

Management

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Message from the Chairman



Masanori Togawa

Representative Director, Chairman of the Board, and CEO,
Daikin Industries, Ltd.

Daikin will Seize Change as an Opportunity to Contribute to a Sustainable Society and Grow as a Corporate Group

Harnessing Our Strengths to Adapt to a Changing World

Today, the world and economic trends are changing rapidly, the future is uncertain, and the successful experiences of the past are no longer applicable. In fiscal 2023, the Daikin Group further strengthened its five-year Fusion 25 strategic management plan that began in 2021 and formulated a three-year plan for the latter half. Recognizing that change is an opportunity, we will take the lead and aim for further growth.

In fiscal 2023, net sales exceeded 4 trillion yen, up 10% from the previous year, and operating profit increased by 4%, setting a new record high. This is the result of maximizing the Group's strengths of responding quickly to change and getting the job done.

Working to Resolve Social Issues as Part of Our Social Responsibilities as an Air Conditioner Manufacturer

The Group's core business of air conditioning is an important form of infrastructure supporting our daily lives. Approximately 1.1 billion people around the world are at risk of losing their lives due to extreme

heat and demand for air conditioners is expected to increase in the future for reasons such as health and economic development.

Air conditioning, on the other hand, consumes enormous amounts of energy. The amount of electricity consumed by the use of air conditioners accounts for about 10% of the world's total electricity consumption. For this reason, attention is now focusing on how to control this from increasing in the future.

Given these circumstances, we believe that addressing society's needs for air solutions and contributing to the decarbonization of society is the Group's most important social mission. In 2018, we formulated Environmental Vision 2050, under which we aim to achieve net-zero greenhouse gas emissions, and set "Challenge to achieve carbon neutrality" as one of the key strategic themes of Fusion 25.

In the three-year plan for the latter half of Fusion 25, we have strengthened our initiatives to decarbonize and achieve a circular economy, which is seeing increasing calls from society due to the faster pace of changes in the external environment. We will further promote the spread of environmentally conscious products using inverter technology and refrigerants with lower global warming potential. In addition, we have set a new target to reach net-zero greenhouse gas emissions by 2030 at all plants except chemical plants, and in fiscal 2023, the Sakai Plant-Rinkai Factory was the first to achieve this. We will

continue to improve the energy efficiency of production facilities and introduce renewable energy at our plants around the world to achieve our targets. We will also add “circular economy initiatives” as a new area to strengthen and give top priority to building a refrigerant recovery and reclamation system vital for air conditioners.

In April 2024, we were selected as one of the Sustainability Transformation (SX) Stocks 2024. SX Stocks select companies that are improving their ability to sustainably generate growth sources and to enhance their corporate value. Daikin was recognized for its corporate stance of creating new value by capitalizing on changes in the world to refine advanced technologies and resolve social issues.

Workforce Diversity as a Driver Behind Our Competitiveness

Currently, human capital management is attracting attention because it aims to elevate the capabilities and motivation of the talent underpinning companies and to increase corporate value. This is exactly what the Group has been practicing as people-centered management.

The Group’s greatest strength is diversity management, which believes in the infinite potential of people and makes the most of each person’s individuality. The source of our competitiveness has been our diverse workforce that embraces and utilizes each other’s values, our efforts to improve our organizational strengths, and the pursuit of ambitious goals. We will continue to be a company that develops human resources from a medium- to long-term perspective and provides employees around the world with the joy of working with passion and opportunities to take on challenges. Going forward, we will harness the abilities of each and every one of our people to lead to the sustainable growth and development of society and the Group.

Aspiring for Greater Growth and Development on Our 100th Anniversary

Daikin will celebrate its 100th anniversary in 2024. We have accelerated our overseas expansion by leveraging our air conditioning and fluorochemical technologies to grow into a global company with operations in more than 170 countries around the world. Over the past three decades,

the ratio of overseas operations has expanded from 15% to 84%, and the number of Group employees has rapidly increased from 13,000 to 100,000.

The driving force behind this growth is the Group’s unique corporate and organizational cultures fostered over the course of the past century. In order to review these strengths and pass them on to the next generation, we revised Our Group Philosophy on the occasion of this 100th anniversary. Based on society’s expectations and demands for Daikin, we have demonstrated our commitment to the sustainable development of society by working to resolve social issues with this philosophy as the basic management concept that will support further growth and development in the future.

Continuing to Live Up to the Expectations of Stakeholders

Daikin supports the 10 principles of the United Nations Global Compact. We are also actively involved in various international initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD) and the World Business Council for Sustainable Development (WBCSD).

We will engage in mutual communication with our stakeholders, including national and local governments, international organizations, and NGOs, and appropriately address the demands and expectations of society as a company that creates value for society and grows alongside its stakeholders.

	FY2020	FY2023	FY2025 target
Net sales	2.49 trillion yen	4.40 trillion yen	4.55 trillion yen
Reduction rate of net greenhouse gas (GHG) emissions* (compared to BAU with 2019 as base year)	7 %	17 %	Over 30 % reduction

* Net GHG emissions equals GHG emissions during the product lifecycle minus contribution to GHG emissions reduction.

Masanori Togawa

Masanori Togawa
Representative Director, Chairman of the Board, and CEO
Daikin Industries, Ltd.
July 2024

Overview of Sustainability

Overview of Sustainability

Creating New Value and Contributing to Sustainable Development for Society

Daikin pursues management aimed at new value creation to contribute to solutions to social issues and sustainable growth through its businesses. We have identified material sustainability issues facing the company based on an assessment of impacts that our business operations have on the environment and society. Regarding the top priority theme of the environment, we established Environmental Vision 2050 based on an analysis of risks and opportunities. In turn, Fusion Strategic Management Plans are used to establish specific targets as well as plan and execute measures for every five-year period.

International Frameworks
toward Resolving
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012

Daikin's Business
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Identifying
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Our Group Philosophy

The basic management
philosophy for the thoughts
and actions of all employees

Targets for Sustainability 022

Strategic Management Plan Fusion 017

Environmental Vision 2050 016

Daikin's Aims for Value Creation

011

Provide new value that makes people and space healthier and more comfortable while at the same time reducing environmental impact.

