

Dai-ichi

FUSION 05

Aim to become a global and truly first-rate company as well as a dynamic company that attracts people, capital, and information by building on the development foundations established by Fusion 21.



In this era, which—due to the progress of globalization and the IT revolution—demands speed more than ever, the key to fast management is gathering and incorporating the necessary people, goods, and money into our management system. Taking advantage of the current vigor of our Group and high evaluation by others, and based on the achievement of Fusion 21, we aim to dramatically develop our business to become a global and truly first-rate company that attracts people, capital, and information, to become a company at which people want to work and continue working, a company in which people want to invest, and a company with which other companies want to form alliances, igniting and displaying the power and momentum we have cultivated.

Direction for Development

Targets for FY2004 and FY2006

Build a dynamic company that attracts people, capital, and information.

	FY2001	Targets in FY2004	Target for FY2006
	Establish the foundation for development in the early 21st century.	Maximize corporate value through a management style emphasizing cash flow.	Become a global and truly first-rate company.
Expansion of business scale	1. Sales: \$5,150 million	1. Net sales: \$6,700 million to \$7,300 million (\$7,000 million ^{*1})	1. Achieve the global number one or two position in the air conditioning market (including after-sales service business but excluding refrigeration business). 2. Achieve the global number one or two position in the fluorochemicals market. <small>Future aim to secure number one positions globally</small> (Target: achieve annual net sales of \$10 billion)
Improvement in profitability	2. Ordinary profit: \$350 million 3. Consolidated break-even point: 84%	2. Ordinary income: \$670 million to \$730 million (\$700 million ^{*1}) 3. Profit ratio: 10% 4. Consolidated break-even point: 80%	
Total commitment to management that prioritizes market capitalization	4. Market capitalization: \$5,500 million 5. Three years total FCF: + \$467 million	5. Market capitalization: \$10 billion (Assuming PER ^{*2} =25X) 6. Three years total FCF: +\$800 million	3. Earn a credit rating of AA or better and reduce interest-bearing debt ratio to 20% or less.
Conversion of business structure for sustainable growth	6. Credit rating: A 7. Overseas business ratio: 32% 8. Innovation business ratio ^{*4} : 24%	7. Daikin Value Added (DVA): (+\$150 million) to \$170 million 8. ROA: 7% 9. ROI: 20% 10. ROE: 16% 11. Credit rating: AA ^{*3} 12. Ensure a surplus for DVA: In all eight virtual internal companies in FY2003 13. Overseas business ratio: More than 40% 14. Innovation business ratio ^{*4} : More than 30%	4. Overseas business ratio: More than 50% 5. Innovation business ratio ^{*4} : More than 40%
Enhancement of technology			6. Dramatic enhancement of Daikin technology
Establishment of a corporate culture and management structure in which we can take pride			7. Hone our own brand of fast and flat management and elevate it into a corporate culture worthy of worldwide admiration by fusing time-tested Daikin traditions with a forward-looking competitive edge that encourages each employee to perform with self-derived determination and enthusiasm.

Note: Numerical targets in Fusion 05 have been set forth in Japanese yen. However, they are written in U.S. dollars (exchange rate: ¥100=US\$1.00) in the English version of Fusion 05.

Nine Key Points

1 Clearly set quantitative targets for the next three years in order to align the direction of all of our employees. Resolutely carry out reforms through quantitative management reforms because this is an era of uncertainty.

1. For the period through fiscal 2004, set ratio management targets for each virtual internal company and for each year as medium-term targets and strive to achieve those set targets.
2. At the same time, for the period after fiscal 2004, set targets for fiscal 2006 with appropriate emphasis on management reforms for the transition period, including the posture that we aim to achieve, and structural reform, so that we may define the goals that will take us in the direction we are headed.
3. Refine tools that enable us to achieve our quantitative targets in an era of drastic changes.

2 Focus on realizing dynamic development.

1. Realize ordinary profit twice that of fiscal 2001 through expanding sales by fiscal 2004.
2. Achieve the global number one or two position in the air conditioning business and fluorochemicals business.

3 Thoroughly implement Ratio Management, which pursues both an increase in profitability and an expansion of business scale by:

1. Achieving Ratio Management quantitative targets,
2. Emphasizing free cash flow and Daikin value added, and
3. Expanding business scale and realizing a paradigm shift of our business structure.

4 Pursue Daikin's best practices by promoting a fusion of time-tested Daikin traditions and evolving fast and flat management responding to the times with a forward-looking competitive edge.

5 Thoroughly implement and improve measures, with an emphasis on our Customer First policy.

Recognizing that support from customers equals company competitiveness, review the work processes in sales, design, R&D, and after-sales service in each business division and in our support and corporate departments from the viewpoint of our Customer First policy.

6 Enhance Daikin technology to drive business structure conversion and the continuous development of highly differentiated products.

1. Target 30% of new product ratio for total sales every year.
2. Review themes annually and formulate measures to solve potential problems (reliability, development speed, product competitiveness, and technology).

7 In this era in which the degree to which IT is integrated into business activities directly affects the level of a company's performance, thoroughly promote management reform utilizing IT, based on the recognition that our utilization of IT originates in our Customer First policy.

8 Clearly distinguish between our core business activities, including those which may become core businesses, and non-core activities (thoroughly outsource non-core activities). Seek mutual advantages by understanding the outsourcing needs of other companies as business opportunities.

9 Thoroughly implement four priority measures to establish global corporate ethics. Add to the Company's appeal by publicizing Daikin's philosophy, strategies, and intentions.

Development of 12 Core Strategies

Scenario for the Development of 12 Core Strategies to Achieve Our Medium-Term Implementation Plan and Realize Our Goals for FY2006

Thoroughly implement market capitalization driven management, which will enable us to implement measures for expansion with a flexible structure.

- 1 Shift the paradigm of the business structure and maximize profits by promoting reform strategies for each strategic business unit (SBU).
- 2 Establish a profit structure resilient to the external environment.
- 3 Establish a streamlined and robust financial structure.

Enhance our unique fast and flat management to be recognized globally.

- 8 Build an aspiring team through each member's determination and enthusiasm.
- 9 Establish a management style adequate to a global company.

Build a dynamic company that attracts people, capital, and information.

FY2004
Maximize corporate value through a management style emphasizing cash flow.

FY2006
Become a global and truly first-rate company.

- 10 Accelerate management reform by promoting IT tools.

Achieve the global number one or two positions in our air conditioning and fluorochemicals businesses and a 50% overseas business ratio by using flexible strategic alliances.

- 4 Achieve the global number one or two positions in our air conditioning and fluorochemicals businesses.
- 5 Promote strategic alliances to expand and develop business in each virtual internal company.

Develop innovation business to promote a realization of a paradigm shift of our business structure.

- 6 Promote 21 themes for innovation business aiming at reformation of our business structure.

Enhance DAIKIN technology.

- 7 Enhance Daikin technology to drive business structure conversion and the ongoing development of highly differentiated products.

- 11 Promote "arbitrage strategy" to concentrate our management resources on core areas and obtain external expertise.

- 12 Establish corporate ethics and actively raise the level of corporate transparency.