

**Briefing on FY2011 Second Quarter Financial Results**  
**“Management Situation and Policy for the Future”**  
**Representative Director, President & COO Masanori Togawa**

**1. Opening Remarks**

- I am Masanori Togawa, president of Daikin Industries. I would like to express my deep appreciation to you for taking time today to attend this meeting and respectfully ask for your kind consideration and understanding of Daikin. In reflecting on the situations we have faced since I assumed the duties of president & COO in June, there have been many headwinds, including the issue of parts procurement from the earthquake, soaring prices in the market for raw materials, appreciation of the yen, and financial instability in Europe. However, as Susumu Okano has just explained, we were fortunate at the close of the second quarter to have made an extremely favorable start.

**2. Economic situation and recognized issues**

- Although the world economy continues to recover with traction provided by the emerging countries, uncertainty has steadily risen beyond initial outlooks from the heightened concern of an economic downturn and market unrest accompanying the European debt instability existing in such countries as Greece. Notwithstanding a business environment that makes it difficult to formulate an outlook for future prospects, nothing has changed in Daikin's commitment to achieving the targets we set forth in our strategic management plan (FUSION 15) announced in June. If anything, we believe that this is an excellent opportunity for us to distinguish ourselves from our competitors in these times of uncertainty.
- While macroeconomic indicators are effective in understanding generalities, company management cannot be performed when determining business conditions solely by these mean values. Signs of structural changes must be identified from the live, up-to-date information gleaned from individual worksites, and if we can quickly take measures from these signs to stay a step or just half-a-step ahead of our rivals, we will further broaden our opportunities to grow.
- At the same time, it is necessary to prepare for any further adverse impact to the real economies, beginning in Europe, and investigate countermeasures that focus even more on the short-term.

### **3. Recent business conditions and future management policies (FUSION 15 progress)**

- In quickly taking measures that are a step or just half-a-step ahead of rivals within the signs of changes, the company is expanding, for example, at a pace that exceeds the previous year for the Daikin air conditioning business in China by an annual rate of 30%, but when considering the rapid growth foreseen for inland and western regional cities, we should see results of our preemptive measures that include actively launching differentiated products, strengthening the sales network, collaborating with Gree Electric Appliances as an opportunity to shift the market in China to inverters, and expanding sales of energy-saving air conditioners. With the rapid shift to inverters in the Chinese market, we are looking for this year to achieve an annual rate on the level of 50%.
- A large factory is being constructed in Suzhou for future expansion in China and is scheduled for operation in April 2012. Even with the new factory construction, the Shanghai Factory will be expanded as a manufacturing base for commercial use products and products with high functionality, whereas the Suzhou Factory is being expanded as a base for capturing volume zone centering on residential use. By this, a system consistent with “local development,” “local procurement,” and “local production” will be prepared to effectively unite with the R&D Center established last year in February.
- Daikin has also undertaken many other businesses in China, not only air conditioning equipment, and these businesses include the fluorochemicals business, beginning with refrigerants, as well as applied systems, container refrigeration units, and oil hydraulic equipment. The production functions of these businesses are concentrated in East China in the tri-city region of Shanghai, Suzhou, and Changshu, and that trend is accelerating to make the region a major manufacturing base. The tangible and intangible benefits are being incorporated, and in 2015 we would like to have the China business achieve on the scale of 500 billion yen.
- Despite concern of an adverse impact on growth in the emerging countries from the real economies due to the crisis in Europe, no change is perceived in the structure where emerging countries carry the burden of providing traction for the world economy. With this in mind, rapid development to countries including India and Brazil is being sought. In India, the production line is being expanded to 500,000 units in an attempt to increase Daikin business in the residential use volume zone market. Depending on circumstances, expansion to 1 million units may also be investigated, and operation is scheduled to begin from July of the next term.

