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Brief Report on the Settlement of Accounts (Consolidated) for the Six Months Ended September 30, 2021 (J-GAAP)

November 4, 2021

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
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Planned date of the filing of quarterly report: November 5, 2021
Planned date of start of dividend payment: December 2, 2021
Preparation of supplementary explanatory materials for the settlement of accounts for the second quarter: Yes
Holding briefings on the settlement of accounts for the second quarter: Yes (for institutional investors and analysts)

1. Consolidated Business Results for the Six Months Ended September 30, 2021

(From April 1, 2021, to September 30, 2021)

(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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2021	1,558,863	26.8	192,706	46.4	196,844	49.3	139,098	64.4
September 30, 2020	1,229,249	-9.2	131,627	-21.8	131,854	-22.5	84,608	-28.6

Note: Comprehensive income was ¥158,035 million (54.6%) for the six months ended September 30, 2021, and ¥102,232 million (76.8%) for the six months ended September 30, 2020.

	Earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2021	475.30	475.03
September 30, 2020	289.16	288.99

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	3,418,244	1,831,652	52.5
As of March 31, 2021	3,239,662	1,698,495	51.4

(Reference) Equity capital was ¥1,794,552 million as of September 30, 2021, and ¥1,665,688 million as of March 31, 2021.

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, 2021	—	80.00	—	80.00	160.00
Fiscal Year ending March 31, 2022	—	90.00			
Fiscal Year ending March 31, 2022 (forecast)			—	90.00	180.00

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

3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2022

(From April 1, 2021, to March 31, 2022)

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	2,930,000	17.5	300,000	25.7	302,000	25.7	203,000	29.9	693.67

Note: Revisions to the consolidated business forecast announced most recently: Yes

*Notes

(1) Changes in Significant Subsidiaries during the Six Months Ended September 30, 2021: 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.: Yes
- (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 September 30, 2021 293,113,973 shares
  - As of March 31, 2021 293,113,973 shares
- (ii) Number of treasury shares at end of period
  - As of September 30, 2021 441,362 shares
  - As of March 31, 2021 469,595 shares
- (iii) Average number of shares outstanding during the six months
  - Six Months Ended September 30, 2021 292,655,000 shares
  - Six Months Ended September 30, 2020 292,602,540 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 (conference call) for institutional investors and analysts on Friday, November 5, 2021. Documents and materials distributed in this briefing will be posted on the Company's website by the time that the briefing starts.

Content of Attachment

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

(1) Explanation of Operating Results

In the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021), the overall world economy showed variations in trends in each region due to the status of the spread of the coronavirus (COVID-19). The U.S. economy is on a recovery trend, as service consumption is driving personal consumption associated with the resumption of economic activities accompanying vaccination progress. The European economy showed signs of recovery, as household demand recovered due to the resumption of economic activities associated with vaccination progress. The economies of Asia and emerging countries remained sluggish, as the resurgence of infections and the accompanying strict restrictions on activities put downward pressure on consumption and production activities. The pace of recovery of the Chinese economy slowed due to the effects of the measures to curb investment by the government wary of excessive investments and the decrease in production stemming from a semiconductor shortage. The growth of the Japanese economy stagnated due to a decrease in personal consumption as a result of the protracted declaration of the state of emergency and a decrease in production following the semiconductor shortage.

In such a business environment, the Daikin Group continued to strive for a recovery in business performance with an “aggressive” and “challenging” mindset that is grounded in a lean, robust management structure that includes strengthening of our sales and marketing capabilities; rapid development and sales of differentiated products; establishment of a flexible production and supply system that can respond to changes in demand; and thorough cost reductions, which were promoted amid the COVID-19 pandemic. Specifically, we worked to absorb the cost-increasing factors caused by soaring raw material prices and logistics costs and to improve profitability through efforts including further expanding sales and increasing market shares through the introduction of new products that meet new needs; implementing total cost reductions such as material substitution from copper to aluminum; promoting sales price policies by introducing differentiated products that are recognized for their value by the market and customers; reducing fixed costs; and improving logistics efficiency.

