



Daikin Industries, Ltd.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2026

February 4, 2026

Event Summary

[Company Name]	Daikin Industries, Ltd.	
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[Venue]	Webcast	
[Number of Speakers]	3	
	Koichi Takahashi	Member of the Board, Senior Executive Officer, Responsible for Finance, Accounting and Budget
	Kota Miyazumi	Senior Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Department Manager of Corporate IR Group, Corporate Communication Dept.
[Analyst Names]*	Yuichiro Isayama	Goldman Sachs
	Tsubasa Sasaki	UBS Securities
	Sho Fukuhara	Jefferies
	Kentaro Maekawa	Nomura Securities
	Graeme McDonald	Citigroup Global Markets
	Satoshi Taninaka	SMBC Nikko Securities
	Hirosuke Tai	Daiwa Securities
	Kenjin Hotta	BofA Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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Presentation

Sakamoto: We will now begin the briefing on the financial results of Daikin Industries, Ltd. for Q3 of the fiscal year ending March 31, 2026. Thank you very much for joining us today.

The explanatory material is available on the Company's website under Investor Relations, as announced today by e-mail. Please have it on hand if you need it.

Today's speakers are: Koichi Takahashi, Member of the Board, Senior Executive Officer, Responsible for Finance, Accounting and Budget; Kota Miyazumi, Senior Executive Officer, Responsible for Corporate Communication; and Kazuhiro Matoba, Department Manager of Corporate IR Group, Corporate Communications Dept.

I am Sakamoto of Corporate IR Group will be facilitating the meeting. Thank you.

Today, Mr. Takahashi will give a 15-minute overview of the financial results, followed by a question-and-answer session. The end time is scheduled for 5:00 PM.

Now, Mr. Takahashi, Senior Executive Officer, please begin.

Takahashi: My name is Takahashi. Thank you very much for taking time out of your busy schedule to attend today's financial results briefing.

I would like to present an overview of the Q3 financial results along with the presentation material.

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I . Summary of Financial Results

The third quarter saw **higher revenue as profits fell.**

Despite working to **strengthen our sales and marketing capabilities, implement strategic selling price measures, and promote cost reductions, the impact of lower demand was greater than anticipated.**

The direct impact of U.S. tariffs (operating profit of approximately 29 billion yen) was absorbed by utilizing pass-through pricing and cost reductions.

(billion yen)	Q1-3 Results		
	FY2024	FY2025	YoY
Net sales	3,593.2	3,666.3	102%
Operating profit	318.7	307.9	97%
(%)	(8.9%)	(8.4%)	
Ordinary profit	292.5	305.7	105%
(%)	(8.1%)	(8.3%)	
Profit attributable to owners of parent	186.7	195.4	105%
(%)	(5.2%)	(5.3%)	
USD/JPY	¥153	¥149	
EUR/JPY	¥165	¥172	
RMB/JPY	¥21.2	¥20.8	

FX Effect (YoY)

Net Sales	-38.5 billion yen
Operating Profit	-14.0 billion yen

YoY Results Excluding FX Effect

Net Sales	103%
Operating Profit	101%

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First, please see page three.

In Q3, net sales increased and operating profit decreased.

In addition to the sluggish US housing market and the prolonged real estate recession in China, demand also declined in Asia due to the economic slowdown and unfavorable weather. In this difficult business environment, we worked to strengthen our sales and marketing capabilities in each region and implemented various measures, including strategic selling price measures and cost reduction efforts, but these efforts were unable to offset the impact of a greater-than-expected decline in demand.

Although the US tariffs had a direct negative impact of approximately JPY29 billion on operating profit, this was fully absorbed by price increases and cost reductions.

The exchange rates were JPY149 to the US dollar, JPY172 to the euro, and JPY20.8 to the Chinese yuan. The foreign exchange impact versus the previous year was negative JPY38.5 billion on net sales and negative JPY14 billion on operating profit.

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I . Financial Results by Segment

- ✓ **Air Conditioning and Refrigeration Equipment business: Both revenue and profits increased.** Despite the impact of declining residential demand in the Americas and China, along with the economic downturn and unseasonable weather in Asia, Daikin expanded sales in businesses with strong demand such as Applied and Commercial. Together with significantly regaining market share for Ducted Unitary for Houses in the Americas, sales in Japan expanded with high value-added products. In China, we concentrated resources on sales of residential multi-split air conditioners.
- ✓ **Chemicals business: Revenue rose, whereas profits fell.** This was the result of slow semiconductor demand accompanied by a subsequent adjustment in distribution inventory.

(billion yen)		Q1-3 Results		
		FY2024	FY2025	YoY
Total	Net sales	3,593.2	3,666.3	102%
	Operating profit (%)	318.7 (8.9%)	307.9 (8.4%)	97%
Air-Conditioning and Refrigeration Equipment	Net sales	3,335.8	3,401.2	102%
	Operating profit (%)	284.3 (8.5%)	288.3 (8.5%)	101%
Chemicals	Net sales	188.8	193.0	102%
	Operating profit (%)	32.7 (17.3%)	18.1 (9.4%)	55%
Others	Net sales	68.6	72.1	105%
	Operating profit (%)	1.8 (2.6%)	1.6 (2.2%)	87%

<u>FX Effect (YoY)</u>		
	Air Conditioning and Refrigeration Equipment	Chemicals
Net Sales	-37.0 billion yen	-2.5 billion yen
Operating Profit	-13.0 billion yen	-0.8 billion yen

<u>YoY Results Excluding FX Effect</u>		
	Air Conditioning and Refrigeration Equipment	Chemicals
Net Sales	103%	104%
Operating Profit	106%	58%

*Air-Conditioning and Refrigeration Equipment includes filter businesses.

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See page four. Results by business segment.

In the air conditioning and refrigeration equipment business, sales and profit increased on a real basis, excluding exchange rate effects. While sales were affected by declining demand for residential applications in the Americas and China, economic stagnation in Asia, and unseasonable weather, we expanded sales in businesses where demand was strong, such as applied and commercial. In addition to the significant recovery of market share for Ducted Unitary for Houses in the Americas and sales expansion of high value-added products in Japan, we also concentrated our resources on sales of residential multi-split air conditioners in China.

On the other hand, the chemicals business reported higher sales and lower profit. The environment surrounding our core business was very severe, with sluggish demand for semiconductors and delayed recovery of demand for automobiles. Despite efforts to expand sales of wire coating materials for data centers and other applications through the development of new applications, profits decreased significantly from the previous year due to a decline in sales of PFA, a high value-added material for semiconductor manufacturing equipment, and an increase in depreciation expenses from increased production investments made in the previous fiscal year.

Foreign exchange rates had a negative JPY37 billion impact on net sales and a negative JPY13 billion impact on operating profit in the air conditioning and refrigeration equipment business. In the chemicals business, they had a negative impact of JPY2.5 billion on net sales and a negative JPY0.8 billion on operating profit.

