of the Company as a "a truly global and excellent company" through coexistence with the environment and society. It can be said that our corporate value has been derived from various tangible and intangible properties that the Company has long nurtured.

Unless the Company's corporate value can be improved in the medium to long term, even by a potential large-scale purchaser, who is going to control the Company's decisions on financial matters and business policies, the Company's corporate value and the common interests of the shareholders might be damaged. Should the objective of a large-scale purchaser imply that such damage might occur, the sale to such purchaser could be judged inappropriate.

Furthermore, actual large-scale purchases may include cases where shareholders are forced to sell their shares, in effect; where the shareholders or the Board of Directors do not have sufficient time and information to examine the conditions or the Board of Directors does not have time to offer alternative plans; and where the Board of Directors has to negotiate with the purchaser to submit more advantageous conditions than those the purchaser has proposed. All of these have the potential to infringe on the corporate value and the common interests of the shareholders. The Company believes that such large-scale purchases are generally inappropriate.

We believe it's desirable for our shareholders to make "informed judgment," where the shareholders evaluate whether a proposed large-scale purchases would secure and enhance the Company's corporate value and the shareholders' common interest, by first obtaining sufficient information with regard to the management policies and other views of the current management staff toward the proposed large-scale purchase. We believe that it is inappropriate for those who control the Company's decisions on financial matters and business policies to make any large-scale purchase or act when it runs counter to the Company's corporate value of the shareholders' interest, or impairs the proper judgment of shareholders. The Company's Board of Directors believes that these concepts accurately reflect the intent of Article 118, Paragraph 3, of the Enforcement Regulations of the Companies Act and have therefore integrated them into our DSR Policy.

(2) The Company's commitment to implement this basic policy

Special measures that contribute to the realization of this basic policy were formulated as the "Fusion 15" strategic management plan, and the Company aims to realize sustainable enhancement of the corporate value of the Company. In the event of a large-scale acquisition of the Company's shares, we believe it important that the situation be evaluated transparently and objectively, with appropriate disclosure to shareholders and investors in Japan and overseas.

1) Measures to raise corporate value through implementation of strategic management plan Fusion 15
In Fusion 15, which aims to become "a truly global and excellent company," themes are positioned for "Succeeding in the Paradigm Shift to Become a Truly Global and Excellent Company." The strategic management plan specifies "11 Group-wide Core Strategy Themes," specifically "'4 New Growth Strategy Themes' to incorporate the changes of the era as growth," "'4 Management Constitution Reform Themes' to succeed in the new era," and "'3 Themes to Enhance HR Capabilities' based on People-Centered Management."

We believe that group-wide efforts to steadily carry out these themes will lead to maximization of the corporate value of the Company and then to further enhancement of benefits to shareholders.

2) Measures to ensure objective and transparent evaluation in the event of large-scale purchases

(a) Outline of the measures

The Company has determined that the procedure (hereinafter the "DSR Rules") is appropriate whereby the independent committee, which consists of External Directors and other members who are independent from the Company's Board of Directors, collects sufficient information, studies the specific purchase and expresses its opinion to shareholders before a large-scale purchase actually takes place.

(b) Content of the procedures

(i) Application of the DSR Rules

The DSR Rules shall apply to actions or proposals for the purchase or similar acts (hereinafter collectively the "Purchase") of the Company's shares and other securities that fall under either <1> or <2> below. Any purchaser who intends to make such a Purchase (hereinafter the "Purchaser") is requested by the Company to comply with the DSR Rules in advance.

<1> As for shares and other securities of which the issuer is the Company, a Purchase for which a holder's ratio of shares and other securities becomes 20% or more.

<2> As for shares and other securities of which the issuer is the Company, a public tender for which the total holding ratio of shares and other securities relating to a public tender and the holding ratio of shares and other securities of special related parties becomes 20% or more.

(ii) Independent Committee

The Company has established the Independent Committee to objectively judge whether a Purchaser is appropriate in view of the DSR Policy in advancing the procedure under the DSR Rules. The Independent Committee consists of external Directors and other members who are independent from the Company's Board of Directors. The Committee shall request that the Purchaser supply information in advance to the Committee, as well as study and judge the content of the Purchase and express its opinion regarding the Purchase to increase objectivity, rationality and transparency of the procedure toward large-scale Purchases of the Company's shares. The Committee shall be convened immediately after a Purchase provided for in Item (i) is identified.

(iii) Content of the DSR Rules

a) Supply of Required Information

The Independent Committee will request that a Purchaser who proposes a Purchase stated in Item (i) above without the prior accord of the Board of Directors provide the Company with sufficient information (hereinafter the "Required Information") before the Purchase is actually made. Although the Independent Committee may demand additional information within reasonable bounds, this period shall be no longer than 60 days from the date of actions or proposals for the purchase or similar acts of the Company's shares and other securities to which the DSR Rules shall apply.

b) Review of the content of the Purchase, negotiation with the Purchaser and proposal of alternative plans

If all the Required Information is provided by the Purchaser, the Independent Committee may also request that the Company's Board of Directors present its opinion (which might include some restrictions) regarding the content of the Purchase, supporting materials to show its reasoning, alternative plans (if any) and other information deemed necessary by the Committee within the predetermined period set by the Committee. In addition, the Independent Committee may even request some opinions of the Company's stakeholders such as employees, the labor union, suppliers, and customers as necessary.

During a maximum 60-day period (of which, however, the Committee may extend this period a maximum 30-day limit according to the provision set forth in Item c) below; hereinafter the "Assessment Period") after such information is provided by the Purchaser and the Company's Board of Directors (in case the Committee had requested that the Board of Directors supply sufficient information therewith as described above), the Independent Committee will review

the content of the Purchase, examine the alternative plans submitted by the Board of Directors, collect information and then make comparisons with regard to the business plans between those proposed by the Purchaser and those by the Board of Directors.
To ensure the contribution of its judgment to the corporate value and the common interests of the shareholders, the Independent Committee, at the expense of the Company, may seek advice from independent third parties (including financial advisers, certified public accountants, lawyers, consultants and other experts).
The Independent Committee shall, at a time that it judges appropriate, disclose the fact that the Required Information was submitted to the Company and the matters it considers appropriate to disclose of the Required Information and other information previously obtained.

c) Disclosure of opinion by the Independent Committee
The Independent Committee shall, after the elapse of the Assessment Period stated as (iii) b), judge whether the Purchase falls under any of the conditions stipulated in the following section. The Independent Committee shall inform the results of the assessment, its opinion, the reasons therefore, and other information that may help shareholders make their own judgment on such purchase.

Conditions for an Inappropriate Purchase

1) In case the Purchase does not comply with the DSR Rules;
2) In case the Purchase is likely to cause a clear violation of the corporate value of the Company or consequently the common interests of the Company's shareholders (e.g., the below-mentioned actions):
- Buy up a considerable ratio of the Company's shares and demand that the Company purchase the shares at a considerably higher price;
- Forcibly realize individual interests of the Purchase by divesting and sacrificing the Company, including the acquisition of the Company's important assets at unfairly low prices, through temporary control of the Company's management initiative;
- Appropriate the Company's assets as collateral for liabilities or as underlying assets for payments for the sake of the Purchaser or any of its group companies; and
- Through temporary control of the Company's management initiative, cause the Company's management to dispose of its highly valued assets, which have no specific relations with the ongoing Company businesses, to make management distribute temporarily higher dividends with the profit from the disposal, or temporarily shore up the Company's shares and sell them off at a higher price by leveraging a temporarily raised stock price through temporarily increased dividends.

3) In case the Purchase refers to a compulsory action, in effect, through a forced two-tier purchase procedure that compels shareholders to sell their shares (i.e., making the purchase in the form of a tender offer, etc., by unilaterally setting unfavorable second-tier purchase conditions without inviting shareholders to purchase all shares at the first tier or intentionally not clarifying the second-tier purchase conditions to shareholders);
4)In case the Purchase conditions (including the value and type of compensation, Purchase timing, the propriety of the Purchase method and the probability of the Purchase being executed) are insufficient or inappropriate in view of the Company's corporate value and the common interests of the shareholders.