Value Creation
for the Earth

Value Creation
for Cities

Value Creation
for People

Related SDGs



Foundation Underpinning Value Creation

011

Human Resources

Co-creation

Related SDGs



2020 2025 2030 2035 2040 2045 2050

Overview of Sustainability

Daikin's Value Creation and Priority SDGs

Daikin contributes to a sustainable society by creating new value that benefits the planet, cities, and people while reducing environmental impacts. We are focusing particularly on eight of the Sustainable Development Goals (SDGs) where we can harness our strengths to make significant contributions through our businesses that deliver comfort and health to people and spaces.

Daikin's Aims for Value Creation

Value Creation for the Earth

Reduce environmental impact through all business activities and contribute to alleviating climate change

- Further raise the environmental performance of products
- Make effective use of resources
- Protect forests and help sustain their inherent functions



- Increased energy efficiency from the adoption of inverter air conditioners, etc.
- Development and adoption of lower GWP refrigerants
- Adoption of heat pump space and water heating
- Utilization and adoption of renewable energy



- Initiatives for net zero energy buildings (ZEBs)
- Promotion of energy management and demand response



- Initiatives for energy efficiency, recycling-oriented, and lower resource production
- Refrigerant conversion in the market along with recovery, reclamation, and destruction

Value Creation for Cities

Contribute to solving energy-related issues arising from urbanization and contribute to the creation of sustainable cities

- Effectively use energy throughout buildings and entire cities
- Create renewable energy
- Build systems for recycling-based societies

Value Creation for People

Pursue new possibilities for air and contribute to healthy, comfortable lifestyles

- Provide safe and reliable air environments
- Improve indoor environments to support people's healthy and comfortable lifestyles
- Advance productivity to contribute to economic advancement



- Protect people from heatstroke and infectious diseases
- Countermeasures for atmospheric pollution
- Creation of value in air and spaces for people's physical and mental wellbeing



- Contribution to increased productivity by making work environments more comfortable

Foundation Underpinning Value Creation

Human Resources

Contribute to the growth of employees and local citizens



- Training to gain advanced skills
- Job creation
- Contribution to local economic development

Co-creation

Contribute to solving social issues through industry-government-academia partnerships



- Formation of market value (international rules and standards)
- Creation of new solutions that contribute to improving quality of life

Overview of Sustainability

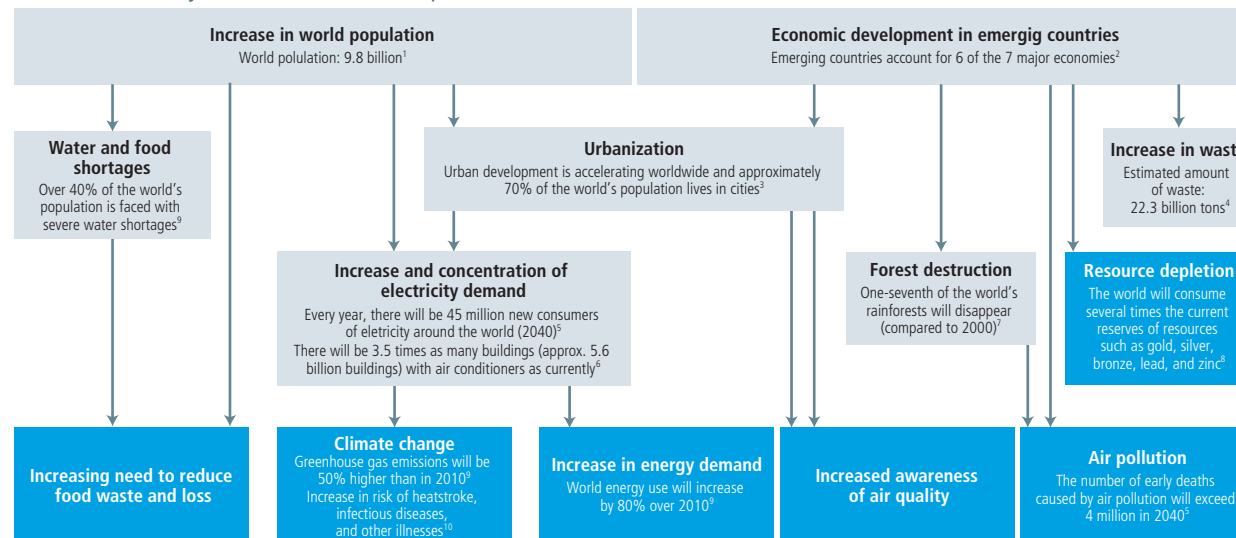
International Frameworks toward Resolving Society's Problems

Social Problems Daikin Can Help Resolve

- Intensifying climate change
- Increase and concentration of demands for electricity and other energy forms
- Intensifying atmospheric pollution

- Pandemics
- Resource depletion
- Food loss

Forecast of Society in Which Daikin Will Operate in 2050



Daikin referred to the following reports when making its forecasts

¹ *World Population Prospects: The 2017 Revision*, by the United Nations

² *The World in 2050*, by PwC

³ *World Urbanization Prospects: The 2018 Revision*, by the United Nations

⁴ *Estimates and Forecasts for the World's Waste Generation*, by the RISWME

⁵ *World Energy Outlook 2017*, by the International Energy Agency (IEA)

⁶ *The Future of Cooling*, by the International Energy Agency (IEA)

⁷ *The Future of Forests: Emissions from Tropical Deforestation with and without a Carbon Price, 2016-2050*, by the Center for Global Development (CGD)

⁸ *The Problem of Worldwide Resource Restrictions by 2050*, by the National Institute for Materials Science (NIMS)

⁹ *OECD Environmental Outlook to 2050*, by the Organization for Economic Cooperation and Development (OECD)

¹⁰ *Quantitative risk assessment of the effects of climate change on selected causes of death, 2030s and 2050s*, by the World Health Organization (WHO)

International Frameworks

• Sustainable Development Goals (SDGs)

Common goals to find solutions by 2030 for pressing world problems such as poverty, inequality, and climate change in order to realize a sustainable society

• Paris Agreement to the UN Framework Convention on Climate Change

All major greenhouse-gas emitting countries, including emerging countries, shall reduce their emissions in order to limit global warming by less than 2°C compared to pre-industrial levels by the latter half of this century

• Kigali Amendment to the Montreal Protocol

The Kigali Amendment mandates to phase down the production and consumption of HFCs in CO₂-equivalent in order to mitigate their impact on global warming

• UN Global Compact (UNGC)

A worldwide framework for achieving sustainable growth by having member companies recognize universal values in relation to issues such as human rights, labor, environment, and corruption

