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Corporate Social Responsibility Report

2010 —Web version—

# Editorial Policy

## Editorial Policy

This site details the Daikin Group's CSR (corporate social responsibility) activities: basic CSR philosophy, performances in fiscal year 2010, and plans for the near future. Information that, due to space limitations, could not fit into the CSR Report 2010 (printed version) released in June 2010 is included on this Web site.

We divided the CSR Report by what we consider to be the key themes of our CSR activities: the environment, quality and customer satisfaction, human resources, and social contribution. Each chapter deals with the Daikin Group's major areas of activity and subjects in which our stakeholders are most interested. (For more details, see [the PDF version of the report.](#))

You'll find features on the Daikin Group's human resource training and on our efforts to curb global warming, which has been a major focus for us in recent years.

This Web site is divided into sections on our environmental protection activities and on each stakeholder group: customers, suppliers, shareholders and investors, employees, and local communities. This allows readers easy access to important information concerning Daikin.

▶ [Environment](#) (See page 63)

▶ [Responsibility to Stakeholders](#) (See page 139)

We also give specific examples of how Daikin and its bases around the world contribute to key efforts of working to prevent global warming and preserve biodiversity, and to foster human resources.

▶ [Key Activities](#) (See page 34)

To ensure an objective assessment of our activities and of this report, and to deepen dialogue with stakeholders, we have included independent, third party opinions.

▶ [Independent Opinions](#) (See page 32)

## Reference Guidelines

Environmental Reporting Guidelines (fiscal 2007 edition) released by the Ministry of the Environment.

Sustainability Reporting Guidelines Third Edition (G3) released by the Global Reporting Initiative (GRI).

### Note

In reporting on fiscal year 2009 environmental protection activities, data was carefully reviewed and was revised in cases where discrepancies occurred between actual results and information reported for fiscal year 2008. Also, because figures are rounded off, totals may not equal the sum figures.



## ■ Forecasts, Expectations, and Plans

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

## What This Report Covers

### Term Covered

This report covers fiscal year 2009 (April 1, 2009 to March 31, 2010).

### Daikin Organizations Covered

This report covers Daikin Industries, Ltd. and its consolidated subsidiaries. Environmental performance data, however, covers four Daikin Industries, Ltd. production bases, eight production subsidiaries in Japan, and 17 production subsidiaries overseas. ([See our Web site for company names and other information.](#))

Note that only the figures on pages 3-4 (printed version, CSR Report 2009) for performance, number of employees, and number of subsidiaries include O.Y.L. Industries, which Daikin acquired in 2006, and O.Y.L. subsidiaries.

## ■ Japan

| Daikin Industries, Ltd. |   |
|-------------------------|---|
| Head Office             |   |
| Tokyo Office            |   |
| Sakai Plant             | Air conditioning/refrigeration equipment, compressors   |
| Shiga Plant             | Air conditioning equipment, compressors   |
| Yodogawa Plant          | Fluorochemical products, hydraulic equipment, air-conditioning equipment, precision defense equipment |
| Kashima Plant           | Fluorochemical products   |

## 8 Production Subsidiaries

Daikin Sheet-Metal Co., Ltd.  
Daikin Piping Co., Ltd.  
Daikin Applied Systems Co., Ltd.  
Daikin Hydraulic Engineering Co., Ltd.  
Daikin Rexxam Electronics (Japan) Ltd.  
Daikin Sunrise Settsu Ltd.  
Toho Kasei Co., Ltd.  
Kyoei Kasei Industries, Ltd.

## 17 Production Subsidiaries

Daikin Australia Pty., Ltd.  
Daikin Industries (Thailand) Ltd.  
Daikin Airconditioning (Thailand) Ltd.  
Daikin Europe N.V.  
Daikin Compressor Industries Ltd.  
Daikin Chemical France S.A.S.  
Daikin Chemical Netherlands B.V.  
Daikin Device Czech Republic s.r.o.  
Daikin Industries Czech republic s.r.o.  
Daikin Air conditioning (Shanghai) Co., Ltd.  
Daikin Air conditioning (Shanghai) Co., Ltd. (Huizhou Branch)  
Xi'an Daikin Qing'an Compressor Co., Ltd.  
Daikin Fluoro Coatings (Shanghai) Co., Ltd.  
Daikin Fluorochemicals (China) Co., Ltd.  
Daikin Device (Suzhou) Co., Ltd.  
Daikin Motor (Suzhou) Co., Ltd.  
Daikin America, Inc.



# Daikin's CSR

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## Air Conditioning and Chemical Technologies Work Hand-in-Hand

**Daikin has made global warming prevention its most important priority and actively pursues environmental impact reduction in all business activities.**

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

### Daikin Group Business

#### 88.7% Air Conditioning Business



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

##### Residential Air Conditioners



##### Hot Water and Space Heaters



##### Buildings



#### 8.4% Chemicals Business



World's Leading Lineup of Fluorine Compounds

##### Storage Batteries and Solar Cells



##### Automotive



##### Refrigeration and Air Conditioning Systems



#### 2.8% Oil Hydraulics, Defense Systems Business



Proprietary Technologies at Work in a Range of Industries

##### Machine Tools



##### Construction Equipment



##### In-Home Medical Equipment



Ever since we developed Japan's first air conditioner in 1951, the Daikin Group has used the air conditioning and chemical expertise it has built up to bring comfort to people around the world, whether they are at home or at work. In the fields of oil hydraulics and defense systems, our proprietary cutting-edge technologies and R&D capabilities have advanced industry and improved people's lives.

Of all our businesses, those with the greatest impact on society are the air conditioner business and our fluorochemical business, which makes the fluorocarbon refrigerants for air conditioners. Air conditioners use large amounts of energy, and fluorocarbons are greenhouse gases that cause global warming. The structure of our business necessitates that we make it our mission to help prevent global warming. We thus do all that we can to reduce environmental impact in all areas of business.

