



Daikin Industries,Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2022

May 11, 2022

Event Summary

[Company Name]	Daikin Industries, Ltd.	
[Company ID]	6367-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2022	
[Fiscal Period]	FY2021 Annual	
[Date]	May 11, 2022	
[Number of Pages]	36	
[Time]	10:30 – 12:04 (Total: 94 minutes, Presentation: 37 minutes, Q&A: 57 minutes)	
[Venue]	Webcast	
[Number of Speakers]	5	
	Masanori Togawa	President and CEO, Member of the Board
	Yoshihiro Mineno	Member of the Board and Senior Executive Officer, Responsible for Global Operations Division
	Yoshiyuki Hiraga	Executive Officer, Responsible for Chemical Division
	Katsunori Ishii	Deputy General Manager of Air Conditioning Sales Division
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
[Analyst Names]*	Yuichiro Isayama	Goldman Sachs Japan Co., Ltd.
	Sho Fukuhara	Jefferies Japan Limited
	Graeme McDonald	Citigroup Global Markets Japan Inc.
	Kentaro Maekawa	Nomura Securities Co., Ltd.
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

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

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Presentation

Sakamoto: We would now like to begin the financial results briefing of Daikin Industries, Ltd. for the fiscal year ended March 31, 2022. Thank you for participating in today's briefing session.

The explanatory material is available on our website under Investor Relations, as announced in the email distributed today. If you need one, please download it from the website.

I would now like to introduce today's speakers. Masanori Togawa, President and CEO.

Togawa: I am Togawa. Thank you.

Sakamoto: Yoshihiro Mineno, Member of the Board and Senior Executive Officer, Responsible for the Global Operation Division.

Mineno: I am Mineno. Thank you.

Sakamoto: Yoshiyuki Hiraga, Executive Officer, Responsible for the Chemical Division.

Hiraga: Hiraga. Thank you.

Sakamoto: Katsunori Ishii, Deputy General Manager of the Air Conditioning Sales Division.

Ishii: I am Ishii. Thank you.

Sakamoto: Kota Miyazumi, Executive Officer, Responsible for Corporate Communication.

Miyazumi: I am Miyazumi. Thank you.

Sakamoto: These are the five speakers of today. I, Sakamoto of Investor Relations Management Group, Corporate Communication Office, will moderate today's session. Thank you.

Today, we would like to begin with a brief talk by Mr. Togawa, President, and then Mr. Miyazumi, Executive Officer, will give a brief overview of the financial results. We will explain about 35 minutes in total, followed by a Q&A session. The end time is scheduled to be 12:00.

Now, Mr. Togawa, please.

Togawa: Good morning, everyone. Thank you for participating in today's briefing session.

In FY2021, we started the year with a policy of steering management with the flexibility to respond quickly to both upswings and downswings in the business environment, given that it is difficult to predict how the situation will change as the spread of the new coronavirus infection continues with no end in sight.

Although vaccination has progressed and some countries have turned to economic activities, the re-spread of the disease has led to severe restrictions on activities in many areas. In addition, the global shortage of semiconductors, a shortage of electronic components, and the continued rise in raw material prices and logistics costs had a significant impact on business activities.

Against this backdrop, the Company has established seven priority themes, including strategic sales price measures, sales expansion and market share increase, variable cost reduction, and fixed cost reduction; and

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has been implementing them with a sense of speed and thoroughness since April by incorporating them into specific measures.

Furthermore, we have promptly implemented second and third measures in response to subsequent changes in the situation. For example, in our strategic sales price measures, we did not simply raise prices, but raised prices by bringing forward the development period and timing the launch of new differentiated products. Providing thorough support to dealers, including service and construction work, as well as gaining the trust of dealers by never cutting off product supply.

As a result, the Company has made three upward revisions to its financial results to date and has further exceeded its published figures, with net sales exceeding JPY3 trillion for the first time and operating profit reaching a record high.

As for the financial results for FY2021, Mr. Miyazumi will explain in detail later. In the second half of the fiscal year and beyond, the market for raw materials soared, logistics disruptions continued, and the situation in Ukraine became increasingly tense, making the future outlook uncertain. We have responded to these changes in circumstances by quickly making second and third moves while maintaining flexible management.

In particular, the negative impact of soaring raw material prices and disruptions in logistics greatly exceeded our expectations, and the impact on operating profit for the year grew to JPY135.0 billion, but we were able to counteract this by maximizing strategic sales price measures and cost reductions.

In response to concerns about shortages of semiconductors and electronic components, we have also been closely coordinating sales, production, procurement, supply, and logistics on a global horizontal basis to ensure an uninterrupted supply of products.

In addition, in the air conditioning business, we achieved sales expansion and increased market share in each region by launching new products for residential use in rapid succession, strengthening proposal-based marketing of air and ventilation systems for commercial use, and accelerating the development of sales channels utilizing digital technology.

We believe that we not only maximized the results of the seven priority themes we initially set forth and absorbed the negative impact, but also made further progress in strengthening our management structure for future growth and development.

I would like now to provide the full-year earnings forecast for FY2022.

The annual plan for FY2022 is set at JPY3,380 billion in net sales and JPY340 billion in operating profit. The business environment in this fiscal year is more uncertain than in the previous year due to the prolonged Ukraine problem, the resulting stagnation of the European economy, the global economic slowdown caused by high resource prices, logistics and supply chain risks, as well as the impact of China's zero-tolerance COVID-19 policy.

In addition, we expect to continue to face severe cost increases, the likes of which we have never experienced in the past, as resource prices soar, and logistics and labor costs soar even higher than last year.

On the other hand, the rising cost of energy will further increase the need for energy conservation, which will lead to demand for heat pump heaters, inverters, and other equipment, and we believe this will be an opportunity for our company, which specializes in proposing environmental technologies and service solutions.

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The plan for the current fiscal year was formulated by looking at all the negative and positive aspects of the business environment I have just described, and by envisioning multiple scenarios, we are prepared to respond to both an upswing and downswing in demand.

We incorporated measures to bounce back from negative impacts and measures to further increase positive impacts as opportunities. We will continue to respond speedily to possible future changes in the situation and take the second and third steps to further improve our record performance.

This year, in addition to the seven priority themes of last year, we have added the creation of results and profitability from acquired companies and large capital investments as new themes, making them our 8 priority themes. In addition, we will further strengthen our efforts to achieve results by setting up challenge themes and innovation themes to take advantage of changes in the world as opportunities and to take the next leap forward.

Specifically, for example, with regard to sales expansion and market share increase, since last year, manufacturing, sales, and SCM have been working together to secure supply and expand sales. In addition to strengthening the commercial Air Conditioning business, which has been slow to recover, we will continue to propose market- and application-specific solutions that systemize air and ventilation products, offer proposals to customers using digital technology, and strengthen our efforts in energy conservation, construction saving, and the use of renewable energy with a focus on carbon neutrality, in order to expand our sales and market share, while raising selling prices.

In terms of variable cost reduction, we have been promoting material replacement, standardization of key parts, and in-house production. We will continue to work on expanding the effects of these efforts, and in addition, we plan to maximize the effects by promoting material reforms that include securing raw materials, and communalization and standardization by utilizing modules.

In addition, under the leadership of the headquarters, all production bases and related divisions were closely linked to each other to link production and sales in the midst of the ongoing shortage of semiconductors and electronic components in the last fiscal year.

We are on track to secure parts for FY2022, but for parts that are in high demand, we will implement alternative procurement and development, and in addition to maintaining a safe inventory in case of an upswing in sales, we will take advantage of production both overseas and in Japan to build a robust production and supply capacity.

The challenge theme and innovation theme are carbon neutrality and the acceleration of digitalization, and we will use the changes in the world as the greatest opportunity to leap forward in FUSION25.

As an example, in Europe, we will make new investments to expand production capacity, in addition to strengthening our sales and service systems and introducing differentiated products, in order to meet the challenge of large sales expansion of heat pump heating systems.

In North America, we plan to accelerate the expansion of our environmental premium business, starting with the sales expansion of our strategic product FIT, taking advantage of the opportunity to strengthen our environmental and energy-saving response.

In Asia and Oceania, we plan to operate a solution hub, acquire system integrators and service companies in each country, and engage in smart city projects and district heating and cooling projects, which are expanding in Asia.

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Currently, the situation has changed significantly, as lockdowns have been implemented in Shanghai and other cities in China since April. Our business in China has also been greatly affected by the current situation. We have already taken all steps we can take to recover production by securing production personnel, securing product shipments by responding to logistics, and supplying and procuring parts with the support of suppliers, while closely monitoring developments by government authorities and assessing the impact.

In addition, we have already taken measures to prepare for the vertical launch of sales in China with a view to after the lockdown is lifted.

Furthermore, we are currently working out specific measures in anticipation of a prolonged lockdown after this May. We plan to take proactive measures such as parts procurement, further duplication of logistics, parallel and alternative production, and sales expansion to other regions and businesses.

Finally, I would like to talk a little about our management posture for the current fiscal year.

We have always anticipated changes and challenged ourselves to take steps half a step or one step ahead of the world, achieving results and cultivating our unique strengths. We see the current situation, in which the business environment continues to change dramatically, as an excellent opportunity to take advantage of our strength in anticipating change, responding quickly, and putting it into action.

