

[Translation]

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**Daikin Industries, Ltd.**

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TSE Securities Code: 6367

<https://www.daikin.co.jp>

[English website: <https://www.daikin.com>]

## **Daikin Industries Corporate Governance**

### **I. Corporate Governance Philosophy, Capital Structure, Corporate Attributes, Other Basic Information**

#### **1. Basic Philosophy**

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

We strive to improve our current integrated management framework, under which directors assume responsibility for both business execution and management. In this way, we fulfill our responsibility for management, making strategic decisions quickly and providing appropriate supervision. We also seek to improve the monitoring function conducted by third parties, including multiple external directors.

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

#### **Main Points of Corporate Governance**

- 1) Increase the speed of management decisions and action through our integrated management framework. Under this framework, directors work together in assuming responsibility for management and execution in response to the increasingly complex and wide-ranging management issues and key group-wide challenges we face.
- 2) Implement an executive officer system aimed at increasing speed through independent

assessments and decisions conducted in each business, region, and function of Daikin. Under this system, officers engage in speedy, strategic decision-making and sound management. The number of officers maintained is well suited to carrying out appropriate debate and decision-making on all issues. We have at least four external directors at all times. Currently, the board of directors consists of 10 members, including four external directors (including one female) and one non-Japanese director.

- 3) The Group Steering Meeting is the highest deliberation organ in our management system. The role of this meeting is to speed the pace at which Daikin decides future direction and solves issues related to important management policy and strategies. The Group Management Meeting aims to ensure a unified opinion on all corporate action. We accomplish this by sharing major group management policy and basic strategy, and by better supporting Daikin Group companies in solving their problems. The Group Auditors Meeting strengthens auditing and control functions throughout the group, including those at overseas subsidiaries. This meeting ensures these functions are working effectively.
- 4) The Chief Global Group Officer leads efforts to strengthen the unifying force of the Daikin Group. This officer is responsible for enhancing corporate governance and the organizational management of Daikin as a multinational company.
- 5) The HRM Advisory Committee and 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 and compensation for officers.

## **【Reasons for not implementing the principles in the Corporate Governance Code】**

### **[2.4 Ensuring diversity within the company, including the promotion of female participation and career advancement in the workplace.]**

#### **2.4.1**

Our company judges the promotion to executives and managerial position based on fair assessment of competence and achievements of each employee. Recognizing that the percentage of managerial position occupied by women is low compared to men and that our effort is halfway in establishing the corporate culture in which potential is demonstrated regardless of gender, we will set specific goals and action plan for promoting participation and advancement of women.

Although we do not set specific goals for foreign nationals and midcareer hires, there is no particular difference in promotion to executives and managerial positions and we are able to secure diversity.

Details are described in this Report “I. 1. Disclosure based on each principle of the Corporate Governance Code.”

## **【Disclosure based on corresponding principles in the Corporate Governance Code】**

### **[1.4 Cross-Shareholdings]**

#### **■ Policy for cross-shareholdings and actions of the board of directors**

As our business becomes more complex and wide-ranging, alliances and partnerships with other organizations in various fields become more important for growth. We have determined it appropriate to hold shares of companies whose corporate value we expect to increase. This policy is the result of a strategic decision to engage in alliances and partnerships to grow our business quickly and to build our corporate value over the medium and long term.

The board of directors conducts a comprehensive review for each instance of cross shareholding to ensure original objectives are being met, carefully investigating the benefits and risks of each holding considering cost of capital and strategic aspects mentioned above. Based on these reviews, we intend to reduce any cross-holdings not deemed appropriate.

#### **■ Standards for exercise of voting rights**

We exercise voting rights based on a standard increasing corporate value in the medium and long term, as well as whether the company in question respects the interests of its shareholders.

## **[1.7 Related-Party Transactions]**

Daikin requires management and employees to comply with the procedures specified in the Companies Act and internal regulations regarding conflicts of interest with directors. These procedures include timely resolution and reporting in board of director meetings. Our Group Philosophy also states that we observe all applicable laws and regulations in each country, we take action based on a high standard of ethics, and we conduct our business based on principles of fair competition. We apply this same policy to our transactions with business partners who are also major shareholders.

## **[2.4 Ensuring diversity within the company, including the promotion of female participation and career advancement in the workplace.]**

### **2.4.1**

#### 1. Securing diversity

With “the cumulative growth of all Group members serves as the foundation for the Group’s development” set forth in our Group Philosophy, our company has absolutely stuck to our conviction that the source of competitiveness is its people and there can be nothing other than people to bear reforms. Today our company operates in over 170 countries throughout the world and has overseas sales ratio of 83%. Overseas employees account for more than 80% of the Group’s approximately 96,000 employees. Amid rapid business expansion through global alliances, partnerships and M&As and diversified members and values that make up an organization, we are executing our unique diversity management that leads to creating innovation and enhance the Group’s overall strength and competitiveness by leveraging the “nail that sticks out,” and individuality and strengths of each people, regardless of nationality, age, gender, sexual orientation, gender identity, disability, periodic and mid-career hires, etc.

#### (i) Promotion of women to executives and managerial positions

As for the promotion of women’s participation and career advancement in the workplace, based on the policy of “fostering motivated and talented employees by putting them in challenging situations, promoting proven employees to executives and managerial positions through fair assessment regardless of gender,” we launched a project that reports directly to top management in 2011 and now implementing various measures with a focus on accelerating the development of female executives and managers, changing the mindset of male managers, and helping employees make a smooth transition back to the workplace following childcare leave.

In fiscal April 2023 the number of female managers were 95, about 5 times higher than in

fiscal 2011 and in June 2021 the first female executive officer was appointed from within our company.

With 120 female managers by the end of fiscal 2025 set forth as our ideal image, we will further promote active participation of women by continually executing measures that include Female Leader Development Program and Sponsor and Mentor System for candidates of managers and leaders, and Career Enhancement Support Program in which employees on childcare leave can attend classes in Osaka University.

(ii) Promotion of foreign nationals to executives and managerial positions

Our company promotes globalization of management in line with the progress of globalization of business operations and proactively promotes local employees to local management executives. Furthermore, as measures to develop managers to whom management of the Group and each base can be delegated, we hold the Global Leadership Development Program for managers of global bases. In fiscal 2022, 44% of overseas bases have local nationals as presidents and 45% have local nationals as directors and thus continue to promote foreign nationals to managerial positions.

In addition, our company recruits and develops outstanding personnel from employees locally hired by overseas companies to promote them to managerial position of Daikin Industries, Ltd. (the Group headquarters).

We will continue to accelerate developing local senior managers and promote excellent personnel, regardless of nationality, to senior management positions with an approach of appointing the right person in the right place.

(iii) Promotion of midcareer hires to executives and managerial positions

Our company regards midcareer hires to be "ready for action" and continually hires 50 to 100 people each year with an expectation that they play an active role in executive and managerial positions in the near future.

After joining our company, employees are assessed fairly on their competence and achievements, regardless of new graduates or midcareer hires to be promoted to managerial positions. As a result, the percentage of midcareer hires in managerial positions was about 30% in fiscal 2022.

We will continue to establish an environment in which employees of all form of employment are able to demonstrate their maximum potential and make efforts in reinforcing corporate competitiveness.

Please refer to our Sustainability Report for more information regarding our initiatives to ensure diversity in our workplace.

Sustainability Report

<https://www.daikin.com/csr/report>

2. Policies on human resource development and establishing internal environment for securing diversity and the status of implementation

Our company sets forth “the cumulative growth of all Group members, regardless of nationality, age and gender, serves as the foundation for the Group’s development” as one of the principles of Our Group Philosophy.

Based on the belief that people grow through work experiences, while we fundamentally develop our human resources based on OJT, through which each person is given the job and challenges most suitable to them according to their aptitude, we are making efforts to enhance opportunities for development including offering off-the-job training (off-JT) with which we supplement OJT, such as the Daikin Leadership Development Program for executives who will work on the front line of our business, Overseas Base Practical Training for fostering young, globally-minded employees.

We also value work life balance for employees and thereby introduced a range of systems and established environment so that each employee can realize diverse workstyle, such as introduction of flexible work systems, creating an work environment where employees, both men and women, can be active in their work maintaining a balance between work and child-bearing, and systems for family care leave and adjustment of working hours for family care.

Please refer to our Sustainability Report for more information regarding our initiatives on human resource development.

Sustainability Report

<https://www.daikin.com/csr/report>

#### **[2.6 Initiatives to Hire Individuals Qualified in Pension Plan Management]**

Daikin has established the Pension Fund Management Committee, chaired by a director in charge of accounting and finance who is well-versed in asset management. This committee provides basic rules related to the management of funds and determines policies for plan asset composition to ensure the plan achieves goals necessary for the sound maintenance of a pension plan. The committee deliberates and determines the selection of investment vehicles and investment managers, utilizing the expertise of external advisors. The committee also conducts regular monitoring of the status of investment management.

### **[3.1 Full Disclosure]**

- (i) We have published our Group Philosophy and five-year strategic management plan Fusion 25 covering fiscal 2021 through fiscal 2025 on our website. In 2023, we also formulated the second half of Fusion 25, covering the three-year period of fiscal 2023 to fiscal 2025.

Group Philosophy

<https://www.daikin.com/corporate/overview/philosophy>

Strategic Management Plan Fusion 25

<https://www.daikin.com/investor/management/strategy/fusion25>

- (ii) For our basic views on corporate governance, see *I. 1. Basic Philosophy* in this report.

- (iii) Board policies and procedures in determining the remuneration of senior management and directors:

- (iv) Board policies and procedures in the appointment and termination of the senior management and the nomination of director and Audit and Supervisory Board member candidates:

Daikin operates a HRM Advisory Committee chaired by an outside director. This committee examines and investigates the appointment and dismissal of directors, the CEO, executive officers, etc. The Company's Compensation Advisory Committee, chaired by an outside director, examines and investigates remuneration principles and programs for directors, executive officers, and others. These principles and programs are subsequently deliberated and adopted by the board of directors. For details, please refer to *II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems* in this report.

