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Member, Financial Accounting Standards Foundation

Brief Report on the Settlement of Accounts (Consolidated) for the Nine Months Ended December 31, 2023 (J-GAAP)

February 6, 2024

Name of Listed Company: **Daikin Industries, Ltd.** Listed on TSE
Code No.: 6367
(URL: https://www.daikin.co.jp/)
Representative: Masanori Togawa, President and CEO
Contact: Motoshi Hosomi,
General Manager of the Corporate Communication Department of the Head Office
(Tel.: +81-6-6147-9925)
Planned date of the filing of quarterly report: February 7, 2024
Planned date of start of dividend payment: —
Preparation of supplementary explanatory materials for the settlement of accounts for the third quarter: Yes
Holding briefings on the settlement of accounts for the third quarter: Yes (for institutional investors and analysts)

1. Consolidated Business Results for the Nine Months Ended December 31, 2023
(From April 1, 2023, to December 31, 2023)

(1) Consolidated Business Results (Accumulated)

Note: Amounts less than one million yen are truncated.
Percentages indicate year-over-year increases/decreases.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	3,263,652	9.3	306,490	0.9	282,113	-5.7	193,850	-7.2
December 31, 2022	2,985,667	29.7	303,757	17.1	299,255	12.3	208,952	16.9

Note: Comprehensive income was ¥326,588 million (20.4%) for the nine months ended December 31, 2023, and ¥271,319 million (14.9%) for the nine months ended December 31, 2022.

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	662.19	661.77
December 31, 2022	713.87	713.44

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2023	4,681,851	2,526,721	52.9
As of March 31, 2023	4,303,682	2,279,095	51.9

(Reference) Equity capital was ¥2,474,406 million as of December 31, 2023, and ¥2,235,030 million as of March 31, 2023.

2. Dividends

	(Annual) Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended March 31, 2023	—	100.00	—	140.00	240.00
Fiscal Year ending March 31, 2024	—	120.00	—		
Fiscal Year ending March 31, 2024 (forecast)				120.00	240.00

Note: Revisions to the dividend forecast announced most recently: None

3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2024
(From April 1, 2023, to March 31, 2024)

Note: Percentages indicate year-over-year increases/decreases.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,240,000	6.5	400,000	6.1	380,000	3.8	264,000	2.4	901.87

Note: Revisions to the consolidated business forecast announced most recently: None

*Notes

(1) Changes in Significant Subsidiaries during the Nine Months Ended December 31, 2023: None

(2) Adoption of Accounting Treatment Specific to Quarterly Consolidated Financial Statement Preparation: Yes

(3) Changes in Accounting Policies, Changes in Accounting Estimates, and Retrospective Restatement
- (i) Changes in accounting policies relating to revisions to accounting standards, etc.: None
- (ii) Changes in accounting policies other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Retrospective restatement: None

(4) Number of Shares Issued (common stock)

(i)	Number of shares issued at end of period (including treasury shares)	
	As of December 31, 2023	293,113,973 shares
	As of March 31, 2023	293,113,973 shares
(ii)	Number of treasury shares at end of period	
	As of December 31, 2023	359,202 shares
	As of March 31, 2023	389,416 shares
(iii)	Average number of shares outstanding during the nine months	
	Nine Months Ended December 31, 2023	292,739,162 shares
	Nine Months Ended December 31, 2022	292,703,477 shares

The Brief Report on the Settlement of Accounts is outside the scope of quarterly review by a certified public accountant or an audit corporation.

Explanation about the Appropriate Use of the Business Forecast and Other Noteworthy Points

- The business forecasts are based on information currently available to Daikin Industries, Ltd. (the "Company") and certain assumptions that are deemed reasonable. Actual results may differ significantly from these forecasts. For the basis of presumption of the business forecast and the notes on its use, please refer to "(3) Explanation of Future Forecast Information Such as Consolidated Business Forecast" of "1. Qualitative Information Regarding Settlement of Accounts for the Period under Review."
- The Company plans to hold a briefing on business results for institutional investors and analysts on Tuesday, February 6, 2024. Documents and materials distributed in this briefing are posted on the Company's website (https://www.daikin.com/investor/library/results_materials).

