【Strategic Management Plan】

FUSION 20

Latter-Half 3-Year Plan (FY2018-2020)

Co-create New Value in the Air and Environment Fields with Wisdom and Passion

June 6, 2018
Daikin Industries, Ltd.
Contents

Ⅰ. Overview of the FUSION20 First-Half Plan

Ⅱ. Approaches to Latter-Half 3-Year Plan and Quantitative Target for FY2020

Ⅲ. Group Strategies
**Performance**

- Despite the drastic changes in the global economy and business environment, the FUSION strategy pursuing both short-term profitability and long-term growth has led to a decade of tremendous growth and development.
- We achieved a V-shaped recovery after the bankruptcy of Lehman Brothers and increased sales and profit for 8 consecutive years since fiscal year 2010.
- Net sales and operating income have hit record highs for five consecutive years since fiscal year 2013.

<table>
<thead>
<tr>
<th>FUSION 05</th>
<th>FUSION 10</th>
<th>FUSION 15</th>
<th>FUSION 20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Become an attractive company that draws together people, capital, and information</strong>&lt;br&gt;Achieved the global No. 2 position in the main business and market capitalization target of ¥1T, thereby building a business foundation for future growth</td>
<td><strong>Realize global No. 1 AC business</strong>&lt;br&gt;- Expanded the environment-related business&lt;br&gt;  - Advanced the inverter strategy&lt;br&gt;  - Heat Pump Heating business&lt;br&gt;- Achievements in alliances, partnerships, and M&amp;A&lt;br&gt;  - Acquired OYL Industries ('06)&lt;br&gt;  - Acquired Rotex ('08)&lt;br&gt;  - Formed an alliance with Gree ('08)&lt;br&gt;  - Acquired Nippon Muki ('09)</td>
<td><strong>Become a truly global and excellent company</strong>&lt;br&gt;- Fully entered emerging markets and the volume zone&lt;br&gt;- Solutions/environmental innovation&lt;br&gt;- Accelerated growth through alliances, partnerships, and M&amp;A&lt;br&gt;  - Acquired Goodman ('12)&lt;br&gt;  - Acquired Solvay’s gas business in Europe ('15)&lt;br&gt;  - Established the TIC ('15)</td>
<td><strong>Enhance existing businesses and Expand new business domains</strong>&lt;br&gt;- Record-high net sales and profit for 5 consecutive years&lt;br&gt;- Increased sales and profit for 14 consecutive years since FY 1994&lt;br&gt;- Increased sales and profit for 8 consecutive years since FY 2010</td>
</tr>
</tbody>
</table>

### Net Sales (¥1B)

- '00: 531.9<br>  - '01: 39.8<br>  - '02: 66.5<br>  - '03: 792.8<br>  - '04: 128.1<br>  - '05: 1,160.3<br>  - '06: 75.5<br>  - '07: 1,603.1<br>  - '08: 1,291.1<br>  - '09: 156.5<br>  - '10: 1,787.7<br>  - '11: 156.5

### Operating Income (¥1B)

- '00: 39.8<br>  - '01: 66.5<br>  - '02: 75.5<br>  - '03: 1,160.3<br>  - '04: 1,291.1<br>  - '05: 1,603.1<br>  - '06: 75.5<br>  - '07: 1,291.1<br>  - '08: 1,160.3<br>  - '09: 1,603.1<br>  - '10: 1,787.7

- '11: 1,848.0<br>  - '12: 2,900.0<br>  - '13: 348.0<br>  - '14: 2,480.0<br>  - '15: 2,290.6<br>  - '16: 270.0<br>  - '17: 2,290.6<br>  - '18: 253.7<br>  - '19: 348.0<br>  - '20: 356.5
Achievements of the FUSION 20 First-Half Plan

- Daikin expanded business by both strengthening existing businesses and developing new business domains.
- By active growth investment, we established a business foundation for future development.
- Although raw material prices rose more sharply than expected, Daikin achieved growth in both sales and operating income by strengthening sales capabilities, promoting sales of high value-added products, and total cost reductions to enhance earning power and further improve the business structure.

