Supply Chain Management

Philosophy on Suppliers 355
Working Closely with Suppliers 361
Green Procurement Guidelines 368
Fulfill our social responsibility through environmental impact reduction, quality assurance, and occupational safety and health throughout the entire supply chain.

**Philosophy on Suppliers**  
(Page 355)

We make efforts to engage in fair transactions with suppliers and promote CSR initiatives throughout the supply chain.

**Working Closely with Suppliers**  
(Page 361)

We make efforts to collaborate with suppliers to enhance product quality while supporting technological capability improvements and safety countermeasures.

**Green Procurement Guidelines**  
(Page 368)

Based on our Green Procurement Guidelines, we cooperate with suppliers in conducting green purchasing.

**Related information**

- **Green Procurement** (Page 109)
Supply Chain Management

PHILOSOPHY ON SUPPLIERS

Basic Policy

Dealings Based on Our Purchasing Policy

Daikin formulated a Purchasing Policy in 1992 that is the basis for fair dealings with suppliers.

Purchasing Philosophy and Purchasing Policy

Purchasing Philosophy:
"Respect Independence" and "Cooperation and Competition"

Purchasing Policy:

- Fair relations based on an open-door policy
  Provide open, equal, and fair opportunities for all companies, regardless of their locality, size, and sales results.
- Mutual growth through mutual trust
  Create open conditions for business dealings and respect free competition.
- Look for good partners
  In procuring from overseas, look for companies to share common profit and offer society useful products.
- Observe laws, and maintain confidentiality
  Observe laws on business dealings and respect the spirit of these laws.
Management System

Giving All Suppliers an Equal Opportunity through an Open Door Policy
Daikin has an open door policy on choosing suppliers in which we welcome bids from any company, regardless of nationality, size, or years in business.

In our air conditioning divisions, information on product specs, desired quality and cost, and delivery times is posted on our website in order to achieve equality of opportunity. All companies satisfying our criteria become eligible to do business with us.

In our Chemicals Division as well, we do business with any supplier meeting our criteria for specifications, quality, price, and delivery time.

Evaluation of Supplier

Conducting Regular Evaluations of Suppliers
Before starting business dealings in Daikin, we ensure potential partners understand our Purchasing Policy, and we assess them on consistent standards. After business dealings begin, we conduct assessments based on ISO 9001 and then review the business relationship accordingly.

In the air conditioning divisions, before we start transactions with new suppliers, we use the Supplier Assessment Standard Sheet to judge companies based on their administration, quality, price, delivery, and environmental measures. Suppliers are re-assessed every year at our business sites globally based on our Assessment System for Continuation of Business. Investigations into compliance with the Daikin’s CSR Promotion Guidelines are also carried out to determine whether or not to continue business dealings.
Companies that do not meet our assessment standards or companies that pose a high risk are required to make improvement plans that we assist them in implementing.

In the chemicals divisions, we assess new and existing suppliers based on ISO 9001 from the perspective of five criteria: management control, safety control, quality control, environmental control, and production control. We also strive to ascertain the status of suppliers’ CSR initiatives. In fiscal 2018, such assessments resulted in Daikin bringing on 10 new suppliers. We strive to fairly assess suppliers from multiple perspectives, having numerous Daikin representatives negotiate with them and making regular visits to their companies.
CSR Procurement

Rolling Out Supply Chain CSR Promotion Guidelines

Daikin formulated CSR Action Plan 2020, which is a medium-term plan taking up key CSR themes, as an initiative for the sustainable development of business together with suppliers that runs alongside the ‘pursuit of good partners’ pursuant to our Purchasing Policy. This plan proclaims that we will conduct socially responsible procurement as we tackle issues like the environment, human rights, and labor throughout the supply chain.

In April 2017, Daikin formulated its Supply Chain CSR Promotion Guidelines. These guidelines aim to further CSR at suppliers and other partners through stable and ongoing growth. In addition to standard requirements such as proper management and abidance with laws and regulations, the guidelines urge suppliers to strive to be better in every aspect of CSR, such as improving performance in the environment, quality, labor safety, and human rights, and abstaining from dealing with companies in war-torn regions. Training based on these guidelines is held internally and at suppliers.

Since fiscal 2018, we have conducted CSR questionnaires for monitoring compliance with these guidelines and provide the results of questionnaires to suppliers as feedback. In addition, we evaluate suppliers by ranking their CSR initiatives according to our own standards and then recommend improvements or provide guidance to suppliers, in order to improve the quality of their CSR initiatives. These rankings are A, for suppliers with excellent CSR initiatives, B, for suppliers currently implementing CSR initiatives, C, for suppliers with certain challenges in terms of CSR initiative themes, and D, for suppliers who do not implement CSR initiatives and face many challenges. We designate the percentage of suppliers between A and C ranks who have satisfied our company standards as the "CSR procurement implementation rate." In fiscal 2018, we conducted a CSR questionnaire on 135 of our main suppliers in Japan. The results indicated the CSR procurement implementation rate is 94% for fiscal 2018.

