

Financial Results of the Second Quarter
Presented on November 11, 2009 (Wed)
“Management Situation and Policy for the Future”
Representative Director, President & COO Yuki Yoshi Okano

1. Opening Remarks

I am Yuki Yoshi Okano, and I would like to express my deep appreciation to you for taking time out today to attend this meeting and respectfully ask for your kind consideration and understanding of Daikin.

Having heard from Executive Officer Okano concerning the financial results of the second quarter for fiscal year 2009, I would now like to present our assessment of the current economic climate and the course to which management is steering Daikin for the future.

2. Assessment of the Current Economic Climate

In the year that has passed since the Lehman Shock, countries around the world have stood united in enacting national measures to spur the economy, and the view that the economy has bottomed out is steadily increasing. Nevertheless the recovery tempo has varied widely for each country, and because of the weakening employment outlook in the developed countries, there are forecasts for what may be called a “jobless recovery” (a recovery that brings no additional jobs) accompanied by a feeling that government policies are losing steam. Many experts are predicting the arrival of a ‘second bottom’ in the future. The bottom of this recession is deep, and in all honesty I believe it is still too early to accurately predict what lies in store for the economy.

Conversely, in the emerging countries including China and India, a solid recovery is being anticipated, and next year the economy in China is projected to overtake Japan as the world’s second largest.

3. Management Approach towards Mid- to Long-Term Development

Even in the midst of a global depression, one can always find, if one looks hard enough, thriving countries and regions, profitable industrial fields, and products that can be sold in great demand. For this reason, we reject the simplistic notion that “everything is hopeless because it’s a depression,” and instead recognize the importance of aggressively seeking out with unmitigated resolve those business opportunities that will enable us to succeed in competition against other companies.

As explained in the pre-term, management is steering the company with weight placed on creating profit for the single fiscal year. However, at the same time we are confronting the present, we are also clearly distinguishing those mid- to the long-term business policies that are to be postponed and discontinued along with those policies that are to be accelerated and frontloaded.

The policies being frontloaded involve product development utilizing environmental technology such as development of energy efficient inverters in collaboration with Gree Electric Appliances and applied products.

4. Rapid Expansion of the Environment-Related Business

In Europe where environmental awareness is high, heat pumps utilizing Daikin core technology were officially recognized by the European Parliament as "renewable energy" through the lobbying activities of the local subsidiary," and demand for heating equipment is rapidly expanding. As a result of the success achieved in Europe, lobbying activities are rapidly being promoted in Western countries and China in order to proliferate this technology around the world.

Although a drop in price for crude oil and dwindling incentives in the main region of France affected sales of Daikin's Altherma in Europe, new measures have been adopted for the heating season to expand sales such as providing popular high temperature hot water and mono-block models and utilizing the sales routes of Rotex Heating System GmbH as we continue to strive toward achieving our planned targets. In China, we have launched production of Altherma in Shanghai and are beginning sales. In North America, we made a full-fledged market launch from October and are executing activities such as start of sales projects and incentive activities.

This year in May we began operation of the Daikin McQuay Applied Development Center in Minneapolis, United States, and created a development system for applied products. In June, sales began in North America for our air-cooled screw chiller, which has been receiving an increasing number of inquiries from customers for its overwhelming energy savings and quiet operation. Furthermore, in October, sales began for centrifugal chillers with built-in DC inverters. Because of its tremendous energy savings, this is a strategic product for Daikin and has been widely praised by many people, including the chairman of ASHRAE (American Society of Heating, Refrigeration and Air Conditioning Engineers), who gave it a high recommendation at the dedication ceremonies in May.

In addition, Daikin is working in collaboration with Gree Appliances, the leading global manufacturer of room air conditioners, and is steady advancing towards global development of an inverter type room air conditioner for the volume zone market. With joint development largely completed in October, the last steps are currently being taken for mass production. The aim is to sell at a price competitive with non-inverter type air conditioners (3,000 Yuan) and begin sales from January 1, 2010, in China and emerging markets before extending globally.

Two joint venture companies were established in March of this year for manufacture of molds, compressors, and inverters and are scheduled for operation in the spring of 2010. In our collaboration with Gree, there have been many instances of gaining from the aspect of cost, and the tenacious cost competitiveness of Gree is being incorporated in global procurement at the Daikin headquarters with the aim for even greater cost competitiveness.

With this, Daikin has completed a full lineup of products from volume zone to applied systems. The only other company in the world capable of providing this range of product selection is Carrier. More and more, we can see indications that we are catching up with Carrier, and with this lineup as a weapon we stand poised to

compete for demand from public investment and cultivate emerging markets.

5. Expansion of Business in China and Advance to Emerging Markets

The bullish market in China is the world's largest market for room air conditioners, and we are striving for major development of this gigantic market by promoting the use of inverters and environmental technology (DC inverter). In addition, new products developed at the Applied Development Center will also begin sales in China. Our business in China is being further strengthened by combining forces with McQuay China to extend sales routes to inland regions and expand sales of inverters and applied products in order to make 2009 the 'Year of the Second Stage.'

