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Brief Report on the Settlement of Accounts (Consolidated) for the Three Months Ended June 30, 2020 (J-GAAP)

August 4, 2020

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.: +81-6-6373-4320)
Planned date of the filing of quarterly report: August 5, 2020
Planned date of start of dividend payment: —
Preparation of supplementary explanatory materials for the settlement of accounts for the first quarter: Yes
Holding briefings on the settlement of accounts for the first quarter: Yes (for institutional investors and analysts)

1. Consolidated Business Results for the Three Months Ended June 30, 2020
(From April 1, 2020, to June 30, 2020)

(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	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2020	581,682	-14.6	54,506	-39.2	55,119	-38.6	33,105	-47.5
June 30, 2019	681,298	3.7	89,619	7.8	89,826	5.1	63,106	5.8

Note: Comprehensive income was ¥47,852 million (137.2%) for the three months ended June 30, 2020, and ¥20,170 million (-66.1%) for the three months ended June 30, 2019.

	Earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2020	113.15	113.08
June 30, 2019	215.74	215.60

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2020	2,958,304	1,487,079	49.3
As of March 31, 2020	2,667,512	1,462,591	53.8

(Reference) Equity capital was ¥1,458,207 million as of June 30, 2020, and ¥1,434,968 million as of March 31, 2020.

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, 2020	—	80.00	—	80.00	160.00
Fiscal Year ending March 31, 2021	—				
Fiscal Year ending March 31, 2021 (forecast)		—	—	—	—

Note: 1. Revisions to the dividend forecast announced most recently: None
2. The forecast of cash dividends for the fiscal year ending March 31, 2021 have yet to be determined at this point.

3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2021
(From April 1, 2020, to March 31, 2021)

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
First half	1,180,000	-12.9	100,000	-40.6	100,000	-41.2	63,000	-46.8	215.32
Full year	2,350,000	-7.9	170,000	-36.0	170,000	-36.8	114,000	-33.2	389.63

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

*Notes

(1) Changes in Significant Subsidiaries during the Three Months Ended June 30, 2020: 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 June 30, 2020	293,113,973 shares
As of March 31, 2020	293,113,973 shares

(ii) Number of treasury shares at end of period

As of June 30, 2020	519,060 shares
As of March 31, 2020	529,837 shares

(iii) Average number of shares outstanding during the three months

Three Months Ended June 30, 2020	292,587,527 shares
Three Months Ended June 30, 2019	292,509,830 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 Tuesday, August 4, 2020. Documents and materials distributed in this briefing will be posted on the Company's website soon after the announcement of business results.

Content of Attachment

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

(1) Explanation of Operating Results

In the three months ended June 30, 2020 (from April 1, 2020, to June 30, 2020), the overall world economy slowed significantly as economic activity stagnated due to the global spread of the coronavirus (COVID-19). The U.S. economy entered a recessionary phase as deteriorating employment and income conditions and stay-at-home orders suppressed consumption. The European economy, despite the gradual lifting of stay-at-home orders from May, experienced serious downward pressure from declines in personal consumption and exports. The growth rate of the economies of Asia and emerging countries slowed substantially as a result of weak service exports due to a sharp decline in foreign tourists and sluggish domestic demand stemming from restrictions on activities imposed by governments. The Chinese economy showed signs of recovery as economic activity resumed quickly and exports and infrastructure investment picked up. The Japanese economy experienced a significant decline in growth rate as a result of a large decrease in exports, sluggish personal consumption due to stay-at-home orders, and a decline in capital investment.

In such a business environment, the Daikin Group focused on business management initiatives in production, procurement, and sales, including the launch of cross-divisional projects, to minimize the impact of COVID-19 on the Group and to ensure a rapid recovery upon resolution of the situation. In particular, the Group worked to expand sales of air-related products, such as air purifiers and ventilation products, by capitalizing on the growing awareness for the safety and assurance of air and space. In addition, the Group worked to maintain its product supply system despite procurement being impacted from the sales networks, production sites, and suppliers in each country.

