



Corporate Social Responsibility Report

2009



Corporate Social Responsibility Report 2009

The Air You Live In

Air is something that surrounds us

24 hours a day.

In fact, our existence, as well as the Earth's, depends on it.

At Daikin, the future of the world's

air is our greatest concern.

We use the knowledge, innovation and

technologies dedicated to air,

and cultivated over many years,

to improve the quality of air we breath

and the quality of lives we live.

This is our mission.

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Editorial Policy of the Report

This CSR Report covers the efforts of the Daikin Group's CSR (corporate social responsibility). It reports on our basic CSR philosophy, achievements in fiscal year 2008, and plans for the future. We organized this CSR report by what we consider to be the key themes of our CSR activities—the environment, quality & customer satisfaction, human resources, and social contribution. We have features on two areas that we have particularly focused on in recent years: the prevention of global warming and the fostering of human resources.

About the Website Report

The printed version of the CSR Report gives an accessible overall picture of the Daikin Group's CSR by focusing on the key themes and activities of fiscal year 2008. Our website gives more detailed information and information on past activities. In addition to a chapter on environmental protection, the website has other chapters organized by stakeholders: customers, business partners, shareholders and investors, employees, and communities. This makes it easier for each stakeholder to get to the information.
<http://www.daikin.com/csr>

Environmental Performance Feature 1 ⇨ P.11

Lessening the Impact of Global Warming with Heat Pump Technology

Heating with Renewable Energy Contribution to Worldwide Comfort and Prevention of Global Warming



Environmental Performance Feature 2 ⇨ P.13

Helping Customers Reduce CO₂ Emissions (1)

Running Products Efficiently – Air Conditioning Network Service System II Helps Customers Reduce CO₂ Emissions



Environmental Performance Feature 3 ⇨ P.15

Helping Customers Reduce CO₂ Emissions (2)

Customers' Eco-Action Leads to Reforestation Re: AIRCON Project



Environmental Performance Feature 4 ⇨ P.17

Global Environmental Management

All Bases, Whether Newly Established or Newly Acquired, Share a Common Environmental Policy



Social Performance Feature 5 ⇨ P.33

Fostering the Human Resources That Support Our Growth

Share Daikin's Philosophy and Understanding So That Employees Can Grow with the Company



Daikin Organizations Covered:

This report covers Daikin Industries, Ltd. and its consolidated subsidiaries. Environmental performance data, however, covers four Daikin Industries, Ltd. production bases: eight production subsidiaries in Japan, and 17 production subsidiaries overseas. (See our website for company names and other information.) Note that only the figures on pages 3-4 for performance, number of employees, and number of subsidiaries include O.Y.L. Industries Bhd, which Daikin acquired in 2006, and O.Y.L. subsidiaries.

Reference Guidelines:

Environmental Reporting Guidelines (fiscal year 2007 edition) released by the Ministry of the Environment, Sustainability Reporting Guidelines Third Edition (G3) released by the Global Reporting Initiative (GRI)

Term Covered: This report covers fiscal year 2008 (April 1, 2008 to March 31, 2009).

Publication Date: June 2009 (Japanese edition) The next publication (Japanese) is planned for June 2010.

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Note

In reporting on fiscal year 2008 environmental protection activities, data was carefully reviewed and was revised in cases where discrepancies occurred between actual results and information reported for fiscal year 2007. Also, because figures are rounded off, totals may not equal the sum figures.

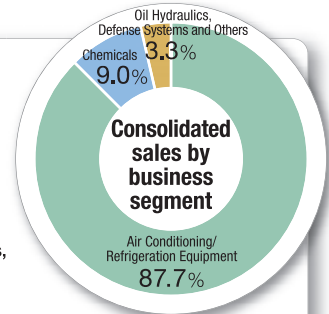
Forecasts, Expectations, and Plans

This report includes forecasts, expectations, and plans, in addition to past and present facts, about Daikin Industries, Ltd. and its subsidiaries (collectively called the Daikin Group). Please be aware that these are assumptions and judgments made based on the information available at the time this report was written and thus incorporate a degree of uncertainty. Consequently, there is a risk that events occurring in the future may turn out differently from the forecasts, expectations, and plans stated in this report.

World-Leading Technologies Create New Value and Contribute to Society

Air Conditioning and Chemical Technologies Work Hand-in-Hand

The Daikin Group offers products utilizing technologies in both air conditioning and fluorochemicals to provide living space with comfort. We also contribute to sustainable development of society through proprietary advanced technologies and advanced R&D in our oil hydraulics business, which encompasses energy-efficient technologies cultivated in our air conditioning business, and our defense systems business, which provides a wide range of products from aerospace parts to medical equipment.



Air Conditioning Business

Achieving Both Comfort and Environmental Consciousness to Meet All Global Air Conditioning Needs

We meet the world's air conditioning needs with products for homes and offices as well as large-scale systems for factories and airports. Using our core technologies of heat pumps, inverters, and humidity control, we have developed the high-energy-efficient

Ururu Sarara residential air conditioner and heat-pump hot water and interior space heaters, products that offer comfort with minimal environmental impact.

Residential Air Conditioners



Ururu Sarara

Hot Water and Space Heaters



Daikin Eco-Cute

Buildings



Commercial air conditioning systems

Chemicals Business

World's Leading Lineup of Fluorine Compounds

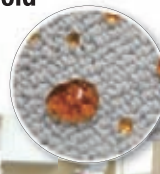
We develop a range of fluorine compounds including fluoropolymers and fluoroelastomers. With their heat and chemical resistance, as well as water- and oil-repelling qualities, fluorine compounds add environmental consciousness to a wide range of applications in the automotive, semiconductor, and household goods sectors.



Automotive
Fluoroelastomers

Household Goods

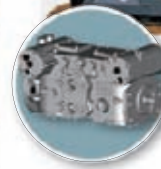
Unidyne water and oil repellent



Oil Hydraulics, Defense Systems Business

Proprietary Technologies at Work in a Range of Industries

Daikin's proprietary hydraulic technologies make use of an inverter to save energy in machine tools and are also at the heart of construction equipment. Our advanced precision processing technology is used in manufacturing aerospace parts and medical equipment with exacting tolerances and functions.



Construction Equipment
Hydraulic transmission

Machine Tools

EcoRich R



Refrigeration and Air Conditioning Systems

Fluorocarbon refrigerants



In-Home Medical Equipment

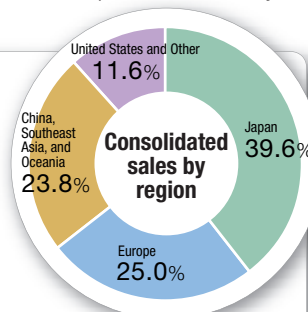
Oxygen concentrator

The Daikin Group's main products are air conditioners and fluorochemical products. Air conditioners consume large amounts of energy and fluorocarbon refrigerants are greenhouse gases that contribute to global warming. Because of the nature of our business, we make it a top priority to help prevent global warming, and we do everything we can to reduce the impact of our business on the environment. With more than

40,000 employees worldwide and overseas sales accounting for more than 60% of the group total, we strive to respect the cultures and values of the countries and regions where we operate while at the same time sharing our success with our various stakeholders. We will continue to use our world-leading technologies and business activities to create new value and contribute to sustainable development of society.

Worldwide Business

We do business around the world in countries and regions like China, Southeast Asia, Oceania, Europe, and North America. We have 40,126 employees at worldwide production and sales bases, with about two-thirds of employees outside Japan. By respecting the cultures and values of each country and region, we strive for a workplace that brings out the motivation and unique personality of each employee.



Company Profile (as of end of March 2009)

Name: Daikin Industries, Ltd.

Address:
Umeda Center Building, 2-4-12,
Nakazaki-Nishi, Kita-ku, Osaka, Japan

Incorporated: February 11, 1934

Founded: October 25, 1924

Capital: 85 billion yen

Head Office: Kita-ku, Osaka

Tokyo Office: Minato-ku, Tokyo

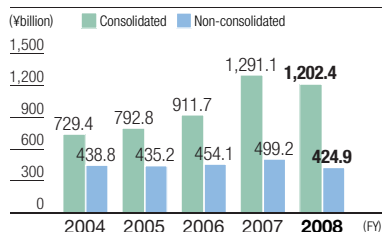
Sakai Plant (Sakai, Osaka Prefecture):
Air conditioning/refrigeration equipment, compressors

Shiga Plant (Kusatsu, Shiga Prefecture):
Air conditioning equipment, compressors

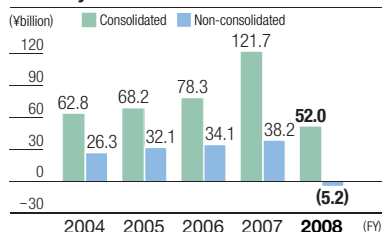
Yodogawa Plant (Settsu, Osaka Prefecture):
Fluorochemical products, oil hydraulic equipment, defense/medical equipment

Kashima Plant (Kamisu, Ibaraki Prefecture):
Fluorochemical products

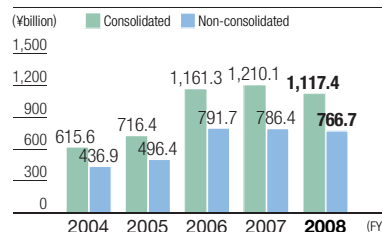
Net Sales



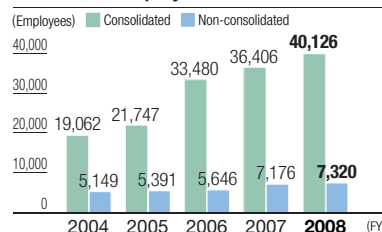
Ordinary Profit



Total Assets



Number of Employees (Workforce)



Note: The values for net sales, ordinary profit, and total assets from fiscal year 2004 to 2007 were revised in May 2009.

Environmental Protection and Human Resource Development — Pillars of Daikin CSR



Noriyuki Inoue

Chairman and CEO
Daikin Industries, Ltd.

The Daikin Group has grown into a global corporation of more than 40,000 employees that manufactures and sells products around the globe including Europe, China, and North America. From such a global company as Daikin, society expects much and Daikin is working to respond to these expectations by making environmental protection one of its most important missions.

Our job is to utilize resources to make homes comfortable, more fulfilling places to live. Our greatest mission is to deliver what customers want in the form of safe, high quality products and to satisfy them through our products and services. Another is to ensure that minimal environmental impact ensues during the manufacture and use of these products. We believe that we can make our business sustainable by striving to achieve both comfortable living environments for customers and environmental protection.

Protecting the Environment with Eco Technologies and Products

Under our FUSION 10 strategic management plan targeting 2010, we aim to reduce greenhouse gas emissions in the production process in fiscal year 2010 to half of 2005 levels. We also set themes under FUSION 10 with the aim of contributing to the prevention of global warming by promoting the widespread use of our environmentally conscious products. We are placing a special focus on promoting the use of heat-pump type heating systems and energy-efficient inverter type air conditioners.

Heat-pump type heating systems, which draw heat from the air, are one type of product that helps prevent global warming. Compared to combustion-type heaters that burn oil or gas, heat-pump heaters keep CO₂ emissions to about half. In 2008, the heat pumps were recognized in the EU as “technology that captures renewable energy.” Switching from combustion-type heaters to heat-pump heaters can help reduce CO₂ emissions in the heating process. Inverter air conditioners, while common in Japan, still have a low penetration rate in the rest of the world.

We established two joint venture companies in February 2009 with Chinese air conditioner manufacturer Gree Electric Appliances Inc. of Zhuhai

in Guangdong Province with the aim to accelerate the widespread use of energy-efficient inverter air conditioners in order to provide customers with comfort while reducing the impact on the environment. We are planning to develop air conditioners that are as technologically advanced as those made in Japan and provide these to growing air conditioning markets in China and other emerging markets.

In Japan, where energy-efficient air conditioners are more common, we have started the Re: AIRCON Project to help customers get the most out of their products' energy efficiency while contributing to reducing CO₂ emissions. The energy-conserving room air conditioners that we provide in Japan boasts "comfortable eco-operation" that provides a pleasant indoor environment at minimal energy consumption by the touch of a button. It is also equipped with an "eco-point." A tree grows on the screen of the remote control every time customers select "comfortable eco-operation," and the operation is linked to a Daikin reforestation project in Indonesia. Not only do customers reduce CO₂ emissions, they have fun doing it. We will contribute to society on a global scale with our environmentally conscious products.

People: The Force behind Our Business and Change

It is our people who develop these products and bring them to consumers. As our business expands and as overseas activities make up an increasing part of our sales, fostering employees on a global scale becomes crucial. It is thus essential to pass on the all-important manufacturing skills, share Our Group Philosophy throughout the entire organization, and foster employees who have management and leadership skills that guide employees with various values in an integrated direction.

We created a base for fostering human resources with the establishment in May 2008 of the Daikin Global Training Center in Aoya, Tottori Prefecture. This facility will host training aimed at providing management and leadership skills to executives of Daikin worldwide bases. It will also contribute to the spread of techniques as engineers from the world polish their skills together.

The driving force behind Daikin's growth is "diversity management," a management style that utilizes the diversity of employees with differing cultural backgrounds and values that understand and respect one another, act based on Our Group Philosophy, and have thorough discussions to develop new products and services. Sticking firmly to this strategy will allow worldwide employees to use their abilities to the fullest and allow Daikin to build a rewarding, vibrant workplace where employees can grow. This we believe will lead to growth for Daikin as a whole.

Aiming for a Truly Global and Excellent Company

In October 2008, in order to clarify our code of conduct to the global community, Daikin participated in the United Nations Global Compact, a strategic policy initiative for companies that are committed to aligning their operations with universally accepted principles pertaining to human rights, labor, the environment, and anti-corruption. Prior to participation, we revised our Handbook for Corporate Ethics to include Global Compact principles, including the abolishment of forced labor and child labor. We will use this handbook as the basis for efforts to abide by laws and to act according to accepted rules of ethics and conduct around the world as we aim to become a truly global and excellent company.

Daikin has been named to the "Global 100 Most Sustainable Corporations in the World" announced during the World Economic Forum in Davos for the past three consecutive years. We want to continue being a trusted corporate group by meeting our stakeholders' expectations to fulfill our social responsibility. With environmental protection and human resource development as our CSR pillars, we will continue to strive for corporate growth and a sustainable society.

June 2009



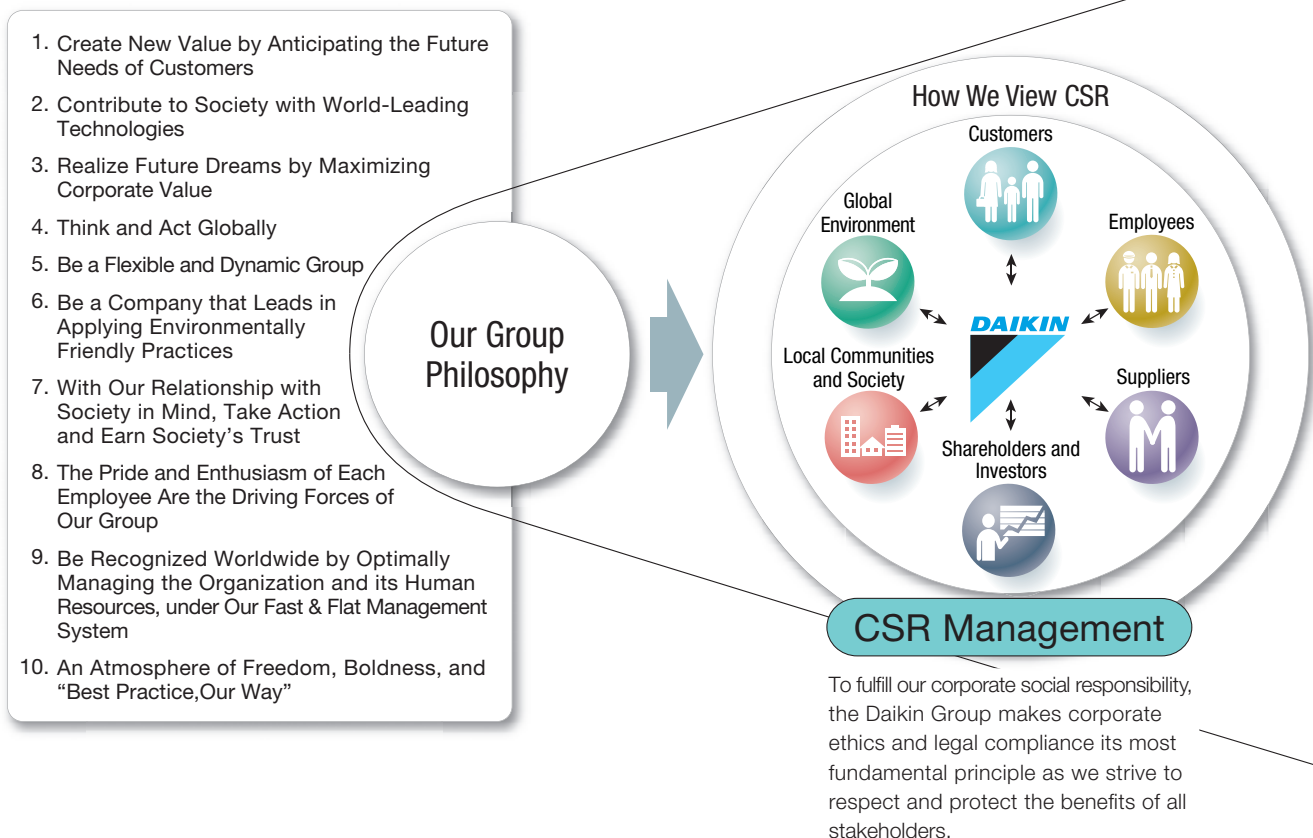
Noriyuki Inoue
Chairman and CEO
Daikin Industries, Ltd.

Realizing a Sustainable Society through Fulfilling Our Responsibility to Stakeholders

Our thoughts and actions are grounded in Our Group Philosophy.

It is our corporate social responsibility to put Our Group Philosophy into action to meet the expectations of our stakeholders and fulfill our responsibilities to society.

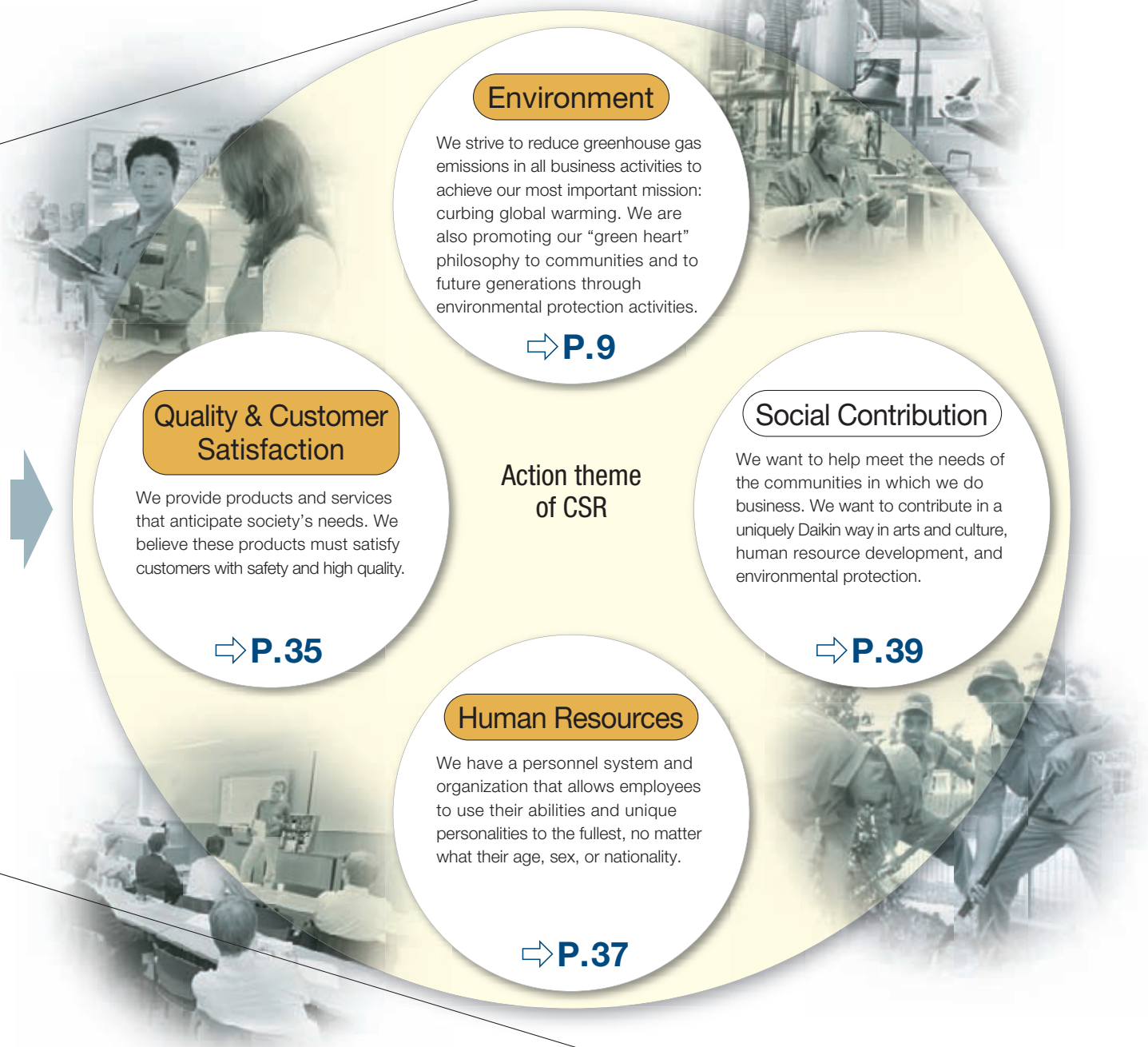
Our CSR is carried out in four key areas—environment, quality & customer satisfaction, human resources, and social contribution—that match the nature of our business.