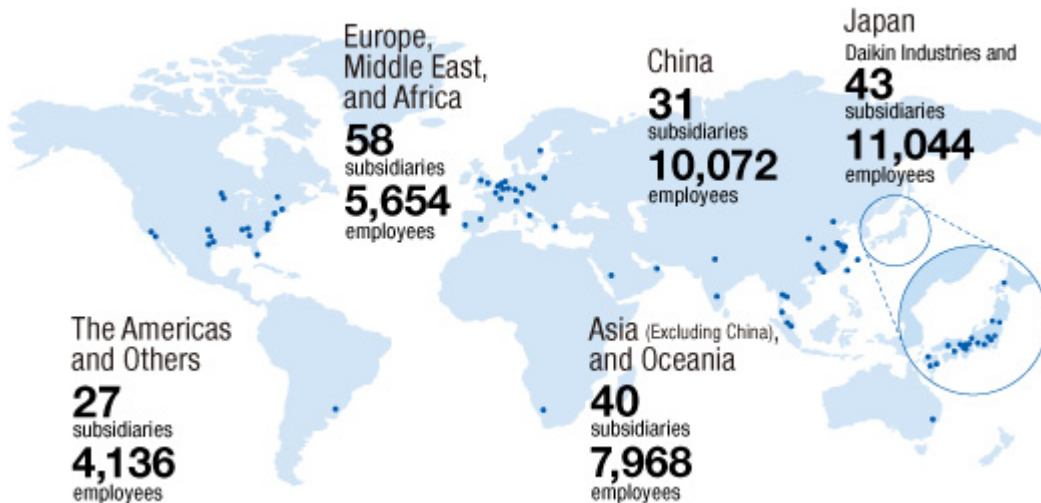
Our aim is to be an environmentally advanced company by developing and marketing environmentally conscious products and services and by reducing emissions of fluorocarbons and CO<sub>2</sub> in the production, distribution, and marketing stages.

## Worldwide Business

**Daikin Group strives to be a company that can meet the expectations of various stakeholders while respecting the diverse cultures and values of people in each country and region.**

The Daikin Group does business around the world in countries and regions like China, Southeast Asia, Oceania, Europe, and North America. We have 38,874 employees at worldwide production and sales bases, with about two-thirds of employees outside Japan. By respecting the cultures and values of each country and region, we strive for a workplace that brings out the motivation and unique personality of each employee.

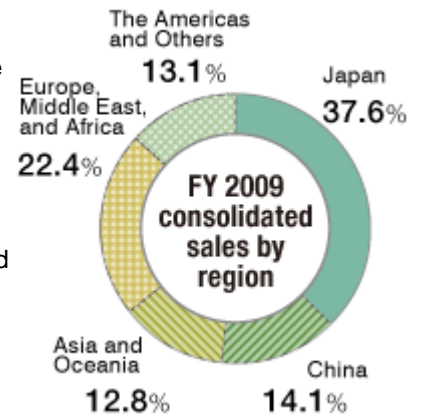
### Daikin Group



The Daikin Group does business in Japan, China and the rest of Asia, Oceania, Europe, and the United States with the goal of maximizing corporate value to become a truly global and excellent company. In fiscal 2006, we further expanded our geographical area and markets through the acquisition of O.Y.L. Industries (headquarters: Malaysia), which has solid air conditioning business networks in North America and Asia. As we continue to grow worldwide, we are striving even further to contribute to society in respecting the diverse cultures and values of the countries and regions where we operate and by hiring locally to ensure our products and services meet local needs.

People are the force behind improving corporate value. To become a company trusted throughout the world, all Group employees must understand and implement our Group Philosophy, and our company must create a work environment in which employees can maximize their unique traits and work with enthusiasm and pride.

We will continue to reward stakeholders-customers, shareholders, employees, and local citizens-through our corporate growth. In the process, we will think globally while being a good citizen of the Earth and acting in the best interests of each community in our goal of becoming a truly first-rate company.



Contributing to Sustainable  
Development of Society  
with Environmental Contribution  
and Human Resource  
Development as CSR Pillars

**Noriyuki Inoue**

Chairman and CEO  
Daikin Industries, Ltd.



The Daikin Group provides customers with the ultimate in convenience and comfort through high-quality products and services and practices a shared code of conduct that includes fair corporate activities, vigorous environmental protection, and proactive contributions to local communities.

The world is simultaneously recovering from economic recession and transitioning to low-carbon societies. Anticipating this change in the times, the Daikin Group is engaging in business activities grounded in the pillars of CSR: creation of new value, provision of environmentally conscious products and services on a global scale, and development of the human resources that make these activities possible.

### **Contributing to Protection of the Environment through Environmental Technologies and Products**

In the FUSION 10 five-year strategic management plan, the Daikin Group set forth a basic policy of combining social contributions from proactive solutions to global environmental problems and business expansion. In addition to reducing greenhouse gas emissions from production and raising the environmental awareness of our employees, we have undertaken environmental initiatives that have tremendous potential to become the cornerstone for our environmental strategy. These initiatives include contribution to society through the provision of environmental technologies and products, worldwide expansion and enhancement of the environmentally conscious products, full-scale entry into the heating business using heat pump technology, and the establishment of a structure for the applied solutions business. These actions have made it possible for the Daikin Group to provide products that meet the environmental needs of countries and regions including Europe, China, and the United States.

In China, through a collaborative venture with Gree Electric Appliances, Inc. of Zhuhai, one of China's largest air conditioning manufacturers, we have developed inverter air conditioners in the low-price zone and greatly contributed to the appeal of inverter models. In Europe, commercialization of heat pump heaters began at an early stage. After obtaining European Parliament approval of heat pump technology as a "technology that captures renewable energy," the business has become remarkably successful and is being developed as the next pillar of our business operations.

In the United States, we established the Applied Development Center for developing global models of energy-saving, large-scale air conditioning systems, and in May of this year, we newly established the Applied Solution Business Division to provide a structure for taking the large-scale air conditioner business forward.

In the chemicals business, we have created products and technologies that contribute to improving the efficiency of lithium ion rechargeable batteries and solar cells.

The year 2010 is the final year of our current strategic management plan and the year for deciding a new five-year plan. In the next management plan, the environment will remain a pillar of corporate management. We will also refine our technologies and products and contribute to society by providing people around the world with products that contribute to protecting the environment.

## **Leveraging Diversity as a Strength and Promoting Personnel around the World**

The Daikin Group believes that the "cumulative growth of all Group members serves as the foundation for the Group's development." Consequently we practice "People-Centered Management" and strive to create workplaces where each employee can fully demonstrate his or her capabilities.