We believe that it is in times of rapid change that we can leverage our strengths and widen the gap between us and our rivals. One of our unique strengths is our commitment to the local community based on local production for local consumption. The second is the thorough practice of glocalization utilizing centripetal and centrifugal forces. The third is our ability to make business decisions and to execute it in a contingency.

We have promoted globalization ahead of our competitors and established a highly profitable structure, especially in our overseas business, by building supply chains in eight regions around the world based on the principles of local production for local consumption and direct sales.

In addition, as we have developed our business globally, we have placed importance on the idea of centripetal and centrifugal forces. While delegating authority to local management teams and promoting thorough localization, the Japanese headquarters has taken the lead in management from the perspective of overall global optimization.

Furthermore, I believe that our company's strengths lie in our human resources and organizational management, such as the corporate culture we have cultivated globally, the sense of belonging, teamwork, and tacit knowledge that runs through our company.

We have been operating an organization with a sense of unity by emphasizing flatness and speed and shortening the distance between top management and the front lines of the field. Information on changes in the business environment surrounding the Company will come up immediately from the field, and top management will make speedy decisions. In addition, by sharing top management's recognition of issues and sense of crisis in a timely manner throughout the organization, we have fostered the ability to implement strategies in the field and to respond autonomously to changes.

I believe that our unique diversity management, which I have just mentioned, has been practiced by saying and doing, and has fostered a sense of trust and unity, and this has borne fruit as a strength in this era of rapid change. We believe that this is the driving force behind the growth and development of the Company, overcoming all kinds of headwinds, such as the COVID-19 pandemic and the emergence of geopolitical risks.

The business environment is becoming increasingly uncertain, but I believe that it is in times like these that our company's strengths can be put to use. In the current fiscal year, we will continue to develop measures

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to maximize our strengths and strive to further expand our business performance as well as achieve the required results of our management plan.

That concludes my explanation, and I, together with the executive officers who are present today, will answer your questions later. Thank you.

Sakamoto: Next, Mr. Miyazumi will make a presentation.

Miyazumi: I am Miyazumi. I would like to explain the outline of the financial results for FY2021 and the forecast for FY2022 in accordance with the material.

I . Financial Results for FY2021 ■ Companywide Results

Daikin achieved record highs to reach 3 trillion yen in sales for the first time. Despite the reemergence and continued spread of COVID-19 and soaring prices for raw materials and logistics, Daikin absorbed the negative impact of these and improved profitability by generating results from its 7 key themes for FY2021 (strategic selling price measures, sales expansion/market share increase, cost reductions, etc.). The second half also saw soaring prices for raw materials, disruptions in logistics, and heightened geopolitical risks, but even within the increasingly harsh business environment, we implemented measures in rapid succession to achieve results exceeding our plan.

- ✓ In the Air Conditioning business, we increased market share by launching new differentiated products for indoor air quality (IAQ) and ventilation and 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 for raw materials, we increased revenue and profits due to the effectiveness of selling price measures.

(billion yen)	FY2020	FY2021		Y/Y
	Result	Forecast	Result	
Sales	2,493.4	3,050.0	3,109.1	125%
Operating Profit	238.6	310.0	316.4	133%
(Percentage of Profit to net sales)	(9.6%)	(10.2%)	(10.2%)	
Ordinary Profit	240.2	315.0	327.5	136%
(Percentage of Profit to net sales)	(9.6%)	(10.3%)	(10.5%)	
Profit Attributable to Owners of Parent	156.2	210.0	217.7	139%
(Percentage of income to net sales)	(6.3%)	(6.9%)	(7.0%)	

USD/JPY	¥106	¥112
EUR/JPY	¥124	¥131
RMB/JPY	¥15.7	¥17.5

FX Effect (Y/Y)	
Sales	+123.5 billion yen
Operating Profit	+22.0 billion yen

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Please refer to page three. Here are the financial results for the fiscal year ended March 2022.

While the business environment remained challenging in the second half and beyond due to soaring raw material prices, logistics disruptions, and heightened geopolitical risks, the Company has achieved record-high results through the implementation of strategic sales price measures, sales expansion and market share increase, and cost reductions, all of which were key themes for FY2021. The results exceeded the plan.

The actual exchange rates were JPY112 to the dollar, JPY131 to the euro, and JPY17.5 to the Chinese yuan. The YoY exchange rate impact was a positive JPY123.5 billion on net sales and a positive JPY22 billion on operating profit.

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■ Financial Results by Segments

(billion yen)		FY2020	FY2021		
		Result	Forecast	Result	Y/Y
Total	Sales	2,493.4	3,050.0	3,109.1	125%
	Operating Profit	238.6	310.0	316.4	133%
	(Percentage of Profit to net sales)	(9.6%)	(10.2%)	(10.2%)	
Air Conditioning	Sales	2,273.8	2,772.0	2,828.5	124%
	Operating Profit	223.1	277.5	282.4	127%
	(Percentage of Profit to net sales)	(9.8%)	(10.0%)	(10.0%)	
Chemicals	Sales	164.2	213.5	212.4	129%
	Operating Profit	11.4	26.5	27.3	240%
	(Percentage of Profit to net sales)	(6.9%)	(12.4%)	(12.9%)	
Others	Sales	55.4	64.5	68.2	123%
	Operating Profit	4.1	6.0	6.6	161%
	(Percentage of Profit to net sales)	(7.5%)	(9.3%)	(9.8%)	

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Please refer to page four. The page shows the results by business segment.

In the air conditioning business, we expanded market share in each region by launching new IAQ and ventilation-related products and strengthening our sales and marketing capabilities, and we also captured strong demand for heat pump heating in Europe.

In the chemicals business, sales and profit increased, as the recovery in demand in the semiconductor and automobile markets led to a large sales expansion and the effect of higher raw material prices was compensated for by the selling price effect.

In the others segment, sales of hydraulic equipment for industrial machinery and construction vehicles and home medical equipment increased.

In the air conditioning business, the foreign exchange rates had a positive impact of JPY113.2 billion on net sales and of JPY20 billion on operating profit, while in the chemicals business, they had a positive impact of JPY10.3 billion on net sales and of JPY2.0 billion on operating profit.

The status of each segment and the status of the air conditioning business by region will be explained later.

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■ Profit and Loss Statement

(billion yen)	FY2020	FY2021	Impact on profitability
	103	125	
Net sales	2,493.4	3,109.1	+615.7
Cost of sales	1,629.3	2,051.8	-422.5
	(65.3%)	(66.0%)	
Gross profit	864.1	1,057.3	+193.2
	(34.7%)	(34.0%)	
Selling general and administrative expenses	625.5	741.0	※1 -115.5
	(25.1%)	(23.8%)	
Operating profit	238.6	316.4	+77.7
	(9.6%)	(10.2%)	
Non-operating gains or losses	1.6	11.1	※2 +9.5
Ordinary profit	240.2	327.5	+87.2
	(9.6%)	(10.5%)	
Extraordinary gains or losses	-1.7	0.6	※3 +2.3
Profit before income taxes	238.5	328.1	+89.5
	(9.6%)	(10.6%)	
Corporate taxes, etc.	75.8	102.8	-27.0
Tax burden ratio	31.8%	31.3%	
Profit attributable to non-controlling interests	6.5	7.6	-1.1
Profit attributable to owners of parent	156.2	217.7	+61.5
	(6.3%)	(7.0%)	

() parentheses indicate percentage to net sales

※1 Changes in selling, general and administrative expense

Product shipping costs	-13.9
R&D expense	-10.9
Sales promotion / advertising expenses	-9.5

※2 Changes in non-operating gains or losses

Exchange gain or loss	+3.9 (0.5→4.5)
Interest income	+1.7 (6.5→8.2)
Share of profit of entities accounted for using equity method	-1.4 (0→1.4)

※3 Changes in extraordinary gains or losses

Securities valuation loss	+5.4 (0.3→5.7)
Impairment loss	-3.4 (-0.2→-3.7)

Impairment loss: This is an impairment of intangible fixed assets resulting from the Zanotti Group, a Daikin subsidiary for the manufacture and sale of commercial-use refrigerators and freezers, failing to perform to the level of the business plan formulated at the time of its acquisition

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Page five shows the changes in major items in the consolidated profit and loss statement.

The cost of sales ratio remained at the same level as the previous fiscal year, as cost reductions and selling price measures offset the impact of surging raw material market prices.

In addition, Zanotti S.p.A., a subsidiary manufacturing and selling commercial freezing and refrigeration equipment, recorded an impairment loss on intangible assets due to the fact that the results of Zanotti S.p.A. fell short of the business plan initially envisioned at the time of the acquisition.

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■ Balance Sheet

(billion yen)	2021/3E	2022/3E	Y/Y
Cash and cash equivalents	736.1	817.6	+81.5
Receivables	69 days 468.3	70 days 595.1	+126.7
Inventories	69 days 469.4	79 days 671.5	+202.1
Fixed assets	1,190.2	1,321.7	+131.5
Investment and others	213.9	200.2	-13.7
Others	161.8	218.0	+56.2
Total Assets	3,239.7	3,824.0	+584.3

	2021/3E	2022/3E	Y/Y
Trade payables	229.7	302.6	+72.9
Interest bearing	751.2	824.8	+73.6
(Interest-bearing ratio)	(23.2%)	(21.6%)	
Others	560.2	688.5	+128.2
Total liabilities	1,541.2	1,815.9	+274.7
Total equity	1,665.7	1,969.7	+304.0
(Equity ratio)	(51.4%)	(51.5%)	
Share Warrant	2.0	2.5	+0.5
Non-controlling interests	30.8	35.9	+5.1
Total net assets	1,698.5	2,008.1	+309.6
Total liabilities and net assets	3,239.7	3,824.0	+584.3

Breakdown of interest-bearing debt

	2021/3E	2022/3E	Y/Y
Short-term borrowings	40.8	97.4	+56.6
Bonds	140.0	150.0	+10.0
Long-term borrowings	485.1	475.1	-10.0
Lease debt	85.4	102.4	+17.0
Total	751.2	824.8	+73.6

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Page six shows the main items on the consolidated balance sheet and the details of interest-bearing liabilities.