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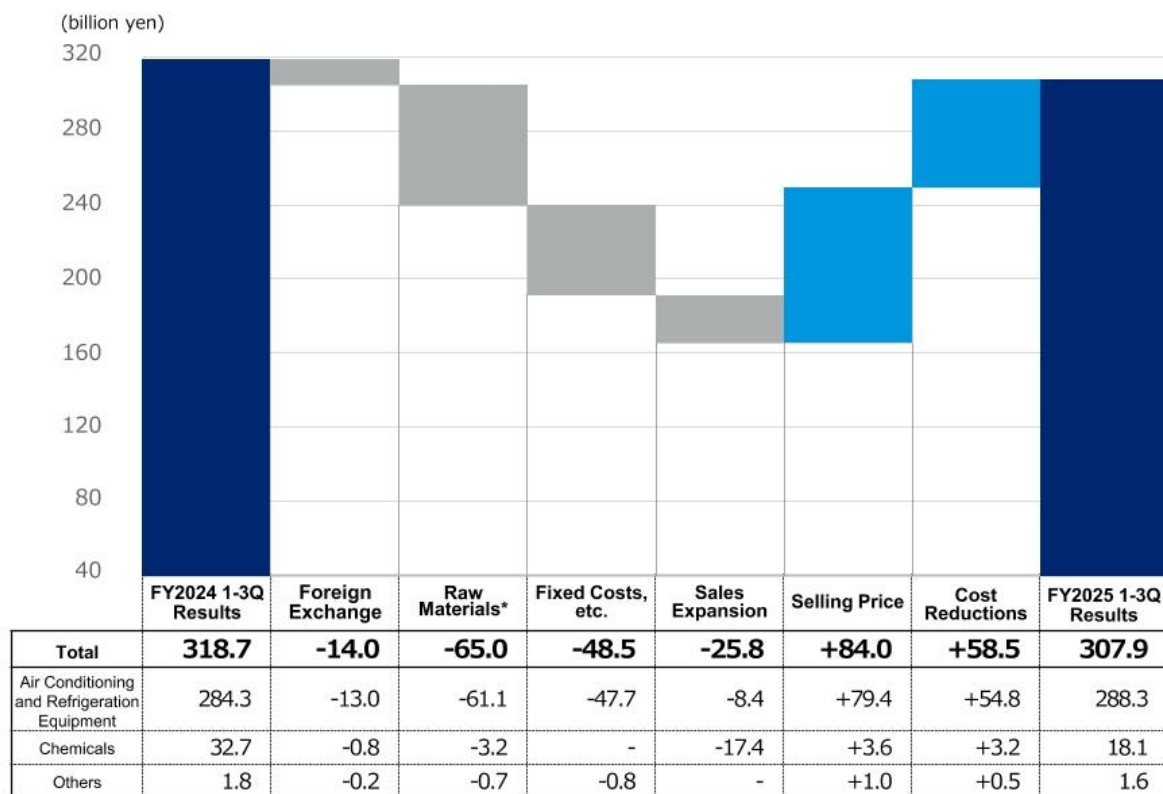
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The status of each business and the regional status of the air conditioning and refrigeration equipment business will be explained later.

I . Analysis of Changes in Operating Profit - YoY



*Includes direct tariff impact (-29 billion yen) and logistic costs.

*Air Conditioning and Refrigeration Equipment business includes filter businesses.

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Page five is an analysis of the YoY change in operating profit for the nine months ended December 31, 2025.

Amid the significant impact of declining demand, the Company strived to expand sales of high value-added products, increase market share, and thoroughly implement selling price measures, while promoting total cost reductions, including manufacturing cost reductions and efficient management of fixed costs.

The direct impact of the US tariff measures of approximately JPY29 billion was fully absorbed by the effects of measures to increase selling prices by approximately JPY21 billion and cost reductions by approximately JPY8 billion.

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II . FY2025 Business Forecast

- ✓ Based on the 3Q results, operating profit forecast for the full year has been revised to 413 billion yen. Daikin aim to secure increased profits in the fourth quarter and achieve overall annual profit growth.
- ✓ While the current business environment remains challenging, recent signs indicate that the **decline in demand is bottoming out**. We are **accelerating efforts to generate results through the Six Group-wide Themes** (see next page) **project directly under top management supervision**.
- ✓ Together with striving to expand the Applied and Commercial Solutions businesses, we will increase sales of high value-added products, increase both selling prices and market share while promoting incremental cost reductions, lower fixed costs, and inventory optimization. We will work to **improve the business structure in terms of both profitability and efficiency in the lead up to FY2026 (which begins the first year for the next strategic management plan)**.

(billion yen)	FY2025 (Previously announced)	FY2025			
	Total Forecast	Q1-3 Results	YoY	Total Forecast	YoY
Net sales	4,840.0	3,666.3	102%	4,920.0	104%
Operating Profit (%)	435.0 (9.0%)	307.9 (8.4%)	97%	413.0 (8.4%)	103%
Ordinary Profit (%)	415.0 (8.6%)	305.7 (8.3%)	105%	398.0 (8.1%)	109%
Profit attributable to owners of parent (%)	280.0 (5.8%)	195.4 (5.3%)	105%	268.0 (5.4%)	101%
USD/JPY		¥149		¥150	
EUR/JPY		¥172		¥174	
RMB/JPY		¥20.8		¥21.0	

FX Effect (YoY)

Net Sales	-10.0 billion yen
Operating Profit	- 13.5 billion yen

YoY Comparison Excluding FX Effect

Net Sales	104%
Operating Profit	106%

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See page six.

Based on the Q3 results, we have revised our annual operating profit plan to JPY413 billion. The downward revision was made because demand for the air conditioning and refrigeration equipment business has been more severe than expected. However, operating profit will increase significantly in the three months of Q4, and we intend to secure an increase in profit for the year.

The business environment in Q3 was very difficult, but we expect it to ease somewhat in Q4. For example, in the US housing market, the adjustment of distribution inventories is progressing, and in Asia, the effects of the natural disasters that occurred in various regions are beginning to dissipate. In Europe, despite the ongoing economic slowdown, demand is emerging in the commercial market for replacement with energy-efficient equipment.

We will accelerate the creation of results from the measures we have taken so far, specifically the six cross-company themes under the direct control of top management, such as sales expansion of high value-added products, improvement of the solution business ratio, strategic sales price measures, and cost reduction, while developing additional measures to respond to changes in the business environment.

We also intend to promote measures to strengthen our business structure, such as reducing fixed costs and optimizing inventories, leading to FY2026, the first year of the next strategic management plan.

The year-end dividend forecast remains unchanged from the previous announcement. We will consider this matter again in light of the full-year business results.

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II . [Reference] Project Directly under Top Management: Six Group-wide Themes

1. Strengthening sales and marketing capabilities

- Enhance profit margin-focused sales strategies and accelerate the launch of differentiated products

2. Accelerating the launch of new and differentiated products

- Aim to expand sales and maintain or increase selling prices in a challenging business environment

3. Bolstering the supply chain, including responses to U.S. tariff measures

4. Maximizing cost reductions

- Reduce costs of base models
- Switch material from copper to aluminum, stainless steel, etc.
- Respond to U.S. tariff measures

5. Expanding the Service Solutions business globally

- Develop solutions for each market and segment
- Generate revenue from maintenance, repair services, and parts sales

6. Achieving results through digital investment and process innovation

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Page seven details six themes across the entire company.

This is reference information and will not be explained.

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II . Business Forecast by Segment

(billion yen)		FY2025 (Previously announced)	FY2025			
		Total Forecast	Q1-3 Results	YoY	Total Forecast	YoY
Total	Net Sales	4,840.0	3,666.3	102%	4,920.0	104%
	Operating Profit (%)	435.0 (9.0%)	307.9 (8.4%)	97%	413.0 (8.4%)	103%
Air-Conditioning and Refrigeration Equipment	Net Sales	4,453.0	3,401.2	102%	4,535.0	103%
	Operating Profit (%)	392.5 (8.8%)	288.3 (8.5%)	101%	373.5 (8.2%)	106%
Chemicals	Net Sales	285.0	193.0	102%	275.0	105%
	Operating Profit (%)	38.0 (13.3%)	18.1 (9.4%)	55%	35.0 (12.7%)	76%
Others	Net Sales	102.0	72.1	105%	110.0	105%
	Operating Profit (%)	4.5 (4.4%)	1.6 (2.2%)	87%	4.5 (4.1%)	99%

*Air-Conditioning and Refrigeration Equipment includes filter businesses.

FX Effect (YoY)

	Air Conditioning and Refrigeration Equipment	Chemicals
Net Sales	-10.0 billion yen	-2.0 billion yen
Operating Profit	-12.7 billion yen	-0.6 billion yen

YoY Results Excluding FX Effect

	Air Conditioning and Refrigeration Equipment	Chemicals
Net Sales	104%	105%
Operating Profit	110%	77%

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See page eight. Segmental outlook.