At the same time, the Daikin Group set "Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change" (3 Structures of Collaborative Innovation: Collaborative Innovation with Customers, Collaborative Innovation with External Bodies, and Collaborative Innovation within the Group) as the slogan for its Annual Group Policy for this year (2020). Aiming to generate results, the Group made efforts to strengthen sales and marketing capabilities; improve product development, production, procurement and quality; enhance human resources capabilities; and reduce both fixed and variable costs in each region around the world.

The Daikin Group's net sales decreased by 14.6% year over year to ¥581,682 million for the three months ended June 30, 2020. As for profits, operating profit decreased by 39.2% to ¥54,506 million, ordinary profit decreased by 38.6% to ¥55,119 million, and profit attributable to owners of parent decreased by 47.5% to ¥33,105 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 decreased by 14.2% year over year to ¥536,692 million. Operating profit decreased by 37.5% to ¥51,600 million.

In the Japanese commercial air-conditioning equipment market, industry demand declined significantly, particularly in the market for stores, as the trend of reviewing and suspending capital investment plans continued unabated due to the contraction in economic activities accompanying COVID-19 prevention measures. Although the Daikin Group worked to maintain its sales function through sales operations utilizing remote work and proposal-based sales performed remotely, net sales of commercial air-conditioning systems were lower year over year.

In the Japanese residential air-conditioning equipment market, despite a sharp fall in April due to the impact of COVID-19, industry demand remained mostly unchanged year over year due to factors including greater time spent at home, increased interest in ventilation and sanitization, and the effects of government benefits from May. The Group's net sales of residential air-conditioning systems increased year over year. This was due in part to the promotion of energy-saving and air purification functions, including the "Urusara X," which has a ventilation function.

In the Americas, net sales decreased year over year as a whole due to the spread of COVID-19. Net sales of residential air-conditioning systems declined year over year owing to the spread of COVID-19 throughout the United States. This was despite favorable weather conditions and the positive effect on demand from more time spent at home and greater adoption of remote work. Net sales of commercial air-conditioning systems also declined year over year due to the review and suspension of projects in certain industries, including the retail and restaurant industries. In the market for large buildings (Applied Systems), despite market stagnation from the impact of COVID-19, net sales increased year over year as a result of strengthening the sales network and expanding sales, particularly of air handling units (large commercial air-conditioning systems that meet a wide variety of air-conditioning needs depending on the type of business and room application) for which orders were secured before the impact of COVID-19 was felt.

In China, although production returned to normal, sales were affected by COVID-19, and net sales declined year over year as a whole. Markets reopened throughout China from April and started to fully function in June. The Group invested sales resources by prioritizing in regions and markets that had reopened quickly and strengthened Internet sales. As a result of these efforts, sales for the single month of June have recovered to roughly the same level as the same month of the previous year. In the midst of this difficult market environment, the Group not only recovered sales, but it also took advantage of the softening raw material market conditions, reduced fixed costs, and promoted cost reductions to maintain high earnings. In the residential-use market, despite the limitations on traditional sales activities imposed by the impact of the COVID-19 pandemic, the Group worked to recover sales in the retail market through efforts including online events and live broadcasts and by strengthening Internet sales. Furthermore, the Group promoted collaboration with major developers and strengthened sales for projects. In the commercial-use market, the Group reinforced customer visits by leveraging the growing market interest in cleaning, sanitization, and ventilation, as it also strengthened its lineup of air-related products and ventilation systems to offer air solutions (including the visualization [digitalization] of air using air-conditioning operation data and sensors, and the establishment of remote air-conditioning monitoring systems). In the Applied Systems air-conditioning equipment market, the Group strengthened sales in information-related fields such as data centers, where demand is growing due to the accelerating pace of online systematization and digitalization.

In Asia and Oceania, sales dropped significantly due to the suspension of business activities in many countries in April as a result of governmental decrees in response to the spread of COVID-19. In residential air-conditioning systems, despite restrictions on business activities that have remained in place from May onward, the Group captured seasonal residential demand, including a rebound, as restrictions were eased from the decline in demand in April when business activities were suspended. In addition, the Group promoted sales through its own dealer channels as shopping malls leasing space to home electronics retailers were closed in many countries due to restrictions on business activities. On the other hand, in commercial air-conditioning systems, the situation was difficult as a result of the spread of COVID-19 at construction sites and the lockdowns of cities, which caused construction delays and postponements of projects. As described above, net sales of both residential and commercial air-conditioning systems decreased year over year as a whole due to the economic slowdown and decline in personal consumption affected by COVID-19.

