Daikin Industries,Ltd.

Sustainability Briefing

January 16, 2025

Event Summary

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[Participants]	On-site:22, Online: 94	
[Number of Speakers]	5	
	Katsuyuki Sawai	Senior Executive Officer, Responsible for CSR, Global Environment Affairs, External Relations
	Kota Miyazumi	Senior Executive Officer, Responsible for Corporate Communication
	Kenji Matsuba	Executive Officer, Deputy General Manager, Business Strategies, Air Conditioning Manufacturing Division, Department Manager of Planning Department, Air Conditioning Manufacturing Division
	Toshimitsu Harada	General Manager of CSR and Global Environment Center
	Masahito Yoshizawa	Department Manager of CSR and Global Environment Center
[Analyst Names]*	Tsubasa Sasaki	UBS Securities
	Yuichiro Isayama	Goldman Sachs
	Kentaro Maekawa	Nomura Securities

Kenjin Hotta	BofA Securities
Graeme McDonald	Citigroup Global Markets
Sho Fukuhara	Jefferies
Takeshi Kitaura	Bloomberg L.P.
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Wendy Pan	Macquarie Capital 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.

Presentation

Monri: Ladies and gentlemen, thank you very much for taking time out of your busy schedules to join us today. We will now begin the Sustainability Briefing.

The presentation materials can also be found on our company website under the section for shareholders and investors. While we will display these materials on the screen at the venue as well as on Zoom, we kindly ask that you have a copy at hand if needed.

Now, let me introduce today's speakers. First, Katsuyuki Sawai, Senior Executive Officer, responsible for CSR, Global Environment Affairs, and External Relations. Next, Kota Miyazumi, Senior Executive Officer, responsible for Corporate Communication. Then, Kenji Matsuba, Executive Officer, Deputy General Manager of the Air Conditioning Manufacturing Division, responsible for Business Strategies. Following him is Toshimitsu Harada, General Manager of the CSR and Global Environment Center. Finally, Masahito Yoshizawa, Department Manager of the CSR and Global Environment Center.

Allow me to briefly introduce myself as well—I am Monri from the Corporate Investor Relations Group within the Corporate Communication Department, and I will be serving as your moderator today.

Thank you for your attention.

Today's Briefing Agenda

Promoting Inverter Air Conditioning and the Realization of a Decarbonized Society

Ⅰ. Situation Confronting Daikin and Our Initiative Themes for Carbon Neutrality

Ⅱ. Inverters as Key Devices Central to Energy Savings

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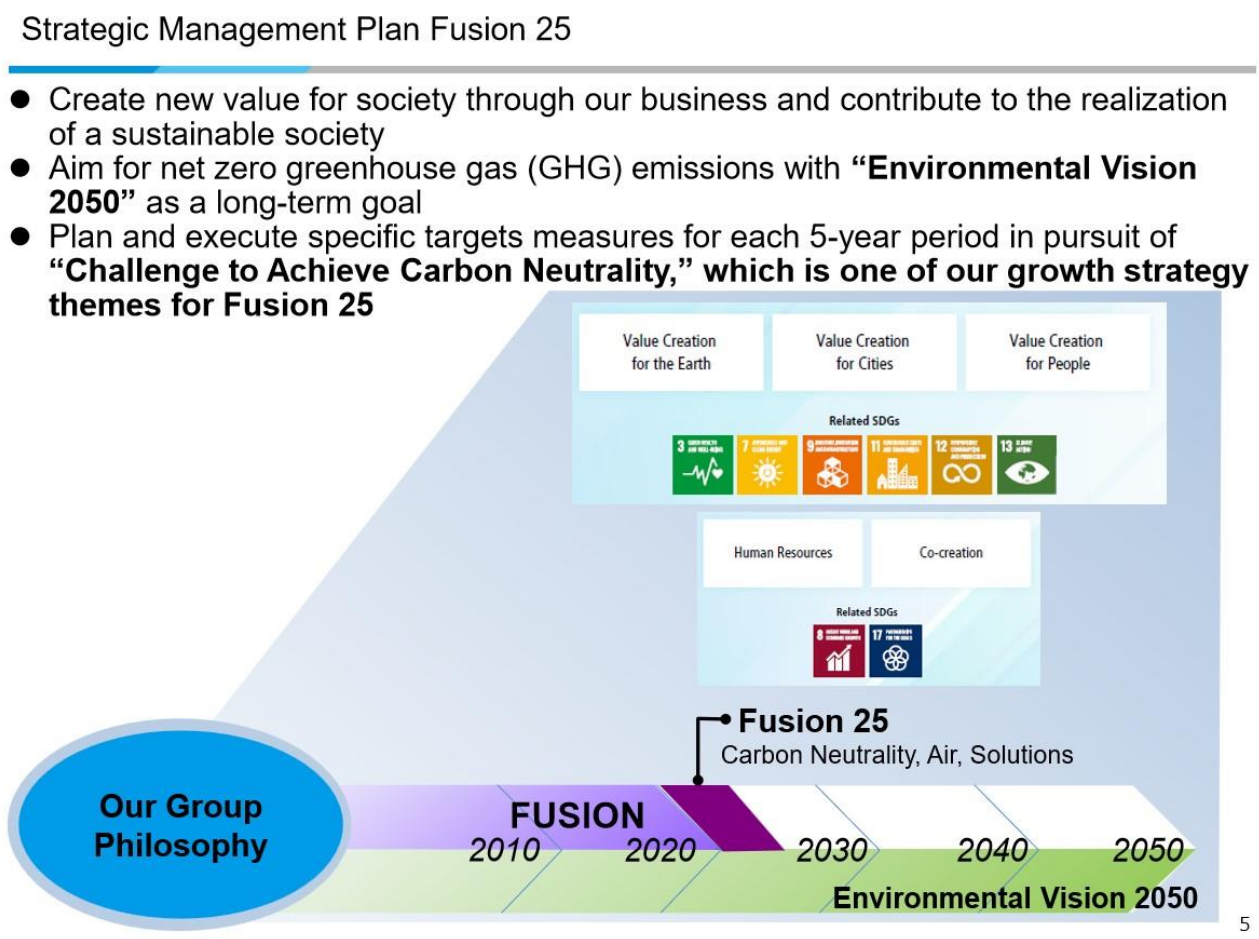
As for today's agenda, we will begin with a presentation by Mr. Harada, who will provide an overview of the environment surrounding our company and our initiatives aimed at achieving carbon neutrality. This will be followed by the main topic of today's session: the key devices for energy efficiency, specifically inverters, which will be presented by Mr. Matsuba.

These presentations will take approximately 45 minutes in total, after which we will move into a Q&A session. The briefing is scheduled to conclude at 3 PM.

Now, I would like to hand it over to Mr. Harada. Please go ahead.



Harada: I am Harada from the CSR and Global Environment Center. Thank you for your attention.

First, let me provide an overview of our strategic management plan.

Last year, we celebrated the 100th anniversary of our founding and formulated a new group management philosophy. This philosophy aims to create new value for society through our business activities while contributing to the realization of a sustainable society.

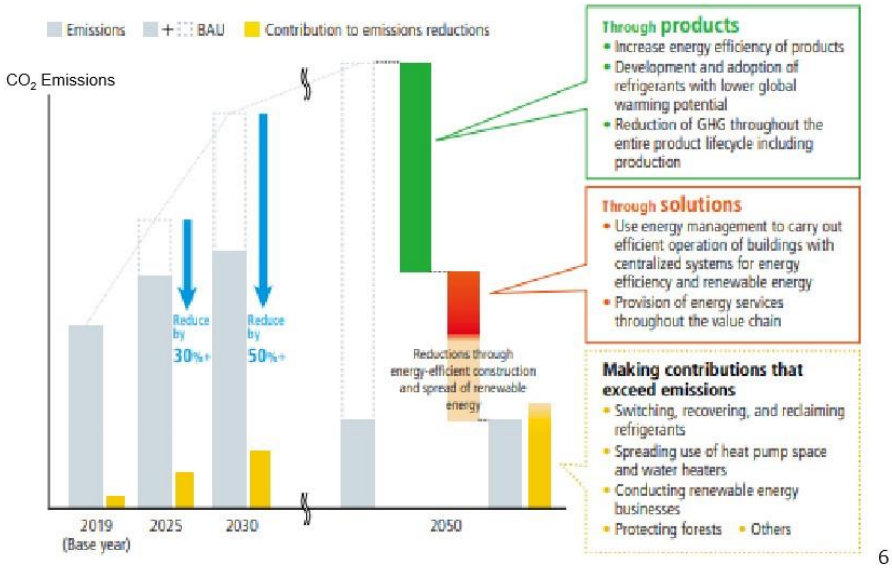
As a long-term goal, we have established “Environmental Vision 2050,” which targets achieving net-zero greenhouse gas emissions by 2050. Furthermore, in our five-year strategic management plan, "FUSION 25," we have set “Challenges to Achieve Carbon Neutrality” as one of the key strategic themes and are actively implementing related business activities.

Fusion 25 sets GHG emissions reduction targets for 2025 and 2030

Environmental Vision 2050 | **Medium-to-Long-Term Strategy Strategic Management Plan Fusion 25**

■ **Reduction targets※ for net GHG emissions throughout the lifecycle**

※Defined as the total after subtracting our contribution to emissions reductions from out total GHG emissions



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Next, I would like to provide an overview of our carbon neutrality initiatives.

As shown at the bottom left of the materials, the "Environmental Vision 2050" is built on three pillars: products, solutions, and the power of air. These pillars aim to achieve net-zero greenhouse gas emissions while providing safe and healthy air environments.

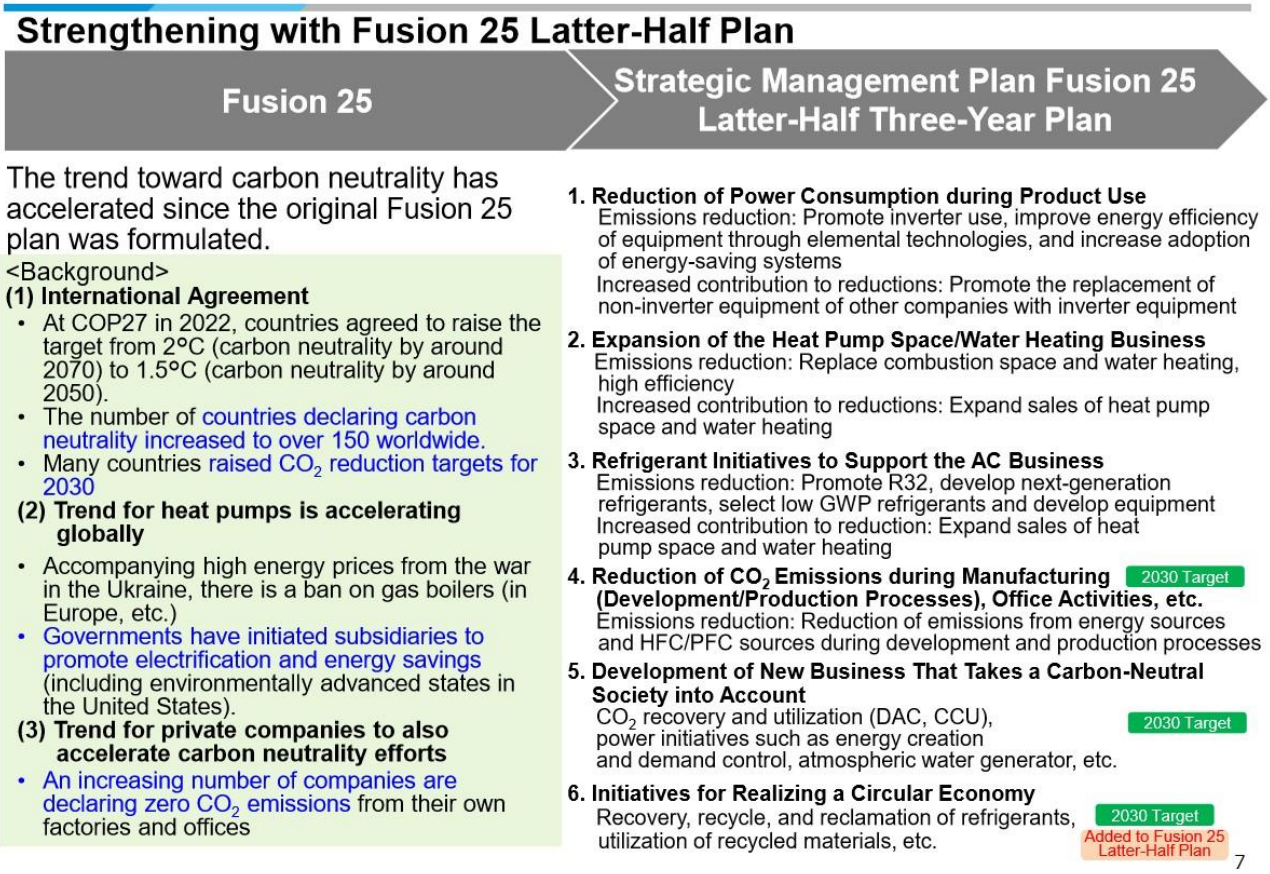
Regarding mid- to long-term efforts, "FUSION 25" sets targets for reducing net CO2 emissions by 2025 and 2030. Here, "net emissions" are defined as the total CO2 emissions across the product life cycle, minus the CO2 reduction contributions.

As shown at the bottom right of the materials, CO2 reduction contributions refer to the effects achieved through measures such as refrigerant conversion, recovery and recycling, as well as the spread of heat pump-based heating and water heating systems in the market.

Our primary initiatives focus on three areas: reductions through energy-efficient products, such as improved efficiency in equipment; reductions through solutions, including energy management systems; and contributions to reductions via refrigerants with lower global warming potential and the widespread adoption of heat pump technologies. Through these three approaches, we are working to achieve reductions in CO2 emissions.