<table>
<thead>
<tr>
<th></th>
<th>FY2015 Result</th>
<th>FY2016 Result</th>
<th>FY2017 Result</th>
<th>FY2015→FY2017 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>2,043.7</td>
<td>2,044.0</td>
<td>2,290.6</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>217.9</td>
<td>230.8</td>
<td>253.7</td>
<td>+8%</td>
</tr>
<tr>
<td><strong>Operating income margin</strong></td>
<td>10.7%</td>
<td>11.3%</td>
<td>11.1%</td>
<td></td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>13.4%</td>
<td>14.5%</td>
<td>15.7%</td>
<td></td>
</tr>
<tr>
<td><strong>FCF</strong></td>
<td>+217.3</td>
<td>+52.3</td>
<td>+51.2</td>
<td></td>
</tr>
</tbody>
</table>

*Exchange rate*  
1USD=¥120  
1EUR=¥133  
1RMB=¥18.9  
1USD=¥108  
1EUR=¥119  
1RMB=¥16.1  
1USD=¥111  
1EUR=¥130  
1RMB=¥16.8
<table>
<thead>
<tr>
<th>Division</th>
<th>Net Sales (¥1B)</th>
<th>Operating Income (Margin)</th>
<th>Net Sales (¥1B)</th>
<th>Operating Income (Margin)</th>
<th>FY2015→FY2017 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Air-conditioning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,828.0</td>
<td>193.8 (10.6%)</td>
<td>1,835.4</td>
<td>208.7 (11.4%)</td>
<td>+6%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY2017</td>
<td>2,052.9</td>
<td>223.5 (10.9%)</td>
<td></td>
<td></td>
<td>+7%</td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>162.3</td>
<td>20.6 (12.7%)</td>
<td>156.8</td>
<td>18.3 (11.7%)</td>
<td>+6%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY2017</td>
<td>183.1</td>
<td>25.5 (13.9%)</td>
<td></td>
<td></td>
<td>+11%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>53.4</td>
<td>3.5 (6.6%)</td>
<td>51.8</td>
<td>3.7 (7.2%)</td>
<td>+1%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY2017</td>
<td>54.5</td>
<td>4.8 (8.7%)</td>
<td></td>
<td></td>
<td>+17%</td>
</tr>
</tbody>
</table>
Daikin expanded its AC business in all regions of the world by strengthening sales and service networks and increasing sales of high value-added products.

*Including the filter business

**Europe**

- FY2015: 251.3
- FY2017: 301.1
- **+9%**

**Japan**

- FY2015: 416.9
- FY2017: 449.3
- **+4%**

**China**

- FY2015: 313.6
- FY2017: 342.0
- **+4%**

**ME/Africa**

- FY2015: 65.2
- FY2017: 66.0
- **+1%**

**Asia/Oceania**

- FY2015: 284.7
- FY2017: 325.1
- **+7%**

**Americas**

- FY2015: 496.3
- FY2017: 569.5
- **+7%**

FY2015→FY2017 CAGR
I. Overview of the FUSION20 First-Half Plan

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III. Group Strategies
Quantitative Target of FUSION20 Latter-Half 3-Year Plan

To achieve sales of ¥2,900B and an operating income margin of 12%,
- Respond quickly to changes in the business environment and focus on enhancing measures for Energy Service Solutions, IAQ/Air Environment Engineering, and low GWP (next-generation refrigerant and gas business)
- Further strengthen existing businesses (AC, Chemicals, Filter)

<table>
<thead>
<tr>
<th>(¥1B)</th>
<th>FY2017 Result</th>
<th>FY2018 Plan</th>
<th>FY2020 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>2,290.6</td>
<td>2,480.0</td>
<td>2,900.0</td>
</tr>
<tr>
<td>Operating Income</td>
<td>253.7</td>
<td>270.0</td>
<td>348.0</td>
</tr>
<tr>
<td>Operating Income Margin</td>
<td>11.1%</td>
<td>10.9%</td>
<td>12.0%</td>
</tr>
<tr>
<td>FCF (3-year cumulative)</td>
<td></td>
<td></td>
<td>315.0</td>
</tr>
<tr>
<td>ROE</td>
<td>15.7%</td>
<td></td>
<td>14.0%</td>
</tr>
<tr>
<td>ROA</td>
<td>7.8%</td>
<td></td>
<td>8.4%</td>
</tr>
</tbody>
</table>