In the air conditioning and refrigeration equipment business, the sales forecast was increased by JPY82 billion from the previously announced forecast, while the operating profit forecast was reduced by JPY19 billion. In the chemicals business, the sales forecast has been reduced by JPY10 billion from the previous announcement, and the operating profit forecast has been reduced by JPY3 billion. In the other business, the sales forecast has been increased by JPY8 billion from the previous announcement, while the operating profit forecast remains unchanged.

The foreign exchange impact is expected to be negative JPY10 billion on net sales and negative JPY12.7 billion on operating profit in the air conditioning and refrigeration equipment business. In the chemicals business, we expect a negative impact of JPY2 billion on net sales and a negative impact of JPY0.6 billion on operating profit.

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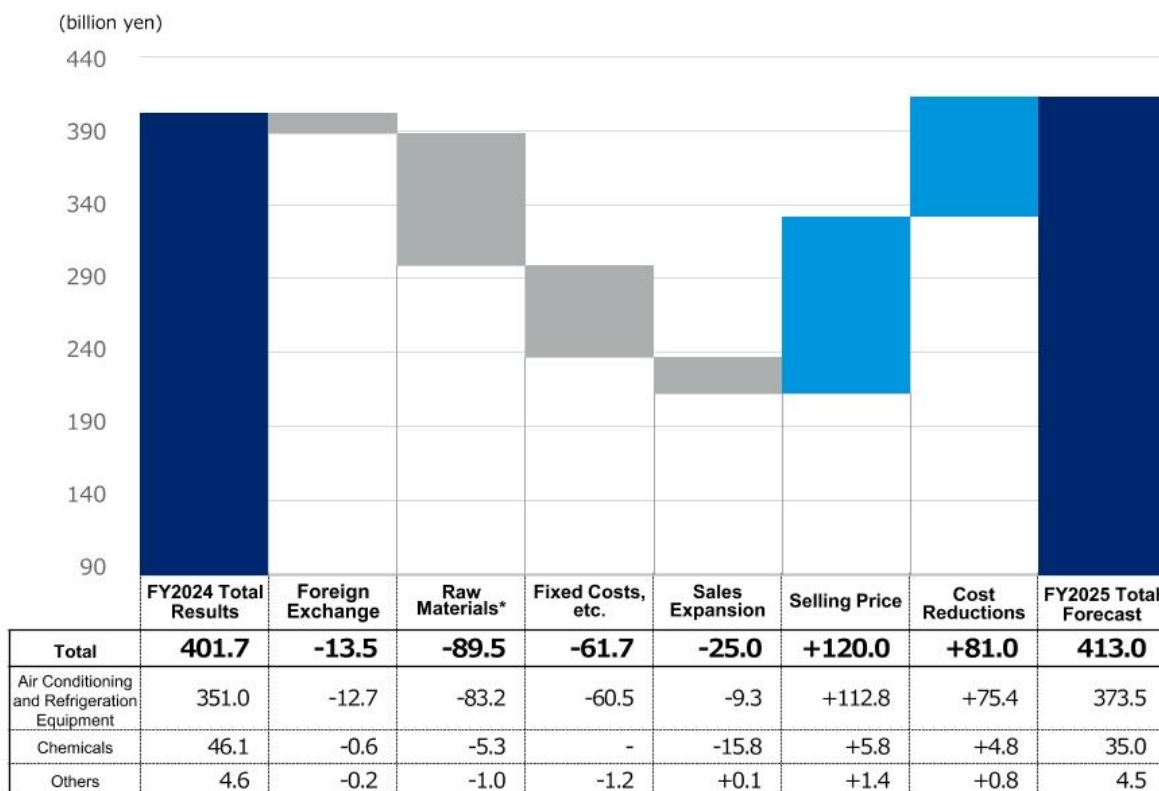
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II . Analysis of Changes in Operating Profit - Forecast



*Includes direct tariff impact (-41 billion yen) and logistic costs.

*Air Conditioning and Refrigeration Equipment business includes filter businesses.

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See page nine.

The factors for YoY changes in the annual operating profit plan have been changed, as shown in the chart.

We plan to absorb the direct impact of the US tariffs of approximately JPY41 billion by increasing selling prices by approximately JPY30 billion and reducing costs by approximately JPY11 billion.

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II . [Reference] Effect of U.S. Tariff Measures ① Direct Impact

The impact of the U.S. tariff measures on our financial plan for the fiscal year ending March 2026 has been recalculated in light of recent changes.

The impact on operating profit is expected to be approximately 41 billion yen.

This impact will be absorbed by utilizing pass-through pricing and cost reductions.

*Reflecting the following tariffs

- ✓ Tariffs on China (20%), Mexico (30%), and Canada (35%), and tariffs on steel, aluminum (including derivatives), and copper (50%)
- ✓ A flat 10% reciprocal tariff on all imports and mutual tariffs between countries
- ✓ Retaliatory tariffs imposed by China and Canada

Currently incorporated into the plan

(1) DNA

- ✓ Impact on imported finished products: Imported products (**FIT system, RA, SKY, and VRV system**) from Japan, Asia, Europe and Mexico.
- ✓ Impact on U.S. products: Parts imported from China and Asia. However, there will be no impact on R32 since the purchased refrigerant is produced in the U.S.

(2) DAA

- ✓ Impact of imported finished products: Applied equipment imported from Europe. Imports from Mexico are exempt since they meet USMCA standards.
- ✓ Impact on U.S. products: Parts imported from Asia

(3) Chemicals business, Oil Hydraulics business: Products imported from Japan, China, Europe and Asia

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See page 10.

The direct impact of the US tariffs on our business results for the fiscal year ending March 31, 2026 is currently estimated to be approximately JPY41 billion.

Although the situation may change in the future, our policy remains the same: we will take countermeasures each time and absorb the impact by increasing selling prices, reducing costs, and changing suppliers and production sites.

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II . [Reference] Effect of U.S. Tariff Measures ② Indirect Impact

We will tackle the risk of an economic slowdown from the indirect impact of tariff measures by preparing for multiple scenarios and taking prompt action in response to changes in the business environment.

Possible risks

- ✓ Changes occur in tariff policy, including retaliatory tariffs.
- ✓ Economic growth slows due to disruption of global supply chains.
- ✓ Consumer purchasing power weakens due to rising product prices.
- ✓ Companies postpone capital investments.

Planning for the risk of a global economic slowdown

- ✓ Accelerate and move product development forward; improve leading products
- ✓ Further increase sales of differentiated products
- ✓ Shift resources by identifying growth areas such as high-performing regions/businesses
- ✓ Create results through six group-wide themes
- ✓ Perform a sweeping review of upfront investments
- ✓ Implement urgent cost reductions

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II . Net Sales by Region – Air Conditioning and Refrigeration Equipment Business

*Percentage expresses year on year comparison
*Includes filter businesses

(billion yen)	FY2021 Q1-3		FY2022 Q1-3		FY2023 Q1-3		FY2024 Q1-3		FY2025 Q1-3		FY2025 Forecast (February)	
Japan	105%	390.8	105%	410.8	107%	437.7	109%	478.3	106%	505.1	104%	670.0
Europe	135%	372.5	124%	462.7	103%	475.3	107%	510.0	106%	542.8	108%	775.0
China	131%	359.7	103%	369.9	105%	389.5	94%	365.2	92%	335.3	92%	395.0
Americas	130%	650.2	156%	1,011.4	116%	1,172.6	116%	1,360.9	103%	1,406.7	106%	1,840.0
Asia	117%	204.8	151%	308.9	106%	327.4	121%	397.2	91%	361.6	95%	510.0
Oceania	131%	75.3	127%	95.4	102%	97.4	112%	108.9	101%	110.1	102%	150.0
Middle East	141%	42.8	151%	64.6	140%	90.7	115%	104.6	121%	126.3	116%	175.0
Africa	140%	7.7	122%	9.4	114%	10.7	102%	10.9	121%	13.2	120%	20.0
Total	124%	2,103.8	130%	2,733.2	110%	3,001.4	111%	3,335.8	102%	3,401.2	103%	4,535.0
Overseas Net Sales ratio	81%		85%		85%		86%		85%		85%	
USD/JPY	¥111		¥137		¥143		¥153		¥149		¥150	
EUR/JPY	¥131		¥141		¥155		¥165		¥172		¥174	
RMB/JPY	¥17.3		¥19.9		¥20.0		¥21.2		¥20.8		¥21.0	

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See page 12. This page shows sales by region for the air conditioning and refrigeration equipment business.

