

Supply Chain Management

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Fundamental CSR Supply Chain Management



Why is it Important ?

Along with globalization comes the spread of the supply chain into more and more countries, and with this come labor-related problems such as human rights, child labor, forced labor, and occupational safety and health, as well as other problems like environmental destruction. In addition, companies with supply chain problems face consumer boycotts, which forces more and more of them to solve their environmental and social issues. Daikin and other companies must therefore step up CSR efforts in the supply chain and other facets of business.

DAIKIN'S POLICY

The Daikin Group formulated a Purchasing Policy in 1992 that is the basis for fair dealings with suppliers.

Both inside and outside the group, we fulfill our social responsibility throughout the entire supply chain through CSR activities in quality, human rights, labor, and other areas, in addition to green purchasing.

› Philosophy on Suppliers

The Daikin Group formulated a Purchasing Policy in that is the basis for fair dealings with suppliers.

› Working Closely with Suppliers

To raise product quality and ensure safety, we build a relationship of trust with suppliers through ongoing communication.

› Green Procurement Guidelines

Based on our Green Procurement Guidelines, we cooperate with suppliers in conducting green purchasing.

Supply Chain Management Philosophy on Suppliers



■ Philosophy on Fair Dealings

Dealings Based on Our Purchasing Policy

The Daikin Group formulated a Purchasing Policy in 1992 that is the basis for fair dealings with suppliers.

■ Purchasing Philosophy and Purchasing Policy

Purchasing Philosophy:

"Respect Independence" and "Cooperation and Competition"

Purchasing Policy:

- **Fair relations based on an open-door policy**
Provide open, equal, and fair opportunities for all companies, regardless of their locality, size, and sales results.
- **Mutual growth through mutual trust**
Create open conditions for business dealings and respect free competition.
- **Look for good partners**
In procuring from overseas, look for companies to share common profit and offer society useful products.
- **Observe laws, and maintain confidentiality**
Observe laws on business dealings and respect the spirit of these laws.

Formulation of Supply Chain CSR Promotion Guidelines

Throughout the supply chain, we tackle CSR issues like the environment, human rights, and labor. We place particular emphasis on determining our CO₂ emissions, eliminating the use of designated chemical substances, and forbidding the use of conflict minerals.

In April 2017, we formulated our Supply Chain CSR Promotion Guidelines, which we encourage our suppliers to use as the fundamental concept in conducting their CSR activities.

- 1. Policy regarding social responsibility in business practices**
Have written rules to inform employees of their social responsibilities and ensure they strictly fulfill such social responsibilities in areas such as business policy and code of conduct in business practices.
- 2. Provision of safe, high-quality products and services**
Always strive to ensure safety and quality of products for end users. If problems regarding safety arise, take action promptly and appropriately.
- 3. Free competition and fair trading**
Conduct company business activities in a fair manner by being compliant with laws and regulations related to free competition and fair trading, including antitrust laws in each country and region.
- 4. Compliance with trade-related laws and regulations**
Comply with trade-related laws and regulations of each country and region, and under no circumstances get involved in dealings that risk endangering world peace and safety and the maintenance of world order.
- 5. Respect and protection of intellectual property rights**
Respect the intellectual property rights of other companies and ensure not to infringe upon them.
- 6. Proper management and utilization of information**
Properly manage and efficiently utilize confidential information and personal information of your own and other companies, and always ensure that such information is obtained under lawful means.
- 7. Prohibition of insider trading**
To maintain trust as company, do not take a part in the buying and selling of stockshares with the aid of non-disclosed information obtained from your own or other companies (insider trading).
- 8. Timely and proper disclosure of corporate information**
When Daikin, based on appropriate reasons and situations, requests that you disclose information on your company, respond earnestly and in a timely manner, and strive for earnest two-way communication with Daikin.
- 9. Preservation of the global environment**
Comply with environment-related laws and regulations in each country and region, and implement activities to sustain and improve the global environment in all areas of business, including development, production, sales, logistics, and services.
- 10. Guarantee of safe operations**
Besides ensuring safety in the workplace, obtain the trust of stakeholders in the community by always putting "safety first" and by making every effort to ensure safe operations.
- 11. Respect for human rights and diversity, and compliance with labor-related laws**
Respect the human rights of each and every individual; do not in any way discriminate against people based on their nationality, race, ethnicity, religion, skin color, age, gender, birth, or disability; and respect people's diverse values and approaches to work. In addition, observe both the letter and spirit of all labor laws and regulations of each country and region, and under no circumstances sanction the labor of underage employees, minors who do not meet the minimum legal age requirements (child labor), or labor performed under compulsion or against a person's will (forced labor).

