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Code Number: 6367

June 3, 2020

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 117th Ordinary General Meeting of Shareholders

We hereby inform you of the 117th Ordinary General Meeting of Shareholders of Daikin Industries, Ltd. (“Daikin” or the “Company”) to be held as indicated below.

The government and prefectural governors have recently asked people to refrain from going out in order to prevent the spread of coronavirus (COVID-19). After careful consideration of the situation, the Company has decided to hold the meeting after taking appropriate measures to prevent the spread of infection.

To prevent the spread of infection and in light of the request to refrain from going out, we ask that shareholders refrain from coming to the venue on the day of the meeting if possible and exercise their voting rights in advance in writing (the Voting Rights Exercise Form) or via electronic means (the Internet).

Please review the “Reference Documents for the General Meeting of Shareholders” attached hereto, and exercise your voting rights by 5:30 p.m. on Thursday, June 25, 2020, in accordance with “5. Guidance on Exercising Voting Rights” on the following page.

Particulars

- 1. Date and Time:** 10:00 a.m., Friday, June 26, 2020 (The reception desk will open at 9:00 a.m.)
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 117th fiscal year (from April 1, 2019, to March 31, 2020)
- 2: Audit Reports on the Consolidated Financial Statements for the 117th fiscal year (from April 1, 2019, to March 31, 2020) by the Independent Auditor and the Audit & Supervisory Board

Resolution Items:

- First Item:** Appropriation of Surplus
Second Item: Partial Amendments to the Articles of Incorporation
Third Item: Election of Eleven (11) Directors

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

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

Sixth Item: Revision of Compensation for External Directors

4. Procedural Rules Pertaining to the Convocation

Handling of Voting Rights in the Event of Multiple Exercise

- (1) In the event voting rights are exercised multiple times in writing, the last arriving vote shall be deemed to be effective.
- (2) In the event voting rights are exercised multiple times via electronic means, the last exercise of voting rights shall be deemed to be effective.
- (3) In the event voting rights are exercised in duplicate form by electronic means and in writing, the exercise of voting rights via electronic means shall be deemed to be effective.

5. Guidance on Exercising Voting Rights

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

On the enclosed Voting Rights Exercise Form, please indicate either approval or disapproval of each agenda and **return the form by 5:30 p.m., Thursday, June 25, 2020.**

Exercising Your Voting Rights via Electronic Means (the Internet)

Please access the relevant website for the exercise of voting rights (<https://evote.tr.mufg.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.

You may also exercise your voting rights from the website for the exercise of voting rights for smartphones by reading the QR code for login provided in the Voting Rights Exercise Form with your smartphone, without entering the login code and password.

[Exercise deadline] by 5:30 p.m., Thursday, June 25, 2020

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- ◎ 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: <https://www.daikin.com/investor/stock/meeting/>

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 of ¥80 per share for the 117th fiscal year.

This dividend would result in an annual dividend—including the interim dividend—of ¥160 per share, remaining the same as the previous fiscal year.

Year-end dividends

(1) Amount of dividend assets to be allocated to shareholders

Cash of ¥80 per share of common stock of the Company

Total: ¥23,407,118,080

(2) Effective date of dividends from surplus

June 29, 2020

Second Item: Partial Amendments to the Articles of Incorporation

1. Reason for the amendments

With a view to developing a management framework capable of promptly adapting to changes in the business environment, and further strengthening corporate governance through increasing the opportunities for shareholders to reaffirm their confidence in the Company's management, we propose to change the term of office of Directors from two years to one year, and make necessary amendments to Article 20 (Term of Office) of the current Articles of Incorporation accordingly.

2. Details of the amendments

Details of the amendments are as follows:

| (The underlined text is the amended part) | |
|--|--|
| Current Articles of Incorporation | Proposed Amendment |
| Chapter 4 Directors and the Board of Directors (Term of Office) Article 20 Term of office of a Director shall expire at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within <u>two (2) years</u> subsequent to his/her appointment. <u>2. Term of office of a Director appointed as additional or substitute Director shall be terminated at the expiry of the terms of office of incumbent Directors.</u> | Chapter 4 Directors and the Board of Directors (Term of Office) Article 20 Term of office of a Director shall expire at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within <u>one (1) year</u> subsequent to his/her appointment. (To be deleted) |

Third Item: Election of Eleven (11) Directors

The terms of office for all of the ten (10) Directors will expire as of the conclusion of this general meeting of shareholders. Therefore, in order to enhance the supervising function of the Board of Directors, we propose the election of eleven (11) Directors consisting of four (4) External Directors, an increase of one (1), and seven (7) Directors from in-house.

As a result of the aforementioned change, External Directors shall represent more than one third of the Board of Directors.

The candidates for Director are as follows.

| Candidate number | | Name | Current Positions at the Company |
|------------------|--|-------------------|--|
| 1 | Reappointment | Noriyuki Inoue | Chairman of the Board and Chief Global Group Officer |
| 2 | Reappointment | Masanori Togawa | Representative Director, President, and CEO |
| 3 | Reappointment Candidate for External Director Candidate for Independent Director Female | Chiyono Terada | Director |
| 4 | Reappointment Candidate for External Director Candidate for Independent Director | Tatsuo Kawada | Director |
| 5 | Reappointment Candidate for External Director Candidate for Independent Director | Akiji Makino | Director |
| 6 | New appointment Candidate for External Director Candidate for Independent Director | Shingo Torii | — |
| 7 | Reappointment | Ken Tayano | Representative Director and Senior Executive Officer |
| 8 | Reappointment | Masatsugu Minaka | Director and Senior Executive Officer |
| 9 | Reappointment | Jiro Tomita | Director and Senior Executive Officer |
| 10 | Reappointment | Kanwal Jeet Jawa | Director and Senior Associate Officer |
| 11 | New appointment | Takashi Matsuzaki | Senior Executive Officer |

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | Number of the Company shares owned |
|--|---|---|--|
| 1 | Noriyuki Inoue (March 17, 1935) Reappointment | March 1957 Entered the Company February 1979 Director of the Company February 1985 Managing Director of the Company June 1989 Senior Managing Director of the Company June 1994 President, Representative Director of the Company May 1995 Chairman of the Board and President, Representative Director of the Company June 1996 President, Representative Director of the Company June 2002 Representative Director, Chairman of the Board, and CEO of the Company June 2014 Chairman of the Board and Chief Global Group Officer of the Company (Current position) [Significant positions concurrently held] External Director of Hankyu Hanshin Holdings, Inc. Chairman of The Daikin Foundation for Contemporary Arts Chairman of Kansai Philharmonic Orchestra | 67,700 shares |
| Reasons for Nominating Candidate for Director: Mr. Noriyuki Inoue has assumed a management role in the Company for many years, holding posts that include President, Representative Director, Chairman of the Board, and CEO. His management foresight has produced substantial results in global business expansion and enhancement of corporate value. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company. | | | |

Notes:

The Company makes donations and provides sponsor fees to concurrent positions of Mr. Noriyuki Inoue.

- The Daikin Foundation for Contemporary Arts: makes donations
- Kansai Philharmonic Orchestra: provides sponsor fees
- Defense Society of Osaka: makes donations

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|--|--|---|--|--|
| 2 | Masanori Togawa (January 11, 1949) Reappointment | April 1973 | Entered the Company | 10,300 shares |
| | | June 2002 | Director of the Company | |
| | | June 2004 | Director and Senior Executive Officer of the Company | |
| | | July 2006 | Member of the HRM and Compensation Advisory Committee of the Company (Current position) | |
| | | June 2007 | Director and Senior Executive Officer of the Company | |
| | | June 2011 | Representative Director, President, and COO of the Company | |
| | | June 2014 | Representative Director, President, and CEO of the Company (Current position) | |
| | | July 2016 | Chairman of the Internal Control Committee of the Company (Current position) | |
| Reasons for Nominating Candidate for Director: As Representative Director, President and COO since June 2011, and as Representative Director, President and CEO since June 2014, Mr. Masanori Togawa has displayed strong leadership and contributed to the implementation of the strategic management plan and growth of the Group. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company. | | | | |

Note:

Mr. Masanori Togawa does not hold any special interests in the Company.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|------------------|--|---|---|--|
| 3 | Chiyono Terada (January 8, 1947) Reappointment Candidate for External Director Candidate for Independent Director | June 1976 June 1977 June 2002 July 2006 April 2018 December 2019 | Founded Art Hikkoshi Center Established Art Hikkoshi Center Co., Ltd. (Currently, Art Corporation), became a President and Representative Director of the above company Director of the Company (Current position) Chairman of the HRM and Compensation Advisory Committee of the Company (Current position) President and Representative Director of Art Group Holdings, Co., Ltd. (Current position) Honorary Chairman of Art Corporation (Current position) [Significant positions concurrently held] President and Representative Director of Art Group Holdings, Co., Ltd. Honorary Chairman of Art Corporation Chairman and Representative Director of Art Childcare Corporation | 2,000 shares |

Reasons for Nominating Candidate for Director:

Ms. Chiyono Terada has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Art Group Holdings, Co., Ltd. Drawing on such track record, Ms. Terada has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2002. She has also been proactively making proposals concerning management based on the viewpoint of consumers, such as the importance of the Company's brand, and measures to further promote the active role of female employees. Furthermore, she has been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as the Chairman of the HRM and Compensation Advisory Committee. For these reasons, we have appointed her to continue as External Director, believing that she will continue to contribute to enhancement of the Company's corporate value.

Attendance for Meetings of the Board of Directors:

Attended 14 out of 15 meetings (93.3%)

Notes:

1. Ms. Chiyono Terada does not hold any special interests in the Company.
2. While there have been transactions, such as the contracting of moving services, between the Company and Art Corporation, where Ms. Terada serves as Honorary Chairman, such transactions account for less than 1% of the consolidated net sales either of the Company or of Art Corporation in the latest fiscal year.
3. Ms. Terada is a candidate for External Director. The Company will report her to Tokyo Stock

Exchange, Inc., as Independent Director if she is selected as External Director.