Investment Plan

<Major Themes>
- New technology areas (AI/IoT)
- Meeting stricter environmental regulations
- Expansion of solutions business
- Expansion of factory production capacity

<table>
<thead>
<tr>
<th>(¥1B)</th>
<th>FY2018-20 cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment plan</td>
<td>360.0</td>
</tr>
<tr>
<td>R&amp;D investment</td>
<td>220.0</td>
</tr>
</tbody>
</table>

Exchange rate
1USD=¥111 1EUR=¥130 1RMB=¥16.8
1USD=¥105 1EUR=¥130 1RMB=¥16.6
1USD=¥108 1EUR=¥130 1RMB=¥16.6
## Net Sales/Operating Income by Division

<table>
<thead>
<tr>
<th>(¥1B)</th>
<th>FY2017 Result</th>
<th>FY2018 Plan</th>
<th>FY2020 Target</th>
<th>FY2017→FY2020 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Air-conditioning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>2,052.9</td>
<td>2,220.0</td>
<td>2,590.0</td>
<td>+8%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td>223.5 (10.9%)</td>
<td>236.5 (10.7%)</td>
<td>304.5 (11.8%)</td>
<td>+11%</td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>183.1</td>
<td>205.0</td>
<td>250.0</td>
<td>+11%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td>25.5 (13.9%)</td>
<td>28.5 (13.9%)</td>
<td>37.5 (15.0%)</td>
<td>+14%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>54.5</td>
<td>55.0</td>
<td>60.0</td>
<td>+3%</td>
</tr>
<tr>
<td>Operating Income (Margin)</td>
<td>4.8 (8.7%)</td>
<td>5.0 (9.1%)</td>
<td>6.0 (10.0%)</td>
<td>+8%</td>
</tr>
</tbody>
</table>
## Progress of Core Strategic Themes and FY2020 Plan

<table>
<thead>
<tr>
<th>(¥1B)</th>
<th>FY2015 Result</th>
<th>FY2017 Result</th>
<th>FY2018 FUSION20 Original Plan</th>
<th>FY2020 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New business domains/structure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Service Solutions business</td>
<td>70.0</td>
<td>140.0</td>
<td>180.0</td>
<td>330.0</td>
</tr>
<tr>
<td>IAQ/Air Environment Engineering business</td>
<td>5.0</td>
<td>22.5</td>
<td>20.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Next-generation Refrigerant/Gas business</td>
<td>16.0</td>
<td>38.0</td>
<td>20.0</td>
<td>55.0</td>
</tr>
<tr>
<td>Heating/Water Heater business</td>
<td>120.0</td>
<td>170.0</td>
<td>160.0</td>
<td>240.0</td>
</tr>
<tr>
<td>Commercial refrigeration business</td>
<td>5.0</td>
<td>20.0</td>
<td>35.0</td>
<td>36.0</td>
</tr>
<tr>
<td><strong>Existing business domains</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC business in North Americas (including AC and filter sales in Latin America)</td>
<td>496.3</td>
<td>569.5</td>
<td>690.0</td>
<td>740.0</td>
</tr>
<tr>
<td>AC business in Asia (including AC sales in Oceania)</td>
<td>284.7</td>
<td>325.1</td>
<td>380.0</td>
<td>480.0</td>
</tr>
<tr>
<td>Chemicals business</td>
<td>162.3</td>
<td>183.1</td>
<td>200.0</td>
<td>250.0</td>
</tr>
<tr>
<td>Filter business (global total)</td>
<td>80.0</td>
<td>111.9</td>
<td>140.0</td>
<td>150.0</td>
</tr>
</tbody>
</table>
AC Business Net Sales by Region

- FY2020 net sales target for the global AC business: ¥2,590B
- Position North America and Asia/Oceania as the top priority regions and expand business there.
- Expand solutions business in the Americas, Europe, and China.