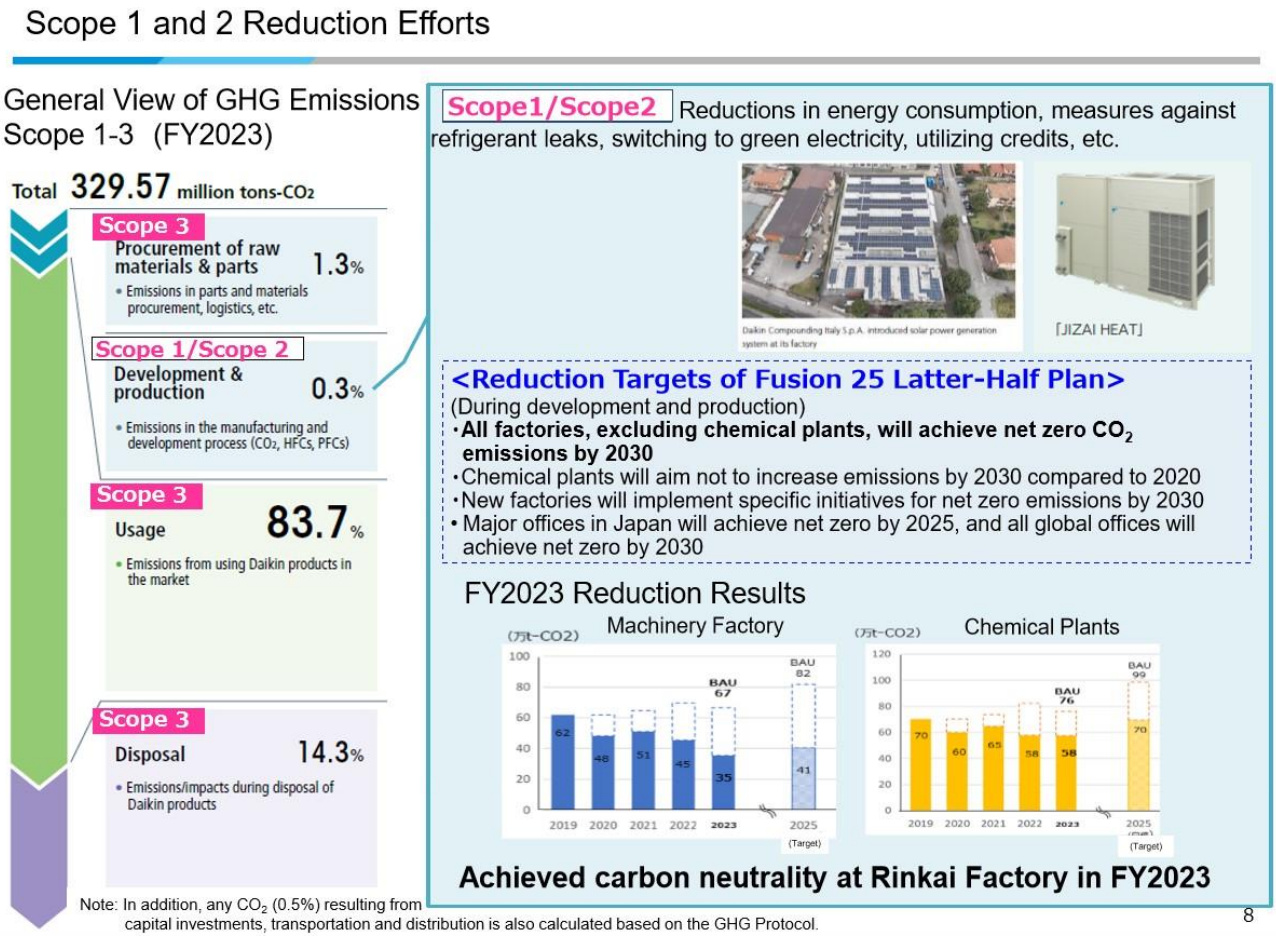
Our specific numerical targets are based on 2019 as the baseline year. Compared to the business-as-usual (BAU) trajectory, we aim to reduce emissions by over 30% by 2025 and by over 50% by 2030.

Strengthening with Fusion 25 Latter-Half Three-Year Plan



As you are likely aware, global momentum for carbon neutrality has been accelerating in recent years. For example, the number of countries declaring carbon neutrality has exceeded 150 worldwide. Additionally, many nations have raised their CO2 reduction targets for 2030.

In light of this, the latter three years of the "FUSION 25" plan incorporate new themes, such as efforts toward a circular economy. We have also set three new targets for 2030, as shown in the bottom right of the materials.



Next, I would like to explain the overall picture of our greenhouse gas emissions.

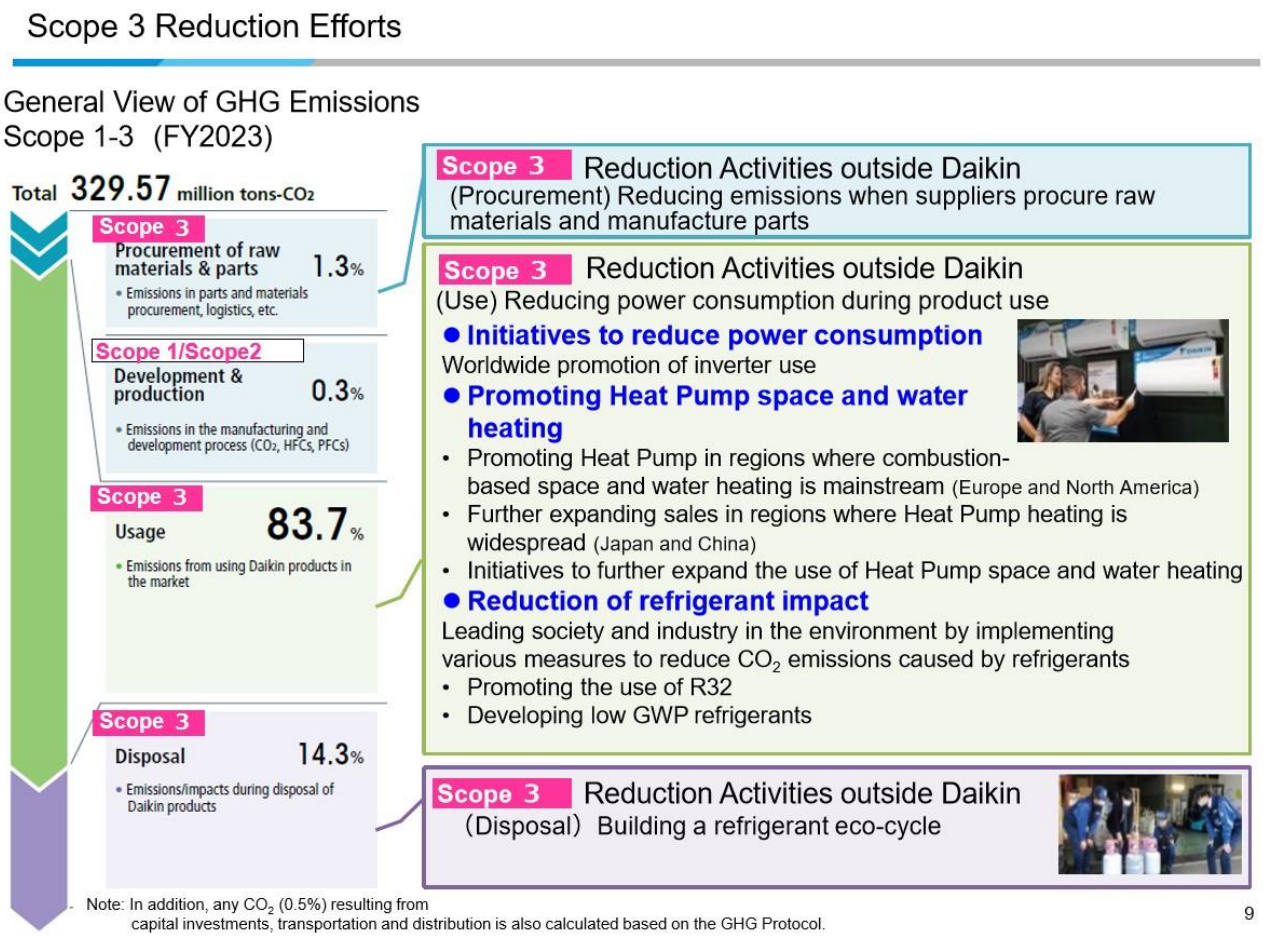
In terms of performance for 2023, the total emissions amounted to approximately 330 million CO2 tons. As shown in the diagram on the left, the majority of emissions, specifically 84%, fall under Scope 3, which pertains to the usage phase.

From here, I would like to provide more details about our initiatives for each Scope.

Starting with Scope 1 and 2, the goal in the latter half of the F25 plan is to achieve net-zero CO2 emissions by 2030 for all factories, excluding chemical plants. As for chemical plants, we have set the target of ensuring that emissions do not increase compared to 2020 levels. In addition, we aim to achieve net-zero emissions not only at factories but also at major domestic offices by 2025.

For FY2023, we successfully achieved a 30% reduction in overall emissions compared to the BAU trajectory. Furthermore, we have already achieved carbon neutrality at our Osaka Rinkai Factory.

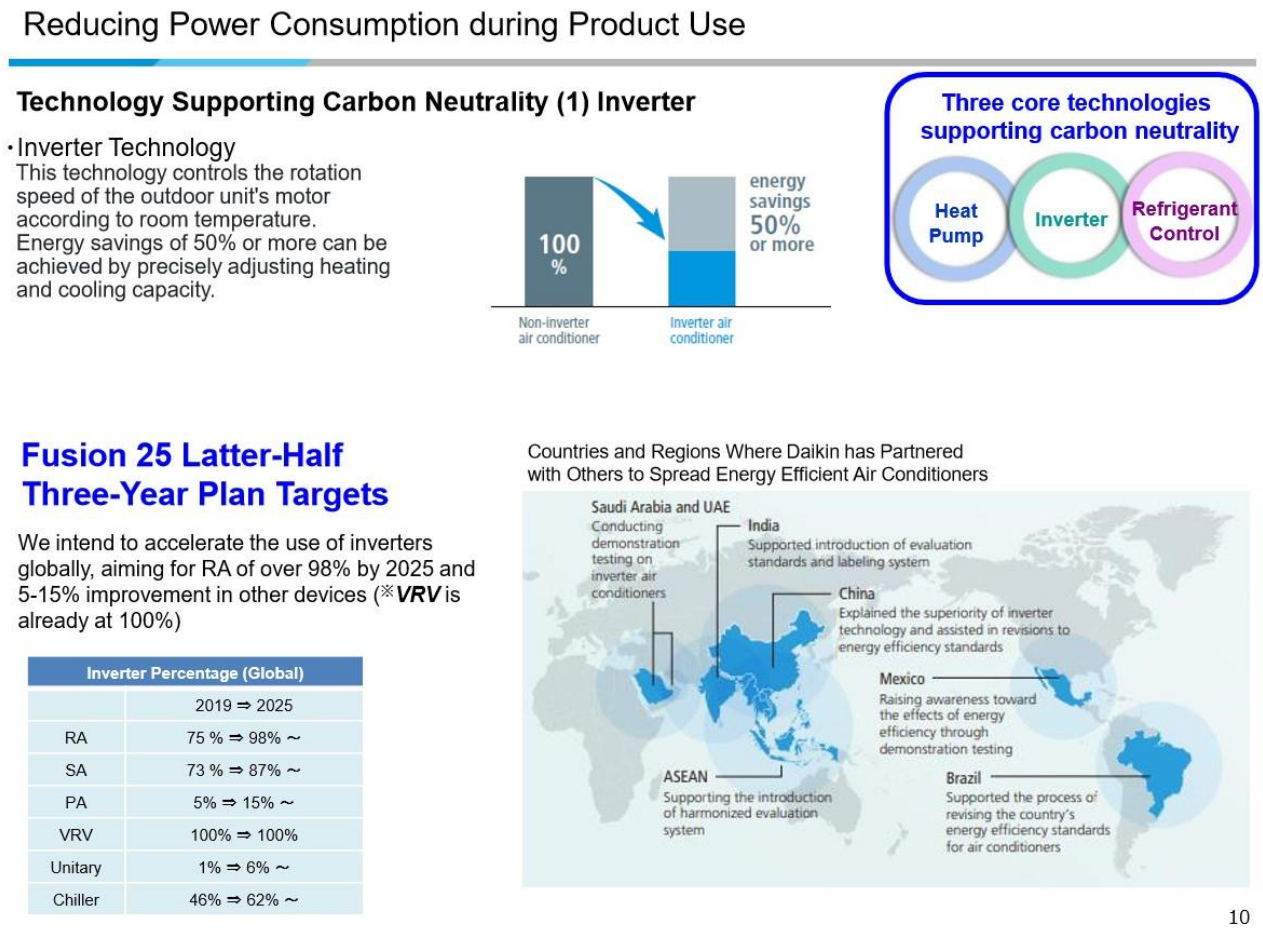
Globally, new factories have commenced operations in various countries, and even these new factories are equipped with the latest energy-saving technologies. For example, as shown in the photograph in the upper right, we have a heat pump product called JIZAI HEAT. By replacing the previous gas-based system for producing hot water with this heat pump, we managed to reduce CO2 emissions in the component cleaning process by approximately 86%. After verifying its performance internally and enhancing the precision of the equipment, this product has already been launched on the market.



Next, I will discuss the reduction efforts for Scope 3, which account for the largest share of emissions during the usage phase.

There are three key initiatives in this area. The first is the reduction of power consumption through inverters. The second is the expanded adoption of heat pump-based heating and water heating systems. The third is the reduction of the environmental impact of refrigerants.

These initiatives will be explained in greater detail on the following page.



First, I would like to elaborate on the efforts to reduce power consumption through inverters.

Inverters are a technology that allows for the variable rotation speeds in compressors, which serve as pumps to supply refrigerant. Detailed explanation of Daikin's proprietary technologies in this area will be provided in part two of today's presentation by Mr. Matsuba.

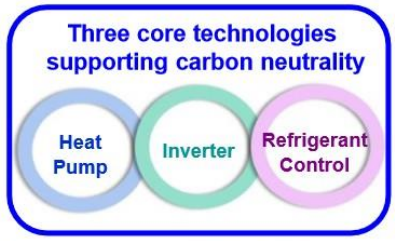
Regarding specific results, as shown in the upper left, we have demonstrated that air conditioners equipped with inverters achieve over 50% energy savings not just in catalog specifications but also under actual usage conditions, compared to non-inverter air conditioners.

Under the "FUSION 25" plan, as shown in the table at the bottom left, we have set specific inverter sales ratio targets within each product category. For instance, in the room air conditioners (RA) category, which represent our highest sales volume, we aim to achieve an inverter sales ratio of over 98% by 2025.

To achieve these targets, we are actively supporting the dissemination of energy-efficient air conditioners across various global regions. This initiative is being advanced not only by our company but also in collaboration with organizations such as the Ministry of Economy, Trade and Industry and international bodies, assisting in demonstration projects and the establishment of systems.

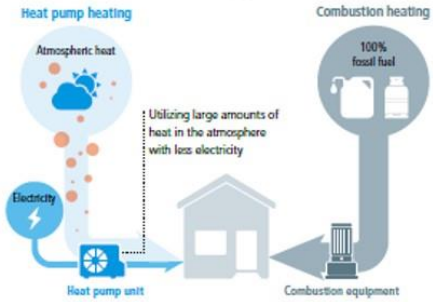
Reducing Power Consumption during Product Use

Technology Supporting Carbon Neutrality (2) Heat Pump



・Heat Pump Technology

This technology utilizes a small input of electricity to transfer heat collected from the atmosphere and uses it for heating and cooling.
For every input of 1 unit of thermal energy, approximately 7 times that amount can be obtained in thermal energy.



Heat pump type space and water heater for Europe called *Daikin Altherma*

Residential heat pump unitary product for North America called *FIT*

Fusion 25 Latter-Half Three-Year Targets

・Promote Heat Pump in regions where combustion-type is mainstream (Europe, North America)
・Further expand sales in regions where Heat Pump is widespread (China, Japan), etc.

