2014

Corporate Social Responsibility Report
Air is something that surrounds us 24 hours a day. In fact, our existence, as well as the Earth’s, depends on it.

At Daikin, the future of the world’s air is our greatest concern. We use the knowledge, innovation and technologies, dedicated to air, cultivated over many years, to improve the quality of air we breathe and the quality of lives we live.

This is our mission.
## Contents

<table>
<thead>
<tr>
<th>Page</th>
<th>Feature</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td></td>
<td>Daikin Group Business Overview</td>
</tr>
</tbody>
</table>
| 5    |         | Message from the President  
Aiming for Sustainable Growth and a Sustainable Society through  
Technological Strength and Outstanding Human Resources |
| 7    |         | CSR Philosophy and Key Themes  
CSR-Centered Management Protects the Environment and  
Abundant People’s Lives |
| 11   |         | Environment  
Dissemination of Next-Generation Refrigerants  
Taking the Next-Generation Refrigerant R32 around the World |
| 15   |         | Environment  
Creating a Market for Heat-Pump Heating Systems  
Participating in Smart Communities Project in Greater Manchester, UK,  
with Heat-Pump Technology |
| 17   |         | Quality and Customer Satisfaction  
Accelerating Product Development Globally  
Creating Products That Anticipate Regional Needs |
| 19   |         | Human Resources  
Diversity Management  
Diversity Project — Maximizes the Talents of Female Employees |
| 21   |         | Social Contribution  
Reforestation in Indonesia  
Supporting Sustainable Coexistence of People and the Forest |
| 23   |         | Data |
| 27   |         | Third-Party Verification Statement |
| 28   |         | Honors for Daikin (FY2013) |
| 29   |         | About This Report |
| 30   |         | Information on Website |
Daikin Group Business Overview

Contributing to Society with World-Leading Technologies as a Pillar to Environmental Contribution

The Daikin Group offers products utilizing technologies in both air conditioning and fluorochemicals to provide comfort in all aspects of people’s lives around the world. Through our strength in energy-efficient technologies, we develop and bring to market products and services that restrict CO2 emissions, thus contributing to sustainable development in society.

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

Proprietary Technologies at Work in a Range of Industries

Utilizing the Characteristics of Fluorochemicals and Contribute to a Wide Range of Fields

Company Profile (as of March 31, 2014)

Name: Daikin Industries, Ltd.
Address: Umeda Center Building, 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka, Japan
Incorporated: February 11, 1934
Founded: October 25, 1924
Capital: 85 billion yen
Head Office: Kita-ku, Osaka

Tokyo Office: Minato-ku, Tokyo
Sakai Plant (Sakai, Osaka Prefecture): Air conditioning/refrigeration equipment, compressors
Shiga Plant (Kusatsu, Shiga Prefecture): Air conditioning equipment, compressors
Yodogawa Plant (Settsu, Osaka Prefecture): Fluorochemical products, oil hydraulic equipment, defense/medical equipment
Kashima Plant (Kamisu, Ibaraki Prefecture): Fluorochemical products

Net Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Consolidated (¥ billion)</th>
<th>Non-consolidated (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1,024.0</td>
<td>65.4</td>
</tr>
<tr>
<td>2010</td>
<td>1,160.3</td>
<td>128.7</td>
</tr>
<tr>
<td>2011</td>
<td>1,218.7</td>
<td>146.6</td>
</tr>
<tr>
<td>2012</td>
<td>1,290.9</td>
<td>146.7</td>
</tr>
<tr>
<td>2013</td>
<td>1,783.3</td>
<td>499.2</td>
</tr>
</tbody>
</table>

(¥ billion)
Contributing to Development of Local Communities while Respecting the Diverse Cultures and Values of Each Country

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

Aiming for Sustainable Growth and a Sustainable Society through Technological Strength and Outstanding Human Resources

In October 2014, Daikin Industries will celebrate its 90th anniversary. In the past 10 years, the number of countries where we have bases has grown from 63 to 145, while the percentage of our business accounted for by overseas operations has increased from 45% to 71%.

Air conditioning, the core business and engine of growth for the Daikin Group, is becoming one of the most important facets of social infrastructure, a business indispensable to providing people with good health and a culturally advanced lifestyle, as well as to fueling economic development. Through air conditioning, we have provided people around the world with a fulfilling, comfortable lifestyle.

At the same time, air conditioning uses large amounts of energy. One of mankind’s greatest challenges will be to minimize the rise in energy consumption accompanying economic development, especially in the rapidly growing emerging countries. We at Daikin Industries are well aware that climate change resulting from an increase in greenhouse gas emissions is a major social issue that we must endeavor to solve.

To contribute to solving the problem of climate change, we are using our technological strength. For years, we have focused on highly energy-efficient products and services in order to bring more and more people around the world environmental technologies that mitigate the further increase of greenhouse gas emissions.

We are developing and promoting the global dissemination of products and technologies, that contribute to mitigating environmental impact, including R32, a new refrigerant that reduces global warming impact to just one-third that of conventional refrigerants; heat-pump type heating systems, which result in CO2 emissions less than 50% of those from conventional combustion-type heating; and inverter technology, which offers both comfort and energy efficiency.
In 2015, we will open the Daikin Technology Innovation Center, a global R&D base for creating new social value in the fields of air environment and energy. This center will enable us to broaden our business concept—from buildings to overall space, and from air conditioning to air itself—and to facilitate development of environmental technologies for the realization of a sustainable society.

**Striving for Global Human Resource Development and Diversity**

Another strength of the Daikin Group is People-Centered Management. Human resources are the driving force that propels a company’s growth and contribution to the advancement of society. We believe that “cumulative growth of all Group members serves as the foundation for the Group’s development,” and we put this belief into action by building a work environment in which our employees—irrespective of their age, gender, or nationality—can use their talents to the fullest in exciting and rewarding work.

We do business in 145 countries and about 80% of our workforce is made up of non-Japanese nationals. This means that the key to growth lies in working closely with our bases around the world and in providing employees opportunities to use their talents to the fullest. Together with contributing to expansion of local employment and fostering of human resources, Daikin strives to train locally hired employees around the world to be executives and company leaders with strong leadership and management skills who can use their unique traits and values to make the Daikin Group stronger.

At the same time, we are utilizing diverse human resources to respond to the changing needs of the market. One of our focuses in Japan is unleashing the potential of women. We strive to increase the number of female managers by offering various work support programs, and through training programs that allow both managers and female employees to change their thinking.

**Coexistence with Society Based on Local Needs**

Daikin products and services, such as air conditioners that use refrigerants with low global warming potential, help mitigate greenhouse gas emissions in emerging countries. We also enthusiastically engage in local environmental protection activities around the world.

Forests keep temperatures down—they are “nature’s air conditioner.” As part of social contribution activities beginning in fiscal 2014 to celebrate our 90th anniversary, we are expanding conservation activities to the Amazon rainforest and six other locations around the world to help prevent illegal development and protect valuable forests by supporting sustainable livelihoods of the people living there. As a company that provides people with a comfortable air environment and tackles the major challenge of mitigating climate change, we aim to mitigate global warming and ensure that future generations continue to have forests that nurture the Earth’s air.

Throughout these and other social contribution activities, employees at Daikin bases around the world take front and center in our efforts to respond to local needs.