As business globalization continues to accelerate, worldwide recruitment and fostering of human resources, as well as their suitable deployment and compensation, have become essential themes in our aim for further growth. By providing workplaces where talented people can thrive regardless of their nationality, we are convinced that we can contribute to a sustainable society through our business activities.

People-centered management in the age of globalization necessitates global business expansion that respects each world culture, its customs, and history and leverages diversity as a strength to address the needs of society in each region. To human resources capable of expanding our business, Daikin provides equal opportunity for advancement and develops human potential to the fullest as we engage in management that takes even greater advantage of our human resources.

## **Aiming for a Truly Global and Excellent Company**

To clearly define a code of conduct for our business activities around the world, in October 2008, Daikin joined the United Nations Global Compact, which sets forth basic principles pertaining to human rights, labor standards, the environment, and anti-corruption. We have meaningfully incorporated the spirit of the Global Compact into our Handbook for Corporate Ethics and endeavor to instill it within the Group.

As our business develops, our responsibility to society will increase. We intend to remain a corporate group that enjoys the trust of society by increasing the transparency of our business activities and discharging our social responsibility while meeting the expectations of our various stakeholders.

With environmental protection and human resource development as the pillars of CSR, we will contribute to the sustainable development of society as we aspire to further corporate growth.

June 2010



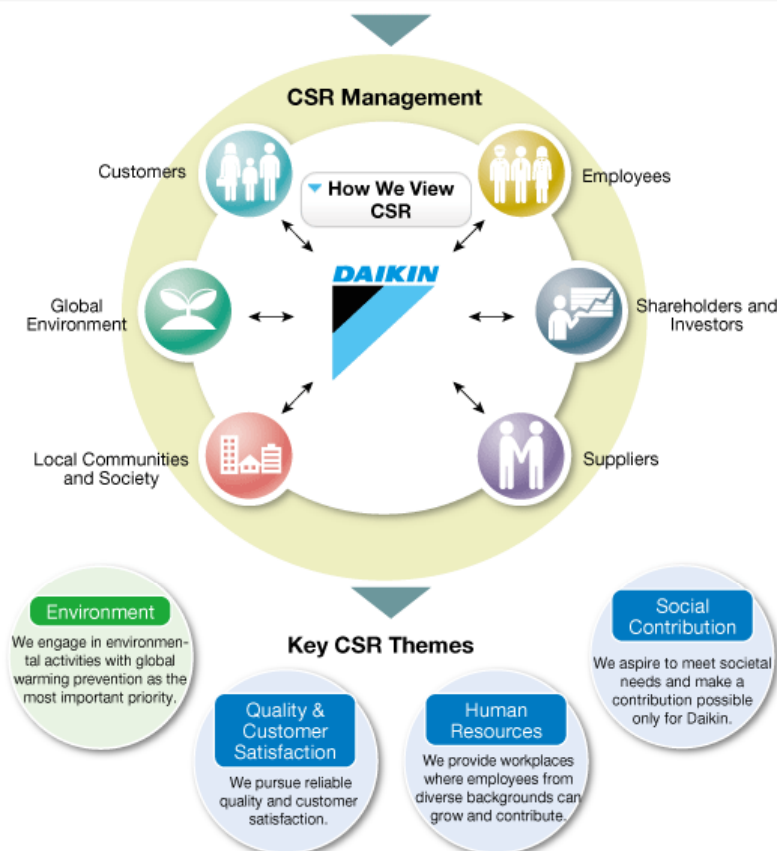
Noriyuki Inoue  
Chairman and CEO  
Daikin Industries, Ltd.

## Corporate Policies

1. Absolute Credibility
2. Enterprising Management
3. Harmonious Personal Relations

## Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers
2. Contribute to Society with World-Leading Technologies
3. Realize Future Dreams by Maximizing Corporate Value
4. Think and Act Globally
5. Be a Flexible and Dynamic Group
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"



## How We View CSR in the Daikin Group

1. By ensuring implementation of our Group Philosophy, the DAIKIN Group will execute our social responsibilities globally in relations with all our stakeholders, and thereby raise our corporate value and contribute to the sustainable development of society.
2. Based upon thorough observance of legal compliance and corporate ethics, the DAIKIN Group will carry out our CSR initiatives with priority on contributing to society through our business activities such as:
  - Creating and offering new value by anticipating the future needs of customers;
  - Taking initiatives to sustain and improve the environment in all aspects of our business operations, and promoting the development of new products and the innovation of technologies that will lead to a more environmentally healthy world;
  - Building friendly yet competitive relations with all our business partners such as suppliers; and
  - Cultivating workplaces that foster pride and enthusiasm in each employee.

Furthermore, as a good corporate citizen the DAIKIN Group will make beneficial contributions to each community in which we are based by being highly receptive to its needs.

3. Instead of simply giving consideration to CSR, the DAIKIN Group will proactively incorporate CSR initiatives in all our business activities, fuse and integrate such initiatives with these activities in order to ensure truly ongoing CSR initiatives and lead to the improvement of our business performance.
4. The DAIKIN Group will pursue CSR in our unique way by riding on our strengths, such as our atmosphere of freedom and boldness, thorough customer-oriented management, warm hospitality and other valued traditions and culture, as well as world-leading technologies.
5. The DAIKIN Group will fulfill our CSR by promoting interactive communications widely with society, achieving accountability, and maintaining high transparency.

## Environmental Philosophy

### Be a Company that Leads in Applying Environmentally Friendly Practices

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

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

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

## Action Guidelines

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

## Group Compliance Guidelines

These compliance guidelines set forth the basic premises to observe as a basic framework for compliance for all Group companies as well as each and every one of their executives and employees in the worldwide expansion of the Daikin Group.

Each company of the global Group shall draft specific criteria based on these guidelines as a code of conduct that corresponds to differences in laws and customs of each country and region and thoroughly maintains compliance.

### 1. **Providing Safe, High Quality Products and Services**

We shall make every effort to ensure the safety and quality of our products and services from the standpoint of our customers. Should a problem occur regarding safety, we shall immediately take appropriate action.

### 2. **Free Competition and Fair Trading**

We shall perform fair corporate activities in compliance with all applicable laws and regulations relating to fair competition and fair trade of each country and region.