Europe	North America	China	Japan
・Aim to further expand our No. 1 market share in major countries ・Launch new products adopting R290	・Accelerate sales of Inverter and Heat Pump unitary product *Fit*	・Expand sales of Heat Pump floor heating	・Expand the sales of Eco-Cute and Heat Pump air conditioners for cold climate

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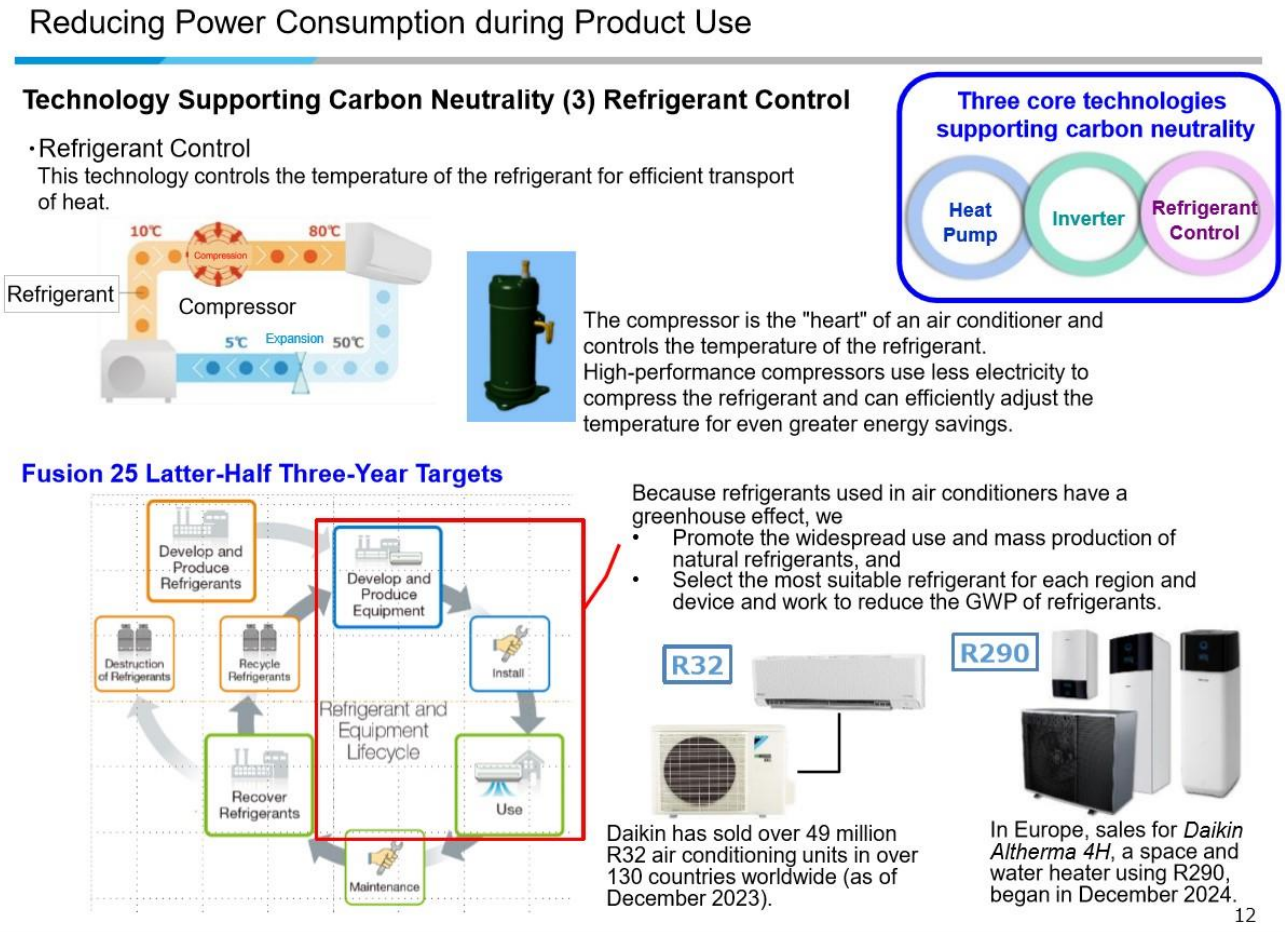
Next, I would like to introduce our heat pump technology.

Heat pumps are a technology that utilizes minimal electricity to transfer heat gathered from the atmosphere into indoor spaces, for use in cooling or heating. This is a highly energy-efficient technology capable of delivering approximately seven times the energy input as heat.

In regions such as Europe and North America, where combustion-based heating systems are predominant, we are actively promoting the adoption of heat pump–based heating equipment. In Japan, we are working on expanding the market for Eco Cute systems and products designed for cold climates.



Next, I would like to explain our refrigerant control technology.

Efficient control of refrigerants, which are responsible for transporting heat, is directly connected to energy-saving effects. As mentioned earlier, the compressor, which acts as the pump for circulating the refrigerant, is the heart of an air conditioner. Further details about this will be explained later in part two of today's session.

At the same time, our company is uniquely positioned as both a manufacturer and distributor of refrigerants and air conditioning units. Because of this, we believe it is our corporate responsibility to address environmental impacts across the entire lifecycle of refrigerants and equipment.

For example, on the equipment side, we are actively engaged in the development of energy-saving devices, support for energy-efficient operation, and energy management. In addition, we are also committed to the development and commercialization of refrigerants with low global warming potential.

In Europe, we began sales of heating water heaters using the natural refrigerant R290, also known as propane, in December of last year. By tailoring our product offerings to the appropriate refrigerants for each region, we aim to provide solutions that align with local needs.

Reducing Power Consumption during Product Use

Technology Supporting Carbon Neutrality (3) Refrigerant Control

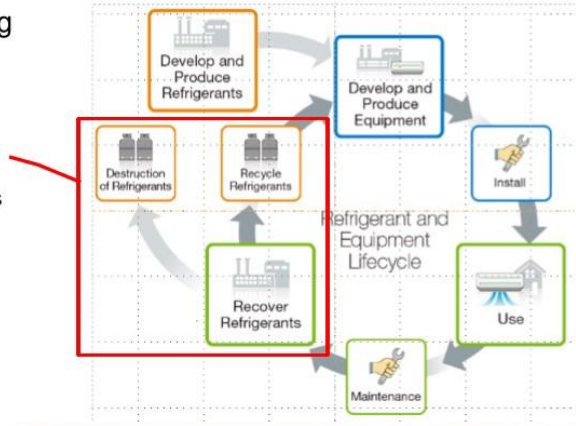
Building an eco-cycle for the recovery and recycling of refrigerants

[Japan]
Refrigerants are properly recovered through our own after sales service division, sales companies, and partner companies. The Daikin Contact Center accepts requests for collection of recovered refrigerants from dealers and other parties 24 hours a day, 365 days a year.

[Europe]
In 2019, "VRV L∞P by Daikin," a product that uses reclaimed refrigerant, was launched. It meets the growing demand for reclaimed refrigerants in response to rising refrigerant prices due to the importance of the circular economy and the need for a stable supply of refrigerants.

[Developing Countries]
Because most of these countries have no laws requiring the recovery of refrigerants nor systems and infrastructure in place for the recovery, reclamation, and destruction of refrigerants, we work with governments and international organizations to support the creation of schemes.

2020-Singapore
2021-Vietnam
2024-Malaysia, and more



A destruction and reclamation plant began operation in Germany in 2023 (left)
A new fluorocarbon reclamation facility has been established at the Yodogawa Plant (right)

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Our lifecycle initiatives extend beyond the development and sale of equipment to include measures at the disposal stage of products. Specifically, we are working to promote the recovery of refrigerants, ensure their proper destruction, and facilitate their recycling.

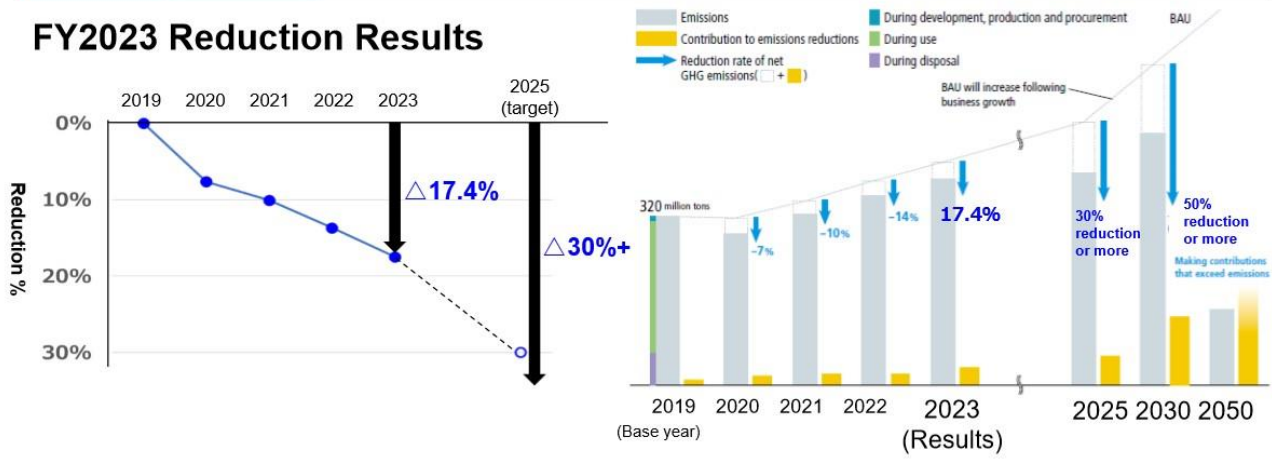
In Japan, we perform reliable refrigerant recovery through our own services and sales companies. Additionally, last year we established a fluorocarbon recycling facility at our Yodogawa Plant in Osaka, which has started supplying recycled refrigerants.

In Europe, we have been selling products using recycled refrigerants under the name “VRV L∞P by Daikin” since 2019, and we also operate facilities for recycled refrigerants in the region.

In Southeast Asia, starting with Singapore in 2020, we have been working in collaboration with governments and international organizations to support the establishment of frameworks in countries such as Vietnam and Malaysia.

From the perspectives of advancing a circular economy, ensuring business continuity, and reducing environmental impacts, these initiatives are at the core of our management plans.

Situation and Issues: Progress in the Fusion 25 Latter-Half Plan



SBTi "1.5℃ Target" Certification (February 2024)

Daikin's FY2030 GHG reduction target received certification as a credible "1.5℃ target" based on scientific evidence.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Certified 2030 Goals		2023 Results
2023 actual emissions from our Group's business activities Scope 1 and 2	46.2% reduction by FY2030 (compared to FY2019)	29.5% reduction
Emissions accompanying use and disposal (Scope 3 categories 11 and 12)	55% reduction per operating profit (yen) by FY2030 (compared to FY2019)	32.3% reduction

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As a result of the efforts I have described, we have been steadily reducing greenhouse gas emissions since 2020. For FY2023, we achieved a 17.4% reduction compared to the BAU trajectory.

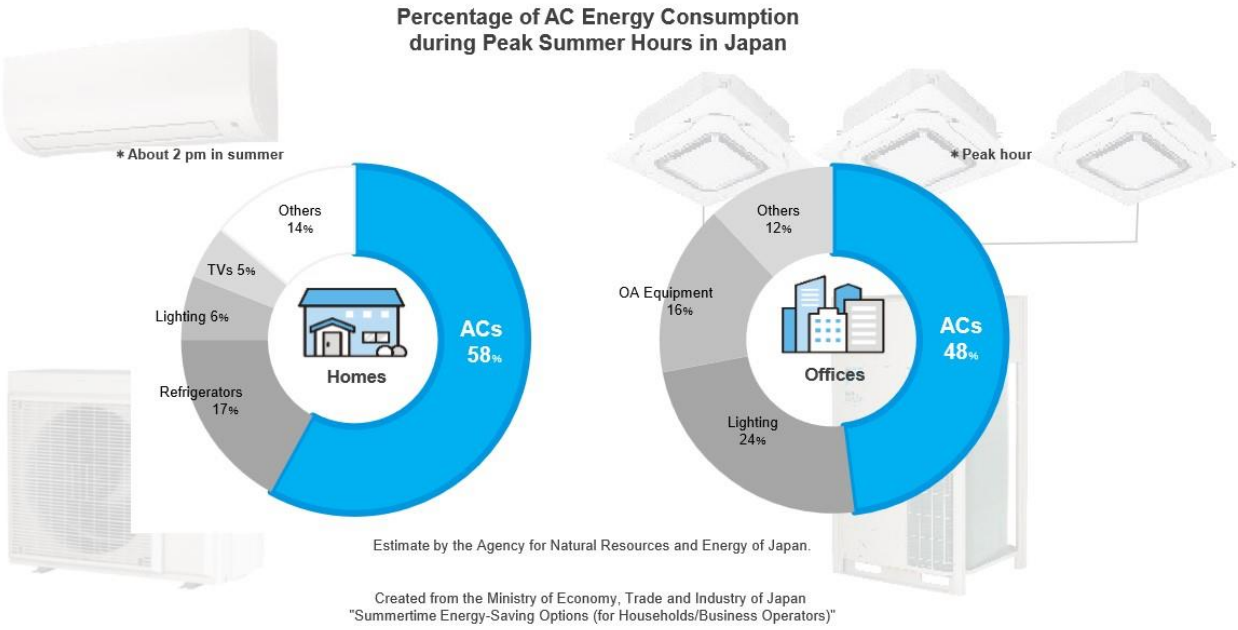
Looking ahead, we have already completed refrigerant transitions for major products in Japan and North America, and the expansion of energy-efficient inverter models is progressing as planned across all regions. We are therefore confident in achieving our quantitative target of a 30% reduction by 2025.

In addition, regarding certification efforts, we obtained the SBTi 1.5°C target in February 2024. We will continue working toward sustainable business operations and contributing to societal development.

With that, I will now hand the floor to Matsuba, who will explain the key devices for energy efficiency, specifically inverters.

Air Conditioner Power Consumption

■ **An air conditioning accounts for a significant amount, roughly 50%, of the electrical power consumed in a home or office building. This makes using an energy-efficient air conditioner to be an effective tool for reducing energy consumption in homes and office buildings.**



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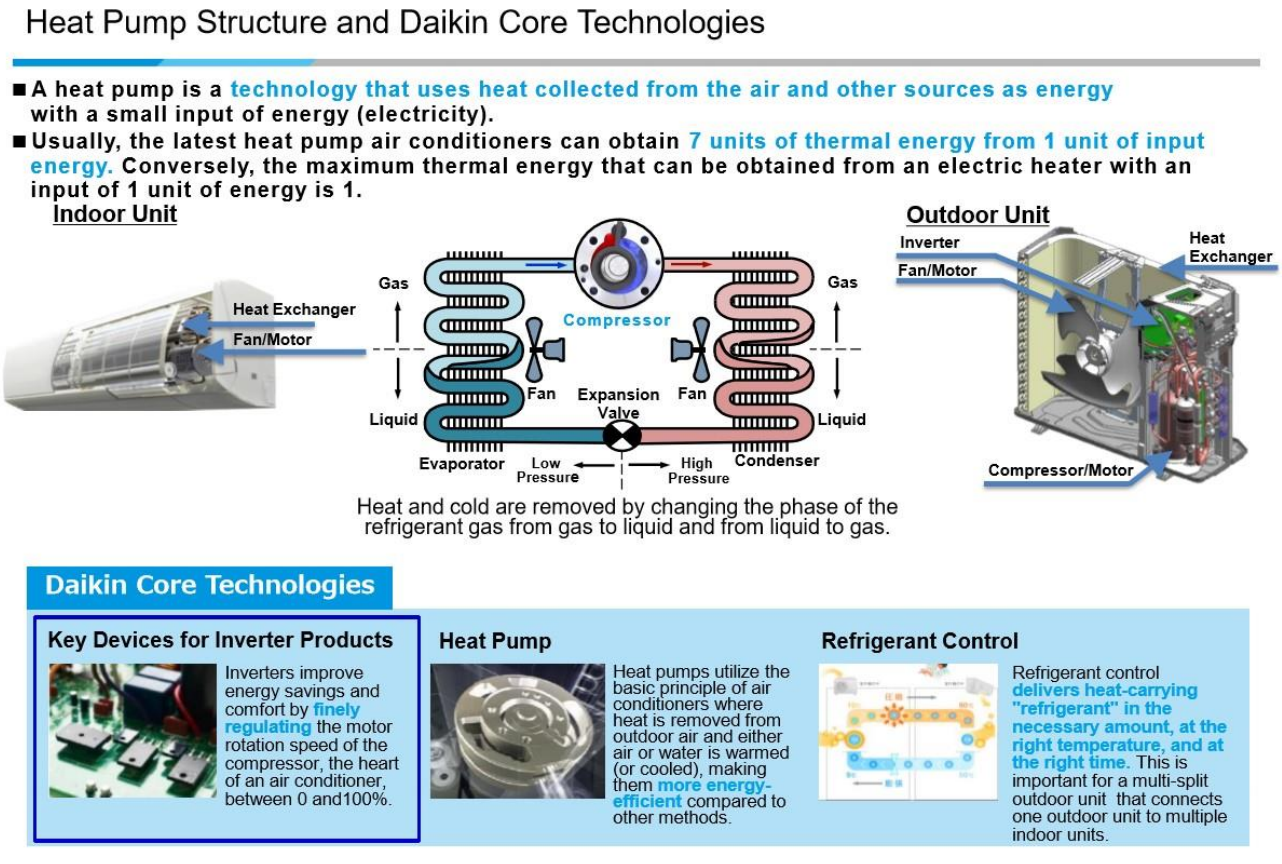
Matsuba: I am Matsuba from Daikin Industries. From this point onward, I will explain the key devices of inverters, which are critical for energy efficiency.

