



2015

Corporate Social Responsibility Report

# 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, cultivated over many years,  
to improve the quality of air we breathe  
and the quality of lives we live.

This is our mission.

## Note

In reporting on fiscal 2014 CSR activities, data was carefully reviewed and was revised in cases where discrepancies occurred between actual fiscal 2013 results and information reported for fiscal 2013. Also, because figures are rounded off, totals may not equal the sum of individual 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.

## Contents

- 3 **Daikin Group Business Overview**
- 7 **Message from the President**  
The Way Forward—Contributing to Society and Growing Our Business Through Environmental Technologies
- 9 **CSR Philosophy and Key Themes**  
Our CSR Management Protects the Environment and Abundant People's Lives



- 13 **Environment**  
Disseminating Refrigerants with Low Global Warming Impact  
**Feature 1** **Technical Support to Help Disseminate Refrigerants with Low Global Warming Impact in Emerging Countries**



- 17 **Environment**  
Spread of Net Zero Energy Buildings  
**Feature 2** **Net Zero Energy Buildings Help Realize a Low-Carbon Society**



- 19 **Quality and Customer Satisfaction**  
Boosting Service Quality  
**Feature 3** **Expansion of Japan's Quality Service Response Capabilities to China**



- 21 **Human Resources**  
Diversity Promotion  
**Feature 4** **Hiring and Training Human Resources Capable of Succeeding Anywhere in the World**



- 23 **Social Contribution**  
Contributing to Environmental Protection  
**Feature 5** **"Forests for the Air" Gets Employees Involved in Mitigating Climate Change**



- 25 **Management**
- 27 **Data**
- 31 **Third-Party Verification Statement**

- 32 **Honors for Daikin (FY2014)**
- 33 **About This Report**

# Contributing to Society and the Environment through Technology

The Daikin Group offers products utilizing technologies in both air conditioning and fluorochemicals to provide comfort in all aspects of people's lives around the world.

Through our strength in energy-efficient technologies, we develop and bring to market products and services that restrict CO<sub>2</sub> emissions, thus contributing to sustainable development in society.



■ Air Conditioning/Refrigeration Equipment ..... **89.3%**  
 ■ Chemicals ..... **7.8%**  
 ■ Oil Hydraulics, Defense Systems, and Electronics ..... **2.9%**

## Air Conditioning/Refrigeration Equipment

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

While air conditioners are indispensable to a healthy and comfortable life, they also consume large amounts of energy. Our top priority is to develop energy-efficient air conditioners that provide a comfortable air environment.

#### Residential Air Conditioners



Ururu Sarara series

#### Commercial Air Conditioners



VRV multi air conditioning systems for buildings

#### Air Purifiers



Streamer discharge Air purifiers

#### Hot Water and Space Heaters



Daikin ECOCUTE air-to-water heat pump systems

#### Air Conditioning Systems



Air conditioning network service system

#### Refrigeration Equipment



Refrigeration unit for ocean freight container

## Chemicals

### Utilizing the Characteristics of Fluorochemicals and Contributing to a Wide Range of Fields

We have the leading share of the world market for fluorochemical products used in fields such as automotive, IT, and energy. As the only company in the world to manufacture both air conditioners and their refrigerants, we are developing next-generation refrigerants with minimal environmental impact.

#### Energy Field



Materials for lithium-ion rechargeable batteries



Materials for solar cells

#### Automotive Field



FluoroeLASTOMERS (for automobiles)

#### Information and Telecommunication Field



Fluororesins, coating material (for tablets)

#### Refrigeration and Air Conditioning Field



Fluorocarbons (refrigerants)

# At a Glance 2014

Net Sales

**1.9** trillion yen

Increase in  
10 years:

**2.6** times



Increase in  
number in  
10 years:

**4.1** times

Production  
Sites

**74**



Employees

**59,179**

Increase in  
number in  
10 years:

**3.1** times



Group Greenhouse  
Gas Emission (production)

**1.46** million  
tons-CO<sub>2</sub>

Decrease in  
10 years:

**65%**



Compared  
to 10 years  
ago:

**28%**  
decrease

Life Cycle CO<sub>2</sub> Emissions Per  
Air Conditioner

**14,468** kg-CO<sub>2</sub>



Refrigerant Global Warming  
Potential (GWP)

**675** (HFC-32)  
(See page 14)

Compared  
to 10 years ago:

**1/3**

(Compared to  
R-410A)

**Oil Hydraulics,  
Defense  
Systems, and  
Electronics**

**Proprietary  
Technologies at Work  
in a Range of Industries**

We develop highly energy-efficient hydraulic pumps and units incorporating the inverter and other technologies built up through our air conditioner business. We also develop aerospace parts and home medical equipment that require advanced precision processing technologies and quality control technologies.

## Machine Tools



EcoRich R (oil hydraulics)

## Construction Equipment



Hydrostatic transmission (oil Hydraulics)

## In-Home Medical Equipment



Oxygen concentrator (defense systems)

## Electronics



Improving product development  
process "Space Finder" (electronics)

# Respecting the Diverse Cultures and Values of Each Country

Overseas sales now account for over 70% of the Daikin Group's total, and 80% of the Group's employees work outside Japan. By respecting the cultures and values of each country and region, by coming out with products that match regional needs, and by building a workplace that motivates employees and brings out their unique personalities, Daikin is contributing to development in communities around the world.

## At a Glance 2014

Overseas Sales as Percentage of Group Sales

74%

Increase in 10 years: 4.3 times

Percentage of Group Employees Working Overseas

80%

Increase in 10 years: 4.7 times

Percentage of Overseas Bases with Local Nationals as President

53%

Number of Countries Daikin Doing Business

145

Increase in 10 years: 2.3 times



North America, Latin America

54 subsidiaries

11,194 employees

■ Countries with Daikin Subsidiaries or Distributors  
● Subsidiary Locations

## Company Profile (as of March 31, 2015)

**Name:** Daikin Industries, Ltd.

**Address:**  
Umeda Center Bldg., 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):

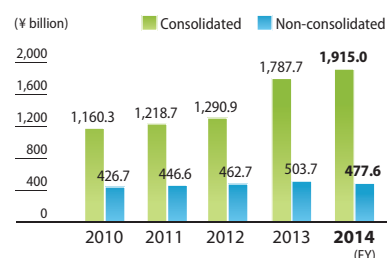
Air conditioning equipment, compressors

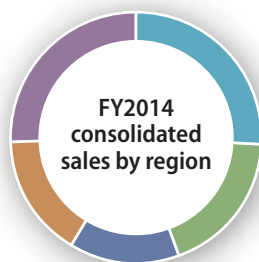
**Yodogawa Plant** (Settsu, Osaka Prefecture):

Fluorochemical products, oil hydraulic equipment, defense/medical equipment

**Kashima Plant** (Kamisu, Ibaraki Prefecture):  
Fluorochemical products

## Net Sales





|                                 |       |
|---------------------------------|-------|
| Japan                           | 26.0% |
| China                           | 18.5% |
| Asia and Oceania                | 14.2% |
| Europe, Middle East, and Africa | 15.8% |
| North America, Latin America    | 25.5% |



China

**32**  
subsidiaries

**19,044**  
employees



Japan

**29**  
Daikin Industries and subsidiaries

**11,574**  
employees



Europe, Middle East, and Africa

**58** subsidiaries  
**6,774** employees



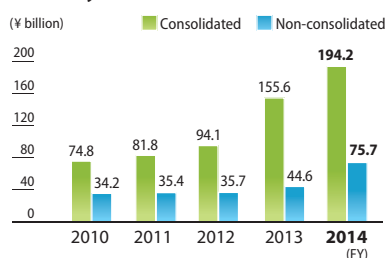
Asia (excluding China), and Oceania

**38** subsidiaries  
**10,593** employees

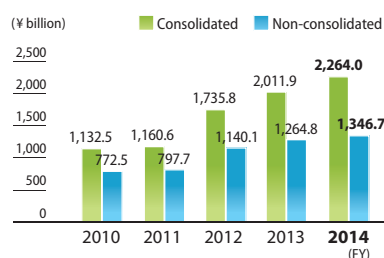
### Daikin Acquires Refrigerant Business of Belgian Chemical Group Solvay S.A.

With the aim of full-fledged entry into the European refrigerants business, in 2015 Daikin is starting recovery and reuse of refrigerant gas and manufacture of refrigerants for automobiles.

#### Ordinary Profit



#### Total Assets



#### Number of Employees



# The Way Forward—Contributing to Society and Growing Our Business Through Environmental Technologies

## Technological Strength and Human Resources Solve Social Issues Associated with Air Conditioning

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Through our main business of air conditioning, the Daikin Group has made the lives of people around the world more fulfilling and efficient. Air conditioning is social infrastructure that is indispensable to providing people with a healthy, culturally fulfilling lifestyle and achieving economic advancement. However, it also consumes a lot of energy. Limiting the energy consumption that accompanies the economic advancement of emerging countries is a major challenge for humankind. The Daikin Group is well aware that mitigating climate change by reducing greenhouse gas emissions is one of the key social challenges.

The 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) will be held in 2015. This conference will decide a new framework for climate change and global warming measures for 2020 and beyond. This will be a crucial year for determining just how much we can mitigate climate change in the future. Daikin has formulated four key CSR themes: environment, quality and customer satisfaction, human resources, and social contribution. We are focusing on using two of our particular strengths—technological strength and human resource capabilities—in order to help solve the problem of climate change while at the same time helping improve people's lives.

## Environmental Contribution and Business Expansion in Final Year of Fusion 15

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2015 is the final year of our Fusion 15 strategic management plan. Thanks to success through strengthening the foundation of our sales and marketing, in fiscal 2014 we achieved our Fusion 15 target for final operating income a year ahead of schedule.

One of the core strategies of Fusion 15 is to achieve both environmental protection and business expansion. It's no exaggeration to say that our environmental technologies have been the engine of Daikin's growth. An example is Daikin's residential and commercial air conditioners using

HFC-32, a new refrigerant that reduces global warming potential to just one-third that of conventional refrigerants. As of March 2015, over 3 million units of these air conditioners have been sold in 43 countries and are contributing dramatically to curbing the global warming impact of air conditioning. With emerging countries hastening their conversion from conventional refrigerants, Daikin is working with national governments and United Nations organizations to build the infrastructure and train the human resources needed to spread the use of HFC-32 air conditioners.

Southeast Asian countries are tightening regulations on air conditioner energy efficiency. This provides an opportunity for Daikin to focus on utilizing its inverter technology and other strengths to meet the needs of more and more people in respective countries and regions with product and service solutions offering energy efficiency, comfort, and convenience.

As for greenhouse gases emitted during the production stage, we set a target of reducing fiscal 2015 emissions by 67% below fiscal 2005 levels, and we are well on the way to achieving this with a 65% reduction as of fiscal 2014.

In November 2015, we will open our Technology and Innovation Center as one more way to create value for our customers. Besides research into areas such as air environments and energy, the center will seek and foster new businesses as it develops technological innovations that contribute to a sustainable society.

## Fostering Global Human Resources to Take Worldwide Leadership for Daikin

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Fostering human resources is a crucial factor supporting growth of the Daikin Group. We believe that the cumulative growth of all Group members serves as the foundation for the group's development. That's why we strive to create an environment where employees can enjoy vibrant, rewarding work and grow by using their talents to the fullest.

Overseas sales now account for over 70% of the Daikin Group's total sales. We strive for diversity management by allowing all employees, regardless of nationality, religion, culture, or values, to use their

own personalities in making a unique contribution to Group growth.

We hire people who are capable of playing an important role in any country and region in the world, and we train them with leadership and management skills to be able to guide our diverse workforce of different values in the same direction. We also create jobs and boost people's technical skills in the communities where we do business.

### Become a Company That Meets Stakeholders' Expectations and Contributes to Society

Besides providing products and services that contribute to reducing greenhouse gas emissions, we proactively take part in protecting the environment in various places of the world since we believe that forest depletion is one of the reasons for climate change. Because we consider forests to be "Nature's Air Conditioners," starting in fiscal 2014 we have been implementing our "Forests for the Air" Project in seven locations around the world including the Amazon rainforest.

Moreover, as a globally active group company, we have been taking part since 2008 in the United Nations Global Compact, an initiative for companies committed to operations and strategies in line with 10 universally accepted principles in the areas of human rights, labor, the environment, and anti-corruption. We also conduct our CSR management in line with international standards for social responsibility such as ISO 26000. Today more than ever, the public is demanding that companies understand and manage the impact they have on society. Against this background, we are stressing improvement of corporate governance and application of CSR to the value chain.

We will continue to be a company that contributes to society in order to meet the expectations of our customers, shareholders, suppliers, community members, and all other stakeholders.

July 2015



Masanori Togawa  
President and CEO  
Daikin Industries, Ltd.



# Our CSR Management Protects the Environment and Abundant People's Lives

Daikin's main business of air conditioning is crucial to economic advancement and a better life for society.

Worldwide air conditioner demand is growing, especially in emerging countries. As the industry's leading air conditioner specialist and with consideration for impact throughout the entire value chain, the Daikin Group is using the technologies it has built up to reduce environmental impact and provide people around the world with a comfortable and abundant lifestyle based on our goal of achieving sustainable growth for society as a whole.

## 1 Basic Management Policy of the Daikin Group

### Our Group Philosophy and People-Centered Management Go Hand in Hand

We believe that with our employees and the company both putting into action the principles of our Group Philosophy and People-Centered Management, we can be a corporate group that earns the trust of society, that employees are proud to work for, and that contributes to sustainable growth.

#### Our Group Philosophy

The basis for the shared thoughts and actions of all employees

#### People-Centered Management

The cumulative growth of all Group members serves as the foundation for the Group's development

#### Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers
2. Contribute to Society with World-Leading Technologies
3. Realize Future Dreams by Maximizing Corporate Value
4. Think and Act Globally
5. Be a Flexible and Dynamic Group
6. Be a Company that Leads in Applying Environmentally Friendly Practices
7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust
8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group
9. Be Recognized Worldwide by Optimally Managing the Organization and its Human Resources, under Our Fast & Flat Management System
10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

## 2 Philosophy of CSR Action

### Four Key Themes in Line with Our Business

We have formulated key CSR themes in four areas. These themes are in line with Daikin's characteristics and business sphere as a global manufacturer of air conditioners and fluorochemicals; take into account the opinions and interests of our stakeholders; and are in compliance with international guidelines.