Content of Attachment

1. Qualitative Information Regarding Settlement of Accounts for the Period under Review

(1) Explanation of Operating Results

In the nine months ended December 31, 2023 (from April 1, 2023, to December 31, 2023), the world economy slowed down due to inflation and monetary tightening in Europe and the United States. In the U.S. economy, brisk personal consumption and capital investment supported the economy, but housing investment fell due to rising interest rates. The European economy continued to stagnate as personal consumption and housing investment declined due to the ongoing high prices of goods. The Chinese economy was sluggish, due in part to the real estate market. In Asia and emerging countries, exports to China, Europe, and the United States were sluggish, but recovery in domestic demand supported the regional economy and kept it going strong. The Japanese economy faced headwinds from deteriorating overseas economies and showed only a gradual recovery due to lackluster strength in personal consumption.

Under this business environment, the Daikin Group formulated the latter-half three-year plan of the strategic management plan "Fusion 25" in the fiscal year ending March 31, 2024, and the strategies formulated in it are currently being implemented. We are working on creating economic, environmental, and social value by promoting measures under 11 key strategic themes, including the three growth strategy themes of "Challenge to achieve carbon neutrality," "Promotion of Solutions business connected with customers," and "Creating value with air," and adding "Establishment of a major base in India" and "Entry into Chemicals: high-performance and environmental materials businesses" to the nine key strategic themes initially proposed at the time "Fusion 25" was formulated.

In the fiscal year ending March 31, 2024, we are working to minimize the impact of environmental changes on our business activities, expand our business and increase market share by viewing environmental changes as opportunities, and reconsolidate profitability by closely following the progress of each region and business and responding to issues flexibly. The specific themes for the fiscal year ending March 31, 2024, are as follows.

- Increase the Company's market share in commercial and residential applications through products and services that are carbon neutral and energy-saving
- Expand profits in the solutions business by providing added value for each application and market
- Build a robust supply chain that can respond quickly and flexibly to changes in the market environment
- Promote sales price policies by introducing differentiated products that meet the needs of the market and customers
- Strengthen cost competitiveness across the globe by reducing variable and logistics costs, replacing materials, improving productivity, etc.
- Reduce fixed costs by strengthening the management base using digital technology in order to improve profitability while making aggressive investments
- Achieve results from acquisitions and investments in production capacity expansion that have been carried out

The Daikin Group's net sales increased by 9.3% year over year to ¥3,263,652 million for the nine months ended December 31, 2023. As for profits, although operating profit increased by 0.9% to ¥306,490 million, ordinary profit decreased by 5.7% to ¥282,113 million and profit attributable to owners of parent decreased by 7.2% to ¥193,850 million, mainly due to higher interest expenses from higher interest rates.

Operating results by business segment are as follows:

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment increased by 9.8% year over year to ¥3,001,354 million. Operating profit decreased by 1.4% to ¥262,403 million.

In the Japanese air-conditioning equipment market, commercial market demand decreased year over year due to a delayed recovery in demand for stores and offices, which are large markets, while demand recovered for buildings, facilities, factories, and other applications. Despite a record-breaking heat wave that boosted demand, residential market demand also decreased year over year, due in part to consumers' reluctance to buy. Against this backdrop, the Group expanded sales to the commercial air-conditioning equipment market by strengthening user proposals focusing on high value-added products such as the "FIVE STAR ZEAS," which combines high energy-saving performance and ease of installation, "machi Multi," which meets individual operation needs, and "UV Streamer Disinfection Unit," which adds air purification and disinfection functions by attaching to packaged air conditioners. Accordingly, net sales increased year over year. Meanwhile, for the residential air-conditioning equipment market, we worked to confront rising electricity prices and expanding needs for energy-saving performance in housing equipment by strengthening user appeal, mainly for "Urusara X," which has high energy-saving performance. However, decreased demand resulted in lower net sales year over year.