In Europe, net sales decreased year over year as a whole due to the significant decline in sales affected by COVID-19. Net sales of residential air-conditioning systems decreased year over year, despite a production and supply response that took advantage of the nearest factories in the Czech Republic and Turkey, and online sales during the lockdown. Despite the continuation of sales activities such as online ‘spec-in’ activities and the introduction of air-related products during the lockdown, net sales of commercial air-conditioning systems decreased year over year due in part to the impact of a ban on operations of hotels, restaurants, stores, and other facilities under the lockdown.

In the Middle and Near East and Africa, net sales decreased year over year due to the impact of COVID-19 and the economic downturn caused by falling crude oil prices.

In the filter business, sales of residential filters grew in the United States due to rising demand for ventilation amid the spread of COVID-19, and sales of high-performance filters for hospitals and clean rooms increased in Asia and Europe. In Asia, the Group also began selling products such as negative pressure units that prevent viruses from spreading outside the patient hospital rooms. Furthermore, in industrial applications, filter replacement services mainly for filters for offshore oil fields, which can significantly reduce running costs, performed well against a backdrop of contraction in capital investment by major customers. However, overall sales for both commercial and industrial applications declined due to the impact of the lockdown in response to the spread of COVID-19, especially in European countries, and net sales decreased year over year.

In the marine vessels business, net sales declined year over year due to a decrease in unit sales of marine container refrigeration units.

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 19.6% year over year to ¥35,567 million. Operating profit decreased by 57.7% to ¥2,655 million.

The general condition regarding overall sales of fluorochemical products was harsh due to a decline in demand mainly in the semiconductor and automotive fields, a significant drop in demand affected by the spread of COVID-19, and a decline in market conditions and lower demand in the gas market.

Net sales of fluoropolymers decreased year over year mainly due to a decline in demand for semiconductor and automotive-related applications in Japan, Europe, the United States, and Asia, as well as lower LAN cables and aircraft-related demand in the United States. Net sales of fluoroelastomers also decreased substantially year over year due to the impact of falling demand in the automotive field in Japan, Europe, the United States, and Asia.

Among specialty chemicals, net sales of oil and water repellents grew year over year as a result of the growth in demand for medical-related applications. In addition, net sales of semiconductor etching agents increased year over year due to sales expansion in Japan, Asia, and China. Despite a difficult demand environment, net sales of anti-fouling surface coating agents remained at the same level year over year thanks to sales expansion in Japan and China.

As for fluorocarbon gas, the impact of the decline in global sales was significant, and as a result, overall sales of gas decreased substantially year over year.

(iii) Other Divisions

Overall sales of the “Others” segment decreased by 19.8% year over year to ¥9,422 million. Operating profit decreased by 69.9% to ¥248 million.

In oil hydraulic equipment, net sales of oil hydraulic equipment for industrial machinery and oil hydraulic equipment for construction machinery and vehicles declined year over year as a result of a decline in capital investment in Japan and the lockdown in Europe and the United States triggered by the spread of COVID-19.

In defense systems-related products, net sales grew year over year as a result of robust sales of home oxygen equipment, thanks to a temporary increase in demand for oxygen concentrators as patients with respiratory diseases shifted to home care as some hospitals accepted COVID-19 patients.

In the electronics business, net sales remained at the same level year over year as a result of an increase in sales of CG creation software and molecular design software sold to the game market and the university and public sector markets, where the impact of COVID-19 is relatively low. This occurred despite a decline in sales of “SpaceFinder,” a database system for design and development sectors, which is sold mainly to manufacturers, resulting from a decline in investment associated with the spread of COVID-19.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets increased by ¥290,791 million from the end of the previous fiscal year to ¥2,958,304 million. Current assets increased by ¥278,539 million from the end of the previous fiscal year to ¥1,582,966 million, mainly due to an increase in cash and deposits. Non-current assets increased by ¥12,252 million from the end of the previous fiscal year to ¥1,375,337 million, primarily due to an increase in investment securities resulting from market value fluctuation.

