



**Daikin Industries, Ltd.**

Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 7, 2022

## Event Summary

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<b>[Company Name]</b>	Daikin Industries, Ltd.	
<b>[Company ID]</b>	6367-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q3 Financial Results Briefing for the Fiscal Year Ending March 2022	
<b>[Fiscal Period]</b>	FY2021 Q3	
<b>[Date]</b>	February 7, 2022	
<b>[Number of Pages]</b>	28	
<b>[Time]</b>	17:00 – 17:58 (Total: 58 minutes, Presentation: 15 minutes, Q&A: 43 minutes)	
<b>[Venue]</b>	Conference call and webcast	
<b>[Number of Speakers]</b>	2	
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Head of Investor Relations Management Group, Corporate Communication Office
<b>[Analyst Names]*</b>	Tomohiko Sano	JPMorgan Securities Japan Co., Ltd.
	Hikaru Mizuno	UBS Securities Japan Co., Ltd.
	Yuichiro Isayama	Goldman Sachs Japan Co., Ltd.
	Graeme McDonald	Citigroup Global Markets Japan Inc.
	Hirosuke Tai	Daiwa Securities Co., Ltd.
	Kentaro Maekawa	Nomura Securities Co., Ltd.
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Yoichiro Watanabe	Mito Securities Co., Ltd.
	Yoshinao Ibara	Morgan Stanley MUFG Securities Co., Ltd.

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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# Presentation

**Moderator:** We would like to begin the presentation of Daikin Industries, Ltd.'s financial results briefing for the third quarter of the fiscal year ending March 2022.

Today, Mr. Miyazumi, Executive Officer, Responsible for Corporate Communication, will begin by giving a 15-minute overview of our financial results. This will be followed by a question-and-answer session. The meeting is scheduled to end at 18:00.

As we announced in advance, the presentation materials are available on the shareholder/investor information page of our website, so please have them on hand.

Executive Officer Miyazumi, please begin.

## ■ Summary of Financial Results

### Achieving Record High Financial Results for the Cumulative Third Quarter

- ✓ With the reemergence and continued spread of COVID-19, Daikin faced a harsh business environment from soaring prices for raw materials and logistics costs but absorbed the negative impact of these by generating results from its seven key themes for FY2021 (strategic selling prices measures, sales expansion/market share increase, cost reductions, etc.).
- ✓ In the Air Conditioning business, we increased market share by launching new products for indoor air quality (IAQ) and ventilation and by strengthening sales and marketing capabilities. In addition to expanding sales centered on Residential Air Conditioning in the Americas, China, and Europe, we captured strong demand in Europe for heat-pump type heaters.
- ✓ In the Chemicals business, we expanded sales by capitalizing on a recovery in demand in the semiconductor and automotive markets. Despite the soaring prices in the raw material markets, we increased revenue and profits due to a selling price effect.

(billion yen)	Q1-3 Result		
	FY2020	FY2021	Y/Y
<b>Net sales</b>	1,841.7	<b>2,301.9</b>	<b>125%</b>
<b>Operating profit</b>	194.5	<b>259.5</b>	<b>133%</b>
(Percentage of profit to net sales)	(10.6%)	(11.3%)	
<b>Ordinary profit</b>	195.8	<b>266.4</b>	<b>136%</b>
(Percentage of profit to net sales)	(10.6%)	(11.6%)	
<b>Profit attributable to owners of parent</b>	128.7	<b>178.7</b>	<b>139%</b>
(Percentage of profit to net sales)	(7.0%)	(7.8%)	
USD/JPY	¥106	¥111	
EUR/JPY	¥122	¥131	
RMB/JPY	¥15.4	¥17.3	

FX Effect (Y/Y)	
Sales	+91.5 billion yen
Operating Profit	+13.0 billion yen

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**Miyazumi:** I'm Miyazumi in charge of the Corporate Communication. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

I will explain the outline of the financial results for the third quarter based on the materials.

Please see page two.

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With the reemergence and continued spread of COVID-19, we faced a harsh business environment from soaring prices for raw materials and logistics costs but posted record-high cumulative third quarter figures by generating results from the seven key themes for FY2021, such as strategic selling prices measures, sales expansion/market share increase, cost reductions, etc.

Actual exchange rates were JPY111 to the US dollar, JPY131 to the euro, and JPY17.3 to the yuan. The YoY impact of the foreign exchange rates on net sales and operating profit was a positive JPY91.5 billion and JPY13 billion, respectively.

## ■ Financial Results by Segments

(billion yen)		Q1-3 Result		
		FY2020	FY2021	Y/Y
<b>Total</b>	<b>Sales</b>	1,841.7	<b>2,301.9</b>	125%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	194.5 <small>(10.6%)</small>	<b>259.5</b> <small>(11.3%)</small>	133%
<b>Air Conditioning</b>	<b>Sales</b>	1,691.1	<b>2,103.8</b>	124%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	183.7 <small>(10.9%)</small>	<b>234.9</b> <small>(11.2%)</small>	128%
<b>Chemicals</b>	<b>Sales</b>	116.6	<b>154.8</b>	133%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	9.0 <small>(7.7%)</small>	<b>20.3</b> <small>(13.1%)</small>	224%
<b>Others</b>	<b>Sales</b>	34.0	<b>43.3</b>	127%
	<b>Operating profit</b> <small>(Percentage of profit to net sales)</small>	1.7 <small>(5.1%)</small>	<b>4.4</b> <small>(10.1%)</small>	252%

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Please see page three. This shows the results by segment.

In the Air-Conditioning business, we expanded our market share by introducing indoor air quality (IAQ) and ventilation-related new products, strengthening our sales and marketing capabilities, and flexibly responding to concerns about shortages of electronic components and other products and supplying them.

The Chemicals business expanded its sales significantly, capturing the recovery in demand in the semiconductor and automotive markets, and offset the impact of soaring raw material prices with the effect of selling prices, resulting in increased sales and profits.

In Other businesses, sales of hydraulic equipment for industrial machinery and construction vehicles and home medical equipment increased.