In the Americas, sales of residential air-conditioning systems continued to face difficult conditions as industry demand growth stagnated due mainly to prolonged inflation and continued high housing loan interest rates. Under such circumstances, sales increased in the first half of the fiscal year (April to September) due to a tailwind from heat wave effects in some regions, improved sales from steady demand for light commercial air-conditioning systems for medium-sized office buildings, strengthened sales networks utilizing companies acquired in the previous fiscal year, and efforts to implement pricing policies. However, entering the third quarter (October to December), residential market demand slowed down, and net sales for the nine months (April to December) were on par year over year due to ongoing inventory adjustments by independent distributors. In the market for large buildings (Applied Systems), sales of air-conditioning systems exceeded market growth rates amid strong market conditions due to production capacity expansion and the effect of pricing policies. Furthermore, sales expansion through acquired companies and sales agents who are proficient in growth markets such as the manufacturing industry and data centers, as well as the expansion of the solutions business, which utilizes instrumentation and engineering companies, contributed to a significant increase in net sales year over year.

In China, the zero-COVID policy was lifted, and we were able to fully implement production and sales activities for the first time in three years. Despite a slow recovery in the real estate market, sales grew mainly in the housing market, and overall net sales were up year over year. Profits maintained a high level comparable with past results due to measures that included increasing sales of high value-added products and reducing costs. In the residential air-conditioning equipment market where there was a significant slowdown in the economy, the Group's unique sales activities combining online-based activities, such as live broadcasts utilizing showrooms, web strategies, and social media, together with user-direct offline retail sales contributed to sales expansion. We also introduced and expanded sales of a new residential multi-split type air conditioner series named "Daikin CARE Central Air System," which combines air-conditioning, ventilation, and heat pump floor heating systems with solutions services such as energy-saving and indoor air quality (IAQ) proposals. In the commercial air-conditioning equipment market, the markets for government projects, factories, and green buildings (buildings designed with consideration for enhanced environmental performance) have been growing due to the promotion of carbon neutral policies, and new products were launched with energy savings as an inducement. In the Applied Systems air-conditioning equipment market, the Group invested resources to growth fields such as infrastructure and semiconductor-related and also strengthened the repair and maintenance business.

In Asia and Oceania, strong sales in India drove overall net sales higher year over year. In ASEAN and Oceania, sales of residential air-conditioning systems were affected by sluggish consumption and slowing demand due to the high inflation rate, and sales remained at the same level year over year. Meanwhile, despite project delays as a result of a deterioration in cash flow for clients and contractors due to the impact of monetary tightening, sales of commercial air-conditioning systems increased year over year due to the promotion of development and training of dealers. In India, net sales of both residential and commercial air-conditioning systems were significantly higher year over year on the back of continued economic growth.

In Europe, although the economic environment deteriorated due to prolonged monetary tightening policies, the tight supply of components in effect since last year had eased, and efforts were made to maximize shipments in each country. Although the demand for air-conditioning systems centered on the residential market slowed down and overall net sales in local currency decreased year over year, overall net sales after conversion to Japanese yen were higher year over year due to the positive effect of exchange rates. Sales of residential air-conditioning systems increased in France, Spain, and other countries in the summer caused by an arrival of a heat wave, but the economic slowdown had a significant impact on consumer confidence, and net sales declined year over year. With regard to residential heat pump hot water heating systems, we worked to strengthen our sales capabilities, including dealer development and support for subsidy applications, and expand our product lineup. However, factors including the reduction of government subsidy programs in major markets such as Italy, Germany, and France, in addition to the decline in European gas prices, distinctly brought about a stagnant trend in replacement demand from gas and oil boilers in many countries, resulting in lower net sales year over year. For commercial air-conditioning systems, pent-up demand due to the easing of COVID-19 activity restrictions had run its course, but net sales increased year over year as a result of attentive sales activities to steadily capture demand from hotels and restaurants recovering from the COVID-19 pandemic and the energy-saving needs of offices, stores, and the like. For the Applied Systems air-conditioning equipment, net sales were higher year over year, mainly due to sales expansion to data centers.