⇒ **P.40**

How We View CSR in the Daikin Group

1. By ensuring implementation of Our Group Philosophy, the Daikin Group will execute our social responsibilities globally in relations with all our stakeholders, and thereby raise our corporate value and contribute to the sustainable development of society.
2. Based upon thorough observance of legal compliance and corporate ethics, the Daikin Group will carry out our CSR initiatives with priority on contributing to society through our business activities such as: Creating and offering new value by anticipating the future needs of customers; Taking initiatives to sustain and improve the environment in all aspects of our business operations, and promoting the development of new products and the innovation of technologies that will lead to a more environmentally healthy world; Building friendly yet competitive relations with all our business partners such as suppliers; and Cultivating workplaces that foster pride and enthusiasm in each employee. Furthermore, as a good corporate citizen the Daikin Group will make beneficial contributions to each community in which we are based by being highly receptive to its needs.
3. Instead of simply giving consideration to CSR, the Daikin Group will proactively incorporate CSR initiatives in all our business activities, fuse and integrate such initiatives with these activities in order to ensure truly ongoing CSR initiatives and lead to the improvement of our business performance.
4. The Daikin Group will pursue CSR in our unique way by riding on our strengths, such as our atmosphere of freedom and boldness, thorough customer-oriented management, warm hospitality and other valued traditions and culture, as well as world-leading technologies.
5. The Daikin Group will fulfill our CSR by promoting interactive communications widely with society, achieving accountability, and maintaining high transparency.



Daikin Industries, Ltd. joined the United Nations Global Compact in October 2008.

Ten Principles of UN Global Compact

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour Standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.



Towards an Environmentally Advanced Company

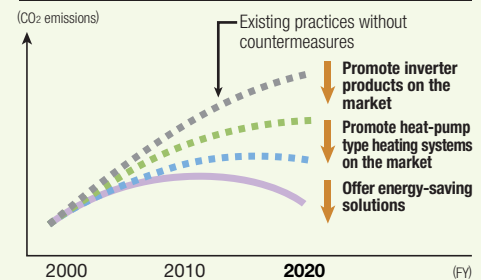
Achieving both environmental protection and economic growth will make Daikin Group a sustainable corporate group. We will realize this through the following three actions. These actions are positioned as strategic environmental themes under the FUSION 10 strategic management plan.

Providing the World with Products That Help Customers Reduce CO₂ Emissions

An air conditioner's life cycle shows that actual product use represents the greatest amount of energy use.

We help customers reduce CO₂ emissions with our energy-efficient products.

Vision Baseline Scenario of CO₂ Emissions from Product Use

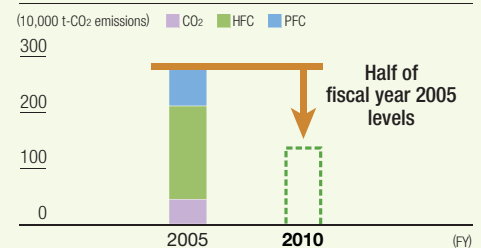


Reduce Greenhouse Gas Emissions from Production

Greenhouse gas emissions from production processes represent a major impact of Daikin's business activities on the environment.

We aim to reduce fiscal year 2010 greenhouse gas emissions from production processes to just half of 2005 levels (to less than 1.4 million tons).

Vision Reduction in the Entire Group Greenhouse Gas Emissions



Spreading a "Green Heart"*

The first step towards passing the abundance of nature on to future generations comes from cultivating a love of nature and putting this love into action.

We widely promote a "Green Heart" to communities and to future generations through contributions that meet the needs of each country and region.

*"Green Heart": think of the Earth and take care of the environment

Vision Expanding a Green Heart



Daikin Industries, Ltd. was presented with official certification for the Eco First Program established by Japan's Ministry of the Environment. Daikin is the first company in the industry to earn the right to use the Eco First symbol.



Environmental Philosophy

Be a Company That Leads in Applying

Environmentally Conscious Practices

As we continue developing our business operations in various fields, it is our mission to proactively develop initiatives to respond to environmental issues. Incorporating environmental initiatives throughout our management must be a priority for us.

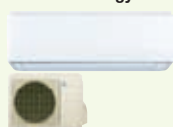
In all aspects of our business operations, including product development, manufacturing and sales, we need to formulate initiatives that sustain and improve the environment. Meanwhile, we need to promote the development of new products and the innovation of technologies that will lead to a more environmentally healthy world.

Under the precept "environmental response is an important management resource," we must integrate environmental initiatives into our corporate management since they can lead to business expansion, improved business performance, and further enhancement of our credibility with outside parties. We intend to continue being a leading company in the practice of "environmental management," thus contributing to a healthier global environment as a good citizen of the earth.

⇒ Feature **P.11-14** Performance Report **P.23-26**

Action themes

Promote the use of inverter products offering both comfort and energy efficiency



Inverter air conditioner

Reduce CO₂ emissions by promoting the use of heat-pump type heating systems



"Eco-Cute" for residential use



"Altherma" hot water heating and interior heating systems

Offer energy-saving solutions

Develop future refrigerants

⇒ Feature **P.17-18** Performance Report **P.27-30**

Action themes

Reduce CO₂ emissions from production



Improve production efficiency



⇒ Feature **P.15-16** Performance Report **P.31**

Action themes

Reforestation and tree-planting



Reforestation project (Indonesia)

Environmental education



Environmental education (China)

Action Guidelines

1. Ensure that all members of the Group deepen our understanding of environmental issues and take responsibility for the impact our actions have on society in general.
2. Establish, promote, and continuously improve an Environmental Management System to actively and effectively implement Environmental Management as a Group.
3. Develop and implement environmental initiatives in all aspects of our business operations, including product development, production, sales, distribution, services, and recycling. In particular, be a leader in society by developing products, technologies, and business opportunities that contribute to sustaining and improving our environment.
4. Implement environmental initiatives that are globally consistent as well as promote initiatives that respond to the particular circumstances of each country and region. Furthermore, actively promote cooperation and alliances with related companies, external organizations, and institutions.
5. Disclose environmentally related information in a truthful and fair manner. Listen to the views of people both inside and outside the company to continuously improve our environmental preservation efforts.

Honors for Daikin in Fiscal Year 2008

A network for the unified management of information on fluorocarbon recovery and destruction

Minister of Economy, Trade and Industry Prize,
11th Ozone Layer Protection and Global Warming Prevention Awards



The remote energy-saving tuning function of Air Conditioning Network Service System II

Minister of the Environment Prize,
Eco-Service category,
5th Eco-Product Awards



DESICA system

Energy Conservation Center Chairman's Prize,
2008 Energy Conservation Awards



Energy-efficient hybrid hydraulic Super Unit

Technology Development Prize,
Japan Fluid Power System Society

The cooling system for Asahi Breweries' Suita Brewery

Energy Center Chairman's Prize,
27th Awards for Outstanding Energy Efficiency



Conveni-Pack

Incentive Prize,
Heating and Cooling category,
German Environment Ministry



Innovation Trophy,
Equipmag 2008
(exhibition in France)



Growing as a Company While Protecting the Environment

With the growth of the Daikin Group comes greater environmental impact. Although our main mission as an air conditioner company is to provide people with comfortable air, it stands to reason that the more air conditioners we provide, the more CO₂ is emitted.

To ensure protection of the environment while achieving sustainable corporate growth, the Daikin Group makes "reducing CO₂ in business activities" a top priority and aims to achieve this by developing energy-efficient products and minimizing the amount of energy used in production and distribution. One particular focus of these efforts is the spread of products using heat pump technology.

Making Use of Natural Energy

In heat pump technology used in air conditioners, heat is drawn from the air and transferred for use in cooling

and heating. Compared to methods that directly burn gas, oil, or coal, heat pump technology emits less than half the amount of CO₂ (in the case of Europe and Japan).

Around the world today, there is a growing movement to decrease CO₂ emissions by moving away from the use of fossil fuels and instead use renewable energy sources such as solar, wind, hydro, and geothermal power. Heat energy that exists inside air and water is one form of renewable energy. Like solar panels that convert the sun's energy to electricity and wind turbines that convert the power of the wind to energy, heat pump technology allows us to make use of an endless supply of energy.

In 2008, heat pumps were recognized in the EU as "technology that captures renewable energy." EU members are working towards the EU's goal for 2020 of reducing CO₂ emissions by 20% and raising renewable energy to 20% of the energy mix. With this recognition, heat pump technology will contribute to achieving this goal.

Heating with Renewable Energy Contribution to Worldwide Comfort and Prevention of Global Warming

Heat pump equipment extracts renewable natural heat energy that produces less CO₂ emissions than energy generated by fossil fuels such as oil and coal. Daikin is developing and promoting the use of heat pump equipment to enable both improved energy conservation and comfort to all regions of the world.



Eco-Cute (Japan)

The energy-efficient Eco-Cute heat pump water heater uses natural refrigerant and heat pump technology to heat water for a variety of household uses. The natural CO₂ refrigerant provides excellent performance at a low global warming potential.



Altherma (Europe)

This heat pump for hot water heaters and heating systems was introduced to Europe in 2006 and offers residential users the opportunity to heat rooms and water using heat pump technology. We also sell an optional solar panel kit that works in unison to provide electricity courtesy of the sun and thus reduce CO₂ emissions even further.



Hot-Eco VRV (Japan)

This heat pump air conditioner was developed for Japan's cold regions. It maintains its high heating performance even with low outside temperatures and high energy efficiency.

B oosting the Worldwide Heat Pump Business

Space heating and hot water supply account for a large portion of the energy consumed by homes. So converting space heating and hot water supply from conventional combustion methods to the heat pump method can dramatically reduce residential energy consumption and overall CO₂ emissions. The Daikin Group is conducting worldwide marketing activities aimed at getting heat pump heating systems to more people around the globe.

In Japan, Daikin provides "Eco-Cute," a heat pump water heater for residential use and "Hot-Eco VRV," a high efficiency office building multi heater/air conditioner for cold climates, along with commercial use heating systems. Although heat pump technology had once been thought to provide insufficient heating in cold regions, it is now flourishing in these regions because of its improved heating capacity and energy savings.

In Europe, sales are moving briskly for heat pump type hot water heaters and heating systems that we introduced in 2006. In 2008, we began providing a solar panel kit that can supply 30-70% of the necessary electricity for these systems. We are also developing products that will meet the climate and living needs of customers in regions including China and the U.S.

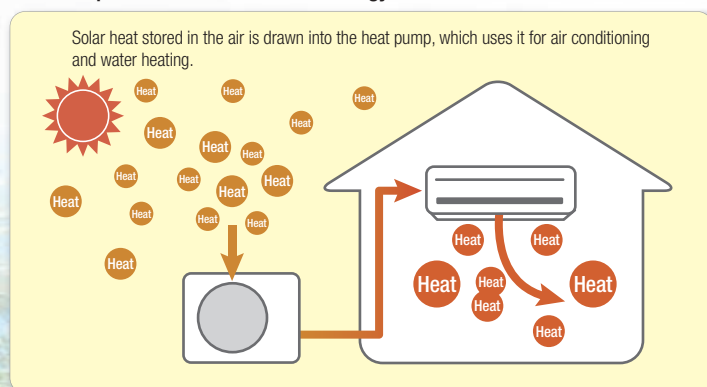
A ir Conditioning Solutions to Match Regional Lifestyles and Culture

Although heaters and hot water heaters using heat pumps offer superior energy performance for space heating and hot water supply, they must match the lifestyles and cultures of each country and region. Space heating and hot water supply vary greatly from country to country since they are incorporated in each culture.

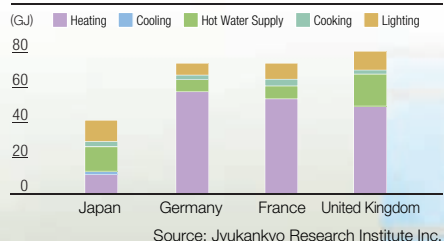
In 2008, Daikin established the Environment Research Centre in Belgium, where we conduct a wide range of research into the needs of European consumers. This facility will be the hub for developing heat pump heaters and air conditioners that are rooted in European lifestyles and cultures.

It is the Daikin Group's dream to provide people around the world with air conditioning solutions offering comfort, energy efficiency, and low environmental impact, and in a form that is in harmony with their lifestyles and cultures. Daikin will continue to move towards this dream one step at a time.

Heat Pumps Use Outside Air as an Energy Source



Space Heating and Hot Water Supply Account for a Large Portion of Home Energy Consumption



Remote Support for Energy-Efficient Operation

Making office buildings energy efficient is crucial to reducing CO₂ emissions. And air conditioners—which account for a full 40% of the energy consumed by office buildings in Japan—hold the key to this CO₂ reduction.

Energy efficiency varies dramatically depending on how air conditioners are used. That's why we also assist customers in how to use them more efficiently through after-sales support. Daikin offers its Air Conditioning Network Service System II, a solution for ensuring that no energy gets wasted in commercial air conditioners. Besides a maintenance control function, which monitors the operational status, offers appropriate maintenance suggestions, and automatically detects potential problems, this system now has "remote energy-saving tuning," which keeps air conditioners at maximum energy savings. Customers will maximize room comfort and minimize energy costs.

Precision Control Cuts Energy Costs up to 20% Annually

The remote energy-saving tuning function is a service in which the Daikin remote monitoring center automatically maintains optimum energy efficiency of a building air conditioner by using information such

as the type of installation, how it is used, and local weather conditions. High efficiency is achieved in three ways: (1) by keeping electricity consumption below the set peak electricity demand, (2) by preventing excessive cooling or heating of rooms, and (3) by automatically controlling air conditioning based on factors specific to the building, such as how the building is used and how many people work there. Buildings at Kyoto University's Katsura campus have saved on average 23% of building energy use (during summer). The university has been especially pleased that it does not require any extra equipment such as sensors.

In March 2009, we added a new function called "energy saving improvement support." This helps customers save even more energy by giving them a dedicated website showing daily operational data by room as well as helpful information such as reminders that equipment has been left on.

This service is also available to customers outside Japan. It was inaugurated in November 2008 in Europe and China after field tests in these regions showed energy reductions of approximately 20%. We are currently conducting field tests in North America and Asia. Our goal is to offer customers around the world services that make the most out of the advanced performance of air conditioners to help our customers save energy.

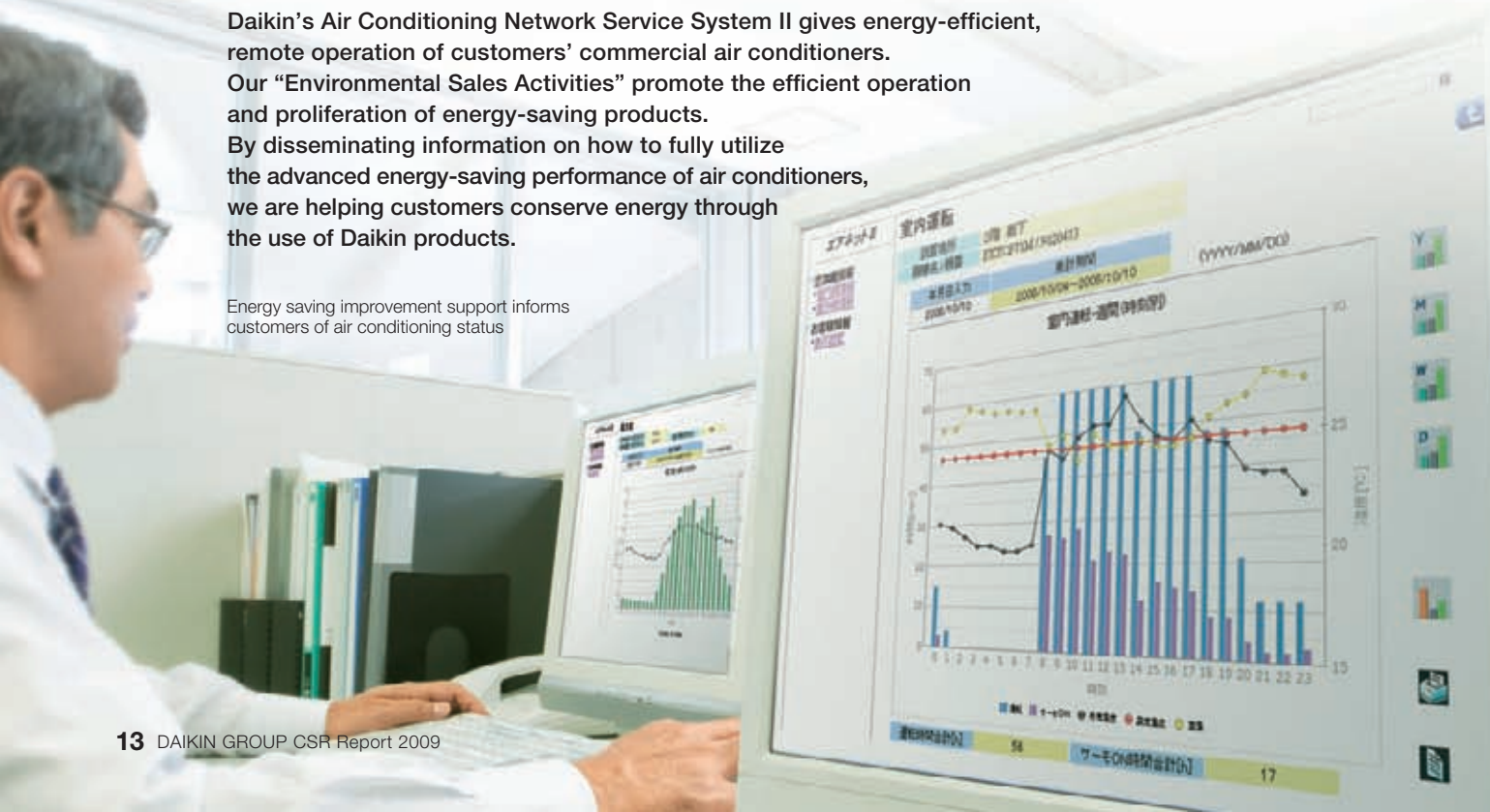
Running Products Efficiently — Air Conditioning Network Service System II Helps Customers Reduce CO₂ Emissions

Daikin's Air Conditioning Network Service System II gives energy-efficient, remote operation of customers' commercial air conditioners.

Our "Environmental Sales Activities" promote the efficient operation and proliferation of energy-saving products.

By disseminating information on how to fully utilize the advanced energy-saving performance of air conditioners, we are helping customers conserve energy through the use of Daikin products.

Energy saving improvement support informs customers of air conditioning status



Environmental Sales Activities Help Proliferate Energy-Efficient Products and Services

In addition to Daikin's Network Service System, we are also helping customers reduce their CO₂ emissions by making our sales staff environmental experts. Daikin sales people are constantly improving their ability to offer customers useful energy-saving advice that covers topics like the Energy Conservation Law and other regulations, green procurement, measurement of CO₂ emissions, and subsidy programs. They are also strengthening their consulting know-how so that our customers gain a better understanding of our products and services.

Our sales people strive to explain environmental issues in their own words. In 2007, the Air Conditioning Sales Group in Japan started its Environmental Sales Activities. We require all sales people to pass the Certification Test for Environmental Specialists (Eco Test) in order to expand their knowledge of the environment and strengthen their consulting ability. We also have environmental solution training courses where sales people can boost their selling capabilities through practical lessons in offering customers solutions. We help everyone get better at presenting customers with solutions that fit their peculiar needs.



