

Briefing on FY 2009 Financial Results Ended March 31, 2010
Management Environment and Policy for the Future
Representative Director, President & COO Yuki Yoshi Okano

1. Opening Remarks: “Achievement of Amount Projected for Previous Term and Advance in Building Foundation for Mid- to Long-Term Development”

Good morning, I am Yuki Yoshi Okano. It is such a great pleasure to see so many people this early in the morning, and I would like to express my deep appreciation to you for taking time out of your busy schedules today to attend this briefing. The fiscal year 2009 financial results are as Executive Officer Okano explained.

Having experienced two consecutive years of decreased revenue and profit resulting from the global recession following the Lehman Shock and the considerable impact of the sudden appreciation in the yen, we have, nevertheless, endeavored to initiate throughout the company 49 action plans for important priority themes that include: making a dramatic shift on the management axis to secure short-term profits; increasing market share of existing products; expanding the range of environment-related products; and promoting total cost-cutting measures. Through these efforts together with the results obtained by the tactical implementation of our contingency plan, we have managed to secure results in operating profit that exceeded forecasts.

Although we did our best to control fixed costs overall, by ‘clenching our teeth’ and investing in themes tied to our next future leap, we were able to make considerable progress in building a foundation for mid- to long-term development in such areas as capturing the volume zone market through development of inverter volume zone models, expanding our heat pump heating/hot water supply business, expanding our Applied business, and making a full-scale entry in emerging markets such as India and Brazil.

2. Achievement of V-shaped Recovery in the Current Term and Determination to Build a Foundation for FUSION 15

Within the sluggish recovery of the global economy, we intend to fully maximize our efforts in the current term based on our strengthened management constitution that has advanced until now and challenge sales of the past highest on a quantitative basis, irrespective of the impact of the exchange rate, as we strive to achieve a V-shaped recovery in our results.

In this term, we forecast an operating profit of 73 billion yen. However, the global economic environment has changed perplexedly from December when we started investigating this plan, and even when seen from March when we drafted it. Rather than clinging rigidly to this plan, we see this as a year that calls for management that is aggressive to the extent that it rapidly assesses the demand movement of each region, the currency fluctuation, and the effect of measures; performs a review for each month and numerical targets; and upwardly adjusts in each tracking of the month.

This term is also the year for drafting our next strategic management plan FUSION 15. I am convinced that by thoroughly managing in this way--attempting to strengthen our constitution one step further and acutely pulling up the V-shaped slope--that our efforts will tie a rejuvenation of past highest profit in the coming period with a further leap forward in FUSION 15, and so I would like to confront this term with an indomitable determination.

3. Management Policy for This Term

I would now like to discuss the management policy for this term. In this term, we will make clear distinctions in the “Nine Action Plans for Companywide Themes,” themes that attempt to thoroughly resolve problems with the involvement of top management and the “53 Themes,” themes that general managers undertake in their respective responsibilities for policy development, as we continue to confront constitution reforms.

In follow up to the summary that Executive Officer Okano explained earlier, under the recognition that the success or failure of these “Nine Action Plans for Companywide Themes” largely controls the results for this term and the next one, management has operated from February of this year through careful deliberation with the involvement of top management in discussions that have continued until a decision on the course of action was reached.

When stating that management policy for each region of the air conditioning business in relation to the “Nine Action Plans,” we expect profitability in the Japanese domestic air conditioning market to largely improve by launch of models whose production was commissioned to Gree, and we will aim is to stay in the black for this term concerning the pending small-sized models.

In regards to air purifiers, we caused great inconvenience and trouble by our product recall to all those concerned, but the fear that sales would be impacted does not seem to have materialized. This year we will fully equip Streamer technology into our residential and commercial air conditioners, and we will continue as planned for business expansion of products through promotion centering on Streamer technology including sales of such devices.

Although a trend toward declining market share has been seen even for Ecocute, the effect of starting up ECO Planners Club shops (Housing construction partners authorized and supported by Daikin to propose suitable construction of all-electric housing that spans from air conditioning to Ecocute, IH cooking heaters, and floor-panel heating systems. There are approx. 1,500 shops nationwide.) is now being seen here, and the effect of reform is emerging to a certain extent, such as in the steady expansion of market from the autumn of last year.

However, in the last fiscal year, we were able to ensure 45% share of the past highest in the commercial air conditioning business, which is our backbone business, but we were unable to put the brakes on the rapid decline in selling price, and the situation has descended to an unprofitable structure. Consequently, considering this and the critical state of affairs, we will review the profit structure from all focus points including the creation of a mechanism for selling price control with the Nine Action Plans, review of the route policy, shift in focus point to highly profitable products, and promotion of total cost-cutting production as we work to quickly return the business into one that can steadily generate a profit.

Next, there is the European air conditioning business. With the public financial problem in Greece, the economic outlook remains uncertain, but we are planning to expand sales even closer to the past highest sales level achieved in 2007.

