



FUSION 15

**Succeeding in the Paradigm Shift
To Become a Truly Global and Excellent Company**

June 15, 2011

DAIKIN INDUSTRIES, LTD.

» I. Overview of Fusion10

II. Goals and Mid-Term Implementation Plan

III. Group-wide Core Strategy Themes

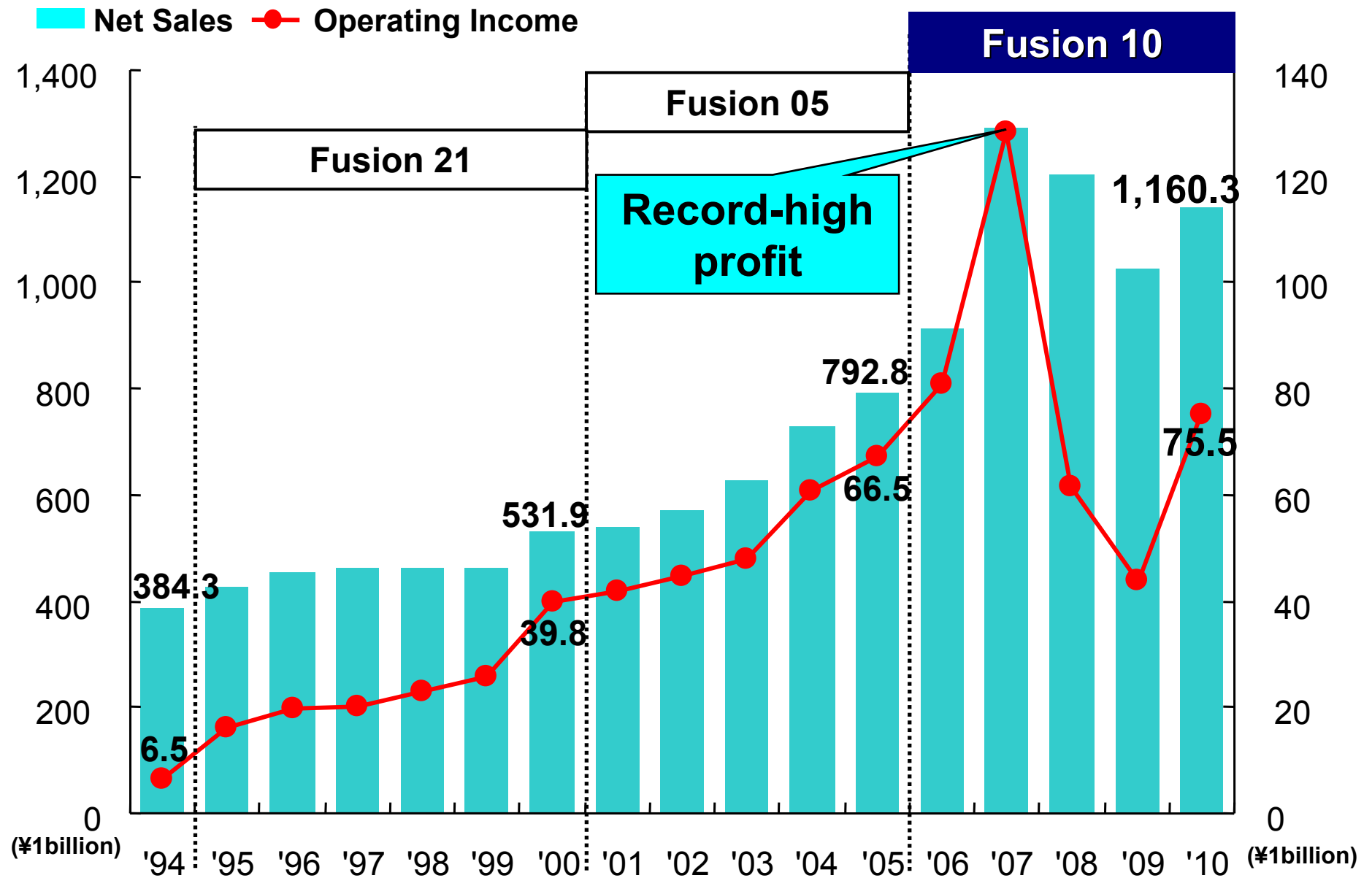
IV. Unique Daikin Initiatives to Meet Energy-Saving Needs after the Earthquake

Overview of Fusion10

- Daikin achieved its quantitative targets for FY2008 in FY2007, one year ahead of schedule, and recorded the highest profit (¥128.1B) in its history (achieving 14 consecutive terms of increased profit)
- Facing the global recession triggered by the collapse of Lehman Brothers in September 2008, Daikin focused on business constitution reforms and achieving single-year performance targets by executing 49 themes to generate short-term profit
- As the result, while many companies suffered from deficits amid deteriorating economic conditions, Daikin maintained a level of profitability and achieved a V-shaped recovery of performance in FY2010

	FY05 results	FY10 results	Ref.: FY10 targets
Net sales	¥792.8B	¥1,160.3B	¥1,900.0B
Operating income	(8.4%) ¥66.5B	(6.5%) ¥75.5B	(10%) ¥190.0B
ROA	6.0%	1.7%	7.5%
ROE	13.1%	4.0%	15.0%
DVA	- ¥0.5B	- ¥17.8B	¥25.0B
FCF (3-year cumulative)		+ ¥112.3B	+ ¥150.0B