*Including the filter business

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2017</th>
<th>FY2020 Target</th>
<th>FY2017</th>
<th>FY2020 Target</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>301.1</td>
<td>380.0</td>
<td>449.3</td>
<td>490.0</td>
<td>+8%</td>
</tr>
<tr>
<td>Europe</td>
<td>342.0</td>
<td>410.0</td>
<td></td>
<td></td>
<td>+6%</td>
</tr>
<tr>
<td>ME/Africa</td>
<td>66.0</td>
<td>90.0</td>
<td>325.1</td>
<td>480.0</td>
<td>+11%</td>
</tr>
<tr>
<td><strong>Americas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>569.5</td>
<td>740.0</td>
<td></td>
<td></td>
<td>+9%</td>
</tr>
</tbody>
</table>

*FY2017 → FY2020 CAGR*
Changes in the Business Environment since Formulation of FUSION20

(1) Rapid advancement of sensor technologies, AI/IoT, big data analysis technology and business expansion
   Autonomous driving technologies, mass-customized production, sharing businesses, continuous billing businesses, etc.

(2) Strengthening of the environmental regulations on a global basis
   - **Paris Agreement**: the international agreement on reduction of greenhouse gas emissions (enforced in Nov. 2016)
   - **Montreal Protocol -Kigali Amendment**: step-by-step reduction of HFC production and consumption in terms of CO$_2$ volume (agreed in Oct. 2016)

### Changes in External Environment Surrounding Daikin

**Rapid advancement of AI/IoT**
- Marketing approach shifting from “selling goods” to “offering experiences”
- New business opportunities expanding
- Production innovation taking place, e.g. digital factory
- Digitization and automation prompting operational innovation
- Increasingly high demand for AI/IoT specialists

**Environmental regulations**
- Stricter refrigerant regulations require systems with lower GWP
- Energy efficiency of the entire AC system, rather than single equipment unit, is required
- More countries in the world, including Europe, stop using combustion heating (The Heat-pump heating market is expanding)
- More business opportunities for CO$_2$ systems in the refrigeration market

**Increased awareness**
Identify changes with big impact taking place in the world and set new Group strategy themes.

**Basic approaches**

New business domains/structure

Existing business domains

Technologies and **monozukuri**

Corporate management

Unique corporate philosophy

13 Group strategies

1) **Acceleration of AC solutions business**
   - Energy Service Solutions business
   - IAQ/Air Environment Engineering

2) **Action to lead the environment**
   - Action for low GWP
   - Long-term environmental vision for 2050

3) **New business domains**
   - Heating/Water Heater
   - Commercial Refrigeration

4) AC in North America
5) AC in Asia
6) Chemicals
7) Filter

8) **Differentiated technologies/products with the TIC**
9) Enhanced **monozukuri** in the AC business

10) Lean and competitive fixed-cost structure
11) Optimal inventory aiming at cash flow maximization
12) Financial operations standardization and IT integration

13) Enhanced HR based on People-Centered Management

Against changes to the external environments

**Group Strategy Themes for the FUSION20 Latter-Half 3-Year Plan**
Contents

I. Overview of the FUSION20 First-Half Plan

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1) Acceleration of AC Solutions Business Using AI/IoT Technologies

- Capitalizing on the opportunity presented by the advances in AI/IoT technologies, create new customer value by analysis of the vast amount of data obtained by connecting all equipment to the Internet.
- Accelerate expansion of AC solutions business globally by improving equipment and functions to realize that value and by establishing sales and after sales service networks in close proximity to customers.

### Solutions business developing by AC

<table>
<thead>
<tr>
<th>Value to be provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual optimization (personal)</td>
</tr>
<tr>
<td>Optimization to purpose of building (office, hospital, school, housing, etc.)</td>
</tr>
<tr>
<td>Group control (building group, equipment group)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

#### [Energy Service Solutions business]

- Environmental regulations and concerns present business opportunities for our superior energy-saving and environmental technologies.

#### [IAQ/Air Environment Engineering business]

- Market is expected to grow due to increased needs for security and safety together with health and comfort.
1)-1 Energy Service Solutions Business

- In the first-half two years, we developed mainly energy-saving business, including energy-saving equipment systems coordinating ventilation and AC, AirNet-connected diagnosis, and parts replacement by retrofitting.

- In the latter-half three years, we will provide energy savings for the entire building and service spanning the entire AC value chain as we work to establish a cyclical business leading to equipment replacement. Furthermore, we aim at creating new business models.

