



# Integrated Report 2023

Fiscal Year Ended March 31, 2023

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

Founded in 1924, Daikin 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"**

# Contents

## 3 Introduction

- 3 Message from the CEO
- 9 Two Decades of Remarkable Strides
- 10 History of the Daikin Group

## 13 Strategies for Value Creation

- 13 Our Value Creation Process
- 14 Our Accumulated Strengths
- 16 Daikin's Unique Business Model
- 18 Risks and Opportunities That Affect Medium- to Long-Term Value Creation
- 20 Overview of Strategic Management Plan FUSION 25
- 22 Financial Strategy
- 26 Three Growth Strategy Themes
  - 26 ① Challenge to Achieve Carbon Neutrality
  - 28 ② Promotion of Solutions Business Connected with Customers
  - 30 ③ Creating Value with Air
- 31 Three Themes for Focus Regions and Businesses
  - 31 ④ Air Conditioning Business in North America
  - 32 ⑤ Establishment of a Major Base in India
  - 33 ⑥ Chemicals: Challenge to Become a Leading Company in High-Performance and Environmentally Conscious Materials
- 34 Special Feature
  - 34 ① Accelerating the Realization of Carbon Neutrality through Our Heat Pump Space and Water Heating Business in Europe
  - 36 ② Capturing an Overwhelming Share of the Market in India and Establishing the Country as a Major Base for Our Global Business

- 38 Five Themes to Enhance the Management Foundation
  - 38 ⑦ Strengthening Technology Development Capabilities
  - 40 ⑧ Establishing a Robust Supply Chain
  - 41 ⑨ Promoting Digital Transformation for Innovation
  - 42 ⑩ Creating Market Value and Enhancing Advocacy Activities
  - 43 ⑪ Improving HR Capabilities through Advanced Diversity Management
- 47 Environmental Initiatives
- 49 Information Disclosure Based on the TCFD Framework

## 52 A Governance System That Facilitates Value Creation

- 52 Corporate Governance
- 57 Messages from External Directors
- 58 Corporate Officers
- 62 Compliance and Risk Management

## 64 Business Strategies

- 64 Overview of Core Businesses
- 66 Review of Operations
  - 66 Air Conditioning
  - 72 Chemicals
  - 74 Oil Hydraulics
  - 75 Defense Systems

## 76 Data

- 76 Financial Highlights
- 77 Non-Financial Highlights
- 78 Eleven-Year Financial Highlights
- 79 Sustainability Targets and Results
- 81 On Publishing the Integrated Report 2023
- 82 Company Overview / Investor Information

### 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" and "Daikin" 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, 2022 to March 31, 2023 (fiscal 2022).

### 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 the Company 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.

### Navigation Links in Integrated Report 2023

Go to  page



Connect to website

## Message from the CEO

### We will take our business to new heights to realize both contributions to a sustainable society and Group growth.

In fiscal 2022, we achieved our highest results for net sales and operating profit, eclipsing the previous record set in fiscal 2021. On the heels of this achievement, in May 2023 we announced our FUSION 25 Latter-Half Three-Year Plan, which takes into account the changes in our business environment since the announcement of our initial FUSION 25 strategic management plan.

We will steadily proceed with management reforms and aggressive investments with a view to future growth. In so doing, we will continue to grow our business and resolve the issues facing society, while enhancing our economic, environmental, and social value in the process.

**Masanori Togawa**  
President and CEO

## Message from the CEO

### Looking Back on Fiscal 2022

Fiscal 2022 was a year of various adversities, including the Shanghai lockdown, soaring raw material and logistics costs, prolonged inflation, and economic slowdown. In light of these challenges, we have remained thoroughly committed to our “Eight Key Themes + One Theme” set forth at the beginning of the fiscal year and responded promptly and flexibly to the changing circumstances. More specifically, despite the impact of the Shanghai lockdown on parts procurement, we increased sales and market share without discontinuing product supply throughout our global network and implemented strategic selling price measures to offset the soaring raw material and logistics

costs and the higher resource and energy prices. In addition, our ongoing measures to reduce total costs proved to be a success, leading to favorable results. As a result, we achieved record-breaking results for net sales and operating profit, which improved even in terms of real value discounting the impact of the exchange rate.

As we continue to strive to grow our business, we have maintained a strong focus on profitability, which we have worked to improve while actively investing in our future growth.

#### Eight Key Themes + One Theme

1. Formulate strategic selling price measures.
  2. Further strengthen sales capabilities, such as measures to reinforce commercial-use air-conditioning.
  3. Maximize reductions in variable costs.
  4. Execute streamlining measures to offset higher logistics costs.
  5. Streamline existing fixed costs.
  6. Strengthen procurement and supply capabilities in anticipation of fiscal 2023 and beyond.
  7. Maximize profitability by accelerating the key themes of FUSION 25.
  8. Create results and maximize profitability for acquired companies and large-scale capital investments.
- +1 Capitalize on the changes occurring in the world by utilizing our strengths and taking on the challenge and innovation themes (such as carbon neutrality and digital) that will lead to our next great leap forward.

### The Source of Our Competitiveness Underpinning Continuous Growth

#### Comprehensive Capabilities Supporting Value Creation

We will make every effort to cope with cost increases. However, simply raising the prices of our existing products will not earn the support of customers. Accordingly, the Group has implemented strategic selling price measures to roll out new high-value-added products that bring joy to customers by quickly developing new products and bringing them to market through a concerted effort by the research, procurement, production, and sales functions. Our “comprehensive capabilities” are the key to ensuring that customers continue to choose our products regardless of increases in selling prices. The Group strives to provide even better products and services by drawing both on its product capabilities and its sales capabilities to make high-value-added proposals to customers, and on its comprehensive capabilities, which cover everything from installation to after-sales services for air conditioners. We aim to establish our comprehensive capabilities as a competitive advantage in every region of the world, but the challenges we face in each region are different. For example, if we have outstanding products but lack the resources to install them, we establish a training center and focus on developing installers. In this way, we

constantly work to strengthen our abilities in areas for improvement so that we continue to earn the support of customers.

Daikin's Unique Business Model ▶ Page 16

#### The Ability to Execute Successfully, Even in Times of Change

One of the reasons why we have been able to achieve record performance even in a challenging business environment is our commitment to execution, which permeates from management to the front lines and remains unchanged regardless of the circumstances. The ability to execute, which entails squarely confronting the obstacles that are in our way, taking a series of measures in response, and working collectively as a unit from management to the front lines, is a strength of the Group. To continue to generate results in a rapidly changing environment where a string of unexpected events might take place, we must first boldly decide on a direction and put our plan into action. Then, based on the issues that emerge during this process, we quickly adjust our approach in response to the changes and execute this revised approach. No matter how many theories you come up with, you will not make any progress unless you take

action. I constantly tell my employees that a “second-rate strategy with first-rate execution” takes priority over a “first-rate strategy with second-rate execution” so that they understand the importance of being fully committed to execution.

What makes our first-rate execution possible is the Group's fast and flat organizational culture that has been cultivated over many years. This refers to a flexible organizational management approach that ensures that decisions are made with the understanding of employees through a bottom-up approach as well as in a timely manner through a top-down approach. To achieve both approaches to management, I always share the details of discussions at the Board of Directors' meetings as well as my views concerning important management information with our employees. When each employee understands and performs their role, the speed of execution increases and the necessary information is communicated quickly from the front lines to management. Also, each department is asked to present opinions and proposals on various on-site and management issues, which are used as the basis for promoting lively internal discussions. On the other hand, because endless discussion can result in missing out on the right opportunity to make decisions, ultimately decisions will be

## Message from the CEO

made by those whose responsibility it is to take them and all others will thoroughly execute those decisions. This approach to organizational management is deeply ingrained in the Group.

In corporate management, it is important to be aware that information from the field is often filtered when frontline employees communicate their views and input directly to the higher ranks of management. “Inconvenient truths” lurking in the field are not easily channeled through to management. However, I believe that “muddy water” from the field can be turned into “clear water” by the time it reaches management. I always keep this in mind and strive to create a flat and open organization where it is easy to report even negative information and share opinions immediately from the bottom up.

### Focusing on the Essence of Issues

When confronting management issues, it is important that we grasp the essence of the matter, quickly detect the changes in the times, structural changes in society and the economy, and the resulting changes in

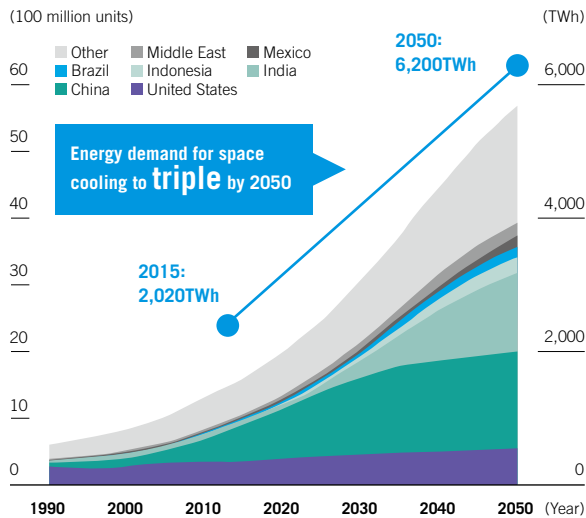
markets and customers, and determine a step ahead of our competitors what must be done. Under our FUSION 25 strategic management plan, we aim to realize carbon neutrality by perceiving the major changes taking place in society, formulating specific strategies, and incorporating them into an action plan, which we will execute thoroughly. By clearly presenting the direction of our strategies and our specific action plans, we are demonstrating our commitment to always deliver on our promises.

“FUSION” implies the combining of the short, medium, and long term. If short-term profits were our only goal, then simply reducing capital investments and research and development (R&D) investments would suffice. However, such an approach might put our future growth in jeopardy. It is important that management decisions are made flexibly according to the circumstances of the business, such as making bold investments in future growth and development while also pursuing short-term profits.



## Taking Our Business to New Heights

### Worldwide Air Conditioner Stock (Number of Units) and Electricity Demand



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

### Three Growth Strategy Themes

The International Energy Agency (IEA) projects that global air-conditioning demand will increase rapidly until 2050 while global electricity demand stemming from the needs for cooling will triple from 2015 levels.

As the world’s leading comprehensive manufacturer of air conditioners, the Group realizes that it can play a pivotal role in helping achieve a carbon neutral society while also recognizing that this is a duty it must fulfill as a member of society. To that end, we will resolve a number of social issues through our business while enhancing our contributions to society by increasing our economic value and continuing to grow our business. As we continue to enhance our business scale, the absolute value of our greenhouse gas (GHG) emissions will inevitably increase in the short term, and, needless to say, we must take the measures necessary to reduce these emissions. In our FUSION 25 Latter-Half Three-Year Plan, which was unveiled in May 2023, we declared our new goal of achieving net zero GHG emissions at all of our factories, with the exception of chemical plants, by 2030. Meanwhile, the best way for the Group to help reduce GHG emissions is by increasing its contribution to emissions reductions through the development of products that offer superior environmental

performance and the efficient management of energy. In terms of “Challenge to achieve carbon neutrality,” one of our three key strategy themes, we are making steady progress through a variety of initiatives that include promoting the wider use of heat pump heaters, water heating systems, and inverter air conditioners, promoting the conversion to refrigerants with low global warming potential (GWP), and developing a recovery and recycling network. As for the reduction of net GHG emissions, steady progress is also being made on this front based on the targets (reduce net GHG emissions by 30% or more by 2025 and by 50% or more by 2030, compared with a Business-as-Usual (BAU) emissions scenario using fiscal 2019 as the baseline year) set forth in our initial FUSION 25 strategic management plan.

An imminent challenge we face is the development of installers to address the rapidly growing demand for heat pump space and water heaters. In the United States, because the cost of installation services can exceed that of the air-conditioning systems themselves, we are taking urgent measures that include recruiting our own installers and developing them in-house. In Europe, the demand for heat pump space and water heaters has increased dramatically against the backdrop of both stricter regulations on combustion heating and subsidies

## Message from the CEO

to promote the conversion to heat pump space and water heaters. However, because combustion has been the main source of heating until now, there are only a limited number of installers who can install heat pump space and water heaters. We are therefore working to develop a system that caters to the growing use of heat pump space and water heaters by enhancing our training system and facilities and providing technical and service support to installers and dealers through our online support system. Against the backdrop of societal movement toward carbon neutrality and rising energy costs, our competitors are targeting the growing demand for heat pump space and water heaters and energy-efficient air conditioners, which is intensifying competition. To prevail over the competition, we will strengthen our ability to make proposals that cater more closely to the specific needs of the market and customers, enhance our sales and service networks, and revolutionize our sales process in each region as swiftly as possible by incorporating digital technology.



With respect to “Promotion of Solutions Business connected with customers,” we have been developing a system to engage directly with customers, strengthening our ability to make specific proposals for each market and use, and creating a platform for utilizing and analyzing data, including mergers and acquisitions (M&A). Our plan is to use the foundation established in the first two years to generate further results in the remaining three years. In addition, “Residential solutions” has been added as a new theme for our initiatives. Many of the Group’s products are for residential use, such as room air conditioners, air purifiers, and water heaters. The use of information technology (IT) in these devices to check their operating status and further improve their operating efficiency allows us to realize energy-saving solutions. We also have thermal energy management technologies—such as thermal storage and waste heat utilization—at our disposal and can, for example, produce hot water using the heat generated from storage facilities. Residential solutions based on such energy management technologies offer tremendous business potential, and in the future, energy management may become commonplace for communities as a whole, including solar power generation and electric vehicles (EVs).

As for “Creating value with air,” we drastically improved sales by expanding our lineups of air purifiers, heat reclaim ventilators, and other products in the first two years. In the remaining three years, we will also invest our time and energy into our sales of air-conditioning, ventilation, and air purification systems and make proposals such as for air diagnosis and maintenance services to set ourselves apart from the competition even further and expand our business. Furthermore, we will take on the challenge of commercializing new themes, including infection prevention, allergens, oxygen, and the autonomic nervous system. Due to the difficulty in creating products and services that enrich people’s lives—including those in the healthcare sector—on its own, the Group intends to promote co-creation initiatives with external parties, including universities, government agencies, and other companies.

Three Growth Strategy Themes ▶ Page 26

### Three Themes for Focus Regions and Businesses

In the “Air Conditioning Business in North America,” we continued to expand sales of products with high environmental performance as inverter units and heat pumps attracted greater interest against the backdrop of growing environmental awareness and stricter environmental regulations. We aim to strengthen our comprehensive capabilities by expanding our dealer network, including through M&As, and

our dealer support system. We have continued to solidify our business foundation through the acquisition of sales companies that boast a solid customer base, the expansion of service solutions businesses, and the establishment of our unique sales model, but we recognize that there is still room for improvement when it comes to investment returns. From a profitability point of view, we aim to not only expand sales but also achieve an operating profit margin of 10% in the “Air Conditioning Business in North America”(Daikin Comfort Technologies North America, Inc. and Daikin Applied Americas Inc.) under our FUSION 25 Latter-Half Three-Year Plan by increasing sales of premium environmental products and promoting solutions for commercial-use products.

In FUSION 25 Latter-Half Three-Year Plan, “Establishment of a major base in India” and “Chemicals: Challenge to become a leading company in high-performance and environmentally conscious materials” were established as additional key strategy themes.

India is a remarkably expanding market due to its immensely growing economy and the fact that air conditioners are still only being used by less than 10% of its population of more than 1.4 billion people, offering tremendous potential for growth. We will establish India as a major hub for Daikin’s global growth strategy based on the expectation that it will serve as the focal point for our export activities with the Middle East and Africa, where demand is expected to grow going forward. Moreover, India is estimated to produce 1.5 million IT professionals a year, so we intend to make the most of this abundant resource.

“Chemicals: Challenge to become a leading company in high-performance and environmentally conscious materials” was established as a key strategy theme due to the changes in the market environment.

Fluorochemicals has long been a core business of the Group, and in high-tech industries such as semiconductors, automobiles, and telecommunications, we are seeing a growing demand for materials that offer even higher levels of functionality and environmental performance. Seeing these changes in our business environment as an opportunity, we will strengthen our product development not only in fluorochemicals but also in non-fluorochemicals, and expand these businesses.

Three Themes for Focus Regions and Businesses ▶ Page 31

② Capturing an Overwhelming Share of the Market in India and Establishing the Country as a Major Hub for Our Global Business ▶ Page 36

## Message from the CEO

### Aggressively Investing in Future Growth

Under the FUSION 25 Latter-Half Three-Year Plan, we will make aggressive investments with a focus on the key themes discussed earlier. Looking ahead to 2030, we are developing several plants in order to establish a production system near markets that offer tremendous potential.

Thus far, the Group has been at the forefront of the industry, with a line of technologies that offer outstanding environmental performance. In the three-year period from fiscal 2023 to fiscal 2025 covered by the FUSION 25 Latter-Half Three-Year Plan, we intend to invest ¥390.0 billion in R&D while continuing to strengthen our efforts in this area by increasing the ratio of R&D expenses to net sales. We also plan to invest ¥180.0 billion in digital technology. Aggressive investments in digital technology are essential for transforming businesses, particularly in the Solutions Business, and streamlining business processes. Digital technology is advancing rapidly every day and the use of digital technology in the Group's businesses is also becoming more and more sophisticated every day. However, because there are limitations to what we can do on our own, we have been promoting a top-down management approach to break away from the principle of self-development and have achieved numerous results through collaborations with other companies, industry-academia partnerships, and other co-creation initiatives with external organizations.

Although we have not incorporated them into our quantitative targets at this time, M&As are an important element of our management strategies and we will actively seek such opportunities going forward. However, we will not make acquisitions simply for the sake of expanding our business scale. When considering the possible takeover targets, we focus on whether an acquisition will help advance our business strategies and whether it will help strengthen the functions that are inadequate from a growth strategy point of view. In the United States, for example, we have engaged in M&As to enhance the functions that are key to our management strategies, such as the acquisition of a company that has a customer base for data centers, where we are strengthening our sales, as well as instrumentation engineering and energy management capabilities. We are prepared to make further acquisitions in order to lay the foundation for turning the Air Conditioning Business in North America into our No. 1 air-conditioning market.

Financial Strategy ▶ Page 22

Five Themes to Enhance the Management Foundation ▶ Page 38

### Developing the Personnel Who Will Ensure the Successful Execution of Our Strategies

As we speed up our efforts to further grow our business by pursuing new business fields, engaging in M&As, and establishing new factories, it will become even more important to invest in human resources due to the growing need for employee diversity and the increasing number of human resources issues. We recognize the importance of developing our human resources as quickly as possible in line with the speed of business growth. In addition to our existing measures, under the FUSION 25 Latter-Half Three-Year Plan, we will secure, deploy,

and develop the personnel who will be responsible for executing our strategies in an even timelier manner across the Group. In particular, we will focus on establishing a framework for securing personnel and developing our next generation of managers, in order to strengthen the Group's business foundation, promote business expansion, and respond to new business needs, such as solutions and digital transformation.

Improving HR Capabilities through Advanced Diversity Management ▶ Page 43





## Message from the CEO

### Solidifying the Foundation for Timely Business Management

In this age of rapid change, we must constantly be prepared for the unexpected. A business will not be viable if it is based purely on idealistic thinking. What I value is the ability to maintain a broad perspective, which is made possible by the ability to confront adversity, and the flexibility and responsiveness to use failure as inspiration for the next challenge.

So that we can manage our business in a timely and flexible manner in response to the rapidly changing business environment, we have adopted an integrated management framework in which the Board of Directors is responsible for both management and business execution. Enhancing transparency and soundness and meeting the needs of society are certainly important but the main purpose of corporate governance is to contribute to the growth and development of the company. Satisfying governance formalities is meaningless if it does not lead to an increase in corporate value. We expect the outside directors, who support our integrated management framework from an independent position, to fulfill the supervisory function and provide advice from a broad perspective based on their respective management

experience and knowledge by sharing their suggestions for enhancing corporate value. The outside directors play an essential role in determining our management direction by providing meaningful opinions based on their respective experience on the front lines of management.

We have focused on strengthening understanding of the Group by disclosing information required by stakeholders on a timely basis. As part of our continuing active disclosure of information, we must, in particular, enhance our disclosure of non-financial information. There are various challenges around measuring and reporting non-financial information, including the assumptions it is based on and the difficulty of quantifying it. Nevertheless, we aim to communicate the Group's sustainable growth story from both a financial and a non-financial perspective by clearly communicating our environmental, social, and governance (ESG) initiatives, including the disclosure of information on human capital, for which there is increasing demand from society.

Corporate Governance ▶ Page 52

### To Our Shareholders and Investors

Due to the COVID-19 pandemic, we have had very few opportunities to meet in person with our shareholders and investors over the last three years. However, we have listened to and considered the various opinions you have kindly shared through our online dialogues and reflected them in our management. We intend to create more opportunities to engage with our shareholders and investors in person from fiscal 2023. In our dialogues, the utmost importance is placed on sharing our growth strategy. Upon firmly achieving results in line with the targets we have set, it is imperative that we communicate our growth strategy for the future. In order to increase corporate value, we formulate specific strategies that look three, five, and 10 years into the future and clearly communicate our strategy—including our execution plan—to ensure that our shareholders and investors are aware that their investment is for our continuous growth. Our policy is to do what we say we will do.

In 2024, the Company will celebrate the 100th anniversary of its founding. We remain committed to executing our growth strategy and increasing our corporate value in the process so that our shareholders and investors can expect the Group to continue to grow and develop in the coming years.

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

### Masanori Togawa

President and CEO  
August 2023



# Two Decades of Remarkable Strides

## Net Sales

¥572.4 billion  ¥3,981.6 billion  
FYE 03/2003 FYE 03/2023

## Operating Profit

¥44.8 billion  ¥377.0 billion  
FYE 03/2003 FYE 03/2023

## Market Capitalization

¥514.1 billion  ¥6,933.6 billion  
FYE 03/2003 FYE 03/2023

## Operating Profit Margin

7.8%  9.5%  
FYE 03/2003 FYE 03/2023

## ROA

4.6%  6.3%  
FYE 03/2003 FYE 03/2023

## Ratio of Overseas Sales

37%  83%  
FYE 03/2003 FYE 03/2023

## Ratio of Overseas Employees

40%  85%  
FYE 03/2003 FYE 03/2023

## In Pursuit of Further Growth

According to the IEA, in 2050, air conditioner demand is projected to be more than triple the current level as a result of economic growth in emerging countries. The resulting increase in energy consumption and GHG emissions is a major social issue that must be addressed.

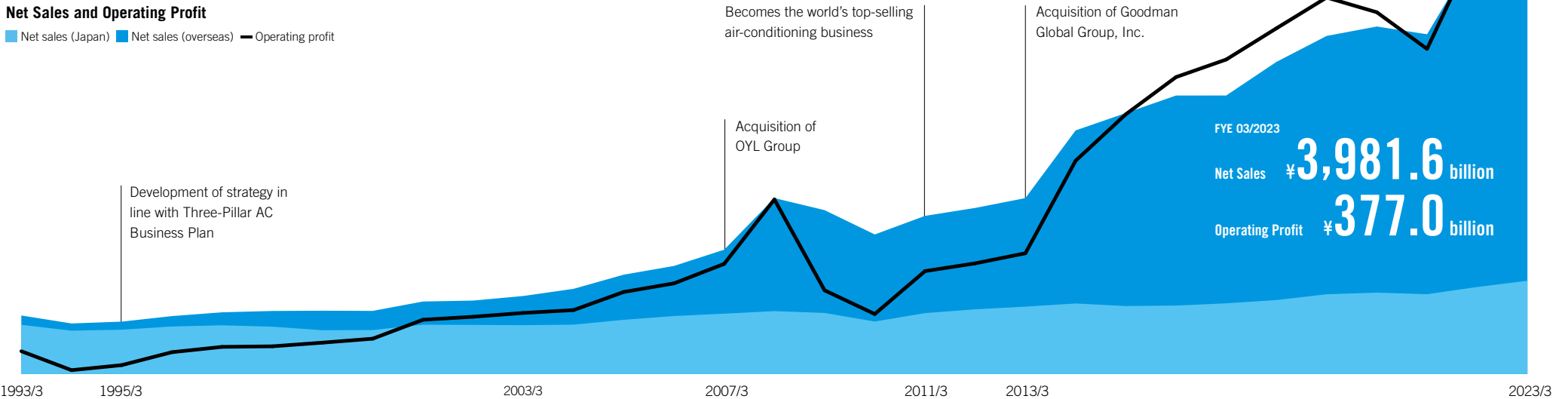
At Daikin, we have been pushing forward with a range of measures aimed at realizing carbon neutrality, such as raising the profile of our exceptionally energy-efficient products and promoting the conversion to refrigerants with low GWP.

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.

Achieves highest results on record for net sales and operating profit for the second consecutive year

## Net Sales and Operating Profit

 Net sales (Japan)  Net sales (overseas)  Operating profit

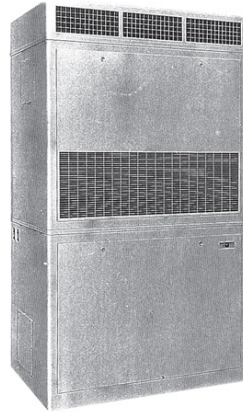
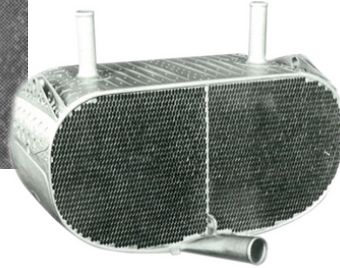


## History of the Daikin Group



Founder Akira Yamada

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



Mifujirator, Japan's first packaged air conditioner



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

# 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

### 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.

### 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, some of which 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 products with low environmental impact and is cherished by its customers in the over 170 countries in which it currently operates.

# History of the Daikin Group



## 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



Signing ceremony with O.Y.L. Industries Bhd

## 2006

Launch of Daikin Altherma heat pump space and water heater



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

## 2007

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

## 2008

Establishment of business alliance with Gree Electric Appliances, China's top air-conditioning manufacturer

### 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.

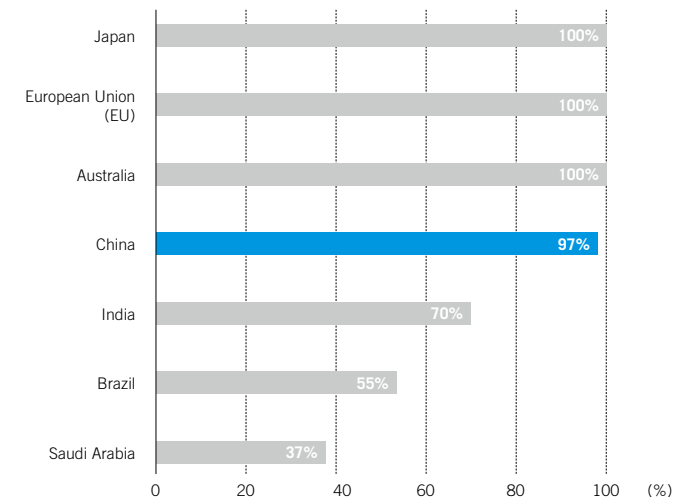
To that end, our Three-Pillar AC Business Plan was formulated with a view to harmoniously promoting the growth of our three business segments. In addition, to ensure the effectiveness of this plan, we made a series of major decisions that would turn out to be pivotal points in our history, including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

### 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.

While inverter air conditioners comprised less than 10% of the residential air conditioner market in 2008, they now account for over 90% of this market. Daikin will strive to reduce carbon dioxide (CO<sub>2</sub>) emissions from the use of air conditioners by promoting the use of inverter air conditioners and other energy-efficient air-conditioning systems on a global scale.

### Inverter Air Conditioners as a Percentage of the Residential Air Conditioner Market (Fiscal 2022)



Source: Prepared by the Company based on World Air Conditioning Overview 2022, BSRIA Limited.

# History of the Daikin Group



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



Technology and Innovation Center (TIC)



Joint press conference with the University of Tokyo

## 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

## 2014

Launch of cooling-only inverter air conditioners for developing countries

## 2015

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

## 2018

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

Establishment of an industry-academia co-creation alliance with the University of Tokyo

### Full-Fledged Entry into the U.S. Market

With the aim of strengthening our North America business while sustaining our low-priced residential air conditioner business and Applied Systems (large-scale air-conditioning systems), which had been an area of weakness for us, 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 of 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, Daikin made a full-fledged entry into the residential unitary (central air-conditioning system) market and secured a business platform in North America.

### Promoting the Use of Refrigerant R32

With a GWP\* equivalent to one-third the level of refrigerant R410A, refrigerant R32 is conducive to environmental sustainability. 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.

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

\* GHG: Global warming potential is a numerical value representing the potential global warming effect of a GHG in comparison with CO<sub>2</sub>

### Technology and Innovation Center: The Group's Major Hub for Technological Development

The Technology and Innovation Center (TIC) was established in November 2015 to develop differentiated and impactful products and technologies toward our goal of realizing Daikin's sustainable growth and development. As the major hub for the Group's technological development, TIC is furnished with the world's most advanced experimental equipment, open and flat workspaces, and an area dedicated to enhancing our co-creation of innovation through internal and external engagement.

As the control tower of our technologies, TIC will lead the way in our aim to create innovation by attracting people, information, and technologies from around the world through the collective efforts of Daikin's engineers and strong partnerships and collaborations with companies, universities, and research institutions that boast unique technologies in various industries and fields.

# Our Value Creation Process

Drawing on its accumulated strengths and unique business model, Daikin is striving to resolve environmental and social issues through its business activities.

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.



# Our Accumulated Strengths



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

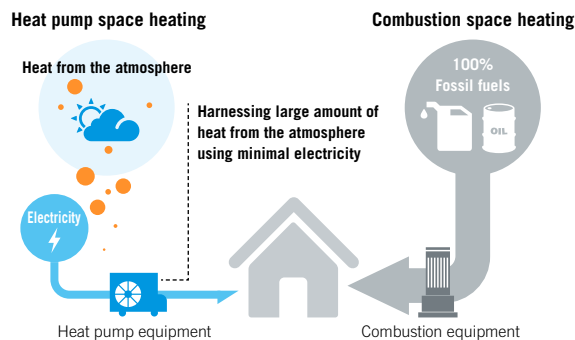
We will lead the air conditioner market by refining our environmental technology going forward, based on a trio of advanced core air-conditioning technologies uniquely developed by Daikin.

### Heat Pump

#### Providing 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. Since it makes use of radiant heat from the sun, heat pump technology can significantly reduce CO<sub>2</sub> emissions in comparison to the direct heating of water and air by burning fossil fuels, including gas, oil, and coal. In 1958, Daikin developed the first domestic water-cooled heat pump for a packaged air conditioner. Since then, we have continued to push the boundaries of technologies that transfer heat without generating it.

#### Systems for Heat Pump and Combustion Space Heating

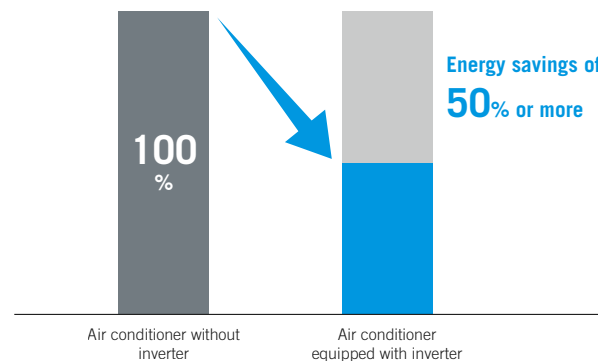


### Inverter

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

The rotation speed of the motor in the compressor, the central component of an air conditioner, varies according to its load to precisely adjust heating and cooling capabilities. Air conditioners without inverters are inefficient, with issues including unstable indoor air temperatures and high energy consumption. Those equipped with inverters, however, can accurately adjust the air temperature and operate in a comfortable, energy-saving manner. Daikin was a global pioneer in the development of inverters for air conditioners.

#### Comparison of Energy Consumption (Example)



Note: Calculated based on in-house demonstration tests

### 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. As a result, we can operate heating and cooling simultaneously, a functionality for which there is particularly high demand during the change in seasons.