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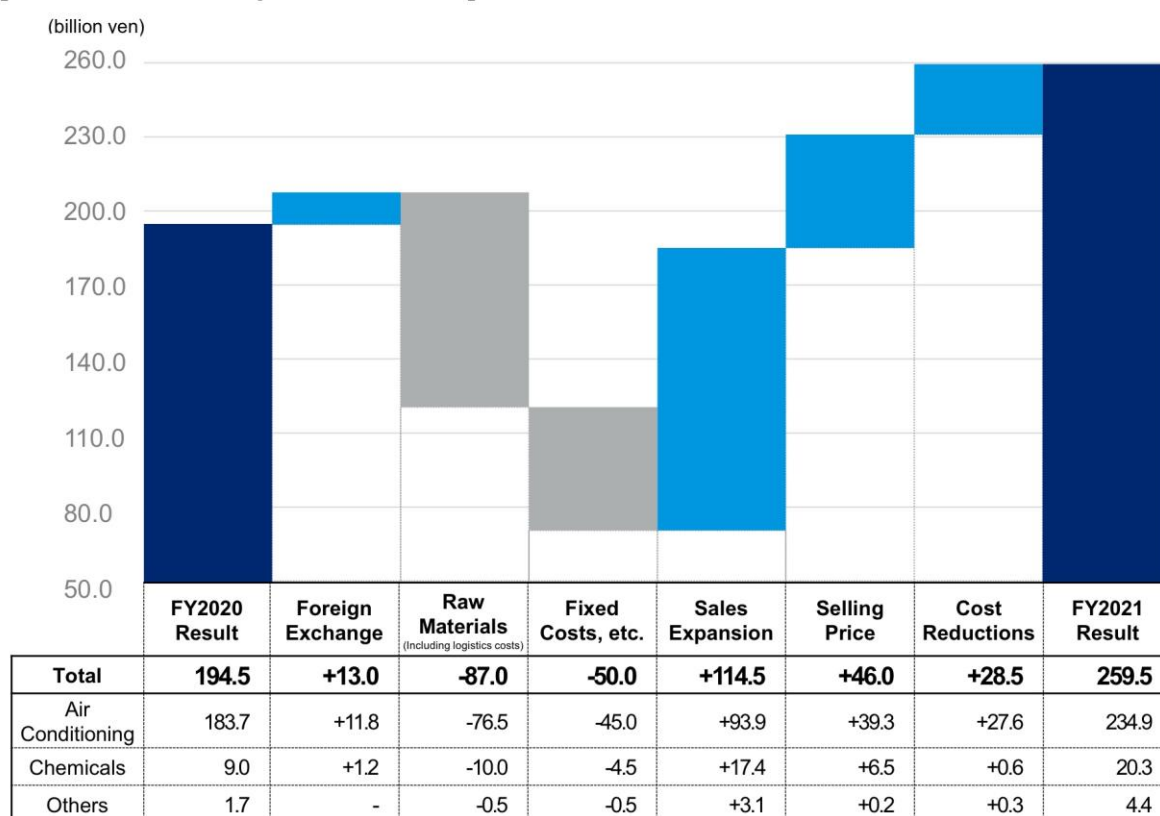
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With regard to the impact of foreign exchange rates, sales in the Air-Conditioning segment increased by JPY84 billion and operating profit by JPY11.8 billion, while the Chemicals segment reported sales of JPY7.5 billion with a positive operating profit of JPY1.2 billion.

I will explain the status of each business and the status of the Air-Conditioning business by region later.

## ■ Breakdown of Changes in Operating Profit

### [Year-on-Year Comparison of Q1-3]



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Please see page four. This is an analysis of YoY changes in operating profit for the cumulative third quarter.

Although there was a large negative impact due to soaring raw material market prices and logistics costs, we were able to achieve a large increase in profit through sales expansion, selling price measures, and cost reductions.

The breakdown by segment is as described.

As for the breakdown of the impact on the Air-Conditioning business due to the sharp rise in raw material prices and distribution costs, we estimate a negative impact of JPY59 billion on raw materials and JPY17 billion on logistics costs.

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## ■ Companywide Business Forecast

### Third Upward Revision Leading to Record Highs and Sales above 3 Trillion Yen

- ✓ While the business environment in the fourth quarter is expected to worsen amid COVID-19 uncertainty, we will absorb the negative effects by generating results for our seven key themes.
- ✓ In the continuing tight supply of electronic components and upheaval in the logistics network, the area of sales, manufacturing, procurement, SCM, and logistics will work closely together on a global level to ensure product supply.
- ✓ While the business environment will be affected by further cost increases such as the soaring prices for raw materials and logistics costs, we will quickly take additional second and third steps to expand sales and increase market share and aim for an even greater effect from selling price measures and cost reductions.

(billion yen)	FY2021 (Previously announced)	FY2021			
	Total Forecast	Q1-3 Result	Y/Y	Total Forecast	Y/Y
<b>Sales</b>	2,930.0	2,301.9	125%	3,050.0	122%
<b>Operating Profit</b>	300.0	259.5	133%	310.0	130%
(Percentage of profit to net sales)	(10.2%)	(11.3%)		(10.2%)	
<b>Ordinary Profit</b>	302.0	266.4	136%	315.0	131%
(Percentage of profit to net sales)	(10.3%)	(11.6%)		(10.3%)	
<b>Profit Attributable to Owners of Parent</b>	203.0	178.7	139%	210.0	134%
(Percentage of profit to net sales)	(6.9%)	(7.8%)		(6.9%)	

USD/JPY	¥107	¥111
EUR/JPY	¥128	¥131
RMB/JPY	¥16.7	¥17.3

※Assumptions in Q4 for foreign exchange are  
1 USD=110 JPY, 1 EUR=128 JPY, and 1 RMB=17.5 JPY

FX Effect (Y/Y)	
Sales	+116.0 billion yen
Operating Profit	+17.0 billion yen

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Please turn to page five.

For the third time this fiscal year, we have made an upward revision to our annual sales plan to JPY3.05 trillion and our operating profit plan to JPY310 billion.

We are aiming to break through the JPY3 trillion mark for the first time in terms of net sales, and operating profit will be at a level that ensures the JPY300 billion mark despite the headwind.

The business environment is becoming increasingly severe, as the timing of the cessation of the new coronavirus infection is uncertain, and raw material market prices and logistics costs continue to soar. We have been able to absorb the negative impact by taking measures in rapid succession, such as strengthening our ability to propose solutions, ensuring the supply of products through the integration of sales, manufacturing, procurement, SCM, and logistics; implementing strategic selling price measures; and promoting total cost reduction.

In the remaining two months of the fiscal year, by clearly defining and thoroughly implementing priority measures, we believe we are on track to achieve operating profit of JPY310 billion for the current fiscal year.

In the next fiscal year, we expect to continue to face significant cost increase factors such as soaring raw material prices, rising logistics costs, tight supply of semiconductors and electronic components, and rising labor costs due to worker shortages in many countries.

We will continue to accelerate the creation of results in the seven priority themes, stay ahead of changes in the business environment, and further strengthen its management structure.

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As a result, in the next fiscal year, FY2022, we hope to not only achieve the FY2023 target of JPY325 billion in operating profit set in FUSION 25 one year ahead of schedule, but also take on the challenge of surpassing that level even further.

There was no change in the year-end dividend forecast from the previous announcement. We will reconsider our dividend payment plan based on the full-year results.

