Daikin Formulates Strategic Management Plan FUSION 20
[Target Year: Fiscal Year 2020 (ending March 31, 2021)]
Co-create New Value in the Air and Environment Fields with Wisdom and Passion

Daikin Industries, Ltd., has recently completed formulating Fusion 20, the company’s strategic management plan spanning fiscal years 2016 to 2020.

Despite facing a severe business environment in Fusion 15, which made fiscal year 2015 its final year, Daikin promoted sales expansion from the strengthening of sales and marketing capabilities and the implementation of total cost reductions throughout the company. Furthermore, in addition to promoting the use of inverter air conditioners, Daikin actively contributed to the resolution of social issues through its business operations, including the world’s first adoption of HFC-32, a refrigerant with low global warming potential. This has enabled Daikin to further solidify its business foundation in the past five years by expanding sales of approximately 1.2 trillion yen to sales exceeding 2 trillion yen and raising operating income margin from 6.5 percent to over 10 percent.

In the strategic management plan Fusion 20 that started this fiscal year, the Daikin Group is focusing resource investment by deciding which fields to prioritize and intends to thoroughly enhance existing businesses while expanding business domains to new fields. Consolidating its leading global position in the fields of existing businesses of air conditioning, chemicals, and filters, Daikin will also compete in new businesses such as heating and water heaters, energy solutions, commercial refrigeration, next-generation refrigerant and fluorocarbon gas, and indoor air quality (IAQ) and air environment (AE) engineering.

As quantitative targets for Fusion 20, Daikin has established a mid-term implementation plan for fiscal year 2018 and will aim for sales of 3 trillion yen and operating income margin of 12 percent as goals for the last fiscal year of Fusion 20.

1. Quantitative Targets

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<th>FY 2015 Actual</th>
<th>FY 2018 Mid-term Plan</th>
<th>FY 2020 Target</th>
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<tbody>
<tr>
<td>Net Sales</td>
<td>2,043.7</td>
<td>2,500.0</td>
<td>3,000.0</td>
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<td>Operating Income (%)</td>
<td>217.9 (10.7%)</td>
<td>270.0 (10.8%)</td>
<td>12%</td>
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(unit: billion yen)
2. Direction of Plan

In Fusion 20, Daikin has established 12 Group strategies to strengthen existing businesses, challenge new fields, and improve the management foundation that supports business development.

As for existing businesses, Daikin established in this past five-year period a business foundation that enables balanced growth in profitability for each main global region in the main business of air conditioning and will fully utilize that business foundation in Fusion 20 to further raise earning potential for each global region.

Daikin will especially focus on business expansion in the world’s largest market of North America and in the Asian market where there is an expanding middle class and an astonishing rate of urbanization. In the chemicals business, for example, Daikin will work to reinforce its revenue base by promoting development of new applications for fluorinated materials in the automotive field, which is advancing toward electric motors, and commercializing hybrid and non-fluorine products paired with non-fluorinated materials. Furthermore, the company will accelerate growth and development of the filter business to complement the air conditioning and chemicals businesses and develop it as a third pillar of revenue in addition to air conditioning and chemicals.

Conversely, the company will expand business domains to new fields based on the environmental technologies cultivated in air conditioning and chemicals by incorporating technology corresponding to the times, such as IoT and artificial intelligence, and convert the business structure. Centered on “the environment and energy,” and “indoor air quality (IAQ) and air environment (AE),” Daikin will focus on the five businesses of “heating and water heaters” and “energy solutions,” which will be accelerated to create results, as well as “commercial refrigeration,” “next-generation refrigerant and fluorocarbon gas,” and “IAQ and AE engineering,” which will be undertaken as a challenge anticipating the future.

To strengthen and expand both existing and new field businesses, it is essential to raise the level of technology and monozukuri, which are the lifeline of a manufacturer. Established in 2015, the Technology and Innovation Center (TIC) serves as the core facility for technology development and links to all global R&D bases while promoting collaborative creation with organizations outside the company and constantly generating differentiated products. Also, Daikin will incorporate state-of-the-art technologies such as those for information, communications, and sensors as it pursues the forefront of monozukuri to improve the structure for timely supply of products meeting customer needs.

Accompanying the growth in Fusion 15 that included M&A, Daikin became a corporate group that utilizes global human resources having diversity in values and plans to globally expand business even further in the future.

In strengthening the management foundation corresponding to these conditions, themes are being added as priority issues such as improving corporate management, enhancing human resources that include instilling the management philosophy, advancing corporate governance, and further strengthening risk management.
1) Existing business domains (Air Conditioning, Chemicals, Filter)
   (1) Air Conditioning in North America
   (2) Air Conditioning in Asia
   (3) Chemicals
   (4) Filter

2) New business domains/structure (Environment/Energy, IAQ/AE Engineering)
   (5) New businesses to quickly produce results
       Heating/Water Heater
       Energy Solutions
   (6) Strategic businesses in the long term
       Commercial Refrigeration
       Next-generation Refrigerant/Gas
       IAQ/AE Engineering

3) Technologies and monozukuri
   (7) Differentiated technologies/products with the TIC
   (8) Enhanced monozukuri in the Air Conditioning business

4) Corporate management
   (9) Lean and competitive fixed-cost structure
   (10) Optimal inventory aiming at cash flow maximization
   (11) Financial operations standardization and IT integration

5) Unique corporate philosophy
   (12) Enhanced human resources based on People-Centered Management