### 3. **Observing Trade Control Laws**

We shall not participate in any transactions that may undermine the maintenance of global peace and security and world order in compliance with all applicable export and import related laws and regulations of each country and region as well as Daikin Group Policy.

### 4. **Respect and Protection of Intellectual Property Rights**

Recognizing that intellectual property rights are important company assets, we shall strive to protect and maintain our intellectual property rights and effectively utilize them. Furthermore, we shall respect and make every effort not to infringe upon the intellectual property rights of other companies.

### 5. **Proper Management and Utilization of Information**

We shall properly manage and effectively utilize the confidential information of our company, the confidential information obtained from other companies, and the personal information of our customers and employees and shall not obtain any information through improper means. We shall thoroughly execute IT security management for our computer systems and the data-resources saved on them.

**6. Prohibition of Insider Trading**

To maintain the trust of the securities market, we shall not use non-public information about the Daikin Group or other companies to buy or sell stocks or other securities (insider trading).

**7. Timely and Appropriate Disclosure of Corporate Information**

Aiming to be an "open company" with high transparency and earn the respect of society, we shall actively convey corporate information in a timely fashion not only to shareholders and investors but also to a wide spectrum of society, and engage in two-way communication.

**8. Preservation of the Global Environment**

We shall observe all applicable environment laws and regulations of each country and region and practice initiatives that sustain and improve the environment in all aspects of our business operations, including product development, manufacturing, sales, distribution, and services. Also, each and every one of us shall strive to promote environmentally conscious actions.

**9. Ensuring the Safety of Operations**

We shall take all possible precautions for safe operations and act with a mindset of "Safety First" to ensure the safety of the workplace and further gain the trust of people in the regions we serve.

**10. Respect for Human Rights and Diversity in the Workplace and Observance of Labor Laws**

We shall respect the human rights of each and every employee and diversity in values and approach to work while striving to create a workplace that is safe and comfortable to work. We shall also observe both the letter and spirit of all labor laws and regulations of each country and region, and under no circumstances sanction the labor performed under compulsion or against a person's will (forced labor), or labor of children who do not meet the minimum age requirements for labor as regulated by laws and regulations of each country and region (child labor).

**11. Protection of Company Assets**

We shall properly manage the tangible and intangible assets of our company to protect and utilize effectively these assets.

**12. Proper Handling of Accounting Procedures**

We shall comply with all accounting standards and tax laws of each country and region as well as internal company rules in properly performing accounting procedures and shall make every effort to improve internal controls.

**13. Practicing Moderation in Entertainment and Gift Exchanges**

We shall exercise moderation and perform within the acceptable range of social norms and obey the laws and regulations of each country and region in regards to entertainment and exchange of presents performed relating to our business. In particular, we shall neither entertain nor provide gifts of monetary value to public officials at home and abroad in violation of applicable laws and regulations in each country and region.

**14. Maintaining a Firm Attitude against Anti-social Activities**

We shall take a firm attitude against anti-social force or organization that threatens the safety and order of the citizens of society

**15. Observing Various Business Law and Regulation**

We shall accurately comprehend and observe all business laws and regulations of each country and region applicable to our business activities.

## Participation in the Global Compact

### Building a System for Unified Group Action

In October 2008, Daikin Industries' participation in the United Nations Global Compact was acknowledged.

The United Nations Global Compact, proposed by former United Nations Secretary-General Kofi Annan in 1999 at the World Economic Forum, presents a unique strategic platform for companies to advance their commitments to sustainability and corporate citizenship. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.



In August 2008, we established our Group Compliance Guidelines. And in September 2008, we revised our Handbook for Corporate Ethics, adding items such as the abolition of forced labor and child labor. In this way, we are incorporating the spirit of the Global Compact into our Group management strategy and putting it into action in our business activities as we strive to contribute to a sustainable society and raise the Daikin Group's corporate value.

#### Ten Principles of UN Global Compact

##### Human Rights

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

##### Labour Standards

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

##### Environment

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

##### Anti-Corruption

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

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

## CSR Management Structure

### Building a System for Integrated Group CSR

The Daikin Group has systems for the comprehensive, cross-organizational promotion of CSR activities throughout the entire group.

[▶ Read more](#)

(See page 20)

## Corporate Governance

### Outside Viewpoint Ensures Sound Transparent Management

Daikin Industries' corporate governance system aims for fast decision-making and execution by having the two together in an integrated management framework. We also have mechanisms that ensure the soundness and transparency of our management.

[▶ Read more](#)

(See page 21)

[▶ Corporate Governance](#)

▾ [Corporate Governance](#) 

The board of directors oversees the CSR Committee, the Corporate Ethics and Risk Management Committee, and the Disclosure Committee, all of which work to ensure that corporate governance is based firmly in corporate social responsibility.

## Compliance and Risk Management

### Daikin Joins UN Global Compact; Establishes Group Compliance Guidelines

The Daikin Group has systems for carrying out integrated action in compliance and risk management.

[▶ Read more](#)

(See page 22)

In October 2008, we joined the United Nations Global Compact. Prior to that, in September 2008, we established our Group Compliance Guidelines, which include Global Compact philosophies including the abolishment of forced labor and child labor. These guidelines were added to our Handbook for Corporate Ethics, an action guide for Daikin employees.

[▶ Management Structure](#)

▾ [Corporate Ethics and Risk Management](#) 

[▶ Handbook for Corporate Ethics](#)

[▶ Legal Compliance Audits, Compliance](#)

[▶ Education](#)

[▶ In-House Information](#)

[▶ Help-Line](#)

[▶ Risk and Measures](#)

[▶ Preparing for Earthquakes](#)

▶ See [Participation in the Global Compact](#). (Page 16)

## Free Competition and Fair Business Dealings

The Daikin group strives for fair business practices through measures for complying with the Anti-Monopoly Act, Misleading Representations Act, and the Subcontract Act.

[▶ Read more](#)

(See page 26)

## Prohibiting Bribes

We do our utmost to ensure that business entertainment and gift-giving related to business are conducted within the laws and customs of each country and region.

[▶ Read more](#)

(See page 26)

## Information Security

We ensure the proper management and use of information by thoroughly educating employees and by properly managing confidential information that we obtain from other companies.

[▶ Read more](#)

(See page 27)

Company divisions and departments have information managers, and we ensure information is being properly managed through legal compliance audits and other measures.

