

Briefing on FY 2015 Financial Results Ended 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 briefing and respectfully ask for your kind consideration and understanding for the operations and management of Daikin.

○Fusion 15 Assessment and Management Policy for the Future

Fiscal year 2015 presented a challenging business environment. Nevertheless, we were able to achieve record highs for sales and profits for the third consecutive term. Furthermore, we reached the targets established for the final fiscal year of Fusion 15.

For Fusion 15, we set forth and actively undertook Group-wide themes, resulting in the following main highlights:

- 1) Acceleration of global development including cultivation of emerging markets beginning with Asia
- 2) Expansion of our environmental innovation business including sales expansion of energy-saving equipment and promotion of widespread use of the new refrigerant HFC32 (R32)
- 3) Business expansion in the U.S. market by large-scale acquisition
- 4) Development and market launch of high value-added products
- 5) Maintenance of total cost reductions

These efforts in the past five years have led to a sales improvement from approximately 1.2 trillion yen to sales exceeding 2 trillion yen and a rise in operating income ratio from 6.5% to double digits exceeding 10%. With the percentage of overseas sales occupying 75% of total sales and the number of Group employees exceeding 60,000 people, Daikin has solidified its business foundation even further.

In the business environment surrounding the Daikin Group, the speed of change is rapidly accelerating and uncertainty is growing. Major changes in

the various fields of politics, economy, society, and technology that could be called paradigm shifts are occurring, and the competitive environment confronting Daikin stands on the threshold of a significant turning point that leads to an even fiercer battle with competitors.

Rather than flinch from this grueling competitive environment, the key to success or failure will rest in our ability to maintain an awareness of market changes and competitor trends while developing strategy and businesses that are a half step or one step ahead. This will enable us to become a strong corporate group that seizes upon favorable opportunities and outlasts the competition. As previously indicated, we will publically announce our strategic management plan Fusion 20 on June 2, and I hope that you will attend our briefing on June 3 for explanation of the details. As in the past, we will continue in Fusion 20 to actively take on new challenges and be committed to producing results by continuously taking action.

○Outline of Fusion 20

Although details will be provided in June, our general approach for Fusion 20 is to boldly enter new fields even as we work to enhance existing businesses. With an eye on the future, we will work to develop new businesses that include Filter, Heating and Water Heaters, Energy Solutions, such as instrumentation and installation, Commercial Refrigeration, such as containers and freezers and refrigerators, and Next-generation Refrigerant and Fluorocarbon Gas. At the same time, I would like for us to adopt business reforms.

On the surface, these businesses may appear to be peripheral businesses of the Air Conditioning business. However, Daikin has mostly been engaged in the sale of standalone equipment until now, whereas our direction in Fusion 20 represents a significant shift to the engineering and solutions businesses. The business model for these differs greatly from our existing Air Conditioning business. Consequently, these new businesses will present new and difficult challenges for us.

Similarly, because technology development is the lifeline of a manufacturer, we must continue taking on new challenges within the global expansion of the air conditioning market and not limit ourselves to only maintaining

existing business. For this reason, Daikin established the Technology and Innovation Center in November of last year. Current times increasingly require a “customer-in” (demand-driven) orientation, and this has prompted Daikin to cast off its “product-out” (supply-driven) approach of the past. Therefore, we will develop a business that further contributes to society by creating new technology and resolving social issues focused on the environment, energy, health, and food.

In the Heating and Water Heater business, we will maintain the excellent position established by Daikin heat pump type heaters and attempt to expand business in combustion heaters, which account for the greater part of the market. In the Energy Solutions business, we will go beyond unit sales of energy-saving equipment and attempt to develop a Service business that can constantly provide a suitable energy environment to customers while creating systems that link peripheral products as a means to realize even further energy savings.

In the Commercial Refrigeration business, we will capitalize on the acquisition of Italian freezer and refrigerator manufacturer Zanotti by utilizing the energy-saving technology cultivated in the Air Conditioning business to build a business foundation in Europe, a market second only to North America in scale.

Furthermore, as a business with a fixed gaze toward the future, we will undertake “creation of an IAQ/ Air Environment Engineering business” that expands the business territory from conventional “air conditioning centered on cooling and heating equipment” to “creation of comfortable spaces.” In doing so, we will provide customers with comfortable spaces that meet their needs for air by utilizing our collective strength in adding systems, services, and engineering to equipment. Although it may not immediately contribute to profits, I would like Daikin to create new value that contributes to society and satisfies customer needs.