Even as we work in this recession to restrain capital expenditures, in India, we executed investments of high priority as planned. In the Neemrana Industrial Area located in the state of Rajasthan, we completed a new factory, and started VRV production from the end of September. From December, we will begin chiller production and have a system for supplying commercial air conditioners. Also, residential and SkyAir air conditioners can be imported from DIT without tariffs, and from next year we will be selling a full range.

In Central and South America, top management has involved itself in the full-fledged market entry to the Brazil market, including a Mercosur strategic framework, and the specific details are being rapidly investigated.

6. Construction of a New Business Model

There is an awareness that the air conditioning industry is changing. For example, characteristic of the Green New Deal policy, each country is substantially increasing environmental investment as a part of national policy. The objective of this investment is not merely restricted to energy-saving equipment but pursues a comprehensive approach to energy savings in buildings. Indexes for evaluating the energy efficiency of a building have been codified in such standards as LEED[®]1 in the United States and CASBEE[®]2 in Japan. Energy saving capability has become total added value.

This applies not only to sales of air conditioning equipment (AC) but also encompasses the needs of what is commonly known as HVAC systems, including heating (H) and ventilation (V). Consequently, there is a flow occurring from equipment sales to HVAC solutions. This makes it important to offer solutions for total building energy savings and further increase the total added value given to the customer.

There is also a necessity to be able to link the abundant stock in the market to business. As we constantly keep close contact with the customer through the service business such as servicing, after sales service, and maintenance and have Daikin's remote monitoring control system "AirNet" serve as a nucleus, it is essential for us to construct a circular business model that is linked to achieving sales at the time of equipment replacement.

Moreover, for trends in the future such as Passive House[®]3 and Net Zero Energy House[®]4, Daikin is leveraging the technology it possesses (heat pump, heat recovery, DESICA[®]5, controls, devices, etc.),

including procurement from new alliances and collaborations with outside companies, to raise the energy efficiency in buildings. For example, to minimize residential energy consumption by restricting thermal loss to the smallest amount possible, Daikin is striving to make use of heat waste from air conditioning and hot water supply in what can be called the “heat retrieval business.”

7. Conclusion

Daikin is doing its best to secure short-term profit by tactical implementation of 49 action plans for important priority themes and contingency plans, but in comparison to other companies the level of reduction in fixed expenses may still be considered modest. However, while shaving several billions of yen and delaying mid- to long-term development, we have determined what is better to defer and have not shrunk those ‘buds’ necessary for future expansion. Our aim is for independent management that maintains foresight enough to refrain from only chasing increased profits in the short-term.

The severe conditions continue, and because it is such an environment as now the strengths and weaknesses are becoming clear, and new constitution reform themes can also be seen. Specifically, it is essential to conquer constitution themes such as volume zone strategy, environment technology (DC inverter, heat pump heating, new refrigerants), localized development, product lineup, and low cost production system in order to furiously expand at the time the expected economic recovery comes.

Recognizing that the world is an environmental-related market, we are polishing by region the details of our sales system and developing technology that is a half step ahead.

A lineup that corresponds to the needs of various emerging countries is necessary when capturing the volume zone market, and it becomes additionally necessary for companies of a certain level of corporate scale to manufacture products that have a balance in value and price. For this reason, we will give due consideration to important management choices such as global M&A and continue to investigate candidates.

Next year is the last year of F10, and it is also a time that tests whether or not we can take a big leap towards post-F10. Having developed all possible measures and established a firm business foundation, I would like for us to make a great advance forward when the economy recovers.

END

※¹LEED:

Abbreviation for Leadership in Energy and Environmental Design and is one of the evaluation systems for building in the United States. It is a program that was created by the U.S. Green Building Council (USGBC) and is a grading system that evaluates the environmental efficiency of buildings and building sites.

※² CASBEE :

Abbreviation for Comprehensive Assessment System for Building Environment Efficiency. It is an evaluation system for building initiated by Ministry of Land, Infrastructure, Transport and Tourism and developed by a commission established within the Institute for Building

Environment and Energy Conservation in 2001. It is used to evaluate and objectively express capacity such aspects as to how the earth and surrounding environments are considered, if there is any waste in running costs or not, and comfort of the user. The standard evaluates new construction and existing buildings in Japan.

※3 Passive House :

It is a standard for residential energy savings established in 1991 by the Passiv Haus Institut in Germany. More than energy conservation standards established by the regulations of individual countries, it is even more severe for energy savings and widely used in Germany and Austria. It will become the new residential construction standard for the EU by year 2011.

※4 Net Zero Energy House :

Net Zero Energy Home is also used. The concept is to make housing “energy payments” equal zero. By freely using energy conservation technology of white home appliances and solar power technology, the energy payment for house becomes zero.

※ 5 DESICA :

A method for minutely controlling humidity and temperature independently