## Respect for Intellectual Property Rights

We recognize intellectual property as one of a company's most valuable assets. We carry out proper and fair exercise of rights in response to violation of intellectual property as well as respect other companies' intellectual property. Training is held for each management level of employees and thorough checks are carried out during development of new products and technologies to ensure there is no infringement on the intellectual property of other companies.

[▶ Read more](#)

(See page 27)

## Suppliers Must Be in Legal Compliance

### Management That Achieves Legal Compliance throughout the Supply Chain

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

[▶ Read more](#)

(See page 177)

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

## Respect for Human Rights

### Basic Policy of Respect for Human Rights and Diversity, and Compliance with Labor Laws

Daikin Industries makes employees aware of human rights issues as part of its goal of becoming a company free of discrimination where each individual is respected.

The Handbook for Corporate Ethics states our policy of respecting human rights and diversity in the workplace and abiding by labor laws, and we constantly remind employees to be aware of this.

[Read more](#)

(See page 28)

- [Policy and Management Structure](#)
- [Human Rights Education](#)
- [Preventing Sexual Harassment](#)



## CSR Management Structure

### Building a System for Integrated Group CSR

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

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

Corporate Governance

Outside Viewpoint Ensures Sound Transparent Management

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

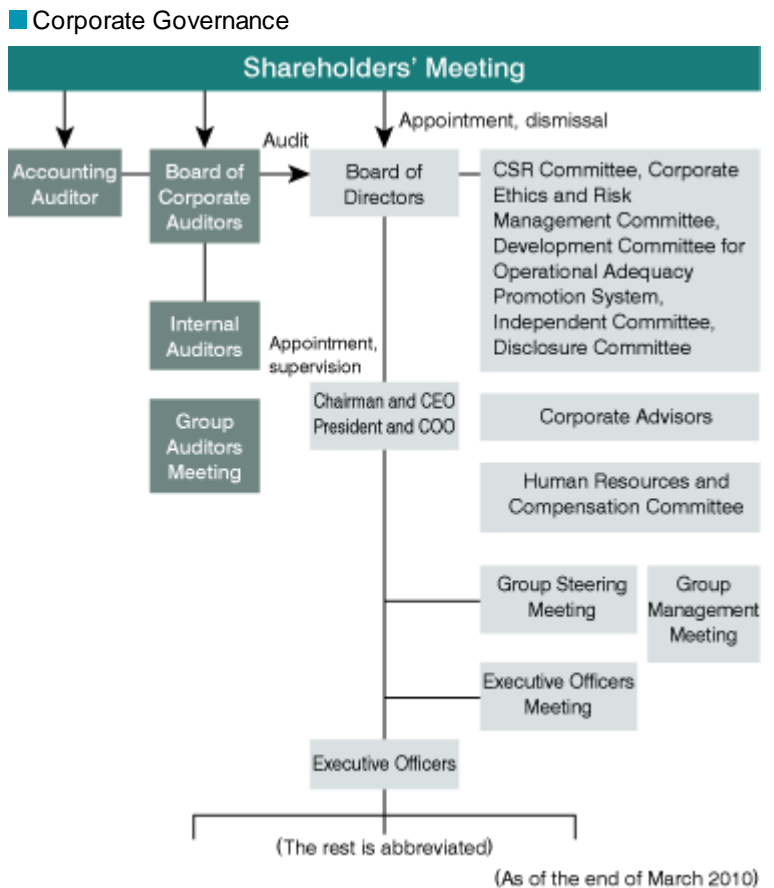
We appoint two outside board members with no vested interest in our company to take part in decision-making from an outsider's point of view. We also appoint two external auditors who not only sit in on the Auditors Meeting and the Board of Directors Meeting but also on key meetings such as the Executive Officers Meeting where they monitor and manage the execution of policy. The Group Auditors Meeting, made up of auditors from major group companies, meets periodically to ensure that the entire Group's auditing and management functions are constantly improving.

We also strive to raise soundness and transparency through the Corporate Advisors, who offer unbiased operational advice, and the Personnel and Compensation Advisory Committee, which works to improve the transparency of personnel matters and the compensation of directors.

The Independent Committee was formed to ensure that when there is a large-scale purchase of Daikin shares, Daikin's corporate value and shareholders' joint profit are protected. The committee helps provide our shareholders with impartial information so that there is transparency in our paperwork and dealings, as well as a high degree of objectivity.

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

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



## Management Structure

### Integrated Group-Wide Promotion of Compliance and Risk Management

In fiscal year 2003, the Daikin Group established the Corporate Ethics Committee as an organ for leading group-wide corporate ethics activities. In fiscal year 2007, the name was changed to the Corporate Ethics and Risk Management Committee for the purpose of carrying out integrated action in compliance and risk management.

In the area of legal compliance, compliance and risk management leaders (CRLs) in each division gather the latest legal information and check to see if laws are reflected in company rules and manuals. There are also monthly daily triple checks to ensure everyone is following laws and company rules and manuals. The results of these checks are reported at monthly CRL meetings for the sake of sharing information. There are also self assessments carried out once a year to ensure that employees are following the Compliance Action Guidelines stipulated in the Handbook for Corporate Ethics.

In the area of risk management, we have a group-wide cross-organizational risk management. Every year, self assessments are accompanied by risk assessment in all divisions. From the results, the key risks in each division are identified and measures are then created to reduce these risks.

Based on the results of self assessments and risk assessment, the Corporate Ethics and Risk Management Committee draws up an annual company-wide "to do" list, along with a time frame and managers responsible for carrying out the tasks on the list. These tasks are carried out using the PDCA management cycle.

