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Code Number: 6367
June 2, 2017

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 114th Ordinary General Meeting of Shareholders

Shareholders are hereby called to attend the 114th 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 Wednesday, June 28, 2017, in accordance with "5. Guidance on Exercising Voting Rights" on the following page.

Particulars

1. Date and Time: 10:00 a.m., Thursday, June 29, 2017

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 114th fiscal year (from April 1, 2016, to March 31, 2017)

2: Audit Reports on the Consolidated Financial Statements for the 114th fiscal year (from April 1, 2016, to March 31, 2017) by the Independent Auditor and the Audit & Supervisory Board

Resolution Items:

First Item: Appropriation of Surplus

Second Item: Election of Two (2) Audit & Supervisory Board Members

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

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., Wednesday, June 28, 2017.

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., Wednesday, June 28, 2017.

- ⊙ 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

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

Looking at the overall world economy in fiscal 2016, robust personal consumption drove the U.S. economy. Even as the European economy maintained a moderate recovery, geopolitical risks and other factors remained to put downward pressure on the economy. The Chinese economy slowed gradually. While the emerging economies showed signs of improving overall, downside economic risks remained due to fluctuations in the financial markets and foreign exchange.

Turning to the Japanese economy, a moderate recovery continued, despite signs of weakness in some areas, and was backed by improvement in corporate earnings and an increase in exports.

In such a business environment, the Daikin Group set its New Year's slogan for 2016 as "Let each of us enhance our own strengths to take a big step forward," with the aim of generating results in the first year of "Fusion 20," the Group's strategic management plan that set fiscal 2020 as its target fiscal year. In particular, the Group made efforts to secure net sales and profit by expanding sales of major air-conditioning products in each region around the world and making group-wide efforts to reduce costs.

The Daikin Group's net sales increased by 0.0% year over year to ¥2,043,968 million for the fiscal year under review due to strong sales in the air conditioning business in each region, while the yen appreciated against other currencies, including the Chinese yuan, U.S. dollar, and euro, which had a negative impact such as a decrease in the yen-equivalent. As for profits, sales volume increased in each region and gross margin rates improved through cost reductions, despite a factor of profit decline due to conversion to the yen-equivalent. As a result, operating income increased by 5.9% to ¥230,769 million, ordinary income increased by 10.2% to ¥231,013 million, and profit attributable to owners of parent increased by 12.4% to ¥153,938 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 0.4% to ¥1,835,376 million. Operating income increased by 7.7% to ¥208,749 million.

In the Japanese commercial air-conditioning equipment market, industry demand rose year over year, pushed upward by the impact of the heat wave in Western Japan during the first half of the fiscal year and the government's subsidy system for replacement to high-performance energy-saving equipment. The Daikin Group captured demand for air conditioners for stores and offices, especially those of "FIVE STAR ZEAS" and "Eco-ZEAS" models, and net sales increased year over year.

In the Japanese residential air-conditioning equipment market, industry demand increased year over year due to robust demand that began in the first half from the impact of the heat wave in Western Japan and continued into the third quarter onward. The Daikin Group utilized the brand power of its room air conditioner "Urusara 7," an energy-saving, high value-added product, in an effort to expand sales for all models of residential air conditioners, and net sales exceeded that of the previous fiscal year.

In Europe, while sales were strong, net sales after converting to the yen-equivalent remained flat year over year in the region as a whole. Net sales of residential air-conditioning systems increased year over year in the local currency owing to increased demand stemming from the heat wave in 2015 and remained strong in fiscal 2016. Sales of commercial air-conditioning systems also remained strong, thanks to capturing replacement demand for air-conditioning equipment in major countries despite sluggish economic growth in Europe, and net sales were up year over year in the local currency. Despite stagnant demand in France, which is a major market, net sales of heat pump hot water heating systems grew in Europe overall in the local currency from the previous fiscal year due to significant sales growth in Italy and other countries.

In the Middle East and Africa, while sales were strong, net sales after converting to the yen-equivalent decreased year over year in the region as a whole. Net sales increased year over year in the local currency, thanks to efforts to boost orders for private-sector projects amid a series of temporary suspensions or delays, particularly for large-scale government projects, due to prolonged stagnation of crude oil prices and growing geopolitical risks. In Turkey, net sales increased year over year in the local currency, as a result of boosting orders for small- to medium-scale commercial projects and strengthening sales of residential air-conditioning systems. This was despite a series of delays in delivery, mainly for large-scale projects and others, and amid the continuing political unrest that followed the attempted coup d'état in July.

In China, while economic growth is slowing down, the Group intensified its retail sales to capture firm personal consumption. Net sales in the local currency rose year over year in all regions and for all products. Although net sales after converting to the yen-equivalent fell slightly year over year due to the depreciation of the Chinese yuan, operating income increased year over year owing to cost reductions promoted in the production division. In the residential-use market, the Group focused on its own specialty "PROSHOPs" and leveraged its proposal and installation capabilities, which are its strengths, to expand sales mainly in the mid-range and high-end residential market with the "New Life Multi Series," residential multi-split type room air conditioners that propose a variety of lifestyles for customers. In the commercial-use market, the Group expanded sales by carrying out model changes to the mainstay "VRV-X" series, commercial multi-split type room air conditioners that offer enhanced product appeal, including energy-saving performance; enhancing advertising and 'spec-in' for architectural firms; and broadening the range of the target markets to extend from new construction to replacement. In the large-building (Applied Systems) air-conditioning equipment market, the Group expanded sales by carrying out sales activities in a wide range of projects, from large to small- to medium-scale, based on an enhanced product lineup and reinforced after sales service business.

In Asia and Oceania, net sales after converting to the yen-equivalent remained flat year over year in the region as a whole. Nevertheless, net sales in the local currency increased considerably year over year thanks to efforts such as dealer development, expanded sales of differentiated energy-saving products that met local needs, and reinforcement of the service structure, which led to the capturing of demand among the growing middle class. In the residential air-conditioning systems, sales of inverter-type, cooling-only air conditioners with exceptional energy-saving performance were strong, and sales grew particularly in Thailand, Vietnam, Indonesia, and India. Sales of multi-split type room air conditioners for buildings grew due to enhanced 'spec-in' activities and greater focus on dealer development.

In the Americas, net sales increased year over year in the region as a whole due to strong sales. Net sales of residential air-conditioning systems rose year over year as a result of favorable weather in the first half and efforts to expand the sales network. Net sales grew year over year in the light commercial air-conditioning systems for medium-sized office buildings due to the implementation of sales strategies for each route. In the market for Applied Systems, net sales grew year over year thanks to expanded sales of Applied Systems, mainly rooftops equipped with inverters. This was backed by a higher level of demand than the previous fiscal year as well as sales growth in the after sales service business.

In the marine vessels business, net sales fell year over year due to a decrease in sales for marine container refrigeration units and air conditioners for marine vessels associated with falling demand.