- (v) Regarding the selections of senior management and the appointment of candidate of directors and members of the Audit and Supervisory Board by the board of directors, the securities report and the convocation notice of the ordinary general meeting of shareholders describe individual expertise and reasons for selection for external directors or members of the Audit and Supervisory Board, and individual reasons for selection are detailed in "II 1. [Director Relationships] and [Audit and Supervisory Board Member Relationships]" in this report. The securities report and the convocation notice

of the ordinary general meeting of shareholders describe individual expertise for directors and members of the Audit and Supervisory Board from among Daikin employees, and individual reasons for selection are detailed in the convocation notice of the ordinary general meeting of shareholders. We will continue to provide more detailed explanations.

### **3.1.3**

Daikin sets the direction of Group development every five years through our strategic management plan Fusion based on our Group Philosophy, which is our basic management approach. We additionally identify key sustainability topics, with a particular emphasis on the topic of the environment (climate change).

Air conditioning, our core business, contributes to people's health by preventing heat stroke and improving air quality. It also contributes to economic development by improving labor efficiency, but its widespread use also increases electricity consumption and affects global warming. According to the International Energy Agency (IEA), the global demand for air conditioning in 2050 is expected to more than triple from the current level as emerging countries develop. Our social mission is to reduce the impact of global warming in the future while providing safe, healthy and comfortable air-conditioned environment through our business.

In 2018, we formulated our Environmental Vision 2050, which aims to achieve virtually zero greenhouse gas emissions by 2050. And in 2019, we endorsed the Task Force on Climate-related Financial Disclosure (TCFD) Recommendations to reduce the risk of instability in the financial markets due to climate change. In 2021, we formulated a strategic management plan, Fusion 25, that targets 2025 as the year by which we contribute to a sustainable society and Group growth.

We have set three growth strategy themes: "Challenge to achieve carbon neutrality," "Promotion of solutions business connected with customers," and "Creating value with air." To achieve virtually zero greenhouse gas emissions by 2050, we aim to reduce real emissions by 30% or more in 2025 and by 50% or more in 2030, compared to BAU(\*) values based on fiscal 2019 standards. Furthermore, we reset our goal for achieving virtually zero greenhouse gas emissions at all Daikin factories, except for chemical, by 2030 in the second half of Fusion 25 formulated in 2023, the interim year.



\*BAU: Abbreviation for Business as Usual. In this case, it refers to the amount of emissions that will be produced the business is allowed to grow without implementing any countermeasures.

Please refer to our Sustainability Report for more information regarding the TCFD framework and climate change.

Sustainability Report

<https://www.daikin.com/csr/report>

<Investment in Human Resources>

In order for us to continue to achieve sustainable growth and enhance our corporate value amidst drastic changes in the external environment, our work force, who are the key players in our corporate activities, are of the utmost importance.

In addition to further refining the diversity management that we have put into practice, we believe that it is essential to focus not only on visible attributes such as gender, nationality, and age, but also on diverse backgrounds, work experiences, work styles, and values, and to turn those into advantages for the organization.

To this end, we have designated “Improving human resources capabilities through advanced diversity management” as one of the themes for strengthening our management foundation in our strategic management plan Fusion 25. We will continue to secure, allocate, and develop the human resources who will be the leaders of Fusion 25. At the same time, we will accelerate the creation of an organization that can generate innovation by increasing the power of a diverse work force inside and outside the company and turning it into the power of a team.

For example, the Company is proactively investing in human resources by implementing training programs at all levels to continuously develop global business leaders, establishing the Daikin Information and Communications Technology College to develop talent in the AI and IoT fields, and creating new value by developing our work force and incorporating diverse expertise and experience through strengthened cooperation with various universities. In addition, we are striving to develop highly skilled personnel on a global scale through initiatives such as the Technical Olympics and the Technical Training Forum to improve the technical skills that form the basis of manufacturing, and by focusing on the development of personnel who can pass on their skills.

Please refer to I 1. Disclosure Based on the Principles of the Corporate Governance Code Supplementary Principle 2.4.1 of this report as well as our Sustainability Report for more

information regarding our human resource investment and development efforts.

Sustainability Report

<https://www.daikin.com/csr/report>

#### <Investment in Intellectual Property>

In order to advance the strategic growth themes, such as " Challenge to achieve carbon neutrality," " Promotion of solutions business connected with customers," and " Creating value with air " in Fusion 25, our strategic management plan, we will not only invest in the development and manufacture of air conditioning products, which is one of our strengths, and in the further advancement of our core technologies, such as fluorochemicals and refrigerants, but also in the development of technologies that will support the creation of new businesses.

In order to turn the results of these investments in technology development into more valuable intellectual property, we are working to enhance our intellectual property portfolio to support our global business, while strengthening our intellectual property systems in Japan and overseas. In addition, by effectively utilizing intellectual property rights in line with business trends, we are striving to increase the value of our intellectual property and, by extension, our corporate value.

In particular, with regard to environmental technologies, we believe that it is important to have an intellectual property strategy that contributes to the sustainable development of society. For example, we made a pledge of non-exercise of rights to release, worldwide, free of charge, a patent that is crucial for the use of R32, a refrigerant used in air conditioners that contributes to the reduction of environmental impact. This led to the expansion of the market for air conditioners equipped with R32. We will continue to develop technologies that contribute to the reduction of environmental impacts, and to acquire and utilize intellectual property rights.

In addition, the Company pays appropriate compensation for employee inventions and has established the "Effective Patent Incentive System" as an incentive towards the creation of outstanding inventions and designs to promote the creation of intellectual property.

We will continue to promote the acquisition and utilization of intellectual property rights globally for technologies that support our business development, including technologies related to the above growth strategy themes.

Please refer to our Sustainability Report as well as the following website for more information regarding our efforts on intellectual property.

Sustainability Report

<https://www.daikin.com/csr/report>

Daikin Intellectual Property Group HP

<https://www.daikin.com/corporate/ip>

#### **[4.1 Roles and Responsibilities of the Board(1)]**

##### **4.1.1**

The board of directors resolves matters prescribed according to board of director meeting regulations: 1) Matters specified in the Companies Act, the company's Articles of Incorporation, and other laws and regulations; 2) Matters delegated based on the resolution at a general meeting of shareholders; and 3) Other important management matters as specified under board of directors meeting regulations.

Executive directors and executive officers have responsibility for business execution, while the board of directors has responsibility to supervise business execution.

#### **[4.8 Effective Use of Independent Directors]**

The board of directors consists of 11 persons, four of whom are independent directors. Independent directors provide appropriate supervision and advice when the board of directors makes decisions. Independent directors also ensure that the board functions adequately to increase corporate value.

#### **[4.9 Independence Standards and Qualification for Independent Directors]**

As published in our securities report, decisions on nominations of independent director candidates are based on standards mainly for senior management of a publicly listed or equivalent company, the aim of which is to have such individuals participate in decision-making and supervision of management from an outside independent and neutral standpoint reflecting a wide-ranging and advanced perspective based on a wealth of experience and deep knowledge. The Company has not determined rules regarding standards and policies related to the independence of outside directors and outside members of the Audit and Supervisory Board; however, the Company makes such determinations in reference to the standards and regulations of the Tokyo Stock Exchange regarding independent directors. Daikin independent directors fulfill the requirements of Tokyo Stock Exchange, and we file the status of our independent directors with the Tokyo Stock Exchange.

#### **[4.10 Adoption of voluntary mechanisms]**

##### **4.10.1**

The HRM Advisory Committee and the Compensation Advisory Committee deliberate upon the fairness and appropriateness of the election and dismissal of directors and the remuneration of directors. Each committee is chaired by an outside director, and the majority of the committee members are outside directors. This is to ensure transparency of management and to improve accountability. For details, please refer to II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems in this report.

#### **[4.11 Preconditions for Board of Directors and Audit and Supervisory Board Effectiveness]**

##### **4.11.1**

The Daikin business continues to grow globally in an ever-changing business environment. Accordingly, we seek an optimal balance for our board of directors when nominating directors. We take into consideration not only the candidate's knowledge, experience, and expertise, but also the diversity represented in their backgrounds, including nationality, gender, and career.

For procedures related to the nomination of directors, please refer to *II. 2. Matters on Functions Related to Business Execution, Auditing and Supervision, Appointments, and Remuneration Decisions (Overview of Current Corporate Governance System)* in this report.

The experience and expertise of each director is described on the last page of this report under [Skill set of our company's board of directors: experience and knowledge of each director].

##### **4.11.2**

A board resolution is required any time a nominated director or member of the Audit and Supervisory Board also serves as an officer of another company. This resolution is a rational determination as to whether the individual has the ability to devote sufficient time and effort required of their roles and responsibilities at Daikin. Positions concurrently held by directors and members of the supervisory and audit committee are disclosed in the annual convocation notice of general meeting of shareholders.

### **4.11.3**

The board of directors analyzes and evaluates the effectiveness and appropriateness of the board of directors itself and the corporate governance system through yearly interviews with directors and Audit and Supervisory Board members and board meeting deliberations. The board of directors makes appropriate decisions based on open and active discussions, performing an effective role in increasing corporate value over the medium and long term.

The fiscal 2022 evaluation of effectiveness confirmed there are no management issues and, at the same time, offered opinions to further advance the board of directors. Going forward, we will make efforts to improve effectiveness by advancing the management of the board as well as their decision-making and supervisory functions.

<FY2022 Key Initiatives>

- Enhance deliberations on cross-group strategies and issues, such as the medium-term management plan
- Enhance deliberations on the status of business executions, such as risk responses and sustainability
- Enhance information sharing with outside directors

## **[4.14 Training for Directors and Audit and Supervisory Board Members]**

### **4.14.2**

When appointed, directors and members of the Audit and Supervisory Board are provided opportunities to learn and update their knowledge to fulfill their roles and responsibilities as appropriate. We provide opportunities for outside officers in particular to understand the Daikin Group philosophy, business, financial status, organizational structure, etc. upon appointment and as necessary.

We also provide group training regularly and consistently for confirmed board members. This training is conducted by third parties to discuss timely topics beneficial for corporate management. These topics include laws and regulations, accounting, product safety, knowledge related to company's business, finance, organizational structure, etc.

## **[5.1 Policy for Constructive Dialogue with Shareholders]**

### **■ Basic policy**

Our Group Philosophy states that we strive to enhance our accountability and the timely and appropriate disclosure of information. We hold constructive and timely dialogue with shareholders to help shareholders and investors understand our policies, approach, and

corporate culture.