4. As of the conclusion of this general meeting of shareholders, Ms. Terada will have been an External Director for eighteen years.
5. The Company has concluded a limitation of liability agreement with Ms. Terada, 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 her reelection is approved, the Company intends to continue the said agreement with her.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|---|--|--|---|--|
| 4 | Tatsuo Kawada (January 27, 1940) Reappointment Candidate for External Director Candidate for Independent Director | March 1962 | Entered Fukui Seiren Kako Co., Ltd. (Currently, Seiren Co., Ltd.) | 0 shares |
| | | August 1981 | Director of the above company | |
| | | August 1985 | Managing Director of the above Company | |
| | | August 1987 | President of the above company | |
| | | June 2003 | President and COO of the above company | |
| | | October 2005 | President, CEO, and COO of the above company | |
| | | June 2011 | Chairman, President, CEO, and COO of the above company | |
| | | June 2014 | Chairman and CEO of the above company (Current position) | |
| | | June 2016 | Director of the Company (Current position) | |
| | | July 2016 | Member of the HRM and Compensation Advisory Committee of the Company (Current position) | |
| | | [Significant positions concurrently held] Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company Director serving as Audit & Supervisory Committee Member of Hokuhoku Financial Group, Inc. External Director of FUJIFILM Holdings Corporation | | |
| Reasons for Nominating Candidate for Director: Mr. Tatsuo Kawada has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Seiren Co., Ltd. Drawing on such track record, Mr. Kawada has been supervising the Company’s management appropriately from an independent standpoint as External Director of the Company since 2016. He has also been proactively making proposals from a broad and advanced perspective including viewpoint of shifting to new business models and generating innovation. Furthermore, he has been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as a Member of the HRM and Compensation Advisory Committee. For these reasons, we have appointed him to continue as External Director, believing that he will continue to contribute to enhancement of the Company’s corporate value. | | | | |
| Attendance for Meetings of the Board of Directors: Attended 15 out of 15 meetings (100%) | | | | |

Notes:

1. Mr. Tatsuo Kawada does not hold any special interests in the Company.
2. There are no transactions between the Company and Seiren Co., Ltd., where Mr. Kawada serves as Representative Director.
3. Mr. Kawada is a candidate for External Director. The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Mr. Kawada will have been an External Director for four years.
5. The Company has concluded a limitation of liability agreement with Mr. Kawada, 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 |
|--|--|---|--|--|
| 5 | Akiji Makino (September 14, 1941) Reappointment Candidate for External Director Candidate for Independent Director | March 1965 June 1988 June 1990 June 1994 June 1998 April 2000 June 2004 June 2012 June 2016 July 2016 April 2019 [Significant positions concurrently held] | Entered Iwatani Corporation Director of the above company Executive Director of the above company Senior Executive Director of the above company Executive Vice President of the above company President of the above company President and Executive Officer of the above company Chairman, CEO, and Executive Officer of the above company Director of the Company (Current position) Member of the HRM and Compensation Advisory Committee of the Company (Current position) Chairman and CEO of Iwatani Corporation (Current position) Chairman and CEO of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation | 2,000 shares |
| <p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Akiji Makino has abundant experience and deep insight as a corporate manager gained through serving various positions such as Representative Director of Iwatani Corporation. Drawing on such track record, Mr. Makino has been supervising the Company's management appropriately from an independent standpoint as External Director of the Company since 2016. He has also been proactively making proposals from a broad and advanced perspective including viewpoint of the energy and environmental fields and service businesses. Furthermore, he has been instrumental in ensuring transparency, objectivity and fairness concerning executive appointment and compensation as a Member of the HRM and Compensation Advisory Committee. For these reasons, we have appointed him to continue as External Director, believing that he will continue to contribute to enhancement of the Company's corporate value.</p> <p>Attendance for Meetings of the Board of Directors: Attended 15 out of 15 meetings (100%)</p> | | | | |

Notes:

1. Mr. Akiji Makino does not hold any special interests in the Company.
2. While there have been transactions, such as product sales and raw materials procurement, between the Company and Iwatani Corporation, where Mr. Makino serves as Representative Director, such transactions account for less than 1% of the consolidated net sales either of the Company or of

Iwatani Corporation in the latest fiscal year.

3. Mr. Makino is a candidate for External Director. The Company will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. As of the conclusion of this general meeting of shareholders, Mr. Makino will have been an External Director for four years.
5. The Company has concluded a limitation of liability agreement with Mr. Makino, 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 |
|--|---|--|---|--|
| 6 | Shingo Torii (January 18, 1953) New appointment Candidate for External Director Candidate for Independent Director | April 1980 June 1983 March 1992 March 1999 March 2001 March 2003 October 2014 [Significant positions concurrently held] Representative Director and Vice Chairman of the Board of Suntory Holdings Limited External Director of ROHTO Pharmaceutical Co., Ltd. Outside Director of Zojirushi Corporation | Entered ITOCHU Corporation Entered Suntory Limited (Currently, Suntory Holdings Limited) Director of the above company Managing Director of the above company Representative Director and Senior Managing Executive Officer of the above company Representative Director and Executive Vice President of the above company Representative Director and Vice Chairman of the Board of the above company (Current position) | 1,000 shares |
| <p>Reasons for Nominating Candidate for Director:</p> <p>Serving as Representative Director of Suntory Holdings Limited, Mr. Shingo Torii has abundant experience and deep insight as a corporate manager in corporate management for proactively capturing customer needs, the enhancement of corporate value through ESG activities, and other areas. We have appointed Mr. Torii as External Director, believing that he will use his experience and insight to supervise the Company's management appropriately from an independent standpoint, and that he can contribute to enhancement of the Company's corporate value by making proposals from a broad and advanced perspective concerning management in general.</p> | | | | |

Notes:

1. Mr. Shingo Torii does not hold any special interests in the Company.
2. There are no transactions between the Company and Suntory Holdings Limited, where Mr. Torii serves as Representative Director.
3. Mr. Torii is a candidate for External Director. The Company will report him to the Tokyo Stock Exchange, Inc., as Independent Director if he is selected as External Director.
4. If Mr. Torii assumes the position of External Director, 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.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|---|---|--|---|--|
| 7 | Ken Tayano (January 12, 1947) Reappointment | April 1970 | Entered the Company | 5,300 shares |
| | | June 2000 | Associate Officer of the Company | |
| | | June 2002 | Senior Associate Officer of the Company | |
| | | June 2004 | Senior Executive Officer of the Company, Representative of China business of the Company (Current position), Member of Global Air Conditioning Committee of the Company (Current position) | |
| | | May 2009 | Chairman of the Board and President of Daikin (China) Investment Co., Ltd. (Current position) | |
| | | June 2011 | Director and Senior Executive Officer of the Company | |
| | | June 2013 | In charge of air conditioning business in Japan of the Company (Current position) | |
| | | June 2014 | Representative Director and Senior Executive Officer of the Company (Current position) | |
| | | December 2014 | Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. (Current position) | |
| | | [Significant positions concurrently held] Chairman of the Board and President of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Fluorochemicals (China) Co., Ltd. | | |
| Reasons for Nominating Candidate for Director: Mr. Ken Tayano has been engaged in the air conditioning business in China over many years and has contributed significantly to the expansion of the business. Serving as Director and Senior Executive Officer since June 2011, and as Representative Director and Senior Executive Officer since June 2014, he is currently in charge of all lines of business operations of the Company in China and the air conditioning business in Japan. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company. | | | | |

Note:

Mr. Ken Tayano does not hold any special interests in the Company.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|--|---|---|--|--|
| 8 | Masatsugu Minaka (July 9, 1953) Reappointment | October 1983 July 2005 June 2007 June 2008 June 2010 June 2011 June 2018 [Significant positions concurrently held] | Entered the Company Director and President of Daikin Europe N.V. (Current position) Associate Officer of the Company, Member of Global Air Conditioning Committee of the Company (Current position) Executive Officer of the Company Senior Executive Officer of the Company Director and Senior Executive Officer of the Company (Current position), Representative of Air Conditioning in Europe, the Middle East and Africa of the Company Representative of Air Conditioning in Europe, the Middle East and Africa (excluding East Africa) of the Company (Current position) Director and President of Daikin Europe N.V. | 8,700 shares |
| <p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Masatsugu Minaka has been engaged in the air conditioning business in Europe over many years and has contributed significantly to the expansion of the business. Serving as Director and Senior Executive Officer since June 2011, he is currently in charge of the air conditioning business in Europe, the Middle East and Africa. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p> | | | | |

Note:

Mr. Masatsugu Minaka does not hold any special interests in the Company.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|---|--|---|--|--|
| 9 | Jiro Tomita (August 7, 1949) Reappointment | April 1970 | Entered the Company | 5,600 shares |
| | | June 2008 | Associate Officer of the Company | |
| | | November 2009 | Director and Vice President of Daikin Europe N.V. | |
| | | May 2010 | Executive Officer of the Company | |
| | | June 2010 | Director and Senior Executive Officer of the Company | |
| | | June 2011 | Director and Senior Executive Officer of the Company | |
| | | June 2015 | In charge of Global Operations Division of the Company (Current position), In charge of production engineering of the Company (Current position) | |
| | | June 2016 | Director and Senior Executive Officer of the Company (Current position) | |
| | | June 2017 | In charge of PD Affiliation Alliance Promotion of the Company (Current position) | |
| | | September 2019 | Chairman of the Board of Goodman Global Group, Inc. (Current position) | |
| | | [Significant positions concurrently held] Chairman of the Board of Goodman Global Group, Inc. | | |
| Reasons for Nominating Candidate for Director: Mr. Jiro Tomita has been engaged in the air conditioning business over many years and has contributed significantly to the expansion of the business especially from the perspective of production and production technology. Serving as Director and Senior Executive Officer since June 2016, he is currently in charge of the air conditioning business in Asia and Oceania, as well as global production technology. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company. | | | | |

