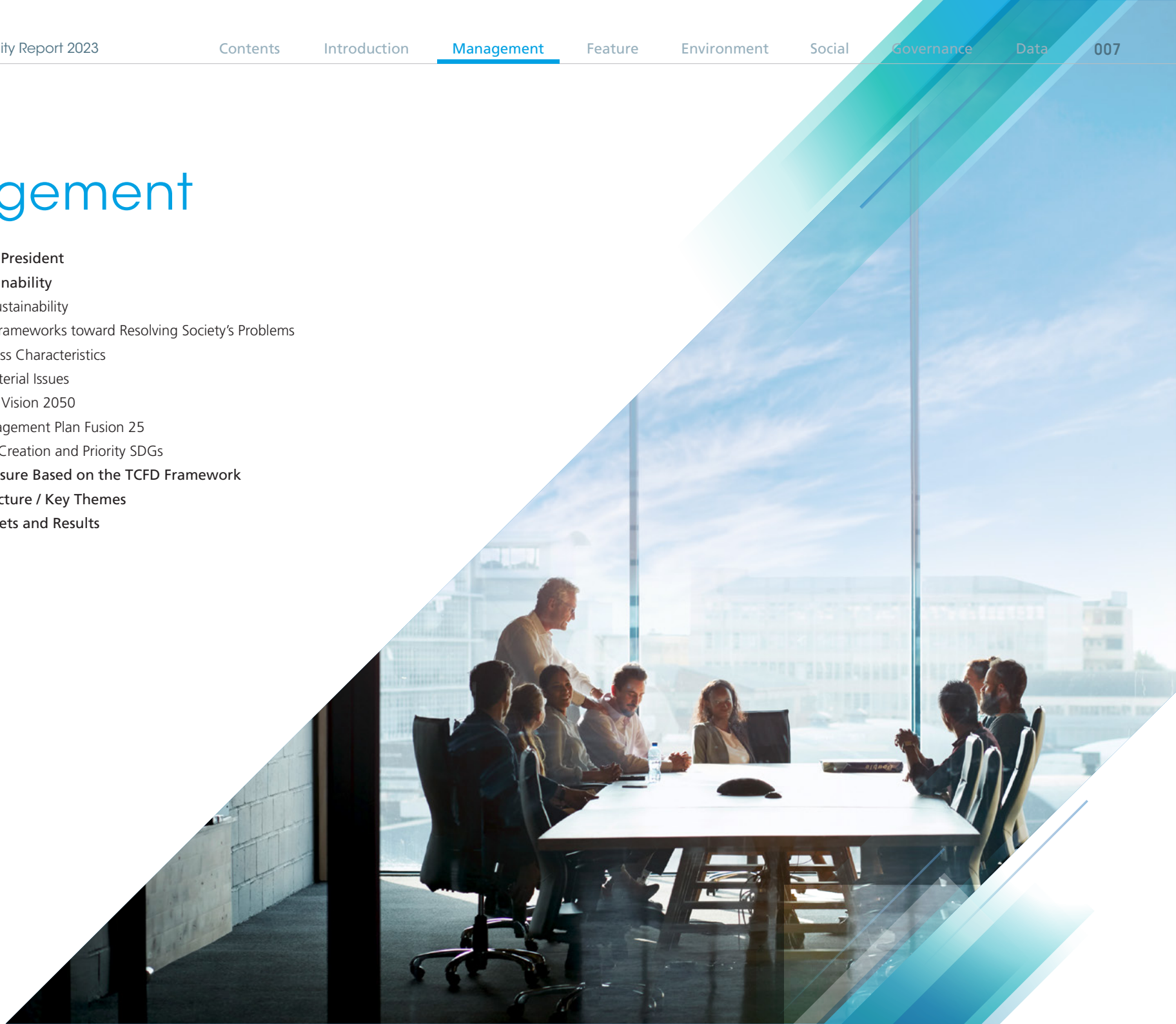


Management

- 008 Message from the President
- 010 Overview of Sustainability
 - 010 Overview of Sustainability
 - 011 International Frameworks toward Resolving Society's Problems
 - 012 Daikin's Business Characteristics
 - 014 Identifying Material Issues
 - 015 Environmental Vision 2050
 - 016 Strategic Management Plan Fusion 25
 - 017 Daikin's Value Creation and Priority SDGs
- 018 Information Disclosure Based on the TCFD Framework
- 021 Management Structure / Key Themes
- 022 Sustainability Targets and Results



Message from the President



Masanori Togawa

President and CEO, Daikin Industries, Ltd.