- **Sales reform**
  - Globally expand direct sales and own after sales service networks that connect with owners and customers.

- **Energy-saving business**
  - Offer further energy savings for buildings to customers by connecting AC equipment with related equipment.

- **Establish cyclical business**
  - Using IoT and cloud technologies, we will expand instrument systems to smaller buildings, where development has lagged, and offer various services.

- **New business models**
  - We will provide a comfortable air environment “As a Service business” and charge according to use.

< AC value chain >

1) Equipment design  
2) Instrument/engineering  
3) Installation/trial operation  
4) Operation management  
5) Maintenance  
Replacement
In the first-half two years, we identified trial projects and technological priorities with the aim of providing IAQ/air environment engineering solutions.

In the latter-half three years, we will develop IAQ products business while launching innovative products and differentiated products in China. We will establish business models while executing trial projects.

- Expand IAQ equipment business
- Respond to problems and needs concerning air quality
- Provide new value

- Full-fledged air purifying systems etc.
- Ex.) Trial projects
- Integrated service of air quality diagnosis, installation, maintenance, and replacement for food manufacturing plants.
- Develop indexes for sensitivity values such as aroma and “delicious air”.
  - Verify the relationship between bio-information and IAQ environment.
  - Ex.) Trial projects
- Air environment to improve office productivity etc.

<Customer value to be provided>
- Relief of stress
- Productivity improvement
- Prevention of disease/pre-symptomatic state
- Recovery from fatigue
- Proper sleep
2)-1 Efforts for Lower GWP

- In the first-half two years, we launched the industry’s first R32 multi-split system for commercial use in Japan. Profits increased in our gas business, benefitting from tight HFC supply in Europe.

- In the latter-half three years, we will continue promoting R32 and expand our gas business. We will also work on development of next-generation refrigerant and equipment.

- Promote global mainstream use of R32 in general air conditioning. (RA, VRV, etc.)
- Develop next-generation refrigerant and equipment.
- Expand Chemicals’ gas business
  - Promote sales of medium-GWP refrigerant R407H for refrigeration.
  - Promote sales in the United States, the biggest refrigerant market.

2)-2 Long-Term Environmental Vision for 2050

- In support of the Paris Agreement, the Daikin Group aims to achieve the 2050 goal of zero CO2 emissions while working to provide safe and healthy air environments. In the latter-half three years of FUSION20, we will set quantitative targets of CO2 reduction and specific measures.

Elements of our environment vision
(1) Reduce environmental impact and CO2 emissions resulting from AC equipment and other products that we produce across the entire product lifecycle.
(2) Provide energy solutions to realize a low-carbon society even with population growth and urbanization.
(3) Using data on air environment and people, contribute to improvement of human health and comfort by controlling IAQ/air environment.
### 3)-1 Heating and Water Heater Business

- In the first-half two years, we expanded sales in Europe and North America by launching new products and strengthening our own sales networks.
- In the latter-half three years, we will increase development with Europe as the mother base for heating equipment, establish robust sales and service networks, and expand creation of heat pump heating market.

**Reinforce products, sales and service in Europe**
- Increase heating equipment dealers
- Own service network

**Expand heating business in North America**
- Energy-saving furnace
- Launch heat pump heating equipment and create a market

**Strengthen Technology and product development**
- Utilization of heat pump technology
- Products to compete against geothermal products
- Products to compete against combustion heating

### 3)-2 Commercial Refrigeration Business

- In the first-half two years, business expanded by utilizing products of acquired Zanotti S.p.A.
- In the latter-half three years, we will focus on realizing one-stop proposal to food retail chains in Europe and developing and selling CO2 heat recovery systems that utilize Daikin’s AC technology to take advantage of stricter environmental regulations.

**Europe**
- Strengthen total solution proposals to major food retail chains and retail stores.
- Acquire showcase business and develop CO2 heat recovery system.

**Global expansion**
- Strengthen strategic planning function in consideration of possible advance to China, India and other markets.
4) AC Business in North America

- In the first-half two years, we started operation of Goodman’s new plant and strengthened local product development by establishing the North America R&D Center. We also started efforts, including establishment of the Silicon Valley Technology Office, to acquire new AI/IoT technologies and hire and train human talent in these fields.