The longer inventory holding days are due to our management stance of securing strategic inventory in preparation for future sales expansion and allowances for semiconductors and electronic components.

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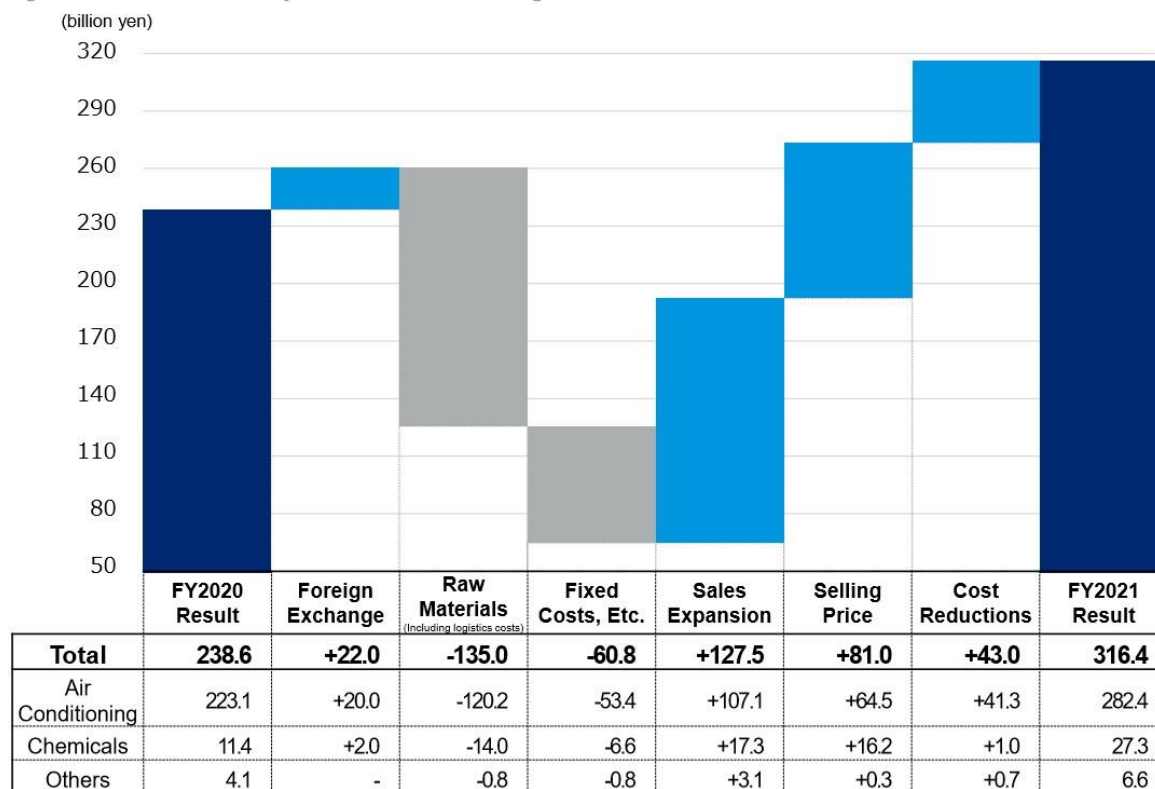
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■ Breakdown of Changes in Operating Profit

[Year-on-Year Comparison of Results]



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Page seven shows an analysis of YoY changes in operating profit for FY2021. The breakdown by segment is as described.

Although the impact of the sharp rise in raw material market prices and logistics costs was extremely large, we strived to absorb the negative impact by implementing sales price measures and cost reductions.

The breakdown of the impact on the air conditioning business due to soaring raw material market prices and distribution costs is as follows: JPY38 billion from copper, JPY9 billion from aluminum, JPY25 billion from steel, JPY18 billion from resins, etc., and JPY30 billion from distribution costs.

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II . Business Forecast for FY2021 ■ Companywide Business Forecast

The management environment remains uncertain due to COVID-19 and growing geopolitical risks in addition to cost-increasing factors (such as rising inflation that includes higher costs for raw materials, logistics, and labor). are also expected to deteriorate to a new level never seen before.

Utilizing our strengths of sales, marketing, procurement, and supply capabilities, we will thoroughly execute our 8 key themes while accounting for the factors of higher costs as we aim to strengthen profitability, promote innovation, and establish new record highs in financial results.

We will take a management stance that anticipates further changes in the management environment and ensures business expansion.

(billion yen)	FY2021 Result			FY2022 Forecast					
	H1	H2	Total	H1	Y/Y	H2	Y/Y	Total	Y/Y
Net sales	1,558.9	1,550.2	3,109.1	1,710.0	110%	1,670.0	108%	3,380.0	109%
Operating Profit (Percentage of Profit to net sales)	192.7 (12.4%)	123.6 (8.0%)	316.4 (10.2%)	200.0 (11.7%)	104%	140.0 (8.4%)	113%	340.0 (10.1%)	107%
Ordinary Profit (Percentage of Profit to net sales)	196.8 (12.6%)	130.6 (8.4%)	327.5 (10.5%)	203.0 (11.9%)	103%	142.0 (8.5%)	109%	345.0 (10.2%)	105%
Profit Attributable to Owners of Parent (Percentage of Profit to net sales)	139.1 (8.9%)	78.6 (5.1%)	217.7 (7.0%)	140.0 (8.2%)	101%	88.0 (5.3%)	112%	228.0 (6.7%)	105%
USD/JPY	¥110	¥115	¥112					¥116	
EUR/JPY	¥131	¥130	¥131					¥126	
RMB/JPY	¥17.0	¥18.0	¥17.5					¥18.3	

FX Effect (Y/Y)

Sales +20.0 billion yen
Operating Profit ±0 billion yen

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Please refer to page eight. The plan for FY2022 is as explained earlier by Mr. Togawa.

Exchange rates are assumed to be JPY116 to the dollar, JPY126 to the euro, and JPY18.3 to the Chinese yuan. The foreign exchange impact versus the previous year is expected to be a positive JPY20 billion for net sales and JPY0 for operating profit.

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(Reference) Eight Key Themes for FY2022

- 1 . Formulate strategic selling price measures
- 2 . Further strengthen sales capabilities such as measures to reinforce commercial-use air conditioning
- 3 . Maximize reductions in variable costs
- 4 . Execute streamlining measures to offset higher logistics costs
- 5 . Streamline existing fixed costs
- 6 . Strengthen procurement and supply capabilities in anticipation of fiscal year 2023 and beyond
- 7 . Maximize profitability by accelerating F25 key themes
- 8 . Create results and maximize profitability for acquired companies and large-scale capital investments
 - + 1 . Capitalize on the changes occurring in the world by utilizing our strengths and taking on the challenge and innovation themes (such as carbon neutrality and digital) that will lead to our next great leap forward.

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Page nine is a list of priority themes to be addressed in FY2022.

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■ Business Forecast by Segments

(billion yen)		FY2021	FY2022	
		Result	Forecast	Y/Y
Total	Sales	3,109.1	3,380.0	109%
	Operating Profit <small>(Percentage of Profit to net sales)</small>	316.4 (10.2%)	340.0 (10.1%)	107%
Air Conditioning	Sales	2,828.5	3,047.0	108%
	Operating Profit <small>(Percentage of Profit to net sales)</small>	282.4 (10.0%)	302.0 (9.9%)	107%
Chemicals	Sales	212.4	255.0	120%
	Operating Profit <small>(Percentage of Profit to net sales)</small>	27.3 (12.9%)	32.0 (12.5%)	117%
Others	Sales	68.2	78.0	114%
	Operating Profit <small>(Percentage of Profit to net sales)</small>	6.6 (9.8%)	6.0 (7.7%)	91%

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Please refer to page 10. The performance plan by business segment is as stated.

As for the amount of foreign exchange impact, we estimate that the impact on net sales will be a positive JPY17 billion and on operating profit will be JPY0 in the air conditioning business, while in the chemicals business it will be a positive JPY3 billion on net sales and JPY0 on operating profit.

