

Financial Results of the Second Quarter Ending March 31, 2016
“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 meeting and respectfully ask for your kind consideration and understanding of Daikin business areas and management.

Despite the adversity faced in the business environment for the first half of fiscal year 2015, Daikin expanded sales and increased revenue for air conditioning equipment centered on China and Asia and capitalized on the positive aspects of yen appreciation to establish new record highs for the third consecutive term in sales, operating income, ordinary income, and net income.

Concerning the annual plan for fiscal year 2015, we reflect the impact of foreign exchange and aim for six consecutive terms of increased revenue and profits with sales of 290 billion yen, an upward revision of 30 billion yen, and 212 billion yen for operating income, which corresponds to the original budget. In aiming for operating income of 212 billion yen at fiscal closing, we will proceed with dramatic reform of fixed costs for the entire company and significantly strengthen sales and marketing capabilities, which is a priority issue of this term. We intend to further solidify the constitution and management foundation and link these efforts to the next term strategic management plan Fusion 20.

Second Half Management Policy

Although there was a year-on-year slowdown in Chinese air conditioning demand of about 10% for the first half, Daikin see market potential for growth in the residential multi-split market, a Daikin strength, accompanying the emergence of greater rebuilding demand for an expanding middle-class and anticipates a shift toward favorable conditions. We will strengthen our unique PROSHOP specialty dealers and expand sales.

To provide systems that meet the needs of Chinese people who have high expectations for interior design and originality, we will work to further differentiate from other companies and continue to launch products with new added value, particularly in the commercial use, mid-range and high-end residential markets, and general residential markets. For example, in the residential-use segment, we will amply bring together system products, beginning with the “New Life Multi Series,” which offers lifestyle variety, and enable an assortment of more than 10,000 combinations. We will fully utilize proposal and installation capabilities that are the strength of PROSHOP specialty shops and directly contact customers to expand sales.

With the threat of a rival company entering the residential multi-split market, there is also an aspect that further accelerates market widening beyond a market created by only one company. We will work to fully realize Daikin potential for business in China and maintain profitability by expanding sales and creating a market on the strength of an integrated system of production, sales, product development, and after sales service while incorporating the advantages of a softening in the raw materials market and the positive aspects of foreign exchange.

In North America, within the expansionary phase of the North American economy centered on consumer spending and housing investment, sales are expanding for all primary businesses of residential unitary, applied, and ductless. We will work to expand share of unitary volume zone, which is the core business in North America, and launch high efficiency equipment (SEER 16) that has cost competitiveness for replacement demand and collective housing as we endeavor to capitalize on the growing demand for collective housing.

We have developed a policy that strives for results (by operating income base of approximately 14 billion yen) in the FY2015 target amount for the third year of synergy with Goodman and believe that we can achieve the 24 billion yen (operating income base) for the three-year total that the company established as a target.

As part of further measures to strengthen sales, we are accelerating business expansion by developing a new sales channel for VRV systems, strengthening “spec in” activities, expanding in the Northeast (cold district),

which has been undermanned until now, providing greater REP support, and building direct relationships with architecture firms in addition to strengthening the existing Goodman sales network.

In working to accelerate business expansion toward realization of the No. 1 position in sales, construction on the new Goodman factory is steadily progressing. However, to aim for one-step higher growth, increasing strengthen manufacturing capabilities is necessary. Together with expansion of production facilities, we will aim for sustained creation of cost competitive products by substantially improving productivity and introducing Daikin's advanced production technology, which is being extended to each region of the world.

For Asia, there is concern for the impact of a slowdown in the Chinese economy and currency depreciation against the U.S. dollar for emerging and resource-rich countries. From Vietnam, which has entered a growth period with a strong economy, to Malaysia, which is experiencing temporary market stagnation due to adoption of a consumption tax, the economic conditions for each country widely vary. However, we will continue strengthening dealer development (approximately 400 store increase in Asia and Oceania), which has been the driving force for business expansion these several past years, and work to sustain two-digit growth for overall regional sales. Having focused on Vietnam last year, we will aim this year for No.1 in sales for India and Thailand.

In Europe, there has been a steep recovery of demand for residential use due to the favorable weather seen this summer. A battle for air conditioner sales is brewing early in anticipation of severe heat for next year. We would like to capitalize on this opportunity with greater sales promotion based on a foundation of structural reforms, such as the reorganization of the sales network undertaken these past several years, and have the results provide further contribution to overall company profits.

In Japan, we expect the severity in the business environment to continue in the second half. However, in addition to the sales reform and reinforcement that we have undertaken these past few years, we want to achieve a plan that exceeds industry growth and continue implementation of a thorough selling price policy.

- In residential use “Urusara 7,” we are implementing our first full model change in three years and plan to promote sales expansion by launch of new products with greater heating capacity (launch on November 1, 2015).
- In commercial use, we have already completed a shift of frontline employees to strengthen sales in the Tokyo metropolitan area and are making efforts to expand sales centering on high value-added products and will leverage a product lineup corresponding to the revision in the Rationalization in Energy Use Law.

In the Chemicals business, we promoted total cost reductions while concentrating on sales promotion of promising products such as surface anti-fouling coating agents (OPTOOL) for smartphones, semi-conductor related products, and fluoroelastomers for the automotive field. For general fluoropolymers, we will also develop products that can compete against Chinese local manufacturers and strengthen cost competitiveness together with differentiation from the aspect of function.

OFusion Progress

(Direction of Fusion 20 and TIC Establishment)

Although our forecasts call for us to largely achieve our Fusion 15 targets, this is the year for us to formulate the next strategic management plan Fusion 20. Currently we are narrowing the focus of our investigation, and I would like to announce those results on another occasion next year. At present, we intend to build on our current development foundation and refine our technical capabilities and People-Centered Management, which are the source of our competitiveness, to solidify our leading position in the global air conditioning business.

Until now, Daikin has primarily focused on strategy by region and has grown by expanding business that closely adheres to regional customers through local production for local consumption, but the focus for the next several years will be on North America and Asia. In particular, without obtaining the No. 1 position in the North American market, the birthplace of air conditioning, we do not believe that we can firmly establish ourselves at the true global No. 1. In addition to commercial use, which is the strength of this company, we would like to surpass our rivals by enhancing our unique solution service capabilities corresponding to the North American market and by growing as a comprehensive air conditioner manufacturer of the large-size air conditioning and residential use equipment that we have obtained through acquisition.

Furthermore, in order to solidify our position as the true air conditioning global No.1, it is essential for us to strengthen the technical capabilities that produce the differentiated products and services that are lifeline of a manufacturer. This month on November 25 we will open the Technology and Innovation Center (TIC) to accelerate technical innovation and quickly create results.

- We will freely expand internal collaborative creation by bringing together engineers from divisions in the Daikin Group and external collaborative creation (open innovation) by bringing together global technology and engineers from around the world in global cooperation with industries, governments, and universities. In this way, we hope to give birth to new world-leading state-of-art technology that is not an extensive of the past and to link this technology to the generation of new products and business.
- Together with contributing to the resolution of social issues, including the environment and energy (system energy savings, heating, low refrigeration, and refrigerant), we would like to expand business.

This concludes what I have to say concerning management policy. Although uncertainty for the business environment has intensified, we would like to accelerate growth by firmly grasping market changes and customer needs, developing measures that are ahead of our competitors, and implementing those measures with speed.