Note:

Mr. Jiro Tomita does not hold any special interests in the Company.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|------------------|--|--|---|--|
| 10 | Kanwal Jeet Jawa (November 10, 1959) Reappointment | 1997 | Regional Director (Asia Pacific) of Carrier Aircon Limited | 0 shares |
| | | 2001 | Regional Vice President (North&East) of Voltas Limited | |
| | | 2005 | Senior Vice President of the above company | |
| | | 2006 | Managing Director of Uniflair India Pvt. Ltd. | |
| | | May 2010 | Deputy Managing Director & COO of Daikin Airconditioning India Pvt. Ltd. | |
| | | September 2010 | Managing Director & COO of the above company | |
| | | July 2017 | Managing Director & CEO of the above company (Current position) | |
| | | June 2018 | Director and Associate Officer of the Company, Regional General Manager, Air Conditioning Business in India and East Africa, Global Operations Division of the Company (Current position) | |
| | | June 2019 | Director and Senior Associate Officer of the Company (Current position) | |
| | | [Significant positions concurrently held] Managing Director & CEO of Daikin Airconditioning India Pvt. Ltd. | | |

Reasons for Nominating Candidate for Director:

Mr. Kanwal Jeet Jawa has been engaged in the air conditioning business in India over many years and has contributed significantly to the expansion of the business. Serving as Director and Associate Officer since June 2018, and as Director and Senior Associate Officer since June 2019, he is currently in charge of the air conditioning business in India and East Africa. We have appointed him to continue as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.

Note:

Mr. Kanwal Jeet Jawa does not hold any special interests in the Company.

| Candidate number | Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | | Number of the Company shares owned |
|--|--|---|---|--|
| 11 | Takashi Matsuzaki (December 23, 1958) New appointment | April 1982 | Entered the Company | 8,000 shares |
| | | June 2004 | Executive Officer of the Company | |
| | | June 2008 | Director and Senior Executive Officer of the Company | |
| | | June 2010 | Senior Executive Officer of the Company | |
| | | June 2012 | Director and Senior Executive Officer of the Company | |
| | | June 2015 | In charge of R&D in North America (including applied solutions, commercial & industrial refrigeration, filter and dust collection) of the Company | |
| | | June 2017 | In charge of R&D in North America of the Company (Current position), In charge of Applied R&D Center of the Company (Current position), General Manager of Silicon Valley Technology Office of the Company | |
| | | June 2018 | Senior Executive Officer of the Company, In charge of Applied Solution Business of the Company (Current position), In charge of Daikin Open Innovation Lab Silicon Valley of the Company (Current position) | |
| | | June 2019 | Senior Executive Officer of the Company (Current position) | |
| <p>Reasons for Nominating Candidate for Director:</p> <p>Mr. Takashi Matsuzaki has been engaged in the air conditioning business over many years and has contributed significantly to the expansion of the business especially from the perspective of R&D. Serving as Senior Executive Officer since June 2019, he is currently in charge of Applied Solution Business, as well as R&D in North America. We have appointed Mr. Matsuzaki as Director, judging that his abundant experience and accomplishments are necessary for the Company to realize sustainable enhancement of corporate value in the future, and that he is an appropriate person for the position of Director of the Company.</p> | | | | |

Note:

Mr. Takashi Matsuzaki does not hold any special interests in the Company.

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

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

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

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

| Name (Date of birth) | Brief personal history and position held [Significant positions concurrently held] | Number of the Company shares owned |
|---|---|--|
| Toru Nagashima (January 2, 1943) Reappointment Candidate for Audit & Supervisory Board Member (external) Candidate for Independent Director | <p>April 1965 Entered Teijin Limited</p> <p>June 2000 Director of the above company</p> <p>June 2001 Managing Director of the above company</p> <p>November 2001 Representative Director, President and COO (Chief Operating Officer) of the above company</p> <p>June 2002 Representative Director, President and CEO (Chief Executive Officer) of the above company</p> <p>June 2008 Chairman of the Board of the above company</p> <p>April 2013 Senior Advisor, Member of the Board of the above company</p> <p>June 2013 Senior Advisor of the above company</p> <p>June 2016 Audit & Supervisory Board Member of the Company (Current position)</p> <p>April 2018 Honorary Advisor of Teijin Limited (Current position)</p> <p>[Significant positions concurrently held] Honorary Advisor of Teijin Limited</p> | 0 shares |
| <p>Reasons for Nominating Candidate for Audit & Supervisory Board Member (external):</p> <p>Mr. Toru Nagashima has extensive experience and deep insight as a corporate manager, serving as Representative Director of Teijin Limited, and having been among the first to put into practice the paradigm shift from manufacturing products (<i>monozukuri</i>) to creating new value (<i>kotozukuri</i>). Drawing on such a track record, Mr. Nagashima has appropriately performed his duties as Audit & Supervisory Board Member (external) of the Company since 2016. For these reasons, we have appointed him to continue as Audit & Supervisory Board Member (external), believing that he will continue to contribute to the monitoring of overall management and the materialization of still more appropriate audits.</p> <p>Attendance for Meetings of the Board of Directors and the Audit & Supervisory Board:</p> <p>Attended 14 out of 15 meetings of the Board of Directors (93.3%), and attended 14 out of 14 meetings of the Audit & Supervisory Board (100%)</p> | | |

Notes:

1. Mr. Toru Nagashima does not hold any special interests in the Company.
2. While there have been transactions, such as product sales, between the Company and Teijin Limited, where Mr. Nagashima serves as Honorary Advisor, such transactions account for less than 1% of the consolidated net sales either of the Company or of Teijin Limited in the latest fiscal year.
3. Mr. Nagashima is a candidate for Audit & Supervisory Board Member (external). The Company

will report him to Tokyo Stock Exchange, Inc., as Independent Director if he is selected as Audit & Supervisory Board Member (external).

4. As of the conclusion of this general meeting of shareholders, Mr. Nagashima will have been an Audit & Supervisory Board Member (external) for four years.
5. The Company has concluded a limitation of liability agreement with Mr. Nagashima, 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.

Fifth 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 | Registered as a lawyer (Current position) | 3,000 shares |
| | April 1990 | Managing Partner of Higobashi Law Office (Current position) | |
| | April 2003 | Vice Chairman of the Osaka Bar Association | |
| | April 2009 | Member, Mediation Committee, Osaka Family Court | |
| | July 2012 | Chairman, Information Disclosure Review Board, Osaka City | |
| | [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.

Sixth Item: Revision of Compensation for External Directors

The maximum aggregate amount of compensation for Directors of the Company is set at ¥1,300 million per annum (including ¥60 million per annum for External Directors), which was approved at the 111th Ordinary General Meeting of Shareholders held on June 27, 2014.

As stated in the Third Item above, the Company proposes to increase the number of External Directors with a view to enhancing the supervising function of the Board of Directors. We ask shareholders to approve an increase only in the maximum amount of compensation for External Directors, of the maximum aggregate amount of compensation for Directors, to ¥100 million per annum, in view of increasingly heavier roles and responsibilities expected of External Directors, apart from the aforementioned increase in the number of External Directors. The maximum aggregate amount of compensation for Directors shall remain unchanged at the current ¥1,300 million per annum. Also the maximum aggregate amount of compensation for Directors shall remain exclusive of employees' salary paid to the Directors concurrently serving as employees.

The number of Directors shall be increased from the current ten (10) (including three (3) External Directors) to eleven (11) (including four (4) External Directors), subject to the approval of the Third Item.

Business Report

1. Review of Operations

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

Looking at the overall world economy in the fiscal year ended March 31, 2020 (fiscal 2019), moderate expansion was seen during the first half of the period. The Daikin Group set “With Our 3 Structures of Collaborative Innovation, Let Each of Us Act Quickly and Decisively” (3 Structures of Collaborative Innovation: Collaborative Innovation with Customers, Collaborative Innovation with External Bodies, and Collaborative Innovation within the Group) as the slogan for its Annual Group Policy for 2019. Led by this slogan, it made all-out efforts to strengthen sales and marketing capabilities, improve product development, production, procurement and quality, enhance human resources capabilities, and reduce both fixed and variable costs in each region around the world. Furthermore, in order to respond to changes in industrial and social structures stemming from the advance of digital technologies, the Daikin Group focused on creating new products and services through two-way communication with its customers, engaging in academic-industrial collaboration in technology development, and acquiring differentiated technologies and searching for new business segments through collaboration with other members of industry, including venture capital companies.

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

The Daikin Group’s net sales increased by 2.8% year over year to ¥2,550,305 million for the fiscal year under review, due in part to solid performance up to the third quarter. As for profits, operating profit decreased by 3.9% to ¥265,513 million and ordinary profit decreased by 2.9% to ¥269,025 million due partly to COVID-19. Profit attributable to owners of parent decreased by 9.7% to ¥170,731 million partly due to the effect of the recording of an impairment loss despite a gain on sales of investment securities.

(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 3.9% year over year to ¥2,309,116 million. Operating profit decreased by 0.6% to ¥236,184 million.

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

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

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

In China, sales were higher than the previous fiscal year up to the third quarter thanks to the development of product and sales strategies responding to rapid changes in the market environment, taking advantage of the effects of softening raw material market conditions, and the promotion of cost reductions such as an expansion of in-house production. However, in the fourth quarter, production and sales were suspended in February due to the spread of COVID-19, and sales declined in March due to market disruption despite a recovery in production. As a result, net sales decreased from the previous fiscal year. In the residential-use market, in order to respond to changes, the Group strengthened its “PROSHOP” specialty shops by shifting sales resources mainly to the regional cities where growth is anticipated. In addition, the Group worked to expand sales of residential multi-split type air conditioners by enhancing its product lineup for the general residential market in addition to the “New Life Multi Series” aimed at the mid-range and high-end residential market. In the commercial-use market, while there was a decline in large-scale real estate investment, the Group responded to steady demand for retail properties such as restaurants and renovations of small and medium-sized properties and captured renewal demand through the introduction of “Intelligent VRV systems” that uses the Internet to connect with customers in the mature markets of big cities. In the Applied Systems air-conditioning equipment market, the Group promoted proposal-based sales in fields with growing demand, such as the field for data centers.

