

Corporate Governance

Corporate Governance	268	Prohibiting Bribes	285
Risk Management	274	Information Security	287
Compliance	279	Respect for Intellectual Property Rights	289
Free Competition and Fair Business Dealings	284		



Policy

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

› Corporate Governance

Through an integrated management system for fast decision-making and execution, we improve our operational speed and ensure sound, transparent management.

› Management

(<http://www.daikin.com/about/corporate/directors/>)

Names and biographies of the Daikin Industries, Ltd.'s Board of Directors.

› Risk Management

We quickly and accurately get the big picture regarding risk, and we strive to reduce it by conducting cross-organizational risk management.



› Compliance

We confirm the status of compliance with the Group Conduct of Guidelines and ensure thorough legal compliance.



› Free Competition and Fair Business Dealings

The Daikin group strives for fair business practices through measures for complying with laws.



› Prohibiting Bribes

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



› Information Security

We have built an information management system with specific in-house protocols in efforts to ensure complete control over information security.



› Respect for Intellectual Property Rights

Intellectual property is a valuable company asset. We carry out proper and fair exercise of rights in response to violation of our intellectual property as well as respect other companies' intellectual property.

CORPORATE GOVERNANCE

Basic Policy

Further Boosting Corporate Value

Daikin believes that the role of corporate governance is to accelerate decision making and operational execution work in anticipation of and in response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby increasing the Group's corporate value. The Group will continue to raise corporate value by ensuring the increasing sophistication of speedy management and still-higher levels of transparency and soundness. We will achieve this by constantly reviewing and implementing optimal corporate governance and by spreading best practices throughout the entire Daikin Group.

Corporate Governance Structure

Management and Operational Execution Systems

Rather than adopt a U.S.-style "committee system" that completely separates decision making and work supervision from operational execution, Daikin Industries, Ltd. has adopted an "integrated management" system that provides more advanced management. We believe that this system is effective in speeding up decision making and execution based on the Daikin Group's characteristics. In an integrated management system, directors quickly make strategic decisions and conduct sound and appropriate supervision and guidance, thus achieving management responsibility through cooperation across all management and at the same time achieving work execution responsibility through prompt action. Directors make decision, execute operations, and provide supervision and guidance in an integrated manner, thus executing their own decisions and taking responsibility for seeing these through. We appoint numerous external officers, who monitor the execution of operations from an independent perspective and offer appropriate supervision and advice during decision making, in the process taking responsibility for supporting our "integrated management" from the standpoint of transparency and soundness. To improve actual execution of operations, Daikin Industries, Ltd. has introduced an Executive Officer System, whose members are appointed by the Board of Directors. The goal of this system is to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

Directors are selected with an emphasis on having a diverse range of personnel representing people of varying genders, nationalities, and experience. This helps us globalize, expand our scope of business, and achieve diversity in management. With the guidepost of ensuring that our external, female, and non-Japanese national directors are independent of Daikin, represent a diverse group, and allow transparency, as of the end of June 2018, we have 10 directors (including one woman and two non-Japanese nationals). These directors oversee prompt and strategic decision making and sound supervision and guidance throughout the entire Group.

Daikin Industries, Ltd. appoints three external directors with no vested interest in our company. We ensure these external directors have abundant experience and deep insight and can, therefore, offer a sophisticated perspective on a broad range of issues as they participate in decision making and supervise management. Our main selection criterion therefore is directors of listed companies with a wealth of business experience.

We also ensure that our external directors have an average tenure of 7 years and 2 months and do not hold more than five positions (including their position with Daikin Industries, Ltd.).

To ensure that the external directors can effectively contribute to Daikin Industries, Ltd.'s corporate governance system, the employees in the Management Planning Office are assigned to provide the external directors with early notice of Board of Directors meetings. In addition, in the case that an external director is not able to attend a Board of Directors meeting, the assistants provide the external director with related materials and subsequently provide the external director with an explanation of the proceedings of the meeting and provide other assistance.

Audit System

Daikin Industries, Ltd. employs an Audit & Supervisory Board and seeks to nominate two or more outside members to its Audit & Supervisory Board. The principal nomination criteria for external Audit & Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company. As of June 2018, Daikin Industries, Ltd.'s four Audit & Supervisory Board members include two external Audit & Supervisory Board members.

The external Audit & Supervisory Board members attend meetings of the Board of Directors as well as other important meetings and receive reports. In addition, they are able to express diverse opinions.

To ensure effective audit functions, the Audit & Supervisory Board receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors.

To ensure the effectiveness of Audit & Supervisory Board members, there is the Office of Audit & Supervisory Board members and support staff for assisting Audit & Supervisory Board members in their duties. Staff of the Office of Audit & Supervisory Board members carry out their duties under the orders of corporate auditors. Audit & Supervisory Board members' decisions on employee transfers and evaluations take into account the opinions of the Audit & Supervisory Board.