■ Investor Relations Framework

We have designated an officer in charge of corporate communication (IR), as well as a general affairs (SR) officer.

Our president and CEO explains his views on matters of concern to shareholders and investors directly through briefings and management strategy presentations. Prior to financial and other announcements, we hold internal discussions among related divisions and overseas group companies. These discussions address the content of planned disclosures and receive approval from the Information Disclosure Committee to ensure reasonableness and appropriateness of announcements

■ Dialogue with shareholders and investors

Financial briefings, business briefings, and factory tours are available when necessary for institutional investors and securities analysts. We are also available for small meetings and individual interviews. Appropriate personnel are selected for individual discussions to respond to shareholder and investor concerns (business strategy, ESG, exercise of voting rights, etc.).

Individual investors may view financial and business disclosures on our corporate website or ask questions via the contact e-mail address provided.

■ Feedback mechanisms

Shareholders and investor opinions gleaned from dialogues are forwarded for discussion by management, including directors, and related divisions when necessary.

■ Control of inside information

To ensure fair treatment of all shareholders and investors, we seek to uniformly disclose information in having dialogues with shareholders and investors. Also, we have adopted a *silent period* (from the day following the closing date of the fiscal period to the day the financial statements are released), in which we do not make any comments concerning our financial results. We place strict controls over the use of inside information to prevent insider trading.

(Reference) Establishment of Management Indicators Focused on Return on Capital  
Daikin prioritizes corporate value as one of the most important management issues. We set rate management indicators such as Free Cash Flow (FCF), Return on Invested Capital

(ROIC), Return on Assets (ROA), and Return on Equity (ROE) as our key indicators of business management. With these indicators, we encourage the aggressive development of business as well as the advancement of our management structure. Daikin will prioritize FCF as the top source of corporate value and as the comprehensive indicator that improves all management indicators. In doing so, we will increase revenues, improve investment efficiency, and work to generate cash flow from the working capital side through the thorough reduction of accounts receivable and inventories.

## 2. Capital Structure

Percentage of Shares Held by Foreign Nationals	More than 30%
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### [Major Shareholders]

Name of Individual or Company	No. of Shares Held	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	57,277,400	19.57
Custody Bank of Japan, Ltd. (Trust Account)	23,389,100	7.99
JPMorgan Chase Bank 385632	9,014,879	3.08
Sumitomo Mitsui Banking Corporation	8,500,000	2.90
Custody Bank of Japan, Ltd. Retirement Benefit Trust Account for the Norinchukin Bank	4,999,846	1.71
MUFG Bank, Ltd.	4,627,800	1.58
Custody Bank of Japan, Ltd. (Trust Account 4)	4,530,100	1.55
SSBTC CLIENT OMNIBUS ACCOUNT	4,504,616	1.54
State Street Bank West Client – Treaty 505234	4,279,968	1.46
Sumitomo Life Insurance Company	3,595,000	1.23

Majority Shareholders (excluding parent company)	—
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Parent Company	None
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Supplementary Explanation
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### 3. Corporate Overview

Stock Exchange Listing and Section	Prime Market, Tokyo Stock Exchange
Fiscal Year-End	March
Industry Sector	Machinery
Number of Employees at End of Previous Fiscal Year	More than 1,000
Net Sales in Previous Fiscal Year	More than ¥1 Trillion
Number of Consolidated Subsidiaries at End of Previous Fiscal Year	More than 300

### 4. Guidelines on Measures to Protect Minority Shareholders During Dealings with Majority Shareholders

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### 5. Other Special Conditions that May Have a Major Influence on Corporate Governance

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## II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems

### 1. Matters Related to Institutional Structure and Organizational Operations

Organizational Form	Company with Audit and Supervisory Board
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#### [Director Relationships]

Number of Directors Under Articles of Incorporation	15
Director Term of Service Under Articles of Incorporation	1 year
Chairperson of the Board of Directors	Chairman (Except When Chairman is Also President)
Number of Directors	10
Appointment of External directors	Appointed
Number of External Directors	4
Number of External Directors Designated as Independent Officers	4

#### Relationships to the Company (1)

Name	Category	Relation to Company*										
		a	b	c	d	e	f	g	h	i	j	k
Tatsuo Kawada	Member of another company											
Akiji Makino	Member of another company							○				
Shingo Torii	Member of another company											
Yuko Arai	Member of another company											

\* Categories of Relationships to the Company

\* A ○ icon indicates a category applicable to said person currently or recently. A △ icon indicates a category applicable to said person in the past.

\* A ● icon indicates a category applicable to a close family member currently or recently. A ▲ icon indicates a category applicable to a close family member in the past.

- a. Executive of a listed company or its subsidiary
- b. Executive or non-executive director of the parent company of a listed company

- c. Executive of a fellow subsidiary of a listed company
- d. Person of a listed company considered major client, or an executive of said company
- e. Major client of a listed company or an executive of said company
- f. Consultant, accounting expert, or legal expert receiving a large monetary sum or other property other than corporate officer remuneration
- g. Major shareholder of a listed company (if the major shareholder is a corporation, an executive of said corporation)
- h. Executive (said person only) of a client (not covered by items d, e, and f) of a listed company
- i. Previous executive (said person only) with connection to the mutual appointment of an outside member of the Audit and Supervisory Board
- j. Previous executive (said person only) of a listed company making donations
- k. Other relationship

<b>Relationships to the Company (2)</b>
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<b>Name</b>	<b>Independent Officers</b>	<b>Supplementary Explanation Related to Applicable Items</b>	<b>Reason for Selection</b>
<b>Tatsuo Kawada</b>	○	Designated as independent officer	As the Chairman and CEO of Seiren Co., Ltd., Tatsuo Kawada has abundant experience and deep insight as a corporate manager. Mr. Kawada relies on this experience to provide impartial supervision. He also uses his extensive and advanced insight, including his perspectives regarding business model transition and innovation creation, to make proposals on management matters, contributing to greater corporate value for Daikin Industries. Accordingly, we have selected Mr. Kawada as an external director. We have also determined that Mr. Kawada meets the standards for impartiality stipulated by the Tokyo Stock Exchange and that there is no potential conflict of interest with general shareholders.
<b>Akiji Makino</b>	○	Designated as independent officer	As the Chairman and CEO of Iwatani Corporation, Akiji Makino has abundant experience and deep insight as a corporate manager. Mr. Makino relies on this experience to provide impartial supervision. He also uses his extensive and advanced insight, including his perspectives regarding energy, environment, and

			<p>services, to make proposals on management matters, contributing to greater corporate value for Daikin Industries. Accordingly, we have selected Mr. Makino as an external director. Although there are business dealings between Daikin Industries and Iwatani Corporation, in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Makino's impartiality.</p>
<b>Shingo Torii</b>	○	Designated as independent officer	<p>As Representative Director and Vice Chairman of the board of Suntory Holdings Limited, Mr. Shingo Torii has abundant experience and deep insight as a corporate manager. Mr. Torii relies on this experience to provide impartial supervision. He also uses his extensive and advanced insight, including his perspectives on corporate management that anticipates customer needs, and improving corporate value through ESG activities, etc. to make proposals on management matters, contributing to greater corporate value for Daikin Industries. Accordingly, we have selected Mr. Torii as an external director. We have also determined that Mr. Torii meets the standards for impartiality stipulated by the Tokyo Stock Exchange and that there is no potential conflict of interest with general shareholders.</p>
<b>Yuko Arai</b>	○	Designated as independent officer	<p>As the Advisor (former Director and Senior Vice President) of ANA Akindo Co., Ltd., Yuko Arai has abundant experience and deep insight as a corporate manager. Ms. Arai relies on this experience to provide impartial supervision. She also uses her extensive and advanced insight, including her perspectives on customer-centric corporate management and the further promotion of the activities of female employees, to make proposals on management matters, contributing to greater corporate value for Daikin Industries. Accordingly, we have selected Ms. Arai as an external director. We have also determined that Ms. Arai meets the standards for impartiality stipulated by the Tokyo Stock Exchange and that there is no potential conflict of interest with general shareholders.</p>

Establishment of an optional committee corresponding to a Nominating Committee or Compensation Committee	Yes
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Establishment of an optional committee, members of the committee, and attributes of the chairperson of the committee

	Committee Name	Total Number of Members	Number of Full-time Members	Number of Inside Members of the Board of Directors	Number of Outside Members of the Board of Directors	Number of Outside Experts	Other Members	Committee Chairperson
Optional Committee Corresponding to the Nominating Committee	HRM Advisory Committee	6	0	1	4	0	1	Outside Members of the Board of Directors
Optional Committee Corresponding to the Compensation Committee	Compensation Advisory Committee	6	0	1	4	0	1	Outside Members of the Board of Directors

**Supplementary Explanation**

The HRM Advisory Committee determines selection and termination standards for directors, the CEO, executive officers, and other senior managers. Based on these standards, this committee deliberates and examines the appropriateness of candidates. The Compensation Advisory Committee deliberates and examines compensation rules and systems for, directors, the CEO, executive officers and other senior managers. The HRM Advisory Committee and Compensation Advisory Committee consists of six members — four external directors, one internal director, and one Human Resources executive officer— and is chaired by one of the three external directors.

For Activities of the Compensation Advisory Committee, refer to *II. 1. Incentives* in this report.

**[Audit and Supervisory Board Member Relationships]**

Audit and Supervisory Board	Yes
Number of Audit and Supervisory Board Members Under Articles of Incorporation	5
Number of Audit and Supervisory Board Members	5

**Coordination Among Members of the Audit and Supervisory Board, Financial Statement Auditors, and Internal Auditing Division**

Members of the Audit and Supervisory Board cooperate with financial statement auditors, receiving explanations and reports regarding financial statement audit plans, systems, methods, and the status of the Company and its domestic and overseas subsidiaries on a regular and as-needed basis. The members of the Audit and Supervisory Board also communicate with financial statement auditors of overseas group companies. Members of the Audit and Supervisory Board hold meetings and exchange information with the Internal Auditing Department when necessary to keep abreast of internal controls within the company. For example, members may accompany internal auditors in their duties, receiving explanations of audit plans audits beforehand and receiving reports of audit results.