12. Protection of Company Assets

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

13. Proper handling of accounting procedures

Perform accounting procedures lawfully and properly according to accounting standards and tax laws, and strive for a high level of internal control.

14. Moderation in entertainment and gift exchanges

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 the exchange of gifts related to business activities.

15. Firm stance toward anti-social behavior

Take a firm stance against anti-social forces or organizations that threaten the safety and order of citizens and society.

16. Compliance with industry laws and regulations

Accurately comprehend and observe all business laws and regulations applicable to your company's business activities.

17. Proper grasp of industry risks and implementation of business continuity plans

Conduct appropriate risk management in your company's business activities, and have a business continuity plan (BCP) in place.

Green Procurement Ensures Thorough Chemicals Management

One of the things the Daikin Group is doing under “9. Preservation of the global environment” of the Supply Chain CSR Promotion Guidelines is requesting that worldwide suppliers abide by our Green Procurement Guidelines, which detail restrictions on chemical substances in Daikin products. We also have our suppliers around the world respond to our green procurement survey, the results of which we use to confirm and evaluate how well suppliers are managing chemical substances.

Dealings Based on Our Basic Policy Regarding Conflict Minerals

Under “11. Respect for human rights and diversity, and compliance with labor-related laws” of the Supply Chain CSR Promotion Guidelines, the Daikin Group does not use conflict minerals, which are mined under inhumane conditions in the Democratic Republic of the Congo or surrounding countries.

In July 2013, we established our Basic Policy Regarding Conflict Minerals.

In our air conditioning divisions, in fiscal 2016 we started an online registration system for results of conflict mineral surveys based on the latest Conflict Mineral Survey EICC Sheet*. This strengthens our system for surveying the procurement sources of conflict minerals.

* Conflict Mineral Survey EICC Sheet: A standardized tool for surveying the source of conflict minerals; based on the Electronic Industry Code of Conduct, which stipulates standards covering areas such as labor and environment in the electronics industry supply chain.

■ Basic Policy Regarding Conflict Minerals

To ensure that the Daikin Group does not inadvertently provide assistance to inhuman acts of armed groups in the Democratic Republic of the Congo and surrounding countries, we are taking active measures to uphold appropriate mineral procurement by raising transparency of the supply chain in cooperation with our global business partners.

■ Fair Dealings Management Structure

Giving All Suppliers an Equal Opportunity through an Open Door Policy

The Daikin Group has an open door policy on choosing suppliers in which we welcome bids from any company, regardless of nationality, size, or years in business.

In our air conditioning divisions, information on product specs, desired quality and cost, and delivery times is posted on our website in order to achieve equality of opportunity. All companies satisfying our criteria become eligible to do business with us.

In our Chemicals Division as well, we do business with any supplier meeting our criteria for specifications, quality, price, and delivery time.

Regular Assessment of Suppliers to Review Business Relationship

Before starting business dealings in the Daikin Group, we ensure potential partners understand our Purchasing Policy, and we assess them on consistent standards. After business dealings begin, we conduct assessments based on ISO 9001 and then review the business relationship accordingly.

In the air conditioning divisions, before we start transactions with new suppliers, we use the Supplier Assessment Standard Sheet to judge companies based on their administration, quality, price, delivery, and environmental measures. We ensure that suppliers are in compliance with laws, and we assess them in aspects such as voluntary efforts to step up environmental activities. In fiscal 2016, such assessments resulted in Daikin bringing on two new suppliers. Suppliers continue to be assessed every year based on our Assessment System for Continuation of Business. Companies that do not meet our assessment standards are required to make improvement plans that Daikin follows up on.