In case the Independent Committee cannot reach a judgment as outlined above by the end of the initial Assessment Period, it may extend the period a maximum 30-day limit within the scope deemed necessary to review the content of the Purchase.

(iv) Abolition or modification of the DSR Rules
The DSR Rules shall come into force on July 1, 2012, and its effective period shall be three years from that date, provided, however, that the Company may review and modify the DSR Rules, from time to time, as necessary within this period.

(Reference)
The DSR Policy expires as of June 30, 2015.

The Company, hereby, reports to its shareholders that, while not a required component of the Business Report, it resolved at the Board of Directors' meeting held on May 12, 2015 not to renew this Policy upon its expiry indicated above.

Consolidated Balance Sheet
As of March 31, 2015

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	**1,082,614**	**Current liabilities**	**525,624**
Cash and deposits	286,949	Notes and accounts payable – trade	153,937
Notes and accounts receivable – trade	354,480	Short-term loans payable	41,897
Merchandise and finished goods	248,027	Commercial papers	16,000
Work in process	40,493	Current portion of long-term loans payable	39,010
Raw materials and supplies	65,638	Lease obligations	1,913
Deferred tax assets	38,745	Accrued expenses	96,075
Other	55,175	Income taxes payable	21,514
Allowance for doubtful accounts	(6,896)	Deferred tax liabilities	22,658
		Provision for directors' bonuses	300
Non-current assets	**1,181,375**	Provision for product warranties	50,547
Property, plant and equipment	**347,755**	Other	81,768
Buildings and structures	117,718		
Machinery, equipment and vehicles	122,808	**Non-current liabilities**	**690,054**
Land	37,561	Bonds payable	140,000
Leased assets	2,755	Long-term loans payable	420,874
Construction in progress	33,834	Lease obligations	2,717
Other	33,077	Long-term accounts payable – other	372
		Deferred tax liabilities	95,115
Intangible assets	**576,724**	Net defined benefit liability	10,709
Goodwill	369,964	Other	20,264
Customer relationship	137,970		
Other	68,789	**Total liabilities**	**1,215,678**
		(Net Assets)	
Investments and other assets	**256,894**	**Shareholders' equity**	**780,384**
Investment securities	205,772	**Capital stock**	**85,032**
Long-term loans receivable	341	**Capital surplus**	**83,443**
Deferred tax assets	2,933	**Retained earnings**	**617,128**
Net defined benefit asset	19,426	**Treasury shares**	**(5,220)**
Other	29,155	**Accumulated other comprehensive income**	**244,340**
Allowance for doubtful accounts	(735)	Valuation difference on available-for-sale securities	**67,818**
		Deferred gains or losses on hedges	**(464)**
		Foreign currency translation adjustment	**179,566**
		Remeasurements of defined benefit plans	**(2,580)**
		Subscription rights to shares	**992**
		Minority interests	**22,594**
		Total net assets	**1,048,311**
Total assets	**2,263,989**	**Total liabilities and net assets**	**2,263,989**

Consolidated Statement of Income
From April 1, 2014, to March 31, 2015

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

Net sales		1,915,013
Cost of sales		1,265,112
Gross profit		**649,901**
Selling, general and administrative expenses		459,313
Operating income		**190,587**
Non-operating income		
Interest income	5,966	
Dividend income	2,907	
Share of profit of entities accounted for using equity method	880	
Foreign exchange gains	2,954	
Other	5,110	17,820
Non-operating expenses		
Interest expenses	9,063	
Other	5,109	14,173
Ordinary income		**194,234**
Extraordinary income		
Gain on sales of land	43	
Gain on sales of investment securities	4,006	
Gain on reversal of subscription rights to shares	100	4,150
Extraordinary losses		
Loss on disposal of non-current assets	480	
Impairment loss	4,578	
Loss on abolishment of retirement benefit plan	811	
Other	6	5,877
Income before income taxes and minority interests		**192,508**
Income taxes – current	60,969	
Income taxes – deferred	6,995	67,965
Income before minority interests		**124,542**
Minority interests in income		4,868
Net income		**119,674**

Consolidated Statement of Changes in Equity
From April 1, 2014, to March 31, 2015

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

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	83,549	514,583	(4,549)	678,616
Cumulative effects of changes in accounting policies			2,574		2,574
Restated balance	85,032	83,549	517,157	(4,549)	681,190
Changes of items during period					
Dividends of surplus			(19,545)		(19,545)
Net income			119,674		119,674
Effect of changes in accounting period of subsidiaries			(157)		(157)
Purchase of treasury shares				(2,094)	(2,094)
Disposal of treasury shares		(105)		1,423	1,317
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(105)	99,970	(671)	99,193
Balance at end of current period	85,032	83,443	617,128	(5,220)	780,384

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	40,065	606	87,938	(4,882)	123,727	841	21,162	824,348
Cumulative effects of changes in accounting policies								2,574
Restated balance	40,065	606	87,938	(4,882)	123,727	841	21,162	826,922
Changes of items during period								
Dividends of surplus								(19,545)
Net income								119,674
Effect of changes in accounting period of subsidiaries								(157)
Purchase of treasury shares								(2,094)
Disposal of treasury shares								1,317
Net changes of items other than shareholders' equity	27,753	(1,071)	91,628	2,302	120,613	150	1,431	122,194
Total changes of items during period	27,753	(1,071)	91,628	2,302	120,613	150	1,431	221,388
Balance at end of current period	67,818	(464)	179,566	(2,580)	244,340	992	22,594	1,048,311

Notes to the Consolidated Financial Statements

Basis for Presenting the Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries and names of major companies among them

Number of consolidated subsidiaries: 210

Major subsidiaries:	Omitted as they are described in "(10) Principal subsidiaries" of "1. Review of Operations" in the Business Report.

Increase/decrease in the number of consolidated subsidiaries during the consolidated fiscal year under review

(Newly added) Due to new establishment:

Asure Manufacturing LLC, Asure Extended Service Company LLC, BNP LLC, Daikin Refrigerants Europe GmbH

(Excluded) Due to liquidation:

Daikin Communication Science & Technology (Ningbo) Co., Ltd.

Due to sales of shares:

OYL Condair Industries Sdn Bhd, York (Malaysia) Sales & Service Sdn. Bhd.

(2) Names of major non-consolidated subsidiaries

A major non-consolidated subsidiary: Kyoei Kasei Industries, Ltd.

Reason for exclusion of the non-consolidated subsidiaries from consolidation:

The non-consolidated subsidiaries are small in corporate size and the impact of their aggregate total assets, net sales, net income (loss) (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others on the respective consolidated financial statements is insignificant. For this reason, these companies are excluded from the scope of consolidation.

2. Application of the Equity Method

(1) Number of major non-consolidated subsidiaries and affiliated companies accounted for by the equity method and names of major companies among them

Number of affiliated companies accounted for by the equity method: 10

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

(2) Names of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

Major companies:
(Non-consolidated subsidiary)
Kyoei Kasei Industries, Ltd.
(Affiliated company)
Daimics Co., Ltd.

Reason for not applying the equity method to these companies:

The impact of excluding these non-consolidated subsidiaries and affiliated companies without applying the equity method on the consolidated financial statements is insignificant in view of the net income (loss) (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others, and their intra-group positioning is immaterial on the whole. For this reason, the equity method is not applied to these companies.

3. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

(i) Securities:

Available-for-sale securities

Available-for-sale securities for which the fair market values are readily determinable:	Mainly valued at market at the end of the fiscal year. Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.

Available-for-sale securities for which the fair market values are not readily determinable: Mainly valued at cost determined by the moving-average method.

(ii) Derivatives: Derivative instruments are valued at fair market value.

(iii) Inventories: Mainly valued at cost determined by the gross average method (write-down of book values due to the decline in profitability) for inventories at domestic companies, whereas mainly the lower of cost or market determined by the gross average method is adopted for inventories at overseas consolidated subsidiaries.

(2) Depreciation method of major depreciable assets

(i) Property, plant and equipment (excluding leased assets)
The depreciation of property, plant and equipment is computed by the straight-line method.