Since 2008, the Daikin Group has been taking part in the United Nations Global Compact, an initiative for companies committed to operations and strategies in line with ten universally accepted principles in areas including human rights, labor, the environment, and anti-corruption. We also follow the ISO 26000, guidance standard for social responsibility, in conducting CSR management in accordance with internationally recognized standards. We will continue to contribute to society to fulfill the high expectations that our stakeholders—customers, shareholders, suppliers, and communities—have for us.

July 2014

Masanori Togawa
President and CEO
Daikin Industries, Ltd.
CSR Philosophy and Key Themes

CSR-Centered Management Protects the Environment and Abundant People’s Lives

Daikin’s main business of air conditioning is crucial to economic advancement and a better life for society. As air conditioner demand grows both in emerging countries and industrialized countries, the Daikin Group is using the technologies it has built up as the industry’s leading specialist to reduce environmental impact and provide people around the world with a comfortable and abundant lifestyle based on our goal of achieving sustainable growth for society as a whole.

Basic Management Policy of the Daikin Group

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

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

Our Group Philosophy

The basis for the shared thoughts and actions of all employees

People-Centered Management

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

Four Key Themes in Line with Our Business

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

1. ISO 26000
2. United Nations Global Compact
3. Governance
4. Compliance
5. Human rights
6. Environment
7. Social Contribution
8. Quality and Customer Satisfaction
9. Foundation
10. Network Japan

We engage in environmental activities with global warming prevention as the most important priority. Wherever we do business, we seek to meet society’s needs in a way that only Daikin can.

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

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

With Our Relationship with Society in Mind, Take Action and Earn Society’s Trust

The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group

Be Recognized Worldwide by Optimally Managing the Organization and its Human Resources, under Our Fast & Flat Management System

An Atmosphere of Freedom, Boldness, and “Best Practice, Our Way”

Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers
2. Contribute to Society with World-Leading Technologies
3. Realize Future Dreams by Maximizing Corporate Value
4. Think and Act Globally
5. Be a Flexible and Dynamic Group
6. Be a Company that Leads in Applying Environmentally Friendly Practices
7. With Our Relationship with Society in Mind, Take Action and Earn Society’s Trust
8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group
10. An Atmosphere of Freedom, Boldness, and “Best Practice, Our Way”

Philosophy of CSR Action

1. Governance
2. Compliance
3. Human rights
4. Environment
5. Social Contribution
6. Quality and Customer Satisfaction
7. Foundation
8. Network Japan

ISO 26000
United Nations Global Compact

We support the United Nations Global Compact and its ten principles.
Daikin Group’s Relationship with the Economy, the Environment, and Society

**Sustainable Development**
Daikin Group Growth
Regional development, including developing countries
Environmental protection

**CSR and Management Strategy**
Management Plans Encompass the Growth of the Company and Society

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

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

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

**Fusion 15 Strategic Management Plan**
- New Growth Strategy
- Management Constitution Reform
- Enhance HR Capabilities Based on People-Centered Management

**Strengthening Human Resources, a Core Foundation**
People are the lifeblood of all sustainable activities. We focus on building an environment in which employees enjoy rewarding work that allows them to succeed and grow.

**Impact on Climate Change**
Fluorocarbons used as air conditioner refrigerants deplete the ozone layer and contribute to global warming. As well, air conditioners use large amounts of electricity and account for a large percentage of society’s electricity consumption.

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

**Daikin Group’s Relationship with the Economy, the Environment, and Society**
**CSR Philosophy and Key Themes**

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

### Key CSR Themes

**Providing the World with Products That Help Customers Reduce CO₂ Emissions**
- Increasing use of inverter products
- Increasing use of heat-pump type heating systems
- Offering energy-saving solutions
- Developing future refrigerants

**Expanding “Green Heart”**
- Reforestation and tree-planting
- Environmental education

**Minimizing Environmental Impact in Production**
- Reducing greenhouse gas emissions
- Effectively using water and other resources
- Reducing chemicals

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

**Contributing to CO₂ Emission Reductions through Daikin Products**

<table>
<thead>
<tr>
<th>Year</th>
<th>Reduction (Million tons of CO₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>

*1 Estimate of CO₂ emission reductions from the use of energy-efficient inverter products sold by Daikin, compared to CO₂ emissions from the use of non-inverter products. The emission reductions figure is annual reduction amount multiplied by product lifespan.

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

**Environment**

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

**Quality and Customer Satisfaction**

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

**Giving Customers Unmatched Satisfaction**
- Safety & Quality
  - Products are designed from the perspective of the customer to assure safety and quality.
- Customer Satisfaction
  - We strive to achieve the ultimate in quality service: speed, accuracy, and good manners.

**Expanding “Green Heart”**

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

**Minimizing Environmental Impact in Production**

- Reducing greenhouse gas emissions
- Effectively using water and other resources
- Reducing chemicals

**Reducing Greenhouse Gases**

- Emissions could be reduced by 30 million tons-CO₂
- Reduce greenhouse gas emissions to one-third of fiscal 2005 levels.

**Expanding “Green Heart”**

- Reforestation and tree-planting
- Environmental education

**Expanding a Green Heart**

- Protect biodiversity around the world.

**Employees Taking the Initiative In Local Grassroots Action**

- Through contributions to environmental protection, education support, and arts and culture, Daikin employees take the lead in community service aimed at providing each region with the support it needs.

**Employees Taking the Initiative In Local Grassroots Action**

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

**Employees Taking the Initiative In Local Grassroots Action**

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

**Human Resources**

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

**Human Resources**

- Human Resource Development
  - The entire Daikin Group trains human resources to match business growth.
- Diversity of Employees
  - We strive to build a diverse workplace where everyone can play an important role by respecting each other regardless of age, sex, nationality, or physical disabilities.
- Balancing the Responsibilities of Work and Family
  - We allow employees to work flexible schedules so that they can have quality time with their families.
- Occupational Safety & Health
  - We strive for employee satisfaction by building a safe, comfortable workplace where employees can enjoy both mental and physical well-being.

**Social Contribution**

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

**Social Contribution**

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

DAIKIN GROUP CSR Report 2014
CO2 Emission Reductions in Emerging Countries: Estimated Fiscal 2013 Achievements

- 23 million tons-CO2
- 69% Reduction in Greenhouse Gases (by Daikin Group)
- Employees at 13 Bases around the World
- Marketing at 210 Bases around the World
- Disability employment rate: 2.07% (in Japan)
- Percentage re-employed after retiring at 60: Approx. 90% (Daikin Industries)
- Percentage of presidents hired locally: Approx. 40%
- Percentage of local in executive positions: Approx. 45%
- Reforestation in Indonesia
- Creating a Market for Heat-Pump Heating Systems

DAIKIN GROUP CSR Report 2014
Feature
Refrigerant R32 around the World

Taking the Next-Generation Refrigerant R32 around the World

Next-Generation Refrigerants Protecting the Ozone Layer and Reducing Global Warming

Refrigerants are crucial to air conditioning, circulating inside the air conditioner and transporting heat. However, the Montreal Protocol and the Kyoto Protocol restricted the use of conventional refrigerants that deplete the ozone layer and contribute to global warming, and the world needs refrigerants that mitigate these harmful effects. Industrialized countries have already converted to HFCs like R410A that don’t deplete the ozone layer, but these refrigerants still have the problem of having a high global warming impact.