Overview of Sustainability

Daikin's Business Characteristics

Business Characteristics

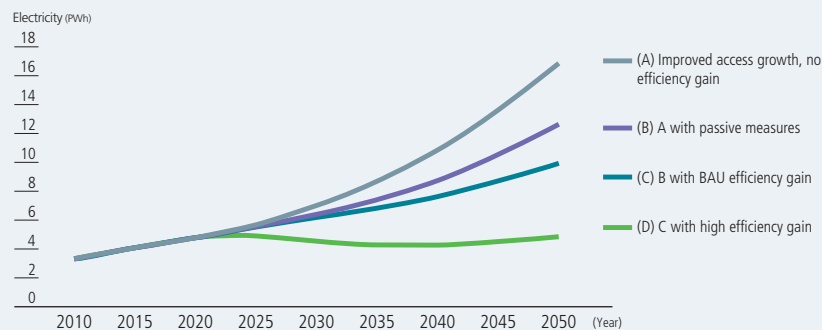
- The spread of Daikin's air conditioning, our core business, represents one form of climate change adaptation, which will be required more in the future. ¹
- Daikin possesses technologies that meet the increased demand ² for air purification due to the COVID-19 pandemic.
- Electricity used to power air conditioners accounts for roughly 10% of the world's total electricity usage. ¹
- Within the value chain of air conditioners, the operation of air conditioners accounts for most CO₂ emissions. ³

¹ Estimated by Daikin based on IEA *World Energy Outlook 2023*

1 Air Conditioning Electricity Usage as Predicted by *Global Cooling Watch 2023*

Demand for air conditioners is expected to expand further resulting from economic development in emerging countries. In order to meet demand without increasing greenhouse gas emissions, air conditioner energy efficiency is essential. *Global Cooling Watch 2023*, published by United Nations Environment Programme, classifies the energy efficiency of air conditioners into four scenarios and forecasts global electricity use.

Forecast of Electricity Use for Cooling²



² Compiled by Daikin from *Global Cooling Watch 2023* published by UNEP

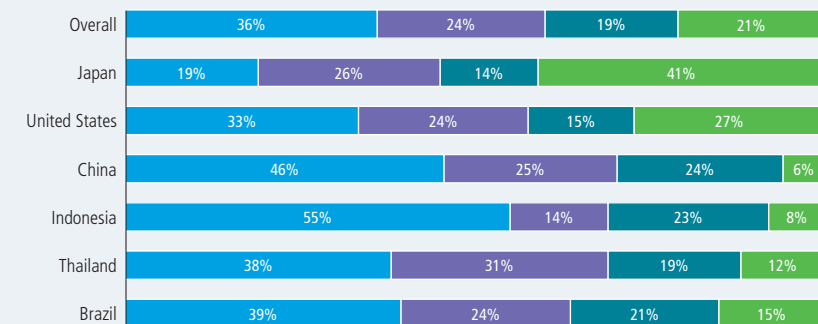
2 Results of Survey on Air Quality at Home

In addition to demand for space cooling, there is growing interest around the world in indoor air quality following the COVID-19 pandemic.

Results of Survey on Air Quality at Home³

Has the COVID-19 pandemic affected awareness of air quality within the home?

■ Yes, I feel more aware
 ■ Yes, I'm more aware/worry more
■ Yes, I'm more aware/take steps to improve it
 ■ No, I don't feel any more aware/worry any more



³ Compiled by Daikin based on *Sunstar Global Healthy Thinking Report 2021* by Sunstar Suisse SA

3 Impacts in the Value Chain and Business Environment

We evaluated the impact our business has on society across the value chain.

Value chain



Impacts of our business and expectations of Daikin

Throughout our supply chain:	At our R&D bases:	At our manufacturing bases:	At our distributors:	At our customers:	At maintenance providers:	For sustainable growth:	For growing together with society:
<ul style="list-style-type: none"> Respond to various procurement risks involving quality control, labor practices, and environmental protection 	<ul style="list-style-type: none"> Contribute to R&D that strikes a balance between growing air conditioning demand and decarbonization of society Contribute to solutions to social issues such as air pollution and infectious diseases 	<ul style="list-style-type: none"> Increase production efficiency while increasing manufacturing quality Mitigate environmental impacts 	<ul style="list-style-type: none"> Market products with a lower environmental impact Provide training on installation and maintenance techniques 	<ul style="list-style-type: none"> Reduce CO₂ emissions from electricity consumption Prevent heatstroke and increase productivity with air conditioning Provide a safe and reliable air environment using ventilation, air purification, and filtration 	<ul style="list-style-type: none"> Provide high quality after-sales services Recycle air conditioners Achieve refrigerant eco-cycle (recovery, recycle, reclamation, and destruction) 	<ul style="list-style-type: none"> Foster human resources Compliance Strengthen governance and risk management 	<ul style="list-style-type: none"> Collaborate with diverse stakeholders, including governments, international organizations, industry and academia, NPOs and NGOs, experts, and local communities

Key Sustainability Issues

Environmental	Social	Governance
<ul style="list-style-type: none"> Response to climate change Circular economy readiness Supply chain management Respect for human rights 	<ul style="list-style-type: none"> Response to climate change Circular economy readiness Prevent air and water pollution Provide safe and reliable air environments Increase the valued-added nature of air Create innovation through co-creation 	<ul style="list-style-type: none"> Response to climate change Quality and customer satisfaction Anti-corruption
<ul style="list-style-type: none"> Response to climate change Prevent air and water pollution Quality and customer satisfaction Information security 	<ul style="list-style-type: none"> Response to climate change Prevent air and water pollution Quality and customer satisfaction 	<ul style="list-style-type: none"> Response to climate change Circular economy readiness Quality and customer satisfaction
<ul style="list-style-type: none"> Human resource development Diversity management Corporate governance Risk management 	<ul style="list-style-type: none"> Response to climate change Create innovation through co-creation Stakeholder engagement Communities 	

Greenhouse Gas Emissions*

Scope 3	Scope 1, 2	Scope 3	Scope 3
4.20	0.93	0.43	275.72
			47.10
			(million tons-CO ₂)

* The figures on this page represent the total for the group in fiscal 2023.