Workshop for sales people

Impressions from Our Customers

Entrusting Temperature Control to the Network Service System

Sumiyoshi Ward Office, Osaka



The city of Osaka has set a goal of reducing 2010 greenhouse gas emissions from all its business activities by 7% compared to 2004. We recently installed the Air Conditioning Network Service System II throughout the entire ward office and in the local library, and we expect that it will save much more energy than if we had to adjust air conditioning temperatures manually.

We are extremely satisfied with the system. Besides energy savings, it provides outstanding operational support and maintenance; this includes providing helpful information on improving our air conditioning operation and its advanced usability.

5th Eco-Products Award

In recognition of its contribution to outstanding energy efficiency and CO₂ emission reductions, Daikin Industries' remote energy-saving tuning system for commercial facility air conditioning systems received the Minister's Prize, Ministry of the Environment, in the Eco-Services Category of the 5th Eco-Products Awards in 2008.



Air Conditioning Network Service System II Expands Worldwide



In offices:

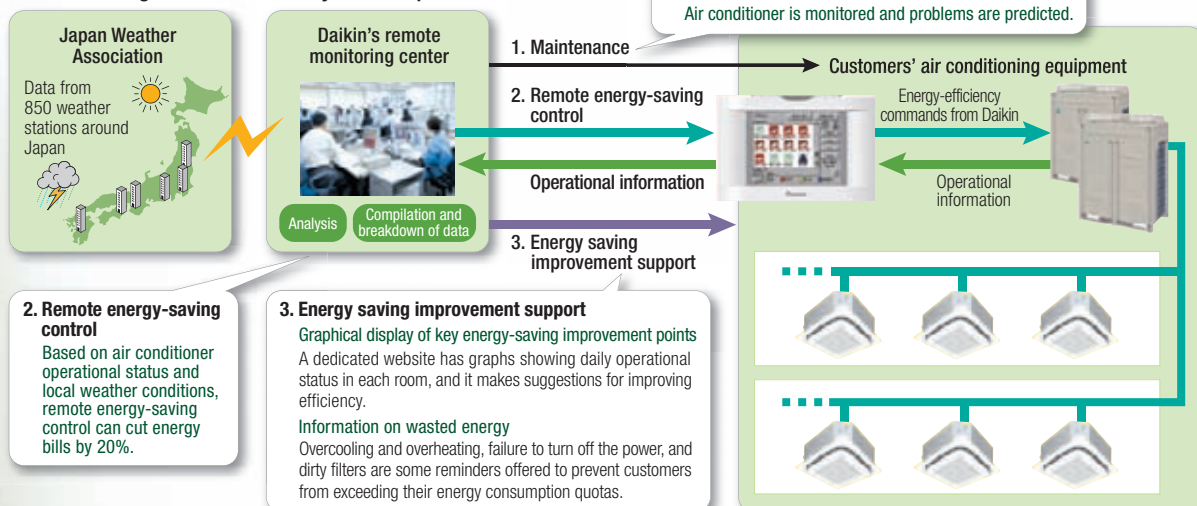
With revisions to Japan's Energy Conservation Law, it is more important than ever for small- and medium-sized enterprises to make their offices and stores more energy efficient.



In schools:

With many local municipalities working to make their schools more energy efficient, school facilities need to be environmentally conscious.

Air Conditioning Network Service System II: Operation





Gunung Gede Pangrango National Park is the site of Daikin's reforestation project.

Customers' Eco-Action Leads to Reforestation Re: AIRCON Project

How air conditioners are used can dramatically affect the CO₂ emissions they produce. Besides offering customers high-energy-performance air conditioners, we want to help them get the most out of these products' performance. That's why we embarked upon a new project that makes customers an integral part of reforestation while they enjoy room comfort and energy efficiency.

Unique Remote Controller Grows Trees and Saves Energy

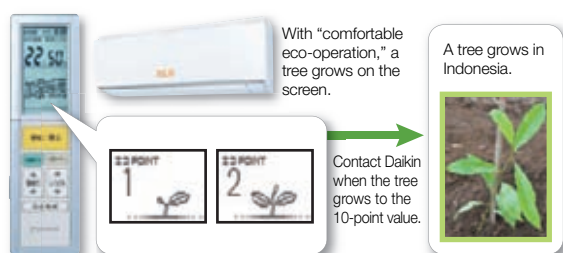
"Team Minus 6%," Japan's national campaign to fight global warming, recommends setting an air conditioning temperature at 28°C in summer. Simply changing the setting temperature from 27°C to 28°C reduces electricity consumption by approximately 10%. However, a lot of people find 28°C excessively warm, so this recommendation is hard to enforce.

We designed a system that enables customers to use the energy-conserving functions of our air conditioners while having fun. The energy-conserving "Ururu Sarara" room air conditioners that Daikin provides

in Japan boast "comfortable eco-operation," which gives a pleasant room temperature with minimal energy consumption at the touch of a button. With comfort eco-operation, even at a temperature of 28°C, the air conditioner automatically sets humidity and airflow levels to achieve maximum comfort.

"Ururu Sarara" is also equipped with an "eco-point" system that is the first of its kind in the industry. Each time customers select "comfortable eco-operation" when they use our air conditioners, they can enjoy watching a tree grow on the screen of the remote control while they maximize their use of the energy-conserving function.

Customers Contribute to Reforestation*



* This service is currently available only in Japan.

Sustainable Reforestation

As a result of this program our customers can participate in our reforestation project, which is a direct effort to protect the global environment. When the tree grows to the 10-point value on the screen of the remote controller and the customer contacts Daikin, a tree is planted for the customer at Daikin's reforestation project in Indonesia.



A series of discussions was held with local communities.

©conservation International, Photo by Anton Ario



Local communities manage a tree seedling nursery.

©conservation International, Photo by Anton Ario

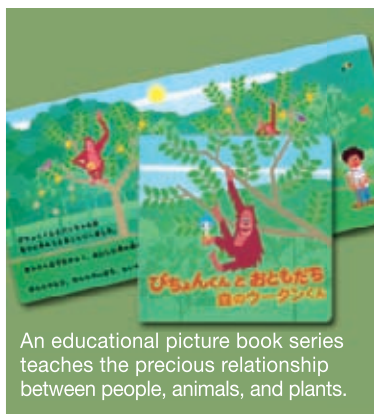


NGO staff provides environmental education to students.

©conservation International, Photo by Anton Ario



In November 2008, a tree-planting ceremony highlighted the start of the reforestation project.



An educational picture book series teaches the precious relationship between people, animals, and plants.



The progress report on RE: AIRCON Project is available at: <http://www.daikin.com/csr/environment/reforestation>

Under this project, a cooperative effort among the Indonesia Ministry of Forestry, Conservation International and Daikin, seedlings are raised and planted in a national park to promote reforestation. This project has been conducted in close collaboration with local communities, who in the past had cut down trees in the national park for agricultural fields. Besides protecting water resources and biodiversity, forests protect local communities by preventing flooding and landslides. The project aims to achieve both forest restoration and protection of livelihoods by providing comprehensive support to local communities, including the development of alternative livelihoods such as forest management and agroforestry.

Since June 2008, we conducted a series of meetings with local communities so that they could gain a better understanding of the project and the importance of reforestation, and the project officially got under way in November 2008. The goal is to reforest approximately 200 hectares over the next three years.

Green Hearts Take Eco-Action

Under an initiative called Re: AIRCON Project, Daikin and its customers cooperate in protecting the environment. Our website promotes the value of protecting nature and company efforts to this end, and it includes periodic reports on progress in the reforestation project.

We will continue to widen the scope of our activities in order to provide as many chances as possible for people to put their "green hearts" — the hearts that are considerate of the Earth and take care of the environment — into action.

Impressions from an NGO

A Big Step towards Protecting Biodiversity

Glenn T. Prickett
Senior Vice President
Conservation International

The ecosystems of Gede Pangrango and Halimun Salak Mountains protect and support the people of West Java, Jakarta, and surrounding cities. In the rainy seasons, the forests prevent sudden flooding and also absorb around 41.82 tons of CO₂. The ecosystems provide clean water to people living in 144 villages and five major cities. They are also crucial to the conservation of endemic species including the Javan gibbon and Javan eagle.

But now the ecosystems are facing serious threats like degradation, illegal logging and encroachment. Conservation International (CI) works to conserve Earth's natural resources — like ecosystems — to benefit human well-being in collaboration with communities, local government, the private sector and other international organizations.

Conservation International (CI)
Building upon a strong foundation of science, partnership and field demonstration, CI empowers societies to responsibly and sustainably care for nature for the well-being of humanity. An International NGO established in 1987, CI is seventh on a list of international NGOs ranked by *The Financial Times* and the United Nations Global Compact, and received the highest rating of four stars from Charity Navigator, America's largest independent charity evaluator.

Impressions from the Local Community

Big Expectations for Reforestation Project

M.S. Kaban
Minister of Forestry, Indonesia

It is extremely important to not only protect our remaining forests but to create an economic motive to the local community for doing so. I am pleased and grateful that agroforestry* has been employed for planting trees and that it has been highly evaluated for using the same land to plant crops.

* Agroforestry: A land-use system in which woody perennials are deliberately used on the same land management unit as agricultural crops, animals or both, either in some form of spatial arrangement or temporal sequence. In agroforestry systems there are both ecological and economic interactions between the different components. (World Agroforestry Centre)

Local Employees Become Enthusiastic Environmental Managers

Over 60% of the Daikin Group's sales come from overseas operations. The Daikin Group grows overseas either through the establishment of new companies or through the acquisition of, or tie-up with, existing ones. We encourage these new group members to work just as hard as their established counterparts in minimizing environmental impact.

When a new company is established, the Daikin Group uses the environmental expertise it has built up from the initial factory planning and construction stages. An environmental officer is appointed at the new company and an environmental management system is created. To ensure that environmental activities are performed thoroughly, we believe that the appointment of local executives—people who know the culture, customs, and language—will result in passionate, dedicated environmental action.

As a result of such locally rooted efforts, in July 2008 Daikin Device Czech Republic obtained ISO

14001 certification, thus completing certification for all 18 major worldwide production bases*.

*Excluding those of OYL Group

Visualization of Environmental Impact: A Strong Motivator for Improvement

The OYL Group, which has 40 production bases around the world, joined the Daikin Group in 2006. Before that, the OYL Group lacked a special organizational structure for an environmental management system. After a one-year transitional period as part of the Daikin Group, OYL started its own environmental management system from fiscal year 2007.

Environmental officers were first appointed at OYL's 20 major bases. The Daikin Group policy of making environmental protection a top priority of company management was disseminated throughout OYL and presented with respect for the local culture of each base. To visualize the environmental impact of business activities, OYL companies began compiling

All Bases, Whether Newly Established or Newly Acquired, Share a Common Environmental Policy

Overseas markets account for a majority of the Daikin Group's sales. It is the social responsibility of a global corporation to minimize the environmental impact of its overseas bases. The creation of environmental management systems is proceeding at Daikin Device Czech Republic s.r.o., established in 2004, and companies of the OYL Group, which joined the Daikin Group in 2006.

Czech Republic Daikin Device Czech Republic s.r.o.



Emergency Training
Drills strengthen employee teamwork.



Separating Waste

Multi-language instructions ensure that workers of different nationalities know exactly what to do.

Impressions from Employees

Boosting Cooperation among Our International Team Members

Dagmar Kastilova
Engineering Dept.



Raising employees' environmental awareness is crucial to our environmental protection activities. We hold drills that ensure employees work as a team in an emergency and that give them the knowledge to prevent the occurrence of work calamities. We have employees from many different countries such as Slovakia and Bulgaria, so we label waste containers in each language to ensure the proper separation of garbage.

environmental performance data. A look at these figures made employees aware of environmental impact for the first time. This awareness is the first step towards improvement. Environmental officers led efforts in creating concrete improvement plans and called these efforts the first step toward obtaining ISO 14001 certification.

Promoting improvement requires that each employee receive guidance on taking environmentally conscious action. This guidance comes in the form of information and opportunities for employees to raise their knowledge and awareness. For example, OYL company McQuay International in the U.S. created an internal website dedicated to employee awareness on environmental issues in February 2009. By visualizing data such as energy used and amounts recycled at each factory, work places are encouraged to compete with each other, thus speeding up efforts to decrease environmental impact. McQuay International also provides a regular e-mail newsletter with help from employee volunteers to share tips and information on how to reduce their environmental footprint in everyday life.

Regional Environmental Meetings Share Goals and Challenges

Currently 10 bases of the OYL Group have been certified for ISO 14001, and the goal is to have all major production bases certified by fiscal year 2010.

The Daikin Group regularly holds Environmental Meetings in four regions including Europe and China to promote efficient and effective environmental protection. The meetings share the Daikin Group's environmental policy and medium -and long-term targets, host discussions on problems and solutions, and trade information on environmental regulations.

As business rapidly globalizes, Daikin will share its experience in environmental approach and action with new group companies to help the entire Daikin Group better work together to protect the environment.

Malaysia OYL Manufacturing



Environmental Education

Quizzes make raising environmental awareness fun for employees.

Car Pool Day

Employees are encouraged to car pool during Environmental Month.



Planting Trees

The company takes part in a tree-planting program run by the state government on World Forestry Day.



Sludge Recycling

Sludge from a sewage treatment facility is used as fertilizer for plants.

United States McQuay International



Earth Week Event Bulletin Board

The week of April 22 is Earth Week at the company, and environmental events are held to increase employee interest.



Impressions from Employees

Fun Events Raise Employee Awareness

Ryan Carpenter
Project Engineer,
Environmental Strategy



I have enjoyed doing work that helps our company grow stronger and reduces our environmental impact. Our newsletter provides tips and facts to help employees to reduce their carbon footprint in the office and in their own home. Increased interest, awareness, and volunteerism are a direct result of the newsletter and the intranet site tracking our progress. The Green Team led the celebration of Earth Day this year with a week-long event of activities designed to encourage behavioral changes.

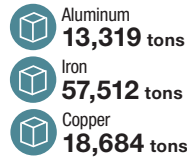
Overview of Environmental Themes and Impact

The Daikin Group strives to reduce the impact that its business activities have on the environment in all stages of the life cycle—development and design, material procurement, production, sales, transportation, installation, use, and collection and recycling.

Note: Data on this page is only from Daikin Industries in fiscal year 2008.

Figures in parentheses are global Group totals.

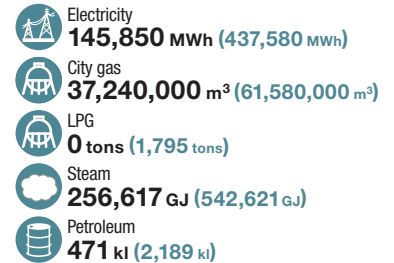
Materials



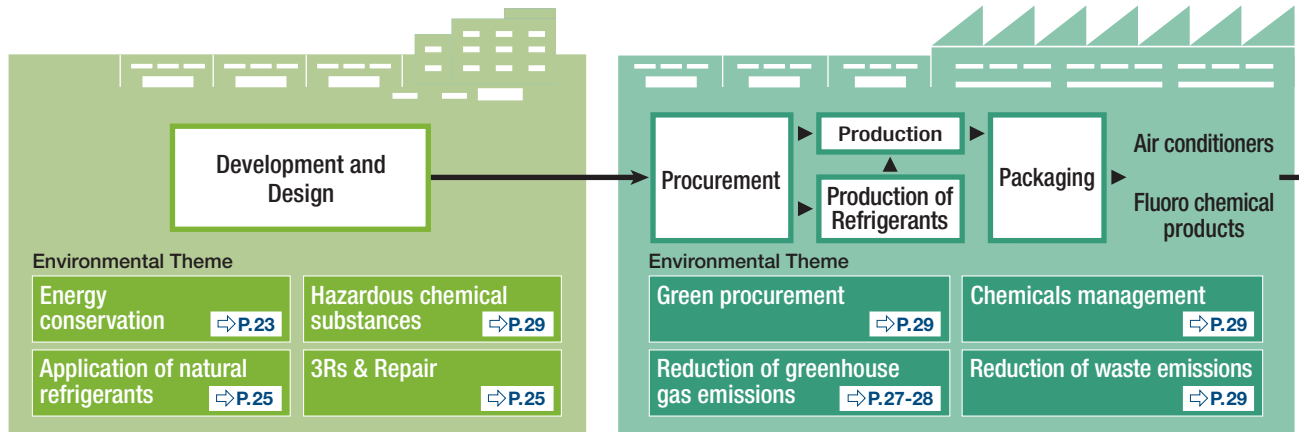
Water



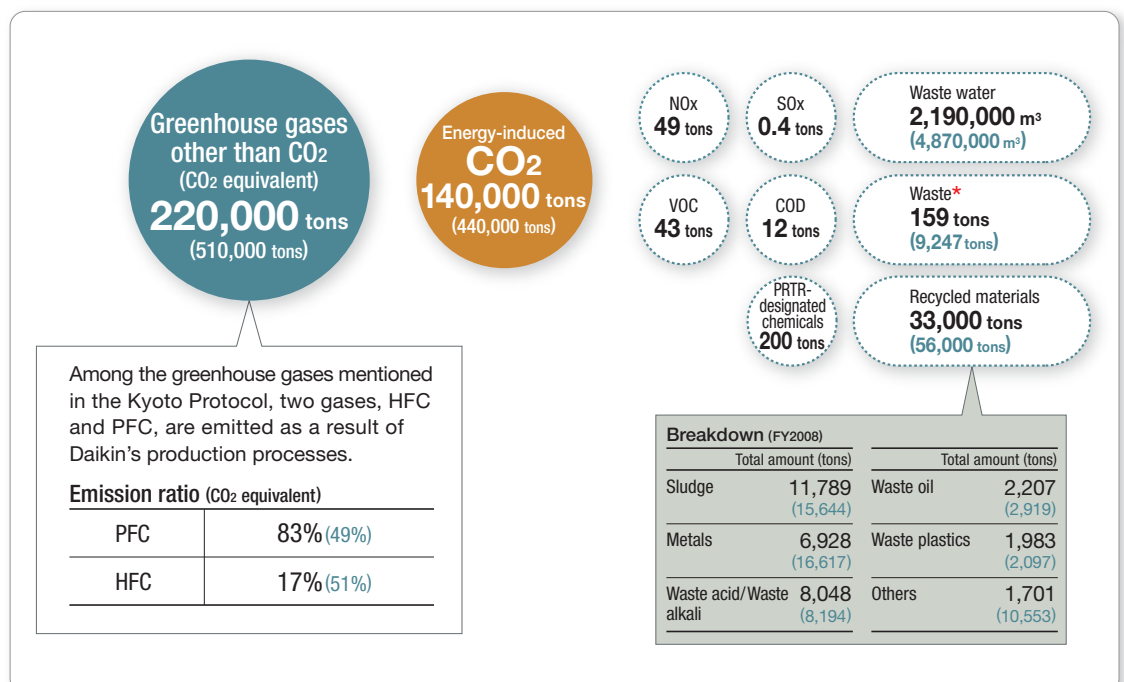
Energy



INPUT

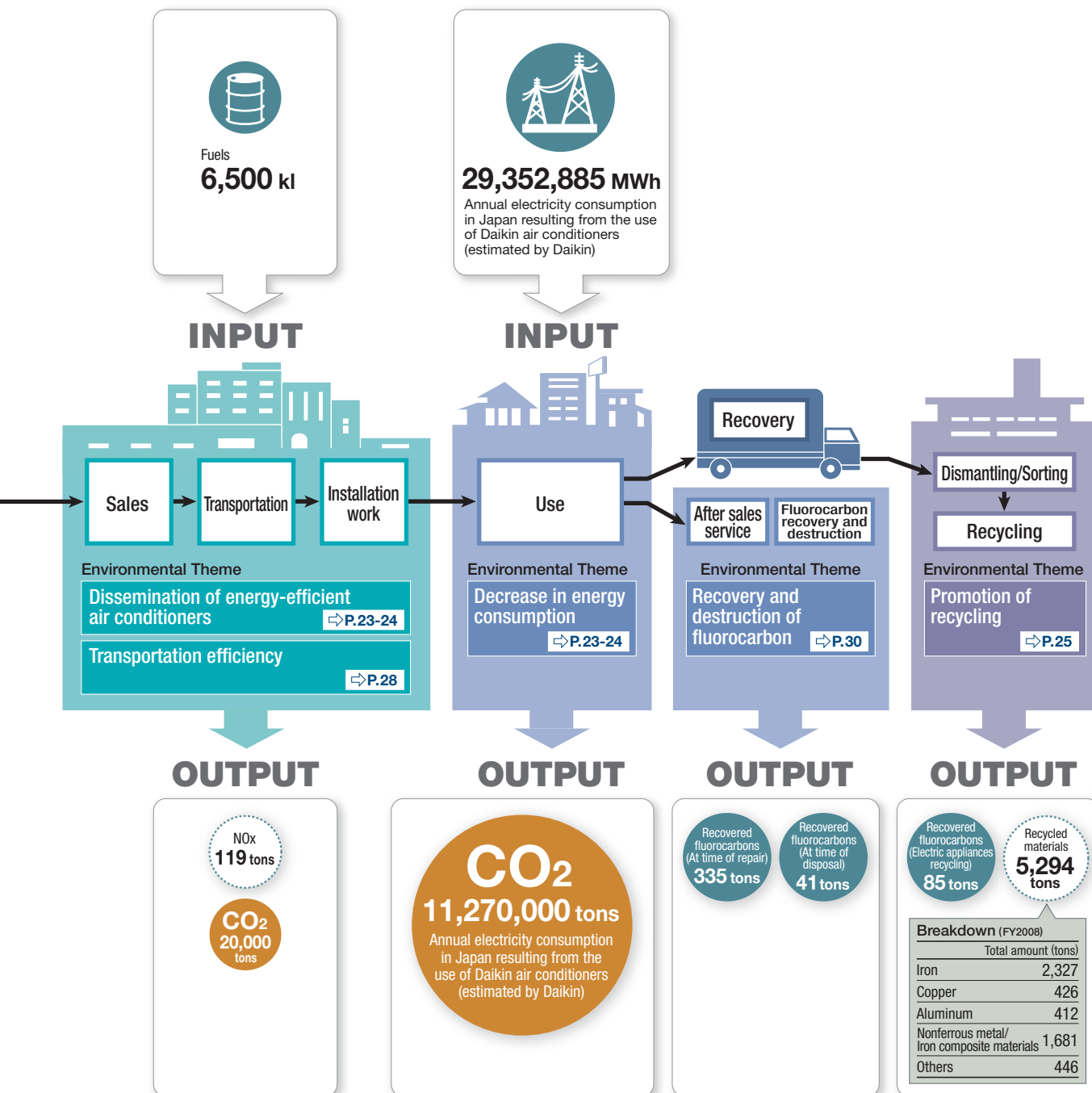


OUTPUT



* Waste refers to substances that cannot be recycled and must be removed by waste disposal subcontractors for either incineration (but not for heat recovery) or landfill.

from Business Activities



NOx (nitrogen oxide)

A gas formed by combustion

SOx (sulfur oxide)

A gas formed by combustion of oil and coal

VOC (volatile organic compounds)

Chemicals that are extremely volatile

COD (chemical oxygen demand)

A measure of the oxygen required to chemically oxidize organic compounds in water

Fluorocarbons

Daikin's production processes discharge CFC, HCFC, HFC, and PFC. CFC and HCFC released into the atmosphere deplete the ozone layer. Although HFC and PFC do not deplete the ozone layer, they contribute to global warming.

