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Member, Financial Accounting Standards Foundation

Brief Report on the Settlement of Accounts (Consolidated) for the Three Months Ended June 30, 2023 (J-GAAP)

August 8, 2023

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: August 9, 2023
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, 2023
(From April 1, 2023, to June 30, 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	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2023	1,094,715	13.1	117,884	9.3	114,809	4.8	80,258	13.8
June 30, 2022	967,755	21.1	107,860	-1.3	109,515	-2.1	70,551	-10.3

Note: Comprehensive income was ¥215,375 million (3.6%) for the three months ended June 30, 2023, and ¥207,854 million (134.8%) for the three months ended June 30, 2022.

	Earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2023	274.18	274.01
June 30, 2022	241.05	240.92

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	4,725,125	2,451,335	50.8
As of March 31, 2023	4,303,682	2,279,095	51.9

(Reference) Equity capital was ¥2,402,540 million as of June 30, 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	—				
Fiscal Year ending March 31, 2024 (forecast)		120.00	—	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
First half	2,090,000	3.5	227,000	2.4	218,000	-2.1	150,000	-4.1	512.43
Full year	4,100,000	3.0	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 Three Months Ended June 30, 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 June 30, 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 June 30, 2023	387,451 shares
As of March 31, 2023	389,416 shares

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

Three Months Ended June 30, 2023	292,725,415 shares
Three Months Ended June 30, 2022	292,687,292 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, August 8, 2023. 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 three months ended June 30, 2023 (from April 1, 2023, to June 30, 2023), service consumption recovered following the lifting of activity restrictions related to the COVID-19 pandemic, but the world economy overall slowed as the weaknesses in the economies of Europe and the United States, caused by prolonged inflation and rising interest rates, spread to other countries. In the U.S. economy, although personal consumption was strong in a favorable employment environment, housing demand and capital investment fell, putting downward pressure on the economy. In the European economy, the slowdown continued as consumption declined due to the ongoing high prices of goods caused by soaring energy prices. The Chinese economy slowed as the real estate recession that has been continuing since last year further worsened, and there was also a lull in the pent-up demand due to the lifting of the zero-COVID policy. In Asia and emerging countries, exports to Europe and the United States were sluggish, but strong domestic demand of the recovery from the COVID-19 pandemic supported the economy and kept it going strong. In Japan, the lifting of activity restrictions led to the normalization of economic activities, and the economy continued to recover, especially in service consumption.

To complete the strategic management plan "Fusion 25" formulated in the fiscal year ended March 31, 2022, the Daikin Group is working on measures under nine key 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." In 2023, we formulated and began implementing the "Fusion 25 Latter-Half Three-Year Plan." Recognizing the current changes in the management environment and medium- to long-term trends as opportunities, we are strengthening our efforts in the key themes and adding new themes such as "Establishment of a major base in India" and "Entry into Chemicals: high-performance and environmental materials businesses" to form 11 key themes for the creation of economic, environmental, and social value.

Under this business environment, in the fiscal year ending March 31, 2024, we are working to restrengthen profitability and expand our business to take advantage of opportunities presented by the world's trend toward carbon neutrality. We are striving to minimize the impact of environmental changes on our business activities while further expanding our sales and profitability in regions and businesses with strong performance by closely following the progress of each region and business and responding to issues flexibly. The specific themes 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 13.1% year over year to ¥1,094,715 million for the three months ended June 30, 2023. As for profits, operating profit increased by 9.3% to ¥117,884 million, ordinary profit increased by 4.8% to ¥114,809 million, and profit attributable to owners of parent increased by 13.8% to ¥80,258 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 13.8% year over year to ¥1,011,840 million. Operating profit increased by 9.7% to ¥103,689 million.