(ii) Intangible assets
The amortization of intangible assets is computed by the straight-line method.
Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years). Customer relationship is amortized by the straight-line method over its useful life (mainly 30 years).
The amounts of goodwill are equally amortized over 9 to 20 years on a straight-line basis.

(iii) Leased assets
Leased assets related to the finance lease transactions other than those that transfer ownership right is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.
Of finance lease transactions other than those that transfer ownership right, those of which the commencement day of the lease transaction is prior to March 31, 2008, are accounted for as ordinary rental transactions.

(3) Accounting standards for important reserves

(i) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

(ii) Provision for directors' bonuses
The provision for directors' bonuses is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

(iii) Provision for product warranties
The provision for product warranties is provided for possible free repair costs of sold products at an amount considered necessary based on the past track record plus projected future guarantees.

(4) Other important matters as the basis for presenting the consolidated financial statements

(i) Important hedge accounting

(a) Hedge accounting method
The Group adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(b) Hedging instruments and hedged items
For the purpose of hedging exposure to exchange rate fluctuation risk, the Group adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Group adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank loans as hedged items.

(c) Hedging policy and method of assessing hedging effectiveness
The Group's risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for

the purpose of circumventing an unexpectedly huge loss. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Group. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary. A similar check system is adopted by the consolidated subsidiaries with regard to the assessment of hedging effectiveness.

(ii) Accounting policy for retirement benefits

- Method of attributing expected benefit to periods of service
  The method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on the benefit formula.
- Method of recognizing actuarial gains/losses and prior service costs
  Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Prior service costs are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

(iii) Accounting for consumption tax

Consumption tax and local consumption tax are excluded from each transaction amount.

Other important matters as the basis for presenting the consolidated financial statements

(Changes in accounting policy)

(Adoption of accounting standard for retirement benefits)

Effective from the fiscal year ended March 31, 2015, the Company and its domestic consolidated subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; hereafter "Accounting Standard for Retirement Benefits") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015; hereafter "Guidance on Retirement Benefits"), in accordance with the provisions set forth in the main clause of Article No. 35 of the Accounting Standard for Retirement Benefits and the provisions set forth in the main clause of Article No. 67 of the Guidance on Retirement Benefits. Accordingly, the Group has revised the method of calculating retirement benefit obligations and service costs, and changed the method of attributing the projected retirement benefits to periods of service from the straight-line basis to the benefit formula basis. Additionally, the Group has changed the method of determining the discount rate from the method using a discount rate based on the number of years approximate to the average remaining service period of employees to the method using a single weighted average discount rate that reflects the estimated timing of retirement benefit payments and the amount of retirement benefit payment in each estimated payment period.

In regard to the adoption of the Accounting Standard for Retirement Benefits, etc., the Group follows the transitional measure stipulated under Article No. 37 of the Accounting Standard for Retirement Benefits, and the amount of financial impact caused by the change in the method of calculating retirement benefit obligations and service costs is added to or subtracted from retained earnings as of the beginning of the fiscal year under review.

As a result, as of the beginning of the fiscal year under review, net defined benefit assets increased by ¥4,787 million and retained earnings increased by ¥3,064 million. Additionally, the impact of this change on the operating income, ordinary income, and income before income taxes and minority interests for the fiscal year under review, is insignificant.

(Change in revenue recognition standard)

The Company and its domestic consolidated subsidiaries had formerly recognized revenue mainly on a shipping basis. However, starting from the fiscal year ended March 31, 2015, the Company and its domestic consolidated subsidiaries have changed to recognize revenue on a delivery date basis under the terms and conditions of contracts.

While the Company and its domestic consolidated subsidiaries had primarily recognized revenue on a shipping basis, its overseas consolidated subsidiaries, pursuant to IFRS and USGAAP, had recognized revenue on a delivery date basis under the terms and conditions of contracts, which gave rise to a situation in which different recognition standards were being adopted in Japan and overseas within the Group. However, in conjunction with the recent further expansion of the Group's business overseas, the revenue recognition standard was reviewed and it was decided that unification of revenue recognition would be crucial from a business management standpoint of the Group.

Consequently, the Company, by referencing the Accounting Practice Committee Research Report No. 13 “Research Report on Revenue Recognition in Japan (interim report)” from the Japanese Institute of Certified Public Accountants, reviewed the revenue recognition standard of the Company and its domestic consolidated subsidiaries.

As a result, the Company determined that it would be appropriate to use the unified method for revenue recognition, and decided to recognize revenue on a delivery date basis under the terms and conditions of contracts starting from the fiscal year under review, when the relevant systems and the operational management structure were in place.

This change in accounting policy has been retrospectively applied and the cumulative effect of this change in accounting policy has been reflected in the book value of net assets at the beginning of the fiscal year under review. As a result, retained earnings at the beginning of the current period decreased by ¥490 million.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

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

The Company and its domestic consolidated subsidiaries had formerly depreciated property, plant and equipment using the declining-balance method (with the exception of buildings acquired on or after April 1, 1998, which are depreciated using the straight-line method). However, starting from the fiscal year ended March 31, 2015, the Company and its domestic consolidated subsidiaries have changed the depreciation method to the straight-line method.

In “Fusion 15,” the Group’s strategic management plan that sets fiscal 2015 as its target year, the Daikin Group aims for further expansion of business overseas while it focuses on enhancing a system that globally optimizes local production and developing new products that match diverse consumer needs. Under this policy, the Group has been transferring its production bases overseas, and in Japan, it has been advancing toward standardization of its facilities and parts and materials in line with a review of the production system to meet domestic needs, as well as increasing its investments in research and development facilities. In light of the above, it was determined that, as the domestic facilities are expected to be utilized stably in the long term, depreciation using the straight-line method would better reflect the actual state of use and that unification of accounting treatments with the overseas consolidated subsidiaries, which apply the straight-line method, would contribute to enhancing the precision of business management, and the change in deprecation method was made as a result.

Consequently, depreciation for the fiscal year under review, decreased by ¥4,722 million, and operating income, ordinary income and income before income taxes and minority interests increased by ¥4,012 million, respectively, as compared with the figures calculated using the previous method.

Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

	(Millions of yen)
Time deposits	129

There is no debt secured by the above collateral.

	(Millions of yen)
2. Accumulated depreciation of property, plant and equipment	647,823

3. Liabilities on guarantee

Commitments to guarantee

Commitments to guarantee on the bank loans of the following affiliated company payable to financial institutions

	(Millions of yen)
Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd.	154

	(Millions of yen)
4. Amount of notes endorsed	5,345

	(Millions of yen)
5. Recourse obligation associated with contingent liabilities	1,198

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of shares issued as of March 31, 2015

Common shares: 293,113,973 shares

2. Dividends

(1) Dividend amounts paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 27, 2014	Common shares	7,878	27	March 31, 2014	June 30, 2014
Board of Directors' meeting held on November 11, 2014	Common shares	11,667	40	September 30, 2014	December 3, 2014

Note: Dividend per share of ¥40 paid by resolution of the Board of Directors' meeting held on November 11, 2014, includes ¥10 per share as commemorative dividend.

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2015, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2016

Planned date of resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 26, 2015	Common shares	Retained earnings	17,510	60	March 31, 2015	June 29, 2015

3. Type and number of shares subject to subscription rights to shares at March 31, 2015 (excluding those for which the first day of the exercise period has not yet arrived)

Common shares: 147,000 shares

Notes to Financial Instruments

1. Status of Financial Instruments

(1) Policy on treatment of financial instruments

The Group raises necessary funds (mainly, bank loans and bond issuance) in the light of business capital expenditure projects. For short-term working capital, funds are raised from bank loans and commercial papers, and temporary surplus funds are being managed with secure financial funds. We use derivatives trading for actual demand only, and do not use it for speculation purposes, in order to mitigate the risks described below. The Group does not use any special type of derivatives trading (leveraged trading) that involves high price volatility.