Fluorocarbons	Depletion of the ozone layer	Global warming
CFC Chlorofluorocarbon	×	×
HCFC Hydro-chlorofluorocarbon	△	△
HFC Hydro-fluorocarbon	○	△
PFC Perfluorocarbon	○	×

× Environmental impact: High
△ Environmental impact: Low
○ Environmental impact: None

Environmental Management

The Daikin Group uses an environmental management system (EMS) that it built based on ISO 14001. In 2004, the Daikin Group in Japan acquired integrated certification for all Daikin sites and subsidiaries, and by 2010 we plan to establish an integrated EMS for the entire Daikin Group including overseas bases. We are also getting maximum effect out of our EMS through environmental audits, the elimination of environmental risk, and education on the EMS.

Environmental Management System

Striving to Realize Integrated Group Environmental Management

In fiscal year 2008, one overseas manufacturing base and three non-manufacturing bases were certified for ISO 14001. This completed certification for all major overseas bases^{*1}.

The diagram below shows the organization for the Daikin Group's environmental management. In fiscal year 2007, the management system in Japan was reorganized to eliminate redundant functions in the head office, sites, and divisions, and the result was a revised system for fiscal year 2008 that was more simple and effective.

Each overseas Daikin base has its own EMS, and environmental meetings are held once a year in each of four regions (Europe, North America, China, and Asia/Oceania). Besides sharing Group policy and medium- and long-term targets, these meetings allow attendees to share a variety of information. Our aim is to achieve an integrated group environmental management system worthy of a company with bases around the world.

Ratio of Employees Belonging to Facilities That Obtained ISO 14001 Certification^{*2}



^{*1, 2} Excluding the OYL Group, which joined Daikin in 2006.

Environmental Audits

Confirmed Correction of Fiscal Year 2007 Problems

The Daikin Group has regular annual environmental audits performed by internal auditors and by certification institutes. This lets us know if our EMS is working as it should and, if not, helps us correct it.

In fiscal year 2008, our emphasis was on carrying out environmental audits that allowed us to see if there were any problems with the system that we revised in fiscal year 2007. No major problems were discovered. We also confirmed the correction of problems that were discovered in fiscal year 2007 audits.

Environmental Risk Management

Regular Emergency Drills Held

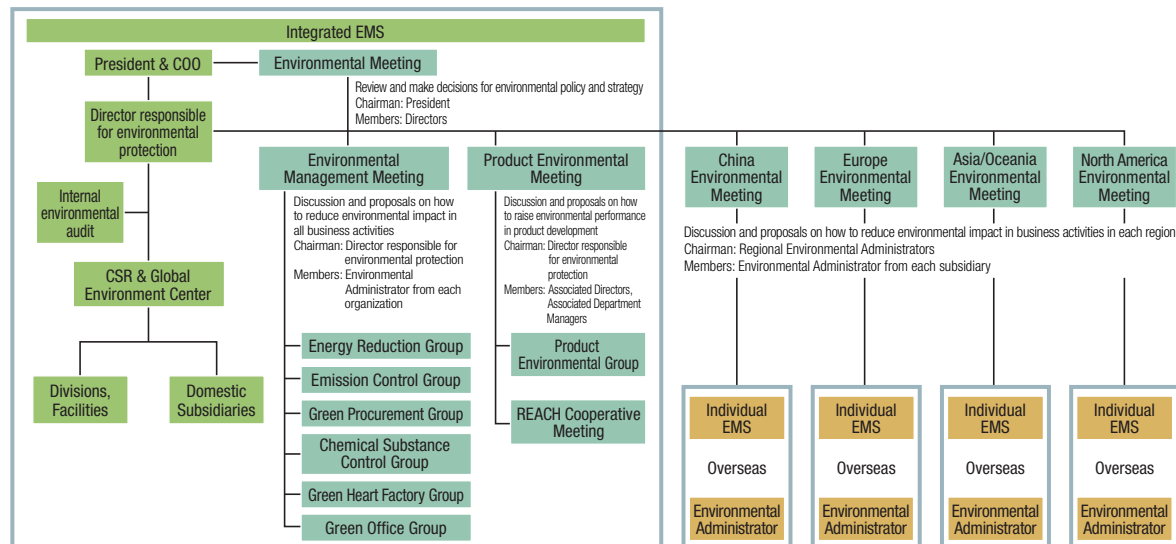
We have a system in place that allows us to minimize environmental damage from accidents or calamities occurring at Daikin production sites or subsidiaries.

In fiscal year 2008, we held regular drills to practice responses to situations such as an oil leak.



Drill to practice the prevention of oil leaks

System Driving Environmental Management



Environmental Action Plan 2010

The Daikin Group has created an environmental action plan for the entire Group that is the basis for its environmental protection activities.

Overview of Fiscal Year 2008 Successes

Steadily Decreasing Greenhouse Gases from Production Processes

Below is an overview of activities in fiscal year 2008.

To reduce environmental impact during production, we gradually reduced fluorocarbon gas emissions in production processes and dramatically cut the amount of greenhouse gas emissions by the Group as a whole. In fact, we were two years ahead of schedule in our target of reducing emissions to half of fiscal year 2005 levels. We also reduced overall CO₂ emissions from energy use by making production processes more efficient. Overseas emissions per unit of production increased partly because of a strong yen cutting into net sales results.

To reduce the environmental impact of products, we raised the percentage of Daikin Eco-Products (which are now assessed on stricter standards) to 14% of all products.




















We also did our utmost to increase sales of energy-efficient air conditioners and heat pump heating systems, which contribute to reduction of environmental impact. In China, we established joint venture companies to manufacture affordable inverter type air conditioners as part of our effort to spread these products worldwide.

We are continuing the Environmental Sales activities that we started in fiscal year 2007 to focus on providing customers energy-efficient products, as we do all we can to help customers reduce CO₂ emissions in our sales and service divisions. Each employee will continue to make environmental protection a personal mission.

We have evaluated the results of FY2008 environmental conservation activities and expressed the achievement of each activity relative to our targets in three grades:

Environmental Action Plan 2010

 Outstanding Achievement  Good Achievement  Needs Improvement

Item		Objectives/Viewpoint	Target for FY2008		Results/Achievements in FY2008	Self-evaluation
Environmental management	Environmental Management System	Establish an Environmental Management System (EMS) at all group bases (including non-production bases) and have all group members operate under this EMS.	Have all production bases certified for ISO 14001.		Certification completed at all production bases.	
	Shared awareness	Improve knowledge of environmental issues among all group members.	Have all employees aware and taking action on their responsibilities to society.		All group employees in Japan took a semi-annual e-learning course.	
Environmental communication	Information provision	Recognizing that accurate and impartial disclosure of information is a responsibility of corporate citizens, Daikin will gain the trust of customers and society.	Provide more information and a wider range of PR activities.		<ul style="list-style-type: none">Published annual Group report.Published annual CSR Report in Europe, China, and ASEAN.Published information on website.	
	Community and environmental contributions	Carry out environmental activities that help communities and society.	Carry out activities on a regular basis.		Conducted activities in different regions. Example: Tree planting by employees (Thailand), environmental lessons in schools (China, Japan)	
Product efforts (Air conditioning equipment)	Daikin Eco-Products (Air conditioners)	Reduce environmental impact from products by making more environmentally conscious products.	Make products achieving the new voluntary environmental standards account for 10% of products sold in Japan.		Eco-products accounted for 14% of all products.	
	Green procurement	Increase procurement from suppliers offering products manufactured with consideration for the environment.	Japan	Have at least a 95% green procurement rate.	97%	
			Overseas	Expand green procurement.	China: 79%, Europe: 69%, Thailand: 85%	
	Recovery and destruction of refrigerants	Prevent further depletion of the ozone layer and work to prevent global warming by encouraging the recovery of refrigerants on the market and reducing refrigerant emissions from active and used products.	Japan	Recover at least 85% of refrigerants from used products and products under repair.	Recovered 98% from used products. Recovered 88% from products under repair.	
Overseas			Build system for recovering refrigerants.	Installed recovery equipment at all service stations.		
Production efforts	Green Heart Factory	Raise environmental performance of plants.	Carry out plans at production bases in Japan and other countries.		As planned.	
	Reduction of greenhouse gas emissions	Reduce greenhouse gas emissions at plants for the entire Group.	Reduce greenhouse gas emissions by 40% against FY2005.		67% reduction	
			Japan	Reduce CO ₂ emissions per sales by 12% compared to FY2000.	36% reduction	
	Reduction in energy consumption	Reduce the energy consumption of the entire Daikin Group and decrease emissions of CO ₂ .	Overseas	Reduce CO ₂ emissions per sales by 2% against FY2007.	8% increase	
			Japan	Maintain and improve zero waste achievements.	Maintained a 99.5% recycling rate.	
	Waste emissions	Reduce waste from every production base by promoting recycling and reuse, by eliminating disposal (zero waste emissions), and by landfill and incineration.	Overseas	Improve the recycling rate (according to targets in each region).	Six of 17 companies achieved zero emissions.	
			Japan	Reduce emissions of hazardous substances (PRTR substances) by 70% against FY2005.	78% reduction	
	Chemicals management	Promote management of chemicals according to Daikin's guidelines for the management of chemical substances.	Overseas	Control the amount of hazardous substances released and handled.	Control carried out on a regular basis.	
Sales	Greater sales of products that contribute to reduced environmental impact	Increase the proportion of energy efficient air conditioners to reduce CO ₂ emissions resulting from the operation of air conditioners.	<ul style="list-style-type: none">Increase sales of energy-efficient products.Increase sales of heat pump heaters.		Sales of heat pump heaters tripled against FY2007.	
Logistics	Reduction in CO ₂ emissions resulting from transportation	Reduce CO ₂ emissions by promoting efficiency in transportation.	Japan	Reduce CO ₂ emissions per sales by 6% compared to FY2005.	9% reduction	

Low Impact Products

To enable it to continually improve the environmental performance of products, the Daikin Group incorporated product assessment into the design and development stages. There are 14 assessment criteria—including energy efficiency, reduced weight, and resource saving through the reuse of materials and parts—that products must pass to make it to market.

Daikin Eco-Products

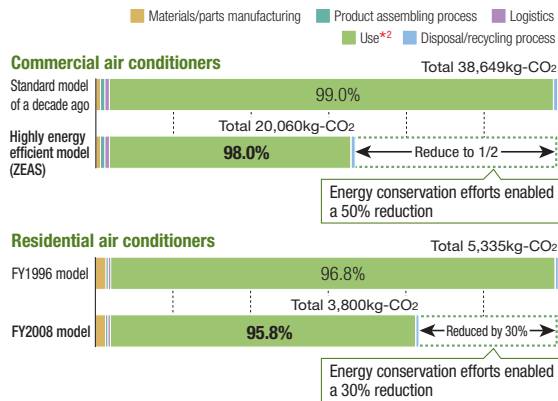
14% of Residential Air Conditioners Comply with Strict New Voluntary Energy-Efficiency Standards

We have voluntary environmental standards for assessment criteria with an especially large environmental impact, and we assess scores on the environmental impact of the product and its packaging. Products that score 80 points or more are designated as Eco-Products, a category that accounts for an increasing percentage of our offerings: 92% in fiscal year 2007.

To make products with even higher environmental performance, we revised our voluntary environmental standards in fiscal year 2007 by tightening criteria for global warming impact. In fiscal year 2008, 14% of our products achieved this strict new standard for Eco-Products.

Sample of LCA: Comparison*1 of Life Cycle CO₂ Emissions (energy-induced CO₂)

More than 90% of the CO₂ emissions (energy-induced CO₂) during the life cycle of an air conditioner come during product use. That's why we put the majority of our efforts into making products more energy efficient.



*1 Based on Daikin standards for 14-kW class commercial air conditioners and 2.8-kW class residential air conditioners.

*2 The seasonal power consumption is calculated in accordance with the standard of the Japan Refrigeration and Air Conditioning Industries Association.

Product Assessment Items

- | | |
|--|--|
| 1. Weight reduction of products | 8. Packaging |
| 2. Use of recycled materials and parts | 9. Safety |
| 3. Raise possibility of reuse of resources | 10. Environmental conservation capabilities |
| 4. Product life extension | 11. Energy and resource conservation in use |
| 5. Ease of collecting/transporting | 12. Disclosure of information |
| 6. Ease of disassembly and separation of materials by hand | 13. Reduction in environmental impact in the manufacturing process |
| 7. Ease of shredding/classifying for recycling | 14. LCA |

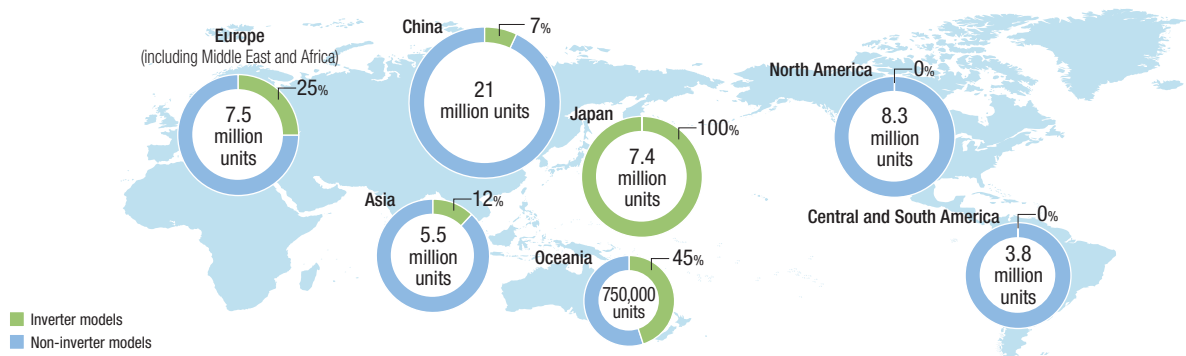
Promoting the Use of Inverter Products

Joint Venture in China Aims for Greater Worldwide Market Penetration

The Daikin Group aims to provide more highly energy efficient inverter air conditioners worldwide and thus reduce the amount of CO₂ emissions from energy consumption during product use. The motor rotation in an inverter type air conditioner is variably controlled, which reduces energy use by about 30% compared to non-inverter models. While most air conditioners in Japan today are inverter models, most in use outside Japan are non-inverter models.

Making inverter air conditioners more affordable is key to achieving their widespread use. To this end, in March 2009, Daikin Industries and major Chinese air conditioner manufacturer Gree Electric Appliances, Inc of Zhuhai established two joint venture companies to manufacture key components and molds for inverter air conditioners. The joint ventures will fuse Gree's strength in production and procurement of raw materials and parts with Daikin's expertise in energy-efficiency technology with the aim of tapping markets where inverter products still have low market penetration.

Reference: Inverter Type Air Conditioners as a Percentage of the Number of Annual Residential Air Conditioners Sold (Daikin figures)



Promoting the Use of Heat Pump Space and Hot Water Heaters

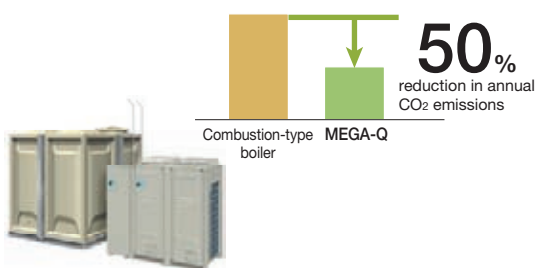
Large-Scale Heat Pump Hot Water System Developed

The Daikin Group is developing space and hot water heaters using highly energy efficient heat-pump technology.

In Japan, the Eco-Cute heat pump hot water heater is becoming more prevalent. And in April 2009, we released a large commercial heat pump water heating system (MEGA-Q) for large-scale facilities such as hotels and hospitals that can supply up to 120 tons of hot water a day while attaining about a 50% reduction in CO₂ emissions compared to combustion-type water heaters.

We are contributing to energy efficiency by replacing combustion type water heaters with heat pump models.

Comparison of Annual CO₂ Emissions: MEGA-Q Large-Scale Commercial Heat Pump Water Heating System versus Combustion-Type Boiler

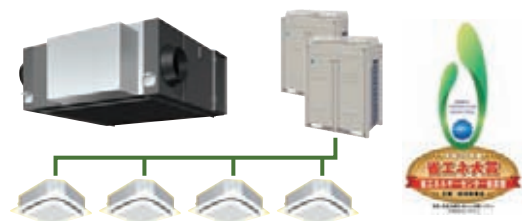


Products That Help Customers Cut CO₂ Emissions

■ DESICA System, Winner of Energy Conservation Awards

The DESICA system, which is an air conditioning system that offers separate control of temperature and humidity in buildings, won the Energy Conservation Center Chairman's Prize at the 2008 Energy Conservation Awards.

Conventional air conditioning systems use a single unit for controlling both temperature and humidity. This makes it difficult to achieve the ideal balance of both and also wastes energy. In the DESICA system, temperature and humidity are controlled by two separate units, thus achieving both energy efficiency and room comfort. It is about 20% more energy efficient than conventional systems.



The DESICA commercial air conditioning system

■ Conveni-Pack Accolades in Europe for System to Recover Heat for Air Conditioning

The Conveni-Pack for use in convenience stores is an integrated refrigeration, heating, and cooling system that is controlled by just one outdoor unit. Not only does it save space, but it also recovers heat from the freezing and cooling processes to heat the building interior. This leads to big energy savings: Conveni-Pack can save about 50% on annual energy consumption over conventional systems.

Widely used in Japan, Conveni-Pack has received honors in Europe. In November 2008, it won the Innovation Trophy at the Equipmag, a shop fitting equipment technologies and services exhibition in

France; and in March 2009, it won the Incentive Award from the German Environment Ministry in the category of cooling and heating technologies.



Award in Germany

■ Energy-Efficient Hybrid Hydraulic Super Unit Energy Efficiency and CO₂ Reduction in Factories

Daikin also leads the industry in making energy-efficient hydraulic units for factory production lines.

The energy-efficient hybrid hydraulic Super Unit employs the same motor technology that is used in Daikin's energy-efficient air conditioners. The Super Unit determines the load on the machine, depending on whether it is in standby, operation, or pressure holding mode, and electronically controls the pump at the necessary RPM. The result is an energy savings of more than 50% in pressure holding mode (compared to Daikin piston pumps). For use on presses, molding equipment, and inspection devices, the Super Unit contributes to energy savings and lower CO₂ emissions.