In addition, we have formulated the strategic management plan “Fusion 25” with a target year of the fiscal year ending March 31, 2026, and are implementing initiatives based on nine key themes, including the three growth strategy themes of the “Challenge to achieve carbon neutrality,” “Promotion of solutions business connected with customers,” and “Creating value with air.”

The Daikin Group’s net sales increased by 26.8% year over year to ¥1,558,863 million for the six months ended September 30, 2021. As for profits, operating profit increased by 46.4% to ¥192,706 million, ordinary profit increased by 49.3% to ¥196,844 million, and profit attributable to owners of parent increased by 64.4% to ¥139,098 million.

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 26.2% year over year to ¥1,427,892 million. Operating profit increased by 39.9% to ¥174,092 million.

In the Japanese commercial air-conditioning equipment market, which has yet to recover to pre-COVID-19 levels due to the continuing slowdown in demand caused by the declaration of a state of emergency, industry demand has been gradually recovering from the large drop during the previous fiscal year, resulting in year-over-year growth. The Group continued its proposal-based sales activities to meet the needs for ventilation and disinfection products, which are of growing interest in the market, and increased sales by combining air-conditioning equipment with “Heat Reclaim Ventilator,” a total heat exchanger unit which is high-performance ventilation equipment, and “Streamer Disinfection Unit.” As a result, net sales of commercial air-conditioning systems increased year over year.

In the Japanese residential air-conditioning equipment market, industry demand declined year over year due to the effects of the long rains in August and the cool summer, together with the subsiding of pent-up demand from people staying at home. The Group enhanced product performance and strengthened user appeal of products such as “Urusara X,” a product capable of air-conditioning, humidifying and dehumidifying while ventilating; the “CX Series,” a compact, wall-mounted air-conditioning unit for small spaces; and the “UV Streamer Air Purifier,” with enhanced performance in controlling viruses and bacteria. As a result, net sales of residential air-conditioning systems increased year over year.

In the Americas, there was a period last year when supply capacity was affected due to the spread of COVID-19 and partial shutdown of factories. However, despite the labor shortages across North America, there was no shutdown of factories this year, and sales were strong due to the effects of increased demand for residential air-conditioning systems caused by the intense heat wave. In addition, as a result of efforts to strengthen our sales network through acquisitions and to review selling prices, net sales increased significantly year over year. In the market for large buildings (Applied Systems), net sales increased year over year due to efforts to expand sales through the Group’s own sales network and to expand the after sales service business against the backdrop of a recovery in the market, which had been stagnant due to the impact of COVID-19.

In China, demand was strong mainly in personal consumption. The Group strengthened its product lineup of residential-related products along with indoor air quality (IAQ) and ventilation products while reinforcing its online sales activities and utilizing its existing strength in offline sales. Consequently, net sales significantly increased year over year, particularly in the residential-use market. In terms of profits, the Group maintained high levels by expanding sales of highly profitable products and working to reduce costs and curb fixed costs, despite being affected by the sharp rise in raw material prices and semiconductor procurement issues. In the residential-use market, the Group expanded sales by developing sales that combined offline and online sales with its "PROSHOP" specialty shops in order to search for new customers and capture demand for replacements. In the commercial retail market for stores and offices, the Group expanded customer contact points by leveraging ventilation and cleaning and captured replacement and additional demand. In the large-scale projects market, the Group strengthened solution-based sales. In the Applied Systems air-conditioning equipment market, the Group shifted resources to growth fields such as infrastructure, data centers, and semiconductors while also strengthening sales in the repair and maintenance business.