### Toward Further Growth and Development

#### Contributing to Resolution of Social Issues Through Energy Solution Initiatives

Daikin engages in energy solutions across entire buildings and communities through the unique environmental technology it has developed. We create sustainable communities by promoting measures including the optimization of energy consumed by air conditioners, peripheral equipment, and building infrastructure; utilization of renewable energy; and demand response to level electricity usage during peak hours. We aim to balance the resolution of social issues with business growth through energy solution initiatives.

## Our Accumulated Strengths

2

**People-Centered  
Management**

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

**Daikin aims to achieve further growth that uses the strengths of each of its people by promoting diversity through respect for and mutual recognition of different cultures and customs around the world.**

People-Centered Management can be regarded as the tacit knowledge, or indeed 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 way 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 allowing all members to further refine their own individuality, achieve growth, and demonstrate their full potential.

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



3

**Globally Expanding  
Robust Sales Network**

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

**Daikin responds to various needs that differ by country, region, or culture by creating networks deeply rooted in local communities.**

With a global network of more than 110 production bases in over 170 countries, the Daikin Group's overseas sales account for 83% of its overall net sales. Behind its ability to maintain a high market share across the globe is Daikin's sales network, which it has developed over many years in each region.

Unlike with 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 business 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 conditions in each market and look to strategically acquire more dealerships while reinforcing our sales network.



# Daikin's Unique Business Model

Daikin 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.

## Vertically integrated production

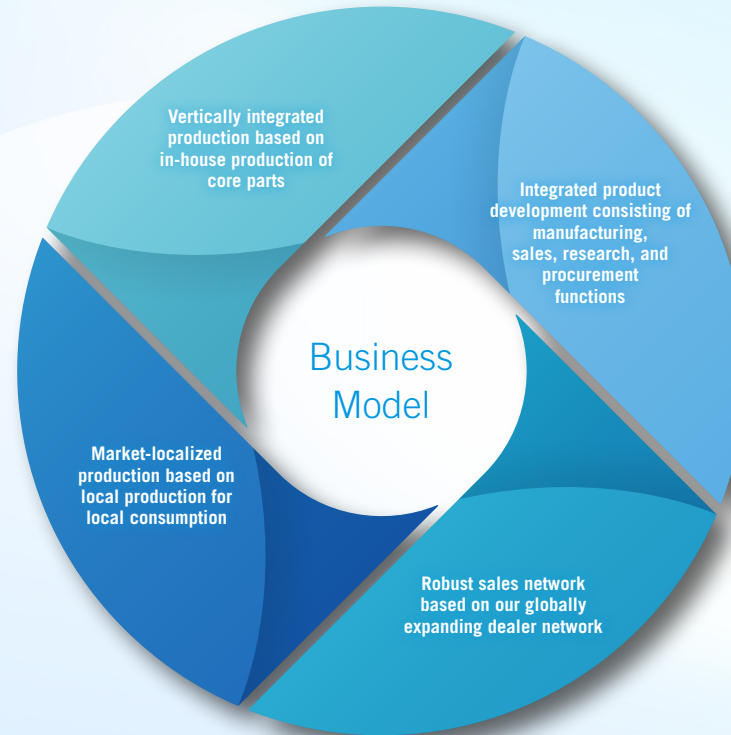
based on in-house production of core parts

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 to not only develop elemental technologies but also build up the 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 meet 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.



## Integrated product development

consisting of 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, which comprises 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 monitor the inventory of products and materials consistently. 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.

## 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.

# Daikin's Unique Business Model

## Daikin's Business Model That Enables Value Provision

### Timely Market Introduction of Products That Meet the Differing Needs of Each Region

In the air-conditioning business, the need for products varies because each region and country has different climates, building styles, and lifestyles. Additionally, since product regulations and environmental restrictions for each country differ, it is essential that we develop products, manufacture them, and create a service and sales network catered to the characteristics of the area. Daikin has established local production for local consumption as a basic strategy, setting up production bases near the intended markets, and created a region-based supply chain, from development to sales and after-sales services, in five key regions globally. In terms of procurement, we are promoting the creation of a region-based rather than globally centralized procurement structure to achieve local production for local consumption.

Accordingly, conducting business rooted in local communities has enabled the rapid development and introduction to the market of new products that are tailored to the market needs in each region and created cost reductions.

### Differences in Air Conditioner Styles by Region

Region	Market Characteristics	Distinctive Products
Japan	<ul style="list-style-type: none"> <li>Importance placed on energy-saving capabilities and comfort</li> <li>Airtightness of buildings</li> <li>Standardization of heating and cooling on demand through individual ductless air conditioners that use refrigerant piping</li> </ul>	<ul style="list-style-type: none"> <li>Multi-split air-conditioning system for buildings (VRV)</li> <li><i>Ururu Sarara</i>, an air conditioner with air humidifying and cleaning functions</li> </ul>
Europe	<ul style="list-style-type: none"> <li>High energy-saving capabilities and environmental awareness</li> <li>Importance placed on design</li> <li>Popularization of heating through radiators and under-floor heating in particular, since users find direct contact with air drafts unpleasant</li> <li>Standardization of ductless air conditioners that can be retrofitted to existing buildings</li> </ul>	<ul style="list-style-type: none"> <li>Daikin Altherma heat pump space and water heater</li> <li>Daikin Emura 3, with superior design</li> </ul>
China	<ul style="list-style-type: none"> <li>Rapid popularization of air conditioners since 1990</li> <li>Preferences about interior design and luxury</li> <li>Advancing use of data</li> <li>Popularization of easily retrofitted ductless air conditioners</li> </ul>	<ul style="list-style-type: none"> <li>Multi-split air-conditioning system for residences</li> <li>Intelligent VRV</li> </ul>
United States	<ul style="list-style-type: none"> <li>Birthplace of air conditioners</li> <li>Preference for heating and cooling floors and rooms inside buildings collectively</li> <li>Standardization of 24-hour air-conditioning throughout the entire building through ductless (air duct and water pipe) air conditioners for use in both residences and businesses</li> </ul>	<ul style="list-style-type: none"> <li>Ducted unitary for houses</li> <li>Daikin applied air conditioners (central)</li> </ul>
Asia	<ul style="list-style-type: none"> <li>High need for cooling functions only</li> <li>High electricity rates and unstable electricity supplies</li> </ul>	<ul style="list-style-type: none"> <li>Cooling only inverter</li> <li>Air conditioners for high ambient temperature zones</li> </ul>

### Balance Between Enhancement of Wide-Ranging Product Lineup and Development Speed Through Modular Design

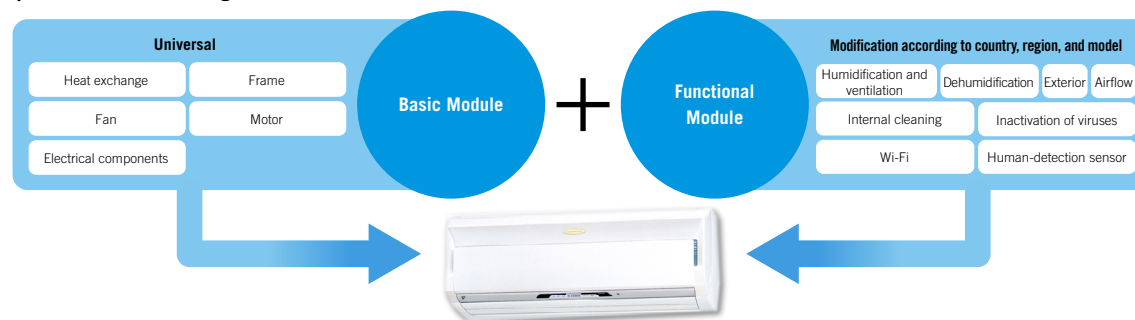
Daikin sells air-conditioning systems around the world. We began to engage in modular design in 2017 and applied it to models sold from 2019, with the aim of providing a wide-ranging product lineup and reducing costs in line with the diverse and specific needs of each region.

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

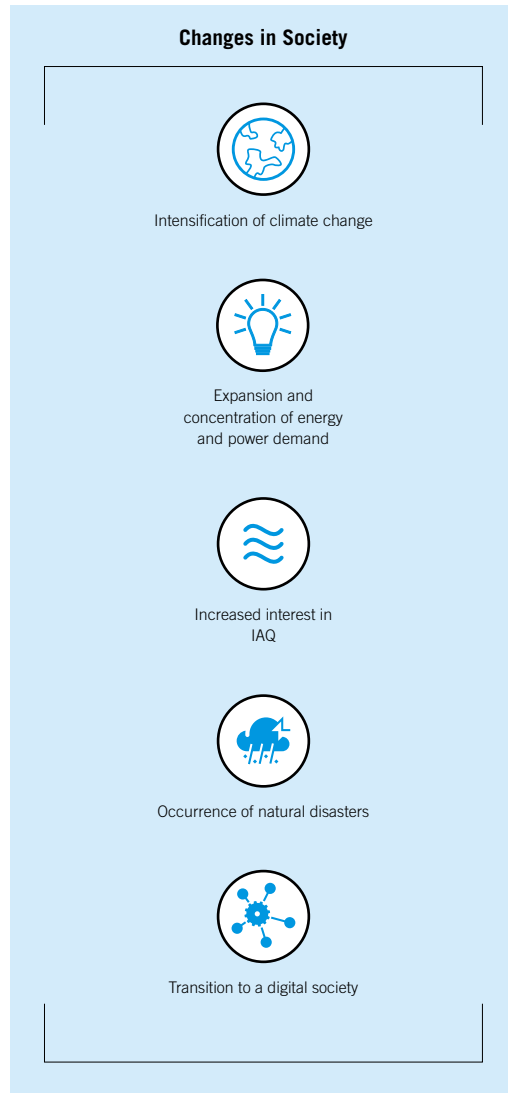
opportunity loss through an increase in product development speed and cost reductions that stem from the shared use of components.

### Close-Up View of Modular Design



# 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 and 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 indoor air quality/air environments (IAQ/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 IoT/AI</li> <li>• Providing solutions for efficient energy management</li> </ul>

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

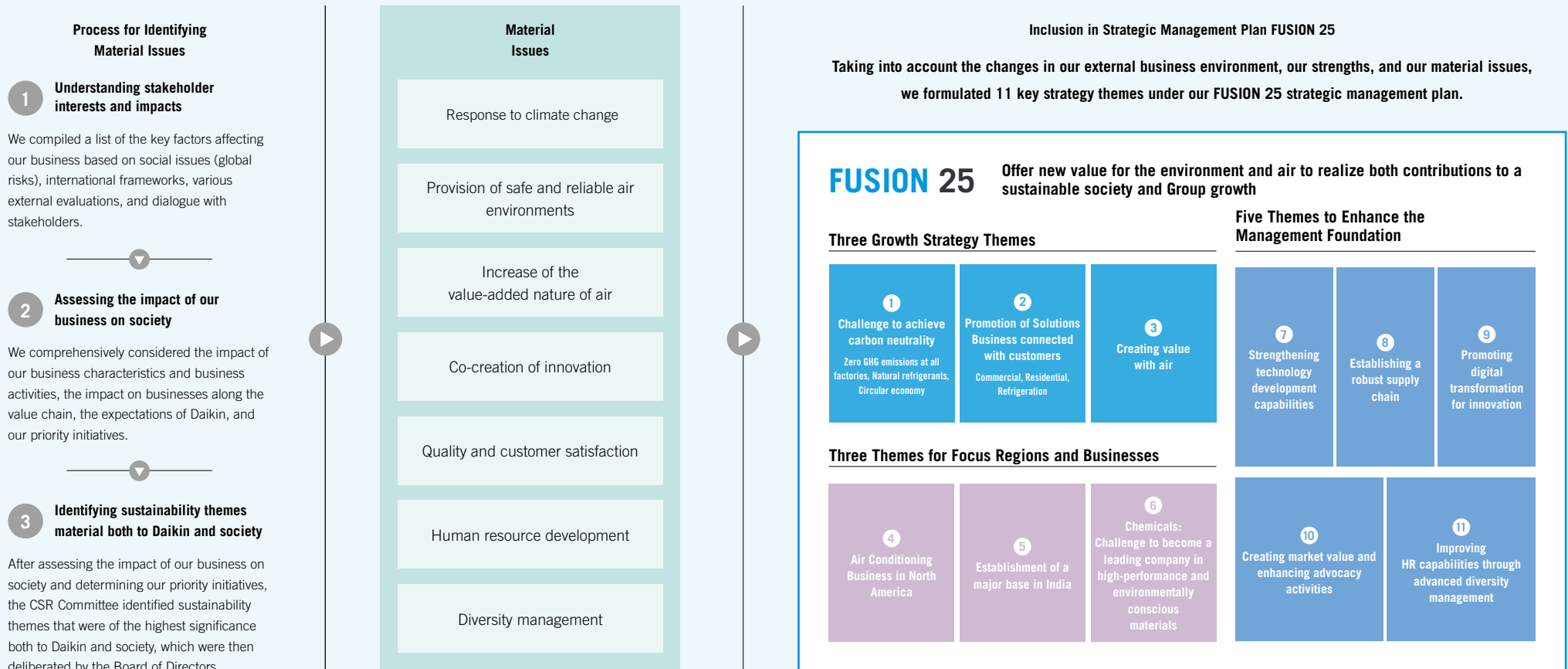
## Identifying Material Issues and Incorporating Them into Management Materiality

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

Of these themes, we are monitoring “Response 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.

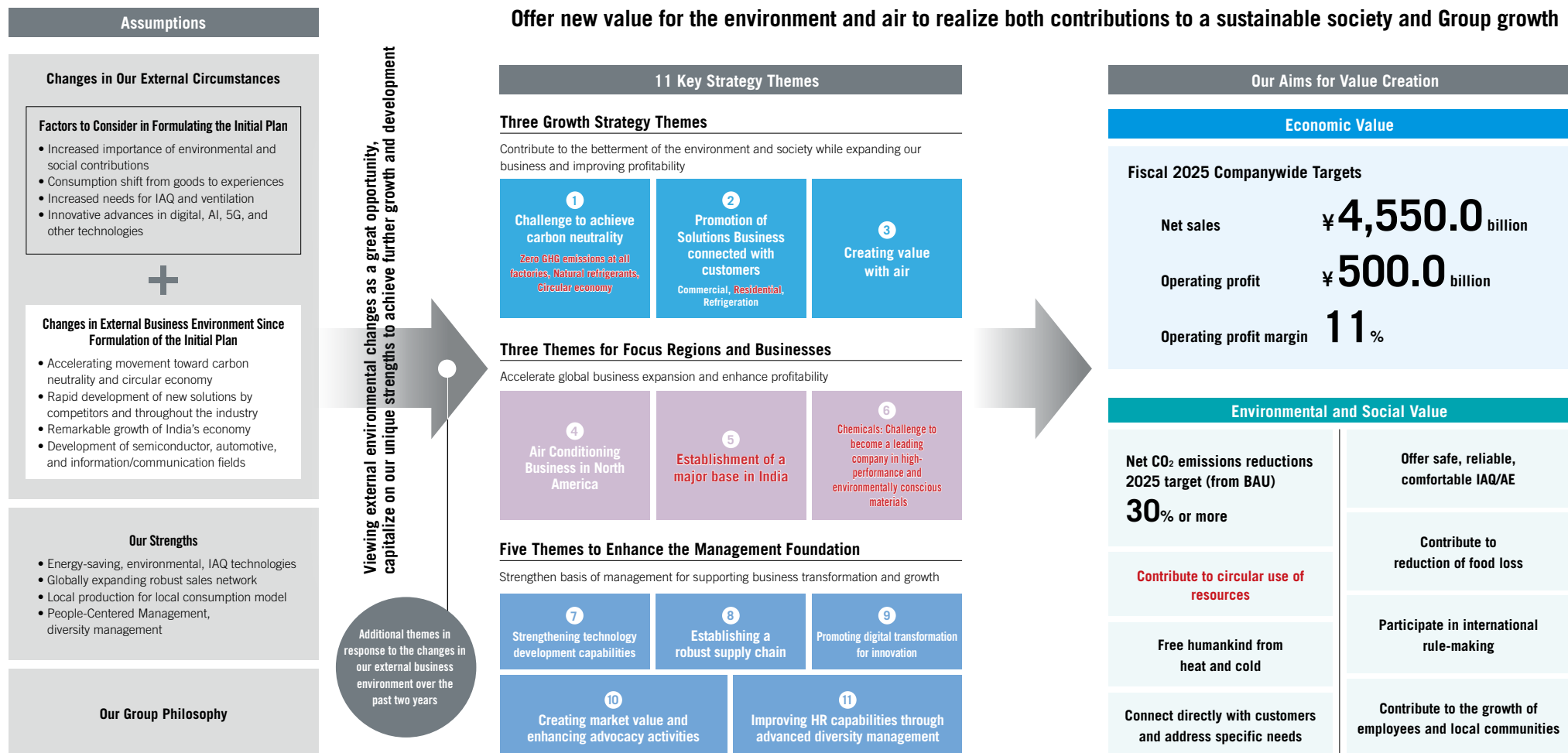


# Overview of Strategic Management Plan FUSION 25

In 2021, we formulated Strategic Management Plan FUSION 25, which covers the period from fiscal 2021 to fiscal 2025. By taking into account the changes in Daikin's external business environment and its unique strengths cultivated to date, FUSION 25 determined the themes to be implemented over this five-year period by backcasting on the basis of changes likely take place globally over the next 10 to 20 years as well as our vision for Daikin's ideal state.

Recognizing the opportunities presented by medium- to long-term trends and the changes in our business environment since the formulation of our initial FUSION 25 strategic management plan, we have strengthened our initiatives for key strategy themes and adopted additional themes for our FUSION 25 Latter-Half Three-Year Plan, which was announced in 2023. Through the execution of our 11 key strategy themes, we will expedite our creation of economic, environmental, and social value.

**Strategic Management Plan FUSION 25 at a Glance**  
 Daikin's FUSION 25 strategic management plan defines its approach to developing the Group's business over the next five years based on its external business environment and its awareness of the current circumstances. Daikin formulates an initial plan that forecasts its performance five years down the line, setting specific quantitative targets and an action plan for the first three years. After two years, it establishes a latter-half three-year plan in which it replaces its forecasts for the final year with specific targets and a revised action plan.



Note: The content in red has been newly added as part of the FUSION 25 Latter-Half Three-Year Plan.

# Overview of Strategic Management Plan FUSION 25

## Quantitative Targets

### Review of the First Two Years of FUSION 25

#### Net Sales and Operating Profit

**Achieved fiscal 2023 targets for net sales and operating profit in the initial plan one year ahead of schedule**

In the first two years of FUSION 25, despite a drastically changing business environment, Daikin improved its business performance more quickly than it had anticipated under the initial plan, by drawing on its long-cultivated strengths of market-localized production based on local production for local consumption and its globally expanding robust sales network. It also expanded its business by accelerating the execution of its key strategy themes in response to changes in the business environment, resulting in increased sales of heat pump space and water heaters in Europe and rising sales of premium environmental products in North America in line with the region's growing environmental awareness.

(Billions of yen)

	Fiscal 2020	Fiscal 2021	Fiscal 2022	(For reference) Fiscal 2023 targets of the initial FUSION 25 plan
Net sales	2,493.4	3,109.1	3,981.6	3,100.0
Operating profit	238.6	316.4	377.0	325.0
Operating profit ratio	9.6%	10.2%	9.5%	10.5%

**Continue to attain record highs and aim to achieve net sales of ¥4,550.0 billion and operating profit of ¥500.0 billion by fiscal 2025**

In our FUSION 25 Latter-Half Three-Year Plan, we aim to deliver record-breaking performance by strengthening and promoting our three growth strategy themes and expanding business in North America, India, and other regions.

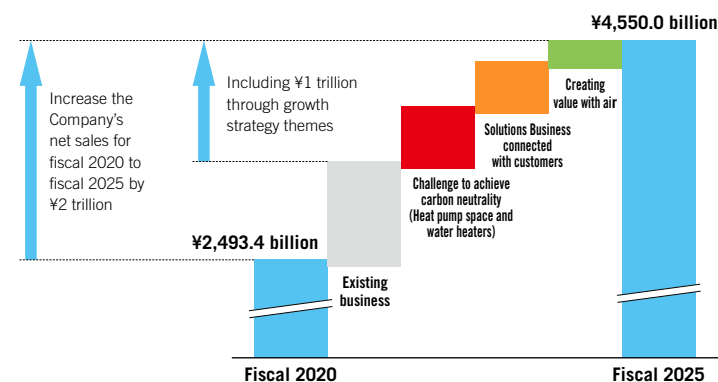
(Billions of yen)

	Fiscal 2023 Plan	Fiscal 2025 Plan
Net sales	4,100.0	4,550.0
Operating profit	400.0	500.0
Operating profit ratio	9.8%	11%

### FUSION 25 Latter-Half Three-Year Plan

#### Breakdown of Business Expansion Based on the Three Growth Strategy Themes

We will accelerate the execution of our key strategy themes, including "Challenge to achieve carbon neutrality" and "Promotion of Solutions Business connected with customers," while expanding our businesses centered on the Heat Pump Space and Water Heating Business and helping resolve environmental and social issues.



#### Investment Plan (R&D, Capital Assets, and Digital Technology)

In the first two years, we steadily made aggressive investments in future growth in R&D, capital assets, and digital technology, and in enhancing the production capacity of each region.

In the remaining three years, we will accelerate upfront investments in strengthening R&D, enhancing the production capacity of each region, automating production, and pursuing other efforts aimed at achieving sustainable growth in the future.

#### Investment Plan and Progress

(Three-year totals for fiscal 2021 to fiscal 2023)

(Billions of yen)

	FUSION 25 Initial Plan Forecasts (Three-Year Totals)	Two-Year Results + Fiscal 2023 Plan
R&D expenses	226.0	298.7
Capital investments	446.0	721.6
Digital investments	137.0	150.0

#### Investment Plan

(Three-year totals for fiscal 2023 to fiscal 2025)

(Billions of yen)

	Total for Remaining Three Years (Fiscal 2023 to Fiscal 2025)
R&D expenses	390.0
Capital investments	800.0
Digital investments	180.0

#### Main Areas and Themes for Investment

- R&D** We will develop new products and services that set us apart from the competition, such as products using refrigerants with low GWP and natural refrigerants that comply with stricter regulations and heat pump space and water heaters.
- Capital assets** For developing countries in Asia and Africa, we must enhance production capacity in response to the robust demand for air-conditioning in these areas. In the remaining three years of FUSION 25, we plan to launch operations at five more plants globally, in India, Mexico, Indonesia, China, and Europe.
- Digital technology** We will develop the differentiated services and applications necessary to expand our Solutions Business. We will also build a system that covers our entire supply chain management process and strengthens our security measures (IoT products and external suppliers).
- M&A** We will look into opportunities for M&As to quickly develop a foundation for our service and solutions business in Europe, Asia, Oceania, and North America, further strengthen our sales network in the North American air-conditioning market, and accelerate the achievement of carbon neutrality and the development of our Refrigeration Solutions Business.



**We will achieve further growth by expanding our business scale and enhancing profitability.**

**Koichi Takahashi**

Senior Executive Officer  
Responsible for Finance, Accounting/Budget Operations  
General Manager of Finance and Accounting Division

**Message from the Officer in Charge of Finance**

**FUSION 25 Latter-Half Three-Year Plan:  
Our Springboard for Further Growth**

At Daikin, our basic policy is to strive to not only expand our business while implementing strategic investments but also strengthen our management structure for future growth and development by aiming to improve profitability and solidify our financial position. Based on the FUSION 25 Latter-Half Three-Year Plan, announced in May 2023, we will continue to invest aggressively in our factories in anticipation of greater demand going forward, as well as in capital assets, R&D, digital technology, and human resources to ensure the future growth of our business. In addition to strengthening our existing businesses, we will boldly embrace our key strategy themes of “Challenge to achieve carbon neutrality”, “Promotion of Solutions Business connected with customers”, and “Creating value with air”. From a financial perspective, it is important that while making these investments we increase our cash flow by continuing to expand our business and improve profitability. We plan to improve our operating margin, which came to 9.5% in fiscal 2022, to 11% by fiscal 2025. Constantly aware of the need to expand business scale and improve profitability, we will continue to raise our profit margin while achieving net sales of ¥4,550.0 billion and operating profit of ¥500.0 billion over the course of the Latter-Half Three-Year Plan.

In R&D and capital assets alone, we plan to invest ¥1,190.0 billion over the three-year period from fiscal 2023 to fiscal 2025, and ¥1,370.0 billion if digital investment is included. We also intend to invest more than ever in the strengthening of our human resources. By securing a certain level of free cash flow, we will ensure that we are well-positioned to engage in potential M&A deals.

**Promoting Comprehensive Cost-Reduction Measures**

In fiscal 2022, we achieved record-breaking results by offsetting the negative impact of cost increases, including soaring raw material and distribution costs and rising resource and energy costs, through increased sales, strategic selling price measures, and the promotion of comprehensive cost-reduction measures aimed at minimizing both variable and fixed costs. We are working to reduce variable costs from a variety of angles, which include procurement costs through co-creation with suppliers, development costs through revisions of product designs, and production costs through the automation of factories and other measures to enhance productivity. Moreover, due to the soaring price of copper in recent years, we are converting to the use of aluminum and other materials. Because copper is a widely used material in air conditioners, fluctuations in its price have a significant impact on manufacturing costs. Although there are technical and development issues when it comes to the product processing phase, we are steadily converting from the use of copper to aluminum and other materials. Through such Groupwide efforts, we plan to cut variable costs by ¥50.0 billion in fiscal 2023.

In terms of fixed costs, along with an array of cost-reduction measures, we engage in regionally focused purchasing activities that take advantage of economies of scale and are streamlining our indirect operations. As we continue to expand our business, it is inevitable that our labor costs and other fixed costs will increase. In FUSION 25, we declared the goal of improving the operating efficiency of our existing operations in indirect divisions by 30% and we are proceeding with business process reforms and digitalization measures to that end. The resources created through this higher operating efficiency will be allocated to the aspects of our operations that we have not been able to fully engage with thus far, which will help promote our growth strategies and strengthen our corporate structure. We will work toward even higher goals under the Latter-Half Three-Year Plan.

### Improving Asset Efficiency through Reductions in Working Capital

At Daikin, we place priority on free cash flow as an indicator for business management, and are working to generate cash flow from a working capital perspective by ensuring reductions in accounts receivable and inventories, in addition to increasing earnings and raising investment efficiency. In fiscal 2022, we posted a negative free cash flow, mainly due to an increase in working capital that stemmed from a strategic buildup of inventory.



The emergence of the COVID-19 pandemic and various geopolitical risks disrupted the supply chain, resulting in shortages of semiconductors and electronic components and a period in which parts procurement remained unstable. Under these circumstances, our production sites were instructed to strategically build up inventory by securing as large an inventory of parts and products as possible to prevent any suspension of the supply of products. Although we had intended to increase working capital through additional inventory and were able to improve our sales and market share as a result, we came to realize that our inventory was larger than necessary when its value and turnover rate was assessed. With the supply chain disruptions having settled down, we have shifted our approach to reducing inventory from April 2023 onward and plan to shorten the number of days for which parts and products are held as inventory from 91 at the end of March 2023 to the high 70s by the end of March 2024. This is certainly not an easy task, but we are fully aware of what needs to be done. We will set inventory reduction targets every three months for each department, company, product, and material. In addition to thoroughly managing our inventory, we will enforce strict measures that go back to the basics, such as enhancing the accuracy of our sales planning, streamlining our plan for receipts and payments, and strengthening our ability to ensure timely production.

### Advancement of Global Financial Management

Because Daikin's subsidiaries have varying levels of cash reserves and funds tend to be distributed unevenly among them, we are utilizing the global cash management system (GCMS) to reduce outflows and improve the efficiency of funds by accommodating surplus funds within the Group. Specifically, in addition to accommodating funds for Group areas that use the same currency, such as within China and the United States, we will do the same for areas where multiple currencies are used in transactions, such as Europe and Asia. While there is the possibility of foreign exchange risk, we are constantly seeking to use funds effectively within the Group, such as by transferring funds from cash-rich Group companies to our headquarters in Japan and then providing these funds to Group companies that are in need of funds and based in areas with a different currency.

Although we are in a phase of rising interest rates worldwide, we remain committed to maintaining a balance between direct and indirect financing to secure diverse and flexible financing options. With direct financing, we issue corporate bonds, which we also see as an effective way to create opportunities to engage with investors. In addition, government-affiliated financial institutions in various countries have made institutional financing available for investments in environmental measures, such as capital investments for the development and the production of energy-efficient products, and we are constantly looking to utilize this financing option based on the specifics of each theme.

### Continuing to Invest toward Further Growth

The Group's business hinges on its ability to ensure that customers utilize its products and services with true appreciation of their overall value. To that end, it is imperative that we establish relationships with dealers, a flexible product supply system, and after-sales service and logistics systems. The fact that our products are consistently chosen by our customers around the world, despite their relatively high prices, is due to not only the competitiveness of our products but also our customers' appreciation of the Group's efforts. In other words, it is because of our customers' appreciation that we can generate a profit even if we need to incur additional costs to provide quality products and services. To keep this cycle running, adapt quickly to our changing business environment, and implement strategies that ensure that we remain one step ahead of our competitors, we will continue to invest in capital assets, R&D, digital technology, and human resources. As we continue to invest, it will become even more important to generate returns as quickly as possible. We make sure to follow up both on the status of investments to confirm that returns are being generated according to plan and on the status of M&As to ensure that synergies are being created in line with our expectations.

Until now, the Group has mainly focused on the tangible aspects of its business in which products are manufactured at its factories and delivered to its customers. However, going forward, the Solutions Business—or the intangible side of its business, such as energy management and the provision of comfortable spaces through air quality control—will become even more important. We will also see



changes take place in our sales channels and the skills required of sales staff, and, naturally, the scope of our investments. We also anticipate the need for technologies that are not at our disposal, such as facility management and energy control. We believe that in order to acquire these functions in a timely manner and expand our business, we must recruit highly skilled personnel and take advantage of M&A opportunities.

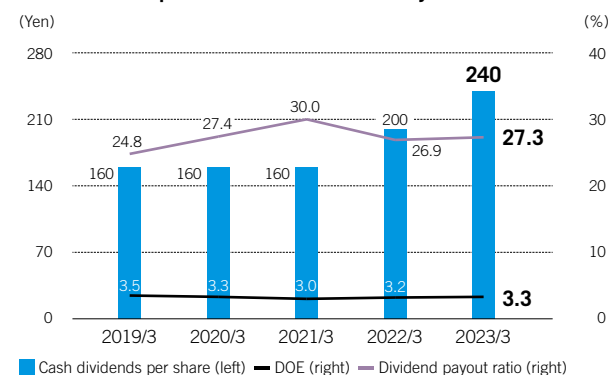
When engaging in M&As, we pay close attention to the returns of these investments, but do not set a hurdle rate. The payback period of investments is estimated using the EBITDA and free cash flow basis, and as a general rule of thumb, investments are recovered within 10 years on a free cash flow basis. There is certainly the option of setting a hurdle rate, but we believe that, rather than focusing on numbers, it is important that we execute the business plan we have established based on the Group's strategies. To that end, we are keen on developing risk scenarios. It is easy for a division considering an M&A to become so eager to close the deal that it loses sight of the risks involved. The Corporate Division analyzes and ensures that we are prepared for any type of risk and the impact the risk may have on our business plan if it materializes. In the past, an increasing number of smaller scale projects were autonomously handled by the business divisions so that M&A transactions could be executed as quickly as possible, which diminished the role of the Corporate Division. In addition, we regrettably incurred impairment losses on intangible fixed assets on repeated occasions, and to learn from and make positive use of this experience, we are taking various measures to reap the results of our M&As. For example, we have formulated our M&A guidelines and are working to ensure that the business divisions have a formal knowledge of the items to be checked prior to engaging in M&As. Furthermore, the Corporate Division actively engages in pre-assessments, including due diligence, and ensures that we follow up on the status of business plans after the acquisition is made in order to generate steady results from M&A transactions.