Organizational Structure Supports Speedy Management Implementation

We are striving to ensure prompt decision-making by having a smaller number of directors and having them take part in practical debate on issues. Three organs—the Board of Directors Meeting, the Group Steering Meeting, and the Executive Officers Meeting—are the main management bodies and as a rule each is convened once a month.

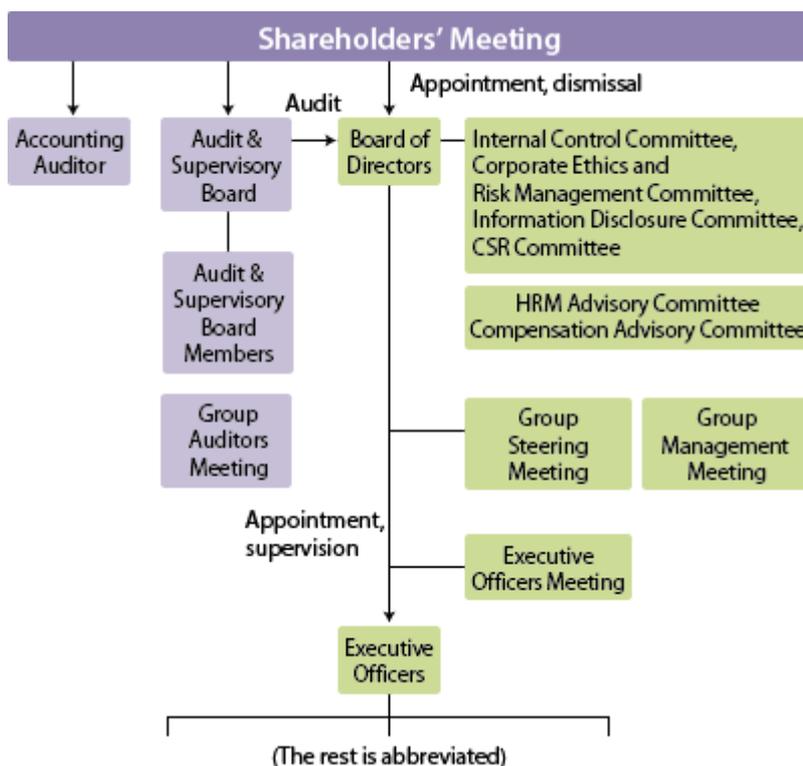
The Board of Directors is the Group-wide decision-making body for items stipulated in laws, regulations, and articles of incorporation. It also provides sound, appropriate supervision and guidance in the execution of operations. The board periodically conducts self assessments with regards to its effectiveness. Each director is interviewed individually as a way to confirm his or her effectiveness. In fiscal 2017, the Board of Directors Meeting was convened 16 times, with external directors attending on average 83% of the meetings and external Audit & Supervisory Board members attending on average 84% of the meetings.

The highest deliberation organ for the Group's management system is the Group Steering Meeting, which strives to constantly speed up the pace at which the Daikin Group decides on future direction and solves issues related to important management policy and strategies. The Group Steering Meeting was convened 9 times in fiscal 2017.

In addition, with the introduction of the Executive Officer System, we have established the Executive Officers Meeting, a platform to promote speedy implementation and thorough deliberation regarding important management tasks related to operational execution.

To ensure that the interests of stakeholders other than shareholders are respected and protected, the Board of Directors oversees the Internal Control Committee, the Corporate Ethics and Risk Management Committee, the Information Disclosure Committee, and the CSR Committee.

Corporate Governance Structure (as of end of June 2018)



Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin Industries, Ltd. has established the HRM Advisory Committee and the Compensation Advisory Committee. These committees engage in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. As of the end of June 2018, the HRM Advisory Committee and the Compensation Advisory Committee consist of five members, including three external directors, one in-house director, and one executive officer, with the committee chair being chosen from the external directors.

The remuneration of directors and Audit & Supervisory Board members is determined so as to fall within the aggregate remuneration ceiling based on a report by the HRM Advisory Committee and the Compensation Advisory Committee. The directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Audit & Supervisory Board.

Daikin Industries, Ltd.'s corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium to long term and thereby contributing to a rise in the Group's corporate value.

Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term performance (net sales and operating income) and each director's job responsibilities, and "stock options" that reflect the Group's medium- to long-term performance. The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient. The CEO is eligible to receive a performance-linked compensation for a maximum of one year.

The remuneration of external directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing data from an outside specialized institution on the remuneration of corporate officers active in just under 300 Japanese companies listed on the First Section of the Tokyo Stock Exchange.

In fiscal 2017, the CEO's annual compensation was 250 million yen and the median employee compensation was 7.4 million yen. The CEO-to-employee pay ratio was thus 35-to-1.