In Asia and Oceania, sales were firm in April, particularly for residential air-conditioning systems. From May onward in India, Malaysia, Thailand, Vietnam, and other Asian countries and from July onward in Australia, the market environment remained difficult due to lockdowns and tighter restrictions on business activities as a result of the renewed spread of COVID-19. In commercial air-conditioning systems, a difficult situation continued as the spread of infections caused delays in construction starts and suspension and postponement of construction across the market due to a shortage of workers and mandatory COVID-19 testing at construction sites. Despite these conditions, overall net sales for both commercial use and residential use increased year over year due to strong sales in Oceania, the capture of recovery demand in India where the activity restrictions are being eased, and the steady implementation of pricing policies.

In Europe, overall net sales were significantly higher year over year, and more than in the same period of 2019 before the impact of COVID-19. From the beginning of the fiscal year, the Group experienced logistical disruptions due to the stranded ship accident in the Suez Canal and semiconductor procurement problems. Nevertheless, the Group expanded sales through stable production and supply systems at the nearest factories in the European region. In residential air-conditioning systems, despite the effects of unseasonable weather in France, Spain, Germany, and other countries, from mid-July onward, we captured increasing demand due to the intense heat waves in Southern Italy, Greece, and other Southeastern part of Europe. Sales of residential heat pump hot water heating systems increased substantially, driven by subsidies that were newly established and expanded in many countries last year to achieve economic recovery and reduce CO_2 emissions, and demand for replacements of gas and oil boilers expanded dramatically. In addition, sales significantly increased from the strengthening of sales capabilities through dealer development and support for subsidy applications. As a result of these factors, net sales of residential air-conditioning systems were significantly higher year over year. In commercial air-conditioning systems, there were signs of a recovery in demand in major applications for offices as economic activities returned to normal as a result of the lifting of lockdowns and accelerated vaccination. In addition to capturing market needs during the COVID-19 pandemic through measures such as proposing improvements in air quality, the Group increased sales by strengthening marketing capabilities in strong markets such as hospitals, IT infrastructure, and factories. As a result, net sales of commercial air-conditioning systems were higher year over year. In the refrigeration business, the Group strengthened sales to the food supermarket industry, where investments for new store openings and renovations were strong, and net sales increased significantly year over year.

In the Middle and Near East and Africa, net sales increased year over year due to strengthened sales in Saudi Arabia, Egypt, and Qatar. In Turkey, sales of residential air-conditioning systems increased substantially as a result of increased demand triggered by the intense heat wave, and yen-equivalent net sales grew year over year despite the impact of the depreciation of the Turkish lira.

In the filter business, demand is on a recovery trend as economic activities have resumed in conjunction with the progress of vaccination mainly in Europe and the United States and fewer new COVID-19 cases. Sales were especially strong for the commercial-use market in the United States and commercial-use air purifiers in Europe. In the gas turbine and dust collection systems business, demand is on a recovery trend, supported by strong medium- to long-term electricity power demand mainly in the emerging countries and the oil and gas industry's appetite for investment, stemming from rising crude oil prices. Despite the uncertainty surrounding the spread of COVID-19 in the Asian countries, net sales of the filter business overall increased year over year and were supported by the growth in Europe and the United States, which account for a major part of sales.

In the marine vessels business, net sales increased significantly year over year due to an increase in unit sales of marine container refrigeration units.

(ii) Chemicals

Overall sales of the Chemicals segment increased by 36.5% year over year to ¥101,882 million. Operating profit increased by 160.8% to ¥15,486 million.

Overall sales of fluorochemical products were significantly higher year over year, due in part to a recovery in demand in a wide range of fields, particularly semiconductors and automobiles, compared to last year when sales fell sharply due to the global outbreak of COVID-19.

Net sales of fluoropolymers were significantly higher year over year due to a clear recovery in global demand for semiconductor and automotive-related applications. Net sales of fluoroelastomers also increased significantly year over year due to a marked recovery in demand, especially in the automotive field.

Among specialty chemicals, there was a recovery in demand for oil and water repellents and semiconductor etching agents, despite stagnant demand for anti-fouling surface coating agents. As a result, overall net sales of specialty chemicals increased significantly year over year.

As for fluorocarbon gas, net sales increased year over year due to a recovery in demand.