### Message to Shareholders and Investors

Regarding shareholder returns, based on our policy of providing stable and continuous dividend payments, we will strive to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% or higher while aiming to increase our dividend payout ratio. The profits generated will be redirected to investments in the Group's future growth and development, the returns from which will be utilized to further enhance its corporate value. By continuing this cycle, we hope to achieve further increases in our corporate value and meet the expectations of our shareholders.

As the officer in charge of finance, I believe that my role is to not step on the brakes of investments in growth but rather to facilitate them. One wrong move, however, can result in financially irresponsible management. My focus is on ensuring that we get a solid return on our investment. I believe we must repeatedly urge each division to thoroughly identify risks and take the necessary steps to prepare for them. When I joined the Company, our net sales were at the ¥110.0 billion level. Today, we have evolved into a business that achieves in excess of ¥4.0 trillion in net sales. Although the size of our business has expanded, what we need to do remains unchanged. We must constantly adapt to our changing business environment as swiftly as possible and thoroughly implement specific measures that ensure we remain one step ahead of our competitors. We will continue to grow and develop in the years ahead while appreciating these strengths that have been cultivated over our many years in business.

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



## Financial Strategy

### Ratio Management and Our Targeted Management Indicators

At Daikin, we engage in ratio management based on the awareness that maximizing 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.

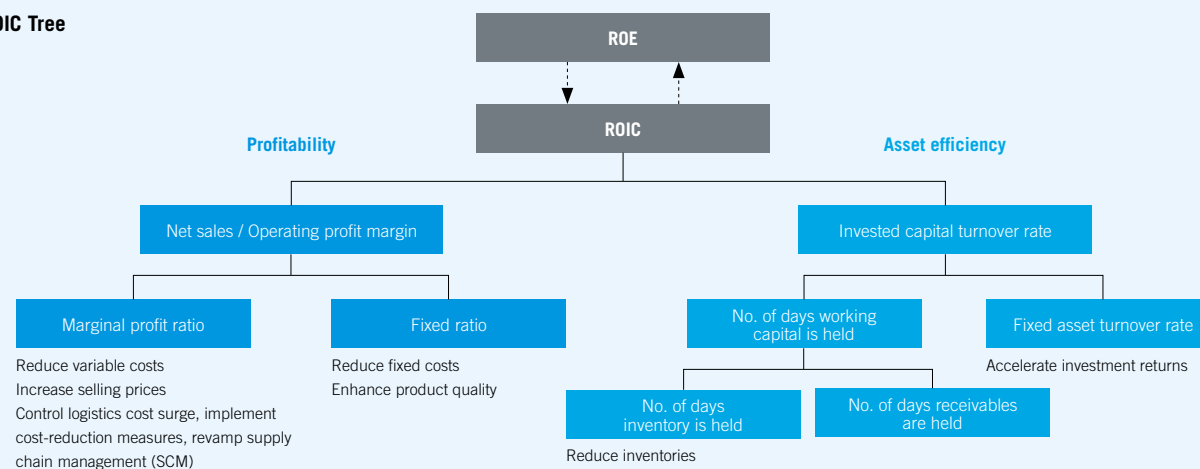
We then began ratio management to focus more on operating profit margin, profitability, and financial structure based on our aim to “become an attractive company that draws together people, capital, and information” set forth in the revamped version of FUSION in 1999. Under ratio management, we actively 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 to show clearly how the duties of each employee are connected to ROIC. 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 also use the ROIC Tree concept to explain to management at our overseas bases how ROIC is linked to their daily duties.

ROIC Tree



### 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 deemed 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.

## Three Growth Strategy Themes

### 1 Challenge to Achieve Carbon Neutrality

We will actively engage in upfront investments in heat pump space and water heaters, inverter air conditioners, and other products that contribute to the achievement of carbon neutrality and accelerate our efforts in refrigerants, one of Daikin's core environmental technologies. We aim to achieve carbon neutrality by 2050 by promoting the use of low-GWP refrigerants and establishing a refrigerant recovery and recycling network, while expanding our business in the process.

#### Awareness of the External Business Environment and Review of the First Two Years of FUSION 25

We have seen rapid progress in the movement toward carbon neutrality, exceeding the expectations we set when formulating our initial FUSION 25 strategic management plan.

In 2022, Europe announced the REPowerEU plan to accelerate the adoption of renewable energy, while in the United States, the Department of Energy announced its Industrial Decarbonization Roadmap. In these ways, regulatory measures are being promoted in both regions to eliminate the use of fossil fuels.

Moreover, we are seeing an accelerating trend toward the achievement of net zero GHG emissions at factories. Furthermore, companies, particularly in Europe, are being called on to contribute to the achievement of a circular economy.

On the other hand, due to the shortage of natural gas supply resulting from the Russia-Ukraine conflict, the use of coal-powered electricity, which emits large amounts of GHGs, is greater than we had anticipated when formulating our initial plan.

Having achieved a 14% reduction in GHG emissions in fiscal 2022, we are almost on track to achieving our target of a reduction of 30% or more in GHG emissions by fiscal 2025 and our target of a reduction of 50% or more by fiscal 2030 (using fiscal 2019 as the baseline year), as set forth in our initial FUSION 25 plan. In the Heat Pump Space and Water Heating Business, global sales amounted to approximately ¥315.0 billion in fiscal 2022, greatly eclipsing the target set in our initial plan, as sales expanded on the back of soaring fuel costs and environmental policies in Europe.

#### FUSION 25 Latter-Half Three-Year Plan

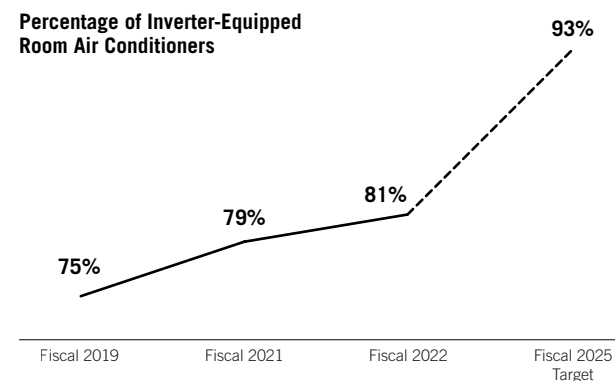
In our FUSION 25 Latter-Half Three-Year Plan, we have adopted "Initiatives for realizing a circular economy" as a new theme in reflection of our changing external business environment. We aim to achieve our net-GHG emission reduction targets by continuing to strengthen our existing initiatives.

##### Key Initiatives

#### 1. Reduction of Power Consumption During Product Use

**Work to accelerate the global conversion to inverters and lead the industry in environmentally conscious products (energy saving equipment)**

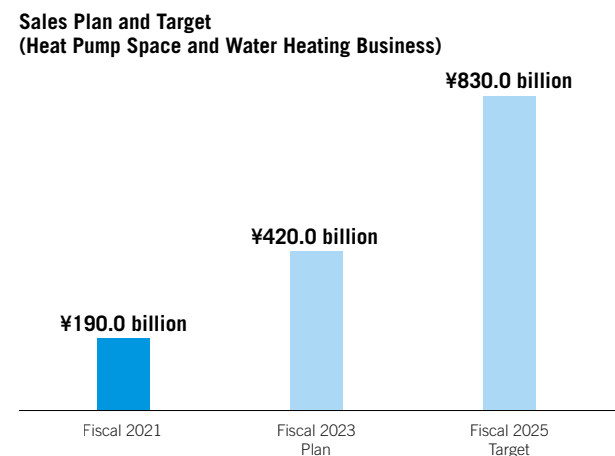
We will accelerate the use of inverter units on a global scale, aiming to have them installed on over 93% of room air conditioners by fiscal 2025 (81% as of fiscal 2022). In addition, we will reduce power consumption during product use by developing and expanding sales of energy-saving systems, such as those combining VRVs and heat reclaim ventilators.



#### 2. Expansion of the Heat Pump Space and Water Heating Business

**Significantly expand business in the residential market by launching differentiated products and strengthening sales and after sales service networks**

In the Heat Pump Space and Water Heating Business, we aim to achieve sales of ¥830.0 billion by fiscal 2025 through the strengthening of our sales and service networks, mainly in the residential-use markets of Europe, North America, China, and Japan. In Europe in particular, we will take on the challenge of increasing our market share and significantly enhancing the scale of our business by capitalizing on the opportunities presented by environmental policies that promote the use of heat pumps and through the operations of our new plant in Poland and the release of new products using R290 refrigerants.



Special Feature: Accelerating the Realization of Carbon Neutrality through Our Heat Pump Space and Water Heating Business in Europe ▶ Page 34

## Three Growth Strategy Themes

### 3. Refrigerant Initiatives to Support the Air Conditioning Business

#### Select Refrigerants That Are Perfectly Suited to Each Region and Develop Equipment Using Natural Refrigerants

We will continue to promote conversion to R32 refrigerants across the globe, and in the United States in particular, we will release R32 products to market ahead of our competitors to comply with the stricter hydrofluorocarbon (HFC) regulations from 2025. In addition, we will take measures to promote the switch to R32 refrigerants for our VRV products in Japan and Europe.

Moreover, we will introduce equipment using natural refrigerants to Europe, an environmentally advanced region, and develop next-generation refrigerants.

#### Total Unit Sales of R32 Air Conditioners (As of December 2022)

Over **42 million units** in more than **130 countries**

(Japan: approximately 16 million units, Overseas: approximately 26 million units)



### 4. Reduction of GHG Emissions During Manufacturing (Development and Production Processes) and Office Activities, etc.

#### Aim to Achieve Net Zero GHG Emissions by Fiscal 2030 at All Factories Excluding Chemical Plants

We will work to achieve net zero GHG emissions at the Rinkai Factory of our Sakai Plant and then deploy these initiatives to our overseas bases.

As for our non-production sites, we will achieve net zero emissions at our major office buildings in Japan by fiscal 2025.

### 5. Development of New Business That Takes a Carbon Neutral Society into Account

#### Reinforce initiatives for negative emissions and electric power

We will reconsider our initiatives for negative emissions, including our development themes and commercialization efforts for the direct recovery and utilization of CO<sub>2</sub>.

Moreover, because air conditioners, the Group's mainstay product, consume large amounts of electricity, we will strengthen our electricity-related measures as a part of our corporate responsibility. We will also expand our sales of micro-hydroelectric power generation systems and explore the possibilities of electricity-related businesses.

### 6. Initiatives for Realizing a Circular Economy

#### Accelerate the global establishment of a refrigerant eco-cycle (recovery and reclamation) and make efforts to make environmentally conscious procurement choices for other materials, such as using recycled materials with improved durability

Based on the belief that it is our duty as an air-conditioning manufacturer to do what it takes to realize a recycling-oriented society and that doing so presents opportunities for the further growth of our business, we have adopted "Initiatives for realizing a circular economy" as a new key strategy theme in our FUSION 25 Latter-Half Three-Year Plan. We will work to establish a refrigerant eco-cycle (recovery and reclamation) especially in developed countries, where regulations are becoming increasingly stringent.

We will also use recycled materials and improve the durability of materials other than refrigerants, such as resins and metals, used in air conditioners.

### Concept of a Circular Economy

"CE is a system of a circular society that generates economic value on the premise that products and raw materials are not disposed."

#### Steps to Achieving a Circular System

Offer **product design and services based on circularity**

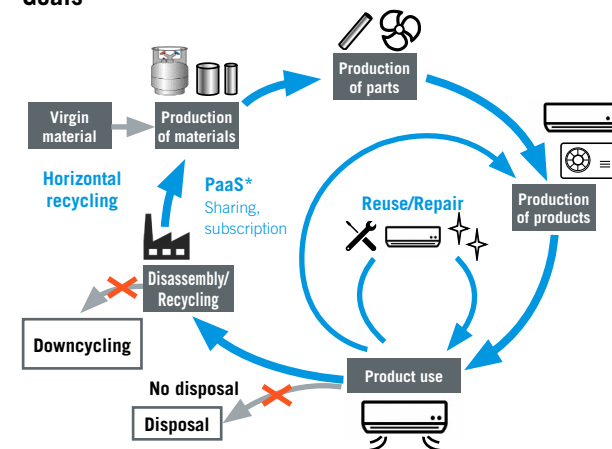
Establish a **recovery network** for products and materials

Enhance technology for **horizontal recycling\***

\* Horizontal recycling: A recycling process in which end-of-use products are converted into resources, which are then used to reproduce the same product.

Sources: Environment, Recycling Society, Biodiversity White Paper, Ministry of the Environment of Japan, 2021; Proposals for Realizing a Circular Economy, Keidanren (Japan Business Federation), 2023.

### Goals



\* PaaS: Product as a service

## Three Growth Strategy Themes

### 2 Promotion of Solutions Business Connected with Customers

For our FUSION 25 Latter-Half Three-Year Plan, we have adopted “Residential solutions” as a new growth strategy theme to complement our existing growth strategy themes of “Commercial solutions” and “Refrigeration solutions,” which were declared in our initial plan.

In “Commercial solutions,” we will strengthen our sales and service capabilities so that we can propose solutions in line with the specific needs of each market, customer, and project. We will work to expand our line of products and proposals to better address the emerging needs for digital transformation, carbon neutrality, and saving labor.

In “Residential solutions,” we will provide added value and establish this theme as a new business using connectivity and data, in light of the accelerating trend in standardizing residential energy-saving regulations and the wireless communication standards of residential equipment.

In “Refrigeration solutions,” we will expand our business in Asia and broaden the scope of our operations while establishing a new business model for the entire cold chain, from the place of production to the place of final consumption, to help realize decarbonization and reduce food loss.

#### Commercial Solutions

**Focus on strengthening proposal-based sales capabilities, expanding menus for each vertical market, and strengthening business promotion functions along with building an owner-direct sales network**

In the commercial solutions market, the need for environmental and decarbonization solutions is becoming more apparent and an increasing number of companies are working to reduce the CO<sub>2</sub> emissions of their facilities and factories. We have also seen a growing need for better IAQ and well-being (a more enriched society) upon the containment of the COVID-19 pandemic.

In the first two years of FUSION 25, we developed data infrastructure that operates various applications for resolving customer issues, such as energy management and IAQ, while strengthening our after-sales service infrastructure and enhancing our owner-direct sales network through M&As in each region. Sales in the Commercial Solutions Business amounted to approximately ¥684.0 billion in fiscal 2022, achieving our fiscal 2023 target for the initial FUSION 25 plan one year ahead of schedule.

Under our FUSION 25 Latter-Half Three-Year Plan, we will establish specific themes for enhancing the vertical markets in each region and

#### Examples of Needs in Vertical Markets



Offices  
Greater comfort



Schools  
Simpler management of equipment



Hospitals  
Prevention of the spread of viruses and bacteria



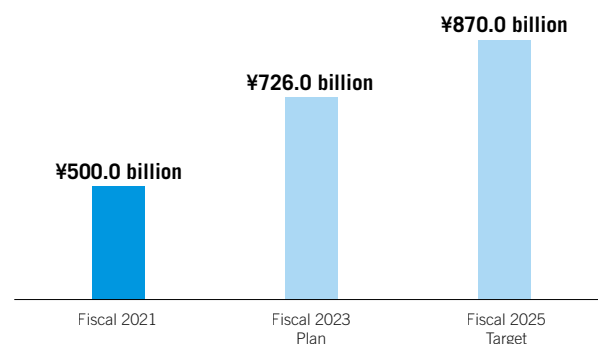
Hotels  
Establishment of purpose-specific controls and advanced operability



Factories  
Reliability and energy-saving performance

roll out our internally developed products, proposal-making knowledge, and best practices across the globe. In North America, for example, we will develop low-cost, easy-to-install equipment monitoring and control systems for hospitals and offices and promote energy conservation through coordinated control of VRV and applied ventilation for schools. By virtue of these and other measures, we aim to achieve sales of ¥870.0 billion in this business by fiscal 2025.

#### Sales Plan and Target (Commercial Solutions Business)



#### Residential Solutions

**Create our own solutions model which combines energy efficiency and comfort by controlling the balance between heat generation and electric power consumption of HVAC\* products, which account for most of the energy used in a home**

Due to increasingly stringent residential energy-saving regulations, we are seeing rapid advancement in the adoption of heat pumps as a source of heat energy, the implementation of power storage facilities, and the standardization of wireless communication standards for residential equipment. We will also likely see the spread of smart homes, particularly in developed countries.

“Residential solutions” was adopted as a new key strategy theme for our FUSION 25 Latter-Half Three-Year Plan because HVAC products account for most of the energy used by households. We will first introduce HVAC system products that can connect to the internet according to local conditions and then promote connectivity, aiming to achieve sales of ¥200.0 billion for internet-connectable systems by fiscal 2025.

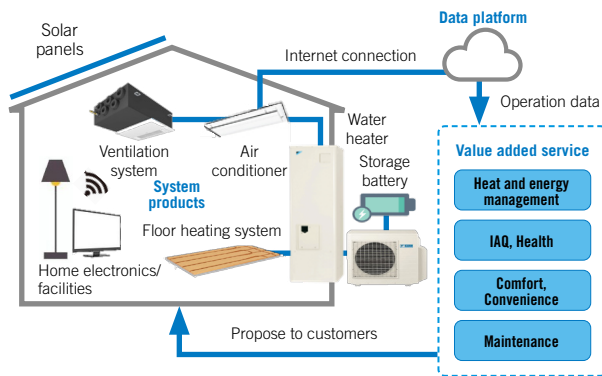
- Europe: Release of Daikin Altherma, a heat pump space and water heating system that connects to solar power systems, and establishment of proprietary residential energy-saving systems based on heat pump space and water heating
- North America: Development of remote monitoring and other service programs based on Fit inverter-equipped unitary products
- China: Promotion of connectivity of residential multi-split air conditioners, our mainstay product, and proposal of new lifestyle solutions, such as air and space optimized for various aspects of people’s lifestyles

Furthermore, we will develop a residential-use solution model that uses data from internet-connectable systems to achieve energy efficiency and comfort through the optimal control of heat and power through, for example, collaborations with electric power companies and local governments.

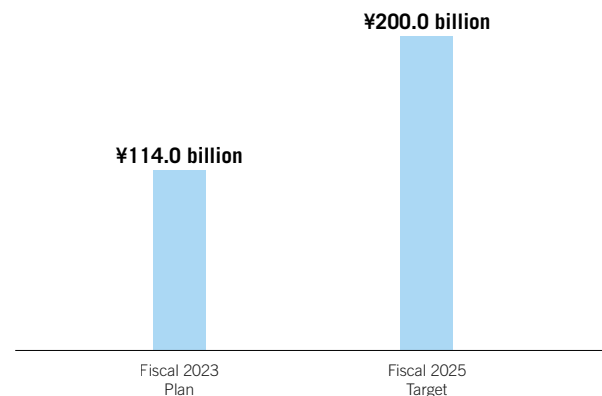
\* HVAC: Heating, ventilation, and air-conditioning

## Three Growth Strategy Themes

### System Example



### Sales Plan and Target (Internet-Connectable Systems)



### Refrigeration Solutions

**Strengthen business development in Asia, where market growth is expected, in addition to expansion of existing business, while taking on the challenge of creating new business models such as "Realization of decarbonization" and "Reduction of food loss" in the cold chain from production to consumption**

Approximately 1.3 billion tons of food—or one-third of the world's food production—is discarded each year,\* creating a major social issue. In addition, large quantities of GHGs are emitted in the production and disposal of food. The development of cold chains will contribute to the reduction of food loss and the realization of a carbon neutral society.

In the first two years of FUSION 25, sales grew in the Marine Container Business on the strength of solid demand as well as for energy-saving systems for stores in Europe. Sales for the refrigeration business remained brisk, amounting to approximately ¥151.0 billion in fiscal 2022.

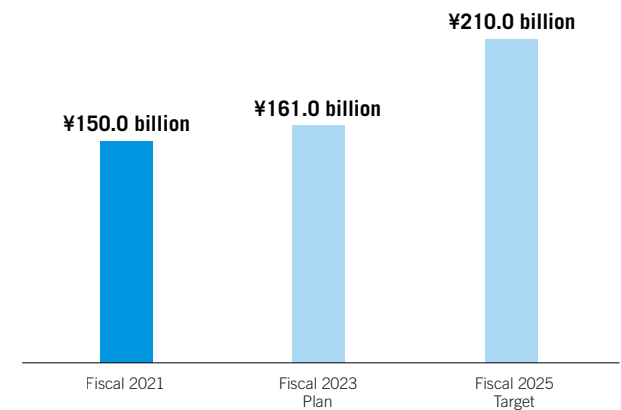
Under our FUSION 25 Latter-Half Three-Year Plan, we will expand our Store Solutions Business, which focuses mainly on the European and Japanese markets, and strengthen our business development in Asia, where the market offers potential for growth. Furthermore, in Europe, we will reinforce our efforts in land transportation and industrial applications to expand the scope of our cold chain.

We will make use of freshness preservation technology along the cold chain, from the place of production to the place of final consumption, to create new forms of added value that help reduce food loss and realize a carbon neutral society.

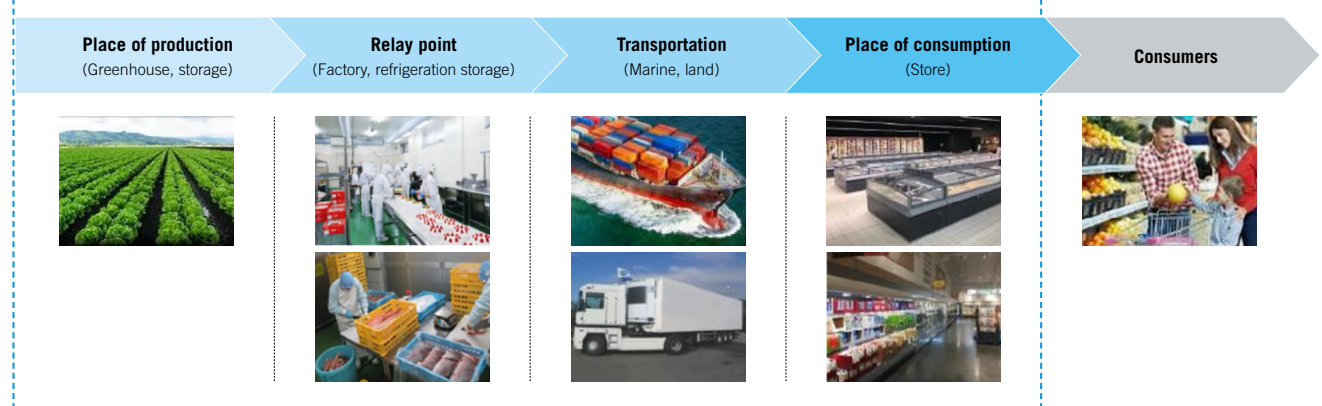
Through these and other measures, we aim to achieve sales of ¥210.0 billion in the Refrigeration Solutions Business by fiscal 2025.

\* Reference: GLOBAL FOOD LOSSES AND FOOD WASTE, Food and Agriculture Organization of the United Nations (FAO), 2011

### Sales Plan and Target (Refrigeration Solutions Business)



### Refrigeration Business Areas Daikin Is Targeting



## Three Growth Strategy Themes

### 3 Creating Value with Air

We will seek opportunities to create new value with air by drawing on the increasingly diverse needs for air and ventilation.

Under our FUSION 25 Latter-Half Three-Year Plan, we aim to further expand our business by shifting from the sale of stand-alone equipment to the sale of air-conditioning, ventilation, and air purification systems.

#### Awareness of the External Business Environment and Review of the First Two Years of FUSION 25

The global air and ventilation market is expected to grow from ¥1.8 trillion in 2020 to ¥2.6 trillion in 2025.\* In Japan and North America, where IAQ standards are constantly evolving, air-conditioning manufacturers are developing their own solutions for ventilation and sterilization needs as well as for visualizing air quality.

In the first two years of FUSION 25, sales of air purifiers, heat reclaim ventilators, air handling units, filters, and other IAQ and ventilation products grew in response to the needs for safe and reliable air environments. In particular, we saw substantial growth in the sales of Venti-air, an exposed installation-type heat reclaim ventilator for commercial use that can be retrofitted on the interior walls, ceilings, and under the eaves of buildings.

These efforts contributed to sales of approximately ¥294.0 billion in the IAQ/Ventilation business in fiscal 2022, achieving our target for the initial FUSION 25 plan one year ahead of schedule.

\* Based on in-house research, as of May 2021



UV Streamer Air Purifier series

#### FUSION 25 Latter-Half Three-Year Plan

In addition to the “Establishment of a large-scale IAQ/Ventilation business,” we will promote the “Creation of IAQ/AE that enrich people’s lives” and collaborate with industry and academia in the “Pursuit of new value with air,” as we look ahead to the future.

##### 1. Establishment of Large-Scale IAQ/Ventilation Business

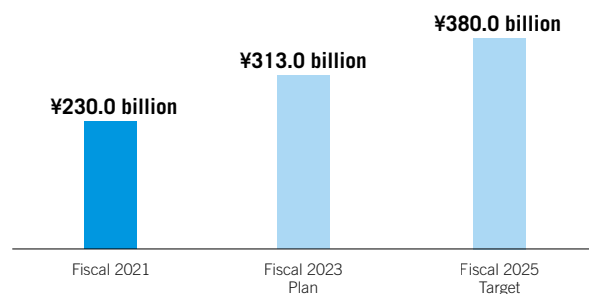
**Expand sales through the shift from stand-alone equipment to air-conditioning, ventilation, and air purification systems while proposing IAQ diagnostics and maintenance services**

We will expand sales by strengthening our sales activities for air conditioners, ventilators, and air purifiers in each region while, at the same time, proposing IAQ diagnostics and maintenance services.

- Japan and Asia/Oceania: Propose energy-saving systems for buildings combining VRVs and heat reclaim ventilators
- Europe: Propose ventilation systems based on IAQ analyses
- China: Propose residential air-conditioning solutions combining air-conditioning, heat pump floor heating, and ventilation systems
- North America: Develop next-generation medium- and large-sized rooftop air conditioners

By virtue of these and other measures, we aim to achieve sales of ¥380.0 billion in fiscal 2025.

##### Sales Plan and Target (IAQ/Ventilation Business)



##### 2. Creation of IAQ/AE That Enrich People’s Lives

**Commercialize the four themes of infection prevention, allergens, oxygen, and autonomic nerves**

We will commercialize the following four themes by focusing on health issues that are significantly impacted by air quality and affect a large number of people, such as infections, allergies, obesity, and sleep disorders.

- Infection prevention: Systematize air conditioners, heat reclaim ventilators, and air purifiers at offices and schools to provide environments with a low risk of infection; Realize safe and secure environments that eliminate the risk of aerosol infection even without the use of face masks
- Allergens: Improve symptoms of hay fever and provide environments that are free from allergens, house dust, and dust mites
- Oxygen: Provide highly effective environments for exercise and learning by controlling the oxygen concentration in the air
- Autonomic nervous system: Provide environments that reduce sensitivity to cold during sleep

##### 3. Pursuit of New Value with Air

**Create various types of future air value utilizing industry—academia collaborations**

We will work in tandem with the University of Tokyo to realize our vision for the future in regard to “Creating value with air” and develop new technologies while teaming up with venture companies to bring new value to society through co-creation. Moreover, through industry—academia collaboration with Kyoto University and Tottori University, we aim to acquire new skills and knowledge in technical areas of the healthcare field.

## Three Themes for Focus Regions and Businesses

### 4 Air Conditioning Business in North America

We will drive market transformation on the strength of our premium environmental products. We have set our sights on becoming the No. 1 air-conditioning business in North America by enhancing the scale of our residential-use air-conditioning business and developing the industrial-use Air Conditioning and Applied Solutions Businesses.

#### Awareness of the External Business Environment and Review of the First Two Years of FUSION 25

In the United States, we are seeing an accelerating trend toward more stringent environmental regulations, such as the Department of Energy's revised energy efficiency standards and the Environmental Protection Agency's hydrofluorocarbon refrigerant policy. At Daikin, we will use these tighter environmental regulations as an opportunity to launch new premium environmental products that use our strengths in core technologies, such as inverter units, heat pumps, and refrigerants with low GWP.

In the first two years of FUSION 25, our results improved significantly owing to increases in sales and market share of residential-use unitary air conditioners, which are widely used in the United States, while also engaging aggressively in M&As and bolstering our sales network.

In fiscal 2022, we were the second-highest selling air-conditioning manufacturer in North America, with sales of approximately ¥1,210.0 billion.



Premium environmental products using Daikin's core technologies, such as inverters, heat pumps, and R32 refrigerants

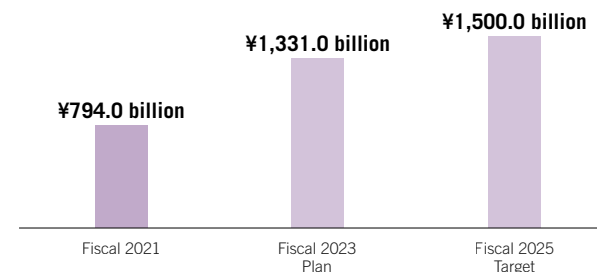
#### FUSION 25 Latter-Half Three-Year Plan

In the residential-use Air Conditioning Business, we will continue to expand sales of Fit inverter-equipped unitary products and other premium environmental products. In addition, we will strengthen the cooperation between Daikin Comfort Technologies North America (DNA), formerly the Goodman Global Group, Inc., which is responsible for our residential-use Air Conditioning Business, and Daikin Applied Americas Inc. (DAA), which oversees our applied Air Conditioning Business, and propose systems that combine the VRVs, applied systems, control devices, and other products of these two companies to further enhance the scale of our commercial-use Air Conditioning Business.

In April 2024, we will launch operations at our new plant in San Luis Potosi, Mexico. This will allow us to transfer our residential-use air conditioner production from Asia and accelerate our localization strategy, and to enhance our production capacity for chillers for applied air conditioners so that we can improve the profitability of our Air Conditioning Business in North America.

Through these and other measures, we aim to achieve ¥1,500.0 billion in sales and become the leading air-conditioning manufacturer in North America by the end of fiscal 2025.

#### Sales Plan and Target (Air Conditioning Business in North America)



#### Our Approach to Becoming the Leading Air-Conditioning Manufacturer in North America

##### Residential-Use Air Conditioning Business (DNA)

- Expand sales of Fit inverter-equipped unitary products
- Expand selection of low-GWP (R32) products ahead of competitors
- Commercialize heat pump space and water heaters to transform the market

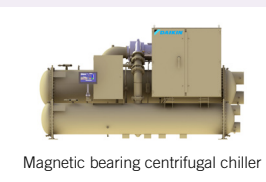


Conventional unitary outdoor unit

Fit

##### Applied Air Conditioning Business (DAA)

- Enhance equipment business by launching strategic products (Small and medium-sized centrifugal chillers with magnetic bearings, large capacity centrifugal chillers using low-GWP refrigerants, etc.)
- Enhance our own owner direct sales network



Magnetic bearing centrifugal chiller

##### Joint Initiative Between DNA and DAA

- Further enhance the scale of the commercial-use business (system proposals for VRVs, applied systems, control devices) by strengthening cooperation between DNA and DAA
- Contribute to market creation and improve profitability (of residential-use products and applied products) through the operations of our new plant in Mexico (from 2024)
- Promote market conversion to inverter units, heat pumps, and R32 refrigerants



## Three Themes for Focus Regions and Businesses

### 5 Establishment of a Major Base in India

New Theme

Capturing an Overwhelming Share of the Market in India and Establishing the Country as a Major Base for Our Global Business ▶ Page 36

We will capture an overwhelming share of the market in India for both residential- and commercial-use products by 2025.

#### Awareness of the External Business Environment and Reasons for the Addition of New Themes

India became the world's most populous country in 2023 and is projected to become the third largest economy by 2030. As India's population and economy continue to grow rapidly, demand for air conditioners is likely to expand dramatically with the growth of the country's middle class and the establishment of its power grid. Moreover, the Indian government is encouraging manufacturers to invest in India and increase exports. Having identified the air-conditioning industry as one of the country's most promising industries, the Indian government is working to accelerate the development of human resources in this sector.

