



# Integrated Report 2022

Fiscal Year Ended March 31, 2022

## Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth

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

In keeping with our Core Values of Absolute Credibility, Enterprising Management, and Harmonious Personal Relations, and based on our very own approach to diversity management, we have continued to grow and develop as an organization by ambitiously pursuing our goals together as a Group and demonstrating the ability to fully carry out our duties.

In light of the drastically changing business environment, the Daikin Group will work to refine its long-cultivated strengths to continue to create new value and, in turn, help resolve social and environmental issues while further growing and developing its businesses.



### Our Core Values

Absolute  
Credibility

Enterprising  
Management

Harmonious  
Personal  
Relations

### Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers
2. Contribute to Society with World-Leading Technologies
3. Realize Future Dreams by Maximizing Corporate Value
4. Think and Act Globally
5. Be a Flexible and Dynamic Group
  - ① Flexible Group Harmony
  - ② Build Friendly yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit
6. Be a Company that Leads in Applying Environmentally Friendly Practices
7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust
  - ① Be Open, Fair, and Known to Society
  - ② Make Contributions that Are Unique to Daikin to Local Communities
8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group
  - ① The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development.
  - ② Pride and Loyalty
  - ③ Passion and Perseverance
9. Be Recognized Worldwide by Optimally Managing the Organization and Its Human Resources, under Our Fast & Flat Management System
  - ① Participate, Understand, and Act
  - ② Offer Increased Opportunities to Those who Take on Challenges
  - ③ Demonstrate Our Strength as a Team Composed of Diverse Professionals
10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

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### Key External Recognition

- Selected for inclusion in the MSCI ESG Leaders Indexes



- Selected for inclusion in the MSCI Japan Empowering Women Index (WIN)

2022 CONSTITUENT MSCI JAPAN  
EMPOWERING WOMEN INDEX (WIN)

- Selected as a leading global company for climate change measures in CDP's climate change A List, the program's highest recognition



- Selected for inclusion in the MSCI Japan ESG Select Leaders Index

2022 CONSTITUENT MSCI JAPAN  
ESG SELECT LEADERS INDEX

- Selected for inclusion in the FTSE Blossom Japan Sector Relative Index



- Awarded five stars, the highest rating, and the NIKKEI Smart Work Grand Prize 2022 in the Fifth NIKKEI Smart Work Management Survey, a program sponsored by Nikkei Inc., which assesses companies on the variation and flexibility of their work practices



### Editorial Policy

In compiling this report, we referred to the International Integrated Reporting Framework of the IFRS Foundation, the Guidance for Collaborative Value Creation issued by Japan's Ministry of Economy, Trade and Industry, and other guidelines. We have published this report to provide all of our stakeholders with detailed information on the Daikin Group's strengths and business model, its unique corporate culture, and its growth strategies for realizing medium- to long-term growth and development.

### Scope of Coverage

This report covers Daikin Industries, Ltd., and its consolidated subsidiaries. Environmental performance data, however, covers four production bases of Daikin Industries, Ltd., eight production subsidiaries in Japan, and 58 production subsidiaries overseas.

In this report, "the Group" refers to the Daikin Group overall, while "the Company" refers to Daikin Industries, Ltd.

### Period of Coverage

This report covers the period from April 1, 2021 to March 31, 2022 (fiscal 2021)

### Forward-Looking Statements

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

## History of the Daikin Group



Founder Akira Yamada



Aircraft radiator tubes manufactured at the time of the Group's founding

### Our Founding

Akira Yamada, the founder of Daikin's predecessor Osaka Kinzoku Kogyosho Limited Partnership, joined a private company as an engineer after working at the Osaka Artillery Arsenal. Despite a flood of orders for radiator tubes used on aircraft in 1923, the company's management board at the time was reluctant to take on this business due to its poor financial situation. Nonetheless, convinced that the business would be a success, Yamada made it clear that he would take full responsibility for it and accepted orders for the radiator tubes on the condition that he would establish his own factory and assume production as a subcontractor. This factory laid the foundation for the establishment of Osaka Kinzoku Kogyosho. Despite being a company that specialized in metals, it funneled efforts into the research and development of chemicals thereafter, becoming the first to successfully produce freon in Japan. The development of our very own freon refrigeration technology and fluoropolymers paved the way for the establishment of the backbone of our core business today, the Air Conditioning Business.

### Our Three-Pillar AC Business Plan and Global Expansion

After the collapse of the bubble economy in the early 1990s, Daikin continued to report losses in the areas of residential air conditioners and central air-conditioning systems for factories and buildings. Moreover, the domestic market for air conditioners, including for commercial use, had already matured by that time. In light of this situation, the then chairman Noriyuki Inoue, who had been recently appointed president, set out to pursue the overseas market.

With the exception of the United States, air conditioners were not commonly used outside of Japan at the time. Moreover, Daikin and one other company were the only suppliers in the world of air conditioners for residential, commercial, and factory and building use. Inoue believed that directing Daikin's attention to factory and building, and residential use more than ever and uniting the strengths of its three business segments would clear the path to Daikin becoming the world's leading comprehensive manufacturer of air conditioners.

To that end, our Three-Pillar AC Business Plan was formulated with a view to harmoniously promoting the growth of our three business segments. In addition, to ensure the effectiveness of this plan, we made a series of major decisions that would turn out to be pivotal points in our history, including advancing into the Chinese market, expanding our European business, and conducting mergers and acquisitions (M&As) overseas, thereby establishing the platform for our growth into a global leader in the industry.



1924

Founding of Osaka Kinzoku Kogyosho Limited Partnership

1935

Development of Japan's first fluorocarbon refrigerant

1951

Launch of Japan's first packaged air conditioner

1958

Entry into the room air-conditioning business

1982

Launch of Japan's first multi-split air-conditioning system for buildings

1999

Launch of Ururu Sarara, the world's first waterless humidifying room air conditioner

2007

Acquisition of OYL Group, a major global air-conditioning manufacturer

2008

Business alliance with Gree Electric Appliances, China's top air-conditioning manufacturer

### The Foundation of a Sales Network That Has Overcome a Series of Hardships

Over the first 50 years from our founding, we had to significantly reduce our workforce on three separate occasions as a result of recurring financial crises. Moreover, due to the effects of the first oil crisis, in 1975 we failed to turn a profit for the first time in a quarter century and were excessively overstaffed.

It was in these circumstances that the then president Minoru Yamada put forth the Declaration for Avoiding Employee Layoffs and a large number of employees were reassigned from the manufacturing division to the sales division with a view to retaining personnel and ensuring business continuity. Through this collective effort, the employees who were reassigned to the sales division established the foundation for Daikin's robust sales network in Japan.

### A Leading Air Conditioner Company

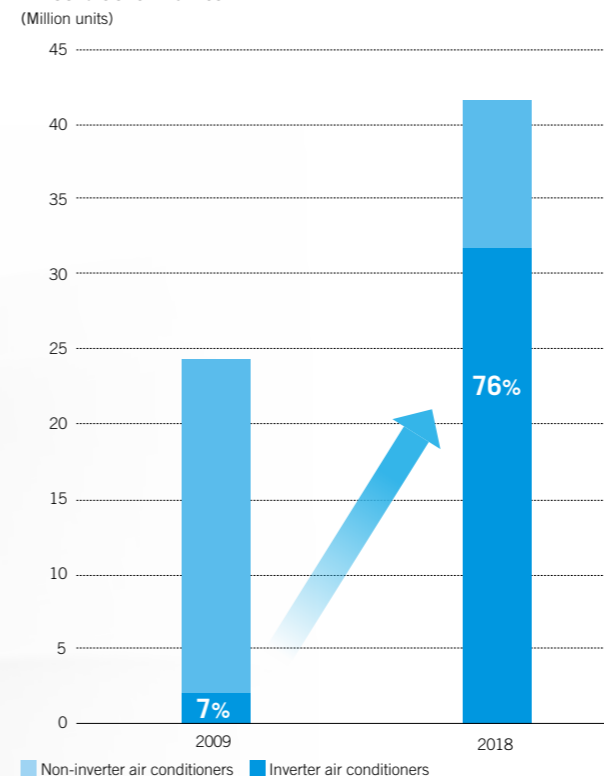
Daikin has spearheaded the growth of the air conditioner industry through the introduction of innovative products and technologies including those that were firsts in Japan, including packaged air conditioners that operate at the touch of a button (released in 1951), and multi-split air-conditioning systems for buildings (released in 1982). Our greatest invention, however, is Ururu Sarara, Daikin's flagship product. Released in 1999, this room air conditioner can control humidity levels without the need for a water tank by drawing in moisture from the outside air. By using a reheat dehumidification system it can also dehumidify room air without lowering the room temperature.

As a global leader in the air conditioner market, Daikin draws on its one-of-a-kind technology to continue to develop environment-friendly products and is cherished by its customers in the over 170 countries in which it currently operates.



Ururu Sarara, the world's first room air conditioner capable of humidifying the air while heating it without the need for a water tank

### Inverter Air Conditioners as a Percentage of China's Residential Air Conditioner Market



### Our Ambitious Pursuit of the Chinese Market

In 2008, inverters, one of our core technologies at the time, were a crucial element of our business strategy as the shift to more energy-efficient air conditioners played a major role in addressing the intensifying needs for more environmentally conscious products worldwide. This was also the case in China, a market that we could not avoid in our pursuit of becoming the top air conditioner manufacturer in the world.

At the same time, we came to realize that gaining a foothold in China's massive air conditioner market through our efforts alone would be a tall order. Therefore, we formed a business alliance with Gree Electric Appliances, the largest manufacturer of air conditioners in China, for the technology transfer of affordably priced inverter air conditioners. As a result, the use of inverter air conditioners, which offer exceptional environmental performance, caught on right away in China.



Reaching agreement with Gree Electric Appliances for outsourced production of inverter air conditioners

Introduction

History of the Daikin Group

Full-Fledged Entry into the U.S. Market

With the aim of strengthening our North American business while sustaining our low-priced room air conditioner business and Applied Systems (large-scale central air-conditioning systems), which had been a weakness of ours, in 2007 we acquired O.Y.L. Industries Bhd, a global leader in the manufacture of air conditioners. With a price tag of approximately ¥243.8 billion, this was Daikin's first large-scale acquisition. In 2010, this acquisition served as a springboard for becoming the world's top-selling air-conditioning business.

In North America, however, our presence was still minimal in the world's largest market for air conditioners. Due to the substantial differences in the way air conditioners were designed and sold in this region compared with Japan, tapping into this market on our own was quite a challenge, and we were forced to pull out from both our attempts in 1981 and 1998.

We encountered a turning point, however, when we acquired the Goodman Global Group, Inc. in 2012. Through the participation of Goodman, which boasts the top share of the residential air-conditioning market in North America, the Daikin Group made a full-fledged entry into the residential unitary (central air-conditioning system) market and secured a business platform in North America.



Signing ceremony with O.Y.L. Industries Bhd



Press conference for the acquisition of Goodman Global Group, Inc.

Promoting the Use of R32 Refrigerants

R32 refrigerants are conducive to environmental sustainability with a global warming potential (GWP)\* equivalent to one-third the level of our previous refrigerant, R410A. Despite their low resistance to heat, tests have proven that there are no risks associated with the use of R32 refrigerants, as long as they are handled properly. In 1998, however, R32 was classified as flammable and treated in the same way as hydrogen and propane, according to standards and regulations that classified refrigerants as either flammable or nonflammable, thereby hampering its use in air-conditioning systems.

With the aim of heightening awareness of the safe use of R32 refrigerants, Daikin has been holding conferences around the world on safety and environmental performance and in 2014, was granted approval for a new international standard.

To enhance the profile of its environmental technology utilizing R32 refrigerants in Japan to the rest of the world and to promote refrigerant conversion worldwide, Daikin has granted free access to a total of 93 patents related to the manufacture of R32 air conditioning systems. In 2019, free access was granted globally for all of the patents that had been applied for since 2011.

More than 33 million units of our R32 air conditioners have been sold to date in over 100 countries across the globe. Combined with those of other manufacturers, a total of over 160 million units of R32 air conditioners have been sold, contributing to an estimated reduction of approximately 260 million tons of CO<sub>2</sub> emissions (based on calculations by Daikin as of June 2021).

\* A numerical value representing the potential global warming effect of a greenhouse gas in comparison with CO<sub>2</sub>.

In Pursuit of Further Growth

According to the International Energy Agency (IEA), in 2050, air conditioner demand is projected to more than triple the current level due to the economic growth of emerging countries. The resulting increase in energy consumption and greenhouse gas (GHG) emissions is a major social issue that must be addressed.

At Daikin, we have been pushing forward with a range of measures aimed at realizing carbon neutrality, such as raising the profile of our exceptionally energy-efficient products and promoting the conversion to refrigerants with low GWP.

Going forward, as the world's leading comprehensive manufacturer of air conditioners, we will stand at the forefront of today's environmentally conscious society to help resolve its issues, while at the same time, setting our sights on continuing to expand our business and achieving further growth.

Two Decades of Remarkable Strides

Net Sales

¥538.8 billion FYE 03/2002 → ¥3,109.1 billion FYE 03/2022

Operating Profit

¥42.0 billion FYE 03/2002 → ¥316.4 billion FYE 03/2022

Share Price

¥2,270 FYE 03/2002 → ¥22,410 FYE 03/2022

Market Capitalization

¥598.9 billion FYE 03/2002 → ¥6,568.7 billion FYE 03/2022

Ratio of Overseas Sales

33% FYE 03/2002 → 79% FYE 03/2022

Ratio of Overseas Employees

38% FYE 03/2002 → 84% FYE 03/2022

2012

Acquisition of U.S. residential air-conditioning manufacturer Goodman

Launch of Urusara 7, the world's first residential air conditioner using new R32 refrigerant

2013

Launch in Japan of FIVE STAR ZEAS, R32 refrigerant air conditioners for stores and offices

2014

Launch of cooling-only inverter air conditioners for developing countries

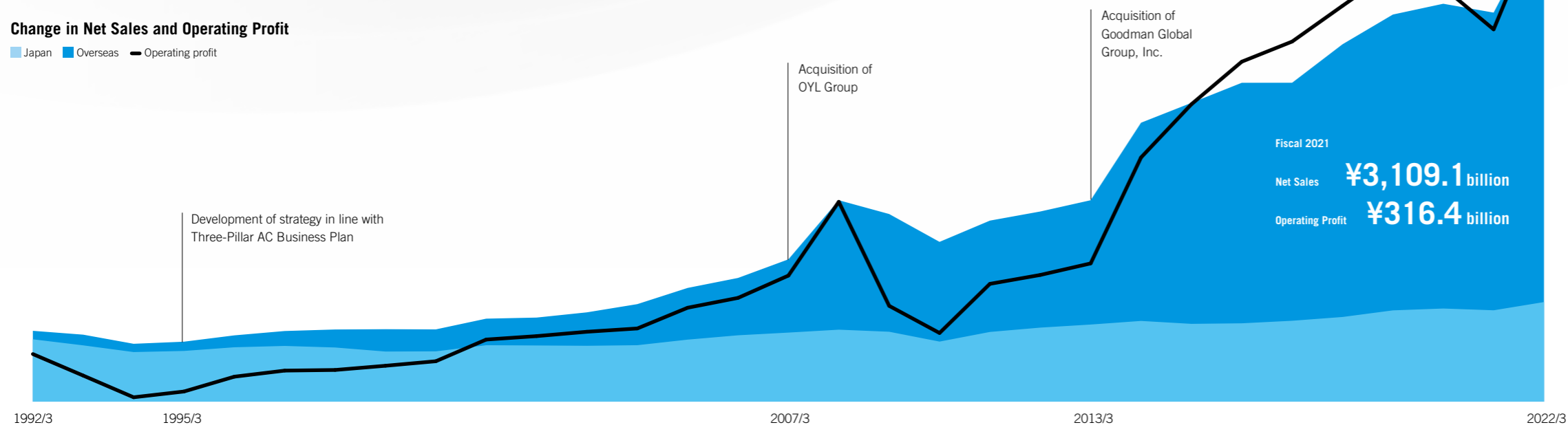
2015

Established technology development base, Technology Innovation Center, and commenced new initiatives to create new value with air through collaboration with academic and research institutions

Granting of worldwide free access to basic patents for using R32 refrigerant

Change in Net Sales and Operating Profit

■ Japan ■ Overseas — Operating profit





**Masanori Togawa**  
President and CEO

We will step up the pace of FUSION 25 even further to realize both contributions to a sustainable society and Group growth.

We have concluded the inaugural year of our FUSION 25 strategic management plan, achieving record-high performances in both operating profit and net sales, which surpassed three trillion yen for the first time in our history.

While the future of our changing business environment remains uncertain, we will steadily seize the opportunities presented by these changes, and speed up the pace of measures to realize our goals for FUSION 25.

In fiscal 2021, we moved forward with a flexible management approach to ensure that we responded quickly to both upswings and downswings in our business environment in light of the uncertainties surrounding the COVID-19 pandemic.

Throughout the year, our business activities were greatly influenced by the ongoing global shortage of semiconductors, inadequate supply of electronic components, and surging raw material prices and logistics costs. Under these circumstances, the Company established seven key themes, including strategic selling price measures, sales expansion and market share increases, variable cost reductions, and fixed cost reductions, and incorporated them into specific measures that were thoroughly implemented in a timely manner.

Owing to these measures, we achieved record-high performances in both operating profit and net sales, which surpassed three trillion yen for the first time in our history.

### After Year One of FUSION 25

Our first FUSION strategic management plan was unveiled in 1996. This series of execution-oriented management plans emphasize not only the achievement of qualitative goals but also the fulfillment of commitments to numerical results. The term “FUSION” was adopted in reflection of our commitment to realizing profits in the short term and growth and development over the medium to long term, or, in other words, the fusion of these two timelines. While profits could be made in the short term simply by reducing investments, this would come at the expense of our future growth. Our management must consider the means by which we will balance the pursuit of short-term profits with medium- to long-term growth.

Moreover, “FUSION” also refers to the consolidation of our Group companies. In general, as organizations get larger, barriers begin to form within the organization. As of today, the Company consists of 322 consolidated subsidiaries, of which 292 companies (91%) are based overseas. It is imperative that we remove the barriers that exist within the Group, align the vectors of our organization, and enhance our ability to execute through a collective Groupwide effort.

Even if we were to establish a plan for five years down the line when formulating our FUSION strategic management plan, our business environment would change constantly over time. While setting aside our ultimate goal for five years forward, we establish specific numerical targets and an action plan for the first three years. Two years into this plan, we then establish a plan for the remaining three years, consisting of specific targets and an action plan that we will work to achieve. This is the concept behind our FUSION strategic management plan.

Over the years, our FUSION formulation process has centered on the direction that the Group must take for it to realize its vision five years into the future, starting from the present and taking into account potential changes in our market and customers and the trends of our competitors. In formulating FUSION 25, however, we looked ahead to how the world would change 10 to 20 years from now and where we wanted the organization to be at that time. By backcasting from this scenario, we considered the measures that we needed to take now and

set specific themes to be addressed over the five-year period of FUSION 25. At Daikin, we are committed to continuing to expand our business and grow and develop as an organization while helping to resolve social and environmental issues over this five-year period. Based on this commitment, under FUSION 25, we have set the goal of realizing both contributions to a sustainable society and Group growth and declared three growth strategy themes: “Challenge to achieve carbon neutrality,” “Promotion of Solutions Business connected with customers,” and “Creating value with air,” which I will briefly explain hereafter.

I would first like to talk about “Challenge to achieve carbon neutrality.” With expectations on society in general to take measures toward decarbonization, we believe that we have a significant social responsibility to fulfill in resolving environmental issues as the world’s only manufacturer of both air conditioners and refrigerants. Our ultimate goal is to realize net-zero GHG emissions. Prior to achieving this goal, we will strive to realize the targets that have been laid out in FUSION 25 of reducing net GHG-emissions by 30% in 2025 and by 50% in 2030 as compared with emissions in the case of normal business growth without implementing any countermeasures, with 2019 as the baseline year.

Our efforts will specifically center on continuing to expand sales of heat pump space and water heaters, inverters, and other energy-saving equipment, in order to reduce energy use and contribute to reductions in GHG emissions. Furthermore, we are promoting the shift to refrigerants with low GWP and the refrigerant eco-cycle of recovery, reclamation, and destruction, while proceeding with measures to reduce GHG emissions throughout our manufacturing processes.

## Message from the CEO

Among our current lineup of business segments, the Heat Pump Space and Water Heating Business in Europe has the greatest influence on our challenge to achieve carbon neutrality. In Europe, the introduction of the European Green Deal policy in 2019 has accelerated the movement toward decarbonization, despite the region's widespread use of combustion heating, which generates high levels of CO<sub>2</sub> emissions. Heat pump heaters were used by approximately 10% of consumers at the start of FUSION 25. However, we are now seeing a rapid shift from the use of combustion heaters to heat pump space and water heaters, due in part to the granting of subsidies. With demand expected to increase substantially over the next 10 years, we are in the process of expanding our supply system with a new factory in Poland due to commence operations in 2024.

With respect to our second growth strategy, the "Promotion of Solutions Business connected with customers", it is essential that we continue to strengthen our approach to this growth strategy. Because we are a manufacturer whose business centers on air conditioners, equipment sales still remain the main source of our earnings. In order to expand our Solutions Business, which centers on services and maintenance, we must first increase sales of heat source equipment and solidify our customer base. Whether it be a hospital, school, office, or data

center, specific needs vary with each customer. In addition to selling equipment to dealers, we must increase our points of contact with customers through our sales and service network. Only then can we respond to diverse needs and propose solutions of high added value. For that reason, we are working to acquire new sales and service companies and expedite the reinforcement of our sales and service network.

In terms of the Air Conditioning Business in North America, which we have identified as a focus region, the service solutions businesses of the three leading air conditioning manufacturers in the United States, which we regard as our competitors, account for 60% of their respective net sales, which is well above the 35% of net sales accounted for by our Solutions Business. Going forward, we will enhance the growth of our Solutions Business to expand our presence in the North American market.

I will now turn to our third growth strategy, "Creating value with air." When it comes to air quality, customers expect safety and reliability as well as comfort and health. The COVID-19 pandemic has reminded us that such values are simply irreplaceable. We will anticipate the changes in the value expected by customers for air and devote our attention not only to sales of air conditioners but also the intrinsic value of air in

terms of temperature, humidity, air purification, and airflow. In other words, we will funnel our efforts into both our manufacture of products and our creation of experiences with air.

The respective markets of our air purification and ventilation sectors have flourished on the back of higher demand arising from the COVID-19 pandemic, while the Company has also benefited as a result, through brisk sales of its air purifiers. We believe that our air- and ventilation-related businesses can achieve tremendous growth over the medium term through the timely introduction of products that cater specifically to the needs and regulations of each country.

Over the long run, the growth of our business will hinge on our ability to ensure health, comfort, and happiness for customers. For instance, by using our own air conditioning data in combination with biometric data acquired through a joint effort with other

organizations in the healthcare domain, we may be able to provide air that caters specifically to the needs of each individual to help ensure healthy lives and enhance sleep quality, learning potential, and productivity. We will continue to pursue new possibilities for creating value with air while working alongside universities, research institutes, and other companies to take on the challenge of creating new value that is essential to society.

Strategic Management Plan FUSION 25 ▶ Page 28

## Transforming Our Business Model through Digital Technology

Under FUSION 25, we plan to invest ¥137.0 billion in digital technology over a period of three years through to fiscal 2023. Digital technology will be utilized particularly for the two themes put forth in FUSION 25—business innovation and process innovation.

Under business innovation, we will look to create new businesses and expand existing ones through the use of digital technology. The world is undergoing rapid changes and so too is the playing field for the Air Conditioning Business. For instance, due to the advancement of the Internet of Things (IoT) and artificial intelligence (AI), we are already starting to see a future in which people's lives are being controlled by platform providers in a number of consumer electronics. So, what exactly is business innovation when it comes to air conditioning? Business innovation offers the possibility of performing our optimal energy management processes automatically, through the use of our abundant air conditioner operation data. This entails the combining of our building, spatial, and various other kinds of data. We are also involved in joint projects with homebuilders and it is critical that the data we accumulate is used effectively to transform our business going forward.

As for process innovation, we will work to shorten development lead times and enhance supply chain efficiency with a view to further solidifying our management foundation. We will work to eliminate fixed ideas attached to each department and radically reform our production, development, and indirect operations.

Our employees are the key to proceeding further ahead with digital transformation. No matter how great your strategy is, you will not get anywhere without the people who will implement it. However, the reality is that securing highly skilled individuals

who are well versed in digital technology is not as easy as it sounds. For this reason, in 2017 the Company established Daikin Information and Communications Technology College to develop its own team of IoT and AI specialists who are familiar with air-conditioning technology. New employees who enroll in the college fully devote their time to acquiring basic knowledge of AI and to understanding the use of AI technology over a period of two years, without engaging in day-to-day business. As of March 2022, 300 employees have graduated from the program and are currently working in their respective departments. In addition to this program for new employees, we are developing programs for general employees and management aimed at accelerating the development of IoT and AI specialists at each level of the organization and developing 1,500 digital human resources\* by the end of fiscal 2022. Graduates of the program are already thriving as the centerpieces of our process innovation in their respective departments.

Our challenge going forward is to develop employees who are well versed in digital technology and who also have an in-depth knowledge of our business.

\* Innovators in digital technology and AI with the ability to put their specialized knowledge into action and inspire others around them to do the same

Strengthening Our Human Resource Capabilities ▶ Page 38



**Daikin's Social Responsibilities**

In 2018, the Company introduced its Environmental Vision 2050 with the aim of realizing net-zero GHG emissions by 2050. The IEA expects a rapid increase in global air conditioning demand by 2050, particularly in markets such as China, India, and Africa, whereas global electricity demand arising from the needs for cooling is expected to triple from 2015 levels. The demand for electricity will increase three-fold as long as the energy efficiency of the air conditioners being used remains the same. However, in order to help ensure a comfortable and financially sound lifestyle for everyone while realizing a carbon-neutral society, we must find a way to suppress this increasing demand for electricity.

We will continue to evolve and promote the widespread use of our exceptionally energy-efficient products and technologies to address the increasing demand for air conditioning and contribute to reductions in GHG emissions. For instance, while almost all of the room air conditioners used in Japan and Europe are equipped with inverters, the more affordable but energy-inefficient non-inverter air conditioners are widely used throughout the rest of the world. To turn this situation around and widen the use of inverter air conditioners, we are embracing the challenge of manufacturing such air conditioners at costs similar to their non-inverter counterparts by downsizing compressors and other components and using less raw materials.

While these ongoing measures are expected to reduce GHG emissions to a certain degree, further innovation is needed to realize a carbon-neutral society. As a part of our mission as an air conditioning manufacturer, under FUSION 25, we are also

engaged in future-oriented research. Through a collaboration between industry, government, and academia, the Company is pushing forward with practical research and development (R&D) on environmental issues, such as the development of CO<sub>2</sub> capture, decomposition, and reuse technologies, magnetic refrigeration systems, and next-generation refrigerants.

At Daikin, we believe that achieving sustainable growth as an organization is impossible without both the creation of profit and contributions to society, including environmental initiatives. Our greatest value comes from being able to grow our business while helping resolve a range of social issues.

The degree to which companies contribute to resolving environmental and social issues has recently become a major factor in students' decisions on their place of employment. We are seeing an increasing number of young people who give serious consideration to how they can contribute to addressing social issues. I believe that extending the overlap between the dreams and aspirations of these individuals and the goals of the organization is also a major role of management.

Daikin's Aims For Value Creation ▶ Page 26

**Example Initiatives under FUSION 25**

**Three Growth Strategy Themes**

<p><b>1. Challenge to achieve carbon neutrality</b></p>	<p>Daikin will aim to achieve carbon neutrality by 2050. We will contribute to solving environmental issues, while at the same time expanding our business, by converting combustion heating to heat pumps, switching to lower GWP refrigerants and working to recover, reclaim, and destroy refrigerants.</p>
<p><b>2. Promotion of Solutions Business connected with customers</b></p>	<p>Daikin will expand the Solutions Business directly connected to customers with a focus on customer needs by application and market, and contribute to solutions to such issues as energy conservation and reducing food loss.</p>
<p><b>3. Creating value with air</b></p>	<p>Daikin will utilize its proprietary air-related technologies and products to significantly grow the indoor air quality (IAQ) and ventilation businesses and address the growing need for safe and reliable air.</p>

**Necessities in Times of Change**

The world has encountered an unprecedented crisis in the form of the COVID-19 pandemic, heralding the age of the "New Normal." In light of these circumstances, I constantly ask myself what I should do as the head of the Company. In order to sustainably grow our business in these times of change, we must determine which changes should and should not be made. Our management philosophy and the culture we have cultivated over the years could very well be defined as the Company's DNA and we must continue to refine them as a source of competitiveness. Meanwhile, it is critical that our strategies and organization evolve in tune with the changes around us.

When adapting to change, the first thing we must do is envision multiple scenarios. Even then, we must be prepared for the unexpected. We must boldly decide on a direction, take action, and adjust our course quickly in response to change. When explaining this to our employees, we use the phrase "second-rate strategy with first-rate execution." While a first-rate strategy with first-rate execution is most certainly ideal, a strategy is meaningless unless it is executed successfully and generates results. We want our employees to understand that execution is our foremost priority, and that "second-rate strategy with first-rate execution" is preferable to a "first-rate strategy with second-rate execution."

To cite some specific examples, looking at the current external business environment, the conflict between Russia and Ukraine has heightened uncertainty about our future. This conflict has had serious implications for the Company in the form of surging costs of raw materials and energy, economic downturn in major markets, and global economic slowdown. Resource prices, logistics costs, and labor costs have soared to unprecedented levels and they must be closely monitored going forward.

Meanwhile, the surging cost of energy suggests a further increase in the need for energy conservation. As a manufacturer of energy-efficient products and services, these increasing needs mean greater opportunities for our business. The demand for heat pump space heaters and inverter air conditioners is projected to rise even further going forward, and we will respond to it in a timely manner.

Just like the famous Japanese saying "a swift wind knows a strong grass," a person's determination and true value come to light in the face of difficulties and hardships and this is no different in the case of the Company. We have framed the drastic changes in our business environment brought about by the COVID-19 pandemic as an opportunity to put Daikin's true value to the test and to reorganize its corporate structure. One of the areas in which we have made particular improvements through our experience with the COVID-19 pandemic is our product development capabilities. Our air conditioners with ventilation functions were released to market ahead of our competitors during the pandemic, and we were highly recognized for our proactive efforts to address the latent need for ventilation. In a business environment where it can be difficult to predict demand for products, this turned out to be a rare occasion where we were convinced that the product would definitely sell if we brought it to market. In order to capitalize on this opportunity, we had to develop these air conditioners as quickly as possible. While ventilation functions had only been offered on Daikin's high-end flagship models until that point, the Company immediately decided on a policy to develop and promote sales of mid- and low-end air conditioners with a ventilation function and proceeded with the development of these products. A process that would usually take 14 months was completed in a mere four months, allowing us to release a series of products designed to address ventilation needs.

Daikin's Organizational Strengths That Have Manifested in the Midst of a Crisis ▶ Page 32



## People Are the Source of Our Competitiveness

I spoke earlier about distinguishing which changes should and should not be made, and one of the things we must not change is our fast and flat organizational culture. The Company's Fast & Flat Management system is a flexible organizational management approach that draws on the advantages of both top-down and bottom-up approaches to management. Top-down decisions are made quickly but they do not necessarily have the support of employees. Conversely, bottom-up decisions are made by the higher ranks of the organization after considering the views of the frontline employees who may therefore be more likely to buy into them. Such decisions, however, take time to make.

Sharing valuable information with all employees on a daily basis is key to making timely decisions and ensuring that employees buy into them. At Daikin, the key details of deliberations at management meetings, including those of the Board of Directors, are shared with all employees whenever possible. Members of senior management and executive officers also ensure that the views of each employee are always heard and taken into consideration, facilitating the immediate communication of information about changes in the business environment from the front lines of our operations. Discussions are held based on the information from the front lines and any matters that arise are resolved by those in charge of decision-making. Once a matter has been discussed and resolved by everyone, the only thing left is to take action. I believe this organizational management approach has become one of our strengths, and spurred a sense of unity between management and employees.

The people in our organization are the source of our competitiveness. Strategies can be executed and changes made only by them. To enable each employee, who we were fortunate to welcome into our organization, to realize, if not the only, then the greatest fulfillment in life, we worked to create a rewarding workplace environment where they can demonstrate their full potential by providing opportunities for growth and facilitating their development. At Daikin, we believe that the sum of the growth of our employees represents the very foundation of the Group's development.

The Group consists of more than 88,000 employees, over 80% of whom are based overseas. The global expansion of our business has increased the diversity of our employees and values. The Company has a unique diversity management system that enables the creation of innovation and the strengthening of Group competitiveness by bringing together employees from various cultures, ethnicities, generations, and lifestyles throughout the world and by drawing on their individualities and respective strengths. In an age where companies are expected to adapt to change, it will become increasingly important to actively engage in

industry-government-academia collaborations and partnerships as well as M&As with venture companies and other organizations and acquire time and human resources so that we continue to create innovation and expedite our business growth. In such cases, our underlying philosophy on human resources and organization management remains unchanged.