Liabilities increased by ¥266,303 million from the end of the previous fiscal year to ¥1,471,225 million, mainly due to an increase in long-term borrowings. Interest bearing debt ratio rose to 27.7% from 20.8% at the end of the previous fiscal year.

Net assets increased by ¥24,487 million from the end of the previous fiscal year to ¥1,487,079 million, primarily due to an increase caused by posting of profit attributable to owners of parent.

(ii) Cash Flows

During the three months ended June 30, 2020, net cash provided by operating activities was ¥59,202 million, a decrease of ¥4,496 million from the same period of the previous fiscal year, principally due to a decrease in profit before income taxes. Net cash used in investing activities was ¥33,276 million, a decrease of ¥3,322 million from the same period of the previous fiscal year, primarily due to a decrease in payment for acquisition of consolidated subsidiaries. Net cash provided by financing activities was ¥234,388 million, an increase of ¥214,100 million from the same period of the previous fiscal year, mainly due to an increase 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 three months ended June 30, 2020, amounted to ¥262,925 million, an increase of ¥228,967 million from the same period of the previous fiscal year.

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

With regard to the future world economy, despite the continued spread of COVID-19, social and economic activities have resumed, mainly in developed countries, as measures are being taken to prevent the spread of the infection. However, as the infection continues, the Daikin Group expects restrictions on human contact to continue in the future as well, including small-scale regional lockdowns and suspension of, or refraining from, business activities. Furthermore, the spread of the infection in the United States, Asia, and Latin American countries has not yet been stopped, and there are also risk factors such as concerns about a second wave and a deterioration in corporate earnings. For these reasons, the situation is expected to remain uncertain.

Initially, it was assumed that the impact of COVID-19 would be felt generally through the first half of the fiscal year. During this first quarter, although there was an early resumption of economic activity and a boost in demand for residential air-conditioning systems due to remote work, the Group expects the impact on demand in the second quarter onward to be prolonged in Asia and other emerging countries. In addition, under the new normal in post-coronavirus society, the Group expects that it will take time for demand for commercial air-conditioning systems to recover in retail, restaurant, lodging, and office-related markets.

In light of the above, the business forecast announced on May 12, 2020 has been revised as follows. Please note that this forecast does not assume large-scale city lockdowns or suspension of production and sales activities caused by a so-called second wave of COVID-19.

The Group will continue both defensive and offensive short-term measures in response to COVID-19 and use this challenge as an opportunity to strengthen and reform its business structure as it flexibly responds to rapidly changing conditions and reviews its plans from time to time going forward.

The estimated exchange rate from the second quarter onward is based on the assumption that US$1 equals ¥108 and 1 euro equals ¥120.

Revisions to Consolidated Business Forecast for the Six Months Ending September 30, 2020
(From April 1, 2020, to September 30, 2020)

	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)	1,070,000	40,000	40,000	23,000	78.61
Revised forecasts (B)	1,180,000	100,000	100,000	63,000	215.32
Increase/decrease (B – A)	110,000	60,000	60,000	40,000	—
Increase/decrease (%)	10.3	150.0	150.0	173.9	—
(Reference) Results for the six months ended September 30, 2019	1,354,201	168,291	170,056	118,513	405.14

Revisions to Consolidated Business Forecast for the Fiscal Year Ending March 31, 2021
(From April 1, 2020, to March 31, 2021)

	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)	2,330,000	150,000	150,000	100,000	341.78
Revised forecasts (B)	2,350,000	170,000	170,000	114,000	389.63
Increase/decrease (B – A)	20,000	20,000	20,000	14,000	—
Increase/decrease (%)	0.9	13.3	13.3	14.0	—
(Reference) Results for the fiscal year ended March 31, 2020	2,550,305	265,513	269,025	170,731	583.61

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)