▶ For more information, see "[Risk and Measures](#)". (Page 24)

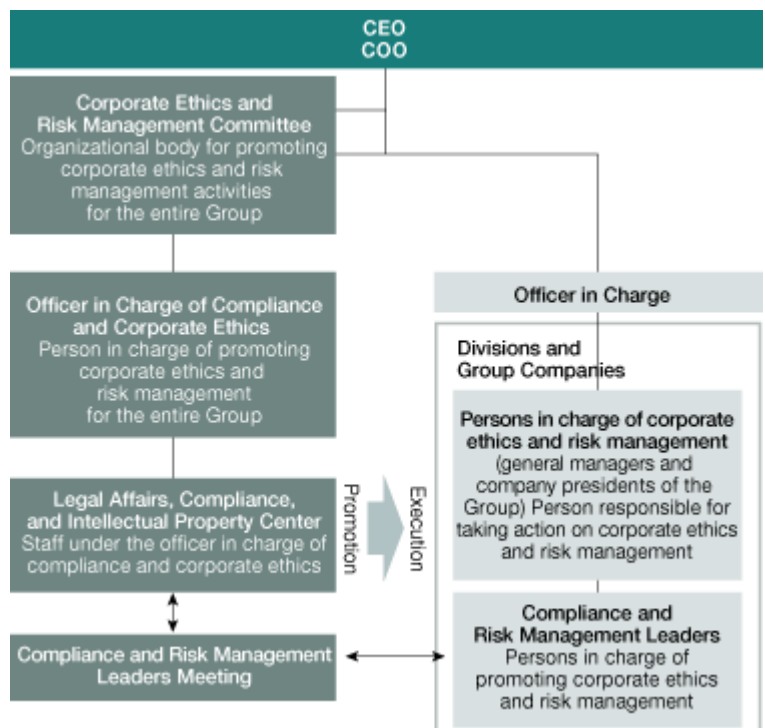
### Sharing Information with Overseas Group Companies

Since fiscal 2003, nine major overseas group companies\* have had CRLs (compliance and risk management leaders) to lead compliance activities based on the Daikin Industries' model and adapted to their own particular situation. With compliance committees, Corporate Ethics Handbooks, and regular self assessment and risk management conducted, these companies strive for the same level of compliance as Daikin Industries.

Representatives of Daikin Industries regularly visit these companies and meet with the CRLs to see how they are progressing and share valuable information.

\* Daikin Europe N.V., Daikin America Inc., Daikin Air Conditioning America, Daikin Air conditioning (Singapore) Pte., Daikin Industries (Thailand) Ltd., Daikin Australia Pty., Ltd. Daikin Air-conditioning (Shanghai) Co., Ltd., Daikin (China) Investment Co., Ltd., Daikin Fluorochemicals (China) Co., Ltd.

#### Corporate Ethics and Risk Management



## Handbook for Corporate Ethics

### Daikin Industries' Handbook for Corporate Ethics Revised; Group Divisions and Overseas Group Companies Follow

In fiscal 2008, Daikin Industries revised the Handbook for Corporate Ethics, a valuable guide to employee behavior. At that time, hearings were held with overseas group companies and the Group Compliance Guidelines were formulated to clarify common compliance matters for the entire group worldwide. Employees in Japan have been given compliance cards and are urged to carry these with them at all times to ensure that they always follow rules and ethics.

The revisions provided an opportunity for renewed education and training. The multi-faceted training uses every opportunity to teach the basics of the handbook items and carry out practical study and discussion of case studies.



▶ See [Suppliers Must Be in Legal Compliance](#) (Page 177)

## Legal Compliance Audits, Compliance

### Legal Audits Ensure Laws are Being Followed

Based on self assessment results, legal compliance audits are conducted to make sure that Daikin is abiding by laws and regulations.

In fiscal 2009, audits were conducted in all divisions of Daikin Industries. All relevant documents were inspected and CRLs led hearings with managers. Audit results were reported to general managers so that everyone could share an awareness of what must be done to improve compliance.

■ Number of compliance violations, countermeasures

| Fiscal 2009 | Details                             |
|-------------|-------------------------------------|
| 0           | No laws or regulations were broken. |

## Education

### New Education Program Follows Compliance Action Guidelines

The revisions to the Handbook for Corporate Ethics provided an opportunity to also revise our education program to make it more focused on the practical matters of compliance. The Compliance Action Guidelines, created based on the Group Compliance Guidelines, were the topic of monthly training for CRLs in all divisions starting in September 2008. There was also training that used case studies to teach the most relevant laws in the areas of marketing, manufacturing, and purchasing. New employees and newly appointed managers also received compliance training. And in fiscal 2009 officers were trained in the areas of corporate ethics and legal compliance.

To make these training sessions as practical as possible, participants submitted questions and queries that were used to make databases of the most common issues. We are also continuing training and courses divided by management level and that focus on themes peculiar to each division.

## **| In-House Information**

### **General Managers and Managers Speak on the Importance of Compliance**

To raise employees' awareness of compliance, general managers and managers take every opportunity to give talks on the importance of compliance that draw on their wealth of experience.

In November 2009, Daikin Industries created a publication called the Compliance Information Archives, a compilation of information that is given to managers. They then use this to continually keep their employees informed and aware of the importance of compliance.

## **| Help-Line**

### **Help-Line for Corporate Ethics Offers Counseling and Gathers Opinions**

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

Although corporate ethics issues are normally taken care of in the part of the organization where they occur, sometimes this is not easy. In that case, the corporate ethics manager, representing the Help-Line for Corporate Ethics, consults directly with the employee to hear his or her opinions. The help-line is designed to be worry-free and accessible: users can contact it by phone, fax, or mail and their names are kept confidential.

All queries and opinions to the help-line are investigated, and discussions are held with the related company division, with measures promptly carried out so that problems do not reoccur. Drastic measures will be carried out in the case of a potential company-wide problem.

To ensure that the help-line is well publicized, the help-line's contact information is provided on the compliance card that all employees carry with them at all times.

## **| Risk and Measures**

### **Risk Management Identifies Most Important Risks Across Entire Company and Implements Measures**

With the Daikin Group expanding rapidly around the globe, we introduced company-wide, cross-organizational risk management in 2006 in order to quickly get an overall picture of risks from a global point of view and reduce the risks.

We conduct risk assessment every year and based on the results we identify the most important areas of risk, then plan and implement measures to deal with risks. In fiscal 2009, we identified seven risk items: product liability and quality, IT, technological information leaks, transfer pricing taxation, global safety, new types of influenza, and earthquakes. The Corporate Ethics and Risk Management Committee is looking into measures to deal with these.

#### **■ Most Important Risks and Measures**

##### **Product Liability and Quality Risk**

In the Air Conditioning Manufacturing Division, we have continued efforts to make products safer; for example we have made electronic component housing more flame resistant and protected it with metal plating, given printed circuit boards improved coating, and given outdoor units protective metal plating. In fiscal 2009, we incorporated design review and strengthened technologies in order to make products safer.