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 3.4% to ¥156,754 million and operating income decreased by 11.2% year over year to ¥18,302 million.

Demand for fluoropolymers was robust for semiconductor-related applications in Japan and Asia. However, overall sales of fluoropolymers fell year over year. This was due to the strong yen, price competition in the U.S. market from rival companies and products made in China, and intensified competition in the LAN cable market. Fluoroelastomers were also affected significantly by foreign exchanges, and sales fell year over year, despite robust demand in automotive fields in each region around the world.

Turning to oil and water repellents among specialty chemicals, net sales fell significantly year over year due to sluggish sales affected by delays in switchovers to new products, among other factors, as well as the impact of foreign exchange. Sales of anti-fouling surface coating agents used in devices, such as touch panels, increased year over year, supported by strong demand in China. Sales of etchant for cleaning semiconductors increased year over year due to sales growth in Japan and Asia where related demand was favorable. Overall sales of specialty chemicals were down compared to the previous fiscal year.

As for fluorocarbon gas, overall sales of gas increased substantially year over year as a result of the growth in sales for after sales service in the Americas.

(iii) Other Divisions

Overall sales of the "Others" segment fell by 2.9% year over year to ¥51,837 million. Operating income increased by 6.2% year over year to ¥3,749 million.

Sales of oil hydraulic equipment for industrial machinery fell year over year due to the impact of stagnant demand in the Japanese market. Sales of oil hydraulic equipment for construction machinery and vehicles remained flat against the previous fiscal year due to the impact of production volume adjustments by Chinese agricultural machinery manufacturers, despite robust sales to key customers in Japan and the U.S.

In defense systems-related products, sales of home oxygen equipment were strong, while sales of ammunitions to the Ministry of Defense decreased, resulting in a decline in net sales compared to the previous fiscal year.

In the electronics business, net sales were on a par with the previous fiscal year, as sales especially of database systems for design and development sectors expanded.

On a non-consolidated basis, the Company's net sales increased by 1.0% year over year to ¥505,569 million. Operating income increased by 33.1% year over year to ¥50,364 million. Ordinary income increased by 63.6% year over year to ¥141,474 million, and profit increased by 103.0% year over year to ¥124,639 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 ¥90,345 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.	9,064
	Goodman Global Group, Inc.	31,324
	Daikin Europe N.V. Group	5,185
	Daikin Compressor Industries, Ltd.	5,040
	Daikin Industries (Thailand) Ltd.	4,487
	Daikin Applied Americas Inc. Group	3,730
Chemicals	Daikin Industries, Ltd.	7,356
	Daikin Fluorochemicals (China) Co., Ltd.	2,492
Others	Daikin Industries, Ltd.	1,046

(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, Division by Absorption or Division by Incorporation, 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

On April 27, 2016 (U.S. local time), the Company acquired all equity interests of Flanders Holdings LLC, an air filter manufacturer with the largest market share in the U.S., and completed the acquisition procedures.

(6) Operating Results and the Status of Assets

	111th Business Year (from April 1, 2013, to March 31, 2014)	112th Business Year (from April 1, 2014, to March 31, 2015)	113th Business Year (from April 1, 2015, to March 31, 2016)	114th Business Year (from April 1, 2016, to March 31, 2017)
Net sales (Millions of yen)	1,787,679	1,915,013	2,043,691	2,043,968
Ordinary income (Millions of yen)	155,570	194,234	209,536	231,013
Profit attributable to owners of parent (Millions of yen)	92,787	119,674	136,986	153,938
Earnings per share (Yen)	318.33	410.19	469.23	526.81
Total assets (Millions of yen)	2,011,870	2,263,989	2,191,105	2,356,148
Net assets (Millions of yen)	823,858	1,048,311	1,037,469	1,135,609

Note: The Company and its domestic consolidated subsidiaries had formerly recognized revenue mainly on a shipping basis. However, starting from the 112th Business 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 were adjusted retrospectively to reflect this change in the accounting policy.

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. Profit attributable to owners of parent increased, due in part to a large decrease in loss on valuation of investment securities from the previous fiscal year.

In the 112th term, the Group's Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable overseas sales mainly in China, Asia, and the Americas, as well as an increase in the yen-equivalent resulting from the weakening yen. The Chemicals segment also increased sales and profits due to sales expansion of strongly performing products and cost reductions.

In the 113th term, the Group's Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable overseas sales mainly in the Americas and Asia, as well as an increase in the yen-equivalent resulting from the weakening yen. The Chemicals segment also increased sales and profits due to sales expansion of semiconductor-related and other strongly performing products and foreign exchange effects, in addition to contribution resulting from the acquisition of a European gas business.

The results of our operations during the 114th 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 U.S. economy to be driven by personal consumption, and the European economy to sustain a moderate recovery trend. Although Chinese economy lacks vigor, the emerging economies as a whole are on track for economic expansion. We expect the Japanese economy to progress firmly due to expansion of capital expenditure and exports.

Amid this business environment, for this year (2017), we set "Integrate new power with our solid foundation to enhance our corporate value" as the Group's New Year's slogan with the aim of generating results amid the uncertain outlook in the global situation.

Specifically, we will refine our ongoing efforts to strengthen our sales and marketing capabilities, improve product development, production, procurement, and quality capabilities, and enhance our human resources capabilities, and promote themes aimed at further growth, while also working to reduce fixed costs. In particular, we will pursue measures such as accelerating the creation of differentiated technologies and products at principal bases worldwide with a focus on the Technology and Innovation Center, as we strive to expand the business with the aim of sustainable development in the medium and long term.

(8) Major Operations of the Company Group (as of March 31, 2017)

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, 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
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 Systems 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, 2017)

1) Principal bases

The Company	Head Office	Osaka (Kita-ku)
	Manufacturing bases	Kanaoka Factory, Sakai Plant (Kita-ku, Sakai, Osaka) Rinkai Factory, Sakai Plant (Nishi-ku, Sakai, Osaka) Yodogawa Plant (Settsu, Osaka) Shiga Plant (Kusatsu, Shiga) Kashima Plant (Kamisu, Ibaraki)
	Sales bases	Tokyo Office (Minato-ku, Tokyo)
	Overseas offices	New York Office Beijing 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, Osaka)
	Overseas	Daikin (China) Investment Co., Ltd. Daikin Air-conditioning (Shanghai) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Daikin Industries (Thailand) Ltd. Daikin Compressor Industries, Ltd. (Thailand) Daikin Malaysia Sdn. Bhd. 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.S. 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	61,907	6,422
Chemicals	3,490	(34)
Others	965	(164)
Corporate	674	7
Total	67,036	6,231

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 6,891 (an increase of 21 from the previous fiscal year).