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

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

In the Middle East and Africa, amid the economic slowdown in Dubai, which is one of the major markets, net sales in local currencies were at the same level as the previous fiscal year, led by Egypt and Saudi Arabia, which had strengthened their own sales systems. However, net sales after translation into yen decreased from the previous fiscal year due to the effect of exchange rates. In Turkey, although demand for air-conditioning systems has been sluggish due to the economic downturn following the plunge of the Turkish lira in August 2018, net sales in the local currency increased year over year due to strong sales of heating equipment. However, yen-equivalent net sales decreased year over year due to the impact of the sharp depreciation of the Turkish lira.

In the marine vessels business, net sales rose year over year due to an increase in unit sales of marine container refrigeration units.

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 10.4% year over year to ¥179,883 million. Operating profit decreased by 26.9% to ¥23,770 million.

The general condition regarding overall sales of fluorochemical products was harsh and affected by the decline in demand worldwide, mainly in the semiconductor and automotive fields and the downturn in the gas market in Europe, and this combined with the impact of the spread of COVID-19 from the fourth quarter.

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

Among specialty chemicals, net sales of anti-fouling surface coating agents fell year over year due to sluggish sales, mainly in Asia. With regard to oil and water repellents, net sales fell year over year due to stagnant demand in China and the United States. As a result of these factors, overall sales of specialty chemicals were down compared to the previous fiscal year.

As for fluorocarbon gas, the impact of the drop in sales mainly due to the accumulation of distribution inventory was significant in the European market, which was affected by the rebound following the rush demand in the previous fiscal year. As a result, overall sales of gas decreased substantially year over year.

(iii) Other Divisions

Overall sales of the “Others” segment increased by 5.4% year over year to ¥61,304 million. Operating profit decreased by 8.5% to ¥5,548 million.

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

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

In the electronics business, net sales grew year over year, as a result of strong sales of “SpaceFinder,” a database system for design and development sectors in line with customer needs such as solutions for quality issues, shortened design and development periods, and support for cost reductions, as well as favorable sales of the related new product “Smart Innovator” and CG creation systems.

On a non-consolidated basis, the Company’s net sales increased by 3.2% year over year to ¥588,263 million. Operating profit increased by 10.6% year over year to ¥53,897 million. Ordinary profit increased by 8.2% year over year to ¥153,255 million, and profit increased by 15.1% year over year to ¥142,518 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 ¥131,954 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. | 11,105 |
| | Goodman Global Group, Inc. | 17,694 |
| | Daikin Europe N.V. Group | 16,410 |
| | Daikin Applied Americas Inc. Group | 12,424 |
| | Daikin Malaysia Sdn. Bhd. Group | 8,537 |
| | Daikin (China) Investment Co., Ltd. | 6,737 |
| Chemicals | Daikin Industries, Ltd. | 9,326 |
| | Daikin Fluorochemicals (China) Co., Ltd. | 8,509 |
| Others | Daikin Industries, Ltd. | 1,880 |

(4) Financing Activities

The funds for the above capital expenditures were primarily raised through bank borrowings 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 Share Acquisition Rights and Merger and Acquisition or Division by Absorption

Nothing material to report.

(6) Operating Results and the Status of Assets

| | 114th Business Year (from April 1, 2016, to March 31, 2017) | 115th Business Year (from April 1, 2017, to March 31, 2018) | 116th Business Year (from April 1, 2018, to March 31, 2019) | 117th Business Year (from April 1, 2019, to March 31, 2020) |
|---|---|---|---|---|
| Net sales (Millions of yen) | 2,043,968 | 2,290,560 | 2,481,109 | 2,550,305 |
| Ordinary profit (Millions of yen) | 231,013 | 255,019 | 277,074 | 269,025 |
| Profit attributable to owners of parent (Millions of yen) | 153,938 | 189,051 | 189,048 | 170,731 |
| Earnings per share (Yen) | 526.81 | 646.53 | 646.39 | 583.61 |
| Total assets (Millions of yen) | 2,356,148 | 2,475,708 | 2,700,890 | 2,667,512 |
| Net assets (Millions of yen) | 1,135,609 | 1,324,321 | 1,446,849 | 1,462,591 |

Note: From the 116th Business Year, the Group has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. Figures for the 115th Business Year were adjusted retrospectively.

In the 114th term, 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. The Group’s Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable sales both in Japan and in each region overseas. The Chemicals segment decreased sales and profits due to a substantial impact from foreign exchange rates.

In the 115th term, the Group’s Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable sales both in Japan and in each region overseas. The Chemicals segment also increased sales and profits due to expanded sales to the semiconductor and automotive markets.

In the 116th term, the Group strengthened its earnings capabilities by promoting reductions in overall costs and implementing thorough selling price measures despite the impact of soaring market prices of raw materials and the depreciation of emerging countries’ currencies. The Group’s Air-Conditioning and Refrigeration Equipment segment increased both sales and profits thanks to favorable sales in major regions including Japan, the Americas and, Europe. The Chemicals segment also increased sales and profits due to expanded sales mainly to the semiconductor market.

The results of our operations during the 117th term are as described in (1) Progress and Results of Operations of the Company Group.

(7) Issues the Group Ought to Contend With

The World Health Organization (WHO) declared COVID-19 to be a pandemic in March 2020, and the spread of COVID-19 has not yet been halted in Japan or overseas. Economic activity has contracted sharply overall due to weak consumer confidence and fragmented supply chains as restrictions on leaving home, commercial activities, and movements between countries have intensified on a global level.

Although the global economy is expected to remain harsh for fear that the impact of the spread of COVID-19 may be prolonged, we will focus our efforts on business and management activities including production, procurement, and sales with an aim to minimize the impact on the Daikin Group and achieve a quick recovery when the situation improves. In addition, we will find new markets and opportunities to further contribute to the world as an air-conditioning equipment manufacturer.

Against this backdrop, for this year (2020), we set “Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change” as the Group’s slogan for its Annual Group Policy for 2020 with the aim of generating results. We will continue to make all-out efforts to strengthen our sales and marketing capabilities, improve product development, production, procurement, and quality capabilities, enhance our human resources capabilities, and reduce both fixed and variable costs in each region around the world. Furthermore, in order to respond to changes in economic and social structures as global competition intensifies and the digital economy progresses, we will strive to create new products and services through communication with customers; to engage in academic-industrial collaboration in technology development; and to collaborate with other members of industry, including venture capital companies, to acquire differentiated technologies and build new business

segments.

According to the International Energy Agency (IEA), demand for air-conditioning equipment is expected to be more than triple in 2050 as emerging countries develop. This is a great opportunity for the Daikin Group, whose main business is air-conditioning. On the other hand, with global warming and the resulting climate change becoming global issues and the need for decarbonization increasing, we must meet the challenge of curbing greenhouse gas emissions by reducing electricity consumption associated with air-conditioning equipment, reducing the use of fossil fuels, and preventing the leakage of refrigerants with a greenhouse effect, or else it may become a risk to the Daikin Group. For this reason, we are working to reduce environmental impact by developing and promoting the use of refrigerants with low global warming potential, developing and promoting the use of high-efficiency air conditioners, and creating solutions that make efficient use of energy throughout buildings. In 2018, we formulated “Environmental Vision 2050,” with a target of reducing greenhouse gas emissions to net zero by 2050 while providing a safe and healthy air environment. Furthermore, we endorsed the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2019. Taking climate change as an important issue that affects our business continuity, we will analyze the risks and opportunities that climate change poses to our business and reflect them in our management strategies as we aim for further growth while contributing to the resolution of climate change and other social issues.

(8) Major Operations of the Company Group (as of March 31, 2020)

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, Refrigerating and freezing showcases |
| 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 agricultural 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, 2020)

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 Washington, D.C. Office Beijing Office Guangzhou Office North America R&D Center |
| 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-Sauer-Danfoss Ltd. (Settsu, Osaka) |
| | Overseas | Daikin (China) Investment Co., Ltd. Daikin Air-conditioning (Shanghai) Co., Ltd. Daikin Air-conditioning (Suzhou) Co., Ltd. McQuay Central Air Conditioning (China) Co., Ltd. Daikin Industries (Thailand) Ltd. Daikin Airconditioning India Pvt. Ltd. Daikin Malaysia Sdn. Bhd. Daikin Australia Pty., Ltd. Daikin Europe N.V. (Belgium) Daikin Industries Czech Republic s.r.o. AHT Cooling Systems GmbH (Austria) Goodman Global Group, Inc. (America) Daikin Applied Americas Inc. American Air Filter Company, 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 | 74,466 | 3,646 |
| Chemicals | 3,876 | 87 |
| Others | 1,077 | 27 |
| Corporate | 950 | 125 |
| Total | 80,369 | 3,885 |

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 7,499 (an increase of 245 from the previous fiscal year).

