



Presentation of Financial Results
for the Third Quarter in December 2016

February 8, 2017

DAIKIN INDUSTRIES, LTD.

Summary of Q3 Financial Results



Daikin promoted improvement of its sales and marketing capabilities and active launch of its high value-added products. Sales expanded for the air conditioning business in the main regions (Japan, the Americas, China, Asia and Europe). In confronting the adverse impact of yen appreciation, Daikin fortified its management structure by reducing costs through global procurement and curtailing fixed costs, and this led to a new record high for profits. Although there will be no revision of the annual plan, sales continue to be bullish through to the third quarter as we aim to ensure that results exceed the annual plan.

(Unit: billion yen)	Q1-3(Apr.-Dec.)			FY2016 Forecast	
	FY2015	FY2016	Y/y changes	Revised in Nov.	Y/y changes
Net Sales	1,551.7	1,520.6	98%	2,000.0	98%
Operating Income <small>(Percentage of income to net sales)</small>	166.6 (10.7%)	186.3 (12.3%)	112%	222.0 (11.1%)	102%
Ordinary Income <small>(Percentage of income to net sales)</small>	164.6 (10.6%)	188.2 (12.4%)	114%	220.0 (11.0%)	105%
Net Income Attributable to Owners of Parent <small>(Percentage of income to net sales)</small>	106.8 (6.9%)	125.4 (8.2%)	117%	145.0 (7.3%)	106%
USD/JPY	¥122	¥107		¥103	
EUR/JPY	¥134	¥118		¥114	
RMB/JPY	¥19.3	¥16.0		¥15.3	

○Effects of FX (Apr.-Dec. Y/y)

On Sales: -183.2 billion yen
On Operating Income: -33.0 billion yen

○Breakdown of Changes Operating Income (Apr.-Dec. Y/y)

Total	+19.7 billion yen
Foreign Exchange	-33.0 billion yen
Sales Expansion/Selling Price	+46.7 billion yen
Cost Reductions, Fixed Costs, etc.	+6.0 billion yen

■ Q3 Financial Results by Segment



(Unit: billion yen)		Q1-3(Apr.-Dec.)Results			FY2016 Forecast	
		FY2015	FY2016	Y/y changes	Revised in Nov.	Y/y changes
Total	Sales	1,551.7	1,520.6	98%	2,000.0	98%
	Operating Income (Percentage of income to net sales)	166.6 (10.7%)	186.3 (12.3%)	112%	222.0 (11.1%)	102%
Air-Conditioning	Sales	1,398.5	1,378.4	99%	1,797.5	98%
	Operating Income (Percentage of income to net sales)	152.4 (10.9%)	172.1 (12.5%)	113%	198.5 (11.0%)	102%
Chemicals	Sales	118.2	110.0	93%	150.0	92%
	Operating Income (Percentage of income to net sales)	12.4 (10.5%)	12.3 (11.2%)	99%	20.0 (13.3%)	97%
Others	Sales	34.9	32.2	92%	52.5	98%
	Operating Income (Percentage of income to net sales)	1.8 (5.1%)	1.9 (5.8%)	106%	3.5 (6.7%)	99%

Sales by Region: Air-Conditioning Business



※Includes refrigerator, freezer and filter businesses

※Percentage expresses year on year comparison

(billion yen)	FY2012 Q1-3		FY2013 Q1-3		FY2014 Q1-3		FY2015 Q1-3		FY2016 Q1-3		FY2016 Forecast	
	Japan	108%	305.5	105%	320.1	97%	309.8	99%	307.7	105%	322.7	104%
Europe	88%	130.2	130%	169.2	101%	170.5	110%	188.1	96%	181.2	96%	242.0
China	109%	161.0	148%	238.2	110%	263.2	103%	270.1	92%	248.4	88%	275.0
Americas	107%	76.2	365%	278.2	118%	328.1	116%	379.0	100%	380.5	100%	497.0
Asia	113%	95.6	140%	133.9	115%	153.7	114%	174.6	97%	169.1	102%	243.0
Oceania	100%	25.0	122%	30.5	106%	32.4	109%	35.3	106%	37.6	102%	48.0
Middle East	141%	23.8	135%	32.2	95%	30.5	117%	35.6	94%	33.4	95%	51.5
Africa	98%	4.6	150%	6.9	107%	7.4	110%	8.2	69%	5.6	71%	8.0
Total	105%	821.9	147%	1,209.2	107%	1,295.5	108%	1,398.5	99%	1,378.4	98%	1,797.5
Overseas Sales ratio		63%		74%		76%		78%		77%		76%
USD/JPY		¥80		¥99		¥107		¥122		¥107		¥103
EUR/JPY		¥102		¥132		¥140		¥134		¥118		¥114
RMB/JPY		¥12.7		¥16.2		¥17.3		¥19.3		¥16.0		¥15.3

