

Briefing on FY 2016 Financial Results Ended March 31, 2017
“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.

○FY2016 Financial Results and Assessment of First Year of Fusion 20

As Executive Officer Sawai stated in his review of fiscal year 2016, yen appreciation had been expected to significantly influence financial results. However, because of efforts to fortify the management constitution and minimize the adverse impact of a stronger yen, Daikin was able to achieve a substantial increase in financial results.

Moreover, as this term was the year starting Fusion 20, Daikin’s strategic management plan targeting fiscal year 2020, we increasingly broadened measures for future growth and made a good first step toward achieving Fusion 20. Specifically, we created a foundation for future growth and development with the following actions:

- Improved profitability of the Air Conditioning business in each region by strengthening sales capabilities, expanding sales of high value-added products, and executing total cost reductions;
- Expanded sales (on a local currency basis) in North America and Asia, which are important regions for the Air Conditioning business;
- Implemented M&A (Flanders, Dinar, Zanotti) for the Filter and the Commercial Refrigeration businesses to enlarge business domains and make changes in the business structure.

○FY2017 Plan and Management Position for FY2018

I would like to take some time today to briefly express some thoughts I have centering on the management plan for this term and the management position for fiscal year 2018, the target year for the mid-term implementation plan of Fusion 20.

While growth is expected to continue in the future for the global economy due to the economic recovery of resource-rich countries, which are benefiting from an accelerated U.S. economy and from higher prices for raw materials, geopolitical risks, including policies of the new U.S. administration, have increased. These risks create uncertainty for the future.

In light of this situation, Daikin will work to maintain short-term profits with a management position directed toward achievement of 2 trillion 500 million yen in sales and 270 billion yen in operating income for FY2018. At the same time, we will strive for further growth and development for the medium- to long-term by continuing to aggressively make forward-looking investments for the next two years of FY2017 and FY2018.

In addition to the new factory in the U.S., we are expanding factories in Thailand and India while proceeding with new factories in Vietnam and Malaysia as part of our forward-looking investments to strengthen production capacity.

Furthermore, we are quickening the pace of our global development system. The system for the Technology and Innovation Center (TIC), which is the core facility for R&D, will be enhanced, and efforts will be accelerated to improve the technology and development of differentiated products by uniting the local development bases of the eight global regions and having the TIC serve as the nucleus. For North America in particular, we have created differentiated products that had not previously existed and revolutionized overnight the mature North American market and its ducted air conditioning culture. With the aim of creating new markets, we are planning establishment of a North American R&D center.

Additionally, we established an office in Silicon Valley to focus efforts on acquiring and refining artificial intelligence (AI) and the Internet of Things (IoT) technologies that will be essential for future generations. Moreover, in fusing the technologies of different fields, we are engaging with an even greater sense of urgency in industry-to-industry and industry-to-university cooperation. Accelerating activities for technological advancements will necessitate enhancing the HR capabilities that serve as the basis for that development. For this reason, we will also be quickly developing and expanding the acquisition and training of new HR talent.

Systematic dealer development is imperative in each country to further strengthen sales and marketing capabilities and improve after sales service. Together with building a system that can rapidly utilize alliances, partnerships, and M&A, we will actively recruit and train HR talent to ensure that our objectives are achieved.

By continually implementing active investment for the future, we are steering a course for definite achievement of the quantitative targets of 2 trillion 500 billion yen in sales and 270 billion yen in operating income that we set forth as objectives in the mid-term implementation plan of Fusion 20. In doing so, we will quickly realize our aim for fiscal year 2020 of becoming a global company with sales over 3 trillion yen.

○Fusion 20 Progress and Future Policy

Next I would like to describe the progress we have made on the priority measures for Fusion 20 and future policy.

First, allow me to summarize in the Air Conditioning business the important regions of North America and Asia.

On May 24, we will at last welcome the opening in North America of the new Goodman factory that will serve as the foundation for future development. In addition to significantly strengthening our ability to supply

flagship residential unitary products and achieve cost competitiveness, we will start full-scale manufacturing in the United States for ductless equipment such as VRV systems and mini-split air conditioners.

In the Air Conditioning business for North America, we have steadily made progress in creation of synergy after the Goodman acquisition, and sales are growing favorably in maintaining a 10% growth rate on a local currency basis by strengthening the sales capabilities for unitary and ductless products. Aiming to become the market leader in North America in 2020, we are bolstering operations with a focus on cost competitiveness and differentiated product development.

From the perspective of cost competitiveness, we have introduced and are utilizing a module line featuring the latest advancements, even for Daikin, in production line technology. In addition to enabling adaption to changes in production amount by shortening production cycle to ½, this line is a digital factory that utilizes IoT and AI to visualize all manufacturing processes and automates management of production progress. In the trial current calculation, we see a possibility of raising productivity approximately 50% in 2020.