(10) Principal subsidiaries (as of March 31, 2020)

| 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 Air-conditioning (Suzhou) Co., Ltd. | *100% | 1,200 million CNY | Manufacture and sale of air conditioning equipment |
| McQuay Central Air Conditioning (China) Co., Ltd. | 100% | 50 million CNY | Manufacture and sale of air conditioning equipment |
| Daikin Industries (Thailand) Ltd. | 100% | 1,300 million THB | 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 Malaysia Sdn. Bhd. | 100% | 276,254 thousand MYR | 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 air conditioning equipment |
| AHT Cooling Systems GmbH | *100% | 8,000 thousand EUR | Manufacture and sale of refrigerating and freezing showcases |
| 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 |
| American Air Filter Company, Inc. | *100% | — thousand USD | Manufacture and sale of air filter products, etc. |
| 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-Sauer-Danfoss Ltd. | 55.0% | 400 million JPY | Manufacture and sale of oil hydraulic equipment, etc. |

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

(11) Principal borrowings (as of March 31, 2020)

| Creditors | Borrowings (Millions of yen) |
|---|---------------------------------|
| Sumitomo Mitsui Banking Corporation dollar-denominated syndicated loan (Note 1) | 93,484 |
| The Norinchukin Bank | 64,696 |
| Sumitomo Mitsui Banking Corporation yen-denominated syndicated loan (Note 2) | 50,000 |
| MUFG Bank, Ltd. | 25,059 |
| Sumitomo Mitsui Banking Corporation | 21,766 |

Notes:

- 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.
- 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, 2020)**(1) Number of Shares Authorized:** 500,000 thousand shares**(2) Number of Shares Issued:** 293,113 thousand shares**(3) Number of Shareholders:** 27,028 (Increase of 385 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) | 36,871 | 12.6 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 20,617 | 7.0 |
| Sumitomo Mitsui Banking Corporation | 9,000 | 3.1 |
| Japan Trustee Services Bank, Ltd. (Trust account 7) | 6,331 | 2.2 |
| Japan Trustee Services Bank, Ltd. (Trust account 5) | 5,192 | 1.8 |
| 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 |
| MUFG Bank, Ltd. | 4,900 | 1.7 |
| JPMorgan Chase Bank 385151 | 4,637 | 1.6 |
| Japan Trustee Services Bank, Ltd. (Trust account 4) | 4,436 | 1.5 |
| Government of Norway | 4,108 | 1.4 |

Notes:

1. Percentage shareholdings are rounded off to one decimal point.

2. Percentage shareholdings are calculated after deducting treasury shares (524 thousand shares).

3. Share Acquisition Rights

(1) Share acquisition rights 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 share acquisition rights | Number of holders |
|---------------|----------------|---|---------------------------------|------------------------------------|------------------------------------|
| No.15 (2016) | ¥1 | Common stock 100 shares per unit of share acquisition rights | July 15, 2019, to July 14, 2031 | 17 | 1 Director |
| No. 16 (2017) | ¥1 | Common stock 100 shares per unit of share acquisition rights | July 15, 2020, to July 14, 2032 | 106 | 6 Directors |
| | | | | 6 | 1 Audit & Supervisory Board Member |
| No. 17 (2018) | ¥1 | Common stock 100 shares per unit of share acquisition rights | July 14, 2021, to July 13, 2033 | 94 | 7 Directors |
| | | | | 5 | 1 Audit & Supervisory Board Member |
| No. 18 (2019) | ¥1 | Common stock 100 shares per unit of share acquisition rights | July 13, 2022, to July 12, 2034 | 121 | 7 Directors |

Note: Share acquisition rights held by Audit & Supervisory Board Members were granted during their tenure as employees.

(2) Share acquisition rights 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 share acquisition rights | Number of holders |
|---------------|----------------|---|---------------------------------|------------------------------------|--------------------------------|
| No. 18 (2019) | ¥1 | Common stock 100 shares per unit of share acquisition rights | July 13, 2022, to July 12, 2034 | 340 | 54 Daikin Industries employees |

4. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2020)

| 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 Kansai Philharmonic Orchestra |
| Representative Director, President and CEO, 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 Group Holdings, Co., Ltd. Honorary Chairman of Art Corporation Chairman and Representative Director of Art Childcare Corporation |
| 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 Director serving as Audit & Supervisory Committee Member of Hokuohoku Financial Group, Inc. External Director of FUJIFILM Holdings Corporation |
| Member of the Board (external) | Akiji Makino | Member of the HRM and Compensation Advisory Committee Chairman and CEO of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation |
| 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 (excluding East 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, production engineering and PD Affiliation Alliance Promotion Chairman of the Board of Goodman Global Group, Inc. |
| Member of the Board and Senior Associate Officer | Yuan Fang | Regional General Manager, Air Conditioning Business in ASEAN and Oceania's Emerging Countries, Global Operations Division Vice Chairman of the Board of Daikin (China) Investment Co., Ltd. Chairman of the Board of Daikin Airconditioning (Hong Kong) Ltd. |
| Member of the Board and Senior Associate Officer | Kanwal Jeet Jawa | Regional General Manager, Air Conditioning Business in India and East Africa, Global Operations Division Managing Director and CEO of Daikin Airconditioning India Pvt. 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 | Honorary Advisor of Teijin Limited External Director of AEON Co., Ltd. |
| Audit & Supervisory Board Member (full time) | Kosei Uematsu | |
| Audit & Supervisory Board Member (full time) | Hisao Tamori | |

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. Audit & Supervisory Board Member Hisao Tamori has considerable knowledge of finance and accounting, having been involved in accounting and financial operations of the Company for many years.
3. Hisao Tamori was elected as an Audit & Supervisory Board Member at the 116th Ordinary General Meeting of Shareholders of the Company held on June 27, 2019, and assumed the office on the same day.
4. Kenji Fukunaga resigned as Audit & Supervisory Board Member at the conclusion of the 116th Ordinary General Meeting of Shareholders of the Company held on June 27, 2019.
5. External Director Chiyono Terada was President and Representative Director of Art Corporation until December 20, 2019.
6. External Director Tatsuo Kawada was Chairman of Fukui Chamber of Commerce and Industry until October 31, 2019.

7. External Director Akiji Makino was Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited until May 15, 2019.

(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 | 12 | 1,186 |
| Audit & Supervisory Board Members | 5 | 99 |
| Total | 17 | 1,285 |

Notes:

1. Total compensation includes provision for bonuses for directors (and other officers) recorded in the fiscal year under review as well as the fiscal year's expense which is associated with share acquisition rights (as stock options) offered to Directors (excluding External Directors).
2. Total compensation includes the compensation for services of two Directors who retired at the conclusion of the 115th Ordinary General Meeting of Shareholders, and one Audit & Supervisory Board Member who retired at the conclusion of the 116th Ordinary General Meeting of Shareholders, 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) | 5 | 78 |

(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 established with an aim 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 excluding External Directors, their compensation system is comprised of "fixed compensation," "performance-linked compensation" that reflects the short-term results of the company as a whole and its 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 compensation research data collected by an external institution specializing in research of compensation for Directors and Audit & Supervisory Board Members, which is used by nearly 300 corporations listed on the First Sections of Japanese stock exchanges. Specifically, the Company uses three indexes as basic benchmarks, which are "net sales growth," "operating profit margin" 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, as well as those in relation to the medium- to long-term enhancement of corporate value, among comparative companies.

The performance linkage ratio used for the Company's performance-linked compensation is set higher than large Japanese manufacturing companies 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, three indexes of "net sales," "operating profit margin" and "operating profit" 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. "Net sales" and "operating profit margin" are calculated based on the degree of achievement of the budget for a single fiscal year, while "operating profit" is calculated based on the growth rate linked to the medium- to long-term management plan. Performance-linked compensation for the Chairman and the President is based on a performance-linked coefficient derived from company-wide

performance-linked indicators. Performance-linked compensation for Directors excluding the Chairman and the President is based on a performance-linked coefficient derived from company-wide performance-linked indicators and determined in consideration of the degrees of achievement of the single-fiscal-year budgets for “net sales” and “operating profit” of the department supervised, which are targets for day-to-day business operations, and the status of each individual’s efforts to address key issues over the short term and the medium to long term.

The Director Compensation Policy is determined by the resolutions of the Board of Directors in consideration of deliberations and proposals made by the Compensation Advisory Committee.

The amounts of compensation 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, based on the proposals made by the Compensation Advisory Committee, within the allowable total amounts of compensation for all Directors and Audit & Supervisory Board Members (up to ¥1.3 billion per annum for Directors including up to ¥60 million for External Directors, and up to ¥190 million per annum for Audit & Supervisory Board Members). They were determined by the resolution of the 111th Ordinary General Meeting of Shareholders held on June 27, 2014. The Compensation Advisory Committee 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 who is in charge of HRM.

(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 14 out of 15 meetings (93.3%) | 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 15 out of 15 meetings (100%) | 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 15 out of 15 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 15 meetings (80.0%) | Attended 12 out of 14 meetings (85.7%) | 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 14 out of 15 meetings (93.3%) | Attended 14 out of 14 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. |

Note: In addition to the above-stated number of Board of Directors' meetings held, there was one written resolution deemed to have been passed at a Board of Directors' meeting, pursuant to the provision of Article 370 of Japan's Companies Act and Article 23, Paragraph 4 of the Company's Articles of Incorporation.

- (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 | ¥267 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 | ¥267 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 and major activities to confirm operational appropriateness based on Japan's Companies Act and its Enforcement Regulations are 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 two 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 and Risk Management Committee" made up of Directors and department managers. This committee oversees Legal Affairs, Compliance and Intellectual Property Department, which spearheads 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 the “Compliance, Risk Management Leader Meeting” and the “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)

- The “Corporate Ethics and 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” eight times to ensure thorough compliance. We also held the “Global Legal and Compliance Meeting,” attended by major overseas Group companies, and “Regional Compliance Meeting” in the Asia & Oceania, Europe, and Chinese regions.
- 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 and Risk Management Committee.”
- We conducted Director training on human rights and employee training on compliance, etc.

(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 regularly 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. We also deliberated on other important disclosure on a case-by-case basis.

(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 natural disasters, product liability and quality, intellectual property, information management and overseas crises management. Subsequently, we deliberated in the “Corporate Ethics and 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 that are based on various internal regulations and 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 17 times in which the Executive Officers participated.
- We held the “Group Steering Meeting” nine times to deliberate on the policy for formulating the next strategic management plan.
- The Board of Directors convened 15 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 Act), 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 Act, 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 Act 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 and 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 technology/product strategy 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 the Representative Directors, the 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, the Group Auditors have been appointed to each of the major Group companies, ensuring smooth flow of information. The 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 the 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. The Audit Office members act on the order of the Audit & Supervisory Board Member, and their transfer and performance assessments 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 two meetings with the Representative Directors, 22 with Directors and Executive Officers and 15 with the Independent Auditors. Also, the Audit & Supervisory Board Members had one "Group Auditors' Meeting" by convening Group Auditors of the major Group companies at home and abroad.