First, let's discuss the power consumption of air conditioning systems.

Air conditioners account for approximately 50% of the electricity consumed in residential and commercial buildings, a significantly large proportion. Improving the energy efficiency of air conditioners is an effective way to reduce energy consumption in homes and offices.

The pie chart on the left illustrates the breakdown of electricity usage during the summer in residential households. Currently, air conditioners consume 58% of the electricity, followed by refrigerators and lighting.



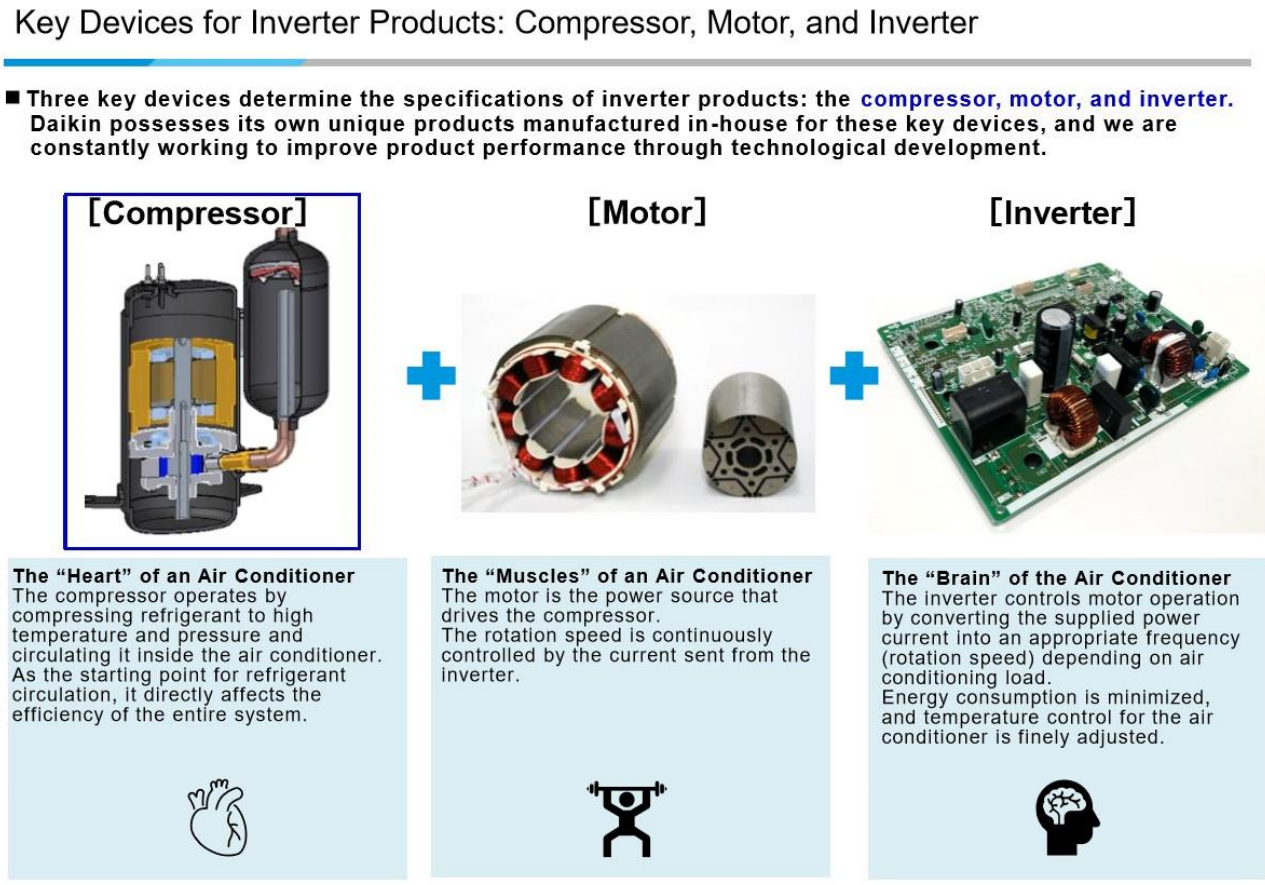
Next, I would like to discuss the principle of heat pumps, which is the mechanism underlying air conditioning systems, and Daikin's core technologies.

A heat pump is a technology that uses minimal input energy—namely, electricity—to capture heat from the air or other sources and use it as energy.

Modern heat pump air conditioners are highly advanced products capable of producing seven times the heat energy for every unit of input energy. By contrast, an electric heater can only produce heat energy equal to the input energy. This means that heat pumps are seven times more energy efficient than electric heaters.

As depicted in the central diagram, air conditioning systems are composed of an indoor unit and an outdoor unit, which together form the refrigerant cycle. Daikin's core technologies incorporated in this system include three elements: inverter key devices, heat pumps, and refrigerant control.

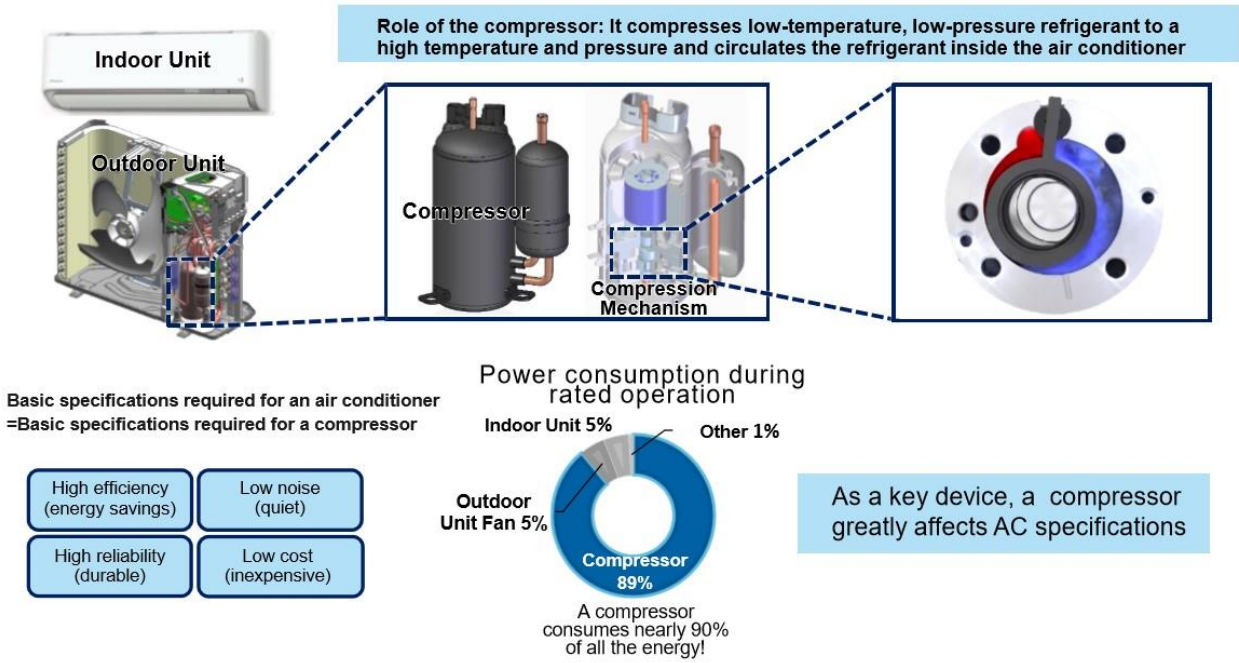
Today, I will focus on the inverter key devices on the left side of the diagram.



There are three critical key devices that determine the specifications of inverter products.

These are, from left to right: the compressor, which is equivalent to the heart of the air conditioner and analogous to an engine in a car; the motor, which acts as the muscle of the system and is housed within the compressor; and the inverter, which serves as the brain of the air conditioner.

Our company develops and owns these key devices in-house, continually advancing technology to enhance the performance of air conditioning products.

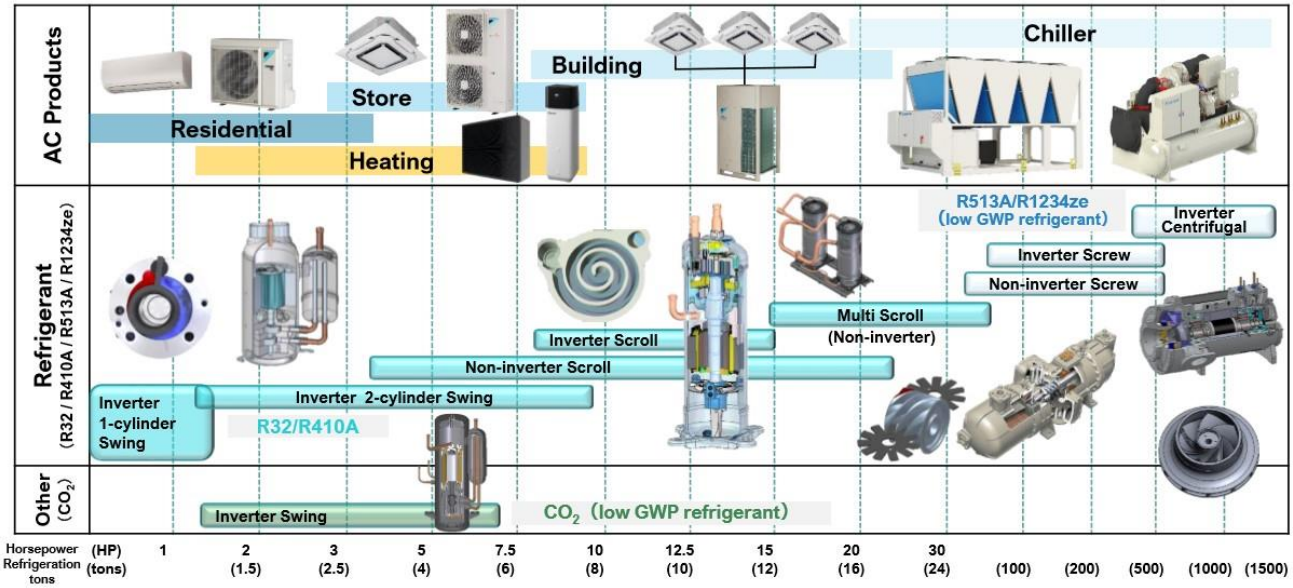


Among these, the compressor is especially critical. It is housed within the outdoor unit and serves as the heart of the air conditioner by circulating the refrigerant, which can be likened to the blood of the system. The compressor is a vital key device as it not only determines the performance of the air conditioner but also significantly impacts attributes such as noise and durability, which are essential to the overall product quality.

As shown in the pie chart at the bottom of the page, approximately 90% of an air conditioner's electricity consumption is attributable to the compressor. It is no exaggeration to say that the compressor largely dictates the specifications of an air conditioner.

Daikin Lineup of AC Products and Compressors

■ **Daikin Industries has a wide range of products for residential, commercial, and large-scale (Applied) air conditioners. To select the optimal compressor for each product, we simultaneously develop and produce four types of compressors: swing, scroll, screw, and turbo.**



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Our company offers a wide range of products, including room air conditioners, commercial air conditioners, and large-scale chillers. To ensure the most suitable compressor is selected for each product, we develop and produce four types of compressors in-house. Since compressors are the key devices that serve as the heart of air conditioning systems, we consider them critical components and are focused on strengthening their development and production internally.

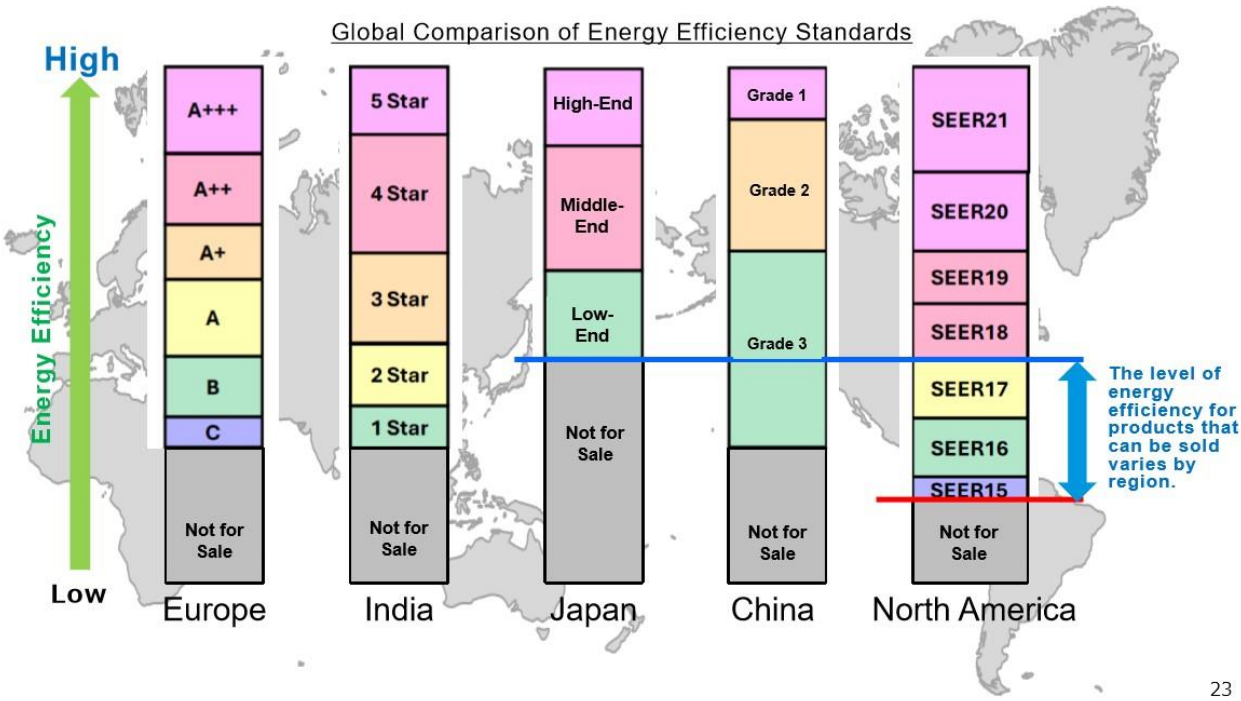
Next, I would like to touch on the changes in the global external environment. While the air conditioning market is expanding worldwide, there are still regions where inverters have not yet achieved significant penetration. To move toward a decarbonized society, our company is committed to promoting the adoption of inverter products.