The hybrid hydraulic Super Unit



2008 Technology Development Prize from the Japan Fluid Power System Society in recognition of the Super Unit's technology and performance

Low Impact Products

Refrigerants with Low Environmental Impact

Switching to Refrigerants with Zero Ozone Depletion Potential outside Japan

The Daikin Group is phasing out conventional HCFC refrigerants and switching to HFC, a refrigerant with an ozone depletion potential of zero.

Daikin sells only products using HFC in Japan and Europe. We were also the first company in China to offer HFC VRV, and we currently provide HFC residential air conditioners as well.

In Southeast Asia and other countries where HCFC air conditioners are the norm, we are offering HFC models and promoting their benefits.

Refrigerants with Low Global Warming Potential

Although HFC has an ozone depletion potential of zero, it contributes to global warming if released into the atmosphere.

The Daikin Group is conducting research aimed at achieving practical use of refrigerants that contribute less to global warming than HFC, currently the most widely used refrigerant.

One possible substitute is CO₂ refrigerant. In October 2008 at an exhibition in Germany, Daikin caused a sensation when it introduced the world's first VRV using CO₂ refrigerant. The VRV also received high praise at exhibitions that followed in Spain and France. But because CO₂ refrigerant has a lower energy efficiency than HFC refrigerant, we are continuing to develop technologies to raise the energy efficiency.



VRV using CO₂ refrigerant (Germany)

We are continuing to search for other low global warming potential refrigerants besides natural refrigerants including CO₂, as well as develop air conditioners that can use them. Starting in fiscal year 2009, we began such research and development under a project by NEDO (New Energy and Industrial Technology Development Organization) in Japan.

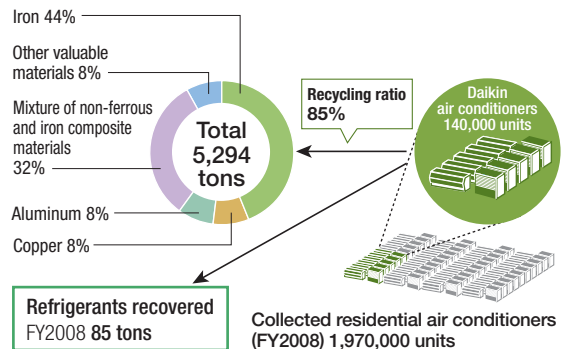
Recycling Residential Air Conditioners

Recycling Ratio of 85% Well above Obligations under Home Appliance Recycling Law

The Home Appliance Recycling Law obligates manufacturers to recycle at least 60% of the material from their own air conditioners as well as recover and then reuse or destroy refrigerants.

In fiscal year 2008, the Daikin Group recovered about 140,000 units of its residential air conditioners (7% more than the previous year), and recycled 6,210 tons of this, or 85%. We also recovered 85 tons of refrigerants.

Recycling of Residential Air Conditioners in FY2008 (Japan)



Daikin's Stance on the Environmental Impacts of Refrigerants

Refrigerant		ODP	GWP*	Efficiency when used as refrigerant	Flammability	Toxicity	Refrigerant characteristics	Daikin's stance
Conventional Refrigerants	CFC12	1	8,500	High	Nonflammable	Low	Completely phased out in developed countries as of 1995	Eliminated all production
	HCFC22	0.05	1,700	High	Nonflammable	Low	Developed countries will cease all production by 2020	All of the major models in Japan and Europe completed refrigerant switchover from HCFC to HFC
New Refrigerants	HFC410A	0	1,730	High	Nonflammable	Low	Companies are in the process of switching from HCFC to this refrigerant	
Future Refrigerants	HFC32	0	650	High	Slightly flammable	Low	Has a low global warming potential for an HFC. Slightly flammable	Seen as a possible refrigerant in the future
Natural Refrigerants	Ammonia	0	0	High	Slightly flammable	Strong	An efficient refrigerant, but toxic and slightly flammable	Used for large refrigeration and air conditioning systems where strict control is possible, such as factories
	Propane	0	3	High	Highly flammable	Low	An efficient refrigerant, but highly flammable and thus susceptible to explosion	Technical development is needed to adopt as refrigerant for air conditioners in order to ensure safety
	CO ₂ (carbon dioxide)	0	1	Low	Nonflammable	Low	Not very efficient for air-conditioning	Put into commercial production as refrigerants for hot water supply units, for which performance is equivalent to that of conventional refrigerants

* GWP: Global Warming Potential Source: IPCC Second Assessment Report, other documents

Environmentally Conscious Fluorochemical Products

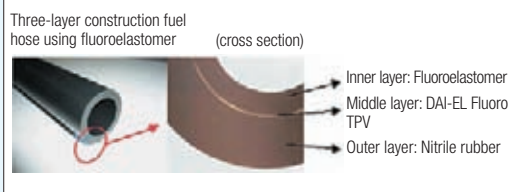
Fluorochemical Products That Contribute to Environmental Protection

Fluorine mainly bonds with carbon atoms to give compounds that are highly stable in areas such as heat resistance and chemical resistance.

Daikin uses the unique characteristics of fluorine to offer a range of products that help protect the environment.

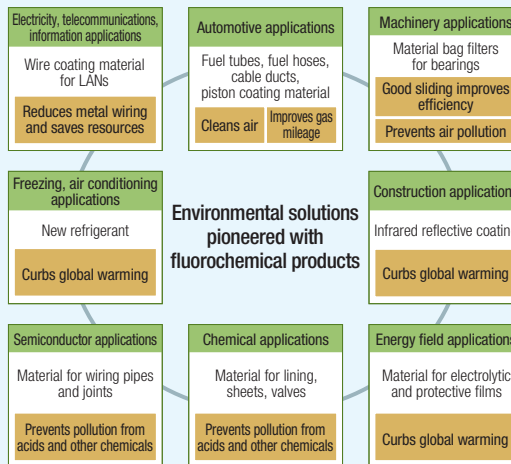
Fluoride Materials with Low Permeation for Automobile Fuel Hose

Fluororesins and fluoroelastomers, which are used to make automobile fuel hoses, prevent leaking of VOCs (volatile organic compounds) and keep the permeation of gasoline at a low level even while the car engine is hot. Daikin's newly developed DAI-EL Fluoro TPV can reduce the permeation of automobile fuel to about 1/20th compared to our previous fluoroelastomers.



Zeffle Infrared Reflective Coating Reduces Energy Use for Air Conditioning

Applying Zeffle infrared reflective coating to the roofs of buildings reflects infrared rays from the sun and keeps inside temperatures down, thus easing the burden on air conditioning. By reducing the amount of energy consumed for air conditioning, it also contributes to curbing global warming.



Contributing to the Energy Field Including Fuel Cells

Fluoropolymers are chemical resistant, heat resistant, and weather resistant, qualities that make them ideal for use as material in cutting-edge energy technologies such as fuel cells, lithium ion batteries, and solar cells. For example, the fluororesin (ETFE) used for the protective surface film on solar cells lasts for more than 20 years under the sunlight with no degradation and does not lose its light transmittance.

Fluorine materials contribute to reduced environmental impact in a range of other applications as well. FEP fluororesins have superb flame resistance, which allows them to replace metal pipelines as covering for LAN wiring and thus save resources; and PTFE fluororesins prevent air pollution and save resources when used as highly efficient, long-lasting dust-collecting bag filters in incinerators and power stations.

Reducing PFOA Emissions

Voluntary Targets Aim for Total Elimination by 2012

Daikin is working to totally eliminate its use of Perfluorooctanoic Acid (PFOA), a fluorochemical compound concerned to have environmental effects.

Daikin uses PFOA as a polymerization aid for some fluororesins and fluoroelastomers that are used in a wide range of fields including semiconductors, information and telecommunication, automotive, and aerospace. As well, minute quantities of PFOA are given off as a by-product in the production process of fluorochemical products that are applied to the surface of clothing and carpets to repel water and oil. While stable, it does not readily degrade in the environment, and if it is ingested by living organisms, it may remain for relatively long periods in the body. Therefore, in 2006 the U.S. Environmental Protection Agency announced the creation of the 2010/15 PFOA Stewardship Program. Daikin and seven other leading fluorochemical manufacturers in the world are participating in this program. As a result of an in-house reduction program, Daikin successfully reduced its

PFOA use by 95% as of 2008. We are currently working to achieve our target of totally eliminating our use of PFOA by 2012.

Switching to a Polymerization Aid with Low Environmental Impact

As part of our efforts to achieve our reduction target, in 2008 we began switching to a polymerization aid with a lower environmental impact than PFOA. By the end of 2012 we will have switched to substitutes in all products where PFOA is used.

Develop Products That Don't Give Off PFOA in the Production Process

We developed water- and oil-repellent products (repellents) that effectively give off no PFOA during their production process and began selling these in 2007. By the end of 2012, all of the repellent products that we produce will give off no PFOA during their production.



Low Impact Production

The Daikin Group strives to reduce environmental impact during production (including procurement and transportation). Besides making it a priority to reduce emissions of greenhouse gases during production, we do all we can to achieve targets that our manufacturing bases around the world have set for managing and reducing emissions of chemicals, and for reducing waste.

Reducing Overall Group Greenhouse Gas Emissions

Reduced Emissions to Half of Fiscal Year 2005 ahead of Schedule

The Daikin Group emits two kinds of greenhouse gases: CO₂ from the energy use, and fluorocarbons handled in the production processes.

In 2001, the first year we began full-scale efforts to reduce greenhouse gas emissions, we made it a top priority to reduce emissions of fluorocarbons, which accounted for over 90% of all Group greenhouse gas emissions. We have worked to recover and properly destroy fluorocarbon gases that are a by-product of production processes of fluorochemical products and which account for more than 85% of our fluorocarbon emissions. As a result, fiscal year 2005 greenhouse gas emissions during production were just one-third the level of the base year.

One of the key environmental targets of the fiscal year 2005 FUSION 10 strategic management plan that was set in fiscal year 2005 was to reduce fiscal year 2010 greenhouse gas emissions to half of fiscal year 2005 levels. In fiscal year 2008, we dramatically reduced greenhouse gas emissions by such efforts

as capital investment in recovery facilities. As well, the economic downturn in the chemicals business forced us to reduce production volume, which also allowed us to reduce emissions more than planned. The result was overall Group greenhouse gas emissions of 940,000 tons-CO₂, down by 67% over fiscal year 2005.

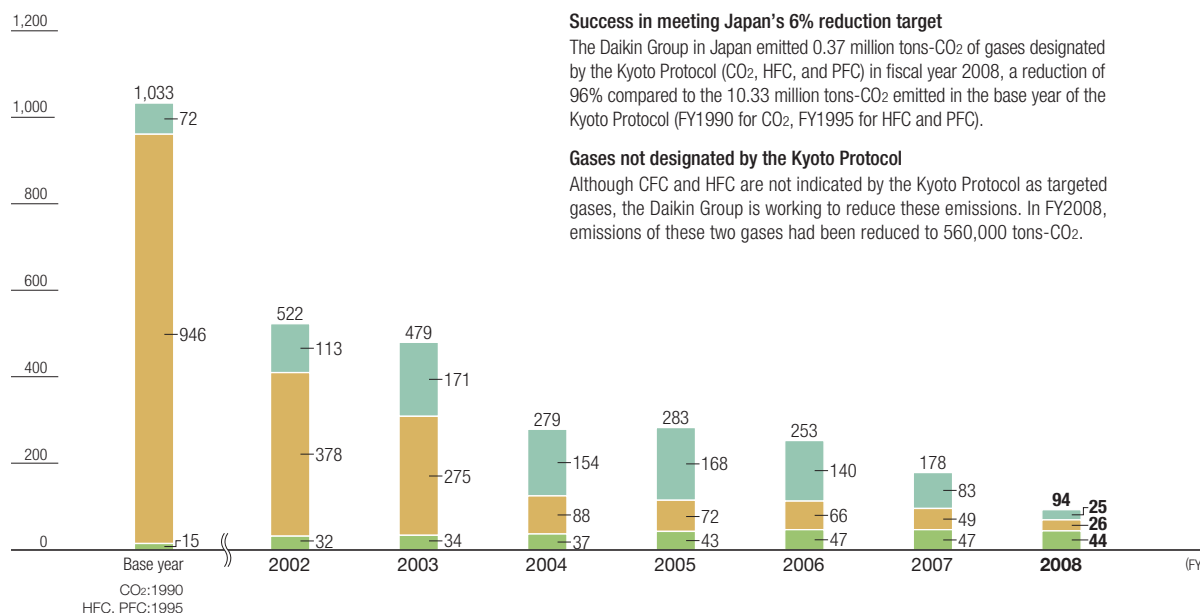
Daikin Joins Japan's Voluntary Emissions Trading Scheme

In 2008, Daikin Industries participated in the Japanese government's Voluntary Emissions Trading Scheme. Under this scheme, participating companies commit to a certain reduction amount in their CO₂ emissions. The scheme also allows them to trade CO₂ emission quotas to meet their reduction targets.

Participation in the scheme by Daikin Industries' air conditioning factories in Japan was approved after the company committed to CO₂ reductions (reduction in CO₂ emissions per sales against fiscal year 1990: 57% in fiscal year 2008, 60% in fiscal year 2009, and 63% in fiscal year 2010) greater than the industry target (a 35% reduction in CO₂ emissions per sales against fiscal year 1990). We are currently working towards this target.

Greenhouse Gas Emissions for the Entire Group

(10,000 tons-CO₂) Substances designated by Kyoto Protocol CO₂ (Energy) HFC PFC



Success in meeting Japan's 6% reduction target

The Daikin Group in Japan emitted 0.37 million tons-CO₂ of gases designated by the Kyoto Protocol (CO₂, HFC, and PFC) in fiscal year 2008, a reduction of 96% compared to the 10.33 million tons-CO₂ emitted in the base year of the Kyoto Protocol (FY1990 for CO₂, FY1995 for HFC and PFC).

Gases not designated by the Kyoto Protocol

Although CFC and HFC are not indicated by the Kyoto Protocol as targeted gases, the Daikin Group is working to reduce these emissions. In FY2008, emissions of these two gases had been reduced to 560,000 tons-CO₂.

Note that since not all calculations have been completed, the following data is not included in the base year data:
CO₂ emissions from overseas energy consumption and fluorocarbon emissions in the machinery divisions.

Switching from HCFC to Helium Gas in the Inspection Process

By 2010, the Daikin Group will have completed the switch from the fluorocarbon HCFC, which is used at some manufacturing bases during the air conditioner quality inspection process, to helium gas, which does not deplete the ozone layer and is not a greenhouse gas.

In the machinery divisions of the Daikin Group, where air conditioners are made, we have switched from HCFC to helium gas for inspections at 20 production bases around the world. HCFCs, however, are still in use at the Sakai Plant and at plants in Belgium, Thailand, and Shanghai. The switch to helium gas will be completed by summer 2009 at the Sakai Plant and by 2010 at the other three plants.

Reducing Energy-Induced CO₂

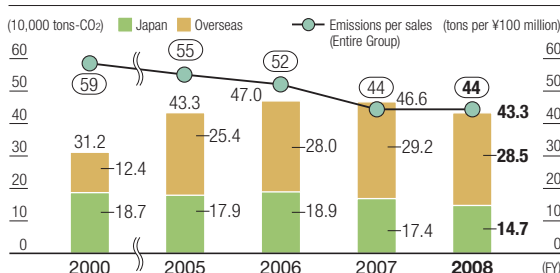
Reducing CO₂ Emissions per Sales by 25% over Fiscal Year 2000

In fiscal year 2008, manufacturing bases in Japan focused on the following CO₂ emission reduction efforts amidst a severe business climate.

- (1) Productivity improvements: Consolidate production lines, improve operational efficiency of steam-providing cogeneration facilities.
- (2) Equipment changes: Switch lighting from mercury bulbs to fluorescent bulbs, etc.
- (3) Elimination of wasted time and effort: Strengthen energy efficiency patrols to find and eliminate air leaks in compressors and thus reduce electricity use. Also turn off all lights in areas not in use as part of constant efforts to eliminate all wasted energy.

As a result, fiscal year 2008 CO₂ emissions per sales for the Group were about the same as fiscal year 2007 and a 25% reduction over fiscal year 2000.

Total CO₂ Emissions, CO₂ Emissions Per Sales



Reducing CO₂ Emissions during Transportation

Efficient Transportation during Delivery and Parts Procurement

Daikin Industries strives to reduce CO₂ emissions by reducing inventory and making deliveries more efficient. In fiscal year 2008, to improve efficiency of distribution at the Shiga Plant, which makes residential air conditioners, we concentrated inventory that had previously been divided into different locations in the plant's neighboring newly established warehouse so that we could deliver products directly to customers from there. This allowed us to shorten delivery routes and further reduce CO₂ emissions. Parts procured from China were previously brought to the plant from multiple warehouses, but by concentrating these parts at a single location in China and a single location in Japan we were able to streamline distribution.

We are considering implementing a system for the direct delivery of parts from China to the plant as well as having one-truck pick up parts at all suppliers in China.

Using Renewable Energy at Overseas Bases

Europe: Purchasing Green Energy

In Europe, Daikin Europe N.V., sales companies in France and Italy, and a chemical manufacturing base in the Netherlands purchase green energy.

Green energy is generated by natural energy sources (wind power, hydro power, biomass, etc.,) and produces minimal CO₂. Daikin uses green energy whenever possible to prevent the exhaustion of natural resources.



Green Energy certification (Italy)

China: Solar Power

Our manufacturing base in China uses a solar water heater, which gets its power from the sun's rays.

Daikin Air-Conditioning (Shanghai) Co., Ltd. applies infrared reflective coating to the roofs of its plant and warehouse to reflect heat from the sun. This prevents the inside of the building from getting too hot in summer and saves on air conditioning costs.



Solar water heater

Low Impact Production

Green Procurement

A Global Effort

Since fiscal year 2000, the Daikin Group has been requiring suppliers in Japan to comply with the Green Procurement Guidelines.

To ensure maximum effectiveness of green procurement, we grade our suppliers on their environmental protection efforts using criteria on a green procurement survey. Suppliers who fail to achieve these assessment criteria are visited and given guidance towards improvement. We also hold meetings to provide them with useful environmental information such as environmental related laws and regulations and Daikin's own environmental activities, and we release a variety of information on our website.

Our bases in Southeast Asia, China, and Europe conduct green procurement that makes it a top priority to purchase parts containing no hazardous substances.

In fiscal year 2008, we held meetings aimed at accelerating green procurement at chemical production bases in Europe and North America and at the procurement department of the OYL Malaysia.



Green procurement meeting

Green Procurement Rate by Region (%)

	Japan	Thailand	China	Europe
FY2008	97	85	79	69

Green procurement rate = $\frac{\text{Value of goods procured from suppliers who meet our assessment criteria}}{\text{Value of all goods procured}}$

Overview of Green Procurement Guidelines 4th Edition

• Conditions for Suppliers under Environmental Management

- Suppliers should have an ISO 14001-certified environmental management system
- Suppliers must implement their own green procurement system
- Suppliers must have their own chemical substances management system

• Related to Products

- Materials and parts delivered to Daikin should have no substances forbidden by Daikin
- Production processes should use no substances forbidden by Daikin
- Upon request, provide Daikin with information on the amount of chemicals contained, which part it is used in, why it is being used, and its toxicity
- Voluntarily reduce the amount of chemicals for which Daikin requests reduction
- Reduce and optimize product packaging



The Chemical Substances Management Standards Booklet, a compilation of the Green Procurement Guidelines (4th Edition) and suppliers' chemical substances management systems

Managing and Reducing Chemical Substances

Completed Pre-Registration for REACH Chemical Substance Regulation

The REACH regulation on chemical substances went into effect in Europe in June 2007. REACH obligates companies manufacturing or importing at least 1 ton of chemical substances a year in the EU to register with EU authorities. REACH covers almost all chemicals on the market in the EU.

June 2008 was the start of pre-registration for REACH and the Daikin Group completed this pre-registration for all chemical substances contained in products. This allows us to continue manufacturing and importing chemical substances as we had previously done.

PRTR Substances Reduced by 78% against Fiscal Year 2005

The Daikin Group set a target of reducing PRTR substances by 50% in fiscal year 2010 compared to fiscal year 2005, and in fiscal year 2007 we achieved this, three years ahead of schedule.

In fiscal year 2008, we set a new target of a 70% reduction against fiscal year 2005, which we surpassed with a 78% reduction thanks to all-out efforts to reduce substances such as HCFC and dichloromethane.