Aiming for Sustainable Growth by Viewing Societal Changes as Opportunities

Harnessing Our Strengths in a Changing Business Environment

In fiscal 2022, we broke records for net sales and operating income by taking action flexibly to expand our sales network and provide a stable supply of products, viewing change as an opportunity, despite the worsening business environment symbolized by surging raw materials and logistics costs, soaring inflation, and an economic slowdown. This positive outcome represents our ability to maximize our long-standing strengths.

Fulfilling Our Societal Mission as an Air Conditioner Manufacturer

As the only company in the world to manufacture both air conditioners and refrigerants, Daikin provides products and services utilizing environmental technologies to people around the world. Our core air conditioning business represents a critical component of social infrastructure. Together with transforming the indoor environment in hot regions, we have contributed to people's health through heatstroke prevention and improvement of air quality, which has also helped to increase labor efficiency.

On the other hand, growing electricity demand resulting from the use of air conditioning has become a major issue. Worldwide demand for air conditioning is forecast to triple current levels by 2050. Our mission to

society is to reduce the future impacts of global warming to every extent possible while providing a safe, reliable, comfortable, and healthy air environment in response to elevated demand from the COVID-19 pandemic. We remain committed to being a company that can recognize the actions that must be taken in order to use these solutions to environmental and social issues as a way of unlocking business growth.

Implementing Our Strategic Management Plan to Resolve Environmental and Social Issues

One of the growth strategy themes in our Fusion 25 strategic management plan ending in fiscal 2025, is "Challenge to achieve carbon neutrality." This includes the target of reducing greenhouse gas emissions throughout the life cycle by 30% or more in 2025 and 50% or more in 2030 compared to business as usual (BAU)* with 2019 as the baseline year. In fiscal 2022, we reduced these emissions by 14% after expanding sales of environmentally conscious products using inverter technology or low global warming potential (GWP) refrigerants.

In 2023, the midpoint we formulated a three-year second half plan for Fusion 25. Recognizing the accelerating move toward carbon neutrality worldwide as a good opportunity for growth, in addition to existing measures, which have included spreading inverter products globally, we will newly launch net-zero initiatives at our

air conditioning business bases targeting 2030, and at the same time, focus more on businesses that can contribute to net-zero green house gas emissions.

One such business is space and water heating. In addition to the growing momentum for decarbonization, soaring energy prices and concerns about the procurement of fossil fuels have led to a shift from combustion to heat pump heating, predominantly in Europe. This replacement in favor of heat pumps, which use heat from the air, can help to greatly reduce CO₂ emissions. In response to growing demand, we plan to start operations at a new plant in Europe in 2024 and quadruple our production capacity of heat pump space and water heaters by 2025.

Moreover, the transition to a circular economy is also an important requirement today. In addition to utilizing recycled materials, we believe that the establishment of a “refrigerant eco-cycle” recovering and reclaiming refrigerants indispensable for air conditioning represents our greatest contribution to a circular economy. Commercialization is not easy. Nevertheless, we will first build a recovery and reclaiming network in Europe, Japan, and the United States.

On the other hand, after the COVID-19 pandemic, people's needs for air and ventilation solutions and awareness of indoor air quality are increasing. Utilizing our

proprietary technologies, we aim to provide new value to our customers, including spaces that reduce the risk of infectious diseases and that are allergen-free.

* Business As Usual: In this context, BAU refers to emissions in case of normal business growth without the implementation of countermeasures.

People are the Source Behind Corporate Competitiveness

Today, human capital management, which regards human resources as important capital rather than cost, is garnering attention. We have been building our management foundation based on the belief that people are the source of corporate competitiveness. Our Group Philosophy also states that “The Cumulative Growth of All Group Members Serves as the Foundation for the Group’s Development.”

Daikin’s sustainable growth is underpinned by Fast & Flat management, which aims to operate the company with a sense of unity and close proximity between top management and workers, and our approach to diversity management. The diverse values of more than 90,000 employees around the world, backed by a sense of unity and trust between management and the workplace,

symbolize the source of our competitiveness. We have brought together human resources of diverse cultures, ethnicities, generations and lifestyles, and have utilized their individuality and strengths to power our organization.

