



# Presentation of Financial Results for the Third Quarter in December 2017

February 14, 2018

***DAIKIN INDUSTRIES, LTD.***

# Summary of Q3 Financial Results



Daikin achieved record highs for sales and profits.

In the Air Conditioning business, sales expanded in each of the main regions centering on Japan, the Americas, and China. In the Chemicals business, sales grew as Daikin capitalized on demand for the semiconductor and automotive markets. In facing steep prices for raw materials, Daikin promoted sales expansion and total cost reductions, including curtailment of fixed costs, while also benefiting from yen depreciation in foreign exchange to achieve an increase in operating profit. Moreover, with the reduction of the U.S. corporate tax rate, Daikin received a refund on tax expense due to the removal of deferred tax liabilities.

(Unit: billion yen)	Q1-3 (Apr.-Dec.)			FY2017 Forecast	
	FY2016	FY2017	Y/y changes	Revised in Feb.	Y/y changes
<b>Net Sales</b>	1,520.6	<b>1,722.4</b>	<b>113%</b>	2,270.0	111%
<b>Operating Income</b>	186.3	<b>201.2</b>	<b>108%</b>	250.0	108%
(Percentage of income to net sales)	(12.3%)	(11.7%)		(11.0%)	
<b>Ordinary Income</b>	188.2	<b>204.3</b>	<b>109%</b>	249.0	108%
(Percentage of income to net sales)	(12.4%)	(11.9%)		(11.0%)	
<b>Net Income Attributable to Owners of Parent</b>	125.4	<b>153.9</b>	<b>123%</b>	184.0	120%
(Percentage of income to net sales)	(8.2%)	(8.9%)		(8.1%)	

USD/JPY	¥107	¥112	¥110
EUR/JPY	¥118	¥129	¥126
RMB/JPY	¥16.0	¥16.6	¥16.4

### ○Effects of FX (Apr.-Dec. Y/y)

On Sales:	+63.4 billion yen
On Operating Income:	+3.0 billion yen

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

<b>Total</b>	<b>+14.9 billion yen</b>
Foreign Exchange	+3.0 billion yen
Sales Expansion/Selling Price	+40.5 billion yen
Cost Reductions, Fixed Costs, etc.	-6.6 billion yen
Raw Materials	-22.0 billion yen

# ■ Q3 Financial Results by Segment



(Unit: billion yen)		Q1-3 (Apr.-Dec.) Results			FY2017 Forecast	
		FY2016	FY2017	Y/y changes	Revised in Nov.	Y/y changes
<b>Total</b>	<b>Sales</b>	1,520.6	<b>1,722.4</b>	113%	2,270.0	111%
	<b>Operating Income</b> <small>(Percentage of income to net sales)</small>	186.3 <small>(12.3%)</small>	<b>201.2</b> <small>(11.7%)</small>	108%	250.0 <small>(11.0%)</small>	108%
<b>Air-Conditioning</b>	<b>Sales</b>	1,378.4	<b>1,557.3</b>	113%	2,041.0	111%
	<b>Operating Income</b> <small>(Percentage of income to net sales)</small>	172.1 <small>(12.5%)</small>	<b>180.7</b> <small>(11.6%)</small>	105%	222.5 <small>(10.9%)</small>	107%
<b>Chemicals</b>	<b>Sales</b>	110.0	<b>130.5</b>	119%	176.0	112%
	<b>Operating Income</b> <small>(Percentage of income to net sales)</small>	12.3 <small>(11.2%)</small>	<b>17.8</b> <small>(13.7%)</small>	145%	23.5 <small>(13.4%)</small>	128%
<b>Others</b>	<b>Sales</b>	32.2	<b>34.6</b>	108%	53.0	102%
	<b>Operating Income</b> <small>(Percentage of income to net sales)</small>	1.9 <small>(5.8%)</small>	<b>2.7</b> <small>(7.7%)</small>	142%	4.0 <small>(7.5%)</small>	107%