(2) Details of financial instruments, their risks, and risk management systems

Operating receivables, namely, notes and accounts receivable – trade are exposed to customer credit risk. In order to deal with these risks, in accordance with the credit management policy and global accounting regulations, we have a system to check the credit status of our key business partners as well as a system to control due dates and balances of each business partner.

For notes and accounts payable – trade, payment due dates are usually within one year.

The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using forward exchange contracts, currency swaps, etc., in principle against the net amount of the debts and credits in the same currency. Also, depending on the foreign exchange market conditions, similar derivatives transactions are used in respect of the foreign currency debts and credits, which are expected to incur from the anticipated transactions.

Investment securities are mainly shares in the companies, which are business partners for the purpose of business alliances or capital tie-ups. While investment securities are exposed to market value fluctuation risks, we review the market value and the financial conditions of the issuers (business partners) on a regular basis and continuously review the status of the shareholdings by taking into account relationships with business partners.

Short-term loans payable and commercial papers are mainly used as working capital. Long-term loans payable and bonds payable are used mainly for the purpose of procuring funds necessary for capital expenditures. While the operating debts, loans payable and bonds payable are exposed to liquidity risk, the Finance and Accounting Division manages such risk by timely planning and updating the cash management planning and is prepared for liquidity risk by setting up a commitment credit line so that funds settlement may be done if there is any sudden change in the fund raising markets. Part of the long-term loans payable on a floating rate basis, which is exposed to interest rate fluctuation risks, is hedged by the use of derivative transactions such as interest rate swaps, etc.

Derivative transactions are transactions which include forward exchange contracts, etc., for the purpose of hedging exchange fluctuation risks of the debts and credits denominated in foreign currencies, interest rates swap transactions, etc., for the purpose of hedging interest fluctuation risks of loans, and commodity futures transactions for the purpose of hedging the market price fluctuation risks of the raw materials. Derivative transactions are entered into in accordance with Regulation of Derivatives Trading, which set out the authority for transactions, the maximum amount, etc. Derivative transactions are conducted by the Finance and Accounting Division and monitored daily by the Corporate Planning Department for internal checking and are regularly reported to the Company's Board of Directors. A similar management system is also adopted by consolidated subsidiaries. Derivative transactions are entered into only with financial institutions with high credit ratings in order to mitigate credit risk.

With respect to derivative transactions, which satisfy the hedge accounting criteria, hedge accounting is applied. Hedging instruments and hedged items related to hedge accounting, hedge policies and methods for evaluating effectiveness of hedges are set forth in "Important hedge accounting method" under "Basis for Presenting the Consolidated Financial Statements."

(3) Supplementary explanation of matters concerning fair market value, etc., of financial instruments

Methods for determining fair market value of financial instruments include pricing based on market price, and where there is no market price, a price which is calculated using reasonable methods. Variable factors are considered in calculating the pricing, and therefore the pricing may fluctuate if different assumptions are applied.

2. Matters concerning fair market value, etc., of financial instruments

The prices recorded in the consolidated balance sheet, fair market value and the difference between those as of March 31, 2015 (consolidated financial closing date for the fiscal year under review), are as follows. Instruments for which it is deemed extremely difficult to ascertain the fair market value are not included in the below chart (see Note 2).

(Millions of yen)

	Amount recorded in the consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	286,949	286,949	—
(2) Notes and accounts receivable – trade	354,480	354,480	—
(3) Investment securities			
Available-for-sale securities	191,243	191,243	—
Total assets	832,673	832,673	—
(1) Notes and accounts payable – trade	153,937	153,937	—
(2) Short-term loans payable	41,897	41,897	—
(3) Commercial papers	16,000	16,000	—
(4) Income taxes payable	21,514	21,514	—
(5) Bonds payable	140,000	145,678	5,678
(6) Long-term loans payable	459,884	462,818	2,933
Total liabilities	833,234	841,846	8,611
Derivative Transactions (*)	(786)	(786)	—

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

Note 1: Method for calculating fair market value of financial instruments

Assets

(1) Cash and deposits

All deposits are liquid in the short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(2) Notes and accounts receivable – trade

These instruments are settled in a short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(3) Investment securities

The fair market value of shares is stated at the price on the relevant stock exchange, and the fair market value of bonds is stated at the present value of the total of principal and interest discounted by an interest rate adjusted for the remaining period to bond maturity and credit risk.

Liabilities

(1) Notes and accounts payable – trade, (2) Short-term loans payable, (3) Commercial papers, and (4) Income taxes payable

These instruments are settled in a short term, and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(5) Bonds payable

The fair market value of bonds payable issued by the Company is stated at the market price.

(6) Long-term loans payable

The fair market value of long-term loans payable has been determined by discounting the total of principal and interest by the interest rate on similar new loans payable. For loans payable with variable interest, the fair market value of long-term loans payable subject to special treatment such as interest rate swaps has been determined by discounting the total of principal and interest stated in association with the interest rate swap by an interest rate reasonably estimated from that applied to similar loans payable.

Derivatives transactions

The fair market value of currency-related instruments is stated at the futures exchange market value or the price from the supplying financial institution. The fair market value of interest-related instruments is stated at the price presented by the transacting financial institution. The fair market value of commodity is stated at the market value of futures listed on the future exchange. Interest rate swaps subject to special treatment are stated in association with hedged long-term loans payable and their fair market value is therefore included in the fair market value of the relevant long-term loans payable.

Note 2: Unlisted shares (amount recorded in the consolidated balance sheet was ¥8,265 million), investments, etc., in investment funds (amount recorded in the consolidated balance sheet was ¥942 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥5,321 million) are not included in "(3) Investment securities," as it is deemed to be extremely difficult to ascertain the fair market value as those instruments have no market prices, and it is not possible to estimate their future cash flows.

Per Share Information

Net assets per share:	¥3,511.34
Net income per share:	¥410.19

Tax Effect Accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

	(Millions of yen)
Deferred tax assets:	
Provision for product warranties	16,275
Unrealized profit of inventories	12,536
Tax loss carryforwards	6,805
Investment securities	6,165
Software and other assets	4,782
Inventories	4,325
Provision for bonuses	3,556
Net defined benefit liabilities	2,119
Foreign income tax credit	1,634
Allowance for doubtful accounts	1,238
Other	27,028
Subtotal of deferred tax assets	86,466
Less valuation allowance	(21,140)
Total deferred tax assets	65,326
Deferred tax liabilities:	
Intangible assets	(68,259)
Undistributed earnings of consolidated subsidiaries	(30,455)
Valuation difference on available-for-sale securities	(24,816)
Net defined benefit assets	(6,069)
Reserve for advanced depreciation of non-current assets	(1,728)
Other	(10,091)
Total deferred tax liabilities	(141,421)
Net deferred tax assets (liabilities)	(76,095)

2. Revision of the amounts of deferred tax assets and deferred tax liabilities due to the change in corporate income tax rate

Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc.," and the "Act for the Partial Revision of the Local Tax Act, etc.," on March 31, 2015, the statutory effective tax rate used in the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review (However, limited to those that are expected to be reversed on and after April 1, 2015) has been changed from 35.6% of the previous fiscal year to 33.0% for those expected to be collected or paid during the period from April 1, 2015, to March 31, 2016, and to 32.2% for those expected to be collected or paid on and after April 1, 2016.

As a result of these changes, deferred tax liabilities (net of deferred tax assets), income taxes – deferred recorded in the fiscal year under review, deferred gains or losses on hedges, and remeasurements of defined benefit plans decreased by ¥2,927 million, ¥390 million, ¥15 million, and ¥24 million, respectively, while valuation difference on available-for-sale securities increased by ¥2,577 million.

Retirement Benefits

1. Outline of the retirement benefit plans adopted
The Company and its domestic consolidated subsidiaries have a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans. Net defined benefit liabilities and retirement benefit expenses for certain of the retirement lump-sum plans held by the Company and its domestic consolidated subsidiaries are calculated using the simplified method.