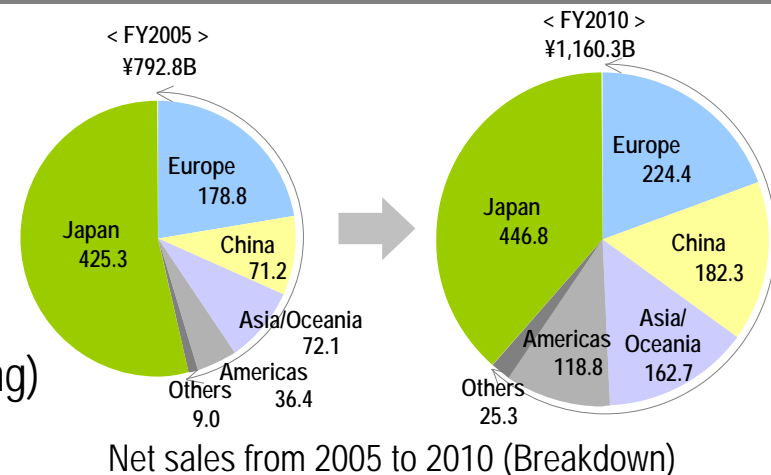
(Ref.) Performance Trends



Fusion 10 Achievements

1. Accelerated Global Development

- Increased sales in the Americas and others in addition to Europe, China, and Asia/Oceania
⇒ Group Overseas Sales Ratio
46% in 2005 → 61% in 2010 (64% Air Conditioning)



2. Promotion of M&A, Alliances and Partnerships

- Acquired O.Y.L. Industries to accelerate becoming the global No. 1 company in air conditioning (2006)
 - Obtained the global No. 4 Applied business (McQuay)
 - Built a bridgehead in the North American air conditioning market
 - Obtained low-cost production technology Etc.
- Entered into an operational alliance with Gree Electric Appliances of Zhuhai to expand the market for inverter-driven air conditioners (2008)
- Acquired Rotex Heating Systems of Germany to fully enter the European heating market (2008)
- Acquired Nippon Muki to reinforce filter business (2009)
- Entered into operational alliance with Nippon Valqua Industries to expand the fluororesin products business in China (2010)

3. Expanded Environmental Business

○ Entered heat-pump heating and hot-water supply business

-Rapidly launched Altherma in Europe: 3,000 units in 2005 → 37,000 units in 2010

○ Market development through open strategy for environmental technologies

-Inverter-driven RA has become the mainstream in China, the world's largest high volume market

-Shipment ratio of inverter-driven RA in China: 7% in 2007 → 30% in 2010

-Sales growth of Daikin's inverter-driven models:

130,000 units in 2005 → 380,000 units in 2010

4. Enhanced Profit Constitution

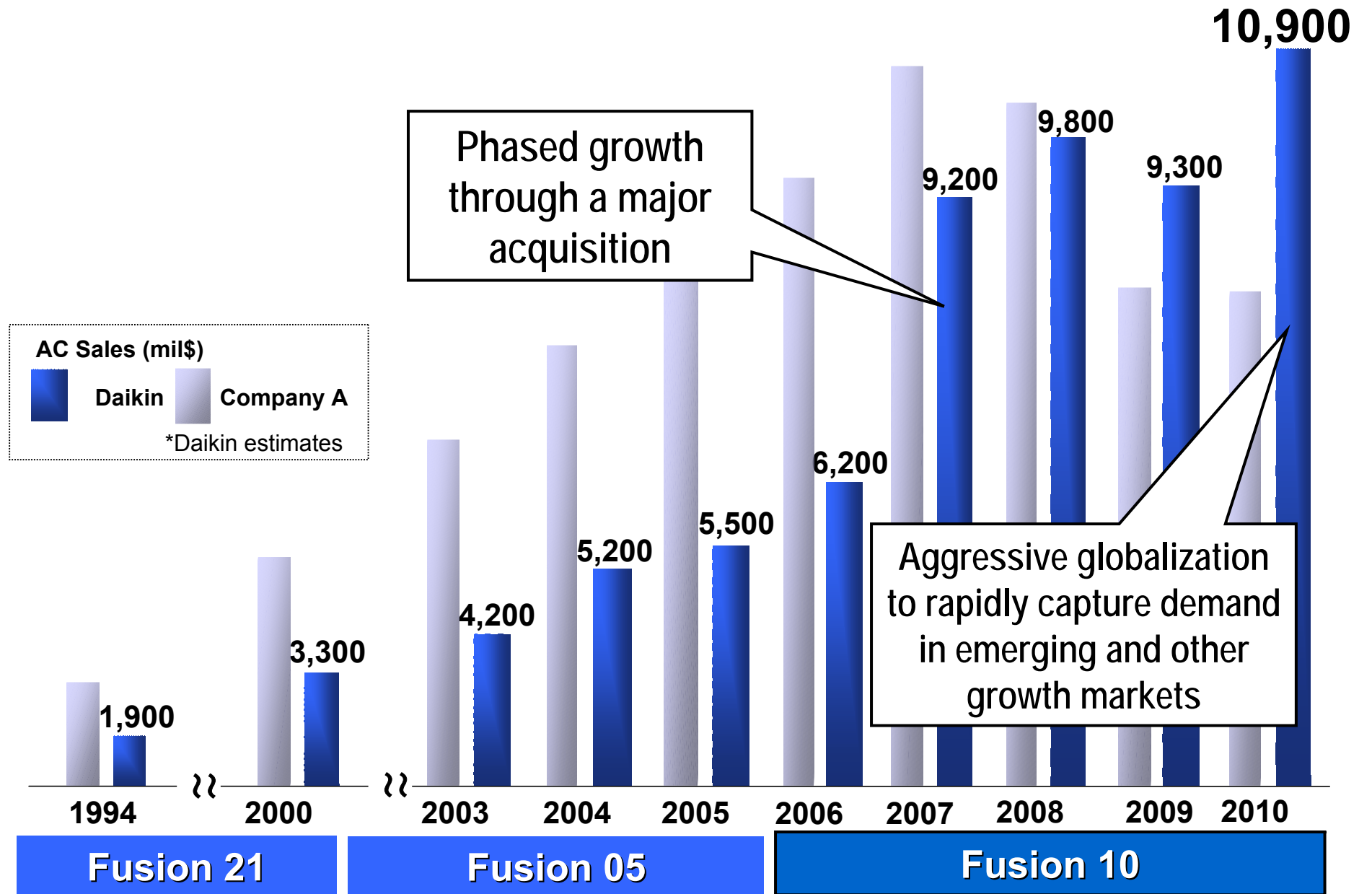
○ Even in the midst of drastic economic changes triggered by the collapse of Lehman Brothers, Daikin continued to strengthen its financial constitution and successfully recovered growth in both revenue and profit generation in FY2010