Last year in the European heating market, demand was low in the largest market of France, and we could not achieve our projected targets. However, there is every indication that we are on the growth track for revival of our business since sales have expanded favorably for replacement demand for a high temperature hot water supply product launched in June of last year, the lineup has been further enhanced for this year, and new products, such as the Mega Altherma for multiple dwellings, are being launched.

Furthermore, the heating business is favorably advancing with horizontal development to regions

outside of Europe. Development of a Chinese version of Altherma has been completed that meets the particular needs of customers in China, and in North America a hybrid Altherma is being launched in comparably warm regions and will be developed to the entire United States. For this current term, we are working to set targets of 10 billion yen in China and North America.

Last year was positioned as the 'Year of the Second Stage' for the air conditioning business in China, and we have developed a shift in strategy from coastal areas to inland areas and from high-end to volume zone.

Environmental regulations such as a decision for regulations on a cutback for Class 2 room air conditioners was strengthened and replacements are proceeding to inverter type air conditioners. The inverter ratio acutely rose from a ratio of 7-8% projected in the original budget to an actual ratio of 15% for fiscal year 2009, and in fiscal year 2010 that ratio is forecast to reach 30%. In 2011 it is expected to reach 50%.

In priming the market with last year's launch in collaboration with Gree Electric Appliances of inverter air conditioners that excel in cost competitiveness, we intend to sell 500,000 units to become the number 2 leading Japanese manufacturer, continuing with commercial air conditioners, and as quickly as possible jump to the top Japanese manufacturer even for room air conditioners.

Although the economic recovery is sluggish for North America, when speaking in regards to the business of this company, we have experienced a favorable shift with orders from the second half of last year exceeding those of the previous year as a result of last year's launch of new Applied products such as the "air cooled screw chillers (Pathfinder)" and the "magnetic bearing chillers (Phoenix)."

Furthermore, in Applied, we are positioning ourselves for business to rapidly expand in China (including inland regions), Europe, and the emerging markets with a global base model developed at the Applied Development Center in Minneapolis, United States. From the second half of last year, we began full-scale global development by supplying models to every global base, even those outside North America.

This month the Applied Solutions Division was newly established as a control tower to accelerate global expansion, and we intend to dramatically expand business all at once from now by the establishment of an organization responsible for global business expansion.

We are currently formulating a plan even for expansion strategy in the emerging markets.

In India, a new factory for commercial air conditioners has been in operation since October of last year, and we are currently investigating radical reinforcement measures including the active employment of local staff from an aspect of sales.

In Brazil, there are also difficult problems such as customs duties, but we have deployed a staff of about 20 full-time employees and are proceeding forward with thorough market research. We would like to quickly finish planning and achieve a full-scale advance this year.

Next there is the Chemicals business. We largely lowered the breakeven point by making unprecedented total cost-cutting measures for the last fiscal year and achieved a turnaround in one term to the black.

In this term, expansion is being strengthened another notch to the semiconductor business where demand is rapidly recovering, to environmental related markets such as lithium batteries and heat shielding paint and next generation applications such as fluorinated intermediates for LCD

panels.

Furthermore, we continued striving toward development of new applications in China where business is expected to widely expand and strengthened the constitution of the North American business (Daikin America) as we continue to expand our business globally.

By substantially lowering the break-even point, if original sales expand for the Chemicals business, then we will have largely changed to a structure that produces profit. In order to maintain a slim business constitution, we will respond to demand with increased production (almost full operation for current demand) with no investment, but we foresee upper movement in demand that exceeds that which is forecast for this year, and we would like to make this the year when we work with determination toward a recovery of the highly profitable business by a structure that supplies products that are considered widely popular.

4. Conclusion

Finally, as we also explained in the beginning, this is the year when we plan the next strategic management plan (FUSION 15).

In these few weeks, each enterprise has been announcing its own mid-term plan, but as the industrial structure changes for the dawn of economic recovery and we see the visible landscape completely change, we understand that the business structure is being substantially altered.

Within this changing environment, we must keep leading this 'paradigm shift' for this company whose primary focus is on the air conditioning business, which is deeply related to the environment.

Daikin is fortunate to have a multitude of outstanding environmental technologies including inverters, heat pumps, DESICA, and new refrigerants, and the perfect chance has arrived. Even in FUSION 15, the policy is unwavering in regards to our intention to work toward both contribution to the global environment and to business expansion, but adjustments will be needed to account for the "paradigm shift" of the industrial structure. For example, we would like to firm up the details for the following:

- Changing from equipment sales to HVAC Solutions business;
- Constructing a circulatory business that is tied to equipment renewal;
- Establishing a volume zone strategy in the emerging markets beginning with India and Brazil;
- Providing entire buildings with energy efficient heat;

as we thoroughly reflect on how we intend to ultimately succeed over our competitors.

This concludes this briefing on fiscal year 2009 financial results.