#### Foundation



# 3 CSR and Management Strategy

## Management Plans Encompass the Growth of the Company and Society

The Fusion 15 strategic management plan comprises medium-term CSR targets and plans towards sustainable growth. These are driven by maximizing the resources and strengths of the Daikin Group in order to minimize the negative impacts of our business and maximize the good ones so that we can exist in harmony with regional stakeholders. The targets and plans cover the entire value chain.

### Driven by Environmental Technology

We strive to reduce the environmental impact that comes with increasing air conditioner demand by making the most of our proprietary environmental technologies in areas such as energy savings and refrigerants.



### Cooperation with Communities Where We Do Business

We strive for the growth and development of places in which we do business. Efforts include giving local companies free access to Daikin patents, creating more jobs in countries and regions where we operate, training workers, and helping communities develop through various volunteer work.



### Fusion 15 Strategic Management Plan

- New Growth Strategy
- Management Constitution Reform
- Enhance HR Capabilities Based on People-Centered Management

### Strengthening Human Resources, a Core Foundation

People are the lifeblood of all sustainable activities. We focus on building an environment in which employees enjoy rewarding work that allows them to succeed and grow.



### Impact on Climate Change

Air conditioners use large amounts of electricity and account for a large percentage of society's electricity consumption. As well, fluorocarbons used as air conditioner refrigerants deplete the ozone layer and contribute to global warming.



**Sustainable Development Throughout the Entire Value Chain**

**Daikin Group Growth**  
Regional development, including emerging countries  
**Environmental protection**

### Increasing Air Conditioner Demand in Emerging Countries

Air conditioner demand is growing in emerging countries like China, India, and the Latin American nations, and the Daikin Group is accelerating its global business. This is bringing Daikin into a closer relationship with the environment as increasing demand spurs more electricity consumption. It is also bringing us closer to local economies and society as we create more jobs through business expansion and collaborate with local companies, and participate in community development.



**Daikin Group's Relationship with the Economy, the Environment, and Society**

# Conducting Ongoing, Steady Action Based on Medium- and Long-term CSR Targets and Plans

## Key CSR Themes

### Providing the World with Products That Help Customers Reduce CO<sub>2</sub> Emissions

- Disseminating inverter products
- Disseminating heat-pump type heating systems
- Offering energy-saving solutions
- Developing future refrigerants

#### Environment

We engage in environmental activities with global warming prevention as the most important priority.

### Minimizing Environmental Impact in Production

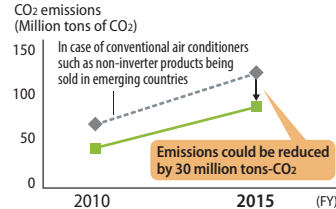
- Reducing greenhouse gas emissions
- Effectively using water and other resources
- Minimize emissions of substances of concern

### Expanding "Green Heart"\*<sup>2</sup>

- Reforestation and tree-planting
- Environmental education

## Medium-term CSR Goals and Plans (by Fiscal 2015)

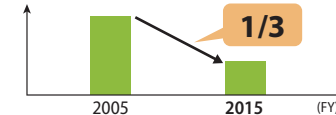
### Contributing to CO<sub>2</sub> Emission Reductions through Daikin Products\*<sup>1</sup>



\*<sup>1</sup> Estimate of CO<sub>2</sub> emission reductions from the use of energy-efficient inverter products sold by Daikin, compared to CO<sub>2</sub> emissions from the use of non-inverter products. The emission reductions figure is annual reduction amount multiplied by product lifespan.

- Increase use of environmentally conscious products in emerging countries, where growth is particularly remarkable. Increasing sales of inverter air conditioners and other energy-efficient products could reduce CO<sub>2</sub> emissions in emerging countries by 30 million tons-CO<sub>2</sub>.
- Create global demand in the power conservation business.
- Develop technologies and introduce products that comply with refrigerant restrictions.

### Reducing Greenhouse Gases



By 2015, reduce greenhouse gas emissions to one-third of fiscal 2005 levels.

### Expanding a Green Heart



Protect biodiversity around the world.

\*<sup>2</sup> Green Heart: Think of the Earth and take care of the environment.

#### Quality and Customer Satisfaction

We anticipate the needs of communities and the general public, and provide high-quality products that bring customers satisfaction.

### Giving Customers the Ultimate Satisfaction

- **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.



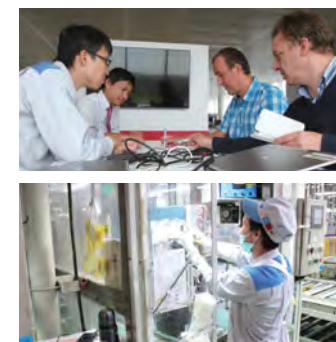
- Daikin's quality standard gives superior, optimal products that earn customer trust.
  - We have a system for developing products that meet the needs of customers, wherever they live.
- We are switching to a global development system and strengthening our marketing research functions throughout the world.

#### Human Resources

Employees are the lifeblood of all our activities, and we provide a workplace where each employee can grow in his or her own unique way.

### Through People-Centered Management, Creating a Workplace Where Employees Can Demonstrate Their Abilities

- **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 by respecting each other regardless of age, sex, nationality, or 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 & Health**  
We strive for employee satisfaction by building a safe, comfortable workplace where employees can enjoy both mental and physical well-being.



- Become a corporate group with global values by working autonomously and freely in line with Our Group Philosophy and shared policies and strategies.
- Communicate between head office and local bases.
- Maximizing the talents of women and experienced employees.

#### Social Contribution

Wherever we do business, we try to meet society's needs in a way that only Daikin can.

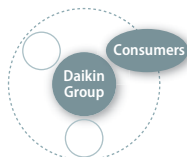
### Employees Taking the Initiative In Local Grassroots Action

- By working to protect the environment, support education, and live in harmony with communities, Daikin employees take the lead in community service aimed at providing each region with the support it needs.



- Contribute to society as a respected and trusted company with roots in communities around the world.

## Boundaries (of impact)



## Fiscal 2014 Achievements

### Feature 1 Disseminating Refrigerants with Low Global Warming Impact

Technical Support to Help Disseminate Refrigerants with Low Global Warming Impact in Emerging Countries → pages 13–16



### Feature 2 Spread of Net Zero Energy Buildings

Net Zero Energy Buildings Help Realize a Low-Carbon Society → pages 17–18



Proliferation of HFC-32 Air Conditioners

Sold in **43** Countries

CO<sub>2</sub> Emission Reductions in Emerging Countries: Estimated (Through Daikin Products)

**28** million tons-CO<sub>2</sub>

• Products with Low Environmental Impact

**65**% Reduction in Greenhouse Gases (by Daikin Group)



• Low-Impact Production

Employees at **16** Bases around the World Volunteer for the Environment



• Contributing to Environmental Protection → pages 23–24

• Contributing to Communities at the Grassroots Level Environmental Protection

### Feature 3 Boosting Service Quality

Expansion of Japan's Quality Service Response Capabilities to China → pages 19–20

Direct Call Centers at **27** Bases Worldwide



• Providing Safe, High-Quality Products and Services

Diversity Management

Disability employment rate:

**2.19**% (in Japan)

Percentage re-employed after retiring at 60: **92**% (Daikin Industries)

Percentage of presidents hired locally: **53**%

Percentage of local in executive positions: **46**%

### Feature 4 Diversity Promotion

Hiring and Training Human Resources Capable of Succeeding Anywhere in the World

→ pages 21–22 • People-Centered Management



### Feature 5

Contributing to Environmental Protection "Forests for the Air" Gets Employees Involved in Mitigating Climate Change → pages 23–24



• Social Contribution with Strong Community Ties



# Technical Support to Help Disseminate Refrigerants with Low Global Warming Impact in Emerging Countries

## Why?

is it Important

Feature

1

Installation and repair training for service engineers at a manufacturer in Thailand

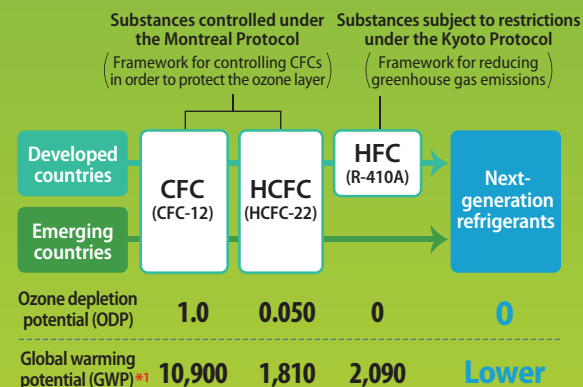
## Pressing Need to Phase Out HCFC Refrigerants in Emerging Countries

Refrigerants are indispensable substances that circulate through air conditioners and transport heat. However, the Montreal Protocol and the Kyoto Protocol restrict the use of conventional refrigerants that deplete the ozone layer and contribute to global warming, and the world needs refrigerants that mitigate these harmful effects. Developed countries have already converted to HFCs like R-410A that don't deplete the ozone layer, but these refrigerants still have the problem of having a high global

warming impact. Therefore efforts to find a next-generation refrigerant are in full swing.

In 2013, emerging countries began phasing out the use of conventional HCFC refrigerants such as HCFC-22. Air conditioner demand is growing in emerging countries, and if these countries follow developed countries in adopting R-410A, global warming will accelerate. That makes the conversion from R-410A to next-generation refrigerants a pressing concern.

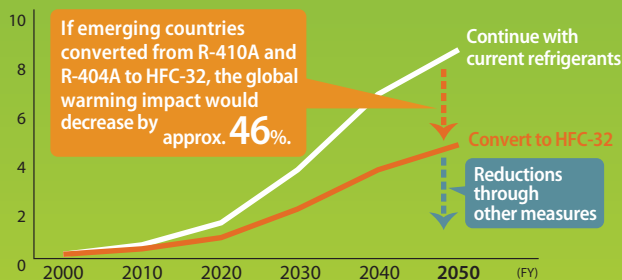
### Air Conditioner Refrigerants: Environmental Impact and Transition



\*1 GWP is quoted from the Fourth Assessment Report of the IPCC.

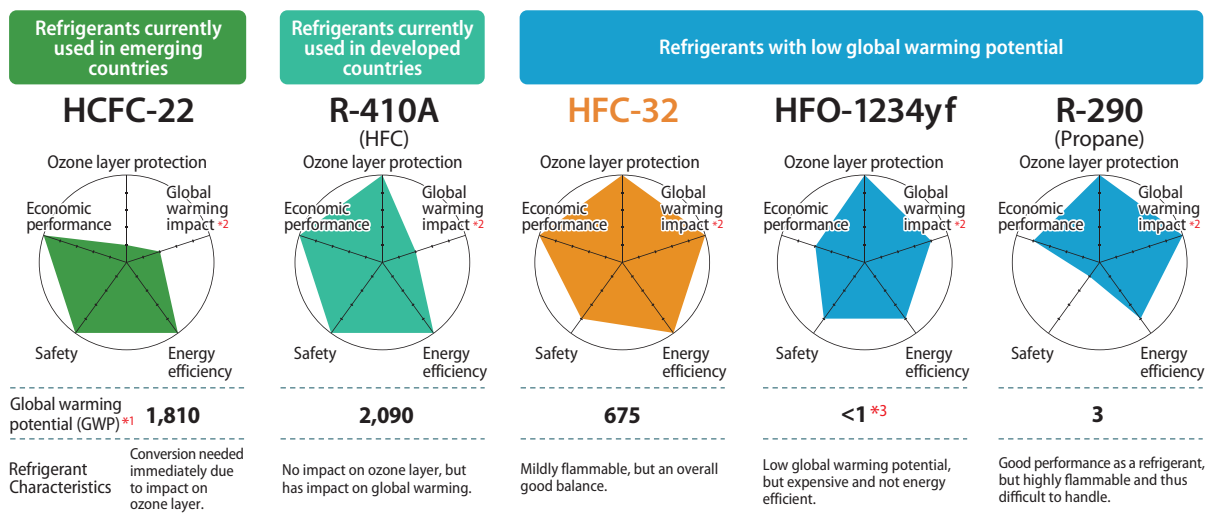
### Effect of Dissemination of HFC-32 (Projection)

Global warming impact from HFCs in emerging countries (Billion tons-CO<sub>2</sub>)



Note: This projection was calculated based on Supporting Information from "The large contribution of projected HFC emissions to future climate forcing," Velders et al. (World Meteorological Organization). The graph shows the estimated effect of converting 100% of R-410A usage and 50% of R-404A usage to HFC-32.

## Characteristics of Possible Next-Generation Refrigerants (for Residential and Commercial Air Conditioners)



<sup>\*2</sup> Global Warming Impact: Global warming impact over the entire lifecycle of the air conditioner (impact of air conditioner use and refrigerant emission).

<sup>\*3</sup> Quoted from the Fifth Assessment Report of the IPCC.