-Generated over ¥100B in FCF by reducing inventory (3-year cumulative from 2008–2010)

-Improved break-even point ratio and interest-bearing debt ratio

	2006	2007	2008	2009	2010
Break-even point ratio	79%	76%	86%	89%	82%
Interest-bearing debt ratio	39%	30%	37%	35%	33%

Becoming the Global No. 1 Air Conditioning Company



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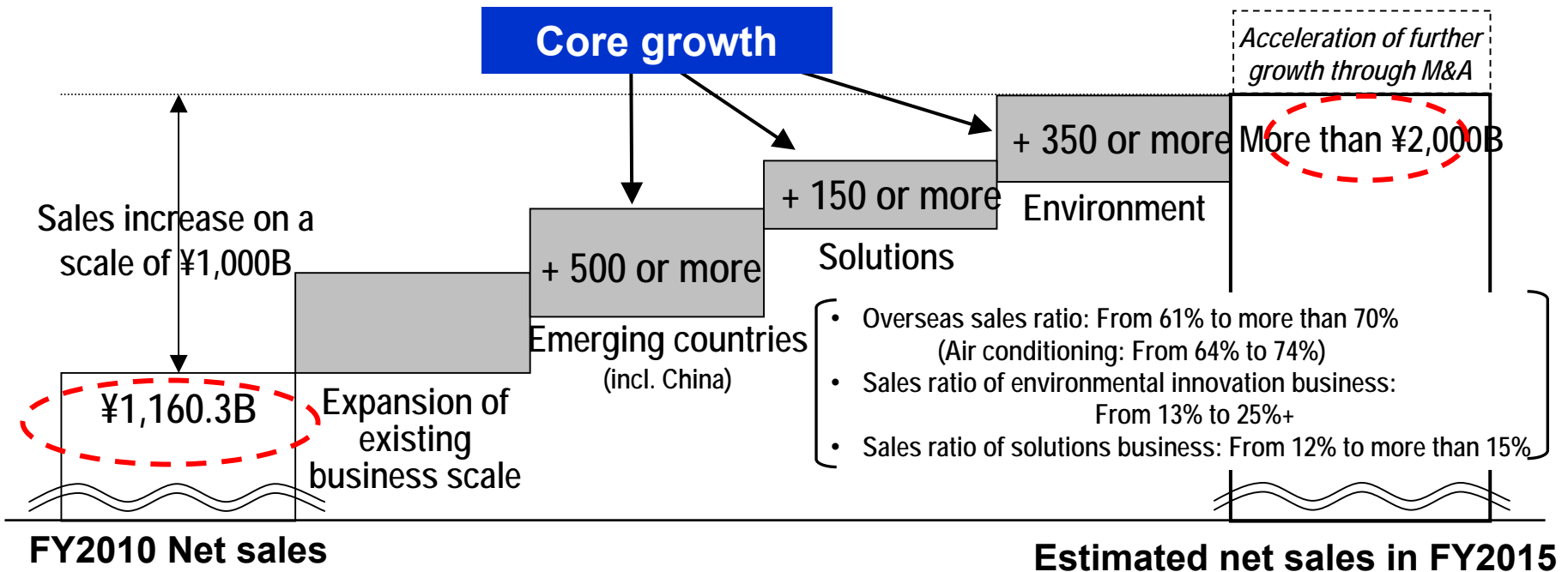
Fusion 15 Goals

Succeeding in the Paradigm Shift To Become a Truly Global and Excellent Company

Become a company that pursues both scale and profitability, growth and differentiation, sophistication of proprietary technologies and development of low-cost technologies and quality suited to new markets, and a company that opens up new paths and continues to evolve by using change and crises as a springboard