	FY2019 (As of March 31, 2020)	First Quarter of FY2020 (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	370,793	638,064
Notes and accounts receivable – trade	440,755	454,565
Merchandise and finished goods	292,579	292,843
Work in process	49,686	40,307
Raw materials and supplies	91,517	101,235
Other	69,657	67,173
Allowance for doubtful accounts	(10,561)	(11,223)
Total current assets	1,304,427	1,582,966
Non-current assets		
Property, plant and equipment	579,980	589,032
Intangible assets		
Goodwill	281,969	272,129
Other	260,687	257,106
Total intangible assets	542,656	529,235
Investments and other assets		
Investment securities	157,328	169,715
Other	84,326	88,562
Allowance for doubtful accounts	(1,206)	(1,208)
Total investments and other assets	240,448	257,069
Total non-current assets	1,363,085	1,375,337
Total assets	2,667,512	2,958,304
Liabilities		
Current liabilities		
Notes and accounts payable – trade	189,843	186,548
Short-term borrowings	48,937	91,231
Current portion of long-term borrowings	105,900	105,696
Income taxes payable	19,893	20,626
Provision for product warranties	52,849	53,844
Other	276,532	271,608
Total current liabilities	693,957	729,555
Non-current liabilities		
Bonds payable	90,000	90,000
Long-term borrowings	233,184	453,985
Retirement benefit liability	13,219	13,593
Other	174,559	184,090
Total non-current liabilities	510,963	741,669
Total liabilities	1,204,921	1,471,225

(Millions of yen)

	FY2019 (As of March 31, 2020)	First Quarter of FY2020 (As of June 30, 2020)
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	83,898	83,941
Retained earnings	1,254,072	1,263,771
Treasury shares	(2,264)	(2,218)
Total shareholders' equity	1,420,739	1,430,526
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	29,764	38,499
Deferred gains or losses on hedges	(2,797)	(460)
Foreign currency translation adjustment	(5,051)	(2,768)
Remeasurements of defined benefit plans	(7,687)	(7,589)
Total accumulated other comprehensive income	14,228	27,680
Share acquisition rights	1,886	1,851
Non-controlling interests	25,736	27,021
Total net assets	1,462,591	1,487,079
Total liabilities and net assets	2,667,512	2,958,304

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

(Consolidated Statement of Income)

For the Three Months Ended June 30 (Millions of yen)

	First Three Months of FY2019 (April 1, 2019, to June 30, 2019)	First Three Months of FY2020 (April 1, 2020, to June 30, 2020)
Net sales	681,298	581,682
Cost of sales	436,702	380,458
Gross profit	244,595	201,224
Selling, general and administrative expenses	154,976	146,717
Operating profit	89,619	54,506
Non-operating income		
Interest income	1,796	1,373
Dividend income	2,665	2,233
Other	908	1,150
Total non-operating income	5,369	4,756
Non-operating expenses		
Interest expenses	3,506	2,253
Share of loss of entities accounted for using equity method	22	2
Foreign exchange losses	755	750
Other	879	1,138
Total non-operating expenses	5,162	4,144
Ordinary profit	89,826	55,119
Extraordinary income		
Gain on disposal of non-current assets	529	—
Gain on sales of land	100	—
Gain on insurance claims	198	—
Total extraordinary income	828	—
Extraordinary losses		
Loss on disposal of non-current assets	—	164
Loss on sales of land	—	53
Loss on valuation of investment securities	491	102
Other	5	1
Total extraordinary losses	496	322
Profit before income taxes	90,158	54,796
Income taxes	25,051	19,902
Profit	65,106	34,894
Profit attributable to non-controlling interests	1,999	1,789
Profit attributable to owners of parent	63,106	33,105

(Consolidated Statement of Comprehensive Income)

For the Three Months Ended June 30

(Millions of yen)