Overview of Sustainability

Identifying Material Issues

Identified Material Issues

Emphasis Placed on Climate Change

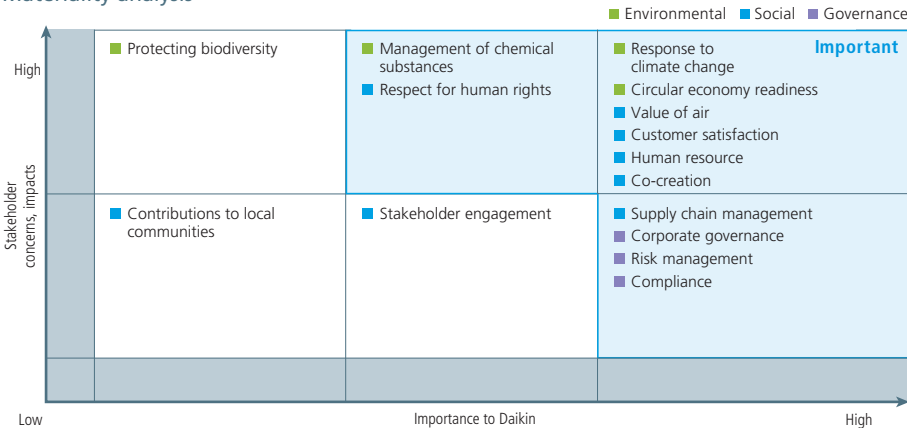
Based on the latest social trends and findings from dialogue with stakeholders, Daikin reviews and identifies key sustainability issues as appropriate. Particular emphasis is placed on responding to climate change.

The rapid increase in demand for space cooling predicted mainly in emerging countries represents a major opportunity for Daikin because its core business is air conditioning. The spread of air conditioning is one way to adapt to climate change and it also responds to the need for air purification which increased during the COVID-19 pandemic. However, risks include rising electricity consumption and greenhouse gas emissions from the use of air conditioning. Currently, air conditioning accounts for around 10% of the world's electricity consumption.* With a rapid increase in demand in the future, the impacts are expected to become larger.

Given this, Daikin's mission is to address society's needs for air in the future and to help decarbonize society. With our Environmental Vision 2050 to achieve net zero greenhouse gas emissions, we are promoting efforts under the key strategy themes of the Fusion 25 Strategic Management Plan.

* Estimated by Daikin based on IEA *World Energy Outlook 2023*

Materiality analysis



Process for Identifying Material Issues

Step 1 Understanding Stakeholder Concerns and Impacts

Using predictions of future society in 2050, Daikin backcasted concerns and impacts surrounding its business environment, and organized social issues that Daikin could contribute to resolving based on global frameworks.

- [Social Problems Daikin Can Help Resolve](#) 012
- [International Frameworks](#)

Step 2 Assessing the Impact of Our Business on Society

Based on the nature of its business, Daikin identified highly relevant issues, evaluated their impact on society, and identified issues of high importance.

- [Daikin's Business Characteristics](#) 013

Step 3 Identifying Material Issues for Daikin and Society

Each issue of high importance was assessed according to two axes: society and the company. In the case of society, Daikin listened to the voices of investors, experts, and outside directors, among others, and evaluated the "stakeholders' concerns and impacts." In terms in the case of the company, Daikin interviewed employees and management to evaluate the "importance for Daikin," ultimately determining the key sustainability issues through materiality analysis. The most important issues are deliberated by the CSR Committee and approved by the Board of Directors.

Overview of Sustainability

Environmental Vision 2050

Environmental Vision 2050

Toward Net-Zero Greenhouse Gas Emissions

In 2018, Daikin formulated Environmental Vision 2050, with a target of reducing greenhouse gas emissions to net zero by 2050.

Environmental Vision 2050



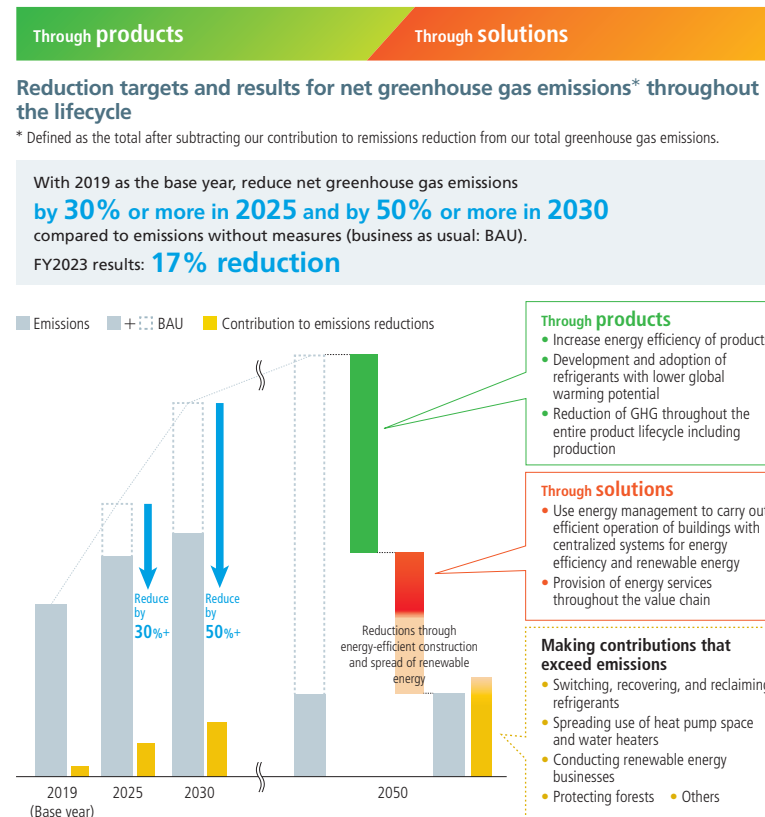
We will reduce the greenhouse gas emissions generated throughout the entire lifecycle of our products. Furthermore, we are committed to creating solutions that link society and customers as we work with stakeholders to reduce greenhouse gas emissions to net zero. Using IoT and AI, and open innovation attempts, we will meet the world's needs for air solutions by providing safe and healthy air environments while at the same time contributing to solving global environmental problems.