## DAIKIN'S APPROACH

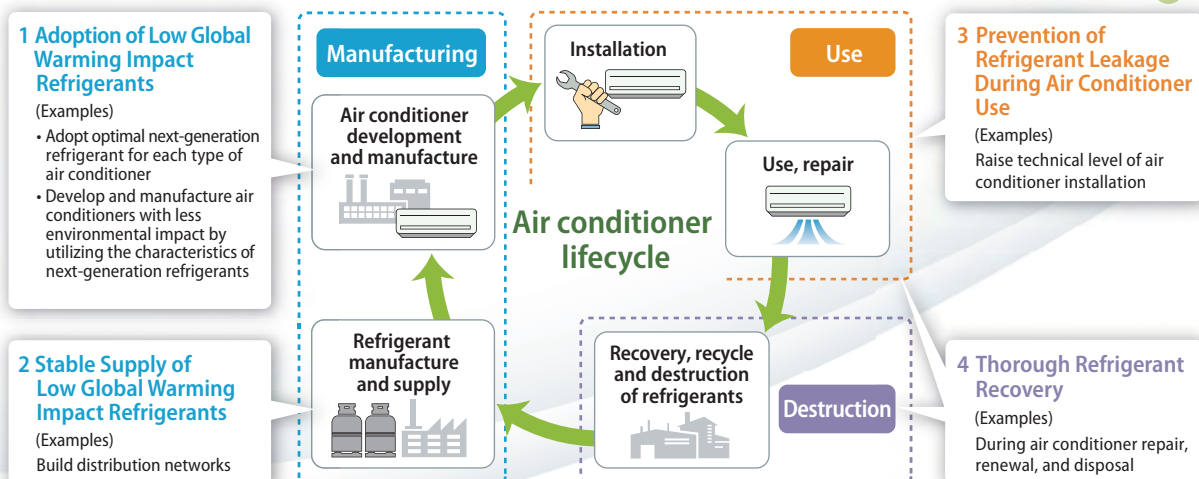
### Promoting Worldwide Use of HFC-32

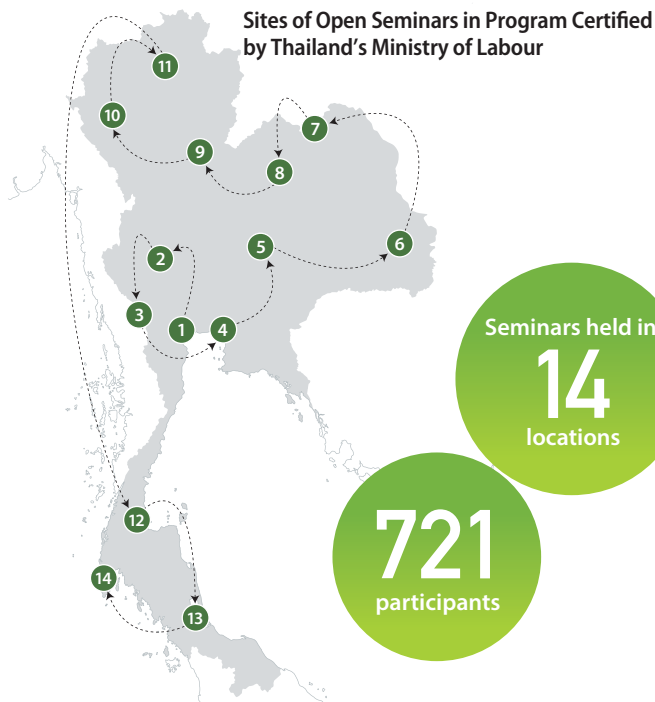
Choosing a next-generation refrigerant must take into account not only environmental performance, but also other overall factors such as safety and economic performance. As the only company in the world to manufacture both air conditioners and their refrigerants, it is our policy to choose the optimal refrigerants based on a comprehensive assessment of the product application, looking at not just global warming potential (GWP) but also at the impact of refrigerants in all lifecycle stages including manufacturing, use, and disposal, and climate and other factors of the region where air conditioners are used. Furthermore, the conversion to alternatives to HCFCs involves international standards such as those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as various national regulations and standards. As the result of discussions at the international level and a long process of in-company assessment and consideration, Daikin has found that

HFC-32 is currently the optimal refrigerant for use in residential and commercial air conditioners. HFC-32 has about one-third the global warming potential of R-410A, offers high energy efficiency and so less of it is needed per air conditioner, and can be easily recovered and reused. In fiscal 2012, Daikin released the world's first residential air conditioner using HFC-32 in Japan. As of the end of March 2015, the use of HFC-32 has spread to 43 countries and this refrigerant is now used in products such as commercial air conditioners and water heaters as well.

But to mitigate the environmental impact of refrigerants, we also need to use HFC-32 not only in Daikin products but also get other manufacturers using it. Converting to next-generation refrigerants is a particularly pressing concern in emerging countries, which may not have the expertise to convert to HFC-32. That is why we are assisting them in their fight to protect the ozone layer and mitigate global warming throughout the entire product lifecycle; for example, providing governments, air conditioner manufacturers, and dealer engineers with the techniques and knowledge we have built up.

### Air Conditioner Lifecycle, Measures to Mitigate Global Warming Impact of Refrigerants





## PERFORMANCE

### HFC-32 Technical Guidance for Thai Air Conditioner Manufacturers

Daikin is helping spread the use of HFC-32 in emerging countries, where refrigerant conversion is a pressing issue, through efforts such as inviting the use of many of its patents for making air conditioners, and cooling and heat pump equipment for free of charge. Also, Daikin provides technical training to service engineers.

Emerging countries can submit plans for refrigerant conversion that is funded by the United Nations Multilateral Fund for the Implementation of the Montreal Protocol, which Japan and other developed nations contribute to. Thailand, the world's second largest air conditioner producer after China, has stated that it will limit the use of the conventional refrigerant HCFC-22, which depletes the ozone layer, beginning in 2017 and convert to HFC-32. The country has decided to proceed with the conversion to HFC-32 using the fund from the Multilateral Fund.



Kick-off ceremony at the Ministry of Industry of Thailand (April 2015)



(Starting 2nd from left) Representatives of the Ministry of Economy, Trade and Industry of Japan, Daikin Industries, the Ministry of Industry of Thailand, and the World Bank

In April 2014, Daikin released air conditioners using HFC-32 in Thailand. At the request of the World Bank (one of the implementing agencies of the Multilateral Fund) and the Thai government, Daikin is taking part in a support project launched by the Ministry of Economy, Trade and Industry (METI) of Japan under which Japanese manufacturers volunteer to help Thai manufacturers convert to HFC-32.

### Contributing to Dissemination of HFC-32 Through Ongoing Technical Support

In November 2014, following a fund agreement on technical support between the World Bank and the Thai government, Daikin and concerned parties held a series of meetings to move forward with the text development and details of the support program. In April 2015, a kick-off ceremony was held, attended by those involved in the program: the representatives from the World Bank; the Department of Industrial Works of Thailand; the Ministry of Economy, Trade and Industry of Japan; Daikin; and other parties. They presented an overview of the HFC-32 conversion project and details of support measures. After the ceremony, 12 Thai air conditioner manufacturers took a tour of Daikin's Thai factory and joined a technical seminar that touched on the production facility for safe manufacture of air conditioners using HFC-32.

Since May 2015, Daikin has been conducting training for service engineers of the 12 Thai manufacturers in the installation and repair of HFC-32 air conditioners. This training will go towards raising the overall level of technological strength in the Thai air conditioner market so that the Thai service engineers can use what they have learned from Daikin to teach engineers at their

### Stakeholder's comment



**Viraj Vithoontien**

Senior Environmental Specialist,  
The World Bank Group

### Outstanding Example of Partnership Achieving Both Economic Development and Environmental Protection

Daikin Industries, Ltd. is helping 12 air conditioner manufacturers in Thailand convert to HFC-32 refrigerant technology as part of a bilateral agreement between the Ministry of Economy, Trade, and Industry (Japan) and the Department of Industrial Works (Thailand). Daikin is spearheading an industry mentoring program that will facilitate the transfer of technology and help Thai industry improve its product performance and reliability.

This exemplary commitment by both industry and government is expected to contribute significantly to global efforts in protecting the ozone layer and climate, and represents an outstanding example of a partnership towards economic development and global environmental protection.

To help bring this agreement to fruition, on April 29, 2015 the Chonburi factory of Daikin Industries (Thailand) hosted a visit by the 12 local air conditioner manufacturers, government representatives, and representatives of Thailand's vocational schools. Over the next 12 months, Daikin will provide the technicians and engineers from the manufacturers with ongoing training on the development, production process, installation, and servicing of HFC-32 refrigerant so that the Thai air conditioner industry can successfully convert to HFC-32 technology and be more competitive in domestic and international markets.



Factory tour for the representatives of Thai air conditioner manufacturers hosted by Daikin Industries (Thailand) Ltd.



Installation and repair training for service engineers of 12 Thai air conditioner manufacturers

companies' dealerships

We are also providing the Thai government with the HFC-32 technological information that is needed to develop safety standards for manufacturing, selling and installing, and disposing of HFC-32 air conditioners.

### HFC-32 Air Conditioner Installation and Repair Training for Service Engineers

When we looked at refrigerants' environmental impact on the entire lifecycle, we realized that no matter how hard you work to minimize the impact of the refrigerant and the air conditioner, it means nothing if refrigerant leaks during installation and repair. That's why we focus on training the service engineers at manufacturers and their dealerships who will install and repair products.

Since 2014, Siam Daikin Sales Co., Ltd., Daikin's sales company in Thailand, has been conducting installation and repair training to boost HFC-32 usage and knowledge for dealer engineers at the training center and at locations around the country. In fiscal 2014, 853 engineers were trained.

In January 2015, the success of this training earned it certification as an official skills development and job-training program under the Ministry of Labour of Thailand. The program has been opened to not only the engineers of the Daikin Group but also the engineers of other dealers, allowing us to play a role in helping many service engineers obtain the job license authorized by the Department of Skill Development under the Ministry of Labour. From January to March 2015, open seminars under this program were held in 14 locations around Thailand, with 721 engineers taking part. Our target is to train about 1,000 engineers under this program in fiscal 2015.

Raising the technical level of Thai service engineers results in fewer refrigerant leaks during installation and repair and helps limit emissions of greenhouse gases. It also gives the service engineers official certification and boosts their job status, allowing them to perform highly technical work and thus boost their income.

### NEXT CHALLENGE

#### Continuous Search for Technologies to Further Reduce Environmental Impact

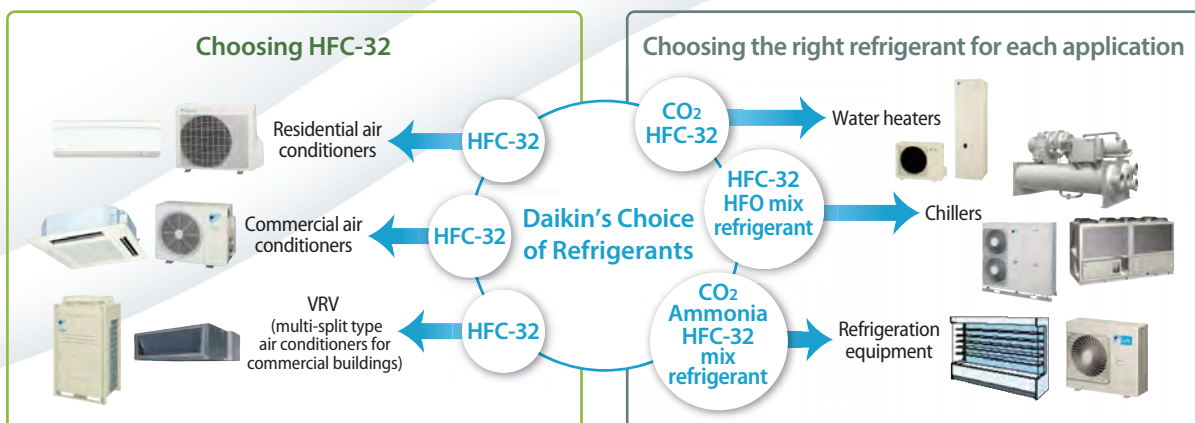
We will continue our ongoing support by making the most of our technological strength so that other emerging countries can make the conversion to HFC-32.

These efforts help protect the ozone layer and reduce global warming, as well as raise the technical level of companies in emerging countries and contribute to economic advancement. The dissemination of HFC-32 and more widespread use of refrigerants with low global warming impact also lead to business growth for Daikin.

In addition, it is Daikin's policy to choose the right refrigerant for every application. While we are working to spread the use of HFC-32 worldwide in residential and commercial air conditioners, we also continue to search for suitable alternative refrigerants that match the specific needs of products such as water heaters, chillers, and refrigeration equipment.

As the only company in the world to manufacture both air conditioners and their refrigerants, we will continue to seek ideal refrigerants with low environmental impact, and thus contribute to protecting the ozone layer and mitigating global warming.

#### Example of Daikin's Choice of Refrigerants



Daikin's Technology and Innovation Center (to open in November 2015) will conduct practical research into net zero energy buildings

# Net Zero Energy Buildings Help Realize a Low-Carbon Society



## Why? is it Important

Feature

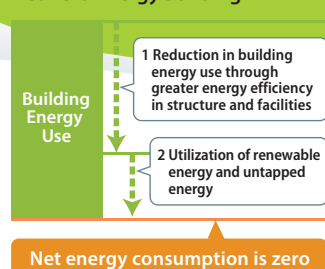
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### Increasing Worldwide Prevalence of Net Zero Energy Buildings (ZEBs)

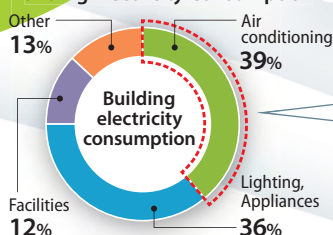
With the increase in energy consumption of office buildings and other commercial facilities in recent years, the need for energy efficiency is growing. Net zero energy buildings, or ZEBs, are becoming increasingly prevalent in Japan and other developed countries as a major contribution to achieving a low-carbon society.

Like the name suggests, a net zero energy building is one that utilizes energy efficiency in its structure and facilities while also creating its own energy through renewable sources so that its net energy use becomes zero. Europe has set a target of having all new buildings be ZEBs by 2020 while the U.S. is aiming for 2030. Japan's target is also for all new commercial buildings to be ZEBs by 2030, and this means there must be dramatic reductions in the energy consumption of air conditioning, a large chunk of a building's electricity use.

#### Net Zero Energy Building



#### Building Electricity Consumption



Source: The Energy Conservation Center, Japan

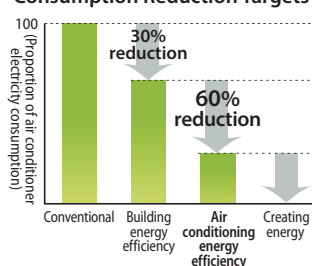
### DAIKIN'S APPROACH

#### Demonstration Tests Under Industry-Government-Academia Tie-Up

Daikin is working to raise the energy efficiency of VRV (multi-split type air conditioners for commercial buildings) and other air conditioning products, as well as propose optimal energy management based on the specific needs of regions around the world with the goal of realizing ZEBs.

