

Briefing on FY 2017 Financial Results Ended March 31, 2018
“Management Environment 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.

○FY2017 Financial Results

In the fiscal year ended in March 2018, Daikin utilized its strong sales capabilities and appeal of differentiated products to increase sales while reducing total costs to overcome the adverse impact of high prices for raw materials. This led to higher revenue and profits for the eighth consecutive term and a record high in financial results for the fifth consecutive term.

At the same time, we implemented aggressive investments for even further expansion by boosting production capacity in the United States and Asia, expanding our sales and after sales service networks, which included acquisitions in each country, and acquiring new technology, such as AI and IoT. In doing so, I believe we have established a solid foundation for sustainable growth.

○Management Policy for Fiscal Year 2018

While the global economy is projected to continue its expansionary phase to 2018, uncertainty is mounting in light of issues such as trade friction between the United States and China, and the ever-worsening situation in the Middle East. Moreover, risks also include a further surge in market prices for raw materials, sharp movements in foreign exchange, and an economic slowdown brought about by U.S. government policies prioritizing national interests.

In steering the management direction for this fiscal year, I believe it is necessary to understand conditions in even greater detail than before regarding economic trends, fluctuations in exchange rates and markets, and tendencies of competing companies and maintain a flexible stance that implements measures in a timely manner. In addition to the policies included in the plan for this term, we will provide substance to challenging measures that lead to a stronger management constitution, further sales expansion, and higher profits. At the same time, should the management environment suddenly deteriorate, we will establish measures, such as prioritizing and postponing investments, and fully utilize all measures at our disposal, both proactive and reactive, to minimize the impact.

Furthermore, fiscal year 2018 is the mid-term of Fusion 20, our company's strategic management plan targeting fiscal year 2020. At the time of formulating the management plan, we decided to tackle sales of 2 trillion 500 billion yen and operating income of 270 billion yen as quantitative targets for fiscal year 2018. In this past two-year period of 2016 and 2017, we were able to perform as needed to achieve our targets, but we foresee a challenging environment for fiscal year 2018, including fluctuations in foreign exchange and higher prices for raw materials as I have previously stated. Nevertheless, I would like for us to continue growth investments and establish a plan for 2018 that further improves profitability and strengthens the management constitution. To this end, I believe the most crucial aspect of steering management this year is how well we are able to take on challenges and execute while fully utilizing our offensive and defensive capabilities in a flexible, resourceful, and speedy manner.

○Overview of Fusion 20 Latter-Half Plan

Daikin is currently in its final stages of preparation of Fusion 20 Latter-Half Three-Year Plan. While there are no significant changes in the direction of our strategy to “expand business by both aspects of strengthening existing businesses and expanding new business domains” in the latter-half plan, we

will be accelerating efforts to add themes corresponding to the changing times that include the advance of IoT and AI technology, which is evolving at faster pace than expected, and stricter environmental regulations. Details of the latter-half plan will be announced at a later date, but I would like to touch upon five points being investigated and finalized.

First, I would like to discuss North America and Asia, which are important regions for the air conditioning business, and China, which is a Daikin pillar for revenue.

In the North America AC business, we worked to improve profitability by promoting sales of high value-added products and improving productivity of the new factory that was established last year. Concurrently, we made forward-looking investments, including expanding the sales network and developing new differentiated products, in our aim for the No. 1 position in the U.S. market in the future. Centered on the Technology and Innovation Center, which is Daikin's global mother R&D center in its third year of operation, we are accelerating development of differentiated products corresponding to the North American market utilizing such technology as heat pumps and inverters and working in cooperation with the North America R&D Center, the Applied Development Center, and the Silicon Technology office.

To strengthen the Service and Solutions business, we would like to make the medium-sized building market, which has low penetration of instrumentation and maintenance systems (total floor area of 5,000m² to 50,000m²), our main battlefield, and not the large-scale building market, which is dominated by major controls manufacturers. Here we would like to expand energy-saving service business by providing low cost solutions without the complicated instrumentation of conventional systems (for large-scale markets). This makes strengthening the direct sales channel and after sales service network an urgent task for that foundation. For this reason, we have selected

15 cities as priority areas from United States and are working to increase speed by investing in reps and acquiring service companies.

