

**Briefing on Business Forecast for Fiscal Year Ending March 2012
And Strategic Management Plan FUSION 15:
Points for Realizing FUSION 15 and Business Forecast for Fiscal Year
Ending March 2012
Director and Senior Executive Officer Masanori Togawa**

1. Opening Remarks

- My name is Masanori Togawa, and I would like to express my deep appreciation to the large number of people in attendance today who are taking time out of their busy schedules to gain a better understanding of the daily business activities of Daikin Industries.
- At the end of June, I will assume the position of Daikin president and COO. In regards to the most important management items that the new system should address, there are the areas for promoting and executing the strategic management plan Fusion 15, which will be explained today. Centering on this Fusion 15, I would like to aim for the realization of a truly global and excellent company by initiating reforms one after another and repeatedly executing measures.
- I believe that being here today to exchange opinions with everyone and enrich two-way communication provides an extremely important opportunity toward the process of devising future management strategy, and I ask for your kind cooperation.
- First, I would like to begin by taking a little time to convey my thoughts concerning the business forecast for this term and the strategic management plan Fusion 15.

2. Business Forecast

- Although the business forecast for this fiscal year was “undetermined” at the time of the briefing on fiscal 2010 financial results, the budget was recently decided in principal from a set forecast even though uncertainty still remains concerning the impact of the Great East Japan Earthquake (summer electric power shortages, voluntary self-restraint in consumption, recovery demand in the second half, etc.).
- Within the elements of various increased costs such as proceeding with capital investments to accelerate participation in the volume zone market of emerging countries, soaring market conditions for raw materials, and the

impact of the Great East Japan Earthquake, we were able to increase operating income for the current term to 85 billion yen by carefully minimizing the impact from the earthquake in parts procurement, performing pricing measures that absorb soaring market conditions, thoroughly taking measures to strengthen the corporate constitution such as improving profitability of emerging countries and pricing measures that absorb surging market conditions, gaining recovery demand accompanying the occurrence of earthquakes, and expanding in new business areas such as “electric power conservation” that correspond to environmental changes.

- On the one hand, there is concern in Japan that summer electric power shortages will shackle recovery and economic activities will be largely suppressed, while internationally the world economy runs the risk of financial problems in Europe and being affected by the tightening of monetary policy in China. In reaching a decision on the budget plan for this term, we considered what measures needed immediate attention and carefully examined changes in the management environment.
- Consequently, we established essential themes (totaling 66 themes) in budget formulation this time. In addition to tackling measures to strengthen the corporate constitution mentioned above and including electric power conservation needs, we are incorporating measures in the essential themes to expand sales concentrated on favorable regions and products, making capital investments and fixed costs more efficient, and further promoting another level of cost reductions. We would like to more securely achieve the targets of our budget plan for this term by meticulously following up on this execution.
- Furthermore, within the company, we are making challenging targets higher than the level expressed at this time. We would like to make every effort to move closer, if only a little, to the level of 100 billion yen operating income that had been the target before the earthquake by challenging ourselves to accelerate business one step further in emerging countries, obtain recovery demand in Japan, expand globally as a energy control business that conserves electric power, and further expand sales of environmental products (Zeffle, filters, etc.). We intend to tie these efforts to powerful growth of the Daikin Group in the future.

3. Fusion 15

- Next, concerning Fusion 15, Daikin has until now improved results from implementing management by a type of mid-term management planning called the Fusion System. In a brutal period of changes where no one knows what will occur next, we advance forward with management that adheres to meticulously achieving targets for the next three years, establish this as an image to remain unrelenting in achieving targets for the final fiscal year, determine numerical targets again for the final year concerning quantitative targets based on the results for the next three years, and boldly challenge ourselves in aiming for even higher targets.
- This way of thinking has not changed in this Fusion 15 either, and we intend tackle renewing the past highest operating income at the earliest period possible and aim to achieve over 2 trillion yen in sales in the future as the ideal.
- Although Takeshi Ebisu, the department manager of the corporate planning department, will soon explain concerning this overview, I would like to make two points toward achieving the budget plan.

<Full-fledged Entry in Emerging Countries and Volume Zone>

- Concerning the first point, I would like to say that we will emphasize maximizing demand in the emerging countries that are driving this period, ascertain needs of each country, shift the focus from the high-end business to volume zone, and also largely change the management structure in developing products.
- Last year Daikin achieved the global No. 1 in air conditioning, which had been a long-cherished goal, by expanding cutting edge air conditioning products with high-level functions and high added value in markets centered on such regions as Japan, Europe, and the United States.
- Within the global economy undergoing a large paradigm shift from developed countries being the prime movers to emerging countries being the prime movers, it is essential that we cultivate the market of each country in the emerging countries that can expect high growth in air conditioning demand in order to continue to grow in the future
- However, for emerging countries the market is completely different from developed countries and past successes until now for Daikin do not hold true. In capturing the emerging markets, it is necessary to change the method of product development from its roots.

- In the emerging countries and in volume zone, it is necessary to supply the bare essentials in functionality at a low cost. Local needs are sought with product development performed by local human resources. Low cost products limited in function and sold in emerging countries recently by timely launch of differentiated in those regions are also appearing in reverse flow that stimulate new demand in developed countries thought to be centered on high-end.
- If one were to offer a keyword, it would be providing products built with quality at an appropriate price corresponding to local needs: not as an extension of products developed in Japan as has been the case until now, but rather products reviewed and designed from a zero base of the basic structure. The concept is switched over from subtraction to addition, and it is important to know what can succeed by adding on only the bare minimum.
- In addition to changing the practice of concentrated development in Japan that creates high-level engineering ability and development of high value added products, the capacity for product development is strengthened within these types of changing conditions for products that match local needs. Specifically, base development has been newly established in the six regions of Japan, Europe, China, ASEAN/Oceania, India, and the United States (10 bases), and development managers are assigned for making decisions.

< Daikin's unique tackling corresponding to the needs to conserve electric power following the earthquake.>

- For the second point, as a company that is the global No. 1 in air conditioning, we supply products and systems that utilize our own proprietary technology for electric power conservation and will attempt to create demand globally as we work toward contributing to society.
- From business centering on conventional machines of the past, Daikin has consolidated market needs separately for each region and country as well as by use and have developed our own solutions business that provides energy control that incorporates services, which are the strength of this company, instrumentation, and controls.
- In particular, it is expected that the occurrence of the Great East Japan earthquake will be used in the future as an opportunity to raise issue consciousness internationally for energy policy (nuclear power) and stimulate change for the environment that is involved with the energy business. We believe that electric power conservation will be born globally

as a new need and added as a need similar to that for energy savings, which has been prevalent until now.

- As you know, while energy savings (raising operation efficiency in machines without losing comfort) and electric power conservation (solution to lower the amount of electric power usage) appear similar, they are different. Air conditioning equipment will also shift from efficiency to application. Naturally not only will it be important to have the ability to promote improvements in energy-saving performance of individual units but it will be also be important to appeal to customers by showing how well electric power can be conserved with wise use.
- The scope that creates electric power conservation by offering customers various menus has become large, and we can nurture an extremely meaningful business that is consistent with both contributing to society and expanding business once we begin taking in sales of not only air conditioners but also the surrounding equipment.
- To this end, first we intend to have overwhelming superiority by technological ability, raise core technology to territories where other companies cannot imitate, and create a firm business model. Although we maintain a policy that nurtures technical personnel ourselves, there is a limit to how committed a company can be toward its in-house procurement policy, and we may be receptive in the future to alliances and collaborations that purchase technology and to M&A, and we would like to take in promising technology into the Group from around the world.

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