Appointment of Outside Members of the Audit and Supervisory Board	Yes
Number of Outside Members of the Audit and Supervisory Board	3
Number of Outside Members of the Audit and Supervisory Board Designated as Independent Officers	3

**Relationships to the Company (1)**

Name	Category	Relationship to the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Ryu Yano	Member of another company										△			
Toru Nagashima	Member of another company										△			
Kaeko Kitamoto	Member of another company													

\* Categories of Relationships to the Company

\* A ○ icon indicates a category applicable to said person currently or recently. A △ icon indicates a category applicable to said person in the past.

\* A ● icon indicates a category applicable to a close family member currently or recently. A ▲ icon indicates a category applicable to a close family member in the past.

- a. Executive of a listed company or its subsidiary
- b. Non-executive director or accounting advisor of a listed company or its subsidiary
- c. Executive or non-executive director of the parent company of a listed company
- d. Audit and Supervisory Board member of the parent company of a listed company
- e. Executive of a fellow subsidiary of a listed company
- f. Person of a listed company considered major client, or an executive of said company
- g. Major client of a listed company or an executive of said company
- h. Consultant, accounting expert, or legal expert receiving a large monetary sum or other property other than corporate officer remuneration
- i. Major shareholder of a listed company (if the major shareholder is a corporation, an executive of said corporation)
- j. Executive (said person only) of a client (not covered by items f, g, and h) of a listed company
- k. Previous executive (said person only) with connection to the mutual appointment of an outside corporate officer
- l. Previous executive (said person only) of a listed company making donations
- m. Other relationships

<b>Relationships to the Company (2)</b>
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<b>Name</b>	<b>Independent Officers</b>	<b>Supplementary Explanation Related to Applicable Items</b>	<b>Reason for Selection</b>
<b>Ryu Yano</b>	○	Designated as independent officer	As the Chief Corporate Advisor for Sumitomo Forestry Co., Ltd. (previously the Chairman of the Board), Ryu Yano has extensive overseas corporate experience, and abundant experience and deep insight as a corporate manager. Mr. Yano was chosen as an outside member of the Audit and Supervisory Board to provide this expertise in contributing to oversight of management matters and to introduce an even higher level of competence to our auditing. Although there are business dealings between Daikin Industries and Sumitomo Forestry, in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Yano's impartiality.

<p style="text-align: center;"><b>Toru Nagashima</b></p>	○	Designated as independent officer	<p>As an Honorary Advisor of Teijin Limited (previously the President and CEO), Toru Nagashima has abundant experience and deep insight as a corporate manager, including experience in implementing the paradigm shift from manufacturing products to creating services. Mr. Nagashima was chosen as an outside member of the Audit and Supervisory Board to provide this expertise in contributing to oversight of management matters and to introduce an even higher level of competence to our auditing. Although there are business dealings between Daikin Industries and Teijin Limited, in the context of the scale and characteristics of these dealings, we have determined that they have no impact on Mr. Nagashima's impartiality.</p>
<p style="text-align: center;"><b>Kaeko Kitamoto</b></p>	○	Designated as independent officer	<p>Through many years of experience in corporate audits at major audit firms, Kaeko Kitamoto has a wealth of experience, a high degree of insight, and is extremely knowledgeable in finance and accounting. She was chosen as an outside member of the Audit and Supervisory Board to provide this expertise and audit the overall management of the company, as well as further audit any other proper areas. Although she possesses no direct corporate management experience, we have determined she will appropriately perform her duties as an independent officer for the reasons stated above. We have also determined that she meets the standards for impartiality stipulated by the Tokyo Stock Exchange and that there is no potential conflict of interest with general shareholders.</p>

**【Independent Officer Relationships】**

Number of Independent Officers	7
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Other Items Related to Independent Officers
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## **【Incentives】**

Policy Regarding Granting Remunerative Incentives for Directors	Performance-Linked Compensation, Compensatory Stock Options
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### **Supplementary Explanation of Related Matters**

#### **1) Matters Related to Decision-making Regarding Individual Officer Remuneration**

The following provides an overview of details regarding Daikin officer individual remuneration, etc. (hereinafter referred to as "remuneration" in this section). Furthermore, the corresponding remuneration policy for directors is determined by the board of directors, having received a report about deliberations from the Compensation Advisory Committee.

##### **(i) Remuneration basic policy**

The officer remuneration system is designed to increase motivation for directors to improve the ongoing and medium- to long-term performance of the company, responding to the expectations of our shareholders and other stakeholders in accordance with our management philosophy.

##### **(ii) Policy on determining amounts and compensation ratio for remuneration types (performance-linked compensation, non-monetary compensation, other fixed compensation) by individual director**

Director remuneration (excluding external directors) consists of three components: (1) Fixed compensation; (2) Performance-linked compensation (reflecting short-term group earnings and division earnings); and (3) Compensatory stock options (reflecting medium- to long-term earnings).

Compensation levels are determined after analyzing and comparing compensation data for major Japanese manufacturing companies selected from objective compensation survey data on approximately 300 Japanese companies listed on the First Section of the Tokyo Stock Exchange, collected by a third-party institution specializing in corporate officer compensation research (executive compensation database managed by WTW). Net sales, operating income, and ROE (return on equity) are used as the three basic indicators in this formula. Decisions are based on Daikin's position relative to the performance and compensation of the companies used for comparison, linked to medium- and long-term improvements to corporate value. Furthermore, we have made the correlation between performance and compensation higher than the industry average in our performance-linked compensation for directors, in order to fully act as an



incentive.

In addition to the above, taking into consideration directors' performance while in office, remuneration (including non-monetary compensation) that is considered to reflect that performance may be paid upon their retirement from office.

The remuneration of external directors and members of the Audit and Supervisory Board consists of fixed compensation only.

### **(iii) Policy on determining performance indicators for performance-linked compensation and calculation methods**

Regarding performance-linked compensation for directors other than external directors, we chose three performance-linked indicators by which to assess company-wide performance: net sales, operating income margin, and operating income. These indicators have a clear and mutual relation to Daikin Industries' numerical management targets. Further, these indicators facilitate comparison with the performance of other companies in the industry. Net sales and operating income margin are calculated according to single-year performance versus budget. Operating income is calculated according to growth linked to medium- and long-term management plans.

Performance-linked compensation for the chairman and president uses a performance-linked coefficient derived from company-wide performance-linked indicators.

Performance-linked compensation for directors other than the chairman or president is determined using a performance-linked coefficient derived from company-wide performance-linked indicators, adjusted by single-year performance versus budget for net sales and operating income for their respective divisions (serving as indicators that represent the targets of the work that each division carries out daily) and individual priority initiatives carried out over the short, medium, and long term. The priority initiatives will be established in line with the 11 key strategic topics of the second half of the strategic management plan, Fusion 25, and targets will be set for each individual in accordance with his or her job responsibilities.

### **(iv) Policy on determining details of non-monetary compensation and calculation methods**

Compensatory stock options are paid to directors excluding external directors. Each fiscal year, the number of stock options to grant is determined by dividing a sum determined by taking into account the status and results of each individual's efforts on short-term, medium- and long-term priority issues in the previous fiscal year and that is

based upon the standard for each position, by the average closing price of the most recent share price. These are exercisable from three to 12 years after the date of grant.

The priority initiatives will be established in line with the 11 key strategic topics of the second half of the strategic management plan, Fusion 25, and targets will be set for each individual in accordance with his or her job responsibilities.

As a usage condition for exercising the stock acquisition right of the compensatory stock options, the recipient of the stock acquisition right is prohibited from transferring or otherwise disposing of this stock acquisition right to any third party, nor may they exercise the stock acquisition right in the event that any of the following occur.

- During the period in which they can exercise stock acquisition right, when one year has passed after the recipient of the corresponding stock acquisition right has ceased to hold any position as a Daikin director, executive officer, full-time officer, or employee; or a director or employee of a Daikin subsidiary (including the date on which this event occurs).
- However, if the day one year has elapsed from the day upon which the event occurred (including the date on which this event occurs) is beyond the exercise period, as of the end date of the stock acquisition right, the recipient may not exercise the stock acquisition right until one year has elapsed.
- Additionally, if the recipient ceases to hold any position as a Daikin director, executive officer, full-time officer or employee, or as a director or employee of a Daikin subsidiary before the commencement date of the exercise period arrives, then the recipient may exercise their stock acquisition right for a period restricted to one year from the start of the exercise rights.

**(v) Procedures for remuneration determination methods, and status of reappointments regarding decisions on details of individual remuneration**

The Compensation Advisory Committee, chaired by an outside director and composed of a majority of outside directors, deliberates on the appropriateness of remuneration policies, remuneration system and levels, and individual remuneration, etc., in light of the environment surrounding the remuneration of directors. Specifically, the Compensation Advisory Committee collects information and advice from compensation advisors from outside professional organizations from the perspective of ensuring the independence of decisions and enhancing the effectiveness of its advisory function. The committee also examines and deliberates comparative performance position of the Company from

various perspectives among comparable companies, as well as appropriateness of compensation. Having confirmed the details of draft proposals concerning the amount of remuneration, etc., for each individual director, the committee deliberate said proposals from an objective viewpoint, and then submit the opinion to the president and CEO. President and CEO Masanori Togawa receives approvals from the Board of Directors for reappointments and, in principle, makes the final decision on the amount of remuneration, etc., for each individual director based on said report. If the decision differs from said report, the Compensation Advisory Committee reconsiders the reasoning behind said decision.

The reason for delegating this authority to President and CEO Masanori Togawa is that he is the most suited to overseeing company management and company-wide performance, and to evaluate the overseen departments and the individuals themselves. Furthermore, excluding the chairman of the board of directors, the Compensation Advisory Committee consists of four external directors, one internal director, and one Human Resources executive officer. An external director serves as the chair of the committee.

Regarding remuneration and in consideration of their performance while in office, a committee separate to the Compensation Advisory Committee and fully comprising external directors shall be established to deliberate on the necessity and details of payments, and shall determine specific details, amount of such remuneration, and payment procedures in a board of directors meeting.

Furthermore, individual amounts of remuneration, etc. for each individual corporate auditor shall be determined through consultation on the Audit and Supervisory Board.