## ■ Business Forecast by Segments

(billion yen)		FY2021 (Previously announced)	FY2021			
		Total Forecast	Q1-3 Result	Y/Y	Total Forecast	Y/Y
<b>Total</b>	<b>Sales</b>	2,930.0	2,301.9	125%	3,050.0	122%
	<b>Operating Profit</b> <small>(Percentage of profit to net sales)</small>	300.0 (10.2%)	259.5 (11.3%)	133%	310.0 (10.2%)	130%
<b>Air Conditioning</b>	<b>Sales</b>	2,665.5	2,103.8	124%	2,772.0	122%
	<b>Operating Profit</b> <small>(Percentage of profit to net sales)</small>	270.0 (10.1%)	234.9 (11.2%)	128%	277.5 (10.0%)	124%
<b>Chemicals</b>	<b>Sales</b>	201.5	154.8	133%	213.5	130%
	<b>Operating Profit</b> <small>(Percentage of profit to net sales)</small>	24.0 (11.9%)	20.3 (13.1%)	224%	26.5 (12.4%)	233%
<b>Others</b>	<b>Sales</b>	63.0	43.3	127%	64.5	116%
	<b>Operating Profit</b> <small>(Percentage of profit to net sales)</small>	6.0 (9.5%)	4.4 (10.1%)	252%	6.0 (9.3%)	145%

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Please see page six. This is our business forecast by segment.

In the Air-Conditioning business, the sales forecast was increased by JPY106.5 billion and the operating profit forecast was increased by JPY7.5 billion from the previous forecast.

In the Chemicals business, sales forecast increased by JPY12 billion and operating profit forecast was increased by JPY2.5 billion from the previous announcement.

In Other businesses, we raised the sales forecast by JPY1.5 billion and the operating profit forecast has been left unchanged from the previous announcement.

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## ■ Sales by Region – AC Business (Includes refrigerator, freezer and filter businesses)

※Percentage expresses year on year comparison

(billion yen)	FY2017 Q1-3		FY2018 Q1-3		FY2019 Q1-3		FY2020 Q1-3		FY2021 Q1-3	
<b>Japan</b>	105%	340.2	107%	364.1	104%	379.7	98%	371.2	<b>105%</b>	<b>390.8</b>
<b>Europe</b>	118%	214.5	112%	239.9	116%	278.9	99%	276.6	<b>135%</b>	<b>372.5</b>
<b>China</b>	115%	286.3	102%	292.9	97%	283.4	97%	275.1	<b>131%</b>	<b>359.7</b>
<b>Americas</b>	114%	432.5	112%	486.3	108%	524.2	95%	499.4	<b>130%</b>	<b>650.2</b>
<b>Asia</b>	109%	184.5	110%	203.3	107%	217.3	81%	175.1	<b>117%</b>	<b>204.8</b>
<b>Oceania</b>	146%	54.9	105%	57.9	93%	53.7	107%	57.6	<b>131%</b>	<b>75.3</b>
<b>Middle East</b>	117%	38.9	93%	36.2	93%	33.6	91%	30.5	<b>141%</b>	<b>42.8</b>
<b>Africa</b>	100%	5.6	115%	6.5	88%	5.7	96%	5.5	<b>140%</b>	<b>7.7</b>
<b>Total</b>	113%	1,557.3	108%	1,687.2	105%	1,776.6	95%	1,691.1	<b>124%</b>	<b>2,103.8</b>
Overseas Sales ratio		78%		78%		79%		78%		81%
USD/JPY		¥112		¥111		¥109		¥106		¥111
EUR/JPY		¥129		¥129		¥121		¥122		¥131
RMB/JPY		¥16.6		¥16.6		¥15.6		¥15.4		¥17.3

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Please turn to page seven. Sales by region in the Air-Conditioning business were up significantly YoY in all regions.

Excluding the effect of foreign exchange rates, the real YoY comparison in sales was 126% in Europe, 117% in China, 124% in the Americas, and 112% in Asia.

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## ■ Sales by Region – Chemicals Business

※Percentage expresses year on year comparison

(billion yen)	FY2017 Q1-3		FY2018 Q1-3		FY2019 Q1-3		FY2020 Q1-3		FY2021 Q1-3	
	<b>Japan</b>	114%	34.2	117%	40.0	94%	37.7	82%	31.0	<b>135%</b>
<b>Americas</b>	110%	30.2	113%	34.1	92%	31.4	78%	24.4	<b>123%</b>	<b>30.0</b>
<b>China</b>	121%	28.8	103%	29.5	92%	27.1	110%	29.9	<b>131%</b>	<b>39.2</b>
<b>Asia</b>	131%	16.0	120%	19.2	91%	17.5	90%	15.8	<b>120%</b>	<b>19.0</b>
<b>Europe</b>	128%	20.4	124%	25.2	71%	17.8	84%	14.9	<b>160%</b>	<b>23.9</b>
<b>Others</b>	137%	1.0	135%	1.3	82%	1.1	58%	0.6	<b>123%</b>	<b>0.8</b>
<b>Total</b>	119%	130.5	114%	149.4	89%	132.6	88%	116.6	<b>133%</b>	<b>154.8</b>
<b>Overseas Sales ratio</b>		74%		73%		72%		73%		73%
<b>USD/JPY</b>		¥112		¥111		¥109		¥106		¥111
<b>EUR/JPY</b>		¥129		¥129		¥121		¥122		¥131
<b>RMB/JPY</b>		¥16.6		¥16.6		¥15.6		¥15.4		¥17.3

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Please turn to page eight. Sales by region in the Chemicals business also increased significantly YoY in all regions.

Excluding the impact of foreign exchange rates, the real YoY comparison in sales was 118% in Americas, 117% in China, and 150% in Europe.

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## ■ Business and Regional Overview – Air Conditioning

### Japan

Industry demand for Residential Air Conditioning declined from the previous year due to the impact of unseasonable weather in the summer and the end of pent-up demand. Daikin launched a new product called **Urusara X**, which switches between air supply and air exhaust ventilation. Sales and market share expanded by leveraging the growing interest in energy savings and the need for IAQ due to more time spent indoors.

Industry demand for Commercial Air Conditioning exceeded the previous year in a gradual renewal of economic activities. Daikin enhanced system proposals that combine air conditioners and ventilation products, such as heat reclamation ventilators, and both sales and market share increased. In Applied, sales of R32 chillers grew.

While air purifiers were affected from the second quarter by a reversal of the increased demand seen in the previous fiscal year from the special cash payment for COVID-19, market share increased due to expansion of the product lineup.

Y/Y change (Volume basis)		Q1-3 Results
Residential	Market	91%
	Daikin	104%
Commercial	Market	103%
	Daikin	114%
Applied	Market	97%
	Daikin	88%
Air purifiers	Market	75%
	Daikin	89%

※Applied is based on total sales.

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Please turn to page nine. From here, I will explain the situation of the Air-Conditioning business by region.

First, there is Japan. For Residential Air Conditioning, industry demand was lower than the previous year due to unseasonable summer weather. We strengthened our sales activities focusing on the ventilation function of Urusara X, and expanded our market share by catching the growing interest in energy saving and the need for air quality as users stayed at home for longer hours.