In 2013, developing countries began phasing down the use of conventional HCFC refrigerants. Air conditioner air conditioners and their refrigerants, Daikin has been searching for and developing next-generation refrigerants. Our efforts have led us to choose R32, which has a low global warming impact.

Effect of Dissemination of R32 (Projection)
Global warming impact from HFCs in developing countries (Billion tons of CO2 equivalent)

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential refrigerant using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

11 DAiKIn GROUP CSR Report 2014

Daikin’s Approach

Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

Refrigerants currently used in developing countries
Refrigerants currently used in industrialized countries

Continue with current refrigerants
Switch to R32

Production line in Thailand making R32 refrigerant air conditioners, which were on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.
Daikin First to Adopt R32, with One-Third the Global Warming Potential of Conventional Refrigerants

Choosing a next-generation refrigerant must take into consideration not just environmental performance, but also other overall factors such as safety and economic performance. Moreover, converting to a new refrigerant must take into account a range of international standards including those of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), as well as domestic regulations and standards of each country.

As a result of our participation in international discussions and our own assessments and studies, Daikin has determined that as of the present time, R32 is the most suitable refrigerant. We made this decision because R32 has just one-third the global warming potential of R410A and it can be easily recovered and reused. It is also offers high energy efficiency and so less of it is needed per air conditioner than other refrigerants.

In fiscal 2012, Daikin released the world’s first residential air conditioner using R32. Our goal is to have R32 used around the world.

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

<table>
<thead>
<tr>
<th>Refrigerants currently used in developing countries</th>
<th>Refrigerants currently used in industrialized countries</th>
<th>Next-generation refrigerants</th>
</tr>
</thead>
<tbody>
<tr>
<td>R22 (HCFC)</td>
<td>R410A (HFC)</td>
<td>R32 (HFC)</td>
</tr>
<tr>
<td>Ozone layer protection</td>
<td>Ozone layer protection</td>
<td>Ozone layer protection</td>
</tr>
<tr>
<td>Economic performance</td>
<td>Economic performance</td>
<td>Economic performance</td>
</tr>
<tr>
<td>Safety</td>
<td>Safety</td>
<td>Safety</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>Energy efficiency</td>
<td>Energy efficiency</td>
</tr>
<tr>
<td>1,810</td>
<td>2,090</td>
<td>675</td>
</tr>
</tbody>
</table>

Global warming potential (GWP) *1

Energy efficiency

Safety

Daikin’s Approach

Production line in Thailand making R22-refrigerant air conditioners, which went on sale in March 2014

At trade fairs and showrooms around the world, Daikin is promoting the R32 refrigerant.

*2 LCCP: Life cycle cost performance: Global warming impact over the entire lifecycle of the air conditioner (impact of air conditioner use and refrigerant emission).
R32 Air Conditioners Launched in Europe and Australia, Too

Daikin launched residential air conditioners using the R32 refrigerant in Japan and India in fiscal 2012. Since 2013, an increasing number of other air conditioner manufacturers have been releasing R32 air conditioners, mainly in Japan, as R32 gains growing recognition as a next-generation refrigerant.

In Europe, work is underway for a 2015 enactment of a revised version of the F-Gas Regulation which supports the phase-down of fluorinated greenhouse gases (F-gases). Daikin provided technical information on R32 to industry groups and other relevant organs so that regulations would have sufficient content to go into effect. In November 2013, Daikin Europe N.V. launched a residential air conditioner using R32, and in January 2014 sales of the product began in Australia. We plan to launch R32 air conditioners in a growing number of regions around the world.

Working with Governments and Local Companies to Disseminate R32 in Developing Countries

The conversion to next-generation refrigerants is not far off for developing countries, and to increase accessibility to R32 in developing countries, Daikin is giving free access to its “Basic Patent Indispensable for the Manufacture and Sale of Air Conditioners Using R32 Single Component Refrigerant.” Daikin also participated in a developing country support program sponsored by organs such as Japan’s Ministry of Economy, Trade and Industry (METI) and the Japan International Cooperation Agency (JICA), under which we hosted trainees from developing countries and provided manufacturers and sales companies in these countries with technical support. R32 is highly energy efficient: using it to replace the conventional R22 (HCFC) refrigerant would save up to 10% in electricity consumed. And combining R32 with inverter technology would further reduce electricity consumption.

In fiscal 2012, Daikin was chosen for inclusion in METI’s Global Warming Mitigation Technology Promotion Project, under which the company conducted tests in India showing how R32 inverter air conditioners can effectively reduce CO2 emissions. In December 2013, with the cooperation of METI and the Energy Conservation Center, Japan, we held a seminar as part of efforts to disseminate highly efficient air conditioners. The event was successful in promoting understanding of R32 as we presented the results of the tests and explained the benefits of R32 to the audience, which included the Indian government officials and some members of the Refrigeration And Air Conditioning Manufacturers Association (RAMA).

Daikin also took part in a project to convert to R32 in Thailand, where METI is offering financial aid as part of support for developing countries under the Montreal Protocol. R22 use will be banned in Thailand starting in 2017, and the Thai government’s policy is to convert from R22 to R32 as a next-generation refrigerant. On request from METI, Daikin is working with other air

Worldwide Trend of Legislation on Refrigerants and Daikin’s Approaches
conditioner manufacturers to help Thai manufacturers convert to R32 and is offering technical training to Thai service engineers. In April 2014, we launched an R32 air conditioner in Thailand.

Daikin is also taking part in a United Nations-led project to convert refrigerants in the Gulf nations. Middle Eastern countries are looking at R32 as a potential next-generation refrigerants, and Daikin is providing relevant government officials and local air conditioner manufacturers with the information needed to choose a next-generation refrigerant.

We are also continuing to use international conferences and visits by foreign government officials to Japan as opportunities to provide technical information on R32 and thus help disseminate this refrigerant.

And to build a refrigerant distribution network needed to disseminate R32, we are maximizing our strength as a refrigerant manufacturer.

**R32 Adopted in Commercial Air Conditioners**

Daikin is working to take R32 adoption beyond just residential air conditioners. In November 2013, we launched the FIVE STAR ZEAS, the first light commercial air conditioner using R32.

In Japan, Daikin conducted risk assessment as part of a team of experts that included the Japan Society of Refrigerating and Air Conditioning Engineers (JSRAE), government research institutes, universities, and air conditioner companies. The parties assessed the safety of mildly flammable refrigerants through numerous tests.

Although R32 is being disseminated in countries worldwide, Daikin’s refrigerant research is far from over. We continue our quest for the ideal refrigerant, one best suited to each application, as we strive to contribute to protecting the ozone layer and mitigating global warming.

**Increasing Variety of Air Conditioners Using R32 (Japan)**

<table>
<thead>
<tr>
<th>Honors for R32 residential air conditioners</th>
<th>Honors for R32 commercial air conditioners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal 2012</strong></td>
<td><strong>Fiscal 2013</strong></td>
</tr>
<tr>
<td>- Minister’s Prize, the Ministry of Economy, Trade and Industry in the fiscal 2012 Grand Prize for Excellence in Energy Efficiency and Conservation</td>
<td>- Director-General’s Prize, The Agency for Natural Resources and Energy, 2013 Grand Prize for Excellence in Energy Efficiency and Conservation</td>
</tr>
<tr>
<td>- 16th Ozone Layer Protection/Global Warming Protection Award</td>
<td>- The Prime Minister’s Prize, 5th Monodzukuri Nippon Grand Award</td>
</tr>
</tbody>
</table>

At Daikin plants, we provide visiting government officials with technical information on R32.