### **IT Risk**

A breakdown of computer systems would mean a major interruption to business activities and a huge inconvenience to our customers. To ensure this does not happen, in fiscal 2009 we reinforced our systems and have measures in place to ensure that they are quickly up and running in case of a breakdown.

### **Technological Information Leaks Risk**

To create an environment in which our global technological information is adequately protected, in fiscal 2009 we formulated and began implementing boosted security measures.

### **Transfer Pricing Taxation Risk**

With the Daikin Group rapidly expanding globally, transfer pricing taxation presents a major form of risk. To avoid infringement on transfer pricing taxation, we are thorough in conducting business transactions between countries.

### **Global Safety Risk**

Because we have manufacturing bases around the world, the Daikin Group is working to ensure that our factories and employees are as safe as possible.

In fiscal 2009, the Chemicals Division conducted global safety audits. As well, the Air Conditioning Manufacturing Division and the Chemicals Division each held hands-on safety training.

Daikin is also working towards certification for the OHSAS 18001 international occupational health and safety management system.

### **New Types of Influenza Risk**

As a measure against the spread of new types of influenza, in fiscal 2009 we established an emergency management system that allows us to quickly adapt to changes in the state of this risk. We also implemented measures to prevent the spread of viruses, made available preventative tools like gauze masks and hand sanitizer, and worked to ensure that business interruptions are kept to a minimum and that our customers experience as little inconvenience as possible.

## **Preparing for Earthquakes**

### **Preparing for Earthquakes through Safety Confirmation System and Building Reinforcement**

In the event of an earthquake, ensuring the safety of employees and their families is first and foremost. To this end, in fiscal 2008 we built a safety confirmation system in which we have the cell phone numbers of all Daikin Industries' employees and their family members on file. In fiscal 2009, we expanded this system to include all Daikin Group company employees. We are also working towards protecting employees by gradually reinforcing company buildings against earthquakes.

We are currently in the process of formulating a business continuity plan (BCP) so that we can stay in business or recover within a short time after an earthquake.

### Free Competition and Fair Business Dealings

#### **Thorough Compliance with the Anti-Monopoly Act, Misleading Representations Act, and Subcontract Act**

The Daikin group strives for fair business practices through measures for complying with the Anti-Monopoly Act, Misleading Representations Act, and the Subcontract Act.

Besides education in each division, the Legal Affairs, Compliance, and Intellectual Property Center holds training when necessary. Employees also ensure they are in compliance through self assessments.

### Reasonable Business Entertainment and Gift-Giving

#### **Thorough Measures to Prevent Bribes**

The Group Compliance Guidelines state that we shall conduct business entertainment and gift-giving within the laws and customs of each country and region. We are especially strict in enforcing this in relation to gifts and entertainment for government officials.

The Compliance Action Guidelines also refer to sound and transparent relations with government offices, compliance with the Political Funds Control Law and the Public Offices Election Act, and reasonable entertainment and gift-giving with suppliers, and we strive to thoroughly educate all employees on these points. Self assessments allow employees to stay in compliance with the above policies, and company-wide training is conducted thoroughly and regularly.

## Proper Management and Use of Information

### Proper Management and Use of All Confidential Information Including That of Other Companies

We manage and use confidential information appropriately, be it our own or that of other companies, according to the stipulations of the Rules for Managing Confidential Information, which we formulated in 2006. Our Compliance Action Guidelines also state our policy of properly managing and using confidential information that we obtain from other companies through proper channels. We provide a company-wide education program on this.

For the management of information, the executive officer in charge of legal affairs assumes responsibility for managing corporate secrets. As well, divisions and departments have information managers who also contribute to running of the information management system. The Legal Affairs, Compliance, and Intellectual Property Center has a Corporate Secrets Management Office. In addition to self assessments for ensuring employees are protecting confidential information, legal audits are also conducted regularly.

▶ See [Protecting Customers' Personal Information](#) (Page 153)

## Respect for Intellectual Property Rights

### Respect Intellectual Property of Other Companies As Well

We recognize that intellectual property is a valuable company asset. Our Compliance Action Guidelines clearly state that we shall carry out proper and fair exercise of rights in response to violation of intellectual property as well as respect other company's intellectual property. We hold basic employee education on these guidelines. In addition to employee seminars, training is held for new employees, engineers, and various levels of management.

In the new product and new technology development process, the design review involves verifying that these products and technologies do not infringe on existing patents. We will continue to conduct precise surveys to prevent inadvertently infringing on the intellectual property of other companies.

As part of efforts to strengthen systems overseas, our development bases have managers in charge of protecting intellectual property rights.

▶ See [Guarantee of Employees' Intellectual Property Rights](#) (Page 174)

### Policy and Management Structure

#### **Respect for Human Rights Based on Action Guidelines That the Spirit of the U.N. Global Compact is Incorporated in**

Daikin Industries makes employees aware of human rights issues as part of its goal of becoming a company free of discrimination where each individual is respected. To this end, regular self assessments by employees and annual legal compliance audits ensure that no human rights violations occur. Divisions also hold human rights education when necessary.

In 2008, Daikin Industries took part in the United Nations Global Compact for aligning operations to universally accepted principles on human rights, labor standards, the environment, and anti-corruption. Prior to that, the Compliance Action Guidelines were revised to state our policy of no forced labor or child labor, respect for individual human rights and for diverse values and ways of looking at work, and the creation of an employee-friendly workplace.

Daikin Industries will continue to urge all employees to be aware of human rights issues as we strive to abide by the letter and spirit of labor-related laws in Japan and around the world.

### Human Rights Education

#### **Training for All Job Descriptions including Officers, Managers, and New Employees**

Part of Daikin Industries' human rights awareness efforts is the annual Antidiscrimination Committee meetings, under which is held human rights training for job descriptions including officers, managers, and new employees.

Other efforts to raise human rights awareness among employees include articles in the company newsletter and human rights slogan contests at the factories.

### Preventing Sexual Harassment

#### **Sexual Harassment Education for Managers**

The Compliance Action Guidelines promote respect for human rights and diversity and compliance with labor laws in the workplace. It is our policy to respect human rights by building a fair workplace that is free of sexual harassment and power harassment.