- In the latter-half three years, we will improve earning power by launching differentiated products, reinforcing our sales and service networks and improving factory productivity. We will further accelerate expansion of solutions business to build a foundation toward becoming No. 1 in North America.

**Residential market (Unitary business)**
- Significantly expand sales and increase profit in the residential volume zone.
- Increase sales in the premium zone market by launching differentiated products.

**Light-commercial market**
- Strengthen competitiveness of rooftop products and increase their sales.
- Create demand for VRV and strengthen spec-in activities.

**Applied market**
- Reinforce the chiller business.
- Strengthen sales through existing reps.
- Reinforce manufacturing capabilities of our main factory in Staunton.

**After sales services and solutions**
- Convert business structure to one that directly offers after sales services and solutions.
  - Promote after sales service and solutions businesses leveraging direct sales network.
  - Develop and improve solutions products.

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*Daikin Industries, Ltd.*
## 5) AC Business in Asia

- In the first-half two years, we expanded our sales networks in the countries of Asia and Oceania and created an inverter market by developing a cooling-only inverter product. We also strengthened production by building a new factory in Vietnam and expanding the factories in Thailand, India, and Malaysia.

- In the latter-half three years, we will work to further increase sales by continuing to expand our sales networks, strengthening the commercial-use business, and establishing strong production and supply systems.

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### <Policy by region>

<table>
<thead>
<tr>
<th>Mature Market</th>
<th>Growing Market</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASEAN Continents</strong>&lt;br&gt;Australia, Singapore, Thailand, Vietnam, etc.</td>
<td><strong>ASEAN Emerging</strong>&lt;br&gt;Malaysia, Indonesia, Philippines, etc.</td>
<td><strong>India</strong></td>
</tr>
</tbody>
</table>

- Establish an overwhelming No.1 position.
- Build a foundation for the solutions business to expand the Applied equipment business by strengthening sales capabilities, production system, and production development.
- Expand commercial-use business by reinforcing spec-in activities and technical support capabilities.
- Expand sales in neighboring markets such as Myanmar.
- Reinforce the sales network from major cities to local cities to expand sales.
- Strengthen after sales service business by reinforcing efforts in securing VRV maintenance contracts and improving field services.

### <Common themes>

- Strengthen multi-split type AC in the residential market.
- Strengthen product competitiveness and sales organization of Applied equipment.
- Increase capacity by line reorganization at main factories.

_DAIKIN INDUSTRIES, LTD._
Other regions: AC Business in China

- In the first-half two years, we expanded sales in the residential market mainly through PROSHOPs, Daikin’s specialty stores. In the commercial-use market, sales increased in all market segments from buildings to general stores by strengthening spec-in activities.
- In the latter-half three years, we will advance to a new user-direct-type business model for sustainable growth.

<table>
<thead>
<tr>
<th>Residential</th>
<th>Commercial</th>
<th>Applied</th>
<th>IAQ air business</th>
</tr>
</thead>
<tbody>
<tr>
<td>○Extend the sales network of PROSHOPs. Operate flagship stores in priority cities to enhance brand power.</td>
<td>○Introduce a new sales method based on continuous connection with customers through equipment connected to the internet.</td>
<td>○Propose various lifestyles to meet customer needs with the New Life Multi Series.</td>
<td>○Create a market with Daikin’s unique air systems. (air purification, fresh air treatment, removal of PM2.5, etc.)</td>
</tr>
<tr>
<td>○Expand sales in building market with comprehensive capabilities that combine products, peripheral equipment, installation, and maintenance.</td>
<td>○In addition to enhancement of product competitiveness, strengthen the sales network and sales capabilities to meet new needs (for smaller projects and heating).</td>
<td>○Establish cyclical business by strengthening service business including expansion of maintenance.</td>
<td></td>
</tr>
</tbody>
</table>
6) Chemicals Business

- Enhance capabilities in making proposals to customers by strengthening global development and marketing capabilities to accelerate application development.
- In the latter-half plan, we will prioritize and expand business in the automotive field in which a shift to next-generation vehicle and changes in response to environmental issues are dramatically occurring.
- We will promote development of hybrid materials combining fluorinated materials and other materials and take proactive measures including alliances, partnerships, and M&A to expand the business to around ¥10B.