In real terms, excluding exchange rate effects, sales in Europe were 102%, in China 94%, in the Americas 106%, and in Asia 92% of the previous year's level.

The annual plan is as stated.

Excluding the effect of foreign exchange rates, YoY sales in real terms are expected to be 102% in Europe, 93% in China, 107% in the Americas, and 97% in Asia.

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II . Net Sales by Region – Chemicals

*Percentage expresses year on year comparison
 *Others: Oceania, Middle East, Africa etc.

(billion yen)	FY2021 Q1-3		FY2022 Q1-3		FY2023 Q1-3		FY2024 Q1-3		FY2025 Q1-3		FY2025 Forecast (February)	
	Japan	135%	41.8	123%	51.5	97%	49.8	102%	51.0	86%	44.0	88%
Americas	123%	30.0	144%	43.3	80%	34.6	78%	26.9	130%	35.0	124%	51.0
China	131%	39.2	109%	42.9	98%	42.0	115%	48.4	99%	47.7	100%	63.5
Asia	120%	19.0	132%	25.2	99%	24.8	97%	24.2	114%	27.6	129%	45.0
Europe	160%	23.9	126%	30.1	125%	37.7	99%	37.4	101%	37.8	102%	51.0
Others	123%	0.8	128%	1.0	85%	0.8	120%	1.0	73%	0.7	71%	1.0
Total	133%	154.8	125%	193.9	98%	189.7	100%	188.8	102%	193.0	105%	275.0
Overseas Net Sales ratio		73%		73%		74%		73%		77%		77%
USD/JPY		¥111		¥137		¥143		¥153		¥149		¥150
EUR/JPY		¥131		¥141		¥155		¥165		¥172		¥174
RMB/JPY		¥17.3		¥19.9		¥20.0		¥21.2		¥20.8		¥21.0

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See page 13. This page shows sales by region for the chemicals business.

Excluding the effect of foreign exchange rates, YoY sales in real terms were 134% in the Americas, 100% in China, and 97% in Europe.

The annual plan is as stated.

Excluding the effect of foreign exchange rates, sales are expected to be 125% in the Americas, 100% in China, and 96% in Europe of the previous year's level.

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III. Air Conditioning and Refrigeration Equipment – Japan

Net sales were 106% year over year. In addition to strengthening sales and marketing capabilities and expanding sales of high value-added products, the effectiveness of selling price measures also contributed to results.

- ✓ Residential: Industry demand benefited from a record high heatwave and subsidies provided by local governments. With higher electricity rates and growing awareness of energy savings, we enhanced our user proposals, focusing on high value-added products such as **Urusara X**.
- ✓ Commercial: Industry demand exceeded the previous fiscal year due to increased construction starts for small shops and retail stores driven by inbound tourist demand. We enhanced user proposals to focus on high value-added products including **FIVE STAR ZEAS**, which combines high energy-saving performance and exceptional ease of installation and **VRV 7**, which employs R32 refrigerant and is highly energy efficient.

YoY change (Volume basis)		Q1-3 Results
Residential	Market	104%
	Daikin	101%
Commercial	Market	103%
	Daikin	103%
Applied	Market	96%
	Daikin	93%

*Applied is based on total net sales.

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See page 14. This section provides an overview of the air conditioning and refrigeration equipment business by region.

In Japan, demand for air conditioners for both residential and commercial use exceeded the previous year due to high temperatures nationwide and improved capital investment, as well as a tailwind from subsidies provided by local governments.

Against the backdrop of rising electricity rates and expanding needs for energy conservation, we worked to strengthen our sales and marketing capabilities and expanded sales of high value-added products, as well as thorough implementation of selling price measures, resulting in sales of 106% of the previous year's level.

In the residential market, our focus on profitability resulted in a decrease in market share, but in the commercial market, we have managed to both expand sales and secure market share.

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III. Air Conditioning and Refrigeration Equipment – Americas

Net sales were 103% year over year. Industry demand for Residential remained stagnant due to persistent inflation and high mortgage interest rates. However, Daikin expanded sales in Applied and promoted selling price measures for Residential.

- ✓ Ducted Unitary for Houses: Amid fallen demand following a rush to purchase before changes in refrigerant GWP regulations took effect, we significantly increased market share by focusing on enticing customers back, supporting dealers, and developing new dealers to expand sales, mainly of R32 units. By improving dealer development and support, sales grew for our environmental premium product **FIT system**.
- ✓ Ductless: **RA/SKY** was affected by the demand downturn following the pre-regulation rush related to refrigerant GWP changes and by stagnant residential demand. **VRV system** sales were also affected by project postponements and companies holding off on investments.
- ✓ Applied: Capitalizing on solid data center demand, Daikin increased equipment sales by expanding production capacity at its new factory in Mexico and existing U.S. factories. Sales also grew in the Solutions business by leveraging the support of instrumentation and engineering companies.

YoY change (Volume basis)		Q1-3 Results
Ducted unitary for houses		90%
Ductless	RA/SKY	94%
	VRV	85%
Applied		111%

*Applied is based on total net sales in local currency.
 *Ducted Unitary for houses and Ductless products are manufactured and sold by DNA (Daikin Comfort Technologies North America, Inc).
 Applied products are manufactured and sold by DAA (Daikin Applied Americas, L.L.C.).

See page 15.

Sales in the Americas air conditioning and refrigeration equipment business were 103% of the previous year's level. Amid a difficult business environment in which industry demand for residential applications remained sluggish due to prolonged inflation and high mortgage interest rates, we promoted selling price measures in residential applications in addition to expanding sales of applied.

Sales of Daikin North America were 112% of the previous year's level on a local currency basis. The breakdown of factors contributing to the increase was minus 10 points from volume, plus 8 points from selling price, plus 8 points from improved product mix, and zero impact from M&A. In addition, the fact that the Latin American air conditioning companies became part of DNA from this fiscal year contributed to an increase in revenue of plus 6 percentage points.

Sales of Ducted Unitary for Houses products were affected by last year's rush demand due to changes in GWP value regulations for refrigerants. Under such circumstances, we focused on winning back customers, supporting existing dealers, and developing new dealers to expand sales, especially of R32 units, resulting in a significant increase in market share. In H1, the share was about 22%, but in the three months of Q3, it was about 25%. We are targeting more than 24% for the year. The Win-back strategy is progressing as planned, with approximately 60% of the total as of the end of December, and we will continue to strengthen individual visits.

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Demand for Ducted Unitary for Houses was very sluggish in Q3 as distribution inventories continued to be adjusted. In Q4, we expect to see a gradual but steady recovery as distribution inventories are reduced and policy interest rates are lowered.

Daikin Applied Americas, Inc. achieved a significant increase in sales thanks to the steady expansion of its service solution business, in addition to the sales expansion of heat source equipment and secondary-side air conditioning equipment.

Although the current slowdown in economic growth is having an impact on demand of applied, we will strive to win orders in favorable markets such as data centers and corporate capital investment-related markets.

The operating margin for DNA was 9%, an improvement of 1 percentage point YoY, while for DAA it was 8%, a decrease of 2 percentage points YoY. The decline in DAA's operating margin was mainly due to the increased burden of amortization of goodwill associated with the acquisition and upfront investment for the expansion of the solutions business.

III. Air Conditioning and Refrigeration Equipment – China

Net sales were 92% year over year. The business environment continues to be severe from the worsening real estate market and slowing consumption. To contend with this, Daikin concentrated resources on direct sales to users, such as supporting **PROSHOP** specialty stores and the strengthening of customer centers and live commerce. We also maintain a high level of operating profit margins by expanding sales of high value-added products, enhancing our Solutions business, and implementing cost reductions.