## **2) Matters related to resolutions made at General Shareholders' Meetings regarding directors and Audit and Supervisory Board members**

### **■Directors**

- Fixed remuneration and performance-linked remuneration
  - < Overview of resolution from the general shareholders' meeting >
    - Maximum of 1.3 billion yen per year (including 100 million yen for outside directors)
  - < Date of general shareholders' meeting resolution >
    - (June 26, 2020 (117<sup>th</sup> Ordinary General Shareholders' Meeting))
  - Number of directors at the time of the resolution: 11 (including 4 outside directors)

- Stock options
  - < Overview of resolution from the general shareholders' meeting >
    - Maximum of 360 million yen per year and a maximum of 450 stock acquisition rights to be issued (excluding outside directors) within one year from the date of the ordinary general shareholders' meeting
  - < Date of general shareholders' meeting resolution >
    - June 29, 2021 (118<sup>th</sup> Ordinary General Shareholders' Meeting)
    - Number of directors at the time of the resolution: 11 (including 4 outside directors)

■Members of the Audit and Supervisory Board

- Fixed remuneration
  - < Overview of resolution from the general shareholders' meeting >
    - Maximum of 190 million yen per year
  - < Date of general shareholders' meeting resolution >
    - June 27, 2014 (111<sup>th</sup> Ordinary General Shareholders' Meeting)
    - Number of directors at the time of the resolution: 4

**3) Reasons that the board of directors determined that the content of remuneration, etc. for each individual director is in line with the aforementioned determination policy in 1)**

The Compensation Advisory Committee met five times during the period from July 2022 to June 2023. The committee collected objective and sufficient information to deliberate on the details of individual compensation, etc., of directors. The Company has determined that the details of compensation, etc., are appropriate for performance-linked compensation based on various deliberations, including consistency with relevant decision-making policies, calculation method, payment factors, and compensation levels.

The following shows the status of meetings and matters discussed by the Compensation Advisory Committee regarding the determination the details of individual director compensation for the fiscal year under review.

< Compensation Advisory Committee Meetings and Matters Discussed >

■October 24, 2022

- Latest environment surrounding executive compensation
- Status of the executive compensation system for fiscal 2022
- Whether the compensation policy for fiscal 2023 should be revised

■February 22, 2023

- Revision of compensation levels for fiscal 2023
- Changes in the procedures for determining compensation amounts for individual directors
- Direction of disclosures related to remuneration for directors and members of the Audit and Supervisory Board

■March 30, 2023

- Fiscal 2023 compensation levels (draft)
- Details regarding the performance-linked coefficient for performance-linked compensation in fiscal 2022
- Disclosures of executive compensation (draft)

■April 26, 2023

- Details regarding the performance-linked coefficient for performance-linked compensation in fiscal 2022

■May 25, 2023

- Performance-linked compensation for each individual and number of stock options granted in fiscal 2022

\*A compensation advisor from WTW was present at three of the five meetings for the purpose of providing information and advice from an objective standpoint.

Persons Eligible for Stock Options	Inside Directors, Employees
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Supplementary Explanation

Executive officers, Associate officers and Honorary officers are also granted stock options.

**【Matters Related to Director Compensation】**

Disclosure of Individual Directors Compensation	We disclose a certain information about individual director compensation
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Supplementary Explanation

We disclose the total amount of compensation for inside directors, external directors, members of the Audit and Supervisory Board, and external corporate auditors. We provide a separate disclosure if the total amount, including related compensation, is at ¥100 million or greater.

Policy for Determining Compensation Amount and Method of Calculation	Yes
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**Information Disclosure for Regarding Policy for Determining Compensation Amount and Method of Calculation**

Refer to *II. 1. Policy Regarding Granting Remunerative Incentives for Directors* in this report.

**【Support System for External directors (and Outside Members of the Audit and Supervisory Board)】**

Assistants are assigned to external directors in the Corporate Planning Department and to external auditors in the Office of Audit and Supervisory Board Members. These assistants provide information about Daikin, post notices of Board of Directors meetings as early as possible, and provide meeting agenda beforehand. For particularly important agenda items, assistants will explain these beforehand to the external directors and outside members of the Audit and Supervisory Board. If an external director or member of the Audit and Supervisory Board cannot attend the meeting, the assistant will afterwards explain what was discussed at the meeting.

**【Status of Individual(s) Resigning as Representative Director and President, etc.】**

**Name(s) of counselors, advisors formerly serving as representative director and president, etc.**

Name	Title	Duties	Employment Terms (Full-time, part-time, compensation, etc.)	Date Retired as President, etc.	Term of Office
—	—	—	—	—	—

Total number of counselors and advisors who formerly served as representative director and president, etc.	0
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**Other matters**

Not applicable, although a system is in place for this eventuality.

## 2. Matters on Functions Related to Business Execution, Auditing and Supervision, Appointments, and Remuneration Decisions (Overview of Current Corporate Governance System)

- 1) We strive to ensure prompt decision-making by appointing a limited number of directors who take part in practical debates on issues. The Daikin board of directors makes decisions and conducts post-resolution monitoring of business plans, important investments, etc. During fiscal 2022, the board of directors meeting convened 16 times to discuss items such as the medium-term management plan, the status of risk responses, and sustainability initiatives. The attendance of individual directors is as follows:

Noriyuki Inoue	16/16
Masanori Togawa	16/16
Tatsuo Kawada	16/16
Makino Akiji	16/16
Shingo Torii	16/16
Yuko Arai	16/16
Ken Tayano	16/16
Minaka Masatsugu	16/16
Takashi Matsuzaki	16/16
Kanwal Jeet Jawa	16/16

Our Group Steering Meeting is the highest deliberation organ in our management system. This meeting is designed to speed up the pace at which Daikin decides on our future direction and solves issues related to important management policy and strategies.

- 2) We established the Executive Officers Committee in conjunction with the introduction of an executive officer system. This committee encourages thorough deliberation and prompt execution of important management issues related to business execution. The board of directors, the Group Steering Meeting, and the Executive Officers Meeting are the main decision-making bodies of the group. These organizations convene monthly as a rule.
- 3) The HRM Advisory Committee and Compensation Advisory Committee decide the standards for selecting directors and executive officers and determines who are

appropriate candidates for these positions. The committee deliberates and considers the rules and systems for director and executive officer compensation. Each of these committees consists of six members (four external directors, one internal director, one Human Resources executive officer) chaired by an individual selected from among the external director members. The Daikin board of directors deliberates and determines the appointment or dismissal of directors, the CEO, executive officers, and other senior managers based on the results of examinations and investigations conducted by the HRM Advisory Committee. In addition, the board of directors conducts sufficient deliberations related to the successors and candidates for senior management positions, as well as for plans related to the training thereof. Remuneration for senior managers is deliberated and determined by the board of directors based on the results of examinations and investigations conducted by the Compensation Advisory Committee. During fiscal 2022, the HRM Advisory Committee and the Compensation Advisory Committee convened six times to discuss the selections of senior management, compensation policies, the adequacy of the compensation system and levels, individual officer remuneration, and other items. The attendance of individual committee members is as follows:

Tasuo Kawada 6/6

Akiji Makino 4/6

Shingo Torii 4/6

Yuko Arai 6/6

Masanori Togawa 6/6

Naohumi Takenaka 6/6

- 4) The Audit and Supervisory Board presently consists of five members, three of which are external members, conducting audits of regular management activities, including activities of directors. Members of the Audit and Supervisory Board attend board of director meetings, exercise legal authority (including receiving reports from directors, employees, and financial statement auditor), visit business locations and group company sites (including two staff members), and engaged in other activities to understand the status of and provide guidance for improving internal controls.
- 5) Daikin has established an Internal Auditing Department (17-member staff) to identify significant latent risks and issues within the expanding business of the group. This is a specialized department, independent of the Business Execution Department, that



performs audits contributing to business management that emphasizes propriety, compliance, and efficiency in business operations. A variety of dedicated internal auditors with business experience are assigned to major Daikin group companies inside and outside Japan and work toward closer coordination with the Internal Auditing Department. In addition, they work to enhance audits by utilizing IT as well as performing audits both on-site and remotely.

The Internal Auditing Department submits an audit report to the president, each executive officer, and Audit and Supervisory Board members after the completion of the audit to share information. The department additionally reports internal audit plans and results directly to directors and works closely with Audit and Supervisory Board members, reporting information on the planning stage, the audit results, and the state of improvements.

In addition, the Internal Auditing Department exchanges information with accounting auditors when necessary to ensure audit efficiency.

- 6) Daikin has contracted with Deloitte Touche Tohmatsu LLC to conduct financial statement audits based on the Companies Act and the Financial Instruments and Exchange Act of Japan. The names and organization of the certified public accountants and assistants conducting audits of Daikin financial statements are as described below.

Designated Limited Liability Partners and Engagement Partners Yoshiaki Kitamura, Shinichi Ishihara, Yutaka Ito

Audit Assistants Certified public accountants: 21 Associate members of the Japan Association of Certified Public Accountants, etc.: 6 Other staff: 28

- 7) In accordance with Article 427, Paragraph 1 of the Companies Act as well as our Articles of Incorporation, the Company has entered into liability limitation agreements with all external directors and outside members of the Audit and Supervisory Board; the maximum compensatory liability stipulated therein is the minimum liability amount stipulated in Article 425, Paragraph 1 of the Companies Act.

### **3. Reasons for Selecting Current System of Corporate Governance**

Daikin Group corporate governance is designed to raise corporate value by facilitating decision-making with foresight and by executing business with increasingly greater speed, transparency, and soundness, all in line with Group management challenges and changes in the business environment.

We strive to improve our current form of integrated management framework. Under this framework directors work together in assuming responsibility for both management and execution. This framework allows us to make management decisions and take action more quickly, ensuring coordinated governance operates effectively and in a sound, transparent manner. We will continue to raise corporate value by seeking and implementing new ways to achieve optimal corporate governance as we incorporate best practices in all facets and at all levels of the Daikin Group.