Looking ahead to our 100th anniversary in 2024, we will continue to be a company that will continue to provide its diverse workforce with the joy of working and opportunities to tackle new challenges, and we will link the power of our “people” to the sustainable growth and development of society and the company.

Continuing to Live Up to the Expectations of Stakeholders

Daikin supports the 10 principles of the United Nations Global Compact. We also endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In 2023, Daikin joined the World Business Council for Sustainable Development (WBCSD). We are now working to resolve societal issues including climate change together with many likeminded companies across sectors and regions.

We stand committed to meeting the expectations of our stakeholders as a company that creates value for society and grows through mutual cooperation built atop two-way communication with national and local governments, international organizations, and NGOs.

Masanori Togawa

Masanori Togawa
President and CEO
Daikin Industries, Ltd.
July 2023

	FY2020	FY2022	FY2025 target
Net sales	2.49 trillion yen	3.98 trillion yen	4.55 trillion yen
Reduction rate of net greenhouse gas (GHG) emissions* (compared to BAU with 2019 as base year)	7 %	14 %	Over 30 % reduction

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

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
Society's Problems
011

Daikin's Business
Characteristics
012

Identifying
Material Issues
014

Our Group Philosophy

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

Targets for Sustainability 022

Strategic Management Plan Fusion 016

Environmental Vision 2050 015

Daikin's Aims for Value Creation

017

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

017

Human Resources

Co-creation

Related SDGs



2020 2025 2030 2035 2040 2045 2050

Overview of Sustainability

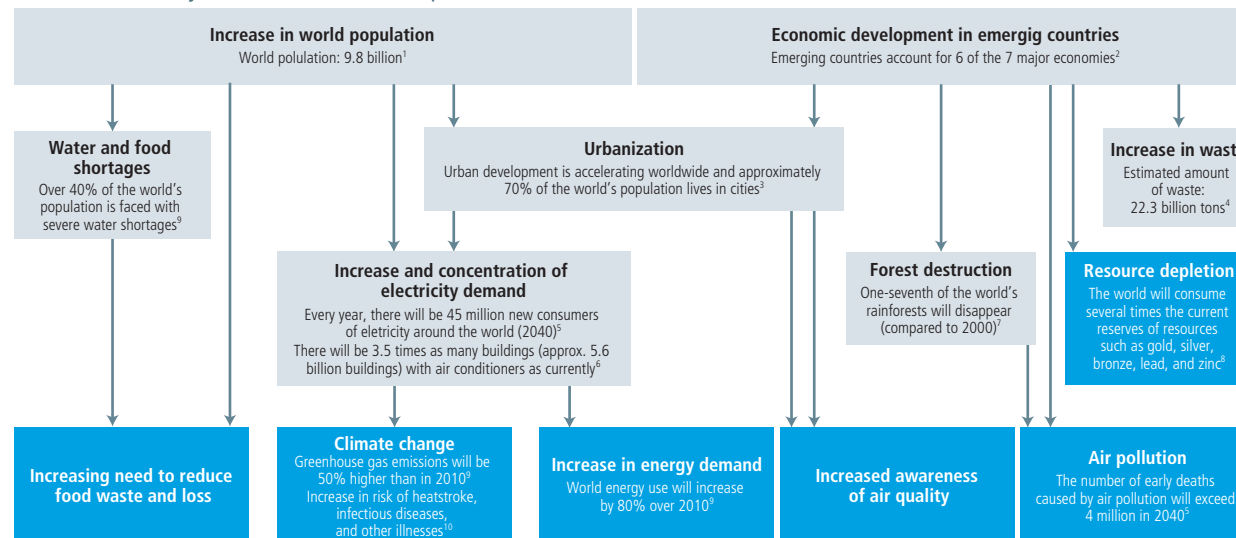
International Frameworks toward Resolving Society's Problems

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

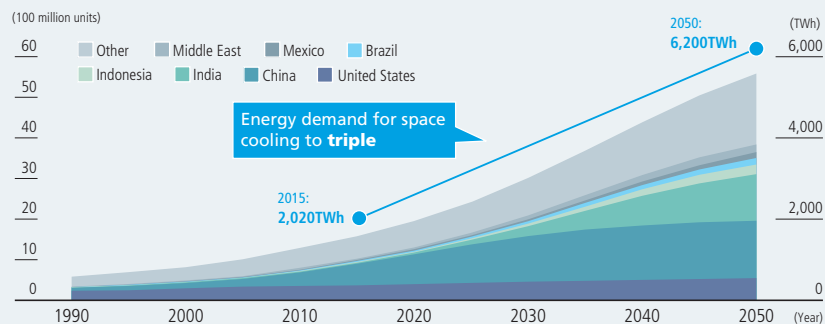
¹ Estimated by Daikin based on *World Energy Outlook 2022*

1 IEA The Future of Cooling Forecast

In May 2018, the International Energy Agency (IEA) released *The Future of Cooling*. The report looks at air conditioning and how the rise in its use is driving global energy demand.

