

Briefing on FY 2018 Financial Results Ended March 31, 2019
“Management Situation and Policy for the Future”
President & CEO Masanori Togawa

Fiscal year 2018 was an extremely difficult year. While implementing forward-looking investments, Daikin achieved a 9% increase in operating profit over the previous year, resulting in an increase in revenue and profits for the ninth consecutive term and record highs in both sales and operating profit for the sixth consecutive term.

Even with a booming U.S. economy in fiscal year 2019, the business environment is expected to be increasingly more challenging due to the impact of China-U.S. trade friction on the global economy and the start of an adjustment phase in the semiconductor cycle. Uncertainty also continues to hover over the Chinese economy. Even under such conditions, we are committed to increasing sales 8% over the previous fiscal year to 2 trillion 670 billion yen, operating profit 3% to 285 billion yen, ordinary profit 3% to 285 billion yen, and current net earnings 2% to 193 billion yen. Moreover, we internally set challenging targets of 295 billion yen for operating profit and 11% for operating profit margin and are moving forward with initiatives to achieve them.

Today I would like to discuss some areas that I believe are of high interest to you. They include the current situation and future development of the AC business in China, measures to improve profit for the AC business in the Americas, and concerns in the AC business in Europe of a sudden economic slowdown.

Regarding the AC business in China, as I have mentioned before, the

outlook for the business environment appears discouraging, but there is no change in our thinking that China is an attractive market.

In the residential-use market, upscale residences such as skeleton housing are on the decline, whereas residences with interior finishing and small-scale residences are increasing. Although we have been particularly adept at sales of multi-split air conditioners for skeleton homes thus far, we have recently developed units that are especially designed for living rooms and retrofitted for residences with interior finishing. These are being developed as housing equipment that integrate with room air conditioners to create a new residential-use, multi-split air conditioner culture. Furthermore, in addition to brick-and-mortar sales that utilize the PROSHOP sales network, which is a Daikin forte, we will accelerate sales that incorporate online sales. We plan to build a website that sells only high-end room air conditioners and will increase our ratio of Internet sales.

In the commercial-use market, large-scale real estate investment has decreased but promising markets are rapidly emerging that leverage Daikin's proposal capabilities. For example, we are accelerating the launch of new products in response to such changes as the increase in upscaling of shops, modernizing of medical facilities, and growing IAQ needs. Moreover, in large cities, we are working to gain replacement demand by development of **Intelligent VRV**, which utilizes the Internet to connect to customers.

In the Applied Systems market, we expect growth in areas including data centers and semiconductor factories as well as peripheral development accompanying infrastructure for subway construction. Together with launching products that meet the needs of these markets, Daikin is expanding sales by accelerating system proposal sales from small- and medium-sized projects to large-scale projects that include infrastructure investment.

In China, there is currently a rapid shift to an information society in which everything is connected to the Internet. Even in our business, we believe it is

extremely important to have direct relationships with customers and maintain close contact with them. In March 2019, we began full-scale operation of a customer center, and by interacting with many customers on a daily basis over the phone and through SNS, we have acquired inquiry information that has led to expanding sales.

Furthermore, we will accelerate the expansion of our Solutions business by developing new sales systems that utilize financial subsidiaries, such as those for billing systems and electronic settlements.

In the rapidly changing China market, it is essential to search for pioneering technologies and develop products that utilize new concepts and IoT/AI. In addition to the existing Shanghai R&D Center, we have established a new R&D center in Shenzhen and are forming alliances with venture capital firms and major IT companies along with promotion of collaborative creation Tsinghua University through joint industry-academia development.

In the U.S. air conditioning market where industry demand remains around 5%, Daikin has achieved sales growth that surpasses the market through a variety of forwarding-looking investments that include rebuilding the sales network, establishing a new factory, and developing new products.

In fiscal year 2018, our operating profit margin after amortization of goodwill remained in the 6% range as a result of costs for higher raw materials and logistics as well as the negative impact of additional U.S. custom duties.

In fiscal year 2019, we will proceed with increasing selling prices, strengthening the sales network, improving productivity centered on the new Goodman factory, and reducing production costs as we aim to improve profitability. Furthermore, we plan to increase market share by expanding differentiated products such as inverter unitary air conditioners for the middle zone that were launched in the second half of fiscal year 2018.

Even in Applied Systems, we will expand our Service and Solutions

businesses by strengthening the lucrative parts business in addition to equipment sales by making maximum use of our acquired sales representative network.

In the Europe AC business, the economy has been slowing from economic stagnation in Germany and Italy and the BREXIT issue. In addition to expanding sales of environmentally-conscious products, Daikin aims to significantly increase sales and improve operating profit margin by strengthening profitability of the Commercial Refrigeration business and further expanding sales of the Heating business.

In the Commercial Refrigeration business, we will mutually use the sales networks and product lineups of Zanotti and AHT, whose acquisition was completed in February 2019, as we aim for business development in the overall cold chain segment.

In the Heating business, amid the growing environmental awareness surrounding the Paris Agreement, we were able to significantly increase sales in fiscal year 2018 of our residential-use, heat pump type hot water heating systems, which have once again been highly evaluated for their contribution to reduction of greenhouse gas emissions.

This concludes my remarks concerning the management policy for the future. Today we will have directors come from all business divisions, and afterwards we would like to take your questions.