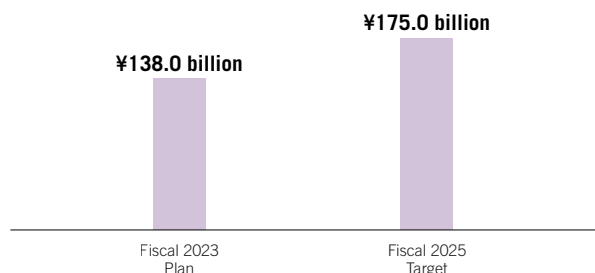
In light of these factors, we have adopted "Establishment of a major base in India" as a key strategy theme in our FUSION 25 Latter-Half Three-Year Plan.



#### FUSION 25 Latter-Half Three-Year Plan

Over the years, the Company has invested aggressively in expanding production and sales in India and worked to establish a business foundation. By tapping into the country's growing demand for air conditioners and improving our competitiveness through the enhancement of our development capabilities and production capacity to take advantage of economies of scale, we aim to achieve sales of ¥175.0 billion by fiscal 2025.

#### Sales Plan and Target (Air Conditioning Business in India)



#### Our Approach to Establishing India as a Major Base for Our Global Business

##### Capturing an Overwhelming Share of the Market through Our Equipment Business

We will expand our dealer network in regional cities, the next market for growth, and use digital technology to enhance our support for dealers and service shops.

In addition, we will differentiate ourselves from the competition by proposing equipment and solutions that cater to the specific needs of each application.

##### Expansion of the Solutions Business

We will strengthen our line of equipment and expand the scope of our control devices to propose solutions for a wider range of systems.

We will also enhance our focus on the maintenance business to acquire more contracts and strengthen our proposals for maintenance services to improve profitability.

##### Establishment of New Plant in Sri City

We will establish a new plant in southern India to complement our existing Neemrana plant in the north of the country. This will allow us to strengthen our development and production functions for everything from core components to finished products and build a foundation for establishing India as a major hub for our global development and production.

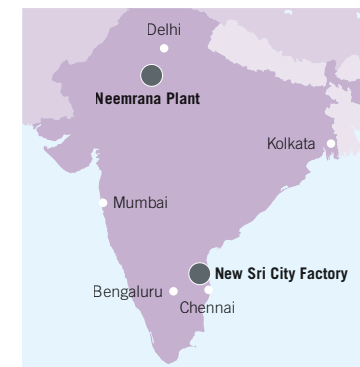
We will also prepare to further expand production, increase our procurement of parts from local suppliers, and procure materials and parts from multiple suppliers.

##### Entry into the Refrigeration Business

The refrigeration business in India has been growing significantly in recent years due to higher production and exports of food and pharmaceuticals and the growth of the chemical industry. We will tap into the highly promising refrigeration business to enhance our market presence and help resolve social issues, such as food loss.



Promoting the widespread use of environmentally conscious air conditioners while meeting the specific needs of the Indian market



## Three Themes for Focus Regions and Businesses

### 6 Chemicals: Challenge to Become a Leading Company in High-Performance and Environmentally Conscious Materials

New Theme

We aim to expand the Chemicals Business by enhancing our lineup of high-performance and environmentally conscious materials that extends beyond fluorine.

#### Awareness of the External Business Environment and Reasons for the Addition of New Themes

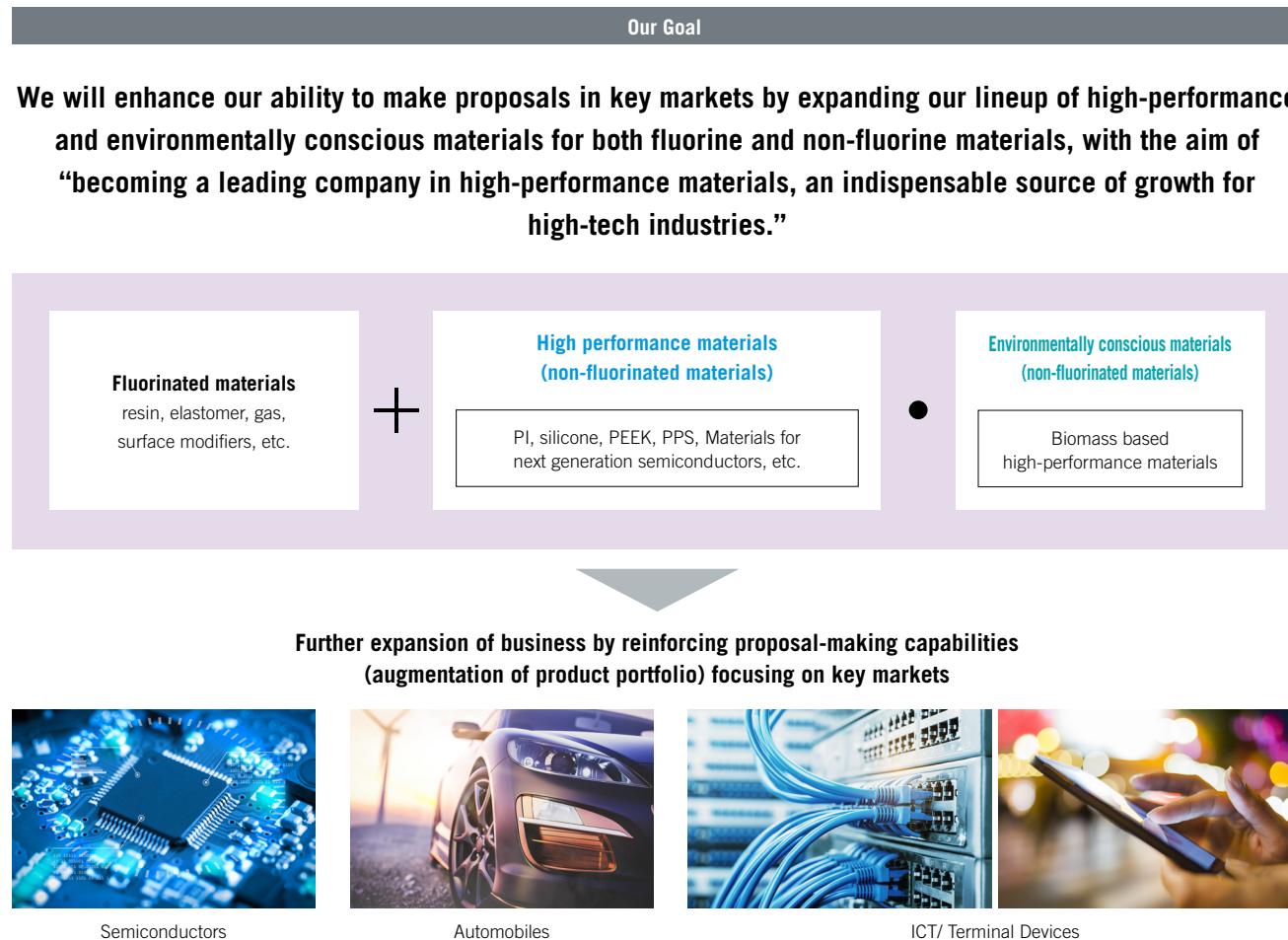
In the Chemicals Business, where the market is undergoing remarkable change due to the increasing adoption of EVs, the miniaturization and advancement of electronics products, and other factors, there is a growing need for materials that offer even greater levels of functionality and environmental performance. To address this need and expand the Chemicals Business, it is important that, in addition to fluorine, we make a full-scale entry into the business of high-performance materials and environmentally conscious materials for non-fluorinated materials. We have therefore adopted “Chemicals: Challenge to become a leading company in high-performance and environmentally conscious materials” as a key strategy theme in our FUSION 25 Latter-Half Three-Year Plan.



#### FUSION 25 Latter-Half Three-Year Plan

Daikin’s high-performance and environmentally conscious materials are used in the key markets of our Chemicals Business, including the semiconductor, automotive, information and communications sectors, which offer potential for even further growth. To expand the lineup of these materials, we will not only draw on the technologies and customer base we have cultivated to date but also engage in alliances, collaborations, and M&As with companies that supply these materials.

We will also work to develop Daikin’s own line of high-performance materials and compounds and environmentally conscious materials.





## ① Accelerating the Realization of Carbon Neutrality through Our Heat Pump Space and Water Heating Business in Europe

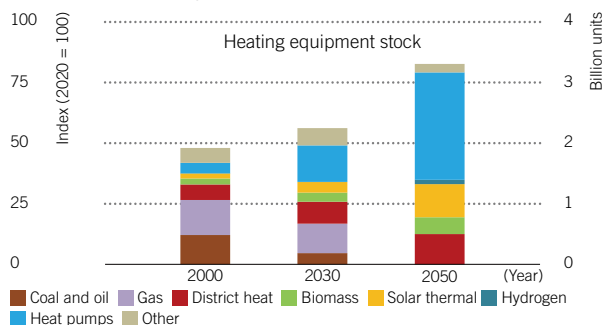
Owing to the high environmental performance of its products, the Heat Pump Space and Water Heating Business is attracting a great deal of attention for the significant role it plays in realizing a carbon neutral society. In this section, we will discuss the initiatives Daikin is undertaking to become the dominant market leader for heat pump space and water heaters in Europe.



### Heat Pump Space and Water Heaters That Offer Superior Environmental Performance

Heat pump technology is designed to transfer heat collected from the air to areas where it is needed through refrigerants that circulate and transfer heat between indoor and outdoor units. In Europe, heat collected from the air is recognized as a renewable energy source as it originates from the radiant heat of the sun. Compared to space and water heating methods that directly burn fossil fuels, such as gas, oil, and coal, heat pump space and water heaters generate significantly less CO<sub>2</sub> emissions. Approximately 4.0 billion tons of CO<sub>2</sub> is emitted by heating sources in the global heating market and it is estimated the conversion of 30% of these sources to heat pumps would reduce CO<sub>2</sub> emissions by up to 1.2 billion tons (approximately 3% of total global CO<sub>2</sub> emissions), which is equivalent to the amount of CO<sub>2</sub> emitted by 560 million passenger cars.

### Proliferation of Heat Pump Space and Water Heaters under the Net Zero Emissions by 2050 Scenario



Source: Net Zero by 2050—A Roadmap for the Global Energy Sector, IEA, 2021.

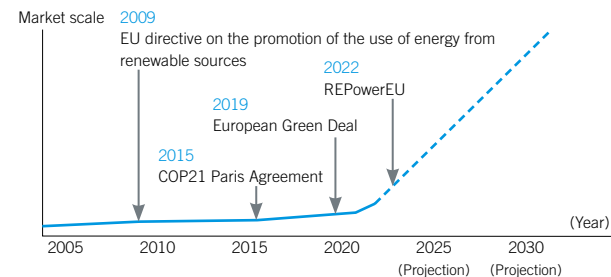
According to IEA estimates, heat pumps accounted for approximately 10% of the global space and water heating market as of 2020. IEA also recommends increasing the energy efficiency of buildings and raising the share of heat pumps in the global space and water heating market to 50% or more to realize carbon neutrality by 2050.

### Our Long-Cultivated Business Foundation

In Europe, where demand for space cooling is greatly influenced by weather conditions, Daikin entered the space and water heating business in a bid to develop a business that is resilient to changes in weather conditions and is stable year-round. In the European market, where combustion and water heaters are the mainstream, we focused our attention on the Heat Pump Space and Water Heating Business, which offers superior environmental performance and makes the most of our proprietary technologies. Leveraging its heat pump technology cultivated over the years in the Air Conditioning Business, in 2006 Daikin tapped into the heat pump space and water heating market ahead of its competitors and launched the Daikin Altherma heat pump space and water heater to the European market.

Viewed as a leader in the European heat pump space and water heating market, Daikin also advises on policy in collaboration with industry groups. As a manufacturer of air-conditioning systems, we have been providing information and advising the European Union (EU) and its member countries utilizing our long-cultivated technological capabilities and our proven track record in Europe. As a result of our efforts, in 2009 heat pumps were recognized alongside solar and wind power generators as a renewable energy technology under the EU directive on the promotion of the use of energy from renewable sources, expanding the market for heat pump space and water heaters. By virtue of this growing market, we expanded our lineup of heat pump space and water heaters in accordance with the climate and needs of each country. Since then, we have developed a comprehensive network of human resources and services to handle equipment installations and maintenance, in addition to our robust sales network. Daikin has been developing air conditioners and their key components

### Projected Growth of Heat Pump Heating Market Resulting From EU Environmental Policies



using heat pump technology for many years and it has accumulated know-how through its experience in establishing manufacturing plants and enhancing production capacity in different parts of the world. We will use our technological, development, and production capabilities to continue to expand our product lineup and sales and service networks and aim to become the dominant market leader for heat pump space and water heaters in Europe by bolstering these capabilities even further.

### Key Developments and Daikin's Activities in Europe's Heat Pump Space and Water Heating Market

- 2006** Commences sales of Daikin Altherma heat pump space and water heaters
- 2008** EU introduces the 2020 Climate & Energy Package toward achieving "20-20-20" targets for 2020
- 2009** Heat pumps utilizing heat energy are recognized as a renewable energy technology under the EU directive on the promotion of the use of energy from renewable sources
- 2014** Adopts 2030 GHG emissions reduction targets
- 2018** Releases the industry's first air conditioner using R32 refrigerant with low GWP
- 2019** European Green Deal begins
- 2020** Releases Daikin Altherma 3 H HT heat pump heaters that can be used even in frigid temperatures
- 2024** Scheduled to begin operation of new plant in Poland that will produce heat pump space and water heaters  
Scheduled to launch EMEA Development Center in Ghent, Belgium to serve as a global R&D hub for the heating business

## Enhancing Production Capacity with a View to Outpacing Market Growth

Against the backdrop of the European Green Deal announced in 2019, which aims to realize net zero GHG emissions by 2050, it is expected that decarbonization will be achieved through the conversion from combustion heaters, which generate energy from fossil fuels, to heat pump space and water heaters. The United Kingdom, and Germany, France, Italy, and other European countries are promoting the conversion by subsidizing the installation of heat pump space and water heating systems in order to achieve their energy saving and renewable energy rate targets. Moreover, due to the recent surges in the prices of gas and other energy sources, heat pump space and water heating is attracting interest as an economically efficient alternative that offers exceptional energy efficiency and energy saving performance.

The European heat pump space and water heating market grew at an average annual rate of over 10% over a period of 10 years since 2011, with industry sales expanding to one million units in 2021. This yearly figure is expected to rise to three million units or more by 2025.

With the aim of realizing production and sales levels that outpace market growth, Daikin will strengthen production capacity for heat pump space heaters at its existing plants in Belgium, Germany, and the Czech Republic and establish a new plant in Poland, where production is slated to begin in 2024. By 2025, we will enhance our annual production capacity for heat pump space heaters in Europe to one million units, or over four times our capacity in fiscal 2021, and establish a production system that will ensure a stable supply of products in the rapidly growing heat pump space and water heating market.

## Delivering Solutions That Connect with Customers

In the European heat pump space and water heating market, many customers purchase products through home appliance dealers. For a manufacturer like Daikin, our relationships with partner dealers and service partners are imperative due to the necessity of maintenance and after-sales services after product installation. Because heaters are an essential home appliance in the winter and many customers are still unfamiliar with heat pump space and water heating systems, it is important that customers can receive both advice from dealers and any necessary support from manufacturers. To foster a sense of trust among customers, Daikin is enhancing its sales and service structure and pursuing high levels of product safety. Customers considering the purchase of Daikin products can try out our products firsthand at the Experience Center, a series of showrooms established in major cities across the globe, that has allowed us to expand our customer fanbase.

We have also developed our Stand By Me platform to keep in touch with customers who have purchased our products and enhance our post-purchase services. This IT platform for Daikin's online support system allows it to check the status of equipment remotely, from failure diagnoses to error codes, and provide seamless support

throughout the product lifecycle by connecting Daikin and the various kinds of equipment it provides with its customers and dealers. This platform also allows dealers who are relatively inexperienced when it comes to handling heat pump heaters to receive technical support from Daikin, ensuring that customers can purchase its products from dealers with peace of mind.



Daikin Experience Center in Budapest, Hungary



**Takayuki Kamekawa**  
Vice President  
Member of the Board of Directors  
Daikin Europe N.V.

## Aiming to Become the Dominant Market Leader in Europe through the Development of Our Proprietary Business Model

Daikin has expanded its Heat Pump Space and Water Heating Business to date by detecting market changes from a frontline perspective, taking the measures necessary at a particular point in time, and improving quality. In Europe, which aims to achieve zero emissions by 2050, the replacement period for combustion heaters is approximately 15 years. We therefore believe that all heating products currently in circulation will have been replaced by heat pump heaters by around 2035.\* Daikin is working to strengthen its sales, service, and production structures with a view to capturing an overwhelming share of this rapidly growing market by outpacing the growth of the heat pump space and water heating market.

The rapidly growing demand for conversion to heat pump space and water heaters and the increasing awareness of energy conservation also offers the possibility of developing a new business model. Rather than limiting the scope of our business to the sale of equipment, which has been the focus thus far, we intend to concentrate and accelerate our efforts on developing solutions that cater to the needs of customers and the market.

A company's ability to look ahead and identify its next major business is a driving force of its further growth. What will evolve into Daikin's next major business after air-conditioning and heating? One answer to this question is the overall management of air quality in the home through the combination of air-conditioning, heating, and ventilation that is made possible by heat pump space and water heating systems. We will develop a unique solution model that offers energy efficiency and comfort by balancing the heat and electricity generation of HVAC products, which account for the majority of residential energy consumption. In other words, we believe that our unique "ecosystem" that incorporates ventilation will become the driving force of our future growth.

\* With the exception of areas where it is physically difficult to replace existing heating products with heat pump heaters



## ② Capturing an Overwhelming Share of the Market in India and Establishing the Country as a Major Base for Our Global Business

In 2023, India became the most populous country in the world with a population of over 1.4 billion people. In this section, we discuss Daikin's growth strategy for capturing an overwhelming share of the market in India and its vision for establishing the country as a major base for its global business.

### Over 20 Years of History in India

India's market for air conditioners is the fastest growing in the world and is projected to quadruple in size by 2030 from 2020 levels.\* Since entering the Indian market in the 2000s, Daikin has developed a business rooted in local communities, appointing executives who are well-versed in this market to establish a system that identifies local needs and meets local

demands in a timely manner. In 2015, Daikin Airconditioning India Pvt. Ltd. (Daikin India) became the highest-selling company in India's air conditioner market.

\* Based on IEA estimates

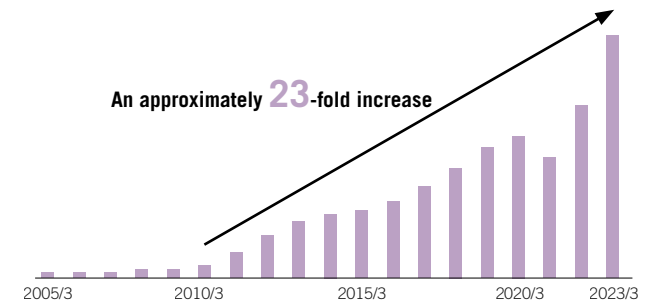
### History of Daikin India

- 2000** Establishes Daikin Shriram Airconditioning Pvt. Ltd. in New Delhi
- 2002** Introduces first commercial-use air conditioners to the market
- 2004** Makes Daikin Shriram Airconditioning Pvt. Ltd. a wholly owned subsidiary and establishes Daikin Airconditioning India Pvt. Ltd.
- 2009** Establishes manufacturing plant in Neemrana for the production of commercial-use air conditioners
- 2010** Appoints Kanwal Jeet Jawa as president
- 2012** Commences production of residential air conditioners at Neemrana manufacturing plant
- 2015** Becomes highest-selling company in India's air conditioner market
- 2016** Establishes an R&D center on the premises of the Neemrana manufacturing plant
- 2017** Establishes a second Neemrana manufacturing plant to produce residential air conditioners
- 2019** Makes full-scale entry into the export business
- 2020** Establishes an IT R&D center in Hyderabad, a city rich in IT engineers
- 2023** Establishes new manufacturing plant in Sri City to produce residential air conditioners, commercial-use air conditioners, compressors, and other parts

### Business Environment

- India is set to become the world's third largest economy by 2030.
- Consumer spending is expected to reach approximately ¥6.0 trillion by 2030, making India the largest consumer market in the world.
- With the aim of becoming a global hub for research and manufacturing, the Indian government is encouraging manufacturers to invest in India and increase exports.
- Approximately 1.5 million Indian university graduates become engineers each year.

Sales of Daikin India



Sales in India increased approximately 23-fold over the period from fiscal 2009, when local production and full-scale business development commenced, to fiscal 2022.

### FUSION 25 Latter-Half Three-Year Plan

#### Vision

**Capture an overwhelming share of the market** and strengthen our export business

Reinforce production capacity to **enhance competitiveness** through economies of scale

#### Fiscal 2025 Sales Target

**¥175.0 billion**

### Medium- to Long-Term Vision

Achieve sales of **¥200.0 billion** over the medium to long term and become a major base for our global production, R&D, and component supply activities



## Establishing India as a Major Base for Our Global Business on the Strength of Our Human Resources and the Daikin Brand

**Kanwal Jeet Jawa**

Member of the Board  
Senior Executive Officer

India is extremely diverse in terms of climate, religion, and people's way of thinking, and the same is true for the air-conditioning needs in its different regions. To cater to the characteristics of each region, Daikin has classified India into four zones and developed an extensive product lineup by determining the types of products that are needed in every kind of geographical condition. We entered the Indian market more than 20 years ago.

Throughout this period, we have focused not only on sales and market share but also on improving recognition of the Daikin brand. As a part of our strategic branding efforts, since cricket is the most popular sport in India, we sponsored a highly renowned cricket team, and we have also successfully installed air-conditioning systems in large-scale properties, such as high-rise buildings and hospitals, including many iconic projects. The increased awareness of our brand has also helped us attract highly skilled professionals. Boasting development and production sites in India, Daikin is an attractive company for the country's university-educated engineers.

Investment in human capital has also been an area of focus and I see it as my role to develop our human resources, assign them to other regions, and train them to become future leaders within Daikin. We have already dispatched executives to Australia, Mexico, Singapore, and the Middle East. Daikin's People-Centered Management is deeply rooted across the company in India. I truly believe that the development of solid relationships of trust between people increases productivity and profits, which leads to employees taking more pride in their work. Indeed, Daikin India has a low employee turnover rate compared to its peers in the industry, which attests to its exceptional ability to retain employees.

By harnessing the strengths of the country's many talented engineers, we believe India can lead the expansion of our digitally enabled businesses. India's extreme environment for air conditioners, with temperatures reaching 50°C and an unstable supply of electricity in up-country markets, as well as the size of its market, allows Daikin to collect and analyze a significant amount of meaningful data. With VRVs for example, we analyze the data obtained from the remote monitoring system that controls the system. We intend to expand this business model even further.

Over the years, Daikin has continued to achieve rapid growth in the Indian market. Nevertheless, we aspire to become No. 1 in all aspects

of our business. We take pride in the fact that no other company has been able to achieve such rapid growth in India through the investment of large amounts of capital. However, capturing an overwhelming share of the market in India is by no means our only goal. As stated in our FUSION 25 Latter-Half Three-Year Plan, India plays a significant role in Daikin's global strategy from a production, R&D, and component supply perspective. I always tell my managers in India that the sky is not the limit and that there is no limit to what we can achieve. We will continue to press on toward our goal of establishing India as a major hub as Daikin strives to expand its business even further.

## Topic

### Tapping into India's Wealth of Talent through Significant Investment

To nurture the human resources who will serve as the backbone of Daikin's growth and help drive India's air-conditioning industry forward, we are investing in human resources both inside and outside the Group. In August 2017, we opened a school that trains engineers in the air conditioner manufacturing sector in Japanese-style manufacturing or *monozukuri*. In April 2022, we commenced two short-term (three-month) courses and currently have 30 students enrolled in both the manufacturing and the sales courses. Following a combination of classroom and hands-on training, many students go on to work at Daikin India's factories or dealers. In addition, we use the Daikin Anytime Training (DAT) app to provide training for our frontline personnel, and more than 2,000 people, mostly in-store sales staff, have taken the course. Moving ahead, Daikin plans to use programs implemented by Daikin India to train 150,000 engineers, including service engineers, by 2025.



Welding training at a training facility

# Five Themes to Enhance the Management Foundation

## 7 Strengthening Technology Development Capabilities

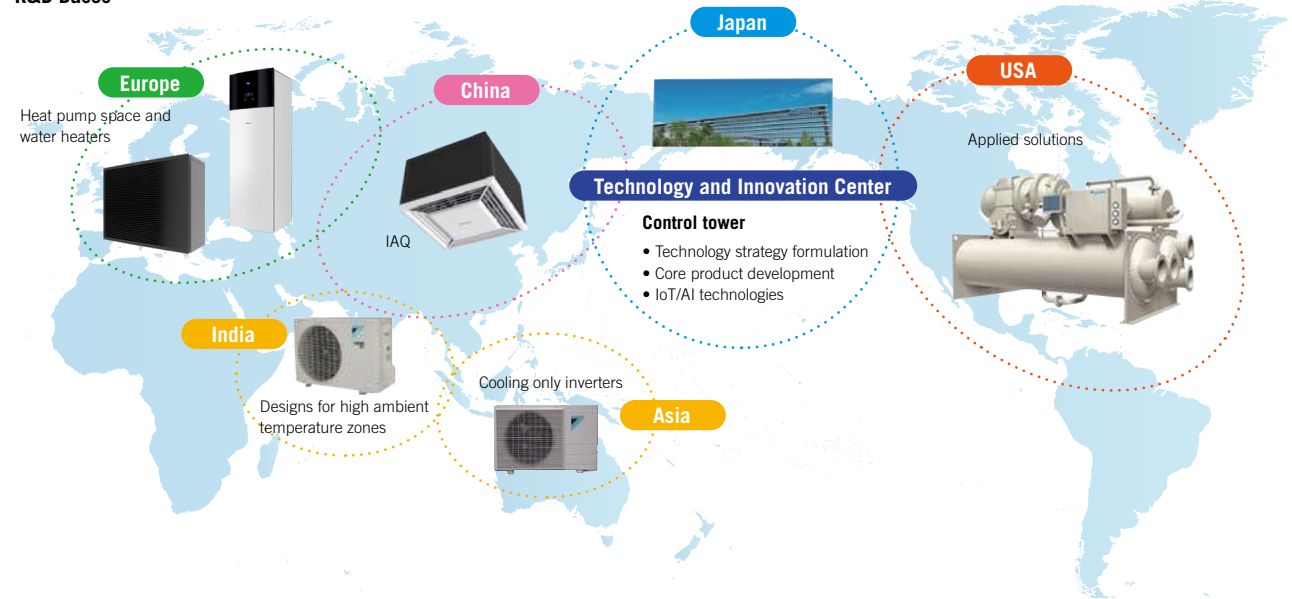
To meet the growing demand for heat pump heating, comply with regulations, and address other changes in our external business environment, we have strengthened our focus on our core air-conditioning technologies. We will continue to steadily generate results by engaging in co-creation efforts with external partners, strengthening our R&D function on a global scale, and securing and developing our human resources with greater momentum while bolstering our competitiveness as one of the world's leading air-conditioning manufacturers.

### 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

Key Domains and Themes	
Target Business Contributions in FUSION 25 (Three Growth Strategy Domains)	Future Themes
<b>1. Challenge to achieve carbon neutrality</b> <ul style="list-style-type: none"> <li>Next-generation refrigerants</li> <li>Enhanced heat pumps (Core air-conditioning technologies, Manufacturing)</li> <li>Environmental technology for chemicals</li> </ul>	<b>4. Development and research on advanced technologies for the future</b> <ul style="list-style-type: none"> <li>Decarbonization technologies</li> <li>Alternative technologies for vapor compression</li> <li>Use of next-generation technologies</li> </ul>
<b>2. Promotion of Solutions Business</b> <ul style="list-style-type: none"> <li>Commercial Solutions</li> <li>Residential Solutions</li> <li>Refrigeration Solutions</li> </ul>	
<b>3. Creating value with air</b> <ul style="list-style-type: none"> <li>Establishment of large-scale IAQ/Ventilation business</li> <li>Air solutions</li> </ul>	

Promoting Themes Based on Internal and External Co-creation

## Five Themes to Enhance the Management Foundation

### 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.

#### Industry–Academia Co-creation Forum on Daikin’s Vision of “Creating Value with Air”

In November 2022, Daikin and the University of Tokyo held an industry–academia forum titled “Creating Tomorrow’s Society and Technology through the Value Provided by Air.” The forum introduced the activities of the two organizations spanning a three and a half year period, sharing with the public the multifaceted value provided by this industry–academia collaboration.

In addition, Daikin made a booklet summarizing its vision of “Creating value with air,” which it presented at the forum. Daikin also discussed the contributions it can make to society, the environment, and economy in the next stage of its 10-year plan. It will continue to examine how it can contribute to society through its business going forward.



#### Establishment of a New Ecosystem for Industry–Academia Collaboration

In 2022, Daikin Industries, Ltd. and Kyoto University launched a full-scale effort to establish a new ecosystem for industry–academia collaboration. The Daikin GAP fund program was introduced to solicit solutions to social issues—provided by researchers for free—and help companies implement these solutions throughout society. Open calls for ideas from researchers at Kyoto University were held in April and August, through which five solutions were selected at each session.

Up to ¥3.0 million in research expenses will be subsidized per project. In addition, Daikin Industries, Ltd. and Kyoto University will work together to provide other support necessary for implementing the solutions throughout society.

### Measures to Protect Intellectual Property Rights

#### Building and Strengthening an Intellectual Property Portfolio That Contributes to Our Business Growth

To strategically promote the Company’s intellectual property (IP) activities, the Intellectual Property Group at Daikin Industries, Ltd. is working alongside the R&D and sales divisions to build and strengthen an IP portfolio that helps grow its business. The results of analysis of IP information and market trends are shared with the R&D and sales divisions as well as management and incorporated into the formulation of IP strategies. We are also expanding our IP landscape activities to develop business and IP strategies using a backcasting approach. To extend these activities to our overseas markets, we are establishing an IP system across our business sites and expanding and strengthening our IP portfolio globally.

#### Raising Awareness of Intellectual Property

We have an effective patent incentive system in place that incentivizes the acquisition of patents that not only protect our technologies and products but also attract attention from other companies. In addition, at our annual patent award ceremony, external instructors give presentations to management, engineers, and IP staff to improve their awareness of IP.

#### Developing Win-Win Relationships through Co-creation

In our co-creation with start-ups and industry, government, and academia, we are pouring resources into creating new IP using a framework that incentivizes both parties to develop inventions. For example, we have developed a technology that improves work efficiency and quality in partnership with a university-based start-up that develops effective devices for promoting digital transformation in air-conditioning services, resulting in the creation of IP. We will continue to enhance the quality of our service operations while developing win-win relationships that benefit both parties.

Going forward, we will acquire and use many high-quality patents around the world to strengthen our IP management, which is integral to ensuring the sustainability of our business.

#### Membership in the License on Transfer (LOT) Network

As a part of its IP strategy, Daikin Industries, Ltd. has joined the License on Transfer (LOT) Network to reduce the IP risks associated with Patent Assertion Entities (PAEs).\* The LOT Network is a non-profit organization that was established to protect member companies from PAEs and as of May 2023, it consists of over 3,000 member companies, including start-ups. A relationship based on mutual cooperation is established to allow member companies from various industries around the world to focus on creating innovation without being swayed by the IP risks associated with PAEs. In light of changes in its business strategies and external business environment, Daikin Industries, Ltd. has been a member of the LOT Network since January 2023.

\* Patent Assertion Entities are organizations or companies that operate by generating revenue through the acquisition of patent rights from a third party and enforcing those rights against a business or firm to obtain damages or a settlement.