We take the time to ensure that a relationship of trust is built with each company that becomes a part of the Group. When it comes to acquisitions in particular, in addition to taking business strategies and synergies into account, we must carefully assess whether Daikin and the company we intend to acquire respect and accept each other's corporate philosophy and culture. Once the acquisition is made, we do not assign a large number of our employees right away, interfere in the management and organizational operations, or impose the Daikin Way on the newly acquired company. Instead, we entrust local management to the management team of the acquired company and actively support the direction they wish to take toward further growth. In so doing, I believe we will be able to complement each other and unite. For instance, when we acquired the OYL Group in 2006, a joint meeting involving the management of both companies was held not in our respective countries of Malaysia or Japan, but rather in Hawaii. There, we held candid discussions on the actual state of both companies and the challenges they faced, as well as our expectations for each other. This allowed management from both sides to open up to each other, and agree to pursue the goal of establishing a new business together. I believe that the value we have placed on building relationships of trust is the reason behind the successful globalization of our business and the expansion of our overseas network.

Furthermore, we have also valued the importance of both cohesiveness and independence in our organizational management. Our overseas business has rapidly expanded through our proactive delegation of authority, enabling the acceptance of local cultures and the development of regionally rooted businesses. While our goal has been to strengthen the independence of our regional businesses through localization and speed up the expansion of our overseas business, there has always been the concern that the Group might fall apart if everything were to be entrusted to our local operations. For this reason, to ensure that our local operations do not lose sight of our direction, the head office shares strategies and information with them and has taken the leading role in managing these companies by demonstrating cohesiveness as a Group, with the aim of optimizing our entire global operations.

Our management team holds manager meetings each year in our respective regions of operation, providing a venue for establishing direct communication with local executives. At these



meetings, discussions are held on local business strategies and the challenges associated with their execution, and sometimes the heads of management make decisions on the spot. Even in these types of settings, we convey Daikin's corporate culture, organizational DNA, tacit knowledge, and other views on organizational management. While the meetings have been held online in recent years due to the COVID-19 pandemic, we have continued to provide opportunities for direct communication between our management team and local executives.

Corporate management is, in essence, the management of people. We believe that the Company's approach of believing in

the potential of its employees, respecting their individualities, and enhancing their respective abilities is something that is appreciated worldwide regardless of differences in language or lifestyle. Through our organizational management that draws on cohesiveness and independence, we will bring out the full potential of each employee and work collectively toward the further growth and development of the Group.

Our Accumulated Strengths ▶ Page 20

## Management's Perspective

When I became president and CEO, Chairman Inoue said that it was the responsibility of the head of the Company to provide answers to questions where there simply were no answers. Since then, I have constantly reminded myself of these words.

We have continued to grow over the years by anticipating the changes in our business environment and remaining one step ahead of our competitors. Having a broad perspective is essential to doing so and this depends on our ability to confront adversity. We must stand at the forefront of our industry and constantly keep track of market trends. In times of drastic change, we must ask ourselves what are the questions that need to be answered and strive to find these answers. This process must be repeated again and again. Whenever there are three possible solutions, A, B, or C, it is important, without a doubt, that these choices are fully examined and discussed. However, if we select A, we must commit to ensuring that A succeeds. Otherwise, we will not achieve any results.

My goal is to ensure that Daikin remains an attractive organization that people want to work for, do business with, and invest in. While it may sound abstract, achieving this aim will entail constantly putting into practice the approaches I have outlined above. Moving ahead, we remain firmly committed to increasing our corporate value by ambitiously pursuing and implementing growth strategies.

We look forward to your continued understanding and support of our business going forward.

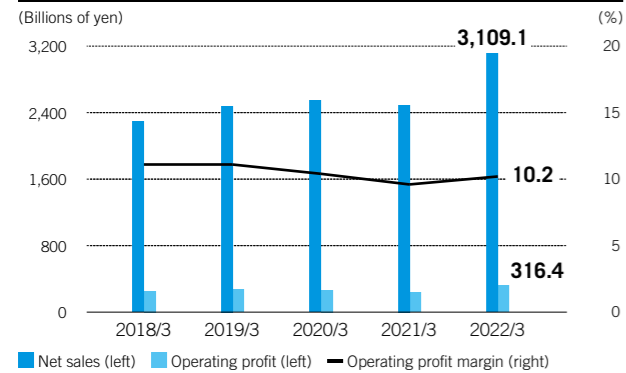
**Masanori Togawa**

President and CEO  
August 2022

# Financial and Non-Financial Highlights

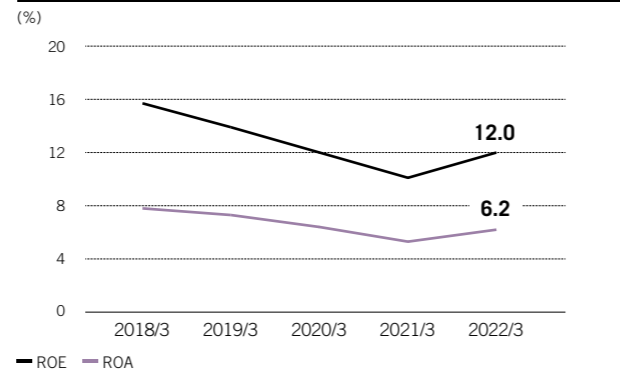
Daikin Industries, Ltd. and Consolidated Subsidiaries / For the Years Ended March 31

## Net Sales / Operating Profit / Operating Profit Margin



In light of our uncertain business environment, we quickly established seven key themes for fiscal 2021 and committed to following through on these themes throughout the year to ensure that we achieved the best results possible. In the process, we were able not only to offset the impacts of cost increases but also to proceed with the enhancement of our management structure with a view to realizing further growth and development.

## ROE / ROA



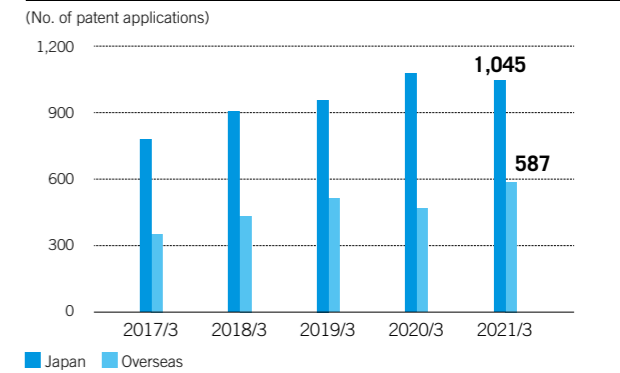
With the expectation that demand will continue to increase going forward in the Air Conditioning Business, we will look to aggressively engage in R&D and capital investments, acquisitions, and other strategic investments. Through the steady flow of returns from these investments, we will aim to continue to enhance our business results and our ROE/ROA.

## Cash Dividends per Share / DOE / Dividend Payout Ratio



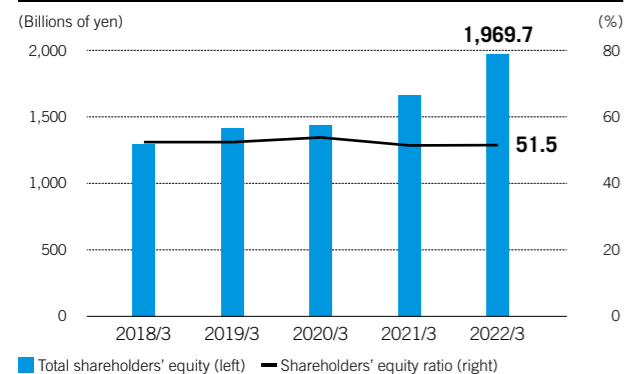
In addition to making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% or higher based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly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

## Number of Patent Applications



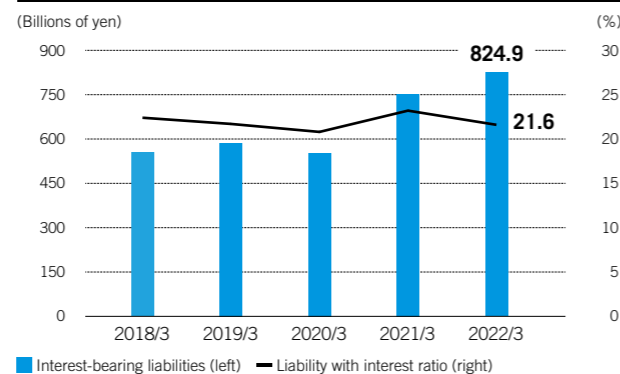
Daikin is working to stimulate employees' motivation to invent, spur the creation of intellectual property, increase the quality and quantity of patents in competitive fields, and increase the number of overseas patents in key technological fields, in particular in emerging countries. Note: The latest figures are for the fiscal year ended March 31, 2021.

## Total Shareholders' Equity / Shareholders' Equity Ratio



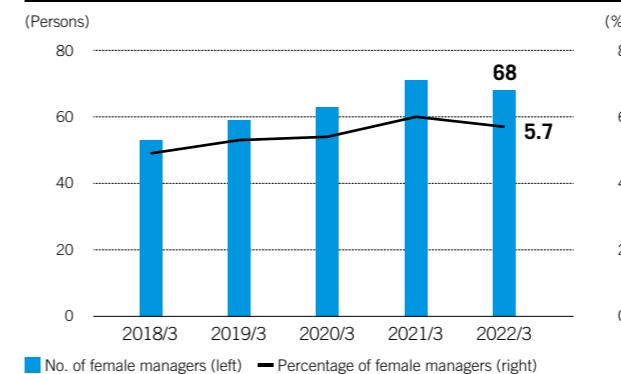
Daikin's shareholders' equity ratio came in at 51.5% for fiscal 2021, exceeding 50% for the fifth consecutive year. The Company is taking positive steps to ensure its financial stability.

## Interest-Bearing Liabilities / Liability with Interest Ratio



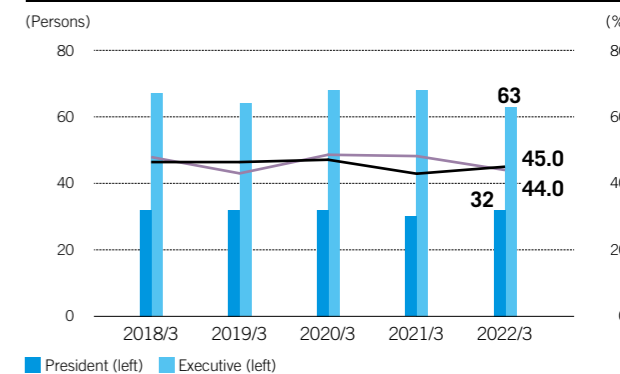
We are working to reduce the balance of interest-bearing liabilities by generating free cash flow and making effective use of Group funds. In preparation for contingencies coinciding with the COVID-19 pandemic, we have been reinforcing cash and cash equivalents through long-term borrowings since fiscal 2020.

## Number and Percentage of Female Managers



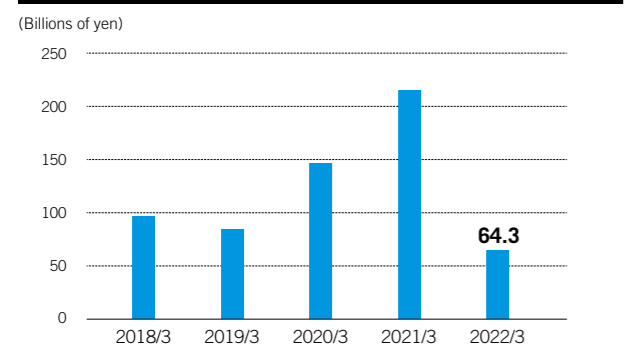
One of the Company's most important policies revolves around the empowerment of women in its workforce. Daikin is implementing various measures to accelerate the development of women in management and executive positions, change the mindset of men in management, and support the early return to work of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

## Number and Percentage of Presidents and Executives of Overseas Bases Who Are Local Nationals



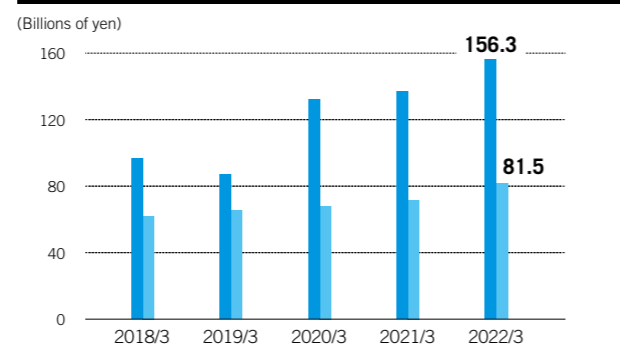
As Daikin's business globalizes, the Company is actively promoting more employees at overseas bases to managerial positions. Among the initiatives we have implemented is the Next-Generation Executive Development Program, which aims to continuously develop global business leaders.

## Free Cash Flow



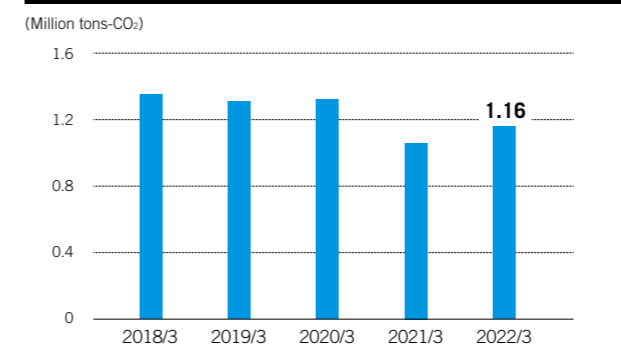
In addition to increasing earnings and improving investment efficiency, efforts are also being made to generate cash flow from a working capital perspective. This includes thoroughly reducing the balances of accounts receivable and inventory.

## Capital Investments / R&D Expenses



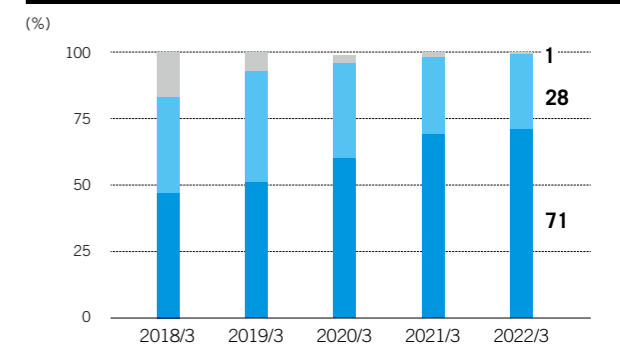
From a capital investment perspective, energies are being directed toward upgrading and expanding sales networks and constructing new plants and enhancing existing ones. We are also boosting production capacity, focusing on emerging countries and key markets where there has been remarkable growth. As far as R&D expenses are concerned, Daikin recognizes that strengthening technological competitiveness is the lifeblood of a manufacturer. On this basis, the Company is coordinating with its eight development bases worldwide and the Technology and Innovation Center (TIC) that serves as the Group's development control tower, and is accelerating the development of distinctive technologies and products, including those for addressing global environmental problems.

## GHG Emissions (From Development and Production Processes)



Aiming to lower GHG emissions from our manufacturing processes (development and production) to 1.2 million tons-CO<sub>2</sub> by fiscal 2025, we were able to reduce GHG emissions to 1.16 million tons-CO<sub>2</sub> (a 36% reduction from fiscal 2015 levels) in fiscal 2021.

## Environmentally Conscious Products\* as a Percentage of Sales Volume (Residential-Use Air Conditioners)



\*Environmentally conscious products: A generic term that covers Super Green Products and Green Products. Products that satisfy all of the conditions below qualify as Super Green Products while products that meet at least one of these conditions classify as Green Products:  
 • Reduction in electricity use by at least 30% compared with conventional products  
 Example: Inverter air conditioners  
 • Use of refrigerants with less than one-third the GWP of conventional refrigerants  
 Example: Air conditioners using low-GWP R32 refrigerant

## Our Value Creation Process

Drawing on its accumulated strengths and unique business model, the Daikin Group is striving to resolve environmental and social issues through its business activities. We are aware that the key themes declared in Strategic Management Plan FUSION 25 are priorities for management. Accordingly, we will address these themes over a period of five years, providing new value that contributes to the realization of a sustainable society and the continuous growth of our business.



FUSION 05 Securing of our management foundation

FUSION 10 Management innovation

FUSION 15 Acceleration of growth

FUSION 20 Business domain expansion / business structure conversion, and enhancement of existing businesses

# FUSION 25

**Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth**

Based on a backcasting approach that uncovers solutions and issues with the ideal state of the Daikin Group as the starting point, we established specific themes to address over the five-year period of FUSION 25.

### Three Growth Strategy Themes



### One Theme for Focus Regions



### Five Themes to Enhance the Management Foundation



Please refer to page 28 for details.

**Daikin's Aims for Value Creation**

**We will provide new value in the form of healthy and comfortable lifestyles and spaces while helping realize a better environment.**

Please refer to page 26 for details.

## Our Accumulated Strengths

The unique strengths that are an integral part of Daikin today have been accumulated through its years of experience in air-conditioning and other businesses since the Company's founding in Osaka in 1924. These strengths are our very DNA and have been passed down and evolved to this day, as our business continues to expand across the globe.

### 1 People-Centered Management

#### A Corporate Culture That Has Stood the Test of Time, After Years in Business

People-Centered Management can be regarded as the tacit knowledge, or even the corporate culture, that has been nurtured through our years in business since our founding. It is deeply ingrained in all of our ideals, including our Core Values, Group Philosophy, and Annual Group Policy.

People-Centered Management is based on belief in the unlimited potential of people, that the source of a company's competitiveness is its people, and that the cumulative growth of each individual is the foundation of a company's growth. It is a line of thinking that draws out the enthusiasm and understanding of the people who work in an organization, and that strengthens and raises the capabilities of the organization by having all members further refine their own individuality, achieve growth, and demonstrate their full potential.

This capitalizing on the diversity in the characteristics and abilities of each and every member as the strength of the organization is precisely the definition of diversity management.

As long as management is a human activity, a company cannot be managed unless emphasis is placed on how to enhance the enthusiasm and understanding of the people who work there. People-Centered Management is the tacit knowledge that our Group has nurtured since its foundation through making serious efforts to prioritize its people.

Every business activity—including strategy execution, various reforms, R&D, production, and sales—is carried out by people who work within the company. Business management depends on the

potential and individualities of the people who take actions as well as the awareness with which they act. At the same time, people rejoice when they are happy, cry when they are sad, trust people at times, and distrust them at other times. While upholding enthusiasm and ambition to grow and succeed, people sometimes fear failure and flinch at taking on a challenge in a new realm. These feelings and emotions are common to all people, regardless of nationality, race, or gender, and transcend differences in culture, customs, and history.

There is not a company in the world that would not say that it values its people. Through genuine efforts to this end, we would like to make People-Centered Management one of the sources of competitive advantage of the Daikin Group.



#### Embracing the Strengths of Our Employees through Annual Manager Meetings Across the Globe

The Daikin Group's workforce comprises over 88,000 employees, more than 80% of whom are based overseas. At the root of our continuous growth as a global company are our employees, who are full of passion and vitality. Unlocking the potential of our overseas employees and using it as a strategy is essential to our business and, as a part of our efforts to that end, we hold manager meetings each year at our business sites across the globe.

At these manager meetings, the senior management and executives of Daikin headquarters in Japan visit our overseas bases to engage in intensive face-to-face discussions with local executives over the course of one or two days. These discussions cover an array of topics that include the perceptions of overseas executives on matters concerning Daikin headquarters and the subtle needs of overseas subsidiaries that are not reflected in their regular business reports. Matters that need to be resolved are addressed during these discussions after listening diligently to the reports of our overseas executives. In addition to such meetings during the day, receptions are held afterwards, where managers and executives can meet informally in a relaxed setting, converse more freely, and get to know each other better.

These management meetings have been held online in recent years due to the effects of the COVID-19 pandemic. While our means of communication has changed, however, the essence remains the same. The accumulation of such efforts leads to the timely development of new products and consistent improvements to our product quality.

### 2 Distinctive Technological Capabilities

#### A Trio of Advanced Core Air Conditioning Technologies Uniquely Developed by Daikin

##### Heat-Pump

Highly promising and energy-efficient technology for absorbing and transferring heat from the air

Using minimal amounts of electrical energy, heat-pump technology is designed to absorb heat from the air and convert it into large amounts of thermal energy for transfer to areas where it is needed. Heat-pump air conditioners produce six times as much thermal energy as the electrical energy they consume.

##### Inverter

Providing even more energy-efficient and comfortable solutions through highly precise control of motors

Inverter air conditioners control their motor rotation speed according to load, enabling optimal control of their heating and cooling capacity. They reduce energy use by 58% compared with non-inverter air conditioners.

##### Refrigerant Control

Controlling the refrigerants that circulate and transfer heat between indoor and outdoor units

Our refrigerant control technology, which is designed to efficiently transfer heat, is the key to our air conditioners' energy-efficient capabilities. Daikin is the first company in the world to establish a technology that controls refrigerants for each indoor unit.

### 3 Globally Expanding Robust Sales Network

#### Expanding Our Business and Developing Our Sales Network in Over 170 Countries Worldwide

With a global network of more than 100 production bases in over 170 countries, the Daikin Group's overseas sales account for 79% of its overall net sales. Behind its ability to maintain a high market share across the globe is Daikin's sales network that has been developed over many years in each region.

Unlike other home appliances, after-sales services, including installation and maintenance, are essential for the use of air conditioners. At Daikin, we value the importance of selling products directly to consumers through our own sales network

rather than relying on outside distributors. Climate and lifestyles differ by country and region and so does the need for air conditioners. Daikin's sales network is an integral part of our global development because it allows us to engage with customers directly and provide products that cater to their diverse needs in a timely manner.

Going forward, we will continue to monitor the conditions in each market and look to strategically acquire more dealerships while reinforcing our sales network.

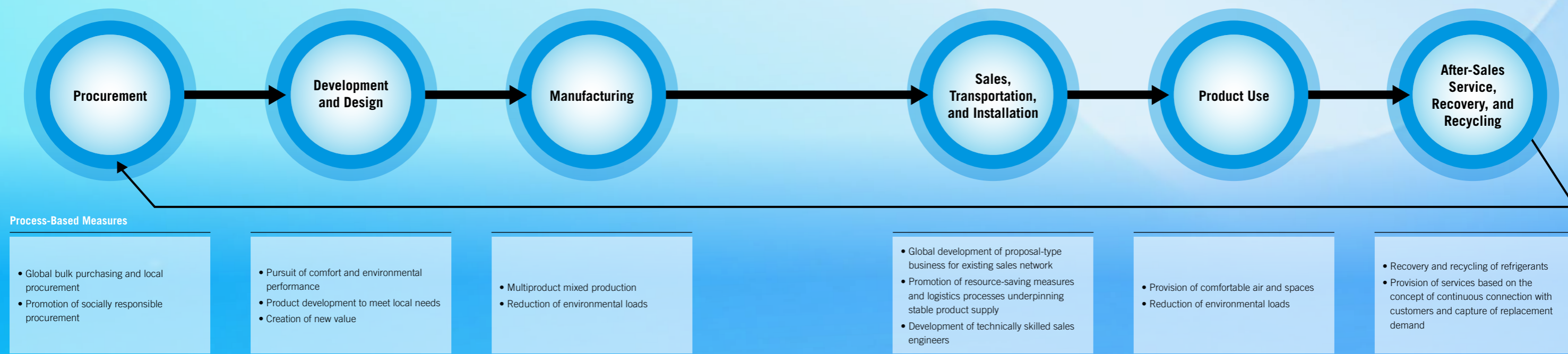
## Daikin's Unique Business Model

The Daikin Group operates its business, which encompasses R&D, manufacturing, and sales and services, in all corners of the globe, with its Air Conditioning Business at the core. By drawing on our accumulated strengths and forging our unique business model, we continue to provide comfortable air to people around the world.

### Overview of Business Activities

Daikin is the only comprehensive air-conditioning manufacturer in the world that specializes both in air-conditioners and refrigerants.

As a manufacturer that engages in the production and sales both of air conditioners and refrigerants, we constantly strive to improve the energy-efficiency of our air conditioners and reduce their environmental impact through the development of new refrigerants and the provision of high-value-added solutions. Moreover, through comprehensive measures such as converting to new refrigerants as well as reducing the charge amount, minimizing leaks, and promoting recovery and recycling methods, we will help resolve social issues through a united Groupwide effort.



### Integrated product development encompassing manufacturing, sales, research, and procurement functions

At Daikin, we draw on the R&D capabilities of our major production bases around the world as well as our integrated product development system, comprising our regional sales and procurement functions, to develop and manufacture products that cater to the diverse needs of each region. Our various divisions that contribute along the process from production through to sales work closely together to consistently monitor the inventory of products and materials. The status of this inventory is reflected in our plans for procurement and production in a timely manner. We work to ensure that opportunities do not go to waste and that our products are delivered to our customers as efficiently and swiftly as possible.

### Vertically integrated production based on in-house production of core parts

The core components of Daikin's air conditioners, including compressors, motors, and printed circuit boards, are all developed and manufactured in-house. This allows us not only to develop elemental technologies but also to build up our bank of technical know-how used in our manufacturing processes. This, by extension, has enabled us to develop and manufacture products in accordance with changes in product standards required by the regulations of each market, the climate and lifestyles of each region, and other customer needs as quickly as possible. In addition, by integrating our in-house production, we have eliminated the possibility of component shortages and excess inventory, thereby working collectively as an organization to efficiently address the highly volatile demand for air conditioners stemming from changing climate conditions.

### Market-localized production based on local production for local consumption

Rather than focusing production specifically in one region, we have established a system in five key regions globally whereby Daikin's procurement, development, and production processes are all conducted in close proximity to our sales markets, allowing us to address the needs of each region. This system has served as a catalyst for the timely supply of products and the adoption of a sales strategy for swiftly addressing changes in regional demand stemming from climate and economic conditions. Moreover, by using the same basic components throughout our global network and centrally managing the entire Group's inventory of products and components, we have been able to minimize the drawbacks that come with the geographic dispersal of production bases, such as by providing products to regions that experience sudden one-off increases in demand and capitalizing on the versatility of our supply of components from production bases.

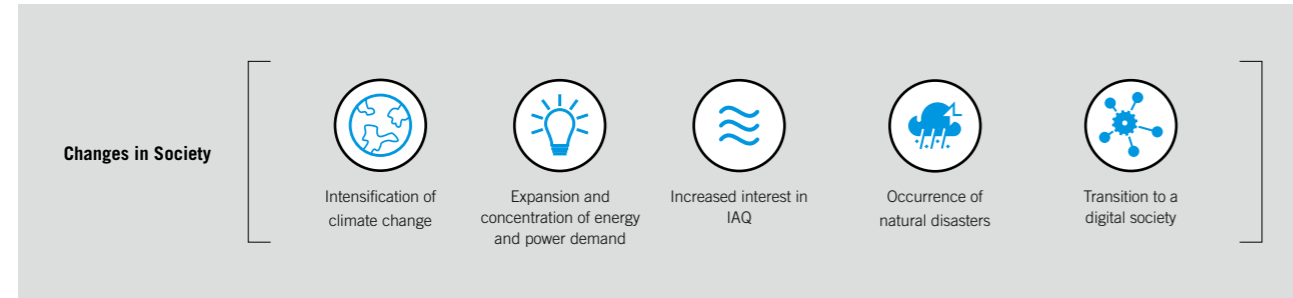
### Robust sales network based on our globally expanding dealer network

Daikin's network of dealers who engage directly with the users of our products play an integral role in addressing the various needs of each region in line with the different climates and lifestyles. Based on a direct-sales strategy that relies on its own sales network, the Group provides dealers with detailed information on the features and added value of products generated by market-localized production, as well as with training on installation and maintenance services. These efforts have led to the establishment of a sales system that extends seamlessly to the provision of installation and maintenance services and to a solid relationship of trust with our dealers.

## Risks and Opportunities That Affect Medium- to Long-Term Value Creation

Based on changes in the external environment, we have identified the important social issues that affect the creation of medium- to long-term value throughout the Daikin Group's value chain, and extracted the risks and opportunities related to each of them.

In order to respond appropriately to the risks and to take advantage of the opportunities as we work to resolve these social issues, we will recognize the strategic themes adopted in our FUSION 25 strategic management plan as management materiality and realize further value creation.



Issues Related to Social Change	
Risks	Responses / Opportunities
<b>Reducing global warming</b> <ul style="list-style-type: none"> <li>Stricter environmental regulations</li> <li>Tight supply and demand for electricity</li> </ul>	<ul style="list-style-type: none"> <li>Development of products, services, and technologies that comply with environmental regulations</li> <li>Development of energy management/sustainable urban development</li> </ul>
<b>Reducing energy/power consumption</b> <ul style="list-style-type: none"> <li>Stricter regulations on energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Acceleration of conversion to inverters</li> <li>Product development and technological innovation excelling in environmental performance</li> <li>Strengthening proposals for environmentally conscious products</li> <li>Strengthening of energy management</li> </ul>
<b>Preventing the spread of infectious diseases and creating value with air</b> <ul style="list-style-type: none"> <li>New regulations on existing air conditioners</li> </ul>	<ul style="list-style-type: none"> <li>Development of products that provide safe and secure air quality</li> <li>Creation of IAQ/air environments (AE) that enrich people's lives</li> </ul>
<b>Responding to supply chain disruptions</b> <ul style="list-style-type: none"> <li>Suspension of plant operations</li> <li>Stagnation of raw material/parts procurement</li> </ul>	<ul style="list-style-type: none"> <li>Stable supply through market-localized production based on local production for local consumption</li> </ul>
<b>Building a business model utilizing digital technology and increasing the efficiency of business processes</b> <ul style="list-style-type: none"> <li>Obsolescence of existing products</li> <li>Lack of human resources with digital expertise</li> </ul>	<ul style="list-style-type: none"> <li>Technological developments, development of products and services, strengthening of sales activities that utilize the IoT/AI</li> <li>Providing solutions for efficient energy management</li> </ul>

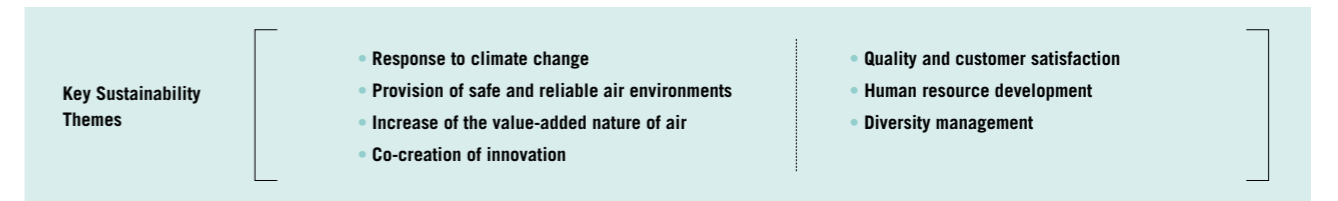
### Identifying Key Sustainability Themes and Incorporating Them into Management Materiality

We assessed the impact of our business activities on society throughout the value chain and identified seven themes that are particularly important both to Daikin and society as key sustainability themes. These themes have also been incorporated into our FUSION 25 strategic management plan as core management materiality themes.

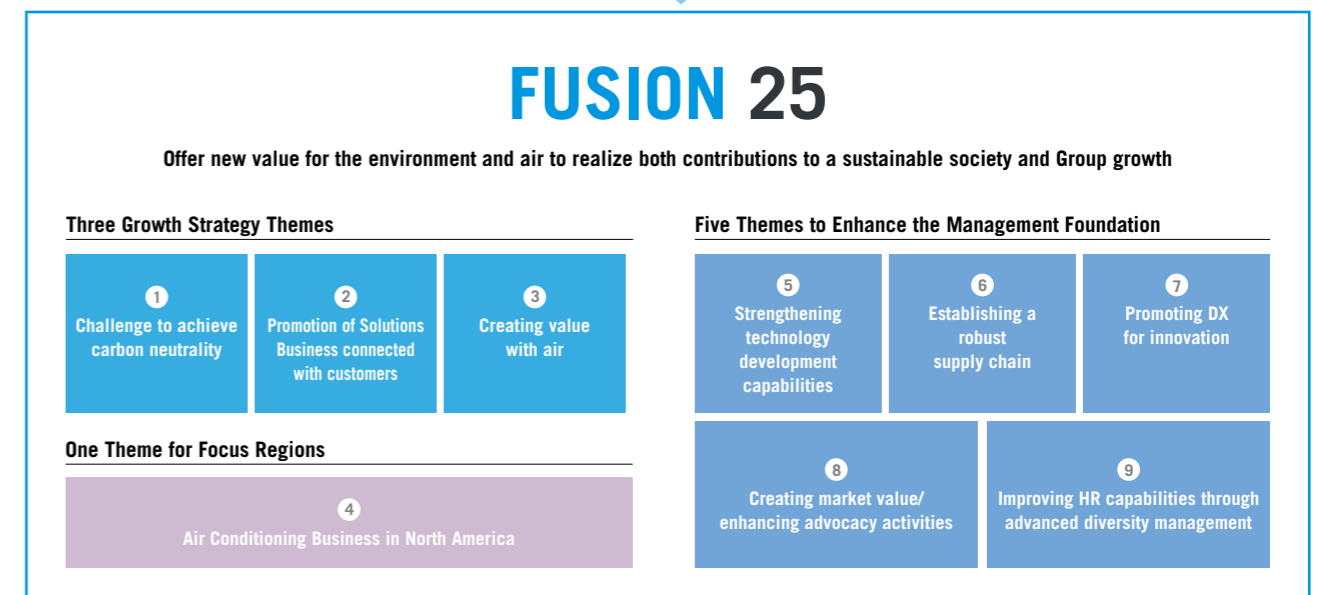
Of these themes, we are monitoring responses to climate change in particular. The surging demand for air conditioners, primarily in developing countries, represents a significant opportunity for a company like Daikin whose business centers on air-conditioning systems. The use of air conditioners helps address both the issue of climate change and the increasing need for air

purification that has arisen as a result of the COVID-19 pandemic. On the other hand, the use of air conditioners also involves certain risks such as GHG emissions generated through the use of energy, and the continuing growth in demand for air conditioners is likely to have even bigger consequences going forward.