In Commercial Air Conditioning, industry demand exceeded the year-before level due to a gradual recovery in economic activities. We expanded its sales and significantly increased its market share by strengthening proposal-based marketing that combines air conditioners and ventilation products.

Sales of air purifiers were affected from the second quarter onward by the reactionary impact of the previous year's increase in demand due to the special cash payments.

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## ■ Business and Regional Overview – Air Conditioning

### Americas

Personal consumption drove an economic recovery, but supply constraints and inflation beginning from the summer led to an economic decline. Daikin expanded sales centered on the Residential Air Conditioning market where demand is strong, and results were maximized by the effect of selling price measures. Acquisitions of sales companies also contributed to a substantial increase in sales over the previous fiscal year.

- In Ducted Unitary for Houses, we focused on strengthening supply capabilities by promoting initiatives to increase the number of manufacturing personnel and reduce employee turnover. Sales increased due to the launch of new products equipped with inverters.
- In Ductless, we captured the rising demand for **RA/SKY** in the Residential Air Conditioning market and expanded sales. Sales for **VRV systems** were strong in Residential and also expanded in Commercial Air Conditioning.
- In Applied, we capitalized on the market recovery and increased chiller sales. Sales also grew for the After Sales Service business.

Y/Y change (Volume basis)		Q1-3 Results
Ducted unitary for houses		115%
Ductless	RA/SKY	140%
	VRV	121%
Applied		108%

※Applied is based on total sales in local currency.

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Please see page 10.

In the Air-Conditioning business in the Americas, sales were significantly higher than the previous year due to expanded sales in the Residential Air-Conditioning market, where demand is strong, as well as the incorporation of selling price effects and the effect of consolidation of sales companies.

In Ducted Unitary for Houses, we focused on strengthening supply capabilities at the Goodman factory by promoting initiatives to increase the number of manufacturing personnel. We also focused on increasing sales due to the launch of new products equipped with inverters.

In addition to strong sales of ductless for residential use, reflecting the need for improved living spaces, sales of ductless for commercial use also increased as projects resumed.

Goodman's overall sales were 132% of the year-before level on a local currency basis.

Applied took advantage of the market recovery to expand sales of chillers and the After Sales Service business.

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## ■ Business and Regional Overview – Air Conditioning

### China

Even though the economy has been slowing since the second half, personal consumption has trended strong. Daikin promoted sales combining offline and online sales and expanded sales of IAQ and ventilation products along with products that comply with environmental regulations. Consequently, sales saw a significant increase over the previous year. Operating profit was impacted by soaring prices for raw materials and semiconductor shortages, but we maintained high profitability by expanding sales of high value-added products, reducing costs, and curtailing fixed costs.

- In the Residential Air Conditioning market, we promoted sales activities combining online sales with conventional sales at our **PROSHOP** specialty stores and focused on identifying new customers and capturing replacement demand. System proposals that combine products, such as floor heating, were strengthened, and we greatly expanded sales of residential multi-split air conditioners.
- In the Commercial Air Conditioning market, customer contact points were expanded by leveraging interest at stores and offices in ventilation and air purifying. We incorporated demand for equipment replacements and additional purchases. For large projects, we reinforced sales through solutions proposals. Under the backdrop of environmental regulations, we capitalized on replacement demand that is expanding for energy-saving equipment.
- In the Applied market, in addition to shifting resources to growth fields that include infrastructure and semiconductors, we strengthened our maintenance and servicing business.

Y/Y change (Local currency basis)	Q1-3 Results
Residential	118%
Commercial	109%
Applied	104%

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Please turn to page 11.

In the Air-Conditioning business in China, sales were significantly higher than the previous year due to the promotion of sales activities combining offline and online activities against the backdrop of strong consumer spending, and the expansion of sales of IAQ and ventilation products and products that comply with environmental regulations.

In the Residential Air-Conditioning market, sales of residential multi-split systems grew significantly, 117% YoY, thanks to the search for new customers through online events, the promotion of sales activities using live broadcasting, and the strengthening of system proposals combining floor heating and other systems.

In the Commercial Air-Conditioning market, we focused on sales activities that promote ventilation and air purifying for stores and offices, capturing demand for equipment upgrades and additional purchases.

In addition, for large projects, we strengthened sales by proposing solutions and captured the demand for updating to energy-saving equipment, which is expanding against the backdrop of environmental regulations.

In the Applied market, we shifted our resources to growth fields, such as infrastructure-related areas and data centers.

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## ■ Business and Regional Overview – Air Conditioning

### Europe, Middle East, and Africa

In Europe, despite restrictions of economic activities since November due to the reemergence of COVID-19, sales for residential air conditioners and heat-pump heaters expanded. In the Middle East, sales expanded in every country, particularly Turkey. Sales for the region overall greatly exceeded the previous fiscal year.

- In the Residential market, unseasonable summer weather impacted results in countries such as France and Spain, but sales expanded on strong demand in Italy and Central Europe.
- In the Commercial market, sales to hospitals and food retailers were strengthened. Sales expanded by capitalizing on customer needs with proposals for IAQ improvement.
- In the Heating business, we utilized a wide product lineup of heat-pump heaters to substantially increase sales in each country, especially in France, Italy, and Germany.
- In Applied, we strengthened sales in favorable markets such as factories and hospitals and expanded sales of R32 chillers and air handling units.
- In the Refrigerator and Freezer business, Daikin accelerated development of one-stop solutions and expanded sales to food retailers where demand is strong.

Y/Y change (Volume basis)		Q1-3 Results
Residential		112%
Commercial	SKY	115%
	VRV	119%
Heat Pump Heaters		160%
Applied		119%
Refrigerator and Freezer		134%

※Residential, commercial, and heat-pump heaters are only for Europe.  
 ※Applied is based on total sales in local currency.

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Please turn to page 12, the Air-Conditioning business in Europe, Middle East and Africa.

In Europe, sales of residential air conditioning and heat pump heaters increased despite restrictions on economic activity due to the re-emergence of coronavirus infection. In the Middle East as well, we worked to strengthen our sales capabilities in each country, and overall sales in the region were significantly higher than the previous year.

In the Residential market, unseasonable summer weather impacted results in countries such as France and Spain, but sales expanded on strong demand in Italy and Central Europe.

In the Commercial market, we expanded sales by meeting customer needs with proposals for improving air quality.

In the Heating business, we took advantage of our product lineup of heat pump heating equipment to achieve significant sales growth in each country.

In the Refrigerator and Freezer business, we accelerated development of one-stop solutions, and expanded sales to food retailers.

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## ■ Business and Regional Overview – Air Conditioning

### Asia and Oceania

The reemergence of COVID-19 had a significant impact in causing a decline in demand. To combat this, we worked to expand our own sales network and promote dealer support with the use of online tools. In addition to expanding sales in Asian countries where restrictions on conduct have been relaxed and in Oceania where demand is relatively strong, there has also been a selling price effect as overall sales for the region exceeded the previous year.