## Five Themes to Enhance the Management Foundation

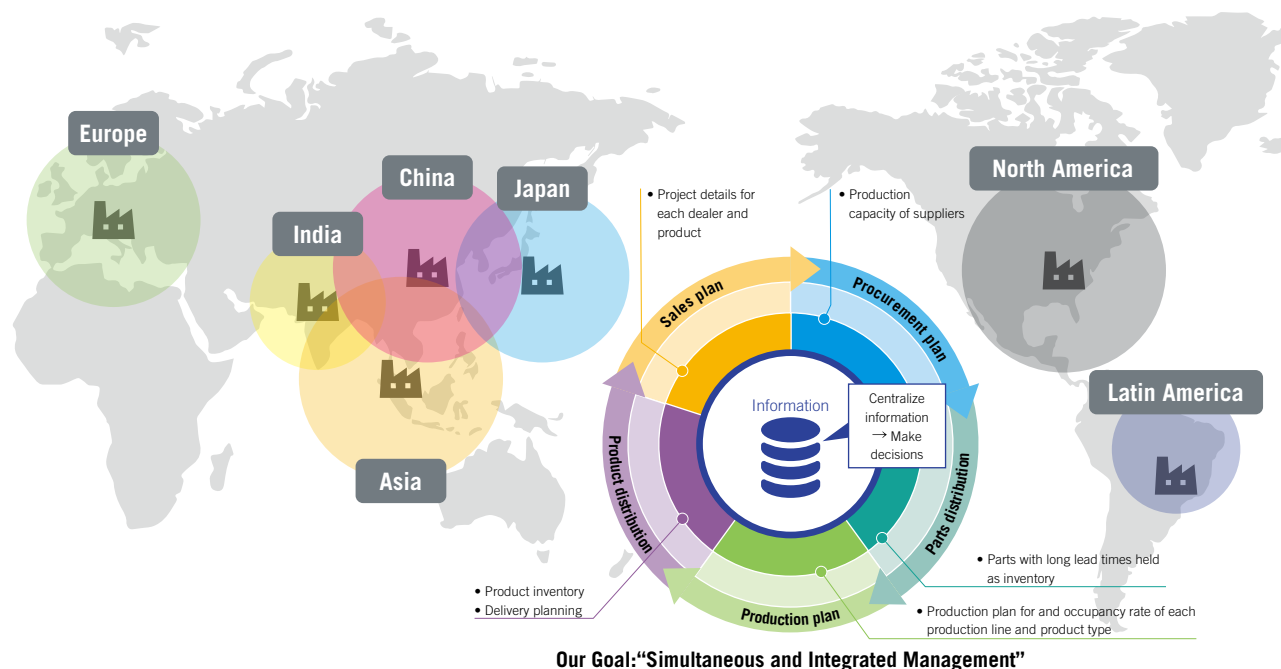
### 8 Establishing a Robust Supply Chain

We will strengthen the localization and dual-mechanism approaches of our global production system and achieve an optimal balance between diversification and concentration to enhance the risk-mitigation and cost competitiveness of our procurement activities. At the same time, we will continue to reinforce our production technologies to reduce CO<sub>2</sub> emissions, realize carbon-free factories, and implement automation throughout the supply chain.

#### Establishing a Flexible and Robust Supply Chain

As the business environment becomes increasingly constrained due to global supply chain disruptions resulting from the spread of infectious diseases, natural disasters, and other factors as well as the progress of decoupling on a global scale, the need for resilient supply chains will only increase. To further solidify our supply system, we will continue to pursue local production for local consumption through the shift to region-based procurement, establish concurrent production (our dual-mechanism approach) and a production backup system to prepare for risks, and reform the supply chain using digital technology to establish an optimal supply chain management system across the entire Group.

In addition, through the sharing of information on the entire supply chain by the relevant departments, we will transition to a “simultaneous and integrated management” system to determine the optimal plan as quickly as possible and aim to shorten delivery lead time and reduce man-hours.



#### Risk Management in the Supply Chain

As we expand our business globally, our suppliers have also been globalizing their businesses. Accordingly, we are working to mitigate the increasing levels of procurement risk that accompany this shift.

We are taking measures to ensure that we are fully equipped to address issues promptly, identifying risks through periodic assessments of suppliers, establishing an internal system that instantly determines which suppliers will be affected by a risk, and updating our database as necessary.

To ensure a stable and timely supply of raw materials and parts at reasonable prices, even in the event of deteriorating business conditions among suppliers, natural disasters, or accidents, we are geographically dispersing and increasing the number of procurement sources and standardizing components so that they can be used in a wider range of products.

In addition, we have determined our key suppliers by rating those handling the parts and materials that are compatible with Daikin’s core technologies based on three criteria: difficulty in replacing a supplier,

significance of transaction value, and importance of the items being purchased. Suppliers that surpass certain standards are regarded as “global suppliers,” with whom we engage in business at an international level.

## Five Themes to Enhance the Management Foundation

### 9 Promoting Digital Transformation for Innovation

We have defined key themes from the perspectives of business innovation and process innovation and are working to expand the range of applications for digital platforms to create added value and improve business processes using digital technology. We will also accelerate digitalization across the Group by strengthening our response to increasingly sophisticated cyberattacks and continuing to press forward with developing digital human resources.

#### Business Innovation: Creating New Businesses and Expanding Existing Ones

We will create new products, services, and business models while radically reforming our business processes. We will build a platform for linking and analyzing data to expand the Solutions Business as well as a system to manage customer information, which we will utilize to offer

value throughout the air-conditioning equipment life cycle. We will also promote the connectivity of equipment to obtain equipment data, in addition to working with external parties to acquire data on people, buildings, and so forth, that lead to future business development.

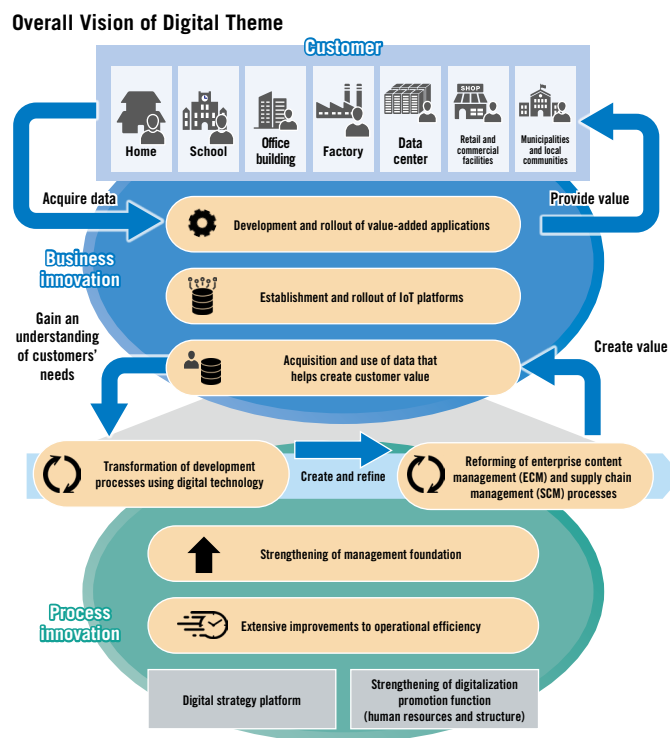
#### Process Innovation: Solidifying Our Management Foundation

In addition to reforming our development and supply chain processes, we will create an accounting system that enables us to settle our accounts earlier and manage earnings based on specific solutions and a human resources database that allows us to develop and optimally allocate human resources in a timelier way in every region. We will also use robotic process automation (RPA) and AI to improve the efficiency of indirect operations and share best practices across our global network.

#### Establishing a Production Management System That Reduces Losses and Improves Processes

With the aim of standardizing production processes, our production management system uses AI to analyze the precise movements of workers via a camera and visualizes the work time for each worker and each model being produced. The system combines this data with our equipment data to adjust production processes according to the situation.

By combining this system and our various digital technologies with the capacity of our frontline employees to constantly improve, we were able to take timely and precise action even in response to the rapid changes in parts supply, production volume, and personnel numbers caused by the COVID-19 pandemic, achieving reductions of approximately 3,700 man-hours per year. Being able to view these results in real time has even increased employee motivation and inspired us to continue to enhance the quality of our production processes.



#### Selected for "DX Stocks 2023"



Daikin Industries, Ltd. has been selected as one of the Digital Transformation (DX) Stocks 2023 by the Ministry of Economy, Trade, and Industry and the Tokyo Stock Exchange (TSE), as a part of a program that highlights "DX stocks" among TSE-listed companies. Companies are selected on the basis of their achievements and efforts to increase corporate value using digital technologies. This is the second time that Daikin Industries, Ltd. has been named as a DX stock since 2020. It achieved recognition for the following points.

1. DK-CONNECT: This is a cloud-based HVAC control service that enables remote integrated management of multiple HVAC units via network terminals that transmit and receive various types of data. Daikin Industries, Ltd. aims to further improve energy efficiency and convenience by gathering information on diversifying customer needs and developing and updating applications to meet those needs.
2. Baridi Baridi Inc.: This is a joint venture with WASSHA Inc., which operates a high-efficiency air conditioner subscription business with a mobile money payment system. It aims to spread high-efficiency air conditioners in an affordable way and reduce environmental impact in the United Republic of Tanzania.
3. Daikin Information and Communications Technology College: This corporate university started in 2017 to train employees in AI and the IoT. The program is expected to foster 1,500 human resources who can put AI and IoT technology to practical use and implement business process re-engineering by the end of the fiscal year 2023.

## Five Themes to Enhance the Management Foundation

### 10 Creating Market Value and Enhancing Advocacy Activities

We will continue to increase market value by ensuring that our technologies and products win the support of a wide range of stakeholders through our contributions to resolving social issues, such as the achievement of carbon neutrality and improvements to air quality.

#### ■ Creating Common Global Rules and Shaping International Opinion

We will work to promote greater adoption of R32 refrigerants and inverter units in regions where such equipment is not yet widely used, while engaging in activities to accelerate the uptake of heat pumps and promote the recovery and recycling of refrigerants to curb global warming.

By working together with various universities, research institutions, and industries to create new value for air, we will also endeavor to create new standards for safety and security.

#### ■ Underpinning Efforts to Achieve Carbon Neutrality —

##### Expand the Use of Inverters Worldwide

To expand the use of inverter units in ordinary households, Daikin has been working in partnership with a major air-conditioning manufacturer in China since 2008 to supply highly efficient, low-cost inverter units. In fiscal 2014, the two companies jointly developed a relatively low-priced inverter unit for countries in Asia where the demand for air conditioners stems entirely from the need for cooling.

We have also pursued efforts to develop a framework for assessing the energy-saving performance of inverter units. To properly evaluate the performance of inverter units, the Japanese air-conditioning industry has taken the lead in proposing the use of a performance index called the Annual Performance Factor (APF), which has been incorporated into ISO standards since 2013.

APF is gradually being adopted in developing countries. In Latin America, the Middle East, and other regions, Daikin is working collectively with local governments and industry associations to support the development of evaluation standards, including the use of indicators and standards and the establishment of energy labeling systems.

##### Support for Environmental Policymaking

In developing its business across the world, Daikin works in tandem with various governments, municipalities, and industries to provide advice, make proposals, and call on various organizations to address and make progress on social issues. We will continue to actively provide information that benefits the countries we operate in.

#### Membership of the World Business Council for Sustainable Development

Daikin is a member of the World Business Council for Sustainable Development (WBCSD), an organization that discusses, researches, and advocates on sustainability issues, such as climate change, the destruction of nature, and increases in socioeconomic inequality.

The WBCSD is an international economic organization headquartered in Geneva, Switzerland, established in 1995. With the goal of sustainable development, it provides a platform for member companies where they discuss, conduct research and compile opinions for advocacy while cooperating with governments, NGOs, and international organizations.

Daikin's social mission is to minimize the impact of future global warming while providing healthy and comfortable air environments that are safe and reliable, which has increased in importance since the COVID-19 pandemic. Through its membership of the WBCSD, Daikin will accelerate its contribution to sustainability by working together with many companies across sectors and regions to address climate change and other social issues.



#### Establishment of the GX Business Working Group

Daikin Industries, Ltd. has established the GX\*<sup>1</sup> Business Working Group in collaboration with six other leading GX companies. The working group has 73 member companies, and is chaired by Nomura Holdings, Inc.

To promote full operation of Japan's GX League\*<sup>2</sup> in fiscal 2023, the working group facilitated three functions with more than 440 supporters of the GX League during fiscal 2022.

In order to realize a carbon neutral society, the GX Business Working Group aims to establish an appropriate framework for evaluating Japanese companies' contribution to climate change and their opportunities in relation to it. Through discussions with leaders and members of the working group, we intend to develop a set of guidelines and take initiative on climate-related opportunities.

\*1 Green Transformation (GX) is the transformation of the entire socioeconomic system to reduce GHG emissions and achieve industrial growth by framing measures to realize carbon neutrality by 2050 and the respective GHG emission reduction targets of each country by 2030 as opportunities for economic growth.

\*2 Based on the GX League Basic Concept announced by the Ministry of Economy, Trade, and Industry on February 1, 2022, the GX League was established as a mechanism for industry, government, academia, and financial institutions to create a group of ambitious companies that will discuss, demonstrate, and establish a new market and socioeconomic system to realize carbon neutrality by 2050.



"Recent international initiatives" section of Sustainability Report 2023

## Five Themes to Enhance the Management Foundation

## 11 Improving HR Capabilities through Advanced Diversity Management



## Embracing People-Centered Management throughout Our Operations Since Our Founding

### Masaki Saji

Senior Executive Officer  
General Manager of Human Resources Division

### Message from the General Manager of the Human Resources Division

In line with the concept of human capital management, which has been attracting a great deal of interest in recent years, more and more companies are disclosing their approach to human resources and their specific initiatives for human resource development and demonstrating their corporate value by emphasizing the fact that the strengths of their human resources and the strengths of each of their employees are one and the same.

Several institutions around the world are discussing the disclosure of information on human capital and assembling and sharing a range of perspectives on disclosure items and the establishment of key performance indicators (KPIs).

Given these global trends, we believe that it is our responsibility as a company to collect human resources data and enhance its disclosure. The Group has therefore started collecting such data, including from its global affiliates, along with information on the human resources activities and diversity initiatives of its business sites. In addition to our basic human resources data, we will consolidate and proactively disclose information on our human resources allocation and development activities. In the future, we aim to utilize this data in our strategic assignment of personnel.

Our Group Philosophy states that the cumulative growth of each employee is the foundation of a company's growth. Based on this belief, Daikin truly sees its people as an indispensable resource with unlimited potential and desires to see significant growth in all of its employees. Certain that people are the source of a company's competitiveness and that only they can lead change, we have continued to embrace People-Centered Management throughout our operations since our founding.

#### 1. A Company That Offers Abundant Opportunities to Take on Challenges

Daikin strives to be a company that provides employees with abundant opportunities to take on new challenges in the hope that employees continue to grow. We encourage employees to pursue challenges boldly even though they may not always achieve their aims. We believe the determination of each employee to continue to pursue lofty goals confidently and without fear of failure will lead to their significant growth.

#### 2. An Organization Where Employees and the Company Are on an Equal Footing and Mutually Select Each Other

At Daikin, we want to foster a relationship in which our employees and the organization are on an equal footing and mutually select each other. We

aim to become an organization where our beliefs are shared and accepted by as many employees as possible and where our employees are confident that they can realize their full potential. To that end, we will clearly communicate and ensure a firm understanding of our management philosophy and policies and our vision for the future as well as creating an environment where employees can take pride in their work and the right people are placed in the right positions.

#### 3. A Fast & Flat Management System That Emphasizes Both Speed and Understanding

The Group operates under its Fast & Flat Management System, which draws on the merits of both top-down and bottom-up decision-making styles and enables timely decision-making through a series of intense discussions involving all relevant parties. Based on this unique organizational management approach, we promote work methods that encourage all our employees to play a leading role, regardless of age, position, or status.

#### 4. Diversity Management: Celebrating the Nail That Sticks Out— Harnessing the Diverse Strengths of Each Employee

No two people are exactly alike when it comes to their individual talents, and each person has at least one unique strength. While there is a Japanese saying, “the nail that sticks out gets hammered down,” Daikin, on the other hand, celebrates “the nail that sticks out,” as our approach to diversity management is about allowing our diverse personnel to embrace their individual differences and demonstrate their full potential.

The concept of human capital management, which aims to increase corporate value over the medium to long term by enhancing the abilities and motivation of the employees who contribute to the growth of the business, is exactly what Daikin Industries, Ltd. has been emphasizing and practicing in its People-Centered Management over the years. Although many of these Group strengths are difficult to express directly as a short-term quantitative KPI, they are unquestionably a source of growth and development for the Company. Going forward, the Group will take measures to refine and enhance its strengths, corporate culture, and distinctiveness while improving information disclosure to ensure awareness of its business activities among all stakeholders.

## Five Themes to Enhance the Management Foundation

### 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.

Daikin's workforce consists of over 96,000 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 people in our organization but also our values. 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 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 for women after their return 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 training to foster female leaders—a sponsorship program in which the Company's executives provide direct support to female employees toward their professional growth—and a mentorship program in which employees can consult with and receive advice from more experienced employees in other departments. In particular, our training to foster female leaders, in which 20 participants enroll each year and a total of approximately 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 95 (7.6%) as of the end of fiscal 2022, increasing roughly fivefold 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, which was designed to enable employees to return to work quickly after taking childcare leave, has resulted in an increase in the number of people returning to work within a year of taking childcare leave from roughly nine people (32%) in 2011 to 35 people (44.9%) as of the end of fiscal 2022. The percentage of male employees taking childcare leave in fiscal 2022 was 79.3%.

Going forward, we will work to foster a corporate culture that brings out the best in all 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, 2023
<b>Number of female directors appointed internally</b>	One or more (by the end of fiscal 2025)	Achieved
<b>Number of female managers</b>	120 (by the end of fiscal 2025)	95
<b>Childcare leave taken</b>	<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: 79.3% Average number of consecutive days of leave taken by male employees: 25.2

## Five Themes to Enhance the Management Foundation

### Human Resource Development Policy

Daikin 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 inspires each individual to challenge themselves by assigning them with tasks 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 human resource 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.

\* OJT allows employees to acquire the general knowledge, technical know-how, skills, and commitment necessary for their work through actual work experience.

Initiative	Details	Achievements in Fiscal 2022
<b>Next-Generation Executive Development Program</b>	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, Ltd. in Japan, and Daikin Executive Program for overseas Group companies. There are also executive and leader development programs in place at the production sites in the various regions in which we operate.	<ul style="list-style-type: none"> <li>• New Executive Program: 13 participants</li> <li>• Group Leadership Development Program: 13 participants</li> <li>• Next-Generation Leader Development Program: 18 participants</li> <li>• Daikin Executive Program: 14 participants</li> </ul>
<b>Overseas Base Practical Training</b>	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 participants’ communication skills within cultures and settings that are different from those they are used to, by engaging them with practical themes at distributors, suppliers, business partners, and universities.	<p>Fiscal 2022: 29 participants</p> <p>Since fiscal 1999: 395 participants</p>
<b>Global Training Program for Overseas Personnel</b>	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.	<p>Since fiscal 2015: 33 participants</p>

### Daikin Information and Communications Technology College (DICT)

In December 2017, Daikin Information and Communications Technology College (DICT) 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 can 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, including Osaka University and other leading-edge research institutes, give courses on the fundamentals and uses of AI, in addition to

incorporating project-based learning (PBL), which is based on actual issues surrounding each division.

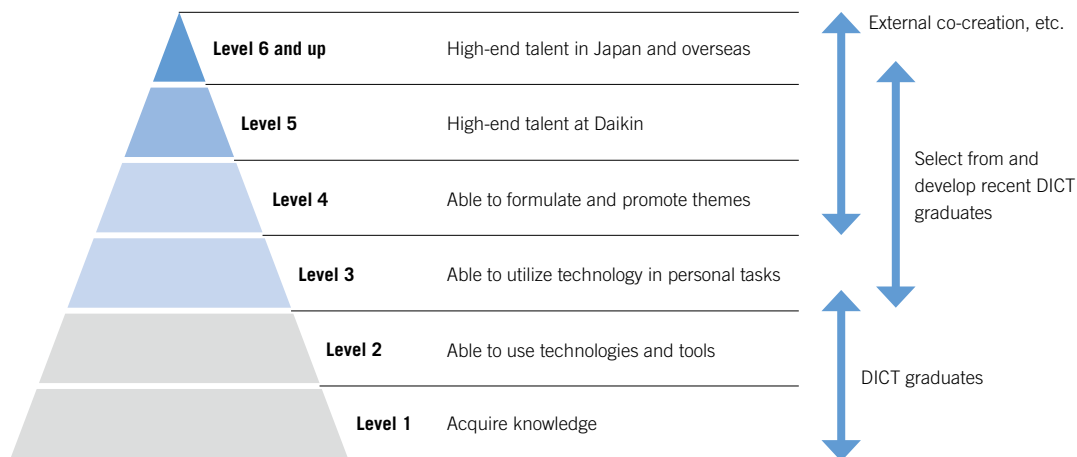
In fiscal 2018, we also introduced a program geared to new employees that develops them into highly skilled AI and IoT human resources. A total of 489 new employees have enrolled in this two-year training program at DICT to date. In their first year, trainees acquire specialized knowledge of AI and the 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 those compiled by our development, manufacturing, and sales divisions. This PBL develops trainees who can apply the knowledge and skills acquired in their

first year of studies 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. In addition to applying the knowledge and skills they have gained on-site, graduates of the program are expected to act as a bridge between our internal and external operations as well as between our various divisions so that AI and IoT technology become embedded throughout our operations.

\* 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

## Five Themes to Enhance the Management Foundation

### Development Stages of Daikin's Digital Human Resources



Source: Created by the Company based on Information-technology Promotion Agency, Japan (IPA) Skill Standards

## Topic

### Promoting Digital Transformation in the Workplace Together with DICT Graduates Case Study: Developing Tools That Facilitate the Connection of VRVs to Building Management Systems

Our instrumentation<sup>\*1</sup> services for multi-split air conditioners for buildings are the key to the success of Daikin's Solutions Business, as they allow us to maintain contact with customers even after our products have been delivered. With an eye on our full-scale entry into the market, we will develop tools that facilitate the connection of our VRVs (multi-split air conditioners for buildings) to the building management systems (BMS)<sup>\*2</sup> of our partner companies. This eliminates the need for manual connection and reduces workload by 30% to 50%.

This development project enables DICT graduates to improve their knowledge of the business cycle, sales channels, and the front lines of the Solutions Business, and gain analytical skills, practical skills in digital transformation technologies, and project implementation capabilities. The tools we develop will be adopted in the mid-size BMS of our partner companies in Singapore and other parts of Asia and Oceania, where the market is expected to expand steadily, and used to enhance our services and solutions on a global scale.

<sup>\*1</sup> Management and surveillance of building operations, including air-conditioning, lighting, and security systems

<sup>\*2</sup> A system that facilitates the integrated management of instrumentation services

## Respect for Human Rights

Daikin endorses and participates in the United Nations Global Compact, a voluntary initiative that seeks to advance universal principles on human rights, labor, the environment, and anti-corruption. Respect for human rights is included in our Group Conduct Guidelines, which specify the standards of conduct that must be adhered to by all Group executives and employees, and we are taking measures to promote human rights across the entire value chain.

Since respect for human rights is one of the criteria of the self-assessments, they confirm how well Daikin is respecting the rights of individuals, and we implement necessary countermeasures. The results of self-assessments, as well as issues that come up and proposals for resolving them, are reported to the Corporate Ethics and Risk Management Committee or regional compliance committee meetings, to ensure that this information is shared throughout Daikin in an effort to mitigate the risks.

In terms of the supply chain, Daikin's Supply Chain CSR Promotion Guidelines contain provisions on respect for human rights. The guidelines bar discrimination based on race or gender and the use of child labor and forced labor. Our suppliers inside and outside of Japan are urged to abide carefully by these guidelines. In fiscal 2022, we worked to improve our own initiatives by attending presentations by experts and learning about initiatives on respect for human rights in the supply chain based on the CSR procurement efforts of other companies.

### Formulation of the Daikin Group Human Rights Policy

The Daikin Group Human Rights Policy was formulated in July 2022. At Daikin, we believe that it is important to set out and put into practice the values and codes of conduct on respect for human rights that all our executives and employees must follow, in addition to respecting the laws and customs of the countries in which we operate to the extent possible.

We have been able to achieve rapid growth to date because of the environment we have created that allows our diverse personnel to demonstrate their individual characteristics and potential to the fullest, regardless of age or gender. We will achieve sustainable growth and remain committed to promoting human rights by ensuring that our Group Philosophy and People-Centered Management, which form the basis of our strengths and the value we provide, continue to be fully embraced throughout the Group.



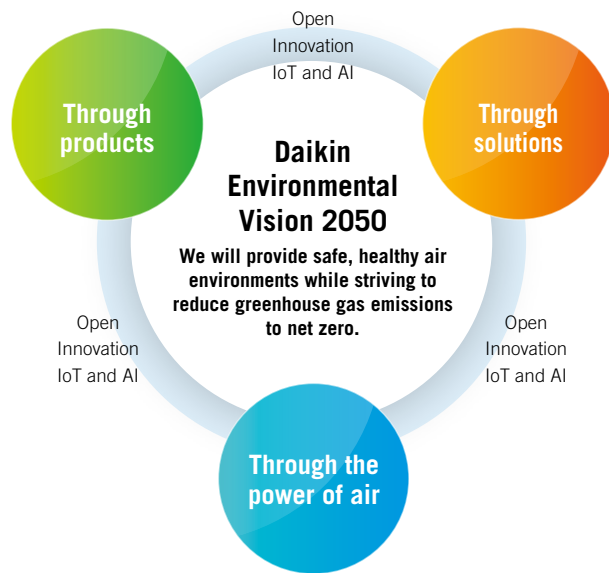
# Environmental Initiatives

## Environmental Vision 2050

### Toward Net Zero Greenhouse Gas Emissions

In 2018, Daikin formulated Environmental Vision 2050, with a target of reducing greenhouse gas emissions to net zero by 2050.

#### Environmental Vision 2050



We will reduce the greenhouse gas emissions generated throughout the entire lifecycle of our products. Furthermore, we are committed to creating solutions that link society and customers as we work with stakeholders to reduce greenhouse gas emissions to net zero. Using 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.

## Medium- to Long-Term Environmental Strategy

### Setting Targets Aimed at Realizing Environmental Vision 2050

Daikin has established a greenhouse gas emissions reduction target after analyzing the future of its business operations in order to reduce these emissions to net zero while bringing the added value nature of air to people around the world.

#### Through products

#### Through solutions

#### Through the power of air

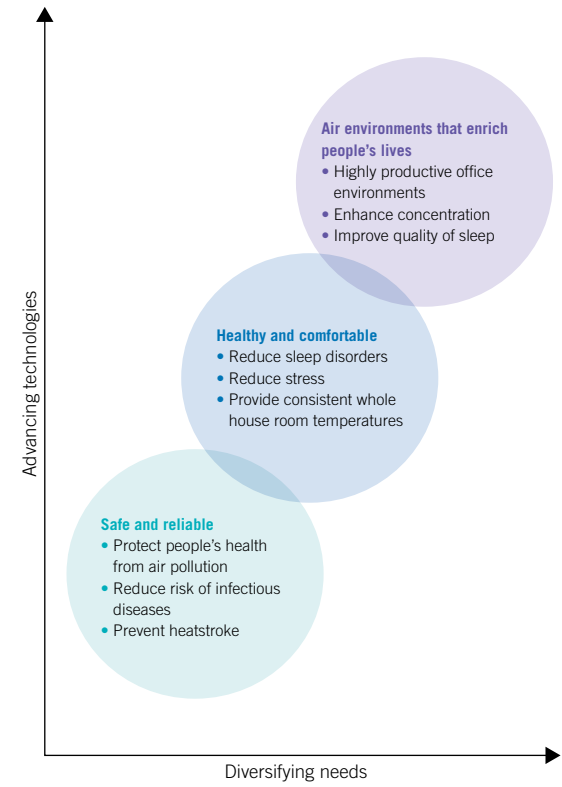
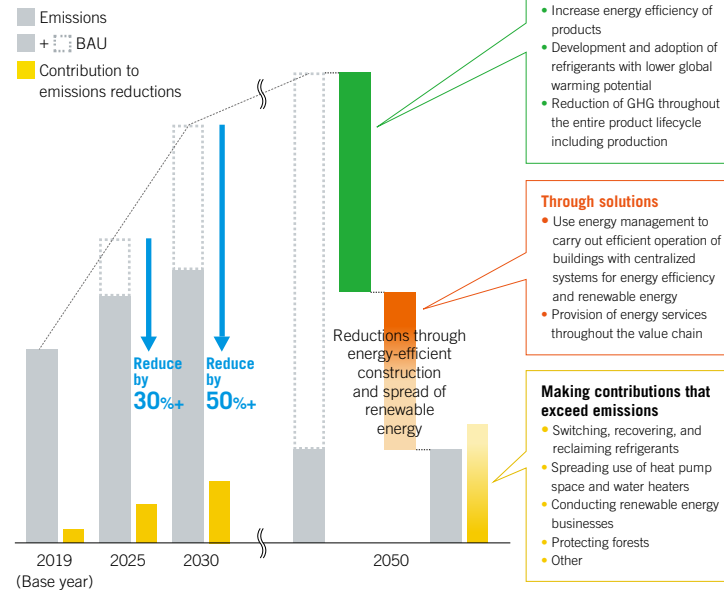
#### Reduction targets and results for net GHG emissions\* throughout the lifecycle

\* Defined as the total after subtracting our contribution to GHG emissions reduction from our total greenhouse gas emissions.

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

Fiscal 2022 results: **14% reduction**

#### Target for Reducing GHG Emissions to Net Zero





## Executing Measures within Business Plans

The three themes of the growth strategy for achieving our environmental vision have been incorporated into the key themes of Strategic Management Plan FUSION 25. We will now implement this plan aiming to strike a balance between resolving social issues and business growth.

### FUSION 25

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

Through products	<p><b>Challenge to achieve carbon neutrality</b></p> <ul style="list-style-type: none"> <li>• Power consumption reductions during product use</li> <li>• Heat Pump Space and Water Heating business</li> <li>• Refrigerant initiatives supporting the Air Conditioning Business</li> <li>• Working to achieve net zero greenhouse gas emissions by 2030 at all plants with the exception of chemicals plants</li> <li>• Embrace new businesses aimed at a carbon neutral society</li> <li>• Initiatives toward a circular economy</li> </ul>
Through solutions	<p><b>Promotion of Solutions Business connected with customers</b></p> <ul style="list-style-type: none"> <li>• Establishment of owner-direct sales network, enhancements to sales proposal capabilities, expansion of service options by application and market, and improvements in business promotion functions</li> <li>• Tackling the challenge of creating solution models balancing both energy efficiency, performance, and comfort</li> <li>• In addition to growth of existing businesses, greater business expansion in Asia where market growth is anticipated</li> </ul>
Through the power of air	<p><b>Creating value with air</b></p> <ul style="list-style-type: none"> <li>• Establishment of a large-scale IAQ/Ventilation business</li> <li>• Creation of IAQ/AE that enrich people's lives</li> <li>• Pursuit of new value with air</li> </ul>

### Main initiatives in FUSION 25 Latter-Half Three-Year Plan

- Reduction of GHG emission in manufacturing and offices, etc. (achieve net zero GHG emissions at all plants, excluding chemicals plants, by 2030)
- Promotion of switch to heat pump space and water heating in areas where combustion-type systems are still mainstream
- Establishment of refrigerant eco-cycle for recovering and reclaiming refrigerants
- Further promotion of Solutions Business closely linked with customers, etc.

## Information Disclosure Based on the TCFD Framework

For Daikin, climate change represents one important issue affecting its business continuity. In May 2019, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD),\* which aims to mitigate the risk of instability in financial markets caused by climate change. We reflect the risks and opportunities posed by climate change in management strategy and risk management. At the same time, we will disclose progress appropriately and aim for further growth while contributing to a carbon-free society.