○ Plan for FY2016 and Management Policy for Main Regions and Businesses

Although challenging business conditions such as the adverse impact of foreign exchange still exist for implementation of the annual plan for fiscal year 2016, the year starting Fusion 20, I would like Daikin to rebound against

the headwinds with strong efforts to “fundamentally reinforce sales capabilities” and “fundamentally reduce fixed costs” as we sustain the basic fundamentals of higher revenue and profits.

Reinforcement of the Air Conditioning business is proceeding for each global region including Japan, Europe, and China. In particular, we are aiming to gain the top position for the region of North America, where leading global rivals vie for position in the world’s largest market, while promoting a strategy to improve the company overall. Aiming to gain an overwhelming position in the next five-year period, Daikin will also be focusing on the Air Conditioning business in Asia where an expanding middle class is creating a promising environment.

This year for North America we will promote all aspects of inverter products and the Daikin brand as we attempt to expand sales in the businesses of residential unitary, ductless, and Applied systems. The new Goodman factory will begin partial operations this year with a start aiming for the summer. Operations for the new factory will newly establish an air conditioning manufacturing headquarters function for a manufacturing system having 1.5 times the supply capacity of before and attempt to improve on lowering costs even further. Also, we will boost the development system to enhance development of differentiated products that outstrip other companies such as in energy-saving models.

China continues to serve as the engine driving profits of the Daikin Group, and we will actively proceed even further with expansion. Innovation in development, manufacturing, sales, and service will be key to continuation of business expansion in China for the mid- to long-term. New themes must also be implemented and linked to market creation.

For the residential-use multi-split air conditioner, we will attempt to expand business by a unique strategy that no other company can imitate. Of the current 17,000 Daikin dealers nationwide in China, 2,500 shops are our own PROSHOPS, specialty shops for retail and direct sales, but we intend to expand the sales network in the future in western and inland regions of China. Not only will we develop new stores, we will also work to further improve existing stores to an even higher level of excellence and construct a unique sales network.

During these past several years, resources have been concentrated on residential-use multi-split air conditioners for which market results have been positive; however, this year we have set forth on further improvements for commercial-use VRV systems. With emphasis on VRV systems featuring a new type of compressor that improves heating capacity and new products for large buildings, we will strive to create a market that extends from general office and shops to large-size buildings as we look to rapidly expand sales.

In Asia, we have entered a period of widespread use of air conditioners and expect double-digit growth to continue. When reflecting on these past several years, I think the market changes have been remarkable. In particular, we have seen the market shift toward Japanese manufacturers. Although Chinese and Korean manufacturers were prevalent in previous years and low-end room air conditioners were mainstream, stricter energy-saving regulations in each country have put pressure on companies, and a number of Chinese and Korean manufacturers have been weeded out of the market. Also, because Daikin is a leader in energy savings, we have the ability to launch straight cooling inverter type air conditioners that are highly cost competitive and create a market where local manufacturers cannot compete. In Asia, personal consumption is growing, and air conditioners have become electrical appliances that are fundamentally necessary to life, and the desire to purchase them has risen significantly. Daikin intends to fully capture those needs in the future and aim for No. 1 in sales for the entire region of Asia.

In the recent five-year period for Europe, we have been instituting constitutional reforms and have attempted to rebuild our business foundation by strengthening sales and marketing capabilities and reducing fixed costs. We intend to take advantage of the golden opportunity presented in the steady recovery of the EU economy and implement meticulous product-specific countermeasures to succeed over rivals as we aim to expand sales to exceed those of last year when there was a heat wave. Also, we will accelerate local production in Turkey, increase supply capacity, cut costs, and link to expansion of revenue.

In Japan, I think we are increasingly seeing the results of our efforts to strengthen our sales capabilities in the Tokyo metropolitan area. Centered on

differentiated products, I would like Daikin to expand earnings.

In the Chemicals business, with the Technological and Innovation Center serving as the nucleus, we will identify structural changes of the automobile markets, such as electric automobiles, and technological trends for information and communications devices while accelerating application development in growth fields. Furthermore, we will promote creation of new businesses by the fusing of fluorine compounds and other materials.

Concerning the Filter business, we have completed closing of the Flanders acquisition and will build a robust global No.1 Filter business centered on P & I and improve profitability in the Filter business to make it a third pillar for Daikin behind the Air Conditioning and Chemicals businesses. In the beginning of this fiscal year, we aim for sales of approximately of 110 billion yen.

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.