At the Daikin Group, we see it as our mission to address the air-related needs of society while contributing to the realization of a carbon-free society. We have adopted the achievement of net-zero GHG emissions as part of our long-term vision and have also incorporated this goal as a core theme in our FUSION 25 strategic management plan.



In our FUSION 25 strategic management plan, we established nine key strategy themes, such as “challenge to achieve carbon neutrality,” based on the changes to our external business landscape, our strengths as an organization, and our key sustainability themes. Through the execution of this management plan, we aim to help build a better society while ensuring the continuous growth of the Daikin Group.



## Daikin's Aims For Value Creation

At Daikin, our goal is to contribute to a greener environment and a society that helps realize healthy and comfortable lifestyles for everyone. Air conditioners, Daikin's flagship product, originated in the early 20th century and revolutionized lifestyles and work settings around the world. The use of air conditioners, however, has spurred increases in the use of electricity and environmental impacts, particularly climate change. For these reasons, Daikin will continue to strive to provide new value through solutions for the air and environment and thereby resolve these global issues.

We will provide new value in the form of healthy and comfortable lifestyles and spaces while helping realize a better environment.



### Value Creation for the Earth

Helping mitigate climate change by reducing environmental impact through business activities

- Further raise the environmental performance of our products
- Protect forests and help sustain their inherent functions



### Value Creation for Cities

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

- Use energy effectively throughout buildings and cities
- Build systems for recycling-based societies
- Create new types of energy



### Value Creation for People

Contributing to healthy and comfortable lifestyles by expanding the possibilities of air

- Provide safe and reliable air environments
- Improve indoor environments to support people's healthy and comfortable lifestyles
- Raise productivity to contribute to economic advancement

## A Growth Strategy That Anticipates the Future of Air Conditioners and Contributes to a Greener Environment

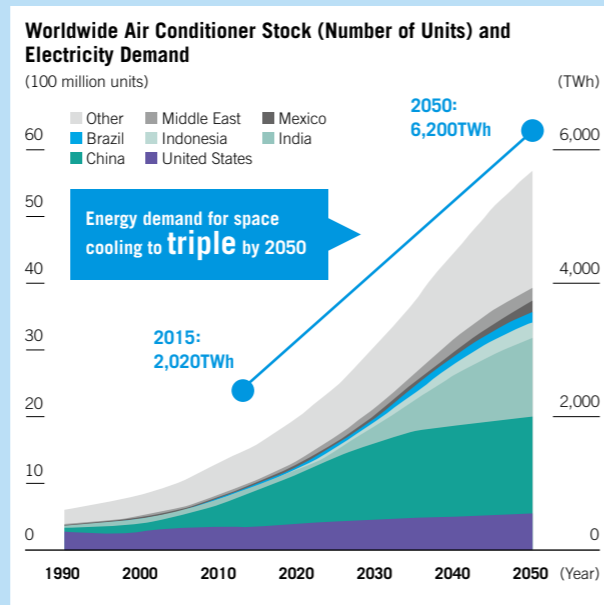
### IEA Forecast: The Future of Cooling

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

According to *The Future of Cooling*, it is estimated that demand for air conditioning will rise rapidly and energy demand for space cooling will triple by 2050.

This expected surge in demand presents significant opportunities for a company like Daikin whose business centers on air-conditioning systems. On the other hand, climate change has become a global issue and, in a society where we are urged to seek solutions toward decarbonization, the fact that the use of air conditioners contributes to increases in energy consumption and GHG emissions poses immense risks to the sustainability of our air-conditioning business.

In view of these matters, Daikin is working to reduce the environmental impact of its business activities through measures such as minimizing electricity use to the extent possible and preventing refrigerant leakage. We are also developing and promoting the use of air conditioners with higher energy efficiency and refrigerants with a low global warming potential (GWP), and pursuing new environmental solutions, such as through joint efforts with property developers to make more efficient use of energy. Through these and other measures, we will help address climate change and a range of other social issues while continuing to expand our business.



Note: Graph figures compiled by Daikin based on *The Future of Cooling* (IEA, 2018)

## Measures in Pursuit of Carbon Neutrality

### Reducing Electricity Use through Adoption of Inverter Products

The Daikin Group has remained committed to promoting the use of inverter products over the years due to the fact that inverter air conditioners consume roughly 50% less energy compared with non-inverter types. Inverter products are an effective means of reducing energy consumption, particularly in developing countries, where energy-related issues are escalating alongside the growth of their economies. In 2008, Daikin formed a business alliance with Gree Electric Appliances Inc., the leading manufacturer of air conditioners in China, facilitating the production of low-cost, highly efficient inverter units, which has helped drive the market share of inverter air conditioners upward.

Following a series of advocacy activities conducted by Daikin, CSPF,\*<sup>1</sup> an industry standard for the assessment of energy-saving performance, was introduced in each country of the ASEAN region. We will continue to proceed with these activities toward the implementation of a regionally unified system.

In India, we urged the introduction of evaluation criteria and an energy labeling system. The market share of inverter air conditioners expanded

from almost zero in fiscal 2010 to 55% in fiscal 2020, and is expected to grow to 80% in 2024.\*<sup>2</sup>

In Brazil, the energy efficiency standards for air conditioners were revised in 2020. The Daikin Group offers professional information and technical support and has formed global partnerships with the Japan International Cooperative Agency (JICA), universities, and other organizations. In these ways, we are helping to build a foundation for facilitating consumer access to energy-saving products.

Moving onward, we will continue to strive to increase the adoption of inverter products across the globe, reduce energy use throughout our operations, and drive the industry forward by virtue of our environmentally conscious products.

\*1 Cooling Seasonal Performance Factor: A measure of energy efficiency during cooling periods  
\*2 Source: *World Air Conditioning Overview 2022* (BSRIA Limited)

### Contributing to Decarbonization through the Growth of Our Heat Pump Space and Water Heating Businesses

Looking at the global heating market in terms of heat source, the market for heat pumps is a mere ¥0.8 trillion\*<sup>3</sup> in comparison with the ¥3.3-trillion market for combustion heaters, such as gas boilers, that generate heat by burning fossil fuels. This data indicates that consumers are still opting for the more affordable and quicker solution to heating in the form of combustion heaters despite the large amounts of CO<sub>2</sub> emissions they generate.

Meanwhile, in Europe, a region where particularly large amounts of energy are consumed, we have seen significant strides made toward decarbonization as a result of the European Green Deal policy put forth in 2019. The heat pump market in Europe continues to thrive thanks to a series of subsidy programs and tax refunds that have been put in place. Moreover, according to the IEA,\*<sup>4</sup> conversion to heat pumps is the key to reforming social systems from the standpoints of achieving decarbonization and securing stable amounts of energy, given the soaring prices and unstable supply of fossil fuels arising from political instability in recent years.

In view of this, in 2006, we launched our Daikin Altherma heat-pump space and water heater to the European market. We have continued to gradually expand these product lineups in accordance with the climate conditions and needs of each country. Sales of Daikin Altherma are four and a

half times higher than in fiscal 2014, which attests to the efforts of our finely tuned installation and maintenance services.

The Daikin Group will continue to propose new solutions in regions where combustion heaters are the main source of heat. Among them is the strengthening of measures in North America, a region that has gathered momentum as a result of changing environmental policies. In our mainstay, ducted unitary for houses, we will expedite the sales of the Daikin Fit Heat Pump, a line of differentiated products that was developed through the combination of our core technologies for inverter units and heat pumps. In addition, we will promote the adoption of heat pumps and help realize decarbonization by riding the tailwind of regulations implemented in certain U.S. states that are bolstering their environmental measures.

\*3 Based on calculations by Daikin, citing data on North America, Europe, and China provided by the Berkeley Research Group (BRG) and data on Japan provided by the Fuji Keizai Group

\*4 Source: *10-Point Plan to Reduce the European Union's Reliance on Russian Natural Gas*, International Energy Agency (IEA, 2022)

### Reducing CO<sub>2</sub> Emissions through the Transition to Low-GWP Refrigerants and the Establishment of a Refrigerant Eco-Cycle

CO<sub>2</sub> emissions from the use of air conditioners can be traced not only to energy consumption but also to the fluorocarbons contained in refrigerants. We are therefore working to reduce the impact of refrigerants on the environment.

#### Transitioning to the Use of Low-GWP Refrigerants

When deciding on the development of next-generation refrigerants, we must not only assess their overall performance from an environmental, safety, and cost-efficiency point of view but also ensure that they are put to the best possible use in air conditioners, water heaters, freezers, and other applications. Through a process of in-house assessments that were held based on international debate, the Daikin Group determined that R32 refrigerants were ideal for use in residential- and commercial-use air conditioners, due to the fact that their GWP is equivalent to roughly one-third of the GWP of conventional refrigerants. Accordingly, we have been promoting the adoption of R32 refrigerants worldwide. Moreover, in 2011, Daikin began granting free access to multiple patents related to the manufacture and sales of air conditioners utilizing R32 refrigerants. By ensuring that R32 air conditioners can be produced by manufacturers all over the world, we will help mitigate global warming.

#### Establishing an Effective Recovery and Reclamation Cycle for Used Refrigerants

Nowadays, used refrigerants are mostly destroyed when disposing of air conditioners to prevent refrigerant leaks into the atmosphere. From a circular economy perspective, companies are being urged to do more to recover and recycle used refrigerants. In fiscal 2019, the Group commenced sales of air conditioners utilizing recycled refrigerants in Europe, more than 40,000 units of which have been sold as of the end of fiscal 2021. Going forward, we will work together with government agencies and other companies to commercialize the recovery and recycling of refrigerants, which have been destroyed until now, and aim to improve the recycling rate of refrigerants, which still remains at a low level.

We will continue to proceed with a host of measures that include promoting the use of R32 refrigerants, establishing a refrigerant eco-cycle (recovery, reclamation, and destruction), and developing next-generation refrigerants, in a bid to reduce the level of CO<sub>2</sub> emissions generated by refrigerants.

# Strategic Management Plan FUSION 25

Please refer to our corporate website for details on FUSION 25.

In fiscal 2020, Daikin formulated Strategic Management Plan FUSION 25 for the period covering fiscal 2021 to fiscal 2025. By taking into account the changes in our external business environment and our unique strengths cultivated to date, the Plan illustrates the strategies to be implemented over the five-year period by backcasting from the changes in the world that will take place over the next ten to twenty years, and from the ideal state of the Daikin Group.

## Our Goal

Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth

## Our Aims for Value Creation

Economic Value		Environmental and Social Value	
<b>Fiscal 2023 Quantitative Group Targets</b> Net sales: <b>¥3.1 trillion</b> Operating profit: <b>¥325.0 billion</b> Operating profit margin: <b>10.5%</b>		<b>Net CO<sub>2</sub> emissions reductions 2025 target (from BAU)</b> <b>30% or more</b>	
<b>Fiscal 2025 Quantitative Group Targets (Forecast)</b> Net sales: <b>¥3.6 trillion</b> Operating profit: <b>¥430 billion</b> Operating profit margin: <b>Approx. 12%</b>		Offer safe, reliable, comfortable IAQ/AE Contribute to reducing food loss Participate in international rule-making Contribute to the growth of employees and local communities	
		Free humankind from heat and cold	Directly connect with customers and address specific needs

## Nine Key Strategy Themes (Management Priorities)

Three Growth Strategy Themes	Five Themes to Enhance the Management Foundation
<ol style="list-style-type: none"> <li>Challenge to achieve carbon neutrality</li> <li>Promotion of Solutions Business connected with customers</li> <li>Creating value with air</li> </ol>	<ol style="list-style-type: none"> <li>Strengthening technology development capabilities</li> <li>Establishing a robust supply chain</li> <li>Promoting DX for innovation</li> <li>Creating market value/enhancing advocacy activities</li> <li>Improving HR capabilities through advanced diversity management</li> </ol>
<b>One Theme for Focus Regions</b> Air Conditioning Business in North America	

Viewing external environmental changes as a great opportunity, capitalize on our unique strengths to achieve further growth and development

## Assumptions

Changes in Our External Circumstances	Our Strengths
<ul style="list-style-type: none"> <li>Increased importance of environmental and social contributions</li> <li>Consumption shift from goods to experiences</li> <li>Increased needs for IAQ and ventilation</li> <li>Innovative advances in digital, AI, 5G, and other technologies</li> </ul>	<ul style="list-style-type: none"> <li>Energy saving, environmental, IAQ technologies</li> <li>Globally expanding robust sales network</li> <li>Local production for local consumption model</li> <li>People-Centered Management, diversity management</li> </ul>

Our Group Philosophy

Fiscal 2021 Results	Net sales	Operating profit	Operating profit margin
	<b>¥3,109.1 billion</b> (25% increase yoy)	<b>¥316.4 billion</b> (33% increase yoy)	<b>10.2%</b> (0.6 percentage point increase yoy)

In fiscal 2021, the inaugural year of Strategic Management Plan FUSION 25, we achieved our net sales target for fiscal 2023 two years in advance while surpassing our initially set yearly target for operating profit. Both net sales and operating profit were our highest results on record.

## Progress of Three Growth Strategy Themes and the Theme for Focus Regions

1	Challenge to Achieve Carbon Neutrality
	We will help realize a greener environment and an enriched society while working to continue to expand our business and earnings.

Staying true to its goal of realizing net-zero GHG emissions by 2050, the Daikin Group will work to achieve its interim targets of lowering net GHG emissions\*<sup>1</sup> by 30% or more in 2025 and by 50% or more in 2030 compared with a Business as usual (BAU)\*<sup>2</sup> emissions scenario using fiscal 2019 as the baseline year. In fiscal 2021, we lowered emissions by 10% owing to higher sales of energy-efficient products.

\*<sup>1</sup> Net GHG emissions = GHG emissions – contributions to emissions reductions  
 \*<sup>2</sup> An emissions scenario whereby emissions reduction measures are not implemented

## Progress of Key Initiatives in Year One

To expand the use of heat pump heaters and water heating systems, local governments, particularly in Europe, have been granting subsidies to those using heat pumps and enforcing stricter regulations on combustion heaters. Riding the tailwind of these government actions, we have been shifting our focus to heat pump space and water heating systems, which has led to a substantial improvement in sales. Sales for the Heat Pump Space and Water Heating Business for the Group as a whole came to approximately ¥190.0 billion in fiscal 2021. Having fallen just short of reaching our fiscal 2023 target of ¥204.0 billion, the achievement of this target is well within our sights for fiscal 2022, a year ahead of our goal.

With respect to increasing the use of inverter units, we have established the goal of installing them in over 98% of all room air conditioners sold globally by the end of fiscal 2025, compared with 75% as of the end of fiscal 2019. With the percentage of air conditioners with inverter units climbing to 79% as of the end of fiscal 2021, we are making steady progress toward achieving our goal.

In terms of the shift to low-GWP refrigerants, we are promoting the widespread use of R32 low-GWP refrigerants and have set the goal of installing them in over 95% of room air conditioners available to the global market by the end of fiscal 2025, compared with 83% as of the end of fiscal 2019.

As indicated by the increasing percentage of air conditioners with R32 refrigerants, which accounted for 91% of all air conditioners as of the end of fiscal 2021, the transition to R32 refrigerants is progressing at a steady pace. Even in North America, we released our first R32-equipped room air conditioner in December 2021, despite the sluggish growth in the use of R32 refrigerants in this region.

We have also set the goal of reducing GHG emissions from our development and production processes to 1.2 million tons-CO<sub>2</sub> (a 34% reduction from fiscal 2015) by fiscal 2025. In fiscal 2021, despite our higher production volume stemming from the increasing demand for air conditioners, we reduced the GHG emissions from our development and production processes to 1.16 million tons-CO<sub>2</sub> (a 36% decline from fiscal 2015), achieving our fiscal 2025 target well ahead of schedule.

Going forward, we will continue to forge ahead with these initiatives in pursuit of our FUSION 25 objectives of reducing net CO<sub>2</sub> emissions by 30% in fiscal 2025 and by 50% in fiscal 2030. As for realizing net-zero CO<sub>2</sub> emissions by 2050, we see the need for the development of new technologies and the creation of new themes in which to engage from a business perspective, and we will steadily move forward in addressing them.



## Strategic Management Plan FUSION 25

2

### Promotion of Solutions Business Connected with Customers

In light of the rapidly changing values and needs of our customers, we will accommodate these new needs through the creation of new experiences, the establishment of our Solutions Business, and the realization of qualitative growth.

#### Air Conditioning (AC) Solutions Business

We will offer a solution lineup by identifying the various needs of customers in each vertical market, including offices, schools, hospitals, hotels, and factories. For instance, we aim to create new value by optimizing air conditioning for each user through the management and analysis of customer information and equipment operation data; creating safe environments by ensuring the visibility of air quality and using ventilation, disinfection, and other IAQ technologies; and managing energy use throughout our facilities.

#### Progress of Key Initiatives in Year One

In the first year of FUSION 25, we worked to develop a solution lineup and strengthen our human resources in each region toward the creation of our experience-based sales business model. In North America, a region of focus under FUSION 25, we acquired instrumentation and engineering companies as well as retailers boasting strong customer ties and solutions capabilities in order to strengthen the platform for the future of our Solutions Business. We are also in the process of developing products and solutions for energy management in each vertical market.

In addition, our DK-CONNECT cloud-based air conditioning management service was introduced to the Japanese market in June 2021. This service is designed to address the installation, operation, maintenance, and renewal needs of each customer for commercial-use air conditioning in buildings,

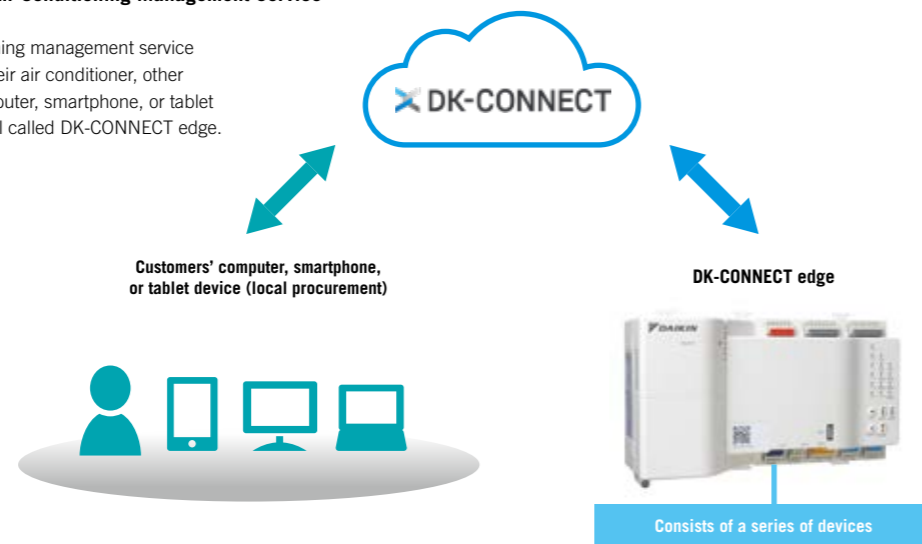
commercial establishments, hospitals, and other facilities by providing greater comfort, improving energy efficiency, and reducing management workloads. With the aim of providing new value based on air conditioning, we are developing a solution lineup for each vertical market that utilizes our DK-CONNECT service.

We are also shoring up the foundation for addressing customer needs through measures that include honing our service structure in Europe and Asia and creating value using digital technology in China.

By virtue of these initiatives, sales by the AC Solutions Business have been progressing as planned, with the business posting sales of approximately ¥500.0 billion in fiscal 2021 and on course to achieving its fiscal 2023 target of ¥560.0 billion.

#### Overview of DK-CONNECT Cloud-Based Air Conditioning Management Service

The DK-CONNECT cloud-based air conditioning management service enables customers to monitor and control their air conditioner, other devices, and sensors by means of their computer, smartphone, or tablet device through an exclusive network terminal called DK-CONNECT edge.



#### Refrigeration Solutions Business

We will expand our global network for the Refrigeration Solutions Business by deploying the energy-saving and environmental technologies that have been cultivated to date in the Air Conditioning Business to the refrigeration domain. In Europe, we will look to establish the Store Solutions Business to enable the appropriate management of food temperatures, provide safe and secure store environments, facilitate remote monitoring of products for food retailers, and enhance management of energy use. By establishing this new business, we intend to expand the Refrigeration Solutions Business to other markets, including Asia and Oceania. In addition, we will help reduce food loss, ensure the supply of safe and reliable food, and resolve other social issues by connecting the entire cold chain, from producers to consumers. We will also set our sights on establishing a highly profitable business model.

#### Progress of Key Initiatives in Year One

The Marine Container Business experienced substantial growth in fiscal 2021 on the strength of particularly solid demand. With an eye to establishing our Store Solutions Business, we are in the process of reinforcing our business foundation and expanding our Cold Chain Business. Owing to

these measures, we are proceeding ahead of schedule with sales for the Refrigeration Solutions Business, which amounted to approximately ¥150.0 billion in fiscal 2021, on pace to achieve our target of ¥160.0 billion in fiscal 2023.

3

### Creating Value with Air

We will look to fulfill the growing needs for IAQ and ventilation by exploring and creating new value with air.

#### Establishing a large-scale IAQ/Ventilation Business

We will strive to establish a large-scale IAQ/Ventilation Business by seizing the opportunity presented by the growing needs for IAQ and ventilation, establishing new markets across the globe through a Groupwide effort, and developing new products and services.

#### Progress of Key Initiatives in Year One

Sales of air purifiers, heat reclaim ventilators, and filters flourished in the first year of FUSION 25 as the ongoing impact of the COVID-19 pandemic spurred demand for safe and secure air. Sales of commercial-use heat reclaim ventilators fared particularly well, led by our Venti-air system, a total heat exchanger unit with an exposed installation design that can be retrofitted relatively easily on the interior walls, ceilings, and under the eaves of buildings. We have also been working alongside the University of Tokyo to create a reference manual to mitigate the risk of respiratory infections and to educate students within a classroom setting on the effective means and precautions for the use of heat reclaim ventilators and air purifiers. These efforts have contributed to a steady progress in our sales for the IAQ/Ventilation Business, which amounted to approximately ¥230.0 billion in fiscal 2021 and are on course to achieve our target of ¥290.0 billion in fiscal 2023.

With the expectation that demand in the ventilation market will continue to increase going forward, we will work to expand sales of heat reclaim ventilators for residential use, in addition to those for commercial use, while introducing new air purifiers that employ ultraviolet (UV) disinfection technology for commercial application. Through such initiatives, we will differentiate ourselves from the competition and continue to expand our business in the process.



Venti-air exposed installation-type heat reclaim ventilator

#### Creation of IAQ/AE that enrich people's lives

In the healthcare domain, we will work to develop a business that utilizes air conditioning and biometric data to enhance people's physical and mental well-being. We will also look to create new value with air through solutions that facilitate improvements in concentration, relaxation, and sleep. These initiatives will be implemented as a part of the ongoing Smart City Project in Japan and the resulting findings and outcomes will be used to forge a range of solutions and to establish a business model geared to creating value with IAQ/AE that enhance people's physical and mental well-being.

#### Progress of Key Initiatives in Year One

In the first year of FUSION 25, we conducted demonstration experiments on the impact on human health of doing brief workouts in low-oxygen settings, as a part of our efforts in the healthcare domain to ensure better health for people. The insight and know-how gained as a result of this experiment will be deployed in a range of social settings, including offices, schools, and government agencies. To address the growing needs for IAQ, we have also teamed up with a startup company that has a competitive advantage in the real-time detection of allergens, such as pollen, ticks, and mold. Going

forward, we will accelerate the growth of our AC Solutions Business to be fully capable of continuing to provide safe and secure IAQ/AE.

Also, in collaboration with the University of Electro-Communications in Tokyo, Daikin conducted research on the impact on naps of maintaining an optimal thermal environment. Through this research, we aim to create new value with air by helping people to improve their concentration through better naps. Our next step in this research is to test our findings within an actual office setting.

4

### Air Conditioning Business in North America

We will pursue the leading position in North America, the world's largest market, which boasts tremendous potential.

The ongoing changes in energy-saving and environmental regulations in North America are, we believe, an opportunity for us to transform the market and expand our business in this region by capitalizing on our strengths in inverters, heat pumps, and low-GWP refrigerants. We will aim to elevate our regional sales in North America for the Air Conditioning Business from fourth highest in this segment in fiscal 2020 to the top position in fiscal 2025.

#### Progress of Key Initiatives in Year One

In our first year, we tapped into the robust demand for the residential-use market by honing our supply and sales capabilities and introducing new energy-efficient products. In particular, we saw significant improvements in the market awareness and yearly sales of FIT inverter units. FIT inverters are a line of environment-friendly strategic products that enhance the energy-efficiency of ducted residential air conditioners, which are commonly used in the United States, by combining them with our inverter technology. Meanwhile, in the commercial-use market, where demand has yet to get back on track, VRV systems captured the leading share of the light commercial market in North America for the first time. In the Applied and Solutions businesses, we expanded the scope of each segment and secured additional human resources and know-how through the acquisition of new businesses.

Owing to these initiatives, sales for the Air Conditioning Business in North America reached a record-high of approximately ¥790.0 billion in fiscal 2021, surpassing our target for the year and on track to achieve our fiscal 2023 target of ¥800.0 billion. North America sprung up from fourth to second highest in regional sales as a result, gaining tremendous momentum toward becoming our leading air-conditioning market by fiscal 2025.

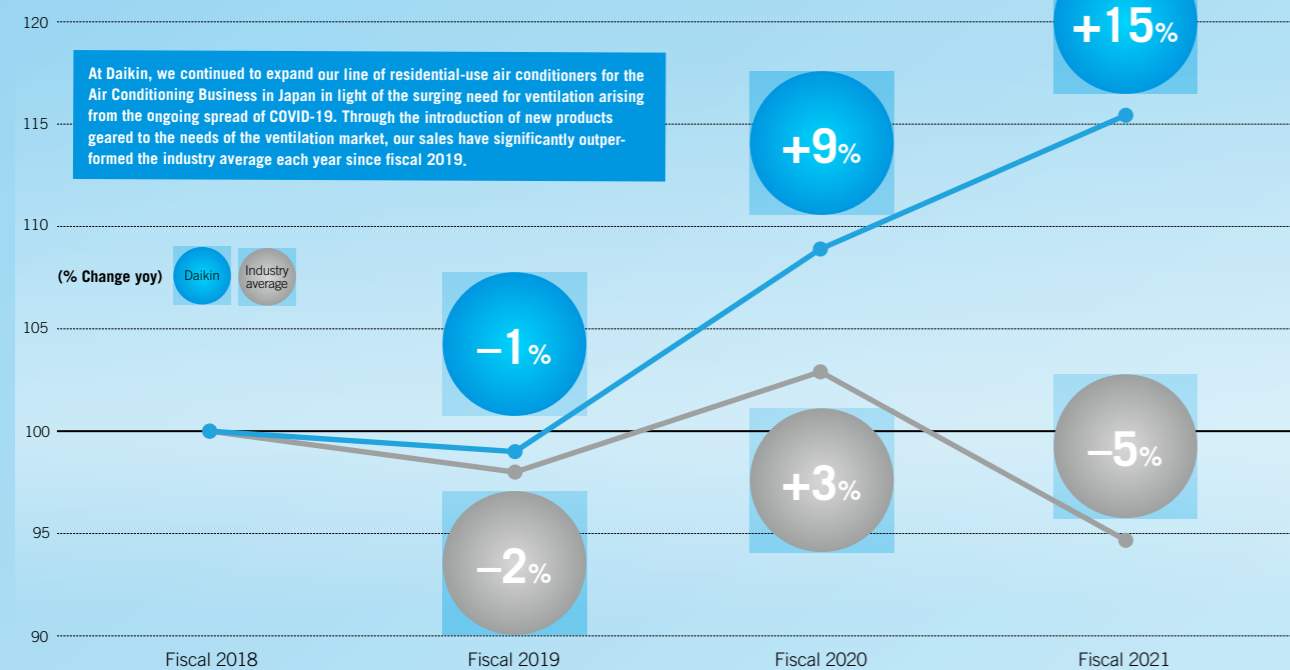
Moreover, in April 2022, U.S. subsidiary Goodman Global Group, Inc. was renamed as Daikin Comfort Technologies North America, Inc. With a new corporate label that bears the name Daikin, a company that has spearheaded the growth of the global air-conditioning market with cutting-edge environmental technology, we will strive to continue to expand our business in this region and cement our status as a leading company in environmental sustainability.

# 01 Daikin's Organizational Strengths That Have Manifested in the Midst of a Crisis

In the COVID-19 era, we have seen a shift in people's lifestyles and behavior patterns, along with a considerable difference in their views on indoor air environments and room ventilation.

In this section, we will explain some of the initiatives Daikin is undertaking to deliver value through ventilation as a company that provides solutions with air.

## Domestic Sales Volume of Residential Air Conditioners (Fiscal 2018 = 100%)



At Daikin, we continued to expand our line of residential-use air conditioners for the Air Conditioning Business in Japan in light of the surging need for ventilation arising from the ongoing spread of COVID-19. Through the introduction of new products geared to the needs of the ventilation market, our sales have significantly outperformed the industry average each year since fiscal 2019.

### Market Environment

Sales decreased due to the absence of last-minute purchases made in the latter-half of the previous year in advance of the consumption tax hike and the impact of the relatively warm winter in fiscal 2019.

Sales increased due to the effects of pent-up demand, special cash payments from local governments in relation to COVID-19, and the tailwind created by the intense summer heat.

Sales decreased due to the end of pent-up demand and the impact of unseasonably cool summer weather.



### Recent Activities Related to Air-Conditioning and Ventilation Products

- June 2020: Establishment of Air Consultation Service
- Dec. 2020: Simultaneous release of five air purifier models
- Nov. 2020 onward: Launch of five room air conditioners featuring a unique ventilation function that caters to the needs for ventilation and comfort
- May 2021 onward: Launch of three Venti-air models, commercial-use heat reclaim ventilators that can be retrofitted
- Oct. 2021: Launch of Urusara X (R series) room air conditioners

### External Environment

- 2020 Jan. First COVID-19 case confirmed in Japan
- 2020 Mar. Global epidemic confirmed as a pandemic by the World Health Organization (WHO)
- 2020 Apr. State of Emergency declared by the Japanese government
- 2021 Aug. Total COVID-19 cases in Japan surpass one million



Senior Executive Officer  
General Manager of  
Domestic Air Conditioning  
Sales Division  
**Satoshi Funada**

## Our Pioneering Spirit and Sales Network That Have Turned Crisis into Opportunity

Ururu Sarara was released in 1999 and was the first air conditioner to feature a ventilation function. While ventilation functions on air conditioners are not new, this is an area we had not ventured into deeply due to the lack of consumer interest in ventilation until recently. The spread of COVID-19, however, has triggered great interest in ventilation among consumers. We have adapted swiftly to such market changes by fully embracing ventilation functions and consistently enhancing our product lineup.

The Domestic Air Conditioning Sales Division, which I am in charge of, is responsible for providing the products that are deemed essential by customers. The cooperation of local dealers, whom we regard as important business partners, is essential to our ability to propose products that reflect the specific needs of each region. Our role extends beyond the sale of products to distributors. We must assume responsibility for everything from installation through to after-sales services as well. This is a policy that we at Daikin adhere to and apply throughout our global operations. While installation work is an essential element of the air-conditioning business, it is nearly impossible for Daikin to undertake this work entirely on its own. Because of this, the key to forging Daikin's service network is the dealers who take on this role. Daikin has developed a close relationship with its dealers, by providing them with technical training, support for human resource development and recruitment, and information about customers who have approached it for consultations. If its network of dealers were to diminish due to poor financial performance as a result of the COVID-19 pandemic, Daikin's business would certainly diminish as well. Therefore, an air of crisis was hanging over the front lines of the business.

With the increasing number of people working from home and preventive measures being enforced as a result of COVID-19, we have had fewer opportunities to interact directly with customers and have had to deal with many other restrictions to our sales activities. On the other hand, we believe the increasing focus on ventilation as a form of added value could serve as an opportunity to attract the interest of new customers. In these uncertain times, it has been hard to know the correct approach to take. Nonetheless, we have engaged in a series of

unprecedented efforts simply by leveraging our sales capabilities. Our central focus has been to increase the number of contact points with users. We have strengthened our provision of information through video streaming and our corporate website, established the Air Consultation Service, whereby technical advisors address customer concerns, and identified and delivered information on the needs of each region through the efforts of our dealers and the Domestic Air Conditioning Sales Division. Through these and other distinctive measures, we have continued to move forward with our sales activities.

Despite the difficult circumstances, we have captured the rising demand for ventilation and disinfection arising from the COVID-19 pandemic, through ongoing efforts to increase user contact points and actively propose new products. From a sales perspective, we were able to exceed the overall market growth rate by a significant margin.