### III. Measures for Shareholders and Other Stakeholders

#### 1. Efforts to Boost Participation in General Shareholders' Meetings and to Facilitate Exercise of Voting Rights

	Supplementary Explanation
Send General Shareholders' Meeting Invitations Early	We send invitations at least three weeks prior to the general shareholders' meeting.
Electronic Exercise of Voting Rights	We allow voting by computer or smartphone.
Improve Voting Environment for Institutional Investors (Participation in the Electronic Voting Platform, Etc.)	We participate in the Electronic Voting Platform, which allows institutional investors to vote.
Invitations (Overview) Sent in English	We publish information in English on our corporate website and on the website of the Tokyo Stock Exchange.
Other efforts	Prior to mailing general shareholders' meeting invitations, we publish a convocation notice (Japanese and English) on our corporate website and on the website of the Tokyo Stock Exchange.

#### 2. Investor Relations Activities

	Supplementary Explanation	Explanation from Representative
Creation and Announcement of Disclosure Policy	We publish disclosure policy on our corporate website.	
Periodic Explanatory Meetings for Individual Investors	We hold explanatory meetings for individual investors every year.	No
Periodic Explanatory Meetings for Analysts and Institutional Investors	We hold meetings for each quarterly settlement of accounts.	Yes
Periodic Explanatory Meetings for Overseas Investors	We engage in dialogue through visits to investor offices and online/teleconferences.	Yes

	<p>We hold factory tours for overseas investors.</p> <p>We participate several times a year in IR conference organized by securities companies.</p>	
IR Documents on Website	We publish quarterly financial materials, annual report and timely disclosure documents, etc. on our corporate website.	
Establishment of Investor Relations Department	We appoint an investor relations manager from the Corporate IR Group within the Corporate Communication Department.	

### 3. Respecting the Position of Stakeholders (Updated)

	Supplementary Explanation
Stipulation of Rules for Respect for Stakeholders' Position Based on Internal Regulations	We state these rules in Our Group Philosophy.
Implementation of Environmental Protection Activities and CSR Activities	We report these activities in the Daikin Sustainability Report.
Formulation of Guidelines Related to Information Provision for Stakeholders	We state these guidelines in our Group Philosophy.
Other	<p>The Company considers diversity management to be one of the pillars of its management and has been promoting the introduction and improvement of systems and environments that allow each member of our diverse work force to demonstrate their individuality and strengths to the fullest extent, in addition to the contents described in "I 1. Disclosure Based on the Principles of the Corporate Governance Code" Supplementary Principle 2.4.1 of this report.</p> <p>Over the past several years, we have done more as a</p>

	<p>group to hire persons with disabilities, including initiatives through Daikin Sunrise Settsu Co., Ltd., a special subsidiary we established in 1993. As of fiscal 2022, 2.68% of our workforce were persons with disabilities, a ratio higher than that legally mandated. Aiming to employ 210 people in FY2023, Daikin Sunrise Settsu has continued to actively recruit, secure, and upgrade jobs, and expand factory workspace. In addition, we are working on developing leaders for future promotion to management positions, and the number of people with disabilities active as managers and leaders is rising.</p> <p>In addition, starting in April 2021, in order to promote the activities of expert, we expanded the reemployment system so that employees can continue to work until the age of 70 if they wish. The revised Law Concerning Stabilization of Employment of Older Persons states that we are obliged to make an effort to hire people until they are 70, however we will guarantee employment opportunities until this age before this is made mandatory. In 1991 we introduced a re-employment system for employees who have reached 60 years of age, and in 2001 extended this to 65 years for any employees who so wished. By being proactive in revising our system, we are working to create an environment in which experienced-level employees can play an active role. The rate of re-employment after retirement has reached around 90%, with many experts working on the front line, leveraging their knowledge, skills, and personal connections.</p> <p>To encourage greater understanding of LGBT issues, we sponsored basic orientation, workplace training, and other measures in 2018 for approximately 500 individuals (directors, managers, and leaders). Our human resources regulations now clarify the definition of marriage and gender, adopting the phrases common-law marriage</p>
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	<p>(including same-sex partners) and gender identity (choice in identity of one's own gender).</p> <p>Please refer to our Sustainability Report for more information regarding our efforts.</p> <p>Sustainability Report <a href="https://www.daikin.com/csr/report">https://www.daikin.com/csr/report</a></p>
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## **IV. Matters Related to Internal Control Systems**

### **1. Basic Philosophy and Creation of Internal Control Systems**

This section describes Daikin Group systems and activities to ensure compliance with the Companies Act of Japan and the Ordinance for Enforcement of the Companies Act. Our Internal Control Committee inspects and confirms the status and operation of internal controls related to each activity, providing reports to the board of directors. This committee is chaired by the president and CEO (Masanori Togawa) and consists of the Finance and Accounting Division general manager (Koichi Takahashi, senior executive officer), the Legal Affairs, Compliance and IP Center general manager (Masafumi Yamamoto, executive officer), the Corporate Planning Department general manager (Hiroaki Ueda, executive officer), the Internal Auditing Department general manager and the Corporate Communication Department general manager. Full-time members of the Audit and Supervisory Board (Kosei Uematsu, Hisao Tamori) also participate in the committee as an observer.

(Status of Major Activities During Fiscal 2022)

- The Internal Controls Committee convened twice.

#### **1. Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws, Regulations, and Articles of Incorporation**

We have set compliance systems in place, while ensuring the group strives to keep abreast of, and quickly resolve, compliance issues. Several examples of this system follow.

- 1) Individuals take the initiative in executing their duties and conducting themselves in accordance with our basic management direction and the codes of conduct stipulated in Our Group Philosophy and the Handbook for Corporate Ethics.
- 2) The Corporate Ethics and Risk Management Committee is made up of corporate officers and department heads. Operating under this is the Legal Affairs, Compliance and Intellectual Property Center, which leads efforts to ensure thorough group-wide legal compliance. Each division and group company appoints a compliance risk management leader to ensure obedience to the law and compliance. Each division and group company also convenes a Compliance and Risk Management Leader Council and a Group Compliance and Risk Management Leader Council, where attendees share information, look into issues, and enact measures.

- 3) Daikin Industries operates a self-assessment system under which all divisions and group companies perform annual self-checks related to legal compliance and risk management. Based on the results of these self-assessments, the Legal Affairs, Compliance and Intellectual Property Center conducts legal audits at divisions and group companies. At the same time, our Internal Auditing Department confirms legal compliance as part of their operational audits.
- 4) The Help Line for Corporate Ethics gathers reports and information about problems from employees. The Legal Affairs, Compliance and Intellectual Property Center then investigates these reports, holding discussions with the concerned Daikin divisions to conceive and implement company-wide measures to prevent recurrences.
- 5) In response to anti-social forces that threaten social order and sound corporate activities, we take action with a firm resolution in accordance with the Handbook for Corporate Ethics.
- 6) We conduct regular and ad hoc training on matters including compliance and corporate ethics for both management and general employees. We continue to improve and update these trainings.

(Status of Major Activities During Fiscal 2022)

- The Corporate Ethics and Risk Management Committee convened twice, sharing and deliberating measures for company-wide issues related to compliance. The Compliance and Risk Management Leader Council was convened 11 times to spread awareness of legal obedience and compliance measures. We convened a Regional Legal Affairs, Compliance Council in ASEAN/Oceania, Americas, Europe, and China.
- Each division and group company conducted self-assessments and risk assessments, the results of which were discussed at the Corporate Ethics and Risk Management Committee.
- We conducted human rights training for directors and compliance training for employees.

2. Systems for the Storage, Management, and Disclosure of Information Related to the Execution of Duties by Directors

The minutes of important conferences and committee meetings shall be retained, each for a specified number of years of storage, based on Daikin Industries' internal rules. The Information Disclosure Committee ensures the completeness and appropriateness of



important information to be disclosed externally to ensure the highest level of accountability.

(Status of Major Activities During Fiscal 2022)

- According to internal rules, minutes for board of director meetings and other important meetings/committees were recorded and preserved.
- The Information Disclosure Committee convened prior to the announcement of quarterly financial results, deliberating on the appropriateness of the content of documents related to financial results. The committee also discusses other important disclosures such as non-financial information.

### 3. Rules and Systems to Manage the Risk of Loss, Etc.

Directors and executive officers in charge of operations have the authority and responsibility to create a group-wide, cross-organizational system for said operations. Product liability and quality, safety, production and sales activities, and natural disaster response are examples. Officers in charge of compliance and corporate ethics work through the Legal Affairs and Compliance and Intellectual Property Center to identify major risks. This assessment is based on risk management rules, which are deliberated by the Corporate Ethics and Risk Management Committee to formulate risk countermeasures.

(Status of Major Activities During Fiscal 2022)

- We identified information management, product liability/quality, economic security, the prevention of accounting irregularities, overseas crisis management, natural disaster response measures, harassment prevention, and human rights compliance as key risks for the period under review. The Corporate Ethics and Risk Management Committee deliberated and implemented response measures for each key risk.

### 4. Systems to Ensure That Directors Execute Duties Efficiently

- We have established an effective system for business execution based on two practices: (1) Ensuring prompt decision-making by employing a limited number of directors who take part in practical debate on issues and (2) An executive officer system aimed at improving speed through independent assessments and decisions conducted in each business, region, and function of the group.
- The Group Steering Meeting is the highest deliberation organ for the Group's management system, and it strives to speed up the pace at which Daikin decides on future direction and solves issues related to important management policy and strategies.

- We have established a system related to the authority and decision-making of directors and corporate officers based on internal rules, including board of director regulations, executive officer regulations, and internal decision request regulations. This system is designed to ensure directors and executive officers perform their duties appropriately and efficiently.
- We maintain four permanent external directors with no vested interest in the company. These external directors provide checks and balances that boost the efficiency of management execution. These individuals also provide advice and opinions in management decision-making from an independent, objective standpoint.

(Status of Major Activities During Fiscal 2022)

- The board of directors meeting convened 16 times, with the four external directors attending nearly every meeting and providing input related to management issues.
- Executive officer meetings attended by executive officers were convened 20 times during the year.
- The Group Management convened five times to discuss key topics under the Fusion 25 strategic management plan. Topics included the refrigerant business and heat pump space and water heating business.