- ✓ Residential: we focused on unique sales activities combining offline retail sales with online channels such as live broadcasts, web advertising, and SNS. Sales expanded for system products such as air conditioning, ventilation, heat pump floor heating, and air quality sensors. We also strengthened our Residential Solutions that leverage IoT and data analysis to propose optimal air quality tailored to each customer's lifestyle.
- ✓ Commercial: In light of carbon neutrality policies, we concentrated on markets where demand is relatively strong, such as government projects, factories, and green buildings, and bolstered our Solutions proposals focusing on energy savings.
- ✓ Applied: Efforts were made to improve sales for the maintenance and servicing business and energy-saving replacement proposals.

YoY change (Local currency basis)	Q1-3 Results
Residential	96%
Commercial	84%
Applied	80%

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See page 16.

In the air conditioning and refrigeration equipment business in China, we focused on user-direct sales activities amid a continuing difficult business environment, including a deteriorating real estate market and sluggish consumption. Although sales fell to 92% of the previous year's level, the Company maintained a high level of operating profit margin by expanding sales of high value-added products, strengthening the solutions business, and reducing costs.

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Sales of residential multi-split air conditioners were 96% of the previous year's level. In addition to promoting unique sales activities combining online and offline sales, we introduced a new series of system products to meet a wide range of customer needs. By demonstrating the strength of our sales force in this way, we believe we were able to secure maximum sales despite the difficult demand.

III. Air Conditioning and Refrigeration Equipment – Europe, Middle East, and Africa

Net sales were 106% year over year. Despite the challenging business environment, we focused on Residential and Commercial sales.

Net sales for the Middle East were 121% year over year. We expanded Residential sales in Turkey, as well as Commercial and Applied sales in Saudi Arabia and the UAE.

- ✓ Residential: Even though sales fell in Italy, sales of differentiated products expanded in France. Sales also expanded in Germany and the UK, where AC equipment penetration rates are low.
- ✓ Commercial: Sales of products using R32 increased significantly after bolstering proposal sales focused on the environment and energy efficiency.
- ✓ H/P Heating: The business environment continued to be demanding as we focused on dealer development and strengthening of our sales capabilities. Sales expanded in Germany by capitalizing on the rapidly growing demand for R290 units.
- ✓ Applied: Sales of medium-to-large chillers to data centers expanded. Sales in the After Sales Service business also grew.
- ✓ Freezer and Refrigerator: Results were affected by lower capital investment among major customers.

YoY change (Volume basis)		Q1-3 Results
Residential		102%
Commercial	SKY	105%
	VRV	109%
Heat Pump Heaters		93%
Applied		114%
Refrigerator and Freezer		99%

*Residential, commercial, and heat-pump heaters are only for Europe.
*Applied, Refrigerator and Freezer are based on total net sales in local currency.

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See page 17.

Sales in the air conditioning and refrigeration equipment business in Europe were 106% of the previous year's level. Amid a generally difficult business environment, the Company focused on sales for residential and commercial use.

Sales in the air conditioning and refrigeration equipment business in the Middle East were 121% of the previous year's level. In addition to growth in residential sales in Turkey, commercial and applied sales expanded in Saudi Arabia and the UAE.

Demand for heat pump heaters remains sluggish with no particular change in subsidy programs in various countries. We are focusing on dealer development and subsidy application support to capture the rapidly growing demand for R290 units in Germany and increase sales.

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III. Air Conditioning and Refrigeration Equipment – Asia and Oceania

Net sales in Asia were 91% year over year. In addition to the economic slowdown in ASEAN countries, sales in India were affected by unseasonable weather.

Net sales in Oceania were 101% year over year with Commercial sales expanding in Australia.

- ✓ Residential: Daikin tried to develop dealers and strengthen sales promotion measures to consumers. However, the ASEAN region experienced sluggish demand from the impact of U.S. tariff measures and distribution inventories remained high, leading to intense price competition. In India, the consumption tax cut (implemented on September 22, 2025) was effective, but the company was significantly affected by the unseasonable weather.
- ✓ Commercial: Future uncertainty has resulted in projects delays and cancellations. Daikin focused on bolstering dealer development and training while expanding sales in India and Australia.
- ✓ Applied: Along with strengthening sales to factories and data centers, we also focused on the After Sales Service business, including maintenance and servicing.

YoY net sales of main countries (local currency basis)		
Australia: 104%	India: 99%	Vietnam: 95%
Malaysia: 95%	Indonesia: 88%	Thailand: 86%

YoY change (Volume basis)		Q1-3 Results
Residential		83%
Commercial	SKY	103%
	VRV	101%
Applied		100%

*Applied is based on total net sales in local currency.

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See page 18.

Sales in the air conditioning and refrigeration equipment business in Asia were 91% of the previous year's level. This was due to the economic slowdown in countries in the ASEAN region and unfavorable weather conditions in India. Sales in India remained at the same level as the previous year on a local currency basis due to a decline in residential sales.

Meanwhile, in the air conditioning and refrigeration equipment business in Oceania, sales in Australia expanded for commercial use, resulting in sales of 101% of the previous year's level.

In the residential sector, we worked to develop dealers and strengthen sales promotion support for consumers. However, price competition intensified in ASEAN countries due to high distribution inventories. In India, sales also declined due to the significant impact of unseasonable weather in H1, despite efforts to recover benefiting from the consumption tax cut.

On the other hand, in the commercial use, we focused on developing and nurturing dealers and increased sales in India and Australia amid project delays and investment reviews.

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III. Air Conditioning and Refrigeration Equipment – Filter Business

Net sales were 100% year over year. Although demand remained strong, results were negatively impacted by exchange rates.

- ✓ Air Filter: Sales of high-margin products expanded in the United States. In Europe, sales expanded from replacement demand in Northern Europe. Sales decreased in China due to severe price competition caused by a slow recovery in the semiconductor market.
- ✓ P&I* : Sales of specialty filters for oil fields decreased, but sales of dust collection equipment remained strong.

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

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In the filter business, demand remained strong, but the negative impact of foreign exchange rates resulted in sales of 100% of the previous year's level.

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III. Chemicals

Net sales were 102% year over year. Amid the impact of lackluster demand in the semiconductor sector and slow demand recovery in the automotive sector, Daikin worked to expand sales of fluorocarbon gas and fluoropolymers in the Information and Communications Technology sector.

- ✓ Fluorocarbon gas: In a challenging environment with declining demand, we thoroughly maintained selling prices and expanding sales in the United States and Asia.
- ✓ Polymers and Fluoroelastomers
 - Fluoropolymers: Sales grew significantly due to increased production of FEP for electrical cables used in data centers. High-performance fluoropolymers for semiconductor manufacturing equipment continued to be affected by a decline in demand.
 - Fluoroelastomers: Sales expanded to the automotive markets in Japan, Europe, and the United States.
- ✓ Fine Chemicals, Etc.: Results were affected by a stagnant demand for surface anti-fouling coating agents along with water and oil repellents.
New consolidation in etching agents for semiconductor processes contributed to net sales.

YoY change (Net sales basis)	Q1-3 Results
Total	102%
Fluorocarbon Gas	105%
Fluoropolymers & Fluoroelastomers	98%
Fine Chemicals, etc.	110%

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See page 20.

Sales in the chemicals business were 102% of the previous year's level. Amid sluggish demand in the semiconductor sector, delayed recovery of demand in the automotive sector, and accompanying distribution inventory adjustments, the Company strove to expand sales by identifying areas where demand was strong.

In the fluoropolymers business, we increased production and expanded sales of FEP for use in wires for data centers, but were affected by a decline in demand for use in semiconductor manufacturing equipment.

Sales of fluoroelastomers grew in the automotive field.