Corporate Officer Remuneration (Fiscal 2017)

Category	Total compensation (Million yen)	Total of different types of compensation (millions of yen)			Persons paid
		Base compensation	Stock options	Bonus	
Director (Excluding external directors)	1,250	746	133	370	8
Audit & Supervisory Board member (Excluding external Audit & Supervisory Board members)	64	64	-	-	2
External corporate officers	76	76	-	-	5

Corporate Officers with Compensation Over 100 Million Yen (Fiscal 2017)

Name	Total compensation (Million yen)	Category	Company	Total of different types of compensation (millions of yen)		
				Base compensation	Stock options	Bonus
Noriyuki Inoue	410	Director	Daikin Industries, Ltd.	263	29	116
Masanori Togawa	273	Director	Daikin Industries, Ltd.	166	29	76
Ken Tayano	170	Director	Daikin Industries, Ltd.	99	14	45
		President	Daikin (China) Investment Co., Ltd. (Consolidated subsidiary)	11	-	-
Masatsugu Minaka	132	Director	Daikin Industries, Ltd.	8	14	36
		Director	Daikin Europe N.V. (Consolidated subsidiary)	72	-	-
Jiro Tomita	147	Director	Daikin Industries, Ltd.	92	14	40
Takashi Matsuzaki	109	Director	Daikin Industries, Ltd.	66	11	32

Accounting Auditor Compensation (Fiscal 2016)

Auditing expenses	243 million yen
-------------------	-----------------

Group-Wide Governance

To ensure governance throughout the entire Group, including companies acquired by Daikin, the Group Management Meeting aims for action based on unified opinion throughout the Group. It does this by sharing important Group policies and basic strategies, as well as providing support for problem-solving in Group companies. The Group Auditors Meeting, made up of auditors from the main Group companies, works to strengthen auditing and control functions throughout the Group and ensure that these functions are working to the fullest.

To further raise corporate governance and Group management as a multinational company, Daikin has put a Chief Global Group Officer position in place. Under this position, the Group strives to further improve cohesiveness across global operations.

Related information

- ▶ [Corporate Governance Report \(updated on June 28, 2018\)](https://www.daikin.com/csr/management/pdf/Corporate_Governance_Report_2018.pdf) 📄 (467KB)
(https://www.daikin.com/csr/management/pdf/Corporate_Governance_Report_2018.pdf)
- ▶ [Management \(About Daikin\)](https://www.daikin.com/about/corporate/directors/index.html) 📄
(<https://www.daikin.com/about/corporate/directors/index.html>)
- ▶ [Disclosure Policy \(Investor Relations\)](https://www.daikin.com/investor/management/disclosure/index.html) 📄
(<https://www.daikin.com/investor/management/disclosure/index.html>)

RISK MANAGEMENT

Basic Policy and Management System

With the Daikin Group expanding rapidly around the globe, we have introduced company-wide, cross-organizational risk management in order to quickly get an overall picture of risks from a global point of view and reduce the risks. With our president as the highest ranking person in Daikin's risk management structure, we carry out risk management in the following three areas.

1. Strategic risk

Risk related to strategic decision-making in the management of Daikin (Division in charge: Corporate Planning Department)

2. Internal control risk in financial reports

Risk related to the reliability of financial reports (Division in charge: Finance and Accounting Division)

3. Operational risk

Management and operational risk related to internal and external causes (Division in charge: Corporate Ethics and Risk Management Committee)

Strategic risk is deliberated on by management members through platforms such as the Group Steering Meeting and the Executive Officers Meeting. As for risk related to the reliability of financial reports and operational risk, the Internal Control Committee, headed by the president, inspects these to ensure that they are being properly managed within the Group's risk management and overall internal control structure.

Related information

▶ [Risks and Opportunities](#) (Page 72)

Principal Risks Associated with the Daikin Group's Operations

The following are possible risks affecting the Daikin Group's financial situation, business performance, and other areas.

Please note that forward-looking statements made here are based on knowledge current as of the end of March 2018.

(1) Sudden changes in politico-economic conditions or supply-demand relationships in principal markets

The Daikin Group conducts activities such as development, manufacturing, sales, and procurement worldwide. In the regions and markets in which we operate, group performance can be affected by external factors such as politico-economic changes and the introduction of stricter environmental regulations, and by business environment matters such as intensifying competition with other companies and increased material prices.

The Daikin Group has acquired other companies, such as Goodman Global Group, Inc. (acquired in fiscal 2012), and overseas dealers, and it has made investments and outlays in establishing facilities such as production bases. Although these have been carried out with the goal of expanding our production and sales network and increasing earnings of the Daikin Group, how well these moves progress affects our business performance.

(2) Changes in demand for air conditioners due to cold summer weather and other unusual weather patterns

Air-conditioning and refrigeration operations accounted for 89.6% of the Daikin Group's consolidated net sales in fiscal 2014. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world's principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group's performance could be impacted.