In the Middle and Near East and Africa, net sales were significantly higher year over year. Increased orders for commercial projects in the UAE, Nigeria, and other countries drove sales. In Turkey, sales expanded driven by the strength of quick delivery in commercial air-conditioning systems, for which local production started in the previous fiscal year. In addition, sales of residential air-conditioning systems also increased significantly due to capturing demand caused by a heat wave and disaster reconstruction demand.

In the filter business, overall demand remained firm despite some impact from the slowdown in investment in high-end markets in China, Europe, Southeast Asia, and India. In the United States, we expanded sales in high-end markets such as hospitals, pharmaceuticals, and data centers by sales through distributors, including a company acquired in the previous fiscal year. However, net sales declined partly due to our withdrawal from low-profit businesses. In Europe, awareness and needs for energy-saving and air quality improvement remained firm, and sales remained stable, especially in the general building and OEM markets. In Asia, sales declined, partly due to a slowdown in investment for semiconductors. In Japan, although sales to the electronics and semiconductor markets were sluggish due to an inventory adjustment phase, sales of high-performance filters, mainly for the pharmaceutical market, remained strong. Furthermore, the gas turbine and dust collection systems business continued to see robust sales of special filters for oil field applications. Despite these strong sales in some regions and businesses, net sales of the filter business overall declined year over year due to lower sales in the United States.

In the marine vessels business, although sales of marine vessel air conditioners and refrigeration units grew, net sales of the marine vessels business overall declined year over year as a result of a decline in the number of marine container refrigeration units sold due to a slowdown in demand.

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 2.2% year over year to ¥189,729 million. Operating profit increased by 19.3% to ¥39,018 million, due to pricing policies in the strong demand market and cost reduction.

Overall sales of fluorochemical products were down year over year due to a delay in the recovery of demand in a wide range of fields, particularly semiconductor and automobiles, as well as the accompanying movement to adjust distribution inventories.

Fluoropolymers saw sluggish sales due to factors including stagnant demand in the LAN cable field and distribution inventory adjustments in the automotive field. Nevertheless, net sales were at the same level year over year due in part to improved supply capacity from increased production of materials for semiconductor equipment. Meanwhile, net sales of fluoroelastomers were lower year over year due to lower sales in fields such as automobiles.

In specialty chemicals, net sales significantly declined year over year due to a decline in demand for anti-fouling surface coating agents, oil and water repellents, and semiconductor etching agents and other products.

As for fluorocarbon gas, net sales rose considerably higher year over year due to the implementation of pricing policies in response to soaring raw material prices.

(iii) Other Divisions

Overall sales of the “Others” segment increased by 24.0% year over year to ¥72,568 million. Operating profit increased by 3.1% to ¥5,049 million.

In the oil hydraulic equipment business, demand for oil hydraulic equipment for industrial machinery decreased in the Japanese market, especially for machine tools, but a company acquired in the previous fiscal year contributed to increased sales in Europe and the United States, resulting in an increase in net sales year over year. On the other hand, sales of oil hydraulic equipment for construction machinery and vehicles decreased in both the Japanese and the U.S. markets, resulting in a decrease in net sales year over year.

In the defense systems business, net sales increased year over year mainly due to large project orders for oxygen concentrators in the third quarter (October to December). This was despite waning demand associated with COVID-19 for oxygen concentrators and pulse oximeters (medical devices that can easily measure blood oxygen saturation without blood collection).

In the electronics business, sales increased for “Smart Innovator,” a database system for design and development sectors in line with customer needs such as solutions for quality issues, shortened design and development periods, and support for cost reductions, in addition to increased sales for data science software, and net sales increased year over year.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets increased by ¥378,168 million from the end of the previous fiscal year to ¥4,681,851 million. Current assets increased by ¥184,855 million from the end of the previous fiscal year to ¥2,611,938 million, mainly due to an increase in cash and deposits. Non-current assets increased by ¥193,312 million from the end of the previous fiscal year to ¥2,069,912 million, primarily due to an increase in construction in progress.