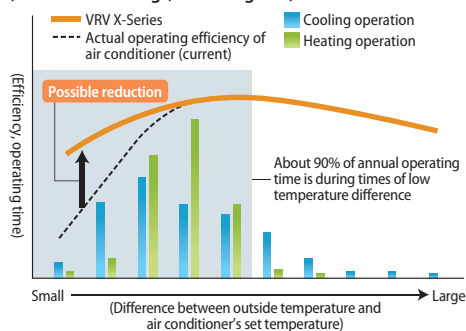
In 2008, Daikin's Environmental Technology Laboratory teamed up with a major architectural firm to calculate how much electricity consumption needed to be reduced to achieve a ZEB. It was found that air conditioning-related energy would have to be reduced by 60%. Toward achieving a ZEB, Daikin began developing VRV building air conditioners with dramatically greater annual operational efficiency, and in a project under

#### Air Conditioning Electricity Consumption Reduction Targets



New Energy and Industrial Technology Development Organization (NEDO), Daikin, the architectural firm, and Nagoya University carried out joint demonstration tests.

## Relation Between Load and Operating Time (for Office Buildings; Daikin figures)



The operational efficiency of conventional air conditioners drops drastically when there is a small difference between the outside temperature and the air conditioner's set temperature. A study of annual usage conditions revealed that air conditioners operate under this small temperature difference about 90% of the time.

## Four Features of the Verification System

- 1) New scroll compressor
- 2) Fully automatic energy-efficient refrigerant control
- 3) 15% reduction in standby power consumption
- 4) Combination with DESICA air conditioners

**DESICA**  
(Hybrid Desiccant System)



Results of demonstration tests under NEDO project

**71%**  
reduction in electricity consumption

Some technologies incorporated



In Japan  
Demonstration testing to be conducted at Technology and Innovation Center

Overseas  
Joint testing

Demonstration testing in Japan and other countries



## PERFORMANCE

### Combination with DESICA Air Conditioners Boosts Efficiency During Low-Load Times

During the development process, we discovered a technology that could cut air conditioning electricity consumption by 60%. The operational efficiency of conventional air conditioners drops drastically when there is a small difference between the outside temperature and the air conditioner's set temperature, and this low-load period accounts for about 90% of annual operating time. We therefore focused our development efforts on improving efficiency during this low-load time.

To boost efficiency during low-load times, we developed a number of key technologies. For example, a new scroll compressor, which dramatically minimizes the leakage and loss during compression, and fully automatic energy-efficient refrigerant control, which determines necessary load on the go and controls compressor RPM as necessary.

Because optimal energy efficiency can be achieved by controlling temperature and humidity with separate equipment, we aimed to maintain room comfort while reducing energy consumption by controlling temperature with the VRV building air conditioner and humidity with the DESICA air conditioner (humidity adjuster).

### 71% Electricity Reduction with New System

Using a new system incorporating these new technologies, including the ones which would take time to be put into practical use, we embarked on demonstration testing under a NEDO project. Test results show that electricity consumption can be reduced by 47% during cooling and 27% during heating over conventional systems. In addition, we conducted energy simulations of this system installed in a highly airtight, highly insulated building, and found that savings of 71% in annual electricity consumption could be achieved.

Some new technologies that could be put to immediate practical use were incorporated in our VRV X-Series multi-split type air conditioners for commercial buildings released in March 2015.

## NEXT CHALLENGE

### Verify ZEB Effectiveness Through Demonstration Testing in Japan and Other Countries

The air conditioning system we developed will be incorporated with other systems such as heat storage and natural heat usage systems, and employed at our Technology and Innovation Center (to open in November 2015 inside Daikin's Yodogawa Plant), where we plan to use it to test its effectiveness in reducing energy consumption in large buildings. To promote the spread of ZEBs overseas, it is necessary to test the effectiveness of systems in a range of environments differing in terms of factors like heat and humidity. In fiscal 2015, Daikin plans to conduct demonstration testing under a joint industry-government-academia tie-up in Singapore that will show air conditioning system performance in tropical climates.

### Stakeholder's comment

#### Dr. Tseng King Jet

Associate Professor,  
Nanyang Technological  
University; program co-leader,  
BEARS SinBerBEST



### Daikin Technology Holds Promise for Energy Saving in Humid Tropical Regions

In highly humid tropical regions such as Singapore, the use of conventional air-conditioning and mechanical ventilation systems leads to over-cooling and energy inefficiency. That's why room air comfort and energy savings are more effectively achieved by controlling temperature and humidity separately.

To this end, Daikin and the Building and Construction Authority of Singapore, along with an alliance of three major universities called BEARS\*, are testing Daikin's DESICA in actual working environments to evaluate the effectiveness of this new technology in reducing energy consumption. The study results are expected to lead to the adoption of this green technology in tropical regions.

\*BEARS (Berkeley Education Alliance for Research in Singapore): An educational research and development body of the University of California Berkeley that is working in collaboration with institutes such as Nanyang Technological University and the National University of Singapore

# Expansion of Japan's Quality Service Response Capabilities to China

## Why? is it Important

Feature

3

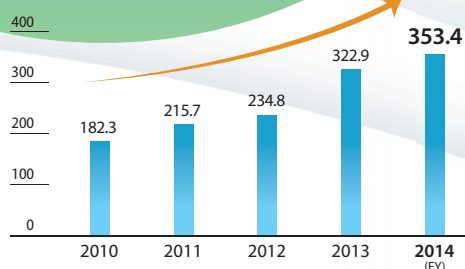
### Building a Much-Needed Service System in China in Response to Expanding Market

The Daikin Group's expansion of its global air conditioning business involves more than just selling more air conditioners; we are also building a comprehensive service system that includes installation and maintenance with the aim of boosting customer satisfaction. We have 27 customer service centers around the world and we conduct satisfaction surveys for customers to gather their opinions in 22 countries. We also conduct other efforts such as technical support to Daikin dealers doing air conditioner installation and maintenance.

Ever since establishing a local subsidiary in the rapidly growing Chinese market in 1995, sales have been growing year by year as we have rapidly expanded our sales territory from major metropolises to provincial areas. This rapid growth has necessitated that we boost both the quality and quantity of our service system in providing the crucial service quality that will raise customer satisfaction.

#### Net Sales in China

(¥ Billion)



Service engineer training in China contributes to high customer satisfaction

### DAIKIN'S APPROACH

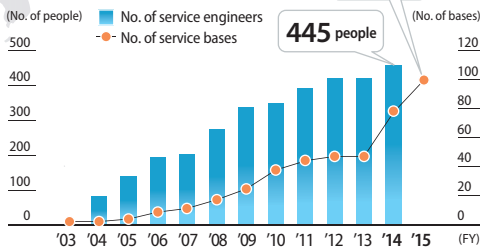
#### Daikin Sales and Service Functions Collaborate with Dealers to Boost Customer Satisfaction

The Daikin Group's ultimate aim is to interact sincerely with customers and provide meticulous service rooted in exacting technologies.

A major cause of air conditioner breakdowns is faulty installation. Air conditioner manufacturers in China generally do not have their own service engineers but rather have cooperating dealers who handle the installation and maintenance of products. Daikin, on the other hand, has always established our own service companies staffed with service engineers in order to improve the quality of installation and maintenance. However, to keep up with the speed of our business expansion, our own service engineers are not enough and so we need to rely on the help of dealers to handle installation and maintenance.

Under the slogan "We are the DAIKIN Family," the Daikin Group in China has built up strong bonds with its dealers. We focus on supporting dealers because we believe satisfying them will lead to greater satisfaction among end users. In fiscal 2014, besides stepping up dealer support, we took every measure possible to raise awareness among our service company employees that dealers are important Daikin partners.

## Strengthening the Service System in China



Service engineer training for dealers



Receiving a banner of gratitude from a dealer

Number of banners of gratitude received from dealers  
**5** times as many as in the previous fiscal year

## PERFORMANCE

### Stepping up Technical Training at Dealers Achieves Japanese Level of Service Quality

Daikin is increasing the number of service bases in China and appointing in-house service engineers at these bases around the country. In fiscal 2014, we opened 30 new bases and placed a particular focus on strengthening the service system in regional cities. Our in-house service engineers conduct guidance at dealers in addition to performing air conditioner installation and maintenance. To ensure they have the capability to provide and lead such service activities, they learn technological prowess at Daikin's in-house Service University. As of the end of fiscal 2014, 455 in-house service engineers had completed this training.

To help pass on the techniques acquired by our in-house service engineers to the dealers, in fiscal 2014 Daikin service companies and Daikin sales functions collaborated to focus on providing on-site guidance at high-sales-volume dealers and new dealers. Our in-house service engineers worked with dealers in installing air conditioners, with a particular focus on avoiding complex pipework that could lead to defects in air conditioner operation. As a result, dealers' service engineers are now able to perform proper installations that prevent defects.

### Stronger Ties with Dealers Leads to Greater Customer Satisfaction

The Daikin Group in China has established customer service centers in Beijing, Shanghai, and Guangzhou to handle customer inquiries. In fiscal 2014, we established dealer support centers for dealers so that we could offer them a higher level of comprehensive assistance.

We enjoy closer communication with our dealers by offering more advanced technical support and these dealer support centers. The result has been that they can foresee potential problems, consult with Daikin, and quickly solve them on their own. In China, it is a custom

to show gratitude to people by presenting them with a banner. In fiscal 2014, we were presented with five times as many banners as the previous year. And thanks to stronger ties between Daikin and dealers, we have better access to customer information gathered by dealers and this has led to more business in the form of replacement purchases and additional purchases.

We have been working on the assumption that greater satisfaction for dealers means greater satisfaction for end users. Thanks to these efforts, on customer satisfaction questionnaires conducted in fiscal 2014 we scored an overall score of 4.7 out of 5, compared to 4.4 on the fiscal 2011 questionnaires.

## NEXT CHALLENGE

### Executive Management Candidates Trained in Japanese Level of Quality Service

We believe that to further raise the level of service quality in China, it is crucial that we train executive management candidates who understand and implement the Japanese style of prompt and polite communication with customers. That is why since fiscal 2011 we have been hiring at our Chinese service companies local staff who have studied in Japan and have experienced firsthand Japan's high level of customer service. In fiscal 2014, we hired six Chinese students who studied in Japan and they underwent nine months of training. Besides acquiring air conditioning and service basics at our Service University in China, they accompanied service engineers on the job for practical training in installation and maintenance, and they underwent training at a contact center for firsthand experience in offering the heartfelt service for which Japan is known.

We will continue to have more frequent exchange with each of our Chinese service companies and strengthen ties with dealers, as well as ingrain the Japanese style of service so that Daikin can be number one in customer service in China.

## Stakeholder's comment



**Ren Weiguo**

Chairman, Jiangsu Dayu Air-condition Facility Co., Ltd. (Daikin Dealer)

### Achieving Satisfaction with Customers Through Unparalleled Service

We are grateful to Daikin for all the support they give us, such as by offering installation and maintenance guidance on site. Our customers have praised us, especially for things like prompt delivery of parts.

The market is becoming increasingly competitive and it is getting harder and harder to distinguish yourself from other companies. We look forward to Daikin's continuing support in further boosting customer service; by helping us make installation techniques standardized and fully ingrained among our service engineers, and by sharing valuable information with us. For example, having information about simple solutions for customers on the Internet would be valuable during dialogue between dealers and customers.

Indian nationals working in product development at Daikin in Japan

# Hiring and Training Human Resources Capable of Succeeding Anywhere in the World

## Why? is it Important

Feature  
4

### Outstanding International Employees Help Daikin Globalize Management

The Daikin Group is a global company that has more than 70% of net sales coming from outside Japan and 80% of employees working outside Japan.

Against this background, we understand the importance of diversity management: utilizing employees from different countries with unique personalities and a wide range of values in order to spur innovation and make Daikin more internationally competitive.

One of the core strategies of our Fusion 15 strategic management plan is to enhance human resource capabilities. It is crucial that we continue to turn out human resources of numerous nationalities who can drive business growth anywhere in the world so that the Daikin Group can enjoy ongoing growth and advancement. That is why hiring and training globally capable human resources is one of the top priorities for Daikin.

Daikin  
overseas sales  
as % of total  
**74%**

Daikin  
employees  
working outside  
Japan as %  
of total  
**80%**

### DAIKIN'S APPROACH

#### Aggressive Worldwide Efforts to Hire Globally Capable Human Resources

Daikin Industries has for years striven to hire human resources capable of working successfully anywhere in the world. This includes both Japanese who have done internships or otherwise studied in other countries, and foreign nationals who have studied at Japanese universities.

Daikin Group companies outside Japan are also hiring local nationals who have studied or worked in other countries.

The race among companies to hire new talent is sure to intensify, as these companies need to hire and train outstanding human resources of varying nationalities who can work successfully anywhere in the world. Since fiscal 2009, we have been holding global HR conferences, where human resource managers from Daikin in Japan and overseas look into hiring and training practices that take advantage of the Group's global strengths. This is one way that we are linking representatives of the Daikin Group worldwide to improve the way we hire and train human resources.

## PERFORMANCE

### International Internships for Deepening Understanding

Since 2012, Daikin Industries has been working with Daikin Airconditioning India Pvt. Ltd. to hire graduates of Indian Institutes of Technology (IITs) (Bombay and Delhi), which turn out some of the world's top science-based human resources.

Many of the leading companies in North America and Europe also visit IITs to recruit talent. On career days at the institutes attended by companies, it is normal for students and companies to agree to employment right after the interviews. Making such quick employment decisions, however, may cause some misunderstandings for both Daikin, which hires on the understanding of long-term employment, and for Indian students, who are leaving their home country and may face unexpected problems along the way. To avoid these misunderstandings, Daikin Industries and managers at Daikin Airconditioning India decided on a two-month internship in Japan for third-year Indian students during their summer break. After experiencing work at Daikin in Japan, including learning about product development and other process, as well as life in Japan and Daikin's corporate culture, the students share their goals with Daikin Industries and both sides decide whether they are willing to enter into a work agreement.