**Stakeholder’s Voice**

**R32 an Important Refrigerant for India, Where Air Conditioners are Being Disseminated**

P.K. Mahindra
Senior Officer, Refrigeration And Air Conditioning Manufacturers Association (RAMA)

The dissemination of R-32, which is a low-GWP and energy efficient refrigerant, is being promoted by Daikin, which is providing technical information and service training. We consider R-32 as one of the most important refrigerants for air conditioners as it contributes to the mitigation of global warming.

In India, there is a big rise in the income levels and aspirations of the middle class, which is leading to a great increase in air conditioner sales. Due to this, there are growing concerns about the exponential increase in electric power consumption.

We firmly believe that the promotion and propagation of air conditioners with R-32 in India will lead to reduction in the electric power consumption and also an increase in the customers’ consciousness about environment conservation and energy savings, at the same time meeting their cooling needs.
Europe Striving to Reduce Environmental Impact from Heating

In the cold regions of Europe, the majority of heating is done by combustion boilers, in which gas or kerosene is burned and heat is distributed around the building, usually via a heat emitter system such as radiators, to provide heating. But this exerts a large impact on the environment.

European Union (EU) countries have set a goal of reducing CO2 emissions by 20% by 2020 (against 1990 levels) by increasing renewable energy sources from the current 4.1% to 15% of the energy mix. In line with the Climate Change Act, the UK is aiming to reduce CO2 emissions and shift away from gas as North Sea gas reserves dwindle. As one form of renewable energy, it is looking at increasing the penetration rate of heat-pump type heaters to 30% by 2030. Heat-pump systems exert far less environmental impact than conventional combustion-type systems.

Heat Pump Mechanism

Solar energy stored in the outside air is extracted using a heat pump and used for heating air and water.

Daikin Altherma Air-to-Water Heat-Pump for Space Heating and Hot Water

System using heat generated by heat-pump technology to provide underfloor or radiator heating.

Daikin’s Approach

Developing Technologies That Will Help Spread the Use of Heat-Pump Space and Hot Water Heaters

In heat-pump technology, heat is drawn from the air for air conditioning or heating. It produces less than half the CO2 compared to combustion-type methods. In 2006, Daikin released the Daikin Altherma air-to-water heat-pump space and hot water heater. To help heat-pump products make further inroads into the market, we are taking part in the Smart Communities Project in Greater Manchester, UK and developing new products suitable for extremely cold regions.

Participating in Smart Communities Project in Greater Manchester, UK, with Heat-Pump Technology
### Daikin in Smart Communities Project Incorporates Heat-Pump Type Space and Hot Water Heaters

Daikin was selected, along with Hitachi, Ltd., and Mizuho Bank, Ltd., by Japan’s New Energy Development Organization (NEDO) to execute NEDO’s Smart Communities Project in Greater Manchester, UK.

Under this demonstration project, which runs for three years until March 2017, about 600 electrical and gas hybrid heat-pumps will be installed in social housing to demonstrate their ability to reduce costs for space and hot water heating. There are worries that a bias in the electrical power supply and supply balance will limit the uptake of heat pumps in the UK. This project will verify the ability of the system to automatically adjust the operating schedule of the heat pumps so that users enjoy constant comfort while electricity costs are reduced during peak demand times. Another aim of the project is to build a business model in which the electricity usage at multiple residences is aggregated and excess electricity sold. This is the first time in the world for a project of this size (600 heat pumps) that demonstrates heat pump aggregation functions and electrical power aggregation functions for trading in the electricity trading markets.

Following this project, NEDO, along with Daikin, Hitachi, Ltd., and Mizuho Bank, Ltd., will come up with a plan to increase the uptake of heat pumps in the UK and will propose measures that the UK’s Department of Energy & Climate Change can implement to realize their objectives.

### Developing Products, Like Daikin Altherma Hybrid Heat Pump, to Meet Needs in the World’s Extremely Cold Climates

Users who have become accustomed to combustion-type heating wonder how heat pumps can efficiently heat when the exterior air temperature is extremely low.

To alleviate this concern, in Europe in September 2013, Daikin released the Daikin Altherma hybrid heat pump, a product that automatically switches to gas boiler if exterior air temperature drops dramatically. Depending on factors like the exterior air temperature and gas and electricity costs, the product automatically selects the most efficient and economical method from heat pump, gas boiler, and hybrid. Because heat pump and hybrid are the best operation modes for European climates on average, the Daikin Altherma hybrid heat pump offers a more than 35% increase in heating efficiency compared to using only a boiler.

With the aim of developing a new space and water heating system which offers energy savings and comfort for extremely cold regions around the world, in December 2013 Daikin established the Asahikawa Laboratory in Asahikawa, Hokkaido, a city where winter temperatures drop below -20°C. The facility conducts projects that tie Daikin’s R&D and marketing divisions with the aim of providing world-class next-generation space and water heating solutions.

#### Stakeholder’s Voice

**Smart Communities Project: A Model for All the UK**

Mark Atherton  
Director of Environment for Greater Manchester Association of Greater Manchester Authorities (AGMA)

In 2008, the UK formulated the Climate Change Act, the first law of its kind in the world. Under this act, the target is to reduce greenhouse gas emissions by 80% over 1990 levels by 2050. At the same time, the steep rise in natural gas prices is a problem. As part of a portfolio of measures to address these challenges, the UK government, under its Medium scenario of the UK’s 4th carbon budget, plans to shift to renewable energy and deploy 600,000 domestic heat pumps by 2020, rising to 2.6 million by 2025 and 6.8 million by 2030.

The eyes of the entire UK are on the Smart Communities Project in Greater Manchester. It will facilitate the energy shift that the country must make from natural gas, and it will contribute to fewer carbon emissions through the use of Daikin’s efficient space and water heating products.
Creating Products That Anticipate Regional Needs

Responding to Expanding Air Conditioner Demand in Regions with Unique Usage Environments

Air conditioner demand continues to grow, especially in China and other emerging countries. In response, the Daikin Group is making entry into emerging countries and volume-zone markets part of its Fusion 15 strategic management plan as it works to disseminate highly efficient, energy-saving air conditioners.

Some countries and regions of the world are vastly different from Japan in weather and climate, air conditioner usage environment, and the electricity supply situation. Daikin used to launch air conditioners developed for Japan in overseas markets, which made them a hard sell with their overabundance of features and high price. As a result, we spent more time on product development in order to redesign products to meet the local needs of world markets.

Daikin’s Approach

Quickly Bringing to Market Affordable Products That Meet Consumer Needs

Since fiscal 2013, the Daikin Group has been developing products under the base model concept, a totally different way of thinking from our previous product development. The base model concept allows us to come up with products that meet various specific regional needs by having our overseas bases mix and match the basic performance factors and common parts from Daikin in Japan. We can thus provide customers with consistently high-quality products at a lower cost and in a shorter design time than we could with our previous product development method.