FY2015 Image

- ◆ Image of Group-wide goals: Net sales of more than ¥2,000B, operating income margin of more than 10%
(Quantitative targets will be finalized in 2013)



Mid-term Implementation Plan (Quantitative Targets for FY2013)

Group-wide Targets

- ◆ Set clear targets for the plan's first 3 years and ensure achievement to build a new growth foundation

	2010 results	2011 plan	2013 targets	2015 image
Net sales	¥1,160.3B	¥1,310.0B	¥1,600.0B	¥2,000.0B+
Operating income	(6.5%) ¥75.5B	(6.5%) ¥85.0B	(8.1%) ¥130.0B	10%+

*Assumed FY2013 exchange rates: ¥85/\$, ¥120/€

- Execute challenging targets to accelerate building the growth foundation for the new era
 - FY2011: New measures to offset the negative effects of the earthquake (operating income of approx. ¥10B)
 - Initiatives to meet nationwide needs for reduced power consumption and reduce power consumption in heating equipment
 - Global sales expansion by increasing production in the 2nd half of the year
 - FY2013:
 - Global demand creation globally for power-saving business
 - Capitalizing on higher environmental awareness, develop markets for new refrigerants, environmental chemical products, and energy-saving inverter-driven air conditioners in emerging countries
- Etc.

Financial Targets

	2010 results	2011 plan	2013 targets
ROA	1.7%	3.6%	5%
ROE	4.0%	8.3%	11%
FCF (3-yr. cumulative)	+¥112.3B		+¥85.0B
DVA (EVA)	-¥17.8B	-¥2.5B*	¥18.0B*

*Revise capital cost ratio from 2011 (from 6% to 5%)

Investment Plan

	2011-2013
3-year cumulative	¥190B
	2008-2010
	¥142.9B

○Plan of major investments for 2011-2013:

- Increase production capacity in China
- Expand resin capacity in China & USA
- Air conditioning factory in Brazil

Alliances, Partnerships and M&A

Set priorities and actively employ as a management option

- HVAC in North America, combustion heating in Europe, local manufacturers and distributors in emerging countries, acquisition of new technologies
- Etc.

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Eleven Group-wide Core Strategy Themes

Execute 11 themes to build a foundation for growth, boldly reforming what needs to be changed, continuously sophisticating core competencies that transcend the times, and consistently outperforming competitors

I. 4 New Growth Strategy Themes

1. Fully enter emerging markets and the high-volume market
2. Develop solutions business that meets customer needs
3. Expand environment-related innovation business
4. Accelerate growth through alliances, partnerships, and M&A

II. 4 Management Constitution Reform Themes

1. Innovate product development, production, procurement, and quality capabilities
2. Strengthen global marketing function
3. Comprehensively develop capacity to utilize IT
4. Fundamentally reinforce profitability

Become a Truly Global and Excellent Company

III. 3 Themes to Enhance HR Capabilities

1. Implement and sophisticate People-Centered Management
2. Accelerate measures to secure and develop quality HR
3. Speed up management localization and promote communication between Group companies

Additional Themes in Response to the Earthquake

- Unique Daikin initiatives to meet power-saving needs
 - Power-saving measures for this summer
 - Enhance initiatives related to all types of power-saving technologies and products(To be further substantiated and expanded)

1 Fully Enter Emerging Markets and the High-volume Market

- In addition to global operations focused on high-end markets in developed countries, also prioritize emerging markets and the high-volume market, which are the drivers of the era
- Clearly define markets and take action, with India and Brazil the highest priority