In the Japanese air-conditioning equipment market, commercial market demand increased year over year from an increase in demand for small-scale replacements despite a delay in recovery demand for new construction projects. Meanwhile, residential market demand decreased year over year, due in part to consumers' reluctance to buy and a change in the target of consumption. Against this backdrop, the Group worked to strengthen user proposals to the commercial air-conditioning equipment market and expanded sales of 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 to strengthen our approach to users and were able to increase the sales ratio of high- and mid-range models with high energy-saving performance. However, we were unable to fully absorb the impact of lower unit sales due to a drop in demand, resulting in lower net sales year over year.

In the Americas, sales of air-conditioning systems continued to face difficult conditions due to stagnant housing demand and distribution inventory adjustments. In residential air-conditioning systems, sales volume declined as industry demand growth stagnated due mainly to prolonged inflation and rising housing loan interest rates, and independent distributors continued to curb inventories. However, net sales increased year over year due to sales expansion in line with firm demand for light commercial air-conditioning systems for medium-sized office buildings and efforts to implement pricing policies while also strengthening the sales network by utilizing companies acquired in the previous fiscal year. In the market for large buildings (Applied Systems), sales of air-conditioning systems exceeded market growth rates while incorporating the effects of pricing policies amid the market expansion since the beginning of this year. Likewise, the expansion of the service and solutions business, which utilizes sales agents, instrumentation and engineering companies, and custom air handling unit manufacturers acquired before and during the previous fiscal year, also 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 activities, sales activities by dealers, major campaigns, and more for the first time in three years. As a result, sales of residential, commercial, and Applied Systems air-conditioning equipment grew significantly, and overall net sales were much higher year over year despite a slow economic recovery in the real estate, home sales, and other markets. Profits maintained a high level comparable with past results due to measures that included absorbing fixed costs through sales expansion, increasing sales of high value-added products, and reducing costs. In the residential air-conditioning equipment market, online-based sales through the implementation of web strategies and the use of live broadcasts utilizing showrooms contributed significantly to sales expansion together with the Group's unique user-direct retail sales. In response to customers' increasing concern in air and environmental issues, we have also introduced the new "Daikin CARE Central Air System" series, which combines air-conditioning systems, indoor air quality (IAQ) improvement functions, total heat exchangers, and heat pump floor heating systems. In the commercial air-conditioning equipment market, sales grew as projects that had previously been suspended made progress. Due to carbon neutral policies, the markets for government projects, factories, and green buildings (buildings designed with consideration for enhanced environmental performance) have been growing, and new products were introduced to meet energy-saving requirements. In the Applied Systems air-conditioning equipment market, the Group shifted management resources to growth fields such as infrastructure and semiconductor-related and also strengthened the repair and maintenance business. Although the expected recovery in demand after the lifting of the zero-COVID policy slowed in some areas, sales increased as some projects began to resume construction in anticipation of an economic recovery.

In Asia and Oceania, growth in sales of residential air-conditioning systems in ASEAN and commercial air-conditioning systems in India drove overall net sales higher year over year. In ASEAN and Oceania, sales of residential air-conditioning systems remained strong due to the deployment of sales promotion support measures by individual dealers and increased sales through the development of new dealers, as well as a tailwind from rising temperatures in the ASEAN region. Meanwhile, sales of commercial air-conditioning systems stagnated due to the impact of monetary tightening caused by inflation, which led to a deterioration in cash flow for clients and contractors, and project delays in some countries. In India, sales of commercial air-conditioning systems remained strong on the back of continued economic growth, despite a slowdown in residential air-conditioning system sales due to unseasonable weather in the northwest.