In fiscal 2019, we will work to increase the level of CSR initiatives at suppliers in Japan and expand this approach on a global scale.

As part of ongoing assessments of our suppliers conducted every April in our chemicals divisions, we have them fill out questionnaires to diagnose their own compliance and that of their external providers. These questionnaires contain items related to CSR so that we can follow their progress in this area.

Results of CSR Questionnaires for Fiscal 2018

*Percentage of suppliers that satisfy Daikin’s standards
1. Policy regarding social responsibility in business practices
   Have written rules to inform employees of their social responsibilities and ensure they strictly
   fulfill such social responsibilities in areas such as business policy and code of conduct in
   business practices.

2. Provision of safe, high-quality products and services
   Always strive to ensure safety and quality of products for end users. If problems regarding
   safety arise, take action promptly and appropriately.

3. Free competition and fair trading
   Conduct company business activities in a fair manner by being compliant with laws and
   regulations related to free competition and fair trading, including antitrust laws in each
   country and region.

4. Compliance with trade-related laws and regulations
   Comply with trade-related laws and regulations of each country and region, and under no
   circumstances get involved in dealings that risk endangering world peace and safety and the
   maintenance of world order.

5. Respect and protection of intellectual property rights
   Respect the intellectual property rights of other companies and ensure not to infringe upon
   them.

6. Proper management and utilization of information
   Properly manage and efficiently utilize confidential information and personal information of
   your own and other companies, and always ensure that such information is obtained under
   lawful means.

7. Prohibition of insider trading
   To maintain trust as company, do not take a part in the buying and selling of stockshares with
   the aid of non-disclosed information obtained from your own or other companies (insider
   trading).

8. Timely and proper disclosure of corporate information
   When Daikin, based on appropriate reasons and situations, requests that you disclose
   information on your company, respond earnestly and in a timely manner, and strive for
   earnest two-way communication with Daikin.

9. Preservation of the global environment
   Comply with environment-related laws and regulations in each country and region, and
   implement activities to sustain and improve the global environment in all areas of business,
   including development, production, sales, logistics, and services.

10. Guarantee of safe operations
    Besides ensuring safety in the workplace, obtain the trust of stakeholders in the community
    by always putting "safety first" and by making every effort to ensure safe operations.

11. Respect for human rights and diversity, and compliance with labor-related laws
    Respect the human rights of each and every individual; do not in any way discriminate against
    people based on their nationality, race, ethnicity, religion, skin color, age, gender, birth, or
    disability; and respect people's diverse values and approaches to work. In addition, observe
    both the letter and spirit of all labor laws and regulations of each country and region, and
    under no circumstances sanction the labor of underage employees, minors who do not meet
    the minimum legal age requirements (child labor), or labor performed under compulsion or
    against a person’s will (forced labor).
12. **Protection of Company Assets**
   We shall properly manage the tangible and intangible assets of our company to protect and utilize effectively these assets.

13. **Proper handling of accounting procedures**
   Perform accounting procedures lawfully and properly according to accounting standards and tax laws, and strive for a high level of internal control.

14. **Moderation in entertainment and gift exchanges**
   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 and the exchange of gifts related to business activities.

15. **Firm stance toward anti-social behavior**
   Take a firm stance against anti-social forces or organizations that threaten the safety and order of citizens and society.

16. **Compliance with industry laws and regulations**
   Accurately comprehend and observe all business laws and regulations applicable to your company's business activities.

17. **Proper grasp of industry risks and implementation of business continuity plans**
   Conduct appropriate risk management in your company's business activities, and have a business continuity plan (BCP) in place.

---

**Green Procurement Ensures Thorough Chemicals Management**

Refer to [Green Procurement (Environmental Management)](Page 109)

**Dealings Based on Our Basic Policy Regarding Conflict Minerals**

Under "11. Respect for human rights and diversity, and compliance with labor-related laws" of the Supply Chain CSR Promotion Guidelines, the Daikin Group does not use conflict minerals, which are mined under inhumane conditions in the Democratic Republic of the Congo or surrounding countries. In July 2013, we established our Basic Policy Regarding Conflict Minerals.

In our air conditioning divisions, in fiscal 2016 we started an online registration system for results of conflict mineral surveys based on the latest Conflict Mineral Survey EICC Sheet*. This strengthens our system for surveying the procurement sources of conflict minerals.

* Conflict Mineral Survey EICC Sheet: A standardized tool for surveying the source of conflict minerals; based on the Electronic Industry Code of Conduct, which stipulates standards covering areas such as labor and environment in the electronics industry supply chain.