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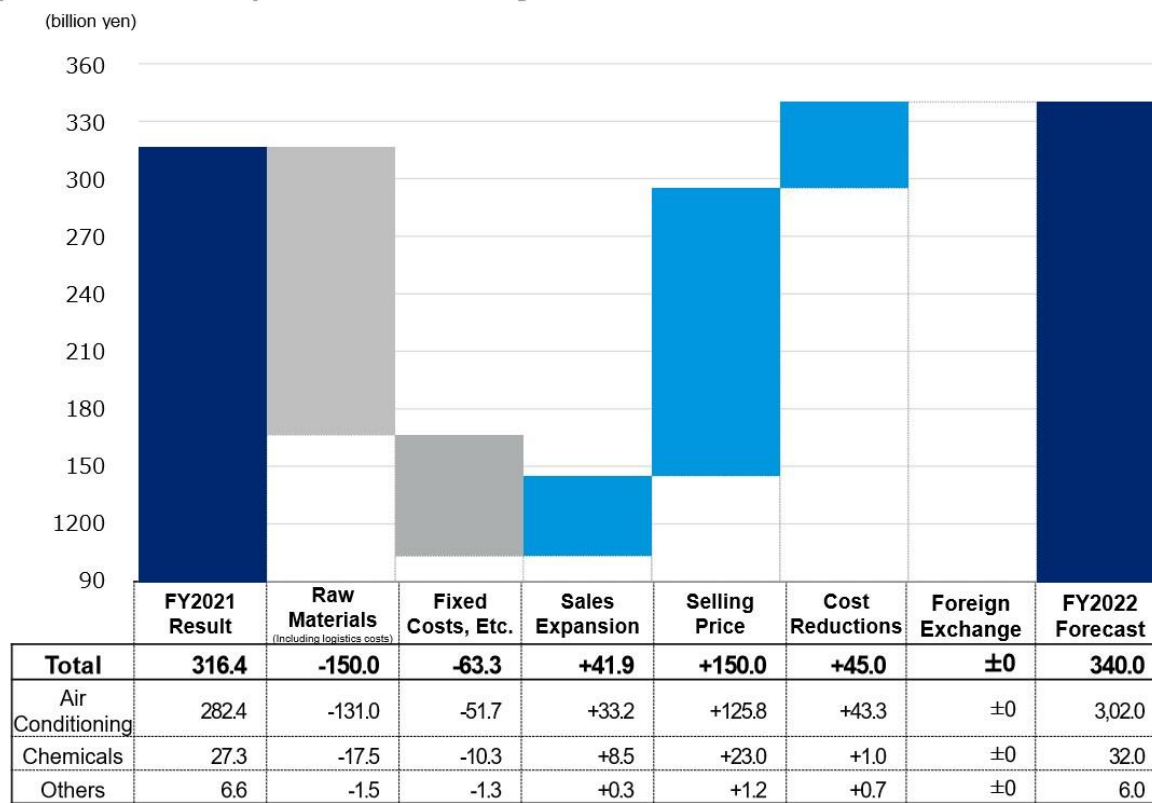
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■ Breakdown of Changes in Operating Profit

[Year-on-Year Comparison of Forecast]



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Please refer to page 11. This is an analysis of the YoY increase/decrease in operating profit for FY2022.

Although the impact of the sharp rise in raw material market prices and logistics costs is expected to be significant, we will continue to promote strategic sales price measures. The breakdown of the impact on the air conditioning business due to soaring raw material market prices and distribution costs is as follows: JPY20 billion from copper, JPY13 billion from aluminum, JPY30 billion from steel, JPY38 billion from resins and others, and JPY30 billion from distribution costs.

Regarding fixed costs, the Company intends to aggressively pursue upfront investments that will lead to future growth and development, such as product development, human resource training, and digitalization.

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■ Sales by Region - AC Business

* Includes refrigerator, freezer and filter businesses

※Percentage expresses year on year comparison

(billion yen)	FY2017		FY2018		FY2019		FY2020		FY2021		FY2022 Forecast	
Japan	104%	449.3	107%	481.7	103%	494.4	100%	496.0	106%	523.9	105%	550.0
Europe	120%	301.1	110%	332.2	114%	379.9	104%	394.5	131%	518.7	106%	550.0
China	115%	342.0	100%	342.2	89%	306.1	107%	327.7	130%	424.7	106%	450.0
Americas	111%	569.5	113%	645.6	109%	704.0	96%	674.8	132%	889.8	112%	1,000.0
Asia	108%	251.4	111%	280.2	105%	294.9	84%	247.8	118%	293.5	109%	320.0
Oceania	144%	73.7	106%	78.2	94%	73.6	108%	79.5	131%	104.5	101%	105.0
Middle East	114%	56.9	93%	53.1	90%	47.8	94%	44.8	135%	60.7	99%	60.0
Africa	104%	9.1	99%	9.0	93%	8.3	105%	8.7	145%	12.6	95%	12.0
Total	112%	2,052.9	108%	2,222.2	104%	2,309.1	98%	2,273.8	124%	2,828.5	108%	3,047.0
Overseas Sales ratio	78%		78%		79%		78%		81%		82%	
USD/JPY	¥111		¥111		¥109		¥106		¥112		¥116	
EUR/JPY	¥130		¥128		¥121		¥124		¥131		¥126	
RMB/JPY	¥16.8		¥16.5		¥15.6		¥15.7		¥17.5		¥18.3	

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Please refer to page 12.

Sales by region in the air conditioning business were significantly higher than the previous year in all regions.

Excluding the impact of foreign currency translation, actual sales in Europe were 125%, in China 116%, in the Americas 124%, and in Asia 113% of the previous year's level.

The annual plan for FY2022 is as described. Excluding the impact of foreign exchange rates, actual sales are planned to be 110% in Europe, 102% in China, 109% in the Americas, and 105% in Asia of the previous year's level.

As for the operating profit ratio for each region, the results for FY2021 were as follows: Japan 9%, Europe 10%, China 25%, the Americas 5%, Asia 11%, Oceania 4%, and the Middle East 3%.

In FY2022, we plan to improve the profit margin by about 1% in the Americas.

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■ Sales by Region - Chemicals Business

※Percentage expresses year on year comparison

(billion yen)	FY2017		FY2018		FY2019		FY2020		FY2021		FY2022 Forecast	
	Japan	112%	46.8	118%	55.2	91%	50.2	84%	42.3	138%	58.4	116%
Americas	101%	42.6	110%	46.9	94%	44.1	81%	35.6	116%	41.2	131%	54.0
China	124%	38.5	94%	36.3	93%	33.7	120%	40.5	126%	51.2	119%	61.0
Asia	127%	22.6	119%	27.0	95%	25.6	90%	23.0	118%	27.0	133%	36.0
Europe	136%	31.2	108%	33.7	74%	25.0	88%	22.0	152%	33.5	107%	36.0
Others	134%	1.4	124%	1.7	75%	1.3	66%	0.8	130%	1.1	-	-
Total	117%	183.1	110%	200.8	90%	179.9	91%	164.2	129%	212.4	120%	255.0
Overseas Sales ratio	74%		72%		72%		74%		72%		73%	
USD/JPY	¥111		¥111		¥109		¥106		¥112		¥116	
EUR/JPY	¥130		¥128		¥121		¥124		¥131		¥126	
RMB/JPY	¥16.8		¥16.5		¥15.6		¥15.7		¥17.5		¥18.3	

13

Page 13. Sales by region in the chemicals business.

Sales by region in the chemicals business also increased significantly over the previous year in all regions. Excluding the impact of foreign exchange rates, actual sales were 109% in the Americas, 113% in China, and 114% in Europe of the previous year's level.

The annual plan for FY2022 is as described. Excluding the impact of foreign exchange rates, we are forecasting sales to be 127% in the Americas, 114% in China, and 104% in Europe compared to the previous year.

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III. Business and Regional Overview ■ AC Business - Japan

FY2021 Results

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 expanded.

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.

FY2022 Forecast

In Residential Use, we will work to expand sales of high value-added products by promoting ventilation and air purification functions. Sales activities will be strengthened, even in cold regions where strong demand is expected, as we aim to further increase market share.

In Commercial Use, we will expand our lineups of heat reclamation ventilators that can easily be retrofitted and of UV Streamer units that are highly effective in suppressing viruses and bacteria as we strengthen our proposal business.

For Air Purifiers, we will continue to expand sales in Residential Use while aiming to expand sales for Commercial Use, including for hospitals and stores, where demand is strong.

Y/Y change (Volume basis)	FY2021		FY2022	
	Market	Daikin	Market	Daikin
Residential	92%	106%	101%	102%
Commercial	101%	112%	103%	103%
Applied	101%	91%	103%	118%
Air purifiers	71%	84%	94%	119%

*Applied is based on total sales.

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Please refer to page 14. I will now explain the status of the air conditioning business by region.

In Japan, industry demand for residential use was lower than the previous year due to a lull in stay-home demand and unfavorable summer weather. The Company strengthened its sales activities calling attention to the ventilation function of Urusara X and expanded its market share by capturing the growing interest in energy conservation and air quality due to the longer time spent in rooms.

For commercial use, industry demand exceeded the previous year's level due to the gradual resumption of economic activity. The Company expanded sales and significantly increased its market share by strengthening proposal-based marketing combining air conditioning and ventilation products.

From the second quarter, sales of air purifiers were affected by the rebound from the previous year's increase in demand due to the special cash payment for COVID-19.

In FY2022, we will expand our lineup of high value-added products equipped with ventilation and air purification functions and aim to increase sales and market share for both residential and commercial use by strengthening proposal-based sales.

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■ AC Business - Americas

FY2021 Results

Against the backdrop of strong personal consumption, Daikin expanded sales centered on the Residential Air Conditioning market and maximized the effectiveness 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 steady in Residential and also expanded in Commercial Use Air Conditioning.
- ✓ In Applied, we strengthened our Solutions business by market and capitalized on market recovery to increase chiller sales. Sales also grew for the After Sales Service business.

FY2022 Forecast

In Ducted Unitary for Houses, we will focus on expanding sales of products equipped with inverters by expanding the product lineup to comply with energy efficiency regulations and strengthen support for dealers.