(10) Principal subsidiaries (as of March 31, 2017)

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 Air-conditioning (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
Daikin Malaysia 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.S.	*100%	1,524 thousand EUR	Sale of air conditioning equipment
Daikin Isitma Ve Soğutma Şįstemlerį 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, 2017)

Creditors	Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation dollar-denominated syndicated loan (Note 1)	159,309
Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan (Note 2)	105,000
The Norinchukin Bank	50,000
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 a group of banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.
2. Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan is co-financed by a group of banks, with Sumitomo Mitsui Banking Corporation as the lead arranger.

2. Status of Shares (as of March 31, 2017)

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

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

(3) Number of Shareholders: 24,146 (Decrease of 4,781 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)	27,100	9.3
Japan Trustee Services Bank, Ltd. (Trust account)	19,381	6.6
Sumitomo Mitsui Banking Corporation	9,000	3.1
Japan Trustee Services Bank, Ltd. (Trust account 5)	5,015	1.7
Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account for The Norinchukin Bank, re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	4,999	1.7
Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,900	1.7
CBNY-Government of Norway	4,638	1.6
Japan Trustee Services Bank, Ltd. (Trust account 4)	4,448	1.5
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	4,051	1.4
State Street Bank and Trust Company	3,920	1.3

Notes:

1. Percentage shareholdings are rounded off to one decimal point.
2. Percentage shareholdings are calculated after deducting treasury shares (734 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. 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	80	1 Director
No. 13 (2014)	¥6,715	Common stock 100 shares per unit of subscription rights to shares	July 15, 2016, to July 14, 2020	130	2 Directors
No.14 (2015)	¥1	Common stock 100 shares per unit of subscription rights to shares	July 14, 2018, to July 13, 2030	149	8 Directors
No. 15 (2016)	¥1	Common stock 100 shares per unit of subscription rights to shares	July 15, 2019, to July 14, 2031	153	8 Directors

Note: From issue No. 14 (2015), subscription rights to shares have been granted in the form of stock compensation-type stock options.

(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. 15 (2016)	¥1	Common stock 100 shares per unit of subscription rights to shares	July 15, 2019, to July 14, 2031	428	53 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, Member of the Board	Masanori Togawa	Chairman of Internal Control Committee 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)	Tatsuo Kawada	Member of the HRM and Compensation Advisory Committee Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company External Audit & Supervisory Board Member of Hokuhoku Financial Group, Inc. Chairman of Fukui Chamber of Commerce and Industry
Member of the Board (external)	Akiji Makino	Member of the HRM and Compensation Advisory Committee Chairman, CEO and Executive Officer of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited
Representative Director, Member of the Board, 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	In charge of Global Operations Division and manufacturing technology
Member of the Board and Senior Executive Officer	Takashi Matsuzaki	In charge of R&D in North America (including applied solutions, commercial & industrial refrigeration, filter and dust collection)
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
Member of the Board (non-resident)	Yuan Fang	Regional General Manager, air conditioning business in emerging nations in the ASEAN and Oceania of Global Operations Division Vice Chairman and Senior Executive Officer of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Airconditioning (Hong Kong) Ltd.
Audit & Supervisory Board Member (external)	Ryu Yano	Chairman of the Board and Representative Director of Sumitomo Forestry Co., Ltd.
Audit & Supervisory Board Member (external)	Toru Nagashima	Senior Advisor of Teijin Limited External Director of AEON Co., Ltd.
Audit & Supervisory Board Member (full time)	Kenji Fukunaga	
Audit & Supervisory Board Member (full time)	Kosei Uematsu	

Notes:
1. The Company reported the appointment of External Directors Chiyono Terada, Tatsuo Kawada and Akiji Makino and Audit & Supervisory Board Members (external) Ryu Yano and Toru Nagashima to the Tokyo Stock Exchange, Inc. as Independent Directors and Audit & Supervisory Board Members.
2. Tatsuo Kawada, Akiji Makino and Yuan Fang were elected as Members of the Board at the 113th Ordinary General Meeting of Shareholders of the Company held on June 29, 2016, and assumed the office on the same day.
3. Toru Nagashima was elected as an Audit & Supervisory Board Member at the 113th Ordinary General Meeting of

Shareholders of the Company held on June 29, 2016, and assumed the office on the same day.
4. Kosuke Ikebuchi, Guntaro Kawamura and Frans Hoorelbeke resigned as Members of the Board at the conclusion of the 113th Ordinary General Meeting of Shareholders of the Company held on June 29, 2016, due to the expiration of their terms of office.
5. Yoshiyuki Kaneda resigned as an Audit & Supervisory Board Member at the conclusion of the 113th Ordinary General Meeting of Shareholders of the Company held on June 29, 2016, due to the expiration of his term of office.
6. Audit & Supervisory Board Member Toru Nagashima was an External Director of Kao Corporation until March 21, 2017.
7. The following Member of the Board resigned during the fiscal year under review.

Position at time of resignation	Name	Responsibility or significant positions concurrently held at time of resignation	Date of resignation
Member of the Board (non-resident)	David Swift	Director of Serta Simmons Bedding, LLC Executive Business Partner of Advent International Corporation	August 31, 2016

(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	15	1,262
Audit & Supervisory Board Members	5	94
Total	20	1,356

Notes:
1. Total compensation includes provision for directors' bonuses recorded in the fiscal year under review as well as the fiscal year's expense which is associated with subscription rights to shares (as stock options) offered to Directors (excluding External Directors).
2. Total compensation includes the compensation for services of three Directors and one Audit & Supervisory Board Member who retired at the conclusion of the 113th Ordinary General Meeting of Shareholders, and one Director who retired on August 31, 2016, while they were in office.

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

	Number of Directors and Audit & Supervisory Board Members	Total compensation (Millions of yen)
Total compensation for External Directors and Audit & Supervisory Board Members (external)	7	70

(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 and 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 compensation-type stock options" that reflect medium- to long-term results. As to External Directors as well as Audit & Supervisory Board Members (external), 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 composed of five members excluding Chairman of the Board, namely, three External Directors, one in-house Director, and one Executive Officer.

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

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

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

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

Position	Name	Attendance record of Board of Directors' meetings	Principal activities
External Director	Chiyono Terada	Attended 16 out of 16 meetings (100%)	Chiyono Terada appropriately supervised the Company's management from an independent standpoint, based on her abundant experience and deep insight as a corporate manager. She also proactively made suggestions, including for 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.
	Tatsuo Kawada	Attended 12 out of 13 meetings (92.3%)	Tatsuo Kawada appropriately supervised the Company's management from an independent standpoint, based on his abundant experience and deep insight as a corporate manager. He also proactively made suggestions from a broad and advanced perspective, including viewpoints concerning shifting to new business models and generation of innovation.
	Akiji Makino	Attended 13 out of 13 meetings (100%)	Akiji Makino appropriately supervised the Company's management from an independent standpoint, based on his abundant experience and deep insight as a corporate manager. He also proactively made suggestions from a broad and advanced perspective, including viewpoints concerning the energy and environmental fields and service businesses.