2. Defined benefit plan

(1) Adjustment table for the beginning and the ending balance for projected benefit obligation (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for projected benefit obligation	89,633
Cumulative effects of changes in accounting policies	(4,787)
Restated balance	84,845
Service cost	4,209
Interest cost	1,984
Actuarial losses (gains) arising during the period	5,404
Prior service cost arising during the period	(1,348)
Amount of retirement benefits paid	(3,796)
Decrease due to the conclusion of the plan	(2,145)
Foreign currency translation adjustment	1,909
Other	(4)
Ending balance for projected benefit obligation	91,059

(2) Adjustment table for the beginning and the ending balance for plan assets (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for plan assets	92,228
Expected return on plan assets	3,396
Actuarial losses (gains) arising during the period	6,985
Employer contributions	3,622
Amount of retirement benefits paid	(3,454)
Decrease due to the conclusion of the plan	(2,145)
Foreign currency translation adjustment	1,831
Other	(13)
Ending balance for plan assets	102,450

(3) Adjustment table for the beginning and the ending balance for net defined benefit liabilities under the simplified method

	(Millions of yen)
Beginning balance for net defined benefit liabilities	2,500
Retirement benefit expenses	980
Amount of retirement benefits paid	(806)
Ending balance for net defined benefit liabilities	2,674

(4) Adjustment table for the ending balance for projected benefit obligation and plan assets, and net defined benefit liabilities and assets recorded on the consolidated balance sheet

	(Millions of yen)
Retirement benefit obligation (funded)	(89,278)
Plan assets	102,450
	13,172
Retirement benefit obligation (unfunded)	(4,455)
Net amount for assets and liabilities recorded on the consolidated balance sheet	8,716
Net defined benefit liabilities	(10,709)
Net defined benefit assets	19,426
Net amount for assets and liabilities recorded on the consolidated balance sheet	8,716

Note: Including the benefit plan applying the simplified method

(5) Amount of retirement benefit expenses and its breakdown

	(Millions of yen)
Service cost	4,209
Interest cost	1,984
Expected return on plan assets	(3,396)
Recognized actuarial losses (gains) during the period	162
Amortization of prior service cost during the period	(208)
Retirement benefit expenses calculated by the simplified method	980
Other	69
Subtotal	3,802
Loss due to the conclusion of the defined benefit plan	811
Total	4,614

(6) Remeasurements of defined benefit plans

Breakdown of the items (before adoption of tax-effect accounting) recorded in remeasurements of defined benefit plans is as follows:

	(Millions of yen)
Unrecognized prior service cost	(1,316)
Unrecognized actuarial gain	4,556
Total	3,239

(7) Plan assets

(i) Breakdown of plan assets

Percentages of major asset classes to total plan assets are as follows:

Domestic bonds	5%
Domestic equities	8%
International bonds	24%
International equities	21%
Insurance assets (general account)	16%
Cash and deposits	0%
Real estate	2%
Other	24%
Total	100%

(ii) Method for setting the expected long-term rate of return on plan assets

Current and expected allocation of plan assets and long-term rate of return on various assets composing the plan assets are taken into account in determining the expected long-term rate of return on plan assets.

(8) Basis for computation used in actuarial calculation

Basis for computation used in major actuarial calculation at the end of the consolidated fiscal year under review.

Discount rate	mainly 1.2%
Expected long-term rate of return on plan assets	mainly 2.5%

3. Defined contribution plan

Amount of contribution required to defined contribution plan paid by the Company and its consolidated subsidiaries is ¥4,832 million.

Non-Consolidated Balance Sheet
As of March 31, 2015

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	**293,177**	**Current liabilities**	**259,357**
Cash and deposits	6,057	Notes payable – trade	4,015
Notes receivable – trade	446	Accounts payable – trade	37,647
Accounts receivable – trade	94,942	Short-term loans payable	80,699
Merchandise and finished goods	44,049	Commercial papers	16,000
Work in process	27,954	Current portion of long-term loans payable	38,426
Raw materials and supplies	6,247	Lease obligations	1,167
Prepaid expenses	1,112	Accounts payable – other	488
Deferred tax assets	4,685	Accrued expenses	23,292
Short-term loans receivable	60,860	Income taxes payable	6,755
Accounts receivable – other	26,491	Advances received	577
Other	20,332	Deposits received	32,963
Allowance for doubtful accounts	(3)	Provision for directors' bonuses	300
		Provision for product warranties	7,082
		Notes payable – facilities	809
		Accounts payable – facilities	7,980
		Other	1,147
Non-current assets	**1,053,499**	**Non-current liabilities**	**583,048**
Property, plant and equipment	**105,605**	Bonds payable	140,000
Buildings	32,016	Long-term loans payable	413,799
Structures	3,444	Lease obligations	1,095
Machinery and equipment	27,088	Long-term accounts payable – other	327
Vehicles	78	Provision for retirement benefits	1,994
Tools, furniture and fixtures	7,229	Deferred tax liabilities	25,832
Land	20,237	**Total liabilities**	**842,406**
Leased assets	2,136	**(Net assets)**	
Construction in progress	13,375	**Shareholders' equity**	**436,343**
Intangible assets	**1,902**	**Capital stock**	**85,032**
Patent right, etc	1,902	**Capital surplus**	**83,443**
Investments and other assets	**945,991**	Legal capital surplus	82,977
Investment securities	198,980	Other capital surplus	466
Shares of subsidiaries and associates	488,063	Proceeds from disposal of treasury shares	466
Investments in capital of subsidiaries and associates	90,263	**Retained earnings**	**273,082**
Loans receivable from subsidiaries and associates	146,429	Legal retained earnings	6,066
Long-term loans receivable	216	Other retained earnings	267,016
Long-term prepaid expenses	1,257	Reserve for advanced depreciation of non-current assets	3,628
Prepaid pension cost	13,118	Reserve for special account for advanced depreciation of non-current assets	9
Guarantee deposits	2,772	Reserve for special depreciation	5
Other	5,907	General reserve	146,210
Allowance for doubtful accounts	(1,018)	Retained earnings brought forward	117,162
		Treasury shares	**(5,214)**
		Valuation and translation adjustments	**66,934**
		Valuation difference on available-for-sale securities	67,365
		Deferred gains or losses on hedges	(430)
		Subscription rights to shares	**992**
		Total net assets	**504,270**
Total assets	**1,346,676**	**Total liabilities and net assets**	**1,346,676**

Non-Consolidated Statement of Income
From April 1, 2014, to March 31, 2015

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

Net sales		477,579
Cost of sales		346,043
Gross profit		**131,536**
Selling, general and administrative expenses		106,860
Operating income		**24,675**
Non-operating income		
Interest income	1,809	
Interest on securities	5	
Dividend income	46,906	
Foreign exchange gains	7,548	
Other	2,715	58,985
Non-operating expenses		
Interest expenses	4,907	
Interest on bonds	1,821	
Interest on commercial papers	35	
Sales discounts	292	
Other	935	7,992
Ordinary income		**75,668**
Extraordinary income		
Gain on sales of investment securities	4,006	
Gain on reversal of subscription rights to shares	100	
Gain on sales of investments in capital of subsidiaries and affiliates	3,456	7,564
Extraordinary losses		
Loss on disposal of non-current assets	229	
Loss on valuation of investments in capital of subsidiaries and associates	6,642	
Loss on sales of land	2	6,875
Income before income taxes		**76,357**
Income taxes – current	11,923	
Income taxes – deferred	179	12,102
Net income		**64,254**

Non-Consolidated Statement of Changes in Equity
From April 1, 2014, to March 31, 2015

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

	Shareholders' equity										
		Capital surplus			Retained earnings						
			Other capital surplus			Other retained earnings					
	Capital stock	Legal capital surplus	Proceeds from disposal of treasury shares	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of non-current assets	Reserve for special account for advanced deprecia-tion of non-current assets	Reserve for special depreciation	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	85,032	82,977	572	83,549	6,066	3,452	—	11	146,210	70,765	226,505
Cumulative effects of changes in accounting policies										1,868	1,868
Restated balance	85,032	82,977	572	83,549	6,066	3,452	—	11	146,210	72,633	228,373
Changes of items during period											
Dividends of surplus										(19,545)	(19,545)
Reversal of reserve for advanced depreciation of non-current assets						(3)				3	—
Provision of reserve for advanced depreciation of non-current assets						179				(179)	—
Provision of reserve for special account for advanced depreciation of non-current assets							9			(9)	—
Reversal of reserve for special depreciation								(5)		5	—
Provision of reserve for special depreciation								0		(0)	—
Net income										64,254	64,254
Purchase of treasury shares											
Disposal of treasury shares			(105)	(105)							
Net changes of items other than shareholders' equity											
Total changes of items during the period	—	—	(105)	(105)	—	175	9	(5)	—	44,529	44,708
Balance at end of current period	85,032	82,977	466	83,443	6,066	3,628	9	5	146,210	117,162	273,082