In the Chemicals Division, we assess new and existing suppliers based on ISO 9001 from the perspective of five criteria: management control, safety control, quality control, environmental control, and production control. In fiscal 2016, such assessments resulted in Daikin bringing on two new suppliers. We strive to fairly assess suppliers from multiple perspectives, having numerous Daikin representatives negotiate with them and making regular visits to their companies.

Awards System for Suppliers

The Daikin Group recognizes the ongoing contribution suppliers make through annual awards: the CEO Award, the COO Award, and the Special Award.

Every fiscal year in each division, the supplier demonstrating the most outstanding contribution to development, production, quality, price, delivery, environment, and globalization receives the Special Award. From among the Special Award winners, all Daikin divisions get together to choose exemplary contribution and present the COO (chief operating officer) Award and the CEO (chief executive officer) Award. In addition, every 10 years, suppliers who achieve a certain average level of sales volume over five years and are poised to continue this level are rewarded for their years of service with the Long-Term Suppliers Award.

■ Risk Management in the Supply Chain

Risks in the supply chain include supply problems due to earthquakes and other natural disasters, bankruptcy due to suppliers' financial troubles, supply problems due to the breaking of laws and accidents, and stoppage of the international flow of goods due to political or economic problems in certain countries.

We have created an in-house system for making quick decisions on suppliers affected by risk, and we update our databases as needed in order to improve our ability to deal with problems when they arise.

Through our Global Supplier Conference, we work to adjust order volume, streamline costs, and ensure stable procurement in dealings with our 28 overseas supplier companies.



Supply Chain Management Working Closely with Suppliers

■ Ensuring Legal Compliance in the Entire Supply Chain

Doing Everything Possible to Help Suppliers Achieve Compliance

The Daikin Group strives to achieve legal compliance throughout the supply chain by doing everything possible to help suppliers abide by laws.

In the air conditioning divisions, we raise supplier awareness through written requests for legal compliance and meetings four times a year at which we introduce case studies. When renewing agreements with suppliers, those that fail to meet our standards are asked to write up plans for improvement, which we follow up on. We are looking into conducting such follow-ups throughout the year, not just once a year, so that we can help suppliers raise their standards.

We also provide information on compliance with environment-related laws on a special website for suppliers.

In the chemicals division, we carry out unscheduled audits. During on-going assessments, we also have suppliers fill out questionnaires to diagnose their own compliance and that of their external providers. So that we can judge their progress, these sheets contain check items related to eliminating excessive and unfair labor, and the respect of human rights at supplier companies.

Ensuring Compliance with the Subcontract Act

There are several thousand Daikin suppliers and subcontractors covered by the Subcontract Act. Our Subcontract Act Compliance Guidelines ensure that all Daikin divisions are in compliance with the Act in respect to matters such as prompt payment. We constantly strive to raise awareness among employees in relevant divisions of the importance of compliance through both in-house and third-party seminars.

Comprehensive compliance inspections ensure that appropriate payment methods are being followed.

We also constantly check the financial situation of subcontractor suppliers and production outsource suppliers and, if necessary, implement assistance measures such as relaxation of payment methods.

■ Helping Suppliers Build Environmental Management Systems

Supporting Suppliers in Creating Complete Environmental Management Systems

Daikin Industries, Ltd. requires that its suppliers follow the Green Procurement Guidelines and that they establish and operate their own environmental management systems.

Amidst increasingly strict chemical control laws, in fiscal 2016 we published a revised edition (9th edition) of our Green Procurement Guidelines, which adds banned chemical substances (BNST and PHAs) to the list of designated chemical substances.

We require suppliers to have an environment- and quality-based supply chain under which they properly execute environmental management systems they have established themselves. Using a green procurement survey, Daikin Industries, Ltd. determines the effectiveness of suppliers' environmental management systems and help's suppliers improve these systems when necessary.

In fiscal 2016, as a new part of our CSR procurement efforts, we again surveyed suppliers on their use of conflict minerals (the four minerals of gold, tantalum, tin, and tungsten, which are mined in the Democratic Republic of the Congo and surrounding countries and are used by rebel groups to purchase weapons).