Liabilities increased by ¥130,541 million from the end of the previous fiscal year to ¥2,155,129 million, mainly due to an increase in short-term borrowings. Interest bearing debt ratio rose to 21.8% from 20.6% at the end of the previous fiscal year.

Net assets increased by ¥247,626 million from the end of the previous fiscal year to ¥2,526,721 million, primarily due to the recording of profit attributable to owners of parent and an increase in accumulated other comprehensive income resulting from exchange rate fluctuations.

(ii) Cash Flows

During the nine months ended December 31, 2023, net cash provided by operating activities was ¥297,499 million, an increase of ¥172,900 million from the same period of the previous fiscal year, principally due to a reduction in the rate of increase of inventories. Net cash used in investing activities was ¥219,159 million, an increase of ¥35,748 million from the same period of the previous fiscal year, primarily due to an increase in purchase of property, plant and equipment. Net cash used in financing activities was ¥24,869 million, a decrease of ¥50,213 million from the same period of the previous fiscal year, mainly due to a decrease in repayments of long-term borrowings. After including the effect of foreign exchange rate change to these results, net increase in cash and cash equivalents for the nine months ended December 31, 2023, amounted to ¥72,764 million, an increase of ¥203,937 million from the same period of the previous fiscal year.

(3) Explanation of Future Forecast Information Such as Consolidated Business Forecast

The business environment surrounding the Group is greatly decelerating in the residential market in each region around the globe, including factors such as a decline in housing investment due to interest rate hikes in the United States, a decrease in consumption due to inflation in Europe, and a further deepening of the real estate recession in China.

Against this backdrop, the Group will take advantage of its accumulated unique strengths and respond to the changing environment. Through efforts such as further strengthening our sales and service networks, actively launching differentiated products, enhancing high value-added product sales through strengthening environmental and energy-saving proposals for specific markets and customers, implementing strategic sales price policies in order to absorb cost increases prompted by inflation, and streamlining fixed costs, we aim to offset the impact of decreasing demand, maintain our position of increasing both sales and profits, and further strengthen our corporate structure to achieve the targets of our strategic management plan “Fusion 25 Latter-Half Three-Year Plan,” which was announced in May of this fiscal year.

There are no changes to the business forecast for the fiscal year ending March 31, 2024 that we announced at the time of the announcement of the second quarter financial results (November 7, 2023).

<Reference> Consolidated Business Forecast for the Fiscal Year Ending March 31, 2024
(From April 1, 2023, to March 31, 2024)

Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Earnings per share
Millions of yen 4,240,000	Millions of yen 400,000	Millions of yen 380,000	Millions of yen 264,000	Yen 901.87

The business forecasts are based on information currently available to the Company and certain assumptions that are deemed reasonable. A number of factors, some major ones of which are explained below, could cause actual results to differ significantly from these forecasts.

- Changes in the market environment including political conditions, the economy, unseasonable weather, and product demand
- Fluctuations in the exchange rates, fund-raising environment, and market value of securities
- Emergence of new products, services, and competitors
- Progress after acquisitions and alliances with other companies
- Quality issues of products and services, changes in the procurement environment for parts, and laws and regulations
- Information leaks due to unauthorized access or cyber attacks
- Strengthening of environment-related regulations and the occurrence of environmental problems
- Impairment of non-current assets, natural disasters, and epidemics of new infectious diseases