One shift in perception can unlock the future, even in light of a critical situation. Once again I am reminded that a spirit of taking on challenges that will open the door to the future is deeply ingrained within our organization. As a company that provides solutions with air, we will ambitiously pursue new challenges to continue to fulfill the expectations of all of our stakeholders going forward.



Air Consultation Service, established in June 2020

## Daikin's Organizational Strengths That Have Manifested in the Midst of a Crisis

### Rapid Development by Virtue of Modular Design and Fast & Flat Management System

In September 2020, Daikin declared its aim to adopt a ventilation function on its entire series of air conditioners. In April 2020, air conditioner sales had dropped nearly 50% from the previous year, so we embarked on a development project involving personnel from the manufacturing and procurement divisions with the belief that this decline in sales volume and the unfavorable circumstances stemming from the COVID-19 pandemic could prove to be an opportunity. Seeing it as our duty as the only manufacturer of ventilation-equipped air conditioners, we strived to bring them to market as quickly as possible through an all-out Groupwide effort. The production team, including me, was expected to develop these air conditioners within a short period of time. While the development process usually takes 14 months, with this project, we aimed to complete the entire process within the fiscal year—or in other words, four months.

What turned out to be key to the rapid development was the modular design of our air conditioners (please refer to page 35). The conversion to modular design had been extremely difficult as it conflicted greatly with our conventional design concept and required a change in the perceptions of those on the front lines. Regardless, we continued to embark on new challenges without being content with the status quo and adopted modular design on our models from 2019. Accordingly, we added a humidifier module to our entire series of air conditioners to serve as a functional module, and the fact that we were then able to simply add our waterless humidification and ventilation function to the basic module led to a drastic reduction in the development period.

Moreover, we also encountered a myriad of challenges head on from a procurement point of view, particularly with the shortage of semiconductors. We faced a number of situations in which not even the ordinary components that are used throughout our manufacturing sites worldwide were available in sufficient quantities. We were often left

trying to decide which manufacturing sites should have priority for the use of these components. From March 2021, when we began to see fluctuations in the supply of semiconductors, the heads of our global production bases and the members of the Global Procurement Division and the Production Division in Japan would convene each week to seek an optimal solution to allocating components throughout the Group.

At Daikin, we have always had a system in place that constantly maintains production through the procurement of alternative secondary and tertiary components whenever primary components are unavailable, based on our bill of materials that is used for the manufacture of each product. Whenever none of the components on this bill of materials is available, the Development and Procurement divisions work together to see if an alternative component can be found. If a suitable component is found, development and verification processes are undertaken to ensure that it can be utilized. This development method, which we refer to as “alternative development,” has been ingrained in Daikin since March 2011, when we were forced to overcome a supply shortage as a result of the Great East Japan Earthquake.

Alternative development would not be possible if we were to simply rely on the Procurement Division to resolve supply shortage issues. The procurement, development, and sales divisions must each overcome their respective hurdles and work together to figure out what needs to be done to address their issues. And the culture conducive to successfully enforcing these measures exists throughout the Daikin Group. While the term “Fast & Flat” has been incorporated into our Group Philosophy, I believe this approach has become universal throughout our organization in the true sense of the word.

These concerted Groupwide efforts have led to the realization of our rapid development and manufacturing processes and stable supply in the COVID-19 era, and the establishment of our brand slogan, “Daikin is the solution to all your ventilation needs.”



**Executive Officer**  
 Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for Product Development),  
 Manager Responsible for Product Development in Refrigeration Division,  
 General Manager of Shiga Plant  
**Kimikazu Hatou**

### Global Rollout of Module Development Scheme

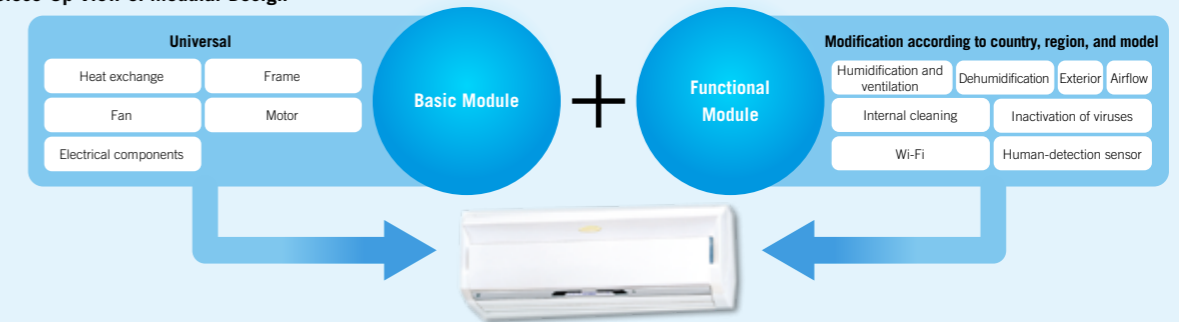
In 2017, we embarked on the conversion to modular design, which was adopted on models released from 2019 onwards. These events proved to be the springboard for our rapidly expanding lineup of ventilation functions.

Modular design consists of two types of modules: a basic module and a functional module. The basic module offers universal functions and features that are used throughout the Group and cannot be modified by any of our business sites or developers. Meanwhile, the functional module provides the necessary functions that can be created by the developers at our

respective business sites and used on air conditioners. Based on a design that combines these modules, we are able to address the varying needs of each market and enhance the speed of product development.

We will look to adopt modular design on all of our air conditioners that are currently on the global market by the end of fiscal 2023. The achievement of this goal is expected to reduce fixed costs and prevent opportunity loss through an increase in product development speed and cost reductions that stem from the shared use of components.

#### Close-Up View of Modular Design



### Creating New Value with Air

The COVID-19 pandemic has raised concerns over the safety and reliability of air quality inside factories, offices, stores, houses, and other buildings. Uncovering and creating new value with air is our duty as a manufacturer of air-conditioning systems. Going forward, as a company that provides solutions with air, we will continue to provide value in the form of comfortable and environment-friendly solutions.

### Start of Trial Operations for Hypoxic System

In April 2022, we commenced trial operations of our hypoxic system in partnership with point O Inc. This initiative aims to examine the impact on human health of doing brief workouts in low-oxygen settings, in order to explore the creation of health-enhancing environments. Recent research has shown that working out in low-oxygen settings may increase a person's physical strength, help prevent lifestyle-related diseases, and promote health-related outcomes such as weight loss, healthy skin, and anti-aging effects.

By merging our respective technologies and knowledge, a new hypoxic room will be established inside point O marunouchi, a membership-based shared workspace operated by point O. To ensure the oxygen concentration of indoor spaces is optimal for hypoxic training, we will utilize Daikin's hypoxic system, which was developed through the application of our technology for separating oxygen and nitrogen in the air and controlling oxygen concentration. We will also collect and analyze the biometric data of research participants and assess the impacts of hypoxic training on their health. In so doing, we will continue to build up our bank of knowledge with the aim of deploying it in a range of social settings.





# 02 Air Conditioner Subscription Service: For the Betterment of Society, Today and Tomorrow

Located in eastern Africa, Tanzania is incredibly hot and humid throughout the year. Despite its climate, which makes air-conditioning a necessity year-round, air conditioners are seldom used in this country. This paved the way for the introduction of our air conditioner (AC) subscription service in Tanzania through which we have been striving to provide comfortable air while reducing environmental impact.

## Offering the Best Air Conditioners in a Market Where Only the Lowest Priced Are in Demand

In Tanzania, the lowest priced air conditioner would cost approximately US\$500. For most residents of Tanzania, a country with an average annual salary of US\$200, air conditioners are a luxury item. For that reason, they are used by only 1% of all residents. Also, they are often in poor condition due to the lack of repairs, service parts, and specialists, as a result of which around 70% of the air conditioners installed are left unused.

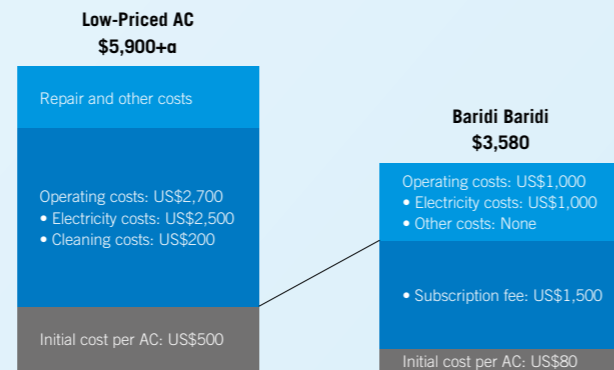
In April 2021, Daikin unveiled Baridi Baridi Inc., an AC subscription service established in partnership with WASSHA Inc. This business was set up to provide highly efficient, environment-friendly air conditioners incorporating our long-cultivated inverter technology through a subscription-based format. Many of the subscribers are restaurants and drug stores, where the cooling effects of these air conditioners have a direct influence on sales.

These high-performance inverter air conditioners can be used only when needed simply through the payment of installation costs and the purchase of a daily, weekly, or monthly plan through a smartphone app utilizing WASSHA's billing system. While electricity costs are borne by the user, since these air conditioners reduce energy use by around 60% or more compared with their low-priced counterparts the overall operating costs are minimal, even with all of the other costs included.

The AC subscription service offers significant benefits from an environmental perspective as well. One such benefit is the ability to recover refrigerants, which also contributes to reductions in GHG emissions alongside the lower use of energy. As refrigerants used for air conditioners have a greenhouse effect 600 to 2,000 times that of CO<sub>2</sub>, GHGs are discharged into the atmosphere by air conditioners that have malfunctioned and been left unused. For this service, however, since the air conditioners remain the property of Baridi Baridi, all of the systems and refrigerants are ultimately returned.

Looking back on its history, the use of air conditioners has taken off enormously in developing countries once they reach a certain level of gross domestic product (GDP). If low-priced air conditioners, which offer poor energy efficiency, were to become widespread instead, this poses a threat to the environment. Baridi Baridi's business was put in place to offer a low-cost approach to the use of air conditioners that offer comfort and environmental friendliness in light of such circumstances. Going forward, Daikin will continue to develop business models that are geared to earning high profits in all markets, including smaller yet-to-mature markets, and explore the possibility of expanding its business to other immature markets in the years ahead.

### Financial Costs of Use over a Five-Year Period



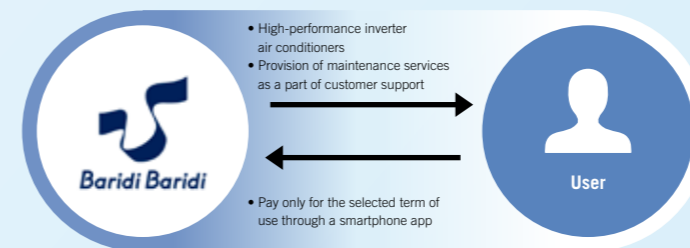
Note: Calculations are based on the assumption that 1,000 days of use = 200 days per year x five years

### Tanzania's Existing Air Conditioner Market

- Air conditioners are used by 1% of all residents.
- Non-inverter air conditioners, which offer poor energy efficiency, account for around 95% of all air conditioners used.
- Refrigerants discharge GHGs into the atmosphere, having a greenhouse effect approximately 600 to 2,000 times that of CO<sub>2</sub>.
- Roughly 70% of installed air conditioners have malfunctioned and been left unused due to the lack of specialists and maintenance services.

Introduce high-performance inverter air conditioners in markets where inefficient air conditioners have become widespread and establish a business model aimed at providing comfort and environmental value

### Baridi Baridi's AC Subscription Service



- Generates profits through the receipt of continuous payments by virtue of highly durable air conditioners
- Fewer barriers to the use of air conditioners
- Impact of lower electricity costs outweighs the cost of using air conditioners

### Environmental Benefits

- Energy use reduced by roughly 60% through the use of inverter air conditioners
- Ability to recover all refrigerants, as the subscription format entails the eventual return of all air conditioning systems to Baridi Baridi



Hiroki Asada  
CEO of Baridi Baridi Inc.

We have received feedback from those who have adopted our subscription service indicating that their electricity costs have declined substantially and that these air conditioners are far above and beyond anything they have used to date.

Conversely, we have also received feedback about the lack of clarity in our service offerings. Recognizing the fact that not all customers will be completely satisfied with what we offer, we are conducting promotional activities to enhance awareness of the scope of our services.

The success of our business brings more joy to people in need in Tanzania and leads to a brighter future for the environment. It also translates into better lifestyles and possibly even more jobs through the fostering of individuals who are highly knowledgeable and skilled in the area of air conditioners. Moreover, if our efforts were to inspire more people in Japan to work with enthusiasm, there is nothing more gratifying than that.

## Bringing New Value to Society through Co-Creation

WASSHA Inc. is a startup company associated with the University of Tokyo. Through a kiosk network of small stores handling basic necessities in Tanzania, from the suburbs to villages without electricity, the company provides LED lanterns through a pay-as-you-go system in which users pay only for the electricity they use. Our collaboration with WASSHA in the AC subscription service transpired as a result of an industry-academia co-creation alliance formed with the University of Tokyo in December 2018.

Daikin has decided to invest up to ¥11.0 billion in startup companies across the globe over a five-year period to 2024. To ensure that decisions are made in a timely manner, a framework has been put in place to enable investments within this limit to be made through the approval of the general manager of each division. Our investment in WASSHA is the first project undertaken as a part of this investment scheme. Moving forward, we will continue to engage in co-creation activities with those outside of our organization with a view to creating new value.



## Strengthening Our Human Resource Capabilities

### Advancing Diversity Management

At Daikin, our approach to diversity stems from our commitment to People-Centered Management. We believe that people are what drive a company's competitiveness. We also believe that the creation of new products and services through the efforts of a diverse team of employees who respect their mutual differences as well as the various ideas, ways of thinking, and values of one another are what will make us stronger as an organization.

The Daikin Group's workforce consists of over 88,000 employees, of whom more than 80% are based overseas. What has helped sustain our growth as a global company to date is none other than

the people in our organization who are full of passion and vitality. As our business continues to grow rapidly through partnerships, collaborations, and M&As that span the globe, we are seeing a diversification of not only the members of our organization but also our values as well. We have a unique diversity management system in place that unites our diverse group of employees, who differ in culture, ethnicity, generation, lifestyle, and other aspects, and leverages the individuality and strengths of each member to drive innovation and enhance the Group's comprehensive capabilities and competitiveness.

### Promoting the Advancement of Women

In 2011, we launched a project under the direct control of management through which we have been fully devoted to promoting the advancement of women. Our main focus has been to expand the scope of measures for changing the perceptions of management and female employees, accelerating the development of female leaders, helping women return to work as early as possible after childcare leave, and promoting active roles after returning to work. We also encourage male employees to participate in childcare and take childcare leave as a part of our commitment to providing a workplace environment that is conducive to balancing work and childcare regardless of gender.

To accelerate the development of female employees for management and other leadership roles, we have continued to implement a range of measures that include our Female Leader Development Program, a sponsorship program in which the Company's executives provide direct support to female employees toward their individual growth, and a mentorship program in which employees can consult with and receive advice from more experienced employees in other departments. In particular, our Female Leader Development Program, in which 20 participants enroll each year and a total of 250 participants have enrolled to date,

is an opportunity for those pursuing management and leadership positions to develop the right mindset and behaviors.

As a result of such efforts, the number of female managers was 68 (5.7%) as of the end of fiscal 2021, increasing roughly threefold from the 20 (2.1%) female managers in 2011 when our initiatives to promote women's advancement were first introduced. We will continue to push forward with developing and securing female managers.

In addition, since 2011, we have introduced a series of measures that have contributed to realizing a better balance between work and childcare. One of these measures is designed to enable employees to return to work quickly after taking childcare leave, as a result of which the number of people returning to work within a year of taking childcare leave increased from roughly nine people (32%) in 2011 to 50 people (56.9%) as of the end of fiscal 2021. Moreover, the percentage of male employees taking childcare leave was at a high of 84.4%.

Going forward, we will work to foster a corporate culture that brings out the best in all of our employees, regardless of gender, while enabling them to find the right balance between their work and family life.

### Action Plan for Promoting the Advancement of Women

#### Details of initiative

- Accelerate the development of female employees for management and leadership roles
- Foster a corporate culture conducive to balancing work and childcare, regardless of gender
- Promote a mindset that enables diverse employees to shine

Plan Period: April 1, 2021 to March 31, 2026

KPI	Target	As of March 31, 2022
Number of female directors appointed internally	One or more (by the end of fiscal 2025)	Achieved
Number of female managers	120 (by the end of fiscal 2025)	68
Childcare leave taken	<ul style="list-style-type: none"> <li>• At least 90% for both male and female employees</li> <li>• Average of 10 or more consecutive days of leave for male employees</li> </ul>	Female employees: 100% Male employees: 84.4% Average number of consecutive days of leave taken by male employees: 12.6

### Human Resource Development Policy

The Daikin Group has declared as one of the principles of its Group Philosophy that "the cumulative growth of all Group members serves as the foundation for the Group's development." Based on the belief that people grow through work experience, we offer a variety of opportunities for personal development to complement our on-the-job training (OJT),\* which challenges each individual by assigning tasks that are suited to their aptitudes.

Opportunities include our Next-Generation Executive Development Program aimed at continuously developing global business

leaders; an internal course on fostering specialists in the development of AI technology; training programs geared to nurturing young employees into global professionals; and a HR development program built on stronger ties with various universities. These programs are a part of our efforts to provide more opportunities for employees to grow as individuals in accordance with the Group's strategies and business direction as well as the changing times.

\* Employees learn and acquire the general knowledge, technical know-how, skills, and commitment necessary for their work through actual work experience.

Initiative	Details	Achievements in Fiscal 2021
Next-Generation Executive Development Program	This program was established to develop management executives and business leaders who are tasked with steering the Company's future growth and development through a Groupwide effort. The program is grouped into three tiers: New Executive Program for executives, Group Leadership Development Program for managers of business divisions, Next-Generation Leader Development Program for section chiefs and leaders of Daikin Industries in Japan, and Daikin Executive Program for overseas Group companies. There are also executive and leader development programs in place at the production sites of our various regions of operations.	<ul style="list-style-type: none"> <li>• New Executive Program: 13 participants</li> <li>• Next-Generation Leader Development Program: 18 participants</li> </ul>
Overseas Base Practical Training	This training program assigns young employees in Japan to Daikin's overseas bases for a period of one to two years to develop them into globally minded individuals. Unlike ordinary overseas dispatches, the program aims to foster a spirit of taking on challenges unbound by stereotypes and enhance communication skills within a culture and setting that are different from what participants are used to by engaging them with practical themes at distributors, suppliers, business partners, and universities.	Fiscal 2021: 28 participants Since fiscal 1999: 346 participants
Global Training Program for Overseas Personnel	Young employees based overseas participate as trainees in this program to enhance their knowledge of technology, quality, and production technology toward the development of their respective businesses.	Fiscal 2015 to fiscal 2019: 33 participants

### Daikin Information and Communications Technology College

In December 2017, Daikin Information and Communications Technology College was established with the full cooperation of Osaka University, with which Daikin signed a comprehensive cooperation agreement centered on the field of information science. Established with the aim of developing digital human resources\* who are able to adapt to the drastically changing structures of industry and society, this internal training program selects employees from a wide range of divisions and follows Daikin's own unique curriculum. With a view to nurturing experts who are adept at infusing AI and the IoT into our business and technology development, professors from universities, such as Osaka University, and leading-edge research institutes give courses on the fundamentals of AI and the uses of AI technology, in addition to incorporating project-based learning (PBL), which is based on actual issues surrounding each division.

In fiscal 2018, we also introduced a program geared to new employees that develops them into highly skilled AI and IoT human resources. A total of 440 new employees have enrolled in this two-year training program at Daikin Information and Communications Technology College to date. In their first year, trainees acquire specialized knowledge of AI and the IoT and learn about Daikin's air-conditioning technology and other core technologies. In their second year, trainees engage in actual on-site exercises either individually or in pairs on a specific theme from among the themes compiled by our development, manufacturing, and sales divisions. This PBL develops trainees to be able to apply the knowledge and skills on AI and the IoT acquired in their first year on the front lines of operations by obtaining information on on-site needs and issues from the people in charge of our various divisions and addressing

them. Upon completion of the program, in addition to applying the knowledge and skills they have gained on-site, trainees are expected to act as a bridge between our internal and external operations as well as between our various divisions so that AI and the IoT becomes embedded throughout our operations.

In April 2022, the program's third group of trainees completed their two-year training and were assigned to their respective divisions, where they are engaged in new themes related to creating new businesses and improving work efficiency centered on the use of digital technology.

Through Daikin Information and Communications Technology College, we have expedited the development of our management, existing employees, and new employees toward our goal of developing 1,500 digital human resources by the end of fiscal 2022.

\* Innovators in digital technology and AI with the ability to put their specialized knowledge into action and inspire others around them to do the same



Entrance ceremony for the second group of trainees at Daikin Information and Communications Technology College

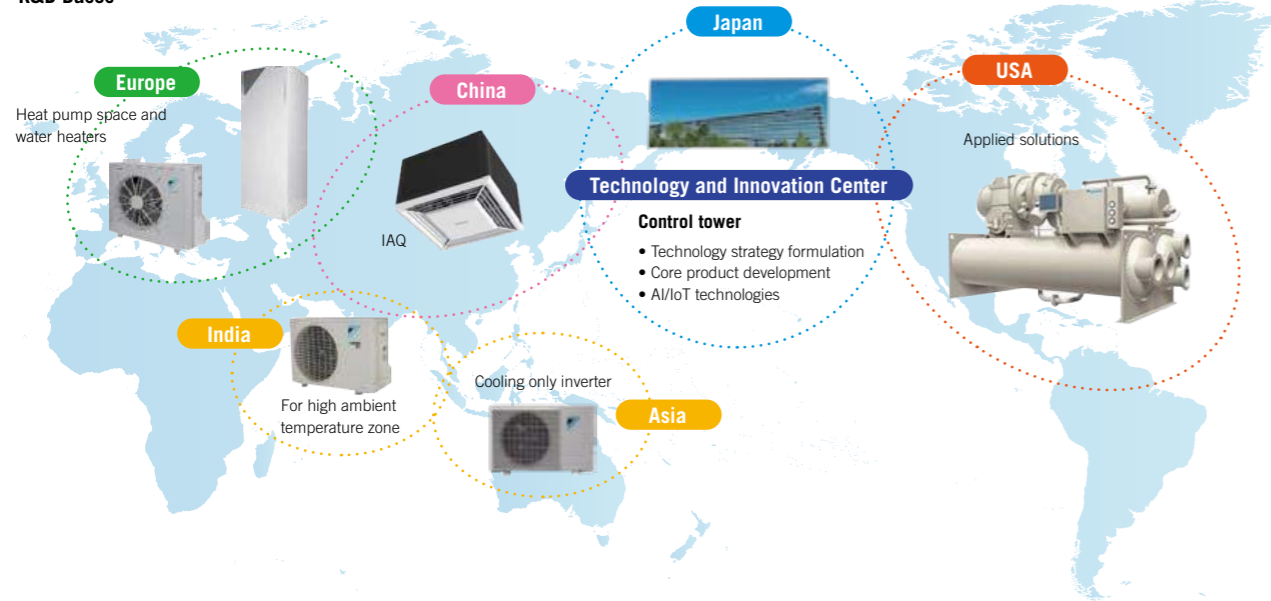
## Strengthening Technological Capabilities

### Strengthening Technology Development Capabilities

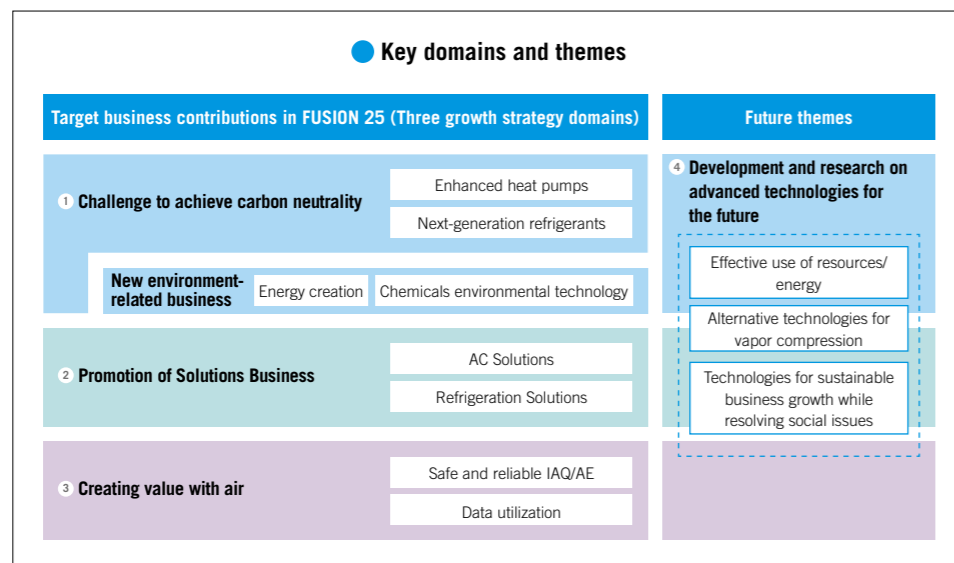
We believe that technological development capability is a manufacturer's lifeline. Amid rapidly changing external conditions, we will accelerate the development of distinctive technologies and products, and their contribution to business expansion, by promoting both internal and external co-creation that includes collaboration between industry and academia. We have established four key domains (three growth strategy domains and one domain with future themes) in which we will concentrate our resources.

The Technology and Innovation Center (TIC) is the control tower for all of the Group's technologies. With TIC at the core, we will promote the development of technologies and generate results in a timelier manner through our external and internal co-creation projects. Moreover, in order to move ahead with our key domains and themes on a global scale, we will enhance the development capabilities of our technological development sites overseas, strengthen coordination between these sites, and recruit and develop the right personnel.

#### R&D Bases

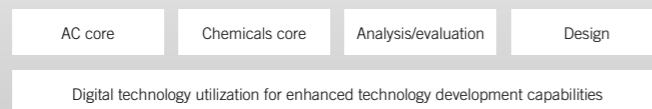


#### Technological Development Themes



Promote through collaborative innovation projects

#### ● Core /fundamental technology themes in existing businesses



### Development of Energy-Saving Solutions

#### Managing Energy Use Across an Entire Building and Community

At the Daikin Group, we work not only to mitigate the environmental impact of each air conditioner through the use of our environmental technology, but also to ensure that air-conditioning, peripheral equipment buildings, and renewable energy are all managed together in the best possible manner.

For instance, we participate in smart city projects in Manchester (England), Lisbon (Portugal), Singapore, and other locations to facilitate energy conservation throughout each community. Through the optimal control of district heating and cooling systems, we will reduce energy use across entire communities and address energy-related issues that stem from urbanization.



Image of fully constructed Tengah Town, a smart city in Singapore

### Next-Generation Refrigerants for Electric Vehicles (EVs)

#### Contributing to the Promising and Widespread Use of EVs through Energy-Saving Solutions

The Group is moving ahead with the development of next-generation refrigerants for automotive air-conditioning systems.

Due to the challenges involved in the use of exhaust heat for air conditioning on battery electric vehicles (BEVs), heat pumps are used instead on these vehicles. However, our current R1234yf refrigerants are limited in their capacity to generate heat in low outdoor temperature settings. This necessitates the use of electric heaters, which reduces the cruising distance of BEVs.

The new refrigerant, which is currently undergoing development, will enable the use of heaters in low outdoor temperature environments without the use of electric heaters, thereby increasing the cruising distance of BEVs by up to about 50%. Another merit of this new refrigerant is the fact that it has a GWP of less than 1. Going

forward, we will continue to assess the performance of this new refrigerant with the aim of installing it on production models.



### Innovation through Co-Creation between Industry, Government, and Academia

Digitalization continues to progress rapidly while industry and social structures are shifting drastically. There is a sense of urgency to transition to a business model that looks ahead to an era where experiences are valued over things and customers and consumers reign supreme. At Daikin, we define co-creation as a comprehensive approach that involves breaking away from the

principle of self-development, establishing close interaction between the leaders, management, and employees of each organization, having them work together to find the right answers, and creating new value. Through collaborations between industry, government, and academia, we are working to realize innovation through co-creation.

### Establishment of Research Unit with The University of Tokyo in Pursuit of a Circular Economy

The Group is forming comprehensive partnerships with various universities and research institutes to develop a new business that will help resolve social issues around the world. We have also formed an industry—academia partnership with The University of Tokyo toward the creation of innovation and new businesses.

As a part of this agreement, the Circular economy modeling towards cleaner air Research Unit was jointly established in 2021.

Circular economy represents a transformation from the traditional linear economic model of mass production, mass consumption, and mass disposal to an economic model whereby value is created through the recycling of resources. We will identify the technology, systems, and infrastructure necessary for realizing a circular economy, conduct trial operations, and aim to propose a new sustainable economic model in 2026.

## Environmental Initiatives

### Responding to Climate Change through Our Management Plan

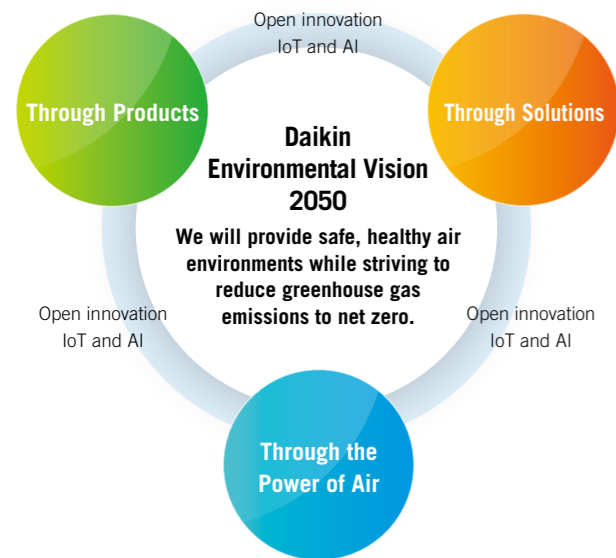
We recognize climate change as the most important issue for management. Our approach to it is reflected in Environmental Vision 2050 and our medium- to long-term environmental targets. We will continue to proceed with a variety of climate change-related measures toward the achievement of our five-year strategic management plan.



### Reducing Greenhouse Gas Emissions to Net Zero

In 2018, we formulated Environmental Vision 2050 with the aim of reducing greenhouse gas (GHG) emissions to net zero by 2050.

#### Environmental Vision 2050



We will reduce the GHG emissions generated throughout the entire life cycle of our products. Furthermore, we are committed to creating solutions that link society and customers as we work with stakeholders to reduce GHG emissions to net zero. Using the IoT and AI, and open innovation attempts, we will meet the world's needs for air solutions by providing safe and healthy air environments while at the same time contributing to solving global environmental problems.

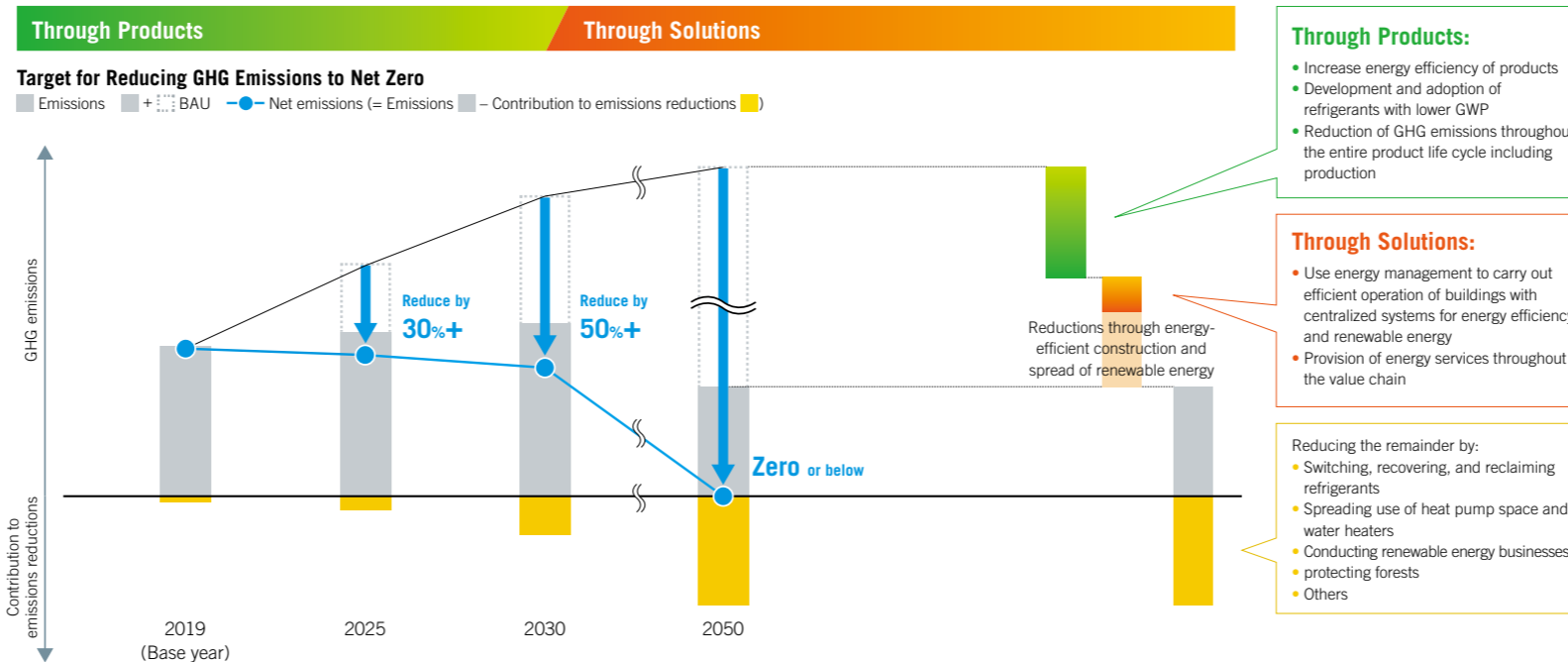
### Establishment of Reduction Targets Aimed at Realizing Environmental Vision 2050

Based on analysis of the future of its business operations, Daikin has established a GHG emissions reduction target to reduce its emissions to net zero and bring added value to people around the world through its air solutions.