(iii) Other Divisions

Overall sales of the “Others” segment increased by 27.0% year over year to ¥29,089 million. Operating profit increased by 155.0% to ¥3,123 million.

Net sales of oil hydraulic equipment for industrial machinery increased year over year due to a recovery in demand in the domestic market, especially for machine tools, as well as increased sales to Asia, Europe, and the United States. In addition, net sales of oil hydraulic equipment for construction machinery and vehicles increased significantly year over year due to increased sales to major customers in Japan and the United States.

In defense systems-related products, while sales of ammunition to the Ministry of Defense decreased, net sales increased year over year due to the capture of increased demand for oxygen concentrators and pulse oximeters (medical devices that can easily measure blood oxygen saturation without blood collection) in response to the spread of COVID-19.

In the electronics business, net sales increased year over year, as a result of the strong sales of “SpaceFinder,” 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, as well as the strong sales of facility CAD systems.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets increased by ¥178,581 million from the end of the previous fiscal year to ¥3,418,244 million. Current assets increased by ¥163,504 million from the end of the previous fiscal year to ¥1,896,865 million, mainly due to an increase in cash and deposits. Non-current assets increased by ¥15,077 million from the end of the previous fiscal year to ¥1,521,378 million, primarily due to an increase in construction in progress.

Liabilities increased by ¥45,424 million from the end of the previous fiscal year to ¥1,586,591 million, mainly due to an increase in notes and accounts payable – trade. Interest bearing debt ratio fell to 21.4% from 23.2% at the end of the previous fiscal year.

Net assets increased by ¥133,157 million from the end of the previous fiscal year to ¥1,831,652 million, primarily due to an increase caused by posting of profit attributable to owners of parent.

(ii) Cash Flows

During the six months ended September 30, 2021, net cash provided by operating activities was ¥187,027 million, a decrease of ¥32,084 million from the same period of the previous fiscal year, principally due to an increase in inventories. Net cash used in investing activities was ¥70,125 million, a decrease of ¥1,911 million from the same period of the previous fiscal year, primarily due to a decrease in the growth of time deposits. Net cash used in financing activities was ¥57,860 million, a decrease in cash provided by financing activities of ¥253,273 million from the same period of the previous fiscal year, mainly due to a decrease in proceeds from long-term borrowings. After including the effect of foreign exchange rate change to these results, net increase in cash and cash equivalents for the six months ended September 30, 2021, amounted to ¥61,203 million, a decrease of ¥285,482 million from the same period of the previous fiscal year.

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

In light of the business results of the six months ended September 30, 2021, and the changes in the business environment, the business forecast, which was previously announced on August 3, 2021, has been revised as follows.

In terms of the business environment surrounding the Group, Europe and the United States, in particular, are on the road to recovery thanks to the widespread use of COVID-19 vaccines and the economic measures by each government. However, the economic outlook is expected to remain uncertain due to the chronic labor shortage in the United States and the emergence of such problems as the slowdown of the real estate market and the shortage of electricity power supply in China, in addition to the ongoing shortage in the supply of parts including semiconductors, and the further spike in raw materials prices and logistics costs.

Under these circumstances, the Group will continue to maintain an “aggressive” and “challenging” mindset and further speed up the initiatives that have been implemented so far, while swiftly executing additional measures to respond to the deteriorating business environment in order to promote initiatives to strengthen profitability that look toward the next fiscal year and beyond. By doing so, we hope to achieve a V-shaped recovery and a new record high in business performance by bouncing back from cost increases expected in the third quarter and onward, such as the sharp rise in raw material prices and logistics costs.

The estimated exchange rate from the third quarter onward is based on the assumption that US$1 equals ¥105 and 1 euro equals ¥125.