(3) Large fluctuations in currency exchange rates

Overseas sales accounted for 76.3% of the Daikin Group's consolidated net sales in fiscal 2017. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items, including sales, expenses, and assets, for Group operations in each global region, into Japanese yen. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local currency-denominated figures. In addition, because some of the Group transactions in raw materials and component procurement and in the sale of goods and services are foreign currency-denominated, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

(4) Major product quality claims

The Daikin Group conducts the highest level of quality control on all products it manufactures, no matter what country they are manufactured in. In new product development, we strive to constantly improve quality, cost, and development speed by revamping all processes—starting in the pre-development stages—in a cooperative effort synchronizing the four facets of design, manufacturing technology, purchasing, and suppliers. Although the Group has liability insurance in case a product claim arises, there is still the possibility that major product quality claims could impact Group performance.

(5) Major problems in manufacturing

The Daikin Group takes every possible measure to prevent problems at its worldwide manufacturing bases, and it constantly works to improve its safety inspections and security measures, especially in the chemicals business. In preparation for potential manufacturing problems, the Group has insurance covering things like damage to equipment and lost profits. However, there is the possibility that major manufacturing problems could impact Group performance.

(6) Major changes in the market prices of securities

Securities of the Daikin Group are held mainly for the purpose of mutually expanding business with and strengthening relationships between Daikin and its business partners. However, factors such as fluctuations in the stock market and bankruptcy of business partners could possibly impact Daikin Group performance.

(7) Impairment of long-lived assets

The Daikin Group records a variety of tangible and intangible assets, including assets for business purposes and goodwill arising from the acquisition of another company. It may be necessary to book impairment losses on these assets; for example, due to a decline in business performance or in the market value of the assets, they may not generate the expected cash flow. Such impairment losses could impact Daikin Group performance.

(8) Natural disasters

Natural disasters such as earthquakes, typhoons, and floods can affect Daikin Group manufacturing, sales, and distribution bases, leading to a possible impact on Group performance.

Operational Risks

The directors and executive officers in charge of a duty have the authority and responsibility to create a Group-wide, cross-organizational system that covers the entire sphere of that duty; for example, in terms of product liability and quality, safety, production and sales activities, and disasters.

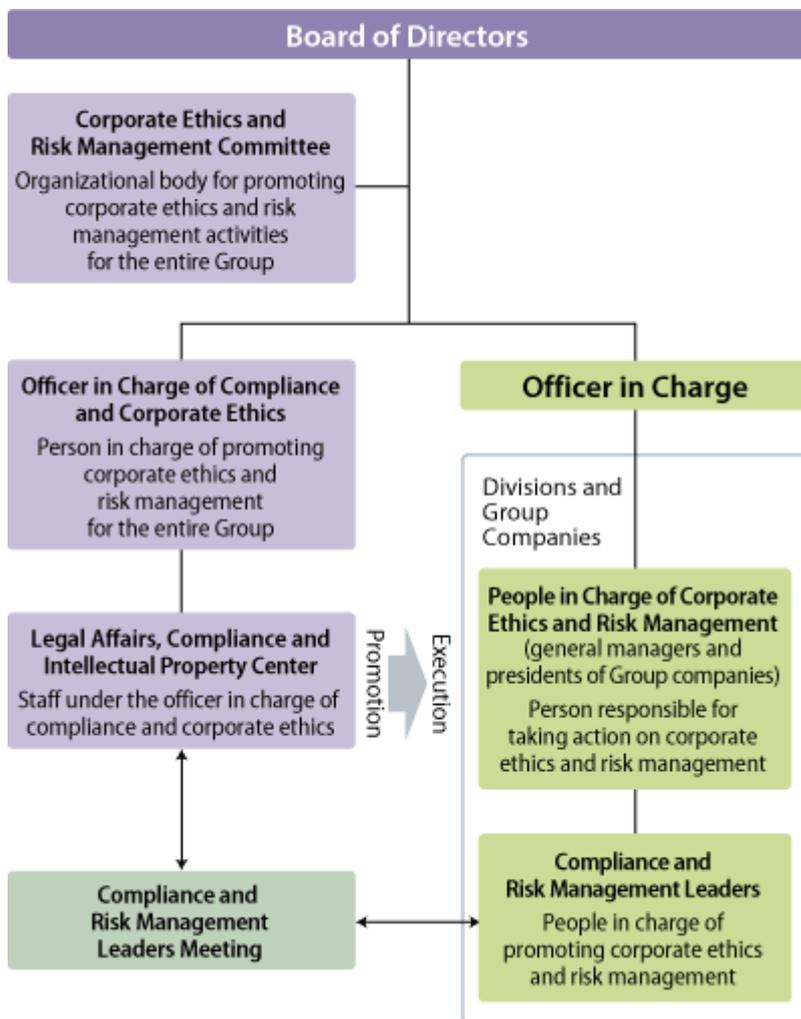
To deal with risk across the entire company, officers in charge of compliance and corporate ethics, through the legal department, identify major risks based on risk management principles, and these are deliberated by the Corporate Ethics and Risk Management Committee in order to formulate measures to deal with risk.