› [Green Procurement \(Environmental Management\)](#) (Page 155)

› [Green Procurement Guidelines](#) (Page 297)

■ Raising Product Quality and Ensuring Safety Together with Suppliers

Suppliers Take Part in Quality Improvement Conferences, Receive Quality Guidance

Suppliers are indispensable to our goal of providing customers with reliable products. Daikin strives to raise quality by working closely with its suppliers.

In our air conditioning divisions, we hold briefings to enlist the help of suppliers in improving quality and achieving zero defects. We also hold the monthly Supplier Quality Conference as a focus on quality for specific Daikin suppliers. If a supplier delivers defective parts, we assess and analyze the quality of the parts we purchase and, in serious cases, request that suppliers report on improvement efforts at quality improvement announcement meetings and quality improvement proposal meetings. We also conduct a range of other activities in support of quality improvement at our suppliers; for example, we visit suppliers' factories to offer assistance, we dispatch our "Takumi," who have been certified as outstanding engineers in the Daikin Group, and we encourage suppliers to take part in Daikin skills competitions.



Quality improvement announcement meeting

Our annual technical exchange meetings provide an opportunity to share information with suppliers. At the fiscal 2016 meeting, representatives from 41 companies touched on 54 topics.

In our Chemicals Division, we hold an annual quality forum for sharing Daikin quality policies and giving suppliers a chance to report on their quality improvement activities. We also conduct quality audits at suppliers to ensure they are conducting measures to maintain and improve quality. And we hold technical exchange meetings, where Daikin and engineers at our suppliers work to jointly solve quality issues.

Besides conducting periodic quality surveys at the production sites of suppliers to our worldwide bases, we hold meetings where we engage in dialogue with suppliers on ways to improve their quality.

We will continue to strengthen communication with suppliers to ensure our products are of the highest quality.

■ Helping Suppliers Improve Quality

Air Conditioning Divisions

Supplier meetings	Daikin Industries, Ltd.'s policy and progress are explained and legal compliance is stressed through model examples. (4 times/year, 127 companies took part in fiscal 2016)
Supplier Quality Conference	Parts we purchased are inspected each month for defects and quality improvement measures carried out. (Each month)
Quality improvement announcement meetings, quality improvement proposal meetings	Suppliers with quality problems must report on improvement measures. (In fiscal 2016, two quality improvement announcement meetings were held for a total of 32 companies and 207 quality improvement proposal meetings were held for 29 companies.)
Quality audits	Auditing institution conducts regular external audit, and internal audit are conducted jointly in the Air Conditioning Manufacturing Division and at suppliers. (Audits were conducted at 124 companies in fiscal 2016.)
Visits to suppliers	Managers visit suppliers.

Chemicals Division

Quality Forum	Introduction of Daikin Industries, Ltd.'s quality policy, defect rate and quality cost of purchased goods, quality differences among companies, and activities aimed at improving quality. (Once a year; 78 companies took part in fiscal 2016.)
Quality audits	Suppliers who provided defective products underwent audits based on ISO 9001. (Conducted at 13 companies in fiscal 2016.)

Aiming for Zero Defects through ZD Activities at Bases Worldwide

Since fiscal 2007, the air conditioning divisions have been working with suppliers taking part in the Supplier Quality Conference in an initiative called ZD (zero defect) activities. The goal is to achieve zero defects through 3S (visual checks), preventative measures (look for potential problems in production processes), and prevention of reoccurring problems (through regular maintenance).

In fiscal 2016, one ZD announcement meeting was held and 21 individual announcement meetings for 18 companies were held. These meetings contributed to preventing the occurrence of defects when new parts are introduced or when suppliers alter their production processes.

■ ZD Activities with Suppliers



Quality Control Training in China

Shenzhen McQuay Air Conditioning Co., Ltd. held quality control training for its suppliers in fiscal 2016, with participation from 41 members of 37 companies. Through lectures from outside instructors and discussions on quality control, the training clarified key areas for quality control activities in fiscal 2017.



Quality control training for suppliers

■ Business Partners Contribute to Plant Safety

Providing Business Partners Working in Daikin Plants with Safety Information and Conducting On-Site Patrols

Daikin Industries, Ltd. asks for business partners' cooperation in making plants safer.