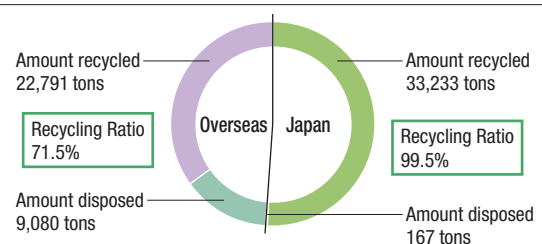
Reducing Waste

Six Overseas Production Subsidiaries Achieve Zero Waste

By fiscal year 2005, all Daikin Group manufacturing bases in Japan had achieved zero waste (at least a 99.5% recycling ratio).

Overseas companies have been working to reduce waste and as of the present, six overseas production subsidiaries, including Daikin Thailand and Daikin Europe, have achieved zero waste (at least a 99% recycling ratio).

Amount Recycled and Amount Disposed of (Fiscal Year 2008)



Refrigerant Recovery

Daikin's Stance

Thorough Recovery during Production, Maintenance, and Upgrading

The fluorocarbons used as refrigerants in air conditioners have a global warming impact that is from several hundred to several thousand times more than CO₂, so these refrigerants contribute to global warming if they are released into the atmosphere.

As an air conditioner manufacturer handling such products, the Daikin Group considers it our responsibility to conduct research and development into refrigerants

with a low global warming potential as well as to prevent the release of refrigerants into the atmosphere during production and post-sales.

We recover refrigerants that are refilled during test operation and at other times at production bases worldwide. We also have destruction facilities in Japan and Thailand. During maintenance and upgrading of customers' air conditioners, the service or installation staff always start by thoroughly recovering the refrigerant.

Efforts in Japan

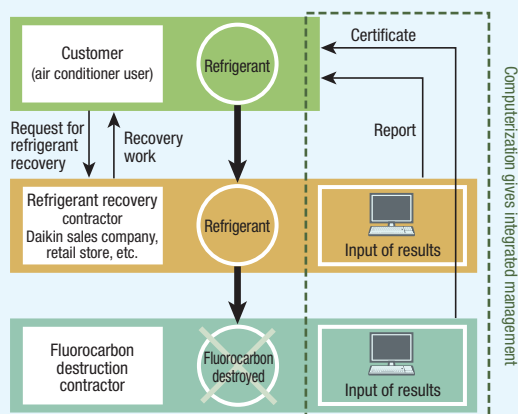
Refrigerant Recovery Network System

In Japan, we are thorough in our recovery of fluorocarbons (refrigerants) from commercial air conditioners. In September 2006, we created a network system for the integrated management of all information from recovery to destruction of refrigerants. By computerizing all previously written records, from amount of refrigerant recovered to amount destroyed, we have made it easier to accurately keep track.

The companies recovering and destroying the refrigerants add up the totals and these are reported annually to the prefectural governments in Japan. Because these reports can be generated from the system, these companies can work more efficiently.

Unified Management System of Refrigerant Recovery and Destruction

With each instance of refrigerant recovery, details such as the model of air conditioner and number of units, and the amount of refrigerant recovered, are entered into the electronic manifest. This makes it possible to get an accurate picture of the refrigerant recovery rate.



Recovery and Destruction 24 Hours a Day, 365 Days a Year

We take requests from retailers and other businesses for the proper recovery and destruction of refrigerants. The Daikin Contact Center takes calls all day, every day, and the recovered refrigerants are taken to our Kashima Plant or one of the contracted destruction facilities around Japan where they are properly destroyed.

In fiscal year 2008, 376 tons of fluorocarbons were destroyed.

Training for Refrigerant Recovery Personnel

The recovery of refrigerants requires special knowledge and skills. Daikin Industries provides the necessary training for the sales, technical, installation, and service staff who will be recovering refrigerants.

After one of these training programs, the technician training course, participants take a final test and if they pass are registered as refrigerant recovery technicians by the Refrigerants Recycling Promotion and Technology Center. In fiscal year 2008, 2,048 people, mostly from retailers and installers, passed the test. Of all those registered as refrigerant recovery technicians in Japan, 33.4% took the Daikin technician training course.



Training also provides environmental education

Received the Ozone Layer Protection and Global Warming Prevention Award

Daikin received the Minister of Economy, Trade and Industry Prize at the 11th Ozone Layer Protection and Global Warming Prevention Awards in September 2008 for its network for the unified management of information on fluorocarbon recovery and destruction.



Efforts Overseas

Training Personnel in Refrigerant Recovery and Establishing Recovery Equipment

At the Daikin Europe Academy (see page 34), training is held to teach the knowledge and skills needed to carry out refrigerant recovery. Course content is also in line with the EU regulations to prevent the release of refrigerants

into the atmosphere.

In China and other parts of Asia, all service bases have refrigerant recovery equipment. As we recover refrigerants, we remind customers how important this activity is to environmental protection, irrespective of the cost.

Environmental Communication

The Daikin Group holds environmental forums and education for children on a regular basis. This allows us to reflect our stakeholders' opinions in our business activities and to expand green hearts (think of the Earth and take care of the environment).

Environmental Forums

Air Conditioner Forum, Exchange Opinions on Key Themes with Experts

Since 1995, the Daikin Group has held air conditioner forums where Daikin and noted names in the field exchange opinions on the future of air conditioning. With Daikin's rapid business expansion worldwide, we began holding forums in fiscal year 2007 in Europe and North America as well.

In fiscal year 2008, we gathered 30 university professors and other leading figures from Japan, Europe, and North America for presentations and discussions on the air conditioning situation and major issues in each region.

A key theme emerging from the 2008 meeting was that although climate varies from region to region, it is crucial that we develop and spread the use of heat pump and other technologies to alleviate environmental problems. To this end, the three regions must actively trade technological information and step up communications.



The Air Conditioner Forum

Forum on Environmental Issues in Europe

Daikin Europe N.V. (Belgium) held a forum on energy and sustainable development in October 2008 to commemorate its 35th anniversary.

The forum invited 13 speakers, including the Prince of Belgium, members of the European Parliament, and experts in their fields to focus on the theme of sustainable solutions to energy problems and climate change. The event produced a lively exchange of opinions on energy policy in Europe and products for sustainable development.



Environmental Forum

Daikin Cooperates in Formation of Environmental Policy

As Industry Leader, Daikin Helps Draw Up Effective Global Warming Measures

Daikin takes part in the formation of government policy on the environment in Japan and other countries.

In Europe, the head of Daikin Europe N.V. acts as the Chairman of the European Partnership for Energy and the Environment (EPEE*), a non-profit organization of about 40 companies and bodies in

the air conditioning and refrigeration industry. The EPEE has four working groups divided into four issues including fluorocarbon and energy efficiency, and these groups make policy recommendations in the area of environmental issues. Members of Daikin Europe chair two of these working groups in efforts to put Daikin's knowledge and technology in air conditioning to work for the sake of effective European environmental policy.

*European Partnership for Energy and the Environment

Environmental Education

Contributing to Children's Eco-Club Festival

Daikin Industries co-sponsored the 2009 Junior Eco-Club All Japan Festival held March 2009 by Japan's Ministry of the Environment (MOE). This convention gathered nationwide members of the Children's Eco-Club, an MOE initiative, to discuss and think about environmental problems.

Prior to the convention, there was a selection of the winners in a contest to create a newspaper detailing the children's environmental activities of the past year. Daikin joined the judging committee and awarded the Daikin Industries Prize to Noichi Municipal Elementary School of Konan City, Kochi Prefecture.



Presenting the Daikin Industries Prize



At display booths at the convention, Daikin introduces its reforestation program in Indonesia

Participation in Sakai Kids Eco-Messenger Project

The Sakai City Board of Education sponsored the Sakai Kids Eco-Messenger Project for elementary schools in Sakai City, Osaka Prefecture, which is the home of Daikin Industries' Sakai Plant.

Daikin Industries took part in this project by sending employees to two elementary schools to teach environmental lessons in fiscal year 2008. The lessons gave the children a chance to think about the environment by introducing Daikin Industries' energy efficiency activities and other environmental protection efforts. Daikin also was on the committee judging environmental TV commercials that the children created.



Daikin Industries gives environmental lessons at elementary schools

Realizing a Sustainable Society

Among all responsibilities, Daikin has particularly focused on three areas: quality & customer satisfaction, human resources, and social contribution.

Quality & Customer Satisfaction: Giving Customers Unmatched Satisfaction

⇒ Performance Report **P.35-36**

Safety & Quality

Products are designed from the perspective of the customer to assure safety and quality.

Customer Satisfaction

We strive to achieve the ultimate in quality service: speed, accuracy, and good manners.



Bringing customers comfort

Human Resources: Through People-Centered Management, We Create a Workplace Where Employees Can Demonstrate Their Abilities

⇒ Performance Report **P.37-38**

Human Resource Development

The entire Daikin Group trains human resources to match business growth.

Diversity of Employees

We strive to build a diverse workplace where everyone can play an important role, respecting each other regardless of age, sex, nationality, or physical disabilities.

Balancing the Responsibilities of Work and Family

We allow employees to work flexible schedules so that they can have quality time with their families.

Occupational Safety and Health

We strive for employee satisfaction by building a safe, comfortable workplace where employees can enjoy both mental and physical well-being.



Production line operated by disabled employees (China)



Training at the Daikin Europe Academy (Belgium)

Social Contribution: Employees Take the Initiative in Local Grassroots Action

⇒ Performance Report **P.39**

Employees are front and center in community service that covers arts and culture, human resource development, and environmental protection. We strive to provide each region with the support it needs.



Mangrove planting (Thailand)



Support for the arts (Japan)

Share Daikin's Philosophy and Understanding So That Employees Can Grow with the Company

With the Daikin Group's rapid international growth, it is more important than ever that we foster the people needed to support this growth. To conduct diversity management that enables us to get the most out of a wide range of unique individual employees, it is imperative that we develop human resources based on two key themes: share Our Group Philosophy and tacit knowledge; and develop leaders who can guide individuals with diverse values in a common direction.

Maximizing the Power of Human Resources at a New Global Training Center

Daikin had in the past emphasized on-the-job training (OJT)*¹ and was less organized toward a common, company-wide off-the-job-training (Off JT)*² program, but as our business grew rapidly on a global scale, developing human resources through training programs combining OJT and Off JT became crucial. Since 2005, we have been conducting programs such as the Daikin Leadership Development Program for next generation executives, the Daikin Business School (D-BS) for executive management candidates at overseas bases, and Fast & Flat training with the goal of boosting leadership capabilities of division managers.

In the spring of 2008, the Daikin Ales Aoya Global Training Center was established with the aim of maximizing the power of human resources. This facility (1) gives worldwide Daikin Group employees the management and leadership skills, (2) passes on the manufacturing skills that are the lifeline to a manufacturer, (3) brings engineers together to work and motivate each other, and (4) promotes thought and discussion among participants about Daikin's philosophy and tacit knowledge so that the Daikin Way can become second nature.

*¹ OJT: Employees learn and acquire the skills, knowledge, and degree of commitment required of their positions while performing their jobs.

*² Off JT: Employees study outside of their workplaces in order to acquire the knowledge and skills needed for their jobs.

Passing on Daikin Philosophy and Corporate DNA of Manufacturing to Overseas Group Companies

In June 2008, Skills Trainer Training was held at the Daikin Ales Aoya. This training was aimed at raising the level of employee skills worldwide by teaching advanced engineers in Japan to be skills trainers. After taking this training, the trainers went to Daikin manufacturing bases around the world to pass on these skills together with Daikin's manufacturing DNA and tacit knowledge to local employees. Starting in 2009, there will be courses that will train local employees to be skills trainers for their own bases.

In May 2009, Bridge Person Training was held at Daikin Ales Aoya. This training aims to foster individuals able to act as a bridge person between overseas group companies and the various business divisions of Daikin Industries. Through this year-long program trainees learn to improve communication skills in English, and to gain a deeper understanding of the Daikin Group's philosophy and tacit knowledge so they can pass them on to people of different cultures in order to create a strong organization by utilizing the various talents of individuals.

In July, personnel managers of major overseas companies of the Daikin Group companies gathered for a Global Human Resources Meeting. Topics included measures for human resource development that would help employees more fully encompass Daikin philosophy



Daikin Leadership Development Program



Bridge Person Training



Cross-cultural training at McQuay International

Daikin Ales Aoya Global Training Center

and corporate DNA as well as implementation of a performance-based compensation system in each country and region.

Daikin has plans for numerous courses that represent its continued investment in people: the Daikin CEO Program, an advanced version of the Daikin Leadership Development Program; the Next-Generation Leader Program, a program for training division managers and overseas base heads to be business leaders capable of taking up key company posts; the Young Employees Challenge Program, a program to begin creating Daikin's future-leaders; and Off JT that includes diversity training for managers.

Overseas Group Companies Support Individual Growth Based on Local Needs

Overseas Daikin Group companies are also conducting human resource development that meets local needs and spreads the Daikin philosophy.

In January 2009, AAF International in the UK, one of the companies of the OYL Group (which joined Daikin Group in 2006), began a trial program to incorporate Daikin's Group Philosophy and people-centered management into daily work. Managers discussed and experimented to see how they could conduct their work focusing more on teamwork and how they could utilize individual talent to contribute to the

success of the organization. This is a pilot project that we intend to implement throughout the entire OYL Group.

McQuay International, part of the OYL Group is striving to promote cross-cultural understanding by offering McQuay employees a course in understanding Japanese work processes, and conversely by offering Japanese employees a course in understanding American management methods. This training made each side more aware of the other's culture.

Daikin Europe N.V. established the Daikin Europe Academy in 2006 to expand the functions of the training center for teaching manufacturing skills. In addition to manufacturing skills education, the academy offers all-round training for boosting business skills in four areas: management and leadership training, technical training, commercial training, and business skills training. This training is also open to Daikin Group dealers and installers. In fiscal year 2008, 2,282 people from Daikin Europe N.V. and other companies within the EMEA regions took part in 244 courses. Course records were communicated to trainees and their managers so that they could plan their next direction of further development.


These kinds of trainings are conducted according to the unique needs of each region. The entire Daikin Group works to support each employee in his or her quest to set high goals towards personal growth.

Bridge Person Training Impressions from Trainees

Developing Mutual Understanding and Empathy

Yuui Watanabe
Global Business Development Department,
Air Conditioning Manufacturing Division

Corporate philosophy is an abstract concept so it's better for us to show how we personally embody those concepts through our actions rather than using words to explain it. Even for us in Japan, Corporate Philosophy is a goal each one of us is personally striving for. While understanding that employees from other countries come from different backgrounds and cultures, I want to discover the values and attributes that we have in common.



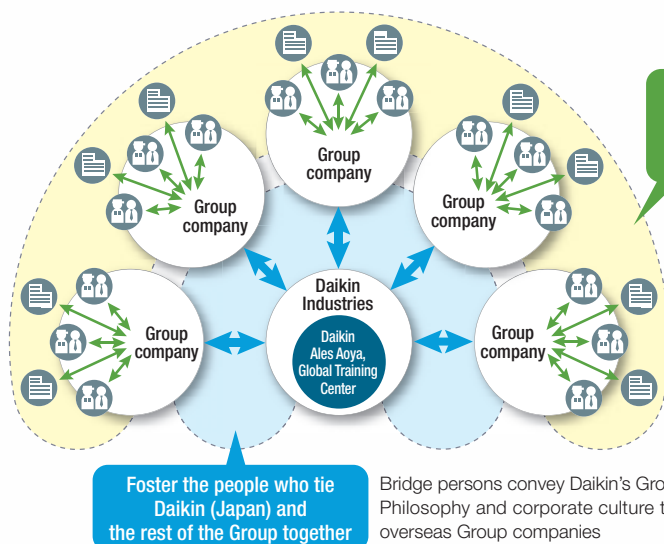
Daikin Europe Academy Impressions from Trainees

Using What I Learn in My Work

Simon Debruyne
Sales, Daikin Europe N.V.

I attended the project acquisition training course in January. During this training I was taught techniques such as how to detect leads, how to get sufficient information and acquire projects. This training allowed me to get more insight in the matter. As in my territories we are dealing with a lot of projects; I use the techniques on a daily basis, trying to get the right information in order to anticipate and win the project.





Human resource training measures at each Group company
Globally-minded managers train future leaders

Sharing the Group Philosophy, each Group company conducts education that boosts the capabilities of employees

Daikin Europe Academy



Quality & Customer Satisfaction

In both the air conditioning and chemicals businesses, we ensure that we can offer products of the highest level of quality and safety by acquiring certification for the ISO 9001 quality management system for our worldwide bases (all bases in Japan, 10 overseas air conditioning companies, seven overseas chemicals companies). The Service Department is certified for the ISO 9001 quality management system as well.

Basic Stance	<ul style="list-style-type: none"> • Safety & Quality..... Products are designed from the perspective of the customer to assure safety and quality. • Customer Satisfaction..... We strive to achieve the ultimate in quality service: speed, accuracy, and good manners.
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Improving the Quality and Safety of Air Conditioning Products

Daily Meetings Reinforce Quality Awareness

Since 2004, the 19th of every month has been quality day, a day when each workplace holds discussions on ways to improve quality.

Since November 2008, each division has held 10-minute daily quality meetings. These meetings are now an established way of keeping employees thinking of new ways to pursue quality and sharing up-to-date information of quality matters.

Providing Information That Prevents Accidents from Product Degradation

The Consumer Product Safety Law obligates companies to design products for safety and provide consumers with information and warnings so that air conditioner accidents can be avoided.

Based on the failsafe^{*1} philosophy, Daikin's system of checks ensures that customer safety is the top priority in design and that design review (DR)^{*2} leads to safe products.

Our home page also provides consumer information including product model numbers and year of products already on the market.

In April 2009, the Ministerial Ordinance of technical standards for the Electrical Appliance and Material

Safety Law went into effect. We abide by this ordinance by placing labels on our residential air conditioners (which are covered by this law) that state the duration of product use.

^{*1} Failsafe: Checks and measures are in place to ensure safety in case of a breakdown of mechanisms or systems.

^{*2} Design review: In a process involving the entire Daikin organization, products under development are assessed for quality of design and all other processes leading up to product realization. Only those that pass each stage can proceed forward.

Recall of Air Conditioner Outdoor Units: Free Inspection and Repair

Daikin determined that the outdoor units of air conditioners made between 1994 and 1996 had a loose condenser terminal that allowed dust as well as insects and small snakes to invade the unit and adhere to the printed circuit board, causing a short circuit and possibly smoke or fire.

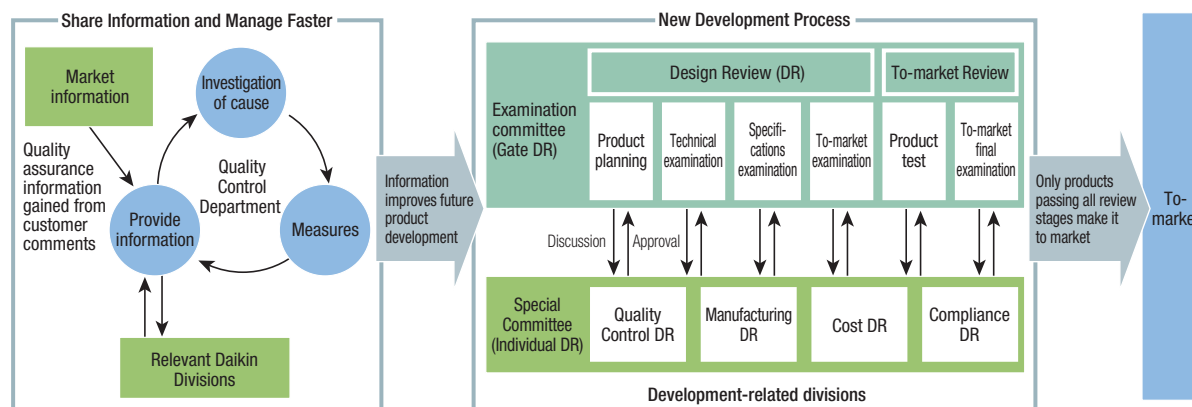
Daikin informed customers of the models in question through press releases and announcements in the mass media, and Daikin engineers conducted inspections and repairs free of charge.

Customers owning the models in question should phone this number:

☎ 0120-330-696 (toll free; in Japan only)

Development Process Raises Quality

Managers in the relevant development divisions conduct product reviews, called individual design reviews (DR), based on the four criteria of product quality, *monotsukuri* (the art of manufacturing), cost-effectiveness, and compliance. Products then go to a gate DR attended by Daikin top management. Only products that pass this gate DR make it to market.



Raising Quality and Safety of Fluorochemical Products

Bringing the World Reliable Fluorochemical Products

Many of the fluorochemical products that we make are used as raw materials by automobile, semiconductor, and electronic equipment manufacturers around the world. Because these parts appreciably affect the quality of the products in which they are used, it is crucial that we have a global supply system that ensures the reliability of our fluorochemicals.