**Basic Policy Regarding Conflict Minerals**

To ensure that Daikin does not inadvertently provide assistance to inhuman acts of armed groups in the Democratic Republic of the Congo and surrounding countries, we are taking active measures to uphold appropriate mineral procurement by raising transparency of the supply chain in cooperation with our global business partners.
Risk Management in the Supply Chain

Risks in the supply chain include supply problems due to earthquakes and other natural disasters, bankruptcy due to suppliers’ financial troubles, supply problems due to the breaking of laws and accidents, and stoppage of the international flow of goods due to political or economic problems in certain countries.

We regularly evaluate suppliers to identify risk and have created an in-house system for making quick decisions on suppliers affected by risk, and we update our databases as needed in order to improve our ability to deal with problems when they arise.

Through our Global Supplier Conference, we work to adjust order volume, streamline costs, and ensure stable procurement in dealings with our 23 overseas supplier companies.

Participating in Initiatives

Participation in the UN Global Compact

Since October 2008, Daikin Industries, Ltd. has been an official member of the UN Global Compact, an initiative of the United Nations. It is also a member of the local body Global Compact Network Japan. We take part in the subcommittee on supply chains, a subcommittee comprising representatives of member companies and organizations. Subcommittee members meet to discuss and exchange information on CSR efforts in the supply chain, and to collaborate and cooperate in order to advance these efforts and thus strengthen supply chain management.

Related information

- Participation in the Global Compact (Page 80)
Ensuring Legal Compliance in the Entire Supply Chain

Doing Everything Possible to Help Suppliers Achieve Compliance

Daikin strives to achieve legal compliance throughout the supply chain by doing everything possible to help suppliers abide by laws.

In the air conditioning divisions, we raise supplier awareness through written requests for legal compliance and meetings four times a year at which we introduce case studies. When renewing agreements with suppliers, those that fail to meet our standards are asked to write up plans for improvement, which we follow up on. We are looking into conducting such follow-ups throughout the year, not just once a year, so that we can help suppliers raise their standards.

We also provide information on compliance with environment-related laws on a special website for suppliers.

In the Chemicals Division, we carry out unscheduled audits. During on-going assessments, we also have suppliers fill out questionnaires to diagnose their own compliance and that of their external providers. So that we can judge their progress, these sheets contain check items related to eliminating excessive and unfair labor, and the respect of human rights at supplier companies.

Ensuring Compliance with the Subcontract Act

There are several thousand Daikin suppliers and subcontractors covered by the Subcontract Act. Our Subcontract Act Compliance Guidelines ensure that all Daikin divisions are in compliance with the Act in respect to matters such as prompt payment. We constantly strive to raise awareness among employees in relevant divisions of the importance of compliance through both in-house and third-party seminars.

Comprehensive compliance inspections ensure that appropriate payment methods are being followed. We also constantly check the financial situation of subcontractor suppliers and production outsource suppliers and, if necessary, implement assistance measures such as relaxation of payment methods.
Helping Suppliers Build Environmental Management Systems

Daikin Industries, Ltd. requires that its suppliers abide by the Green Procurement Guidelines and that they establish and operate their own environmental management systems. Amidst increasingly strict chemical control laws, we published a revised edition (10th edition) of our Green Procurement Guidelines.

We require suppliers to have an environment- and quality-based supply chain under which they strictly execute environmental management systems they have established themselves. Using a green procurement survey, Daikin Industries, Ltd. determines the effectiveness of suppliers' environmental management systems. In fiscal 2018, we introduced chemSHERPA, a chemical control system recommended by Japan’s Ministry of Economy, Trade and Industry, and asked our suppliers to comply as needed. As a result, we will now aim to manage information on chemicals in a more speedy and reliable manner.

Since fiscal 2016, as a new part of our CSR procurement efforts, we survey suppliers on their use of conflict minerals (the four minerals of tin, tantalum, tungsten and gold, which are mined in the Democratic Republic of the Congo and surrounding countries and are used by rebel groups to purchase weapons).