192 Data Process Used to Formulate Environmental Vision 2050

Medium- to Long-Term Environmental Strategy

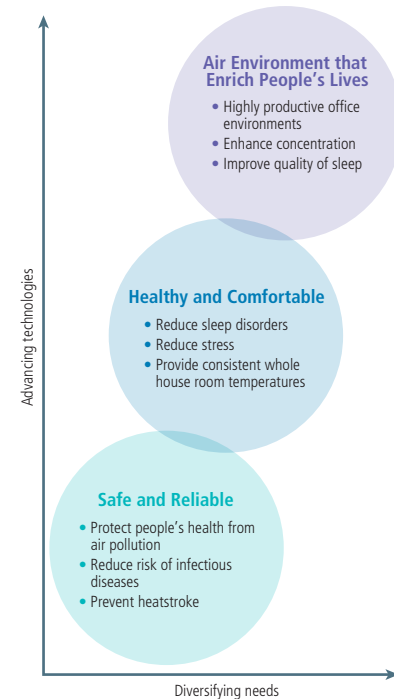
Setting Targets Aimed at Realizing Environmental Vision 2050

Daikin has established a greenhouse gas emissions reduction target after analyzing the future of its business operations in order to reduce these emissions to net zero while bringing the added value nature of air to people around the world.



Through the power of air

Image: The power of air



Overview of Sustainability

Strategic Management Plan Fusion 25

Strategic Management Plan Fusion 25

Executing Measures within Business Plans

The three themes of the growth strategy for achieving our environmental vision have been incorporated into the key themes of the Fusion 25 Strategic Management Plan. We will now implement this plan aiming to strike a balance between resolving social issues and business growth.

Fusion 25

Offer new value for the environment and air to realize both contributions to a sustainable society and Group growth

Through products

Challenge to achieve carbon neutrality

- Power consumption reductions during product use
- Heat Pump Space and Water Heating business
- Refrigerant initiatives supporting the AC business
- Working to achieve net-zero greenhouse gas emissions by 2030 at all plants with the exception of chemicals plants
- Embrace new businesses aimed at a carbon neutral society
- Initiatives toward a circular economy

Through solutions

Promotion of solutions business connected with customers

- Establishment of owner-direct sales network, enhancements to sales proposal capabilities, expansion of service options by application and market, and improvements in business promotion functions
- Tackling the challenge of creating solution models balancing both energy efficiency performance and comfort
- In addition to growth of existing businesses, greater business expansion in Asia where market growth is anticipated

Through the power of air

Creating value with air

- Establishing a large-scale IAQ/Ventilation business
- Creation of IAQ/AE that enrich people's lives
- Pursuit of new value with air

Strategic Management Plan Fusion

Daikin's strategic management plan was established with directions for the Group's growth in five years based on Our Group Philosophy and awareness of current conditions. Currently, Strategic Management Plan Fusion 25 is being implemented with fiscal 2025 as the final year of the strategy. In 2023, the midpoint of Fusion 25, we formulated a three-year plan covering the second half.

Fusion 25

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

What's Strategic Management Plan Fusion

1. Fusion defines the five-year Group direction based on external business environment and assessment of the current situation
2. Based on this, the key strategy as well as a three-year quantitative targets and implementation plan are finalized
3. Upon the elapse of two years from the start, establish a new quantitative target for the final year (three-year plan for second half)

Main initiatives in the three-year plan for the second half

- Reduction of greenhouse gas emission in manufacturing and offices, etc. (achieve net-zero greenhouse gas emissions at all plants, excluding chemicals plants, by 2030)
- Promotion of switch to heat pump space and water heating in areas where combustion-type systems are still mainstream
- Establishment of refrigerant eco-cycle for recovering and reclaiming refrigerants
- Further promotion of solutions business closely linked with customers, etc.

Information Disclosure Based on the TCFD Framework

For Daikin, climate change represents one important issue affecting its business continuity. In May 2019, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD),* which aims to mitigate the risk of instability in financial markets caused by climate change. We reflect the risks and opportunities posed by climate change in management strategy and risk management. At the same time, we will disclose progress appropriately and aim for further growth while contributing to a carbon-free society.

* TCFD was established in 2015 by the Financial Stability Board. It recommends that companies disclose information about the financial impacts of climate change after evaluating related business risks and opportunities.

Governance

The Organization's Governance around Climate-Related Risks and Opportunities

Daikin's mainstay product of air conditioners is characterized by the large amount of CO₂ emissions caused by energy consumption during use. In addition, fluorocarbons used as refrigerants for air conditioners have an effect on climate change. Recognizing the major impact on climate change attributed to our business activities, we believe climate change is an issue that largely affects our medium- to long-term business risks and opportunities.

Based on this, climate change issues are considered an important task to address in order for Daikin to develop sustainably and fulfill its social responsibilities; thus, they are managed by the CSR Committee. The CSR Committee was established by the Board of Directors to spearhead the company's corporate governance. The executive officer in charge of CSR serves as the chairman of the committee, which deliberates on risks and opportunities, policy on initiatives, and targets related to climate change, as well as monitors results and progress of initiatives, in addition to making proposals to CEO, followed by reporting to the Board of Directors.

Strategy

The Actual and Potential Impacts of Climate-Related Risks and Opportunities on the Organization's Businesses, Strategy and Financial Planning

We have formulated strategies based on analysis of climate-related scenarios in *The Future of Cooling* published by the International Energy Agency in 2018.

Demand for air conditioning is expected to roughly triple from current levels by 2050. As demand increases, there is a possibility that each country will tighten its energy regulations on air conditioners and regulations to address refrigerants with a high global warming potential. Excessively strict regulations could pose a risk for Daikin. On the other hand, appropriate regulations can serve as an opportunity to expand our business as they push for the spread of products and services with greater environmental performance, which is our strength.

The popularization of our products and services with excellent environmental performance in emerging countries with particular growth in demand for air conditioning is considered an effective measure to reduce greenhouse gas emissions resulting from air conditioners and contribute to our business growth. For this reason, we have reflected this in business strategies.

We established Environmental Vision 2050 for the final three-year plan of Fusion 20 Strategic Management Plan. Specifically, we aim to achieve net zero greenhouse gas emissions in own business operations by 2050. The targets and measures for 2030 aimed at realizing this goal have been laid out in Fusion 25 Strategic Management Plan.

Details of scenario analysis

Scenarios referenced

- IEA *Sustainable Development Scenario*
- IEA *Base line Scenario, Current Policies Scenario*
- IEA *The Future of Cooling*
- IEA *Net Zero by 2050*
- IEEJ *Reference Scenario*

4-degree scenario with current policies unchanged

- The number of regions requiring air conditioning for day-to-day living will increase due to higher summer temperatures. In addition, as winter temperatures rise, the number of areas suitable for heat pump heating with an outside temperature of about -20 degrees or higher will increase.
- Demand for air conditioners will approximately double by 2030 and roughly triple by 2050.
- Demand for air conditioners in non-OECD countries will increase five-fold from 2016 to 2030, but power generation will only increase by 2.4-fold. (Worldwide power generation will increase 1.4-fold compared the 1.9-fold increase in air conditioner demand.)