Major Operational Risks in Fiscal 2017

- Earthquakes
- Product liability and quality
- Intellectual property
- Control of information leaks
- Overseas crisis management
- Others

All divisions and major group companies around the world carry out annual risk assessments to determine the most important risks. Based on this, companies propose and implement countermeasures to reduce risk. They also make reports on the progress of these measures and present and share them via the Corporate Ethics and Risk Management Committee.

Operational Risk Management



Preparing for Other Major Risks

Revamping Earthquake Risk Measures and Stepping Up Safety Measures

Daikin has made earthquake risk measures one of its key company-wide themes and we are formulating measures via task-specific teams.

Based on estimates made by the Central Disaster Management Council of Japan's Cabinet Office (such as estimated maximum magnitude and maximum tsunami height), we have made and are implementing proposals in areas including reinforcement of earthquake resistance at our plants and flooding measures at our chemical plant, as well as evacuation drills to prepare for flooding.

We are also creating a business continuity plan (BCP), identifying risks, and making and implementing proposals to, for example, prevent production equipment from toppling and ensure stable procurement of parts and materials.

Group companies are all proceeding with their own BCPs.

Measures to Deal with Information Leak

Daikin has made preventing information leaks one of its key company-wide themes. IT-related divisions and compliance-related divisions cooperate closely, and personal information managers and IT security managers in each division lead efforts to minimize the risk of information leaks.

Recently, there has been a rash of targeted attack emails. In response, the Group has stepped up efforts, including supplementing employee training with actual practice in dealing with such targeted attack emails. In line with the Ministry of Economy, Trade and Industry's Guidelines for the Management of Trade Secrets, we are strengthening efforts, such as by inspecting how well our measures to prevent information leaks are working.

COMPLIANCE

Basic Policy

The Group Conduct Guidelines set forth the basic premises to observe as a basic framework for corporate ethics compliance for all group companies as well as each and every one of their executives and employees in the worldwide expansion of Daikin. We strive for compliance by committing to thorough compliance measures under our CSR Action Plan 2020, a medium-term plan that follows our key CSR themes.

Related information

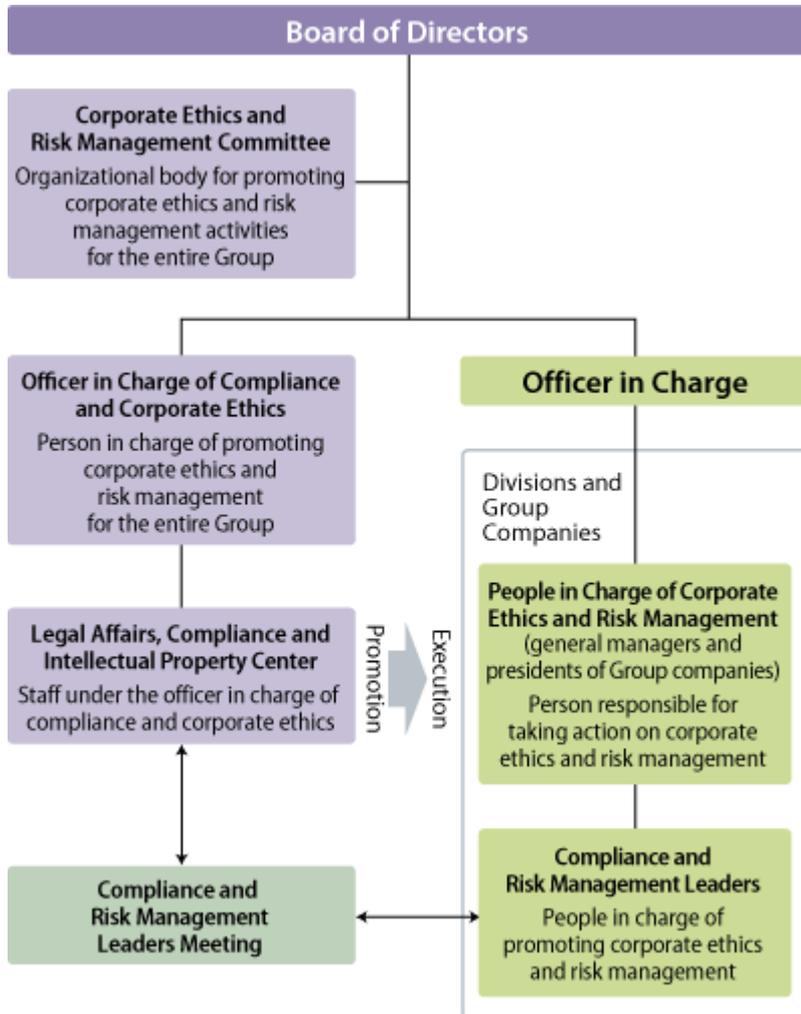
▶ ["Group Conduct Guidelines" \(CSR Philosophy\)](#) (Page 34)

Management System

The Corporate Ethics and Risk Management Committee is the organ for leading group-wide corporate ethics activities. It is headed by the officer in charge of compliance and corporate ethics and made up of general managers and presidents of major group companies in Japan. At meetings held twice a year, the committee focuses on solving key issues and reports on efforts by overseas group companies to tackle compliance issues.