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2022 (As of March 31, 2023)	Third Quarter of FY2023 (As of December 31, 2023)
Assets		
Current assets		
Cash and deposits	617,663	719,105
Notes and accounts receivable – trade, and contract assets	706,315	692,920
Merchandise and finished goods	668,310	709,545
Work in process	65,518	83,607
Raw materials and supplies	259,555	271,737
Other	128,901	158,043
Allowance for doubtful accounts	(19,180)	(23,021)
Total current assets	2,427,082	2,611,938
Non-current assets		
Property, plant and equipment	900,944	1,053,744
Intangible assets		
Goodwill	304,331	295,065
Other	354,122	367,836
Total intangible assets	658,454	662,901
Investments and other assets		
Investment securities	169,602	197,869
Other	148,114	155,951
Allowance for doubtful accounts	(516)	(554)
Total investments and other assets	317,200	353,266
Total non-current assets	1,876,599	2,069,912
Total assets	4,303,682	4,681,851
Liabilities		
Current liabilities		
Notes and accounts payable – trade	352,647	313,345
Short-term borrowings	293,541	392,965
Commercial papers	79,000	134,472
Current portion of bonds payable	20,000	10,000
Current portion of long-term borrowings	53,900	64,458
Income taxes payable	37,726	30,712
Provision for product warranties	85,528	95,123
Other	526,975	543,152
Total current liabilities	1,449,321	1,584,229
Non-current liabilities		
Bonds payable	140,000	130,000
Long-term borrowings	174,148	144,712
Retirement benefit liability	18,176	16,969
Other	242,941	279,218
Total non-current liabilities	575,266	570,899
Total liabilities	2,024,587	2,155,129

(Millions of yen)

	FY2022 (As of March 31, 2023)	Third Quarter of FY2023 (As of December 31, 2023)
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	79,478	77,961
Retained earnings	1,712,165	1,829,713
Treasury shares	(1,676)	(1,549)
Total shareholders' equity	1,874,999	1,991,157
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,980	71,505
Deferred gains or losses on hedges	459	(496)
Foreign currency translation adjustment	315,392	421,305
Remeasurements of defined benefit plans	(7,801)	(9,065)
Total accumulated other comprehensive income	360,031	483,248
Share acquisition rights	3,116	3,868
Non-controlling interests	40,947	48,446
Total net assets	2,279,095	2,526,721
Total liabilities and net assets	4,303,682	4,681,851

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Consolidated Statement of Income)

For the Nine Months Ended December 31 (Millions of yen)

	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)	First Nine Months of FY2023 (April 1, 2023, to December 31, 2023)
Net sales	2,985,667	3,263,652
Cost of sales	1,986,786	2,133,257
Gross profit	998,881	1,130,395
Selling, general and administrative expenses	695,123	823,904
Operating profit	303,757	306,490
Non-operating income		
Interest income	8,480	11,108
Dividend income	5,109	4,693
Share of profit of entities accounted for using equity method	1,436	1,430
Foreign exchange gains	2,423	—
Other	5,874	5,494
Total non-operating income	23,324	22,726
Non-operating expenses		
Interest expenses	13,170	32,257
Settlement payments	4,228	2,547
Inflation accounting adjustment	6,347	8,633
Foreign exchange losses	—	424
Other	4,079	3,240
Total non-operating expenses	27,826	47,103
Ordinary profit	299,255	282,113
Extraordinary income		
Gain on sale of land	—	37
Gain on sale of investment securities	7,490	5,674
Gain on liquidation of subsidiaries and associates	101	—
Gain on reversal of share acquisition rights	5	—
Total extraordinary income	7,597	5,711
Extraordinary losses		
Loss on disposal of non-current assets	774	2,285
Loss on sale of land	10	—
Loss on valuation of investment securities	343	5
Loss on sale of shares of subsidiaries and associates	—	0
Loss on liquidation of subsidiaries and associates	93	—
Loss on restructuring of subsidiaries and associates	190	—
Other	0	0
Total extraordinary losses	1,413	2,291
Profit before income taxes	305,439	285,532
Income taxes	89,872	83,733
Profit	215,567	201,799
Profit attributable to non-controlling interests	6,614	7,949
Profit attributable to owners of parent	208,952	193,850

(Consolidated Statement of Comprehensive Income)

For the Nine Months Ended December 31 (Millions of yen)

	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)	First Nine Months of FY2023 (April 1, 2023, to December 31, 2023)
Profit	215,567	201,799
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,732)	19,524
Deferred gains or losses on hedges	(5,574)	(956)
Foreign currency translation adjustment	67,754	105,739
Remeasurements of defined benefit plans	(1,302)	(1,263)
Share of other comprehensive income of entities accounted for using equity method	2,607	1,745
Total other comprehensive income	55,752	124,789
Comprehensive income	271,319	326,588
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	264,029	317,067
Comprehensive income attributable to non-controlling interests	7,289	9,520