1.5-degree scenario with stricter regulations from decarbonization policy

- The progress of reducing use of refrigerants under the Montreal Protocol will be strictly managed and regulations could be tightened if the effectiveness is deemed insufficient.
- In addition, countries that today do not have strong regulations will adopt strict energy conservation policies.

Under the 4-degree and 1.5-degree scenarios

- As temperatures rise, the intensity and frequency of extreme weather will increase, which could increase instances of production shutdowns or postponements due to damages to our own plants or those of suppliers.

Financial Impacts of Carbon Pricing

Out of potential financial impacts, we estimated 2030 carbon tax obligations for each scenario in accordance with the following.

Calculations made assuming tax amount under the 4- and 1.5-degree scenarios according to IEA forecasts based on our CO₂ emissions (Scope 1 and Scope 2) reduction target for 2030 by region.

4-degree scenario: 1.1 billion yen in carbon taxes

1.5-degree scenario: 14.8 billion yen in carbon taxes

Note: The 4-degree scenario assumes the introduction of carbon taxes in the EU and China. These taxes would amount to 28 US dollars/ton-CO₂ in China and 120 US dollars/ton-CO₂ in the EU (according to the IEA *World Energy Outlook 2023* and *Stated Policies Scenario, Net Zero Emissions by 2050 — A Roadmap for the Global Energy Sector*). The 1.5-degree scenario assumes the introduction of carbon taxes in every country around the world. These taxes would amount to 140 US dollars/ton-CO₂ in developed countries (with net zero targets), 90 US dollars/ton-CO₂ in emerging and developing countries (with net zero targets) (according to the IEA).

Process Used to Identify, Assess and Manage Climate-Related Risks and Opportunities

Category		Impact on Daikin's business	Probability of occurrence	Potential financial impact
Risks	Transition	Stricter regulations on refrigerants If regulations on refrigerants become too strict, there is a possibility that existing air conditioners no longer compliant with these regulations will become obsolete.	High	Large
		Tight supply and demand for electricity There is a possibility that the spread of air conditioners in emerging countries will increase electricity usage and make it difficult to increase sales of air conditioners due to electricity shortages.	High	Large
	Physical	Production delays due to major disaster or water shortage Manufacturing bases located in areas of high water stress, or susceptible to major disasters attributed to extreme weather, face the potential risk of disruptions in production due to the shortage of water necessary for production processes.	Medium	Medium
Opportunities	Transition	Stricter regulations on refrigerants Companies without technologies compliant with regulations on refrigerants will be weeded out, resulting in increased sales of air conditioners using refrigerants with lower global warming potential, which is our strength.	High	Large
		Stricter regulations on energy efficiency Companies without technologies compliant with stricter regulations on energy efficiency will be weeded out, resulting in increased sales of air conditioners with high energy efficiency, which is our strength.	High	Large
		Stricter regulations on the use of fossil fuels Regulations on the use of fossil fuels continue to become stricter, and since gas-combustion heaters will be subject to them, there will be an increase in sales on growing demand for heat pump heaters, which is our strength.	High	Large

Evaluation and Management Process of Climate-Related Risks and Opportunities



Risk Management

Process for Identifying, Assessing and Managing Climate-Related Risks

Risks and opportunities related to climate change can originate from the transition toward a decarbonized society, including stricter regulations, technology advancement, and market shift, as well as from physical influences, such as acute abnormal weather and chronic temperature increases. We have categorized the various external environmental changes accompanying climate change as “transition risks” and “physical risks,” assessed their financial impacts as large, medium, and small, and identified important risks and opportunities.

Every year our business sites around the world identify physical climate-related risks as part of operational risks. After material risks are identified by the Corporate Ethics and Risk Management Committee, we examine action policies and response measures.

Product environmental meetings identify transition-based climate-related risks and opportunities at the time Strategic Management Plan Fusion is formulated. After material risks and opportunities are identified by the CSR Committee, we examine initiatives and response measures. The initiatives and response measures for identified risks and opportunities are incorporated into Strategic Management Plan Fusion and implemented by each business department.

Moreover, climate-related risks are integrated into the company-wide management process as they are considered to exert large influence on our business strategies. The management status of company-wide risks is monitored by the Internal Control Committee chaired by the President and COO and reported to the Board of Directors.

Metrics and Targets


The Metrics and Targets Used to Assess and Manage Relevant Climate-Related Risks and Opportunities

We incorporate the greenhouse gas emissions reduction target based on Environmental Vision 2050 into the Fusion 25 Strategic Management Plan, as well as manage the progress of our environmental activities by setting metrics and targets related to climate change.

1. Scope 1, 2, 3: With the base year set at 2019, we plan to reduce net GHG emissions from the entire Group by 30% or more by 2025, 50% or more in 2030 and achieve net zero emissions in 2050, compared to a BAU scenario.
2. Scope 1 and 2: Reduce net GHG emissions resulting from manufacturing activities by more than 55% in 2030 compared to 2019.

 [016 Management Overview of Sustainability Environmental Vision 2050](#)

See below for indicators and results at manufacturing bases

 [149 Data ESG Data Environment Reducing Environmental Impacts of Business Activities](#)

Management Structure / Key Themes

Sustainability Management Structure

Daikin has categorized key themes into value provision themes and foundational themes toward achieving sustainable development in its business and in society as it strives to solve society's challenges 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. The CSR & Global Environment Center, which has been established under the CSR Committee, leads comprehensive, cross-organizational CSR and sustainability activities throughout the entire Group jointly with relevant corporate divisions.

The CSR Committee is made up of officers in charge of the key sustainability themes and meets once a year to discuss and share ideas on social trends, progress in those key themes, and issues that require addressing. Items decided on by the CSR Committee are reported to the Board of Directors.

At meetings of the CSR Committee held in fiscal 2023, we reviewed the overall picture of our sustainability initiatives and discussed individual themes, such as strengthening human resources and intellectual capital, and verifying the progress of our carbon neutrality initiatives.

Material Issues

We have identified key sustainability issues after analyzing impact assessment conducted on the social situation and our own business operations.