Our Group Conduct Guidelines stipulate the appropriate behavior of our directors and employees, and compliance and risk management leaders (CRLs) are appointed in each division and major worldwide group company to ensure thorough compliance. By regularly confirming the state of compliance and risk management efforts, sharing information, and making the Group Conduct Guidelines second nature to everyone, we aim to cultivate a corporate culture and improve a system in which all employees ensure that they and their colleagues are always in compliance.

Compliance System



Compliance Efforts

Ensuring Constant Compliance with Conduct Guidelines through Self Assessments, a Daikin Initiative

Once a year, we use our unique self assessment system to check that we are following the Group Conduct Guidelines. Using self assessments, employees check their own actions based on the Group Conduct Guidelines. Based on these self assessment results, they create a to-do list of issues and appropriate solutions in their workplace. They also present and share these issues and solutions via the Corporate Ethics and Risk Management Committee.

In addition, the legal department conducts legal audits in divisions and group companies, while the Internal Auditing Department confirms legal compliance through audits.

Formulating Common Worldwide Rules and Sharing Them with Overseas Group Companies

Daikin has formulated common worldwide rules that it shares with overseas group companies so that all Daikin bases around the world can carry out compliance and risk management.

Each overseas group company has created a compliance and risk management system for its own region based on these common worldwide rules.

Each of these systems has compliance committees and Corporate Ethics Handbooks, and they conduct regular self assessments and risk management checks.

In addition, members of the legal department of Daikin Industries, Ltd. regularly visit overseas group companies and join compliance committee meetings in efforts to confirm the state of compliance and risk management and to share information. In April 2018, we held the global legal and compliance meeting, which was attended by legal and compliance representatives from each worldwide region. Participants shared a range of information such as progress with their respective compliance efforts and recent trends in legal systems. These and other efforts enable Daikin Industries, Ltd. and its overseas companies to share and implement each other's best practices.



Participants share their compliance efforts at a meeting in China

Handbook for Corporate Ethics Uses Concrete Examples to Familiarize Employees with Group Conduct Guidelines

Our Group Conduct Guidelines stipulate the appropriate behavior of our directors and employees. To help them act in accordance with these guidelines, we have also created the Handbook for Corporate Ethics, which uses concrete examples to help all employees attain a thorough understanding of compliance.

For example, Daikin Industries, Ltd. gives employees, along with this handbook, compliance cards that they must carry with them at all times so that they can be sure they are following rules and always be aware of the importance of compliance.

In the area of legal compliance, compliance and risk management leaders (CRLs) in each division head efforts to gather the latest legal information and check to see if laws are reflected in company rules and manuals. There are also daily triple checks to ensure everyone is following laws and company rules and manuals.



Handbook for Corporate Ethics

Related information

- ▶ [" Ensuring Legal Compliance in the Entire Supply Chain" \(Working Closely with Suppliers\)](#)
(Page 305)

Education

Focus on Educating Employees Toward Thorough Compliance

We strive to make every employee constantly aware of compliance through a special emphasis on educational activities. We constantly improve these through better compliance education tools and improved ways to relay the importance of compliance.

For example, employees who are studying look at case studies related to legal matters in specific areas, such as sales, production, and procurement. Education is also divided by employee category, with courses for directors, new employees, newly appointed managers, CRLs, and other kinds of employees. Moreover, to raise employees' compliance awareness, training is supplemented by sessions with individual division heads and managers, who repeatedly remind workplace employees about the importance of compliance from their own experience.

Since fiscal 2012, Daikin's Compliance Caravan made up of representatives from the legal department, various Daikin divisions, and group companies has been touring branches around Japan to explain the assumed risks and key points of compliance. This training includes active dialogue on case studies relevant to Daikin business.

At Daikin Industries, Ltd., every two months employees receive an email newsletter called Daikin Compliance News, which uses familiar case studies to raise employee awareness of the importance of compliance. In addition, whenever there is an important revision to a relevant law or regulation, all employees take e-learning on the matter.

Major Legal Violations in Daikin in Fiscal 2017

The Daikin Group makes it a rule to publicly announce all instances of major legal violations related to business operations.

There were no cases of business-related major legal violations in fiscal 2017 at Daikin.

Help-Line

Help-Line for Corporate Ethics Offers Counseling and Gathers Opinions both Inside and Outside Daikin Industries, Ltd.

Daikin Industries, Ltd. has a Help-Line for Corporate Ethics both inside and outside the company, where employees can give opinions or receive consultation on all corporate ethics matters. Through the help-line, all advice sought and opinions expressed are kept strictly confidential, and reported matters are dealt with promptly and appropriately. No retribution is taken against either those persons reporting problems and seeking advice, or those persons helping investigate the reported matters.

The legal department investigates all queries and opinions to the Help-Line, and works with related company divisions to decide on measures to prevent the reoccurrence of problems. This makes for the smooth creation of measures and the solution of problems.

