

Briefing on FY2010 Second Quarter Financial Results
“Management Situation and Policy for the Future”
Representative Director, President & COO Yuki Yoshi Okano

1. Opening Remarks

- I am Okano, president of Daikin Industries. Thank you very much for taking the time from your busy schedule to be here today. I would also like to express my deepest appreciation for your continued support and understanding. The financial results of the second quarter of FY2010 are as Executive Officer Susumu Okano explained.

2. Economic situation and recognized issues

- Based on the reinforcement of our management constitution initiated last year, we started this term with a business plan for attaining 73 billion yen in operating profit, capitalizing on the moderate recovery trend of the global economy. Rather than embracing this plan as a fixed one, we have followed regional demand trends, exchange rates, and the effects of our measures in a timely manner and reviewed the targets every month in an effort involving my own personal attention as never before. By closely managing our business to ensure upward revisions can be made every month, we are continuing to challenge record high sales on a unit basis, disregarding the impact of currency exchange rates.
- Based on the 18-month rolling budget system, we are steering the business with a focus on the following fiscal year and will continue to execute this style of management to strengthen our management constitution and achieve a rapid V-shaped recovery.
- Maximizing the benefits from the strong yen, we will overcome negative factors by expediting global procurement among other measures, increase our holdings in existing businesses, capture demand in the volume zone models in the emerging countries, and expedite the environment-related business, including the expansion of sales of volume zone room air conditioners, heating/hot water supply equipment and applied solutions, as well as develop businesses in new fields such as air purifiers and ventilation equipment. Moreover, we will reform our management constitution with the combined efforts of the entire Daikin Group to achieve a V-shaped recovery to the fullest extent possible and promptly break the highest gains record of the past.

3. Recent business conditions and future management policies

- Against the backdrop of uncertainties, the key to breaking through the current situation to achieve further growth is “further strengthening of our capabilities in environment-related technologies” and “development in China and the emerging countries, the fastest growing markets.”
- Although we are convinced that we possess the world’s leading environment-related technologies, competitors are also rapidly catching up and therefore, we need to speed up our efforts in refining our existing technologies.
- To date, our Group has increased sales, mainly by selling high value-added, high-end products in the developed countries. From now, however, whether we can overwhelm our competitors in the emerging countries and the volume zone market will be critical. Low-cost products that meet the needs of each country with different religions, cultures, and practices will be necessary for the volume zone market. This means that products need to have the functions desired by consumers, be affordable to the medium income group in each country, and save energy.
- To this end, we are convinced that localization of development is indispensable, and the keys to success are identifying the functions that meet the demands of each country and manufacturing at the optimum location to realize low cost.
- In January this year we established an R&D Center in Shanghai at which more than 120 local engineers are making efforts to develop products originating from China. Development has started for a variety of products for capturing the volume zone market and expanding sales in the local areas including products with innovative designs. We intend to expand this Center to 200 engineers by the end of this year.
- China, which continues to achieve a remarkable rate of economic development, is the world’s largest manufacturer as well as world’s largest consumer.
 - Demand for air conditioners continues to steadily grow and we significantly increased sales in the first half of the year. Sales in the recent single month of September pushed the figure to the highest mark ever. With high levels of economic growth expected in October and onwards, China continues to be the engine of our business performance.
 - Sales of highly cost-competitive inverter air conditioners fully launched from this term in partnership with Gree are steadily increasing because of the rapid shift to inverters resulting from regulations to eliminate air conditioners Grade 3 or lower in energy efficiency from the market from June.