- In the Residential market, sales expanded in Indonesia and Australia. In India, we enlarged the sales network and significantly expanded sales by strengthening the relationship with dealers. In Malaysia, sales have increased since the third quarter due to a relaxation of restrictions on conduct.
- In the Commercial market, we focused on sales to public facilities where demand is relatively stable and expanded sales despite sluggish capital investment from the economic downturn, delays in start of construction work due to insufficient workers at the building sites, and construction postponements.
- In Applied, we concentrated on the After Sales Service business such as maintenance and servicing.

■ Year-on-year sales of main countries (local currency basis)  
 Australia: 116% India: 153% Malaysia: 99%  
 Vietnam: 90% Indonesia: 119% Thailand: 92%

Y/Y change (Volume basis)		Q1-3 Results
Residential		112%
Commercial	SKY	111%
	VRV	112%
Applied		100%

※Applied is based on total sales in local currency.

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Please turn to page 13, the Air-Conditioning business in Asia and Oceania.

Despite being greatly affected by the decline in demand due to the spread of coronavirus, overall sales in the region increased YoY, thanks to the expansion of our sales network and our focus on sales activities using online tools.

In the Residential market, sales increased in India, Indonesia, and Australia, where demand is relatively strong, as well as in Malaysia, where the easing of restrictions on activities has been progressing since the third quarter.

In the Commercial market, we focused on sales for public facilities where demand is relatively stable and expanded sales despite sluggish capital investment resulting from the economic downturn, delays in starts of construction work due to insufficient workers at construction sites, and postponements of construction.

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## ■ Business and Regional Overview – Chemicals

Centering on the semiconductor and automotive markets where demand is strong, sales expanded in all product groups including fluorocarbon gas, fluoropolymers, fluoroelastomers, and fine chemicals. Sales substantially exceeded the previous fiscal year.

- For Fluorocarbon Gas, applications expanded to medical fields in Europe, and sales exceeded the previous fiscal year.
- Polymers and elastomers
  - Fluoropolymers showed a sales increase from a recovery in demand in the semiconductor market and the information and communications technology field, including LAN cables. Sales in all regions bested the previous fiscal year.
  - Fluoroelastomers saw sales grow in the automotive market, and sales in all regions surpassed the previous year.
- In Fine Chemicals, sales for anti-smudge surface coating agents decreased due to lower demand from a reversal of the strong sales in the previous fiscal year for tablet PCs and smartphones. Sales for water and oil repellent agents grew mainly in Europe, China, and Asia. By capitalizing on a recovery in demand in the semiconductor market, we increased sales of etching gas in China and Japan.

Y/Y change (Sales basis)	Q1-3 Results
Total	133%
Fluorocarbon Gas	121%
Polymers & Elastomers	144%
Fine Chemicals, etc.	119%

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Please turn to page 14.

In the Chemicals business, sales activities were strengthened with a focus on the semiconductor and automotive markets where demand has largely recovered, and sales increased YoY in all product groups, including fluorocarbon gas, fluoropolymers, fluoroelastomers, and fine chemicals.

For fluorocarbon gas, applications expanded to the medical field in Europe.

Fluoropolymers sales expanded in response to the recovery in demand for the semiconductor market and LAN cables. Fluoroelastomers sales expanded for the automotive market. These sales in all regions surpassed the previous year.

In Fine Chemicals, sales for anti-smudge surface coating agents decreased due to lower demand from a reversal of strong sales in the previous fiscal year for tablet PCs and smartphones. Sales of etching gas and those of water and oil repellent agents mainly for textile and paper applications increased YoY.

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## ■ Business and Regional Overview – Filters

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As demand began to recover mainly in Japan, Europe, and the United States, we built a stable supply system, reduced total costs, and promoted sales of high value-added products that seek to mitigate the spread of infectious diseases and improve air quality.

- In the Air Filter segment, we responded to the growing need for ventilation and strengthened sales activities for high value-added products that mitigate the spread of infectious diseases such as high-performance filters and negative pressure units. Sales for hospitals, cleanrooms, and residences expanded in each region.
- In P&I\*, together with expanding sales in the gas turbine market where demand is strong, efforts were made to improve the business structure by shifting resources to the After Sales Service business.

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

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Please turn to page 15.

In the Filters business, we improved our business structure by building a stable supply system, reducing total costs, and strengthening our sales system, and increased sales of products that mitigate the spread of infectious disease such as high-performance filters and negative pressure machines in each region in response to growing ventilation needs.

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## ■ Capex, Depreciation and R&D Cost

(billion yen)	FY2020		FY2021	
	Q1-3 Result	Total Result	Q1-3 Result	Total Forecast
Capex	96.9	137.0	<b>107.4</b>	<b>150.0</b>
Depreciation	75.6	103.5	<b>85.2</b>	<b>115.0</b>
R&D Cost	50.6	71.7	<b>59.0</b>	<b>80.0</b>

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Please turn to page 16.

Capital investments totaled JPY107.4 billion, depreciation was JPY85.2 billion, and the R&D cost was JPY59 billion.

We have not changed our full-year plan for them.

That's all for my explanation. Thank you very much.

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## Question & Answer

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**Moderator [M]:** We will now move on to the question-and-answer session.

When it is your turn to ask a question and the moderator calls your name, please give your name and company name and ask your question. Since time is limited, please limit yourself to two questions at a time, and please keep your questions brief. We appreciate your understanding and cooperation.

Mr. Isayama from Goldman Sachs Japan Co., Ltd., please ask your question.

**Isayama [Q]:** Hello. This is Yuichiro Isayama from Goldman. Thank you.

Firstly, I think the financial results are better than expected because of the upward revision, but personally, I think the cost is much higher than expected because the amount of raw materials (including logistics costs) was minus JPY40 billion in the third quarter, compared to the minus JPY65 billion planned for the second half. So, I think the cost is much higher than expected.

When Mr. Miyazumi considers this situation, do you think copper and other metals are not moving very much, and the prices of raw materials such as iron and logistics are high? What factors are included in the upward swing in the negative value of raw materials, and have you taken any measures to compensate for this? Selling prices are probably in line with your plan, so I'm wondering if we will see a more solid return on this in the next fiscal year.

I would appreciate your comments on raw materials and selling prices in the form of third quarter results and future prospects. Thank you.

**Miyazumi [A]:** The sharp rise in raw material and logistics costs has continued all the way up to the third quarter, and this has had a significant impact on the decline in profits. We assume that the same situation will continue in the fourth quarter and beyond.

We also assume that supply constraints will continue as raw material costs and logistics costs continue to rise. At the same time, the tight supply-demand situation, especially for semiconductors, is not going to be resolved soon, and I think that's why all prices are getting higher.

Another factor is the global inflationary trend. Energy prices are rising, and in this sense, cost-push inflation is occurring, so we now believe that raw material prices will remain high.

We have not provided an analysis of the increase or decrease in profits for the full year, but we expect that raw material costs and logistics costs will continue to increase in the fourth quarter.