Air Conditioning Business

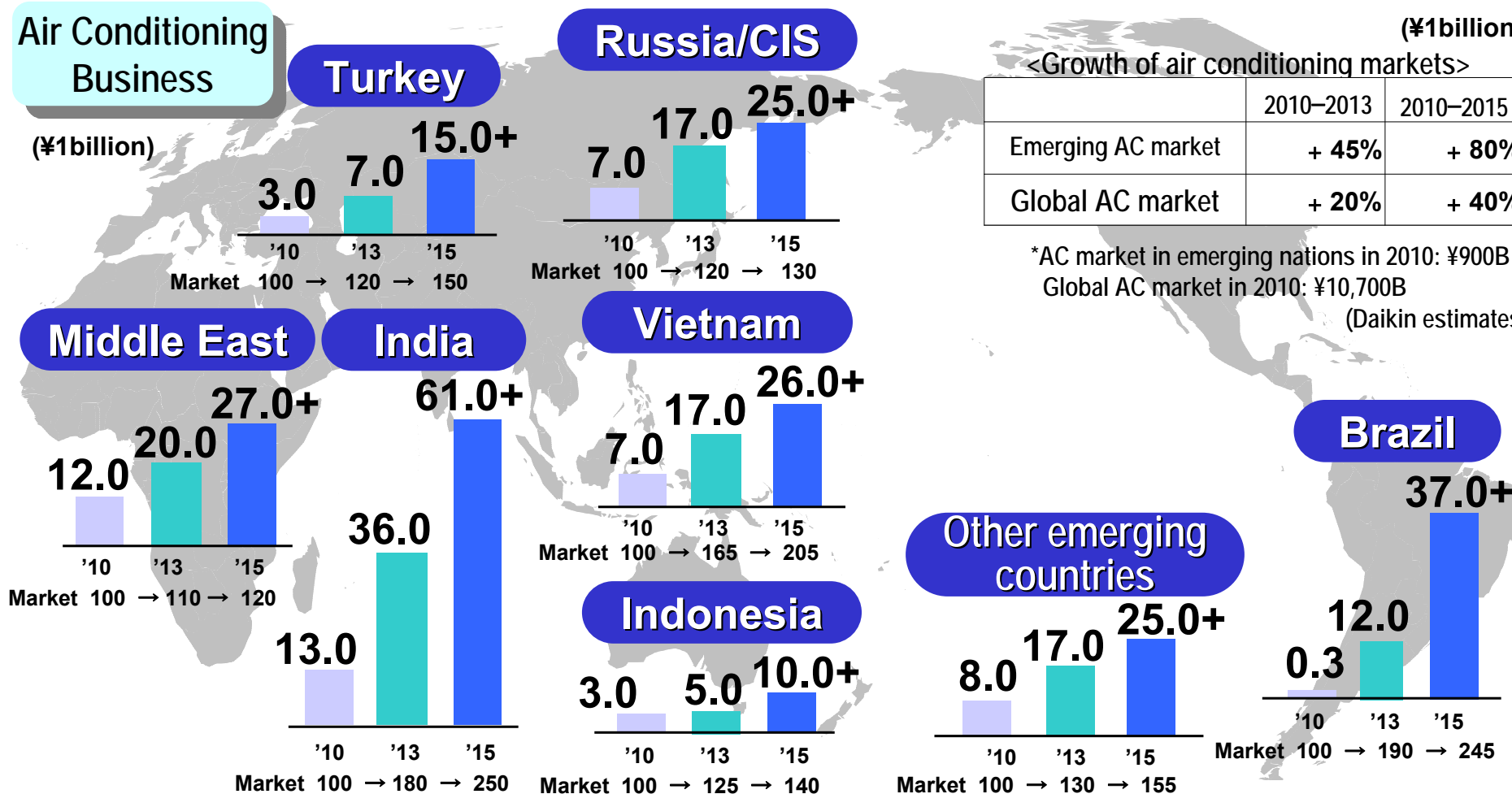
(¥1billion)

<Growth of air conditioning markets>

	2010-2013	2010-2015
Emerging AC market	+ 45%	+ 80%
Global AC market	+ 20%	+ 40%

*AC market in emerging nations in 2010: ¥900B
Global AC market in 2010: ¥10,700B

(Daikin estimates)



India

Expand business in the fast-growing and largest RA high-volume market

<Market size> From ¥180B in 2010 to ¥320B in 2013

Today	<ul style="list-style-type: none">▪ 2009: Started production of VRV and chillers at a new local factory▪ 2010: Launched RA high- volume market model (Expanded sales more than 200% over 2009)
Key Actions	<p>RA sales target: From 120,000 units in 2010 to 370,000 units in 2013</p> <ul style="list-style-type: none">○ Build distribution network: From 600 dealers in 2010 to 1,500–2,000 dealers in 2015○ Expand portfolio of locally produced products <p>Ducted PA in 2011, RA high-volume market model in 2012</p>

Brazil

Expand commercial business to capture infrastructure demand for international events, etc.

<Market size> From ¥120B in 2010 to ¥230B in 2013

Today	<ul style="list-style-type: none">▪ 2010: Established sales company (Fully commenced sales activities in 2011)
Key Actions	<ul style="list-style-type: none">○ Localize production to avoid tariffs and reduce lead time2012: Start production at a leased factory (Indoor units for ducted VRV)2014: Start full-scale operations at factory (VRV, AC for stores, chillers, etc.)○ Create a team of sales experts to win large Applied projects○ Establish service bases centered in Sao Paulo and Rio de Janeiro

Others

Expand distribution networks to increase sales at a pace that exceeds market growth

Enhance development & marketing research functions in each global region

■ Local HR leads rapid development of products that meet local needs

◎ Shift from a centralized development structure in Japan to a decentralized structure with 10 global bases in 6 regions

- China (from 100 development staff to 300+),
Europe (from 50 to 100+),
Malaysia (about 100), North America (70)

- Newly establish development functions in ASEAN/Oceania,
India, Australia, Czech, and Germany in phases from FY2011

◎ Enhance regional marketing research functions in 8 global regions

- Europe, China, ASEAN/Oceania, India, North America, Latin America,
the Middle East/Africa, Japan



Designed in China



Designed in Europe

Prepare global network of production bases for high-volume market models

■ Achieve cost competitiveness with local manufacturers by centralizing the production of high-volume market models

◎ Build a major global production and supply system for inverter-driven RA for the high-volume market

◎ Produce non-inverter models principally at OYLM (Malaysia)

2 Develop Solutions Business that Meets Customer Needs

- While realizing profit by increasing installation stock in markets (higher equipment sales) and expanding after-sales service network, build a foundation for the solutions business by 2013
- Develop a solutions business in each region that meets local needs

■ Expand sales of Applied equipment that forms the basis for the solutions business

- Convert all series to DC inverters to meet energy-saving needs

- High-efficiency, single-stage centrifugal chiller for standard market (from Oct. 2011)
- High-efficiency, low-cost DC inverter screw chiller (from Apr. 2012)
- WSHP for high temperature (65°C) market (Nov. 2011)

