Establishing Key CSR Themes toward Sustainable Development

In understanding society's challenges, Daikin assesses the impact that its business activities have on society, and identifies key challenges (materiality) from two aspects—"stakeholder concerns and impacts," and "importance to Daikin." We have organized these challenges into our key CSR themes, which have been reflected into our strategic management plans. Each key theme has targets that we are working toward.

1 Understanding Stakeholder Concerns and Impacts

One important judgment criterion in analyzing materiality is stakeholder concerns and impacts. To fully understand this, Daikin follows international frameworks toward solving society's challenges (global risks), and it takes into account stakeholder assessments of Daikin and the wishes and opinions that stakeholders have expressed in dialogue with Daikin.

### Assessing the Impact of Our Business on Society throughout the Entire Value Chain

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Business impact, what Daikin to do</th>
<th>Efforts of significant materiality</th>
</tr>
</thead>
</table>
| **Procurement** | Throughout the globally expanding supply chain, Daikin is expected to respond to various procurement risks involving, for example, quality control, labor practices, and environmental protection. | Supply chain management  
Anti-corruption  
Free competition and fair business dealings |
| **Development, Design** | It is crucial that Daikin increase productivity while at the same time improving manufacturing quality and reducing environmental impact at all worldwide production sites. | Effective use of resources and energy  
Measures against atmospheric pollution  
Management of chemical substances  
Waste and water-use reduction |
| **Manufacturing** | Faulty air conditioner installation not only causes quality problems but also leads to environmental problems such as refrigerant leakage. It is crucial that Daikin raises the level of installation skills of employees and retailers worldwide. | Response to climate change  
Product quality and safety  
Customer satisfaction |
| **Sales, Transportation, Installation** | As air conditioner demand grows in emerging markets and other countries, Daikin must develop products that offer superb environmental performance and comfort and meet regional needs. | Response to climate change  
Product quality and safety  
Customer satisfaction |
| **Usage** | Global warming impact from air conditioner use presents a huge challenge. At the same time, air conditioners provide benefits such as preventing heatstroke and making people more productive. | Response to climate change  
Measures against atmospheric pollution |
| **After-sales Service, Recovery, Recycling** | In order to spread Daikin technologies and thus contribute to solving society's problems, it is essential that we work closely with numerous partners, including governments, United Nations bodies, international organizations, NPOs, NGOs, key individuals, and local communities. | Customer satisfaction  
Information security |
| **Business Activity Foundation** | To achieve a recycling-based society, it is crucial that we are thorough in recycling air conditioners and recovering/recycling refrigerants. | Customer satisfaction  
Information security |
| **Relationship with Society** | In order to continue contributing to society, we must develop the human resources who conduct our business, comply with laws and regulations, and have in place a system of corporate governance. | Labor-management relations  
Respect for human rights  
Corporate governance  
Stakeholder engagement |

Note: Five most highly probable risks taken from the World Economic Forum Global Risks Perception Survey 2017-2018

* International agreement to phase down the global warming impact (CO2 equivalent) of HFCs.
Establishing Key CSR Themes towards Sustainable Development

We provide healthy and comfortable air environments for people around the world while at the same time reducing environmental impact.

We respond to society’s requests through corporate action based on transparency and sincerity.

3 Identifying Materiality and Organizing It into 9 Key CSR Themes

We identified materiality from the two aspects of “stakeholder concerns and impacts” and “importance to Daikin,” and together with the formulation of the Fusion 20 Strategic Management Plan we organized nine materiality issues as key themes in fiscal 2015: four themes of CSR for value provision, and five themes of fundamental CSR. Note that in fiscal 2018, when formulating plans for the final three years of Fusion 20, we revised some materiality issues based on the changing situation.

Materiality analysis

<table>
<thead>
<tr>
<th>Stakeholder concerns, impacts</th>
<th>Environment</th>
<th>New value creation, Customer satisfaction, Human resources</th>
<th>Fundamental CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biodiversity protection</td>
<td></td>
<td>Measures against atmospheric pollution</td>
<td>Response to climate change</td>
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<tr>
<td></td>
<td></td>
<td>Respect for human rights</td>
<td>Effective use of resources and energy</td>
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<td></td>
<td></td>
<td>Stakeholder engagement</td>
<td>New value creation</td>
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<tr>
<td></td>
<td></td>
<td>Communities</td>
<td>Product quality and safety</td>
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<tr>
<td></td>
<td></td>
<td>Management of chemical substances</td>
<td>Customer satisfaction</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td></td>
<td>Occupational safety and health</td>
<td>Human resource development</td>
</tr>
<tr>
<td>Free competition and fair business dealings</td>
<td></td>
<td>Labor-management relations</td>
<td>Workplace diversity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supply chain management</td>
<td>Corporate governance</td>
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<td></td>
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<td>Information security</td>
<td></td>
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<tr>
<td>Important</td>
<td>Waste and water-use reduction</td>
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</tr>
</tbody>
</table>

Daikin’s 9 Key CSR Themes

**CSR for Value Provision**
We provide healthy and comfortable air environments for people around the world while at the same time reducing environmental impact.

**Fundamental CSR**
We respond to society’s requests through corporate action based on transparency and sincerity.

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4 Formulating a CSR Action Plan and Reflecting This into the Fusion 20 Strategic Management Plan

The nine key CSR themes have been incorporated into the Fusion 20 Strategic Management Plan as important management items that are being put into action group-wide. In fiscal 2018, we established targets for 2020, which include quantitative indicators for the various CSR themes. These were reorganized as the CSR Action Plan 2020. In implementing this plan, we will contribute to solving society’s challenges and respond to stakeholder demands.