We also carry out company-wide sexual harassment education: besides a training course for 70 head office managers, there are regular explanatory sessions as part of section and division managers meetings at all Daikin bases.



**Overall CSR (Include SRI)**

**Daikin Group**

**Socially Responsible Investment Indexes**

- Chosen for inclusion in the Dow Jones Sustainability Indexes (for eight consecutive years up to fiscal year 2009)
- Chosen for inclusion in the Morningstar Socially Responsible Investment Index



**Sustainable Management**

- Received a Bronze Class rating for corporate sustainability from Sustainable Asset Management (SAM), a Swiss asset management company



**Environmental Protection**

**Daikin Industries**

**Environmental Index**

- Selected for inclusion in the Carbon Disclosure Leadership Index (CDLI) for 2009



**Global Warming Prevention**

- Received the Osaka Governor's Award, 2009 Osaka Stop Global Warming Awards

**Freezing, Refrigeration and Air Conditioning Heat Recovery System**

- Director General Prize of Agency of Natural Resources and Energy, 2009 Energy Conservation Awards



**DESICA System**

- Award of Technology, 47th Society of Heating, Air-Conditioning, and Sanitary Engineers of Japan Awards
- Japan Society for the Promotion of Machine Industry Chairman's Prize, 7th Japan Society for the Promotion of Machine Industry Awards
- 2009 Medal for New Technology, Japan Society of Mechanical Engineers



**ZEFFLE Infrared Reflective Coating**

- Energy Award, 2009 Lloyd's List Global Awards



## Daikin Airconditioning UK Ltd.

### Daikin Altherma Hot-Water Heating and Interior Heating Systems

- Rushlight Natural Energy Award, Rushlight Awards 2009
- Award in Heating, Plumbing, Ventilation and Building Service Category, Self-Build Product Innovation Awards 2010



## Daikin Compressor Industries Ltd. (Thailand)

### Improving Manufacturing Processes

- 2009 Thailand Energy Award, Ministry of Energy



## Daikin Industries and Daikin Group companies in Japan

### Employees' Environmental Action

- Nikkei Ecology Award, 2009 Eco-Unit Awards



## Social Contribution

## Recognition of Product and Service Quality

### Daikin Industries

#### Deodorizing with Water (Function equipped in air conditioner and air purifier)

- Chairman's Award, 2008 Society of Indoor Environment Japan



#### Properties of the Electrolytic Solution Using Fluoroether

- 2009 Committee of Battery Technology Award



#### Eco-Cute Easy User Guide

- Excellence Award in the Sheet Manuals / Package Manuals Category, Japan Manual Contest 2009



## Daikin AC (Americas), Inc.

### VRV III, VRV III-C, Quaternary, Daikin Altherma

- AHR Expo Innovation Awards 2010



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

### Distinguished Brands

- 2009 China Brand & Communication Forum and Awards Ceremony on Brands of Distinguished Contributions



## Daikin Europe N.V.

### European Design Air Conditioner

- 2010 iF Product Design Award, red dot design award 2010



## Daikin Airconditioning (Singapore) Pte.

- Gold Award in the Reader's Digest Trusted Brand Awards 2009



## Recognition of Occupational Safety and Health

### Daikin Airconditioning (Singapore) Pte.

- Ranked BizSafe Level 3



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

## Recognition of Personnel Systems

### Daikin Europe N.V.

- Chosen one of the Top Employers of 2010



**note:** Awarded to companies with outstanding personnel systems

## Recognition of Social Contribution

### Helping Needy Families

### McQuay International (United States)

- Toys for Tots program Commander's Award



## Outside Expert Comments on Daikin Group CSR



Minoru Mizuno  
Professor Emeritus, Dr.Eng.  
Osaka University

## Become a Leader in Helping Employees Lead Rich, Rewarding Lives

The human race consumes vast amounts of energy in Daikin Industries' main business of heating and cooling. In a world where humans waste so much, it is fitting that Daikin is using the energy-efficient technologies it has built up to contribute to society worldwide. It's fair to say that Daikin is a leader in helping protect the global environment. I'm also impressed at Daikin's success in dramatically reducing the greenhouse gases from its business activities.

I believe that for us to achieve our goal of a sustainable society, we must change our focus from "living comfortably and conveniently" to "living smart." The former means consumers sit back and let equipment create comfort for them; I say that people are merely passive bystanders in this system. The latter is a total system in which the intelligent users take control by selecting the ideal equipment for their specific needs (of course these needs can be modified). It should be said that the manufacturer does not merely provide equipment but also supports the users' smart lifestyle and provides the users with useful information over the life cycle of the equipment.

This is one of the keys to protecting our environment. Daikin Industries has advanced technology for machine information systems, and I hope that the company uses this technology to achieve a society where people "live smart." The CSR Report also advocates "nurturing human resources." But this means more than just one's own employees. I hope that Daikin Industries also helps the consumers who use its products go to the next level in their lifestyles by developing innovative new heating and cooling systems.



Toshio Mitsutomi  
Representative, Learning Works  
International  
Chairman, Japan Society for  
Human Resource Management

## **Balanced Global Management**

Global business management is the smart use of people, assets, and capital in order to achieve a corporate vision and implement company policies. Using this as criteria for Daikin Industries, its four-region global business system and balanced sales performance throughout the world have earned it accolades as a company that has long achieved sustainable growth. My next hope for Daikin Industries lies with the overseas bases it has been focusing so much attention on in recent years: I want to see Daikin achieve the same type of balance with its human resources by entrusting management of overseas bases to a diverse range of people.

## **A Multinational Company that Balances Centralization and Decentralization**

Depending on the degree to which worldwide companies balance centralization and decentralization, they are classified as either international, multinational, global, or transnational. Using this to classify Daikin, the company appears to aspire to transnationalism, with an ideal balance of centralization and decentralization, along with its efforts to internationalize its Japanese bases while localizing its overseas bases. I'm eager to see how fast Daikin becomes a truly transnational company.

## **People-Centered Management Makes Employees Glad to Be Part of Daikin**

The American economist James Abegglen said that the Japanese philosophy of taking care of employees is applicable anywhere in the world. In this sense, companies are closely watching Daikin's efforts to apply people-centered management at its worldwide bases. I hope that Daikin uses its four-region global business system to build a company of competitive-minded employees who are glad they chose to work at Daikin.