Base model

- Basic performance factors (cooling and heating functions)
- Energy-saving needs
- Need for quiet operation
- Airflow needs
- Design needs
- Need for added functions

Region A choice

- Basic performance factor
- Energy-saving needs
- Airflow needs
- Design needs
- Need for quiet operation

Region B choice

- Basic performance factor
- Energy-saving needs
- Need for quiet operation

Meet needs by making it possible to choose parts from multiple models

Choose parts in each region depending on local needs

Boosting Local Marketing and Development Capabilities
By Grasping Regional Needs

India
Vietnam
Brazil
Mexico
Indonesia
Russia
Turkey

Dispatching young Japanese engineers
Development base

Stakeholder’s Voice

It’s been three years since we became an exclusive distributor for Daikin. We used to handle products from another Japanese manufacturer, but then we became extremely satisfied with Daikin products. I was impressed with how enthusiastic Daikin was about really understanding our needs: Daikin’s Turkish sales company has locally tailored product planning functions, Daikin staff conduct periodic market surveys that include visits to our store to hear our opinions, and sometimes we receive visits by engineers from the European Head Office and Daikin in Japan. But what astonished me most was that the information garnered from the survey was reflected in products that came to market the very next year! I’ve never seen products developed and on the market so fast. Our customers love the new products’ designs and affordability and our sales have been booming. I look forward to seeing Daikin release more products in line with market needs.
Diversity Project — Maximizes the Talents of Female Employees

Japan Needs Women to Take a Leading Role

Daikin has always striven to include the talents of a diverse range of people, whatever their nationality, race, age, or physical abilities.

As our business globalizes, so does the diversity of our customers and business partners. To respond to these market changes, we must further diversify our human resources; this is especially true for women in Japan, a valuable resource whose talents have up to now been under-utilized in this country.

Declining birthrates and an aging society are creating a labor shortage in Japan, and it is becoming increasingly important to effectively utilize the talents of women. Daikin Industries is focusing on putting female employees in a more active role in order to quickly respond to a changing market environment and market needs.

Percentage of Women in Management Positions, by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>52.7</td>
</tr>
<tr>
<td>United States</td>
<td>43.0</td>
</tr>
<tr>
<td>France</td>
<td>38.7</td>
</tr>
<tr>
<td>Australia</td>
<td>36.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>34.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25.0</td>
</tr>
<tr>
<td>Japan</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Source: Are Young People and Women Being Effectively Utilized in the Workforce, published by the Cabinet Office (February 2013)

Daikin’s Approach

Allowing Female Employees to Use Their Capabilities to the Fullest

Since 2001, Daikin Industries has focused on maximizing the talents of women. We increased the number of female managers from two in 2001 to 22 in 2013; however, we are still below the average for the manufacturing industry.

To remedy this situation and get our female employees participating more fully in our operations, in 2011 we launched a project to maximize women’s talents. We discovered that a barrier to more active participation by women was the mindset of both female employees and the Daikin male managers. We thus focused on changing people’s way of thinking. In addition, we expanded our support programs that help achieve a work-life balance for enthusiastic, capable employees.

Maximizing the Talents of Women

- Increasing the number of female managers
- Training to foster female leaders
- Training to change women’s mindset for their long-term career

Changing the mindset of male managers

- Female subordinate fostering sessions as part of management training
- Seminars for male managers and other workplace leaders

Maximizing talents of employees returning to workplace after childcare leave

- Measures to help employees transition smoothly and quickly to workplace after childcare leave
- Maintaining and developing skills and capabilities of workers while they are on childcare leave
- Measures to help returning workers on shorter hours transition back to full time

Stepping up efforts to hire women

- Focus on hiring women enthusiastic about a career
- Focus on hiring women with engineering backgrounds
Changing the Mindset of Male Managers and Female Employees

Since fiscal 2012, Daikin Industries has been conducting training and other efforts to get female employees to think more about their careers by defining the role that their jobs play in their life long-term.

At the same time, we have tried to change the stereotypes and actions of male managers, who tend to think that women will leave the company when they get pregnant, and that certain jobs are not for women. Male managers also tend to believe that since female employees cannot do very much while they are raising children, they should not be given certain work or opportunities. To help remedy these problems, in fiscal 2013, male managers, as part of their management training, took sessions on how to foster the careers of their female subordinates. The sessions included sharing of best practices on training and case studies based on actual problems faced in the workplace. After the session, participants had comments like, “It’s clear that maximizing women’s talents propels diversity and creates new value,” and “I realized that we have been stereotyping women and their roles.” By changing our mindset in this way, we are aiming to step up the training of women and put more of them in management positions, thus creating more equality between women and men at Daikin.

Facilitating a Smooth Transition Back to Work Following Childcare Leave

One barrier to maximizing the talents of women is the problem of long waiting lists to get children into childcare facilities. One of Daikin Industries’ core policies is to create an environment that allows women motivated about work but currently giving birth or raising children to continue their jobs and use their talents to the fullest. To this end, we are boosting support for a smooth transition back to the workplace following childcare leave.

In December 2013, we introduced a service in which specialists help Daikin mothers find nursery schools for their children. The service supports mothers from the time they are pregnant to when they find a nursery school for their children, along the way providing individually geared advice and counseling on the most conveniently located and suitable nursery schools in a prompt and knowledgeable manner.

We also stepped up support systems for a smooth transition to the workplace following childcare leave. For employees returning to work less than six months after taking maternity leave, we have increased the company subsidy for childcare services from a maximum 200,000 yen annually to 600,000 yen. We also have shorter working hours (four hours a day) and a six-hour flex-time system as part of efforts to make it easier for motivated female employees to do their jobs.

Stakeholder’s Voice

Daikin Has Successfully Made Women’s Career Advancement a Part of Management Strategy

Kimie Iwata
Chairperson, Japan Institute of Workers’ Evolution (JIWE)

Daikin Industries’ efforts to maximize the talents of women are unique in several ways. Company executives are taking strong leadership in making this issue core to management strategy; and women returning from childcare leave are helped into a smooth, rapid transition back to the workplace, moving from short working hours back to full time so that don’t merely continue their jobs but rather advance their careers. These are admirable qualities that should be a model for other companies.

However, due to Daikin’s relatively short history in employing women as core employees, the company has quite a low percentage of women in management positions. But we can foresee a rapid rise in this percentage in the next 10 years. I look forward to seeing Daikin publicize target figures for women in management as its target for fostering women’s careers, but without giving them favorable treatment along the way.
Preserving “Nature’s Air Conditioner,” the Natural Gifts from the Forest

Forests provide us with oxygen through photosynthesis and act as natural air conditioners by giving off water vapor that keeps atmospheric temperature from rising. They are also rich in biodiversity and have a range of functions including providing a water source and alleviating flooding.

Apart from a few regions that enjoy the benefits of planting efforts, however, the world’s forest areas continue to decline. The reasons include clearing forest land for agricultural use to meet the needs of a growing population and to reduce poverty, and cutting down trees for fuel wood.