In developing differentiated products, I would like us to strengthen the development system, which includes the establishment of a North America R&D center as well as a technology office in Silicon Valley as I previously mentioned, and to successively create new products that meet the needs of the North American market and generate customer value.

When speaking of profitability for the North American market, although there will be a temporary slowdown in fiscal year 2017 with implementation of forward-looking investments for the future and duplicated production with existing factories until factory consolidation is completed, we will prepare a foundation for the three pillars of Unitary, Ductless, and Applied for fiscal year 2018 and beyond that significantly raises our potential for growth and profits. I have instructed management to take measures to ensure prompt recovery of investment and contribution to companywide profits.

Next, concerning Asia, in addition to quickly preparing a manufacturing system that surpasses rivals, we were centered on urban areas, even concerning the sales network. However, we wish now to extend our reach even to regional areas and expand sales of room air conditioners employing inverters and HFC32 (R32) refrigerant. As with China, we intend to create a market for residential-use, multi-split air conditioners, fortify “spec-in” activities in conjunction with dealer development for VRV systems, and enhance our bid proposal ability for Applied.

With regards to countries in Asia, we believe that India could have substantial market potential to rival China in the future and exceed the growth projected for Fusion 20.

In addition to the Air Conditioning business, this term we would like to actively implement measures from the aspect of expanding the Chemicals and Filter businesses, which represent the 2nd and 3rd pillars in Fusion 20, further broaden to other business domains, and change the business structure.

In the Chemicals business, we will endeavor to achieve our aim of 200 billion yen in sales for the mid-term implementation plan of Fusion 20 but in addition to the impact of foreign exchange, we will likely face inhospitable conditions, including aggressive pricing by other companies. However, from the aspect of profit, we foresee an improvement in profitability that exceeds the targets for fiscal year 2018 with sales expansion centered on new fields and promotion of cost reductions.

Emphasis will be on acceleration of application development and reform of the profit structure. In application development, we will focus on the four fields of “information terminals,” “automotive,” “LAN cable,” and “semiconductors” as important markets and expand development that includes lithium ion battery materials, antireflection film, and alternative materials to metals. We will also utilize the Technology and Innovation Center (TIC) and increase speed even further by acquiring technology from outside. In the favorable semiconductor market, we will capitalize on demand in China for semiconductors that is heating up from the investment policy of the Chinese government. Furthermore, we will continue to decrease fixed costs by innovations in manufacturing (process improvement) and in business operations (including improving inventory efficiency by utilizing IT) as we strive to improve the profit structure.

In the Filter business, we are aiming to become the truly global No. 1 in the Filter business by combining the strengths of Daikin and the two acquired companies and strengthening the system that unites manufacturing, sales, and R&D in each region to cultivate the Filters business as the third pillar behind Air Conditioning and Chemicals.

In consideration of this policy, we will strive to capture the high-end market, such as pharmaceuticals, and to strengthen cost competitiveness as we aim at the same time to enlarge business scale, expand domains in new application development and green businesses, and even achieve full participation in the Air Diagnosis business. There is also potential for development to fuse with existing businesses, and all investigations are proceeding from the perspective of improving indoor environments for the Air Conditioning business and effective use of materials for the Chemicals business.

In the Applied Solution business, we will accelerate regional strategy that includes strengthening heat source chillers in the United States to acquire replacement demand that is in full swing from infrastructure spending of the new administration; expansion of the air-side business in Europe and the Middle East business, which is an important region; establishment as the firm No. 1 in China; development of a foundation, including M&A, in the remarkably growing region of ASEAN/Oceania as we work to expand the Service & Solution business.

For the Energy Solutions business, Daikin still remains in the 10% level in the United States as opposed to the 20-40% ratio of after sales service business that occupies commercial-use sales of other competing companies. Together with strengthening service and maintenance and the Energy Solution business in each region, we are investigating alliances and acquisitions of leading service and energy solution companies, and we intend to grow a unique Solutions business that utilizes the strength of Daikin's energy-saving equipment.

In the Heating and Heater business, we will make all-out efforts in Europe for sales of combustion-type heaters at the base of the Turkish company we acquired. Even concerning heat pump type heaters, the outlook is improving for conversion to heat pumps, which emit few CO₂ emissions, with the stricter environmental regulations in France, Germany, and Italy

occurring from the adoption of the Paris Agreement. Daikin has placed a team specializing in heating at its main companies in Europe and will be strengthening support to sales subsidiaries and developing a team of installers skilled in heating. We are strengthening the development of new products and launching a new type of Altherma along with high efficiency boilers. We will proceed with further dealer development and aim for double-digit growth. To accelerate business expansion further, we will even continue to investigate concerning possible alliances, partnerships, and M&A. Also, not only in Europe, we will investigate the potential of business expansion in North America, Japan, and China and utilize this to achieve sales of 160 billion yen for fiscal year 2018.

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.