- Reduce costs by improving productivity at factories in North America

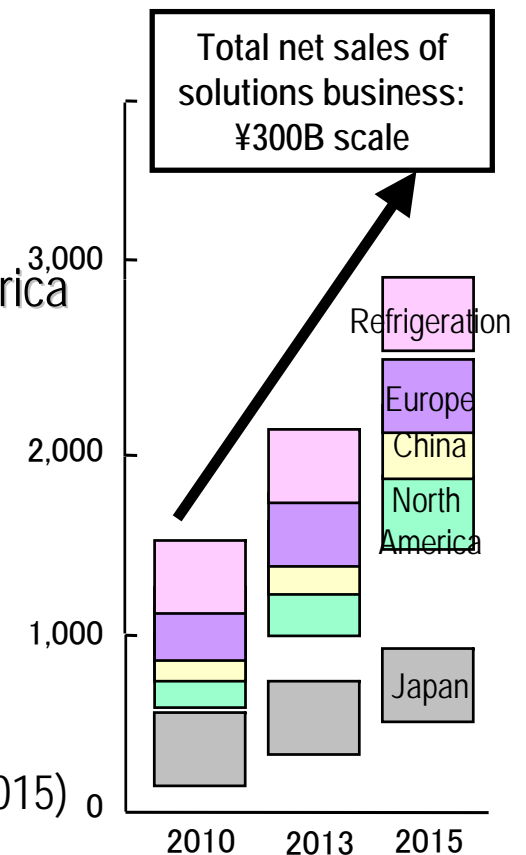
■ Expand after-sales-service network globally

Increase service bases in North America to 100 in 2015 (100% coverage)

■ Develop solutions business suited to each region

[Japan] Develop energy-saving solutions capitalizing on IAQ technologies, e.g. humidity control and ventilation, in addition to air conditioning and hot-water supply (over ¥140B in 2015)

[Europe] Develop new products compatible with new refrigerants, net-zero energy buildings (nZEB), and smart grids (over ¥15B in 2015)



3 Expand Environment-related Innovation Business

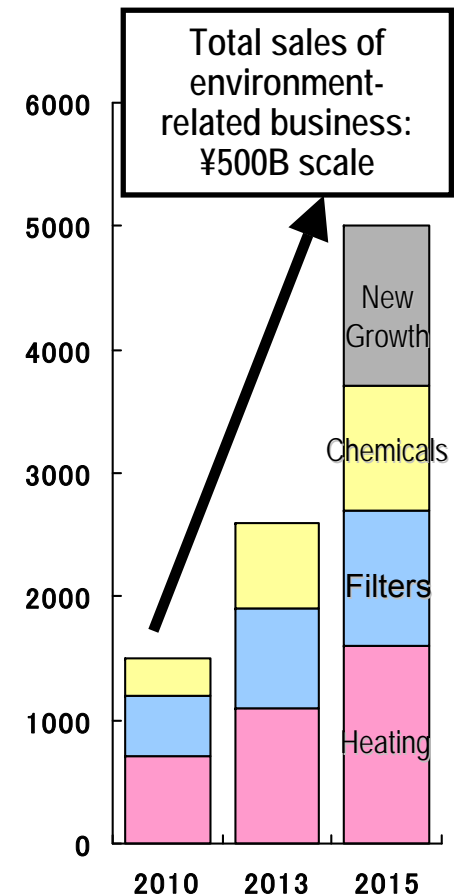
- Become an environmentally leading company by contributing to mitigation of global environmental issues and expanding business by approaching such issues as opportunities
- Expand the business domains for heating and hot-water supply, filters, and environment-related fluorochemical products, and develop environmental business in emerging countries in addition to developed countries

1. Full-scale global development of heating and hot-water supply business ¥160B in 2015

- Expand heating and hot-water supply business in each region
 - Europe: Develop products to serve detached houses and apartment buildings
 - China: Expand business in east, south, north, and mid-western China
- Expand new product line-up to capture demand even in combustion heating market
 - Hybrid products (combination gas boiler and heat pump), etc.

2. Environment-related chemicals business ¥100B in 2015

- Promote applications development of fluorochemical functions in 4 environmental fields:
 - (1) gases, (2) battery materials, (3) paints, (4) LCD
- Respond to new low-GWP refrigerants



3. Filter business ¥100B in 2015

- **Achieve the No. 1 position in the filter business centered on energy-saving filters**
 - Low pressure-drop, energy-saving filters that combine the design and processing technologies of Nippon Muki and Daikin's PTFE technology (Launch in Aug. 2011)
- **Expand sales of gas turbine filters (20% market share in 2010) to capture global demand (From \$1,100M in 2010 to \$1,500M in 2015)**
 - Enlarge P&I business by utilizing opportunities arising from demand for infrastructure and environmental regulations in emerging countries

4. New & growth businesses in the environmental era

- **Ventilation business**
 - Develop next-generation products for better air quality by combining environmental products such as streamer and filters with core DESICA product for humidity control and ventilation
- **Sophisticate inverter technology**
 - Launch inverter-driven air conditioners to comply with future environmental regulations in various countries
 - Participate in eco-town and smart-city projects by sophisticating inverter technology

	2007	2010
China	7%	30%
Europe	20%	30%
Asia	6%	10%
USA	0%	5%
Latin America	0%	2%

Inverter penetration by region

4 Enhance HR Capabilities Based on People-Centered Management

As the competition to secure HR intensifies around the world, the Daikin Group is making concerted efforts to secure, develop, and deploy HR in the global arena by making the enhancement of HR capabilities to support business development and expansion a core strategy