Revisions to Consolidated Business Forecast for the Fiscal Year Ending March 31, 2022
(From April 1, 2021, to March 31, 2022)

	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
Previous forecasts (A)	2,810,000	290,000	290,000	190,000	649.25
Revised forecasts (B)	2,930,000	300,000	302,000	203,000	693.67
Increase/decrease (B – A)	120,000	10,000	12,000	13,000	—
Increase/decrease (%)	4.3	3.4	4.1	6.8	—
(Reference) Results for the fiscal year ended March 31, 2021	2,493,386	238,623	240,248	156,249	533.97

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)

	FY2020 (As of March 31, 2021)	Second Quarter of FY2021 (As of September 30, 2021)
Assets		
Current assets		
Cash and deposits	736,098	807,296
Notes and accounts receivable – trade	468,330	—
Notes and accounts receivable – trade, and contract assets	—	510,326
Merchandise and finished goods	326,591	343,498
Work in process	34,766	43,838
Raw materials and supplies	108,039	130,693
Other	72,608	75,972
Allowance for doubtful accounts	(13,074)	(14,759)
Total current assets	1,733,361	1,896,865
Non-current assets		
Property, plant and equipment	647,410	662,143
Intangible assets		
Goodwill	268,684	255,916
Other	274,077	269,854
Total intangible assets	542,761	525,770
Investments and other assets		
Investment securities	213,909	220,173
Other	103,436	114,500
Allowance for doubtful accounts	(1,216)	(1,208)
Total investments and other assets	316,129	333,464
Total non-current assets	1,506,301	1,521,378
Total assets	3,239,662	3,418,244
Liabilities		
Current liabilities		
Notes and accounts payable – trade	229,746	254,446
Short-term borrowings	40,754	46,294
Current portion of bonds payable	10,000	—
Current portion of long-term borrowings	66,278	277,588
Income taxes payable	20,756	24,140
Provision for product warranties	62,255	64,594
Other	336,193	360,484
Total current liabilities	765,984	1,027,549
Non-current liabilities		
Bonds payable	130,000	130,000
Long-term borrowings	418,803	191,067
Retirement benefit liability	14,539	14,394
Other	211,839	223,580
Total non-current liabilities	775,182	559,042
Total liabilities	1,541,167	1,586,591

(Millions of yen)

	FY2020 (As of March 31, 2021)	Second Quarter of FY2021 (As of September 30, 2021)
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	84,214	84,396
Retained earnings	1,363,505	1,477,833
Treasury shares	(2,012)	(1,892)
Total shareholders' equity	1,530,740	1,645,370
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	68,699	72,175
Deferred gains or losses on hedges	1,292	778
Foreign currency translation adjustment	69,470	78,587
Remeasurements of defined benefit plans	(4,513)	(2,358)
Total accumulated other comprehensive income	134,948	149,181
Share acquisition rights	2,019	2,671
Non-controlling interests	30,787	34,429
Total net assets	1,698,495	1,831,652
Total liabilities and net assets	3,239,662	3,418,244

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

(Consolidated Statement of Income)

For the Six Months Ended September 30 (Millions of yen)

	First Six Months of FY2020 (April 1, 2020, to September 30, 2020)	First Six Months of FY2021 (April 1, 2021, to September 30, 2021)
Net sales	1,229,249	1,558,863
Cost of sales	798,125	1,010,445
Gross profit	431,124	548,418
Selling, general and administrative expenses	299,496	355,711
Operating profit	131,627	192,706
Non-operating income		
Interest income	2,895	3,720
Dividend income	2,517	2,557
Share of profit of entities accounted for using equity method	354	863
Foreign exchange gains	—	504
Other	2,266	2,845
Total non-operating income	8,034	10,492
Non-operating expenses		
Interest expenses	4,407	4,480
Foreign exchange losses	1,514	—
Other	1,885	1,873
Total non-operating expenses	7,807	6,354
Ordinary profit	131,854	196,844
Extraordinary income		
Gain on disposal of non-current assets	—	50
Gain on sale of land	—	207
Gain on sale of investment securities	—	180
Gain on sale of investments in capital of subsidiaries and associates	—	199
Total extraordinary income	—	638
Extraordinary losses		
Loss on disposal of non-current assets	141	—
Loss on sale of land	53	38
Loss on valuation of investment securities	83	330
Other	1	—
Total extraordinary losses	280	369
Profit before income taxes	131,574	197,112
Income taxes	43,500	53,677
Profit	88,073	143,435
Profit attributable to non-controlling interests	3,464	4,336
Profit attributable to owners of parent	84,608	139,098