According to *The Future of Cooling*, estimates are for air conditioning demand to rise rapidly and for energy demand for space cooling to triple by 2050.

Worldwide air conditioner stock (number of units) and electricity demand²



² Graph figures compiled by Daikin based on IEA *The Future of Cooling*

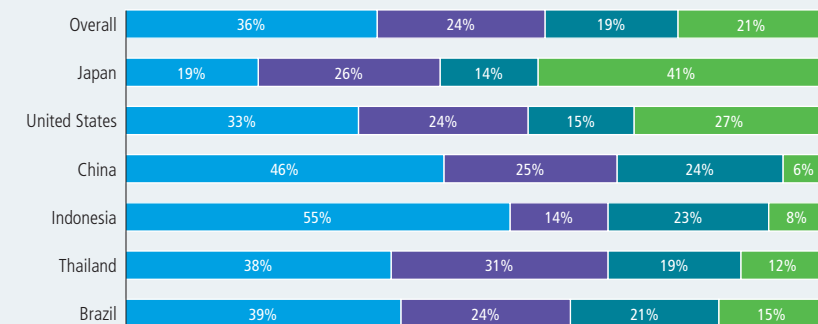
2 Results of Survey on Air Quality at Home

In addition to demand for space cooling, there is growing interest around the world in indoor air quality due to 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*.

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

<p>Throughout our supply chain:</p> <ul style="list-style-type: none"> Respond to various procurement risks involving quality control, labor practices, and environmental protection 	<p>At our R&D bases:</p> <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 	<p>At our manufacturing bases:</p> <ul style="list-style-type: none"> Increase production efficiency while increasing manufacturing quality Mitigate environmental impacts 	<p>At our distributors:</p> <ul style="list-style-type: none"> Market products with a lower environmental impact Provide training on installation and maintenance techniques 	<p>At our customers:</p> <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 	<p>At maintenance providers:</p> <ul style="list-style-type: none"> Provide high quality after-sales services Recycle air conditioners Achieve refrigerant eco-cycle (recovery, reclamation, and destruction) 	<p>For sustainable growth:</p> <ul style="list-style-type: none"> Foster human resources Compliance Strengthen governance and risk management 	<p>For growing together with society:</p> <ul style="list-style-type: none"> Collaborate with diverse stakeholders, including governments, international organizations, industry and academia, NPOs and NGOs, experts, and local communities
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Key Sustainability Issues

<ul style="list-style-type: none"> Response to climate change Supply chain management Respect for human rights 	<ul style="list-style-type: none"> Response to climate change 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 Response to resource recycling 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
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Greenhouse Gas Emissions*

4.70 million tons-CO ₂	1.03 million tons-CO ₂	(0.042 million tons-CO ₂)	283.16 million tons-CO ₂	47.50 million tons-CO ₂
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* The figures on this page represent the total for the group in fiscal 2022. Figures in () is for Daikin Industries, Ltd. only.