#### GHG and CO<sub>2</sub> Emissions Reduction Targets

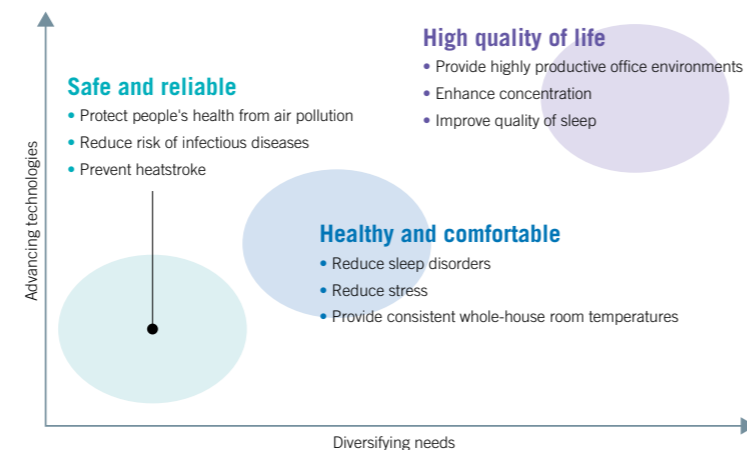
With the base year set at 2019, we aim to **reduce GHG emissions by 30% or more in 2025 and by 50% or more in 2030** compared with emissions without measures (BAU).

**Fiscal 2021 result:** 10% reduction



### Through the Power of Air

Image: The power of air



### Topic

#### Establishing Rules for Realizing Carbon Neutrality

In order to spread the use of inverters, heat pumps, and refrigerants with lower GWP around the world, we must develop a market in which we can emphasize the effectiveness of these and other environmental technologies for reducing environmental impacts, in addition to ensuring proper understanding throughout society. To this end, we must establish rules that enable the proper evaluation and use of new technology, a goal that cannot be achieved solely through the efforts of a single company. Over the years, the Daikin Group has worked collectively with government agencies, international organizations, industry groups, research institutes, NGOs and NPOs, and a variety of other stakeholders to establish systems and frameworks in each region in which we operate. We will continue to work with industry, governments, and academia to advance discussions on the ways in which markets will be created and rules established in a carbon-neutral era.

### Enforcing Various Measures in Line with Our Management Plan Themes

The three themes of the growth strategy for achieving Environmental Vision 2050 have been incorporated into the nine key strategy themes of our FUSION 25 strategic management plan. Through the implementation of this plan, we will aim to help resolve social issues and continue to expand our business.

**FUSION 25**

**Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth**

### Through Products

#### Challenge to achieve carbon neutrality

- Reduce emissions of energy-induced CO<sub>2</sub> and hydrofluorocarbons (HCFs) and perfluorocarbons (PFCs) in development and production processes
- Accelerate global conversion to inverter units to lead other companies with environmental products (energy-saving equipment)
- Position Europe and North America as the priority regions to accelerate conversion of combustion heaters to heat pump space and water heaters
- Advance various measures to reduce refrigerant-induced CO<sub>2</sub> emissions, leading the way for environmentally conscious society and industry
- Ambitiously pursue initiatives toward market expansion and CO<sub>2</sub> reduction contributions
- Research leading-edge technologies on CO<sub>2</sub> decomposition, recovery, and reuse, and put in place specific measures to obtain those technologies

### Through Solutions

#### Promotion of Solutions business connected with customers

- Provide solutions for service/inspections, value-added proposals during equipment operation, and retrofits/replacements to establish a business model centered on providing new experiences
- Expand business globally by deploying energy-saving and environmental technologies Daikin has cultivated in the air-conditioning domain

### Through the Power of Air

#### Creating value with air

- Create markets from opportunities presented by growing IAQ/ventilation demand, and create new products and services to establish a large-scale IAQ/Ventilation Business
- Accumulate and analyze air-conditioning data and vital data to create value with IAQ/AE for people's physical and mental well-being

## Information Disclosure based on the TCFD Framework

For Daikin, climate change represents an important issue affecting its business continuity. Daikin endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)\*, which are intended to mitigate the risk of instability in financial markets as a result of climate change. We are now working to analyze and reflect the risks and opportunities of climate change as related to our business operations into our management strategies and risk management. We will appropriately disclose the progress of such efforts as we aim for further growth while contributing to the decarbonization of society.

\* TCFD was established in 2015 by the Financial Stability Board. It recommends the type of information that companies should disclose to enable investors, lenders, and insurance underwriters to appropriately assess and determine the cost of risks related to climate change.

### Daikin's Response to TCFD's Recommended Disclosures

<b>Governance</b>	The organization's governance around climate-related risks and opportunities		
	<ul style="list-style-type: none"> <li>The CSR Committee, which is chaired by the officer in charge of CSR, discusses and confirms the progress of results on risks and opportunities, policies, and targets concerning climate change and other environment-related matters.</li> <li>Climate change in particular is an important issue for the Company as our business centers on air conditioning. Accordingly, "Challenge to achieve carbon-neutrality" has been declared as one of our growth strategy themes in the FUSION 25 strategic management plan and progress on this theme is regularly reported to the Board of Directors.</li> </ul>		
<b>Strategy</b>	The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning		
	<ul style="list-style-type: none"> <li>We analyze the climate scenarios based on <i>Future of Cooling</i> by the IEA.</li> <li>Demand for air conditioning is expected to more than triple current levels by 2050. While there is the risk of stricter energy regulations for air conditioning and tighter regulations on refrigerants with a high GWP, this will also be an opportunity for Daikin to expand its strengths in providing highly environmentally conscious products and services.</li> <li>Environmental Vision 2050 calls for net zero GHG emissions by 2050 and we have incorporated GHG reduction targets and main measures into our FUSION 25 strategic management plan.</li> </ul>		
	<b>Climate Related Risks and Opportunities and Potential Impacts</b>		
	<b>Category</b>	<b>Impact on Daikin's business</b>	<b>Potential financial impacts</b>
<b>Risks</b>	Transition	<b>Stricter regulations on refrigerants</b> If regulations on refrigerants become too strict, existing air conditioners no longer compliant with these revised regulations could become obsolete.	High
		<b>Tight supply and demand for electricity</b> The spread of air conditioners in emerging countries could increase electricity usage and make it difficult to increase sales of air conditioners due to electricity shortages.	High
	Physical	<b>Production delays due to water shortages</b> Production bases located in water-stressed regions may experience operational disruptions due to the lack of water needed for production.	Medium
<b>Opportunities</b>	Transition	<b>Stricter regulations on refrigerants</b> Companies without technologies compliant with regulations on refrigerants will be weeded out, resulting in increased sales of air conditioners using low-GWP refrigerants, an area of strength for Daikin.	High
		<b>Stricter regulations on energy efficiency</b> Companies without technologies compliant with stricter regulations on energy efficiency will be weeded out, resulting in increased sales of air conditioners with high energy efficiency, an area of strength for Daikin.	High
		<b>Stricter regulations on the use of fossil fuels</b> Regulations on the use of fossil fuels continue to become stricter, and since combustion heaters will be subject to these rules, there will be growing demand for and an increase in sales of heat pump heaters, an area of strength for Daikin.	High
<b>Risk Management</b>	Process for identifying, assessing, and managing climate-related risks		
	<ul style="list-style-type: none"> <li>Based on scenario analysis, gather climate-related risks from business sites around the world, assess them for their degree of importance, and identify them from the perspective of incorporation into our strategies</li> <li>Recognize climate-related risks as risks that could have a significant impact on our business strategies and integrate them into our Groupwide risk management processes</li> <li>Confirm the progress of the Group's risk management through the Internal Control Committee, which is chaired by the president and CEO, and report to the Board of Directors</li> </ul>		
<b>Metrics and Targets</b>	The metrics and targets used to assess and manage relevant risks and opportunities		
	<ul style="list-style-type: none"> <li>Under Environmental Vision 2050, aim to reduce GHG emissions to net zero by 2050</li> <li>Under the FUSION 25 strategic management plan, set targets to reduce GHG emissions from our own business operations</li> </ul>		
	<b>GHG Emissions Reduction Targets</b>		
	Scope 1, Scope 2, and Scope 3	Reduce net GHG emissions from internal business activities by 30% or more in 2025, by 50% or more in 2030, and to zero or less by 2050, compared with a BAU emissions scenario and with 2019 as the baseline year	
	Scope 1 and Scope 2	Reduce GHG emissions from the Group's overall manufacturing (development and production) processes to 1.2 million tons-CO <sub>2</sub> by fiscal 2025	

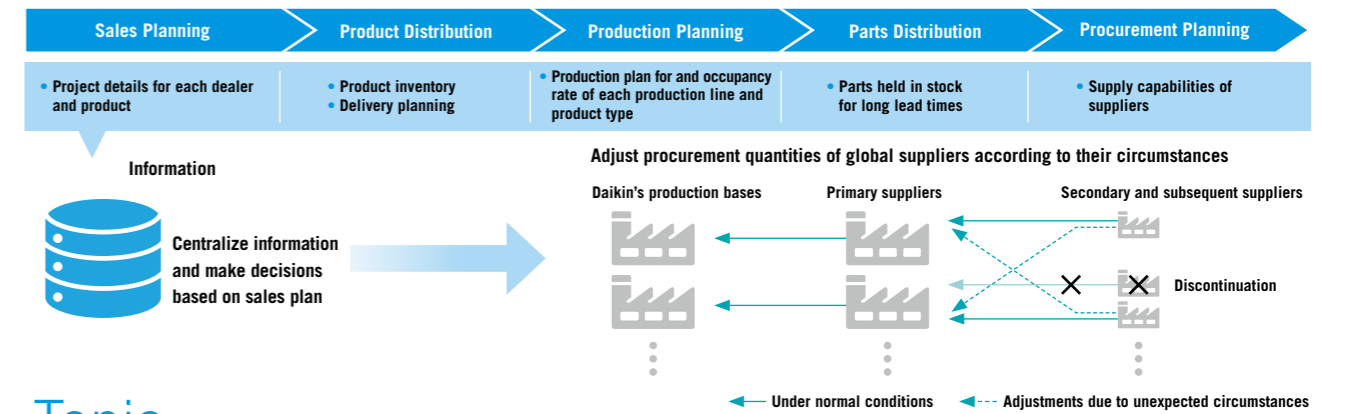
## Supply Chain Management

### Establishing a Flexible and Robust Supply Chain

Many supply chains around the world are being burdened by the drastic increase in disruptions, decoupling, and other forms of uncertainty. In order to further strengthen our supply system, it is essential that we continue to enhance our risk mitigation measures, such as increasing the visibility of our supply chain and acquiring components from multiple suppliers, in addition to conducting procurement activities and establishing a supply chain that is geared to local production for local consumption. In view of this,

"Establishing a robust supply chain" was declared as a key theme in our FUSION 25 strategic management plan. Going forward, we will optimize our supply chain management throughout the Group by further enhancing our region-based procurement aimed at local production for local consumption and by using digital technology to share information throughout our supply chain. In so doing, we will continue to ensure stable supplies of products to markets.

### Optimizing Supply Chain Management Using Digital Technology



### Topic

#### Establishment of a Global Production System Adaptable to Changes in Demand

To mitigate the risk of supply disruptions, the Daikin Group has remained true to its market-localized production approach over the years. A single heat wave will drive up demand for air conditioners, which are considered a lifeline at such times. To be fully capable of responding quickly to such sudden changes in demand, all of our manufacturing sites have implemented a variable-mix, variable-volume production system, which adjusts production items and quantities on a daily and weekly basis. In terms of procurement, we have a system that manages both centralized procurement, which is handled by the Procurement Division at Daikin's headquarters in Japan, and local production for local consumption, whereby procurements are made locally under the lead of our global business sites.

Despite having such a flexible system in place, escaping the consequences of the floods in Thailand and the Great East Japan Earthquake that occurred in 2011 was a daunting task. For this reason, the Group is strengthening its business continuity plan (BCP) with the aim of establishing a highly resilient supply chain. The hallmark of this BCP is the close bond that is formed between our suppliers and each Group company and department based on the shared objective of constantly maintaining production. For instance, after the Great East Japan Earthquake, our Product Development Division was forced to change product specifications so that the alternative components we had obtained could be used. Having been through this experience, we have incorporated into our BCP a system for swiftly developing alternative components and products in times of emergencies.

### Respect for Human Rights

At the Daikin Group, we have declared respect for human rights in our Group Conduct Guidelines, which specify the standards of conduct that must be adhered to by all executives and employees of the Group, and we are engaging in efforts to promote human rights across our entire value chain. We also endorse and participate in the United Nations Global Compact for supporting and putting into practice universally accepted principles relating to such issues as labor and human rights.

Respect for human rights forms part of the self-assessments we conduct each year to ensure that the Group is in thorough compliance with the Group Conduct Guidelines. We verify the existence of human rights violations and related issues through this assessment and take the necessary measures in response. Issues that are uncovered as a result of these assessments and any

countermeasures taken are reported to and shared with the Corporate Ethics and Risk Management Committee and the compliance committees for each region of operation in order to mitigate any associated risks.

With regard to the supply chain, respect for human rights is included in our Supply Chain CSR Promotion Guidelines in order to eliminate all forms of child labor and forced labor, as well as acts of discrimination on the grounds of race or gender. In addition, we are asking for thorough compliance with these guidelines from our business partners both in Japan and overseas. In fiscal 2022, Daikin enhanced its understanding of promoting respect for human rights along the supply chain through lectures given by specialists and by learning from the CSR procurement activities of other companies, which it is utilizing to improve its efforts in this area.



## Safety-Related Measures

### Product Safety

#### Policy On Product Safety

At the Daikin Group we believe that providing customers with safe and quality products that ensure their satisfaction by meeting their needs is the most important task for management. We have therefore formulated our basic policy on product quality in an effort to provide even higher levels of safety and quality in our products.

We must ensure that our products can be operated safely not only under normal conditions but also in unexpected situations. In

the case of accidents, we must minimize damage as much as possible. With this in mind, we formulated our Global Product Safety Standards, which are standards on product safety common to all members of Daikin's global operations to ensure that our products are designed for the utmost safety.

### Quality Management System

#### Establishment of a Global Policy on Quality Management

In the Global Quality Guarantee Rules, the Daikin Group has prescribed its basic stance on quality standards across the Group and specified the responsibility and authority structure for seamlessly monitoring and improving quality. Moreover, we have obtained ISO 9001 certification at all of our production bases, with the standard forming the basis of our quality management system. We work to ensure consistently high levels of product quality through the extensive management of quality standards by our development, procurement, and production divisions. We also work together with our outsourcing partners to continue to strive for

higher standards in our quality. Each aspect of our quality management system is assessed by conducting internal audits and evaluating its operational status for each business division, and maintaining a continuous cycle of implementation, evaluation, and improvement.

In addition, a quality assurance program is planned and implemented each fiscal year, outlining priority quality measures and targets for each business division based on the Group's annual policy guidelines.

### Promotion of Occupational Safety and Health

#### Establishment of a Management System in Pursuit of Zero Workplace Accidents

To ensure operational and employee safety at its production bases around the world, the Group has established occupational health and safety management systems at each base and has obtained certification for ISO 45001 and other international standards at 61 production bases.

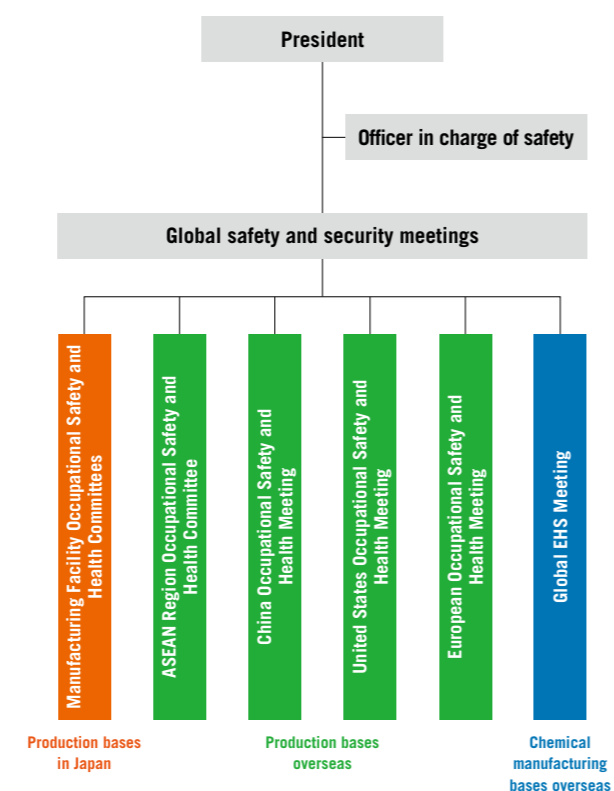
Chaired by the director in charge of safety, the Global Safety Meeting is held twice a year with the aim of improving safety standards throughout the Group. We also conduct safety education and training and undertake safety patrols at each base in Japan and overseas with the goal of realizing zero workplace accidents. In fiscal 2021, the frequency rate\* of lost-time occupational accidents was 1.19.

#### Frequency Rate of Lost-Time Occupational Accidents

	2020/3	2021/3	2022/3
Daikin Group (including overseas)	1.26	1.01	1.19
Japan (average for all surveyed industries)	1.80	1.95	2.09

\* Frequency of deaths or injuries caused by occupational accidents per one million actual working hours  
 Frequency rate = Number of deaths or injuries caused by occupational accidents ÷ Total actual working hours × 1,000,000

#### Occupational Safety and Health Promotion Structure



## Financial Strategy

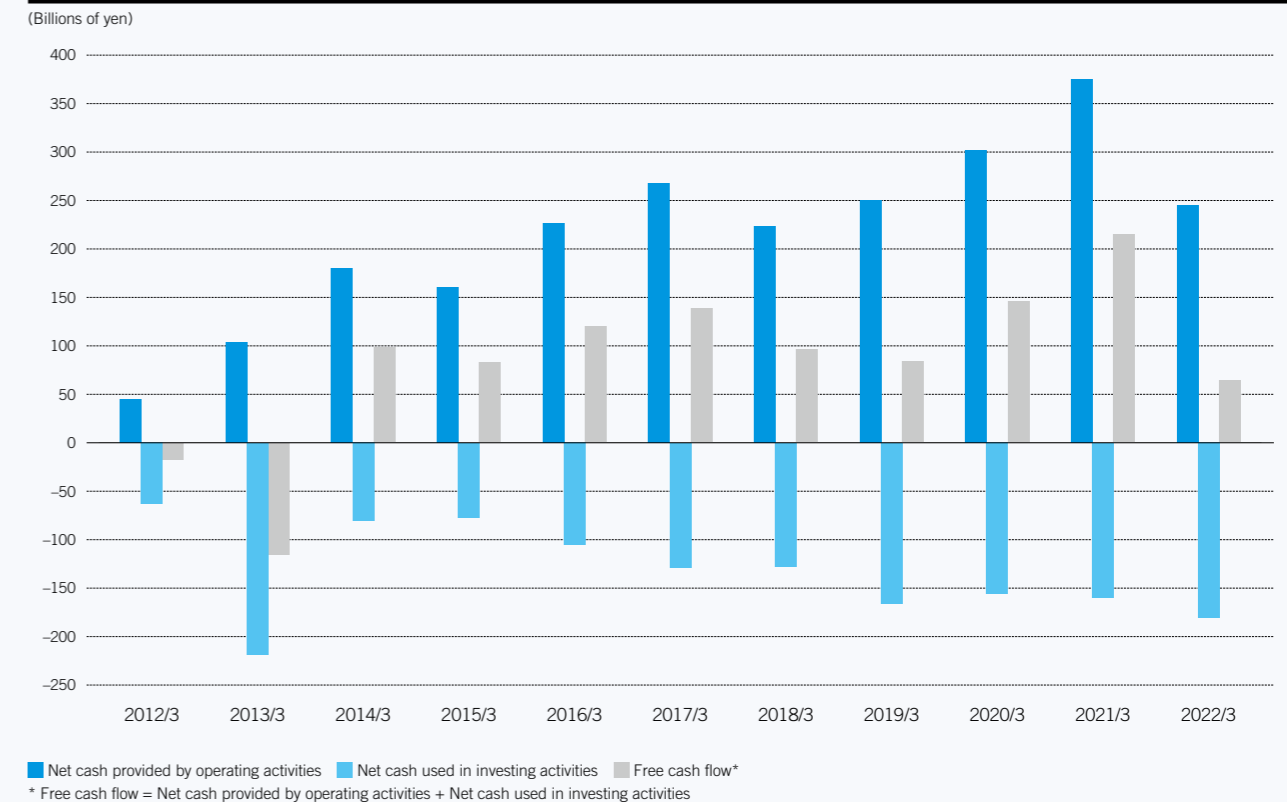
### Basic Policy

The Daikin Group will continue to focus on expanding its business while strategically investing its assets. We will enhance our management structure with a view to realizing further growth in the years ahead through the implementation of comprehensive cost-reduction measures and the strengthening of our financial position.

The basic approach behind our capital policy is to implement upfront investments in digital technology, R&D, human resources, and other areas of our business based on the key strategic themes outlined in FUSION 25, while increasing our cash flow by

expanding the scope of our business and enhancing profitability. The cash generated as a result will be used in capital investments, M&As, and other avenues in which we will invest actively toward further growth. We will also use it to further increase shareholder returns. Through these initiatives, we are committed to being a truly global and excellent company while at the same time further improving our corporate value and enhancing profit returns to our shareholders.

#### Change in Cash Flow



### Ratio Management and Our Targeted Management Indicators

At Daikin, we engage in ratio management based on the awareness that the maximization of our corporate value is the issue of highest priority for management. The background behind introducing ratio management started with our intention to pivot away from emphasizing monetary amounts (i.e., net sales, operating profit) on our profit and loss (P&L) statements, and instead aim to become global No. 1 under our FUSION strategic management plan, which was launched in 1996. We then began ratio management to focus more on operating profit margin, profitability, and financial structure based on our aim to "become an attractive company that draws together people, capital, and information" set forth in the revamped version of FUSION in 1999.

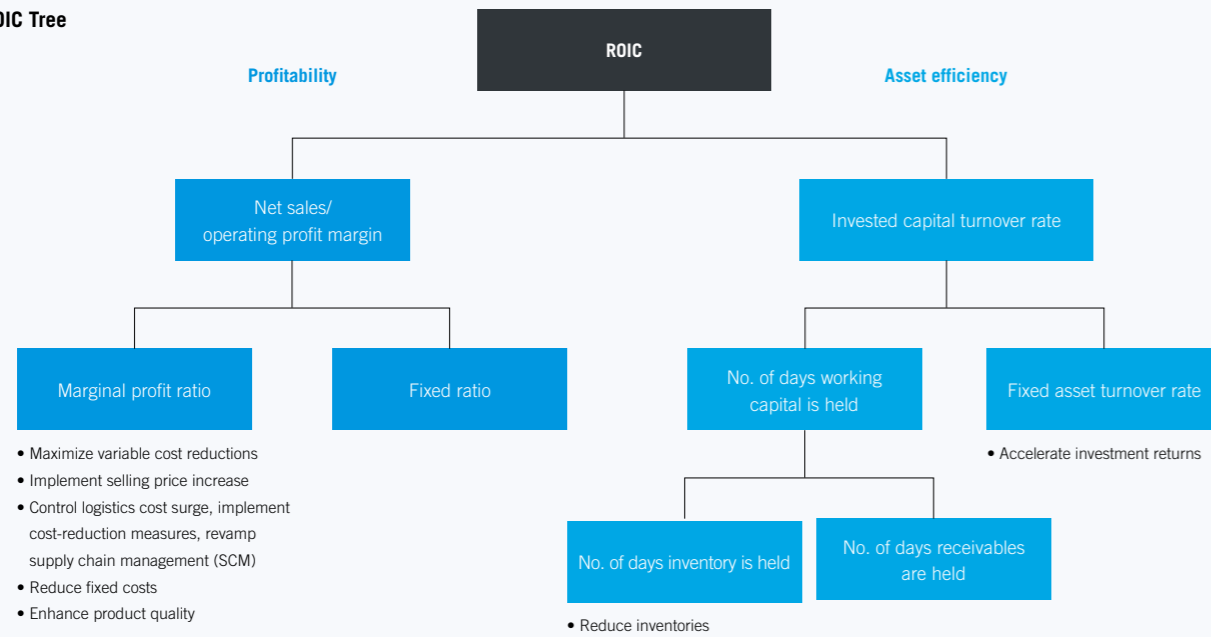
Under ratio management, we actively expand our business and enhance our management structure on the basis of free cash flow (FCF), return on invested capital (ROIC), return on assets (ROA), and return on equity (ROE) as key management indicators. We place particular emphasis on FCF as a source of corporate value and as an integrated indicator that serves to enhance all management indicators. In addition to increasing earnings and improving investment efficiency, we are proceeding with the measures necessary to generate cash flow from a working capital perspective, which includes thoroughly reducing the balances of accounts receivable and inventory.

Promoting Internal Awareness of Our ROIC Tree

We are working to enhance internal awareness of ROIC as a management indicator for each division. To facilitate greater implementation among employees, we have positioned ROIC as an internal management indicator linked to Companywide ROE targets and then applied it to each business target as a means to show specifically how ROIC is connected to the duties of each employee.

For example, during employee training we describe ROIC as a tree as a way to explain concepts such as how inventory reduction improves ROIC and how adjusting the relationship between selling prices and costs can increase profitability. We use the ROIC Tree concept to explain to our employees both in Japan and at our overseas bases how ROIC is linked to their daily duties.

ROIC Tree



Investment Plan under FUSION 25

We will actively invest our assets to realize the growth strategies set forth in FUSION 25 and to capitalize on the opportunities for business growth arising from the changing times. Our plan is to allocate roughly ¥800.0 billion over a three-year period spanning fiscal 2021 to fiscal 2023 and approximately ¥1,300.0 billion over a period of five years through to fiscal 2025 toward capital investment, R&D expenses, digital technologies, and human resources. More specifically, these investments will be used to expand our Heat Pump Space and Water Heating Business in Europe by reinforcing our sales and service structure and enhancing our lineup of differentiated products, in addition to increasing our capital and establishing new production bases ahead of schedule toward the expansion of our production capacity. Meanwhile, in North America, the increasingly stringent environmental and energy-saving regulations will serve as an opportunity to enhance sales of FIT inverter units, a strategic

product for Daikin, and to speed up the growth of our premium environmental business.

We will also look to significantly expand our investment in digital technology. In so doing, we will strengthen our management foundation, not only by accelerating the creation of innovation, such as by utilizing data to advance our Solutions Business and create value with air, but also by promoting process innovation to shorten development lead times and improve supply chain efficiency. Through the transition to development processes that draw on digital technology, we will refine our environmental technologies, such as heat pumps and next-generation refrigerants, and develop a series of differentiated products. To do so, we must acquire and develop exceptionally talented individuals with the ability to inspire innovation, and we will therefore continue to actively invest in our human resources going forward.

Policy on M&As

At Daikin, we believe that alliances, collaborations, and M&As are essential to increasing the pace of our business expansion. M&As have been actively taken into account for FUSION 25, with plans to invest approximately ¥600.0 billion over the course of three years spanning fiscal 2021 to fiscal 2023 and over ¥1 trillion over the five-year period of the plan. When considering the possibility of M&As, emphasis is placed on whether their objectives align with the key priority themes set forth in our FUSION strategic management

plans, whether they function as a business strategy that parallels the direction of the Group's growth and development, and whether they are likely to generate sufficient synergies. Based on these factors, under FUSION 25, we are examining the possibility of acquiring heating manufacturers and refrigeration service companies in Europe; service and engineering companies in Asia and North America; and sales and wholesale companies in North America in order to strengthen our sales network in the region.

Policy on Cross-Shareholdings

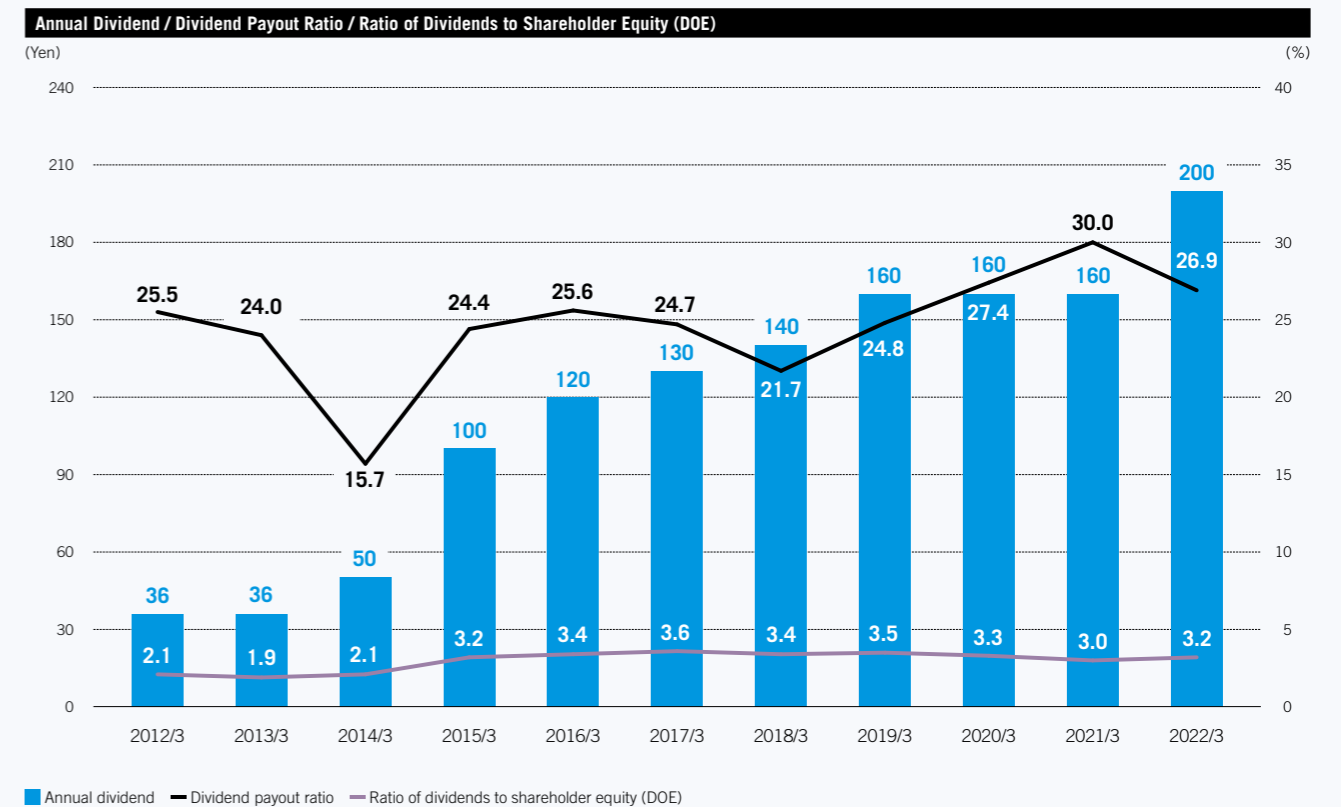
As our business becomes more complex and wide-ranging, alliances and partnerships with other organizations in diverse fields are becoming increasingly important for our continuous growth. We have determined it appropriate to hold shares in companies with potential for improvements in corporate value. This policy is the result of a strategic decision to engage in alliances and partnerships to rapidly expand our business and to enhance our corporate value over the medium to long term.

The Board of Directors conducts a comprehensive review for each cross shareholding to ensure that these shares are being held for strategic purposes, after carefully assessing the benefits and risks of each holding based on the cost of capital. Any cross-shareholdings that are deemed unreasonable to hold on the basis of these reviews are sold as appropriate.

Dividend Policy

Based on our policy of providing stable dividends on a continuous basis, we will strive to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% while aiming to further increase our dividend payout ratio. In addition, we will implement upfront investments

with the aim of continuing to grow as an organization while expanding the scope of our business. We will also strive to increase our corporate value and market capitalization and provide even greater returns to shareholders in the process.



## Corporate Governance

### Our Vision for Corporate Governance: A System That Ensures Management Is Always a Step Ahead

#### An Integrated Management Framework That Facilitates Timely Decision-Making and Business Execution

Under this framework, directors assume responsibility for both business execution and management. Directors make strategic decisions in a timely manner and provide sound and appropriate supervision and guidance, thereby fulfilling their responsibilities for all areas of management through cooperation.

#### A Supervisory Function That Ensures Sound and Transparent Management

Through its adoption of a Company with Audit and Supervisory Board organizational system, Daikin is strengthening and exercising the supervisory function of the Board of Directors through the efforts of its internal directors. This function is also being enhanced through the efforts of the Company's Audit & Supervisory Board members and the participation of external directors who possess a wealth of experience in supervising management from an independent and objective perspective.