---

**Related information**

- [Green Procurement](#) (Page 109)
- [Green Procurement Guidelines](#) (Page 368)
Raising Product Quality and Ensuring Safety Together with Suppliers

Suppliers Take Part in Quality Improvement Conferences, Receive Quality Guidance

Daikin conducts regular quality audits at the production sites of suppliers through its business sites in Japan and overseas. We also hold information sessions and training sessions to provide opportunities for suppliers to learn about methods of improving quality, and CSR procumbent, among other matters.
<table>
<thead>
<tr>
<th><strong>Helping Suppliers Improve Quality</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supplier meetings</strong></td>
</tr>
<tr>
<td><strong>Supplier Quality Conference</strong></td>
</tr>
<tr>
<td><strong>Quality improvement announcement meetings, quality improvement proposal meetings</strong></td>
</tr>
<tr>
<td><strong>Quality audits</strong></td>
</tr>
<tr>
<td><strong>Quality Forum</strong></td>
</tr>
<tr>
<td><strong>Commendation system</strong></td>
</tr>
<tr>
<td><strong>Supplier visits</strong></td>
</tr>
<tr>
<td><strong>Training for suppliers</strong></td>
</tr>
<tr>
<td><strong>Technical exchange meetings</strong></td>
</tr>
</tbody>
</table>
Quality Control Training in Thailand

In fiscal 2017, Daikin Industries (Thailand) Ltd. hosted a training session, where representatives of 170 suppliers could acquire the knowledge and techniques necessary to improve quality.

Also in fiscal 2017, executive management members visited suppliers to conduct quality patrols to inspect progress in quality improvement efforts.

Aiming for Zero Defects through ZD Activities at Bases Worldwide

Since fiscal 2007, the air conditioning divisions have been working with suppliers taking part in the Supplier Quality Conference in an initiative called ZD (zero defect) activities. The goal is to achieve zero defects through 3S (visual checks), preventative measures (look for potential problems in production processes), and prevention of reoccurring problems (through regular maintenance).

In fiscal 2017, one ZD announcement meeting was held and 32 individual announcement meetings for 20 companies were held. These meetings contributed to preventing the occurrence of defects when new parts are introduced or when suppliers alter their production processes.

ZD Activities with Suppliers

- Visual checks
- Preventative measures
- Maintenance

Aim for zero defects
Business Partners Contribute to Plant Safety

Providing Business Partners Working in Daikin Plants with Safety Information and Conducting On-Site Patrols

Daikin Industries, Ltd. asks for business partners' cooperation in making plants safer.

Assisting Suppliers to Ensure Safety

| Plant safety liaison meetings | Awareness on safety is raised and information sharing carried out in order to safeguard staff of outsourcing partners. (Meetings are held bi-monthly) In addition, safety patrols are held along with meetings for management of worker dispatching companies. |
| Driving safety seminars       | Drivers of supplier delivery vehicles that frequent our factories are taught about traffic rules on- and off-site. |
| Training for partner companies| Training is held on safety and work quality management, information on dangerous chemicals provided using Safety Data Sheets (SDS), and pocket-sized safety booklets are handed out to workers of partner companies performing period maintenance of chemical facilities. Safety seminars are also held for operators and drivers (approximately 370 participated in fiscal 2018). |

Related information

› Occupational Safety and Health (Page 284)
Building a Relationship of Growth

Communication is Key to Building Understanding and Trust

Daikin takes every possible opportunity to communicate with suppliers and promote mutual understanding and trust.

In the air conditioning divisions, the head and officers of the Global Procurement Division, and executives regularly visit suppliers, where they lead briefings, goodwill gatherings, and awards ceremonies as part of communication enhancement efforts.

In April 2014, we re-started our air conditioner cooperative. The aim of this association is to provide the impetus for innovation leading to new and better manufacturing; for example, counter the weakening of Japan’s manufacturing amidst intensifying globalization by helping make Japanese suppliers more internationally competitive and by boosting our ability to quickly respond to sudden changes such as exchange rates and market conditions. Through this association we hold information exchange gatherings four times a year, where we promote information sharing among suppliers, as well as debate among those in different sectors, so that we can build among them a relationship of mutual benefit and growth.

In fiscal 2018, we again focused on activities of subcommittees in the air conditioner cooperative which are divided into the three categories of safety, delivery improvement, and rental assets. These activities benefit both suppliers and Daikin, including through business collaboration.

In the chemicals divisions, besides the ongoing Quality Forum meetings, purchasing managers keep in close contact with suppliers to gather and exchange information in areas such as technology, quality, and prices. Any problems that come up are solved through extraordinary or emergency support requests to relevant divisions.

Quality Forum sponsored by the Chemicals Division
Green Procurement Guidelines

Helping Suppliers be Legally Compliant

Daikin established the Green Procurement Guidelines, and it has been promoting environmental management throughout the entire supply chain in order to provide more environmentally responsible products. In March 2019, we published a revised tenth edition of the Green Procurement Guidelines.

At our major manufacturing bases in Japan, China, and Southeast Asia, we help suppliers abide by the Green Procurement Guidelines and inspect products from our suppliers to determine the chemical substances they contain.

To help suppliers comply with laws and regulations, we hold the Supplier Cooperative, through which we share information on environmentally related laws and how the Daikin Group abides by these. This information is released on our website.

Overview of the Green Procurement Guidelines (PDF file)