Countries with Largest Decreases in Forest Area (unit: thousand ha/year)

<table>
<thead>
<tr>
<th>Country</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2,190</td>
</tr>
<tr>
<td>Australia</td>
<td>920</td>
</tr>
<tr>
<td>Indonesia</td>
<td>690</td>
</tr>
<tr>
<td>Nigeria</td>
<td>410</td>
</tr>
<tr>
<td>Tanzania</td>
<td>400</td>
</tr>
</tbody>
</table>

Source: “State of the World’s Forests 2010,” by the Food and Agriculture Organization of the United Nations

Supporting Sustainable Coexistence of People and the Forest

In 2008, Daikin and Conservation International (CI) launched a reforestation project in Indonesia. Besides tree planting, the project aims to alleviate poverty and furnish a sanitary living environment through efforts to create harmony between the local community and its forest. This project also contributes to several of the Millennium Development Goals of United Nations (UN), including to ensure environmental sustainability and to eradicate extreme poverty and hunger.

Overview of Reforestation Project

- Planting trees in devastated forests
- Provision of water and electricity
- Agroforestry by the local community
- Training tour guides for ecotourism

UN Millennium Development Goals

- Goal 7: Ensure environmental sustainability
  - Reverse the loss of environmental resources.
  - Halve, by 2015, the proportion of population without sustainable access to safe drinking water and basic sanitation.

- Goal 1: Eradicate extreme poverty and hunger
  - Halve, between 1990 and 2015, the proportion of people whose income is less than $1.25 a day.
Agroforestry by the Local Community

The island of Java, Indonesia, has doubled in population over the past 40 years. People have migrated illegally to protected forest land, where they tend to engage in illegal logging. This area is one of the most rapidly vanishing forested regions in the world. The Daikin-CI joint project covers this area, in which most residents are impoverished farming families living on roughly US$50.00 a month. Furthermore, most of their revenues are from single-crop farming, putting them at the mercy of the weather. They therefore tend to clear more forest land for farming. Unless a substitute source of income is made available, there is little hope that these people will stop logging and coexist sustainably with the forest.

The decision has therefore been made to seek a source of livelihood appropriate for the land. One solution is agroforestry, in which fruit trees are planted along with other types of trees, which make up a natural forest. This approach reduces the need to cut down trees and makes long-term coexistence with the forest possible by protecting the forests and simultaneously providing income.

Local residents took part actively in this project. A new community of farmers held discussion meetings and selected farm products that can be sold for a good price on the market. They are harvesting common beans, cucumbers, and other crops and gradually enjoying a steady income and livelihood.

Provision of Water and Electricity as Nature’s Gifts to Residents

Through this project, we are also improving the community’s standard of living by providing residents with the forest’s gifts in the form of water and electricity.

In February 2012, we installed a pico-hydro power generator that converts flowing water into electricity. In April 2012, we also installed water pipes and storage tanks to receive water from a water source, providing running water for areas that previously had none. This water made the establishment of freshwater fish aquaculture possible, providing additional income for local people. Moreover, in November 2013, the installation of flush toilets improved the community’s sanitation level. Residents were instructed on how to manage these various new facilities as an important part of protecting the forest as a source of water.

This project has been well received, as it creates mechanisms that place local people in charge of protecting and revitalizing forests, resulted in a higher standard of living and a greater appreciation for the preservation of forests. In fact, the Indonesia’s Forest Protection and Nature Conservation under the Ministry of Forestry has begun a similar project in a neighboring region. Daikin is now expanding this program for reforestation and community support beyond Indonesia, with the aim of contributing to sustainable reforestation and community development around the world. We have been implementing the program in Shiretoko, Japan, since fiscal 2011, and began programs in Brazil, Cambodia, India, China, and Liberia in fiscal 2014.

Stakeholder’s Voice

Discovering the Importance of Forest’s Blessings

I have lived in this village for nearly 60 years. Until recently, we had to walk about two kilometers to draw our water, carrying the heavy containers filled with water back to our houses every day. Without easy access to water and electricity, our lives were uncertain and hopeless. Thanks to the support and cooperation of Daikin, we now enjoy clean water. We no longer have to walk a long distance to draw water. More children are now attending school. We have an improved sanitary environment.

We now realize the importance of taking responsibility for protection of the forest, which has given us so many benefits. By doing so, our children, grandchildren, and subsequent generations can enjoy nature’s blessings and an abundant lifestyle.
Low-Impact Products

Recycling of Residential Air Conditioners in FY2013

- Iron: 38%
- Other valuable materials: 13%
- Mixture of non-ferrous and iron composite materials: 34%
- Aluminum: 7%
- Copper: 8%

Total: 9,313 tons

Collected residential air conditioners: approx. 2.96 million units

Fluorocarbons recovered: 158 tons

Low-Impact Production

Greenhouse Gas Emissions (Thousand tons-CO2)

- Substances designated by Kyoto Protocol: CO2 (Energy), HFC, PFC

Sample of LCA: Comparison\(^*1\) of Life Cycle CO2 Emissions (Energy-Induced CO2)

- Materials/parts manufacturing
- Product assembling process
- Logistics
- Use\(^*2\)
- Disposal/recycling process

Commercial air conditioners

<table>
<thead>
<tr>
<th></th>
<th>FY2003 model</th>
<th>FY2013 model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>20,059 kg CO2</td>
<td>16,495 kg CO2</td>
</tr>
<tr>
<td>Reduce by approx. 18%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Energy conservation efforts enabled an approx. 18% reduction.

Residential air conditioners

<table>
<thead>
<tr>
<th></th>
<th>FY2003 model</th>
<th>FY2013 model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4,105 kg CO2</td>
<td>3,505 kg CO2</td>
</tr>
<tr>
<td>Reduce by approx. 15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Energy conservation efforts enabled an approx. 15% reduction.

*1 Based on Daikin standards for 14-kW class commercial air conditioners and 2.8-kW class residential air conditioners.
*2 The seasonal power consumption is calculated in accordance with the standard of the Japan Refrigeration and Air Conditioning Industries Association for commercial air conditioners and the Japanese Industrial Standards (JIS) for residential air conditioners.

Other data can be found on our website.
Amount of Waste and Recycled Materials/Amount of Waste and Recycled Materials per Unit of Production Output

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>Overseas</th>
<th>Overall waste generated per unit in Japan with FY2009 set as 100%</th>
<th>Waste</th>
<th>Recycled materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>30,133</td>
<td>48,819</td>
<td>100%</td>
<td>28,458</td>
<td>68,477</td>
</tr>
<tr>
<td>2010</td>
<td>30,072</td>
<td>43,256</td>
<td>99.7</td>
<td>28,382</td>
<td>63,428</td>
</tr>
<tr>
<td>2011</td>
<td>26,701</td>
<td>43,759</td>
<td>99.8</td>
<td>21,845</td>
<td>58,422</td>
</tr>
<tr>
<td>2012</td>
<td>26,629</td>
<td>45,125</td>
<td>99.8</td>
<td>21,784</td>
<td>58,122</td>
</tr>
</tbody>
</table>

Recycling Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Entire Group</th>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>99.7</td>
<td>83.4</td>
<td>76.6</td>
</tr>
<tr>
<td>2010</td>
<td>99.7</td>
<td>81.8</td>
<td>72.3</td>
</tr>
<tr>
<td>2011</td>
<td>99.7</td>
<td>81.8</td>
<td>72.6</td>
</tr>
<tr>
<td>2012</td>
<td>99.7</td>
<td>81.8</td>
<td>72.6</td>
</tr>
<tr>
<td>2013</td>
<td>99.7</td>
<td>81.8</td>
<td>72.6</td>
</tr>
</tbody>
</table>