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)	First Nine Months of FY2023 (April 1, 2023, to December 31, 2023)
I. Cash flows from operating activities		
Profit before income taxes	305,439	285,532
Depreciation	105,688	124,379
Amortization of goodwill	29,087	33,706
Increase (decrease) in allowance for doubtful accounts	822	2,972
Interest and dividend income	(13,590)	(15,801)
Interest expenses	13,170	32,257
Share of loss (profit) of entities accounted for using equity method	(1,436)	(1,430)
Loss (gain) on disposal of non-current assets	774	2,285
Loss (gain) on sale of investment securities	(7,490)	(5,674)
Loss (gain) on valuation of investment securities	343	5
Decrease (increase) in trade receivables	(8,240)	50,564
Decrease (increase) in inventories	(219,539)	(23,693)
Increase (decrease) in trade payables	6,123	(56,365)
Increase (decrease) in accounts payable - other	(16,647)	(17,088)
Increase (decrease) in accrued expenses	39,759	2,172
Increase (decrease) in retirement benefit liability	1,078	(2,057)
Decrease (increase) in retirement benefit asset	(794)	(2,721)
Other, net	(7,583)	11,166
Subtotal	226,965	420,210
Interest and dividends received	14,830	18,317
Interest paid	(13,021)	(31,455)
Income taxes paid	(104,175)	(109,571)
Net cash provided by (used in) operating activities	124,598	297,499
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(118,200)	(190,560)
Proceeds from sale of property, plant and equipment	6,073	1,806
Purchase of investment securities	(1,481)	(1,027)
Proceeds from sale of investment securities	16,300	7,634
Purchase of shares of subsidiaries and associates	(909)	(893)
Payments for acquisition of businesses	(5,496)	(8,683)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(63,987)	(1,125)
Payments for investments in capital of subsidiaries resulting in change in scope of consolidation	(14,388)	—
Decrease (increase) in time deposits	17,191	(26,676)
Other, net	(18,512)	367
Net cash provided by (used in) investing activities	(183,411)	(219,159)

(Millions of yen)

	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)	First Nine Months of FY2023 (April 1, 2023, to December 31, 2023)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	331,435	142,744
Proceeds from long-term borrowings	62,612	14,541
Repayments of long-term borrowings	(381,599)	(47,169)
Proceeds from issuance of bonds	39,837	—
Redemption of bonds	(30,000)	(20,000)
Dividends paid	(61,485)	(76,109)
Proceeds from share issuance to non-controlling shareholders	1,652	464
Dividends paid to non-controlling interests	(1,476)	(2,721)
Repayments of lease liabilities	(30,257)	(35,004)
Other, net	(5,801)	(1,615)
Net cash provided by (used in) financing activities	(75,082)	(24,869)
IV. Effect of exchange rate change on cash and cash equivalents	2,722	19,293
V. Net increase (decrease) in cash and cash equivalents	(131,172)	72,764
VI. Cash and cash equivalents at beginning of period	717,802	548,242
VII. Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(570)	257
VIII. Cash and cash equivalents at end of period	586,059	621,263

(4) Notes to Consolidated Financial Statements

Notes on the Premises of the Company as a “Going Concern”

None applicable

Notes on Significant Changes in Shareholders’ Equity

None applicable

Adoption of Accounting Treatment Specific to Quarterly Consolidated Financial Statement Preparation

[Calculation of tax expenses]

The Company and some of its consolidated subsidiaries, reasonably estimate the effective income tax rate after the adoption of tax-effect accounting for profit before income taxes for the consolidated fiscal year ending March 31, 2024, and multiply profit before income taxes for the reporting period by the estimated effective tax rate. However, if as a result of the computation using the estimated effective income tax rate lacks rationality to a remarkable extent, the Company adopts the method of using the legal effective tax rate.