Overview of Sustainability

Identifying Material Issues

Identified Material Issues

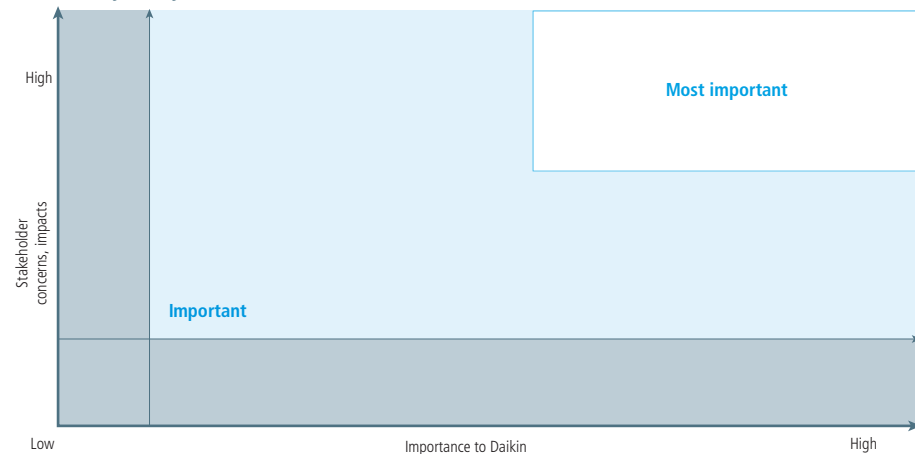
Emphasis Placed on Climate Change

We reviewed materiality at the time of formulating the Fusion 25 Strategic Management Plan and identified the following seven as top priorities shown in the figure below. Climate change is a theme of particular emphasis.

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 reduce society's carbon footprint. With our Environmental Vision 2050 to achieve net zero greenhouse gas emissions, we are promoting efforts under the key themes of the Fusion 25 Strategic Management Plan.

Materiality analysis



Process for Identifying Material Issues

Step 1 Understanding Stakeholder Concerns and Impacts

- [Social Problems Daikin Can Help Resolve](#) 011
- [International Frameworks](#)

Step 2 Assessing the Impact of Our Business on Society

- [Daikin's Business Characteristics](#) 012

Step 3 Identifying Material Issues for Daikin and Society

Prior to formulating the Fusion 25 Strategic Management Plan, we reviewed our materiality.

We narrowed down highly important initiatives by evaluating the impacts our business has on society across the entire value chain following steps **1** to **3**. On top of this, we evaluated the materiality for Daikin in terms of stakeholder's concerns and impacts by soliciting the views of investors, experts, and external directors and then conducting interviews with employees and senior management. This culminated in the CSR Committee finalizing material issues from the perspective of Daikin and society.

Material Issues

■ Environmental ■ Social

Most important

- | | |
|--|-------------------------------------|
| ■ Response to climate change | ■ Quality and customer satisfaction |
| ■ Provide safe and reliable air environments | ■ Human resource development |
| ■ Increase the valued-added nature of air | ■ Diversity management |
| ■ Create innovation through co-creation | |

Overview of Sustainability

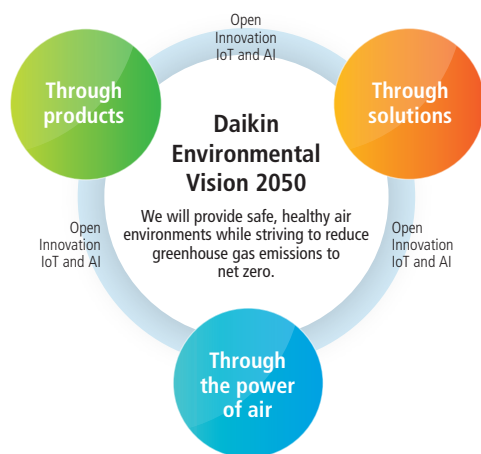
Environmental Vision 2050

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



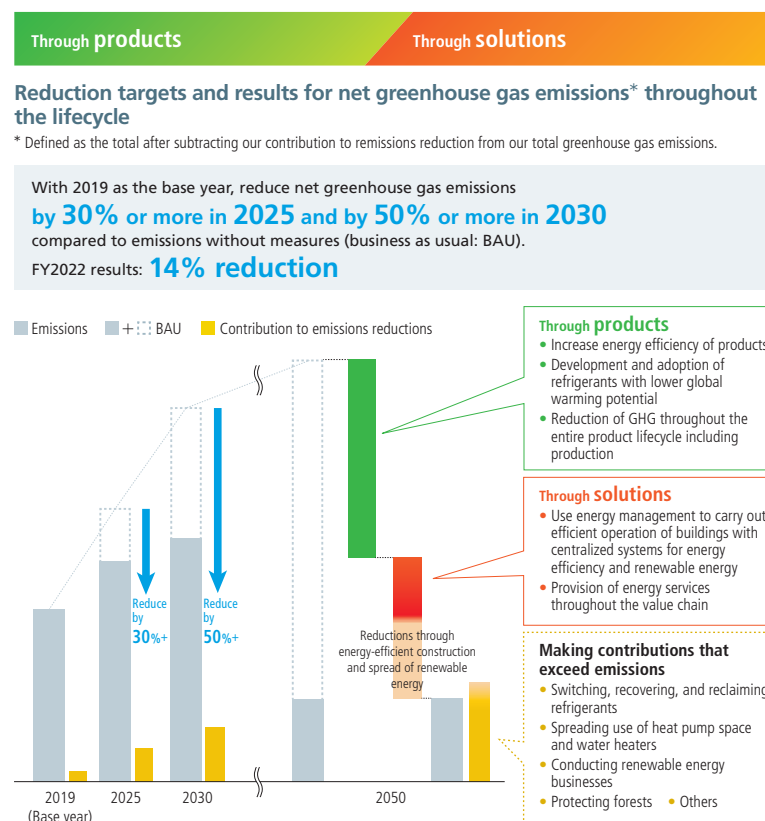
We will reduce the greenhouse gas emissions generated throughout the entire lifecycle of our products. Furthermore, we are committed to creating solutions that link society and customers as we work with stakeholders to reduce greenhouse gas emissions to net zero. Using IoT and AI, and open innovation 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.