Implement and sophisticate People-Centered Management, a source of the Daikin Group's competitiveness

◎Further instill and sophisticate Our Group Philosophy and People-Centered Management in the global Group

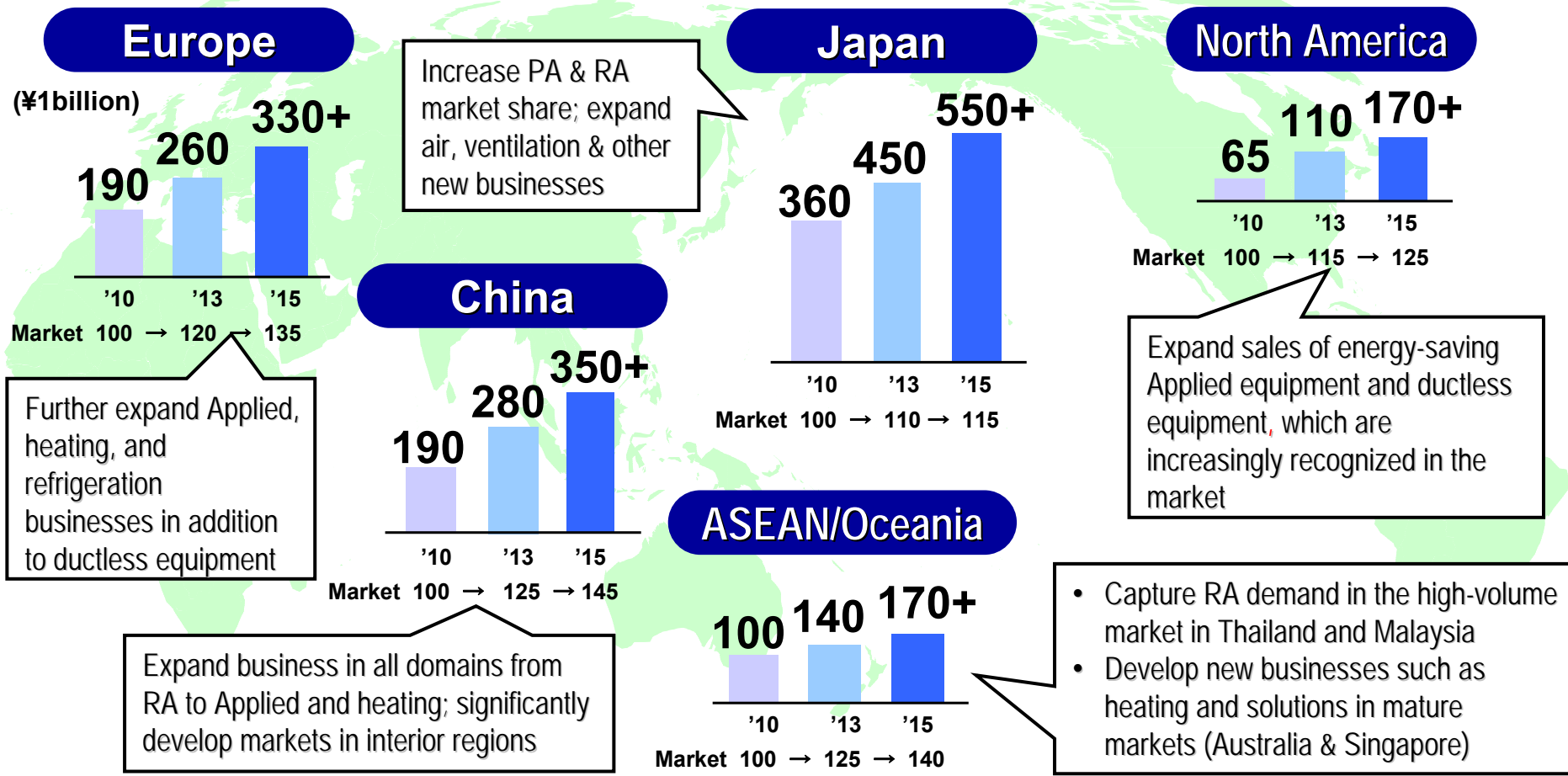
Accelerate development of measures to secure and develop quality HR that go beyond past measures

- ◎Enhance hiring capabilities capitalizing on Daikin's global No. 1 AC brand
 - Identify talented HR worldwide and implement HR marketing to execute unique strategy
- ◎Establish global career paths that attract talented HR
 - Build a program to facilitate self-growth and HR effectiveness transcending countries or regions
- ◎Create globally competitive HR and compensation systems
 - Secure talented HR and provide local HR with opportunities to take on challenges

Speed up management localization and promote communication between the head office and local bases

5 Strategies for Existing Businesses (Air Conditioning)

- In Europe, China, and ASEAN/Oceania, where there is strong new demand, achieve further growth by augmenting product portfolio and expanding distribution network
- In the USA and Japan, where demand is mainly for replacement, aim to increase market share by launching energy-saving and new products and enhancing proposal sales capabilities



Strategies for Existing Businesses (Chemicals and Others)

Chemicals Business

Actively create demand and aim to become the global No. 1 by expanding sales in China and emerging countries and developing new applications in environmental fields (Sales growth from ¥180B in 2013 to ¥250B+ in 2015, with an operating income margin of 15%+)

- **Expand production capacity to support increasing demand in China and environmental fields**
-Increase capacity at the current plant in Jiangsu, China (mass-production of fluoroelastomers from Jan. 2013), etc.
- **Expand business in China, which will grow into the world's largest fluorochemicals market**
(Market size: From ¥120B in 2010 to ¥227B in 2015)
-Expand sales of PTFE in such fields as chemicals, power generation, and infrastructure
- **Expand gas business capitalizing on changeover to new refrigerants**
- **Create demand in environmental fields** (solar cells, wind power generation, Li-ion batteries, etc.)