#### An Officer Personnel and Compensation System Tailored to Medium- to Long-term Increases in Corporate Value

To fulfill the expectations of shareholders and all other stakeholders, Daikin's officer personnel and compensation system is designed to enhance the motivation of directors so that they continuously improve the Company's performance over the medium to long term and contribute to increasing the overall value of the Daikin Group in accordance with its management policies.



Please refer to our **Corporate Governance Report** for details on our corporate governance system.

### Basic Philosophy

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

We strive to improve our current integrated management framework, under which directors assume responsibility for both business execution and management. In this way, we fulfill our responsibility for management, making strategic decisions quickly

and providing appropriate supervision. We also seek to improve the monitoring function conducted by third parties, including multiple external directors.

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

### Key Points

#### 1) Our Unique Integrated Management Framework

Under its unique integrated management framework, Daikin seeks to increase the speed of management's decision-making and actions, while its directors work together in assuming responsibility for management and business execution in response to the increasingly complex and wide-ranging issues and challenges faced by management and the Daikin Group as a whole.

#### 2) Executive Officer System and Board Composition

Daikin has implemented an executive officer system aimed at increasing efficiency through independent assessments and decision-making conducted in each of its businesses, regions of operation, and functions. Under this system, executive officers engage in prompt and strategic decision-making, and sound management. The number of directors maintained is well suited to carrying out appropriate discussions and decision-making on all issues. The Company appoints a minimum of four external directors at all times. Currently, the Board of Directors consists of 11 members, including four external directors (including one female director) and one non-Japanese director.

#### 3) Management System

The Group Steering Meeting is the highest deliberative body in the Company's management system. Its function is to

accelerate the pace at which Daikin decides future strategies and solves issues related to important management policies and strategies. Meanwhile, the Group Management Meeting aims to establish a general consensus regarding all corporate actions and policies taken, which is accomplished by Groupwide sharing of all major Group management policies and basic strategies, and by more effectively supporting Group companies in solving their problems. The Group Auditors Meeting strengthens auditing and control functions throughout the Daikin Group, including those at overseas subsidiaries. In this way, the Group Auditors Meeting ensures these functions are working effectively.

#### 4) Enhancement of Group Cohesiveness

The chief global group officer leads efforts to strengthen the cohesiveness of the Daikin Group. This officer is also responsible for enhancing corporate governance and the organizational management of Daikin as a multinational company.

#### 5) Officer Personnel and Compensation System

The HRM Advisory Committee and the Compensation Advisory Committee are chaired by external directors. The role of these committees is to improve the transparency and appropriateness of decisions related to personnel matters and compensation for officers.

### Audit System

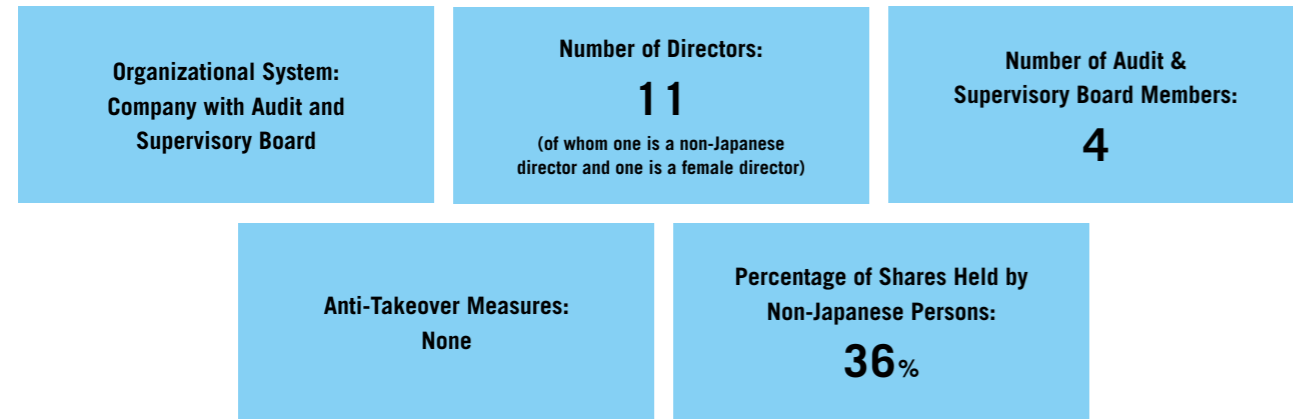
Daikin has adopted a Company with Audit and Supervisory Board organizational system and accordingly established an Audit & Supervisory Board. As of the end of June 2022, Daikin had four Audit & Supervisory Board members, two of whom were external Audit & Supervisory Board members. One of the principal nomination criteria for external Audit & Supervisory Board members, which are the same as those for external directors, is being independent of the Company in terms of not having a conflict of interest with Daikin.

Audit & Supervisory Board members attend meetings of the Board of Directors, as well as other important meetings, receive reports, and express frank and diverse opinions.

To ensure effective audits, the Audit & Supervisory Board receives reports on important issues related to management and business performance when necessary while monitoring relevant units, confirming and approving documents, and regularly exchanging opinions with representative directors, executive officers, and the accounting auditor. In addition, the Audit & Supervisory Board Member Office has been established, with the personnel thereof performing duties under the direction of Audit & Supervisory Board members. Respect is given to the opinions of Audit & Supervisory Board members regarding job rotations, performance evaluations, and other matters pertaining to personnel of the Audit & Supervisory Board Member Office.

## Corporate Governance

### Daikin's Governance at a Glance

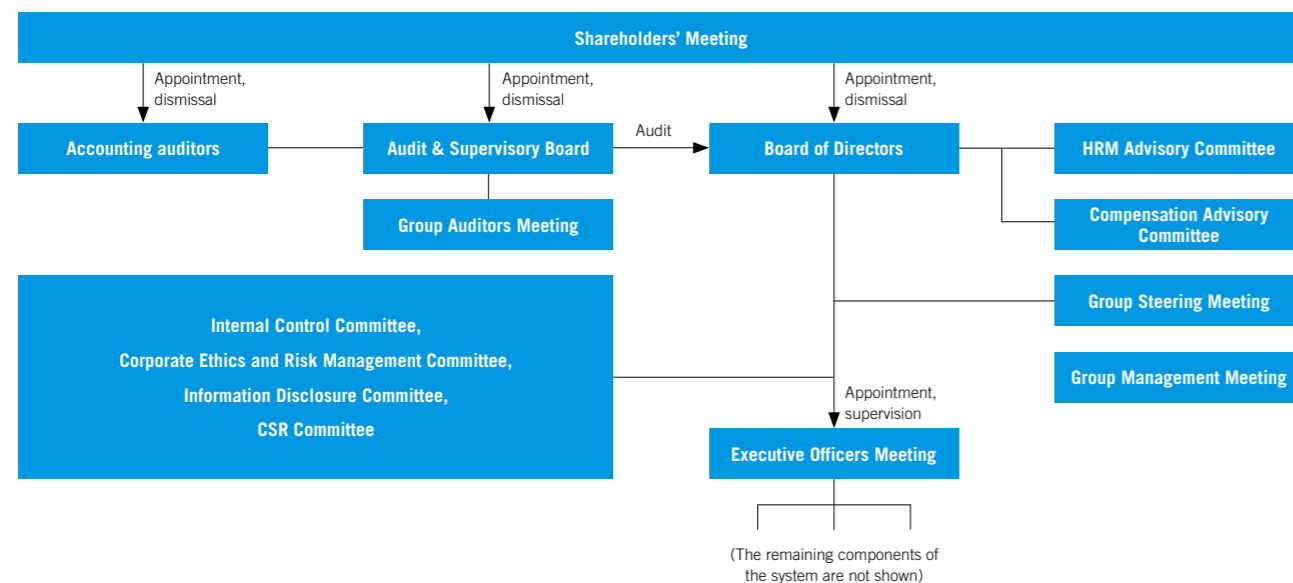


### Composition of the Board of Directors and Other Committees

#### Ratio of Independent, External Directors



#### Corporate Governance System (As of June 30, 2022)



### Policy for Appointment of Directors

The Company strives to realize effective and appropriate management via an integrated management system. Through this system, directors efficiently make strategic decisions and conduct sound and appropriate supervision and guidance—thereby collectively sharing responsibility for all facets of management—while assuming responsibility for business execution through prompt action. Accordingly, Daikin believes this integrated management system is effective in accelerating decision-making and business execution. Directors make decisions, execute operations, and provide supervision and guidance in an integrated manner, thus independently making decisions and taking responsibility for the outcomes thereof.

The Company appoints multiple external officers who monitor the execution of operations from an independent perspective and offer appropriate supervision and advice during decision-making. Through this process, external directors take responsibility for supporting the Company's integrated management system from the standpoint of transparency and soundness.

Daikin prioritizes diversity when appointing directors in terms of their nationality, gender, and experience, with a particular emphasis on business expansion, globalization, and diversity management. Furthermore, the Company seeks in director candidates the expertise and competencies required for carrying out effective corporate management, namely, leadership skills that bring out the potential of employees and lead an organization to enhance its business execution capabilities; the ability to act swiftly based on foresight and insight gained from frontline operations, where trends first emerge and can be understood; the determination and decisiveness to create solutions to unresolved issues; and the capacity to put into practice the Group Philosophy and Core Values of the Daikin Group and pass them down to future employees.

Directors are appointed based on the above criteria, while independent directors are required to have assumed such a role at a listed company, among other experience.

With the aims of boosting the corporate value of the Daikin Group, furthering global business expansion, and accomplishing the key strategies set forth in FUSION 25, the Company will further enhance corporate governance through its Board of Directors, which consists of corporate managers with extensive experience and deep insight.

All of the Board's 11 directors, based on their extensive experience and deep insight as corporate managers, have achieved significant results in their respective fields. Daikin believes the skills and attributes possessed by each director are necessary for further improving the Group's corporate value. The seven internal directors, while carrying out their respective duties, will further expand the Company's global businesses, promote and execute initiatives as part of environmental strategies and for the Solutions Business, and strive to accomplish them.

The four independent external directors are appointed to aid in decision-making and management supervision from an independent and objective standpoint. Based on experience at their respective companies and knowledge in their respective areas of expertise, the incumbent Board members possess the necessary skills for helping accomplish the Group's key strategies.

Furthermore, for such business functions as sales, production, finance and accounting, legal affairs, and digital transformation, executive officers are appointed to execute business operations in earnest. At the same time, they attend Board of Directors' meetings in accordance with Board meeting agendas, in order to ensure effective decision-making and supervision by the Board of Directors.

### Skill Sets of Directors

Name	Experience and Knowledge of Each Director and Their Expected Roles
<b>Noriyuki Inoue</b>	Noriyuki Inoue has been overseeing the Company's management for many years and has achieved significant results in globally expanding Daikin's businesses and improving corporate value through sound judgement and foresight and Group management capabilities that embrace diversity. The Company expects that he will promote the building of a business model looking ahead to a new era.
<b>Masanori Togawa</b>	As representative director, president and CEO, Masanori Togawa has made efforts in executing FUSION 25, the Company's strategic management plan, and in developing the Daikin Group. The Company expects that he will continuously strive to achieve FUSION 25 as well as demonstrate his strong leadership to promote measures flexibly and quickly amid a constantly changing business environment for further business expansion.
<b>Ken Tayano</b>	Ken Tayano has been in charge of the Air Conditioning Business in China for many years and has significantly contributed to business expansion. He is currently in charge of all business operations in China and the Air Conditioning Business in Japan, while reinforcing the sales and marketing capabilities of the Daikin Group. Leveraging his ability to respond to rapid changes in China and management skills that maximize the potential of local human resources, the Company expects that he will further expand business.
<b>Masatsugu Minaka</b>	Masatsugu Minaka has been in charge of the Air Conditioning Business in Europe for many years, thereby significantly contributing to business expansion. He is currently in charge of all business operations in Europe, the Middle East, and Africa. Leveraging his ability to respond to environmental issues in Europe and his management skills to create synergies among diverse local human resources, the Company expects that he will further expand business.
<b>Takashi Matsuzaki</b>	Takashi Matsuzaki has been engaged in the Air Conditioning Business for many years and has significantly contributed to business expansion, particularly in terms of R&D and product development. He is currently in charge of R&D and the Applied Solutions Business in North America. The Company expects that he will develop leading-edge technology beyond air-conditioning equipment and create new businesses.
<b>Yoshihiro Mineno</b>	Yoshihiro Mineno has been engaged in the overseas Air Conditioning Business, particularly in Asia and Oceania, for many years, thereby significantly contributing to business expansion. Currently, he is in charge of the Air Conditioning Business in Asia and Oceania, including India, and the Filter Business. Leveraging his experience working overseas and business creation capabilities in new fields, the Company expects that he will further expand business as well as globally reinforce sales and marketing capabilities.
<b>Kanwal Jeet Jawa</b>	Kanwal Jeet Jawa has been engaged in the Air Conditioning Business in India for many years, thereby significantly contributing to business expansion. Currently, he is in charge of the Air Conditioning Business in India and East Africa. Leveraging his vast experience in the Air Conditioning Business and ability to develop businesses in emerging regions, the Company expects that he will further expand business.
<b>Tatsuo Kawada</b>	Leveraging his abundant experience and deep insight as a corporate manager at Seiren Co., Ltd., Tatsuo Kawada provides advice and supervises the Company's management matters based on extensive and deep insight as an independent external director, with a focus on his viewpoints regarding business model transition, innovation creation, and other matters.
<b>Akiji Makino</b>	Leveraging his abundant experience and deep insight as a corporate manager at Iwatani Corporation, Akiji Makino provides advice and supervises the Company's management matters based on extensive and deep insight as an independent external director, with a focus on his perspectives regarding the energy and environmental fields, service businesses, and other matters.
<b>Shingo Torii</b>	Leveraging his abundant experience and deep insight as a corporate manager at Suntory Holdings Limited, Shingo Torii provides advice and carries out supervision based on extensive and deep insight as an independent external director, with a focus on his perspectives regarding corporate management anticipating customers' needs, corporate activities pertaining to the SDGs and ESG, and other matters.
<b>Yuko Arai</b>	Leveraging her abundant experience and deep insight as a corporate executive at the ANA Group, Yuko Arai provides advice and carries out supervision based on extensive and deep insight as an independent external director, with a focus on her perspectives regarding customer-centric corporate management and business development as well as the further empowerment of female employees in the workplace.

Evaluation of the Effectiveness of the Board of Directors

Daikin evaluates the effectiveness and appropriateness of its Board of Directors and the corporate governance system through interviews with directors and Audit & Supervisory Board members and deliberations by the Board of Directors. The Board of Directors of the Company has been deemed to be making appropriate decisions through open and active

discussions, and to be playing an effective role in enhancing corporate value over the medium to long term. Daikin will continue to improve Board effectiveness as well as engage in other initiatives, including discussions on Groupwide strategies and issues and improvement of reporting regarding the status of business execution.

Officer Compensation System

To ensure the transparency of management by executive officers and of compensation processes, Daikin has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including executive officer nomination criteria, candidates, and compensation levels.

To fulfill the expectations of shareholders and all other stakeholders, the Company's officer compensation system is designed to enhance the motivation of internal directors to continuously improve the Company's performance over the medium to long term and contribute to increasing the overall value of the Daikin Group in accordance with its management policies. Compensation of directors, excluding external directors, consists of fixed compensation; performance-linked compensation, reflecting the short-term performance of both the Group and the division of which the director is in charge; and compensatory stock options, reflecting the medium- to long-term performance of both the Group and the division of which the director is in charge. Compensation levels are determined upon analyzing and comparing the compensation data of major manufacturers in Japan, selected from objective data based on compensation surveys. These surveys are compiled by a third-party institution specializing in research on the levels of compensation of corporate officers active in approximately 300 Japanese companies listed on the Prime Market of the Tokyo Stock Exchange. More specifically, net sales growth rate, operating profit margin, and ROE are used as basic indicators, while the status of the Company's performance and director compensation levels relative to other companies are assessed and determined commensurate with medium- to long-term improvements in corporate value. Moreover, in terms of performance-linked compensation, our ratio of compensation based on performance is higher than that of other major manufacturers in Japan, ensuring that sufficient incentive is provided to directors.

Performance-linked compensation for the chairman, and for the president and CEO uses a performance-linked coefficient derived from Companywide performance-linked indicators. Meanwhile, performance-linked compensation for directors other than the chairman and president and CEO is determined using a performance-linked coefficient derived from Companywide performance-linked indicators, adjusted by single-year performance versus quotas for net sales and operating profit for directors' respective divisions, which serve as objectives for the day-to-day business activities of each division, and the progress of each director in carrying out priority initiatives over the short, medium, and long term. In addition, for these priority issues, targets have been established based on the

responsibilities of each individual in accordance with the nine key strategy themes laid out in the Group's FUSION 25 strategic management plan.

The amount of compensatory stock options paid to directors excluding external directors is determined each fiscal year by dividing a sum determined by taking into account the status and results of each individual's efforts regarding short-term, medium-term, and long-term priority issues in the previous fiscal year, which are determined based on each director's respective position, by the recent average closing price of shares. These options are exercisable from three to 12 years after the date they were granted. With regard to the policy for determining director compensation and the details thereof, the Compensation Advisory Committee, which is chaired by an external director and the members of which are mainly external directors, deliberates on the policy and appropriateness of the system and levels of director compensation and individual compensation amounts while taking into account the wider context of executive compensation. To enhance the effectiveness of its functionality as an advisory body while ensuring the independence of its decisions, the Compensation Advisory Committee not only gathers information and utilizes advice from compensation advisors of external specialist organizations but also assesses and deliberates on the status of the Company's performance and compensation levels relative to other companies, and the appropriateness of compensation from a variety of angles. Furthermore, the Committee confirms and deliberates the contents of proposals concerning the amount of compensation for each individual director from an objective perspective and submits its opinions to the president and representative director. Representative Director, President and CEO Masanori Togawa shall determine the amount of compensation for each individual director on the basis, in principle, of the opinions submitted to the chairman upon receiving approval from the Board of Directors for their reappointment. If his decision were to contradict with the opinions submitted to the chairman of the Committee, the reasons thereof will be reviewed by the Compensation Advisory Committee.

The reason for delegating this authority to Masanori Togawa is that he is the most suited to overseeing the Company's management and its overall performance and to accurately assessing the performance of the relevant divisions of each director as well as the directors themselves based on sufficient information. Furthermore, the Compensation Advisory Committee comprises six members, including four external directors, one internal director, and one executive officer in charge of human resources, and is chaired by an external director.

Total Compensation for Directors and Audit & Supervisory Board Members (Fiscal 2021)

Position	Total compensation (Millions of yen)	Total of different types of compensation (Millions of yen)			Number of persons paid
		Fixed compensation	Compensatory stock options	Performance-linked compensation	
Directors (excluding external directors)	1,294	517	235	540	9
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	70	70	—	—	2
External executive officers	99	99	—	—	7

Compensation for Certified Public Accountants (Fiscal 2021)

Compensation for audit certification duties	¥255 million
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Messages from External Directors

At the Daikin Group, we believe corporate governance serves to enhance corporate value by allowing us to make and act on decisions quickly to ensure that we are constantly one step ahead and to continuously improve the transparency and soundness of our business operations in relation to our management issues and the changes in our business environment. In this section, our external directors explain the features of Daikin's Board of Directors and their stance as external directors.



Tatsuo Kawada

Chairman of the HRM Advisory Committee, Chairman of the Compensation Advisory Committee

Significant concurrent posts

Chairman and CEO of Seiren Co., Ltd. External Director of Hokuriku Electric Power Company

Attendance at the Board of Directors meetings

Attended 14 out of 15 meetings held in fiscal 2021



Akiji Makino

Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee

Significant concurrent posts

Chairman and CEO of Iwatani Corporation Chairman of the Board of Iwatani Industrial Gases Corporation Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited

Attendance at the Board of Directors meetings

Attended 14 out of 15 meetings held in fiscal 2021

At the Company's Board of Directors meetings, agendas are set from the perspective of employees on the front lines of our operations and are discussed in detail, allowing me to feel connected to the front lines at all times. For instance, the views of frontline employees in regard to the direction that the Company should take and the strategies it should execute were firmly incorporated into the discussion and formulation processes of the FUSION 25 strategic management plan. For that reason, the strategies or the so-called five *Gen* principles, *genba* (actual location), *genbutsu* (actual product or material), *genjitsu* (actual situation), *genri* (rationale), and *gensoku* (general rule) are fully embraced by those on the front lines.

Daikin's business environment has undergone drastic changes as a result of the COVID-19 pandemic. However, as the Group continues to expand its business with a focus on air, we are seeing a substantial increase in possibilities going forward.

While management's priority to date has been to improve profits and business results, environmental and social contributions must be emphasized to a greater degree hereafter.

As an external director, I will continue to monitor the gap between the ideal state of Daikin's business and its actual business growth, and work to realize a corporate governance that fulfills the expectations of its shareholders and all other stakeholders. In so doing, I will help ensure that the Group continues to grow and develop as an organization while resolving social issues in the years ahead.

At the Company's Board of Directors' meetings, monthly budget progresses are reported in detail from a frontline perspective, while at the same time, under the direction of the chair of the Board of Directors, executive officers and directors, including external directors, come together to discuss the market environment (opportunities and risks) of each region and business. I am convinced that the outcomes of these discussions have led to strong business results.

Specific measures are being developed and implemented for the growth strategy themes in FUSION 25, such as "Challenge to achieve carbon neutrality", and I believe that the Company is making exceptional progress with these measures. By continuing to facilitate lively discussions, I will contribute to sustainable increases in the Company's corporate value and its further growth and development as an organization.



Shingo Torii

Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee

Significant concurrent posts

Representative Director and Vice Chairman of the Board of Suntory Holdings Limited Outside Director of Zojirushi Corporation Chairperson of the Osaka Chamber of Commerce and Industry

Attendance at the Board of Directors meetings

Attended 14 out of 15 meetings held in fiscal 2021



Yuko Arai

Member of the HRM Advisory Committee, Member of the Compensation Advisory Committee

Significant concurrent posts

Senior Advisor of ANA Akindo Co., Ltd. Outside Director of Aichi Steel Corporation

Attendance at the Board of Directors meetings

Attended 12 out of 12 meetings held in fiscal 2021 (upon appointment as director on June 29, 2021)

While the Company has laid out its strategy of challenge to achieve carbon neutrality in FUSION 25, I am delighted about the prospect of significant growth that lies ahead as the trend toward decarbonization accelerates the shift from combustion heaters to heat pump space and water heaters in Europe and other regions.

Moreover, in addition to aggressively pursuing M&As, we have been focused on strengthening the value chain of upstream to downstream businesses through medium-scale acquisitions, rather than large-scale acquisitions, in recent years. These moves, I think, are very strategic.

I will draw on my management experience at Suntory Holdings Limited in support of the Company's initiatives related to the sustainable development goals (SDGs) and environmental, society, and governance (ESG) factors, as well as its measures to anticipate customer needs. I will also contribute to highly effective oversight and decision-making based on the perspectives of shareholders and all other stakeholders. In these ways, I will help guide the Group toward sustainable growth and enhance its corporate value.

The Company's Board of Directors meetings are conducted in an appropriate manner as agenda outlines are provided in advance, the meetings are held online, and matters are reported in a concise and easy-to-understand way.

In addition, the discussions are always held in a lively and determined manner, regardless of the Company's business performance, and I am always impressed by this determination.

It has been roughly a year since I was appointed outside director of the Company. I will continue to draw on my experience in the airline industry and as an external director at other manufacturing companies to provide the Company with oversight and advice on its supply of products and services from a customer perspective and on the empowerment of its female employees, enhancing the Company's corporate governance in the process.

Directors



**Noriyuki Inoue**  
Chairman of the Board and Chief Global Group Officer

**Date of birth** March 17, 1935

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

**Number of Company shares owned** 67,700

**Significant concurrent posts**

Chairman of the Daikin Foundation for Contemporary Arts  
 Chairman of Specified Nonprofit Corporation of Kansai Philharmonic Orchestra



**Masanori Togawa**  
Representative Director, President and CEO

**Date of birth** January 11, 1949

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

**Number of Company shares owned** 10,300

**Significant concurrent posts**

—



**Tatsuo Kawada**  
Member of the Board (External)

**Date of birth** January 27, 1940

March 1962 Joined Fukui Seiren Kako Co., Ltd. (Currently, Seiren Co., Ltd.)  
 August 1981 Director of the above company  
 August 1985 Managing Director of the above company  
 August 1987 President of the above company  
 June 2003 President and COO of the above company  
 October 2005 President, CEO and COO of the above company  
 June 2011 Chairman, President, CEO and COO of the above company  
 June 2014 Chairman and CEO of the above company (Current position)  
 June 2016 Director of the Company (Current position)  
 July 2016 Member of the HRM Advisory Committee and the Compensation Advisory Committee of the Company (Current positions)  
 July 2021 Chairman of the HRM Advisory Committee and the Compensation Advisory Committee of the Company (Current positions)

**Number of Company shares owned** —

**Significant concurrent posts**

Chairman and CEO of Seiren Co., Ltd.  
 External Director of Hokuriku Electric Power Company



**Ken Tayano**  
Representative Director, Senior Executive Officer

**Date of birth** January 12, 1947

April 1970 Joined the Company  
 June 2000 Associate Officer of the Company  
 June 2002 Senior Associate Officer of the Company  
 June 2004 Senior Executive Officer of the Company, Representative of China business of the Company (Current position), Member of Global Air-Conditioning Committee of the Company  
 May 2009 Chairman of the Board and President of Daikin (China) Investment Co., Ltd.  
 June 2011 Director and Senior Executive Officer of the Company  
 June 2013 In Charge of the 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.

**Number of Company shares owned** 5,300

**Significant concurrent posts**

Chairman of the Board and President of Daikin (China) Investment Co., Ltd.,



**Masatsugu Minaka**  
Member of the Board, Senior Executive Officer

**Date of birth** July 9, 1953

October 1983 Joined the Company  
 July 2005 Director and President of Daikin Europe N.V.  
 June 2007 Associate Officer of the Company, Member of Global Air-Conditioning Committee of the Company  
 June 2008 Executive Officer of the Company  
 June 2010 Senior Executive Officer of the Company  
 June 2011 Director and Senior Executive Officer (Current position), Representative of Air Conditioning in Europe, the Middle East, and Africa of the Company  
 June 2018 Representative of Air Conditioning in Europe, the Middle East, and Africa (excluding East Africa) of the Company  
 June 2021 Representative of Europe, the Middle East, and Africa of the Company (Current position), Chairman of the Board of Daikin Europe N.V. (Current position)

**Number of Company shares owned** 8,100

**Significant concurrent posts**

Chairman of the Board of Daikin Europe N.V.



**Takashi Matsuzaki**  
Member of the Board, Senior Executive Officer

**Date of birth** December 23, 1958

April 1982 Joined the Company  
 June 2004 Executive Officer of the Company  
 June 2008 Director and Senior Executive Officer of the Company  
 June 2010 Senior Executive Officer of the Company  
 June 2012 Director and Senior Executive Officer of the Company  
 June 2015 In Charge of R&D in North America (including Applied Solutions, Commercial and Industrial Refrigeration, Filter and Dust Collection) for the Company  
 June 2017 In Charge of R&D in North America for 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 the Applied Solutions Business of the Company (Current position), In Charge of Daikin Open Innovation Lab Silicon Valley of the Company (Current position)  
 June 2019 Senior Executive Officer of the Company  
 June 2020 Director and Senior Executive Officer of the Company (Current position)

**Number of Company shares owned** 8,000

**Significant concurrent posts**

—



**Akiji Makino**  
Member of the Board (External)

**Date of birth** September 14, 1941

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

**Number of Company shares owned** 2,000

**Significant concurrent posts**

Chairman and CEO of Iwatani Corporation  
 Chairman of the Board of Iwatani Industrial Gases Corporation  
 Representative Director and Chairman of the Board of Central Sekiyu Gas Corporation Limited



**Shingo Torii**  
Member of the Board (External)

**Date of birth** January 18, 1953

April 1980 Joined ITOCHU Corporation  
 June 1983 Joined Suntory Limited (Currently, Suntory Holdings Limited)  
 March 1992 Director of the above company  
 March 1999 Managing Director of the above company  
 March 2001 Representative Director and Senior Managing Executive Officer of the above company  
 March 2003 Representative Director and Executive Vice President of the above company  
 October 2014 Representative Director and Vice Chairman of the Board of the above company (Current position)  
 June 2020 Director of the Company (Current position)  
 July 2020 Member of the HRM Advisory Committee and the Compensation Advisory Committee of the Company (Current positions)

**Number of Company shares owned** 1,000

**Significant concurrent posts**

Representative Director and Vice Chairman of the Board of Suntory Holdings Limited  
 Outside Director of Zojirushi Corporation  
 Chairperson of the Osaka Chamber of Commerce and Industry



**Yuko Arai**  
Member of the Board (External)

**Date of birth** January 27, 1961

April 1979 Joined ALL NIPPON AIRWAYS CO., LTD.  
 April 2014 Corporate Executive Officer of the above company  
 April 2016 Senior Executive Officer of the above company Director and Senior Vice President of ANA Sales Co., Ltd. (Currently, ANA Akindo Co., Ltd.)  
 April 2021 Director and Senior Vice President of ANA Akindo Co., Ltd. (Current Position)  
 June 2021 Director of the Company (Current position)  
 July 2021 Member of the HRM Advisory Committee and the Compensation Advisory Committee of the Company (Current positions)  
 April 2022 Senior Advisor of ANA Akindo Co., Ltd. (Current position)

**Number of Company shares owned** —

**Significant concurrent posts**

Senior Advisor of ANA Akindo Co., Ltd.  
 Outside Director of Aichi Steel Corporation



**Yoshihiro Mineno**  
Member of the Board, Senior Executive Officer

**Date of birth** May 14, 1953

September 1978 Joined the Company  
 May 2010 General Manager of Global Operations Division of the Company  
 June 2012 Executive Officer of the Company  
 June 2016 Senior Executive Officer of the Company, Director of Goodman Global Group, Inc. (Currently, Daikin Comfort Technologies North America, Inc.) (Current position), Director of Daikin Holdings (Houston), Inc.  
 June 2019 Senior Executive Officer of the Company, In Charge of the Filter Business of the Company (Current position), In Charge of Training for the Company (Current position)  
 June 2021 Director and Senior Executive Officer (Current position), In Charge of Global Operations Division of the Company (Current position)

**Number of Company shares owned** 6,500

**Significant concurrent posts**

Director of Daikin Comfort Technologies North America, Inc.



**Kanwal Jeet Jawa**  
Member of the Board, Senior Associate Officer

**Date of birth** November 10, 1959

1997 Regional Director (Asia Pacific) of Carrier Aircon Limited  
 2001 Regional Vice President (North and 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 and COO of Daikin Airconditioning India Pvt. Ltd.  
 September 2010 Managing Director and COO of the above company  
 July 2017 Managing Director and CEO of the above company (Current position)  
 June 2018 Member of the Board and Associate Officer of the Company, Regional General Manager of Air Conditioning Business in India and East Africa of Global Operations Division of the Company (Current position)  
 June 2019 Member of the Board and Senior Associate Officer of the Company (Current position)

**Number of Company shares owned** —

**Significant concurrent posts**

Managing Director and CEO of Daikin Airconditioning India Pvt. Ltd.