Green Procurement Rate by Region (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>99</td>
<td>96</td>
<td>99</td>
<td>95</td>
</tr>
<tr>
<td>China</td>
<td>89</td>
<td>91</td>
<td>92</td>
<td>96</td>
</tr>
<tr>
<td>Thailand</td>
<td>97</td>
<td>98</td>
<td>98</td>
<td>96</td>
</tr>
<tr>
<td>Other countries in Asia and Oceania</td>
<td>85</td>
<td>87</td>
<td>90</td>
<td>84</td>
</tr>
<tr>
<td>Europe</td>
<td>82</td>
<td>87</td>
<td>83</td>
<td>84</td>
</tr>
<tr>
<td>North America</td>
<td>45</td>
<td>81</td>
<td>83</td>
<td>86</td>
</tr>
<tr>
<td>All regions</td>
<td>87</td>
<td>84</td>
<td>89</td>
<td>84</td>
</tr>
</tbody>
</table>

Water Used/Water Use per Unit of Production Output

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>Overseas</th>
<th>Overall water used per unit in Japan with FY2009 set as 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6,670</td>
<td>3,650</td>
<td>7,310</td>
</tr>
<tr>
<td>2010</td>
<td>6,670</td>
<td>4,160</td>
<td>7,410</td>
</tr>
<tr>
<td>2011</td>
<td>6,680</td>
<td>4,330</td>
<td>7,600</td>
</tr>
<tr>
<td>2012</td>
<td>6,710</td>
<td>4,090</td>
<td>7,420</td>
</tr>
<tr>
<td>2013</td>
<td>6,740</td>
<td>4,590</td>
<td>7,830</td>
</tr>
</tbody>
</table>

Environmental Management

Report from Audits (FY2013)

<table>
<thead>
<tr>
<th>Category</th>
<th>Problems found from internal environmental audits</th>
<th>Problems found by third-party certification institutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major non-conformance</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Minor non-conformance</td>
<td>37</td>
<td>0</td>
</tr>
<tr>
<td>Items improved</td>
<td>194</td>
<td>9</td>
</tr>
</tbody>
</table>
Environmental Action Plan 2015

Providing Environmentally Conscious Products

Spread use of energy-efficient air conditioners to reduce CO₂ emissions.

- Through expansion in the widespread use of energy-saving products such as those using inverters, help curb CO₂ emissions by 30 million* tons for emerging countries.
  - *Estimate of CO₂ emission reductions from the use of energy-efficient inventor products sold by Daikin, compared to CO₂ emissions from the use of non-inverter products. The emission reductions figure is annual reduction amount multiplied by product lifespan.
  - Proliferation of R32 air conditioners


Eco-conscious Factories & Offices

Minimize environmental impact from production and other activities.

- Greenhouse gases: Reduce CO₂ emissions.
  - Japan: Reduce per-unit CO₂ from energy use by 20% against fiscal 2005.
  - Overseas: Reduce per-unit CO₂ from energy use by 10% against fiscal 2010.

- Waste: Reduce overall amount of waste by effectively using resources.
  - Japan: Machinery-related: Reduce per-unit emissions by 5% against fiscal 2010.
  - Chemical-related: Reduce per-unit emissions by 10% against fiscal 2010.
  - Overseas: Reduce per-unit emissions by 10% against fiscal 2010.

- Water: Reduce amount of water used.
  - Japan: Reduce per-unit emissions by 5% against fiscal 2010.
  - Overseas: Reduce per-unit emissions by 10% against fiscal 2010.

- Chemicals: Minimize emissions of environmentally harmful substances.
  - Japan: Reduce PRTR substances by 15% against fiscal 2010.
  - Reduce VOCs by 20% against fiscal 2010.
  - Overseas: Reduce per-unit VOCs by 10% against fiscal 2010.

- Green Heart Factories: Achieve environmentally conscious plants.
  - Have major production sites certified as Super Green Heart Factories.
  - Have all production sites certified as Green Heart Factories.

- Green Heart Offices: Achieve environmentally conscious offices.
  - Have major bases in Japan certified as Green Heart Offices.

Environmental Cooperation with Stakeholders

Expand the Green Heart circle to Daikin worldwide.

- Environmental and social contribution activities: Join local governments, citizens, and NPOs to make environmental and social contributions at each global base according to regional characteristics.
  - Continue to carry out environmental and social contribution activities (forest restoration, tree-planting, environmental education, protection of biodiversity within Daikin bases) at worldwide bases.

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

Quality & Customer Satisfaction

Number of Inquiries to the Contact Center

- (Thousands)
- Repair inquiries, Technical advice, Parts inquiries, Others

Social Contribution

Donations in FY2013

- Local communities, welfare, others 11%
- Education 14%
- International exchange 17%
- Environment 25%
- Sports, art, culture 26%
- Disaster relief 7%

Donations in FY2013

Environmental Action Plan 2015

Other data can be found on our website.

DAIKIN GROUP CSR Report 2014
### Daikin Industries Employees by Gender

<table>
<thead>
<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6,379</td>
<td>5,558</td>
</tr>
<tr>
<td>2010</td>
<td>6,553</td>
<td>5,673</td>
</tr>
<tr>
<td>2011</td>
<td>6,550</td>
<td>5,659</td>
</tr>
<tr>
<td>2012</td>
<td>6,668</td>
<td>5,726</td>
</tr>
<tr>
<td>2013</td>
<td>6,733</td>
<td>5,745</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
<th>Women as % (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2012</td>
<td>2013</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of re-employed workers: men (%)</th>
<th>Number of re-employed workers: women (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>83.0</td>
<td>90.0</td>
</tr>
<tr>
<td>2010</td>
<td>90.5</td>
<td>92.0</td>
</tr>
<tr>
<td>2011</td>
<td>92.0</td>
<td>88.1</td>
</tr>
<tr>
<td>2012</td>
<td>88.6</td>
<td>88.6</td>
</tr>
<tr>
<td>2013</td>
<td>88.6</td>
<td>88.6</td>
</tr>
</tbody>
</table>

### Employee Taking Childcare Leave

<table>
<thead>
<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>124</td>
<td>75</td>
</tr>
<tr>
<td>2010</td>
<td>122</td>
<td>68</td>
</tr>
<tr>
<td>2011</td>
<td>151</td>
<td>93</td>
</tr>
<tr>
<td>2012</td>
<td>161</td>
<td>93</td>
</tr>
<tr>
<td>2013</td>
<td>208</td>
<td>120</td>
</tr>
</tbody>
</table>

### Frequency Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Daikin Industries</th>
<th>National average for all industries</th>
<th>National average for manufacturing industry</th>
</tr>
</thead>
</table>

### Severity Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Daikin Industries</th>
<th>National average for all industries</th>
<th>National average for manufacturing industry</th>
</tr>
</thead>
</table>

**Note:** This shows the frequency of work-related calamities, expressed in number of calamities for every 1,000,000 working hours.