# Sales by Region: Air-Conditioning Business



※Includes refrigerator, freezer and filter businesses

※Percentage expresses year on year comparison

(billion yen)	FY2013 Q1-3		FY2014 Q1-3		FY2015 Q1-3		FY2016 Q1-3		FY2017 Q1-3		FY2017 Forecast	
<b>Japan</b>	105%	320.1	97%	309.8	99%	307.7	105%	322.7	<b>105%</b>	<b>340.2</b>	105%	453.0
<b>Europe</b>	130%	169.2	101%	170.5	110%	188.1	96%	181.2	<b>118%</b>	<b>214.5</b>	115%	287.0
<b>China</b>	148%	238.2	110%	263.2	103%	270.1	92%	248.4	<b>115%</b>	<b>286.3</b>	114%	340.0
<b>Americas</b>	365%	278.2	118%	328.1	116%	379.0	100%	380.5	<b>114%</b>	<b>432.5</b>	111%	572.0
<b>Asia</b>	140%	133.9	115%	153.7	114%	174.6	97%	169.1	<b>109%</b>	<b>184.5</b>	110%	256.0
<b>Oceania</b>	122%	30.5	106%	32.4	109%	35.3	106%	37.6	<b>146%</b>	<b>54.9</b>	137%	70.0
<b>Middle East</b>	135%	32.2	95%	30.5	117%	35.6	94%	33.4	<b>117%</b>	<b>38.9</b>	111%	55.0
<b>Africa</b>	150%	6.9	107%	7.4	110%	8.2	69%	5.6	<b>100%</b>	<b>5.6</b>	92%	8.0
<b>Total</b>	147%	1,209.2	107%	1,295.5	108%	1,398.5	99%	1,378.4	<b>113%</b>	<b>1,557.3</b>	111%	2,041.0
<b>Overseas Sales ratio</b>	74%		76%		78%		77%		78%		78%	
<b>USD/JPY</b>	¥99		¥107		¥122		¥107		¥112		¥110	
<b>EUR/JPY</b>	¥132		¥140		¥134		¥118		¥129		¥126	
<b>RMB/JPY</b>	¥16.2		¥17.3		¥19.3		¥16.0		¥16.6		¥16.4	

# Sales by Region: Chemicals



※Percentage expresses year on year comparison

(billion yen)	FY2013 Q1-3		FY2014 Q1-3		FY2015 Q1-3		FY2016 Q1-3		FY2017 Q1-3		FY2017 Forecast	
	<b>Japan</b>	88%	27.2	97%	26.3	110%	28.9	104%	29.9	<b>114%</b>	<b>34.2</b>	112%
<b>Americas</b>	121%	25.5	107%	27.2	114%	30.9	89%	27.5	<b>110%</b>	<b>30.2</b>	109%	46.0
<b>China</b>	141%	23.9	109%	26.0	101%	26.4	90%	23.8	<b>121%</b>	<b>28.8</b>	106%	33.0
<b>Asia</b>	130%	9.9	110%	10.9	124%	13.5	90%	12.1	<b>131%</b>	<b>16.0</b>	124%	22.0
<b>Europe</b>	130%	9.7	111%	10.7	165%	17.7	90%	15.9	<b>128%</b>	<b>20.4</b>	122%	28.0
<b>Others</b>	199%	2.1	36%	0.8	107%	0.8	89%	0.7	<b>137%</b>	<b>1.0</b>	—	—
<b>Total</b>	115%	98.2	104%	101.9	116%	118.2	93%	110.0	<b>119%</b>	<b>130.5</b>	112%	176.0
<b>Overseas Sales ratio</b>	72%		74%		76%		73%		74%		73%	
<b>USD/JPY</b>	¥99		¥107		¥122		¥107		¥112		¥110	
<b>EUR/JPY</b>	¥132		¥140		¥134		¥118		¥129		¥126	
<b>RMB/JPY</b>	¥16.2		¥17.3		¥19.3		¥16.0		¥16.6		¥16.4	

# Business Review by Segments (Air Conditioning)

## Japan

With personal consumption showing signs of a recovery, industry demand for residential use rode the tailwind of a December cold wave and exceeded the previous year.

Industrial demand for commercial use saw solid growth in capital investments and construction starts and exceeded the previous year.

Daikin continued to bolster sales capabilities and thoroughly implemented a selling price policy for residential and commercial use.

For residential use, sales expanded for our flagship product Urusara 7 and mid-range models. For commercial use, sales expanded toward replacement demand for high value-added products that included mainstays Eco-ZEAS and machi Multi, a multi-split air conditioner featuring a slim design.

Applied captured redevelopment demand for the Tokyo metropolitan area which has been gaining momentum.

<AC sales by product (volume basis)>

(Y/y change)		Q1-3 Results
Residential	Market	106%
	Daikin	106%
Commercial	Market	104%
	Daikin	108%
Applied	Market	102%
	Daikin	122%

※Applied is based on aggregate sales.

## Americas

With expanding capital investments and steady personal consumption, the market continued to trend favorably. We expanded sales of all of our main products, and sales exceeded the previous year.

- In residential unitary, business was affected by the August 2017 hurricane last year. Nevertheless, we promoted expansion of our own dealers along with dealer training support, and sales grew.
- In ductless products, despite the intense price competition for *VRV* systems, Daikin increased market share of *VRV* systems through expansion of the product lineup and development of sales measures for a separate route.
- In Applied systems, equipment sales including chillers and air handling units contributed to growth, and the After Sales Service business also expanded.

<AC sales by product (volume basis)>

(Y/y change)	Q1-3 Results
Ducted unitary for houses	103%
Residential & SKY	109%
VRV	128%
Applied	117%

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

## China

We focused on strengthening direct sales, and we were able to capitalize on bullish personal spending and private demand, and this led to a significant expansion of sales in all regions and markets. Although affected by steep prices for raw materials, we maintained high profitability by promoting cost reductions, which included in-house production of parts and improvements in productivity.