Materiality



015 Management Overview of Sustainability Identifying Material Issues

Ten Key Themes Based on the Material Issues

After taking into account issues related to transparent and honest business activities to the material issues, we established two sets of five themes. First, under "value provision," there is environment, value of air, customer satisfaction, human resources, and co-creation. Second, under "fundamental," there is respect for human rights, supply chain management, stakeholder engagement, local communities, and corporate governance. We have set indicators and targets for each of these 10 key themes and are now implementing initiatives to achieve them.

Sustainability Targets and Results

We have established indicators and targets on the Company's key sustainability themes based on the results of our impact assessment in terms of Daikin and society and the Fusion 25 Strategic Management Plan. In fiscal 2023, we made changes to the medium-term targets and quantitative indicators for the priority theme of the environment following our review of key sustainability issues.

		Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2023 Achievements	Explanation of Index
Value Provision Themes	E	Environment					
		Response to climate change	An air conditioner consumes a large amount of electricity. As the only manufacturer in the world to make both air conditioners and refrigerants, Daikin recognizes that it has a great responsibility to society in terms of the global environment. With the aim of resolving environmental and energy problems, we will work to reduce greenhouse gas emissions throughout the entire life cycle of our products and contribute to a carbon-neutral society.	<ul style="list-style-type: none"> Reduce net greenhouse gas emissions throughout the entire lifecycle by 30% or more in fiscal 2025 compared to BAU, with 2019 as the base year Greenhouse gas emissions from manufacturing (development and production): 1.1 million tons-CO₂ in fiscal 2025 	<ul style="list-style-type: none"> Net greenhouse gas emissions from our own business operations Greenhouse gas emissions from manufacturing 	<ul style="list-style-type: none"> 17% reduction 0.93 million tons-CO₂ (30% reduction compared to fiscal 2019) 	<ul style="list-style-type: none"> We measured the extent of reduction in net greenhouse gas emissions from our own business operations We measured how much we reduced greenhouse gas emissions generated from product manufacturing and other processes
		Circular economy readiness	Air conditioners are made from a variety of resources, including copper and aluminum. In addition, the fluorocarbons used as refrigerants have an impact on global warming. We will contribute to the transition to a recycling-oriented society by providing products and services based on the premise of resource recycling, and by effectively utilizing limited resources to maximize the value of things. In particular, we place the highest priority on the construction of refrigerant recovery, recycle, and reclamation systems.	<ul style="list-style-type: none"> Recovery, recycle, and reclamation of refrigerants from the market through the establishment of a refrigerant eco-cycle 	<ul style="list-style-type: none"> Amount of refrigerant recovery and reclaiming from market 	<ul style="list-style-type: none"> 4.05 million tons-CO₂ 	<ul style="list-style-type: none"> Measure the refrigerant recovered from the market or reclaimed by Daikin and reclaimed refrigerant purchased by Daikin (in CO₂ equivalent)
		Management and Reduction of Chemical Substances	As a company that handles chemicals, we are working to prevent environmental pollution caused by our business activities. In accordance with laws and regulations, we extensively request our material suppliers to prevent prohibited substances from finding their way into our products, and we manage and reduce the emissions of chemical substances we handle in our production processes.	<ul style="list-style-type: none"> Reduce chemical substances emissions per unit of production, including PRTR* substances and VOCs, by 10% in fiscal 2025, based on the average value from fiscal 2013 to fiscal 2015 	<ul style="list-style-type: none"> Reduction rate of PRTR substances and volatile organic compounds (VOC) emissions 	<ul style="list-style-type: none"> 49% reduction 	<ul style="list-style-type: none"> Measure how much PRTR substances and VOC emissions were reduced compared to the base year (average from fiscal 2013 to fiscal 2015)
		Protecting biodiversity	Climate change also has a significant impact on biodiversity. In addition to working to reduce greenhouse gas emissions through its business activities, Daikin also supports forest conservation activities to contribute to protection biodiversity outside of its business activities.	<ul style="list-style-type: none"> Conservation of 11 million hectares of forests in 7 locations around the world 	<ul style="list-style-type: none"> Contributions to reducing CO₂ emissions through forest conservation 	<ul style="list-style-type: none"> 7 million tons-CO₂ 	<ul style="list-style-type: none"> Measure the amount of CO₂ emissions reduced as a result of forest conservation in seven locations around the world working with NGOs and other partners

* Act on the Assessment of Releases of Specified Chemical Substances in the Environment and the Promotion of Management Improvement

		Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2023 Achievements	Explanation of Index
Value Provision Themes	S	Value with Air	People's awareness and demand for air quality is increasing worldwide against the backdrop of infectious diseases and the adverse health effects of air pollution. As a company that provides value with air globally, Daikin contributes to people's health and comfortable living by providing a safe and reliable air environment through its business.	<ul style="list-style-type: none"> Net sales of IAQ/Ventilation business: 380 billion yen in fiscal 2025 	<ul style="list-style-type: none"> Net sales of IAQ/Ventilation business 	<ul style="list-style-type: none"> 355.8 billion yen 	<ul style="list-style-type: none"> We used net sales to measure the extent to which we provide a safe, reliable, healthy and comfortable air environment
		Customer Satisfaction	It is our social mission as a manufacturer to provide safe, high-quality products and services while responding to diversifying needs. Daikin enhances customer value and provides peace of mind and reliability through its extensive customer focus, experience, track record, and advanced technological capabilities to meet the detailed needs of each market application.	<ul style="list-style-type: none"> Net sales of Solutions business*: 1,280 billion yen in fiscal 2025 Establish service network covering all regions worldwide 	<ul style="list-style-type: none"> Net sales of Solutions business Customer satisfaction with after-sales services 	<ul style="list-style-type: none"> 1,038.1 billion yen Japan: 1.15 China: 1.00 India: 1.24 France: 0.97 	<ul style="list-style-type: none"> We used net sales to measure the extent to which we provide solutions tailored to needs We measured customer satisfaction (setting the base year as 1.00)
		Human Resources	In order for Daikin to grow sustainably and continue to contribute to solutions to social issues, human resources are of utmost importance as the bearers of corporate activities. We will generate strength as an organization and for society by respecting individuality and values, drawing out the infinite potential of individuals, and deepening diversity management.	<ul style="list-style-type: none"> Maintain and increase the development of global leaders 	<ul style="list-style-type: none"> Number of persons participating in executive management and leadership development programs 	<ul style="list-style-type: none"> Held in regions around the world including North America and Asia. There were 54 participants in the Group's next-generation leadership development program 	<ul style="list-style-type: none"> We measured the number of participants in executive management and leadership development programs as an indicator for measuring the development of executive management and leadership globally
				<ul style="list-style-type: none"> Ratio of excellent skilled engineers and advanced skilled engineers in strategic engineering positions: 1 in 4 in fiscal 2025 	<ul style="list-style-type: none"> Ratio of excellent skilled engineers and advanced skilled engineers in strategic engineering positions 	<ul style="list-style-type: none"> 1 in 6.3 employees 	<ul style="list-style-type: none"> We measured the number of persons developed with advanced engineering skills and knowledge and who can lead manufacturing
				<ul style="list-style-type: none"> Increase ratio of female managers Maintain and increase percentage of overseas bases where local nationals are president 	<ul style="list-style-type: none"> Number of female managers Percentage of overseas bases where local nationals are president 	<ul style="list-style-type: none"> 108 employees (8.4%) (Daikin Industries, Ltd. only) 46% (overseas bases) 	<ul style="list-style-type: none"> We measured the number of female managers and percentage of overseas bases where local nationals are president as indicators for measuring employee diversity
		Co-creation	In order to create new value in an era of a rapidly changing competitive environment, it is necessary to innovate beyond the reach of our own company. By collaborating and partnering with companies, universities, and research institutes, among others, and creating experiences that create new value for society in addition to manufacturing, we aim to create value for society by bringing together people, knowledge, and information from around the world.	<ul style="list-style-type: none"> R&D expenditure: 390 billion yen from fiscal 2023 to fiscal 2025 Promotion of industry-government-academia and industry-industry collaboration 	<ul style="list-style-type: none"> R&D expenditure Number of cases of industry-government-academia and industry-industry collaboration 	<ul style="list-style-type: none"> 122.5 billion yen 165 industry-government-academia and 13 industry-industry cases (Daikin Industries, Ltd. only) 	<ul style="list-style-type: none"> We measured the investment amount for value creation and the number of cases of industry-government-academia and industry-industry collaboration