Position	Name	Attendance record of meetings		Principal activities
		Board of Directors	Audit & Supervisory Board	
Audit & Supervisory Board Member (external)	Ryu Yano	Attended 12 out of 16 meetings (75.0%)	Attended 13 out of 15 meetings (86.6%)	Ryu Yano offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from a broad and advanced perspective cultivated through his overseas business experience.
	Toru Nagashima	Attended 13 out of 13 meetings (100%)	Attended 10 out of 10 meetings (100%)	Toru Nagashima offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially from a broad and advanced perspective cultivated through his experience in global business management and as a manager of a manufacturing company.

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

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 Audit & Supervisory Board Members (external) 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	¥218 million
(3) Reasons for approval of the Audit & Supervisory Board for the amount of compensation to be paid to the Independent Auditors	The Audit & Supervisory Board obtained necessary materials and reports from Directors, relevant departments within the Company, and the Independent Auditors to investigate past activity achievements and compensation records of the Independent Auditors together with its activity plans and the calculation basis of the estimated compensation for the fiscal year under review and discussed the amount of compensation to be paid to the Independent Auditors. As a result, the Board judged this to be appropriate in this regard, hence, pursuant to Article 399, Paragraph 1 of the Companies Act, the Board approved the amount of compensation to be paid to the Independent Auditors.
(4) 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 concerning CSR (Corporate Social Responsibility)
(5) Policy on dismissal of or resolution not to re-engage the Independent Auditors	In addition to reasons for dismissal stipulated in each item of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will present a movement for dismissal of or resolution not to re-engage the Independent Auditors to the General Meeting of Shareholders, if it is recognized that it is difficult for the Independent Auditors to effectively perform their duties due mostly to the occurrence of cases that damage the eligibility or independence of the Independent Auditors.
(6) Total amount of compensation to be paid by the Company and its subsidiaries to the Independent Auditors	¥218 million
(7) 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 Air-conditioning (Shanghai) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Daikin Air-conditioning (Suzhou) 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 and Activities 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. The "Internal Control Committee" inspects and confirms the status and activities of internal control based on the system's various initiatives, and reports to the Board of Directors.

(Major activities in the fiscal year under review)

- The "Internal Control Committee" held three meetings.

(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 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 Meeting" and "Group Compliance, Risk Management Leader Meeting" to share information, address issues, and promote implementation of policies.

(iii) We have introduced our unique "Self-Assessment Checklist" 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.

(Major activities in the fiscal year under review)

- We revised the Handbook for Corporate Ethics in response to recent social situations and new laws and regulations.
- The "Corporate Ethics & Risk Management Committee" held two meetings, in which it shared company-wide compliance issues and deliberated on measures to deal with these issues. We held the "Compliance, Risk Management Leader Meeting" 11 times to ensure thorough compliance. Overseas, in the Chinese and Asia & Oceania regions we held the "Regional Compliance Meeting" in which the Group compliance, risk management leaders participated.
- Based on the "Self-Assessment Checklist," each division and Group company conducted the self- inspection and risk assessment. The results were deliberated by the "Corporate Ethics & Risk Management Committee."
- In addition to the existing in-house Helpline for Corporate Ethics, we have established an external helpline.
- We conducted Directors' training on the Antimonopoly Act and Security Export Control.

(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 in accordance with 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.

(Major activities in the fiscal year under review)

- We have retained the minutes of important committees and other meetings, including the Board of Directors' Meeting, in accordance with the stipulations of in-house regulations.
- We held the "Disclosure Committee" meetings before the disclosure of quarterly results to deliberate the appropriateness of the information provided in documents related to financial results.

(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."

(Major activities in the fiscal year under review)

- We specified a list of major risks for the fiscal year under review, comprising those related to earthquakes, information leaks, intellectual property, overseas crises management and product liability and quality. Subsequently, we deliberated in the "Corporate Ethics & Risk Management Committee" meeting and implemented countermeasures to these risks.

(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 three or more External Directors with no conflicting interests with the Company.

(Major activities in the fiscal year under review)

- We held the Executive Officers Meeting 11 times in which the Executive Officers participated.
- We held the "Group Steering Meeting" 12 times to deliberate mainly on the key strategic themes of "Fusion 20," the Group's strategic management plan.
- The Board of Directors convened 16 meetings, most of which were attended by the three External Directors, who provided appropriate comments concerning management problems.

(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 facilitate 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, the Company 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 the Company 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, the Company 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.

(Major activities in the fiscal year under review)

- The details of discussions and results of the Board of Directors' Meetings and Executive Officers' Meetings were reported to each division and Group company to share information concerning company-wide issues.
- We made an assessment on the status and activities of our internal control systems related to financial reporting. We made required corrections and reported the results to the Board of Directors. To prevent the recurrence of inappropriate accounting procedures, we continuously implemented preventative measures, including accounting audits and special audits. The operational status of these measures was reviewed by the "Corporate Ethics & Risk Management Committee."

(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 the Executive Officers Meetings 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' Meeting" 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.

(Major activities in the fiscal year under review)

- To exchange opinions, the Audit & Supervisory Board Members had 2 meetings with the Representative Directors, 22 with Directors and Executive Officers and 21 with the Independent Auditors. Also, the Audit & Supervisory Board Members assembled a "Group Auditors' Meeting" by convening Group Auditors of the major Group companies at home and abroad.

Consolidated Balance Sheet
As of March 31, 2017

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	**1,159,884**	**Current liabilities**	**626,676**
Cash and deposits	344,093	Notes and accounts payable – trade	173,147
Notes and accounts receivable – trade	369,061	Short-term loans payable	57,699
Merchandise and finished goods	249,487	Current portion of bonds	10,000
Work in process	42,249	Current portion of long-term loans payable	67,177
Raw materials and supplies	66,565	Lease obligations	1,797
Deferred tax assets	35,786	Accrued expenses	107,928
Other	60,856	Income taxes payable	27,769
Allowance for doubtful accounts	(8,216)	Deferred tax liabilities	23,768
		Provision for directors' bonuses	350
Non-current assets	**1,196,264**	Provision for product warranties	49,750
Property, plant and equipment	**424,527**	Other	107,286
Buildings and structures	185,002		
Machinery, equipment and vehicles	137,252	**Non-current liabilities**	**593,863**
Land	37,589	Bonds payable	110,000
Leased assets	2,026	Long-term loans payable	353,292
Construction in progress	29,591	Lease obligations	9,462
Other	33,064	Deferred tax liabilities	87,993
		Net defined benefit liability	11,939
Intangible assets	**536,963**	Other	21,174
Goodwill	330,876		
Customer relationship	135,773		
Other	70,313		
		Total liabilities	**1,220,539**
Investments and other assets	**234,773**	**(Net Assets)**	
Investment securities	185,251	**Shareholders' equity**	**1,004,385**
Long-term loans receivable	1,904	**Capital stock**	**85,032**
Deferred tax assets	5,048	**Capital surplus**	**84,544**
Net defined benefit asset	13,034	**Retained earnings**	**837,968**
Other	30,271	**Treasury shares**	**(3,160)**
Allowance for doubtful accounts	(735)	**Accumulated other comprehensive income**	**107,251**
		Valuation difference on available-for-sale securities	53,041
		Deferred gains or losses on hedges	(119)
		Foreign currency translation adjustment	61,037
		Remeasurements of defined benefit plans	(6,707)
		Subscription rights to shares	**1,079**
		Non-controlling interests	**22,893**
		Total net assets	**1,135,609**
Total assets	**2,356,148**	**Total liabilities and net assets**	**2,356,148**