Consolidated Balance Sheet
As of March 31, 2020

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

| (Assets) | Amounts | (Liabilities) | Amounts |
|---------------------------------------|------------------|--|------------------|
| Current assets | 1,304,427 | Current liabilities | 693,957 |
| Cash and deposits | 370,793 | Notes and accounts payable – trade | 189,843 |
| Notes and accounts receivable – trade | 440,755 | Short-term borrowings | 48,937 |
| Merchandise and finished goods | 292,579 | Current portion of long-term borrowings | 105,900 |
| Work in process | 49,686 | Lease obligations | 17,300 |
| Raw materials and supplies | 91,517 | Accrued expenses | 141,768 |
| Other | 69,657 | Income taxes payable | 19,893 |
| Allowance for doubtful accounts | (10,561) | Provision for bonuses for directors (and other officers) | 300 |
| | | Provision for product warranties | 52,849 |
| | | Other | 117,163 |
| Non-current assets | 1,363,085 | | |
| Property, plant and equipment | 579,980 | Non-current liabilities | 510,963 |
| Buildings and structures | 251,404 | Bonds payable | 90,000 |
| Machinery, equipment and vehicles | 181,302 | Long-term borrowings | 233,184 |
| Land | 54,969 | Lease obligations | 58,482 |
| Leased assets | 2,125 | Deferred tax liabilities | 90,087 |
| Construction in progress | 46,119 | Retirement benefit liability | 13,219 |
| Other | 44,058 | Other | 25,989 |
| Intangible assets | 542,656 | | |
| Goodwill | 281,969 | Total liabilities | 1,204,921 |
| Customer relationship | 169,765 | (Net Assets) | |
| Other | 90,921 | Shareholders' equity | 1,420,739 |
| Investments and other assets | 240,448 | Share capital | 85,032 |
| Investment securities | 157,328 | Capital surplus | 83,898 |
| Long-term loans receivable | 1,458 | Retained earnings | 1,254,072 |
| Deferred tax assets | 26,793 | Treasury shares | (2,264) |
| Retirement benefit asset | 12,884 | Accumulated other comprehensive income | 14,228 |
| Other | 43,189 | Valuation difference on available-for-sale securities | 29,764 |
| Allowance for doubtful accounts | (1,206) | Deferred gains or losses on hedges | (2,797) |
| | | Foreign currency translation adjustment | (5,051) |
| | | Remeasurements of defined benefit plans | (7,687) |
| | | Share acquisition rights | 1,886 |
| | | Non-controlling interests | 25,736 |
| | | Total net assets | 1,462,591 |
| Total assets | 2,667,512 | Total liabilities and net assets | 2,667,512 |

Consolidated Statement of Income
From April 1, 2019, to March 31, 2020

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

| | | |
|---|---------|----------------|
| Net sales | | 2,550,305 |
| Cost of sales | | 1,665,407 |
| Gross profit | | 884,897 |
| Selling, general and administrative expenses | | 619,384 |
| Operating profit | | 265,513 |
| Non-operating income | | |
| Interest income | 7,969 | |
| Dividend income | 5,144 | |
| Share of profit of entities accounted for using equity method | 166 | |
| Foreign exchange gains | 460 | |
| Subsidy income | 3,239 | |
| Other | 2,731 | 19,712 |
| Non-operating expenses | | |
| Interest expenses | 11,008 | |
| Other | 5,192 | 16,200 |
| Ordinary profit | | 269,025 |
| Extraordinary income | | |
| Gain on sales of land | 658 | |
| Gain on sales of investment securities | 10,809 | |
| Gain on insurance claims | 255 | |
| Gain on reversal of share acquisition rights | 24 | 11,748 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 453 | |
| Loss on valuation of investment securities | 579 | |
| Impairment loss | 23,554 | |
| Other | 5 | 24,593 |
| Profit before income taxes | | 256,180 |
| Income taxes – current | 81,132 | |
| Income taxes – deferred | (2,150) | 78,982 |
| Profit | | 177,197 |
| Profit attributable to non-controlling interests | | 6,466 |
| Profit attributable to owners of parent | | 170,731 |

Consolidated Statement of Changes in Equity

From April 1, 2019, to March 31, 2020

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

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 85,032 | 83,649 | 1,133,100 | (2,589) | 1,299,193 |
| Changes in items during period | | | | | |
| Dividends of surplus | | | (49,730) | | (49,730) |
| Profit attributable to owners of parent | | | 170,731 | | 170,731 |
| Effect of changes in accounting period of subsidiaries | | | (28) | | (28) |
| Purchase of treasury shares | | | | (1) | (1) |
| Disposal of treasury shares | | 287 | | 326 | 613 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (38) | | | (38) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during period | — | 248 | 120,971 | 325 | 121,545 |
| Balance at end of current period | 85,032 | 83,898 | 1,254,072 | (2,264) | 1,420,739 |

| | Accumulated other comprehensive income | | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|---|------------------------------------|---|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at beginning of current period | 57,685 | 619 | 63,808 | (5,231) | 116,881 | 1,720 | 29,054 | 1,446,849 |
| Changes in items during period | | | | | | | | |
| Dividends of surplus | | | | | | | | (49,730) |
| Profit attributable to owners of parent | | | | | | | | 170,731 |
| Effect of changes in accounting period of subsidiaries | | | | | | | | (28) |
| Purchase of treasury shares | | | | | | | | (1) |
| Disposal of treasury shares | | | | | | | | 613 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | | | (38) |
| Net changes in items other than shareholders' equity | (27,920) | (3,416) | (68,859) | (2,455) | (102,652) | 165 | (3,317) | (105,804) |
| Total changes in items during period | (27,920) | (3,416) | (68,859) | (2,455) | (102,652) | 165 | (3,317) | 15,741 |
| Balance at end of current period | 29,764 | (2,797) | (5,051) | (7,687) | 14,228 | 1,886 | 25,736 | 1,462,591 |

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: 313

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 acquisition:

Grupo CYVSA, S.A. de C.V. and its 16 subsidiaries, Total Solutions M&E Sdn. Bhd., Total Solutions M&E (Northern) Sdn. Bhd., BMS Engineering & Trading Pte. Ltd., D&B Building Solutions LLC and its 1 subsidiary

Due to new establishment:

Daikin Financial Leasing (Shanghai) Co., Ltd., Daikin Trading and Air Conditioning Solutions LLC, Daikin New Materials (Changshu) Co., Ltd., Daikin New Materials (Shanghai) Co., Ltd., Daikin Air Conditioning and Solutions LLC

(Excluded) Due to liquidation:

Daikin Airconditioning (Malaysia) Sdn. Bhd., Flanders International Pte. Ltd., ServiceNed B.V.

Due to third-party allotment:

Point0 Inc.

Due to merger of consolidated subsidiaries:

Stejasa Agregados Industriales S.A.

(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: 20

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

affiliated companies:

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

(Newly added) Due to third-party allotment:

Air as a Service., LTD., Point0 Inc.

(Excluded) Due to liquidation:

Zanotti Alliance PTE. LTD.

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

| | |
|------------|-------------------------------|
| Major | (Non-consolidated subsidiary) |
| companies: | 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 6 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.

(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 bonuses for directors (and other officers)

The provision for bonuses for directors (and other officers) 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 borrowings 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.

(iv) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

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

Changes in Accounting Policy

From the beginning of the fiscal year ended March 31, 2020, the overseas consolidated subsidiaries have applied “Leases” (IFRS 16, January 13, 2016; ASU 2016-02, February 25, 2016). Following the application of this accounting standard, as of March 31, 2020, “property, plant and equipment” increased by ¥63,098 million, “lease obligations” under “current liabilities” increased by ¥15,951 million, and “lease obligations” under “non-current liabilities” increased by ¥48,128 million. In addition, ¥12,256 million of leasehold interests in land hitherto included in “other” under “intangible assets” have been included in “land” under “property, plant and equipment” from fiscal year under review. This change does not have a significant impact on profit or loss for the consolidated fiscal year under review.

Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

| | |
|-------------------|-------------------|
| | (Millions of yen) |
| (1) Time deposits | 367 |

There is no debt secured by the above collateral.

| | |
|--------------------------------------|-------------------|
| (2) Notes receivable | (Millions of yen) |
| | 1,279 |
| Debt secured by the above collateral | (Millions of yen) |
| Notes payable | 2,685 |

| | |
|--|-------------------|
| (3) Assets pledged as collateral for borrowings advanced to investee companies from financial institutions | (Millions of yen) |
| Investment securities | 800 |

| | |
|--|-------------------|
| 2. Accumulated depreciation of property, plant and equipment | (Millions of yen) |
| | 796,402 |

| | |
|-----------------------------|-------------------|
| 3. Amount of notes endorsed | (Millions of yen) |
| | 1,835 |

Notes to the Consolidated Statement of Income

Impairment loss

In the fiscal year ended March 31, 2020, an impairment loss of ¥23,554 million was recorded for goodwill and customer relationship of Flanders Holdings LLC, a consolidated subsidiary.

The company, which manufactures and sells filter and clean equipment, has been performing below the business plan established at the time of the acquisition. As a result of the company's efforts to strengthen its production and sales systems and the conservative review of its medium-term business plan, the book value has been reduced to the recoverable value.