Sales by Region: Chemicals



※Percentage expresses year on year comparison

(billion yen)	FY2012 Q1-3		FY2013 Q1-3		FY2014 Q1-3		FY2015 Q1-3		FY2016 Q1-3		FY2016 Forecast	
Japan	89%	30.9	88%	27.2	97%	26.3	110%	28.9	103%	29.9	102%	40.5
Americas	102%	21.0	121%	25.5	107%	27.2	114%	30.9	89%	27.5	92%	41.0
China	84%	17.0	141%	23.9	109%	26.0	101%	26.4	90%	23.8	84%	28.5
Asia	67%	7.6	130%	9.9	110%	10.9	124%	13.5	90%	12.1	95%	17.5
Europe	96%	7.4	130%	9.7	111%	10.7	165%	17.7	90%	15.9	91%	22.5
Others	122%	1.1	199%	2.1	36%	0.8	107%	0.8	89%	0.7	—	—
Total	89%	85.1	115%	98.2	104%	101.9	116%	118.2	93%	110.0	92%	150.0
Overseas Sales ratio	64%		72%		74%		76%		73%		73%	
USD/JPY	¥80		¥99		¥107		¥122		¥107		¥103	
EUR/JPY	¥102		¥132		¥140		¥134		¥118		¥114	
RMB/JPY	¥12.7		¥16.2		¥17.3		¥19.3		¥16.0		¥15.3	

Japan

Industry demand for residential use was impacted by a heat wave in West Japan, resulting in bullish demand that has continued even beyond the third quarter. Consequently, sales exceeded the previous year.

In commercial use, industry demand benefitted from a last minute surge accompanying the government subsidy system for energy savings, and sales exceeded the previous year.

Daikin focused on expanding sales of high value-added products for both residential and commercial use. These products included residential-use, multi-split air conditioners that excel in design options along with Urusara 7 and FIVE STAR ZEAS. In addition to increasing market share as a result of improved marketing capabilities, efforts were made to thoroughly implement a pricing policy, and Daikin achieved record highs for sales and profits.

<AC sales by product (volume basis)>

(Y/y change)		Q1-3 Results
Residential	Market	103%
	Daikin	107%
Commercial	Market	103%
	Daikin	110%
Applied	Market	96%
	Daikin	98%

※Applied is based on aggregate sales in local currency

Americas

With industry demand brisk, Daikin proceeded to enhance its sales network and promote sales of new products. Sales in the local currency exceeded the previous year.

- Together with promotion of equipment sales based on demand for heating systems, Daikin focused on sales promotion of high efficiency residential unitary products equipped with inverters.
- For ductless, we attempted to improve our relationship with architectural firms and contractors while accelerating reconstruction of our sales network. Sales of new *VRV* system products for the high-end, residential-use market expanded, and sales grew even for RA and *SkyAir*.
- For Applied systems, competing companies initiated price markdowns for chillers; however, sales increased for air handling units and the After Sales Service business.

<AC sales by product (volume basis)>

(Y/y change)	Q1-3 Results
Ducted unitary for houses	110%
Residential & SKY	129%
VRV	117%
Applied	104%

※SKY・・・Medium or compact size package air conditioner
 ※VRV・・・Multi-split system for buildings
 ※Applied is based on aggregate sales in local currency.

China

Although the economy remains sluggish for large-scale real estate investment, Daikin bolstered retail and direct sales by capitalizing on bullish personal consumption, and sales grew in all regions and markets. Cost reductions centering on in-house production of parts and improving productivity were incorporated to maintain high profits.

- In the residential-use market, we utilized the proposal-making and installation capabilities of our PROSHOP specialty shops and expanded sales in the middle- to high-end residential markets centering on the New Life Style Series, a residential-use product that offers various lifestyles to customers.
- In the commercial-use market, we improved PR and ‘spec in’ activities to architectural firms and advertised products to users. Offering proposals of unique systems to users, we incorporated a wide range of needs such as from shops to commercial buildings and from new construction to remodeling.
- In the Applied systems market, meticulous sales activities were developed utilizing an enhanced product lineup and improved sales system. Consequently, we expanded sales centering on small- to medium-sized bid proposals, and sales exceeded the previous year.