- In the residential-use market, we enhanced the proposal-making and installation capabilities of our PROSHOP specialty shops, and expanded sales in the mid-range and high-end residential markets centering on the New Life Style Series, which proposes new lifestyles to customers. Brand was promoted through the establishment of showrooms with operational equipment in key cities, and we accelerated sales activities that were closely tailored to the local market.
- In the commercial-use market, sales expanded chiefly on *VRV* systems, which have high energy efficiency and design flexibility. Offering proposals of unique systems and new products to users, Daikin captured a wide-range of the market from buildings to general shops as well as from new construction to remodeling.
- In the Applied systems market, we developed detailed business activities from small-to-medium projects to large projects by enhancing the product lineup and strengthening the After Sales Service business, which led to the expansion of sales.

<AC sales by market (local currency basis)>

(Y/y change)	<b>Q1-3 Results</b>
Residential※	<b>112%</b>
Commercial	<b>110%</b>
Applied	<b>112%</b>

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



## Europe, Middle East, and Africa

In Europe, which is experiencing a steady economic recovery, we moved forward with reinforcing sales capabilities, and sales expanded in each country. In the Middle East, we acquired demand amid the impact of tightening in public investment by improving marketing capabilities and product appeal. Sales for the region overall exceeded the previous year.

- For residential use, distributor's inventory declined in Italy, the largest market, and sales trended favorably. Nevertheless, we were unable to recover from the first half delay, and sales fell year-over-year in the third quarter total.
- In commercial use, sales expanded for new SkyAir products using the low GWP refrigerant R32.
- In the Heating business, not only did we experience growth in sales of heat pump hot water heating systems in major European countries, we also significantly expanded sales of combustion type heaters in Turkey and Southern Europe.

< AC sales by product (volume basis) >

(Y/y change)		Q1-3 Results
Residential		96%
Commercial	SKY	117%
	VRV	110%
Heating		112%
Applied		118%

- ※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

Overall sales for the region exceeded the previous year through dealer development and expansion of service networks in the regional cities of each country.

- For residential use, sales in Southeast Asia were affected by heavy rainfall in the first quarter; however, second quarter sales grew centering on Vietnam and Indonesia. In India, Daikin captured demand of the expanding middle class by developing products suited to regional characteristics and strengthening regional sales networks. These efforts led to a significant increase in sales. Sales also continued to expand in Australia where demand is strong.
- For commercial use, the focus is on strengthening *VRV* system spec-in activities and dealer development.
- Sales significantly grew in such countries as Australia, India, Thailand, and Vietnam.

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

Australia: 140%   India: 117%   Vietnam: 102%  
 Malaysia: 87%   Thailand: 98%   Indonesia: 111%

<AC sales by product (volume basis)>

		Q1-3 Results
(Y/y change)		
Residential		101%
Commercial	SKY	111%
	VRV	113%
Applied		120%

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

Despite higher prices for raw materials, Daikin increased revenue and profits by promoting sales in the bullish semiconductor and automotive fields and maintaining selling price.

- In addition to sales growth in after sales service in the Americas, sales of fluorocarbon gas greatly exceeded the previous year due to selling price measures in Europe that were in response to high raw material prices and tight supply and demand.
- Polymers and Fluoroelastomers
  - For fluoropolymers, we captured the strong demand in the bullish semiconductor-related market centered on Asia, China, and Japan, and sales greatly surpassed the previous year.
  - In the automotive field, sales expanded even for fluoroelastomers.
- In Fine Chemicals, sales grew for water and oil repellent agents in Asia and China, whereas sales decreased for the surface antifouling agent OPTOOL.

< Sales increase by product (aggregate sales) >

(Y/y changes)	Q1-3 Results
For all fluorochemical products	<b>119%</b>
Fluorocarbon Gas	<b>147%</b>
Fluoropolymers & Fluoroelastomers	<b>122%</b>
Fine Chemicals, etc.	<b>105%</b>

Together with promoting reorganization of the production system to strengthen profitability, we are also improving the sales system. A new consolidating effect accompanied the acquisition of the northern European company Dinair, and sales exceeded the previous year.

- In the Air Filter business, in addition to utilizing the product lineups in the United States of both American Air Filter and Flanders Inc., and enlarging the sales network, we promoted cost reductions such as integration of the factories. In China, we expanded sales in growing fields including semiconductor factories.
- At P&I※, despite the harsh market environment, we enhanced the After Sales Service business, and promoted total cost reductions.

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

## ■ Capital Expenditure, Depreciation and R&D Cost

(billion yen)	FY2016		FY2017	
	Q1-3	Total	Q1-3	Year Plan
Capex	62.2	90.3	63.9	100.0
Depreciation	43.5	59.3	49.6	63.0
R&D Cost	39.1	53.9	45.9	57.0



# ***DAIKIN INDUSTRIES, LTD.***

## **Notes on forecast**

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