

**Financial Results of the Second Quarter Ending March 31, 2017**  
**“Management Situation and Policy for the Future”**  
**Representative Director, President & CEO Masanori Togawa**

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.

**○First Half of Fiscal Year 2016**

As Executive Officer Sawai has already explained, Daikin faced a substantial negative impact from the steep appreciation of the yen in the first half of fiscal year 2016. To confront this situation, we set forth to “outperform our rivals and substantially increase global sales based on actual sales,” “optimally reduce variable costs worldwide,” and “drastically reduce fixed costs” and promoted these objectives throughout the company. As a result, we were able to establish new record highs for the fourth consecutive term in operating income, ordinary income, and profits attributable to owners of parent. While this fiscal year marks only the beginning of Fusion 20, I think we have made an excellent start.

**○Achievement of the Budget**

Forecasts for the second half predict a continuation of adverse conditions, including a negative impact from foreign currency exchanges. Nevertheless I would like for us to further promote structural reforms and achieve this term’s budget by (1) developing differentiated products that exceed our rivals, (2) reinforcing our marketing and sales capabilities even further by enhancing dealer development and “spec-in” activities, and (3) utilizing the strength of our *monodzukuri* capabilities to reduce costs one factor higher.

**○Fusion 20**

Now I would now like to say a few words about the current situation for achieving Fusion 20, which began this year.

## **1) Strengthening of Existing Businesses**

As I stated when announcing Fusion 20, North America and Asia are important regions for the strengthening of existing businesses within our primary business of air conditioning.

While North America remains a highly competitive market, we are improving our competitiveness in each business to firmly place Daikin among those in the top group. First, we are promoting structural reforms at Goodman to accelerate gains in the residential market, which is the largest air conditioning segment in the US. In October, we began pilot production for our new factory and used the establishment of the new plant as an opportunity to introduce the world's cutting-edge production technology and strengthen cost capabilities even further. For example, visualization of all production processes is performed by utilizing IoT, and automatic control of production processes is progressing. We also invested in development of the latest module production system to respond to variations in production amounts and shorten the production cycle by half.

In August, we launched new SEER 14 compliant products for residential unitary, and competitiveness was strengthened, but product development corresponding to each region is critical in North America, which spans a wide area. The building of a full-fledged local development system is progressing at the development base adjacent to the factory. Here we intend to rapidly develop products matching the North American market and launch them to the market.

In reconstruction of the sales network to strengthen sales capabilities, we performed dealer development for residential unitary and improved the sales and after sales service networks for ductless in the Northeast and the West Coast regions where demand is great for premium products.

Also, in the Applied Systems business, we enhanced after sales service by strengthening our relationship with the sales rep network and proceeded with expansion of a solutions business that does not end with the delivery of equipment.

Next, in Asia we have tried to substantially increase production and sale of room air conditioners in the context of market expansion from an increase in middle income wage earners as we aim for an overwhelming increase in market share.

In addition to cooling-only inverter air conditioning units that represent a part of Daikin's differentiated products, we completed development of a

revolutionary product lineup. When speaking of product examples, we have a three-tier lineup of high-end products, such as for condominiums, multi-split air conditioners that use R32, and low cost products that are reasonably priced, and we are rapidly launching these products to the market ahead of other companies.

In our current situation and positioning from a production aspect, we plan to reinforce facilities at our Neemrana Factory in India and increase compressor production capacity for room air conditioners at our compressor factory in Thailand.

In Applied Systems, while we have mostly exported from China until now, we are building a factory in Malaysia for Applied products to meet the demand from market expansion, in addition to establishment of a sales subsidiary, and intend to expand sales of commercial use, including the Applied business, even further. Also, in Vietnam where there is remarkable growth, we plan to establish a new manufacturing base that aims for operation in April 2018. Establishment is progressing at a rapid rate in the hope of early completion to provide support of this market exhibiting remarkable growth.

In the Chemicals business, we are promoting total cost reductions while concentrating on sales promotion of favorable products. We are proceeding with development of applications by strengthening development in each region, including North America and Europe, and developing products that effectively compete with Chinese local manufacturers. We will strengthen differentiation of functionality aspects and improve cost competitiveness.

In the Filter business, we have begun cross selling that utilizes the sales networks of both Flanders, whose acquisition was completed at the end of April, and AAF (American Air Filter). Selling each company's products through a common sales outlet has actively stimulated sales, which will enable the filter business to quickly contribute to company-wide profit.

Also, even for the future in the European market, we will accelerate gains in market share through M&A and alliances with local manufacturers and enhancing product appeal as we steer a course to further frontload the optimization of profits.

## 2) Expanding Business Domains

In addition to strengthening existing businesses, we will commence with expansion of business domains.

In the Heating business, together with accelerating development of heat pump type heating products that correspond to European environmental regulations, we are proceeding with a detailed review of M&A and partnerships to acquire the specialized technology and human talent that are essential for expanding business even further.

In the Refrigerator and Freezer business, synergy is being seen in the form of joint purchasing from the acquisition of Zanotti S.p.A. Cross selling utilizing the sales networks of both companies is progressing.

## 3) Improving *Monozukuri* and Technological Capabilities

Next, not only is it necessary for us to strengthen existing businesses, we must also strengthen and promote business growth in the medium and long-term by initiating structural reforms and improving the *monozukuri* and technological capabilities that are the lifeline of a manufacturer.

For this reason, I would like for us to increasingly accelerate the creation of innovation in the future by utilizing TIC (Technology and Innovation Center).

In the latest example of these efforts, we established the “RIKEN-DAIKIN Wellness Life Collaboration Program.” In this initiative, we work in close cooperation with ABEJA, a venture capital company that specializes in application of the deep learning business, a type of artificial intelligence, and with the Institute of Physical and Chemical Research (Japan) (IPCR).

Moreover, as exhibited in our alliance with NEC in the fields of AI and IoT, it is Daikin’s intention to engender new businesses for “IAQ/Air Environment Engineering” by combining the cutting-edge AI/IoT technologies of each company and organization with the “air conditioning technology that precisely regulates temperature, humidity, and airflow” and “knowledge relating to the effect of space on people” that Daikin possesses.

Not only are we establishing alliances with companies, we are also deepening our partnerships with universities and research institutes such as Osaka University and top-ranking universities around the world. Moving beyond businesses conceived in air conditioning hardware as the starting point, we are pursuing the challenge of building a solutions business in which customer value is enhanced after product delivery with servicing and maintenance. Expansion into new business domains related to software may also be the result of partnerships with businesses and research institutes in industries and fields other than our own.

## **OClosing Remarks**

Until now I have talked centering on the current situation for achievement of Fusion 20. Although uncertainty builds for the business environment, I would like for us take measures toward maintaining short-term profits and medium to long-term development as we aim to increasingly raise company value.

This concludes my remarks. Because the officers from each division have come, I would now like to ask for your questions.