Audit & Supervisory Board Members



**Ryu Yano**  
Audit & Supervisory Board Member (External)

**Date of birth** April 21, 1940

April 1963 Joined Sumitomo Forestry Co., Ltd.  
 December 1988 Director of the above company  
 June 1992 Managing Director of the above company  
 June 1995 Representative Director and Senior Managing Director of the above company  
 April 1999 Representative Director and President of the above company  
 June 2002 Representative Director and Executive Officer of the above company  
 April 2010 Representative Director and Chairman of the Board of the above company  
 June 2013 Audit & Supervisory Board Member of the Company (Current position)  
 April 2020 Director and Corporate Advisor of Sumitomo Forestry Co., Ltd.  
 June 2020 Chief Advisor of the above company (Current position)

**Number of Company shares owned** —

**Significant concurrent posts**  
Chief Advisor of Sumitomo Forestry Co., Ltd



**Toru Nagashima**  
Audit & Supervisory Board Member (External)

**Date of birth** January 2, 1943

April 1965 Joined Teijin Limited  
 June 2000 Director of the above company  
 June 2001 Managing Director of the above company  
 November 2001 President and Representative Director COO of the above company  
 June 2002 President and Representative Director CEO of the above company  
 June 2008 Chairman of the Board of the above company  
 April 2013 Director and Advisor of the above company  
 June 2016 Audit & Supervisory Board Member of the Company (Current position)  
 April 2018 Honorary Advisor of Teijin Limited (Current position)

**Number of Company shares owned** —

**Significant concurrent posts**  
Honorary Advisor of Teijin Limited



**Kosei Uematsu**  
Audit & Supervisory Board Member (Standing)

**Date of birth** January 21, 1952

February 1982 Joined the Company  
 June 2002 Director, General Manager of Global Operations Division of the Company, General Manager of DT Alliance Promotion Secretariat of the same division of the Company  
 June 2004 Executive Officer, Member of Global Air Conditioning Committee of the Company  
 September 2004 Chairman and Member of the Board of Daikin U.S. Corporation  
 June 2007 Senior Executive Officer of the Company, General Manager of New York Office of the Company, President and Member of the Board of Daikin Holdings (USA), Inc., President and Member of the Board of Daikin U.S. Corporation  
 June 2015 Audit & Supervisory Board Member of the Company (Current position)

**Number of Company shares owned** 8,000

**Significant concurrent Posts** —



**Hisao Tamori**  
Audit & Supervisory Board Member (Standing)

**Date of birth** July 31, 1960

August 1989 Joined the Company  
 July 2011 Department Manager of Accounting Group of Finance and Accounting Division of the Company, Director and President of Daikin Accounting Solutions Co., Ltd.  
 June 2016 Associate Officer of the Company  
 June 2019 Audit & Supervisory Board Member of the Company (Current position)

**Number of Company shares owned** 1,000

**Significant concurrent posts** —

Executive Officers

Position	Name	Main Responsibilities / Titles
Senior Executive Officer	Koichi Takahashi	Responsible for Finance, Accounting/Budget Operations, Promoting Operational Efficiency, General Manager of Finance and Accounting Division
Senior Executive Officer	Masayuki Moriyama	Responsible for Applied Solutions Business in China Region, Refrigeration Business, Director of Daikin (China) Investment, COO of McQuay China
Senior Executive Officer	Satoshi Funada	Responsible for Service Operations, General Manager of Domestic Air Conditioning Sales Division
Senior Executive Officer	Naofumi Takenaka	Responsible for Human Resources, General Affairs
Senior Executive Officer	Yoshikazu Tayama	Department Manager of Budget and Administration Group in Finance and Accounting Division
Senior Executive Officer	Katsuyuki Sawai	Responsible for CSR, Global Environment Affairs, Public Relations, General Manager of Tokyo Office, Manager of Public Relations Department in Tokyo Office, Chairman of CSR Committee
Senior Executive Officer	Tsutomu Morimoto	Responsible for Daikin Comfort Technologies North America, Inc., Executive Secretarial Department, Cooperation within North America
Senior Executive Officer	Yuji Yoneda	Responsible for Air-Conditioning Product Development (including Applied Solutions and Refrigeration), General Manager of Technology and Innovation Center
Senior Executive Officer	Masaki Saji	General Manager of Human Resources Division, Department Manager of Diversity Promotion Group in Human Resources Division
Senior Executive Officer	Toshio Ashida	Responsible for Corporate Planning, Electronics Business, Technology Innovation Strategy Office in Technology and Innovation Center
Senior Executive Officer	Yasushi Yamada	Responsible for Safety
Executive Officer	Hitoshi Jinno	General Manager of Filter Division
Executive Officer	Kota Miyazumi	Responsible for Marketing, Corporate Communication, General Manager of Marketing Research Division, Department Manager of Planning Group in Marketing Research Division, Chairman of Information Disclosure Committee
Executive Officer	Masafumi Yamamoto	Responsible for Corporate Ethics, Compliance, Legal Affairs, Information Security, General Manager of the Legal Affairs, Compliance and Intellectual Property Center, Chairman of Corporate Ethics and Risk Management Committee
Executive Officer	Akira Murai	Responsible for Defense Systems Business, SCM, Logistics, Co-Creation Projects Member of Technology and Innovation Center, General Manager of Yodogawa Plant
Executive Officer	Makio Takeuchi	Responsible for Global Procurement
Executive Officer	Yoshiyuki Hiraga	Responsible for Chemicals Business and Chemical Environment/Safety
Executive Officer	Hideki Maruoka	Responsible for Oil Hydraulics Business
Executive Officer	Shigeki Morita	Responsible for PL/Quality (Air Conditioning/Applied/Refrigeration), Alliance Promotion with Gree Electric Appliances Inc., PD Affiliation Alliance Promotion, Concurrent Development Promotion, General Manager of Air-Conditioning Manufacturing Division, General Manager of Sakai Plant
Executive Officer	Katsumi Kawahara	Deputy General Manager of Technology and Innovation Center (Responsible for Promoting Industry, Government and Academia Collaboration)
Executive Officer	Shoji Uehara	General Manager of Global Operations Division
Executive Officer	Hiroaki Ueda	Responsible for DX Strategy Promotion, General Manager of Corporate Planning Department
Executive Officer	Katsuya Miura	General Manager of Chemicals Division, Manager of Planning Department in Chemicals Division
Executive Officer	Kenji Matsuba	Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for Business Strategy), Manager of Planning Department in Air-Conditioning Manufacturing Division
Executive Officer	Tomohiro Mizuguchi	Responsible for IT Promotion, Manager of General Affairs Department, Manager of General Affairs Group in General Affairs Department
Executive Officer	Kimikazu Hatou	Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for Product Development), Manager Responsible for Product Development in Refrigeration Division, General Manager of Shiga Plant
Executive Officer	Keiko Mori	Responsible for Human Resource Development and Maximizing the Talents of Women, Senior Manager In Charge of Executive Secretarial Department

## A Governance System That Facilitates Value Creation

# Compliance and Risk Management

### Taking an Integrated Approach to Promoting Compliance and Risk Management

At Daikin, the Internal Control Committee, chaired by the president and CEO, checks and confirms that internal controls, including risk management, are functioning properly throughout the Group. On top of this, the Corporate Ethics and Risk Management Committee promotes operational risk management and ensures thorough compliance.

In principle, the Corporate Ethics and Risk Management Committee meets twice a year to identify issues that need to be addressed and promote their resolution, and to report on the status of initiatives at overseas Group companies. Steps are also taken to formulate and develop comprehensive common rules concerning compliance and risk management for overseas Group companies.

The Daikin Group has established its Group Conduct Guidelines that clearly outline required conduct for individual officers and employees. In addition, it has appointed a compliance and risk management leader (CRL) for each division and each of the main Group companies in Japan and overseas to ensure thorough compliance with these guidelines. By regularly checking the status of compliance and risk management, sharing information, and disseminating the guidelines, Daikin is making every effort to foster a “culture free of compliance violations” and to elevate “mechanisms to ensure that there are no compliance violations.”

In fiscal 2021, compliance meetings were held in the United States, Asia, Oceania, and Europe to share information on self-assessment, risk management, and education and training initiatives.

### Self-Checks and Audits to Monitor Status of Compliance with Group Conduct Guidelines

Daikin uses a unique self-assessment system to enable employees to assess their own actions in relation to the Group Conduct Guidelines.

Each year, departments and Group companies are selected to take part in legal audits held by the Legal Affairs Department to

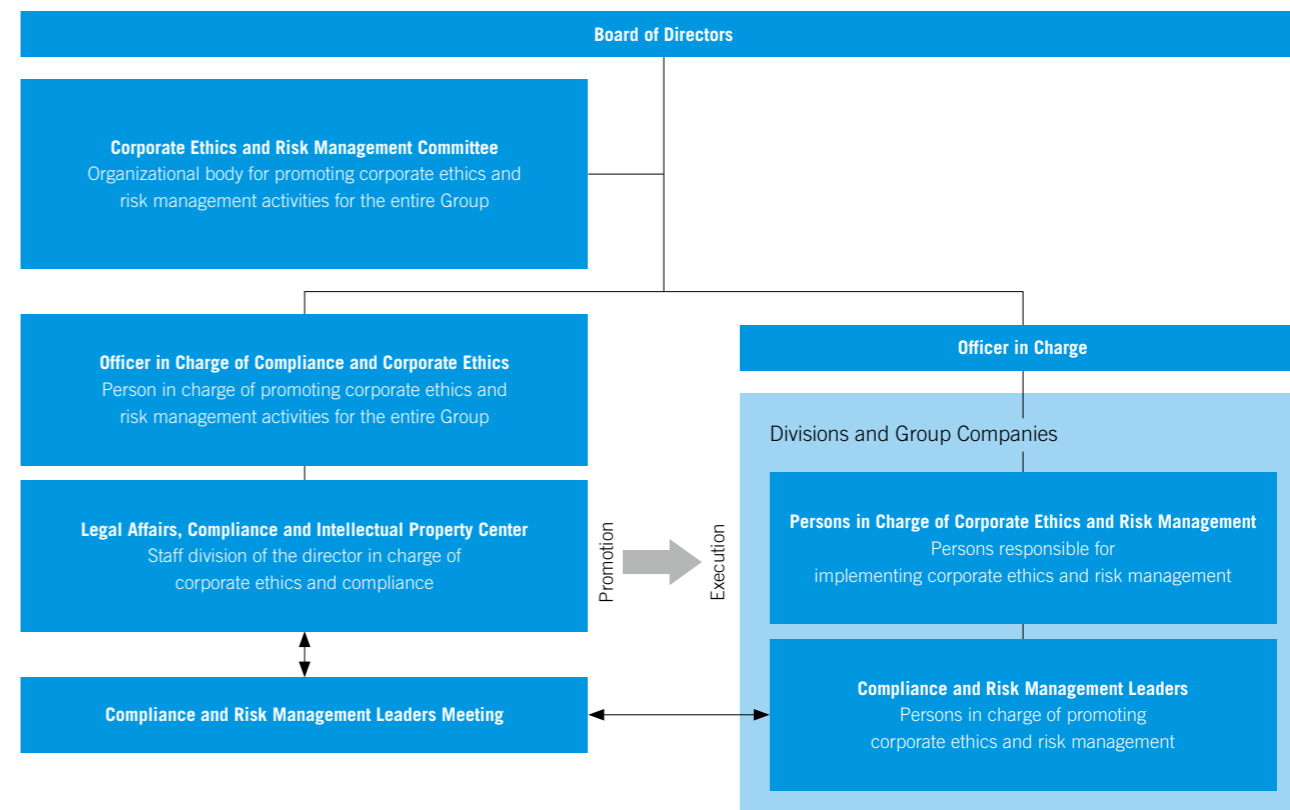
assess the status of their compliance activities. The results of the self-assessments are shared with the Internal Auditing Department and the Finance and Accounting Division and used in our various audits.

### Identifying Important Risks and Planning and Implementing Countermeasures

With the rapid expansion of its business, Daikin has introduced risk management across the Group to gain a timely, accurate, overall picture of risks from a global perspective and to mitigate them. Every year, each division and the main Group companies overseas and in Japan use risk assessments to identify critical risks. Based on these findings, each Group company puts forward and implements countermeasures and works diligently to reduce

these risks. The status of each company's risk reduction measures is shared with and reported to the Corporate Ethics and Risk Management Committee. In fiscal 2021, efforts focused on risks related to key themes such as natural disasters, product quality, harassment prevention, information management, and the strengthening of overseas crisis management.

### Corporate Ethics and Risk Management Structure



### Preventing Bribery and Corruption

The globalization of the economy has led to a growing need for preventing corruption and a tightening of regulations among businesses not only in Japan but throughout the world. At Daikin, the Group Conduct Guidelines outline our stance on Free Competition and Fair Trading, Practicing Moderation in Entertainment and Gift Exchanges, and Maintaining a Firm Attitude against Anti-Social Activities, and various measures have been put in place to prevent corruption.

#### Specific Measures

- Established Compliance Guidelines for Preventing Bribery of Public Officials, Etc.
- Utilized self-assessment system to assess compliance with the Group Conduct Guidelines
- Conducted audits of divisions and Group companies that do business in countries and regions with high rates of corruption and monitored their progress on bribery prevention measures
- Provided consultations to employees on all matters concerning corporate ethics, including those related to bribery, through our Help-Line for Corporate Ethics

### Group Management

The Company and Daikin Group companies strive to enhance corporate value and fulfill corporate social responsibility through actions based on our Group Philosophy. Group companies maintain close communication to share directives and orders, as well as to share guidance, advice, and feedback, while ensuring that business is conducted appropriately throughout the Group.

With the exception of inside information, the details of key decisions made by the Board of Directors and the Executive Officers Meeting are shared promptly within the Group. Decisions on corporate activities are made based on consensus to ensure satisfaction and agreement by all relevant parties and the appropriateness of operations.

The head office establishes divisions responsible for managing and supporting Group companies and promotes measures to constantly provide operational support. At the same time, the Group Steering Meeting has been established to promote the sharing of

information on a Groupwide basis, raise awareness of basic policies, and help address the issues facing Group companies. When establishing and revising our FUSION strategic management plans, the Group Management Meeting convenes to deliberate on and establish a course of action for achieving the plan through the sharing of Groupwide policies and specific issues by the heads of each global business site. In addition, regional manager meetings are held regularly to enable our head office management to determine regional business strategies through face-to-face discussions with the heads of each Group company.

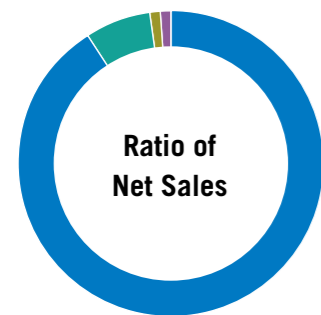
Furthermore, important matters at our subsidiary companies are determined and addressed in accordance with our Management Regulations to Limit Authority of Daikin Group Companies, which were revised in April 2008, as well as through prior consultations and engagements and the regular monitoring of the status of their business conditions.



# Overview of Daikin's Core Businesses and Global Network

The Daikin Group has expanded its global business to over 170 countries, comprising more than 100 production bases focused on market-localized production.

Employees: **88,698**  
 Consolidated Subsidiaries: **322**

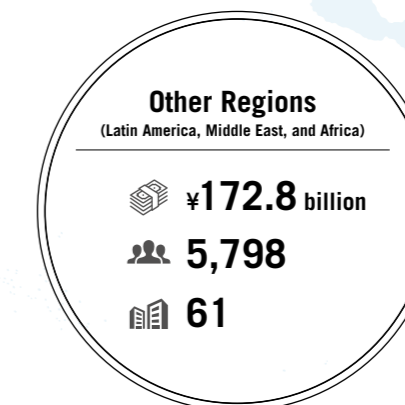
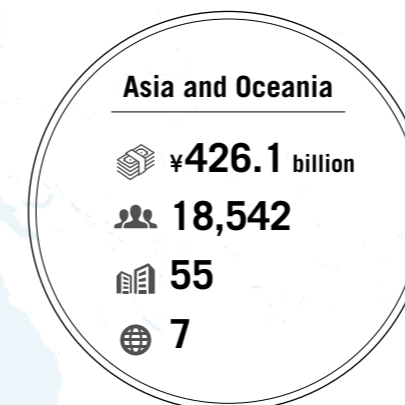
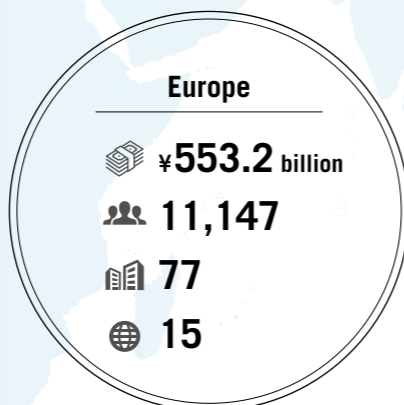
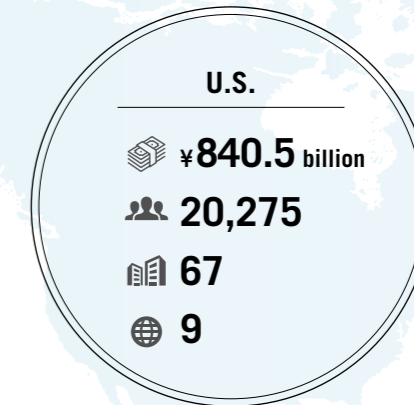


**Air Conditioning**  
91%

**Chemicals**  
7%

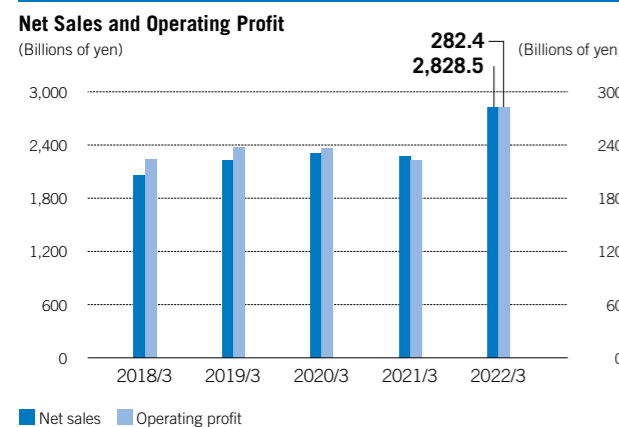
**Oil Hydraulics**  
1%

**Defense Systems**  
1%



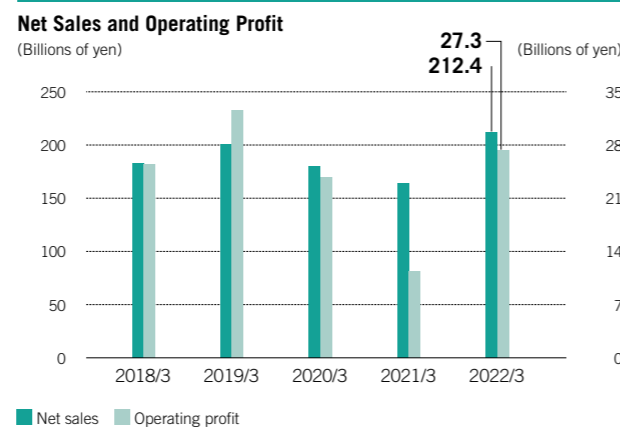
Sales  
 Employees  
 Consolidated subsidiaries  
 Global R&D centers  
 (Total for Air Conditioning, Chemicals, and Filter businesses)

## Air Conditioning



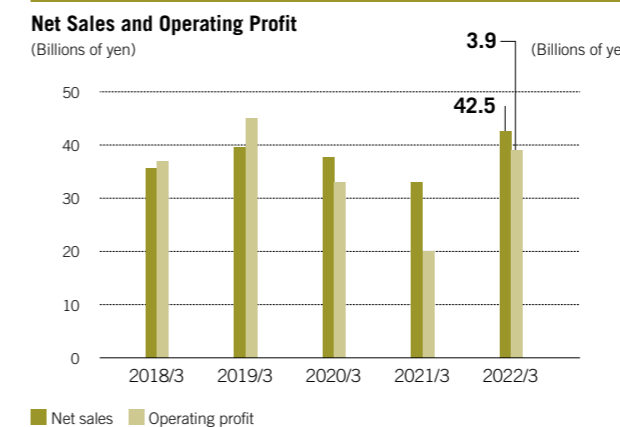
- Major Products**
- Room air-conditioning systems
  - Air purifiers
  - Heat-pump hot-water supply and room-heating systems
  - Packaged air-conditioning systems
  - Multiple air-conditioning systems for office buildings
  - Air-conditioning systems for facilities and plants
  - Heat reclaim ventilators
  - Freezers
  - Water chillers
  - Turbo refrigerator equipment
  - Air-handling units
  - Air filters
  - Industrial dust collectors
  - Marine-type container refrigeration
  - Refrigerating and freezing showcases

## Chemicals



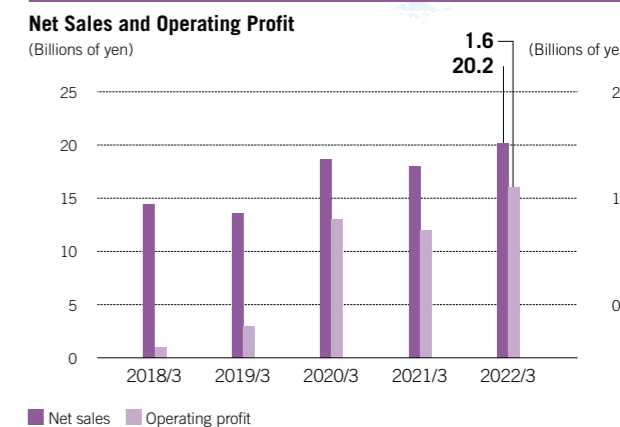
- Major Products**
- Fluorocarbon gas
  - Fluoropolymers
  - Fluoroelastomers
  - Fluoropaints
  - Fluoro coating agents
  - Semiconductor-etching products
  - Water and oil repellent agents
  - Pharmaceuticals and intermediates
  - Dry air suppliers

## Oil Hydraulics



- Major Products**
- Oil hydraulic pumps
  - Oil hydraulic valves
  - Cooling equipment and systems
  - Inverter controlled pump motors
  - Hydrostatic transmissions
  - Centralized lubrication units and systems

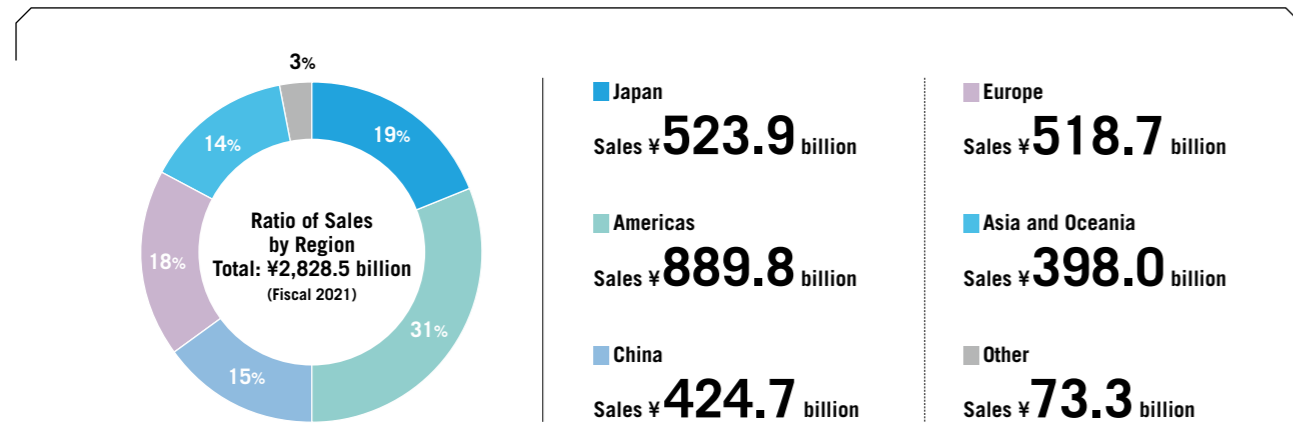
## Defense Systems



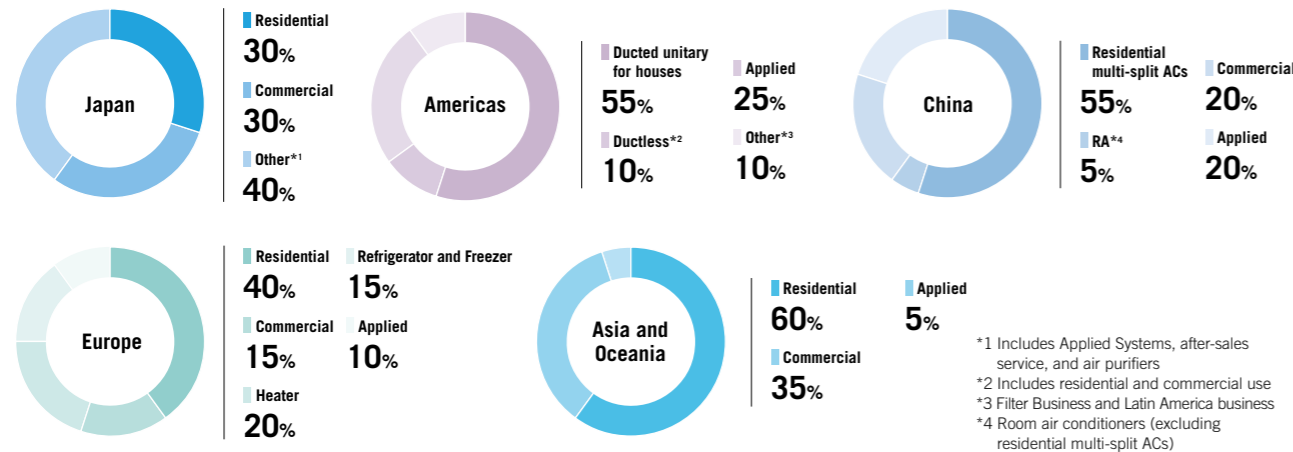
- Major Products**
- Warheads for Japan's Ministry of Defense, warhead parts used in guided missiles for training purposes
  - Home-use oxygen therapy equipment

# Air Conditioning

From the familiar living spaces of residences and offices to the large spaces of factories and airports, our Air Conditioning Business utilizes a wealth of air-conditioning solutions to provide customers with comfortable spaces. Solutions extend even to the unique spaces of hospitals and kitchens as Daikin continues to meet the needs of various climates around the world.

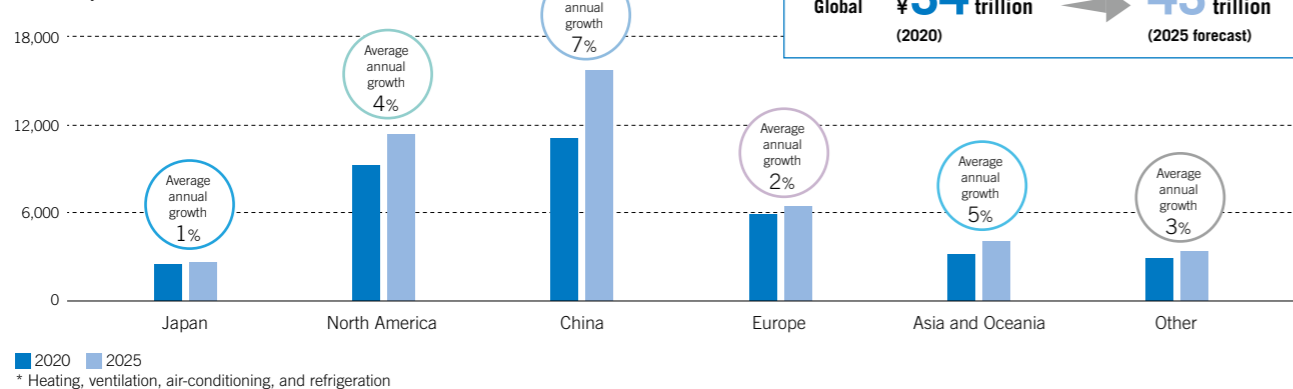


## Ratio of Products Sold by Region



## Global HVAC&R\* Market Scale (Daikin Estimates)

(Billions of yen)



\* Heating, ventilation, air-conditioning, and refrigeration

## Japan

### Business History

In 1951, Daikin launched Japan's first packaged air conditioner. Since then, we have pressed forward and diversified to provide air-conditioning systems that meet the needs of factories, ships, vehicles, buildings, and residential housing. Daikin has expanded its market share with a fine-tuned sales network and the pursuit of a broad lineup of high-value-added products that offer energy efficiency and comfort.

### Market Environment

The air-conditioning market in Japan is mature and anchored by replacement demand. In fiscal 2021, demand for residential-use products declined from the previous year due to the impact of unseasonable weather in the summer and the end of pent-up demand. Conversely, demand for commercial-use products increased from the previous year through a gradual renewal of economic activities.

### Review of Fiscal 2021

In the residential-use market, Daikin launched its Urusara X, a new air conditioner that can switch between air supply and air exhaust ventilation functions. Sales grew on the back of our response to increasing interest in energy saving as a result of people spending more time indoors and the growing need for IAQ. In the commercial-use market, sales increased through our strengthening of proposals for systems combining air conditioners with ventilation products such as heat reclaim ventilators. As for air purifiers, we saw an increase in market share owing to the expansion of our product lineup.



Urusara X air conditioners can switch between air supply and air exhaust ventilation functions

### Strategies for Fiscal 2022

In the residential-use market, we will look to expand sales of high-value-added products by promoting the merits of ventilation and air-purification functions. In the commercial-use market, we will enhance our lineup of heat reclaim ventilators that can be easily retrofitted, and of ultraviolet (UV) steamer units, which are highly effective in suppressing viruses and bacteria, thereby strengthening our proposal-based sales. In terms of air purifiers, we will aim to boost sales for both residential and commercial use.

### FUSION 25 Strategies

We will accelerate growth by building new sales models that utilize digital technologies to capture changes in market conditions. We aim to establish a large-scale IAQ/Ventilation Business by, for example, launching new heat reclaim ventilator products suitable for renewal and retrofitting, as well as by heightening the appeal of our unique ventilation function and steamer technology. In addition, we will enhance our solutions proposal capabilities by application and market, while developing solutions menus that meet diverse customer needs. Through such efforts, we aim to have the No. 1 share in all areas and markets. In addition, with a view to realizing carbon neutrality, we will switch to the use of R32 refrigerant for our VRV (multi-split air conditioners) and chiller products while aiming to build a scheme for the recovery, reclamation, and destruction of refrigerants.

Americas

Business History

Daikin made its first attempt to enter the United States, the world's largest air-conditioning market, in the 1980s. However, given the well-entrenched culture of ducted air conditioning, market entry proved difficult and withdrawal from the market was unavoidable. We subsequently revisited the idea of establishing a U.S. presence during our push to establish our business globally, and in the 2000s, with the acquisition of O.Y.L. Industries Bhd and Goodman Global Group, Inc.,\* added ducted air-conditioning products to our lineup marking the start of full-fledged operations in the United States.

\* Renamed as Daikin Comfort Technologies North America, Inc. in April 2022

Market Environment

The air-conditioning market in the United States, has reached maturity and is based mainly on replacement demand. In fiscal 2021, government economic measures and strong personal spending bolstered the economy, and demand was steady in the housing market.



Shop floor for Ducted Unitary for Houses

Review of Fiscal 2021

In Ducted Unitary for Houses, we honed our supply capabilities by moving ahead with initiatives to improve the employee turnover rate and increase the number of manufacturing personnel at our Goodman factory. The introduction of new inverter products spurred a growth in sales. In Ductless, we improved sales by capturing the growing demand for RA/SKY in the residential-use market. Sales of VRV systems were favorable for both residential and commercial use. In Applied Systems, we strengthened our Solutions Business in each market while capitalizing on market recovery to increase sales of chillers. The After-Sales Service Business also posted a growth in sales.

Strategies for Fiscal 2022

In Ducted Unitary for Houses, we will focus on improving sales of inverter products by enhancing our lineup of products complying with energy-saving regulations and strengthening our support for dealers. In Ductless products we will continue to promote sales in the northeastern and northwestern regions of the Americas. In Applied Systems, we will work to increase sales of equipment to markets with robust demand while expanding the Solutions Business by increasing service personnel and broadening the coverage of after-sales services.

FUSION 25 Strategies

Our goals for fiscal 2025 are to grow revenue up to the one-trillion-yen level and to become the No. 1 player in the North American air-conditioning market. In the residential-use market, bolstering Goodman's sales network will serve to expand our business in volume markets, and, in tandem with this, will grow sales of premium residential-use products. In the light commercial domain as well, we will further strengthen sales of VRV and rooftop systems. In the Applied Systems market, we will bring together a team of specialists in key applications and market categories, and have full-scale development of the Solutions Business. In addition, seizing upon environmental and energy efficiency regulations as a business opportunity, we will promote in the market the spread of inverters, heat pumps, and refrigerants with low GWP.

China

Business History

Daikin entered the China market in the mid-1990s when there were already numerous Japanese air-conditioner manufacturers with a presence there. Daikin, the latecomer, differentiated itself by focusing on establishing an image as a high-end brand, and on building up its own dealer network. Moreover, in an effort to create a new type of air-conditioning culture, we introduced ceiling-embedded indoor units and residential multi-split air conditioners.

Market Environment

In the first half of fiscal 2021, the Chinese economy gained momentum to a certain degree through the increase of exports and new government-led infrastructure investments. In the latter half, however, the number of COVID-19 cases increased once again, prompting the government to impose strict restrictions on activities, which drove both personal consumption and the Chinese economy downward.



New Life Multi series for mid-range to high-end residences

Review of Fiscal 2021

In the residential-use market, we moved ahead with sales activities incorporating both online and conventional sales at our PROSHOP specialty stores and focused on identifying new customers and capturing replacement demand. We reinforced our proposals for systems combining heat-pump hot-water heaters and other products and bolstered sales of residential multi-split air conditioners. In the commercial-use market, we expanded our contact points with customers by leveraging the interest of stores and offices in ventilation and air purification. We also seized demand for equipment replacements and additional purchases. As for factories and other large-scale projects, we improved sales by tapping into the replacement demand for energy-saving equipment, which is increasing in line with the tightening of environmental regulations.

Strategies for Fiscal 2022

Along with expediting our user-direct proposal-based sales, we will expand our lineup of products and services by capitalizing on the growing interest for better solutions for ventilation, IAQ, and energy efficiency. For the residential-use market, we will push forward with sales activities incorporating online methods, and direct our focus on improving sales of residential multi-split air conditioners. In the commercial-use market, we will look to expand sales by providing comprehensive solutions for each market and customer.

FUSION 25 Strategies

By combining offline activities—such as comprehensive customer centers and the Daikin New Life Station—with online sites and social media, we will accelerate the shift to new business models. We will also integrate and analyze customer data by building our own IT platform and digitizing the content of contract negotiations to improve customer satisfaction and our success rate for closing contracts. Furthermore, we will strengthen our proposals for air value centered on residential multi-split air conditioners and VRV while expanding our business in all markets. As the only global air-conditioning brand in China, we will create markets to achieve continuous growth.

Europe, the Middle East, and Africa

Business History

Our presence in Europe started with the establishment of a production and sales base in Belgium in the early 1970s. We succeeded in bolstering sales in Italy, Spain, France, and other nations across the European Union (EU), and the scale of our business grew rapidly. From the 2000s, we also expanded into the Heating and the Refrigerator and Freezer businesses.