Sales of fine chemicals increased from the previous year due to the effect of new consolidation in the field of etching agents for semiconductor processes, although sales of surface antifouling coatings and oil and water repellants for textiles decreased.

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IV. CAPEX, Depreciation and R&D Cost

(billion yen)	FY2024		FY2025	
	Q1-3 Results	Total Results	Q1-3 Results	Total Forecast
CAPEX	248.6	324.6	209.8	290.0
Depreciation	144.2	197.4	163.2	225.0
R&D Cost	100.0	135.7	110.2	150.0

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See page 21.

The results of capital expenditures, depreciation and R&D expenses for the first three quarters are shown in the table.

That's all from me. Thank you very much.

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Question & Answer

Sakamoto [M]: We will now have time for questions and answers.

Due to time limitations, please limit your questions to two at a time. Also, please keep your questions brief. We appreciate your cooperation.

First, Mr. Isayama of Goldman Sachs, please proceed.

Isayama [Q]: Thank you very much for all your help. My name is Isayama from Goldman Sachs. Thank you.

First, please let me ask how much the Q3 results deviated from the plan. I have been in charge of your company since 2012 and I do not recall any downward revisions during the period. So far, your company has achieved the plan by implementing cost reductions and other measures at all costs. So I am personally very surprised at this downward revision.

By segment, the downward revision in the air conditioning and refrigeration equipment business is large. According to the company-wide increase/decrease analysis, the sales expansion effect was lowered by about JPY44 billion compared to the value announced in November. Sales have not deviated much from the plan, even after factoring in foreign exchange. If so, is this due to production adjustments? What were the factors that caused the Q3 operating profit results to be so far off track? Have you squeezed out the pus and will things be easier in the next fiscal year? I would love to get your comments on that.

Takahashi [A]: Thank you very much.

Q3 results were significantly below internal plans. We considered making up for that shortfall in Q4. However, since there are only three months remaining in the current fiscal year, we have decided not to change our fourth quarter plan and have had to revise our annual forecast downward to reflect the decline in Q3.

Isayama [Q]: What were the reasons for the decline in Q3?

Takahashi [A]: There was an increase in expenses to strengthen sales and marketing capabilities. In Europe and North America, sales progress was behind schedule, and production cuts and adjustments were made in Q3. Various adjustments are necessary due to the decline in demand, but we are implementing measures such as strengthening sales and marketing capabilities, increasing selling prices, and reducing costs as planned. We hope to reap those benefits in Q4 as originally planned. Demand, especially in North America, as you all know, was more sluggish than expected.

Isayama [Q]: Thank you very much. It has been a very long time since the annual plan was revised downward last time. You must have been very hesitant about this action.

Takahashi [A]: Internally, this was a difficult decision. Demand was particularly bad at the end of Q3, when the measures were not very effective. As a result, actual results fell far short of the plan.

I believe you have asked if we will be able to recover from that in Q4. The effects of the various measures have been incorporated into the plan considerably from the beginning. Since it is difficult to recover from the decline in Q3 in addition to this, we have revised downward for the amount of the shortfall in Q3.

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This is due to the fact that the impact of the decrease in demand was too great, not that the measures were less effective or that measures could not be taken. Our internal assessment is that we were not able to fully cover the impact of the unexpected decline in demand.

Isayama [Q]: Thank you very much.

My second question is about the United States. I understand your win-back strategy and margins. On the other hand, through your company's briefings to date, I had thought that the distribution inventory would begin to dissipate from the second half of the year onward. However, I got the impression that you were struggling more than I had imagined. What is the background behind the lack of correct understanding about the business environment with regard to the business in North America?

Takahashi [A]: It is true that the sales performance has not reached the internal plan. The reason for this, I repeat, is a greater-than-expected deterioration in industry demand. I believe that demand for Ducted Unitary for Houses in October and November dropped to about 50% of the previous year's level. It was close to that level in December. The main reason is that industry demand was very poor in Q3.

Our sales volume is slightly below the previous year, but as I explained earlier, our market share has increased significantly. However, we did not anticipate that demand would fall so far.

Isayama [Q]: Would you say that the market has bottomed out?

Takahashi [A]: I don't think we can say that it has bottomed out yet. However, inventory adjustment has progressed, and our customers' distribution inventories are now below the previous year's levels. We believe at this point that in the industry as a whole it will take a little more time.

Isayama [M]: I understand very well. Thank you very much. That's all from me.

Sakamoto [M]: Thank you very much.

Next, Mr. Sasaki of UBS Securities, could you ask a question?

Sasaki [Q]: My name is Sasaki from UBS Securities. Let me ask you two quick questions as well. This time, demand was lower than planned, especially in North America. Once again, please tell us how the Q3 results compared to the plan three months ago, broken down by demand environment and market share.

One more thing, as mentioned in Mr. Takahashi's presentation at the beginning of this meeting, compared to the previous plan, the growth rate of sales in local currency terms, especially for air conditioning, is down in China and Asia, in addition to North America. Let me ask if that was also a factor in the downward revision this time. Can you also tell us quantitatively how much of the downward revision was due to the US, Chinese, and Asian markets, respectively?

Takahashi [A]: First of all, we expected that demand in North America, especially unitary demand, would be about 80% of the previous year's level in Q3. Actual demand was 60% or slightly less, and that was the biggest impact.

The share is up almost as planned. I think we have been able to increase our share slightly above the plan. In Q3 alone, the market share was about 25%, which is a 6-percentage point increase over the previous year. In the single month of December, the market share rose to about 28%. I think the biggest factor was that we experienced a greater-than-expected decline in demand.

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About the markets in China, Asia, and Oceania. The Chinese market certainly continues to be sluggish, but this is not to say that it is more sluggish than expected; we assess it internally that demand continues to be weak. In Asia and Oceania, as explained at the beginning of this report, we were unable to ship due to unseasonable weather in Q1 and natural disasters such as flooding in Q3. In addition, the overall Asian economy is showing signs of weakness, and actual sales are not progressing well. Due to both of these causes, we have also revised downward our forecast for the Asian air-conditioning business this time.

Sasaki [Q]: In summary, one of the main reasons for the downward revision was that demand for residential air conditioning in North America was actually worse than expected, at 60% compared to the forecast of 80% of the previous year's level. Another negative factor was the Asian market, although not to the same extent as North America. However, market share was higher than expected. Is this correct?

Takahashi [A]: As you mentioned, we have greatly increased our market share in North America. In Asia and Oceania, the market share is also increasing slightly according to the local management staff.

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

Second, please tell us about the impact of recent market conditions. Specifically, about copper and aluminum prices. Recently, the price of copper has risen very high, and I think this will have an impact on air conditioning business because it uses a lot of copper, iron, and aluminum. I recall that in the past, market conditions were a negative factor in FY2021 and FY2022. Once again, I would like to know what your company is currently discussing and what measures you are taking to deal with the impact of the sharp rise in copper and aluminum prices.

In the past, I believe that this was absorbed in the medium to long term through price increases and hedged in the short term. Could you tell us how you are currently looking at and addressing the impact of the current market conditions?

Takahashi [A]: This fiscal year, we are almost hedged against the remaining two months, so I don't think there will be much of an impact. It is the policy of the Company to hedge for the next fiscal year and to some extent for the long term, reflecting the previous failure. However, in some areas this has not been fully executed. Some of the amount to be used in FY2026 has already been hedged, but more of the amount is currently unhedged. As a result, as you have just pointed out, it is true that there is a negative impact.

However, as I mentioned earlier, demand has dropped significantly this fiscal year, and sales volume has also fallen short of projections. So, there is a small amount left over that we have hedged for the current year. We will use a little of that next year, therefore we expect the impact to be somewhat mitigated. However, we have begun to build our business plan for the next fiscal year on the assumption that it will be significantly affected by soaring copper and aluminum market prices. As a countermeasure, we are considering both cost reductions and a slight price pass-through to customers.

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

Sakamoto [M]: Thank you very much.

Next, Mr. Fukuhara of Jefferies, could you ask a question?