**Isayama [Q]:** Thank you very much, Mr. Miyazumi. Just a quick additional comment, please.

For example, the US is an easy example to understand, but if the price goes up by 100, can you raise the price to offset all 100? Or are you still losing?

**Miyazumi [A]:** In the US, Goodman has been raising prices considerably, so we think we have been able to absorb the price increase to some extent. The figures are currently covering the rising cost of raw materials by increasing selling prices.

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**Isayama [Q]:** Thank you very much. Secondly, I would like to ask you a little bit about the trends of Goodman.

In the third quarter, when you look at the results against other companies, Lennox was pretty strong, but you seem to be winning against Trane and other manufacturers' residential air conditioning.

I know that the hurdle has been raised YoY because you took some damage in the first half of FY2020 and you are coming back in the second half, but can you tell us whether Goodman is currently ahead of its competitors in the US market or whether it should be viewed as matching demand?

**Miyazumi [A]:** With regard to Goodman, we have been working on how to strengthen our production capacity and take advantage of the strong demand in the Residential Air-Conditioning market.

Goodman's production capacity has not fully recovered yet, but we hope to bring it up to almost full capacity in the first quarter of the next fiscal year, which is FY2022.

**Isayama [Q]:** Can you tell us the growth rate of Goodman's sales from the first quarter to the cumulative third quarter?

**Miyazumi [A]:** In terms of actual results, YoY sales were 138% on a yen basis and 132% on a local currency basis.

**Isayama [M]:** So you are still ahead of the competitors. My apologies.

I understand very well. Thank you very much.

**Moderator [M]:** Thank you very much. Ms. Ibara from Morgan Stanley MUFG Securities Co., Ltd., please go ahead.

**Ibara [Q]:** This is Ibara from Morgan Stanley. Thank you very much.

First, how did your actual results change compared with the internal plan in the third quarter? You have revised upward the operating profit for the full year by JPY10 billion, but does that include the JPY10 billion increase in the third quarter?

The third quarter was as expected, but if you could give us an idea of whether you were able to raise JPY10 billion by changing your forecast, we would appreciate it.

Also, if you look at the rate of change for the third quarter, the impact of the sales expansion effect on operating profit seems to have increased considerably compared to the second quarter. Can you tell us about the product composition, regional composition, or anything else that you feel, from your point of view, such as an increase in the commercial-use products between the second quarter and the third quarter?

**Miyazumi [A]:** In the third quarter, the comparison with the internal plan is basically strong. We will see what happens in the fourth quarter, but since the external environment is becoming more severe, we are taking a slightly harder look at the situation.

The cost of raw materials and logistics will increase again, so we would like to absorb this part of the increase by expanding sales as you mentioned. Also, of course, we would like to increase the selling price, and we would like to absorb that part as well.

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As for the sales mix, I think one of the things we need to do is to generate profits by providing high value-added system products. The point is to systemize to sell high value-added products. Then, we will launch differentiated products, including various sales measures. I think that's all there is to it.

**Ibara [Q]:** In terms of the third quarter, can you give us any indication of the numbers compared to your plan?

**Miyazumi [A]:** Nothing in particular.

**Ibara [Q]:** I understand. Secondly, although not directly related to today's financial results, Toshiba Carrier Corporation sold its shares to Carrier.

When I think about the future, I think this means that Carrier will be able to take full advantage of Toshiba's ductless technology. I'm aware that Toshiba Carrier hasn't provided Carrier with such technology so much until now.

I don't think there will be any immediate changes in the future, but in terms of the competitive relationship in ductless systems in North America, do you have any thoughts on the future impact from your perspective? I'm afraid I'm just asking about what was said today, but if there is any way to look at it, please let me know.

**Miyazumi [A]:** We don't know many details yet, so there is nothing I can say right now. We will continue to monitor the situation closely.

**Ibara [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. Next, Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., please go ahead.

**Sasaki [Q]:** I would like to know two things.

The first is regarding the Air-Conditioning business in China. If you have the figures, please let me know the revenue growth rate on a current basis for the period from October to December alone.

What I would like to ask you is why your Air-Conditioning sales are doing so well in China despite the fact that the real estate and housing markets are slumping. To put it simply, I think it is the high competitiveness of products such as residential multi air conditioning and the strength of the sales force of PROSHOP, but again, I wonder if you could explain the background to why Daikin's sales of air conditioning in China are doing well despite the severe macroeconomic situation in China. Thank you.

**Miyazumi [A]:** China's October to December YoY growth rate was 110% in a local currency basis. It is positive.

As for the Chinese market, the real estate market is still softening. In such a situation, the overall pie will naturally shrink, so for us, if the pie is going to shrink, it is all about gaining market share.

In terms of China, I believe that China is currently in a policy recession. One is regulation of real estate, and the other is environmental regulation. We see environmental regulations as a bit of a slight downward factor in terms of supply constraints, as they are bouncing back into power shortages.

As for the real estate market, which is the most relevant to our company, the real estate regulations were tightened last year and are now being loosened a little. In China, the economy is expected to slow down

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considerably this year, with the GDP growth rate falling into the 4% and 5% range. I've heard that real estate regulations have begun to be relaxed a little because the economy cannot be slowed down.

On the other hand, China's growth will inevitably slow down in the medium to long term, so the point is how Daikin can dig deeper into the market. In this area, I think our efforts will be centered on residential multi air conditioning to capture the market share of other companies.

**Sasaki [Q]:** I understand very well. Thank you very much.

The second point is the concept of strategic selling price measures for cost increases. Looking at the figures for the third quarter, I think the cost increase in the Air-Conditioning business was slightly under JPY80 billion, while the effect of selling price was half of that, or just under JPY40 billion.

I think that the procurement price has risen more than expected, but I think that there will be a lead time for the price increase to proceed after the release of new products, so is it possible to further pass on the increased procurement cost by increasing the coverage ratio? In other words, since there is a lead time, is it safe to further pass on prices in this inflationary environment? Can you please suggest how much of this can be covered by price pass-through in the future? Thank you.

**Miyazumi [A]:** I think it is difficult to see how much the selling price increase will penetrate the market even if it is continued for a long time.

However, on the other hand, there is a significant inflationary trend worldwide, so for example, in the US, even though Goodman has raised its prices considerably and it has spread, the situation differs a little from country to country.

In the case of our company, we basically have the largest market share in each country, so I think it is basically a matter of demonstrating our price leadership as a top manufacturer.

Global inflation means, of course, that wages will rise. Based on the assumption that the purchasing power of customers will also increase in such a situation, I think it may be an option to adopt a somewhat stronger price policy.

Japan has been said to have upstream inflation and downstream deflation, but as I recall, Japan's corporate prices rose considerably in December. I remember that it has been rising at a double-digit rate, so it is expected to bounce back to the CPI downstream, and it is said that the CPI will reach the 2% level around April this year. The CPI is currently at about 0.3%, but since the price cut of cell phones last year pushed it down by minus 1.5%, the CPI will actually be in the 2% range from July this year.