In regions where inverters have already gained widespread acceptance, such as Japan, Europe, and Oceania, their penetration rate has reached nearly 100%. In contrast, areas such as North America, the Middle East, Africa, and parts of Asia still have low adoption rates. Recently, China and India have seen rapid increases in inverter usage.

Given these varied circumstances by region, we recognize the importance of pursuing localized efforts based on a strategy of local production for local consumption. This approach involves conducting marketing activities in the local market, listening to customer feedback, developing products accordingly, and producing and supplying those products locally. Internally, we refer to this approach as our "localization strategy," and it serves as the foundation for our global expansion.

Trends in Energy-Saving Regulations

- For air conditioning products, energy efficiency standards vary by region around the world, and the energy efficiency rating sought also differs.
- Daikin operates globally based on technologies and products that meet Japan's energy efficiency standards, which are among the strictest in the world.



Regarding energy-saving regulations, energy efficiency standards for air conditioning products vary by region globally, meaning that the required levels of energy efficiency differ.

Our company bases its global product offerings on the technologies and products that meet Japan’s stringent energy efficiency standards, which are among the toughest in the world.

It may come as a surprise, but as shown in the far-right section of the chart, North America has the lowest regulatory levels in the world. Energy-saving regulations establish thresholds below which products cannot be sold. While certain products that can no longer be sold in Japan due to non-compliance with energy efficiency standards fall into the SEER15 to SEER17 range in North America, this range currently represents the core segment of the North American market.

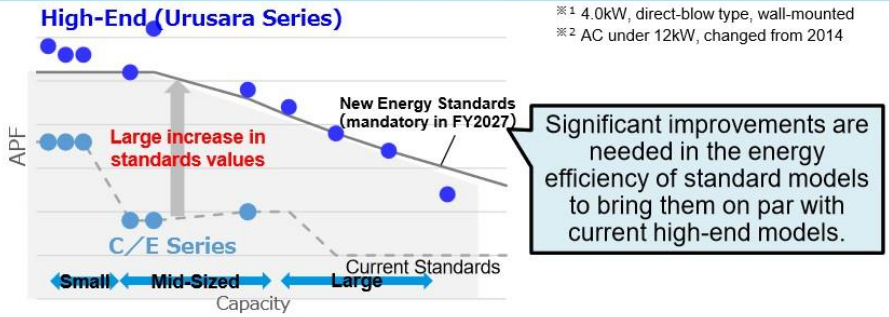
Such significant regional differences pose a challenge, and as a company operating in the global air conditioning business, we believe it is not acceptable to overlook this situation.

Trends in Energy-Saving Regulations

■ **As carbon neutrality becomes increasingly more important, energy conservation regulations are become stricter in various countries worldwide. For example, in Japan, the top runner regulations will be revised in 2027, and the annual efficiency rating (APF) will be significantly raised, leading to the acceleration of technological development by various companies.**

Energy Efficiency Regulations in Each Country

Japan	Carbon neutrality initiatives have increased demand for energy savings, including the revision of energy conservation regulations and the government's acceleration of the conversion of buildings to ZEB. In 2027, **the new energy conservation standards (top runner) will be revised, the APF will be significantly raised (from 4.9 to 6.6*1),** and a cold region standard will be added.
North America	The Department of Energy (DOE) plans to raise **the minimum SEER rating from 15 to 16** in the southern region on the United States by 2031. In addition, a project called the **Cold Climate Heat Pump Challenge** is intended to accelerate the use of heat pumps for homes in cold regions.
Europe	The move towards decarbonization and low GWP refrigerants is accelerating. Energy conservation requirements such as Lot 1, 2, and 10 regulations are also being strengthened. For example, there is discussion of **raising the standard value** for Lot 10 regulations for 12kW or less air conditioners **from SEER 4.3 to 6.0 (SCOP 3.8 to 4.0)** *2.
India	The Bureau of Energy Efficiency (BEE) is strengthening energy efficiency regulations. With ISEER 5.0 or higher required for 5 Stars rating, there is discussion of further **raising the energy efficiency standard value (from ISEER 5.0 to 5.6)** in 2026.



New Energy Efficiency Standards in Japan (RA)

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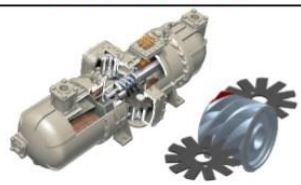
With the global push toward carbon neutrality, we are seeing movements to tighten energy-saving regulations in many countries.

As shown in the table, regions such as Japan, North America, Europe, and India are progressively discussing and implementing higher energy efficiency standards.

For example, in Japan, which I mentioned has the strictest regulations globally, the Top Runner Regulation will be revised in two years, in 2027. This revision will significantly raise the annual performance factor (APF) requirements, bringing the energy efficiency of standard models up to the level of current high-end flagship models. This represents a groundbreaking improvement.

Daikin Inverter Compressors

■ **To meet the growing demand for air conditioning, energy efficiency regulations, and other changes in the global environment for compressors, Daikin offers a wide lineup of compressors in four formats—swing, scroll, screw, and centrifugal—based on its inverter technology. Using this strength, Daikin will contribute to society with its "Wide-Ranging and Material-Saving Technology," "Highly-Efficient Technology for Equipment," and "New Applications of Heat Pumps."**

Residential	Store/Building	Large-Sized Air Conditioning (Applied)	
Swing	Scroll	Screw	Centrifugal
Swing structure	Highly efficient spiral structure	Single rotor structure	Oil-free magnetic bearing
			
The unique swing structure enables operation at extremely low and high speeds. Its worth is best seen when used with an inverter for variable speed operation.	This compressor is well-known for supporting building AC that has the No.1 share in the industry. It is highly efficient with low noise and high durability even in large equipment using a large amount of refrigerant.	With no eccentric motion in the compression mechanism, its continuous compression process produces low noise and is suitable for large-scale, high-load systems.	The unique magnetic bearing structure enables oil-free operation that requires no maintenance while also being extremely quiet. It is used for large-scale air conditioning and chillers.
Wide-Ranging and Material-Saving Technology	Highly-Efficient Technology	New Applications of Heat Pumps	

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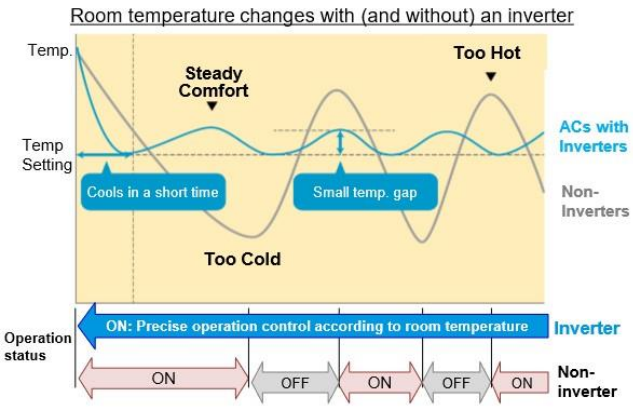
We view the changes in the external environment as opportunities, and our core technology that serves as a competitive advantage is Daikin's inverter compressor.

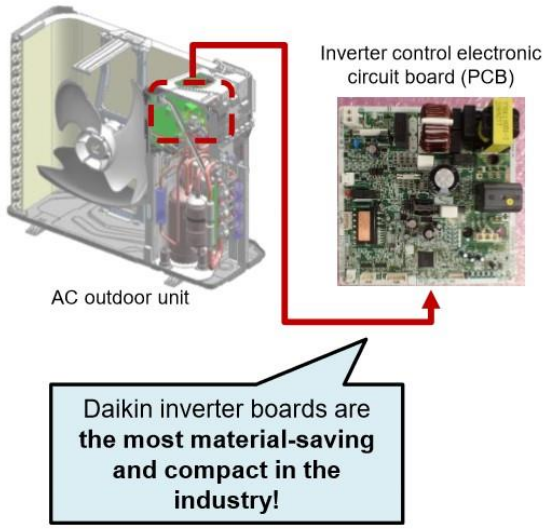
In response to the growing global demand for air conditioning, energy-saving regulations, and the changing landscape surrounding compressors, we deploy our inverter technology across four types of compressors: swing, scroll, screw, and turbo.

Our extensive lineup of compressors is one of our strengths, enabling us to contribute to society through innovations such as compact, high-speed technology that achieves a wide range of operation and material efficiency, as well as technologies for enhancing equipment efficiency and applying heat pumps to new uses.

Advantages of Inverters

■ **Inverters are a technology that controls voltage, current, and frequency. Unlike non-inverters that only turn a unit ON/OFF, inverters precisely regulate the rotation speed of the motor driving the compressor (air conditioner output), enabling precise adjustment of room temperature while reducing wasted power consumption.**





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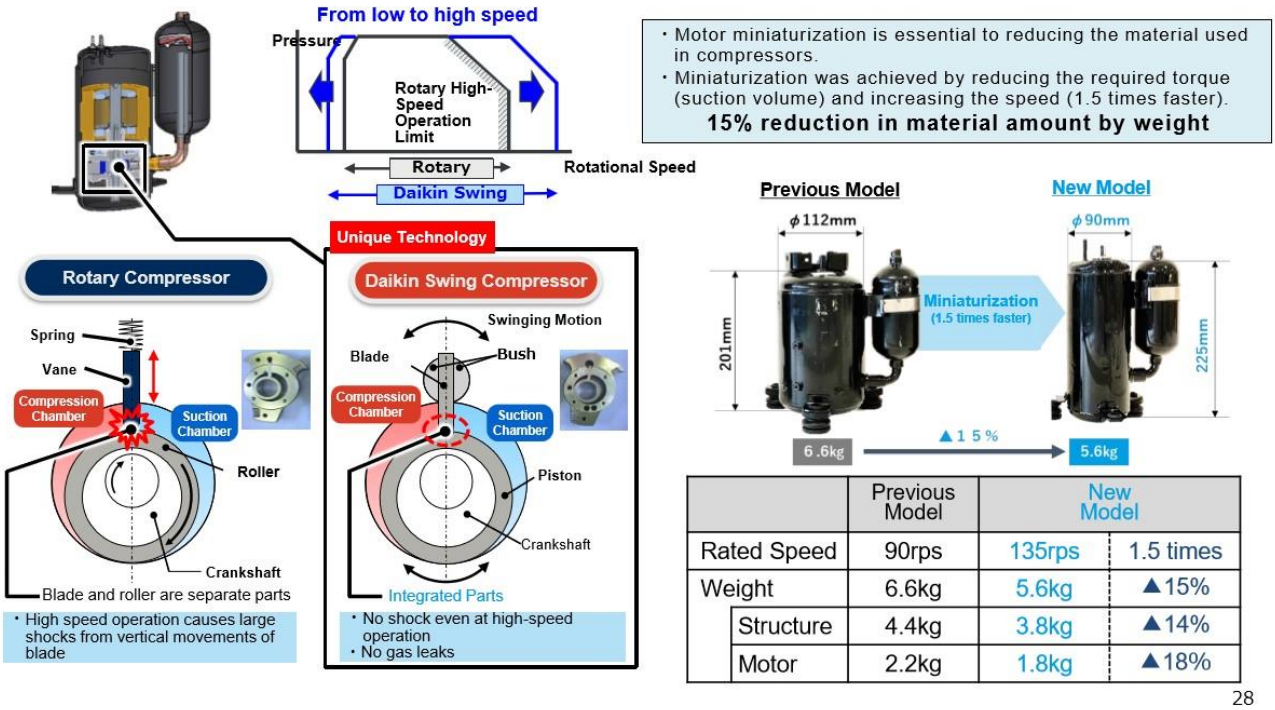
In addition to compressors, the inverter acts as the brain of the air conditioning system and pairs with the compressor to optimize performance.

Inverters use technologies to control voltage, current, and frequency. Unlike non-inverter systems, which can only operate in an on-off manner, inverters finely adjust the motor speed driving the compressor. This allows for variable air conditioner output, achieving precise room temperature control while minimizing wasted power consumption. Consequently, there is no overcooling or overheating, and the system maintains a consistent temperature with minimal fluctuations.

Regarding the printed circuit boards (PCBs) used for inverter control, Daikin's in-house inverter boards incorporate core technologies such as capacitor-less designs. By strengthening our development and production capabilities in-house, we have achieved industry-leading material efficiency and compact design.



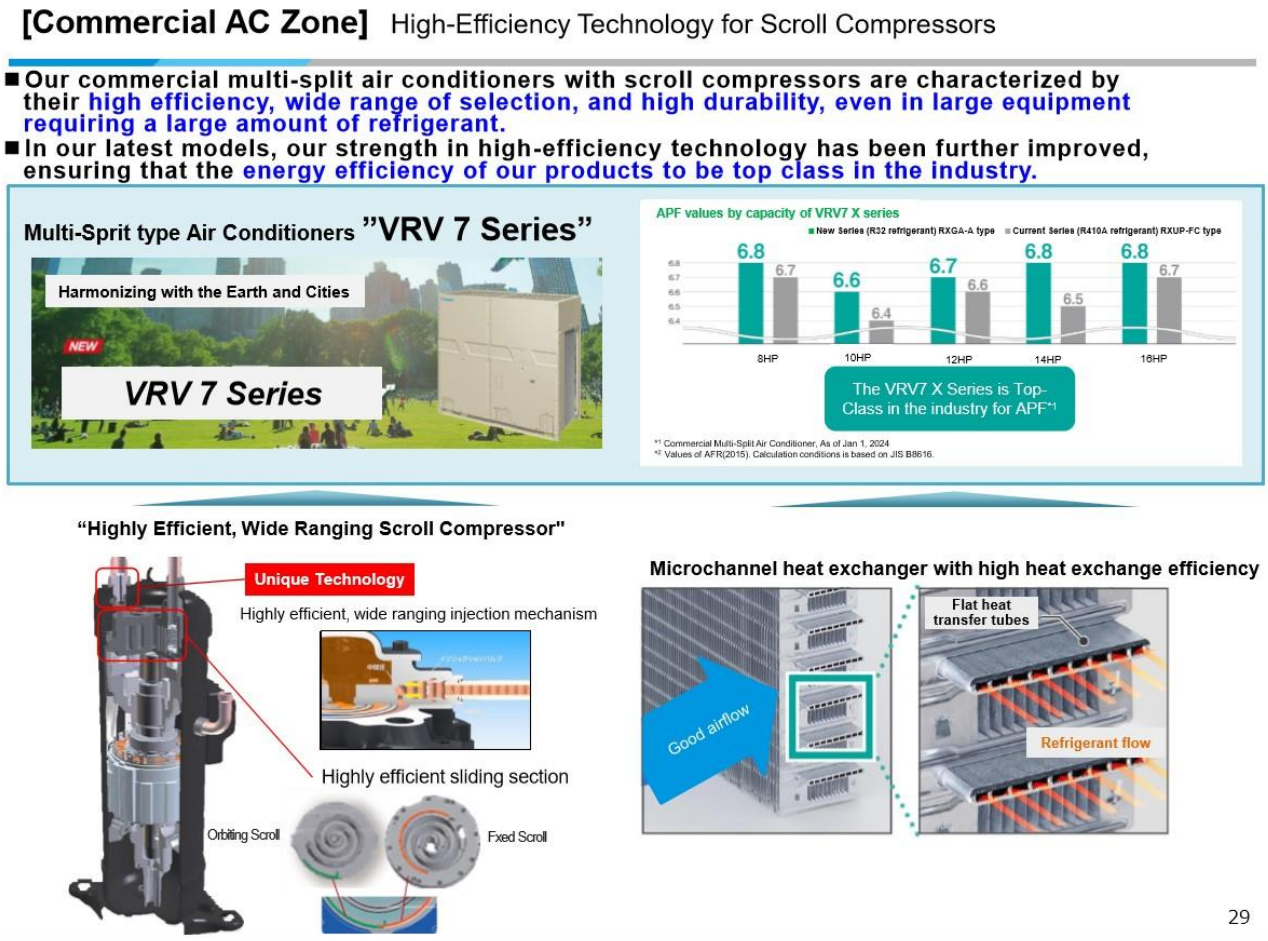
Now, I would like to explain the features of each zone, starting with residential air conditioning.