As a result of this process, over the past three years seven graduates of IITs have joined Daikin Industries.

### Collaborative Hiring Among Group Companies

Since fiscal 2009, our air conditioner manufacturing base in Malaysia, O.Y.L. Manufacturing Company Sdn. Bhd., has been collaborating on hiring with Daikin Australia Pty., Ltd. and Daikin Industries. Because many Southeast Asian students who study in Australia have a good command of language and are capable of thinking outside the box, we have been hiring these students at universities in Sydney, Australia. During their summer break at university, these students do internships at O.Y.L. Manufacturing in Malaysia where their duties include international business planning. During this time it can

be determined whether these students have career goals in line with the direction of O.Y.L. Manufacturing, and the company can thus hire those who desire to grow with it.

We have also begun collaborations with Daikin companies in the U.S., Europe, and China aimed at global human resource hiring.

## NEXT CHALLENGE

### Focusing on Training Globally Capable Human Resources

Daikin bases stress post-hiring training so that through their work employees can hone their global thinking, take on new challenges, and continue growing with the company.

Since 1999, we have dispatched 194 young Japanese Daikin employees to undergo practical training at overseas bases in 21 countries. In May 2015, we launched a similar training program in which young Daikin employees from other countries come to undergo training in Japan.

We plan to expand these efforts by having overseas bases collaborate in human resource exchanges and training so that we can foster people with the experience and skills to work for Daikin anywhere in the world.



Joint seminar hosted by Daikin bases in Malaysia, Australia, and Japan.

Number of  
Daikin Japanese  
employees who have  
trained overseas

194



Practical training for overseas Daikin Group employee in Japan started

### Stakeholder's comment



**Tetsuya Yamamoto**

Senior Engineer  
Development Reliability Group,  
Air Conditioning Manufacturing  
Division

### Learning From Each Other Helps Us Grow Together

There are currently two Indian nationals working in my group. They are here in Japan to learn about the highest level of manufacturing technologies and they are passionate about making these technologies benefit the rest of the world. That is why they work diligently to acquire every possible bit of knowledge and skill. With their advanced scientific knowledge, they provide stimulus for myself and the other employees through insightful questions that give us new opportunities to improve.

They also help make us more globally minded and capable because our young Japanese employees, who may work at Daikin overseas bases in the future, are trying hard to communicate smoothly with them despite the language and cultural differences.

## Social Contribution Contributing to Environmental Protection

Daikin representatives, government officials, and members of the local community and NGOs take part in the opening ceremony in Cambodia



# “Forests for the Air” Gets Employees Involved in Mitigating Climate Change

## Why? is it Important

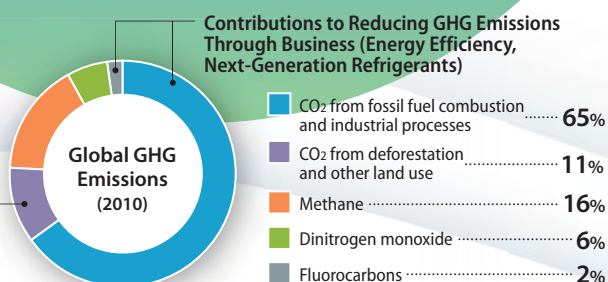
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### About 10% of Greenhouse Gases Result from Deforestation

Climate change is causing increasing problems that include more frequent natural disasters and negative effects on food crops. There are also fears that it will have even more serious effects on humankind in future. With the dual aims of growing our business and helping solve the world's environmental problems, Daikin has been introducing energy-efficient technologies and promoting the spread of the low global warming potential refrigerant HFC-32 as part of aggressive efforts to reduce greenhouse gases, a major cause of climate change.

Meanwhile, about 10% of the world's greenhouse gas emissions are said to be as a result of deforestation in developing countries since the CO<sub>2</sub> stored in these deforested areas is released into the atmosphere. That is why Daikin is going beyond our business activities to contribute to society through projects to protect the world's forests.

Global Greenhouse Gas (GHG) Emissions by Source (as of 2010)



Contributions to Reducing GHG Emissions Through Social Projects (Forest Protection)

Source: Contribution of Working Group III to the Fifth Assessment Report of the IPCC

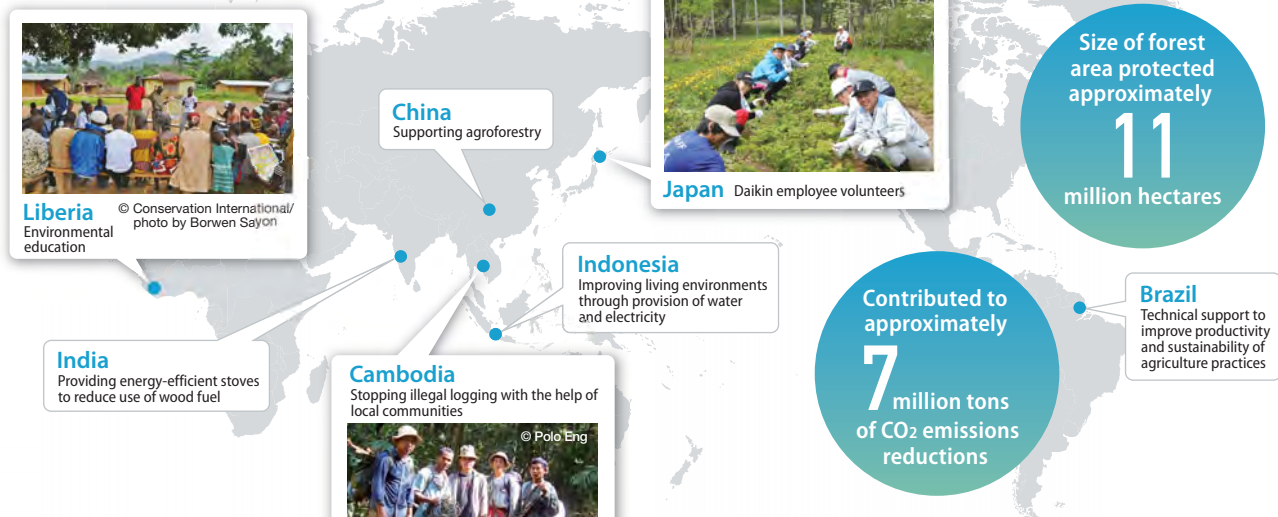
## DAIKIN'S APPROACH

### Sustainable Coexistence of “Nature's Air Conditioners” and Community Members

Believing that forests are “nature's air conditioners” for their ability to create a comfortable air environment, Daikin has been carrying out reforestation and forest protection activities since 2008 in Indonesia and since 2011 in Shiretoko, Hokkaido, Japan. Based on these activities, we launched the “Forests for the Air” project in June 2014 in collaboration with Conservation International, an international NGO, and the Shiretoko Nature Foundation in seven locations with rich nature but threatened by biodiversity loss.

Deforestation in developing countries is mainly due to human activities such as conversion of forest to cropland or firewood collection, and these human activities arise from the basic problem of poverty. Improving the situation requires more than just planting trees: it requires that we work with local communities to promote understanding of the value of forests, support sustainable farming so that people can make a living without cutting down trees, provide environmental education, stop illegal logging and poaching, work towards agreements to conduct these community-based activities, and train locals to eventually lead all these activities themselves. These activities will eventually lead to sustainable forest management.

## Examples of Community Support to Protect Forests



## PERFORMANCE

### Alternative Sources of Income Reduce Illegal Logging in Cambodia

In February 2015, an opening ceremony was held for Daikin's conservation project in Cambodia. The Central Cardamom Forest in southwest Cambodia is a wilderness paradise and one of the largest remaining old-growth forests in Southeast Asia. However, the forest still faces threats such as illegal logging and poaching.

To solve this problem, Daikin has been supporting ecotourism to give local communities a new form of income. The idea is for locals to guide visitors through the forests, which are in fact tourist attractions, to create a source of income and incentive for forest protection.

We also support patrols by local community members, who act as rangers to prevent illegal activities. By cooperating in this government activity in a way that provides an income for themselves, the local people are motivated to take the initiative in protecting the forests.

### Getting Employees Involved

Daikin is doing more than just providing NGOs with financial support. We are starting schemes at worldwide Daikin bases to get employees taking part in our "Forests for the Air" project.

In fiscal 2014, we asked Daikin employees in Japan to collect unused stationery from their homes. As a result, over 5,000 pencils were donated to children in Cambodia, enabling Daikin employees to support children's education.



Daikin employees donated pencils to children in Cambodia



## NEXT CHALLENGE

### Helping Mitigate Climate Change Through Long-Term Support

Our "Forests for the Air" project is aimed at preserving about 11 million hectares of forest and contributing to CO<sub>2</sub> emission reductions of 7 million tons in seven locations over the next ten years.

In Japan, 93 employees have so far volunteered to assist with forest protection in Shiretoko.

Our overseas employees are also volunteering at the project sites and participating in donations to the projects, which provide opportunities for employees to raise their environmental awareness through participation. In this way we can foster a "green heart" philosophy under which our employees take action with a firm understanding of, and consideration for, the environment. In the process, we can become a corporate group whose business is integrally connected to the future of planet Earth.

### Stakeholder's comment

#### Dr. Chheng Kimsun

Delegate of the Royal Government,  
Head of Forestry Administration,  
Cambodia



### Sustainable Forest Management Conserves Water Resources Used for Hydropower and Contributes to Poverty Reduction

The site of this project, the Central Cardamom Forest, contains a vast reservoir of water that is used to produce hydroelectric power to promote economic growth and raise local people's standards of living.

We appreciate very much the support that will be provided over the 10-year life of this project that will improve not only the lives of the current generation, but those of future generations, as well. The project is recognized to be of global significance, also, because of its contributions to the United Nation's goals of eradicating poverty and famine, spreading education and ensuring environmental sustainability, and we are committed to making this project a success and a model for other regions to follow.

# CSR Management

The Daikin Group is speeding up the pace at which it introduces CSR activities to overseas Group companies. We believe that CSR means fulfilling our responsibilities to society through implementation of Our Group Philosophy while thoroughly abiding by corporate ethics and society's laws.

## CSR Management Structure

### Comprehensive, Cross-Organizational Action Group-Wide

Firmly grounded in corporate ethics and legal compliance, the Daikin Group's CSR efforts are aimed at contributing to society through its business activities.

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

## Corporate Governance

### Ensuring Soundness, Transparency, and Diversity in Management

The Daikin Group's corporate governance systems are designed to help accelerate decision making and operational execution work in anticipation of and response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby seeking to increase the Group's corporate value.

Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management as well as for operational execution. In view of the special characteristics of the Group's business, it was judged that this is a more effective means of accelerating decision making and operational execution. In addition, the Group has introduced an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

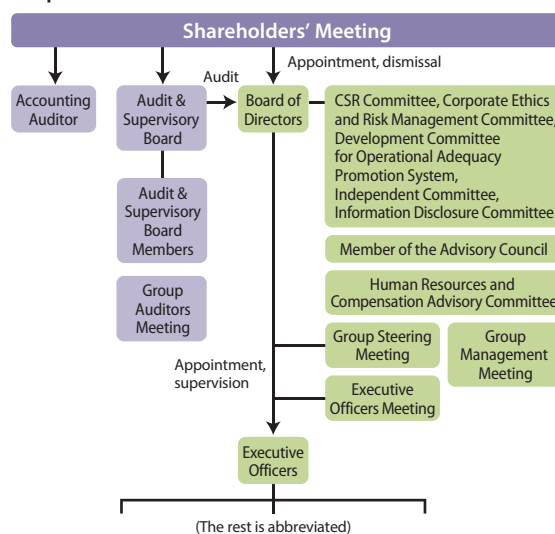
We have the Advisory Council system for providing independent opinions and advice on management issues. And to ensure that the interests of stakeholders other than shareholders are respected and protected, the Board of Directors oversees the CSR Committee and the Corporate Ethics and Risk Management Committee, all of which work to ensure that corporate governance is based firmly in corporate social responsibility.

Directors are selected so that we have a diverse range of personnel representing people of varying genders, nationalities and experience. As of June 2015, we have 12 directors (including one woman and two non-Japanese nationals) who oversee prompt and strategic decision making and sound management

throughout the entire Group.

We also appoint two outside board members and two external Audit and Supervisory Board members with no vested interest in our company.

### Corporate Governance Structure



### Human Resources and Compensation Advisory Committee Raises Transparency

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the Human Resources and Compensation Advisory Committee. This committee engages in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. The committee consists of four members, including two external directors and two in-house directors, with the committee chair being chosen from the external directors.

The remuneration of directors and Audit and Supervisory Board members is determined so as to fall within the aggregate remuneration ceiling for directors and corporate auditors as set by a resolution at the general shareholders' meeting. Based on a report from the Human Resources and Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Audit and Supervisory Board.

Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium to long term and thereby contributing to a rise in the Group's corporate value.

## Compliance and Risk Management

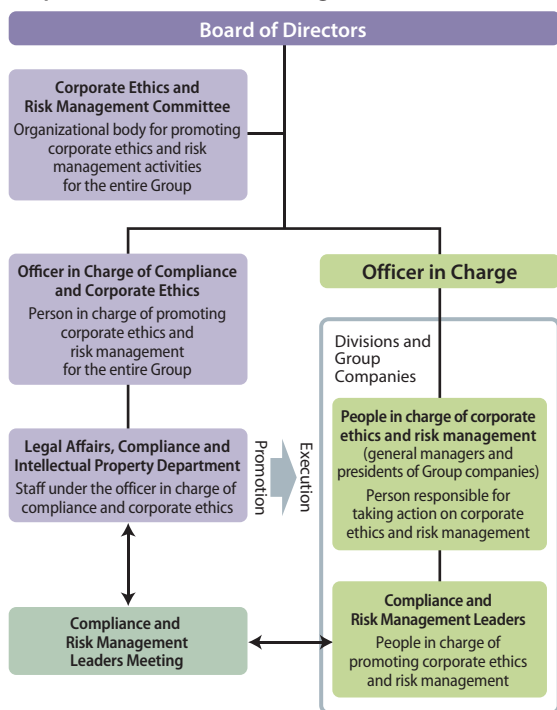
### Integrating Compliance and Risk Management

Because the Daikin Group believes that violation of corporate ethics constitutes a risk, we carry out unified efforts aimed at achieving both compliance and risk management.