- To ensure we maintain such momentum in the second half of the year, we will expedite expanding our business by increasing sales of all our products in every business and accelerating development of a sales network from coastal regions to inland and regional cities. In the applied business we will introduce super large centrifugal chillers exclusively to the Chinese market. In the heating business we will increase orders by introducing products with local specification (VRV+ under floor heating+ hot water supply) as the value-added VRV.
- It is not just our air-conditioning business that is developing in China. In the chemical business demand for fluorochemical products is also expected to grow in the future against the background of increased investments in infrastructure in areas of electrical power and railways as well as in environment-related fields such as solar cells and wind-generated electrical power. Daikin formed an alliance with Shanghai Valqua at the end of September to secure stable supply and cost competitiveness of fluoropolymer and molded products to increase our share in the Chinese market.
- In the oil hydraulic business we established a sales and production company in October to maximize business from the growth of the Chinese market. We will achieve 10 billion yen in sales in 2013 from our current sales level of 2 billion yen in 2010 in the industrial application business in China. This will act as a spark to accelerate the structural reforms of the oil hydraulic business.
- Other emerging countries:
 - In India we strengthened our human resources by appointing a local human talent as president and hiring staff in development, production and procurement functions to locally develop and manufacture community-based products and to quickly strengthen local management capabilities. Furthermore, we will capitalize on the local production of VRV and launch the cost-reduced room air conditioners produced exclusively to meet the needs of India early next year.
 - In Brazil we are preparing to establish a joint sales company between Daikin and McQuay and immediately start our business with an eye on local production in the future.
 - In other emerging countries we must make utmost efforts with speed while learning from what we are doing in China. Eliminating excess functionality but incorporating functions necessary in each local region and localizing core staff ,including those engaged in development, are some of the challenges we face in the future.

○ Japanese air-conditioning business:

- Against the background of severe business environment represented by demand decline and increasingly intense competition, our measures designed to improve our short-term profits are slowing but steadily producing results.
- As for residential air conditioners, we installed our proprietary “Flash Streamer technology” in all product models, launched air conditioners toll-manufactured by Gree in the volume zone. As for the packaged-type air conditioners, we are implementing all possible measures including forming a mechanism for maintaining selling price, shifting our focus to products with higher profitability (『Eco-ZEAS80』 and VRV for replacement) and totally reducing production costs.
- As the market further matures in the future and replacement demand becomes prevalent, we will need to execute a drastic reformation to establish a high-profitable constitution while maintaining and increasing our market share. We will design our strategies including reformation plans for our sales system to surpass the competition.

○ In Europe:

- As for 『Daikin Altherma』, sluggish housing starts as well as stabilization of crude oil prices slowed down the demand for heat pumps. We, however, improved and expanded our 『Daikin Altherma』 line-up for collective housing and commercial-use in addition to highly efficient products and high-temperature hot-water type for residential use. We also expanded our sales network, which centered on France, to cover the entire region of Europe by capitalizing on the strengths of Rotex. By developing combustion-type units in addition to heat pumps, we will reaccelerate our efforts in the comprehensive heating/hot water supply business.
- Moreover, we will develop solutions business to sell systems rather than only equipment as well as business that encompasses everything related to heating and housing. Fusing the technologies we possess and developing cross-functionally and cross-regionally throughout the world will lead to expanding the heating/hot-water supply business and pave the way to creating future businesses.

○ In North America:

- Energy-saving magnetic bearing chillers and air-cooled screw chillers both of which are our leading products continue to be successful and are receiving more orders than the previous year.
- Previously, we had left the after-sales services business to McQuay sales representatives, but we have now combined our respective networks to provide the utmost service to customers and have seen a steady increase in sales.

- Although the demand outlook in North America is becoming more uncertain at the moment, it is important that we reinforce our services and solutions business more than ever before. We are forming a group exclusively for the solutions business to achieve sales expansion.

4. Conclusion

- While we continue executing measures to reform our management constitution, we will further reduce variable costs by increasing global procurement and establishing an optimum global production system. As for our fixed costs, we will ensure prioritization and selection as well as realize detailed streamlining by breaking down all costs at every department to eradicate waste.
- By realizing a prompt V-shaped recovery of our business performance and securing resources for advance investment that leads to our leap forward in the future, we will expand our environment-related business such as applied solutions, high-volume zone and heating/hot-water supply as well as establish systems for research and development, product development, and production that will support our future business expansion.
- By executing our next strategic management plan which will be announced at another occasion and resolving management issues, we will ensure results are generated and aim to achieve more than a double-digit per annum growth in sales.