\* TCFD was established in 2015 by the Financial Stability Board. It recommends that companies disclose information about the financial impacts of climate change after evaluating related business risks and opportunities.

### Governance

#### The Organization's Governance around Climate-Related Risks and Opportunities

Daikin's mainstay product of air conditioners is characterized by the large amount of CO<sub>2</sub> emissions caused by energy consumption during use. In addition, fluorocarbons used as refrigerants for air conditioners have an effect on climate change. Recognizing the major impact on climate change attributed to our business activities, we believe climate change is an issue that largely affects our medium- to long-term business risks and opportunities.

Based on this, climate change issues are considered an important task to address in order for Daikin to develop sustainably and fulfill its social responsibilities; thus, they are managed by the CSR Committee. The CSR Committee was established by the Board of Directors to spearhead the company's corporate governance. The executive officer in charge of CSR serves as the chairman of the committee, which deliberates on risks and opportunities, policy on initiatives, and targets

related to climate change, as well as monitors results and progress of initiatives, in addition to making proposals to the President and CEO, followed by reporting to the Board of Directors.

### Strategy

#### The Actual and Potential Impacts of Climate-Related Risks and Opportunities on the Organization's Businesses, Strategy and Financial Planning

We have formulated strategies based on analysis of climate-related scenarios in The Future of Cooling published by the IEA in 2018.

Demand for air conditioning is expected to triple from current levels by 2050. As demand increases, there is a possibility that each country will tighten their energy regulations on air conditioners and regulations to address refrigerants with a high global warming potential. Excessively strict regulations could pose a risk for Daikin. On the other hand, appropriate regulations can serve as an opportunity to expand

our business as they push for the spread of products and services with greater environmental performance, which is our strength.

The popularization of our products and services with excellent environmental performance in emerging countries with particular growth in demand for air conditioning is considered an effective measure to reduce GHG emissions resulting from air conditioners and contribute to our business growth. For this reason, we have reflected this in business strategies.

We established Environmental Vision 2050 for the final three-year plan of Strategic Management Plan FUSION 20. Specifically, by expanding environmentally conscious products and services, we aim to achieve net zero GHG emissions throughout the entire lifecycle from our own business operations by 2050. The targets and measures for 2030 aimed at realizing this goal have been laid out in Strategic Management Plan FUSION 25.

## Information Disclosure Based on the TCFD Framework

### Details of Scenario Analysis

#### Scenarios Referenced

- IEA *Sustainable Development Scenario*
- IEA *Base line Scenario, Current Policies Scenario*
- IEA *The Future of Cooling*
- IEA *Net Zero by 2050*
- IEA *Reference Scenario*

#### 4-Degree Scenario with Current Policies Unchanged

- The number of regions requiring air conditioning for day-to-day living will increase due to higher summer temperatures. In addition, as winter temperatures rise, the number of areas suitable for heat pump heating with an outside temperature of about minus 20°C degrees or higher will increase.
- Demand for air conditioners will approximately double by 2030 and roughly triple by 2050.
- Demand for air conditioners in non-OECD countries will increase five-fold from 2016 to 2030, but power generation will only increase 2.4-fold. (Worldwide power generation will increase 1.4-fold compared the 1.9-fold increase in air conditioner demand.)

#### 1.5-Degree Scenario with Stricter Regulations from Decarbonization Policy

- The progress of reducing use of refrigerants under the Montreal Protocol will be strictly managed and regulations could be tightened if the effectiveness is deemed insufficient.
- In addition, countries that today do not have strong regulations will adopt strict energy conservation policies.

#### Under the 4-Degree and 1.5-Degree Scenarios

As temperatures rise, the intensity and frequency of extreme weather will increase, which could increase instances of production shutdowns or postponements due to damages to our own plants or those of suppliers.

#### Financial Impacts of Carbon Pricing

Out of potential financial impacts, we estimated 2030 carbon tax obligations for each scenario in accordance with the following.

Calculations made assuming tax amount under the 4- and 1.5-degree scenarios according to IEA forecasts based on our CO<sub>2</sub> emissions (Scope 1 and Scope 2) reduction target for 2030 by region.

4-degree scenario: ¥1 billion in carbon taxes

1.5-degree scenario: ¥10.6 billion in carbon taxes

Note: The 4-degree scenario assumes the introduction of carbon taxes in the EU and China. These taxes would amount to US\$30/ton-CO<sub>2</sub> in China and US\$65/ton-CO<sub>2</sub> in the EU (according to the IEA *World Energy Outlook 2021 and Net Zero by 2050—A Roadmap for the Global Energy Sector*). The 1.5-degree scenario assumes the introduction of carbon taxes in every country around the world. These taxes would amount to US\$130/ton-CO<sub>2</sub> in developed countries, US\$90/ton-CO<sub>2</sub> in emerging countries, and US\$15/ton-CO<sub>2</sub> in developing countries (according to the IEA).

## Risk Management

### Process for Identifying, Assessing and Managing Climate-Related Risks

Risks and opportunities related to climate change can originate from the transition toward a decarbonized society, including stricter regulations, technology advancement, and market shift, as well as from physical influences, such as acute abnormal weather and chronic temperature increases. We have categorized the various external environmental changes accompanying climate change as “transition risks” and “physical risks,” assessed their financial impacts as large, medium, and small, and identified important risks and opportunities.

Every year our business sites around the world identify physical climate-related risks as part of operational risks. After material risks are identified by the Corporate Ethics and Risk Management Committee, we examine action policies and response measures. Product environmental meetings identify transition-based climate-related risks and opportunities at the time medium-term management plans are formulated and reviewed. After material risks and opportunities are identified by the CSR Committee, we examine initiatives and response measures. The

initiatives and response measures for identified risks and opportunities are incorporated into the medium-term management plan and implemented by each business department.

Moreover, climate-related risks are integrated into the Companywide management process as they are considered to exert large influence on our business strategies. The management status of Companywide risks is monitored by the Internal Control Committee chaired by the president and CEO and reported to the Board of Directors.

# Information Disclosure Based on the TCFD Framework

## Process Used to Identify, Assess, and Manage Climate-Related Risks and Opportunities

Category		Impact on Daikin's business	Probability of occurrence	Potential financial impact
Risks	Transition	<b>Stricter regulations on refrigerants</b> If regulations on refrigerants become too strict, there is a possibility that existing air conditioners no longer compliant with these regulations will become obsolete.	High	Large
		<b>Tight supply and demand for electricity</b> There is a possibility that the spread of air conditioners in emerging countries will increase electricity usage and make it difficult to increase sales of air conditioners due to electricity shortages.	High	Large
	Physical	<b>Production delays due to major disaster or water shortage</b> Production bases located in areas of high water stress, or susceptible to major disasters attributed to extreme weather, face the potential risk of disruptions in production due to the shortage of water necessary for production processes.	Medium	Medium
Opportunities	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 refrigerants with lower GWP, which is our strength.	High	Large
		<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, which is our strength.	High	Large
		<b>Stricter regulations on the use of fossil fuels</b> Regulations on the use of fossil fuels continue to become stricter, and since gas-combustion heaters will be subject to them, there will be an increase in sales on growing demand for heat pump heaters, which is our strength.	High	Large

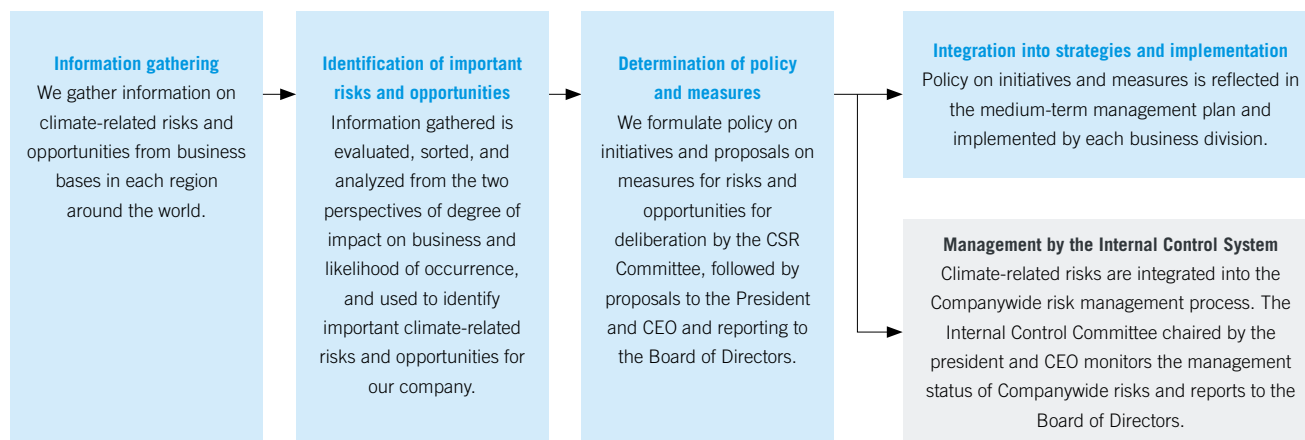
## Metrics and Targets

### The Metrics and Targets Used to Assess and Manage Relevant Climate-Related Risks and Opportunities

We incorporate the GHG emissions reduction target based on Environmental Vision 2050 into the FUSION 25 strategic management plan, as well as manage the progress of our environmental activities by setting metrics and targets related to climate change.

- Scope 1, 2, 3: With the base year set at 2019, we plan to reduce net GHG emissions from the entire Group by 30% or more by 2025, 50% or more in 2030 and achieve net zero emissions in 2050, compared to a BAU scenario.**
- Scope 1 and 2: Reduce net GHG emissions resulting from manufacturing activities by 55% in 2030 compared to 2019.**

## Evaluation and Management Process of Climate-Related Risks and Opportunities



## 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 Daikin's overall value in accordance with its management policies.

## Corporate Governance

### Basic Philosophy

At Daikin Industries, Ltd., we strive 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, which is 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 Group.

### Key Points

#### 1. Daikin Industries, Ltd.'s Unique Integrated Management Framework

Under its unique integrated management framework, Daikin Industries, Ltd. 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 Group as a whole.

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

Daikin Industries, Ltd. 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 10 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 Industries, Ltd. decides future strategies and solves issues related to important management policies and strategies. Meanwhile, the Group Management Meeting aims to establish a general consensus on 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 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 Group. This officer is also responsible for enhancing corporate governance and Daikin's organizational management 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 Industries, Ltd. has adopted a Company with Audit and Supervisory Board organizational system and accordingly established an Audit & Supervisory Board. As of July 2023, Daikin Industries, Ltd. had five Audit & Supervisory Board members, three 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 Industries, Ltd.

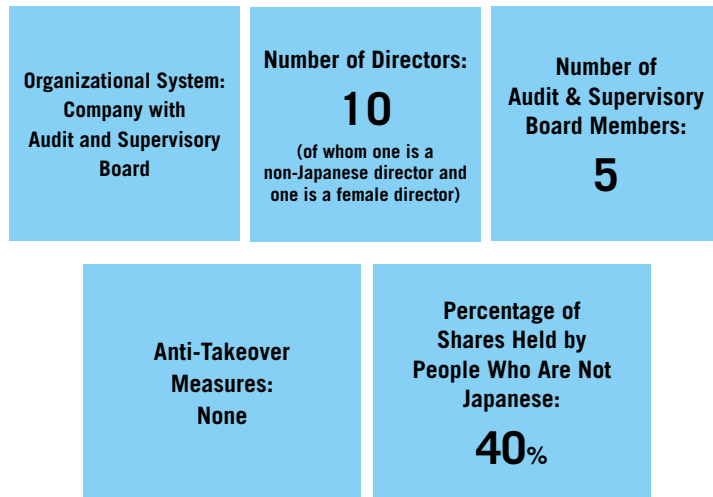
Audit & Supervisory Board members attend meetings of the Board of Directors, as well as other important meetings, receive reports, and express frank and diverse opinions.

To ensure effective audits, the Audit & Supervisory Board receives reports on important issues related to management and business performance as necessary, monitors relevant units, confirms and approves documents, and has regular discussions with representative directors, executive officers, and the accounting auditor. The Audit & Supervisory Board Member Office has been established to assist in the

duties of Audit & Supervisory Board members and ensure that they are performed effectively. In turn, Audit & Supervisory Board members direct the activities of the Audit & Supervisory Board Member Office personnel and provide them with valued advice on job rotations, performance evaluations, and other relevant matters.

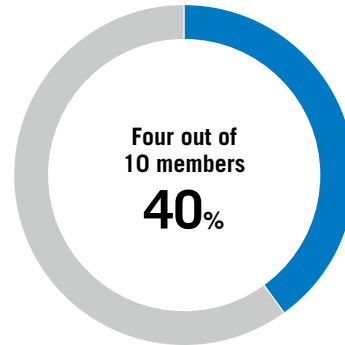
# Corporate Governance

## Daikin's Governance at a Glance

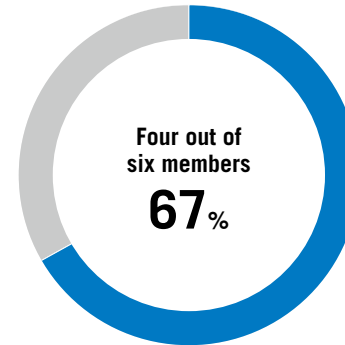


## Composition of the Board of Directors and Other Committees

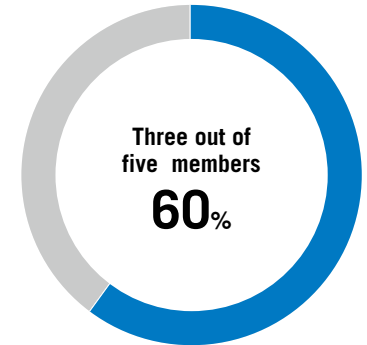
Ratio of Independent, External Directors



Directors

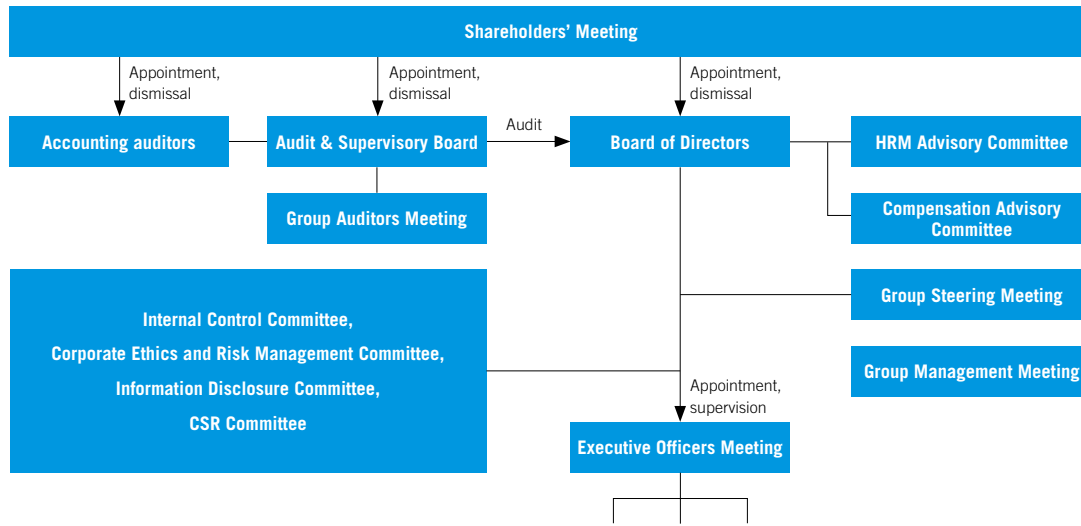


Members of the HRM Advisory  
Committee and the Compensation  
Advisory Committee



Audit & Supervisory  
Board members

## Corporate Governance System (As of June 30, 2023)



(The remaining components of the system are not shown.)

## An Organizational That Structure Supports Speedy Management Implementation

Daikin Industries, Ltd. is striving to ensure prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues. There are three main management bodies—the Board of Directors, the Group Steering Meeting, and the Executive Officers Meeting.

The Board of Directors is the Groupwide decision-making body for items stipulated in laws, regulations, and articles of incorporation. It also provides sound, appropriate supervision and guidance in the execution of business operations. In fiscal 2022, meetings of the Board of Directors were convened 16 times, with external directors attending, on average, 97% of the meetings and external Audit & Supervisory Board members attending, on average, 88% of the meetings. The highest body for deliberating the Group's management system is the Group Steering Meeting, which strives to constantly speed up the pace at which Daikin decides on its future direction and solves issues related to important management policy and strategies. In fiscal 2022, the Group Steering Meeting was convened five times to discuss core themes from the FUSION 25 strategic management plan, including the refrigerant business and the space and water heating business. The Executive Officers Meeting, established following the introduction of the Executive Officer System, promotes speedy implementation and thorough deliberation of important management tasks related to operational execution.

At the same time, to ensure the effectiveness of audits, we developed a system that positions the Internal Control Committee, the Corporate Ethics and Risk Management Committee, the Information Disclosure Committee, and the CSR Committee under the Board of Directors. We are strengthening governance as the foundation for sustainable growth.

## Corporate Governance

### Policy for the Appointment of Directors

The Company strives to realize effective and appropriate management using 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 Industries, Ltd. believes that 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, 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 Industries, Ltd. 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 using 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 Daikin’s Group Philosophy and Core Values 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 increasing corporate value, furthering global business expansion, and accomplishing the key strategies set forth in the FUSION 25 strategic management plan, 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 10 directors, based on their extensive experience and deep insight as corporate managers, have achieved significant

results in their respective fields. Daikin Industries, Ltd. believes that the skills and attributes possessed by each director are necessary for further improving its corporate value. The six 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 Daikin’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 judgment and foresight and Group management capabilities that embrace diversity. The Company expects that he will promote the building of a business model that looks 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 Group. The Company expects that he will continuously strive to achieve FUSION 25 and demonstrate his strong leadership skills to promote measures for further business expansion flexibly and quickly amid a constantly changing business environment.
<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 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 mainly in charge of solutions technologies. The Company expects that he will develop leading-edge technology beyond air-conditioning equipment and create new businesses.

Name	Experience and Knowledge of Each Director and Their Expected Roles
<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. He is currently 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 as an independent external director, with a focus on his perspectives on 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 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 as an independent external director, with a focus on his perspectives on corporate management anticipating customers’ needs, corporate activities pertaining to the Sustainable Development Goals (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 as an independent external director, with a focus on her perspectives on customer-centric corporate management and business development as well as the further empowerment of female employees in the workplace.



## Corporate Governance

### Evaluation of the Effectiveness of the Board of Directors

Daikin Industries, Ltd. 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 Company

has judged that the Board of Directors makes appropriate decisions through open and active discussions, and plays an effective role in enhancing corporate value over the medium to long term. The Company will continue to improve Board effectiveness as well as

engage in other initiatives, including discussions on Groupwide strategies and issues and the improvement of reporting on the status of business execution.

### Officer Compensation System

To ensure the transparency of management by executive officers and of compensation processes, the Company has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations on 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 motivate internal directors to continuously improve the Company's performance over the medium to long term and contribute to the growth of Daikin's overall value 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 by analyzing and comparing the compensation data of major manufacturers in Japan, using objective data from compensation surveys. These surveys are compiled by a third-party institution specializing in research on the compensation levels 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.

In terms of performance-linked compensation, the Company's 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 implementing 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 11 key strategy themes laid out in the FUSION 25 Latter-Half Three-Year Plan.

The amount of compensatory stock options paid to directors, excluding external directors, is determined each fiscal year by dividing a sum determined by the status and results of each individual's efforts to address short-, medium-, and long-term priority issues in the previous fiscal year 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.

Regarding the policy for determining director compensation and the details thereof, the Compensation Advisory Committee, which is chaired by an external director and comprises 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 relative to other companies, and the appropriateness of compensation from a variety of perspectives. Furthermore, the Committee confirms and deliberates the contents of proposals on the amount of compensation for each individual director from an objective standpoint 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 of the opinions submitted to the chairman upon receiving approval from the Board of Directors for their reappointment. Should his decision contradict 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.

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 2022)

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)	1,361	535	246	578	8
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	70	70	—	—	2
External executive officers	105	105	—	—	6

#### Compensation for Certified Public Accountants (Fiscal 2022)

Compensation for audit certification duties	¥265 million
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## Messages from External Directors

At Daikin, we believe corporate governance enhances 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 the issues faced by management and the changes in our business environment. In this section, our external directors explain their stance and the features of Daikin's Board of 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 Meetings the Board of Directors

Attended 16 out of 16 meetings held in fiscal 2022

### 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 Meetings the Board of Directors

Attended 15 out of 16 meetings held in fiscal 2022

### 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 Meetings the Board of Directors

Attended 15 out of 16 meetings held in fiscal 2022

### 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 Meetings the Board of Directors

Attended 16 out of 16 meetings held in fiscal 2022

At meetings of the Company's Board of Directors, I propose key points to consider in risk management and advise on the importance of the relationship between management and the front lines of operations.

The front lines of operations are the focal point of the Company's approach to management. At the Board meetings, we deliberate on the status of each business and the specific activities of the Corporate Ethics and Risk Management Committee, and decisions are made based on information from the front lines, which I believe ensures the rationality, transparency, and objectivity of management.

There are numerous opportunities for the Group to continue to grow and develop over the medium to long term and a number of discussions are being held at the Board meetings regarding upfront investment projects, such as capital investments and M&As. While it is certainly important to deliberate on strategic approaches to business expansion, we must also be thoroughly prepared for changes in the Company's external environment and risks associated with business management. As an outside director, I will make recommendations on these and other matters to ensure that they are fully discussed at the Board meetings and that the expectations of all shareholders and investors are met.

At the Company's Board of Directors' meetings, which were also attended by management on the executive side, detailed reports were provided and discussions were held on the progress of budgets. Aside from the Board meetings, the officers in charge provided sufficient explanations on the business environment and the initiatives being undertaken in each region, creating a sense of cohesiveness between management and the front lines.

In formulating the FUSION 25 Latter-Half 3-Year Plan, I have made recommendations in the areas of energy and the environment in particular, drawing on my experience with zero carbon initiatives at other companies. However, I intend to pay close attention to the safety and quality aspects of Daikin's business going forward. I will continue to do what I can to ensure lively discussion at the Board meetings, incorporating frontline perspectives to contribute to the achievement of Daikin's sustainable growth and the improvement of its corporate value.

As is the case in the alcoholic beverage and food industries, in addition to product quality and safety, environmental and sustainability initiatives are becoming increasingly important in the manufacturing industry.

Because the Board meetings are also attended by management on the executive side, I advise on the importance of products and services that make significant contributions to the Company's sustainability. Aside from the Board meetings, I actively conduct plant inspections and implement other measures to improve my knowledge of the Company's business.

Through globalization, the Company has achieved significant growth by placing greater emphasis on its business overseas than its business in Japan. Going forward, the Company will be called upon to contribute to each region in which it operates and to develop alongside local communities. To that end, I will continue to support the Group's SDG and ESG initiatives and do my utmost to ensure the achievement of its sustainable growth and the improvement of its corporate value.

Based on the belief that safety management is equally important in the airline and manufacturing industries, in fiscal 2022 I took part in each of the three factory meetings held for executive officers (to provide yearly reports on the status of execution at our production sites in Japan) to verify the state of the Company's safety initiatives. At these meetings, I was able to confirm the extensiveness of safety measures on the front lines, which impressed me deeply.

In evaluating the effectiveness of the Board of Directors, I advised on the importance of discussing the state of safety measures not only with management on the executive side of the Company but also at the Board of Directors' meetings. This matter was raised as an agenda item at the Board meetings, where reports were provided and discussions were held on the current state of safety management at Daikin's domestic and overseas operations, the issues that need to be addressed, and the progress of its ongoing safety measures. As an outside director, I will provide advice and supervision from the perspective of providing products and services from the customer's point of view and promoting the active participation of women in an effort to strengthen the Company's corporate governance.

# Corporate Officers (As of June 30, 2023)

## 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



### 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



### 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:**

—



### 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



### 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



### 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:** 500

**Significant concurrent posts:**

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

# Corporate Officers (As of June 30, 2023)

## Directors



### 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 Air Conditioning Global 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 Air Conditioning Global 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, In charge of Applied R&D Center of the Company, 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, In charge of Daikin Open Innovation Lab Silicon Valley of the Company  
 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:** 9,500

**Significant concurrent posts:**



### Kanwal Jeet Jawa

Member of the Board,  
Senior Executive 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  
 June 2023 Member of the Board and Senior Executive Officer of the Company (Current position)

**Number of Company shares owned:** —

**Significant concurrent posts:**

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

# Corporate Officers (As of June 30, 2023)

## 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 2013 Senior Advisor of the above company  
 June 2016 Audit & Supervisory Board Member of the Company (Current position)  
 April 2018 Honorary Advisor of Teijin Limited

**Number of Company shares owned:** —

**Significant concurrent posts:**

—



### Kaeko Kitamoto

Audit & Supervisory Board Member (External)

**Date of birth** April 15, 1965

April 1988 Joined Sapporo Breweries Limited  
 October 1993 Joined Ota Showa Audit Corporation (Currently, Ernst & Young ShinNihon LLC)  
 April 1997 Registered as a certified public accountant  
 July 2009 Partner of Ernst & Young ShinNihon LLC  
 September 2018 Commissioner of Electricity and Gas Market Surveillance Commission of the Ministry of Economy, Trade and Industry (Current position)  
 July 2019 Executive Board Member of Ernst & Young ShinNihon LLC  
 July 2023 Audit & Supervisory Board Member of the Company (Current position)

**Number of Company shares owned:** —

**Significant concurrent posts:**

Certified public accountant and commissioner of the Electricity and Gas Market Surveillance Commission



### Kosei Uematsu

Audit & Supervisory Board Member (Standing)

**Date of birth** January 21, 1952

February 1982 Joined the Company  
 June 2002 Director of the Company, 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 of the Company, 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  
 June 2004 Senior Manager of Administration and Finance Department of the Company  
 July 2007 Department Manager of Planning Group, Senior Manager of Accounting Group of Finance and Accounting Division of 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:**

—

# Corporate Officers (As of June 30, 2023)

## 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	In charge of the Applied Solutions Business in China Region, 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
Senior Executive Officer	Toshio Ashida	Responsible for Corporate Planning, Electronics Business, Technology Innovation Strategy Office in Technology and Innovation Center
Senior Executive Officer	Yoshiyuki Hiraga	Responsible for Chemicals Business and Chemical Environment/Safety
Senior Executive Officer	Shigeki Morita	In charge of the Filter Business, PU/Quality (Air Conditioning/Applied/Refrigeration), Alliance Promotion with Gree Electric Appliances Inc., PD Affiliation Alliance Promotion, and Concurrent Development Promotion, General Manager of Air Conditioning Manufacturing Division, General Manager of Sakai Plant
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

Position	Name	Main Responsibilities / Titles
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	Hideki Maruoka	Responsible for Oil Hydraulics Business
Executive Officer	Shoji Uehara	Global Operations Division, In charge of Training for the Company
Executive Officer	Junichi Oomori	General Manager of Global Operations Division
Executive Officer	Katsumi Kawahara	Deputy General Manager of Technology and Innovation Center (Responsible for Promoting Industry, Government and Academia Collaboration)
Executive Officer	Hiroaki Ueda	Responsible for DX Strategy Promotion, General Manager of Corporate Planning Department
Executive Officer	Katsuya Miura	In charge of the Refrigeration Business
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
Executive Officer	Masaaki Miyatake	In charge of the Applied Solutions Business

## Compliance and Risk Management

### Taking an Integrated Approach to 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. Daikin 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.”

### Utilizing Daikin’s Unique Self-Assessment System to Confirm Compliance with the Group Conduct Guidelines

Each year, Daikin conducts a self-evaluation on compliance with the Group Conduct Guidelines using its unique self-assessment system. Based on these results, we identify organizational issues and take countermeasures, the details of which are reported to and shared with the Corporate Ethics and Risk Management Committee.

In addition, the self-assessment results are used to determine the divisions and Group companies that are subject to legal audits on the status of compliance activities, which are held each year by the Legal Affairs Department. The Group also conducts compliance surveys.

The self-assessment results 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 determine critical risks. Based on

these findings, each Group company puts forward and implements countermeasures for 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 2022, efforts focused on risks related to key themes such as natural disasters, product quality, harassment prevention, information management, the strengthening of overseas crisis management, and human rights.

### Basic Policy on Information Security

Daikin’s Group Conduct Guidelines state that we manage and use confidential information appropriately. We have also established the Information Security Basic Policy. Daikin stipulates that information leaks from internal information systems, Daikin products and services, and plant equipment systems constitute a major companywide risk. Therefore, information security leaders in each division lead efforts in

implementing the Basic Regulations of Information Security and Common Security Guidelines. We also strictly manage confidential information we are holding that is the property of other companies.

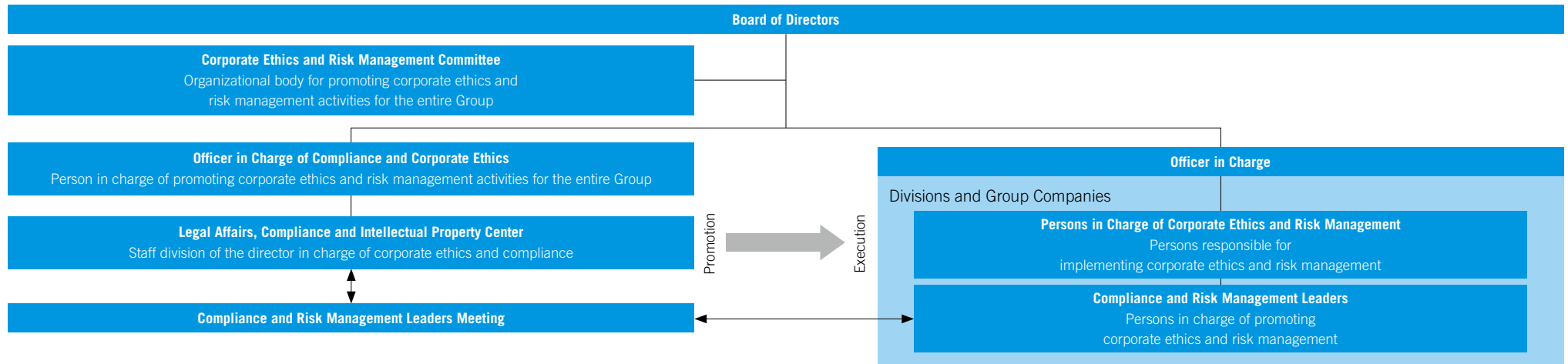
In addition, with the increasingly widespread problems of companies losing information over the internet, Daikin is striving to raise the awareness of employees about managing their information; for example, the

Company has a strict policy on the use of social media.

In fiscal 2022, there were no cases of inappropriate management of information or information leakages.

# Compliance and Risk 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 and ensured through understanding of the Compliance Guidelines for Preventing Bribery of Public Officials, Etc.
- Held information sessions in our various divisions and at Group companies in Japan and overseas and conducted e-learning programs for all Daikin employees
- 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

At Daikin, we 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 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 Management Meeting has been established to promote information sharing 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 plans through the sharing of Groupwide policies and specific issues by the heads of each global business site. In addition, regional

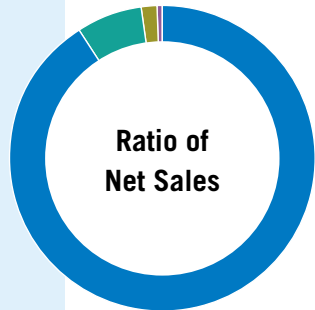
manager meetings are held regularly to enable our head office management to determine regional business strategies through face-to-face discussions with the heads of each Group company.

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 Core Businesses

We offer a variety of products and services for the global market to address the specific needs of each country and region that stem from differences in cultures and values and realize healthy and comfortable lifestyles and spaces.