In Europe, although the business environment was severe with the economic recovery delayed due to the continuation of monetary tightening policies in response to the high inflation rate, the tight supply of components in effect since last year had eased, and efforts were made to maximize shipments in each country, resulting in an increase in overall net sales year over year. Sales of residential air-conditioning systems increased in France, Spain, and other countries, buoyed by rising temperatures since early spring, but the economic slowdown had an impact on consumer confidence, and net sales declined year over year. Residential heat pump hot water heating systems were impacted by changes in the subsidy program of the Italian government. Nevertheless, demand continued to grow in other countries due to subsidy programs targeting CO_2 reduction. At the same time, we strengthened our sales capabilities, including dealer development and support for subsidy applications, and expanded our product lineup. As a result, we captured replacement demand from gas and oil boilers by leveraging our high value-added products, and net sales of residential heat pump hot water heating systems increased year over year. In addition, net sales of commercial air-conditioning systems increased year over year as a result of steadily capturing energy-saving needs of offices, stores, and the like, although pent-up demand due to the easing of COVID-19 activity restrictions has run its course.

In the Middle and Near East and Africa, increased orders for commercial projects in the UAE, Nigeria, and other countries drove sales, and net sales were significantly higher year over year. 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 the filter business, overall demand remained firm despite some weaknesses seen in the semiconductor and pharmaceutical markets. In the United States, we created synergies by actively utilizing distributors acquired in the previous fiscal year and strengthened sales in focused markets such as hospitals, pharmaceuticals, and data centers. As a result, sales in high-end markets expanded, but overall net sales in the United States declined, partly due to our withdrawal from low-profit businesses. In Europe, demand for energy-saving and air quality improvement remained firm, and sales were strong, especially in the high-end and OEM markets. In Asia, despite a slowdown in semiconductor investment, sales of high-performance filters were strong and net sales remained on par year over year. In Japan, sales for infection control product applications slowed down, but sales for general equipment applications remained strong in addition to high-performance filters for the semiconductor market. In the gas turbine and dust collection systems business, sales of special filters for oil field applications were strong. Despite these strong sales in some regions, net sales of the filter business overall declined year over year due to lower sales in the United States.

In the marine vessels business, sales of marine container refrigeration units increased year over year, as there was no decrease in production caused by parts shortages and logistics disruptions affected by the impact of lockdowns in China as in the previous fiscal year. In addition, sales of marine vessel air conditioners and refrigeration units also increased, and net sales of the marine business overall increased year over year.

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 4.8% year over year to ¥60,850 million. Operating profit increased by 1.9% to ¥12,773 million.

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

Net sales of fluoropolymers were at the same level year over year. Despite relatively strong demand in some parts of the semiconductor field, there was a slowdown in demand in other fields such as electric wires. Meanwhile, net sales of fluoroelastomers were lower year over year due to a slowdown in demand in the automotive field and the resulting distribution inventory adjustments.

In specialty chemicals, overall net sales significantly declined year over year due to stagnant demand for anti-fouling surface coating agents and oil and water repellants, as well as a drop in demand for semiconductor etching agents and other products.

As for fluorocarbon gas, amid firm demand, 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 50.9% year over year to ¥22,024 million. Operating profit increased by 65.3% to ¥1,412 million.

In the oil hydraulic equipment business, net sales of both oil hydraulic equipment for industrial machinery and oil hydraulic equipment for construction machinery and vehicles increased year over year due to increased sales in the Japanese and the U.S. markets, and the company acquired in the previous fiscal year contributed to increased sales in Europe and the United States.

In the defense systems business, demand associated with COVID-19 for oxygen concentrators and pulse oximeters (medical devices that can easily measure blood oxygen saturation without blood collection) has settled down, and net sales fell year over year.

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 sales of a large project 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 ¥421,442 million from the end of the previous fiscal year to ¥4,725,125 million. Current assets increased by ¥266,343 million from the end of the previous fiscal year to ¥2,693,426 million, mainly due to an increase in notes and accounts receivable – trade, and contract assets. Non-current assets increased by ¥155,099 million from the end of the previous fiscal year to ¥2,031,699 million, primarily due to an increase in construction in progress.

Liabilities increased by ¥249,202 million from the end of the previous fiscal year to ¥2,273,790 million, mainly due to an increase in short-term borrowings. Interest bearing debt ratio rose to 22.8% from 20.6% at the end of the previous fiscal year.