Market Environment

In Europe, the demand for residential-use products tapered off from November 2021 as a result of price hikes and restrictions on economic activities due to the upswing in COVID-19 cases. Meanwhile, demand was steady in the Heating Business owing to incentives aimed at promoting the use of heat-pump hot-water heaters in place of combustion heaters.



Heat-pump hot-water heater for outdoor use, a product for which Daikin aims to improve sales in fiscal 2022

Review of Fiscal 2021

Despite restrictions on economic activities due to another upswing in COVID-19 cases, sales of residential air conditioners and heat-pump hot-water heaters grew while sales for the region overall climbed substantially from the previous year. In the residential-use market, sales increased on the back of a tailwind resulting from a subsidy system introduced in Italy and an intense heat wave that hit Greece and other parts of southeastern Europe. In the commercial-use market, we enhanced our sales to hospitals and food retailers. Sales improved through our proposals of better solutions for IAQ. The Heating Business saw a significant improvement in sales behind its extensive lineup of heat-pump hot-water heaters. The Refrigerator and Freezer Business accelerated the rollout of one-stop solutions and expanded sales to food retailers, where demand continues to be strong.

Strategies for Fiscal 2022

In the residential-use market, we will take advantage of the growing interest in energy conservation stemming from rising energy costs, with the aim of improving sales of high-value-added products. In the commercial-use market, we anticipate a recovery in demand for offices and hotels due to the increasing interest in the environment and energy conservation. The Heating Business will look to increase its market share by capturing the growing demand for heat-pump hot-water heaters, which were developed in pursuit of decarbonization. The Refrigerator and Freezer Business will aim to increase sales to food retailers while forging a business foundation in the medical field.

FUSION 25 Strategies

Daikin will strive to capture demand, which is being driven by increasing environmental awareness and ongoing investments into living environments, and will launch and expand sales of differentiated products. Backed by the fair winds of the European Green Deal, together with substantially expanding the Heat Pump Space and Water Heating Business, we will also work in the refrigeration domain to bolster the business for one-stop solutions in stores, including for air-conditioning and ventilation. In all the HVAC&R markets, we aim to be a solutions provider capable of responding with flexibility to customer needs pertaining to IAQ and energy. Moreover, we will also push forward with developing a refrigerant eco-cycle (recovery, reclamation, and destruction) among other initiatives that take the lead in environmentally conscious society and industry issues.

Asia and Oceania

Business History

Daikin began product exports and knock-down production from the 1960s, and from the 1990s, strengthened its sales network in countries around the region and advanced the introduction of energy-conserving and cooling-only models tailored to regional needs. From 2010 onward, air-conditioning demand soared in line with economic development, and Daikin reinforced its production capabilities with the establishment of plants in Thailand, India, Malaysia, and Vietnam.

Market Environment

Asia is in the process of adopting air-conditioning equipment and systems, making it a market for growth. In fiscal 2021, we felt the impact of COVID-19 in regions where demand failed to recover and restrictions on economic activities remained in force. Meanwhile, demand was relatively stable in Oceania.



Daikin dealer in Asia, where a recovery in demand is expected

Review of Fiscal 2021

In light of the significant impact on demand posed by yet another upswing in COVID-19 cases, we expanded our sales network and strengthened our support for dealers through the use of online tools. In addition to sales growth in Oceania and countries in Asia where restrictions on economic activities were relatively relaxed, the effect of selling prices contributed to an increase in regional sales over the previous year. In the residential-use market, sales grew in Indonesia and Australia. Sales also increased in India behind the expansion of our dealer network and the forging of stronger ties with dealers. In the commercial-use market, we expanded sales to public facilities, where demand is relatively stable, despite the ongoing impact of the scale-down of capital investment due to the economic downturn and delays in construction work and the lengthening of construction periods resulting from labor shortages at building sites.

Strategies for Fiscal 2022

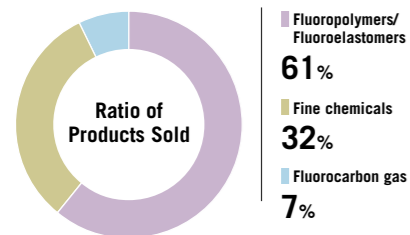
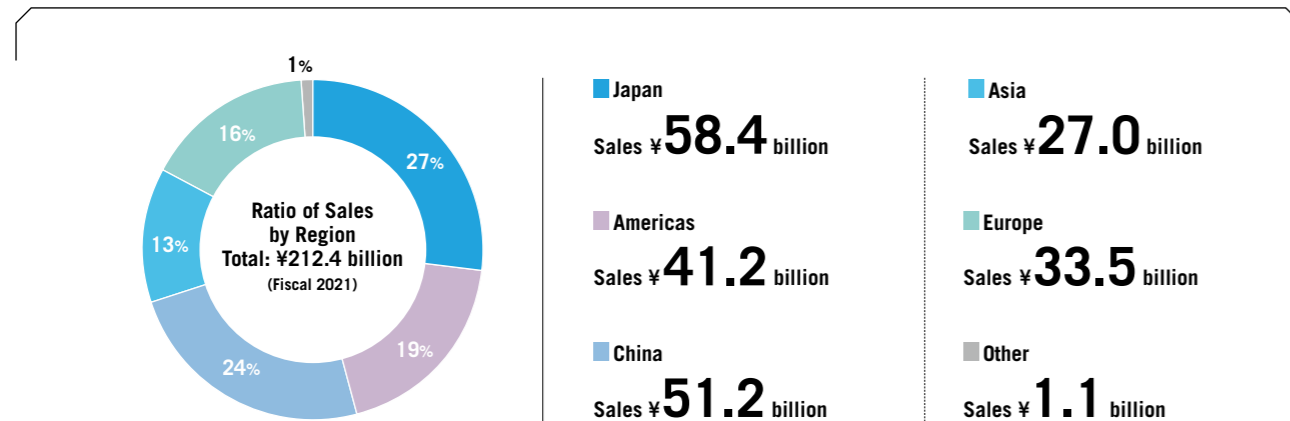
In Asia, where demand will likely bounce back, we will seek to bolster our manufacturing systems and expand sales. In the residential-use market, we will launch a highly cost-competitive inverter unit and promote its widespread use primarily in Malaysia, Indonesia, and other markets where inverters have yet to catch on. In the commercial-use market, we will reinforce our product appeal and proposal-based sales while emphasizing sales to hospitals, schools, and other markets with growth potential.

FUSION 25 Strategies

Together with expanding our sales network and product lineup in the Asian region, a market anticipated to experience further growth, we will work to boost cost competitiveness and to grow revenue streams. We also seek to increase sales of products with high environmental performance, and that lead the market in terms of the adoption of inverters and R32 refrigerant. We aim to establish India as a major hub in the future. To that end, we will further cement our position as the leader in shares of sales for this market by capturing the leading shares of room air conditioners. Moreover, we will strengthen ties between production sites across Asia, and, in addition to optimizing production throughout the region, will commence regional production of air purifiers while endeavoring to create markets.

# Chemicals

Fluoropolymers offer exceptional capabilities in the form of heat and chemical resistance, water and oil repellency, and lubricity. Through its distinctive technology that utilizes these properties, Daikin will continue to expand its Chemicals Business worldwide, where its fluoropolymers are considered an indispensable material for household products, automobiles, semiconductors, air conditioner refrigerants, and in a variety of other fields.

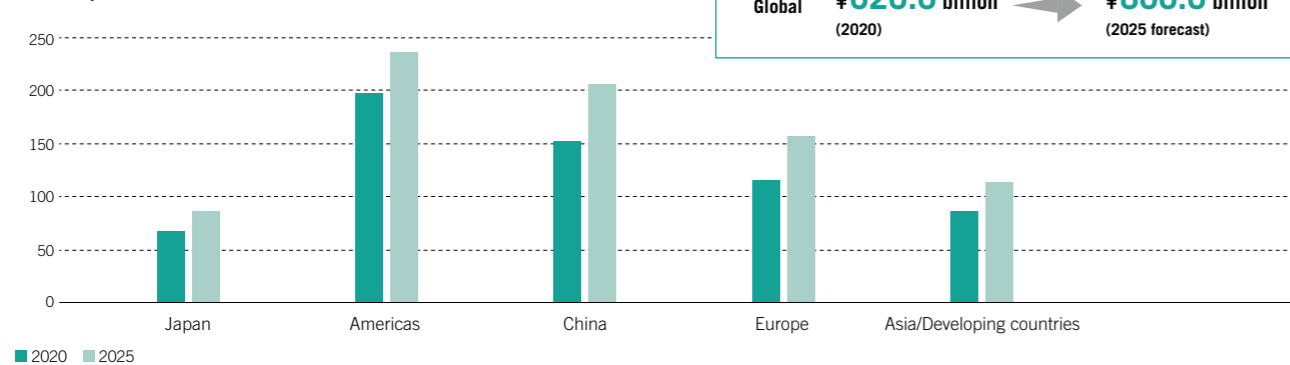


### Main Fields and Applications of Fluorine Chemical Products

Semiconductor	Automotive	Information and Communications / Devices
Wafer carriers (PFA) Chemical bottles/tanks (PFA) Piping fittings (PFA/PTFE)	Fuel hoses (Fluoroelastomer) Crankshaft seals (Fluoroelastomer) Fuel injection devices (Fluoroelastomer)	Touch panel anti-smudge coating (OPTOOL) LAN cables (FEP) Printed circuit boards (OPTOACE)
Environment / Energy	Home and Living	
Lithium-ion batteries (Fluoropolymers) Solar cells (ETFE film) Wind power generation (ZEFFLE)	Frying pans (Fluoropolymer coating) Rice cookers (Fluoropolymer coating) Hamburger packaging materials (Oil resistant agent for paper)	Home roofs/external walls (ZEFFLE) Air conditioners (Fluorocarbon gas) Apparel (Water and oil repellents)

Legend: Fluoropolymers/Fluoroelastomers (Purple), Fine chemicals (Green), Fluorocarbon gas (Blue)

### Global Fluorochemicals Market (Daikin estimates)



### Business History

In 1933, Daikin became the first company in Japan to engage in the business of fluorochemicals and the Chemicals Business has evolved into one of the pillars of its operations ever since. Today, our activities range from research and development to applications development, and we offer a lineup of 1,800 fluorine compounds that include fluorocarbon gas, fluoropolymers, and fluoroelastomers. In recent years, we have devoted our efforts to developing new fluorine applications for growth fields such as semiconductors, electric vehicles, information and communications technology (ICT), and new energy.

### Market Environment

While the market was hit hard in fiscal 2020 due to the global impact of the COVID-19 pandemic, demand recovered in fiscal 2021 for a variety of sectors, including semiconductors and automobiles.



Over 50% of the raw materials used in non-fluorine water repellent agents are natural ingredients.

### Review of Fiscal 2021

We increased sales and market share primarily in the semiconductor and automotive markets, which continue to enjoy strong demand, as sales for the business overall improved remarkably from fiscal 2020. Sales of fluorocarbon gas flourished as a result of greater demand in existing markets. Fluoropolymers saw sales grow for the semiconductor market and the information and communications market, including local area network (LAN) cables. Sales also grew for fluoroelastomers in the automotive market. Fine chemicals achieved sales growth, particularly in Europe, China, and Asia, led by the solid results of water and oil repellent agents. We also saw sales of etching gas improve in Japan and China through our anticipation of the recovery in demand for the semiconductor market.

### Strategies for Fiscal 2022

We will look to increase sales and market share by introducing differentiated products and strengthening our supply capabilities particularly in the semiconductor, automotive, and information and communications markets, where demand is expected to remain strong. For the textile and food product markets, we will distinguish ourselves from the competition by launching non-fluorine water repellent agents and oil resistant agents that reflect sustainability needs and drawing on their exceptional performance and ease of processing. We will also ramp up our application development particularly in lithium-ion battery materials and the information and communications market in response to the rising demand for EVs and 5G technology.

### FUSION 25 Strategies

In addition to the accelerating movement toward the realization of a carbon-free society, such as the setting of penetration rate targets for EVs in each region of the world, the business environment is changing faster than expected. For example, the movement toward non-fluorination is becoming apparent in food and apparel applications. Taking these changes as an opportunity to expand our business, we will implement a variety of measures ahead of our competitors. In addition to accelerating the creation of results centered on four key markets (semiconductors, automotive, information communications, and information devices) in applications development, Daikin will also develop and expand sales of highly functional, non-fluorinated materials for further business expansion. We will also aggressively implement upfront investments, such as increasing production capacity, in preparation for growth in demand in the coming years.

# Oil Hydraulics

Daikin's unique hydraulic technologies offer outstanding energy-conservation performance and are contributing to the development of industry by unleashing the potential of power control.

## Overview of Business Activities

In 1929, Daikin became the first company in Japan to handle lubrication equipment for shipbuilding and engine manufacturers, and since then the Oil Hydraulics Business has been contributing to worldwide industrial development. Applying the energy-saving technologies acquired through the Air Conditioning Business, we develop and manufacture environmentally conscious oil hydraulic pumps and oil hydraulic units under the themes of higher machine precision, quieter operation, and further miniaturization.

## Market Environment

The demand for hydraulic equipment for industrial machinery was solid at a global level for the machine tools market. Demand was also brisk for hydraulic equipment for construction machinery and vehicles, particularly in the United States, where housing starts have remained steady.



Hydraulic hybrid system that can be used overseas in areas with a power supply voltage of 400V without the need for a transformer

## Review of Fiscal 2021

Sales of hydraulic equipment for industrial machinery grew particularly in Japan's machine tools market, as well as in Asia, Europe, and the United States. As a result, sales for the business overall increased from the previous year. Hydraulic equipment for construction machinery and vehicles also improved on the sales front through higher sales to our core customers in Japan and the United States.

## Strategies for Fiscal 2022

In the area of hydraulic equipment for industrial machinery, we will draw on the acquisition of Duplomatic MS S.p.A. to build a business foundation for the European market with the aim of helping realize a better environment and expanding our business. In hydraulic equipment for construction machinery and vehicles, we will look to differentiate ourselves from the competition with products that reflect customer needs and expand our market share on a global scale.

### FUSION 25 Strategies

In response to the growing momentum for energy saving toward the elimination of carbon emissions, Daikin will expand its lineup of high-efficiency products that utilize the technological capabilities cultivated so far. In hydraulic equipment for industrial machinery, we will expand our Solutions Business in the United States, and improve profitability in China and other Asian countries. In addition, we will make a full-scale entry into the European market centered on Germany and accelerate global business expansion. In hydraulic equipment for construction machinery and vehicles, we will strengthen customer-oriented proposal sales in Japan and introduce highly efficient and durable differentiated products for small construction machinery in the United States to increase our market share.

# Defense Systems

Daikin's superior machining and quality control technologies are used in the production of defense-related products, medical products, and other industries where high levels of reliability and performance are critical.

## Overview of Business Activities

In the Defense Systems Business, we design and manufacture various products for Japan's Ministry of Defense (MOD), including aircraft parts and missile components and fuses, particularly for ammunition used in training. We continue to expand the scope of manufacturing in this business by drawing on the high-precision processing technology that has been refined through our research and development and manufacture of defense-related products, which form part of Daikin's series of special technologies that contribute to the realization of safe, healthy, and comfortable lifestyles. Daikin also engages in the manufacture and sales of home-use oxygen therapy equipment as well as in the supply of oxygen concentrators, which require the highest levels of reliability, performance, functionality, and quality.

## Market Environment

The need for oxygen concentrators has increased substantially among government-operated medical facilities such as oxygen stations and in at-home treatments of patients infected with COVID-19. The demand for pulse oximeters, a medical device that measures oxygen saturation in the blood without the need to take blood samples, has also risen dramatically due to its effectiveness for monitoring and maintaining the health of COVID-19 patients.

## Review of Fiscal 2021

We continued to deliver products consistently in response to rising need driven by the COVID-19 pandemic by establishing a production system that can adapt flexibly to shortages in supply of and fluctuations in demand for components. As a result, sales of oxygen concentrators and pulse oximeters increased considerably from the previous year.

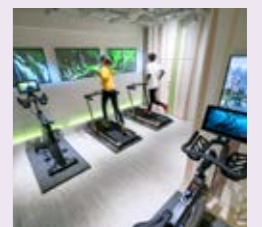
## Strategies for Fiscal 2022

As the effects of COVID-19 ease and demand returns to its pre-pandemic level, we will address customer needs and boost sales by enhancing the durability of our oxygen concentrators.

In addition, we will commence sales of our hypoxic system, which enhances physical performance by controlling the oxygen concentration in the air, to fitness centers and other businesses with a view to expanding our operations in the medical and healthcare field.

### FUSION 25 Strategies

In the field of home-use oxygen therapy equipment, Daikin will introduce differentiated products mainly in Japan and China and work to increase its market share. In response to the growing interest from society for preventive medicine, we will move full steam ahead with the development of our Healthcare Business. Utilizing the oxygen control technology cultivated in the development and production of our oxygen concentrators, we will expand sales of our hypoxic system. By acquiring and drawing on a multitude of vital data, we also aim to develop new services that will lead to the promotion of health in our daily lives.



## Eleven-Year Financial Highlights

Daikin Industries, Ltd. and Consolidated Subsidiaries (For the Years Ended March 31)

(Millions of Yen)

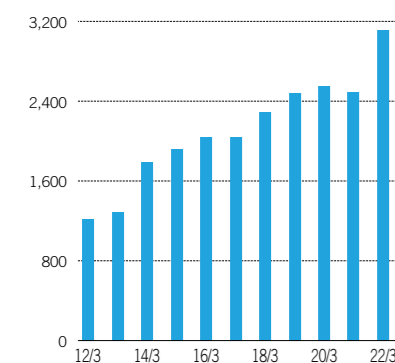
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Operating Results (for the year):</b>											
Net sales	¥1,218,701	¥1,290,903	¥1,787,679	¥1,915,014	¥2,043,691	¥2,043,969	¥2,290,561	¥2,481,109	¥2,550,305	¥2,493,387	¥3,109,106
Gross profit	371,902	388,046	568,323	649,902	711,576	730,935	798,829	868,923	884,898	864,136	1,057,338
Selling, general and administrative expenses	290,709	299,419	411,786	459,314	493,704	500,166	545,089	592,668	619,385	625,513	740,987
Research and development expenses (Note 1)	32,987	33,569	40,177	42,892	46,138	53,870	62,051	65,216	67,968	71,738	81,535
Operating profit	81,193	88,627	156,537	190,588	217,872	230,769	253,740	276,255	265,513	238,623	316,351
EBITDA (Note 2)	131,719	140,151	235,439	268,354	302,075	315,798	348,574	375,570	393,999	372,217	464,413
Net profit attributable to owners of the parent	41,172	43,585	92,787	119,675	136,987	153,939	189,052	189,049	170,731	156,250	217,710
<b>Cash Flows (for the year):</b>											
Net cash provided by operating activities	¥ 44,967	¥ 103,161	¥ 179,713	¥ 160,423	¥ 226,186	¥ 267,663	¥ 223,740	¥ 250,009	¥ 302,167	¥ 374,691	¥ 245,071
Net cash used in investing activities	(62,955)	(218,386)	(80,835)	(77,331)	(105,493)	(128,823)	(127,459)	(165,773)	(156,187)	(159,667)	(180,790)
Free cash flow (Note 3)	(17,988)	(115,225)	98,878	83,092	120,693	138,840	96,281	84,236	145,980	215,024	64,282
Net cash provided by (used in) financing activities	(1,113)	143,520	(38,249)	(83,073)	(85,422)	(73,544)	(93,955)	(68,721)	(169,934)	98,942	(48,698)
<b>Financial Position (at year-end):</b>											
Total assets	¥1,160,564	¥1,735,836	¥2,011,870	¥2,263,990	¥2,191,105	¥2,356,149	¥2,475,708	¥2,700,891	¥2,667,513	¥3,239,663	3,823,998
Total interest-bearing liabilities	389,891	705,871	693,944	662,413	608,981	609,430	554,371	585,642	553,807	751,213	824,874
Total shareholders' equity	502,309	618,118	801,854	1,024,725	1,014,409	1,111,636	1,296,553	1,416,075	1,434,968	1,665,689	1,969,687
<b>Per Share Data (yen):</b>											
Net income (basic)	¥ 141.37	¥ 149.73	¥ 318.33	¥ 410.19	¥ 469.23	¥ 526.81	¥ 646.53	¥ 646.39	¥ 583.61	¥ 533.97	¥ 743.88
Shareholders' equity	1,725.64	2,123.10	2,748.08	3,511.34	3,473.54	3,802.10	4,433.62	4,841.15	4,904.46	5,691.85	6,729.73
Free cash flow	(62)	(396)	339	285	413	475	329	288	499	735	220
Cash dividends	36.00	36.00	50.00	100.00	120.00	130.00	140.00	160.00	160.00	160.00	200.00
<b>Ratios (%):</b>											
Gross profit margin	30.52%	30.06%	31.79%	33.94%	34.82%	35.76%	34.87%	35.02%	34.70%	34.66%	34.01%
Operating profit margin	6.66	6.87	8.76	9.95	10.66	11.29	11.08	11.13	10.41	9.57	10.17
EBITDA margin	10.81	10.86	13.17	14.01	14.78	15.45	15.22	15.14	15.45	14.93	14.94
Return on shareholders' equity (ROE)	8.30	7.78	13.07	13.10	13.44	14.48	15.70	13.94	11.98	10.08	11.98
Shareholders' equity ratio	43.28	35.61	39.86	45.26	46.30	47.18	52.37	52.43	53.79	51.42	51.51

Notes:

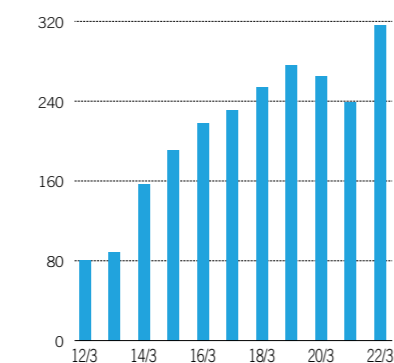
1. R&D expenses are included within general and administrative expenses and manufacturing expenses.
2. Earnings before interest, taxes, depreciation, and amortization (EBITDA) = Operating profit + Depreciation and amortization.
3. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.
4. Accompanying a change in accounting policy, effective from April 1, 2014, the consolidated financial statements for the fiscal year ended March 31, 2014 and subsequent years have been revised.
5. Effective from April 1, 2018, the consolidated financial statements for the fiscal year ended March 31, 2018 have been revised in accordance with a change in accounting policy.

**Net Sales**

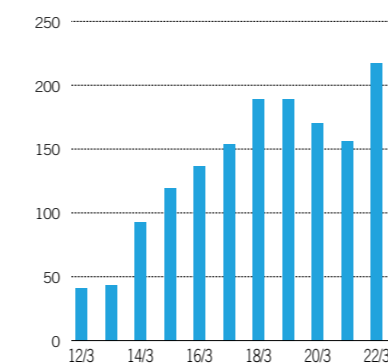
(Billions of yen)

**Operating Profit**

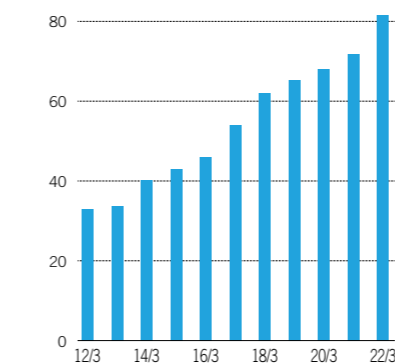
(Billions of yen)

**Net Profit Attributable to Owners of the Parent**

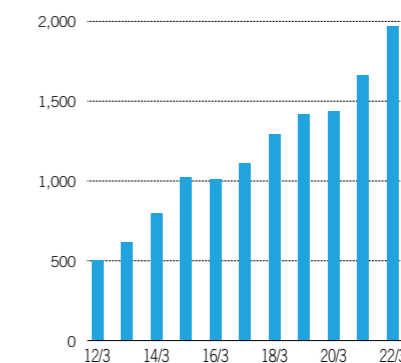
(Billions of yen)

**Research and Development Expenses**

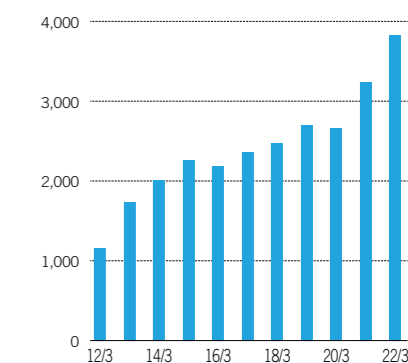
(Billions of yen)

**Shareholders' Equity**

(Billions of yen)

**Total Assets**

(Billions of yen)



## On Publishing the Integrated Report 2022

The Daikin Group has been issuing its Integrated Report since fiscal 2020 to provide all shareholders and investors with information on the initiatives it is taking to increase corporate value over the medium to long term. By working alongside all our stakeholders, including customers, business partners, employees, and local communities, we will help overcome social and environmental issues while continuing to develop our business and grow as an organization. Daikin Group's ultimate goal is to help realize a sustainable society and this report incorporates detailed information on our approach to achieving this goal. This report has been compiled with reference to guidelines such as the International Integrated Reporting Framework of the IFRS Foundation and the Guidance for Collaborative Value Creation of Japan's Ministry of Economy, Trade and Industry.

The report outlines our value creation process with reference to our accumulated strengths, our business model that draws on these strengths, and our FUSION strategic management plan in the following sections respectively: Our accumulated Strengths (pages 20–21), Daikin's Unique Business Model (pages 22–23), and Daikin's Aims for Value Creation (pages 26–27). Risks and Opportunities That Affect Medium- to Long-Term Value Creation (pages 24–25), identifies major

social issues affecting the Group's value creation over the medium to long term based on the changing business environment, and sets out related risks and opportunities.

Strategic Management Plan FUSION 25 (pages 28–31) provides an overview of our FUSION 25 strategic management plan, which was launched in fiscal 2021, and details the progress of key initiatives as of the end of the first year of the plan. FUSION 25 sets out key strategy themes, including "Challenge to achieve carbon neutrality." These themes are based on our commitment to continue to grow and develop as an organization by contributing to a better society and environment while expanding the scope and profitability of our business, as well as our vision of offering new value for the environment and air to realize both contributions to a sustainable society and Group growth. This section explains the specific measures the Group will undertake to realize this vision by fiscal 2025, the final year of FUSION 25, from both a financial and non-financial perspective.

This report contains information that is of particular importance to enhancing the corporate value of the Daikin Group. For more detailed information, please refer to our website.



IR team members

## Other Means of Information Disclosure

### Reports on Financial Information:

Disclosure of information related to financial results performance and stocks and shareholders

- Investor Relations section of our corporate website  
<https://www.daikin.com/investor>
- Brief Report on the Settlement of Accounts  
[https://www.daikin.com/investor/library/results\\_brief](https://www.daikin.com/investor/library/results_brief)
- Financial Results  
[https://www.daikin.com/investor/library/results\\_materials](https://www.daikin.com/investor/library/results_materials)
- Daikin Review (business report, in Japanese only)  
<https://www.daikin.co.jp/investor/library/review>

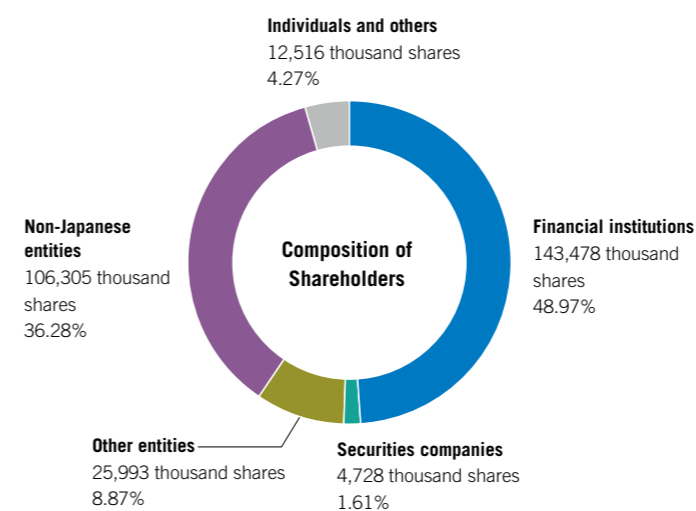
### Reports on Non-financial Information:

Disclosure of initiatives on sustainability centered on corporate social responsibility (CSR) and the environment

- Sustainability section of our corporate website  
<https://www.daikin.com/csr>
- Sustainability Report  
<https://www.daikin.com/csr/report>
- Corporate Governance Report  
<https://www.daikin.com/csr/management/governance#chap03>

## Company Overview / Investor Information (As of March 31, 2022)

<b>Company name</b>	Daikin Industries, Ltd.	<b>Total number of authorized shares</b>	500,000,000
<b>Head office</b>	Umeda Center Building, 4-12, Nakazaki-Nishi 2-chome, Kita-ku, Osaka 530-8323, Japan Tel: 81-6-6373-4312	<b>Total number of shares issued</b>	293,113,000
<b>Tokyo office</b>	JR Shinagawa East Building, 18-1, Konan 2-chome, Minato-ku, Tokyo 108-0075, Japan Tel: 81-3-6716-0111	<b>Number of shareholders</b>	29,906
<b>Fiscal year-end date</b>	March 31	<b>Shareholder register administrator</b>	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
<b>Date of founding</b>	October 25, 1924	<b>Ordinary General Meeting of Shareholders</b>	June
<b>Paid-in capital</b>	¥85,032 million	<b>Auditor</b>	Deloitte Touche Tohmatsu LLC
<b>Number of subsidiaries and affiliated companies</b>	Consolidated subsidiaries: 322 Affiliates: 15		
<b>Number of employees</b>	88,698 (Consolidated)		



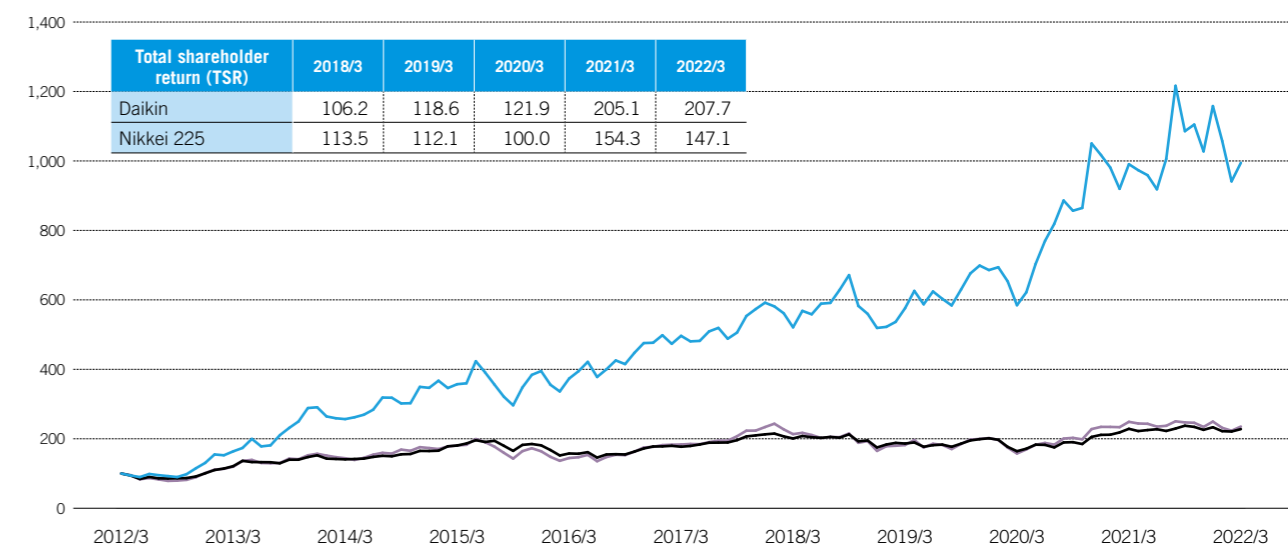
Note: Treasury stock of 424,908 shares is included in Individuals and others  
Shares have been rounded down to the nearest thousand shares

### Major shareholders (10 largest by shareholding)

Shareholder	No. of shares held (thousand shares)	Shareholding ratio* (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	61,402	20.98
Custody Bank of Japan, Ltd. (Trust Account)	20,035	6.85
Sumitomo Mitsui Banking Corporation	9,000	3.07
JP Morgan Chase Bank 385632	7,763	2.65
Custody Bank of Japan, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank	4,999	1.71
MUFG Bank, Ltd.	4,900	1.67
SSBTC CLIENT OMNIBUS ACCOUNT	4,729	1.62
Custody Bank of Japan, Ltd. (Trust Account 4)	4,621	1.58
State Street Bank West Client-Treaty 505234	4,059	1.39
SUMITOMO LIFE INSURANCE COMPANY	3,595	1.23

\* Based on the total number of shares issued excluding treasury stock

### Stock price



— Daikin — TOPIX — TOPIX Machinery

Notes:

1. TSR (total shareholder return): Total rate of return on investment reflecting capital gains and dividends
2. TSR is calculated based on cumulative dividend amount and stock price fluctuations for Daikin and based on the stock market index inclusive of dividends for TOPIX (prepared by the Company based on data provided by Bloomberg, etc.).
3. Graph data represents market prices indexed by TSR with closing price data as of March 31, 2012 as a base of 100 (holding period up to March 31, 2022).



***DAIKIN INDUSTRIES, LTD.***

<https://www.daikin.com>