- Expansion to the next-generation automotive field
  - Develop products including non-F materials to meet the new emerging needs.
  - Strengthen marketing and development functions at each overseas base (Europe, China U.S.)

- Promote our differentiated materials and aim to create a major successful business theme
  - Develop new products for surface modification materials
  - Daikin’s unique fluoropolymer materials

- Expand business in the growing semiconductor market
  - Search for next-generation products
  - Invest to secure supply capability

<New emerging needs regarding next-generation automotive>

- Light weight
- Metal replacement material
- Electrification
- Battery-related material
- Automation
- Surface modification material (coating material for sensors etc.)
In the first-half two years, we expanded business by acquisition of Flanders of the United States and Dinair of Sweden.

In the latter-half three years, we will reinforce the organization by establishing the Filter Division in FY2018.

For future business growth, we will leverage synergies with AC and Chemicals to develop business (IAQ/air environment).

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North America: Create synergy with Flanders
- Capture residential- and commercial-use markets and high-end market.
- Change to a filter factory transplanting Daikin-style monozukuri and know-how.

Europe: Establish the foundation for catching up with competitors
- Strengthen sales aiming at the facility management, pharmaceutical and automotive markets.
- Restructure factories and establish SCM system.

Sell chemical filter + equipment system, prioritizing the rapidly-growing semiconductor market

Improve profitability in the MFAS business (Inlet filtration and acoustic enclosure systems around gas turbines)

Strengthen the after sales service business, focusing on the large North American market and the rapidly growing Asian market
8) Accelerated Strengthening of Technologies with TIC as Control Tower

In the first-half two years, we strengthened cooperation between global development bases and the TIC as the control tower and promoted collaborative creation themes with parties in and outside Daikin and the advancement of technologies. In this context, we promoted collaboration with advanced companies in the AI/IoT technology fields (IBM, NEC, Hitachi, NTT West, ABEJA) and collaboration with universities and research institutes (comprehensive alliances with Osaka University and Kyoto University, collaboration with Riken, etc.).

To secure and train personnel early, we hire 100 people every year, along with launch of the Daikin Information and Communications Technology College program. We plan to secure about 700 AI/IoT experts by FY2020.

In the latter-half three years, we will promote technology development to create differentiated products in the four priority technological areas and strongly promote open innovation with parties in and outside Daikin.

<Strengthen 4 priority technological areas>

1) AI/IoT and solutions technologies
   - Establish a data platform which can be used around the world
   - Enhance data analysis technology
   - Utilize AI technology in monozukuri

2) Core AC technologies
   - Low-GWP AC system technology
   - Differentiating elemental technologies (compressor, inverter, etc.)
   - Heating/water heater technology (ultralow outdoor temperature)
   - Refrigeration technology

3) Core chemical technologies
   - Surface modification technology (water and oil repellency, etc.)
   - Film technology
   - Blending technology
   - Synthesis/polymerization technologies

4) IAQ, filter and air environment technologies
   - Air quality and biometric sensing technologies
   - Index of people’s subjectivity and sensitivity concerning air environments
   - Air environment control technology
In the first-half two years, we worked on development of modular facilities to enable flexible production line arrangement to meet demand and low cost automation to globally expand small-scale monozukuri, which enables highly profitable small-lot production.

In the latter-half three years, we will build a “digital factory” to network equipment of all bases and realize total optimization of global production on a real-time basis using the data. Starting from commercial products, we will introduce mass-customized production to meet diversified needs.

Build a digital factory
Build “a factory IoT platform” to connect all global AC production bases

- FY2017: Connect 4 bases (U.S., India, Vietnam, Japan)
- FY2024: Connect all bases (about 90)

Evolve small-scale monozukuri
- Modular facilities commonly used globally
- Automation
- Downsizing press and mold equipment

Quality capabilities
- Speed up collection and analysis of failure information using AI/IoT

Cost competitiveness
- Reduce cost throughout SCM
- Global parts standardization

Product competitiveness
- Design with greater speed to meet diverse needs
- Market launch of innovative products

Monozukuri capabilities
- Mass-customized production
- Digitization of know-how
Notes on forecast

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