

**Briefing to Analysts and Investors
on Q1 Financial Results Ending March 31, 2021
Q&A Session
(August 4, 2020)**

Q: How successful have your measures been for the impact of COVID-19? Which points do you see as being particularly effective for improving the full-year outlook?

A: Progress has proceeded as planned, and we feel mostly positive concerning three points. First, from the perspective of product supply, the preparations made to ensure there would be no opportunity loss led to results. Second, from a sales perspective, we strengthened proposal sales through maximum utilization of online sales. While face-to-face sales is the forte of our company, we have been able to effectively fuse that with online sales. Notwithstanding the current difficulties in Asia and other countries, we are taking steps for the reopening of markets such as in the remote training of dealers. Third, there has been a reduction in fixed costs. We were able to exceed initial projections through our own deliberate actions, and not just through attrition, and would like to continue striving for that throughout the entire year.

Q: Why have you lowered demand estimates despite the steady trend from the first quarter to the present?

A: In addition to the measures taken for COVID-19, the decline in demand in the first quarter for Europe, Japan, the United States, and other countries wasn't nearly as steep as we had earlier anticipated, and this had a positive effect. However, with the spread of infection in the United States, India, and Latin American countries and the prolonged regulations on economic activities in Asian countries, demand estimates for the second half have been sharply revised. In Southeast Asia, especially, we had originally assumed COVID-19 would subside in the first half of the year, but the adverse impact of the disease is expected to remain in the second half. Furthermore, while economic activities quickly resumed in Europe, commercial-use orders have not yet fully recovered because of the lockdowns, resulting in a revision of demand estimates for the second half.

Q: An analysis of Changes in Operating Profit for the full-year plan showed -33 billion yen for “Fixed Costs, Etc.” in the action plan announced in May, and this has been revised to -26 billion yen, a reduction of 7 billion yen. What caused such a significant change for the three-month period of April-June?

A: Some normal business expenses, such as lower travel expense due to elimination of business trips, have decreased due to the stay-at-home restrictions, and there has been a decrease in sales promotion costs and shipping costs due to the decline in sales.

Q: In the plan for the Air Conditioning segment from the second quarter onward, why do you see operating profit margin falling despite sales trending at the same level as the first quarter?

A: This fiscal year's plan is not a budget but rather a positioning of the action plan according to current conditions, and that makes detailed analysis by first half, second half, and each quarter difficult. In the first quarter, a significant positive effect was generated through implementation of our initially planned “defensive measures.” Although attrition due to the impact of COVID-19 contributed to the suppression of fixed costs, our own deliberate measures also helped to suppress costs. Production declined compared to normal operation, but the level was relatively high under these conditions. For the second half of the year, we do not anticipate a significant reduction in fixed costs, and inventory levels may be rather high from a production perspective and require future adjustment.

Q: When will a positive effect be seen for the response to ventilation needs that have become apparent during the COVID-19 pandemic?

A: Ensuring proper building ventilation of buildings has become an important issue around the world, and we would like to capitalize on these needs and expand our share of ventilation products.

Because office building regulations vary by country, Applied Systems offers its air handling units to meet these ventilation needs. For general retail stores, there are no specific regulations, and heat reclaim ventilation (HRV) units that can supply and exhaust air have yet to penetrate the market. For this reason, in Japan, we are considering selling HRV units together with air conditioners for retail stores. In China, we will invest resources into strategies that include installation proposals that pair HRV units with residential multi-split air conditioners.

Since an HRV unit is a general standalone product, we think it is necessary to increase value-added by making it a part of a system and adding functionality such as air visualization. Although we would like to see results in the second half of this fiscal year, this is not something that typically happens overnight, so we expect a significant contribution to begin from the next fiscal year.

Q: In the Americas, the yearly sales plan for the Air Conditioning business was upwardly revised. Could you explain the background, sales expansion strategy, and feeling from the next fiscal year onward that led to this? Also, is an improvement in profitability expected in the future?

A: In terms of production, the Houston factory was temporarily closed to prevent the spread of COVID-19, and restarting it again has taken time. A second wave of infection in Houston made it difficult to acquire factory personnel, causing stable product supply to become an issue. However, in terms of sales, we believe we can capitalize on ventilation needs. In Applied Systems, we look to expand sales by proposing a combination of air handling units and high-performance filters to improve ventilation performance. In the Filter business, where profitability has been an issue, we believe that we can improve profits by selling filters in combination with the installation of air conditioning equipment and not just as standalone filters.

Q: How is the Daikin business positioned concerning the news article related to production of medical masks in Japan?

A: This is a collaboration between National Cerebral and Cardiovascular Center and venture crossEffect, Inc. Daikin supplies the material used for the filter media, and the manufacture of masks is not part of our business. Both companies consult with us, which we consider to be a part of our social contribution. Daikin promotes open innovation and is cooperating in anticipation of future business expansion into the medical and healthcare fields.

Q: Daikin Streamer technology was reported (on July 16, 2020) to be effective in inactivating SARS-CoV-2. Will verification of a product be performed based on this result? How will technology be incorporated into future products?

A: The recent announcement involved experimental results from a demonstration of Streamer technology that was performed in the laboratory. While Streamer is built into all models of the household air conditioners that we sell in Japan, we would like you to think of this demonstration separately from the effect of our current manufactured products. There are many types of oxidative decomposition technologies, and the possibilities are great. Daikin will search for technologies and product development centering on Streamer technology to meet the needs of the world. Daikin would like to apply it as a unit that can be added for the purpose of improving air quality.