The Corporate Ethics and Risk Management Committee is the organ for leading group-wide corporate ethics activities. It is headed by the officer in charge of compliance and corporate ethics and made up of general managers and presidents of major Group companies in Japan. As a rule, this committee meets twice a year to discuss and work towards solving a variety of issues. Matters deliberated upon at these meetings are reported to Daikin executives twice a year.

At overseas Group companies, Daikin Industries in Japan is a model for the creation at each base of compliance and risk management systems that function based on the particular needs of each company and their community. Each of these companies has compliance committees and Corporate Ethics Handbooks, and they conduct regular self assessments and risk management checks.

#### Corporate Ethics and Risk Management



### Working with Overseas Group Companies to Mutually Advance Compliance and Risk Management

The Daikin Group strives to strengthen compliance and risk management at overseas bases. Corporate Ethics and Risk Management Committee members of Daikin Industries regularly visit overseas Group companies to join compliance committee meetings, where they confirm the state of compliance and risk management, and share information. This process enables Daikin Industries and its overseas companies to share and implement each other's best practices.



Compliance meeting in China (Suzhou)

## Risk Management

### Identifying the Most Important Risks, then Formulating and Implementing Measures

With the Daikin Group expanding rapidly around the globe, we have introduced company-wide, cross-organizational risk management in order to quickly get an overall picture of risks from a global point of view and reduce the risks. All divisions carry out annual risk assessments in which they determine important risks and create measures to deal with them. Based on the results of these assessments, the most important company-wide risks are determined, with measures proposed and implemented to deal with them in order to reduce risk.

In fiscal 2014, efforts involved six key risk areas: earthquakes, product liability and quality, intellectual property, information leaks, overseas crisis management, and improper accounting practices.

### Improving Measures Against Information Leaks

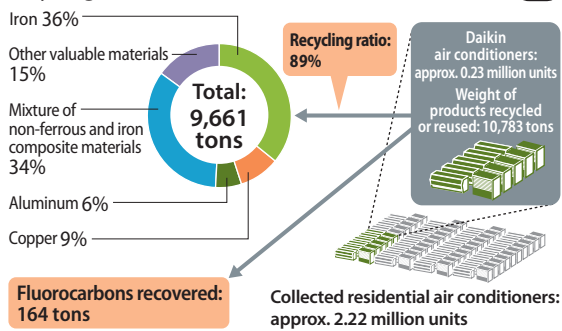
Preventing information leaks was a Group-wide concern in fiscal 2014. IT-related divisions and compliance-related divisions cooperated closely, and personal information managers and IT security managers in each division led efforts to minimize the risk of information leaks.

Recently, there has been a rash of targeted attack emails. In response, the Group has stepped up efforts, including supplementing employee training with actual practice several times a year in dealing with such targeted attack emails.

## Low-Impact Products

### Recycling of Residential Air Conditioners in FY2014

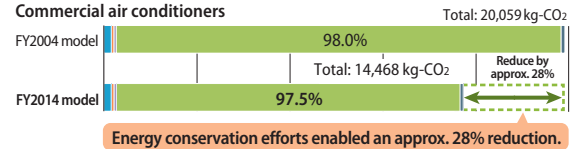
JG



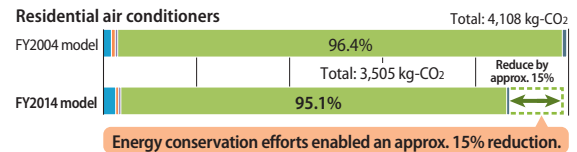
### Sample of LCA: Comparison\*1 of Life Cycle CO<sub>2</sub> Emissions (Energy-Induced CO<sub>2</sub>)

■ Materials/parts manufacturing ■ Product assembling process ■ Logistics ■ Use\*2  
■ Disposal/recycling process

#### Commercial air conditioners



#### Residential air conditioners



\*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 for commercial air conditioners and the Japanese Industrial Standards (JIS) for residential air conditioners.

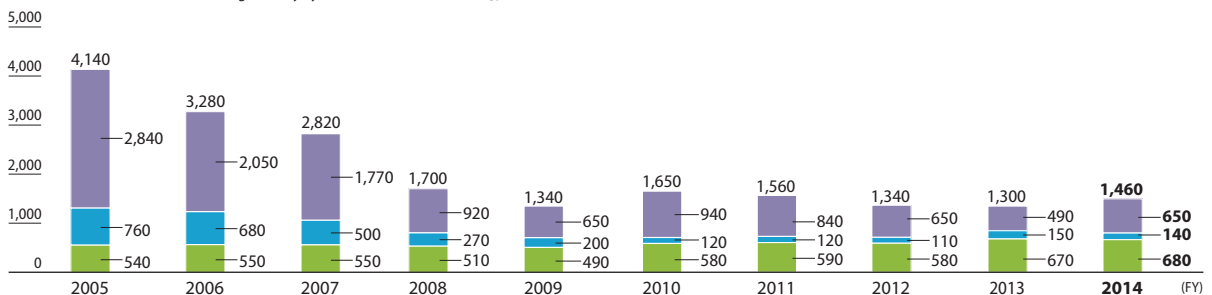
## Low-Impact Production

### Greenhouse Gas Emissions (Production)

Verified

OJG

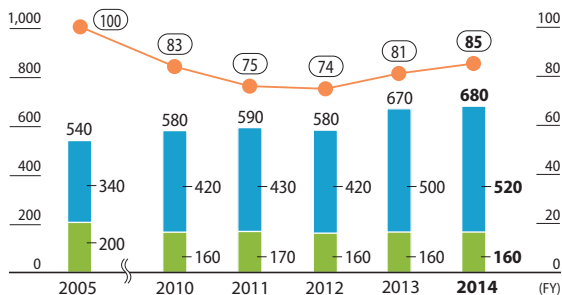
(Thousand tons-CO<sub>2</sub>) Substances designated by Kyoto Protocol ■ CO<sub>2</sub> (Energy) ■ HFC ■ PFC



### Total Emissions of CO<sub>2</sub> from Energy Use, CO<sub>2</sub> Emissions per Production Output

OJG

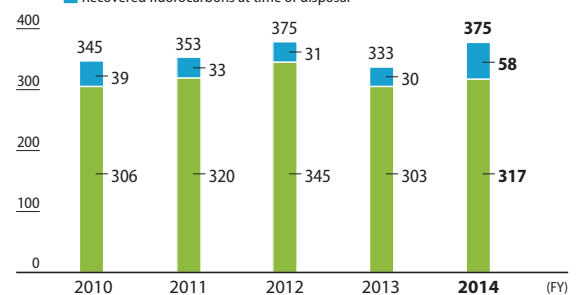
(Thousand tons-CO<sub>2</sub>) ■ Japan ■ Overseas — CO<sub>2</sub> emissions rate for entire Group (%) with FY2005 set as 100%



### Amount Destroyed in Fluorocarbon Recovery and Destruction\*3 (At Time of Repair and at Time of Disposal)

D\*4

(Tons) ■ Recovered fluorocarbons at time of repair ■ Recovered fluorocarbons at time of disposal



\*3 Amount destroyed at Yodogawa Plant, Kashima Plant, or one of the contracted destruction facilities around Japan.

\*4 (D) until fiscal 2013, and (JG) from fiscal 2014.

### Release of Substances Designated by the Pollutant Release and Transfer Register Law

JG

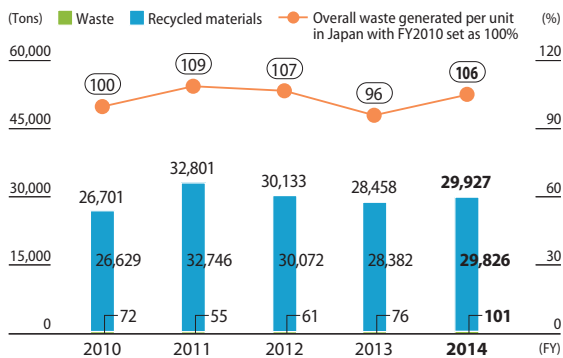
(Tons)



Companies covered by data: (D) Daikin Industries (JG) Including Group in Japan (OG) Overseas Group companies only (OJG) Including Group companies in Japan and overseas

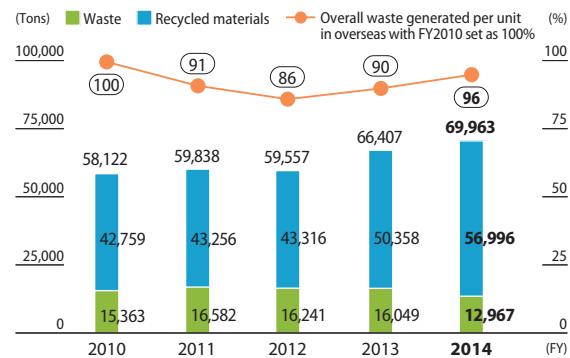
### Amount of Waste and Recycled Materials/ Amount of Waste and Recycled Materials per Unit of Production Output

(JG)



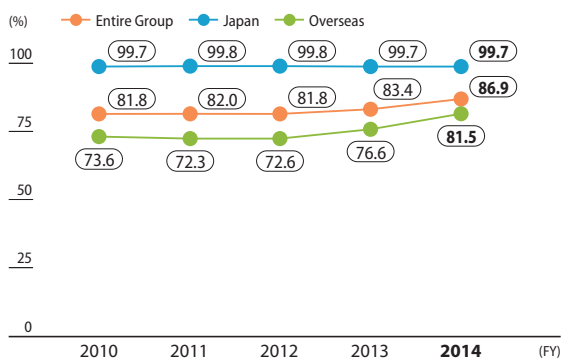
### Amount of Waste and Recycled Materials/ Amount of Waste and Recycled Materials per Unit of Production Output

(OG)



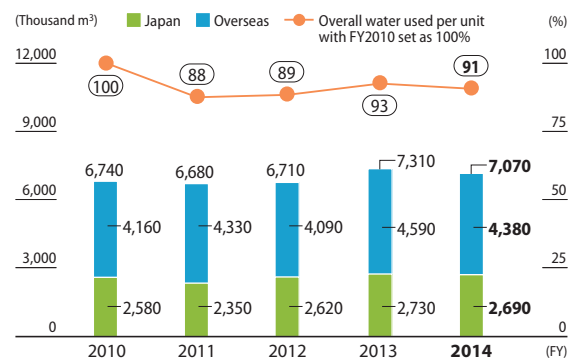
### Recycling Ratio

(OJG)



### Water Used/Water Use per Unit of Production Output

(OJG)



### Green Procurement Rate by Region\*5 (%)

(OJG)

|        | Japan | China | Thailand | Other countries in Asia and Oceania | Europe | North America | All regions |
|--------|-------|-------|----------|-------------------------------------|--------|---------------|-------------|
| FY2010 | 99    | 89    | 97       | 85                                  | 82     | 45            | 87          |
| FY2011 | 96    | 91    | 98       | 87                                  | 81     | 3             | 84          |
| FY2012 | 99    | 92    | 98       | 90                                  | 83     | 3             | 89          |
| FY2013 | 95    | 96    | 98       | 84                                  | 86     | 38            | 84          |
| FY2014 | 94    | 97    | 98       | 76                                  | 91     | 39            | 78          |

\*5 Green procurement rate =  $\frac{\text{Value of goods procured from suppliers who meet our assessment criteria}}{\text{Value of all goods procured}}$

## Environmental Management

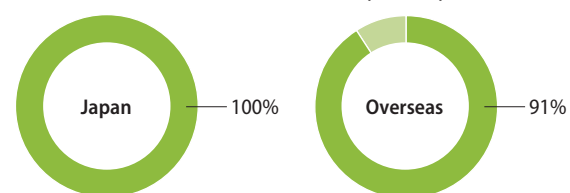
### Report from Audits (FY2014)

(JG)

|                       | Problems found from internal environmental audits | Problems found by third-party certification institutes |
|-----------------------|---|--|
| Major non-conformance | 0   | 0  |
| Minor non-conformance | 24  | 0  |
| Items improved        | 157   | 7  |

### Ratio of Employees Belonging to Facilities That Obtained ISO 14001 Certification (FY2014)

(OJG)