(Consolidated Statement of Comprehensive Income)

For the Six Months Ended September 30 (Millions of yen)

	First Six Months of FY2020 (April 1, 2020, to September 30, 2020)	First Six Months of FY2021 (April 1, 2021, to September 30, 2021)
Profit	88,073	143,435
Other comprehensive income		
Valuation difference on available-for-sale securities	13,401	3,475
Deferred gains or losses on hedges	2,441	(514)
Foreign currency translation adjustment	(1,203)	7,941
Remeasurements of defined benefit plans	(11)	2,155
Share of other comprehensive income of entities accounted for using equity method	(469)	1,542
Total other comprehensive income	14,158	14,600
Comprehensive income	102,232	158,035
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	99,227	153,331
Comprehensive income attributable to non-controlling interests	3,004	4,704

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Six Months of FY2020 (April 1, 2020, to September 30, 2020)	First Six Months of FY2021 (April 1, 2021, to September 30, 2021)
I. Cash flows from operating activities		
Profit before income taxes	131,574	197,112
Depreciation	50,291	55,658
Amortization of goodwill	14,899	15,960
Increase (decrease) in allowance for doubtful accounts	982	1,353
Interest and dividend income	(5,413)	(6,277)
Interest expenses	4,407	4,480
Share of loss (profit) of entities accounted for using equity method	(354)	(863)
Loss (gain) on disposal of non-current assets	141	(50)
Loss (gain) on sale of investment securities	—	(180)
Loss (gain) on valuation of investment securities	83	330
Decrease (increase) in trade receivables	11,960	(38,628)
Decrease (increase) in inventories	32,763	(45,870)
Increase (decrease) in trade payables	(3,453)	21,238
Increase (decrease) in accounts payable - other	892	(9,899)
Increase (decrease) in accrued expenses	3,694	39,866
Increase (decrease) in retirement benefit liability	208	41
Decrease (increase) in retirement benefit asset	(579)	(4,116)
Other, net	8,327	349
Subtotal	250,425	230,504
Interest and dividends received	5,476	6,327
Interest paid	(4,967)	(4,527)
Income taxes paid	(31,823)	(45,276)
Net cash provided by (used in) operating activities	219,111	187,027
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(54,387)	(52,632)
Proceeds from sale of property, plant and equipment	1,778	3,153
Purchase of investment securities	(474)	(716)
Proceeds from sale of investment securities	—	212
Proceeds from sale of investments in capital of subsidiaries and associates	—	2,021
Proceeds from sale of businesses	—	437
Payments for acquisition of businesses	(345)	(1,863)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(723)
Payments for investments in capital of subsidiaries resulting in change in scope of consolidation	—	(862)
Decrease (increase) in time deposits	(11,583)	(9,456)
Other, net	(7,024)	(9,695)
Net cash provided by (used in) investing activities	(72,036)	(70,125)

(Millions of yen)

	First Six Months of FY2020 (April 1, 2020, to September 30, 2020)	First Six Months of FY2021 (April 1, 2021, to September 30, 2021)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	7,207	9,022
Proceeds from long-term borrowings	242,808	8,045
Repayments of long-term borrowings	(68,878)	(26,383)
Proceeds from issuance of bonds	49,825	—
Redemption of bonds	—	(10,000)
Dividends paid	(23,314)	(23,409)
Proceeds from share issuance to non-controlling shareholders	—	1,585
Dividends paid to non-controlling interests	(531)	(2,286)
Repayments of lease obligations	(11,750)	(14,040)
Other, net	46	(393)
Net cash provided by (used in) financing activities	195,413	(57,860)
IV. Effect of exchange rate change on cash and cash equivalents	4,198	2,162
V. Net increase (decrease) in cash and cash equivalents	346,686	61,203
VI. Cash and cash equivalents at beginning of period	321,151	662,267
VII. Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(58)	(1,586)
VIII. Cash and cash equivalents at end of period	667,780	721,884

(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, 2022, 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.