In Ductless, support for acquired dealers will be strengthened as we promote sales in the Northeast and Northwest.

In Applied, we will work to increase equipment sales to data centers, factories, and schools where demand is strong and expand our Solutions business by increasing service personnel and enlarging our after sales service network.

Y/Y change (Volume basis)		FY2021		FY2022	
		Daikin	Market	Daikin	Market
Ducted unitary for houses		110%	95%	114%	
Ductless	RA/SKY	143%	109%	115%	
	VRV	118%	108%	117%	
Applied		112%	106%	121%	

*Applied is based on total sales in local currency.

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See page 15.

In the Americas air conditioning business, sales were significantly higher than the previous year due to expanded sales in the residential market, where demand was strong, as well as the inclusion of selling price effects and the consolidation effect of sales companies.

In Ducted Unitary for Houses, we accelerated efforts to strengthen the supply capacity of factories by increasing the number of manufacturing personnel and focused on sales of products equipped with inverters.

In Ductless, sales of for residential use were strong, reflecting the need for improved living space, and sales for commercial use also grew for project properties.

Sales of Daikin North America, formerly Goodman, were 130% of the previous year's level on a local currency basis.

In applied, sales expanded in chiller and after-sales service businesses, capturing the recovery in demand.

In FY2022, we will introduce new products in the ducted unitary for houses business to meet the increased energy conservation regulations and expand sales of inverter machines.

We also aim to expand our solutions business by increasing our service personnel and expanding our service network.

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■ AC Business - China

FY2021 Results

Despite strong personal consumption, the economy slowed in the second half, and we conducted sales activities combining offline and online, and promoted sales of an expanded lineup of high value-added products corresponding to IAQ / ventilation products and environmental policies. This resulted in sales greatly exceeding the previous fiscal year. Despite soaring prices for raw materials and semiconductor shortages, we maintained a high profit margin by cost reductions 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 heat pump hot water heaters, were strengthened, and sales of residential multi-split air conditioners greatly expanded.
- ✓ In the Commercial Air Conditioning market, customer contact points were expanded by leveraging interest at stores and offices in ventilation and air purification. We incorporated demand for equipment replacements and additional purchases. For large projects, such as factories, we reinforced sales through Solutions proposals. Against 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.

FY2022 Forecast

While being significantly impacted by the lockdown in Shanghai, we have performed agile production and shipping along with dealer support and are preparing sales expansion measures ahead of the lifting of lockdown restrictions.

Together with accelerating user-direct proposal sales, we are expanding our product and after sales service lineup in response to the growing interest in improving ventilation, IAQ, and energy savings.

In Residential Use, we will accelerate sales using online tools and focus on expanding sales of residential multi-split air conditioners. In Commercial Use, we will aim to expand sales by providing full total solutions for each market and customer.

Y/Y change (Local currency basis)	FY2021	FY2022	
	Daikin	Market	Daikin
Residential	117%	102%	104%
Commercial	108%	103%	105%
Applied	104%	101%	101%

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Please refer to page 16.

In the China air conditioning business, against a backdrop of strong personal consumption, the Company promoted sales activities combining online sales with sales at its PROSHOP specialty stores, resulting in a significant increase in sales over the previous year.

In the residential air conditioning market, sales of residential multi-split air conditioners grew significantly, up 16% from the previous year, thanks to the use of online tools to search for new customers and promote sales activities, as well as to strengthened system proposals combining heat pump heating and other products.

In the current situation, we are taking prompt steps to respond to the impact of the Shanghai lockdown, including flexible production and shipments, and support for suppliers.

Looking ahead to after the lockdown is lifted, we will provide optimal solutions for each market and customer by accelerating user-direct proposal-based marketing and expanding our lineup of products and services to meet the growing interest in air quality and energy management.

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■ AC Business - Europe, Middle East, and Africa

FY2021 Results

In Europe, despite restrictions of economic activities since November due to the reemergence of COVID-19, sales for residential-use air conditioners and heat pump hot water 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 Residential Use, unseasonable summer weather impacted results in countries such as France and Spain, but sales expanded on strong demand in Italy due to the subsidy system and the intense heat wave in southeastern Europe such as in Greece.
- ✓ In Commercial Use, 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 hot water heaters to substantially increase sales in each country, especially in France, Italy, and Germany.
- ✓ In Applied, sales of R32 chillers and air handling units expanded in favorable markets such as factories and hospitals.
- ✓ In the Refrigerator and Freezer business, Daikin accelerated development of one-stop solutions and expanded sales to food retailers where demand is strong.

FY2022 Forecast

In Residential Use, we will capitalize on the growing interest in energy savings in response to rising energy costs and expand sales of high value-added products.

In Commercial Use, we will use the appeal of the environment and energy savings to capture demand recovery for offices and hotels.

In the Heating business, we will capture growing demand for heat pump heating due to decarbonization and aim to further increase our market share.

In Applied, we will enlarge the R32 chiller lineup.

In the Freezer and Refrigerator business, we will continue to increase sales to the food retail industry and build a business foundation for the medical field.

Y/Y change (Volume basis)		FY2021	FY2022	
		Daikin	Market	Daikin
Residential		107%	101%	103%
Commercial	SKY	112%	101%	102%
	VRV	118%	102%	103%
Heat Pump Heating		165%	125%	145%
Applied		117%	105%	113%
Refrigerator and Freezer		127%	109%	121%

*Residential, commercial, and heat-pump heaters are only for Europe.

*Applied is based on total sales in local currency.

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Please refer to page 17.

In Europe, sales of residential air conditioning and heat pump heating systems increased amid restrictions on economic activity due to the re-expansion of coronavirus infection since November.

In the Middle East, we also worked to strengthen our sales capabilities in each country, and overall sales in the region were much higher than in the previous year.

In the heating business, sales grew significantly in various countries by taking advantage of our lineup of heat pump heaters.

In FY2022, we will seize the growing interest in energy efficiency due to rising energy costs to increase sales in both residential and commercial sectors and aim to further expand sales and increase market share of heat pump heating systems.

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■ AC Business - Asia and Oceania

FY2021 Results

The reemergence of COVID-19 had a significant impact in causing a decline in demand. 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.

FY2022 Forecast

■ Year-on-year sales of main countries (local currency basis)
 Australia: 120% India: 137% Vietnam: 95%
 Malaysia: 104% Indonesia: 128% Thailand: 97%

In Asia where a recovery in demand is anticipated, we will strengthen the manufacturing system and expand sales.

In Residential Use, we will launch a highly cost-competitive inverter unit centered on the markets with low inverter penetration rates such as Malaysia and Indonesia and promote widespread market acceptance.

In Commercial Use, we will strengthen product appeal and proposal business and focus sales on markets where growth is expected such as hospitals and schools.

In Applied, we will enhance the product lineup and aim to expand sales by strengthening the Solutions business.

Y/Y change (Volume basis)		FY2021	2022年度	
		Daikin	Market	Daikin
Residential		109%	109%	115%
Commercial	SKY	114%	110%	113%
	VRV	111%	118%	120%
Applied		114%	113%	141%

*Applied is based on total sales in local currency.

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Please refer to page 18.

While the region was severely affected by the decline in demand due to the spread of the coronavirus infection, overall sales in the region exceeded the previous year's level, thanks to the expansion of the sales network and focused sales activities utilizing online tools.

Sales for residential use increased in India, Indonesia, and Australia, where demand is relatively strong, and also in Malaysia, where action restrictions have been eased since the third quarter.

Sales of commercial-use products increased for public facilities, where demand was relatively firm, amid a slowdown in capital investment due to the economic downturn and continuing delays in construction starts and extended construction periods due to a shortage of workers at construction sites.

In FY2022, we will strengthen our production system in Asia, where demand is expected to recover, and aim to expand sales in markets where growth is expected, such as hospitals and schools, as well as to increase the spread of inverter machines for residential use.

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■ Chemicals Business

FY2021 Results

Centering on the semiconductor and automotive markets where demand is strong, Daikin expanded sales and increased share. Sales substantially exceeded the previous fiscal year.

- ✓ For Fluorocarbon Gas, applications expanded to medical fields in Europe, and sales grew.
- ✓ Polymers and Fluoroelastomers
 - Fluoropolymers showed a sales increase in the semiconductor market and the information and communications technology market, including LAN cables. Sales in all regions bested the previous 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.

FY2022 Forecast

We aim to expand sales and increase market share by launching differentiated products and strengthening supply capabilities centered on the semiconductor, automotive, and information and communications markets.

In repellent materials, we will launch products using environmentally-conscious, non-fluorine materials for the food product and textile markets.

We will work toward differentiation in ease of processing and performance.

In response to high demand for EVs and 5G, we will strengthen application development in the markets of lithium-ion battery materials and information and communications.

Y/Y change (Sales basis)	FY2021	FY2022	
	Daikin	Market	Daikin
For all fluorochemical products	129%	112%	118%
Fluorocarbon Gas	129%	107%	111%
Polymers & Fluoroelastomers	140%	114%	123%
Fine Chemicals, etc.	113%	109%	110%

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Please see page 19.

The chemicals business strengthened sales mainly in the semiconductor and automobile markets, where demand was strong, and sales were significantly higher than in the previous year.

For fluorocarbon gas, applications expanded to medical fields in Europe.