## Environmental Action Plan 2015

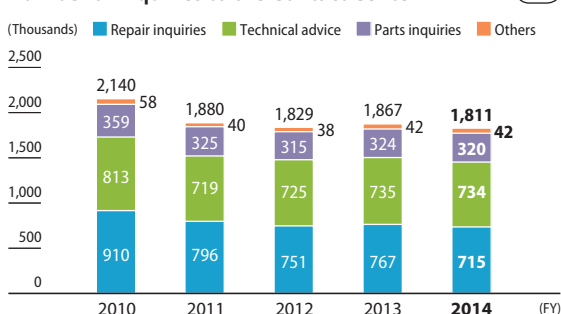
### Environmental Action Plan 2015

| Action targets  |  | FY2015 target values  |   | FY2014 results  | Self assessment |
|---|--|---|---|---|-----------------|
| <b>Providing Environmentally Conscious Products</b> Provide the world with products that help customers reduce CO <sub>2</sub> emissions. |  |   |   |   |                 |
| Disseminating energy-efficient air conditioners to reduce CO <sub>2</sub> emissions.  |  | Through expansion in the widespread use of energy-saving products such as those using inverters, aim to help curtail CO <sub>2</sub> emissions by 30 million* tons for emerging countries.<br><br>* Estimate of CO <sub>2</sub> emission reductions from the use of energy-efficient inverter products sold by Daikin, compared to CO <sub>2</sub> emissions from the use of non-inverter products. The emission reductions figure is annual reduction amount multiplied by product lifespan. |   | Estimated 28 million ton curtailment<br><br><b>Note:</b> Underwent third-party review | ★★★★            |
| Disseminating heat-pump type heating systems. Offer energy-saving solutions. Develop future refrigerants.                                 |  | Disseminate of air conditioners using the low global warming potential refrigerant HFC-32.  |   | Sold in 43 countries  |                 |
| <b>Environmentally Conscious Factories &amp; Offices</b> Minimize environmental impact from production and other activities.              |  |   |   |   |                 |
| Greenhouse gases  | Reduce CO <sub>2</sub> emissions.  | Reduce fiscal 2015 levels to 1/3 (67%) of the level compared with fiscal 2005.  |   | 65% reduction   | ★★★★            |
|   |  | Japan   | Reduce per-unit CO <sub>2</sub> from energy use by 20% against fiscal 2005. | 23% reduction   | ★★★★            |
|   |  | Overseas  | Reduce per-unit CO <sub>2</sub> from energy use by 10% against fiscal 2010. | 3% increase   | ★               |
| Waste   | Reduce overall amount of waste by effectively using resources.   | Japan   | Machinery-related: Reduce per-unit emissions by 5% against fiscal 2010.     | 4% reduction  | ★★★★            |
|   |  |   | Chemical-related: Reduce per-unit emissions by 10% against fiscal 2010.     | 11% reduction   | ★★★★            |
|   |  | Overseas  | Reduce per-unit emissions by 10% against fiscal 2010.                       | 4% reduction  | ★               |
| Water   | Reduce amount of water used.   | Japan   | Reduce per-unit emissions by 5% against fiscal 2010.                        | 1% reduction  | ★               |
|   |  | Overseas  | Reduce per-unit emissions by 10% against fiscal 2010.                       | 13% reduction   | ★★★★            |
| Chemicals   | Minimize emissions of substances of concern.   | Japan   | Reduce PRTR substances by 15% against fiscal 2010.                          | 30% reduction   | ★★★★            |
|   |  |   | Reduce VOCs by 20% against fiscal 2010.                                     | 16% reduction   | ★★★★            |
|   |  | Overseas  | Reduce per-unit VOCs by 10% against fiscal 2010.                            | 22% reduction   | ★★★★            |
| Green Heart Factories   | Achieve environmentally conscious offices.   | Have major production sites certified as Super Green Heart Factories.   |   | 3 bases in Japan, 4 bases overseas  | ★★★★            |
|   |  | Have all production sites certified as Green Heart Factories.   |   | 5 bases in Japan, 18 bases overseas   |                 |
| Green Heart Offices   | Achieve environmentally conscious offices.   | Have major bases in Japan certified as Green Heart Offices.   |   | Entrenchment of activities and creation of assessment methods                         | ★★              |
| <b>Environmental Cooperation with Stakeholders</b> Expand the Green Heart circle to Daikin worldwide.                                     |  |   |   |   |                 |
| Environmental and social contribution activities  | Join local governments, citizens, and NPOs to make environmental and social contributions at each global base according to regional characteristics. | Continue to carry out environmental and social contribution activities (forest restoration, tree-planting, environmental education, protection of biodiversity within Daikin bases) at worldwide bases.   |   | Implemented at 16 bases worldwide   | ★★★★            |

Self assessment: Shows level of achievement of targets in three designations: ★★★★★ : Succeeded ★★ : Will soon succeed ★ : Doing all we can

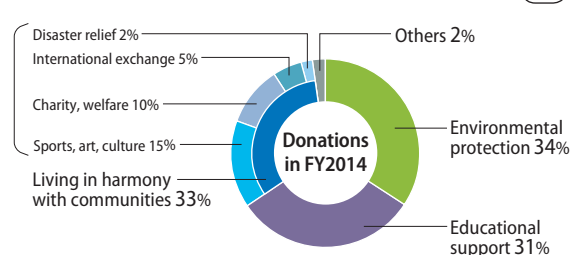
## Quality & Customer Satisfaction

### Number of Inquiries to the Contact Center



## Social Contribution

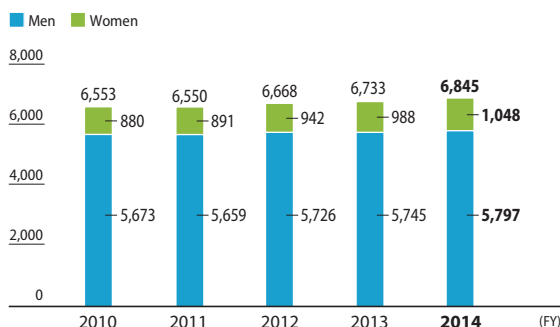
### Donations in FY2014



## Human Resources

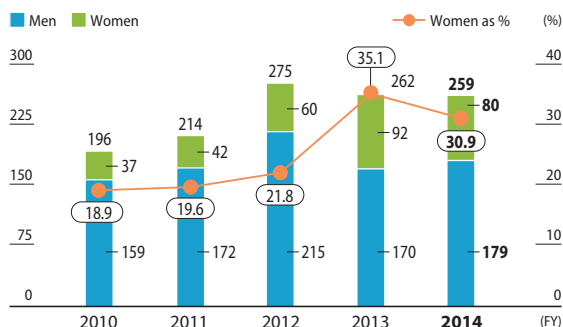
### Daikin Industries Employees by Gender

(D)



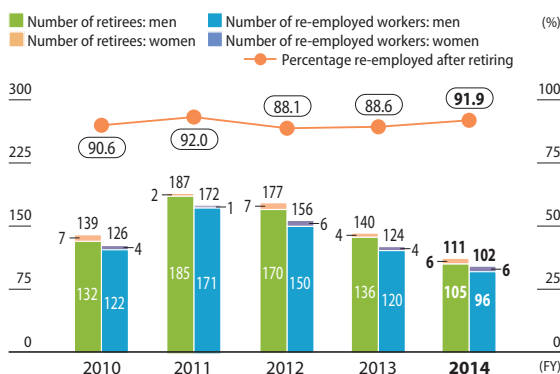
### Number of People Periodically Hired and Women as Percentage of Total

(D)



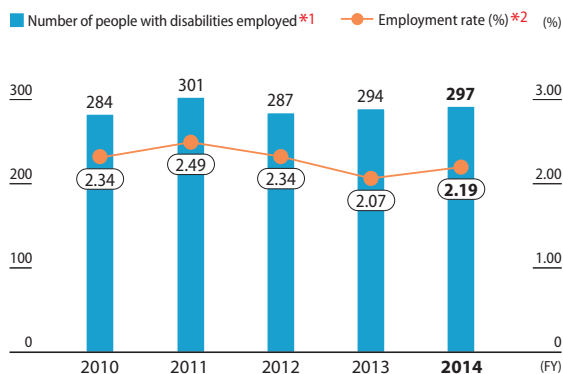
### Number of Re-employed Workers and Percentage Re-employed after Retiring

(D)



### Number of People with Disabilities Employed and Employment Rate

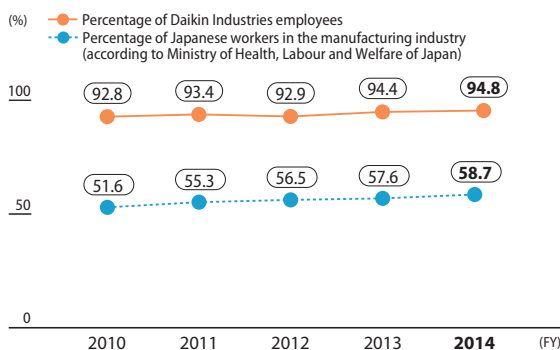
(JG)



\*1 Legally, one severely disabled person employed is counted as two people with disabilities.  
\*2 Employment rate = number of people with disabilities employed ÷ number of people employed.

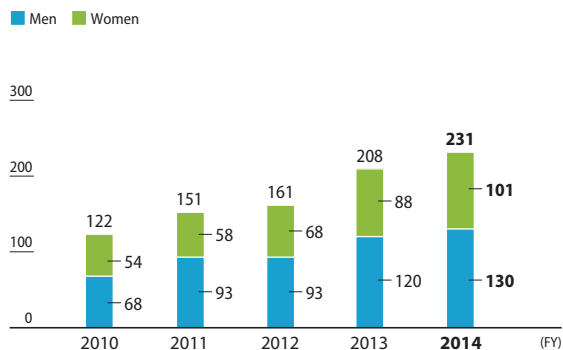
### Percentage of Employees Taking All Paid Leave

(D)



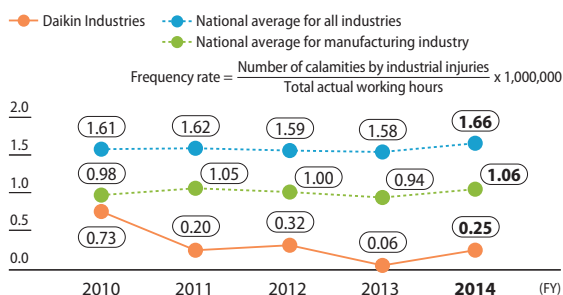
### Employee Taking Childcare Leave

(D)



### Frequency Rate

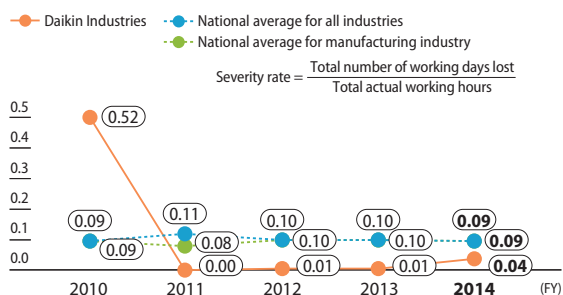
(D)



Note: This shows the frequency of work-related calamities, expressed in number of calamities 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.

# Third-Party Verification Statement

To ensure the reliability of the content of this report, the Daikin Group had Bureau Veritas Japan Co., Ltd., conduct a third-party verification of the greenhouse gas emission data.

## Data Covered by Verification

### Environmental Impact Data on Business Operations in FY2014

- ▶ Scope 1 and Scope 2 greenhouse gas (GHG) emissions from business operations of four production bases in Japan of Daikin Industries, Ltd., eight production subsidiaries in Japan, and 43 production subsidiaries overseas.
- ▶ Category 1 (purchased goods and services), 4 (upstream transportation and distribution), 6 (business travel), and 11 (use of sold products) emissions of Scope 3 GHG emissions calculated in line with the GHG Protocol's 'Corporate Value Chain (Scope3) Accounting and Reporting Standard.'

## Scope of Review

### Contribution to CO<sub>2</sub> Emission Reduction through the Use of Products

- ▶ Contribution to CO<sub>2</sub> emission reduction through the use of inverter air conditioners sold in emerging countries in FY2014.

**Daikin Group CSR Report 2015**  
**Independent Verification Report**

To: Daikin Industries, Ltd.

June 10, 2015

Bureau Veritas Japan Co., Ltd.  
System Certification Services Headquarters

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) has been engaged by Daikin Industries, Ltd. (Daikin) to conduct an independent verification and review of its environmental data selected by Daikin for inclusion in the Daikin Group CSR Report 2015 (the Report), issued under the responsibility of Daikin. The aim of the verification is to consider the reliability and accuracy of environmental data within the Report and to provide a verification opinion based on objective evidence. The aim of the review is to make an independent statement concerning the reliability and accuracy of the environmental data.

**1. Verification and Review Outline**

1) Environmental impact data generated through business operations in FY2014

Bureau Veritas conducted a verification of the following data:

| Data Verified  | Site Visited   | Verification or Review Methodology  |
|--|--|---|
| Scope 1 and Scope 2 GHG emissions through business operations of four production bases of Daikin, eight production subsidiaries within Japan and 43 production subsidiaries overseas | Daikin Head Office<br>Daikin Industries, Ltd. Kashima Plant<br>Daikin Industries, Ltd. Sakai Plant<br>McQuay Air-Conditioning & Refrigeration (Suzhou) Co., Ltd.<br>McQuay Air-Conditioning & Refrigeration (Wuhan) Co., Ltd.<br>Shenzhen McQuay Air-Conditioning Co., Ltd.<br>Daikin America Inc.<br>Daikin Applied Americas Inc.<br>Daikin Airconditioning Thailand Ltd.<br>Daikin Industries (Thailand) Ltd.<br>Daikin Compressor Industries Ltd.<br>Daikin Head Office | • Review of documentary evidence produced by Daikin Head Office and the sites visited<br>• Interviews with relevant personnel of Daikin Head Office and the sites visited<br>• Site inspection assessing data monitoring procedures<br>• Comparison between the reported data and the supporting documentary evidence |
| Categories 1, 4, 6 and 11 of Scope 3 GHG emissions accounted in line with the GHG Protocol's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'                     |  |   |

The verification was conducted using Bureau Veritas' standard procedures and guidelines for external verification of non-financial reporting, based on current best practice. Bureau Veritas refers to the International Standard on Assurance Engagements (ISAE 3000) in providing a limited assurance for the scope of work stated herein.

2) Amount of contribution to CO<sub>2</sub> emission reduction through the use of products

Bureau Veritas conducted a review of the following data:

| Data Reviewed  | Site Visited       | Review Methodology   |
|--|--------------------|--|
| The amount of contribution to CO <sub>2</sub> emission reduction through the use of inverter air conditioners sold for emerging countries in FY2014. | Daikin Head Office | • Review of documentary evidence produced by Daikin Head Office and the departments of the relevant products and services<br>• Interviews with relevant personnel of Daikin Head Office and the departments of the relevant products and services<br>• Comparison between the data used in the calculation of emissions reductions and the supporting documentary evidence |

**2. Findings**

1) Environmental impact data generated through business operations in FY2014

Based on the verification work and process followed:

- The environmental impact data stated in the Report is consistent with the data collected and consolidated by Daikin Head Office.
- There is no evidence to suggest that environmental impact data reported by the sites visited to Daikin Head Office are not free from significant error.

2) The amount of contribution to CO<sub>2</sub> emission reduction through the use of sold products

- The criteria used in the calculation of CO<sub>2</sub> emissions reductions are consistent with the calculation criteria prepared by Daikin Head Office for the purpose.
- There is no evidence to suggest that there was any significant error detected in the source data or the calculation results for CO<sub>2</sub> emissions reductions.