## Air Conditioning

91%

7%

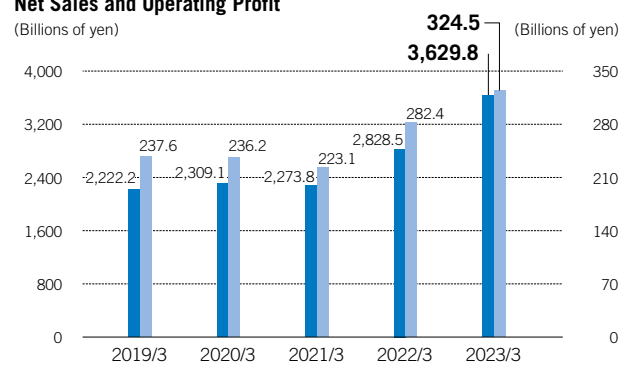
1.5%

0.5%

## Air Conditioning

### Net Sales and Operating Profit

(Billions of yen)



■ Net sales (left) ■ Operating profit (right)

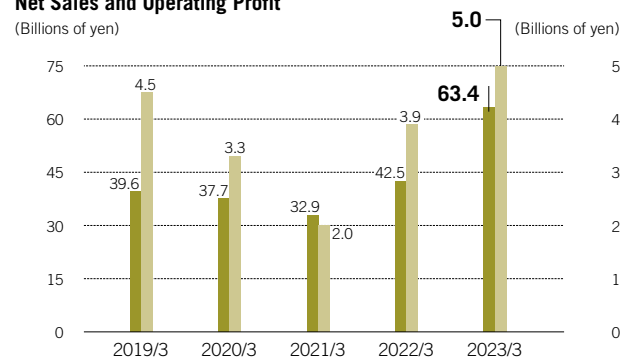
#### Major Products

- Room air-conditioning systems
- Air purifiers
- Heat pump hot water supply and room heating systems
- Air conditioners for stores and offices
- Multi-split 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

## Oil Hydraulics

### Net Sales and Operating Profit

(Billions of yen)



■ Net sales (left) ■ Operating profit (right)

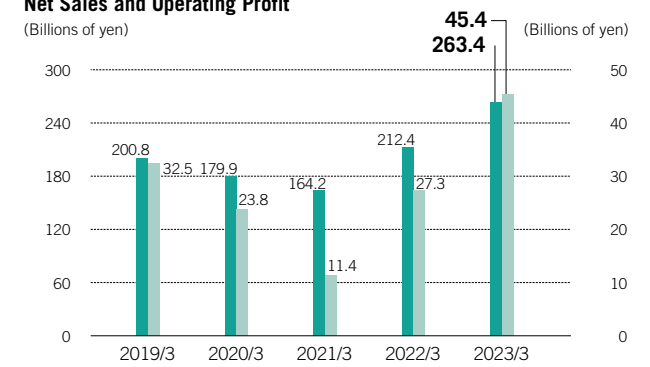
#### Major Products

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

## Chemicals

### Net Sales and Operating Profit

(Billions of yen)



■ Net sales (left) ■ Operating profit (right)

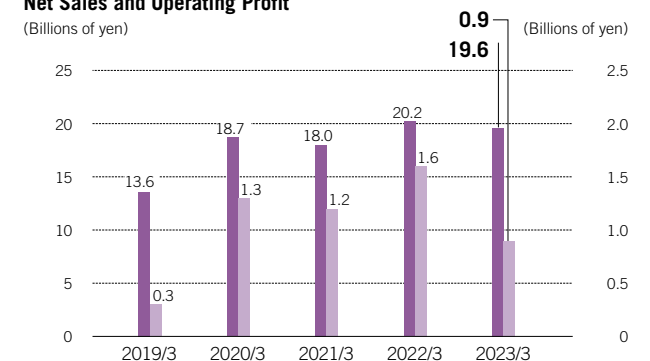
#### Major Products

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

## Defense Systems

### Net Sales and Operating Profit

(Billions of yen)



■ Net sales (left) ■ Operating profit (right)

#### Major Products

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

# Overview of Core Businesses

Daikin has expanded its global business to over 170 countries, comprising more than 110 production bases focused on market-localized production.

Employees:

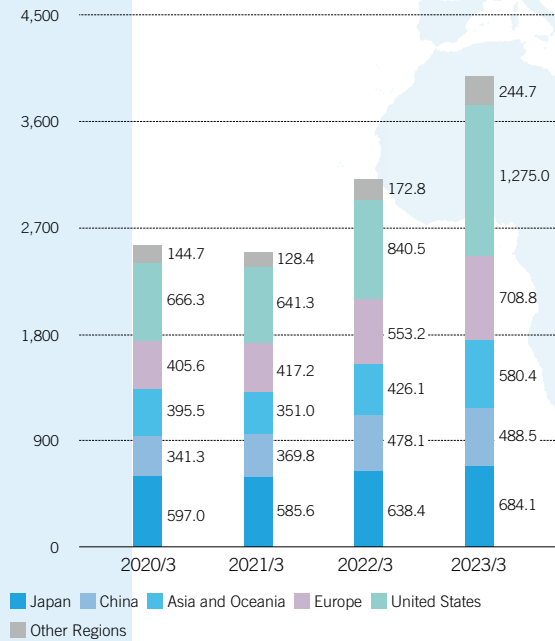
**96,337**

Consolidated Subsidiaries:

**347**

Sales by Region

(Billions of yen)



**Japan**

- ¥684.1 billion
- 13,435 Employees
- 30 Consolidated Subsidiaries
- 7 Global R&D centers

**United States**

- ¥1,275.0 billion
- 22,966 Employees
- 75 Consolidated Subsidiaries
- 10 Global R&D centers

**China**

- ¥488.5 billion
- 20,599 Employees
- 33 Consolidated Subsidiaries
- 9 Global R&D centers

**Europe**

- ¥708.8 billion
- 12,215 Employees
- 86 Consolidated Subsidiaries
- 17 Global R&D centers

**Asia and Oceania**

- ¥580.4 billion
- 20,083 Employees
- 61 Consolidated Subsidiaries
- 7 Global R&D centers

**Other Regions**  
(Latin America, Middle East, and Africa)

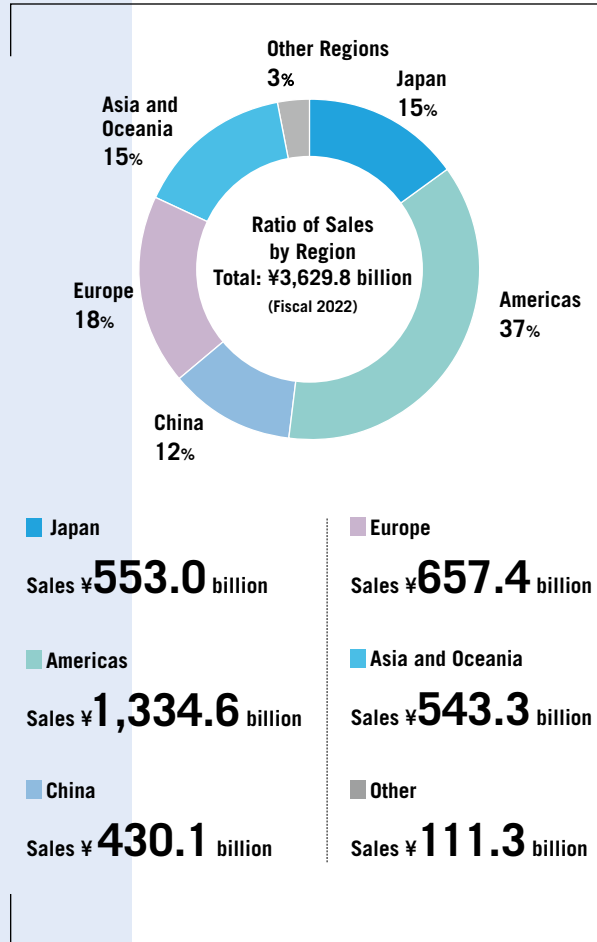
- ¥244.7 billion
- 7,039 Employees
- 62 Consolidated Subsidiaries

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

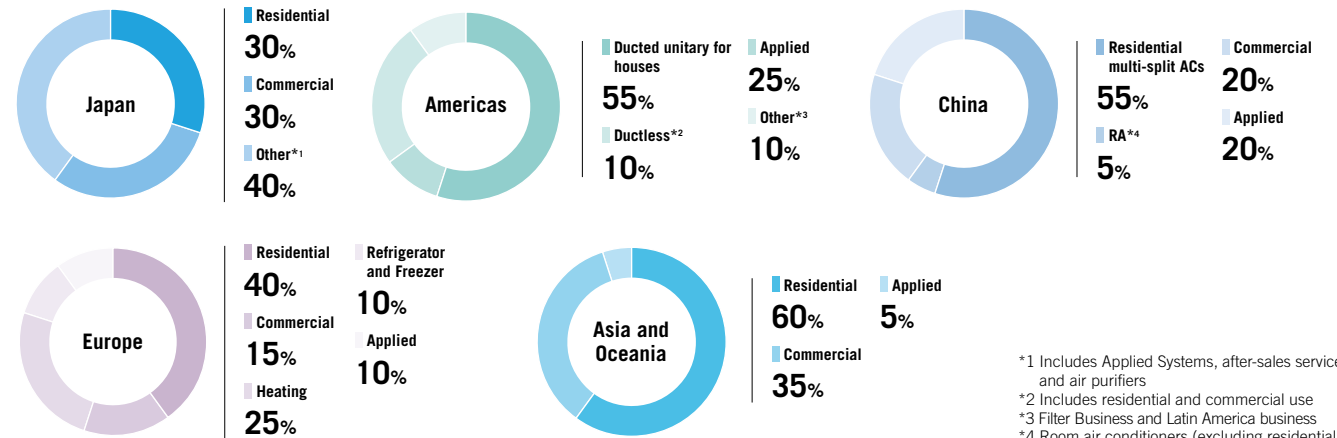
# Review of Operations

## 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.

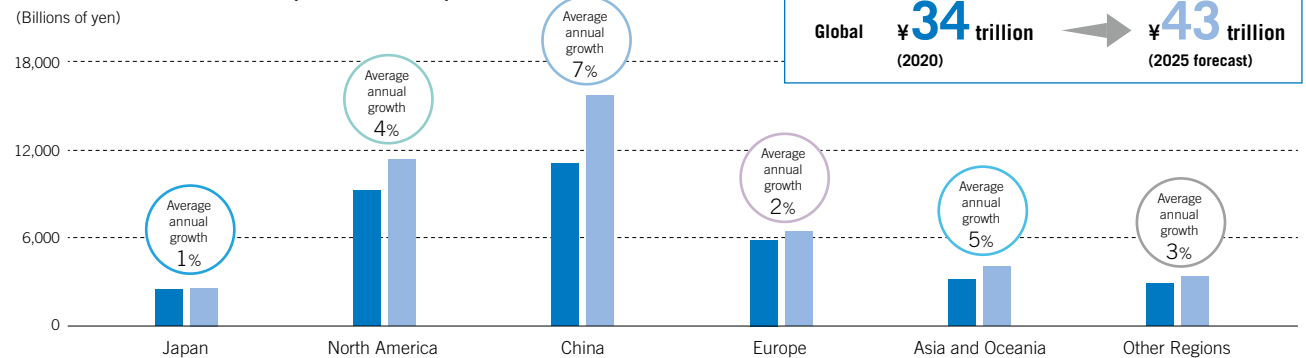


Ratio of Products Sold by Region



\*1 Includes Applied Systems, after-sales service, and air purifiers  
 \*2 Includes residential and commercial use  
 \*3 Filter Business and Latin America business  
 \*4 Room air conditioners (excluding residential multi-split air conditioners)

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



■ 2020 ■ 2025  
 \* 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 for 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 2022, demand for residential-use products declined from the previous year due to the shortage of product supplies arising from the effects of the lockdown in Shanghai, reduced consumption as a result of soaring commodity prices, and other factors. Conversely, demand for commercial-use products increased from the previous year due to signs of a pickup in capital investment stemming from a recovery in economic activity.

### Air Conditioning Business Sales (Japan)

(Billions of yen)



### Review of Fiscal 2022

In the residential-use market, we strengthened sales of differentiated products, such as *Urusara X*, an air conditioner that can switch between air supply and air exhaust ventilation functions, and *risora*, an air conditioner that exemplifies our commitment to detailed design. Sales of residential-use products grew by virtue of our efforts both to strengthen proposals that address the increasing need for energy conservation arising from the surging price of electricity and to ensure stable product supply. Sales of commercial-use products also increased as we prioritized our proposals of solutions that combine our SKY and VRV systems, which are exceptionally energy efficient and easy to install, with ventilation and disinfection systems, such as heat reclaim ventilators and ultraviolet (UV) steamer units.



*risora*: Creating the most pleasant spaces through our commitment to detailed design and functionality

### Strategies for Fiscal 2023

Against the backdrop of soaring energy prices, we will present proposals to reduce energy consumption across all product lines. In the residential-use market, we will promote sales of high-value-added products that offer high levels of energy efficiency, ventilation and air purification functions, and design. We will also strengthen our sales activities and aim to further increase our market share in cold regions, where demand will likely remain brisk. In the commercial-use market, we will expand our dealer network through the accelerated development of new dealers, strengthen proposal-based marketing of energy-efficient and ventilation solutions, and enhance our lineup of products for cold regions with the aim of increasing our market share. We will also continue to focus on our subscription service business, in which we lease out air conditioners for a flat rate.

### 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, which will launch new heat reclaim ventilator products suitable for renewal and retrofitting and heighten the appeal of our unique ventilation function and streamer technology. In addition, we will create environmental and social value and develop new growth strategies by capitalizing on the opportunities presented by the changes in our industry and social structure spurred by the transition to carbon neutrality. Through these and other efforts, we will strive to achieve the leading share in all regions and markets. With a view to realizing carbon neutrality, we will work to expand sales of our ECOCUTE heat pump water heaters, for which we anticipate market growth, and develop a refrigerant ecosystem that uses our refrigerant recovery and reclamation routes. Moreover, we will look to expand our Solutions Business by strengthening our ability to propose solutions that are specific to each application and market and rolling out a line of solutions that cater to diverse customer needs.

# Review of Operations

## 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.

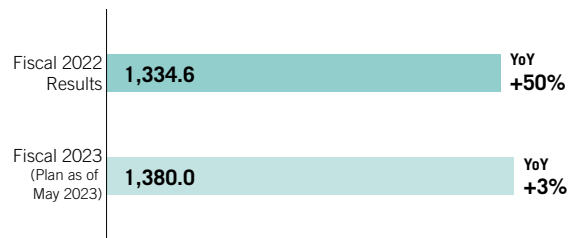
\* Renamed Daikin Comfort Technologies North America (DNA), Inc. in April 2022

### Market Environment

The air-conditioning market in the United States, has reached maturity and is based mainly on replacement demand. In fiscal 2022, demand in the residential-use market stagnated due to prolonged inflation and rising mortgage rates. We also saw drastic changes in our business environment, such as supply issues resulting from component shortages.

### Air Conditioning Business Sales (Americas)

(Billions of yen)



### Review of Fiscal 2022

In Ducted Unitary for Houses, despite declining industry demand, we continued to increase market share by reinforcing our supply capabilities and expanding our sales network. We also saw a growth in sales of Fit premium environmental products, for which we commenced local production. In Ductless, we improved our market share by enhancing our supply capabilities for RA/SKY. Sales of VRVs increased on the strength of our sales network, which we expanded through the acquisition of new dealers. In Applied Systems, we saw sales increase for air handling units, chillers, and other products as the market remained brisk. The After-Sales Service Business also posted a growth in sales.



Shop floor for Ducted Unitary for Houses at Daikin Texas Technology Park

### Strategies for Fiscal 2023

In Ducted Unitary for Houses, we aim to increase our market share by developing new dealers and strengthening our sales network. We will address the electrification and energy-saving needs of heating and enhance the presence of inverters in this market by expanding our lineup of inverter-equipped Fit premium environmental products. In Ductless, we will promote the widespread use of R32 refrigerant air conditioners in RA/SKY. In VRVs, we aim to increase our market share by reinforcing our supply capabilities and expanding our sales channels. In Applied Systems, we will strive to increase sales of equipment for factories and data centers, where demand is expected to grow, while aiming to enhance the scale of our Solutions Business.

### FUSION 25 Strategies

In the first two years of FUSION 25, we drastically improved our business results by increasing our sales and market share of ducted unitary for houses. In the remaining three years of the medium-term management plan, we will capture an overwhelming share of the market in the residential-use business and aim to rise to the top of the air-conditioning market in North America by taking further steps ahead in our Applied Solutions Business. With the increasing level of environmental awareness, we will look to capitalize on this as an opportunity to create new demand through our premium environmental business and our unique sales model. In the residential-use market, we will expand our business in volume markets by strengthening DNA's sales network and increase sales of inverter-equipped premium environmental products. In the light commercial market, we will bolster our sales and service networks in tandem with the Applied Systems Business while continuing to boost sales of VRVs and rooftop systems. In the applied systems market, we will direct our attention to data centers, where demand is expected to grow. Upon completion of construction, we will harness the strengths of our new factory in Mexico to enhance the equipment business.

# Review of Operations

## China

### Business History

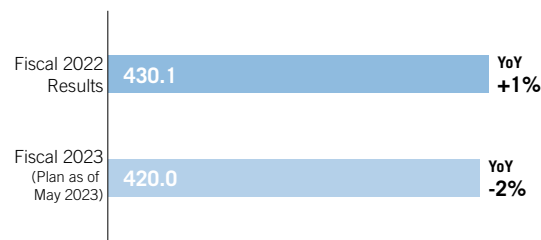
Daikin entered the Chinese market in the mid-1990s when there were already numerous Japanese air conditioner manufacturers with a presence there. Daikin, the latecomer, differentiated itself by focusing on establishing an image as a high-end brand, and on building up its own dealer network. Moreover, 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 fiscal 2022, we were forced to discontinue production and logistics activities in April and May due to the effects of the Shanghai lockdown, which was followed by strict COVID-19 restrictions in the latter half of the year to prevent the spread of infection. In December and January of fiscal 2022, the market shut down completely due to the rapid spread of infection resulting from the easing of China's zero-COVID-19 policy. Throughout the year, demand faltered as the market was affected severely by the pandemic.

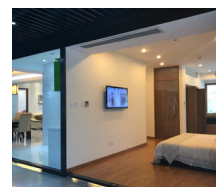
### Air Conditioning Business Sales (China)

(Billions of yen)



### Review of Fiscal 2022

In the residential-use market, due to our inability to physically visit the stores of our dealers, we turned our attention to strengthening our online sales activities, with our PROSHOP specialty store in particular, to identify new customers and capture replacement demand. Moreover, against the backdrop of increasing concerns over air environments and the adoption of carbon neutral policies, we strengthened our sales of system products and proposals of solutions combining air-conditioning, air quality, heat reclaim ventilation, heat pump floor heating, and other features. In the commercial-use market, we focused on infrastructure-related projects, government properties, and investment projects of major companies, where demand is steady due to economic stimulus measures. In the markets for large buildings and factories, we bolstered sales through the supply of energy solutions and the visualization of air quality as well as through reductions in electricity use by means of energy-efficient products, respectively.



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

### Strategies for Fiscal 2023

We will capitalize on our strengths in and actively expand offline sales, such as direct proposals to customers and large-scale events. We will also look to improve sales by continuing to hone our unique online-based sales activities and concentrating on identifying new customers. In the residential-use market, we will expand Daikin's unique residential solutions business combining solutions for air-conditioning, ventilation, heating, and controls. In the commercial-use market, we will focus on developing systems and controllers that optimize energy management, in addition to introducing new, exceptionally energy-efficient products. We will deploy energy solutions by reinforcing both the tangible and intangible aspects of our products.

### FUSION 25 Strategies

Against the backdrop of advancements in carbon neutrality initiatives, we will deploy our Solutions Business to address the specific needs of each market and customer group from an energy conservation perspective. We will expand our business through a business model that combines our offline activities based around the Daikin New Life Station and online activities based around online advertising and social media. Furthermore, we will aggressively invest in reinforcing our production capabilities with a view to achieving sustainable growth. As the only global air-conditioning brand in the country, we will continue to create new markets and grow our business in China by shifting to a new business model that will spur our long-term growth.

# Review of Operations

## Europe, the Middle East, and Africa

### Business History

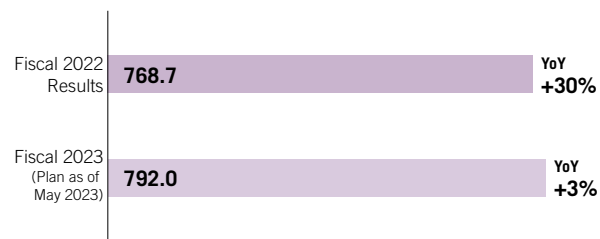
Our presence in Europe started with the establishment of a production and sales base in Belgium in the early 1970s. We succeeded in bolstering sales in Italy, Spain, France, and other nations across the European Union (EU), and the scale of our business grew rapidly. From the 2000s, we also expanded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

### Market Environment

In the residential-use market, new demand emerged for the heating functions of room air conditioners that offer exceptional energy-saving performance, as energy prices remained high. In the Heating Business, demand remained strong against the backdrop of the European Green Deal policy, owing to subsidy programs in various countries to promote the conversion from combustion heaters to heat pump space and water heaters. In the commercial-use market, we saw a one-off increase in demand (pent-up demand) at offices and stores due to the easing and lifting of COVID-19 restrictions in various countries.

### Air Conditioning Business Sales (Europe, the Middle East, and Africa)

(Billions of yen)



### Review of Fiscal 2022

Although the business environment remained challenging due to the tightening of supply stemming from the lockdown in Shanghai, disruptions in our logistics network, soaring energy costs, and other factors, sales increased significantly over the previous year in the region overall by maintaining supply through the integration of our manufacturing and sales activities and focusing on increasing the sales of heat pump water heaters as well as through the effects of selling price measures. In the residential-use market, sales grew in Italy and Spain, where we took advantage of the hot summer weather, as well as in Germany and France, where we were able to capture heating needs. In the commercial-use market, we improved sales by capitalizing on the pent-up demand in stores and offices. In the Heating Business, we achieved drastic improvements in sales in various markets, particularly in Italy, France, and Germany, as demand remained brisk for heat pump water heaters. The Refrigerator and Freezer Business faced a challenging business landscape due to a scale-back of investment by supermarkets.

### Strategies for Fiscal 2023

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 will improve sales by capitalizing on the resurgence in demand at offices and hotels arising from the increasing interest in the environment and energy conservation. In the Heating Business, we will continue to capitalize on the vigorous demand and increase our market share, by speeding up the reinforcement of our production, sales, and service structures. In the Refrigerator and Freezer Business, we will accelerate our proposals of one-stop solutions to stores by enhancing our product lineups and refining our sales structure.



Daikin Altherma heat pump space and water heater (outdoor unit)

### FUSION 25 Strategies

In light of increasingly strict environmental regulations and soaring energy prices, we will expand our business by providing highly energy-efficient and differentiated products and solutions to all markets, including air-conditioning, heating, refrigeration, and ventilation. In particular, to capture the growing demand for heat pump heating, we aim to increase sales and market share by strengthening our sales and service networks and enhancing our supply capabilities by operating a new plant in Poland and ramping up the production capacity of our existing plants. Moreover, by developing low-GWP products and strengthening our ability to recover refrigerants, we will stand at the forefront of tomorrow's environmentally conscious society and industry.

## Asia and Oceania

### Business History

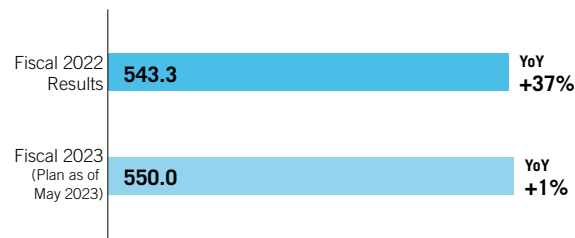
Daikin began product exports and knock-down production from the 1960s, and from the 1990s, it strengthened its sales network in countries around the region and advanced the introduction of energy-conserving and cooling-only models tailored to regional needs. From 2010 onward, air-conditioning demand 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 a growth market where air conditioners are becoming widely used. In fiscal 2022, demand remained steady in this region as economic activity resumed upon the containment of the COVID-19 pandemic. Demand also remained relatively strong in Oceania.

### Air Conditioning Business Sales (Asia and Oceania)

(Billions of yen)

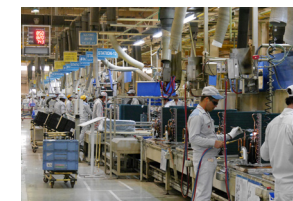


### Review of Fiscal 2022

Sales remained brisk especially in the commercial-use market as a result of the easing of COVID-19 restrictions. India saw a substantial growth in sales on the back of economic growth. Sales improved from the previous year in the region overall, thanks to the effects of selling price measures in various countries. In the residential-use market, sales declined in Thailand, Vietnam, and Indonesia due to sluggish consumption resulting from ongoing inflation and the impact of unseasonable weather, while sales grew significantly in India, owing to our success in strengthening relationships with dealers. In the commercial-use market, we achieved a substantial increase in sales, translating the steady demand into orders by providing extensive support to dealers, in light of a situation in which we began seeing improvements to the delays in the start of construction projects and the extensions to construction periods.

### Strategies for Fiscal 2023

In the residential-use market, we will introduce and promote the widespread use of cost-competitive inverter units in this region, particularly in Thailand, Vietnam, and Indonesia. In India, we will speed up the expansion of our sales network in regional cities while establishing a new plant in Sri City in the southern region of the country to enhance our supply capabilities. In the commercial-use market, we will concentrate on sales to hospitals, schools, and other markets where we see potential for growth. We will also look to take advantage of the recovery in demand by introducing new products that offer higher levels of energy-saving performance and ease-of-use.



Shop floor in India, where air-conditioning demand continues to rise

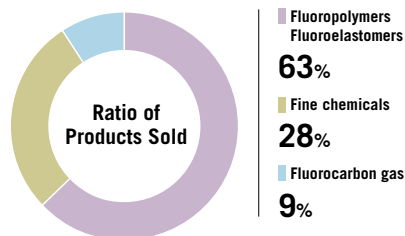
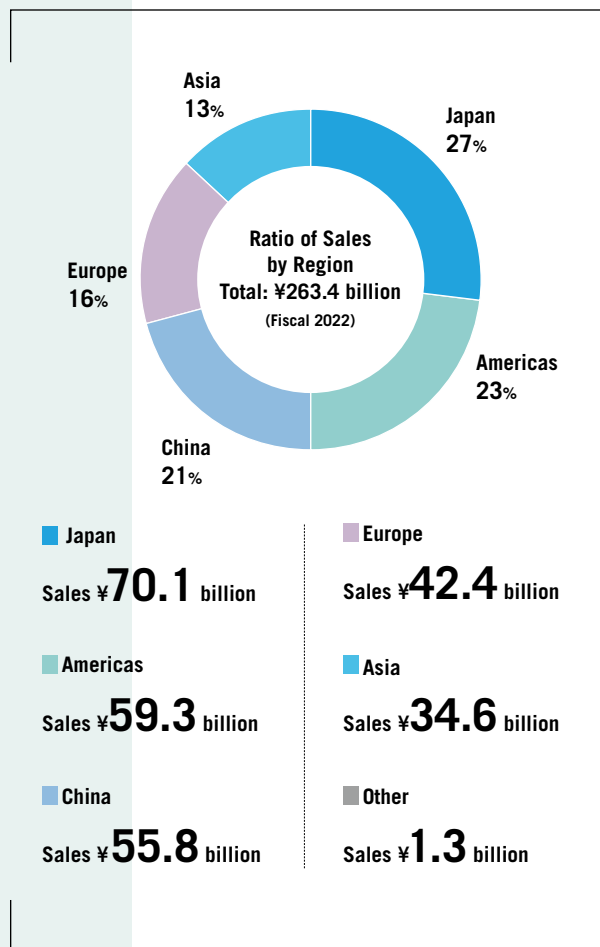
### FUSION 25 Strategies

In Asia, where the market will likely continue to grow, we will further enhance the cost competitiveness of our products and supply capabilities to strengthen our business foundation, while devoting our efforts to developing our sales network and enhancing our product lineups in a bid to expand our business even further. In India, we will strengthen our business foundation in the form of major development and production facilities through the establishment of our new plant in Sri City and the reinforcement of our R&D functions. We will expand our market share by tapping into the rapidly growing demand arising from the increase in the number of young middle-class and upper-class customers and the establishment of a power grid. Moreover, we will refine our advocacy activities to promote the use of inverter units and low-GWP refrigerants in markets, against the backdrop of the global movement toward decarbonization. We will help realize a greener environment while continuing to expand our business.



# 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.



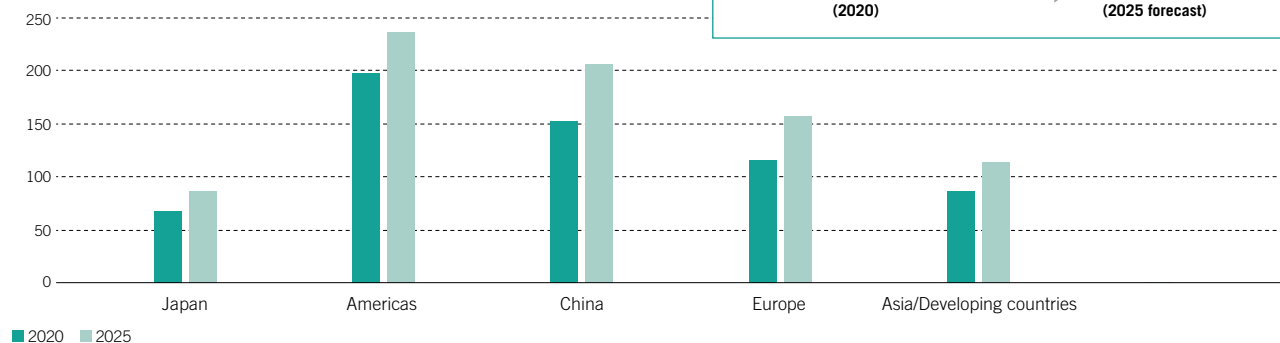
## Main Fields and Applications of Fluorine Chemical Products

Semiconductor	Automotive	Information and Communications / Devices
Wafer carriers (PFA) Chemical bottles/tanks (PFA) Piping fittings (PFA/PTFE)	Fuel hoses (Fluoroelastomers) Crankshaft seals (Fluoroelastomers) Fuel injection devices (Fluoroelastomers)	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) Food packaging materials (Oil resistant agent for paper)	Home roofs/external walls (ZEFFLE) Air conditioners (Fluorocarbon gas) Apparel (Water and oil repellents)

■ Fluoropolymers / Fluoroelastomers ■ Fine chemicals ■ Fluorocarbon gas

## Global Fluorochemicals Market (Daikin Estimates)

(Billions of yen)



## Chemicals

### Business History

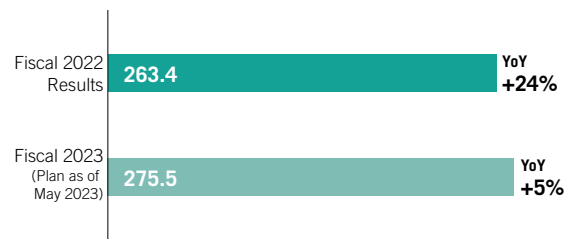
In 1933, Daikin became the first company in Japan to engage in the business of fluorochemicals and the Chemicals Business has evolved into one of the pillars of its operations ever since. Today, our activities range from R&D to applications development, and we offer a lineup of 1,800 fluorine compounds 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, EVs, information and communications technology, and new energy.

### Market Environment

As in the previous fiscal year, in fiscal 2022 demand was solid in a wide range of areas, particularly in the semiconductor and automotive sectors, despite some lackluster demand for chemical products.

### Chemicals Business Sales

(Billions of yen)



### Review of Fiscal 2022

Sales in the Chemicals Business improved substantially over the previous year, particularly in the semiconductor and automotive markets, where demand was favorable. Sales of fluorocarbon gas flourished mainly in Europe and Japan as we capitalized on the strong demand in these markets. Fluoropolymers saw sales grow in the semiconductor and automotive markets and the information and communications technology market, including local area network (LAN) cables, while sales also increased for fluoroelastomers in the automotive market, where demand remained solid. We also increased sales of fine chemicals mainly in Japan and other parts of Asia by taking advantage of the resurgence in demand for etching gas in the semiconductor market. Sales of surface antifouling coating agents improved in the Americas and Asia.