With this in mind, I believe that we will see an environment where price increases will be a little easier to penetrate in Japan. Therefore, as the market share leader in Japan, Daikin would like to aggressively price its products as a price leader.

**Sasaki [Q]:** Since the price hike is slowly progressing, including in the next fiscal year, for example, can we assume that the coverage ratio will increase from here to the first half of the next fiscal year as the effect of the price hike will penetrate further?

**Miyazumi [A]:** To be honest, we want to increase the coverage. In fact, whether or not it will penetrate the market will depend on the response of customers, and also on the demand environment due to Omicron, which is still smoldering. I have to admit that part of it is unreadable.

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**Sasaki [Q]:** Basically, you want to raise the price, but there are also market factors, so you have to keep an eye on the customer's response. Like Goodman, you will proceed where you can. We can look at it this way, right?

**Miyazumi [A]:** Yes, that's right. That's basically the way we think.

**Sasaki [M]:** Thank you.

**Moderator [M]:** Thank you very much. Next, Mr. Sano from JPMorgan Securities Japan Co., Ltd., please go ahead.

**Sano [Q]:** Thank you. I have two questions.

First of all, if we divide the data into Residential and Commercial markets, what kind of improvement or worsening do you see in the last three months and the next three months with the impact of Omicron? I think it varies from country to country and region to region, so please tell us if there are any changes from your point of view, Mr. Miyazumi. Thank you.

**Miyazumi [A]:** As for the Residential market, first of all, in Japan, there is a sense that demand has run its course due to last year's stay-at-home demand and the special cash payments. However, depending on the country, for example, in Europe, the Residential market is very strong, especially heat pump heating.

In the case of the Commercial market, this has to do with capital investment. However, from what I hear in Europe and elsewhere, there are finally signs that capital investment has bottomed out, and there are signs of a slight upturn in the Commercial market.

However, Omicron does not converge easily. Also, it is said that the global economy will slow down in general in 2022. Japan, the US, and Europe are all slowing down, and China's GDP growth rate is in the 4% to 5% range, a sharp slowdown from 8.1% last year, so I think the macroeconomic environment will be quite challenging.

Therefore, there are still many areas of strong demand in the Residential market, so we will capture those areas. In addition, for the Commercial market, although it is a matter of balance with Omicron, I think that the pent-up demand will start to appear soon. The basic management approach is to prepare for this situation, specifically by keeping a certain amount of inventory in reserve, so that when pent-up demand arises, there is no opportunity loss.

**Sano [Q]:** Thank you very much. Secondly, in your earlier explanation, you said that you would like to advance the FY2023 operating profit target of JPY325 billion under the strategic management plan FUSION 25 in the next fiscal year, and aim to go even higher.

As you pointed out, there are some headwinds in the macro environment, such as the level of costs and the uncertainty of Omicron, but if there is anything symbolic that can be used as a background for further improvement, I would like to know about the regions and products for the next fiscal year. Thank you.

**Miyazumi [A]:** To be honest, it's quite difficult, but as I said, the first thing we need to do is to make sure that we don't lose out on the pent-up demand.

We also believe that our business model of local production for local consumption gives us a comparative advantage, and we will steadily capture demand by not running out of items in procurement. I think that's what it all comes down to.

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There are seven key themes for FY2021, etc., and of course we will continue to work steadily on them, but the most important core is to tightly connect the supply chain, and to tightly operate it in all five global regions. I think it's all about doing it thoroughly and steadily.

**Sano [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. Next, Mr. Maekawa from Nomura Securities Co., Ltd., please go ahead.

**Maekawa [Q]:** I am Maekawa from Nomura Securities. Thank you very much for your explanation. I would also like to ask two questions.

First, regarding the supply chain, you mentioned that you have already secured enough semiconductor procurement for this fiscal year's production, but how much have you secured for the next fiscal year? I understand that there is a trend toward shortages of materials other than semiconductors, and I would be grateful if you could give us some indication of the status of preparations for the next fiscal year in the supply chain in this area. Thank you.

**Miyazumi [A]:** I have heard that we are able to secure semiconductors without any problems in order to achieve the JPY310 billion in operating profit set forth in the plan.

Naturally, however, we expect the semiconductor supply-demand imbalance to continue until the middle of this year, so we will have to work closely with suppliers to ensure supply. I believe that we need a detailed supply chain management.

**Maekawa [Q]:** There may be some parts other than semiconductors that are under pressure, or logistics may be getting tighter, but since you are talking about local production for local consumption, will this have little impact? What kinds of changes are occurring in the environment, and what additional measures are being taken to address them, and are they working? Could you give me some information about this area?

**Miyazumi [A]:** For example, logistics in the US, including land transportation, is naturally a little difficult because there are not many truck drivers to begin with.

We have heard that there are no items that are under pressure at the moment. However, in the case of the US, wages will increase due to logistics and the need to secure workers, and this will be a factor that will increase costs, but of course, if we don't absorb this, production will not be possible in the first place.

**Maekawa [Q]:** I understand. Thank you very much.

Secondly, I would like you to discuss your plan for this fiscal year. The Company as a whole has raised profits by JPY10 billion, and the Air-Conditioning business has raised profits by JPY7.5 billion. In terms of sales, it is about JPY100 billion. First of all, I would like to know which region showed the strongest upward trend in the upward revision of sales this time.

Also, I feel that the increase in profit is a little small compared to the increase in sales, so I wonder if there are some factors such as rising costs that have been factored in on the risk side. I would also like to know your thoughts on this area as well. Thank you.

**Miyazumi [A]:** By region, the United States and Europe are strong. China is also expected to come out strong. On the other hand, Japan and Southeast Asia are expected to weaken a little, or so we think, roughly speaking.

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**Maekawa [Q]:** What do you think about raising profits in relation to raising sales? The cost increase factor is also certainly included, but not to the extent that it is covered by selling price measures. There was a question earlier about the upturn in the third quarter, but I had the impression that you did not touch the figures much in the fourth quarter.

**Miyazumi [A]:** There is also the fact that the price hike will not be absorbed immediately in the fourth quarter. With resource prices remaining at a high level, it will be a little difficult to absorb the negative factors in the fourth quarter alone.

In addition, there are labor costs and upfront investments, so the cost will increase in those areas. In terms of fixed costs, we are investing in increased production, so we are increasing the number of workers considerably. In a sense, it is an upfront investment, but we expect the cost of that part to be effective.

**Maekawa [Q]:** In that sense, the upfront investment that will be required in the fourth quarter will gradually be absorbed by price increases in the next fiscal year. At the moment, I think that the cost increase is more of a leading factor, but do you think that you will be able to catch up in the next fiscal year?

**Miyazumi [A]:** Yes. I think there is a side of us that is daring to invest aggressively ahead of time in order to prepare for the next fiscal year.