190 Data Process Used to Formulate Environmental Vision 2050

Medium- to Long-Term Environmental Strategy

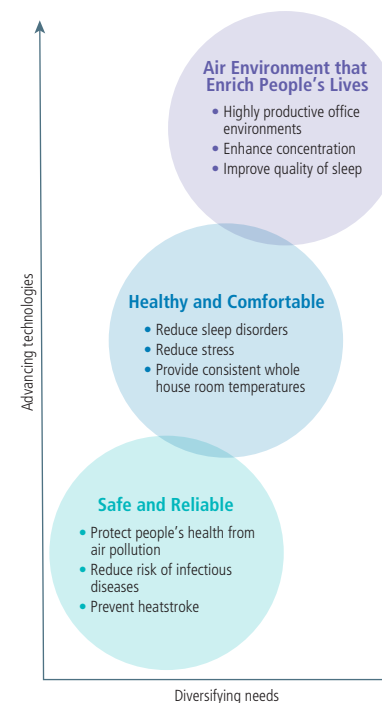
Setting Targets Aimed at Realizing Environmental Vision 2050

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, 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 Fusion

1. Fusion defines the 5-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 3-year quantitative targets and implementation plan are finalized
3. Upon the elapse of 2 years from the start, establish a new quantitative target for the final year (3-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.

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

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 the President and 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 triple from current levels by 2050. As demand increases, there is a possibility that each country will tighten their 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, by expanding environmentally conscious products and services, we aim to achieve net zero greenhouse gas emissions throughout the entire lifecycle from our 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 billion yen in carbon taxes

1.5-degree scenario: 10.6 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 30 US dollars/ton-CO₂ in China and 65 US dollars/ton-CO₂ in the EU (according to the IEA *World Energy Outlook 2021* and *Net Zero 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 130 US dollars/ton-CO₂ in developed countries, 90 US dollars/ton-CO₂ in emerging countries, and 15 US dollars/ton-CO₂ in developing countries (according to the IEA).

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 medium-term management plans are formulated and reviewed. 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 the medium-term management plan 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 CEO and reported to the Board of Directors.

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

Category		Impact on Daikin's business	Probability of occurrence	Potential financial impact
Climate-related				
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

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 55% in 2030 compared to 2019.

 [036 Environment Environmental Management Environmental Management System Indicators and Results at Manufacturing Bases](#)

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

Evaluation and Management Process of Climate-Related Risks and Opportunities



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.

In fiscal 2022, the CSR Committee discussed individual themes, such as promoting CSR in the supply chain and using sustainable resources, after confirming the big picture and themes of our sustainability initiatives.

Material Issues

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

Materiality

		■ Environmental	■ Social
■ Response to climate change	■ Quality and customer satisfaction		
■ Provide safe and reliable air environments	■ Human resource development		
■ Increase the valued-added nature of air	■ Diversity management		
■ Create innovation through co-creation			

 [014 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 are environment, value of air, customer satisfaction, human resources, and co-creation. Second, under "fundamental," there are 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.

	Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2022 Achievements	Explanation of Index
Value Provision Themes	E	Environment Introduce state-of-the-art technologies to the market in order to address environmental and energy issue	<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"> 14% reduction 1.03 million tons-CO₂ (43% reduction compared to fiscal 2015) 	<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
	S	Value with Air We will contribute to healthy and comfortable living using the power of air	<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"> 294 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 Provide peace of mind and reliability through a focus on customer orientation, experience, performance, and advanced technologies	<ul style="list-style-type: none"> Net sales of the Air Conditioning Solutions business: 870 billion yen in fiscal 2025 Establish service network covering all regions worldwide 	<ul style="list-style-type: none"> Net sales of Air Conditioning Solutions business Customer satisfaction with after-sales services 	<ul style="list-style-type: none"> 684 billion yen Japan: 1.15 China: 1.01 India: 1.22 France: 1.00 	<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 Respect individual personalities and values, and maximize the potential of each employee so that they can benefit Daikin and society as a whole	<ul style="list-style-type: none"> Maintain and increase the development of global leaders 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"> Number of persons participating in executive management and leadership development programs Ratio of excellent skilled engineers and advanced skilled engineers in strategic engineering positions 	<ul style="list-style-type: none"> Held in regions around the world including North America and Asia. There were 58 participants in the Group's next-generation leadership development program 1 in 8.0 employees 	<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 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"> 95 employees (7.6%) (Daikin Industries, Ltd. only) 44% (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
			<ul style="list-style-type: none"> Frequency rate of lost work time accidents: 0 	<ul style="list-style-type: none"> Frequency rate of lost work time accidents 	<ul style="list-style-type: none"> 1.35 	<ul style="list-style-type: none"> We measured whether manufacturing bases are operating safely
		Co-creation We will combine people, knowledge, and information from around the world to create social value	<ul style="list-style-type: none"> R&D expenditure 390 billion yen from 2023 to 2025 Promotion of industry-industry and industry-academia collaboration 	<ul style="list-style-type: none"> R&D expenditure Number of cases of industry-industry and industry-academia collaboration 	<ul style="list-style-type: none"> 102.2 billion yen 9 industry-industry and 128 industry-academia cases (Daikin Industries, Ltd. only) 	<ul style="list-style-type: none"> We measured the investment amount for value creation We measured the number of cases of industry-industry and industry-academia collaboration

		Key Themes	Initiatives	Medium-Term Targets	Quantitative Index	Fiscal 2022 Achievements	Explanation of Index	
Foundational Themes	S	Respect for Human Rights	Show respect for basic human rights in accordance with all international norms based on the laws and regulations of each country and region	• Thoroughness of respect for human rights and implementation of human rights due diligence	• Self-assessment implementation rate	• 99%	• We measured how thorough we were in respect for human rights through the implementation rate of self-assessments	
		Supply Chain Management	Build a robust and resilient supply chain that minimizes risk	• Increase Class A CSR procurement achievement rate among all suppliers	• Class A CSR procurement achievement rate	• 75%	• We measured the ratio of suppliers who satisfied Daikin's Class A in-house standards to total procurement value	
		Stakeholder Engagement	Respond appropriately to society's needs and expectations through two-way communication	• Engage in dialogue with stakeholders and reflect this dialogue into management	• Number of air conditioner forums held, number of outside participants	• Held 8 times around the world with a total of 130 people, including university professors and specialists from 33 countries taking part	• We measured the number of dialogue sessions with experts around the world related to our core business of air conditioning	
		Communities	Create strong bonds with communities as a good corporate citizen	• Contribution to environmental conservation, education support, and cooperation with the local community	• Expenditure for social contribution activities	• 1.8 billion yen	• We calculated the monetary amount, through donations, goods, and other ways, that we provided to communities	
	G	Corporate Governance	Corporate Governance	Accelerate decision-making and operational execution in response to management tasks and the changing management environment, and raise the level of management transparency and soundness to raise corporate value	• Degree of independence from the company, diversity, and transparency of the Board of Directors • Appointment of female officers from inside the company: 1 or more in fiscal 2025	• Number of directors who are outside the company, women, and foreign nationals • Number of female officers appointed from inside the company	• 4 external directors, 1 female director, 1 foreign national director among the 10 directors (Daikin Industries, Ltd. only) • 1 (Daikin Industries, Ltd. only)	• We measured the diversity of the make-up of directors • We measured the appointment of female officers from inside the company
			Risk Management	Support the Group's sound development	• Strengthen appropriate and smooth risk management capabilities	• Number of meetings of the Corporate Ethics and Risk Management Committee and regional legal and compliance committees	• Held committee meetings 2 times and 4 times, respectively	• We measured the number of meetings as a way to ensure thorough implementation of policies globally • We measured the implementation rate of self-assessment as a way to foster compliance awareness among each and every employee
			Compliance		• Strengthen and upgrade global legal and compliance systems	• Self-assessment implementation rate	• 99%	

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