

## A Global Strategic Alliance with The Trane Company



India, the Middle East and Africa, North America, and South and Central America) for balanced and stabilized business growth, and

- The two companies will strengthen the competitiveness of large-sized HVAC products in Japan and explore new ductless air-conditioning products markets in the United States.

Daikin believes that the alliance with the Trane Company will contribute substantially toward Daikin's goal of becoming the No. 1 company in the global HVAC industry.

### The Daikin-Trane Global Strategic Alliance

- Global cross-sourcing of expertise products
- Joint strategic initiative in China
- Joint ductless products market creation in the United States
- Sales and manufacturing cooperation in Latin America
- Applied business cooperation and solutions business cooperation in Japan

### Toward the Top Position in the Global HVAC Market

In Daikin's strategic management plan—"Fusion 05"—the Company announced its intention of becoming a "global top-tier company." This means that Daikin aims to hold the No. 1 or No. 2 market positions in all of its business fields, including its HVAC business, by fiscal 2006. To achieve this goal, Daikin signed the "Master Agreement of the Global Strategic Alliance" with the Trane Company, the HVAC business division of American Standard Inc., in November 2001. The global HVAC market is marked by both tough competition and saturation, which has inevitably led to consolidation and the reshaping of the industry. Faced with this environment, Daikin will support the strategic alliance in the following ways.

- With around \$9 billion combined sales (thus leading the global market), Daikin and the Trane Company will provide a full line of products to global customers,
- Meeting the changing market requirements, Daikin will supply not only hardware but also air-conditioning solutions,
- The two companies will accelerate global business development in eight regions (Japan, Europe, China, the rest of Asia,

### Alliance Will Create Significant Synergies

The Trane Company is the global No. 2 in terms of net sales and holds the global No. 1 position in the applied equipment business as well as in the air-conditioning solutions business. Daikin holds the No. 1 position in the Japanese HVAC market and also maintains a strong global position in the ductless air-conditioning systems business.

Daikin and the Trane Company have an extremely complementary business relationship. Daikin's major strengths lie in ductless air-conditioning systems for residential and small- and medium-sized commercial buildings, while the Trane Company's strengths are in ducted air-conditioning systems for medium- and large-sized commercial buildings. In terms of geography, Daikin maintains a strong position in Japan, Asia, and Europe, while the Trane Company is the industry leader in North America and South America and strong in Asia and Europe. Furthermore, Daikin's sales mainly focus on distribution routes, while the Trane Company's sales expertise is in its commercial routes. Given the complementary strengths of the two companies' products, global sales, and sales routes, a considerable synergistic effect can be expected.

## Global Nature of the Alliance

Although the HVAC market is highly competitive and appears to be saturated, there are still good opportunities for global expansion through the speeding up of the development of highly value-added products and highly customized products. Daikin believes that its alliance can facilitate such business development and growth through a regional approach.

### Europe

Commercial air-conditioning systems are becoming more popular in such countries as the United Kingdom and France. Also, residential air-conditioning systems are becoming common home appliances in southern European countries such as Italy and Spain. In general, the European markets for HVAC industries are now in the middle of a steady growth phase. Through accelerating cross-sourcing of each party's expertise products, Daikin and the Trane Company will be able to increase their sales through their independent sales channels.

### China

The Chinese economy is expanding rapidly and is forecast to soon become the world's largest market in terms of sales volume. This expansion is expected to result in a substantial number of new business opportunities in the HVAC market. Daikin expects sales will expand rapidly due to 2008 Olympics-related projects and constant growth in the residential air-conditioning market offers an opportunity for considerable business expansion. Daikin and the Trane Company will not only conduct joint operations but also work together to develop greater market opportunities.

### North America

In the U.S. market, ducted air-conditioning systems are dominant. Daikin expects its high-quality ductless air-conditioning systems to be extremely popular in the U.S. market because of low operating noise levels, high energy-saving capabilities, user-friendly functions including dehumidifiers, moisturizers, deodorizers, and air cleaners, and other environment-friendly characteristics. Daikin will leverage its sales of ductless air-conditioning systems through the mobilization of the Trane Company's nationwide sales network.

### Central America and South America

These markets have shown strong growth in the past decade. Brazil is the largest market in this region and the hub of MERCOSUR. Also, ductless air-conditioning systems are expected to become the most popular HVAC products in this market. Daikin plans to jointly produce ductless air-conditioning systems for the Brazilian market with the Trane Company and the two companies will also work together in sales operations, which include the formation of joint sales businesses in Brazil and Argentina.

### Japan

The Japanese HVAC market is not only highly competitive but also saturated. Daikin has been increasing its market shares for both commercial and residential air-conditioning systems. Daikin will introduce the Trane Company's highly competitive applied air-conditioning systems along with its unique and customer-oriented business model for HVAC solutions. An approach that is expected to establish Daikin as a market leader in the HVAC business in Japanese. This comprehensive HVAC solutions model consists of product delivery, servicing, engineering, control, and finance. This business promises substantial growth due to the change in customers' requirements for more environmentally friendly products. The Company will target such markets as build-ings, factories, retail outlets, and *convenience stores*.

### Creating a Win/Win Alliance on a Global Basis

In November 1999, Daikin formed a global strategic alliance with Matsushita Electric Industrial Co., Ltd. in the field of residential and commercial air-conditioning systems. Through the alliance with the Trane Company, all three companies have now become allied. Consequently, we are in the process of creating a system around three core businesses—residential and commercial air-conditioning systems and large centralized air-conditioning systems—in eight global regions.

This is merely the foundation and the framework for future operations. Daikin will mobilize these global alliances for the maximum synergistic effect through the progressive implementation of each project region by region.

We will endeavor to speedily realize individual results of joint operations and will strive to build the world's strongest air-conditioning alliance.