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of shares issued as of March 31, 2020

Common shares: 293,113,973 shares

2. Dividends

(1) Dividend amounts paid

| Resolution | Type of shares | Total amount of dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|--|----------------|--|-----------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders held on June 27, 2019 | Common shares | 26,326 | 90 | March 31, 2019 | June 28, 2019 |
| Board of Directors' meeting held on November 6, 2019 | Common shares | 23,404 | 80 | September 30, 2019 | December 3, 2019 |

- (2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2020, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2021

| Planned date of resolution | Type of shares | Source of funds for dividends | Total amount of dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|--|----------------|-------------------------------|---|--------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders to be held on June 26, 2020 | Common shares | Retained earnings | 23,407 | 80 | March 31, 2020 | June 29, 2020 |

3. Type and number of shares subject to share acquisition rights at March 31, 2020 (excluding those for which the first day of the exercise period has not yet arrived)

Common shares: 43,800 shares

Notes to Financial Instruments

1. Status of Financial Instruments

(1) Policy on treatment of financial instruments

The Group raises necessary funds (mainly, bank borrowings and bond issuance) in the light of business capital expenditure projects. For short-term working capital, funds are raised from bank borrowings 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 borrowings and commercial papers are mainly used as working capital. Long-term borrowings and bonds payable are used mainly for the purpose of procuring funds necessary for capital expenditures. While the operating debts, borrowings 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 borrowings 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 borrowings, 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, 2020 (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 | 370,793 | 370,793 | — |
| (2) Notes and accounts receivable – trade | 440,755 | 440,755 | — |
| (3) Investment securities | | | |
| Available-for-sale securities | 138,481 | 138,481 | — |
| Total assets | 950,030 | 950,030 | — |
| (1) Notes and accounts payable – trade | 189,843 | 189,843 | — |
| (2) Short-term borrowings | 48,937 | 48,937 | — |
| (3) Income taxes payable | 19,893 | 19,893 | — |
| (4) Bonds payable | 90,000 | 90,668 | 668 |
| (5) Long-term borrowings | 339,085 | 339,782 | 697 |
| (6) Lease obligations | 75,783 | 78,155 | 2,372 |
| Total liabilities | 763,543 | 767,282 | 3,738 |
| Derivative Transactions (*) | (6,054) | (6,054) | — |

(*) 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 borrowings, 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 borrowings

The fair market value of long-term borrowings has been determined by discounting the total of principal and interest by the interest rate on similar new borrowings. For borrowings with variable interest, the fair market value of long-term borrowings 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 borrowings.

(6) Lease obligations

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

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 borrowings and their fair market value is therefore included in the fair market value of the relevant long-term borrowings.

Note 2: Unlisted shares (amount recorded in the consolidated balance sheet was ¥11,060 million), investments, etc., in investment funds (amount recorded in the consolidated balance sheet was ¥1,075 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥6,710 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: | ¥4,904.46 |
| Earnings per share: | ¥583.61 |

Tax Effect Accounting

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

(Millions of yen)

Deferred tax assets:

| | |
|---|----------|
| Provision for product warranties | 13,625 |
| Tax loss carryforwards | 11,655 |
| Software and other assets | 10,256 |
| Unrealized profit of inventories | 9,271 |
| Inventories | 6,058 |
| Provision for bonuses | 4,627 |
| Investment securities | 3,870 |
| Retirement benefit liabilities | 3,537 |
| Deferred revenue | 2,932 |
| Allowance for doubtful accounts | 2,342 |
| Foreign income tax credit | 69 |
| Other | 22,445 |
| Subtotal of deferred tax assets | 90,693 |
| Valuation allowance for tax loss carryforwards (Note) | (8,707) |
| Valuation allowance for future deductible temporary differences, etc. | (6,373) |
| Subtotal of valuation allowance | (15,081) |
| Total deferred tax assets | 75,612 |

Deferred tax liabilities:

| | |
|---|-----------|
| Intangible assets | (64,091) |
| Undistributed earnings of consolidated subsidiaries | (40,385) |
| Valuation difference on available-for-sale securities | (10,131) |
| Retirement benefit assets | (4,131) |
| Reserve for tax purpose reduction entry of non-current assets | (1,705) |
| Other | (18,461) |
| Total deferred tax liabilities | (138,905) |
| Net deferred tax assets (liabilities) | (63,293) |

(Note) Tax loss carryforwards and related deferred tax assets amounts by expiration years

(Millions of yen)

| | Within a year | 1 year less than 2 years | 2 years less than 3 years | 3 years less than 4 years | 4 years less than 5 years | 5 years or more | Total amount |
|----------------------------|---------------|--------------------------|---------------------------|---------------------------|---------------------------|-----------------|--------------|
| Tax loss carryforwards (*) | 134 | 36 | 136 | 384 | 264 | 10,698 | 11,655 |
| Valuation allowance | (129) | (29) | (136) | (248) | (189) | (7,973) | (8,707) |
| Deferred tax assets | 4 | 7 | — | 135 | 74 | 2,725 | 2,947 |

(*) Tax loss carryforwards are amounts calculated by multiplying the statutory tax rate.

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. Retirement 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 | 110,870 |
| Service cost | 5,960 |
| Interest cost | 1,423 |
| Actuarial losses (gains) arising during the period | 2,999 |
| Prior service cost arising during the period | (4) |
| Amount of retirement benefits paid | (6,576) |
| Effect of changes in scope of consolidation | 198 |
| Foreign currency translation adjustment | (2,800) |
| Other | 97 |
| Ending balance for projected benefit obligation | 111,469 |

(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 | 116,789 |
| Expected return on plan assets | 3,522 |
| Actuarial losses (gains) arising during the period | (2,022) |
| Employer contributions | 3,888 |
| Amount of retirement benefits paid | (6,045) |
| Foreign currency translation adjustment | (2,222) |
| Other | (15) |
| Ending balance for plan assets | 113,894 |

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

| | (Millions of yen) |
|--|-------------------|
| Beginning balance for retirement benefit liabilities | 2,506 |
| Retirement benefit expenses | 972 |
| Amount of retirement benefits paid | (719) |
| Ending balance for retirement benefit liabilities | 2,759 |

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

| | (Millions of yen) |
|--|-------------------|
| Retirement benefit obligation (funded) | (105,617) |
| Plan assets | 113,894 |
| | 8,276 |
| Retirement benefit obligation (unfunded) | (8,611) |
| Net amount for assets and liabilities recorded on the consolidated balance sheet | (334) |
| Retirement benefit liabilities | (13,219) |
| Retirement benefit assets | 12,884 |
| Net amount for assets and liabilities recorded on the consolidated balance sheet | (334) |

Note: Including the benefit plan applying the simplified method

(5) Amount of retirement benefit expenses and its breakdown

| | (Millions of yen) |
|---|-------------------|
| Service cost | 5,960 |
| Interest cost | 1,423 |
| Expected return on plan assets | (3,522) |
| Recognized actuarial losses (gains) during the period | 266 |
| Amortization of prior service cost during the period | (64) |
| Retirement benefit expenses calculated by the simplified method | 972 |
| Other | 152 |
| Total | 5,188 |

(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 | 631 |
| Unrecognized actuarial gain | 9,578 |
| Total | 10,209 |

(7) Plan assets

(i) Breakdown of plan assets

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

| | |
|------------------------------------|------|
| Domestic bonds | 1% |
| Domestic equities | 0% |
| International bonds | 38% |
| International equities | 16% |
| Insurance assets (general account) | 18% |
| Cash and deposits | 1% |
| Alternative investments | 26% |
| Other | 0% |
| Total | 100% |

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

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

(8) Basis for computation used in actuarial calculation

Basis for computation used in major actuarial calculation

| | |
|--|-------------|
| 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 ¥5,976 million.

Non-Consolidated Balance Sheet
As of March 31, 2020

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

| (Assets) | Amounts | (Liabilities) | Amounts |
|---|------------------|---|------------------|
| Current assets | 303,325 | Current liabilities | 304,685 |
| Cash and deposits | 23,504 | Notes payable – trade | 3,604 |
| Notes receivable – trade | 955 | Accounts payable – trade | 39,742 |
| Accounts receivable – trade | 82,963 | Short-term borrowings | 46,576 |
| Merchandise and finished goods | 37,842 | Current portion of long-term borrowings | 93,793 |
| Work in process | 27,537 | Lease obligations | 456 |
| Raw materials and supplies | 5,131 | Accounts payable – other | 2,950 |
| Prepaid expenses | 1,493 | Accrued expenses | 28,525 |
| Short-term loans receivable | 88,519 | Income taxes payable | 7,980 |
| Accounts receivable – other | 11,610 | Advances received | 1,129 |
| Other | 23,769 | Deposits received | 62,293 |
| Allowance for doubtful accounts | (1) | Provision for bonuses for directors (and other officers) | 300 |
| | | Provision for product warranties | 5,441 |
| | | Notes payable – facilities | 1,082 |
| | | Accounts payable – facilities | 10,613 |
| | | Other | 196 |
| Non-current assets | 1,117,167 | Non-current liabilities | 272,310 |
| Property, plant and equipment | 154,730 | Bonds payable | 90,000 |
| Buildings | 64,031 | Long-term borrowings | 179,108 |
| Structures | 6,849 | Lease obligations | 746 |
| Machinery and equipment | 41,968 | Long-term accounts payable – other | 275 |
| Vehicles | 79 | Provision for retirement benefits | 1,886 |
| Tools, furniture and fixtures | 12,528 | Other | 293 |
| Land | 24,453 | | |
| Leased assets | 1,108 | Total liabilities | 576,995 |
| Construction in progress | 3,710 | | |
| Intangible assets | 2,347 | (Net assets) | |
| Patent right, etc. | 2,347 | Shareholders' equity | 812,748 |
| Investments and other assets | 960,089 | Share capital | 85,032 |
| Investment securities | 148,882 | Capital surplus | 85,225 |
| Shares of subsidiaries and associates | 569,343 | Legal capital surplus | 82,977 |
| | | Other capital surplus | 2,248 |
| Investments in capital of subsidiaries and associates | 108,131 | Proceeds from disposal of treasury shares | 2,248 |
| Long-term loans receivable from subsidiaries and associates | 111,924 | Retained earnings | 644,746 |
| Long-term loans receivable | 210 | Legal retained earnings | 6,066 |
| Long-term prepaid expenses | 233 | Other retained earnings | 638,680 |
| Prepaid pension cost | 12,201 | Reserve for tax purpose reduction entry of non-current assets | 3,867 |
| Deferred tax assets | 2,944 | General reserve | 146,210 |
| Guarantee deposits | 3,523 | Retained earnings brought forward | 488,602 |
| Other | 3,137 | Treasury shares | (2,256) |
| Allowance for doubtful accounts | (443) | Valuation and translation adjustments | 28,862 |
| | | Valuation difference on available-for-sale securities | 29,154 |
| | | Deferred gains or losses on hedges | (291) |
| | | Share acquisition rights | 1,886 |
| | | Total net assets | 843,497 |
| Total assets | 1,420,493 | Total liabilities and net assets | 1,420,493 |