Net assets increased by ¥172,240 million from the end of the previous fiscal year to ¥2,451,335 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 three months ended June 30, 2023, net cash provided by operating activities was ¥41,228 million, a decrease of ¥2,967 million from the same period of the previous fiscal year, principally due to a decrease in trade payables. Net cash used in investing activities was ¥87,662 million, an increase of ¥48,123 million from the same period of the previous fiscal year, primarily due to an increase in purchase of property, plant and equipment. Net cash provided by financing activities was ¥86,170 million, an increase of ¥216,434 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 three months ended June 30, 2023, amounted to ¥63,591 million, an increase of ¥157,469 million from the same period of the previous fiscal year.

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

Although the world economy from the second quarter onward is becoming even more uncertain, under the Group's slogan for its Annual Group Policy for this year (2023), "Connecting growing opportunities to results, Let's strongly spread our wings," the Group will look at decarbonization efforts aimed at the achievement of carbon neutrality, the rising need for energy savings, and the expansion of demand in emerging countries such as India as opportunities, and will refine its accumulated strengths and enhance its earning power by responding flexibly and proactively to successive changes. Specifically, leveraging our production and sales system of local production and local consumption, our solid sales networks, our environmental and energy-saving technologies, and the like, we will actively launch differentiated products and expand sales through thorough environmental and energy-saving proposals for specific markets and customers. We will also establish region, application, and market-specific models and use them to expand our service and solutions business, and build a resilient supply chain that can rapidly and flexibly respond to change, including making large-scale capital investments in areas around the world. Furthermore, we will implement strategic sales price policies and variable cost reduction in order to absorb cost increases prompted by inflation. While making investments that will lead to enhanced profitability in the future, we will maintain our position of increasing both sales and profit and will strive to achieve the targets of our strategic management plan, "Fusion 25 Latter-Half Three-Year Plan," announced in May of this year.

The estimated exchange rate from the second quarter onward assumes that US$1 equals ¥125 and 1 euro equals ¥130.

The consolidated business forecast for the fiscal year ending March 31, 2024, remains unchanged from the previous forecast announced on May 9, 2023.

<Reference> Consolidated Business Forecast for the Fiscal Year Ending March 31, 2024

(Millions of yen)

	First half	Full year
Net sales	2,090,000	4,100,000
Operating profit	227,000	400,000
Ordinary profit	218,000	380,000
Profit attributable to owners of parent	150,000	264,000

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2022 (As of March 31, 2023)	First Quarter of FY2023 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	617,663	692,164
Notes and accounts receivable – trade, and contract assets	706,315	790,229
Merchandise and finished goods	668,310	735,242
Work in process	65,518	75,118
Raw materials and supplies	259,555	276,274
Other	128,901	146,005
Allowance for doubtful accounts	(19,180)	(21,608)
Total current assets	2,427,082	2,693,426
Non-current assets		
Property, plant and equipment	900,944	992,580
Intangible assets		
Goodwill	304,331	318,769
Other	354,122	381,309
Total intangible assets	658,454	700,079
Investments and other assets		
Investment securities	169,602	188,229
Other	148,114	151,330
Allowance for doubtful accounts	(516)	(520)
Total investments and other assets	317,200	339,039
Total non-current assets	1,876,599	2,031,699
Total assets	4,303,682	4,725,125
Liabilities		
Current liabilities		
Notes and accounts payable – trade	352,647	359,544
Short-term borrowings	293,541	414,861
Commercial papers	79,000	136,000
Current portion of bonds payable	20,000	20,000
Current portion of long-term borrowings	53,900	36,529
Income taxes payable	37,726	50,575
Provision for product warranties	85,528	92,993
Other	526,975	545,942
Total current liabilities	1,449,321	1,656,446
Non-current liabilities		
Bonds payable	140,000	140,000
Long-term borrowings	174,148	188,861
Retirement benefit liability	18,176	16,535
Other	242,941	271,947
Total non-current liabilities	575,266	617,344
Total liabilities	2,024,587	2,273,790