Changes in Accounting Policies

[Application of the Accounting Standard for Revenue Recognition, etc.]

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter "Revenue Recognition Standard"), etc., from the beginning of the first quarter of the fiscal year ending March 31, 2022, and has recognized revenue in the amount expected to be received in exchange for promised goods or services at the time when the control of these goods or services is transferred to the customer.

The impact of the application of the Revenue Recognition Standard, etc., on the quarterly consolidated financial statements is minimal.

The application of the Revenue Recognition Standard, etc., is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Standard. However, it has no impact on the balance of retained earnings at the beginning of the fiscal year ending March 31, 2022, and per share information.

As a result of this application of the Revenue Recognition Standard, etc., "notes and accounts receivable – trade," which had been presented under "current assets" in the consolidated balance sheet of the fiscal year ended March 31, 2021, are included in "notes and accounts receivable – trade, and contract assets" from the first quarter of the fiscal year ending March 31, 2022. In accordance with the transitional treatment provided for in Paragraph 89-2 of the Revenue Recognition Standard, the Company has not reclassified financial statements for the previous fiscal year by using the new presentation method. Furthermore, in accordance with the transitional treatment provided for in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on disaggregate revenue from contracts with customers for the six months ended September 30, 2020, is not presented.

[Application of the Accounting Standard for Fair Value Measurement, etc.]

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter "Fair Value Measurement Accounting Standard"), etc., from the beginning of the first quarter of the fiscal year ending March 31, 2022, and in accordance with the transitional treatment provided for in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will continue to apply the new accounting policy prescribed by the Fair Value Measurement Accounting Standard, etc., into the future. This has no impact on the quarterly consolidated financial statements.

Additional Information

[Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system]

With regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax sharing system established under the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020) and the transition to the group tax sharing system, pursuant to the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company and some domestic consolidated subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

[Accounting estimates related to the impact of COVID-19]

There are no significant changes to the presumption related to the impact of COVID-19 stated in Additional Information of the securities report for the fiscal year ended March 31, 2021.

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 six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)

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

(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							
Sales to outside customers	1,131,693	74,642	1,206,336	22,913	1,229,249	—	1,229,249
Intersegment sales	591	4,730	5,322	310	5,632	(5,632)	—
Total	1,132,285	79,372	1,211,658	23,223	1,234,882	(5,632)	1,229,249
Segment profit	124,459	5,938	130,398	1,224	131,623	4	131,627

Notes: 1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related product business, and the electronics business.
2. The adjustment of ¥4 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 six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)

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	272,829	27,166	299,995	23,389	323,384	—	323,384
U.S.	396,707	19,317	416,024	3,665	419,690	—	419,690
Europe	258,434	16,583	275,018	399	275,418	—	275,418
China	243,167	24,961	268,128	992	269,121	—	269,121
Asia and Oceania	178,008	12,644	190,653	501	191,154	—	191,154
Other	78,744	1,209	79,954	140	80,094	—	80,094
Revenue from contracts with customers	1,427,892	101,882	1,529,774	29,089	1,558,863	—	1,558,863
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	1,427,892	101,882	1,529,774	29,089	1,558,863	—	1,558,863
Intersegment sales	825	6,110	6,936	504	7,441	(7,441)	—
Total	1,428,718	107,993	1,536,711	29,593	1,566,305	(7,441)	1,558,863
Segment profit	174,092	15,486	189,578	3,123	192,701	4	192,706

Notes: 1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related product business, and the electronics business.
2. The adjustment of ¥4 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