Consolidated Statement of Income
From April 1, 2016, to March 31, 2017

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

Net sales		2,043,968
Cost of sales		1,313,033
Gross profit		**730,934**
Selling, general and administrative expenses		500,165
Operating income		**230,769**
Non-operating income		
Interest income	6,736	
Dividend income	3,694	
Foreign exchange gains	329	
Other	3,986	14,746
Non-operating expenses		
Interest expenses	9,910	
Other	4,592	14,502
Ordinary income		**231,013**
Extraordinary income		
Gain on sales of land	451	
Gain on sales of investment securities	27	
Other	49	529
Extraordinary losses		
Loss on disposal of non-current assets	926	
Other	6	933
Profit before income taxes		**230,609**
Income taxes – current	70,216	
Income taxes – deferred	471	70,688
Profit		**159,920**
Profit attributable to non-controlling interests		5,982
Profit attributable to owners of parent		**153,938**

Consolidated Statement of Changes in Equity
From April 1, 2016, to March 31, 2017

(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	83,585	720,547	(4,598)	884,567
Changes of items during period					
Dividends of surplus			(36,518)		(36,518)
Profit attributable to owners of parent			153,938		153,938
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		959		1,441	2,400
Net changes of items other than shareholders' equity					
Total changes of items during period	—	959	117,420	1,438	119,818
Balance at end of current period	85,032	84,544	837,968	(3,160)	1,004,385

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	46,319	(2,124)	93,798	(8,151)	129,842	1,118	21,942	1,037,469
Changes of items during period								
Dividends of surplus								(36,518)
Profit attributable to owners of parent								153,938
Purchase of treasury shares								(3)
Disposal of treasury shares								2,400
Net changes of items other than shareholders' equity	6,722	2,004	(32,760)	1,443	(22,590)	(39)	951	(21,679)
Total changes of items during period	6,722	2,004	(32,760)	1,443	(22,590)	(39)	951	98,139
Balance at end of current period	53,041	(119)	61,037	(6,707)	107,251	1,079	22,893	1,135,609

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: 245

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:

Daikin Airconditioning Egypt S.A.E., Daikin Airconditioning New Zealand Limited, AAF (Shanghai) Co., Ltd., Daikin Applied Germany GmbH

Due to acquisition:

Flanders Holdings LLC and its 15 subsidiaries, Zanotti S.p.A. and its 7 subsidiaries, Dinair Group AB and its 9 subsidiaries

(Excluded) Due to sale of shares:

D.S. Tech Co., Ltd.

Due to liquidation:

Nippon Muki (Suzhou) Co., Ltd., Daikin AC (Americas), Inc., Flanders EMEA B.V., O.Y.L. Sales & Service (Singapore) Pte Ltd.

Due to merger of consolidated subsidiaries:

STF Svenska Textilfilter AB

(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, profit (loss) attributable to owners of parent (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: 18

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

Significant changes to the scope of application of the equity method:

(Newly added) Due to acquisition:

9193-9710 Québec Inc. and 4 other companies

(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 profit (loss) attributable to owners of parent (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

(a) 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.

(b) 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.

Change in Presentation Method

(Consolidated Statement of Income)

From the consolidated fiscal year under review, "subsidy income" in non-operating income, which was separately presented in the prior consolidated fiscal year, has been included in "other" of non-operating income, as the quantitative impact on the financial statements has become less significant.

Additional Information

Effective from the fiscal year ended March 31, 2017, the Company has applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

	(Millions of yen)
(1) Time deposits	193

There is no debt secured by the above collateral.

	(Millions of yen)
(2) Notes receivable	399

There is no debt secured by the above collateral.

(3) Assets pledged as collateral for loans payable advanced to investee companies from financial institutions

	(Millions of yen)
Investment securities	800

	(Millions of yen)
2. Accumulated depreciation of property, plant and equipment	665,063

	(Millions of yen)
3. Amount of notes endorsed	4,117

	(Millions of yen)
4. Recourse obligation associated with contingent liabilities	221

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of shares issued as of March 31, 2017
   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 29, 2016	Common shares	18,982	65	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 8, 2016	Common shares	17,535	60	September 30, 2016	December 2, 2016

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2017, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2018

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 29, 2017	Common shares	Retained earnings	20,466	70	March 31, 2017	June 30, 2017

3. Type and number of shares subject to subscription rights to shares at March 31, 2017 (excluding those for which the first day of the exercise period has not yet arrived)
   Common shares: 144,000 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 rules, 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, 2017 (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	344,093	344,093	—
(2) Notes and accounts receivable – trade	369,061	369,061	—
(3) Investment securities			
Available-for-sale securities	169,107	169,107	—
Total assets	882,263	882,263	—
(1) Notes and accounts payable – trade	173,147	173,147	—
(2) Short-term loans payable	57,699	57,699	—
(3) Income taxes payable	27,769	27,769	—
(4) Bonds payable	120,000	123,868	3,868
(5) Long-term loans payable	420,470	422,762	2,292
Total liabilities	799,086	805,247	6,160
Derivative Transactions (*)	(1,362)	(1,362)	—

(*) 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, and (3) 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.

(4) Bonds payable

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

(5) 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 ¥9,413 million), investments, etc., in investment funds (amount recorded in the consolidated balance sheet was ¥684 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥6,045 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:	¥3,802.10
Earnings per share:	¥526.81

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	14,696
Tax loss carryforwards	9,907
Unrealized profit of inventories	9,444
Investment securities	6,911
Deferred revenue	6,484
Software and other assets	6,012
Inventories	5,106
Provision for bonuses	3,973
Net defined benefit liabilities	2,487
Allowance for doubtful accounts	1,746
Foreign income tax credit	184
Other	20,614
Subtotal of deferred tax assets	87,569
Less valuation allowance	(16,728)
Total deferred tax assets	70,841
Deferred tax liabilities:	
Intangible assets	(69,573)
Undistributed earnings of consolidated subsidiaries	(33,482)
Valuation difference on available-for-sale securities	(16,727)
Net defined benefit assets	(4,215)
Reserve for advanced depreciation of non-current assets	(1,374)
Other	(16,396)
Total deferred tax liabilities	(141,770)
Net deferred tax assets (liabilities)	(70,928)

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

Following the enactment in the Diet of the “Act for Partial Revision of the Act for Partial Revision of the Consumption Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security” and the “Act for Partial Revision of the Act for Partial Revision of the Local Tax Act and Local Allocation Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security,” on November 18, 2016, the statutory effective income tax rate used in the calculation of deferred tax assets and deferred tax liabilities for the consolidated fiscal year under review has been changed from the figures used for the previous consolidated fiscal year.