The Chemicals Division takes every measure possible in response to quality problems. In fiscal year 2008, we placed special emphasis on verification that the cause of defects in certain products did not affect other products as well. These efforts allowed us to lower the defect rate, resulting in the decrease of our inventory.

In fiscal year 2009, we will work to prevent the occurrence of defective products at overseas bases.

Customer Help-Line

Using Information Gathered by the Daikin Contact Center

The Daikin Contact Center in Japan is open 24 hours a day, 365 days a year, taking all customer calls concerning all aspects of customer satisfaction.

Daikin does all it can to ensure that customers get advice that fully meets their needs.

Many of the 500,000 inquiries that the Contact Center gets from customers each year hold the clue to solving issues we face in the market at an early stage and making product quality better. The inquiries are stored in a database that is shared with the relevant Daikin divisions and used to solve potential quality problems.

Information in the database is also used in the planning of new products. To stay one step ahead with products that meet customers' underlying needs, we explore new product concepts from customers.



Daikin Contact Center

Customer Opinions Improve Products

• Developed High-Pressure Eco-Cute

After customers commented that shower water pressure was low, we developed a model that gives continuously high pressure.

• Improved Product Catalog

We improved the symbols used in the product catalogs after suggestions from customers. We also added an explanation of the error codes on the room air conditioner display.

Daikin Rated No.1 in Customer Satisfaction

Daikin was rated No.1 in customer satisfaction among air conditioner manufacturers in repairs during summer according to a survey conducted by Japan's electric retail stores. A customer satisfaction survey of 5,000 new product watchers by the Nikkei Shimbun (newspaper) put Daikin at the top of the air conditioner industry and second overall in all industries.

Working Closely with Suppliers

Cooperation with Suppliers Raises Quality and Safety

We work closely with suppliers to ensure ever-improving quality and a high level of safety.

The Air Conditioning Manufacturing Division holds briefings to enlist the help of suppliers in improving quality and achieving zero defects. At the monthly Supplier Quality Conference, we assess and analyze the quality of parts we purchase and, when necessary, ask that suppliers solve quality-related issues, even going so far as to visit their factories to offer assistance.

The Daikin Group will ask both primary suppliers (from which it purchases directly) and their suppliers (including overseas bases) to step up their quality checks and follow their progress in doing so.



Supplier Quality Conference



Chemicals Division holds briefing for suppliers

Human Resources

The Daikin Group's operations are people-centered in the belief that people are the foundation of a company's competitiveness. We believe in the unlimited potential of every person and that the sum of the potential and talent of our diverse people forms the pillars of our company operations. By integrating the characteristics and ideas of our diverse range of employees, we can energize our company and strengthen our competitiveness. The Daikin Group is striving to build new corporate value through a strategy of management diversity.

Basic Stance	• Human Resource Development	The entire Daikin Group trains human resources to match business growth.
	• Diversity of Employees	We strive to build a diverse workplace where everyone can play an important role respecting each other regardless of age, sex, nationality, or physical disabilities.
	• Balancing the Responsibilities of Work and Family	We allow employees to work flexible schedules so that they can have quality time with their families.
	• Occupational Safety and Health	We strive for employee satisfaction by building a safe, comfortable workplace where employees can enjoy both mental and physical well-being.

Workplace Diversity

Rehiring System Makes Use of Retirees Expertise

In 2001, Daikin introduced a rehiring system in which retirees wishing to participate can work until they are 65, thus providing an opportunity for them to make the most of their skills and knowledge. Since introducing this system, over 100 employees have been rehired each year. In fiscal year 2008, 435 retirees applied and are working under this system.

To comply with Japan's Law Concerning Stabilization of Employment of Older Persons, we introduced this rehiring system at our affiliates in Japan in fiscal year 2006.

Training Foreign Nationals to Be Technical Leaders at Their Bases

With Daikin Industries rapidly expanding on a global scale in recent years, we are rushing to improve the skills level of our employees.

In May 2009, we started the Global Trainer Program in which Meisters lead training in Japan for international employees assigned to take up technical leader posts at their bases. Under this system, these foreign nationals are certified as trainers and return to the Daikin base in their countries to lead their colleagues in boosting technical expertise. In fiscal year 2009, 20 joined the Global Trainer Program.



Training foreign nationals to be technical trainers

Making Enthusiastic, Talented Women into Managers

Daikin Industries strives to create identical working conditions for men and women because our goal is to use the talents of both sexes to the fullest. We have also systematically increased the number of female managers from two in fiscal year 2001 to 12 in fiscal year 2008.

Future efforts such as giving more opportunities for self-development and hiring experienced personnel from outside the company for management positions will ensure that we get enthusiastic, talented women to lead Daikin.

Hiring More People with Disabilities across the Entire Group

The Daikin Group strives to hire the disabled based on its policy of providing opportunities for disabled people to grow personally and make contributions to society through production activities.

In 1993, Daikin Industries established Daikin Sunrise Settsu Co., Ltd., a cooperative venture with the Osaka Prefecture and Settsu City governments. Disabled persons form the nucleus of the workforce and the company has operated profitably since 1995. As of March 2009, the company has 63 disabled employees who work side-by-side with their fellow workers.

In June 2009, Daikin Sunrise Settsu's new plant was established, another step in hiring more disabled. The duties of these employees have also expanded from machine parts processing and assembly, and the manufacture of chemicals, to computer assisted design and the publication of documents.

After this success in Japan, Daikin Air-Conditioning (Shanghai) Co., Ltd. now also hires the disabled. As of the end of March 2009, the company had 55 disabled employees working on production lines and accounting for 6.6% of all employees.



Production line run by disabled employees at Daikin Air-Conditioning (Shanghai)



Daikin Sunrise Settsu (Japan)

Occupational Safety and Health

Maintaining a Workplace Free of Accidents

Daikin Industries has safety measures in place to maintain an accident-free workplace. There is an Occupational Safety and Health Committee at each Daikin site. Besides working out disaster prevention measures, committee members patrol work sites, ensure rules are being followed, and help raise safety awareness.



Drills to prevent falls from high places during work

Despite these measures, Daikin Industries had two cases of accidents resulting in time off work. We will continue to strive for an accident-free workplace.

Honors for Occupational Safety and Health

Daikin Industries Thailand was honored by its country's Ministry of Labour for efforts to improve occupational safety and health, receiving the 2008 Best Corporations Award in the categories of Safety, Occupational Health and Environment.



Daikin Industries Thailand receives the award

Balancing the Responsibilities of Work and Family

A Company Conducive to Both Work and Family

In March 2007, we were certified for compliance with the Law for Measures to Support the Development of the Next Generation after reaching the targets of our first action plan. Our second action plan started in April 2007 with a number of support efforts.

One of these was a conference held in February 2009 with eight other companies in the Kansai region of Japan for the exchange of information among employees with children on how to achieve the best balance of work and family. Daikin employees accounted for seven of the association's 50 participants. At the conference, participants took part in small group discussions and exchanged information such as how best to communicate your needs with bosses and colleagues in your company.

Daikin Industries achieved the targets of its first action plan based on the Law for Measures to Support the Development of the Next Generation. For this, the company was certified by the Osaka Labour Bureau.



Overview of Second Action Plan

- Flexible work hours extended to include parents of elementary school children.
- New plan established for financial assistance with childcare expenses.
- More men encouraged to take childcare leave.
- Conference held on best balance of work and family.
- First plan attempted to shorten working hours by obligating employees to leave work at closing time once a week and prohibiting employees from working on their days off.

Daikin Ranked High for Male Childcare Leave Systems

Daikin Industries revised its childcare leave systems so that more men could take childcare leave, and in fiscal year 2007 33 male employees took advantage of this. The Nikkei Sangyo Shimbun (newspaper) recognized this by placing Daikin fifth in its 2008 ranking of the top companies for number of men taking childcare leave. In fiscal year 2008, 89 men took childcare leave at Daikin.

Daikin Europe Selected a Top Employer

Daikin Europe N.V. was chosen one of the Top Employers* of 2009 for its outstanding human resource systems. Recognized for its working conditions, evaluation systems, and programs for employee education and training, Daikin Europe received its fourth selection in a row.

* Sponsored by CRF International, a company conducting research into best practices in human resources around the world.



Spurring the Creation of Intellectual Property

Two Systems Stimulate Creation of Intellectual Property

Daikin Industries has two systems for stimulating employees' motivation to invent and for spurring the creation of intellectual property. The first is the Compensation System for Employee Inventions, a system in which Daikin pays employees for inventions created on the job that result in patent applications as well as successful uses of the patent. In fiscal year 2008, Daikin compensated employees for 1,527 patent applications and 367 successful uses of the patent. Another is the Incentive System for Valuable Patents, which gives employees incentive bonuses for valuable patents. In fiscal year 2008, we awarded incentive bonuses to the creators of 93 patents.

Social Contribution

Employees are front and center in community service that covers arts and culture, human resource development, and environmental protection. We strive to provide each region with the support it needs.

Promoting Arts, Culture, and Sports

Golf Tournament and Charity Drive Bring New Life to Okinawa

The Daikin Orchid Ladies' Golf Tournament has been held every year since 1988. This sporting event injects energy into the local community and helps foster economic ties with Okinawa.

Held in conjunction with the tournament, the Orchid Bounty Foundation collects donations that go to groups promoting arts, culture, education, and sports in Okinawa.



Orchid Bounty Foundation
Donation to groups

Support for Art and Music in Osaka

Daikin Industries is originally an Osaka company, and through the Daikin Industries Foundation to Promote Modern Art it contributes to arts and culture in the city by supporting a wide range of events at the National Museum of Art in Osaka.

Daikin also supports the Kansai Philharmonic Orchestra, an NPO.



Kansai Philharmonic Orchestra

Contributing to Education

Supporting Education in Europe and Asia

Daikin Europe N.V. (Belgium) supports an NPO-sponsored program awarding university students for outstanding theses that contribute to the business success of corporations. It has also supported charity concerts sponsored by the College of Europe since 2004, with all proceeds going to student scholarships.

Daikin Air Conditioning Singapore signed an agreement with the Institute of Technical Education to support technical and skills training and adult education courses for people who have completed basic education. The company also provided the institute with air conditioners that would help with research into installation techniques. It also provides training to instructors in installation techniques.



Donations to students (Belgium)



Supporting air conditioner
technology education (Singapore)

Supporting Recovery after the Sichuan Earthquake

Monetary Aid and Air Conditioners for Earthquake Victims

Daikin Group companies in China, along with Daikin Industries, aided the victims and contributed to regional recovery after the May 2008 Sichuan earthquake. Total donations were approximately 50 million yen and consisted of donations from the companies and their employees, as well as air conditioners for public facilities.

The labor union of Daikin Air-Conditioning (Shanghai) also donated 840 books and stationery items to students and other citizens in the earthquake-stricken areas.



Contributing Locally at Daikin Bases

Bon Dance Festivals Held around the World

In 1971, employees of the Yodogawa Plant of Daikin Industries held the first Bon dance festival for the local community, and since then this event has spread to other Daikin bases in Japan. Today, employees at Daikin America, Daikin Air-Conditioning (Shanghai), and Daikin Europe (in Belgium) plan and hold Bon dances for their communities.



Cleanups around Daikin Bases

At Daikin Air-Conditioning (Shanghai), about 700 employees take part in cleanups around the site held on the 18th of each month.



Planting Trees to Absorb CO₂ from Business

Daikin Airconditioning Italy S.p.A (DACI) takes part in the Impatto Zero Project to plant enough trees to absorb the CO₂ emitted by all its business activities. Since 2005, DACI has planted trees in national parks in Costa Rica and Italy over an area of approximately 2.3 km².



CSR Management

The Daikin Group believes that CSR is the meticulous practice of Our Group Philosophy on a daily basis. We also create systems for our worldwide bases that promote corporate ethics and legal compliance as the foundation of our CSR.

Daikin's CSR System

Building a System for Integrated Group CSR

The CSR Committee chaired by Daikin's COO sets Daikin's CSR direction and monitors the progress of CSR activities. Under this committee, officers in charge of CSR and their staff in the CSR & Global Environment Center lead comprehensive, cross-organizational CSR activities throughout the entire group.

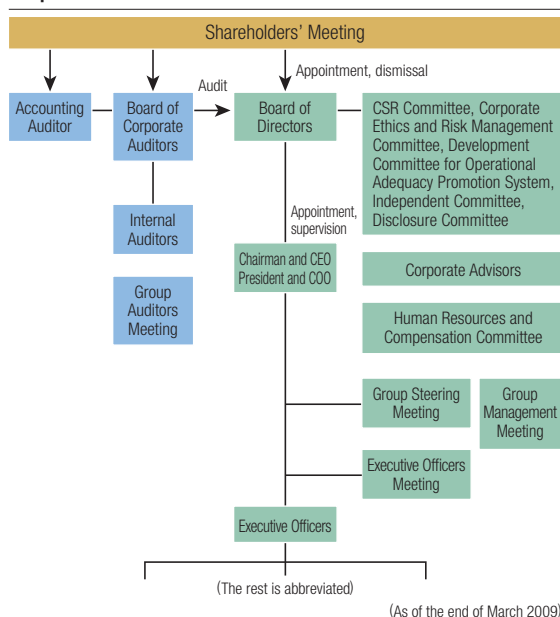
Corporate Governance

Outside Viewpoint Ensures Sound Transparent Management

Unlike the committee system* in the United States, where decision-making and execution are completely independent of each other, the Daikin Group employs an integrated management framework in which directors assume responsibility for both management and execution. Daikin uses this framework because it effectively speeds up decision-making and execution by integrating the two according to the characteristics of Daikin's business. We also have mechanisms that ensure the soundness and transparency of our management.

We appoint two outside board members with no vested interest in our company to take part in decision-making from an outsider's point of view. We also appoint two external auditors who not only sit in on the Auditors Meeting and the Board of Directors Meeting but also on key meetings such as the

Corporate Governance



Executive Officers Meeting where they monitor and manage the execution of policy.

To ensure that the interests of stakeholders other than shareholders are respected and protected, the board of directors oversees the CSR Committee, the Corporate Ethics and Risk Management Committee, and the Disclosure Committee, all of which work to ensure that corporate governance is based firmly in corporate social responsibility.

*A company with a committee comprising mostly outside directors instead of auditors to raise management transparency.

Compliance and Risk Management

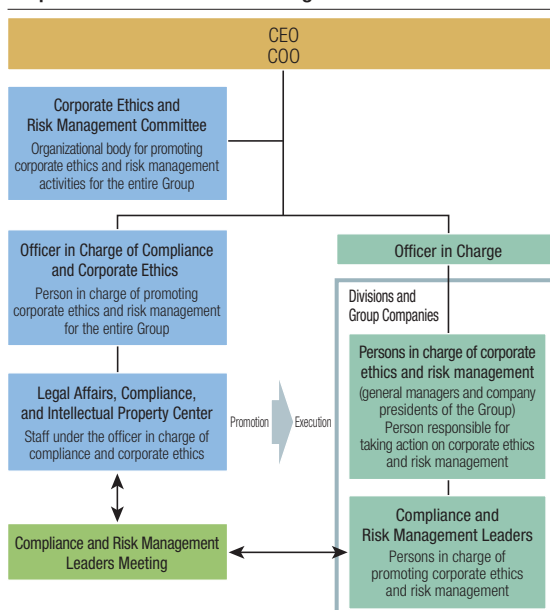
Integrated Group-Wide Action

The Daikin Group has a Corporate Ethics and Risk Management Committee that leads integrated group-wide action in compliance and risk management.

To ensure legal compliance, we carry out daily triple checks and self-assessment. In self-assessment, all employees check whether they are following the Compliance Action Guidelines of the Handbook for Corporate Ethics. Based on the results of these self-assessments, we carry out legal compliance audits and internal audits to ensure that legal compliance is thorough.

In the area of risk management, every year we conduct risk assessments to identify the most important risks to the Daikin Group overall. The Corporate Ethics and Risk Management Committee looks into these areas of risk and formulates preventative measures.

Corporate Ethics and Risk Management



CSR Management

Handbook for Corporate Ethics Revised and Publicized

In 2008, the Daikin Group revised the Handbook for Corporate Ethics, which details how employees should conduct themselves. Meetings were held at overseas group companies to relay the revisions and the Group Compliance Guidelines were created to ensure that the entire global group was aware. In Japan, compliance cards were given to all Daikin employees so they could always carry a reminder of the importance of compliance with the rules of ethics.

Daikin took the opportunity of these revisions to step up educational and awareness activities. Every chance was taken to present multi-faceted education and training, which included basic courses in the handbook rules as well as a look at case studies for persons in charge of enforcing these rules.

An Accessible Help-Line for Corporate Ethics

We have the Help-Line for Corporate Ethics in the Legal Affairs, Compliance, and Intellectual Property Center where employees can give opinions or receive consultation on all corporate ethics matters.

The help-line is designed to be worry-free and accessible: users can make contact by phone or fax, and their names are kept confidential.

Inappropriate Accounting Practices Discovered

In March 2009, it was discovered that between fiscal year 1999 and fiscal year 2008 the After Sales Service Division of Daikin Industries had been recording inappropriate accounting. After this was confirmed, we immediately made it public, established an investigation committee comprising an outside attorney, an outside certified public accountant, and the Daikin President. The matter was fully disclosed and measures were taken to prevent a reoccurrence. At the end of April 2009, we made the results of our inquiry public.

The results of the investigation revealed that inappropriate accounting practices occurred within Daikin subsidiaries at Daikin Facilities Ltd., as well as Daikin Air Technology Co. Ltd. An amount totaling up to about 4 billion yen was incorrectly recorded; however, it was determined that sales figures had not been padded, no material harm had been done to third parties, and there had been no company-wide involvement by the board of directors. We will implement preventative measures not just in the After Sales Service Division but across all departments to ensure this does not happen again. We will introduce triple checks through daily business operation, strengthen the monitoring system, improve IT control, and review the company-wide budget management system.

We are determined to prevent a similar incident from occurring again, and every employee in the Daikin Group is resolved to work towards restoring public faith in Daikin.

Revisions to the Handbook for Corporate Ethics

- Integrate rules for the global group: Established global group-wide Group Compliance Guidelines.
- Make code of ethics to focus on compliance.
- Contents should reflect changes in laws and society.
- Strengthen motivation for employees: Compliance cards, Q&A and main practical points on the handbook, multifaceted education, self-assessments to ensure personal compliance.

Group Compliance Guidelines

- | | |
|---|--|
| 1. Providing Safe, High Quality Products and Services | 9. Ensuring the Safety of Operations |
| 2. Free Competition and Fair Trading | 10. Respect for Human Rights and Diversity in the Workplace and Observance of Labor Laws |
| 3. Observing Trade Control Laws | 11. Protection of Company Assets |
| 4. Respect and Protection of Intellectual Property Rights | 12. Proper Handling of Accounting Procedures |
| 5. Proper Management and Utilization of Information | 13. Practicing Moderation in Entertainment and Gift Exchanges |
| 6. Prohibition of Insider Trading | 14. Maintaining a Firm Attitude against Anti-social Activities |
| 7. Timely and Appropriate Disclosure of Corporate Information | 15. Observing Various Business Law and Regulation |
| 8. Preservation of the Global Environment | |

Suppliers Must Be in Legal Compliance

Management That Achieves Legal Compliance throughout the Supply Chain

The Daikin Group urges its suppliers to abide by labor-related laws.

Before taking on new suppliers, in the Air Conditioning Manufacturing Division, we inquire into things like their management policies and labor situation. The Chemicals Division carries out unscheduled audits and monitors suppliers for improper labor practices such as excessive work hours.

Human Rights Education

Education Raises Human Rights Awareness

Daikin Industries makes employees aware of human rights issues as part of its goal of becoming a company free of discrimination where each individual is respected. With the revision of the Compliance Action Guidelines in fiscal year 2008 came the declaration of our policy to respect human rights and diversity in the workplace and abide by labor laws, and we constantly remind employees to be aware of this.

Every year at the Antidiscrimination Committee meetings, participants break into groups of officers and other job description levels for human rights issues training. We also have a number of grassroots activities for raising awareness of human rights; these include articles in the company magazine and human rights slogan contests among employees.

Raising Corporate Value

Besides stressing CSR as part of its management, the Daikin Group strives to improve financial performance to maximize corporate value.

Maximizing Corporate Value

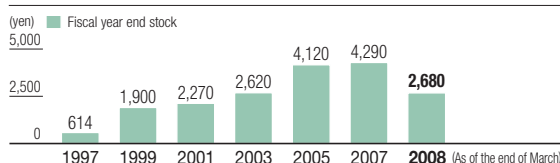
Short-Term Profit and Medium-to-Long-Term Growth despite the Severe Economy

The Daikin Group works to boost business performance and raise corporate value in order to meet the expectations of shareholders, investors, and other stakeholders. To this end, we stress free cash flow (a management indicator that can be said to be the source of corporate value), boost earnings, and reduce accounts receivable and inventory.