There are many employees of business partners working in Daikin plants. Safety patrols of the plants are conducted to help keep these people safe. We hold bi-monthly plant safety liaison meetings and weekly meetings for managers of human resource dispatch companies, all part of our efforts to provide awareness and information on safety in the plants.

With so many vehicles entering and exiting plants, safe driving is crucial. That's why we hold regular driving safety seminars for delivery vehicle drivers to teach them traffic rules and promote safe driving.

In the Chemicals Division, where the majority of the plants are staffed by partner companies, major safety inspection and maintenance work is conducted once a year. We have numerous measures to ensure the safety of all workers; for example, we hold safety workshops for subcontractor employees, installation practice sessions, and other advance preparation, and we provide workers with information on chemical substance toxicity with SDS (safety data sheets).

In fiscal 2016, we strove to prevent accidents and calamities by distributing a pocket-sized "Safety Booklet." This guide is aimed at helping workers who are unfamiliar with rules and their jobs confirm things they are not sure of immediately and on the spot.

Also in fiscal 2016, the Chemicals Division held safety workshops in June with participation by approximately 400 drivers and truck delivery managers.

› [Occupational Safety and Health \(Human Resources\)](#) (Page 229)

■ Building a Relationship of Growth

Communication is Key to Building Understanding and Trust

The Daikin Group takes every possible opportunity to communicate with suppliers and promote mutual understanding and trust.

In the air conditioning divisions, the head and officers of the Global Procurement Division, and executives regularly visit suppliers, where they lead briefings, goodwill gatherings, and awards ceremonies as part of communication enhancement efforts.

In April 2014, we re-started our air conditioner cooperative. The aim of this association is to provide the impetus for innovation leading to new and better manufacturing; for example, counter the weakening of Japan's manufacturing amidst intensifying globalization by helping make Japanese suppliers more internationally competitive and by boosting our ability to quickly respond to sudden changes such as exchange rates and market conditions. Through this association we hold information exchange gatherings four times a year, where we promote information sharing among suppliers, as well as debate among those in different sectors, so that we can build among them a relationship of mutual benefit and growth.

In fiscal 2016, we took a tour of companies including Seiren Co., Ltd., and we visited the planned construction site of a new production base in Vietnam. In addition, we gave factory tours to quality and production managers of member companies to show them what Daikin is doing to constantly improve quality.

The Chemicals Division fosters good relations through the Quality Forum. In addition, purchasing managers keep in close contact with suppliers to gather and exchange information in areas such as technology, quality, and prices. Any problems that come up are solved through extraordinary or emergency support requests to relevant divisions.



Workshop for dealers of the Oil Hydraulics Division



Quality Forum sponsored by the Chemicals Division

Supply Chain Management Green Procurement Guidelines



■ Green Procurement Guidelines

Helping Suppliers be Legally Compliant

The Daikin Group established the Green Procurement Guidelines, and it has been promoting environmental management throughout the entire supply chain in order to provide more environmentally responsible products. In January 2017, we published the ninth edition of the Green Procurement Guidelines.

At our major manufacturing bases in Japan, China, and Southeast Asia, we help suppliers abide by the Green Procurement Guidelines and inspect products from our suppliers to determine the chemical substances they contain.

To help suppliers comply with laws and regulations, we hold the Supplier Cooperative, through which we share information on environmentally related laws and how the Daikin Group abides by these. This information is released on our website.

Overview of the Green Procurement Guidelines (PDF file)

- ▶ [Guidelines PDF Data\(356KB !\[\]\(661ad2fdbe8fa1392f2b194cfa45d124_img.jpg\)](http://www.daikin.com/csr/supplier/guidelines.pdf))(Jan.2017 revised)
(<http://www.daikin.com/csr/supplier/guidelines.pdf>)
- ▶ [Green Procurement Inspection List PDF Data \(390KB !\[\]\(4193cdf1061c98ac39c3073e7f9019f2_img.jpg\)](http://www.daikin.com/csr/supplier/inspection.pdf))(Jan.2017 revised)
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