* Total of commercial, residential and refrigeration solutions.

		Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2023 Achievements	Explanation of Index
Value Provision Themes	S	Respect for Human Rights	As various human rights issues such as child labor, forced labor, and divulgence of customer information at suppliers, among others, materialize, companies find now more than ever that they must ensure that their business activities respect human rights. Daikin understands various international norms on human rights and respects fundamental human rights.	<ul style="list-style-type: none"> Thoroughness of respect for human rights and implementation of human rights due diligence 	<ul style="list-style-type: none"> Self-assessment implementation rate 	<ul style="list-style-type: none"> 99% 	<ul style="list-style-type: none"> We measured how thorough we were in respect for human rights through the implementation rate of self-assessments
		Supply Chain Management	Amid growing concerns, there is momentum to resolve human rights, labor, and environmental issues in the supply chain through dialogue with suppliers. By promoting CSR procurement, Daikin minimizes risk and builds a robust and resilient supply chain.	<ul style="list-style-type: none"> Increase Class A CSR procurement achievement rate among all suppliers 	<ul style="list-style-type: none"> Class A CSR procurement achievement rate 	<ul style="list-style-type: none"> 81% 	<ul style="list-style-type: none"> We measured the ratio of suppliers who satisfied Daikin's Class A in-house standards to total procurement value
		Stakeholder Engagement	A company's business activities have a direct or indirect impact on stakeholders, the environment, and society. Understanding the concerns and expectations of stakeholders through dialogue and working to create a virtuous cycle of mutual relationships is essential for companies to fulfill their social responsibilities and continue to grow sustainably. Through two-way communication, Daikin will address the demands and expectations of society appropriately.	<ul style="list-style-type: none"> Engage in dialogue with stakeholders and reflect this dialogue into management 	<ul style="list-style-type: none"> Number of air conditioner forums held, number of outside participants 	<ul style="list-style-type: none"> Held 4 times around the world with a total of 75 people, including university professors and specialists from 19 countries taking part 	<ul style="list-style-type: none"> We measured the number of dialogue sessions with experts around the world related to our core business of air conditioning
		Communities	In order to operate our business smoothly around the world, it is essential to contribute to the development of each region as a member of the community and to build relationships where we grow together with stakeholders. At Daikin, it is important for employees to take action unique to the region and to build relationships of trust with local residents.	<ul style="list-style-type: none"> Contribution to environmental conservation, education support, and cooperation with the local community 	<ul style="list-style-type: none"> Expenditure for social contribution activities 	<ul style="list-style-type: none"> 1.8 billion yen 	<ul style="list-style-type: none"> We calculated the monetary amount, through donations, goods, and other ways, that we provided to communities
	G	Corporate Governance	As business values change, globalization advances, and calls for corporate social responsibility become stronger, the importance of corporate governance as a check on management is increasing. In order to strengthen corporate governance, Daikin will strive to increase corporate value by speeding up decision-making and business execution as well as improving transparency and soundness in response to management issues and changes in the operating environment.	<ul style="list-style-type: none"> Degree of independence from the company, diversity, and transparency of the Board of Directors 	<ul style="list-style-type: none"> Number of directors who are outside the company, women, and foreign nationals 	<ul style="list-style-type: none"> 4 external directors, 2 female directors,* 1 foreign national director among the 10 directors (Daikin Industries, Ltd. only) 2 (Daikin Industries, Ltd. only) 	<ul style="list-style-type: none"> We measured the diversity of the make-up of directors We measured the appointment of female officers from inside the company
				<ul style="list-style-type: none"> Appointment of female officers from inside the company: 1 or more in fiscal 2025 	<ul style="list-style-type: none"> Number of female officers appointed from inside the company 		
				<ul style="list-style-type: none"> Strengthen appropriate and smooth risk management capabilities 	<ul style="list-style-type: none"> Number of meetings of the Corporate Ethics and Risk Management Committee and regional legal and compliance committees 	<ul style="list-style-type: none"> Held committee meetings 2 times and 3 times, respectively 	<ul style="list-style-type: none"> We measured the number of meetings as a way to ensure thorough implementation of policies globally
				<ul style="list-style-type: none"> Strengthen and upgrade global legal and compliance systems 	<ul style="list-style-type: none"> Self-assessment implementation rate 	<ul style="list-style-type: none"> 99% 	<ul style="list-style-type: none"> We measured the implementation rate of self-assessment as a way to foster compliance awareness among each and every employee

Note: Self-assessment refers to a self-check system for verifying the status of compliance with the Group Conduct Guidelines.

* As of July 1, 2024