With the worldwide economic recession of fiscal year 2008 came decreased market demand and unfavorable currency fluctuations brought on by a stronger yen. The result was dramatically reduced profits with net sales of 1.2 trillion yen, down by 6.9% over the previous year, and operating income of 61.3 billion yen, down by 52.1%.

Although the severe economy is expected to continue for the time being, we are doing all we can to secure short-term profit. In the long term, we are accelerating efforts to get results as we focus on our FUSION 10 strategic management plan and its targets of further enlarging our business worldwide; developing energy-efficient products; and expanding the range of environmentally conscious products such in the fields of space and water heating.

Fiscal Year End Stock Prices



Distribution of Profit

Dividends according to Profits Based on Stability

By setting a target of maintaining at least a 2.0% ratio of dividends to shareholders equity, we strive to pay stable dividends that take into account a range of factors including consolidated performance, financial situations, and capital needs. The dividend for fiscal year 2008 is expected to be 38 yen, the same as the previous fiscal year.

With regard to internal reserves, we will allot them to strategic investments aimed at strengthening the management structure, accelerating the development of global business, promoting the development of environmentally conscious products, achieving business expansion, and improving competitiveness.

Daikin Included in SRI Fund* Indexes

Daikin Industries has been selected for the seventh year in a row for inclusion in the Dow Jones Sustainability Indexes, which comprise approximately 300 leading companies worldwide selected through evaluation based on economic, environmental, and social criteria.



Daikin has also been selected for the Morningstar and other SRI (socially responsible investing) funds.



* SRI Fund: SRI funds are made up of companies that, in addition to being rated as financially sound, demonstrate outstanding environmental protection and social responsibility in areas such as legal compliance and the promotion of human rights.

Daikin among Global 100 Most Sustainable Corporations in the World for 3rd Consecutive Year

Daikin Industries was selected for the Global 100 Most Sustainable Corporations in the World, known as the Global 100, for the third consecutive year.

Compiled by Canadian-based media company Corporate Knights Inc. and an investment advisor firm, the Global 100 companies are selected from among 1,800 companies worldwide based on sustainability in environmental, social, and governance areas.



We believe our selection is evidence of our global reputation for sustainable management that makes use of our environmental technologies.

Prompt, Fair Information Disclosure

Information Disclosed through Briefings and the Website

Daikin Industries makes it a top priority to disclose information in a prompt and proper manner as its responsibility to its stakeholders.

For analysts and individual investors, we hold interim and end-of-year financial performance briefings and conference calls every first and third financial quarter. For individual investors, in fiscal year 2007 we opened an IR Web site with accessible, easy-to-understand information. We also hold briefings on Daikin for individual investors.

The opinions from shareholders and investors are reflected in our management.



IR website for investors

Environmental Management (related data on P.21)

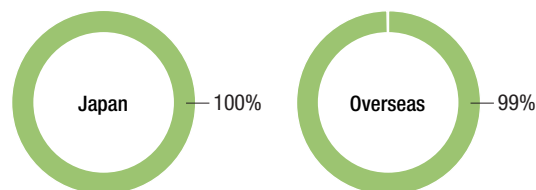
Report from Audits

JG

	Problems found from internal environmental audits	Problems found by third-party certification institutes
Major non-conformance	0	1
Minor non-conformance	31	8
Items improved	111	71

Ratio of Employees Belonging to Facilities That Obtained ISO 14001 Certification*

OJG

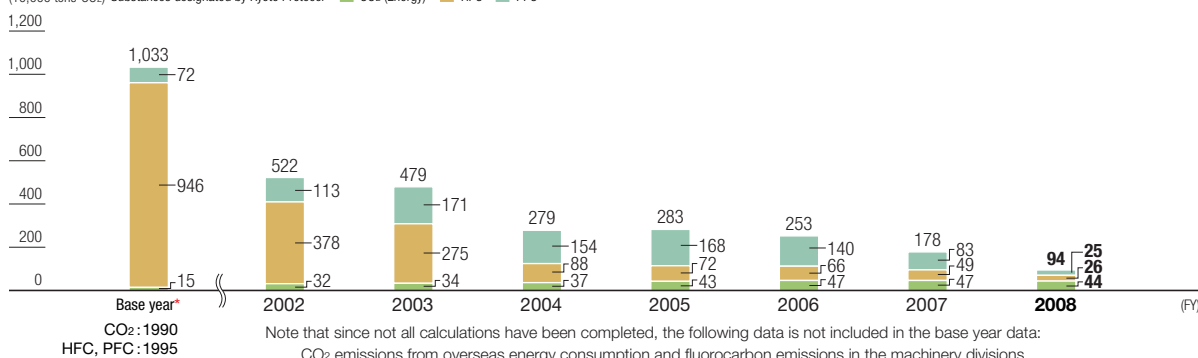


* Excluding the OYL Group, which joined Daikin in 2006.

Low Impact Production (related data on P.27-29)

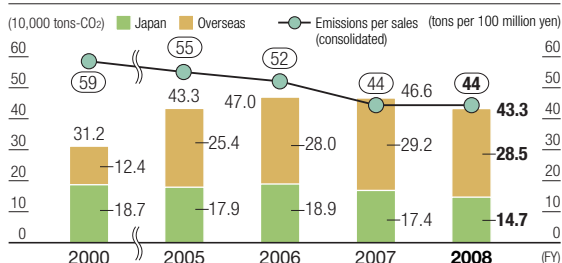
Greenhouse Gas Emissions for the Entire Group

OJG

(10,000 tons-CO₂) Substances designated by Kyoto Protocol CO₂ (Energy) HFC PFC

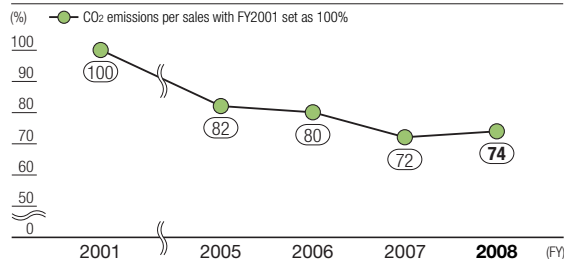
Total CO₂ Emissions, CO₂ Emissions per Sales

OJG



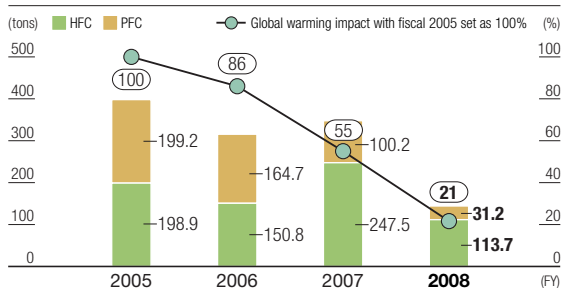
CO₂ Emissions per Sales from Transportation (Air-conditioning)

D



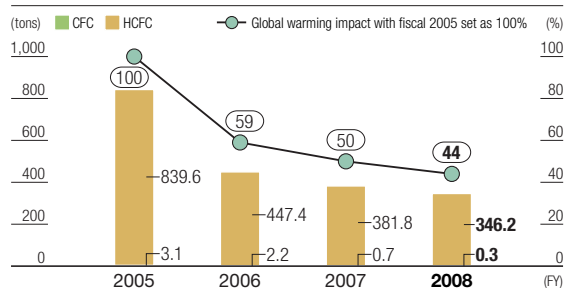
HFC, PFC Emissions and Global Warming Impact

OJG



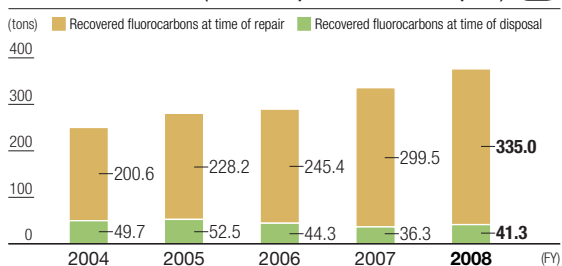
CFC, HCFC Emissions and Global Warming Impact

OJG



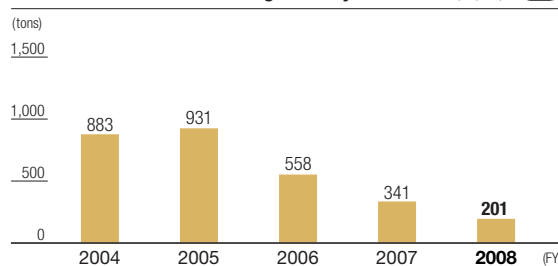
Recovered Fluorocarbons (at time of repair and at time of disposal)

D

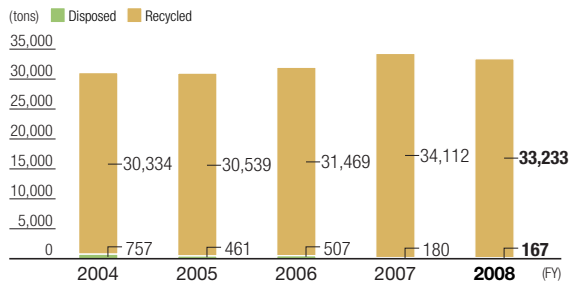


Release of Substances Designated by PRTR Law (Japan)

D

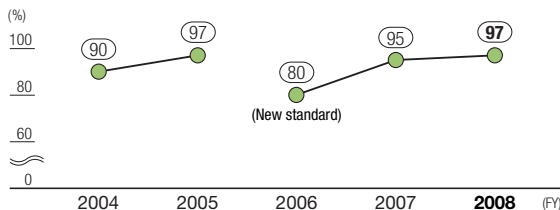


Amount Recycled and Amount Disposed of (Japan) (JG)

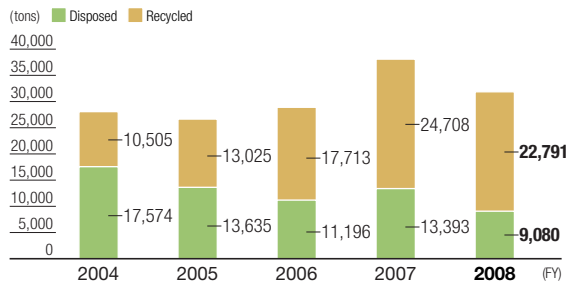


* Previously, data covered only industrial waste but now covers general waste.

Green Procurement Rate (Japan) (JG)

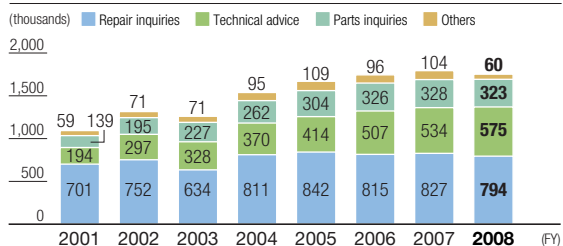


Amount Recycled and Amount Disposed of (Overseas) (OG)



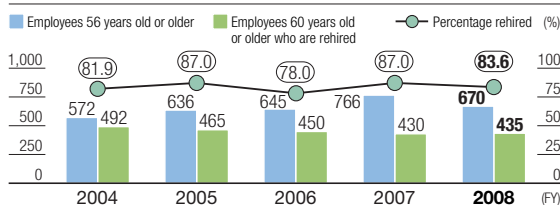
Quality & Customer Satisfaction (related data on P.35-36)

Number of Inquiries to the Contact Center (JG)

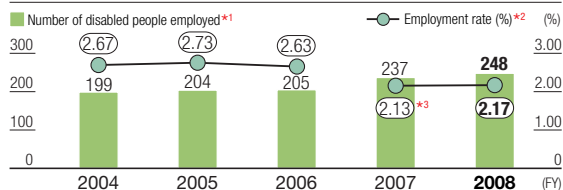


Human Resources (related data on P.37-38)

Number of Veteran Workers and Percentage Rehired After Retiring (D)

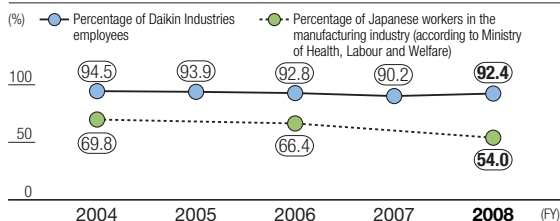


Number of Disabled People Employed (JG)

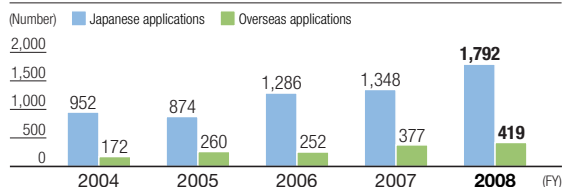


*1 Legally, 1 severely disabled person employed is counted as 2 disabled persons.
 *2 Employment rate = number of disabled persons employed ÷ number of persons employed
 *3 Disabled employment rate for only Daikin Industries until FY2006 and for the entire Daikin Group from FY2007

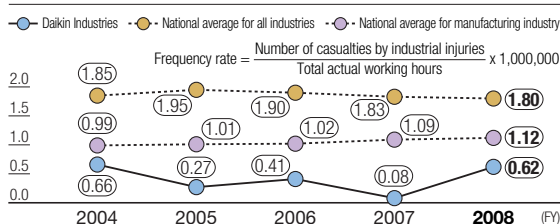
Percentage of Employees Taking All Paid Leave (D)



Number of Patent Applications (D)

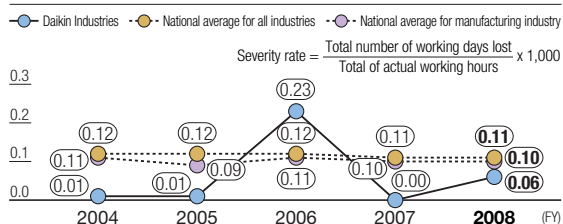


Frequency Rate (D)



Note: This shows the frequency of work-related calamities, expressed in number of casualties for every 1,000,000 working hours.

Severity Rate (D)



Note: This shows the severity of the calamity, expressed in man-days lost per 1,000 hours worked.

We asked outside experts for opinions on Daikin's CSR activities.



Kazuhiro Ueda

Professor
Graduate School of Economics,
Kyoto University

Hiroki Iwata

Researcher
Kyoto University Graduate School
of Global Environmental Studies

A Company Embodying the Balance between Environment and Business

Daikin positions the environment as one of the key themes to the nature of its business under the company's Group Philosophy, which states that it shall be a company that leads in applying environmentally friendly practices. I am impressed with Daikin's philosophy and policy of facing environmental issues head on: a stance expressed by Chairman Inoue's message that Daikin will contribute to society with environmental conscious products.

Daikin puts this philosophy into action, by manufacturing in an environmentally conscious manner and by developing and providing products that have minimal environmental impact in their use. The company contributes to reducing environmental impact through a worldwide business in areas such as heat-pump technology products, which produce less CO₂. Furthermore, Daikin's effort to expand the sale of these kinds of products in environmentally aware Europe is a perfect example of turning environmental protection into a profitable opportunity.

Another remarkable Daikin effort is the Air Conditioning Network Service System, which provides customers with the information they need to maximize the energy efficiency of Daikin air conditioners. The environmentally conscious functions of a product are only realized when the customer uses the product correctly: by systematizing this, we get a range of positive effects, such as raised environmental awareness among customers to accompany the reduced environmental impact.

As more and more systems are put in place for the recovery of refrigerants, we can expect to see environmentally conscious products spread throughout the world as Daikin expands its global business. I sincerely hope that Daikin will be a company that embodies the balance between environment and business by posting healthy earnings while at the same time contributing to society through environmental activities.



Tomofumi Saito

Director
Organization and Rewarding
Work Research Institute,
Visiting Professor
Tama Graduate School of
Business

A Corporate Group That Supports the Growth of Employees Worldwide

Daikin's Group Philosophy states that "the cumulative growth of all group members serves as the foundation for the group's development." Daikin is truly a corporate group that practices people-centered management.

According to the San Francisco-based Great Place to Work Institute, a great workplace is measured by the quality of three interconnected relationships: the relationship between employees and management; the relationship between employees and their jobs/company; and the relationship between employees and other employees. Everywhere around the world, such "great places to work" have been shown to have high sales and profits.

One essence of a great place to work is a company with strong dialogue. Chairman Inoue of Daikin is a vigorous proponent of face-to-face communication. Beside this, what also characterizes the Daikin Group is its use of buzz words related to people, such as the "belief in inherent goodness," "sense of belonging," "talent management," and "the organization as a structure of human sensibilities."

Daikin's global expansion has proceeded at breakneck speed, with fiscal year 2007 net sales exceeding 1 trillion yen. While many companies lose sight of their original vision in the course of their exponential growth, the Daikin Group started its Bridge Persons Training in 2008 for those who will promote understanding and practice of the Group Philosophy worldwide and thus ensure the company's "genes" are passed on. While I can guess that the Daikin Group faces many day-to-day hardships, I believe that through efforts like those carried out at the Ales Aoya global training center in Tottori Prefecture it will continue to grow in a healthy manner by being a corporate group that supports the growth of its people worldwide.

Honors for Daikin

Overall CSR

Daikin Industries

Daikin made the list of the Global 100 (most sustainable corporations in the world) (January 2009)



Socially Responsible Investing Index Fund

Daikin Industries

Chosen for inclusion in the Dow Jones Sustainability Indexes (for seven consecutive years up to fiscal year 2008)
Chosen for inclusion in the Morningstar Socially Responsible Investment Index



Environmental Protection

Daikin Industries

A network for the unified management of information on fluorocarbon recovery and destruction

Minister of Economy, Trade and Industry Prize,
11th Ozone Layer Protection and Global Warming Prevention Awards (September 2008)



The remote energy-saving tuning function of Air Conditioning Network Service System II

Minister of the Environment Prize,
5th Eco-Product Awards (Eco-Service category) (December 2008)



DESICA system

Energy Conservation Center Chairman's Prize,
2008 Energy Conservation Awards (January 2009)



Energy-efficient hybrid hydraulic Super Unit

Technology Development Prize,
Japan Fluid Power System Society (May 2009)



Daikin Applied Systems Co., Ltd.

The cooling system for Asahi Breweries' Suita Brewery

Energy Center Chairman's Prize,
27th Awards for Outstanding Energy Efficiency (February 2009)



Daikin Air Conditioning Germany GmbH

Conveni-Pack

Incentive Prize
(Heating and Cooling category),
German Federal Environment Ministry (March 2009)



Daikin Air Conditioning France S.A.S.

Conveni-Pack

Innovation Trophy,
Equipmag 2008 (exhibition in France), (September 2008)



Social Contribution

Recognition of Customer Satisfaction

Daikin Industries

Ranked No.1 in customer satisfaction with summer repairs by air conditioner manufacturers:
A survey by Japanese electronics retail stores
Ranked No.1 in the air conditioning industry, No.2 in all industries in customer satisfaction with after-sales service of digital and consumer electronics:
A survey by Nikkei Shimbun (newspaper)

Recognition of Product and Service Quality

Daikin Airconditioning (Singapore) Pte.

Gold Award in the Reader's Digest Trusted Brand Awards 2008



Recognition of Manufacturing Improvement

Daikin Compressor Industries Ltd. (Thailand)

2nd Prize in the Automation Kaizen Award Thailand 2008, Technology Promotion Association

* Awarded to companies showing excellence in improving manufacturing processes



Recognition of Occupational Safety and Health

Daikin Industries (Thailand) Ltd.

2008 Best Corporations Award,
Safety, Occupational Health and Environment category, Ministry of Labour (May 2008)



Daikin Airconditioning (Singapore) Pte.

Ranked BizSafe Level 1

* Ranked according to the implementation level of occupational safety and health



Daikin America, Inc.

STAR Status in the VPP Program of the OSHA (Occupational Safety and Health Administration) (November 2008)

* Awarded to companies with outstanding performance in occupational safety and health



Recognition of Personnel Systems

Daikin Europe N.V.

Chosen one of the Top Employers* of 2008 by CRF International

* Awarded to companies with outstanding personnel systems



DAIKIN INDUSTRIES, LTD.

CSR & Global Environment Center

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URL <http://www.daikin.com>

**In all of us,
a green heart**



The Daikin Environmental Symbol

In environmental protection activities, the little efforts that individuals make add up to big things. The symbol of the Earth in the shape of a green heart represents a determination on the part of each and every employee of Daikin to think green (think of the Earth and take care of the environment).



Symbol Showing Certification as a Company Supporting Employees Childcare Efforts

Daikin Industries achieved the targets of its first action plan based on the Law for Measures to Support the Development of the Next Generation. For this, the company was certified by the Osaka Labour Bureau.