- The important point in India is whether or not products embodying the needs of people in India can be created at a low cost. When we explained FUSION15 this year in June, one common concern that emerged was the possibility of a drop in profitability if we extended volume zone to emerging countries. Naturally the question becomes whether low cost can be created so that expansion can occur without lowering profitability.
- Whether this is possible or not depends on our ability to raise the percentage of local procurement. At the outset, we are aiming, like Toyota, for 70% local production and are currently accelerating efforts to identify local suppliers and begin transactions. For example, local suppliers are also asked to draft drawings for samples and product development must proceed forward by having parts created with materials the suppliers propose without wasting time second-guessing. Capturing the volume zone requires us to take these steps.
- Also, we believe that experience in India can be applied to product development in emerging countries overall and linked to building *monozukuri* capability.
- In Brazil, full-fledged plant operations scheduled for 2014 will be frontloaded one year ahead of planned to rapidly capture infrastructure demand in anticipation of national events.
- In any case, given that we are a global company, it stands to reason that we may be adversely impacted by the world economy. Nevertheless, we must maintain the foresight to discern signs of future growth and take appropriate measures without withering away in conditions where prospects cannot be clearly formulated. Rather than citing the items of concern for possible mischief, it is vital that we ascertain the basic situation and steadily act by taking action upon action.
- However, with the sense of a slowdown emerging in the world economy and a firmly established tendency toward yen appreciation in currency markets, the outlook in the management environment remains severe for the immediate future. Even in taking measures one after another that correspond to the changes in the business environment and competitors,

we recognize the importance of prioritizing by selection and concentration of themes that solidify profitability and our position as the global No. 1 air conditioner manufacturer as we continue striving to achieve the established targets of FUSION15.

- Measures are being investigated in the basic foundation to shift management resources to themes that will produce significant results in fiscal 2013 and determine essential targets. Even within the severe management environment, we are aiming to maintain mid- to long-term growth that is set forth in FUSION15 and link this to ensuring short-term profit.
  - We intend to have full-fledged development of the volume zone market from the viewpoint of local product development, local procurement, and local production as an accelerated theme receiving greater focus for emerging countries including the previously mentioned India and Brazil along with Turkey and Indonesia.
  - Although Daikin leads other companies in product development in Europe and sales have grown for 『Daikin Altherma』, the pioneering heat pump heater and hot water supply solution launched to the market, hybrid combustions type heater products have been developed and business is further expanding with development to China and North America and sales growth of energy-saving air conditioners. Seizing opportunities in the rise of new business relating to energy savings and environmental regulations being implemented in each region and country, we intend to accelerate environmental businesses by expanding environmental products from the chemicals business that include heat shielding paint, fluoroelastomers for automotive applications, and lithium-ion battery material.
  - In addition to strengthening the after sales service solution business, we will accelerate the solution business for electric power conservation.
  - We will expand the chemicals business in China including forming alliances with local manufacturers in the area.
  - Assuming that we can proceed quickly in making air conditioners mainstream in emerging countries, we can also expect the amount of refrigerant being used to also steadily increase with the expansion of the volume zone business in emerging markets. As the only air

conditioning manufacturer that produces both air conditioners and refrigerant gases, we are well aware of our obligation as a manufacturer to search for a next generation refrigerant (R32) that excels economically, is safe and effective, and has a small impact on the environment in order to lessen the environmental impact of refrigerants. Not only do we wish to expand business, we also hope to make an active environmental contribution to emerging countries.

#### **4. Conclusion ( Budget approach for 18 months)**

- The original budget for this fiscal year is 85 billion yen, but we are striving to resolve 66 priority issues of important measures that aim for more than 90 billion yen as an internal company target to challenge. Taking advantage of the opportunities presented by the favorable shift in the second quarter financial results, we expect to achieve 90 billion yen for the year. Moreover, with the approach of an 18-month budget, we have included an investigation of issues for the next fiscal year and are investigating from July by frontloading approximately two months more than a typical year. Of the 66 priority issues implemented from the start, we have narrowed down the number to 13 priority issues that will be thoroughly tackled until the budget settlement in March as we continue to move closer to achieving the FUSION15 targets announced in June for strengthening our corporate constitution.
- In addition to further emphasizing themes in FUSION15 previously mentioned before, the major challenges as 13 priority issues will be for developing countermeasures for the appreciation of the yen, building the capability to procure, supply, and sell that defeats rivals, and maximizing FCF (in particular, confronting inventory reduction).
- For the future, we would like to take flexible measures to rearrange the systems for procurement, production, and sales corresponding to future global economic trends and confront the severe business environment in the future.

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