5. Systems to Ensure Appropriate Business Within Industry Bodies Made Up of Concerned Limited Companies and Their Parent Companies and Subsidiaries

- Daikin Industries and group companies strive to raise corporate value and fulfill corporate social responsibility through actions based on our Group Philosophy. Group companies maintain close communications to share directives and orders, as well as to share guidance, advice, and evaluations. We work to ensure all group business is conducted in the most appropriate manner.
- With the exception of inside information, key decisions made by the board of directors and Executive Officers Committee are shared within the group. We execute corporate actions based on consensus to ensure appropriate decisions are made to the satisfaction and agreement of all relevant parties.
- The head office establishes divisions responsible for managing and supporting group companies. The head office maintains constant and close contact with group companies to provide operational support for performing necessary measures. At the same time, the Group Steering Meeting leads in the sharing of information group-wide, disseminating basic policy, while and promoting and supporting solutions to issues at group companies.
- Key decisions at our subsidiary companies are subject to Management Regulations to

Limit Authority of Daikin Group Companies, revised in April 2008. These regulations provide a basis for prior consultation and participation, as well as fact-finding to determine the status of conditions at subsidiaries.

- In August 2005, we began creating and upgrading our system for internal control over financial reporting to satisfy requirements for internal controls and report systems as provided in the Financial Instruments and Exchange Act. Today, our systems ensure the appropriateness business processes that influence financial reporting across the group. We ensure the effective and appropriate submission of internal control reports as stipulated in Article 24, Paragraph 4, Item 4 of the Financial Instruments and Exchange Act. We perform ongoing evaluations to confirm the mechanisms we have built are functioning properly. When necessary, we revise these mechanisms as we confirm that we are compliant with the Financial Instruments and Exchange Act and other related laws and regulations. In fiscal 2008, in conjunction with our internal control and reporting system, we formulated our Global Accounting Regulations, which we have disseminated to Daikin worldwide. These regulations improve the effectiveness and appropriateness of our accounting and accounts settlements.
- On a company-wide basis, we strengthened the accounting functions at business units and subsidiaries, conducted financial audits through our Finance and Accounting Division, implemented special audits through the Internal Auditing Department, improved and strengthened self-monitoring at each business unit, trained accounting staff, and conducted monitoring via the Finance and Accounting Division. In addition, we conducted communications and training on the importance of compliance conducted through Legal Affairs, Compliance, and the Intellectual Property Center. In these ways, we structured and strengthened initiatives as appropriate for reliable financial reporting.

(Status of Major Activities During Fiscal 2022)

- The results of proceedings at board of directors meetings and Executive Officers Committee were conveyed to divisions and group companies for the sake of sharing information on company-wide issues.
- We assessed the creation and status of internal controls over financial reporting. Necessary revisions were made and reports on the assessments submitted to the board of directors.
- In order to confirm the appropriateness of our accounting procedures, we conducted financial statement audits and special audits, and discussed the progress of related initiatives in the Corporate Ethics and Risk Management Committee.

## 6. Ensuring Viability of Audits by Audit and Supervisory Board Members

- Besides participating in meetings of the board of directors, members of the Audit and Supervisory Board participate in the Executive Officers Committee and Corporate Technology and Product Committee, where they receive reports and offer their opinions. To ensure the viability of audits, the Audit and Supervisory Board receives regular reports about key issues that affect company management and performance. Meanwhile, directors, executive officers, and employees of Daikin Industries and the Daikin Group companies report promptly and appropriately to the Audit and Supervisory Board members on necessary matters related to the execution of their duties. Daikin Industries and group directors understand that such reports must not be used to the disadvantage of the group.
- Members of the Audit and Supervisory Board hold periodic opinion-exchange meetings with representative directors, executive officers, and independent auditors. A group-wide framework is in place for the unhindered exercise of authority by members of the Audit and Supervisory Board. This framework allows members to, for example, take part in key meetings, investigate relevant business units, and confirm approvals of internal memos. To ensure that this framework is implemented, auditors are appointed in major group companies for the purpose of facilitating the smooth flow of information. Members of the Audit and Supervisory Board call together auditors at the Group Auditors Meeting. At these meetings, attendees exchange information and auditors are trained in auditing methods. Expenses related to work performed by members of the Audit and Supervisory Board are paid as incurred.
- Members of the Audit and Supervisory Board Members are assigned support staff. The Office of Audit & Supervisory Board provides assistance for auditing work. Office of Audit and Supervisory Board Members staff carry out their duties under the orders of the Audit and Supervisory Board. Decisions on employee transfers and evaluations take into account the opinions of the Audit and Supervisory Board.

### (Status of Major Activities During Fiscal 2022)

- Members of the Audit and Supervisory Board held information exchange meetings twice with the representative director, 28 times with directors and executive officers, and 23 times with independent auditors.
- In addition, the Audit and Supervisory Board held an online group audit meeting with the audit managers of major domestic and overseas group companies.

## **2. Philosophy and Systems for Dealing with Anti-Social Forces**

The Group Action Guidelines set forth in the Daikin Handbook for Corporate Ethics includes a section titled, "Maintaining a Firm Attitude against Anti-Social Activities." This section details ways in which we implement these guidelines. The Compliance and Risk Management Leader Council is kept up to date on all related matters, holding meetings to educate employees on dealing with anti-social forces.

## V. Other Matters

### 1. Anti-Takeover Measures

Anti-Takeover Measures	None
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Supplementary Explanation
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### 2. Other Matters Related to Corporate Governance

This section describes the state of internal systems related to the timely disclosure of corporate information.

#### 1) Basic Philosophy

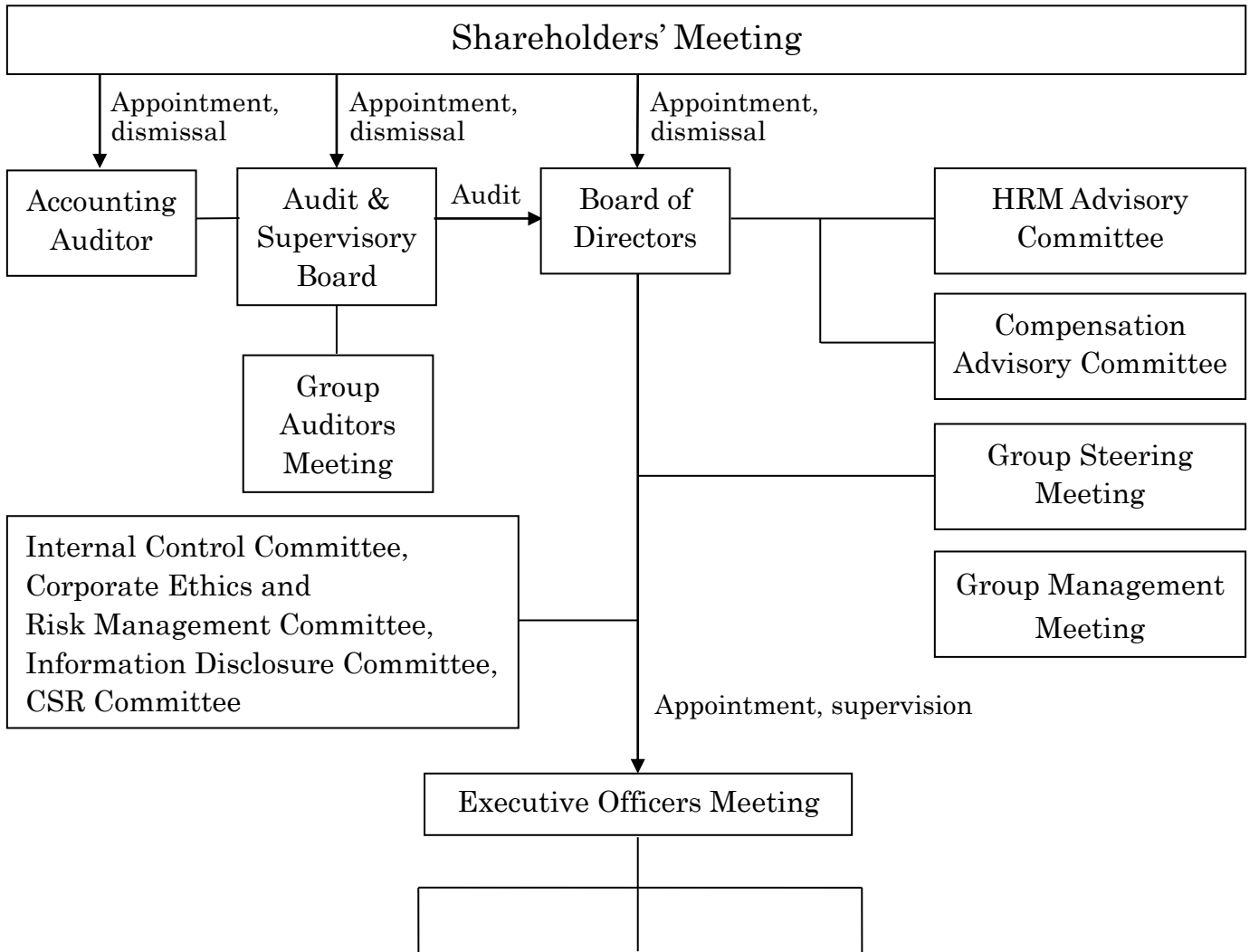
The Group Action Guidelines set forth in the Daikin Industries Handbook for Corporate Ethics includes a section titled, “Timely and Proper Disclosure of Corporate Information.” Our basic guidelines related to information disclosure are designed to ensure that Daikin Industries is a highly transparent company trusted by society.

#### 2) Internal Systems Related to Timely Disclosure

- We have established an Information Disclosure Committee chaired by the executive officer in charge of Corporate Communication. The mission of this committee is to ensure timely and proper disclosure of information, raising our reputation for integrity.
- In the event of an incident, the division responsible for the information in question reports to the division in charge of managing said information. If the incident is subject to matters stipulated in the Board of Directors Regulations, a report is also provided to the board of directors. The division in charge of managing the information in question gathers documents related to the event, providing a report to the Information Disclosure Committee. The Information Disclosure Committee decides whether to publish a timely disclosure and propose a related resolution. Next, the Information Disclosure Committee contacts the Corporate Communication Department, which will make a public announcement according to direction of the manager in charge of handling the information in question (the officer in charge of Corporate Communications).
- Matters for decision and financial settlement information are submitted to the board of directors by the division responsible for the information. A report is also provided to the division in charge of managing the information in question. This division gathers factual

documents and reports to the Information Disclosure Committee. The Information Disclosure Committee decides whether to publish a timely disclosure and propose a related resolution regarding disclosure content. Next, the Information Disclosure Committee contacts the Corporate Communication Department, which make a public announcement according to from the direction of the manager in charge of handling the information in question (the officer in charge of Corporate Communications).