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

In fiscal 2017, we set up an external help-line at a law firm. Employees were informed of this through, for example, posters in workplaces.

FREE COMPETITION AND FAIR BUSINESS DEALINGS

Basic Policy

Ensuring thorough legal compliance and conducting fair business practices

Based on our Group Conduct Guidelines, which state that we conduct free competition and fair business dealings, Daikin conducts fair business practices.

Group Conduct Guidelines

2. Free Competition and Fair Trading

We shall observe all applicable laws and regulations relating to fair competition and fair trade of each country and region, including antimonopoly laws. Furthermore, we shall conduct fair sales and procurement activities based on proper corporate ethics and in accordance with sound business practices and social norms.

Daikin Industries, Ltd. strives to always comply with laws on antimonopoly, misleading representations, and subcontracting. For example, annual training plans are made based on the needs of each division. As necessary, we assign experts such as lawyers and employees in the legal department as instructors for these division-based training courses. In this way, communication with each division ensures the most effective training. At the same time, self assessments include checks that relevant laws are being obeyed.

Related information

- › ["Education" \(Compliance\)](#) (Page 282)
- › ["Compliance Effort" \(Compliance\)](#) (Page 280)
- › [Philosophy on Suppliers](#) (Page 300)

PROHIBITING BRIBES

Basic Policy

Daikin's Group Conduct Guidelines state that we practice moderation in entertainment and gift exchanges. We strictly implement our corporate ethics and risk management system, which covers matters such as prohibiting bribes.

Group Conduct Guidelines

13. Practicing Moderation in Entertainment and Gift Exchanges

We shall exercise moderation and perform within the acceptable range of social norms and obey the laws and regulations of each country and region in regards to entertainment, the exchange of presents, and invitations relating to the development of our global business. In particular, we shall not entertain, provide gifts of monetary value to, or extend invitations to public officials in Japan or abroad that violate the applicable laws and regulations in each respective country and region.

Thoroughly Implementing Compliance Guidelines for Preventing Bribery of Public Officials, Etc.

In fiscal 2014, with the approval of our board of directors, we created our Compliance Guidelines for Preventing Bribery of Public Officials, Etc., which give detailed directives related to entertaining, gift-giving, and invitations for government officials.

Every year, we confirm compliance with our Group Conduct Guidelines by conducting inspections through our unique self assessment system. Any compliance problems found are shared by reporting them to the Corporate Ethics and Risk Management Committee.

Educational Activities

Daikin holds company-wide training so that employees obey rules on sound and transparent relations with government offices, are compliant with the Political Funds Control Law and the Public Offices Election Act, and conduct moderate entertainment and gift-giving with suppliers.

To ensure that employees are familiar with every aspect of guidelines, since fiscal 2014 we have held briefings for each division and group company around the world and provided e-learning for all employees of Daikin Industries, Ltd.

Monitoring

Since formulating the Compliance Guidelines for Preventing Bribery of Public Officials, Etc., we have carried out audits in divisions and group companies that do business in countries and regions where corruption is prevalent to ensure that bribes are not occurring. Guideline-related issues discovered during the audits are dealt with by creating solutions in collaboration with relevant divisions and group s . In addition, issues and successful countermeasures are shared via the Corporate Ethics and Risk Management Committee and global legal and compliance meetings attended by compliance and risk management leaders in each worldwide region.

Related information

› ["Compliance Effort" \(Compliance\)](#) (Page 280)

Help-Line System

Daikin Industries, Ltd. has a Help-Line for Corporate Ethics, through which employees can give opinions or receive consultation on all corporate ethics matters, including bribe-related issues.

Related information

› ["Help-Line" \(Compliance\)](#) (Page 283)

INFORMATION SECURITY

Basic Policy on Information Security

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

Daikin's Group Conduct Guidelines state that we manage and use confidential information appropriately. Information managers in each division follow in-house protocols in thoroughly managing confidential information, be it our own or that of other companies. The system undergoes continuous improvement as employees carry out their own self assessments, the legal department carries out legal audits, and the Internal Auditing Department conducts internal audits.

And with the increasingly widespread problems of companies losing information over the Internet, we are striving to raise the awareness of employee regarding managing their information; for example, we have strict company policy regarding employees' use of social media.

In October 2018, Daikin formulated its Information Security Basic Policy, the goal of which is to clarify our basic philosophy and action on information security and get all of Daikin working as one to manage and protect information.

Group Conduct Guidelines

5. Proper Management and Utilization of Information

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

Information Security Basic Policy

The Daikin Group recognizes that one of our most important management issues is to deliver safe and highly reliable products and services and protect our information assets as well as customers' information assets in our possession from various types of threats by addressing information security risks which increase on a daily basis. To deal with these issues, we establish the Group basic information security policy and unite as the Daikin Group to further reinforce information security.