As a result, deferred tax liabilities (net of deferred tax assets) and income taxes – deferred recorded in the consolidated fiscal year under review were revised. However, the resulting impact is immaterial.

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 ending balances for projected benefit obligation (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for projected benefit obligation	95,394
Service cost	4,750
Interest cost	1,163
Actuarial losses (gains) arising during the period	4,647
Amount of retirement benefits paid	(3,751)
Effect of changes in scope of consolidation	164
Foreign currency translation adjustment	(3,204)
Other	(5)
Ending balance for projected benefit obligation	99,159

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

	(Millions of yen)
Beginning balance for plan assets	98,679
Expected return on plan assets	3,269
Actuarial losses (gains) arising during the period	4,257
Employer contributions	3,067
Amount of retirement benefits paid	(3,342)
Effect of changes in scope of consolidation	(231)
Foreign currency translation adjustment	(2,725)
Other	(17)
Ending balance for plan assets	102,957

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

	(Millions of yen)
Beginning balance for net defined benefit liabilities	2,726
Retirement benefit expenses	1,195
Amount of retirement benefits paid	(1,219)
Ending balance for net defined benefit liabilities	2,702

(4) Adjustment table for the ending balances 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)	(95,867)
Plan assets	102,957
	7,089
Retirement benefit obligation (unfunded)	(5,994)
Net amount for assets and liabilities recorded on the consolidated balance sheet	1,095
Net defined benefit liabilities	(11,939)
Net defined benefit assets	13,034
Net amount for assets and liabilities recorded on the consolidated balance sheet	1,095

Note: Including the benefit plan applying the simplified method

(5) Amount of retirement benefit expenses and its breakdown

	(Millions of yen)
Service cost	4,750
Interest cost	1,163
Expected return on plan assets	(3,269)
Recognized actuarial losses (gains) during the period	2,038
Amortization of prior service cost during the period	(144)
Retirement benefit expenses calculated by the simplified method	1,195
Other	(3)
Total	5,732

(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	(680)
Unrecognized actuarial gain	9,617
Total	8,937

(7) Plan assets

(i) Breakdown of plan assets

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

Domestic bonds	6%
Domestic equities	8%
International bonds	22%
International equities	20%
Insurance assets (general account)	17%
Cash and deposits	1%
Alternative investments	26%
Other	0%
Total	100%

(Change in presentation method)

From the consolidated fiscal year under review, investment in hedge funds, etc., which was included in “other” in the prior consolidated fiscal year, has been separately presented as “alternative investments” in order to enhance the clarity of disclosure. “Real estate,” which was separately presented, has also been included in “alternative investments.”

(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

Discount rate	mainly 0.3%
Expected long-term rate of return on plan assets	mainly 2.5%
Expected rate of salary increases	mainly 3.5%

3. Defined contribution plan

Amount of contribution required to defined contribution plan paid by the Company and its consolidated subsidiaries is ¥4,965 million.

Business Combinations

Business combination through acquisition

(1) Summary of business combination

(i) Summary of the acquired company

Name of the acquired company:	Flanders Holdings LLC
Description of business:	Manufacture and sale of air filters and other related products

(ii) Reasons for the acquisition

With this acquisition, the business of Flanders Holdings LLC (hereinafter, “Flanders”) was integrated into American Air Filter Company, Inc. (hereinafter, “AAF”), a U.S. subsidiary of the Company, and enabling AAF to leverage its global sales network to market the cleanroom equipment and high-end air filter products that are the strengths of Flanders. In addition to making AAF the leading manufacturer in the United States, which is reportedly the largest air filter market in the world, this merger also positioned AAF as a leading company in the global market.

(iii)	Date of business combination:	April 27, 2016
(iv)	Legal form of business combination:	Acquisition of equity interest for cash considerations
(v)	Acquired equity interest ratio:	100%

(2) Period included in the consolidated statements of income for the consolidated accumulated period in terms of financial results of the acquired company

From April 27, 2016, to March 31, 2017

Non-Consolidated Balance Sheet
As of March 31, 2017

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

(Assets)	Amounts	(Liabilities)	Amounts
Current assets	**306,832**	**Current liabilities**	**272,834**
Cash and deposits	10,243	Notes payable – trade	4,371
Notes receivable – trade	1,123	Accounts payable – trade	34,839
Accounts receivable – trade	90,326	Short-term loans payable	49,759
Merchandise and finished goods	31,750	Current portion of bonds	10,000
Work in process	26,755	Current portion of long-term loans payable	66,982
Raw materials and supplies	4,626	Lease obligations	899
Prepaid expenses	1,585	Accounts payable – other	2,650
Deferred tax assets	7,011	Accrued expenses	25,719
Short-term loans receivable	90,238	Income taxes payable	12,478
Accounts receivable – other	23,014	Advances received	642
Other	20,159	Deposits received	47,239
Allowance for doubtful accounts	(2)	Provision for directors' bonuses	350
		Provision for product warranties	6,774
		Notes payable – facilities	1,374
		Accounts payable – facilities	8,753
Non-current assets	**1,057,113**	**Non-current liabilities**	**482,816**
Property, plant and equipment	**133,672**	Bonds payable	110,000
Buildings	55,289	Long-term loans payable	352,760
Structures	6,063	Lease obligations	743
Machinery and equipment	35,874	Long-term accounts payable – other	404
Vehicles	70	Provision for retirement benefits	1,979
Tools, furniture and fixtures	9,184	Deferred tax liabilities	15,617
Land	20,262	Other	1,311
Leased assets	1,534	**Total liabilities**	**755,651**
Construction in progress	5,392	**(Net assets)**	
Intangible assets	**2,544**	**Shareholders' equity**	**555,488**
Patent right, etc	2,544	**Capital stock**	**85,032**
Investments and other assets	**920,896**	**Capital surplus**	**84,586**
Investment securities	177,730	Legal capital surplus	82,977
Shares of subsidiaries and associates	496,853	Other capital surplus	1,609
Investments in capital of subsidiaries and associates	100,733	Proceeds from disposal of treasury shares	1,609
Long-term loans receivable from subsidiaries and associates	123,753	**Retained earnings**	**389,023**
Long-term loans receivable	242	Legal retained earnings	6,066
Long-term prepaid expenses	890	Other retained earnings	382,956
Prepaid pension cost	12,559	Reserve for advanced depreciation of non-current assets	3,997
Guarantee deposits	2,842	General reserve	146,210
Other	5,835	Retained earnings brought forward	232,749
Allowance for doubtful accounts	(544)	**Treasury shares**	**(3,153)**
		Valuation and translation adjustments	**51,726**
		Valuation difference on available-for-sale securities	52,605
		Deferred gains or losses on hedges	(878)
		Subscription rights to shares	**1,079**
		Total net assets	**608,294**
Total assets	**1,363,946**	**Total liabilities and net assets**	**1,363,946**