<AC sales by market
(aggregate sales in local currency basis)>

(Y/y change)	Q1-3 Results
Residential※	117%
Commercial	103%
Applied	108%

※Multi-split air conditioners for residential use are included.

Business Review by Segments (Air Conditioning)

Europe (including Turkey, the Middle East, and Africa)

Since September, the expansion of residential demand originating from last year's heat wave has come full circle. Nevertheless, Daikin capitalized on replacement demand for commercial use, and sales were bullish centering on the markets of Southern and Central Europe. Even in Turkey, which was adversely impacted from the attempted coup d'état sales, we strengthened the manufacturing and sales systems. Sales overall in the local currency exceeded the previous year for all regions.

- For residential use, sales grew for high energy-efficient products using R32 and multi-split air conditioners.
- In commercial use, we gained demand for small bid proposals through detailed sales activities centering on *VRV* systems that meet regional needs. Consequently, sales grew.
- In the heating business, we strengthened 'spec in' activities to residential developers. Sales of heat pump type hot water heating systems were bullish. Even for combustion type heaters, sales of gas boilers in Turkey grew.

<AC sales by product (volume basis) >

(Y/y change)		Q1-3 Results
Residential		116%
Commercial	SKY	118%
	VRV	111%
Heating		110%
Applied		98%

- ※SKY・・・Medium or compact size package air conditioners
- ※VRV・・・Multi-split system for buildings
- ※ Applied is based on aggregate sales in local currency.

Asia/Oceania

Daikin capitalized on the growing middle class by promoting dealer development, strengthening sales personnel, and promoting sales of energy-saving, differentiated products based on market needs. Consequently, sales substantially exceeded the previous year.

- For residential use, sales in Vietnam, Indonesia, and Thailand were bullish for cooling-only inverter units that excel in energy-saving performance. Even in India, sales substantially grew by launching products that match regional characteristics and strengthening the sales network in regional cities.
- In commercial use, we focused on improving ‘spec-in’ for *VRV* systems and training dealers. Sales substantially grew centering on Vietnam, Indonesia, Thailand, and Australia.

■ Year-on-year sales of main countries (local currency basis)

Vietnam: 120% India: 128% Australia: 119%
 Malaysia: 112% Thailand: 114% Indonesia: 122%

<AC sales by product (volume basis)>

(Y/y change)		Q1-3 Results
Residential		119%
Commercial	SKY	122%
	VRV	135%
Applied		113%

※SKY・・・Medium or compact size package air conditioners
 ※VRV・・・Multi-split system for buildings
 ※Applied is based on aggregate sales in local currency.

Although sales expanded in the favorable fields of fluoropolymers for semiconductors and anti-fouling coating agents, business in China and the United States was impacted by price markdowns of competing companies and fluctuations in currency exchange, causing revenue and profits to decline.

- Strong sales of fluorocarbon gas were seen in the Americas for after sales service.
- **Polymers and Fluoroelastomers**
 - Although semiconductor-related demand centering on Japan and Asia shifted favorably, the business was adversely impacted by severe competition in the U.S. LAN cable market and a drop in selling price for commodities in China. Consequently, sales fell below the previous year.
 - Fluoroelastomers saw growth in the automotive industry in Japan and China.
- In fine chemicals, sales increased for surface antifouling coating agents for smartphones (OPTOOL) but declined for water and oil repellent agents. Consequently, sales declined over the previous year.

< Sales increase by product (aggregate sales) >

(Y/y changes)	Q1-3 Results
For all fluorochemical products	93%
Fluorocarbon Gas	104%
Fluoropolymers & Fluoroelastomers	95%
Fine Chemicals, etc.	88%

In the Air Filter business, in addition to increasing sales centering on the United States in growth fields such as cleanroom equipment for pharmaceuticals and medicine, Daikin has promoted total cost reductions (productivity improvements, centralized purchasing, and increases in ratio of in-house production, etc.). In November 2016, we also completed procedures for acquiring the Northern Europe air filter manufacturer Dinair. With this acquisition, we have built a foundation for expanding business in Northern Europe.

At P&I ※, together with expanding the After Sales Service business, we continued to promote cost reductions and do our best to improve the business structure.

※P&I: commercial-use dust collection systems such as for gas turbines and large-scale plants

■ Capital Expenditure, Depreciation and R&D Cost



(billion yen)	FY2015		FY2016	
	Q1-3	Total	Q1-3	Year Plan
Capex	82.9	112.7	62.2	100.0
Depreciation	43.1	57.9	43.5	60.0
R&D Cost	34.9	46.1	39.1	55.0



DAIKIN INDUSTRIES, LTD.

Notes on forecast

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