	First Three Months of FY2019 (April 1, 2019, to June 30, 2019)	First Three Months of FY2020 (April 1, 2020, to June 30, 2020)
Profit	65,106	34,894
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,198)	8,734
Deferred gains or losses on hedges	(1,002)	2,336
Foreign currency translation adjustment	(37,225)	2,195
Remeasurements of defined benefit plans	250	98
Share of other comprehensive income of entities accounted for using equity method	240	(407)
Total other comprehensive income	(44,936)	12,957
Comprehensive income	20,170	47,852
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	18,913	46,556
Comprehensive income attributable to non-controlling interests	1,257	1,296

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Three Months of FY2019 (April 1, 2019, to June 30, 2019)	First Three Months of FY2020 (April 1, 2020, to June 30, 2020)
I. Cash flows from operating activities		
Profit before income taxes	90,158	54,796
Depreciation	22,539	25,047
Amortization of goodwill	6,936	7,413
Increase (decrease) in allowance for doubtful accounts	961	663
Interest and dividend income	(4,461)	(3,606)
Interest expenses	3,506	2,253
Share of loss (profit) of entities accounted for using equity method	22	2
Loss (gain) on disposal of non-current assets	(529)	164
Loss (gain) on valuation of investment securities	491	102
Decrease (increase) in trade receivables	(44,705)	(12,742)
Decrease (increase) in inventories	(12,589)	1,278
Increase (decrease) in trade payables	10,349	(3,518)
Increase (decrease) in retirement benefit liability	(229)	216
Decrease (increase) in retirement benefit asset	(530)	(252)
Other, net	12,548	1,034
Subtotal	84,466	72,853
Interest and dividends received	4,903	3,665
Interest paid	(4,187)	(2,783)
Income taxes paid	(21,483)	(14,533)
Net cash provided by (used in) operating activities	63,698	59,202
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(21,944)	(25,561)
Proceeds from sales of property, plant and equipment	2,119	928
Purchase of investment securities	(55)	(256)
Purchase of shares of subsidiaries and associates	(141)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(9,765)	—
Decrease (increase) in time deposits	545	(4,645)
Other, net	(7,358)	(3,742)
Net cash provided by (used in) investing activities	(36,599)	(33,276)

(Millions of yen)

	First Three Months of FY2019 (April 1, 2019, to June 30, 2019)	First Three Months of FY2020 (April 1, 2020, to June 30, 2020)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,279)	41,682
Proceeds from long-term borrowings	74,105	243,048
Repayments of long-term borrowings	(19,286)	(21,745)
Dividends paid	(26,326)	(23,336)
Dividends paid to non-controlling interests	(27)	(28)
Repayments of lease obligations	(4,864)	(5,284)
Other, net	(33)	52
Net cash provided by (used in) financing activities	20,287	234,388
IV. Effect of exchange rate change on cash and cash equivalents	(13,428)	2,611
V. Net increase (decrease) in cash and cash equivalents	33,957	262,925
VI. Cash and cash equivalents at beginning of period	367,189	321,151
VII. Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(7)	(58)
VIII. Cash and cash equivalents at end of period	401,139	584,019

(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, 2021, 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 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, 2020.

Segment Information, etc.

I. For the three months ended June 30, 2019 (From April 1, 2019, to June 30, 2019)
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	625,285	44,261	669,547	11,750	681,298	—	681,298
Intersegment sales	813	3,982	4,796	203	4,999	(4,999)	—
Total	626,099	48,244	674,343	11,953	686,297	(4,999)	681,298
Segment profit	82,507	6,283	88,791	825	89,617	2	89,619

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 ¥2 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 three months ended June 30, 2020 (From April 1, 2020, to June 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	536,692	35,567	572,260	9,422	581,682	—	581,682
Intersegment sales	561	2,260	2,822	152	2,974	(2,974)	—
Total	537,254	37,828	575,082	9,574	584,656	(2,974)	581,682
Segment profit	51,600	2,655	54,255	248	54,504	2	54,506

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 ¥2 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

The above represents a translation, for reference and convenience only, of the original notice issued in Japanese. We did our utmost to ensure accuracy in our translation and believe it to be of the highest standard. However, due to differences of accounting, legal and other systems as well as of language, this English version might contain inaccuracies, and therefore might be inconsistent with the original intent imported from the Japanese. In the event of any discrepancies between the Japanese and English versions, the former shall prevail as the official version.