In 1995, we independently developed the world's first swing compressor, which is characterized by its ability to operate across a wide range of speeds, from low to high.

As shown in the structural diagram at the bottom of the screen, unlike conventional rotary compressors, the swing compressor integrates the piston and blade into a single component. This design reduces refrigerant leakage and enables wide-range operation.

To elaborate, during start-up, air conditioners require rapid cooling or heating, and the system can operate at approximately 2.5 times the normal output for such situations. Conversely, for highly insulated homes or precise temperature control, the system can operate at a minimum output of one-tenth the normal speed. This wide range of operation accommodates various usage scenarios, demonstrating the versatility of the system.

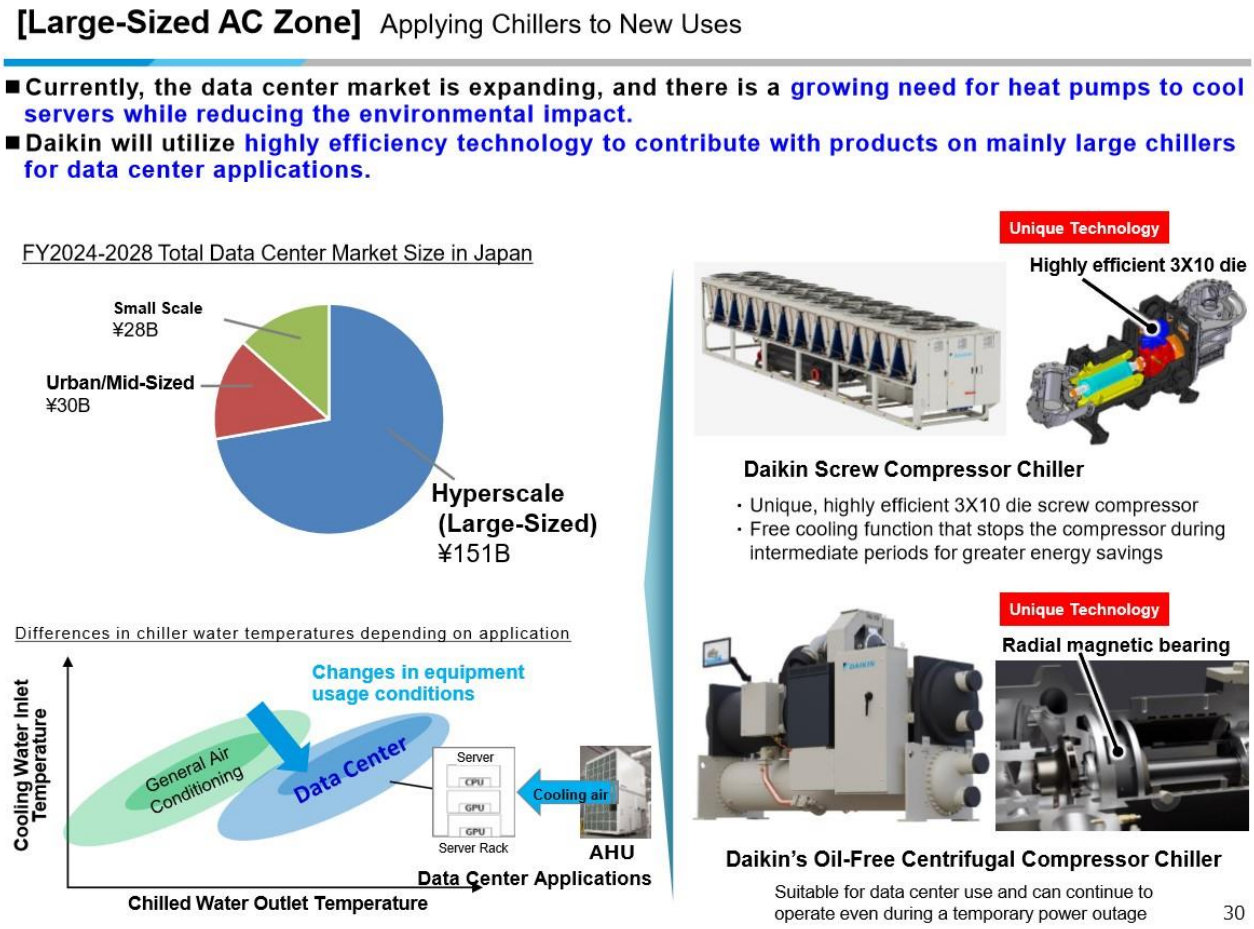
Building on the strengths of the swing compressor, we have developed compact, high-speed technologies that reduce material usage by approximately 15% compared to previous models.



Next is the zone for building air conditioning.

In this area, our scroll compressors are used in multi-air conditioning systems for buildings. These compressors are characterized by their high efficiency, wide operational range, and robust durability, even in large equipment with significant refrigerant volume.

In our VRV 7 series, we have achieved industry-leading APF energy efficiency. This series incorporates advanced technologies, such as high-efficiency, wide-range scroll compressors and "microchannel heat exchangers" made of aluminum featuring at the bottom right, which offer excellent heat exchange performance and are highlighted as differentiating features.



Next, let us discuss the application of chillers for new uses in the large-scale air conditioning zone.

Currently, the data center market is expanding rapidly, and there is a growing demand for heat pumps to cool servers while reducing environmental impact.

Our company contributes to this area through products centered on large-scale chillers, leveraging high-efficiency technology to meet the requirements of new data center applications. In particular, in the hyperscale segment of large-scale operations, we incorporate key devices such as our screw compressors and oil-free turbo compressors, as shown on the right.

Next, I would like to outline our plans for global expansion, utilizing these inverter compressors as a core strength.

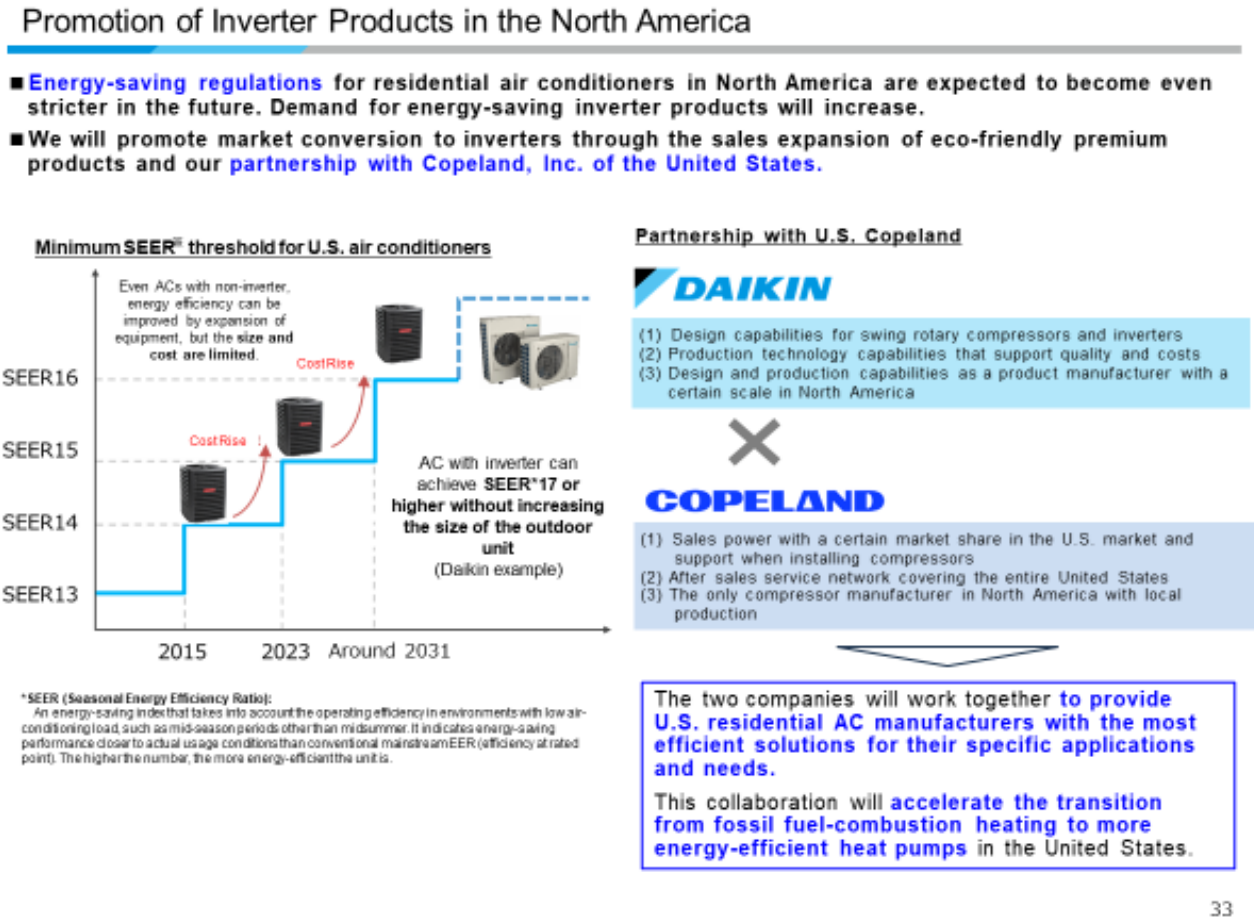
We have been actively expanding our environmentally friendly inverter technology worldwide. As the air conditioning market continues to grow globally, we are working to promote the wider adoption of inverter products, especially in regions with increasing demand and low inverter penetration rates.

Specifically, we are focusing on the markets in China, India, and North America.

First, let's talk about China.

Back in 2008, we established a business partnership with Gree Electric, the largest air conditioning manufacturer in China and one of our competitors. At that time, the Chinese residential air conditioning market was overwhelmingly dominated by non-inverter models, and we recognized the need for a game-changing strategy. As part of a technological openness strategy, we disclosed portions of our core inverter technology.

As a result, the adoption of inverter technology in the Chinese market progressed rapidly. Supported by government subsidies and the market's recognition of inverter advantages, the inverter penetration rate in China transformed from just 7% at the time to 76% by 2018.



Next, let's consider the North American market, the largest in the world.

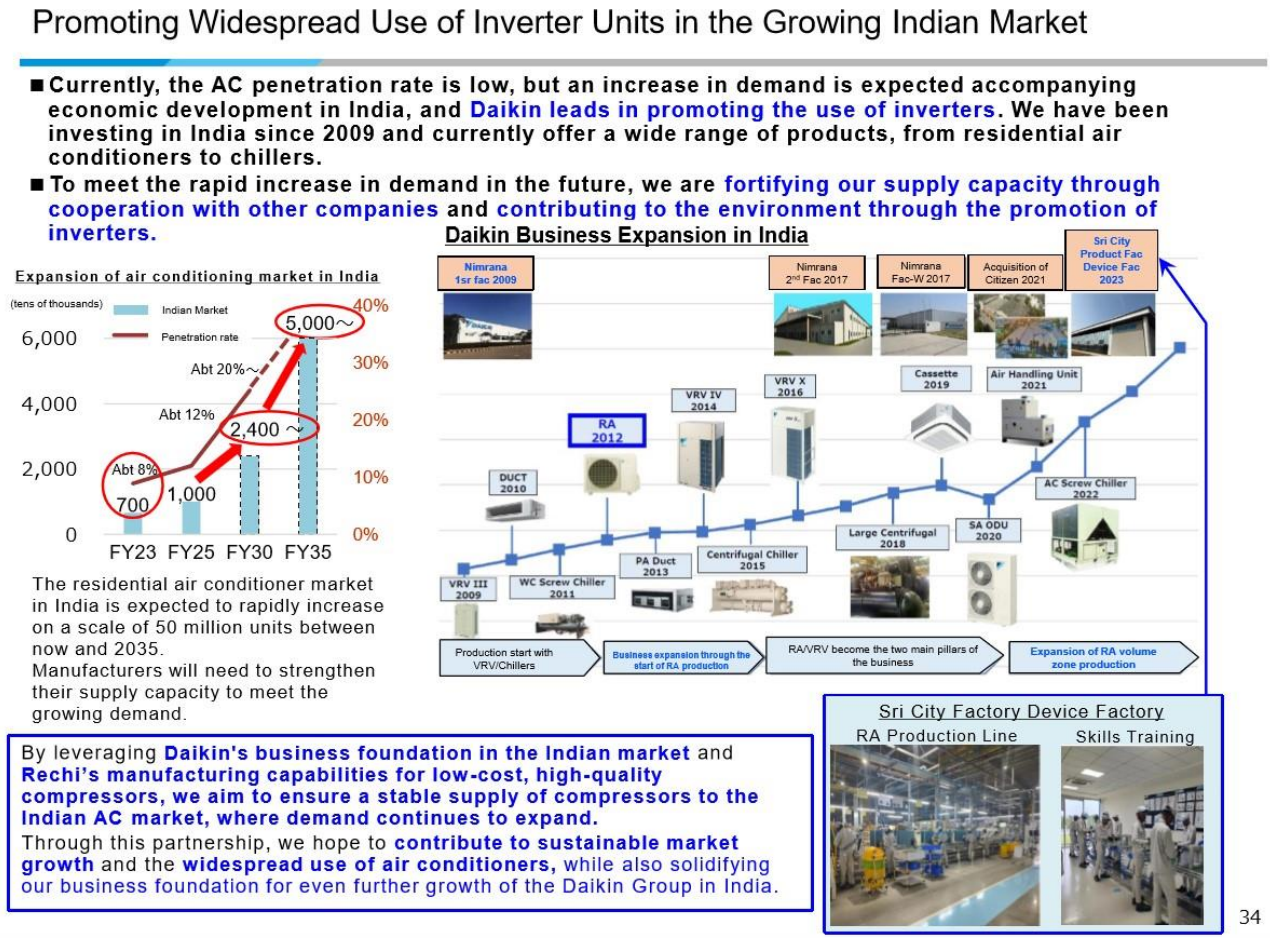
As I mentioned earlier, residential air conditioning in North America has lagged behind in terms of energy efficiency. However, we anticipate that regulations will be further strengthened in the future, which is expected to increase demand for energy-efficient inverter products.

Currently, we hold the number one market share in North America's residential unitary sector. As a leading manufacturer, we are promoting the expansion of environmentally premium products and advancing the market's inverter adoption through a partnership agreement reached in last November with Copeland, a US-based company.

This partnership with Copeland is built on a win–win relationship. Our strengths lie in the design expertise and production technology for swing rotary compressors and inverters, while Copeland brings its sales network in the US market, service support capabilities for compressors, and an extensive after-sales service network covering the entire United States.

