

**Briefing to Analysts and Investors
on Financial Results for Fiscal Year Ended March 31, 2021
Q&A Session
(May 12, 2021)**

Q: Could you provide a background for the balance of the first and second halves for the FY2021 full-year plan? The second half plan resembles that of the previous fiscal year, whereas the first half plan calls for a significant increase in revenue and profits.

A: The plan was formulated in the belief that making a dash at the start of the first half would be important for us for this term. In fact, the start in April appears favorable, and we would like to aim for operating profit that meets or exceeds 270 billion yen for the year. Specifically, we believe it will be important for us to quickly tackle the seven key themes for fiscal year 2021 and build upon the results in the second half.

Q: What is the rundown for the negative 65 billion yen for “Raw materials” in the breakdown of changes in operating profit for the full-year plan?

A: In addition to a negative 53.5 billion yen from the impact of soaring prices in the raw materials market, the negative 65 billion yen includes 11.5 billion yen from the effect of high logistics costs. The higher cost for raw materials breaks down to a negative 28 billion yen for copper, negative 5 billion yen for aluminum, negative 11 billion yen for steel, and negative 9.5 billion yen for resin and other materials.

Q: How will the impact of the soaring prices in raw materials be passed on?

A: Rather than simply passing on the higher costs to product prices, we would like to strategically set prices in the speedy development of differentiated products and in model changes.

Q: Currently, there is a global shortage of semiconductors. Has that impact been incorporated into the business forecast?

A: The necessary quantity for this term has already been secured through procurement and expedited development of alternatives, so we anticipate no impact on the sales plan. With the current strong sales centering on residential-use air conditioning, we are investigating further parts procurement in preparation of exceeding the sales plan.

Q: In the breakdown of changes in operating profit for the full-year plan, “Fixed Costs, etc.” are at an unprecedented high level. What manner of costs will increase compared to those in the past and will this level continue in the future?

A: In addition to increases in R&D expense, labor costs, and costs related to upfront investments, ordinary expenses, which had significantly decreased under the influence of COVID-19 in the previous term, are assumed to largely return to normal levels. From the next term onward, the same level is expected to continue, and we are aware of the issue that the fixed cost ratio is high. Daikin has grown its business by actively strengthening human resources, and we intend to focus attention on improving efficiency of indirect operations as an effort to reduce fixed costs since the ratio of labor cost is large.

Q: With material replacement from copper to aluminum and stainless steel as one cost reduction initiative, are there any issues from a technical or performance aspect? Also, to what extent do you expect the cost reductions to have?

A: Copper is an extremely important material that is used, for example, in heat exchangers, which are a core part of air conditioners, but copper carries a high risk in terms of market volatility and procurement stability. This is something we must confront as a medium- to long-term issue, and we hope to reduce the global amount of copper that we use to half by fiscal year 2024. We are focusing on many issues, including technical development and new production methods, to prevent any performance loss occurring due to material replacement. The exact cost reduction effect is under trial calculation, but it will make a significant contribution to profits if realized.

Q: Have there been any changes in market share in the global regions of the Air Conditioning business?

A: We have increased share in Japan, China, Europe, and Southeast Asia. However, market share declined in the Americas due to tight supply as a result of the temporary closure of the factory in April.

Q: What is your medium- to long-term target for operating profit margin for the Americas in the Air Conditioning business?

A: First, we would like to raise it to 8% by further expanding sales and improving productivity at the Goodman factory.

Q: What is the current progress for the 2021 sales plan?

A: For the Air Conditioning business, sales centering on residential use are proceeding in each region to be at or above the FY2019 level prior to the outbreak of COVID-19. In particular, sales in Japan, Europe, and the Americas have exceeded plan. For the Chemicals business, sales were greatly affected by COVID-19 in the previous fiscal year, but the market has gradually recovered since the second half, reaching a record high in April. We would like for this momentum to continue.