Fukuhara [Q]: My name is Fukuhara from Jefferies. I have two questions.

The first point is the phrase "demand is bottoming out" on page six. Specifically, in which areas and for what reasons do you judge that signs of bottoming out have been seen?

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Takahashi [A]: I would not say that demand has completely bottomed out, but the momentum of demand decline is easing. One is residential air conditioning in North America. Our customer's inventory is now slightly below the level of the previous year. Looking at competitors' trends as well, inventories have been consistently coming down, and the rate of decrease is gradually slowing. While it may be a bit different from what you might strictly call a "bottoming out," we are seeing a bottom in North America.

In Asia, where demand has been very sluggish so far, we expect that from Q4 onward, the impact of the natural disasters that affected us this quarter will disappear. In addition, Asia is about to enter its top season, and we expect that demand will probably improve, including inventory buildup ahead of that season.

In Europe, as I mentioned earlier, sales for commercial use, etc., have started to pick up. The overall view of the demand is still expected to remain weak, and we do not expect demand to rise, but we do expect the Q4 decline to be considerably better than Q3.

The chemicals business is also having a very difficult time adjusting distribution inventories. However, molders' inventories are dwindling. The consensus in the industry is that demand for semiconductors will return in the future, although demand for semiconductors is still seen as sluggish at present. In the past, this industry has experienced shortages when demand picked up. We are currently talking to our distribution clients about rethinking how they hold inventory in preparation for when industry demand recovers. With all of this in mind, rather than saying demand has already "bottomed out," we would say that we are now starting to see the bottom.

Fukuhara [Q]: Understood. Thank you very much.

My second question is about the business in China on page 16. What I am concerned about is that for the China business, we tend to focus on residential while the top line is not growing very fast. However, as I recall, in China, commercial and applied sales account for about a quarter of total sales. Are there any bright spots in the non-residential sector?

Takahashi [A]: As you mentioned, I think it is difficult for residential use to recover unless the real estate market itself returns. Under such circumstances, there is a great need in China for energy-saving and carbon-neutral products for commercial use, including in factories. We are aggressively developing our business-use products to capture the carbon-neutral trend. However, while demand for commercial use is not as weak as residential use, it is not strong either.

For applied, we are making a similar proposal to our customers. However, compared with other regions, in China it is relatively difficult to find new large-scale buildings, and demand is not that strong. However, as you mentioned, we are currently shifting resources to commercial and applied. In the residential sector, as I explained earlier, we have also started to offer new value-added products and services. Overall, we are shifting resources into areas where we expect demand.

Fukuhara [Q]: Understood. How profitable do you expect the China business to be this year?

Takahashi [A]: I think we are maintaining about 22% to 23%.

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

Sakamoto [M]: Thank you very much.

Next, Mr. Maekawa of Nomura Securities, could you ask a question?

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Maekawa [Q]: My name is Maekawa from Nomura Securities. Thank you for your explanation. I would also like to ask two questions regarding the decline in Q3 profit and the recovery in Q4.

To summarize what you have just said, the decline in demand in North America was larger than expected. In response, production was reduced to some extent in Q3, and profit was not so high. Even though the bottom of the demand decline is just beginning to appear, there has not been a significant recovery. I have the impression that it will be difficult to achieve the annual plan without some material factors, such as the return of production to a certain degree, in order to recover profit significantly in Q4. Are there any material factors that could provide a basis for a recovery in Q4? For example, it would make the most sense if there was some transitory negative impact in Q3, not just a production adjustment. I would appreciate it if you could tell me about the rationale for the recovery in Q4 from the downturn in Q3.

Takahashi [A]: The biggest factor that hurt us in Q3 was the decline in demand. We implemented countermeasures as planned, but they were not enough to offset the impact. Why do we think it will recover in Q4? Although demand has not recovered compared to Q3 at this time, we expect the negative impact of reduced demand to be smaller in Q4. In addition, we have been taking implementing measures since before Q3, and the effects of these measures are now accumulating. The internal consensus is that both of these factors will turn the shortfall in Q3 into a reversal in Q4.

As I mentioned, internal measures are being implemented as planned, but if the overall volume decreases, the effects of cost reductions and sales price increases will also decrease. The apparent impact of these internal measures can vary depending on how demand develops. What we need to do has proceeded more than expected, and as I mentioned, our market share increased in North America. In Q4, we will continue to implement these measures, which will have a significant effect. In addition, the negative impact of demand will be much less than in Q3.

Maekawa [Q]: Thank you very much.

According to the analysis of changes in operating profit, it appears that fixed cost reductions will curb the decline in profit and cost reductions will be accumulated in Q4 compared to Q3. Other than increasing market share, which of these measures in particular do you expect to have an effect on sales expansion in Q4?

Takahashi [A]: We are continuously working on creating dealerships, especially in the air conditioning and refrigeration equipment business, and cumulatively new stores are being added. Also, as we have been explaining for a long time, the number of stores has increased cumulatively due to win-backs in North America. The stores that we have been able to win back have seen significant growth in sales, with 30% or 50% growth over the previous year. We expect this to flourish more than before in Q4.

Maekawa [Q]: Understood. Thank you very much.

Second, I would like to ask for quantitative information focusing on the copper price. As you mentioned earlier, I believe that you will be hedging going forward, or determining pricing, for the next fiscal year. This year, I assume that the price will probably be around USD 9,600 per ton, but if the current market conditions remain the same, the price may go up by more than USD 3,000 per ton. In the past, I bet you were using about 100,000 tons. The amount of use may have increased, though. I estimated that a hypothetical USD 3,000 per ton increase would result in an annual cost increase of more than JPY 30 billion, i.e., JPY 40 billion to JPY 50 billion. What are your thoughts on this impact?

Also, regarding price pass-through. Price shifting of US tariffs has been implemented in the current fiscal year as well, and the effect is expected to continue throughout the year. However, if there is a JPY 40 billion to JPY 50 billion cost increase in the next fiscal year, it will be difficult to pass on all of it to prices. If the copper price

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were to be USD 13,000, how much of an impact would this have on the next fiscal year, and can this all be offset through price pass-through, etc.?

Takahashi [A]: As for the next fiscal year, we are in the process of finalizing how much volume we will sell for each regional product, so I can't give you a definite answer. As Mr. Maekawa mentioned, if the full impact were to come through, the amount would be about that much. However, as I mentioned at the beginning, there is a portion that is hedged for the long term. We also have some excess hedges from the current year because of the drop in production this year. Therefore, we do not believe that the number will be as large as your rough calculation. However, in my mind, I assume that there will still be a considerable negative impact.

When resource prices rose sharply due to the war in Russia and Ukraine, we established a policy to pass on the higher prices to our customers in principle as a precondition of our management plan, and we implemented this policy in each region. Again, in principle, we ask our customers to bear the burden with respect to resource price hikes. In conjunction with this, we have continued to reduce costs and were able to further reduce them this fiscal year. We would like to make it our policy this time to increase the cost reduction effect and absorb the impact by increasing selling prices and reducing costs.

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

Sakamoto [M]: Thank you very much, Mr. Maekawa.

Mr. McDonald of Citigroup Global Markets, please proceed.

McDonald [Q]: Thank you very much for your explanation today. I believe you will announce your next mid-term plan in May, and I know some investors are expecting a lot of changes. Market share was often mentioned in today's briefing. You told us that you are working hard to win back dealers in the US. You said the market share has increased compared to last year. The market is not good at all, but I believe you mentioned that the market share is increasing.

However, in the next mid-term plan to be announced, investors are expecting a scenario to improve ROE. All this talk about market share makes me think that Daikin may not change much. What are your thoughts on this point?

Takahashi [A]: Increasing market share is one example of a measure we are working on. Especially in the US, we lost market share last year, but I would like to say that our efforts to strengthen our sales capabilities are having a positive effect. We are not increasing our market share by lowering our selling prices. Basically, we are maintaining or increasing our market share while maintaining or increasing our selling price.