Additional Information

[Application of hyperinflationary accounting to Turkish subsidiaries]

As Turkey’s cumulative inflation rate over the previous three years had exceeded 100% in the fiscal year ended March 31, 2023, from the beginning of the first quarter of the fiscal year ended March 31, 2023, the Group has consolidated the financial statements of Turkish subsidiaries upon adjustment in accordance with International Accounting Standard 29 (IAS 29) “Financial Reporting in Hyperinflationary Economies.” As a result, the cumulative impact of the application of this accounting standard has been reflected as a decrease of ¥13,070 million in the balance of retained earnings at the beginning of the first quarter of the fiscal year ended March 31, 2023. Additionally, the effect of inflation on the net monetary position of the Group for the nine months ended December 31, 2022, and the nine months ended December 31, 2023, is presented as “inflation accounting adjustment” under “non-operating expenses.”

Revenue Recognition

Information on disaggregate revenue from contracts with customers is as stated in “(4) Notes to Consolidated Financial Statements (Segment Information, etc.)” of “2. Consolidated Financial Statements and Primary Notes.”

Segment Information, etc.

[Segment Information]

I. For the nine months ended December 31, 2022 (From April 1, 2022, to December 31, 2022)

1. Information on net sales and profit or loss amounts by reported segment and information on disaggregate revenue

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Japan	410,805	51,458	462,264	41,348	503,613	—	503,613
U.S.	919,305	42,426	961,731	7,929	969,660	—	969,660
Europe	462,731	30,146	492,877	5,229	498,106	—	498,106
Asia and Oceania	404,370	25,207	429,578	1,635	431,214	—	431,214
China	369,931	42,856	412,787	1,771	414,558	—	414,558
Other	166,090	1,815	167,906	607	168,513	—	168,513
Revenue from contracts with customers	2,733,235	193,910	2,927,145	58,522	2,985,667	—	2,985,667
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	2,733,235	193,910	2,927,145	58,522	2,985,667	—	2,985,667
Intersegment sales	1,713	16,804	18,518	1,207	19,726	(19,726)	—
Total	2,734,949	210,715	2,945,664	59,729	3,005,393	(19,726)	2,985,667
Segment profit	266,169	32,710	298,879	4,897	303,777	(19)	303,757

Notes: 1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems business, and the electronics business.
2. The adjustment of ¥(19) million to segment profit comprises the elimination of intersegment transactions.
3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

2. Information related to impairment loss of non-current assets and goodwill by reported segment

(Significant impairment loss of non-current assets)

None applicable

(Significant change in goodwill amount)

None applicable

(Significant gain on bargain purchase)

None applicable

II. For the nine months ended December 31, 2023 (From April 1, 2023, to December 31, 2023)

1. Information on net sales and profit or loss amounts by reported segment and information on disaggregate revenue

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Japan	437,686	49,790	487,476	41,424	528,901	—	528,901
U.S.	1,059,079	33,970	1,093,050	9,941	1,102,992	—	1,102,992
Europe	475,311	37,699	513,010	14,448	527,458	—	527,458
Asia and Oceania	424,822	24,848	449,671	3,093	452,765	—	452,765
China	389,544	41,975	431,519	2,228	433,748	—	433,748
Other	214,909	1,445	216,355	1,432	217,787	—	217,787
Revenue from contracts with customers	3,001,354	189,729	3,191,083	72,568	3,263,652	—	3,263,652
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	3,001,354	189,729	3,191,083	72,568	3,263,652	—	3,263,652
Intersegment sales	1,317	21,617	22,935	636	23,572	(23,572)	—
Total	3,002,671	211,347	3,214,018	73,205	3,287,224	(23,572)	3,263,652
Segment profit	262,403	39,018	301,421	5,049	306,471	18	306,490

Notes:
1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems business, and the electronics business.
2. The adjustment of ¥18 million to segment profit comprises the elimination of intersegment transactions.
3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

2. Information related to impairment loss of non-current assets and goodwill by reported segment

(Significant impairment loss of non-current assets)
None applicable

(Significant change in goodwill amount)
None applicable

(Significant gain on bargain purchase)
None applicable