Other Businesses

- **Refrigeration:** Launch energy-saving inverter model for marine containers; net sales of ¥40B in 2013
- **Oil Hydraulics:** Accelerate global development through full-scale local production in China;
net sales of ¥30B in 2013
- **Defense Systems:** Develop the healthcare field in addition to defense; net sales of ¥20B in 2013

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Unique Daikin Initiatives to Meet Power-Saving Needs after the Earthquake

Offer products and systems that capitalize on Daikin's unique energy-saving technologies to meet power-saving needs. Fulfill commitment to CSR as the No. 1 air conditioning company and create power-saving demand globally

1. Power-saving initiatives for this summer

Daikin's team of 200 experts offers a menu of diverse options to contribute to reducing power consumption

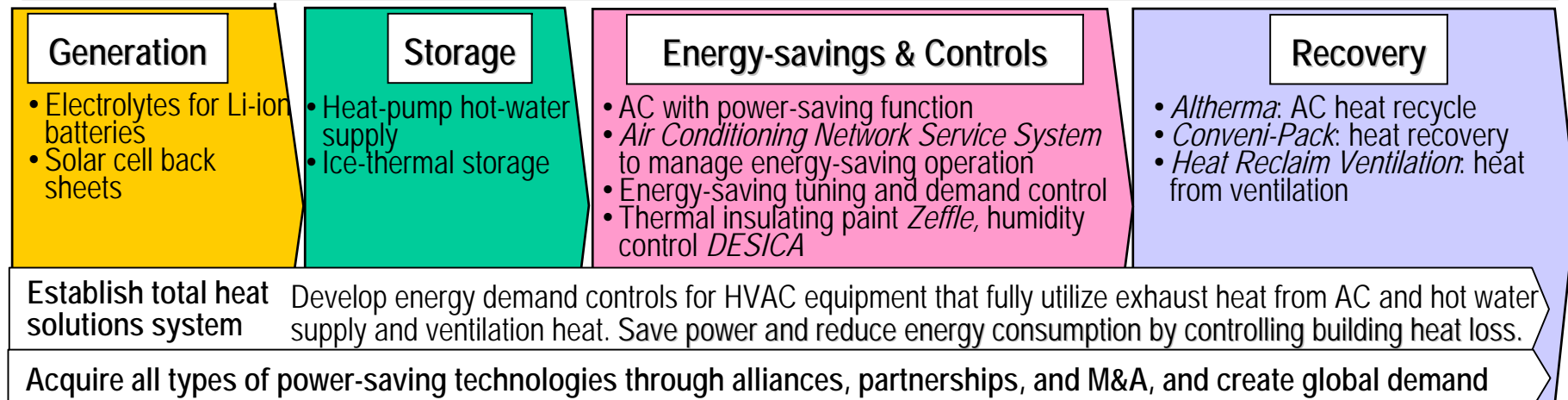
Demand control: Max. 30% reduction in power consumption by systematically limiting consumption using a remote control or centralized controller

Ene-Tuning: Max. 20% reduction in power consumption through energy-saving VRV operation

Ene-Cut: Approx. 12% reduction in power consumption by spraying outdoor units with water

Zeffle: Approx. 12% reduction in the power consumption of air conditioners by reflecting sunlight with heat-insulating paint Etc. *For further details visit www.daikin.co.jp/setsuden/

2. Enhance initiatives related to all types of power-saving technologies and products



Become a Company that Contributes to Society

Environmental contributions

- ◆ **Initiatives to mitigate global warming**
 - Reduce greenhouse gas emissions to 1/3 of 2005 level by 2015 (66% reduction)
 - Reduce energy consumption through development of energy-saving products and technologies
- ◆ **Activities to raise awareness of biodiversity**
 - Reforestation project in Indonesia: Reforestation with customer participation and linked to energy-efficient air conditioner operation (From June 2008)
 - *Daikin Ales Aoya* (training facility) project: Preservation and revival of sand dunes and seashore vegetation, which are being rapidly lost



Community and cultural contributions

- ◆ **Daikin Orchid Ladies' Golf Tournament (From 1988)**
 - The golf tournament aims to promote sports, further develop Okinawa, and promote and revitalize economic ties between Okinawa and mainland Japan
- ◆ **Daikin Industries Foundation to Promote Modern Art and support for the Kansai Philharmonic Orchestra**
 - Extensive support to promote art, culture, and music in Osaka

Employment & HR

- ◆ **Hiring people with disabilities across the global Group on an ongoing basis**
 - Daikin Sunrise Settsu (95 employees),
Daikin Air-conditioning (Shanghai) (64 employees) *As of June 2011



Cautionary Statement Regarding Forward-Looking Information

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