1. Our Group complies with rules and regulations, national guidelines, and other social standards in connection with information security.
2. Our Group establishes and complies with internal rules related to information security based on the basic information security policies.
3. Our Group implements appropriate security measures from personnel, organizational, and technological perspectives to protect and manage information.
4. Our Group provides continuous education and awareness programs for information security to all employees.
5. Our Group properly collects information and quickly reports to top management in the event that a security problem occurs on information assets. In addition, we rapidly investigate the cause and strive to minimize the damage and prevent recurrence.
6. Our Group inspects the information security management system and its initiatives and continuously reviews and improves them.

Personal Information

› [See Protecting Customer Information \(Customer Satisfaction\)](#) (Page 226)

Response to Personal Data Regulations for EU Citizens

› [See Response to Personal Data Regulations for EU Citizens \(Respect for Human Rights\)](#) (Page 296)

RESPECT FOR INTELLECTUAL PROPERTY RIGHTS

Basic Policy

Acquire Intellectual Property Rights While Respecting That of Other Companies as Well

Daikin understands that intellectual property rights constitute a valuable company asset. We thus strive to both protect these rights and use them effectively. Our Group Conduct Guidelines state that we will respect other companies' intellectual property rights and ensure that our inventions do not infringe on these rights.

Group Conduct Guidelines

4. Respect and Protection of Intellectual Property Rights

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

Based on the Group Conduct Guidelines, we formulated more detailed points in our Compliance Action Guidelines, which state that we will acquire patents and avoid infringement by having the person in charge of R&D at Daikin be the person responsible for a patent and having the researcher/developer understand that he/she is the sole developer of the product or invention.

In new product and new technology development, part of the design review process involves verifying that these products and technologies do not infringe on existing patents. In collaborations with other companies, we distinguish between open technologies and confidential technologies, and confidential technologies are designated as such and kept out of reach.

System for Protection of Intellectual Property

Intellectual Property Manager in Research Department

To actively support researchers/developers, the legal department assigns an intellectual property manager in each division.

The intellectual property managers keep in contact with each other, and manage the variety of intellectual property matters that come up daily (filing/acquisition of rights, reduction of risk of infringement upon and infringement by other companies, etc.). They also educate employees at various levels on intellectual property and reward Daikin patent awardees. And to ensure strategic implementation of intellectual property activities, they form patent networks with researchers/developers and strengthen global intellectual property survey functions.

Moreover, with the globalization of our R&D bases, we are appointing intellectual property managers at each of these bases.

We will continue to strive to better manage our intellectual property rights by acquiring and using a greater number of patents and higher quality patents.

Strengthening the Intellectual Property Rights System in Line with Globalization of Business and R&D Bases

We are also strengthening our intellectual property rights systems at our overseas R&D bases. At Daikin Industries, Ltd. and at overseas group R&D bases, starting with those of our Group companies in China, we are striving to obtain various intellectual property rights. We also continue to offer classroom and e-learning, and on-the-job training for intellectual property managers and developers at overseas R&D bases.

China has overtaken the U.S. as the country with the most patent applications. It also has more intellectual property court cases than the U.S. Against this background, Daikin is actively acquiring intellectual property rights in China, and is stepping up applications for patents, utility models, devices, and trademarks. In emerging countries like India and Brazil, and in emerging countries in southeast Asia, we are stepping up device applications as a way to effectively prevent product copying and boost patent applications.

In fiscal 2017, we came up with a five-year plan to strengthen intellectual property rights at R&D bases and give them more autonomy over intellectual property duties. We hold global intellectual property conferences, where participants share and discuss their respective efforts and common issues, and intellectual property managers strengthen ties.

In fiscal 2018, we plan to have overseas R&D bases gain more autonomy over intellectual property rights functions and step up group-wide governance of intellectual property.

Encouraging Employees to Create Intellectual Property

› Refer to "Spurring the Creation of Intellectual Property" (Management Structure) (Page 196)

Scientific Technology Transfer

Worldwide Free Access to Patents for Equipment Using Next-Generation Refrigerant

Daikin Industries, Ltd. has been offering free access to a cumulative total of 93 basic patents necessary for companies to develop and commercialize air conditioners that use HFC-32 refrigerant. The company has been doing this in emerging countries since September 2011 and worldwide including industrialized countries since September 2015. The aim is to promote the use of HFC-32 worldwide.

Related information

- › [Low Environmental Impact Refrigerants](#) (Page 109)
- › [Press release: Daikin Offers Worldwide Free Access to Patents for Equipment Using Next-Generation Refrigerant](#)  (131KB)
(http://www.daikin.com/csr/pdf/press_20150910.pdf)
- › [Key Activities of Fiscal 2015: Environment — Creating a New Market that Contributes to the Mitigation of Global Warming](#)
(<http://www.daikin.com/csr/feature2015/01.html>)
- › [Key Activities of Fiscal 2014: Environment — Disseminating Refrigerants with Low Global Warming Impact](#)
(<http://www.daikin.com/csr/feature2014/01.html>)