Sales of resins expanded as demand recovered in the semiconductor market and for LAN cables.

Sales of rubber also increased for the automotive market, and sales in each region exceeded the previous year's level.

In fine chemicals, sales of surface anti-fouling coating agents declined due to a lull in demand for tablets and smartphones, but sales of etching gas and water and oil repellants increased.

In FY2022, we will continue to expand sales to the semiconductor, automotive, and information and telecommunications markets, where strong demand is expected, and promote the introduction of non-fluorine environmentally friendly products and the development of applications to meet the growing demand for EVs and 5G.

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■ Filter Business

FY2021 Results

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. Sales exceeded the previous fiscal year.

- ✓ 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 increased in the United States for commercial use markets such as at factories. In Europe, sales expanded for high-end markets such as pharmaceuticals, whereas in Japan we expanded sales in favorable markets including semiconductors.
- ✓ In P&I※, together with expanding sales for industrial-use dust collection equipment where demand is strong, efforts were made to improve the business structure by shifting resources to the After Sales Service business.

FY2022 Forecast

In the Air Filter segment, we will work to improve profitability by focusing on productivity improvements and cost reductions while also expanding sales and increasing market share of high value-added products that meet customer needs in the semiconductor, pharmaceutical, and food product markets.

In P&I, we will endeavor to further bolster the After Sales Service business and reduce fixed costs to build a stable business foundation.

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

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Please refer to page 20.

In the filter business, sales increased over the previous year as we improved our business structure by building a stable supply system, reducing total costs, and strengthening our sales structure, and also increased sales of anti-infection products such as high-performance filters and negative pressure machines in each region in response to growing ventilation needs.

In FY2022, we will expand sales to the semiconductor, pharmaceutical, and food markets, where demand remains strong, while striving to improve profitability through productivity improvements and cost reductions.

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■ Other Business

FY2021 Results

In the Oil Hydraulics business, sales increased by capitalizing on a recovery in demand for hydraulic equipment for industrial and construction equipment, resulting in higher profits.

In the Defense Systems business, sales expanded for pulse oximeters, which measure oxygen saturation in the blood, and oxygen concentrators, resulting in higher profits.

In the Electronics business, sales of database systems for design and development fields increased due to a resumption and strengthening of corporate IT investment.

FY2022 Forecast

In the Oil Hydraulics business, we will strengthen 'spec-in' activities for industrial and construction equipment manufacturers. We will also work to build a business foundation in the European market that takes advantage of the Diplomatic MS acquisition in Italy and leads to environmental contribution and business expansion in the field of industrial equipment.

In the Defense Systems business, we will strengthen sales of differentiated products in anticipation of a winding down in demand for medical equipment aimed at COVID-19 as we work to increase market share.

In the Electronics business, we will endeavor to expand sales in the manufacturing and construction industries where demand is expected to be strong.

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Please refer to page 21.

In the oil hydraulics business, demand for hydraulic equipment for both industrial and construction machinery applications recovered, and sales increased.

With the recently announced acquisition of Diplomatic MS S.p.A. of Italy, we will build a business foundation in the European market to contribute to the environment and expand our business in the industrial machinery field.

In the defense systems business, sales of pulse oximeters and oxygen concentrators increased in the area of private-sector demand.

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IV. Dividends Plan

- ◆ Daikin plans a 40-yen increase over the previous fiscal year for an annual dividend per share amount of 200 yen (interim 90 yen, term-end 110 yen). This is an increase of 20 yen from the previously announced amount.
- ◆ The dividend for the next term is planned to be 200 yen on an annual basis. (interim 100 yen and year-end 100 yen).

【Daikin Dividend Policy】

Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

		FY2017	FY2018	FY2019	FY2020	FY2021 (Proposed)	FY2022 (Forecast)
Dividend per share	Interim	¥65	¥70	¥80	¥80	¥90	¥100
	Annual	¥140	¥160	¥160	¥160	¥200	¥200
Earning per share	H1	¥347.1	¥385.8	¥405.1	¥289.2	¥475.3	¥478.3
	Annual	¥646.5	¥646.4	¥583.6	¥534.0	¥743.9	¥779.0
(Reference) DOE Trends		3.4%	3.5%	3.3%	3.0%	3.2%	2.9%

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Please refer to page 22.

The year-end dividend is proposed to be JPY110 per share, an increase of JPY20 from the previous announcement. Together with the interim dividend already paid, we plan to pay an annual dividend of JPY200 per share.

For the next fiscal year, we plan to pay an annual dividend of JPY200, consisting of an interim dividend of JPY100 and a term-end dividend of JPY100.

Although the Company has decided to leave the dividend unchanged due to the unprecedented uncertainty of the business environment ahead, it intends to reward shareholders by striving to ensure performance in line with the annual plan and increasing the dividend to the maximum extent possible in line with the Company's dividend policy.

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《Reference》 ■ Foreign Exchange

■ Exchange Rate

	FY2020 Result			FY2021 Result			FY2022 Forecast
	H1	H2	Total	H1	H2	Total	
USD	¥107	¥105	¥106	¥110	¥115	¥112	¥116
EUR	¥121	¥126	¥124	¥131	¥130	¥131	¥126
RMB	¥15.3	¥16.1	¥15.7	¥17.0	¥18.0	¥17.5	¥18.3
THB	¥3.4	¥3.5	¥3.4	¥3.4	¥3.5	¥3.4	¥3.3
AUD	¥73	¥79	¥76	¥83	¥83	¥83	¥80

■ Sensitivity of Foreign Exchange (Impact of change by 1 yen to operating profit)

	FY2022 Forecast
USD	1.8 billion yen*
EUR	0.8 billion yen

*Changes for the THB, RMB, AUD, etc., are assumed to be linked to the USD.

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Please refer to page 23. The actual exchange rates for FY2021 and the assumed exchange rates for FY2022 are shown.

Regarding sensitivity of foreign exchange, we estimate that a change of JPY1 against the dollar will have an impact of JPY1.8 billion on operating profit, and a change of JPY1 against the euro will have an impact of JPY800 million.

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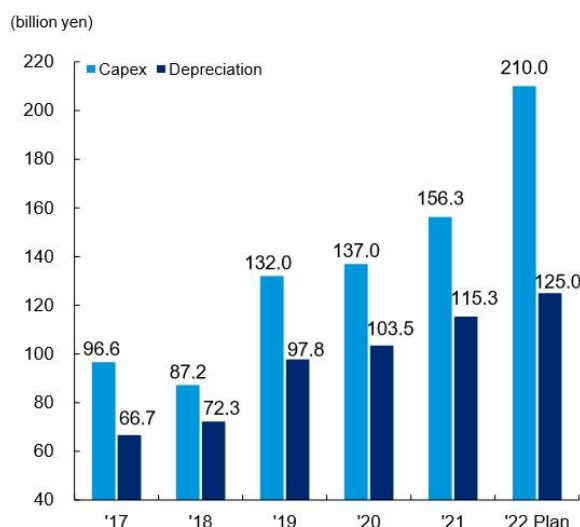
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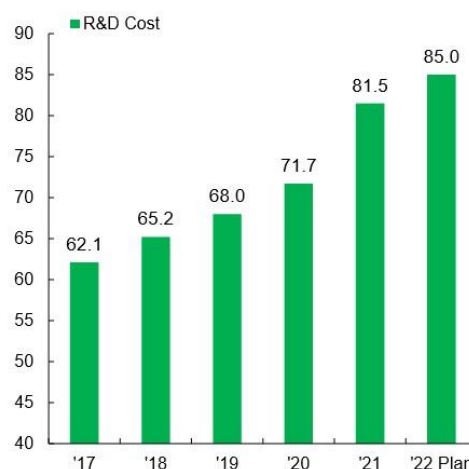
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■ Capex, Depreciation and R&D Cost

Capex and Depreciation



R&D Cost



24

Please refer to page 24. Actual results of CapEx, depreciation and amortization, and research and development expenses are shown.

In FY2022, we plan to invest JPY210 billion in CapEx, JPY125 billion in depreciation and amortization, and JPY85 billion in R&D.

In the air conditioning business, investments will be made to increase production capacity and strengthen product development for heat pump heating in Europe, to expand the Applied Plant in Europe, and to increase capacity at plants in China and India.

In the chemicals business, we intend to aggressively invest in capacity expansion in China and the US to meet growing demand for semiconductors and batteries.

This concludes my explanation.

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Question & Answer

Sakamoto [M]: We will now have a question-and-answer session.

Now, first of all, Mr. Isayama from Goldman Sachs Japan, please ask a question.

Isayama [Q]: I am Isayama from Goldman Sachs Japan. Thank you very much. Let me ask you about the selling price and the US, respectively.

The first point is about selling prices, which I believe is at the root of the profit increase plan for this fiscal year. Please tell us the difference by region, if any. Also, in terms of the overall sales price, I believe that you missed about JPY50 billion against raw material prices and logistics costs in the fiscal year under review. You say that you will fully offset the impact this year, but will you compensate for the JPY50 billion, for example, by the selling price, or is it covered by cost reductions?

And, although it may be too early to say at this point, if raw materials prices were to fall, should we expect selling prices to fall as well, since they have risen in line with raw materials prices, or should we expect selling prices to remain the same, since they are basically raised due to product launches and improvements in product performance? I would appreciate it if you could provide some additional information on the concept of selling price, which is at the root of profit increase.