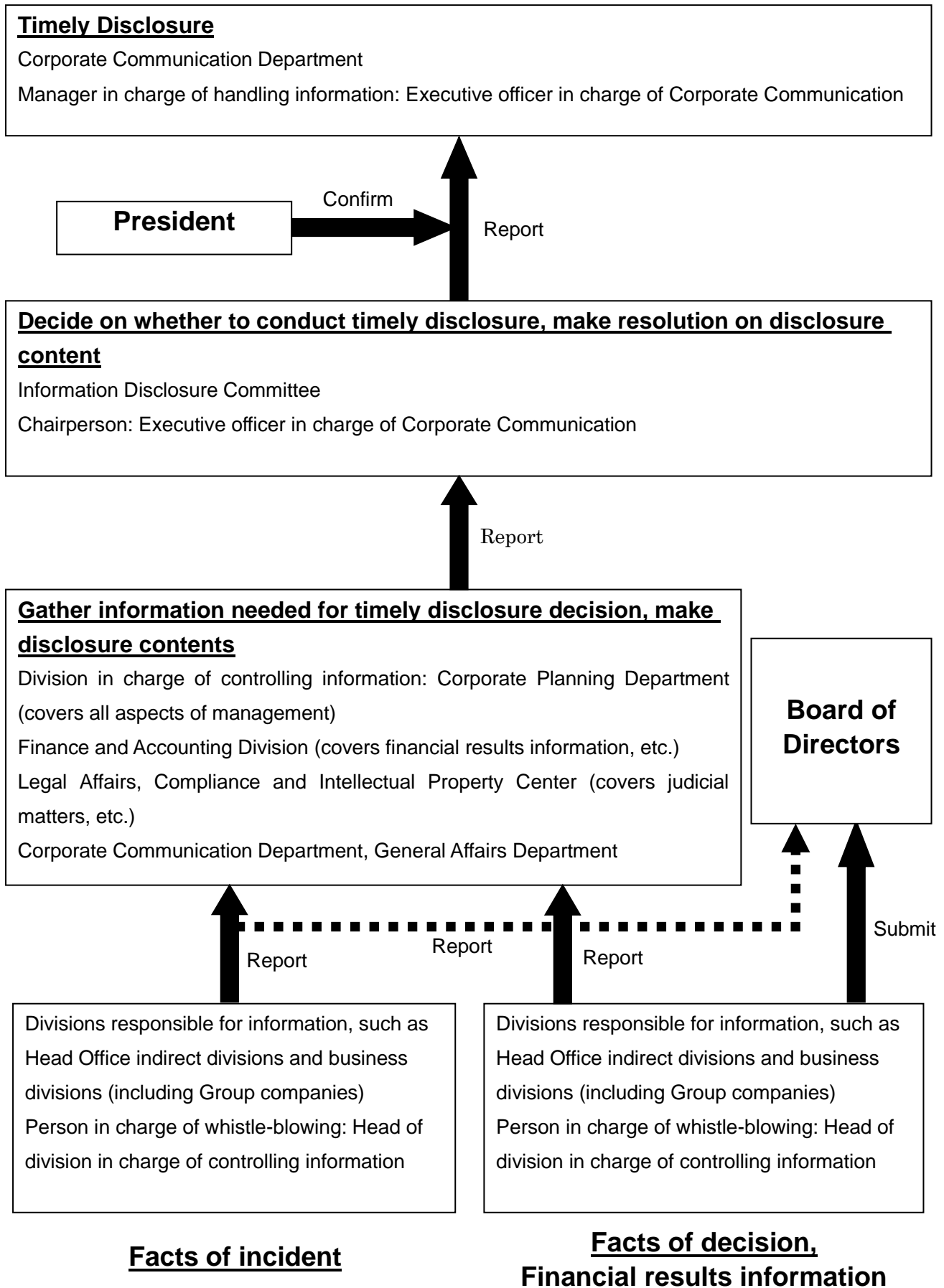
- Timely disclosures are published after the information is reported to and confirmed by the president of the company.



(The rest is abbreviated)



## **[Overview of System for Timely Disclosure]**



[Skill set of our company's board of directors: experience and knowledge of each director]

- Our company strives to materialize advanced management with an “integrated management” system in which directors quickly make strategic decisions and conduct sound and appropriate supervision and guidance, thus achieving collective management responsibility across all management, and at the same time, assume work execution responsibility through prompt action. We believe this integrated management system is effective in speeding up decision making and execution. Directors make decision, execute operations, and provide supervision and guidance in an integrated manner, thus executing their own decisions and taking responsibility for seeing these through.

We appoint 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 they take responsibility for supporting our "integrated management" from the standpoint of transparency and soundness.

- In appointing directors, we emphasize that they have diverse background including nationality, gender, and career from a perspective of business globalization, expanding business and practicing diversity management.

Furthermore, our company believes that the competence sought in directors are qualities necessary in corporate management, namely, leadership that draws out the potential of people and drives an organization to enhance action-taking capabilities, speedy action to materialize foresight and insight that are a half step ahead of society gained through staying at the *genba* (actual site) where information originates, willpower and decisiveness to come out with solutions to issues without answers, and capability to pass down and further develop the respected philosophy and value of companies.

Based on the abovementioned appointment policies, directors are appointed and for independent directors we require that they have work experience such as directors of listed companies.

- With an aim to boost the corporate value of our Group, increasingly expand our global businesses and accomplish the key strategies set forth in Fusion 25, our company will further enhance corporate governance through our board consisting of corporate managers with extensive experience and deep insight.

All of our company's 10 directors with their extensive experience and deep insight as corporate managers generated significant results in their respective fields thus far. We believe the attributes possessed by each director are necessary skills for further improving our Group's corporate value.

The six internal directors, while carrying out their respective operations, will further expand global businesses, promote and execute initiatives on environmental strategies and the solutions business, and focus efforts in accomplishing them.

The four independent directors are selected for their participation in making decisions and supervising management from an independent and neutral point of view. Current members with experiences in their own companies and knowledge in their respective areas, possess the necessary skills in contributing to the Group's accomplishment of the important strategies.

Furthermore, for the functions of management base such as sales, production, finance & accounting, legal affairs and digital transformation, executive officers are appointed to dedicate themselves in executing operations. At the same time, each officer attends the board meeting in accordance with the agenda of the board meeting to secure the effectiveness of decision-making and supervision of the board.

Name	Experience and knowledge of each director and their expected roles
Noriyuki Inoue	<b>Mr. Inoue has been in charge of the management of our company</b> over many years and has achieved significant <b>results in globally expanding business and improving corporate value using business judgement with foresight and Group management capabilities capitalizing on diversity</b> . He will <b>promote building a management model looking ahead to a new era</b> .
Masanori Togawa	<b>As the Representative Director, President and CEO, Mr. Togawa</b> made efforts in <b>executing the strategic management plan and in developing the Group</b> . He will continually strive to <b>attain the Fusion 25 plan</b> as well as <b>demonstrate his strong leadership to promote measures flexibly and quickly</b> under the ever-changing environment for further business expansion.
Ken Tayano	<b>Mr. Tayano</b> has been in charge of the <b>air conditioning business in China</b> over many years and significantly contributed to business expansion. Today he is in charge of the <b>overall businesses in the China region and air conditioning business in Japan</b> as well as <b>reinforcing sales and marketing capabilities of the entire Group</b> . <b>Leveraging his capability in responding to rapid changes in China and management capability that capitalizes local human resources</b> , he aims to further expand business.
Masatsugu Minaka	<b>Mr. Minaka</b> has been in charge of the <b>air conditioning business in Europe</b> over many years to significantly contribute to business expansion. Today he is in charge of the <b>overall businesses in Europe, Middle East and Africa</b> . <b>Leveraging his capability in responding to environmental issues advanced in Europe and management capabilities to integrate diverse local human resources</b> , he aims to further expand business.
Takashi Matsuzaki	<b>Mr. Matsuzaki</b> has engaged in the <b>air conditioning business</b> for many years and significantly contributed to expanding business particularly in terms of <b>R&amp;D and product development</b> . Currently he is in charge of solution technology. He will <b>develop leading-edge technology beyond AC equipment and create new businesses</b> .
Kanwal Jeet Jawa	Mr. Jawa has engaged in the <b>air conditioning business in India</b> over many years to significantly contribute to business expansion. Currently he is in charge of the <b>air conditioning business in India and East African regions</b> . <b>Leveraging his rich experience in the air conditioning business and capability in developing business in emerging regions</b> , he aims to further expand business.
Tatsuo Kawada	Leveraging the abundant experience and deep insight <b>as a corporate manager at Seiren Co., Ltd., Mr. Kawada</b> provides advices and supervision to our company's management matters from an extensive and advanced insight as an <b>independent director</b> with a focus on his viewpoints regarding <b>business model transition, innovation creation and others</b> .
Akiji Makino	Leveraging the abundant experience and deep insight <b>as a corporate manager at Iwatani Corporation, Mr. Makino</b> provides advices and supervision to our company's management matters from an extensive and advanced insight as an <b>independent director</b> with a focus on his perspectives regarding <b>energy, environmental fields, service business and etc.</b>
Shingo Torii	Leveraging the abundant experience and deep insight <b>as the corporate manager of Suntory Holdings Limited, Mr. Torii</b> provides advices and supervision from an extensive and advanced insight as an <b>independent director with a focus on perspectives regarding corporate management anticipating customers' needs, corporate activities on SDGs and ESG, and others</b> .
Yuko Arai	Leveraging the abundant experience and deep insight <b>as the corporate executive of the ANA Group, Ms. Arai</b> provides advices and supervision from an extensive and advanced insight as an <b>independent director with a focus on perspectives regarding customer-centric corporate management and business development, and the further promotion of the activities of female employees</b> .