

Briefing on Financial Results of the 2nd Quarter Ending March 31, 2018
“Management Situation and Policy for the Future”
Representative Director, President & CEO Masanori Togawa

○Opening Remarks

I am Masanori Togawa, and I would like to express my deep appreciation to you for taking time out today to attend this briefing and respectfully ask for your kind consideration and understanding for the operations and management of Daikin.

○First Half Financial Results of FY2017

The first half financial results of FY2017 are as presented by Executive Officer Sawai. Despite the impact of higher prices for raw materials, Daikin achieved another record high in profits for the fifth consecutive term as a result of expanding sales in the Air Conditioning business in all major regions and expanding sales in the Chemicals business in which we significantly capitalized on strong demand in the semiconductor and automotive markets.

○Business Forecast for the Year-End FY2017 Term

Regarding the year-end term for FY2017, not only are we confident of achieving the budget currently under review, I would like us to strive in the second half with the aim of achieving results that exceed the budget. If we achieve the budget for this year, we can expect to achieve an eighth consecutive increase in revenue and profits and a fifth consecutive record high for profits. For this term, even as we look ahead at the next term of FY2018 and ascertain the changes in the external business environment, such as the intensifying market competition and soaring prices for raw materials, we are already proceeding forward concerning the specific measures in which the important issues have been clarified for achieving the targets of the strategic management plan Fusion 20 and the formulation of action plans.

○Progress for Fusion 20 and Future Investment Strategy

In setting our sights on achieving Fusion 20, we satisfactorily expanded results for FY2016 and the first term of FY2017 and were able to also steadily implement forward-looking investments toward even further growth and development for the future. Moreover, we have completed formulating concrete action plans that are currently being deployed to achieve the quantitative targets for FY 2018 for the first half three-year plan of Fusion 20.

Today I would like to share our thinking for future management focusing on investments that are aligned with the main themes of Fusion 20. Specifically, I would like to talk about the immediate strategies for the three main axis of (1) existing mainstay businesses such as North America, Chemicals and Asia, Filters, etc., (2) new fields such as heating and energy solutions, and (3) investments from the aspect of technology.

I would like to begin with the first item concerning existing businesses.

In the North American Air Conditioning business, the new Goodman factory, which began operation in May, is advancing forward with consolidation as originally planned, and this will be completed in 2018. At that time the manufacturing positioning will be firmly in place.

On the development side, we reinforced the Applied Development Center (ADC) and newly established the North America R&D Center. Later I would like to discuss this from the aspect of technology. By further bolstering the development system, such as with the new establishment of the Silicon Valley Technology Office, and launching new and original differentiated products one-after-another, we aim to revolutionize the mature North American market duct air conditioning culture and create a new market.

Strengthening of the sales system will continue. We will work to accelerate store openings of independent distributors for residential ducted unitary, speed up dealer development for expansion of the ductless market,

strengthen the sales network in the Applied Systems market and enter into alliances and capital participation relationships with sales reps, and improve the sales network by acquiring service and engineering companies.

In the Asian Air Conditioning business, with an expanding middle class and high economic growth, demand for air conditioning is increasing in Asia, and our substantial production system surpasses that of our rivals. As originally planned, we added a compressor factory in Thailand in September and a room air conditioner factory in India in October, and these factories have already started production. Construction continues to progress satisfactorily and in April of next year there will be an Applied Systems factory in Malaysia, and we are even constructing a new factory in Vietnam.

In terms of development, we are strengthening the development function in India and Thailand to enhance product development. Centering on our own unique cooling-only inverter units, sales are expected to continue to grow with the launch of differentiated products and our high-level response to market needs made possible by local development and production.

From the aspect of sales, in residential use we have moved from promoting sales in large cities and expanded activities to outer regions, and in commercial use we are strengthening support centering on dealers that have management capabilities while enhancing development of dealers handling all the way to commercial use.

In particular, the India air conditioning market has been growing at an annual rate exceeding 10%. Nevertheless Daikin exceeded market growth by recording 18% compared to the same first half period of the previous year. For this reason, the original budget was revised, and the current Fusion 20 has raised the sales target to 100 billion yen for FY2020, but in the future we believe that the market can expect sales of even 150 billion yen. At the Neemrana factory which was enlarged in October, we undertook a facility expansion costing approximately 4 billion yen to double RA production

capacity (+500,000 units) but demand from 2020 is expected to increase, and we are considering construction of a new factory.