Together, we provide tailored and highly efficient solutions to US residential air conditioning manufacturers to meet their unique applications and needs. This collaboration also supports the transition in the US from fossil fuel–based heating systems to energy-efficient heat pumps.

In essence, this partnership represents our challenge to transform the remaining major global region, North America, in the journey toward global inverter adoption.



Next, let us turn to the growing Indian market. Currently, the penetration rate of air conditioning in India is approximately 8%, which is relatively low. However, as India continues its economic development, we anticipate a significant increase in demand. Recognizing this potential, our company is proactively advancing inverter adoption in this market.

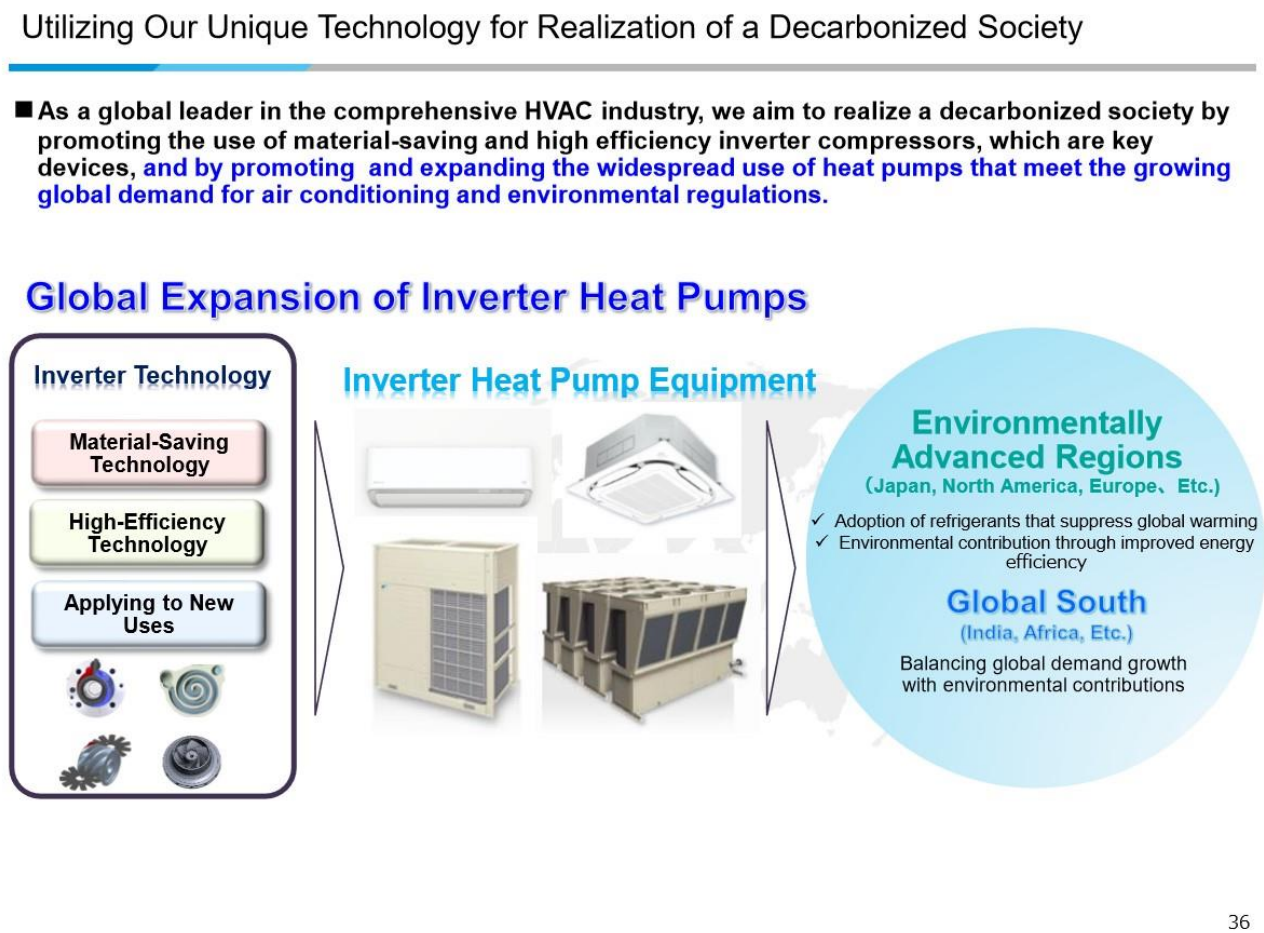
Since 2009, we have been making consistent investments in our operations in India. Today, we have a wide-ranging presence, from room air conditioners to chillers. Similar to North America, we currently hold the leading market share for room air conditioners in India.

At present, the Indian air conditioning market stands at 7 million units annually. However, we project this figure will surpass 50 million units by 2035. To meet this anticipated surge in demand, we are strengthening our supply capabilities through collaborations with other companies, contributing to environmental improvement through increased inverter adoption.

To this end, in December last year, we partnered with Rechi Precision Co., Ltd., a Taiwanese compressor manufacturer. By combining our strong business foundation in the Indian market with Rechi's ability to produce low-cost, high-quality compressors, we aim to ensure a stable supply of compressors to the expanding Indian air conditioning market.

Specifically, as shown on the bottom right, we plan to initiate a joint venture at our device factory in Sri City, located in southern India.

Through this partnership, we aim not only to support the sustainable growth of the Indian market and promote air conditioner adoption but also to solidify the business foundation of the Daikin Group in India and ensure continued growth in the region.



Finally, as the global leader in comprehensive air conditioning solutions, our company is committed to advancing material efficiency and improving the performance of key devices like inverter compressors. We will continue to expand the adoption of heat pumps, addressing the growing global demand for air conditioning and complying with environmental regulations, all with the goal of achieving a decarbonized society.

It is our mission, as the leading air conditioning company, to expand globally—not only in environmentally advanced regions but also across the Global South—bringing our innovations to every corner of the world.

This concludes my explanation.

Thank you for your attention.

Question & Answer

Monri [M]: Now, we will begin the Q&A session.

Sasaki [Q]: My name is Sasaki from UBS Securities. I have two questions I'd like to ask.

The first question pertains to page 33. In the earlier presentation, you discussed a strategy for rapidly increasing the inverter adoption rate in the US by 2030. Could you explain in more detail how you intend to achieve that?

From what I heard, and if my understanding is correct, it sounds like you're aiming to replicate the success you had in China. In China, you provided inverter technology to Gree Electric, and by doing so, you effectively made inverter systems the de facto standard in the market.

Now, referring to the slide, it seems the key here is the partnership with Copeland. The idea, as I understand it, is to provide your inverters to Copeland, and through them, transform the US market with this new strategy—leading to a higher inverter adoption rate than before.

So, what is it that makes you confident the adoption rate will increase now, when it hasn't progressed much until recently? Could you elaborate on your thinking here, in more detail?

Matsuba [A]: In North America, we acquired Goodman, and we are now operating under the name DNA. While the overall market's inverter adoption rate is still low, the adoption rate for our products is currently 25%, which is higher than the market average. We are working to spread new inverter-equipped systems.

That said, the North American market remains quite conservative, so raising the adoption rate requires more than just our company's efforts. It's necessary for the industry as a whole to collectively work on increasing the adoption of inverters. As you mentioned, regulatory standards are indeed tightening, but unless these standards themselves are raised further, the overall inverter adoption rate in North America will not increase. For this reason, lobbying efforts to governments and states are also an essential part of the process.

Thus, instead of proceeding as a single company, we determined that forming a win–win partnership with Copeland—essentially the dominant player in North America's compressor market—would be the most effective approach.

Furthermore, while I mentioned that the inverter adoption rate in North America is low and the energy efficiency of air conditioning systems is poor, it's worth noting that electricity is not particularly cheap in North America. When speaking to people living there, it's clear that electricity costs are not low—yet inefficient air conditioners remain widespread.

This leads us to conclude that the underlying issue is that inverter technology hasn't yet permeated the market. Initial costs, operating costs, and other factors all play a role, but we are currently advancing a variety of strategies to promote the adoption of inverters and address these challenges in every possible way.

Sasaki [Q]: So, rather than Daikin acting alone, by partnering with a strong company like Copeland, you're effectively aiming to make the market itself adopt inverters as the de facto standard. Is that understanding correct? I see, thank you.

Now, my second question concerns page 34 and relates to India. Unlike the US, things seem to be progressing very smoothly there, with the current inverter adoption rate already above 70%, which I believe makes it a region where your strategy has been highly successful.

Compared to other parts of Asia, India seems to be a market where things are going exceptionally well for your company. Could you explain a bit more about the background and reasons why your strategy has been so effective in India?

Matsuba [A]: Regarding India, we have made several attempts to enter the market in the past. Currently, our operations in India are led by a local executive, Director Jawa, who is driving a locally rooted business approach.

As I mentioned earlier, we follow a localization strategy, focusing on sales, gathering feedback from customers, and fostering connections within the Indian air conditioning industry. Given the vast size of the country, there are distinct markets in the northern and southern regions. We have developed a product lineup that covers the entire country, catering to a wide range of needs—from residential systems to applied, large-scale air conditioning solutions.

While there are local manufacturers in India, air conditioners were not widely adopted until we took the lead and entered the market. This pioneering effort, I believe, has led us to where we are today.

Sasaki [M]: So, your company has taken a traditional and principled approach to management, effectively leading the market forward. Is that an accurate understanding? I see, thank you.

Isayama [Q]: I'm Isayama from Goldman Sachs. Like the previous questioner, I'd like to focus on inverters and your partnership with Copeland. But first, I'd like to clarify a few points numerically.

Regarding your current inverter strategy in the US, are you planning to continue developing it independently, or are you also purchasing components from other companies? With this partnership with Copeland in the mix, does it mean you'll ultimately be relying on them for compressors? Or is the idea to incorporate Daikin's inverter technology and offer a complete set, including compressors, to expand sales and raise the industry's inverter adoption rate?

I'm curious about your in-house strategy based on today's explanation—how much of the inverter-related work will Daikin do itself, and to what extent will you rely on external sources? Additionally, how does Copeland fit into the picture for compressors? Could you clarify the direction you're steering toward as outlined on page 33?

Matsuba [A]: The North American market is somewhat different from the Japanese market. Compressors in North America are handled primarily by specialized manufacturers. Companies like Carrier and Trane manufacture products but do not produce compressors themselves, instead relying on Copeland for compressors. That's been the reality.

As we discussed the partnership with Copeland, it became clear that they did not have inverter technology of their own. Through our discussions, they came to understand the energy efficiency benefits of inverters and recognized that this technology would be essential for improving energy efficiency in the North American market moving forward. This shared understanding became the starting point for our collaboration.

With compressors, we are leveraging Copeland's sales network and service network to provide inverters to various product manufacturers. This approach directly contributes to transforming the North American market into an inverter-based one. That is our vision. Does this answer your question?

Isayama [Q]: Regarding what you just mentioned, compared to the residential unitary systems that were previously produced by Goodman, will the new products that comply with the upcoming refrigerant regulations have a higher in-house value-added ratio?

I'm also curious to know how much the in-house value-added ratio—achieved through the internal production of inverters—will increase as a result of this partnership. Is it that this partnership mainly provides added value for Copeland, or will it also lead to an increase in your company's margins? Could you provide any insights into this?

On page 33, the slide mentions the cost increase resulting from the 2023 transition from SEER14 to SEER15. Will the cost increase when transitioning from SEER15 to SEER16 be significantly greater compared to that previous transition?

Matsuba [A]: As illustrated in the stepwise progression on the materials, the North American market previously operated under SEER13 regulations, which were raised to SEER14 in 2015 and are now at SEER15. The standards are indeed gradually becoming stricter. However, as I mentioned earlier, these levels are still far below those of Japan, remaining at the lower end of the spectrum.

Looking ahead to 2030 and beyond, we anticipate that the standards could rise to SEER18 or even higher. Once the standards reach this level, it will become increasingly difficult to configure systems with conventional non-inverter technologies—essentially making it impractical due to the resulting increase in equipment size.

Larger systems would not only fail to meet energy efficiency requirements but would also eventually hit a point where manufacturing them becomes unfeasible. Therefore, achieving higher energy efficiency levels in North America will inevitably depend on inverter compressors as a core technology.

Isayama [Q]: Regarding the cost increase you just mentioned, transitioning from SEER14 to SEER15 resulted in a 30% increase. Would the jump from SEER15 to SEER16 lead to a 50% or even 70% cost increase? Are there any quantifiable figures or comparisons you can share to provide a clearer sense of scale?

Matsuba [A]: Unfortunately, as this involves internal evaluation materials, I cannot provide specific figures. However, as we approach SEER18 or SEER20, we foresee that the cost increases will go beyond mere price hikes—non-inverter technologies will simply no longer be viable.

Maekawa [Q]: This is Maekawa from Nomura Securities. I have two main questions.

First, regarding inverters. In india, the joint venture with Rechi Precision, I understand that Rechi does not currently have a presence in the region. Considering that Daikin typically produces inverter compressors in-house, what are the benefits and objectives of incorporating Rechi's technology into this joint venture?

Matsuba [A]: Regarding India, we established our own compressor factory in the region two years ago. Meanwhile, Rechi has not yet entered the Indian market.

As I mentioned earlier, we anticipate that by 2035, the residential air conditioning market in India will expand to approximately 50 million units. Given the vast geography of India, we concluded that it would take too much time for us alone to address this massive market. This is why we decided to partner with Rechi.

Rechi, headquartered in Taiwan, is a specialized compressor manufacturer that primarily produces and sells rotary compressors in markets like China. They excel at producing low-cost, high-quality compressors on a large scale.

Rechi has long sought to enter the Indian market, and by combining our strengths—our inverter technology and their manufacturing capabilities and supply chain expertise—we believe we can effectively address the growing demand in India, which is expected to exceed 50 million units. This collaboration is, in our view, the most strategic approach to penetrating and succeeding in this market.

Maekawa [Q]: In the future, do you plan to take additional steps to expand the adoption of inverters in India, such as forming partnerships with local air conditioning manufacturers like Voltas? Could you provide some further explanation on this?

Matsuba [A]: Among the local manufacturers in India, there are indeed companies, such as Voltas, that produce compressors in-house. However, it is the case that no Indian local manufacturers possess both compressor and inverter technologies.

Expanding business in India requires the combination of inverter technology and compressors, which is why we concluded that partnering with a specialized compressor manufacturer like Rechi would create the greatest synergies.

Maekawa [Q]: Regarding the expansion of inverter adoption in the US, do you intend to rely solely on your partnership with Copeland, or do you have a second or third initiative in mind? Could you provide some insight to the extent possible?

Matsuba [A]: This isn't limited to the US, but when it comes to energy-saving regulations, rather than simply following standards set by someone else, it's common for air conditioning manufacturers, including us, to propose higher regulatory values to national governments or US state authorities.

In line with this, we aim to focus on advocacy activities to raise energy-saving regulatory standards in the US. To achieve this, inverter compressors will be an essential key device.

Maekawa [Q]: My second question concerns refrigerants. With the Kigali Amendment, I understand there will soon be a need to lower the global warming potential (GWP) of refrigerants even further. Could you provide an update on your development efforts regarding new refrigerants for air conditioners?

Matsuba [A]: I must refrain from providing specific comments, but I can share that our company evaluates refrigerants based on four main criteria: safety, environmental performance, economic feasibility, and energy efficiency. Using these four criteria, we comprehensively evaluate and select the most suitable refrigerants for each region and product.