Next there is the Asian AC business which is experiencing remarkable growth. In addition to continuing expansion of the sales network in each country and acquiring and training human resources, we are investigating the next production investment from a mid- to long-term perspective.

Additionally, we will maximize use of production hub bases in six locations and R&D centers in close proximity to markets (Thailand, Malaysia, and India), and launch differentiated products centered on our unique cooling only inverter units. In this way, we will aim to further increase profits by accelerating new product development that corresponds to regional needs through local development and production.

The air conditioning market in India in particular has rapidly expanded (10% annual growth toward 2020) due to expansion of middle income households against the backdrop of high economic growth. Because growth is at a pace that exceeded our original plan, I would like us to invest with even greater concentration. In addition to investigation of a second factory, we will work to increase revenues by expanding the sales network to Tier 3 and Tier 4 cities, increasing RA sales by fortifying the mass retailer routes, enlarging the inverter AC lineup to further promote inverter use, and expanding the commercial-use VRT market to regional cities and strengthening after sales service. We will strive to become the overwhelming No. 1.

In Vietnam, we will maximize use of the supply capabilities of the new factory that began operating in April and aim to be the overwhelming No. 1 in the Vietnam market.

In the China AC business, the market environment has been changing with the tightening of real estate investment and decline in new housing starts;

however, personal consumption is providing underlying support of the economy. In addition to economic growth expanding large urban cities, such as Shanghai and Beijing, to regional cities, replacement demand is anticipated in major cities, and we recognize that the air conditioning market in China is still growing.

Regarding residential-use, multi-split air conditioner business, we will continue to actively invest to strengthen brand appeal and maintain high profitability. By strengthening the installation, proposal, and service capabilities of our PROSHOP network, which is Daikin's forte, we will accelerate opening of stores from Tier 1 and Tier 2 cities until now to Tier 3 and Tier 4 cities.

From the aspect of products, we offer an impressive lineup of 10,000 New Life Style Series products (dehumidification, airflow, bathroom drying, kitchen, closet, floor heating, thin indoor unit for interior and renewal, IAQ improvement, etc.) based on our unique technology. In addition to these, we will be establishing trial-type showrooms of New Life Style stations and repeatedly introducing differentiated products that provide users new value such as sales of intelligent New Life Style products that connect devices to the Internet.

Even in the commercial-use market, Daikin intends to lead in creating new markets with VRV innovation. In anticipation of the future of VRV innovation, we will introduce differentiated products including the next generation VRV (suppress initial cost of unit, and add functions individually) and intelligent VRV (follow up on service, maintenance and replacement by central control and monitoring using an Internet connection).

Next, I would like to talk about our response to the changing times including IoT and AI as well as environmental regulations.

How to utilize business innovation is a key point from the viewpoint of IoT and AI. Together with acquiring highly-skilled human talent from outside, we

are increasing the number of IT-related employees by about 100 people and will provide training at the newly-opened Daikin Information University to strengthen human resources in these areas. In addition to providing value to customers by analyzing data Daikin has compiled until now, we will accelerate business expansion in the two aspects of our primary business of conventional equipment sales (products) and our Solutions business (experience). In the area of *monozukuri*, we will build digital factories connecting all manufacturing and SCM operations by IoT technology to improve productivity and provide product development that meets diversifying needs.

From the perspective of environmental regulations, Daikin is in full agreement with the Paris Agreement and is investigating long-term environmental commitment extending to year 2050 as we aim for zero CO2 emissions and work toward safe and healthy air spaces. We will continue to launch energy-saving equipment and systems, globally promote the new refrigerant R32, and advance with research and development of next generation refrigerant while linking these efforts to our business.

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.