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	(4,543)	390,544	39,799	(126)	39,672	841	431,058
Cumulative effects of changes in accounting policies		1,868					1,868
Restated balance	(4,543)	392,412	39,799	(126)	39,672	841	432,926
Changes of items during period							
Dividends of surplus		(19,545)					(19,545)
Reversal of reserve for advanced depreciation of non-current assets		—					—
Provision of reserve for advanced depreciation of non-current assets		—					—
Provision of reserve for special account for advanced depreciation of non-current assets		—					—
Reversal of reserve for special depreciation		—					—
Provision of reserve for special depreciation		—					—
Net income		64,254					64,254
Purchase of treasury shares	(2,094)	(2,094)					(2,094)
Disposal of treasury shares	1,423	1,317					1,317
Net changes of items other than shareholders' equity			27,565	(304)	27,261	150	27,412
Total changes of items during the period	(670)	43,931	27,565	(304)	27,261	150	71,344
Balance at end of current period	(5,214)	436,343	67,365	(430)	66,934	992	504,270

Notes to the Non-Consolidated Financial Statements

Significant Accounting Policies

1. Valuation basis and method for assets

(1) Securities

Shares of subsidiaries and affiliated companies: Valued at cost determined by the moving-average method.

Available-for-sale securities

Available-for-sale securities for which the fair market values are readily determinable:	Valued at market as of the balance sheet date. (Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.)
Available-for-sale securities for which the fair market values are not readily determinable:	Valued at cost determined by the moving-average method.

(2) Derivatives: Derivative instruments are valued at fair market value.

(3) Inventories: Valued at cost determined by the gross average method (write-down of book values due to the decline in profitability).

2. Depreciation method of non-current assets:

(1) Property, plant and equipment (excluding leased assets)

The depreciation of property, plant and equipment at the Company is computed by the straight-line method.

(2) Intangible assets

The amortization of intangible assets is computed by the straight-line method.

Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years).

(3) Leased assets

Leased assets related to the finance lease transactions other than those that transfer ownership right is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

Of finance lease transactions other than those that transfer ownership right, those of which the commencement day of the lease transaction is prior to March 31, 2008, are accounted for as ordinary rental transactions.

3. Accounting standards for reserves

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

(2) Provision for directors’ bonuses

The provision for directors’ bonuses is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

(3) Provision for product warranties

The provision for product warranties is provided for possible free repair costs of sold products at an amount considered necessary based on the past track record plus projected future guarantees.

(4) Provision for retirement benefits

The provision for retirement benefits is provided for possible payment of employees’ post-retirement benefits at the amount to be accrued at the balance sheet date and is calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date. The provision for retirement benefits and the retirement benefit expenses are calculated and amortized as follows:

(i) Method of attributing expected benefit to periods of service

The method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on benefit formula.

(ii) Method of recognizing actuarial gains/losses and prior service costs

Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Prior service costs are recognized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Unrecognized actuarial gains or losses and unrecognized past service costs on the non-consolidated balance sheet are treated differently from on the consolidated balance sheet.

4. Other important matters as the basis for presenting the non-consolidated financial statements

(1) Hedge accounting

(i) Hedge accounting method

The Company adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(ii) Hedging instruments and hedged items

For the purpose of hedging exposure to exchange rate fluctuation risk, the Company adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Company adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank loans as hedged items.

(iii) Hedging policy and method of assessing hedging effectiveness

The Company’s risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for the purpose of circumventing an unexpectedly huge loss. The Company has formulated the Risk Management Rules, which outline a risk management method and other details such as a cap on the amount of funds that can be used for derivative transactions. Derivative transactions are routinely conducted by the Finance and Accounting Division and routine risk management operations by the Corporate Planning Department based on the Rules, and the status of derivative trading is regularly reported to the Company’s Board of Directors. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Company. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary.

(2) Accounting for the consumption tax

Consumption tax and local consumption tax are excluded from each transaction amount.

5. Changes in accounting policy

(Adoption of accounting standard for retirement benefits)

Effective from the fiscal year ended March 31, 2015, the Company has applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; hereafter “Accounting Standard for Retirement Benefits”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015; hereafter “Guidance on Retirement Benefits”), in accordance with the provisions set forth in the main clause of Article No. 35 of the Accounting Standard for Retirement Benefits and the provisions set forth in the main clause of Article No. 67 of the Guidance on Retirement Benefits. Accordingly, the Company has revised the method of calculating retirement benefit obligations and service costs, and changed the method of attributing the projected retirement benefits to periods of service from the straight-line basis to the benefit formula basis. Additionally, the Company has changed the method of determining the discount rate from the method using a discount rate based on the number of years approximate to the average remaining service period of employees to the method using a single weighted average discount rate that reflects the estimated timing of retirement benefit payments and the amount of retirement benefit payment in each estimated payment period.

In regard to the adoption of the Accounting Standard for Retirement Benefits, etc., the Company follows the transitional measure stipulated under Article No. 37 of the Accounting Standard for Retirement Benefits, and the amount of financial impact caused by the change in the method of calculating retirement benefit obligations and service costs is added to or subtracted from retained earnings brought forward as of the beginning of the fiscal year under review.

As a result, as of the beginning of the fiscal year under review, prepaid pension cost increased by ¥3,558 million and retained earnings brought forward increased by ¥2,293 million. Additionally, the impact of this change on the operating income, ordinary income, and income before income taxes for the fiscal year under review, is insignificant.

(Change in revenue recognition standard)

The Company had formerly recognized revenue mainly on a shipping basis. However, starting from the fiscal year ended March 31, 2015, the Company has changed to recognize revenue on a delivery date basis under the terms and conditions of contracts.

While the Company and its domestic consolidated subsidiaries had primarily recognized revenue on a shipping basis, its overseas consolidated subsidiaries, pursuant to IFRS and USGAAP, had recognized revenue on a delivery date basis under the terms and conditions of contracts, which gave rise to a situation in which different recognition standards were being adopted in Japan and overseas within the Group. However, in conjunction with the recent further expansion of the Group’s business overseas, the revenue recognition standard was reviewed and it was decided that unification of revenue recognition would be crucial from a business management standpoint of the Group.

Consequently, the Company, by referencing the Accounting Practice Committee Research Report No. 13 “Research Report on Revenue Recognition in Japan (interim report)” from the Japanese Institute of Certified Public Accountants, reviewed the revenue recognition standard of the Company and its domestic consolidated subsidiaries.

As a result, the Company determined that it would be appropriate to use the unified method for revenue recognition and decided to recognize revenue on a delivery date basis under the terms and conditions of contracts starting from the fiscal year under review when the relevant systems and the operational management structure were in place.

This change in accounting policy has been retrospectively applied and the cumulative effect of this change in accounting policy has been reflected in the book value of net assets at the beginning of the fiscal year under review. As a result, retained earnings brought forward at the beginning of the current period decreased by ¥425 million.

6. Changes in accounting policies that are difficult to distinguish from changes in accounting estimates

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

The Company had formerly depreciated property, plant and equipment using the declining-balance method (with the exception of buildings acquired on or after April 1, 1998, which are depreciated using the straight-line method). However, starting from the fiscal year ended March 31, 2015, the Company has changed the depreciation method to the straight-line method.