Bureau Veritas has implemented a code of ethics across its business which is intended to ensure that all our staff maintain high standards in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest. Bureau Veritas activities for Daikin are for social reporting verification only and we believe our verification assignment did not cause any conflicts of interest.

**GREENHOUSE GAS EMISSIONS VERIFICATION STATEMENT**

To: Daikin Industries, Ltd.

June 10, 2015

Bureau Veritas Japan Co., Ltd.  
System Certification Services Headquarters

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) was engaged by Daikin Industries, Ltd. (Daikin) to conduct verification of the greenhouse gas (GHG) emissions reported in the Daikin Group CSR Report 2015 for the period of April 1, 2014 through March 31, 2015.

**1. Scope of Verification**

Daikin requested Bureau Veritas to verify, to a limited level of assurance, the accuracy of the following GHG information:

- 1) Scope 1 and Scope 2 GHG emissions:
  - CO<sub>2</sub> from energy use, HFCs, PFCs: GHG emissions through business operations of four production bases of Daikin, eight production subsidiaries within Japan and 43 overseas production subsidiaries
  - CO<sub>2</sub> from non-energy use, CH<sub>4</sub>, N<sub>2</sub>O, SF<sub>6</sub>: GHG emissions through business operations of four production bases of Daikin
- 2) Categories 1, 4, 6 and 11 of Scope 3 GHG emissions accounted and reported in line with the GHG Protocol's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard' within the boundaries defined by Daikin for each category.

**2. Methodology**

Bureau Veritas conducted the verification in accordance with the requirements of the international standard ISO 14064-3:2006: Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions.

As part of Bureau Veritas' assurance, the following activities were undertaken:

- Interviews with relevant personnel of Daikin responsible for the identification and calculation of GHG emissions;
- Review of Daikin's information systems and methodology for collection, aggregation, analysis and review of information used to determine GHG emissions; and
- Audit of a sample of source data to check accuracy of quantified GHG emissions.

**3. Conclusion**

Based on the verification work and processes followed, there is no evidence to suggest that the GHG emissions assertions shown below:

- are not materially correct and are not a fair representation of the GHG emissions, as per the scope of work;
- are not prepared in accordance with the methodology for calculating GHG emissions established and implemented by Daikin.

| Verified greenhouse gas emissions |                             |                                |
|-----------------------------------|-----------------------------|--------------------------------|
| Scope 1                           | Scope 2                     | Scope 3                        |
| 973,260 t-CO <sub>2</sub> e       | 493,149 t-CO <sub>2</sub> e | 64,816,014 t-CO <sub>2</sub> e |

The breakdown of Scope 3 emissions are as follows:  
Category 1: 1,225,159 t-CO<sub>2</sub>e | Category 4: 26,003 t-CO<sub>2</sub>e | Category 6: 12,675 t-CO<sub>2</sub>e  
Category 11: 63,552,177 t-CO<sub>2</sub>e

**[Statement of independence, impartiality and competence]**

Bureau Veritas is an independent professional services company that specializes in Quality, Health, Safety, Social and Environmental management with over 150 years history in providing independent assurance services. No member of the verifier team has a business relationship with Daikin, its Directors or Managers beyond that required of this assignment. We conducted this verification independently and to our knowledge there has been no conflict of interest. Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among staff in their day-to-day business activities. The verification team has extensive experience in conducting assurance over environmental, social, ethical and health and safety information, systems and processes.

The Daikin website (scheduled to be updated in October 2015) gives the calculation method for environmental performance data.

## Honors for Daikin (FY2014)

### Overall CSR (Including SRI)

#### Daikin Group

- Chosen for inclusion in the Morningstar Socially Responsible Investment Index



- Granted the "Nadeshiko Brand," a designation by Japan's Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE)



### Environment

#### Daikin Industries

- Selected for inclusion in the Climate Performance Leadership Index (CPLI) of CDP, an international NGO
- For the Ve-up IVR cooling/heating-free VRV system, awarded the Chairman's Prize in the fiscal 2014 Grand Prize for Energy Efficiency and Conservation by the Energy Conservation Center, Japan



#### Daikin Industries (Thailand) Ltd.

- Received the Prime Minister's Industry Award 2014 in the category of Logistics Management from Thailand's Ministry of Industry
- Received the Certified Waste Management Award Level Platinum from the Industrial Estate Authority of Thailand



### Human Resources

#### Daikin (China) Investment Co., Ltd.

- Named to the list of 100 Model Human Resource Companies in 2014; and to the list of Best HRM Companies in 2014, by 51job, China's leading human resource solutions provider



#### O.Y.L. Manufacturing Company Sdn. Bhd.

- Named a 2014 Best Employer by KWSP (Employees Provident Fund) Shah Alam



#### P&I Business of American Air Filter International (AAF)

- Named Company of the Year in the Tyneside Northumberland district, northeast England



### Quality & Customer Satisfaction

#### Daikin Group

- Emura II residential air conditioner honored with the red dot award for product design



#### Daikin Industries, Ltd.

- Humidifying Flash Streamer air purifier received the Medical Health Award from the Japan Society of Medical Health Science



#### Daikin Australia Pty. Ltd.

- Daikin air purifier approved under the Sensitive Choice program of the National Asthma Council Australia and the Asthma Foundation New Zealand

#### Daikin Air-Conditioning (Shanghai) Co., Ltd.

- Wins Factory Management Award of Good Factory Awards from the Japan Management Association (JMA)



#### Daikin (China) Investment Co., Ltd.

- Named one of 2014 Best Air Purifiers by the China Household Electric Appliance Research Institute (CHEARI)
- Selected Excellent Business Partner in the air conditioner category of the 2015 China Real Estate Developers Top 500, as reported by the China Real Estate Research Association, China Real Estate Industry Association, and China Real Estate Appraisal

#### Daikin Isitma ve Sogutma sistemleri sanayi ve Ticaret A.S.

- Named to the Superbrands Top 100 list by Superbrands Turkey



### Social Contribution

#### Daikin Industries, Ltd.

- Received the Award of Excellence at the Career Education Awards, sponsored by the Ministry of Economy, Trade and Industry (METI), for the Circle of Life environmental education program



- Joint Research Course conducted with Osaka University awarded the Minister of Education, Culture, Sports, Science and Technology Prize in the 12th Conference for the Promotion of Industry-Academia-Government Research Collaboration, sponsored by the Cabinet Office



# About This Report

## Editorial Policy

This report covers the Daikin Group's corporate social responsibility (CSR) efforts. It reports on our basic CSR philosophy, achievements in fiscal 2014, and plans for the future. The report comes in a printed version and a web version. The printed version focuses on the Daikin Group's four key CSR themes of the environment, quality and customer satisfaction, human resources, and social contribution. The web version provides information such as detailed data and past case studies.

### Sustainability Website



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

### Investor Relations Website



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

Please refer to the following website for the latest financial information, annual reports, and other IR information.

## Reference Guidelines:

This report was created in line with the Environmental Reporting Guidelines (fiscal 2012 edition) released by Japan's Ministry of the Environment; and the Sustainability Reporting Guidelines Version 3.1 (G3.1) and Version 4 (G4) released by the Global Reporting Initiative (GRI). Guideline comparison tables are on our website. Our CSR activities are conducted in line with ISO 26000.

Since 2008, the Daikin Group has been taking part in the United Nations Global Compact, an initiative for companies committed to operating based on 10 universally accepted principles in areas including human rights, labor, the environment, and anti-corruption. Daikin also issues this CSR Report as an annual Communication on Progress (COP) to the United Nations, a public disclosure on progress made in implementing the 10 principles of the Global Compact.

## 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 43 production subsidiaries overseas. (See our website for company names and other information.)

## Term Covered:

This report covers fiscal 2014  
(April 1, 2014, to March 31, 2015).

## Publication Date:

July 2015 (Japanese edition)  
The next publication (Japanese) is planned for July 2016.  
The next English edition is scheduled for publication in September 2016.

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## Materiality (of Key Initiatives):

In fiscal 2008, we came up with four key CSR themes of the environment, quality and customer satisfaction, human resources, and social contribution based on stakeholders' concerns and what was important to the nature of Daikin's business and its plans (materiality). (See pages 9–10.)

We then considered the impacts on society of our strategies and our globalization in each of these four areas, came up with ways to limit these impacts, and formulated CSR targets and plans for the medium term. (See pages 11–12.) We incorporated these into our Fusion 15 strategic management plan with the aim of contributing to sustainable development for Daikin and for society.

## Materiality Selection Process

Materiality evaluation involves selecting which CSR initiatives should take top priority. Evaluation is conducted with consideration in two areas: concerns and impacts of stakeholders (on the right page), which include stakeholder engagement, international guidelines, and criteria of socially responsible investment survey institutes; and importance to Daikin, which includes Our Group Philosophy and medium-term management plans.

## Philosophy of Materiality



## Stakeholder Engagement

So that we can continue to contribute to society, the Daikin Group uses every means possible to gather the opinions of stakeholders, report these to company officers, and reflect them in our management, all with a focus on engaging our stakeholders.

The Daikin Group's main stakeholders are the customers to whom we provide the Group's products and services, those directly affected by our business including shareholders, investors, employees, and business partners, as well as members of the general public, who are affected by our business activities. Moreover, the national and local governments of the countries where we do business, and those countries' industry groups, are connected to our efforts to improve environmental performance and disseminate environmental technologies. But no single group of stakeholders has priority over another; they are all important to the Daikin Group.

### Stakeholder Engagement Case Study

#### Opinion Exchanges on Air Conditioning and Environment

Since 1995, the Daikin Group has held air conditioner forums in Japan where Daikin and noted names in the field exchange opinions on the future of air conditioning. With Daikin's rapid business expansion worldwide, since fiscal 2007 we have held forums in Europe, China, North America, Asia, and Oceania that have given us ideas to use in our product and business development.

In fiscal 2013, Daikin launched its Air Forum at which it conducts dialogue with noted names outside the Company towards solving issues related to air. The title of the fiscal 2014 Air Forum was "Achieving air that matches personal values."



Air Forum

#### Cooperating in Formulation of Environmental Policies

As it does business in countries around the world, the Daikin Group ties up and cooperates with national and local governments and industry groups to come up with proposals and to call on all parties concerned for the betterment of society. Particularly in the area of selecting and enacting the use of next-generation refrigerants, we are participating in international conferences and exhibitions and working closely with representatives of industry groups, UN organs, and environmental ministries of governments, discussing regulations, standards, and refrigerant trends and efforts to phase out certain refrigerants, and providing as much information as possible to help countries choose the new refrigerants that are best for them. (See pages 13–16 for details.)

## Stakeholder Engagement Efforts

| Stakeholders                                       | Main dialogue methods and opportunities   | Main dialogue representatives at Daikin   |
|--|---|---|
| Customer   | <ul style="list-style-type: none"> <li>• Daily sales activities</li> <li>• Contact Center</li> <li>• Showrooms</li> <li>• Dialogue during repair visits</li> <li>• "Thank You" sales events and product explanations at distributors</li> </ul>                     | Sales divisions<br>Service Division   |
| Shareholders and investors                         | <ul style="list-style-type: none"> <li>• Ordinary General Meeting of Shareholders</li> <li>• Briefings for investors</li> <li>• Annual Report, business reports</li> <li>• Information for investors on Website</li> </ul>  | Corporate<br>Communication<br>Division  |
| Procurement business partners                      | <ul style="list-style-type: none"> <li>• Daily procurement activities</li> <li>• Supplier briefings</li> <li>• Supplier Quality Conferences</li> <li>• Quality improvement announcement meetings</li> <li>• Quality audits</li> </ul>                               | Procurement<br>Division   |
| Employees  | <ul style="list-style-type: none"> <li>• Interviews based on employee self-assessments</li> <li>• Labor-management council meetings, labor union council meetings</li> <li>• Group Management Meeting</li> <li>• Global managers' meetings</li> </ul>               | Human<br>Resources<br>Division  |
| Communities  | <ul style="list-style-type: none"> <li>• Informing local community of emergency disaster drills</li> <li>• Factory tours for local citizens</li> <li>• Involvement with local groups and events</li> </ul>  | Companies,<br>workplaces  |
| NPOs, NGOs   | <ul style="list-style-type: none"> <li>• Dialogue with NPOs and NGOs</li> </ul>   | CSR Division  |
| National and local governments, industry, academia | <ul style="list-style-type: none"> <li>• Dialogue with government representatives in each country</li> <li>• Dialogue with UN representatives</li> <li>• Participation in industry activities</li> <li>• Research in joint industry-academia initiatives</li> </ul> | Companies,<br>workplaces,<br>PR divisions,<br>CSR Division,<br>Research<br>Department |
| Environment  | <ul style="list-style-type: none"> <li>• Air conditioner forums (see below)</li> <li>• Environmental forums, environmental exhibitions</li> <li>• Various environmental PR and environmental education activities</li> </ul>  | CSR Division  |

### Promoting Open Innovation Through Industry-Academia Collaboration

Daikin has worked with numerous academic institutions: in 2006 it launched its Joint Research Course with Osaka University, and it conducted joint research aimed at solving social problems with the Nara Institute of Science and Technology (NAIST) in 2012 and with Kyoto University in 2013.

Daikin will also leverage its Technology and Innovation Center (opening in autumn 2015) in dialogue with a range of stakeholders aimed at creating new value through industry-academia collaboration.

### Active Information Exchange with NPOs and NGOs

We exchange opinions whenever possible with NPOs and NGOs involved in the environment, consumer rights, quality of life, and other issues, and the information we obtain goes into managing Daikin better. In fiscal 2014, we spoke with groups involved in issues such as mothers' rights and climate change.

# **DAIKIN INDUSTRIES, LTD.**

Inquiries

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You can also view this report on our website.

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

We welcome your thoughts and opinions on this report.

**URL** <https://www.daikin.com/csr/report/anq.html>

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In all of us,  
a green heart



### **The Daikin Group Environmental Symbol**

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).



### **Certified by Minister of the Environment**

For its range of environmentally advanced efforts, Daikin has been certified as an Eco-First Company by Minister of the Environment of Japan.



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