(Millions of yen)

	FY2022 (As of March 31, 2023)	First Quarter of FY2023 (As of June 30, 2023)
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	79,478	77,528
Retained earnings	1,712,165	1,751,222
Treasury shares	(1,676)	(1,668)
Total shareholders' equity	1,874,999	1,912,114
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,980	65,711
Deferred gains or losses on hedges	459	(460)
Foreign currency translation adjustment	315,392	433,905
Remeasurements of defined benefit plans	(7,801)	(8,730)
Total accumulated other comprehensive income	360,031	490,425
Share acquisition rights	3,116	3,091
Non-controlling interests	40,947	45,703
Total net assets	2,279,095	2,451,335
Total liabilities and net assets	4,303,682	4,725,125

(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 FY2022 (April 1, 2022, to June 30, 2022)	First Three Months of FY2023 (April 1, 2023, to June 30, 2023)
Net sales	967,755	1,094,715
Cost of sales	639,356	707,223
Gross profit	328,399	387,491
Selling, general and administrative expenses	220,539	269,606
Operating profit	107,860	117,884
Non-operating income		
Interest income	2,140	3,181
Dividend income	2,748	2,475
Share of profit of entities accounted for using equity method	133	306
Foreign exchange gains	6,703	4,551
Other	1,824	2,494
Total non-operating income	13,549	13,009
Non-operating expenses		
Interest expenses	3,266	9,061
Settlement payments	3,799	2,403
Inflation accounting adjustment	1,990	1,050
Other	2,837	3,569
Total non-operating expenses	11,894	16,085
Ordinary profit	109,515	114,809
Extraordinary income		
Gain on sale of investment securities	729	3,473
Total extraordinary income	729	3,473
Extraordinary losses		
Loss on disposal of non-current assets	121	477
Loss on valuation of investment securities	3	0
Total extraordinary losses	124	477
Profit before income taxes	110,120	117,804
Income taxes	37,425	35,278
Profit	72,694	82,526
Profit attributable to non-controlling interests	2,143	2,268
Profit attributable to owners of parent	70,551	80,258

(Consolidated Statement of Comprehensive Income)

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

	First Three Months of FY2022 (April 1, 2022, to June 30, 2022)	First Three Months of FY2023 (April 1, 2023, to June 30, 2023)
Profit	72,694	82,526
Other comprehensive income		
Valuation difference on available-for-sale securities	253	13,730
Deferred gains or losses on hedges	(3,652)	(920)
Foreign currency translation adjustment	138,307	120,379
Remeasurements of defined benefit plans	(1,110)	(928)
Share of other comprehensive income of entities accounted for using equity method	1,362	587
Total other comprehensive income	135,159	132,848
Comprehensive income	207,854	215,375
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	203,368	210,652
Comprehensive income attributable to non-controlling interests	4,486	4,722