Non-Consolidated Statement of Income
From April 1, 2016, to March 31, 2017

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

Net sales		505,569
Cost of sales		339,892
Gross profit		**165,676**
Selling, general and administrative expenses		115,311
Operating income		**50,364**
Non-operating income		
Interest income	3,494	
Interest on securities	20	
Dividend income	96,757	
Other	535	100,808
Non-operating expenses		
Interest expenses	5,874	
Interest on bonds	1,475	
Sales discounts	280	
Foreign exchange losses	1,007	
Other	1,060	9,698
Ordinary income		**141,474**
Extraordinary income		
Gain on sales of land	451	
Gain on sales of shares of subsidiaries and associates	950	1,401
Extraordinary losses		
Loss on disposal of non-current assets	586	
Other	3	589
Profit before income taxes		**142,286**
Income taxes – current	19,794	
Income taxes – deferred	(2,147)	17,647
Profit		**124,639**

Non-Consolidated Statement of Changes in Equity
From April 1, 2016, to March 31, 2017

(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	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	85,032	82,977	649	83,626	6,066	3,887	166	146,210	144,571	300,901
Changes of items during period										
Dividends of surplus									(36,518)	(36,518)
Reversal of reserve for advanced depreciation of non-current assets						(56)			56	—
Provision of reserve for advanced depreciation of non-current assets						166			(166)	—
Reversal of reserve for special account for advanced depreciation of non-current assets							(166)		166	—
Profit									124,639	124,639
Purchase of treasury shares										
Disposal of treasury shares			959	959						
Net changes of items other than shareholders' equity										
Total changes of items during period	—	—	959	959	—	109	(166)	—	88,177	88,121
Balance at end of current period	85,032	82,977	1,609	84,586	6,066	3,997	—	146,210	232,749	389,023

	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	(4,592)	464,969	45,970	(1,360)	44,609	1,118	510,697
Changes of items during period							
Dividends of surplus		(36,518)					(36,518)
Reversal of reserve for advanced depreciation of non-current assets		—					—
Provision of reserve for advanced depreciation of non-current assets		—					—
Reversal of reserve for special account for advanced depreciation of non-current assets		—					—
Profit		124,639					124,639
Purchase of treasury shares	(2)	(2)					(2)
Disposal of treasury shares	1,441	2,400					2,400
Net changes of items other than shareholders' equity			6,634	482	7,117	(39)	7,078
Total changes of items during period	1,438	90,519	6,634	482	7,117	(39)	97,597
Balance at end of current period	(3,153)	555,488	52,605	(878)	51,726	1,079	608,294

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.

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 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.

- 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.

Change in Presentation Method

(Non-Consolidated Statement of Income)

From the fiscal year under review, “interest on commercial papers” in non-operating expenses, which was separately presented in the prior fiscal year, has been included in “other” of non-operating expenses, as the quantitative impact on the financial statements has become less significant.

Additional Information

Effective from the fiscal year ended March 31, 2017, the Company has applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

Notes to the Non-Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

Assets pledged as collateral for loans payable advanced to investee companies from financial institutions

	(Millions of yen)
Investment securities	800

	(Millions of yen)
2. Accumulated depreciation of property, plant and equipment	345,031

3. Liabilities on guarantee

(1) Guarantees

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

	(Millions of yen)
Goodman Global, Inc.	11,767
AAF S.A.	1,153
AAF International Air Filtration Systems LLC	686
Stejasa Agregados Industriales S.A.	614
Daikin Refrigerants Europe GmbH	175
Four (4) other companies	187
Total	14,585

(2) Commitments to guarantee

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

	(Millions of yen)
AAF-McQuay UK Limited	6,456
AAF-Lufttechnik GmbH	5,869
Daikin America, Inc.	4,812
Daikin Isitma Ve Soğutma Sįstemlerį Sanayį ve Tįcaret A.Ş.	4,147
AAF-International B.V.	3,773
Thirteen (13) other companies	13,911
Total	38,971

(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.	309

	(Millions of yen)
4. Recourse obligation associated with contingent liabilities	71

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

	(Millions of yen)
Short-term monetary receivables	204,455
Long-term monetary receivables	94
Short-term monetary payables	85,938
Long-term monetary payables	1

Notes to the Non-Consolidated Statement of Income

Volume of transactions with affiliated companies

	(Millions of yen)
Operating transactions	
Sales amount	357,570
Purchase amount	98,905
Non-operating transactions	134,245

Notes to the Non-Consolidated Statement of Changes in Equity

Type and number of shares of treasury shares as of March 31, 2017

Common shares: 734,923 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	23,619
Software and other assets	5,977
Provision for bonuses	2,310
Provision for product warranties	2,087
Inventories	1,963
Enterprise tax payable	936
Provision for retirement benefits	606
Allowance for doubtful accounts	174
Long-term accounts payable – other	84
Other	1,409
Subtotal of deferred tax assets	39,168
Less valuation allowance	(26,042)
Total deferred tax assets	13,126
Deferred tax liabilities:	
Valuation difference on available-for-sale securities	(16,515)
Prepaid pension cost	(3,841)
Reserve for advanced depreciation of non-current assets, etc.	(1,374)
Total deferred tax liabilities	(21,732)
Net deferred tax assets (liabilities)	(8,606)

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	30.8
(Reconciliation items)	
Dividends income and others that are permanently excluded from taxable income	(19.4)
Foreign income tax withheld relating to dividends from foreign subsidiaries	4.9
Tax credit for experiment and research expense, etc.	(3.3)
Valuation allowance	(0.5)
Unrecognized tax effect on foreign income tax credit	(0.5)
Entertainment expenses and others that are permanently excluded from taxable loss	0.5
Per capita inhabitant’s tax	0.1
Other	(0.1)
Actual effective income taxes rate after the adoption of tax-effect accounting	12.4

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

Following the enactment in the Diet of the “Act for Partial Revision of the Act for Partial Revision of the Consumption Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security” and the “Act for Partial Revision of the Act for Partial Revision of the Local Tax Act and Local Allocation Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security,” on November 18, 2016, the statutory effective income tax rate used in the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review has been changed from the figures used for the previous fiscal year.