In “Fusion 15,” the Group’s strategic management plan that sets fiscal 2015 as its target year, the Daikin Group aims for further expansion of business overseas while it focuses on enhancing a system that globally optimizes local production and developing new products that match diverse consumer needs. Under this policy, the Group has been transferring its production bases overseas, and in Japan, it has been advancing toward standardization of its facilities and parts and materials in line with a review of the production system to meet domestic needs, as well as increasing its investments in research and development facilities. In light of the above, it was determined that, as the domestic facilities are expected to be utilized stably in the long term, depreciation using the straight-line method would better reflect the actual state of use and that unification of accounting treatments with the overseas consolidated subsidiaries, which apply the straight-line method, would contribute to enhancing the precision of business management, and the change in deprecation method was made as a result.

Consequently, depreciation for the fiscal year under review, decreased by ¥4,475 million, and operating income, ordinary income and income before income taxes increased by ¥3,764 million, respectively, as compared with the figures calculated using the previous method.

Notes to the Non-Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

(Millions of yen)

340,642

2. Liabilities on guarantee

(1) Guarantees

Guarantees on the bank loans of the following affiliated companies payable to financial institutions

	(Millions of yen)
Jiangxi Datang Chemicals Co, Ltd.	2,455

Goodman Global, Inc.	1,995
American Air Filter Brasil Ltda.	934
AAF International Air Filtration Systems LLC	724
AAF S.A.	405
Four (4) other companies	653
Total	7,169

(2) Commitments to guarantee

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

(Millions of yen)

Daikin America, Inc.	6,271
AAF-McQuay UK Limited	5,033
Daikin Air Conditioning (Vietnam) Joint Stock Company	3,536
Daikin Isitma Ve Soğutma Sįstemlerį Sanayį Ve Tįcaret A.Ş.	3,360
PT. Daikin Airconditioning Indonesia	1,942
Eight (8) other companies	4,919
Total	25,064

(3) Acknowledgements of loans payable

Acknowledgments of loans payable are deposited for bank loans of the following affiliated companies payable to financial institutions

(Millions of yen)

Daikin Airconditioning (Singapore) PTE Ltd.	217

3. Recourse obligation associated with contingent liabilities

(Millions of yen)

131

4. Monetary receivables/payables from/to affiliated companies (excluding those separately presented under the respective account titles)

(Millions of yen)

Short-term monetary receivables	185,667
Long-term monetary receivables	570
Short-term monetary payables	97,831
Long-term monetary payables	2

Notes to the Non-Consolidated Statement of Income

Volume of transactions with affiliated companies

(Millions of yen)

Operating transactions	
Sales amount	331,254
Purchase amount	114,770
Non-operating transactions	89,644

Notes to the Non-Consolidated Statement of Changes in Equity

Type and number of shares of treasury shares as of March 31, 2015

Common shares: 1,276,006 shares

Tax Effect Accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

	(Millions of yen)
Deferred tax assets:	
Investment securities	20,174
Software and other assets	4,745
Inventories	2,613
Provision for product warranties	2,338
Provision for bonuses	2,259
Enterprise tax payable	924
Provision for retirement benefits	645
Allowance for doubtful accounts	336
Long-term accounts payable – other	105
Other	2,253
Subtotal of deferred tax assets	36,396
Less valuation allowance	(27,152)
Total deferred tax assets	9,243
Deferred tax liabilities:	
Valuation difference on available-for-sale securities	(24,584)
Prepaid pension cost	(4,227)
Reserve for advanced depreciation of non-current assets, etc.	(1,577)
Total deferred tax liabilities	(30,390)
Net deferred tax assets (liabilities)	(21,146)

2. Reconciliation between the normal statutory effective income tax rate and the actual effective tax rate after the adoption of tax-effect accounting

	(%)
Normal statutory effective income tax rate	35.6
(Reconciliation items)	
Dividends income and others that are permanently excluded from taxable income	(20.0)
Foreign income tax withheld relating to dividends from foreign subsidiaries	3.0
Tax credit for experiment and research expense, etc.	(2.7)
Unrecognized tax effect on foreign income tax credit	(1.0)
Entertainment expenses and others that are permanently excluded from taxable loss	0.8
Valuation allowance	0.3
Per capita inhabitant's tax	0.1
Effect of changes in tax rate	(0.0)
Other	(0.1)
Actual effective income taxes rate after the adoption of tax-effect accounting	15.9

3. Revision of the amounts of deferred tax assets and deferred tax liabilities due to the change in corporate income tax rate

Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc.," and the "Act for the Partial Revision of the Local Tax Act, etc.," on March 31, 2015, the statutory effective tax rate used in the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review (However, limited to those that are expected to be reversed on and after April 1, 2015) has been changed from 35.6% of the previous fiscal year to 33.0% for those expected to be collected or paid during the period from April 1, 2015, to March 31, 2016, and to 32.2% for those expected to be collected or paid on and after April 1, 2016.

As a result of these changes, deferred tax liabilities (net of deferred tax assets), deferred gains or losses on hedges, and retained earnings brought forward decreased by ¥2,363 million, ¥15 million and ¥179 million, respectively, while income taxes – deferred recorded in the fiscal year under review, valuation difference on available-for-sale securities, reserve for special depreciation, and reserve for advanced depreciation of non-current assets increased by ¥175 million, ¥2,554 million, ¥0 million and ¥179 million, respectively.

Non-Current Assets Used under Lease Contracts

In addition to the non-current assets recorded in the non-consolidated balance sheet, certain assets, including several sets of computers, are held and used under lease contracts.

Transactions with Related Parties

Directors, Audit & Supervisory Board Members, major individual shareholders, etc.

Attribute	Name	Business line or occupation	Ownership percentage of voting rights (%)	Description of transactions	Transaction amount (Millions of yen)	Account title	Year-end balance (Millions of yen)
Director/ Audit & Supervisory Board Member	Chiyono Terada	External Director of the Company President and Representative Director of ART CORPORATION	0.00 (held)	Commissioned removal and merchandise distribution business (Notes1, 2, 3)	468	Accounts payable – other and accrued expenses	45

Notes:
1. Refers to so-called arm's length transactions.
2. The above transactions are determined by taking into account the market price and other factors similar to those for general transactions.
3. The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.

Subsidiaries

Attribute	Company name	Ownership percentage of voting rights (%)	Relationship with the Company	Description of transactions	Transaction amount (Millions of yen)	Account title	Year-end balance (Millions of yen)
Subsidiary	Daikin HVAC Solution Tokyo Co., Ltd.	100% (directly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Notes 1, 2)	58,585	Accounts receivable – trade	6,539
	Daikin Consumer Marketing Co., Ltd.	100% (directly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Notes 1, 2)	49,633	Accounts receivable – trade	6,816
	Daikin Industries (Thailand) Ltd.	100% (directly holding)	Royalty income attendant upon sales of air conditioning equipment, etc.	Royalty income attendant upon sales of air conditioning equipment, etc. (Note 1)	7,669	Accounts receivable – trade	28,633
	Goodman Global Group, Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	5,931	Short-term loans receivable	15,018
				Loan	—	Long-term loans receivable from subsidiaries and associates (incl. current portion)	162,202
				Interest income (Note 3)	1,309	Other current assets	463
	Daikin Applied Americas Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	18,660	Short-term loans receivable	22,468
				Interest income (Note 3)	106	Other current assets	0
	Daikin (China) Investment Co., Ltd.	100% (directly holding)	Borrowing	Borrowing (Note 5)	4,616	Short-term loans payable	15,488
				Interest payment (Note 3)	36	Accrued expenses	12

Notes:

1. The terms applicable to transactions have been determined with reference to the market price in the same way as with the terms applicable to transactions in general.
2. The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.
3. The interest rate has been determined in accordance with the market interest rate.
4. Borrowing and loan are related to CMS (Cash Management System), and transaction amount shows the average balance during the period.
5. Transaction amount shows the average balance during the period.

Per Share Information

Net assets per share:	¥1,724.51
Net income per share:	¥220.23

Reference Documents for the General Meeting of Shareholders

First Item: Appropriation of Surplus

The Company pays stable dividends to shareholders in comprehensive consideration of the ratio of dividends to consolidated net assets, consolidated dividend payout ratio, consolidated operating performance, financial situations, and capital demands.