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Three Months of FY2022 (April 1, 2022, to June 30, 2022)	First Three Months of FY2023 (April 1, 2023, to June 30, 2023)
I. Cash flows from operating activities		
Profit before income taxes	110,120	117,804
Depreciation	33,085	39,209
Amortization of goodwill	9,128	10,865
Increase (decrease) in allowance for doubtful accounts	682	1,372
Interest and dividend income	(4,888)	(5,657)
Interest expenses	3,266	9,061
Share of loss (profit) of entities accounted for using equity method	(133)	(306)
Loss (gain) on disposal of non-current assets	121	477
Loss (gain) on sale of investment securities	(729)	(3,473)
Loss (gain) on valuation of investment securities	3	0
Decrease (increase) in trade receivables	(61,148)	(38,453)
Decrease (increase) in inventories	(57,241)	(31,433)
Increase (decrease) in trade payables	31,922	(11,435)
Increase (decrease) in accounts payable - other	(4,244)	(12,515)
Increase (decrease) in accrued expenses	17,080	558
Increase (decrease) in retirement benefit liability	349	(2,390)
Decrease (increase) in retirement benefit asset	344	(1,636)
Other, net	(1,992)	(1,139)
Subtotal	75,725	70,907
Interest and dividends received	5,925	7,663
Interest paid	(3,270)	(8,495)
Income taxes paid	(34,184)	(28,846)
Net cash provided by (used in) operating activities	44,196	41,228
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(29,011)	(77,826)
Proceeds from sale of property, plant and equipment	1,087	524
Purchase of investment securities	(1,026)	(468)
Proceeds from sale of investment securities	1,245	4,769
Payments for acquisition of businesses	—	(6,612)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(28,911)	—
Decrease (increase) in time deposits	21,808	(8,611)
Other, net	(4,731)	563
Net cash provided by (used in) investing activities	(39,538)	(87,662)

(Millions of yen)

	First Three Months of FY2022 (April 1, 2022, to June 30, 2022)	First Three Months of FY2023 (April 1, 2023, to June 30, 2023)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	118,468	159,516
Proceeds from long-term borrowings	46,871	13,743
Repayments of long-term borrowings	(254,408)	(33,303)
Dividends paid	(32,216)	(40,997)
Proceeds from share issuance to non-controlling shareholders	—	227
Dividends paid to non-controlling interests	(41)	(508)
Repayments of lease liabilities	(8,936)	(10,879)
Other, net	(0)	(1,627)
Net cash provided by (used in) financing activities	(130,263)	86,170
IV. Effect of exchange rate change on cash and cash equivalents	31,727	23,854
V. Net increase (decrease) in cash and cash equivalents	(93,878)	63,591
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	623,353	612,090

(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 three months ended June 30, 2022, and the three months ended June 30, 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.

I. For the three months ended June 30, 2022 (From April 1, 2022, to June 30, 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	132,346	16,950	149,296	10,767	160,063	—	160,063
U.S.	295,855	13,342	309,198	2,631	311,829	—	311,829
Europe	153,763	10,096	163,860	273	164,134	—	164,134
China	123,283	15,075	138,358	511	138,870	—	138,870
Asia and Oceania	134,040	7,847	141,887	307	142,195	—	142,195
Other	49,965	595	50,560	101	50,662	—	50,662
Revenue from contracts with customers	889,254	63,907	953,162	14,593	967,755	—	967,755
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	889,254	63,907	953,162	14,593	967,755	—	967,755
Intersegment sales	419	5,676	6,095	363	6,459	(6,459)	—
Total	889,673	69,584	959,257	14,957	974,215	(6,459)	967,755
Segment profit	94,483	12,535	107,019	854	107,873	(13)	107,860

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 ¥(13) 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, 2023 (From April 1, 2023, to June 30, 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	139,847	15,930	155,778	11,409	167,188	—	167,188
U.S.	342,302	10,520	352,823	3,247	356,070	—	356,070
Europe	174,948	13,373	188,321	5,188	193,509	—	193,509
China	145,954	12,961	158,915	781	159,697	—	159,697
Asia and Oceania	146,455	7,725	154,181	920	155,101	—	155,101
Other	62,332	338	62,670	476	63,147	—	63,147
Revenue from contracts with customers	1,011,840	60,850	1,072,691	22,024	1,094,715	—	1,094,715
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	1,011,840	60,850	1,072,691	22,024	1,094,715	—	1,094,715
Intersegment sales	381	8,074	8,456	178	8,635	(8,635)	—
Total	1,012,222	68,925	1,081,147	22,202	1,103,350	(8,635)	1,094,715
Segment profit	103,689	12,773	116,463	1,412	117,875	9	117,884

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 ¥9 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