We believe that our inability to increase profit margins due to production cuts, inventory adjustments, and other factors resulting from the rapid decline in demand and sales has been a major challenge. The main objective of the next mid-term plan is to increase the profit margin. However, we would like to increase profitability, while at the same time being aware of top-line growth. We will increase profitability while expanding our business. In order to achieve this, we would like to clearly explain how we are going to strengthen our earning power by increasing the weight of the solutions business and reviewing some unprofitable businesses in the next mid-term business plan.

McDonald [Q]: I think you have a lot of homework to do for the next mid-term plan. I think there has to be a good explanation for profitability, ROE, and cost of capital. I have high expectations. Another point I would like to make is regarding the applied business in the Americas. Sales has grown 10% YoY in local currency terms, but Trane's sales are growing much faster. Especially in the last three months, Trane's orders seem to have increased significantly. What is Daikin's current order situation?

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Takahashi [A]: It is difficult to say how we compare with our competitors, but orders in the Americas applied business are steadily increasing, especially for data centers.

McDonald [Q]: I understand.

Let me make one last point. In the analysis of changes in operating profit in the annual plan released in November, it was explained that copper and aluminum were factors that increased costs by JPY6.5 billion and JPY5 billion, respectively. Will the impact amount for the current fiscal year any change significantly from that figure?

Takahashi [A]: No, it will not change much.

McDonald [M]: Thank you very much. I have high expectations for three months later.

Takahashi [M]: Thank you very much.

Sakamoto [M]: Thank you, Mr. McDonald.

Next, Mr. Taninaka from SMBC Nikko Securities, could you ask a question?

Taninaka [Q]: My name is Taninaka from SMBC Nikko Securities. Thank you. There are two points.

First, I would like to know if you have any hints as to the background behind your ability to maintain JPY120 billion in operating profit from sales price effects in sales expansion effects for the full year, even after significantly revising downward the outlook for sales expansion effects. In addition, I would like to ask if you think that this selling price effect will continue even excluding the price pass-through of copper price and tariffs, based on the assumption that sales volume will recover in the next fiscal year and beyond.

Takahashi [A]: First of all, you asked if we can increase the selling price so much this year. To date, we have been able to increase the selling price almost as planned. Since costs are rising in the US, we are considering additional selling price increases. We are considering whether to increase prices at the end of Q4. We expect to achieve our sales price effect plan for the current fiscal year.

Next, you asked if we can continue that for the foreseeable future. Although there may be some exceptions, we have a general policy in each region that we will never lower our prices. Prices raised this year during the period will take full effect next year. We expect that the portion of that increase will automatically be added as a selling price effect next year.

In addition, as I mentioned at the beginning of this presentation, we would like to pass on the impact of cost increases in copper, aluminum, and other materials to our prices as much as possible. Therefore, we would like to increase the selling price in the next fiscal year as we did this year.

Taninaka [Q]: Thank you very much.

As a factor in the increase in profits, you reduced costs by about JPY50 billion last year and JPY80 billion this year. Can we expect cost reduction effects at this pace in the next fiscal year and beyond? On the other hand, I imagine it would be difficult to further reduce costs another level from here. Can I know where there is still room for cost reduction in terms of procurement, production, reduction in number of components in R&D, etc.?

Takahashi [A]: We are also working quite hard this year to further reduce costs. This includes the cost reductions that we have made with the cooperation of our suppliers as part of the measures against US tariffs, and we expect the amount of cost reductions to be very large this year. In the next fiscal year, we plan to

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continue to build up cost reductions by absorbing the impact of the market surge in raw material prices I mentioned earlier and by enhancing cost reduction themes as we have been doing in the past.

However, we will now closely scrutinize the contents to see if we can reduce costs by the same amount as this year. To my surprise as well, cost reductions within the Company expanded significantly this fiscal year relative to the original plan. In that sense, we believe there is strength in our frontline operations. We look forward to next year.

Taninaka [M]: Very well understood. Thank you very much. That's all from me.

Sakamoto [M]: Thank you very much. The end time is approaching, but there are three people who have raised their hands, so we would like to extend the time a little bit.

Next, Mr. Tai from Daiwa Securities, could you ask a question?

Tai [Q]: My name is Tai.

One thing I would like to mention is that looking only at the Q3 results, the negative impact of the sales expansion effect is very large. I believe that part of the annual guidance has also been revised downward significantly. I believe you mentioned earlier that the growth rate of the air conditioning and refrigeration equipment business in local currency terms in Europe is 2%. Comparing the results of Q2 with the numbers we heard today for Q3, I think Q3 has improved.

The Company may say that demand was terrible, but you did your best in terms of volume, and that's why you increased your market share. But then I am not sure why the sales expansion effect is so diminished. Is it simply because of the impact of production cuts?

Takahashi [A]: I am wondering if you have a question about Q3 in particular.

Tai [Q]: Yes, about those three months only.

Takahashi [A]: We have analyzed the situation internally and are aware that this decrease is unexpectedly large. However, Q3 is an off-season for air conditioning, and the overall volume of goods is not very large. While the period is short, it can go up or down a bit depending on the product mix and regional mix. Looking only at Q3, as I mentioned earlier, there was also the impact of production cuts.

There are also rebates that increase in proportion to sales. Since our wholesalers are selling more products, and rebates are paid according to actual sales, the rebates are higher than for shipments from the manufacturer, which is a special factor. In addition, the negative impact from the changes in product mix and regional mix were larger than we had expected in the three months alone.

Tai [Q]: Will you see the same situation in Q4?

Takahashi [A]: Inventory adjustments will decrease considerably, and we anticipate that the special factor mentioned earlier—the balance between manufacturer shipments and actual sales rebates—will be resolved. In addition, as we enter the air conditioning season in earnest, we expect to see an improvement in the regional mix.

Tai [M]: Understood. That's all from me.

Sakamoto [M]: Thank you very much.

Next, Mr. Hotta of BofA Securities, please.

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Hotta [Q]: This is Hotta. Thank you very much. Let me ask you a question.

Back to the production reduction. The balance sheet shows JPY800 billion in merchandise and finished goods, giving the impression that inventory has increased quite a bit again. On the other hand, retail demand probably weakened from about October or November, as in North America. This continues to be the case today, and I get the impression that there is probably not much movement on the part of distributors to build up more inventory than usual from January to March. Let me ask one more time if there is any need for further inventory adjustments on your side in Q4.

Takahashi [A]: As you mentioned, the amount of inventory is growing significantly. However, the entire company is moving forward with efforts to improve inventory efficiency. Inventory is decreasing as planned in many regions, but we have not been able to reduce inventory in the North American air conditioning business and in the Asian and Oceania air conditioning business at this time. In the North American air-conditioning business, demand is an issue, but we have been increasing production to achieve significant growth in our strategic products. Production reductions have been made but have been somewhat delayed and have not yet reached a level commensurate with inventories. We expect that we will be able to adjust the level a bit more in Q4. However, because of the trends I mentioned earlier, it will be difficult to make all adjustments, and I expect inventory levels to remain relatively high until the end of Q4.

The same is true in Asia and Oceania. However, these areas will now enter the air conditioning season. Therefore, we would like to adjust our inventory amount based on the balance of stock for the season and actual sales movement.

I think these two areas are drastically out of the plan.

Hotta [Q]: Thank you very much.

Let me quickly ask additionally. Have you changed your Q4 forecast? The downward revision this time was to lower the amount that was not achieved in the Q3. However, as you mentioned, the need for a little more adjustment in air conditioning in North America has not been factored into the Q4 figures?

Takahashi [A]: We are continuing to make inventory adjustments for Q4 but considering the production ramp-up for the next fiscal year, we cannot make too much of a production adjustment. So, we continue to make adjustments within certain limits. I believe you are correct that the degree of this will be reduced a bit as the sales volume will also recover.

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

Sakamoto [M]: Thank you very much.

This concludes the financial results briefing. Thank you very much for your participation to the end.

[END]

Document Notes

1. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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