Togawa [A]: First of all, regarding selling prices, naturally, I believe there should be a difference by region. We determine our selling prices not simply by region, but also by sales channel and by product, with careful attention paid to customer needs and competitor trends. We are trying to do business with such detailed sales price policies. In some regions it is easy to increase selling prices, while in other regions it isn't, for various reasons.

You said that we missed JPY50 billion. You talking about the fiscal year ended March 31, 2022, aren't you?

Isayama [Q]: Yes. Do you have a selling price measure that will eventually cover this JPY50 billion, or should we assume that it'll never do anything and that there will not be another price increase that will offset the JPY50 billion?

Togawa [A]: In the current fiscal year, raw materials prices have risen even more than last year due to the situation in Ukraine.

Based on the assumption that there are factors that further drive up raw materials prices, we are planning to implement a sales price measure of JPY150 billion for the current fiscal year. In the current fiscal year, the Company will need to further raise sales prices than in the previous fiscal year to ensure profitability. We are creating a selling price policy based on this concept.

You asked what we would do if the price of raw materials were to drop. We believe it depends on the relationship between demand and supply. As a business, the first step is to create products and services that customers will accept and value more than those of our competitors, and to sell them at a reasonable price. So, naturally, if the price of raw materials falls significantly, we will factor that in to some extent, and if the product has high added value, we will set a price that is matched to the value.

Isayama [Q]: Thank you very much. My second question is regarding the US. In the slide that Mr. Miyazumi showed in his explanation, I think the outlook for ducted unitary for houses is very aggressive. I mean page

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15. You are assuming that the sales volume will be 114% this year, a nearly 20% growth, compared to the 95% demand.

If I am not mistaken, last year in the first half of the year, there were some acquisitions of distributors such as Abco and Stevens, I think it was two years ago. The sales effect is about JPY20 billion, and there will be more in the fiscal year ending March 31, 2022.

What were the results of the acquisitions of dealerships in the US in the fiscal year under review and what will be in the current fiscal year? Can you tell us a little more about the basis for your belief that it is possible to increase the sales volume and what measures are working well?

Togawa [A]: I understand. First, I would like to talk about how we view market trends in North America, and then Mr. Miyazumi will answer your last question.

First, it is said that rising interest rates may have a negative impact on the housing situation. We see no doubt that there will be a negative impact.

At the same time, however, as was the case in Japan, the children of the baby boom generation are now entering the home-buying generation. Therefore, we believe that the foundation for housing demand may be solid. Then there is the demand for relocation to the suburbs as remote work takes hold with the spread of COVID-19. This will also support the bottom of US housing demand. This will not change significantly.

In addition, the tightening of energy conservation and environmental regulations due to President Biden's policies has led to a new demand for air conditioning. This is our specialty, and we can utilize low-GWP technologies for inverters and heat pumps.

We estimate that demand in the housing market is 95%, but our plan for this fiscal year includes the strengthened sales force of our sales network, which we have strengthened through M&A and other means, as well as sales of differentiated products and environmentally friendly products.

Miyazumi [A]: The effect of the acquisition of the US sales companies in the previous fiscal year was roughly JPY50 billion for the full year.

As for the fiscal year under review, as Mr. Togawa just mentioned, the US housing market is showing a bit of uncertainty about the future. In the US as a whole, mortgage rates have exceeded 5%, which is a headwind, but in times like this, we would like to be strategic about which region we attack.

Although the overall pie may shrink a little, we are continuing to acquire sales companies, so our basic approach is to increase market share by implementing sales price measures and sales strategies that match the characteristics of each region.

Isayama [Q]: Thank you very much. Thank you also to President Togawa. I'm sorry, I'm just confirming the figures. Is it correct to think that the year before last, the fiscal year ending March 31, 2021, it was about JPY20 billion, and last year it was a positive JPY50 billion? Can we assume that JPY20 billion has expanded to JPY50 billion?

Togawa [A]: You're right.

Isayama [Q]: JPY20 billion has been expanded to JPY50 billion. Haven't you disclosed the figure for this fiscal year yet?

Togawa [A]: No.

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Isayama [M]: Well understood. Thank you very much.

Sakamoto [M]: Thank you. Next, Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities.

Sasaki [Q]: Thank you very much. I am Sasaki of Mitsubishi UFJ Morgan Stanley Securities. I would like to ask two questions.

My first question is about the concept of the new plan, or the concept of foreign exchange on page 11. This time, the impact of the foreign exchange rate is unchanged from the previous year. On the other hand, as shown in the latter half of the material, your company's exchange sensitivity is such that a JPY1 depreciation against the dollar will increase operating profit by JPY1.8 billion and JPY1 against the euro by JPY0.8 billion.

Your assumption for the current fiscal year is JPY116 to the dollar and JPY126 to the euro. What calculation was made about the exchange rate, whose impact is assumed to remain unchanged this fiscal year? Now, the dollar is over JPY130, the euro is JPY135, and the Chinese yuan is over JPY19. If, for example, the dollar continues to be JPY130, will this be a factor in expanding Daikin Industries' earnings?

Could you please tell us your thoughts on the exchange rate?

Togawa [A]: I understand. First of all, for this fiscal year's plan, we have not included any factors regarding the current exchange rate. We do not manage our business by relying on foreign exchange. The plan is not to achieve operating profit of JPY340 billion based on favorable foreign exchange rates, but rather to achieve it based on the exchange rate assumptions currently in place. So, I do not know what will happen to the exchange rate, but if JPY130 continues for a long time, as you say, it would all bounce back as a positive factor.

Sasaki [Q]: Thank you very much. In this sense, the fact that the impact of the foreign exchange rates is zero in this fiscal year's plan is a message from your management that you will achieve JPY340 billion in profit this fiscal year, not by relying on foreign exchange rates but on your own ability. If the exchange rate continues at the current level of JPY130, operating profit will also change accordingly. Do you mean that?

Togawa [A]: Yes. You could say that.

Sasaki [Q]: Understood. Thank you very much. My second question is about your approach to the procurement environment. As mentioned by the president at the beginning of the meeting, I understand that your company is firmly committed to addressing the shortage of semiconductors and other products. On the other hand, with the situation in Ukraine and other factors, we are facing shortages of various items. Please tell us which parts or materials are insufficient and could be a risk for your company in the future.

However, your company is being able to procure them. Will this lead to an expansion of your market share? You mentioned at the beginning that you are already procuring alternative parts and reviewing designs, as well as making prior arrangements for parts that will be in short supply. May I ask you to explain a little bit about the current state of the environment, including the procurement environment?

Togawa [A]: It is still semiconductors and electronic components that could pose a procurement risk. I have heard that they are the biggest shortage risk factors.

With regard to semiconductors and electronic components, in the previous fiscal year, we saw the possibility that sales could be as much as 20% above the plan, so we moved early to secure inventories, and as a result, we were successfully able to supply products without a halt.

In the current fiscal year, we will continue to go around to secure inventories early, and at this stage, we have secured semiconductors and electronic components in line with the current plan.

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However, we don't know what will happen. To use an actual example, we have suppliers in China that produce electronic components and semiconductors, and some of these suppliers were out of operation until around April 20. We are covering for this by having alternative production sites in Japan and Malaysia.

Therefore, we are prepared to produce and supply products in various places for local production for local consumption, and we believe that we will be able to take advantage of this strength in the current fiscal year.

Sasaki [Q]: Thank you very much. I remember that at last year's interim financial results briefing, you mentioned that the shortage of semiconductors might continue until the latter half or the end of 2020. I would like to know how long you think the shortage of semiconductors is likely to last from your company's perspective.

Togawa [A]: Our current expectation is that it will continue during the current term. Maybe it will finally settle down in 2023. This is our view based on information from semiconductor manufacturers, semiconductor equipment manufacturers, and various other sources.

We have established a relationship with our semiconductor suppliers where we have long-term contracts or early contracts with them, and they give us relatively high priority due to the trust that we have cultivated over the years. So, at the present time, we are doing it without any problems.

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

Sakamoto [M]: Thank you. Next, Mr. Maekawa of Nomura Securities, please.

Maekawa [Q]: I'm Maekawa from Nomura Securities. Thank you very much for your explanation. I have two questions.

First, regarding your thinking on China, please tell us the current lockdown situation and response measures. You expect the demand for this fiscal year to increase 2% for residential and 3% for commercial. Please tell us the background to this view. I am sure there is a risk of slowdown, etc., but what is your view? You mentioned your company will further increase its market share. I would like to know your view on China, including the lockdown.

Togawa [A]: I will explain the impact of the lockdown in China and what measures are being taken now, and Mr. Miyazumi will explain our view on demand and market share expansion.

First, one month has passed since the full lockdown began in Shanghai. The number of people infected in Shanghai, which at one point exceeded 20,000, is currently at 3,000, and the number is on a significant downward trend. However, the current situation is that the lifting of the blockade is still not foreseeable.

On the other hand, in the midst of all this, moves toward the reopening of the economy have begun, with 666 important companies selected by the government to be allowed to resume operations. These are companies that provide infrastructure, daily commodities, and medical services necessary for the daily lives of Shanghai residents, as well as companies that support China's economy.

Although we have been out of operation since April 1, we applied for and received certification as one of the 666 priority companies. Operations resumed on April 20. However, we are not operating at full capacity. We have 12 lines, of which about half started operation on [April] 20. We have just started operating all 12 lines from May 9, with more personnel sleeping in the plant.