We propose to pay a year-end dividend for the 112th fiscal year as follows, which is a dividend increase of ¥33 per share from that of the preceding year, since we posted a higher profit for the fiscal year under review.

This dividend would result in an annual dividend—including the interim dividend—of ¥100 per share, an increase of ¥50.

Year-end dividends

(1) Amount of dividend assets to be allocated to shareholders
Cash of ¥60 per share of common stock of the Company
Total: ¥17,510,278,020

(2) Effective date of dividends from surplus
June 29, 2015

Second Item: Purchase of Treasury Stock

In accordance with Article 156 of the Companies Act, we request approval to purchase, during the one-year period following the conclusion of this general meeting of shareholders, the number of shares of the Company's common stock not to exceed 80,000 shares or the total acquisition cost of ¥800 million, to use them as shares to be granted upon the exercise of stock option rights.

Third Item: Election of One (1) Audit & Supervisory Board Member

The term of office for Audit & Supervisory Board Member Shigeru Murakami will expire as of the conclusion of this general meeting of shareholders. Therefore, we propose the election of one (1) Audit & Supervisory Board Member.

This proposal has been approved by the Audit & Supervisory Board.

The candidate for Audit & Supervisory Board Member is as follows.

New Candidate

Name (Date of birth)	Brief personal history and positions held		Number of the Company shares owned
Kosei Uematsu (January 21, 1952)	February 1982	Entered the Company	11,800 shares
	June 2002	Director, General Manager of Global Operations Division of the Company, General Manager of DT Alliance Promotion Secretariat of the same division in the Company	
	June 2004	Executive Officer, Member of Global Air Conditioning Committee of the Company (Current position)	
	September 2004	Chairman and Member of the Board of Daikin U.S. Corporation	
	June 2007	Senior Executive Officer of the Company (Current position), General Manager of New York Office of the Company President and Member of the Board of Daikin Holdings, Inc., President and Member of the Board of Daikin U.S. Corporation	
	June 2013	In charge of global air conditioning business strategies (excluding Japan); Commercial & industrial refrigeration business of the Company (Current position)	

Note: Mr. Kosei Uematsu does not hold any special interests in the Company.

Fourth Item: Election of One (1) Substitute Audit & Supervisory Board Member

Based on the provisions of Article 329, Paragraph 3, of the Companies Act, we propose the election of one (1) substitute Audit & Supervisory Board Member to prepare for the possibility that the number of External Audit & Supervisory Board Members as defined in Article 335, Paragraph 3, of the Companies Act may become insufficient.

This proposal has been approved by the Audit & Supervisory Board.

The candidate for substitute External Audit & Supervisory Board Member is as follows.

Name (Date of birth)	Brief personal history [Significant positions concurrently held]	Number of the Company shares owned
Ichiro Ono (April 3, 1949)	April 1978 Registered as a lawyer (Current position) April 1990 Managing Partner of Higobashi Law Office (Current position) April 2003 Vice Chairman of the Osaka Bar Association April 2009 Member, Mediation Committee, Osaka Family Court July 2010 Chairman, Information Disclosure Review Board, Osaka City [Significant positions concurrently held] Managing Partner of Higobashi Law Office	3,000 shares

Reasons for Nominating Candidate for Substitute External Audit & Supervisory Board Member:

We propose to elect Mr. Ichiro Ono as substitute External Audit & Supervisory Board Member because we anticipate that his activities as a lawyer will enable him to contribute to the Company's audit activities in an objective and impartial manner, primarily from a legal perspective. Mr. Ono has been judged to fulfill the duties of External Audit & Supervisory Board Member, owing to his extensive insight into corporate management, based on his abundant experience and expertise as a lawyer.

Notes:

1. Mr. Ichiro Ono does not hold any special interests in the Company.
2. If Mr. Ono assumes the position of Audit & Supervisory Board Member, the Company intends to conclude a limitation of liability agreement with him, in accordance with Article 427, Paragraph 1, of the Companies Act and the Company's Articles of Incorporation. Under this contract, liabilities for compensation are the lowest amount of liability stipulated by Article 425, Paragraph 1, of the Companies Act.

Fifth Item: Revision of the Details of Stock Options for Directors

At the 103rd Ordinary General Meeting of Shareholders held on June 29, 2006, the Company obtained approval to set the maximum amount of compensation relating to subscription rights to shares (hereinafter the "ordinary stock option") issued to Directors (excluding External Directors) of the Company at "no higher than ¥180 million annually."

After reviewing its stock option system for Directors, the Company requests approval to abolish its previous ordinary stock option system and to issue subscription rights to shares to Directors (excluding External Directors) in the form of new stock compensation-type stock options, in the same amount as the previous amount of "no higher than ¥180 million annually."

Under the new stock compensation-type stock option system, the Company will grant Directors (excluding External Directors), who have been allotted subscription rights to shares, cash compensation equal to the total amount of the subscription rights to shares, and offset the claims to such compensation against the payment obligations to be paid for the subscription rights to shares. Additionally, by strengthening the aspect of own shares as compensation, which had been lacking in the ordinary stock option, the new system is expected to serve as a healthy incentive for Directors to maintain and improve corporate value with the aim of further enhancing shared values with shareholders from a medium- to long-term perspective.

At the same time, in conjunction with this revision to the system, the two (2) years vesting period will be extended to three (3) years to ensure a substantial holding period for own shares, which is the main feature of stock compensation-type stock options on an institutional level, in order to guarantee that the Directors of the Company continue to share the same perspective on values as shareholders.

This amount of compensation relating to subscription rights to shares of “no higher than ¥180 million annually” will be separate from the maximum amount of compensation for Directors of “no higher than ¥1,300 million annually (including ¥60 million as the maximum annual amount of compensation for External Directors),” which was approved at the 111th Ordinary General Meeting of Shareholders held on June 27, 2014.

As for the amount of compensation for Directors, the amount still excludes a salary portion for a Director who also holds an employee post.

At the conclusion of this general meeting of shareholders, the number of Directors, excluding External Directors, will be ten (10) and the number of External Directors will be two (2).

<Overview of stock compensation-type stock options>

(1) Total number of subscription rights to shares

The maximum number of subscription rights to shares issued within one (1) year from the date of the ordinary general meeting of shareholders for the corresponding fiscal year shall be 600.

(2) Type and number of shares to be issued for subscription rights to shares

The type of shares to be issued for the subscription rights to shares shall be common stock of the Company and the number of shares to be issued for one (1) subscription right to shares (hereinafter the “number of granted shares”) shall be 100 shares. Provided, however, that in the event the Company conducts a merger, issuance of offered shares, company split, share split, consolidation of shares, etc., and a change in the number of shares is required, the Company shall conduct adjustments as it sees fit.

(3) Amount to be paid for subscription rights to shares

The amount to be paid for one (1) subscription right to shares shall be the amount decided at the Company’s Board of Directors’ Meeting to determine the terms and conditions for the offering of the subscription rights to shares, based on the fair value of the subscription right to shares calculated using a fair calculation method, such as the Black-Scholes Model, at the allotment of the subscription rights to shares.

(4) Amount of assets to be contributed upon exercise of the subscription rights to shares

The amount of assets to be contributed upon exercise of each subscription right to shares shall be an amount obtained by multiplying the amount to be paid for a share granted through the exercise of the subscription rights to shares, which shall be ¥1 per share, by the number of shares granted.

(5) Period during which the subscription rights to shares may be exercised

The period during which the subscription rights to shares may be exercised shall be determined by the Board of Directors within the period up to twelve (12) years from the day following the day when three (3) years have passed since the allotment date.

(6) Restriction on the acquisition of the subscription rights to shares by way of transfer

Approval by the Board of Directors shall be required for the acquisition of subscription rights to shares by way of transfer.

(7) Conditions for exercise of subscription rights to shares

Other conditions for exercise of the subscription right to shares, such as the exercise conditions of a person who has been allotted the subscription rights to shares and has lost their position at the Company, shall be decided at the Company's Board of Directors' Meeting to determine the terms and conditions for the offering of the subscription rights to shares.