As a result, deferred tax liabilities (net of deferred tax assets) and income taxes – deferred recorded in the fiscal year under review were revised. However, the resulting impact is immaterial.

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 (Notes 1, 2, 3)	488	Accounts payable – other and accrued expenses	46

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)	62,843	Accounts receivable – trade	5,694
	Goodman Manufacturing Company, L.P.	100% (indirectly holding)	Sale of air conditioning equipment	Sale of air conditioning equipment (Note 1)	26,679	Accounts receivable – trade	15,585
	Daikin Industries (Thailand) Limited	100% (directly holding)	Receipt of royalties related to sale of air conditioning equipment	Receipt of royalties related to sale of air conditioning equipment (Note 1)	14,322	Accounts receivable – trade	14,571
	Goodman Global Group, Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	45,421	Short-term loans receivable	50,485
				Loan	—	Long-term loans receivable from subsidiaries and associates (incl. current portion)	117,799
				Interest income (Note 3)	2,411	Other current assets	782
	Daikin Applied Americas Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	26,531	Short-term loans receivable	26,925
				Interest income (Note 3)	252	Other current assets	3
	American Air Filter Company, Inc.	100% (indirectly holding)	Loan	Loan (Note 4)	16,628	Short-term loans receivable	10,321
				Loan	21,096	Long-term loans receivable from subsidiaries and associates (incl. current portion)	22,438
				Interest income (Note 3)	497	Other current assets	102
	AAF-McQuay Group, Inc.	100% (directly holding)	Capital increase	Underwriting of capital increase	19,951	—	—

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.

Per Share Information

Net assets per share:	¥2,076.81
Earnings per share:	¥426.54

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 114th fiscal year as follows, which is a dividend increase of ¥5 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 ¥130 per share, an increase of ¥10.

Year-end dividends

(1) Amount of dividend assets to be allocated to shareholders
  Cash of ¥70 per share of common stock of the Company
  Total: ¥20,466,533,500

(2) Effective date of dividends from surplus
  June 30, 2017

Second Item: Election of Two (2) Audit & Supervisory Board Members

The terms of office for Audit & Supervisory Board Members Ryu Yano and Kenji Fukunaga will expire as of the conclusion of this general meeting of shareholders. Therefore, we propose the election of two (2) Audit & Supervisory Board Members.

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

The candidates for Audit & Supervisory Board Members are as follows.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]	Number of the Company shares owned
1	Ryu Yano (April 21, 1940) Reappointment Candidate for Audit & Supervisory Board Member (external) Candidate for Independent Director	April 1963 Entered Sumitomo Forestry Co., Ltd. December 1988 Director of the above company June 1992 Managing Director of the above company June 1995 Representative Director of the above company (Current position) Senior Managing Director of the above company April 1999 Director, President of the above company June 2002 President and Executive Officer of the above company April 2010 Director, Chairman of the Board of the above company (Current position) June 2013 Audit & Supervisory Board Member of the Company (Current position) [Significant positions concurrently held] Chairman of the Board and Representative Director of Sumitomo Forestry Co., Ltd.	0 shares

Reasons for Nominating Candidate for Audit & Supervisory Board Member (external): Mr. Ryu Yano has extensive experience and deep insight as a corporate manager, including a wealth of overseas business experience, serving as Representative Director of Sumitomo Forestry Co., Ltd. Drawing on such proven track record, Mr. Yano has appropriately performed his duties as Audit & Supervisory Board Member (external) of the Company since 2013. For these reasons, we have appointed Mr. Yano to continue as Audit & Supervisory Board Member (external), believing that he will continue to contribute to the monitoring of overall management and realizing even more appropriate audits. Attendance for Meetings of the Board of Directors and Audit & Supervisory Board: Attended 12 out of 16 meetings of the Board of Directors (75.0%), and 13 out of 15 meetings of the Audit & Supervisory Board (86.6%).

Notes:
1. Mr. Ryu Yano does not hold any special interests in the Company.
2. Mr. Yano is a candidate for Audit & Supervisory Board Member (external). The Company will continue to report him to the Tokyo Stock Exchange, Inc., as Independent Director if he is

selected as Audit & Supervisory Board Member (external).

3. As of the conclusion of this general meeting of shareholders, Mr. Yano will have been an Audit & Supervisory Board Member (external) for four years.
4. The Company has concluded a limitation of liability agreement with Mr. Yano, 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. In the event that his reelection is approved, the Company intends to continue the said agreement with him.

Candidate number	Name (Date of birth)	Brief personal history and position held [Significant positions concurrently held]		Number of the Company shares owned
2	Kenji Fukunaga (April 14, 1948) Reappointment	April 1971	Entered the Company	7,600 shares
		May 1992	Department Manager of Planning Department of Defense Systems Division of the Company	
		January 1995	Deputy General Manager of Defense Systems Division of the Company	
		June 1998	General Manager of Defense Systems Division of the Company	
		July 2000	Honorary Officer of the Company	
		June 2002	Associate Officer of the Company	
		June 2004	Honorary Officer of the Company	
		May 2009	Defense Systems Division of the Company [defense-related liaison]	
		June 2013	Audit & Supervisory Board Member of the Company (Current position)	
Reasons for Nominating Candidate for Audit & Supervisory Board Member: Mr. Kenji Fukunaga has extensive experience and insight regarding the Company's management mainly in the defense systems-related product business. Drawing on such proven track record, Mr. Fukunaga has appropriately performed his duties as Audit & Supervisory Board Member since 2013. For these reasons, we have appointed Mr. Fukunaga to continue as Audit & Supervisory Board Member, judging that he is able to adequately fulfill the duties of Audit & Supervisory Board Member.				

Note:

Mr. Kenji Fukunaga does not hold any special interests in the Company.

Third Item: Election of One (1) Substitute Audit & Supervisory Board Member (external)
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 Audit & Supervisory Board Members (external) 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 Audit & Supervisory Board Member (external) is as follows.

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

Reasons for Nominating Candidate for Substitute Audit & Supervisory Board Member (external):
Mr. Ichiro Ono has extensive experience and deep insight as a lawyer, including being involved in handling corporate legal affairs for many years. We have appointed Mr. Ono as Substitute Audit & Supervisory Board Member (external) in order to benefit from his experience and insight in the monitoring of overall management and to realize even more appropriate audits.
Although Mr. Ono does not have experience of direct involvement in corporate management, we have judged him able to adequately fulfill the duties of Audit & Supervisory Board Member (external) for the reasons stated above.

Notes:
1. Mr. Ichiro Ono does not hold any special interests in the Company.
2. Mr. Ono is a candidate for Substitute Audit & Supervisory Board Member (external). The Company will report him to the Tokyo Stock Exchange, Inc., as Independent Director if he is selected as Audit & Supervisory Board Member (external).
3. 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.