### Strategies for Fiscal 2023

While the growth of the semiconductor and automotive markets is on the decline, we intend to increase our sales and market share by bolstering our supply capabilities for high-performance materials at our production sites in the United States and China. In the automotive market, we will ramp up our application development for the cathode binders used in lithium-ion batteries and sealing materials in response to the rising demand for electric vehicles. In the textile and food product markets, we will introduce new non-fluorine water repellent agents and oil resistant agents that cater to sustainability needs. We will seek to differentiate ourselves from the competition by harnessing the superior performance and ease-of-processing of our chemical products.



Developing new solutions for lithium-ion batteries and eAxle systems for EVs

### FUSION 25 Strategies

Our business environment is changing at a pace beyond our expectations with the accelerated movement toward decarbonization across the globe and the increasing need for environmentally conscious materials that offer even higher levels of performance. Viewing these changes as an opportunity, we will seek to capitalize on them to expand our business by enhancing our development of environmentally conscious products and refrigerant recovery and recycling systems. We will also expand our line of high-performance, environmentally conscious materials by forming alliances and partnerships and conducting M&As. In key markets (semiconductor, automotive, and information and communications technology), we will funnel our efforts and resources into application development and enhance sales of high-performance products by leveraging the supply capabilities that we have honed through our business in the United States and China.

# Oil Hydraulics

Daikin's unique hydraulic technologies will contribute to the development of the industry by offering outstanding energy-conservation performance and 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

In hydraulic equipment for industrial machinery, demand was solid on a global level in the machine tools market. Demand was also steady for hydraulic equipment for construction machinery and vehicles, and it saw improvements from the previous year.

### Review of Fiscal 2022

In hydraulic equipment for industrial machinery, sales increased from the previous year on the back of sales growth in the domestic market—mainly in the area of machine tools—and contributions to sales improvements in Europe and the United States by Duplomatic MS Spa, an Italian hydraulic equipment manufacturer that we acquired during the fiscal year under review. Sales of hydraulic equipment for construction machinery and vehicles also improved from the previous year, mainly due to sales growth in the domestic and U.S. markets.

### Strategies for Fiscal 2023

In hydraulic equipment for industrial machinery, we will work together with Duplomatic MS to expand sales of hybrid products, make a full-scale entry into the European market, and ensure that we help protect the environment and expand our business in the process. In terms of our U.S. market, we will fine-tune our one-stop solutions to collectively address the needs for maintenance and engineering services. In hydraulic equipment for construction machinery and vehicles, we will aim to further expand our global market share by developing a variety of products that meet customer needs and set us apart from the competition.



Super Unit: A line of hydraulic power units that offer exceptional energy efficiency and high-precision pressure and flow rate

### 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 under the lead of Duplomatic MS and accelerate our 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, 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 number of long-term oxygen therapy patients surged from 2021 onward due to the effects of the COVID-19 pandemic but returned to pre-COVID-19 levels in 2023.

## Review of Fiscal 2022

In China, we improved sales of oxygen concentrators, which saw a drastic growth in demand due to the spread of COVID-19. In Japan, however, sales diminished from the previous year due to lower demand for oxygen concentrators and pulse oximeters (medical devices that can measure the level of blood oxygen saturation without, collecting blood), following the containment of the COVID-19 pandemic.

## Strategies for Fiscal 2023

Due to the tapering off of demand for medical devices that arose from the spread of COVID-19, we will look to expand our market share by introducing a new pulse oximeter model to medical institutions and developing new products that deliver outstanding levels of performance and cost competitiveness. In hypoxia generators, we will take measures to expand sales to fitness club operators and branch out into the office equipment market.



Daikin's new pulse oximeter model for medical institutions

## 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. We will make use of our oxygen control technology that has been cultivated through our development and production activities for oxygen concentrators to improve our sales of hypoxic systems and tap into markets outside of fitness clubs by promoting awareness of the health value we provide in low-oxygen settings. We also aim to provide health promotion services that incorporate biometric and environmental data into hypoxic training.



Hypoxia generators enhance physical performance by controlling the oxygen concentration in the air.

# Financial Highlights

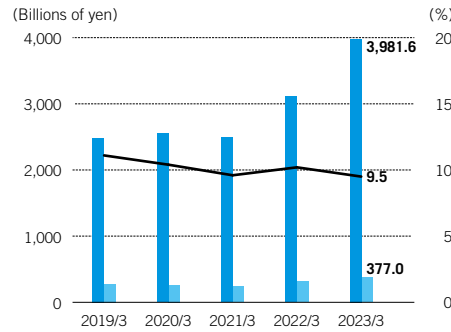
Daikin Industries, Ltd. and Consolidated Subsidiaries / For the Years Ended March 31

## Quantitative Targets of FUSION 25 Latter-Half Three-Year Plan

(Billions of yen)

	Fiscal 2022 Results	Fiscal 2025 Plan
1 Net sales	3,981.6	4,550.0
2 Operating profit	377.0	500.0
3 Operating profit ratio	9.5%	11%
4 ROE	12.3%	12%

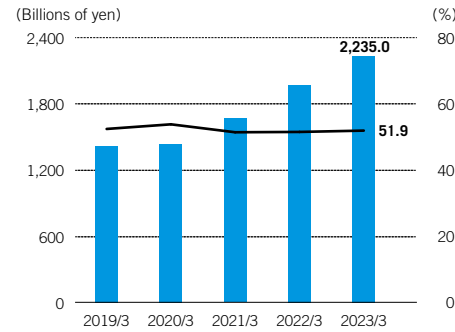
### Net Sales / Operating Profit / Operating Profit Margin



■ Net sales (left) ■ Operating profit (left)  
— Operating profit margin (right)

Amid the challenging business environment, which was marked by soaring raw material and logistics costs and increasing energy prices, we achieved substantial increases in both sales and profit by responding quickly to such changes and offsetting their negative impacts.

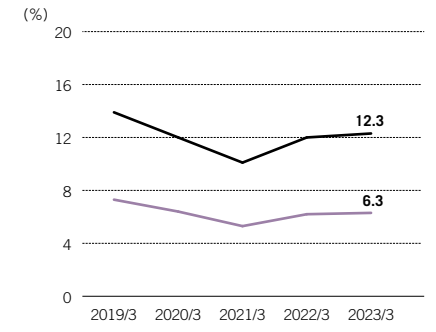
### Total Shareholders' Equity / Shareholders' Equity Ratio



■ Total shareholders' equity (left)  
— Shareholders' equity ratio (right)

Daikin's shareholders' equity ratio came in at 51.9% for fiscal 2022, exceeding 50% for the sixth consecutive year. The Company is taking positive steps to ensure its financial stability.

### ROE / ROA



— 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.

## Environmental and Social Value

Net CO<sub>2</sub> emissions reductions 2025 target (from BAU)  
**30% or more**

Contribute to circular use of resources

Free humankind from heat and cold

Connect directly with customers and address specific needs

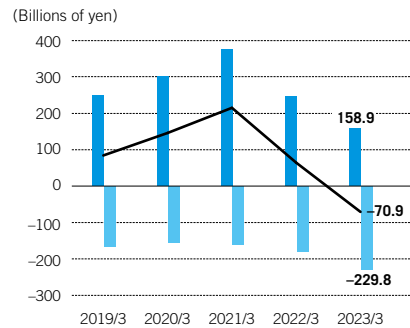
Offer safe, reliable, comfortable IAQ/AE

Contribute to reduction of food loss

Participate in international rule-making

Contribute to the growth of employees and local communities

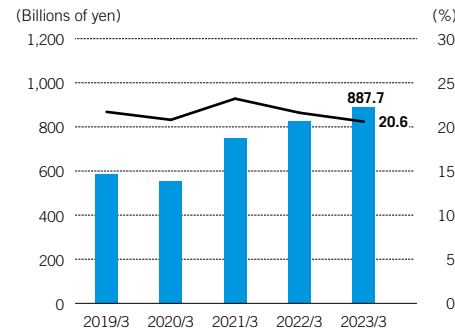
### Cash Flow



■ Net cash provided by operating activities  
■ Net cash used in investing activities — 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.

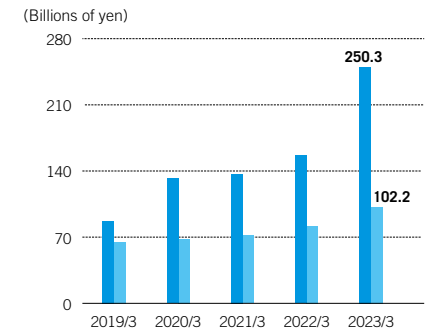
### Interest-Bearing Liabilities / Interest-Bearing Liability Ratio



■ Interest-bearing liabilities (left)  
— Interest-bearing liability ratio (right)

We are working to reduce the balance of interest-bearing liabilities by generating free cash flow and making effective use of Group funds. In fiscal 2022, interest-bearing liabilities increased from the previous year due to an increase in short-term borrowings, but the interest-bearing liability ratio decreased from 21.6% to 20.6% over the same period.

### Capital Investments / R&D Expenses



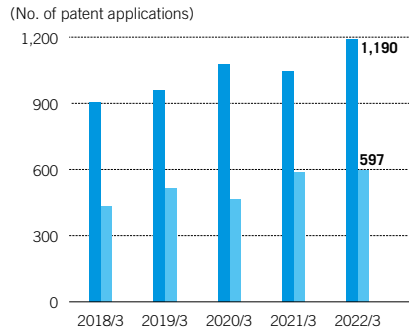
■ Capital investments ■ R&D expenses

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.

# Non-Financial Highlights

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

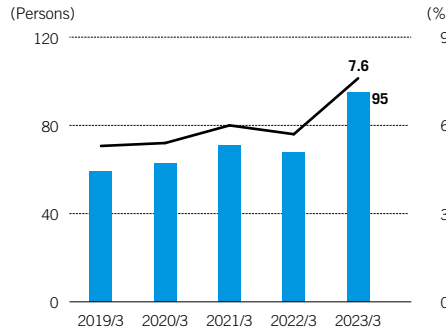
## Number of Patent Applications 5



Note: The latest figures are for the fiscal year ended March 31, 2022.

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.

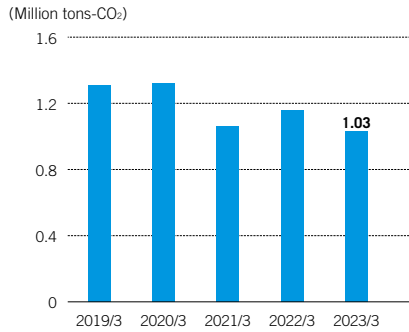
## Number and Percentage of Female Managers (Non-Consolidated) 8



■ No. of female managers (left)  
— Percentage of female managers (right)

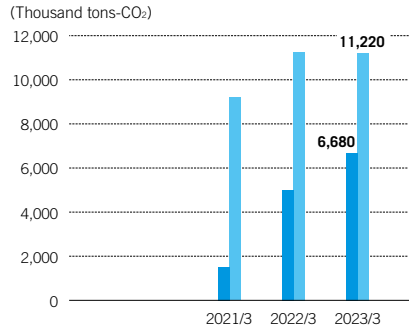
One of the Company's most important policies revolves around the empowerment of women in its workforce. Daikin is implementing various measures to accelerate the development of women in management and executive positions, change the mindset of men in management, and support the early return to work of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

## GHG Emissions (From Development and Production Processes) 6



Aiming to lower GHG emissions from our manufacturing processes (development and production) to 1.1 million tons-CO<sub>2</sub> (a 40% reduction from fiscal 2015 levels) by fiscal 2025, we were able to reduce GHG emissions to 1.03 million tons-CO<sub>2</sub> (a 43% reduction from fiscal 2015 levels) in fiscal 2022.

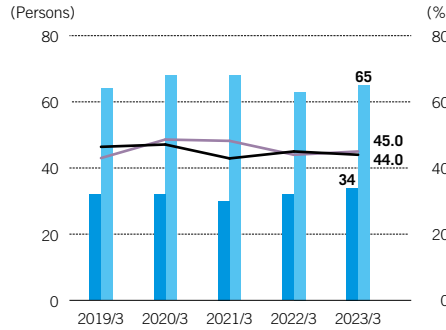
## Amount of Contribution to Emission Reduction\* 6 7



■ Contribution to GHG emissions reduction through the spread of air conditioners and heat pumps, hot water supply systems and refrigeration systems with lower emissions  
■ Contribution to GHG emissions reduction due to the use of R32 refrigerant in air conditioners and refrigeration systems by other companies as a result of the Daikin's offer of free access to the patents, and technical support, etc.

\* Calculated with F-gas recovery rate as 0%

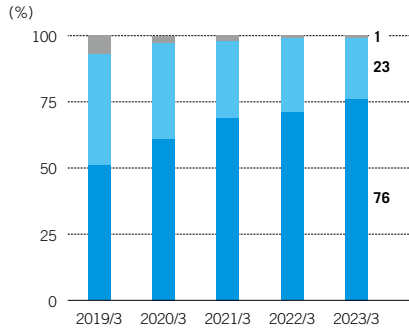
## Number and Percentage of Presidents and Executives of Overseas Bases Who Are Local Nationals 8



■ President (left) ■ Executive (left)  
— Percentage of presidents (right)  
— Percentage of executives (right)

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.

## Environmentally Conscious Products\* as a Percentage of Sales Volume (Residential-Use Air Conditioners) 6



■ Super Green Products ■ Green Products ■ Other products  
\* 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

## Key External Recognition

- Selected for inclusion in the MSCI ESG Leaders Indexes



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



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



- Selected as a leading global company for climate change measures in CDP's A List for climate change for the second consecutive year



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



FTSE Blossom Japan Index



FTSE Blossom Japan Sector Relative Index

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Daikin Industries, Ltd. has been independently assessed according to the FTSE Blossom Japan Index criteria and the FTSE Blossom Japan Sector Relative Index, and has satisfied the requirements to become a constituent of the FTSE Blossom Japan Index Series. The FTSE Blossom Japan Index Series is designed to measure the performance of Japanese companies that demonstrate strong Environmental, Social and Governance (ESG) practices. There are two indexes within the family, the FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index. The indexes are widely used by sustainable investment funds and for creating and evaluating financial products.

FTSE Russell website  
<https://www.ftserussell.com/>

- Received the highest ranking of S++ for Innovation and Market Expansion, and S+ for Human Resources Placement, and received 5 stars in overall ranking for the sixth consecutive year (deviation value of 70 and above), in the 6th NIKKEI Smart Work survey, conducted by Nikkei Inc.



# Eleven-Year Financial Highlights

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

(Millions of Yen)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Operating Results (for the year):</b>											
Net sales	¥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	<b>¥3,981,578</b>
Gross profit	388,046	568,323	649,902	711,576	730,935	798,829	868,923	884,898	864,136	1,057,338	<b>1,331,476</b>
Selling, general and administrative expenses	299,419	411,786	459,314	493,704	500,166	545,089	592,668	619,385	625,513	740,987	<b>954,443</b>
Research and development expenses*1	33,569	40,177	42,892	46,138	53,870	62,051	65,216	67,968	71,738	81,535	<b>102,208</b>
Operating profit	88,627	156,537	190,588	217,872	230,769	253,740	276,255	265,513	238,623	316,351	<b>377,033</b>
EBITDA*2	140,151	235,439	268,354	302,075	315,798	348,574	375,570	393,999	372,217	464,413	<b>559,257</b>
Net profit attributable to owners of the parent	43,585	92,787	119,675	136,987	153,939	189,052	189,049	170,731	156,250	217,710	<b>257,755</b>
<b>Cash Flows (for the year):</b>											
Net cash provided by operating activities	¥ 103,161	¥ 179,713	¥ 160,423	¥ 226,186	¥ 267,663	¥ 223,740	¥ 250,009	¥ 302,167	¥ 374,691	¥ 245,071	<b>¥ 158,897</b>
Net cash used in investing activities	(218,386)	(80,835)	(77,331)	(105,493)	(128,823)	(127,459)	(165,773)	(156,187)	(159,667)	(180,790)	<b>(229,794)</b>
Free cash flow*3	(115,225)	98,878	83,092	120,693	138,840	96,281	84,236	145,980	215,024	64,281	<b>(70,897)</b>
Net cash provided by (used in) financing activities	143,520	(38,249)	(83,073)	(85,422)	(73,544)	(93,955)	(68,721)	(169,934)	98,942	(48,698)	<b>(113,089)</b>
<b>Financial Position (at year-end):</b>											
Total assets	¥1,735,836	¥2,011,870	¥2,263,990	¥2,191,105	¥2,356,149	¥2,475,708	¥2,700,891	¥2,667,513	¥3,238,703	¥3,823,038	<b>¥4,303,683</b>
Total interest-bearing liabilities	705,871	693,944	662,413	608,981	609,430	554,371	585,642	553,807	751,213	824,874	<b>887,684</b>
Total shareholders' equity	618,118	801,854	1,024,725	1,014,409	1,111,636	1,296,553	1,416,075	1,434,968	1,664,729	1,968,727	<b>2,235,031</b>
<b>Per Share Data (yen):</b>											
Net income (basic)	¥ 149.73	¥ 318.33	¥ 410.19	¥ 469.23	¥ 526.81	¥ 646.53	¥ 646.39	¥ 583.61	¥ 533.97	¥ 743.88	<b>¥ 880.59</b>
Shareholders' equity	2,123.10	2,748.08	3,511.34	3,473.54	3,802.10	4,433.62	4,841.15	4,904.46	5,688.57	6,726.45	<b>7,635.27</b>
Free cash flow	(396)	339	285	413	475	329	288	499	735	220	<b>(242)</b>
Cash dividends	36.00	50.00	100.00	120.00	130.00	140.00	160.00	160.00	160.00	200.00	<b>240.00</b>
<b>Ratios (%):</b>											
Gross profit margin	30.06%	31.79%	33.94%	34.82%	35.76%	34.87%	35.02%	34.70%	34.66%	34.01%	<b>33.44%</b>
Operating profit margin	6.87	8.76	9.95	10.66	11.29	11.08	11.13	10.41	9.57	10.17	<b>9.47</b>
EBITDA margin	10.86	13.17	14.01	14.78	15.45	15.22	15.14	15.45	14.93	14.94	<b>14.05</b>
Return on shareholders' equity (ROE)	7.78	13.07	13.10	13.44	14.48	15.70	13.94	11.98	10.08	11.98	<b>12.26</b>
Shareholders' equity ratio	35.61	39.86	45.26	46.30	47.18	52.37	52.43	53.79	51.40	51.50	<b>51.93</b>

\*1 Research and development 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.

Notes:

1. 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.

2. 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.

3. Effective from April 1, 2022, the consolidated financial statements for the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022 have been revised in accordance with a change in accounting policy.

# Sustainability Targets and Results

We have established indicators and targets on the Company's material issues based on the results of our impact assessment in terms of Daikin and society and Strategic Management Plan FUSION 25.

	Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2022 Achievements	Explanation of Index
Value Provision Themes	<b>Environment</b> Introduce state-of-the-art technologies to the market in order to address environmental and energy issues	Reduce net GHG emissions throughout the entire lifecycle in an effort to achieve carbon neutrality by 2050	Reduce net GHG emissions throughout the entire lifecycle by <b>30%</b> or more in fiscal 2025 compared to BAU, with 2019 as the base year	Net GHG emissions from our own business operations	<b>14% reduction</b>	We measured the extent of reduction in net GHG emissions from our own business operations
			GHG emissions from manufacturing (development and production): <b>1.1</b> million tons-CO <sub>2</sub> in fiscal 2025	GHG emissions from manufacturing	<b>1.03 million tons-CO<sub>2</sub></b> (43% reduction compared to fiscal 2015)	We measured how much we reduced GHG emissions generated from product manufacturing and other processes
	<b>Value with Air</b> We will contribute to healthy and comfortable living using the power of air	Focus on businesses that help control air pollution and infectious diseases to provide a safe, reliable, healthy and comfortable air environments	Net sales of IAQ/Ventilation business: <b>¥380</b> billion in fiscal 2025	Net sales of IAQ/Ventilation business	<b>¥294 billion</b>	We used net sales to measure the extent to which we provide safe, reliable, healthy and comfortable air environments
			<b>Customer Satisfaction</b> Provide peace of mind and reliability through a focus on customer orientation, experience, performance, and advanced technologies	Elevate customer value by connecting with customers and providing detailed proposals in response to the needs of each vertical market	Net sales of the Air Conditioning Solutions business: <b>¥870</b> billion in fiscal 2025	Net sales of Air Conditioning Solutions business
	<b>Human Resources</b> Respect individual personalities and values, and maximize the potential of each employee so that they can benefit Daikin and society as a whole	Strengthen human resource capabilities by deepening diversity management	Establish service network covering all regions worldwide		Customer satisfaction with after-sales services	Japan: <b>1.15</b> China: <b>1.01</b> India: <b>1.22</b> France: <b>1.00</b>
			Maintain and increase the development of global leaders	Number of persons participating in executive management and leadership development programs	Held in regions around the world including North America and Asia. There were <b>58</b> participants in the Group's next-generation leadership development program	We measured the number of participants in executive management and leadership development programs as an indicator for measuring the development of executive management and leadership globally
			Ratio of excellent skilled engineers and advanced skilled engineers in strategic engineering positions: <b>1</b> in <b>4</b> in fiscal 2025	Ratio of excellent skilled engineers and advanced skilled engineers in strategic engineering positions	<b>1</b> in <b>8.0</b> employees	We measured the number of persons developed with advanced engineering skills and knowledge and who can lead manufacturing
			Increase percentage of female managers	Number of female managers	<b>95 employees (7.6%)</b> (Daikin Industries, Ltd. only)	We measured the number of female managers and percentage of overseas bases where local nationals are president as indicators for measuring employee diversity
			Maintain and increase percentage of overseas bases where local nationals are president	Percentage of overseas bases where local nationals are president	<b>44%</b> (overseas bases)	
	Frequency rate of lost work time accidents: <b>0</b>	Frequency rate of lost work time accidents	<b>1.35</b>	We measured whether production bases are operating safely		
<b>Co-creation</b> We will combine people, knowledge, and information from around the world to create social value	Collaborate, partner, and combine efforts with other companies, universities, and research institutes to achieve manufacturing and also to create experiences of new value for society	R&D expenditure <b>¥390</b> billion from 2023 to 2025	R&D expenditure	<b>¥102.2 billion</b>	We measured the investment amount for value creation	
		Promotion of industry-industry and industry-academia collaboration	Number of cases of industry-industry and industry-academia collaboration	<b>9</b> industry-industry and <b>128</b> industry-academia cases (Daikin Industries, Ltd. only)	We measured the number of cases of industry-industry and industry-academia collaboration	



## Sustainability Targets and Results

	Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2022 Achievements	Explanation of Index	
Foundational Themes	S	Respect for Human Rights	Show respect for basic human rights in accordance with all international norms based on the laws and regulations of each country and region	Thoroughness of respect for human rights and implementation of human rights due diligence	Self-assessment* implementation rate	99%	We measured how thorough we were in respect for human rights through the implementation rate of self-assessments.
		Supply Chain Management	Build a robust and resilient supply chain that minimizes risk	Increase Class A CSR procurement achievement rate among all suppliers	Class A CSR procurement achievement rate	75%	We measured the ratio of suppliers who satisfied Daikin's Class A in-house standards to total procurement value.
		Stakeholder Engagement	Respond appropriately to society's needs and expectations through two-way communication	Engage in dialogue with stakeholders and reflect this dialogue into management	Number of air conditioner forums held, number of outside participants	Held 8 times around the world with a total of 130 people, including university professors and specialists from 33 countries taking part	We measured the number of dialogue sessions with experts around the world related to our core business of air-conditioning.
		Communities	Create strong bonds with communities as a good corporate citizen	Contribution to environmental conservation, education support, and cooperation with the local community	Expenditure for social contribution activities	¥1.8 billion	We calculated the monetary amount, through donations, goods, and other ways, that we provided to communities.
	G	Corporate Governance	Accelerate decision-making and operational execution in response to management tasks and the changing management environment, and raise the level of management transparency and soundness to raise corporate value	Degree of independence from the company, diversity, and transparency of the Board of Directors	Number of directors who are outside the company, women, and foreign nationals	4 external directors, 1 female director, 1 foreign national director among the 10 directors (Daikin Industries, Ltd. only)	We measured the diversity of the make-up of directors.
				Appointment of female officers from inside the company: 1 or more in fiscal 2025	Number of female officers appointed from inside the company	1 (Daikin Industries, Ltd. only)	We measured the appointment of female officers from inside the company.
		Risk Management	Support the Group's sound development	Strengthen appropriate and smooth risk management capabilities	Number of meetings of the Corporate Ethics and Risk Management Committee and regional legal and compliance committees	Held committee meetings twice and 4 times, respectively	We measured the number of meetings as a way to ensure thorough implementation of policies globally.
	Compliance	Strengthen and upgrade global legal and compliance systems		Self-assessment* implementation rate	99%	We measured the implementation rate of self-assessment as a way to foster compliance awareness among each and every employee.	

\* Self-assessment refers to a self-check system for verifying the status of compliance with the Group Conduct Guidelines.



IR team members

## On Publishing the Integrated Report 2023

Daikin 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'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 14–15) and Daikin's Unique Business Model (pages 16–17). Risks and Opportunities That Affect Medium- to Long-Term Value Creation (pages 18–19), 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.

In Overview of Strategic Management Plan FUSION 25 (pages 20–21), we provide an overview of our FUSION 25 Latter-Half Three-Year Plan, formulated in 2023 based on the progress of the first two years of FUSION 25, which was launched in fiscal 2021, and the changes in our external business environment over this period. 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 we 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 Daikin's corporate value. For more detailed information, please refer to our website.

## 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



Financial Results



Brief Report on the Settlement of Accounts

### 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



Corporate Governance Report



Sustainability Report

# Company Overview / Investor Information (As of March 31, 2023)

**Company name** Daikin Industries, Ltd.

**Head office** Osaka Umeda Twin Towers South,  
1-13-1, Umeda, Kita-ku, Osaka,  
530-0001, Japan  
Tel: 81-6-6147-6864  
Note: Our head office has relocated from Umeda Center Building,  
2-4-12, Nakazaki-Nishi, Kita-ku, Osaka, to the above address  
as of November 24, 2022.

**Tokyo office** Tokyo Midtown Yaesu—Yaesu Central Tower,  
2-2-1, Yaesu, Chuo-ku, Tokyo,  
104-0028, Japan  
Tel: 81-3-3520-3000

Note: Our Tokyo office has relocated from JR Shinagawa East  
Building, 2-18-1, Konan, Minato-ku, Tokyo, to the above  
address as of May 10, 2023.

**Fiscal year-end date** March 31

**Date of founding** October 25, 1924

**Paid-in capital** ¥85,032 million

**Number of subsidiaries and affiliated companies** Consolidated subsidiaries: 347  
Affiliates: 16

**Number of employees** 96,337 (Consolidated)

**Total number of authorized shares** 500,000,000

**Total number of shares issued** 293,113,000

**Number of shareholders** 34,195

**Shareholder register administrator** Mitsubishi UFJ Trust and Banking  
Corporation, 4-5, Marunouchi  
1-chome, Chiyoda-ku, Tokyo

**Ordinary General Meeting of Shareholders** June

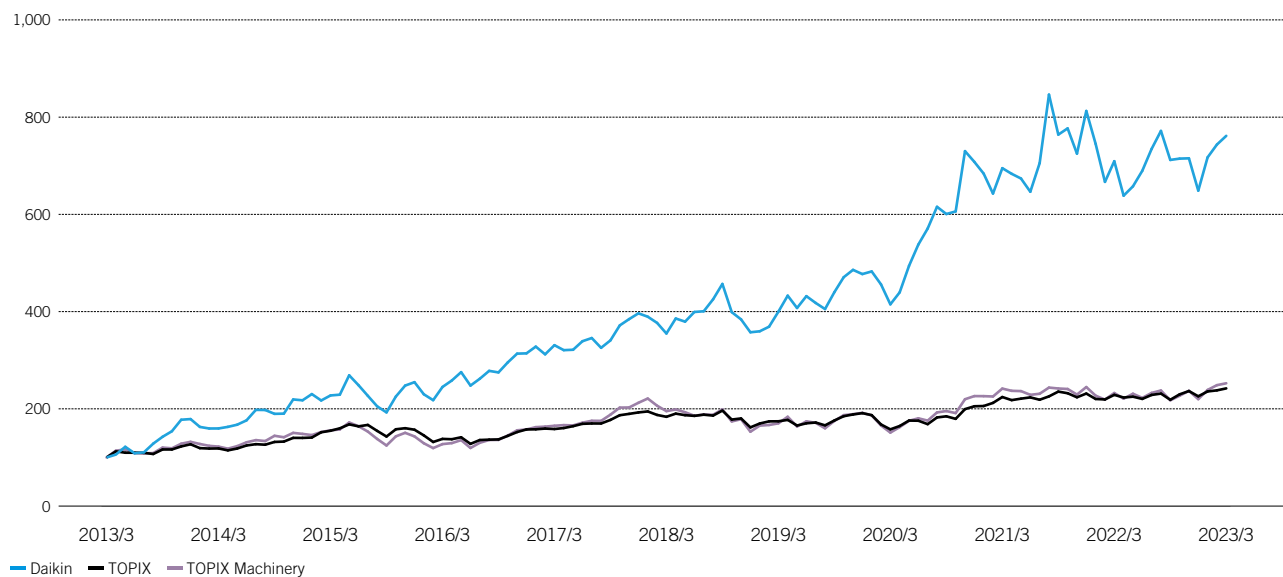
**Auditor** Deloitte Touche Tohmatsu LLC

## Major Shareholders (10 Largest by Shareholding)

Shareholder	No. of shares held (thousand shares)	Shareholding ratio* (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	57,277	19.57
Custody Bank of Japan, Ltd. (Trust Account)	23,389	7.99
JP Morgan Chase Bank 385632	9,014	3.08
Sumitomo Mitsui Banking Corporation	8,500	2.90
Custody Bank of Japan, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank	4,999	1.71
MUFG Bank, Ltd.	4,627	1.58
Custody Bank of Japan, Ltd. (Trust Account 4)	4,530	1.55
SSBTC CLIENT OMNIBUS ACCOUNT	4,504	1.54
State Street Bank West Client-Treaty 505234	4,279	1.46
SUMITOMO LIFE INSURANCE COMPANY	3,595	1.23

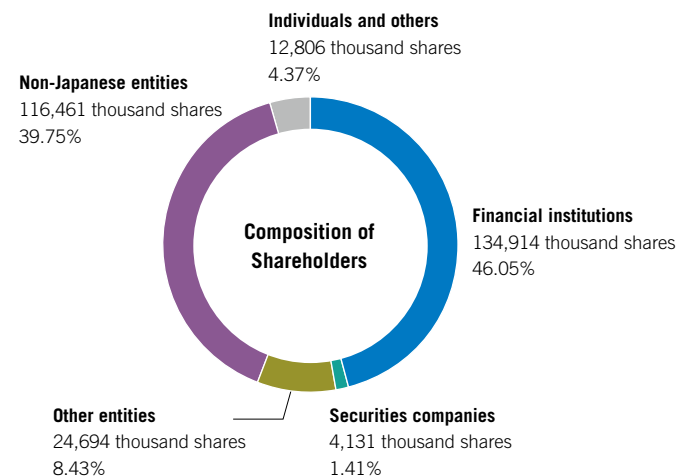
\* Based on the total number of shares issued excluding treasury stock

## Total Shareholder Return



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, 2013 as a base of 100 (holding period up to March 31, 2023).



Note: Treasury stock of 384,541 shares is included in "Individuals and others." Shares have been rounded down to the nearest thousand shares.



**Daikin will celebrate its 100th anniversary in 2024.**