**Maekawa [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. Next, Mr. McDonald from Citigroup Global Markets Japan Inc., please go ahead.

**McDonald [Q]:** Free cash flow is about JPY75 billion for the first nine months. It looks pretty low compared to the past few years.

Of course, we understand that the inventory has increased, etc. At the FUSION 25 briefing in June, I remember the president said that the free cash flow forecast for this fiscal year is JPY55 billion, but now, how do you see your company's nine-month free cash flow?

I understand that there are various severe points in the self-evaluation, but I would like to know if you are fully satisfied. I want to make sure of this.

At the same time, in the cash flow from investing activities, there are various movements, such as acquisitions, and the other day in the newspaper, there were various highlights regarding the collection of funds by the sales company in the US. Could you tell us a little more about where you are spending the money? Thank you.

**Matoba [A]:** As you pointed out, the cash flow figure for the system is JPY76.7 billion, but when we announced FUSION 25, the answer given by President Togawa was the free cash flow figure for internal management purposes. So there is a bit of a discrepancy in that area.

The reason for the JPY76.7 billion level is, as you pointed out, that we are increasing inventory and investing money in acquisitions. In the last three months of the third quarter, we invested approximately JPY28 billion in acquisitions, including the acquisition of a Goodman distributor and an applied instrumentation engineering company in the US. We are also in the process of acquiring a stronger service structure in Europe. That's all.

**McDonald [Q]:** What percentage of this JPY28 billion comes from the US?

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**Matoba [A]:** Most of them are in the US. I hope you can see that JPY26 billion from the US and JPY2 billion from Europe.

**McDonald [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. Next, Mr. Mizuno from UBS Securities Japan Co., Ltd., please go ahead.

**Mizuno [Q]:** This is Mizuno from UBS. Thank you. Two simple questions.

One is the acquisition that you just mentioned; can you give us an idea of the effect of the sales?

I feel that Goodman's current sales growth rate is the highest among the other regions. In the third quarter, sales grew by 32%, but I'd like to know how much of that 32% was contributed by that. Thank you.

**Matoba [A]:** As for the consolidation effect of the two companies that Goodman acquired, the net sales for the third quarter were approximately JPY2.5 billion.

**Mizuno [Q]:** I understand. Thank you very much.

Also, it may be difficult to comment on, but what are the characteristics of the newly connected subsidiaries? I hope you can give me some hints about the region, and also the brand that they were handling.

**Matoba [A]:** Basically, we are dealing with American residential unitary products and some Japanese ductless air-conditioning products.

Basically, we understand that it will be a plus in terms of competition since they are distributors with low market share for Goodman to begin with.

**Mizuno [Q]:** I understand. Thank you very much.

Secondly, regarding the cost impact, you mentioned JPY59 billion for raw materials and JPY17 billion for logistics. How much was it in the Air-Conditioning business? If we look at the third quarter alone, the cost impact has risen a little, but in absolute terms, I don't think it's a huge amount considering the scale of your company. If you have any new internal initiatives that you would like to introduce, please let us know. That's all.

**Matoba [A]:** As for the impact of raw materials on profits, as Mr. Miyazumi mentioned at the beginning of this presentation, raw materials of JPY59 billion and logistics costs of JPY17 billion are the impact of the Air-Conditioning business.

In addition to the above, there was JPY10 billion in the Chemicals business, resulting in a total company-wide negative JPY87 billion.

As a countermeasure to the soaring cost of raw materials, we have been developing technology to replace materials to reduce the amount of copper used.

As I mentioned earlier, we have positioned the current and next fiscal years as a period to overcome technical issues. The replacement with aluminum has been underway since this fiscal year, and some of the effects have been seen, but it will take a little longer before the full effects are seen.

**Mizuno [M]:** Thank you. I will ask you a question later again.

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**Moderator [M]:** Thank you very much. Next, Mr. Tai from Daiwa Securities Co. Ltd., please go ahead.

**Tai [Q]:** As an extension, do you have any idea about the impact of the soaring cost of raw materials and logistics for the Air-Conditioning business, how much it is likely to be per year?

**Matoba [A]:** To give you an approximate idea, we estimate that raw material costs and logistics costs combined will have a negative impact of about JPY110 billion to JPY115 billion.

**Tai [Q]:** Is it correct to understand that this is the new forecast, which corresponds to the JPY98.7 billion in the interim report?

**Matoba [A]:** Yes, that's right. This means that the situation will worsen by JPY15 billion.

**Tai [Q]:** So you are saying that you are going to compensate for this by increasing the volume and also by raising prices?

**Matoba [A]:** Yes, that's right—expansion of sales volume and selling price measures. As for price increases, we have been introducing new products by region and by product in the second half of the fiscal year as needed.

**Tai [Q]:** I understand. Has there been any significant change in the situation of copper hedging for the next fiscal year in the past three months?

**Matoba [A]:** There are no new items added from the ones we have this year.

**Tai [Q]:** Is it correct to understand that the portion to be used next year is still mostly unhedged?

**Matoba [A]:** I can't say most of them, but there are many unhedged parts.

**Tai [Q]:** I understand. So it is safe to say that there is a possibility that you will still have some negative impact on the cost of materials and logistics next year, right?

**Matoba [A]:** Yes. We see it that way.

**Tai [M]:** I understand. Thank you very much.

**Matoba [M]:** Thank you.

**Moderator [M]:** Thank you very much. If you have any additional questions, we will be happy to take them. I think we can take a question from one person.

Next, Mr. Watanabe from Mito Securities Co., Ltd., please ask your question.

**Watanabe:** This is Watanabe from Mito Securities. Question, one point.

You mentioned that the Air-Conditioning business in Europe is doing well, and indeed, heating is growing quite significantly, but what is the continuity of that? In addition, with regard to Commercial market, while the customer base is expanding due to strengthened sales, will sales to the food service industry increase further once the spread of the Omicron strain is under control? Please let me confirm the outlook for the next fiscal year for the Air-Conditioning business in Europe.

**Miyazumi [A]:** In Europe, the demand for heat pumps is increasing considerably in the space and water heating markets, and we expect the demand to grow quite linearly.

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As for Commercial market, of course it depends on the trend of Omicron, but with the easing of restrictions on activities to some extent, there has been a slight return of people to the service industry. We expect that demand from the food service industry and restaurants will also grow.

However, for the Applied, the economy in Europe is slowing down a bit, so I think that the situation for large products will continue to be difficult.

**Watanabe [Q]:** Do you feel that Residential market depends on the weather? Or do you think that your company's environmental products are working well, and that the Residential Air-Conditioning business is also steady?

**Miyazumi [A]:** For Residential Air-Conditioning business, there is a trend of subsidies from the European Commission, so we would like to use that as a tailwind to expand strongly.

**Watanabe [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. We conclude the question-and-answer session.

This concludes today's briefing. Thank you very much for staying with us until the end.

[END]

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#### **Document Notes**

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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