Currently, R32 is the mainstream refrigerant used in air conditioners. This is because, when evaluated against the aforementioned four criteria, R32 has been deemed the most suitable and has been widely adopted across the air conditioning industry.

However, there is a growing demand for refrigerants that are even more environmentally friendly. In Europe, for instance, the regulatory values have already been lowered. Accordingly, we are developing and planning the introduction of refrigerants that are appropriate for specific regions and products, and we are preparing for their market launch.

Maekawa [Q]: Is the adoption of new refrigerants gradually advancing in Europe, around 2024?

Matsuba [A]: It depends on the product.

For air-to-water systems, we have developed models utilizing the natural refrigerant R290. These products were developed locally in Europe, and production and market launch began at the end of last year.

Hotta [Q]: This is Hotta from BofA Securities. I have two straightforward questions.

First, regarding North America, how do you view the impact of increasing inverter adoption on your company's profitability in the region?

Given that these are high-value-added products, will this shift in the product mix significantly raise the current profitability rate in North America, which is at 10%? Or will factors like development costs and other expenses offset the potential gains? Please share any insights on how this shift might impact profitability.

Miyazumi [A]: This is Miyazumi.

Indeed, transitioning to inverters allows us to raise the product price and selling price, which naturally brings positive effects. However, there are also associated costs, and we will need to work on reducing those costs to improve margins.

Another point to consider, specific to the US, is that the shift to inverters contributes to energy efficiency improvements, which ties into the broader context of what is often referred to as GX surpassing DX—that is, green transformation taking precedence over digital transformation.

In essence, the US faces electricity shortages, partly due to a weak power grid. Addressing this issue by offering air conditioners equipped with inverters can act as a tailwind for our business.

Of course, there are variables introduced by the Trump administration, but overall, we are pursuing a strategy of contributing to environmental improvements while simultaneously enhancing profitability.

Hotta [Q]: My second question concerns market share. Over the past 5–10 years, we've seen the inverter adoption rate increase in regions outside North America.

In those regions where inverter adoption has risen, has your market share also increased? Or is it more of a case where the goal is to establish inverters as the default in the market, which allows other companies to sell inverter-equipped products as well—meaning that while inverters become widespread, your market share doesn't necessarily increase dramatically? I'd like to understand your current view on how market share is influenced by the rise in inverter adoption rates.

Matsuba [A]: As I mentioned earlier, in both North America's residential unitary segment and India, we currently hold the number one market share. So, rather than focusing on further increasing our market share, we see it as our responsibility, as the leading manufacturer, to prioritize energy efficiency by raising inverter adoption rates.

As a result of this focus, users will eventually recognize the benefits of inverter systems, such as reduced electricity bills. This awareness will drive wider adoption of inverter products, which in turn will lead to a rise in our market share. We firmly believe that increasing inverter adoption will ultimately result in a relative increase in our share of the market, and we are moving forward with our business development based on this conviction.

McDonald [Q]: This is McDonald.

Daikin holds a high market share in ducted unitary for houses in the US, and it's an important product for your business. What is the current inverter adoption rate for unitary systems in 2023, and what is your target for 2030?

Matsuba [A]: Looking at the North American market as a whole, it includes various types of products such as ducted unitary for house, mini-splits and our new environmental premium product, "FIT," the overall inverter adoption rate is around 24%.

Our goal—our strategy, if you will—is to raise this figure to over 60% across the board.

McDonald [Q]: Would you say that the unitary business is expected to shrink in the future?

Matsuba [A]: That's not the case. Unitary systems and mini-splits serve different purposes in residential settings, and I believe both will grow.

McDonald [Q]: According to information I've heard from American investors, labor costs in the US are rising dramatically right now. Inflation, material costs—steel, for instance—and labor costs in particular are all increasing. Installation costs are also climbing significantly, which has pushed up the overall price of unitary systems in the US.

Because of this, wouldn't the share of mini-splits naturally increase, leading to a higher inverter adoption rate even if your company doesn't take specific action? Is this a correct understanding?

Matsuba [A]: Unitary systems and mini-splits indeed serve different purposes, and I personally don't see unitary systems being entirely replaced by mini-splits.

In the US, the dominant cooling method for residential use is centralized air conditioning, which relies on unitary systems. Mini-splits are often added to small rooms where the central system is insufficient, or they are used in urban apartment buildings. These are just a few examples of the diverse scenarios where mini-splits are applied. Because unitary systems and mini-splits each have their own strengths, I believe both markets will continue to grow in North America.

McDonald [Q]: One more thing—while I'm not American myself, I feel that environmental awareness among Americans is generally low. There are still many people who don't believe in global warming, despite issues like the wildfires in Los Angeles and so on. Even the next president doesn't believe in it.

With fact-checking likely to be almost nonexistent in the US going forward, no matter how much lobbying and other activities your company undertakes, I don't think the fundamental environmental awareness of Americans will change. What are your thoughts on this?

Matsuba [A]: I think it's true that environmental awareness in the US hasn't changed much in the past. However, in recent years, there has been a growing movement at the state level to strengthen environmental regulations.

Because of this, I believe we might see differing trends at the federal and state levels. I don't think the 51 states will become completely disjointed, but in places like California and elsewhere, there is a clear rise in energy-saving awareness, which has led to these sentiments being codified into regulatory standards. It may be a patchwork scenario in the short term, but I believe that over the long term, the US will gradually move toward energy efficiency and environmental sustainability.

As a company involved in air conditioning, we see ourselves as key players in driving this change, and we are committed to focusing our efforts in this direction.

McDonald [Q]: One final, simple question regarding the joint venture with Copeland. Why didn't your company take the majority share? Copeland holds 51%, while Daikin holds 49%. If promoting inverter

adoption is so important, why not secure the majority position? Could you explain the reasoning behind this decision?

Matsuba [A]: The partnership with Copeland is crucial because it enables us to leverage Daikin's inverter compressor technology to supply major unitary manufacturers in North America.

Until now, we had not engaged in direct sales of compressors to North American unitary manufacturers. Since Copeland is the dominant player in the compressor market, it made sense for them to take the lead in expanding this business to the front lines. This reasoning led us to structure the joint venture in a way that allows Copeland to hold the majority share and spearhead the initiative.

McDonald [Q]: From a cost perspective, by allowing Copeland to hold the majority, wouldn't this help Daikin reduce costs and ultimately improve its profit margins?

Investors are concerned about the profitability of your US operations, as the inverter adoption rate may increase, but profits don't seem to be rising proportionally. Did this consideration of costs and profitability influence your decision to take the minority share?

Matsuba [A]: The issue of profitability and holding a minority share is not directly connected. As I explained earlier, we structured the joint venture to allow Copeland to hold the majority share for strategic reasons.

That said, with regard to profitability, while the current inverter adoption rate in North America is still relatively low, inverter products have higher profit margins. Increasing the inverter adoption rate will undoubtedly contribute to improving the overall profitability of our North American business.

Fukuhara [Q]: This is Fukuhara from Jefferies Securities.

My first question is about your production system in North America. Have there been any changes to your production system in the Americas following the refrigerant regulations that came into effect in January? If possible, could you also provide details on the products being manufactured at each of your factories—such as the Houston factory producing R32-equipped products, the factory in Mexico, and the Faribault factory producing rooftop systems?

Matsuba [A]: Just to clarify, your question is about our factories, correct? Daikin operates factories across North America, including in Mexico.

Our Houston plant, known as the DTTP factory, serves as our mother facility in North America and handles the full production of residential unitary systems. This means that 100% of our residential unitary products for the North American market are made in America.

As for the applied air conditioning segment, this is part of what we gained when we acquired McQuay, which is now part of the Daikin Group. For this segment, our hub factory is in Minneapolis, with another key facility in Faribault. These two hubs supply the entire United States.

In addition, two years ago, we established a new factory in Mexico to produce mini-splits and another for chillers. These two "double engines," as we call them, combine with our US facilities to increase production capacity and support our local production-for-local consumption strategy, ensuring readiness for the expansion of our North American operations.

Fukuhara [Q]: Regarding the transition to new refrigerants, has there been any change to your production system—for instance, how you plan to increase production capacity for R32? Has this necessitated any adjustments to your existing system?

Matsuba [A]: The production system I just described remains the same for the transition from R410A to R32. There has been no change in production facilities just because the refrigerant has changed. As I mentioned earlier, we are introducing the new refrigerant across all of our hub factories, ensuring a smooth transition without altering the existing system.

Fukuhara [Q]: My second question is about data centers, which were mentioned on the slides. Could you provide more details about your air conditioning solutions for data centers?

I recall that you formed a partnership with Alliance Air, and around last summer, you invested close to JPY20 billion in this area. How is Alliance Air contributing to your business?

Matsuba [A]: Alliance Air is a company we acquired that specializes in custom air handlers for data centers.

The data center market requires fully customized solutions—standard products are not sufficient. The specifications must be tailored to meet each customer's unique needs. Alliance Air excels in this area, which is why we acquired the company. Their capabilities align perfectly with the expanding data center market, and we are seeing significant growth in demand as a result.

Our existing factories alone are no longer sufficient to meet this growing demand. Consequently, we made the decision last year to increase Alliance Air's production capacity and to establish additional capacity in a nearby facility. Preparations for this new factory are currently underway.

Kitaura [Q]: This is Kitaura from Bloomberg. I have one somewhat detailed question about your partnership with Copeland.

Is it correct to understand that the compressors currently used in your unitary systems in North America are purchased externally? With the partnership with Copeland, you mentioned that Daikin's rotary compressors will be supplied. Does this mean that as inverter adoption increases, the value added by Daikin's compressors in unitary systems will also increase?

Additionally, if Copeland supplies the same inverter compressors to other companies, regardless of which partner holds the majority share in the joint venture, does Daikin benefit from component sales and see increased revenue? Is this understanding correct?

Matsuba [A]: Broadly speaking, that understanding is correct. Currently, the inverter adoption rate across the North American market, including within DNA Group's sales, remains low. At present, we manufacture unitary systems using non-inverter scroll compressors purchased from Copeland.

As the inverter adoption rate increases, we will transition to inverter compressors such as our swing compressors, as I explained earlier. By using compressors developed collaboratively by both companies, we aim to accelerate the transition to inverter-based systems.

Kitaura [Q]: Regarding DNA's target for the sales ratio of inverter products, should we understand that this figure represents internally manufactured products?

Matsuba [A]: That is correct. We are using our in-house inverter compressors.

Kitaura [Q]: However, moving forward, it seems unlikely that the proportion of internally manufactured compressors will reach 100%. As the partnership with Copeland progresses, will the share of compressors manufactured through this partnership increase? How do you foresee the balance between compressors supplied by Copeland and those manufactured within DNA changing in the future?

Matsuba [A]: The current partnership with Copeland is aimed at collaborative test marketing and sales. It hasn't yet reached the stage of jointly establishing production facilities, which we've earmarked as step three in our phased plan.

As the inverter adoption rate rises, we anticipate that a point will come where we need local compressor manufacturing infrastructure in the Americas, similar to what we have established in India. At that stage, we plan to move toward co-manufacturing with Copeland. For now, we are supplying compressors to the Americas from Daikin Group's factories in Asia.

Taninaka [Q]: This is Taninaka from SMBC Nikko Securities. I have two questions.

First, how has the inverter adoption rate in the US changed over the past five years? Has it been stagnant, or has there been a gradual annual increase—perhaps 1% per year? Has the rate of change accelerated over the last one to two years? If you have data or even a general sense, please share.

Matsuba [A]: The overall market's inverter adoption rate has not grown significantly. However, our own inverter sales ratio has been increasing steadily, as we've been leading the market by introducing new inverter products, particularly our environmental premium product, FIT. That said, the broader market hasn't seen a substantial shift yet—this is the current reality.

Taninaka [Q]: My second question is about customer resistance to inverter products. While proposing inverter products to customers, I assume some decline them. What is the most common reason given for rejecting inverter products?

Matsuba [A]: In the past, when the inverter adoption rate in Japan was still low, the primary barrier to popularizing inverter air conditioners was the initial cost.

Using high-value-added inverter compressors increases the initial cost compared to traditional non-inverter air conditioners, and this was a significant reason for the slow adoption. To address this, we have been working to minimize the initial cost difference through various technological advancements.

On the other hand, since the running cost of inverter air conditioners is naturally lower, it's important to explain to customers that the initial cost difference can be recovered in a short period. Helping customers understand this aspect is a key part of promoting inverter adoption.

Pan [Q]: This is Pan from Macquarie Securities.

Regarding the inverters for your current North American and Indian markets, where are they sourced from?

When I toured your Applied Air Conditioning plant in Minneapolis last year, I saw that in-house-produced inverters were used for large rooftop systems for data center applications. Could you explain how residential inverters are produced and supplied for both the US and Indian markets?

Matsuba [A]: Let me begin with North America. In North America, we produce inverter products in-house at our hub factory in Houston, as well as at our facilities in Minneapolis and Mexico. Each of these factories is already producing inverter products.

Pan [Q]: So, in the US, your inverters are not procured from other companies but are manufactured at your own local factories?

Matsuba [M]: Are you specifically asking about the printed circuit boards (PCBs) used for inverters? To clarify, compressors serve as the heart of the system, while the PCB acts as the brain, and together they make the air conditioning system function. Are you asking about the brain—the inverters themselves?

Pan [Q]: For example, some Japanese air conditioning manufacturers procure their inverters from specialized manufacturers. Does Daikin source inverters from such companies, or are they all produced in-house?

Matsuba [A]: In Japan, our inverters are produced and developed internally. We have dedicated inverter production facilities and use the inverters produced there.

However, not 100% of our inverters are internally produced—we also collaborate with specialized suppliers and source a portion of our inverters from them.

Pan [Q]: In the US, are the inverters used in residential room air conditioners currently produced at your own factories?

Matsuba [A]: In the US, we have not yet begun producing inverters locally. Currently, we import inverters manufactured at our own factories in the ASEAN region.

Once inverter adoption reaches a certain level, we plan to establish local production for inverter compressors and PCBs as part of our localization strategy.

Pan [Q]: How about the situation in India?

Matsuba [A]: In India, we have already achieved sufficient economic scale. Both compressors and electrical PCBs are produced in-house at our factories within the Indian region.

Pan [Q]: Regarding the production capacity and technological capability for PCBs like inverters, is it fair to say that they are not as critical for differentiation as the technology behind compressors? Is compressor technology the more important factor?

Matsuba [A]: That's an excellent question. Compressors are the heart of the system, while PCBs are the brain. The way these two technologies are integrated—what we call matching—is key to differentiating air conditioning systems. This combination is incredibly important for us.

Pan [Q]: So, your strength lies in the combination of inverters and compressors. Other companies might be able to produce inverters, but without the expertise in compressors, they wouldn't necessarily have a competitive advantage in the air conditioning domain.

Am I correct in understanding that this combination gives Daikin its competitive edge?

For example, even if specialized inverter manufacturers supply their products, it doesn't automatically become an advantage for other air conditioning companies.

Matsuba [A]: That is correct. As I mentioned earlier, our systems can achieve seven times the heat energy from one unit of input energy. The extent to which we can enhance energy efficiency depends not only on improving the compressor and PCB technologies individually but also on perfecting the integration of these components. This integration, or matching, is a key technology we prioritize.

Pan [M]: I understand very well now.

Monri [M]: We've reached the scheduled conclusion time, so this brings the Sustainability Briefing to an end.

Thank you very much for taking the time to join us today.

[END]

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