**Note:** This shows the severity of the calamity, expressed in man-days lost per 1,000 hours worked.
Third-Party Verification Statement

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

### Data Covered by Verification

**Environmental Impact Data on Business Operations in FY2013**
- Scope 1 and Scope 2 greenhouse gas (GHG) emissions from business operations of four production bases in Japan of Daikin Industries, Ltd., eight production subsidiaries in Japan, and 43 production subsidiaries overseas.
- Category 1 (purchased goods and services), 4 (upstream transportation and distribution), 6 (business travel), and 11 (use of sold products) emissions of Scope 3 GHG emissions calculated in line with the GHG Protocol’s ‘Corporate Value Chain (Scope3) Accounting and Reporting Standard.’

### Scope of Review

**Contribution to CO2 Emission Reduction through the Use of Products**
- Contribution to CO2 emission reduction through the use of inverter air conditioners sold in emerging countries in FY2013.

---

The Daikin website (scheduled to be updated in October 2014) gives the calculation method for environmental performance data.
Honors for Daikin (FY2013)

**Overall CSR (Include SRI)**

- **Daikin Group**
  - Chosen for inclusion in the Morningstar Socially Responsible Investment Index

**Environment**

- **Daikin Industries**
  - 2013 Grand Prize for Excellence in Energy Efficiency and Conservation
    - FIVE STAR ZEAS air conditioner for stores and offices won the Director-General’s Prize, The Agency for Natural Resources and Energy
    - The Hot Cool floor heating and air conditioning system for residential use won the Chairman’s Prize, the Energy Conservation Center, Japan
  - 5th Monodzukuri Nippon Grand Awards sponsored by Ministry of Economy, Trade and Industry
    - For development of a next-generation air conditioner that helps reduce global warming and makes Japan’s manufacturing sector more competitive, Daikin won the Prime Minister’s Office Award in the 5th Monodzukuri Nippon Grand Awards
  - For development of room air conditioners using the new refrigerant R32, Daikin was honored in the Ozone Layer Protection/Glbal Warming Protection Awards sponsored by the Nikkan Kogyo Shimbum (newspaper)
  - Daikin Ales Aoya, a center for training employees to be active on the global stage, won the Green Society Contribution Award from the Organization for Landscape and Urban Green Infrastructure

- **Daikin Device (Suzhou) Co., Ltd.**
  - Low-Carbon Strategic Partnership qualification from the China Quality Certification Centre

- **Daikin Air-Conditioning (Shanghai) Co., Ltd.**
  - Named a Shanghai Advanced Energy-Saving Company

- **Daikin Australia Pty., Ltd.**
  - Chosen for the Canstar Blue Most Satisfied Customers Awards 2013

- **Daikin Airconditioning (Singapore) Pte. Ltd.**
  - Received the Platinum Award under the Green Mark scheme from the Building and Construction Authority (BCA) of Singapore’s Ministry of National Development

- **Daikin Applied Americas Inc.**
  - Named a Better Plants Program Partner by the EPA for commitment to reducing energy use at U.S. manufacturing operations

**Quality & Customer Satisfaction**

- **Daikin (China) Investment Co., Ltd.**
  - Named one of the top 10 air conditioner brands and the top five air purifier brands by the China Household Electric Appliance Research Institute (CHEARI) and the China Consumer Electronics Brand Research Center
  - Selected Excellent Business Partner in the air conditioner category of the 2014 China Real Estate Developers Top 500

- **Daikin Compressor Industries Ltd.**
  - Won second prize in the Karakuri Kaizen Thailand Kaizen Award sponsored by the Thailand Productivity Association

- **Daikin Europe N.V.**
  - The VRV4 building air conditioner was honored in the quality, innovation, functionality, and environment categories of the Plus X Awards 2013

**Human Resources**

- **Daikin (China) Investment Co., Ltd.**
  - Chosen one of the top 100 companies in China in 2013 in maximizing the strength of its human resource

- **Daikin Compressor Industries Ltd.**
  - Honored by Thailand’s Ministry of Social Development and Human Security for support of disabled persons

- **Daikin Airconditioning (Singapore) Pte. Ltd.**
  - Certified as a BizSAFE Partner for outstanding occupational safety and health

- **O.Y.L. Manufacturing Company Sdn. Bhd.**
  - Received the Excellence Award 2013 from Malaysia’s Ministry of Human Resources for outstanding occupational safety and health
About This Report

This report covers the efforts of the Daikin Group’s corporate social responsibility (CSR). It reports on our basic CSR philosophy, achievements in fiscal 2013, and plans for the future.

The report comes in a printed version and a web version. The printed version focuses on the Daikin Group’s four key CSR themes of the environment, quality and customer satisfaction, human resources, and social contribution. The web version provides information such as detailed data and past case studies.

Materiality (of Key Initiatives)

In fiscal 2008, we came up with four key CSR themes of the environment, quality and customer satisfaction, human resources, and social contribution based on stakeholders’ concerns and what was important to the nature of Daikin’s business and its plans. (See pages 7–8.)

We then considered the impacts on society of our strategies and our globalization in each of these four areas, came up with ways to limit these impacts, and formulated CSR targets and plans for the medium term. (See pages 9–10.) We incorporated these into our Fusion 15 strategic management plan with the aim of contributing to sustainable development for Daikin and for society.

Reference Guidelines:

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

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

Dialogue with Stakeholders

The Daikin Group values ongoing dialogue with stakeholders. We deal appropriately with our stakeholders’ opinions and inquiries and when necessary use these to make improvements to our business.

Main Opportunities for Dialogue with Stakeholders

Customer
- • Daikin Contact Center
- • Customer satisfaction questionnaires
- • Support seminars for dealers
- • Service engineer offers helpful extra information during maintenance calls (the “five-minutes of extra care standard”)
- • Daikin Showrooms
- • Community sites

Employees
- • Interviews based on employee self-assessments
- • Labor-management council meetings, labor union council meetings
- • Group Management Meeting

Business Partners
- • Meetings for suppliers
- • Award ceremonies for suppliers
- • Technology discussions, quality and safety gatherings
- • Quality and environmental audits
- • Green procurement briefings

Shareholders and Investors
- • Ordinary General Meeting of Shareholders
- • Briefings on financial results, briefings for investors
- • Annual Report, business reports
- • Information on Website
- • Inquiries by telephone and Internet

Communities
- • Public liaison person at each Daikin base
- • Informing local community of emergency disaster drills
- • Factory tours for local citizens
- • Participation in local groups
- • Involvement in local events

Environment
- • Environmental forums, environmental exhibitions
- • Various forms of environmental PR
- • Environmental education

Daikin Organizations Covered:

This report covers Daikin Industries, Ltd., and its consolidated subsidiaries. Environmental performance data, however, covers four Daikin Industries, Ltd., production bases; eight production subsidiaries in Japan, and 43 production subsidiaries overseas. (See our website for company names and other information.)

Term Covered:

This report covers fiscal 2013 (April 1, 2013, to March 31, 2014).

Publication Date: July 2014 (Japanese edition)
The next publication (Japanese) is planned for July 2015. The next English edition is scheduled for publication in September 2015.

Contact Information:

CSR & Global Environment Center, Daikin Industries, Ltd.
PHONE: +81-6-6374-9304 FAX: +81-6-6374-9321
Email: csr@daikin.co.jp
Information on Website

Information that could not fit in the printed version due to space limitations can be found on the following website.

The symbol of the Earth in the shape of a green heart represents a determination on the part of each and every employee of Daikin to think green (think of the Earth and take care of the environment).