While the current inverter ratio in the India air conditioning market finally exceeded 10% last year, stricter energy-saving regulations are expected to increasingly drive sales in the future. Currently, Daikin's inverter ratio for sales volume in India exceeds 20%, but with a boost provided by the environmental regulations we hope to further expand sales of inverter units, which are Daikin's strength, and expand our business.

In recent years, we have worked to reduce total costs for the fluorochemical business with the aim of increasing cost competitiveness while at the same time accelerating application development in growth fields expecting sales expansion and fields with high sales growth.

In particular, the movement to accelerate development of electric vehicles occurring in the automotive industry offers a major opportunity for Daikin, and the opportunities for business expansion are increasing, even for electrolyte solutions and binders for lithium ion batteries. For this reason, we are accelerating application development.

Also, in August, we decided to acquire Italian fluoropolymer compound manufacturer Heroflon. Heroflon is a compounds manufacturer that combines various materials to produce high-performance fluoropolymers and has developed business centering on Europe in a wide range of fields including automotive, chemical, construction equipment, and electrical power industries. With this acquisition, we can determine the broad range of end user needs ahead of molders and utilize this to accelerate application development.

Last year in the filter business, we acquired Flanders and Dinair and were able to build a foundation for business expansion. Although Northern Europe is the business focus for Dinair, I would like us to promote acquisitions and partnerships with various companies, in addition to synergy with Dinair, so that

we can expand business in Germany, the largest market in Europe, and accelerate business expansion.

In addition to fusing together the strengths of acquired companies and those of Daikin, we intend to expand business by also strengthening the fusion of air conditioning and chemicals. Specifically, we aim to promote sales of high-end products centering on the pharmaceuticals, hospitals, and automotive markets, develop new applications, expand domains to clean rooms, and make a full-scale entry in the air diagnostic business.

The second item that I wish to talk about is business in new fields.

In the Heating and Water Heater business, environmental regulations are increasing, including announcements of the GWP equivalent refrigerant quota allocation system in Europe and introduction of a carbon tax based on GWP values in countries such as France and Spain. With the acceleration of environmental regulations, opportunities for business expansion are increasing, especially in our specialty of heat pump type heating.

On the product side, we launched in rapid succession new products for heat pump type heaters adopting the refrigerant R32, which has one-third the GWP of R410A. At the end of November, we will launch sale of heat pump type heating equipment using R32, an industry first, along with the release of the third generation of Altherma.

Even in the combustion heater market, together with bolstering sales of combustion type heaters by effectively utilizing Airfel, the Turkish company we acquired, we will continue to investigate alliances, partnerships, and M&A to accelerate business expansion in Europe.

For the Energy Solutions business, we are accelerating the building of a foundation for an after sales service network by acquiring local service and engineering companies in order to develop business in each major region.

We have started a proprietary service for optimization of energy used in building operations such as diagnostics of equipment and air conditioning systems that incorporated companies whose forte is big data analysis as well as implementation of proposal menus based on customer needs that incorporated remote monitoring service companies.

Additionally, in FY2017, we plan to work in cooperation with Siemens to start a remote monitoring service in Asia for commercial use air conditioners that utilizes cloud computing. The structure will ascertain operation conditions for air conditioning equipment, link information to breakdown predictions and efficiency in operations, and reduce air conditioning costs for customers.

Finally I would like to talk about advancements in technology.

Accompanying changes in the surrounding business environment, we are enhancing the global R&D system centering on the Technology and Innovation Center and that will include further technological advancements. For the North American market, we have established the new North America R&D Center and are strengthening the Applied Development Center. With the paradigm shift from a technological revolution that includes AI/IoT, we are accelerating our open innovation strategy through the new establishment of the Silicon Valley Technology Office and strengthening industry-academia collaboration such as between universities, companies, and research organizations.

Also, because AI/IoT is anticipated to be used in all divisions and departments in the Daikin Group and is an urgent issue for HR development, we have decided to establish the “Daikin Information and Communications Technology College” to hasten the early development of human resources for AI technology development as well as HR development for system development and AI applications. I would like us to train AI/IoT human resources with a target of about 700 people in FY2020.

OClosing Remarks

In September, we began to formulate the second half three-year plan of Fusion 20 with a focus on FY2020. Although there will be no change in the direction of the strategy announced at the time of the original budget, we plan to incorporate the changes in the surrounding business environment, such as the strengthening of environmental regulations and progress in AI/IoT adaptation as represented by big data, and take specific measures to account for them.

This concludes my remarks concerning the management policy for the future. Following this, the directors from each business division and I will be available to take your questions.

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