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As for the suppliers, there are 142 suppliers in Shanghai, including those in the surrounding area, and like us, 118 suppliers have started blockade production. Blockade production means that the factory decides who will sleep in the factory and conduct production without going in and out of the factory.

Two of our major suppliers of electronic components were also among these companies. As of May 7, one company was operating at 80% capacity and the other had managed to reach 95%.

Another problem is one of logistics. The distribution center in Shanghai is located in the city of Shanghai, and we cannot take the products directly from here to dealers nationwide. What we are doing is taking the following measures: the government-approved trucks are moved to Suzhou, and products are shipped from Suzhou to dealers nationwide.

I mentioned earlier that there are 666 important companies, but only about half of them have managed to resume production. We have heard that many Japanese-affiliated manufacturers have yet to resume most of their production. I believe that we have been able to resume production with unparalleled speed. However, April sales are currently expected to be considerably lower than the previous year. However, as I mentioned earlier, our plan is to launch sales in May at once, make up for all delays in the first half, and achieve the budgeted amount for the first half as a whole.

Miyazumi [A]: Regarding Chinese demand. As you are aware, the lockdown in Shanghai continues, and the situation is very difficult to foresee, but at the same time, China is moving in the direction of providing some relief through monetary policy. We expect Chinese residential market demand, including residential multi-split air conditioners and small room air conditioners, to be roughly 102% YoY. For commercial use, VRV and SKY combined are expected to be 103% of the previous year's total and Applied is expected to be 101%.

Maekawa [Q]: Thank you very much. Secondly, I would like to know more about the key themes and the concept of FUSION. In the eight key themes, you have added "creating results for acquired companies and large-scale capital investments," but is this with an eye on the North American market, for example, or the European market?

Also, plus-one theme, carbon neutrality and digital, has been added. I would like to know the background behind the addition of the "plus one" to the eight themes, as well as some specific details. Also, you mentioned you will achieve the FUSION target for the next fiscal year this fiscal year ahead of schedule. I would like to know how you consider the FUSION 25 target. Thank you.

Togawa [A]: First of all, we do not intend to change the major strategic direction of FUSION25, or the key themes. We are currently making good progress in carbon neutrality, air valorization, and solutions, and we intend to further accelerate these efforts in the future.

However, we are considering reviewing figures such as sales, operating profit, and operating margin. We are achieving FUSION25 targets for FY2023 ahead of schedule. If we achieve the JPY340 billion or higher target this fiscal year, we would like to review the figures, including a revision of the latter-half 3-year plan.

As for M&A. Although some of the M&A activities envisioned in FUSION25 did not proceed as expected in the previous fiscal year, we intend to steadily move forward with them.

Maekawa [Q]: The theme number eight, "create results and maximize profitability for acquired companies," has been added. Do you want to accelerate this? Do you mean that the capital investment includes the Chemical business and so on? Please tell us the background on this.

Togawa [A]: The implication of adding theme number eight is that it is important to reap synergies from acquisitions and to reap the benefits of capital investment. We dared to raise the theme what we should do

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in order to reap the benefits of further capital investment. It is not that we have not been doing this before, but we have raised it as a theme because there may be a need to further strengthen it.

With the "plus one" theme, we have expressed our intention not only to set forth the so-called FUSION25 strategic themes of innovation and challenge, but also to implement them and reap the fruits of them, and to speed up and accelerate the overall process.

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

Sakamoto [M]: Thank you. Next, Mr. Fukuhara from Jefferies Japan Limited, please ask your question.

Fukuhara [Q]: My name is Fukuhara from Jefferies Japan. Thank you very much. I have two questions for you. The first question is about your company's approach to sales in Europe. In the heating business on slide 17, it says that your company will increase its market share in the industry. Please give us some additional details on how you intend to increase your market share in the future, such as specific strategies.

Mineno [A]: As you all know, Europe is the most advanced region in the world in terms of decarbonization, but after COP26 was held in November last year, the measures taken by various countries have been accelerated. The direction is being changed from combustion heating to air-conditioning heat pumps.

Thus, as Mr. Togawa mentioned, a major trend of combustion heating being replaced by heat pumps heating was established more quickly than we had initially seen. This is specifically reflected in government incentives in various countries this year, as well as in moves to eliminate consumption taxes and so on.

In order to reap those benefits as quickly as possible, we are making a large investment to build a large heat pump heating plant in Europe, and we hope to do so earlier and on a larger scale than our competitors to get a head start and increase our market share. Originally, we were ahead of the curve in this heat pump heating business, and we would like to further accelerate that process. I believe that we have a good opportunity and that this will be a year of great leaps forward.

Fukuhara [Q]: Understood. As to my second question, regarding the current medium-term plan, can we expect the Company to go even higher in the face of downside risk?

Togawa [A]: We do not intend to change the FUSION25 strategy itself, but we would like to spend a year reviewing the FUSION25 sales and operating profit targets, and then share them with you.

Fukuhara [M]: Thank you very much. That's all from me.

Sakamoto [M]: Thank you. Next, Mr. Kitaura of Bloomberg Intelligence, please.

Kitaura [Q]: I am Kitaura from Bloomberg Intelligence. Thank you. I would like to make two questions. First, you mentioned that the profit margin in China is 22%, but it used to be around 25%. I understand that this is due to restrictions on production, steel prices, etc. I would like to know the background of the profit margin, including the competitive environment, and if there is any possibility of recovery in the future.

Miyazumi [A]: I'm sorry. I meant to say at 25%.

Kitaura [Q]: I see. Understood. So, is it correct to say that the overall situation has not changed much?

Togawa [A]: Yes, that's right. As for China, we hope to secure 25%. Although the current lockdown situation is a bit of a headwind, we are determined to defend the 25% target.

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Kitaura [Q]: I understand. Thank you very much. The second point is capital investment, which is planned to exceed JPY200 billion this fiscal year, which is quite a large increase from last year. Please tell us the background and the future prospects.

Togawa [A]: With regard to capital investment, we are investing about JPY210 billion, which is a record high level. As Mr. Mineno mentioned, Europe is the place to invest. In particular, heat pump heating is expected to grow in Europe, and we are planning to build a plant to increase production of this product.

In addition, we will invest in research and development as well. In Asia, we are also in the process of starting up a third plant in India. In the chemical field, we will also invest in construction of plants in China.

Kitaura [Q]: I understand. Do you have any idea whether the amount of capital investment, which is extraordinarily high this fiscal year, is expected to settle down a bit in the next fiscal year or so, or whether it will grow further or remain flat, just at this point in time?

Miyazumi [A]: I don't think we will probably see such a large growth rate in the future, but I think it will continue to increase steadily.

Togawa [A]: Strengthening production facilities and factories includes plants for heat pump heating in Europe. It is considered as a major investment, and its implementation is in 2024. We are now also planning to establish a large production facility in Mexico, which will be around 2025. It would be a fairly large investment. There are such many projects, so it will increase in the future.

Kitaura [M]: Understand. Thank you very much. That's all from me.

Sakamoto [M]: Thank you. Next, Mr. McDonald of Citigroup Global Securities, please ask your question.

MacDonald [Q]: Thank you very much. I have two brief questions: profitability and the M&A strategy. In the previous year, you posted an impairment loss of Zanotti's goodwill, and two years ago, an impairment loss of Flanders. We have heard that some acquired companies have not been able to contribute to profits after goodwill amortization, so we do not know if profitability and M&A strategies are working. Is there a risk of impairment of acquired companies in the future?

Togawa [A]: The acquired company's sales are steadily increasing. However, we see improving profitability through M&A as one of our challenges. After posting amortization of goodwill, some companies are not contributing to profits. We are now reflecting on the lack of incorporation of a post-acquisition execution plan, which we intend to reestablish. We believe that Flanders will be able to significantly rebuild and grow its US filter business this fiscal year.

For Zanotti, we have already created concrete measures to rebuild development, production, procurement, sales, and everything else over the past year with the direct involvement of Daikin Europe. We are now following up on a month-by-month basis and managing progress, and I believe that over the next year we will be able to make the company profitable. We are fiercely committed to profitability, and we do not want to manage our business in such a way that sales increase but do not lead to profitability.

MacDonald [Q]: Okay. Thank you very much. What about whether Goodman or AHT has a risk of impairment?

Togawa [A]: As I mentioned, we recognize that the two impaired acquisitions are major materials for reflection for us. Based on these reflections, we will continue to take the time to thoroughly conduct due diligence in M&A from various angles and will be more careful in verifying the quality of management. We have worked on this in the past, but we were still not able to see some aspects. We also believe that it is

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important to put in place a concrete post-acquisition implementation plan and follow up on its progress, and we believe that this kind of reinforcement will be necessary.

I believe that the acquisition must result in increased sales, then contribute to earnings, and above all, contribute to our growth strategy. We would like to pursue this for future acquisitions.

In addition, although you have expressed concern about AHT, we believe that the low-temperature business has great potential for growth, and in the commercial refrigeration business in particular, there is a great opportunity for one-stop solutions with air-conditioning. In the commercial refrigeration equipment business in particular, I believe that we can develop our strengths in energy conservation and energy management for environmental issues.

McDonald [M]: Understood. Thank you very much.

Sakamoto [M]: Thank you. Since there seem to be no questions, we will conclude the question-and-answer session.

This concludes today's briefing. Thank you very much for joining us today.

Togawa [M]: Thank you very much.

[END]

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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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