Non-Consolidated Statement of Income

From April 1, 2019, to March 31, 2020

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

| | | |
|--|---------|----------------|
| Net sales | | 588,263 |
| Cost of sales | | 398,932 |
| Gross profit | | 189,331 |
| Selling, general and administrative expenses | | 135,434 |
| Operating profit | | 53,897 |
| Non-operating income | | |
| Interest income | 6,984 | |
| Interest on securities | 19 | |
| Dividend income | 102,290 | |
| Other | 852 | 110,146 |
| Non-operating expenses | | |
| Interest expenses | 7,692 | |
| Interest on bonds | 809 | |
| Sales discounts | 284 | |
| Foreign exchange losses | 1,148 | |
| Other | 853 | 10,788 |
| Ordinary profit | | 153,255 |
| Extraordinary income | | |
| Gain on sales of land | 105 | |
| Gain on sales of investment securities | 10,809 | |
| Gain on insurance claims | 255 | |
| Gain on reversal of share acquisition rights | 24 | 11,195 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 247 | |
| Loss on valuation of investment securities | 578 | |
| Other | 5 | 831 |
| Profit before income taxes | | 163,619 |
| Income taxes – current | 21,717 | |
| Income taxes – deferred | (616) | 21,100 |
| Profit | | 142,518 |

Non-Consolidated Statement of Changes in Equity
From April 1, 2019, to March 31, 2020

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

| | Shareholders' equity | | | | | | | | |
|---|----------------------|-----------------------|---|-----------------------|-------------------------|---|-----------------|-----------------------------------|-------------------------|
| | Share capital | Capital surplus | | | Retained earnings | | | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| | | | Proceeds from disposal of treasury shares | | | Reserve for tax purpose reduction entry of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at beginning of current period | 85,032 | 82,977 | 1,961 | 84,938 | 6,066 | 3,909 | 146,210 | 395,772 | 551,958 |
| Changes in items during period | | | | | | | | | |
| Dividends of surplus | | | | | | | | (49,730) | (49,730) |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | | | | | (42) | | 42 | — |
| Profit | | | | | | | | 142,518 | 142,518 |
| Purchase of treasury shares | | | | | | | | | |
| Disposal of treasury shares | | | 287 | 287 | | | | | |
| Net changes in items other than shareholders' equity | | | | | | | | | |
| Total changes in items during period | — | — | 287 | 287 | — | (42) | — | 92,829 | 92,787 |
| Balance at end of current period | 85,032 | 82,977 | 2,248 | 85,225 | 6,066 | 3,867 | 146,210 | 488,602 | 644,746 |

| | Shareholders' equity | | Valuation and translation adjustments | | | Share acquisition rights | 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 | (2,582) | 719,347 | 56,850 | (425) | 56,424 | 1,720 | 777,493 |
| Changes in items during period | | | | | | | |
| Dividends of surplus | | (49,730) | | | | | (49,730) |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | — | | | | | — |
| Profit | | 142,518 | | | | | 142,518 |
| Purchase of treasury shares | (0) | (0) | | | | | (0) |
| Disposal of treasury shares | 326 | 613 | | | | | 613 |
| Net changes in items other than shareholders' equity | | | (27,695) | 134 | (27,561) | 165 | (27,395) |
| Total changes in items during period | 325 | 93,400 | (27,695) | 134 | (27,561) | 165 | 66,004 |
| Balance at end of current period | (2,256) | 812,748 | 29,154 | (291) | 28,862 | 1,886 | 843,497 |

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 bonuses for directors (and other officers)

The provision for bonuses for directors (and other officers) 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 (10 years), which is within the average remaining service period of employees at the time of recognition, and the allocated amounts are expensed from the fiscal year following the respective fiscal year of recognition. Prior service costs are amortized by the straight-line method over a certain period (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 borrowings 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.

(3) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

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

Notes to the Non-Consolidated Balance Sheet

1. Assets pledged as collateral and corresponding secured debt

| | |
|--|-------------------|
| Assets pledged as collateral for borrowings advanced to investee companies from financial institutions | (Millions of yen) |
| Investment securities | 800 |

| | |
|--|-------------------|
| 2. Accumulated depreciation of property, plant and equipment | (Millions of yen) |
| | 364,752 |

3. Liabilities on guarantee

(1) Guarantees

| | |
|---|-------------------|
| Guarantees on the bank borrowings of the following affiliated companies payable to financial institutions | (Millions of yen) |
| AAF S.A.U | 812 |
| American Air Filter Brasil Ltda. | 206 |
| AAF International Air Filtration Systems LLC | 117 |
| Goodman Global, Inc. | 104 |
| Daikin McQuay ArCondicionado Brasil Ltda | 32 |
| Three (3) other companies | 25 |
| Total | 1,298 |

(2) Commitments to guarantee

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

| | |
|--|-------------------|
| | (Millions of yen) |
| Daikin Airconditioning Philippines, Inc. | 3,103 |
| AAF-McQuay UK Limited | 2,522 |
| Daikin Applied Americas Inc. | 2,432 |
| AAF S.A.U | 1,422 |
| Airmaster Corporation Pty Ltd. | 470 |
| Nine (9) other companies | 1,197 |
| Total | 11,149 |

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

| | |
|---------------------------------|-------------------|
| | (Millions of yen) |
| Short-term monetary receivables | 183,983 |
| Short-term monetary payables | 83,634 |
| Long-term monetary payables | 9 |

Notes to the Non-Consolidated Statement of Income

Volume of transactions with affiliated companies

| | |
|----------------------------|-------------------|
| | (Millions of yen) |
| Operating transactions | |
| Sales amount | 411,680 |
| Purchase amount | 138,785 |
| Non-operating transactions | 153,173 |

Notes to the Non-Consolidated Statement of Changes in Equity

Type and number of shares of treasury shares as of March 31, 2020

Common shares: 524,997 shares

Tax Effect Accounting

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

(Millions of yen)

Deferred tax assets:

| | |
|------------------------------------|----------|
| Investment securities | 20,568 |
| Software and other assets | 10,207 |
| Provision for bonuses | 2,445 |
| Inventories | 2,429 |
| Provision for product warranties | 1,663 |
| Enterprise tax payable | 848 |
| Provision for retirement benefits | 576 |
| Allowance for doubtful accounts | 143 |
| Long-term accounts payable – other | 84 |
| Other | 1,473 |
| Subtotal of deferred tax assets | 40,441 |
| Less valuation allowance | (22,216) |
| Total deferred tax assets | 18,224 |

Deferred tax liabilities:

| | |
|---|----------|
| Valuation difference on available-for-sale securities | (9,843) |
| Prepaid pension cost | (3,731) |
| Reserve for tax purpose reduction entry of non-current assets, etc. | (1,705) |
| Total deferred tax liabilities | (15,279) |
| Net deferred tax assets (liabilities) | 2,944 |

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 | 30.6 |
| (Reconciliation items) | |
| Dividends income and others that are permanently excluded from taxable income | (17.6) |
| Foreign income tax withheld relating to dividends from foreign subsidiaries | 4.2 |
| Tax credit for experimentation and research expense, etc. | (3.3) |
| Valuation allowance | (0.7) |
| Unrecognized tax effect on foreign income tax credit | (0.5) |
| Entertainment expenses and others that are permanently excluded from taxable loss | 0.4 |
| Per capita inhabitant's tax | 0.1 |
| Other | (0.3) |
| Actual effective income taxes rate after the adoption of tax-effect accounting | 12.9 |

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 Group Holdings, Co., Ltd. | 0.00 (held) | Commissioned removal and merchandise distribution business (Notes 1, 2, 3) | 465 | Accounts payable – other, and accrued expenses | 39 |

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) | 73,177 | Accounts receivable – trade | 6,289 |
| | Goodman Global Group, Inc. | 100% (indirectly holding) | Loan | Loan (Note 4) | 24,325 | Short-term loans receivable | 21,766 |
| | | | | Loan | — | Long-term loans receivable from subsidiaries and associates (incl. current portion) | 108,830 |
| | | | | Repayment of loan | 16,491 | | |
| | | | | Interest income (Note 3) | 4,231 | Other current assets | 981 |
| | Daikin Applied Americas Inc. | 100% (indirectly holding) | Loan | Loan (Note 4) | 15,654 | Short-term loans receivable | 19,045 |
| | | | | Interest income (Note 3) | 619 | Other current assets | 61 |
| | American Air Filter Company, Inc. | 100% (indirectly holding) | Loan | Loan (Note 4) | 22,214 | Short-term loans receivable | 23,942 |
| | | | | Interest income (Note 3) | 1,107 | Other current assets | 82 |
| | Daikin McQuay ArCondiciona do Brasil Ltda | 100% (directly holding) | Capital increase | Underwriting of capital increase | 15,296 | — | — |

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: | ¥2,876.43 |
| Earnings per share: | ¥487.16 |

The above represents a translation, for reference and convenience only, of the original notice issued in Japanese. We did our utmost to ensure accuracy in our translation and believe it to be of the highest standard. However, due to differences of accounting, legal and other systems, as well as of language, this English version might contain inaccuracies and therefore might be inconsistent with the original intent imported from the Japanese. In the event of any discrepancies between the Japanese and English versions, the former shall prevail as the official version.