Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020
CURRENT ASSETS:		
Cash and cash equivalents (Notes 9 and 16)	¥ 662,267	¥ 321,152
Short-term investments (Note 16)	73,831	49,641
Trade receivables (Notes 8, 9 and 16):		
Notes	59,954	48,613
Accounts	408,377	392,142
Allowance for doubtful receivables	(13,074)	(10,562)
Inventories (Note 4)	469,398	433,783
Prepaid expenses and other current assets	72,608	69,658
Total current assets	1,733,361	1,304,427
PROPERTY, PLANT AND EQUIPMENT:		
Land	61,429	56,891
Buildings and structures	493,194	444,781
Machinery and equipment	691,285	631,138
Furniture and fixtures	214,586	193,840
Lease assets (Note 15)	3,955	3,614
Construction in progress	68,857	46,120
Total	1,533,306	1,376,384
Accumulated depreciation	(885,895)	(796,403)
Net property, plant and equipment	647,411	579,981
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 6, 9 and 16)	206,377	157,329
Investments in and advances to unconsolidated subsidiaries and associated companies	24,277	17,439
Goodwill (Notes 3 and 7)	268,684	281,969
Customer relationships (Note 3)	177,968	169,766
Other intangible assets (Note 3)	96,110	90,921
Deferred tax assets (Note 13)	31,692	26,794
Assets for retirement benefits (Note 10)	19,960	12,885
Other assets	33,823	26,002
Total investments and other assets	858,891	783,105
TOTAL	¥ 3,239,663	¥ 2,667,513

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020
CURRENT LIABILITIES:		
Short-term borrowings (Notes 9 and 16)	¥ 40,755	¥ 48,938
Current portion of long-term debt (Notes 9 and 16)	76,279	105,900
Current portion of long-term lease obligations (Notes 15 and 16)	20,639	17,301
Trade payables (Note 16):		
Notes	11,914	10,007
Accounts	217,832	179,837
Income taxes payable (Note 16)	20,757	19,894
Provision for product warranties	62,255	52,850
Accrued expenses (Note 8)	154,214	142,069
Other current liabilities (Note 8)	161,340	117,162
Total current liabilities	765,985	693,958
LONG-TERM LIABILITIES:		
Long-term debt (Notes 9 and 16)	548,803	323,185
Long-term lease obligations (Notes 15 and 16)	64,737	58,483
Liabilities for retirement benefits (Note 10)	14,540	13,219
Deferred tax liabilities (Note 13)	118,606	90,087
Other long-term liabilities	28,497	25,990
Total long-term liabilities	775,183	510,964
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15 and 17)		
EQUITY (Notes 11, 12 and 21):		
Common stock - authorized 500,000,000 shares; issued 293,113,973 shares	85,032	85,032
Capital surplus	84,215	83,899
Stock acquisition rights	2,019	1,887
Retained earnings	1,363,505	1,254,073
Treasury stock, at cost: 469,595 shares in 2021 and 529,837 shares in 2020	(2,013)	(2,265)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	68,700	29,765
Deferred gain (loss) on derivatives under hedge accounting	1,293	(2,797)
Foreign currency translation adjustments	69,470	(5,052)
Remeasurements of defined benefit plans	(4,513)	(7,687)
Subtotal	1,667,708	1,436,855
Noncontrolling interests	30,787	25,736
Total equity	1,698,495	1,462,591
TOTAL	¥ 3,239,663	¥ 2,667,513

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2021

	Millions of Yen	
	2021	2020
NET SALES (Note 8)	¥ 2,493,387	¥ 2,550,305
COST OF SALES (Note 14)	1,629,251	1,665,407
Gross profit	864,136	884,898
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 8 and 14)	625,513	619,385
Operating income	238,623	265,513
OTHER (EXPENSES) INCOME:		
Interest and dividend income	10,696	13,114
Interest expense	(8,791)	(11,008)
Equity in earnings of associated companies	7	166
Exchange gains	547	461
Subsidy income	1,393	3,239
Gain on sales of land		658
Losses on disposals of property, plant and equipment and other intangible assets	(1,208)	(454)
Loss on sales of land	(115)	
Losses on impairment of long-lived assets (Note 5)	(225)	(23,555)
Gains on sales of investment securities (Note 6)	313	10,810
Impairment losses on investment securities (Notes 6 and 16)	(472)	(579)
Gains on reversal of stock acquisition rights	8	25
Gain on insurance claims		255
Gain on liquidation of a subsidiary	1	
Loss on liquidation of an unconsolidated subsidiary	(5)	
Other – net	(2,228)	(2,465)
Other expenses – net	(79)	(9,333)
INCOME BEFORE INCOME TAXES	238,544	256,180
INCOME TAXES (Note 13):		
Current	72,055	81,132
Deferred	3,743	(2,150)
Total income taxes	75,798	78,982
NET INCOME	162,746	177,198
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(6,496)	(6,467)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 156,250	¥ 170,731

	Yen	
AMOUNTS PER COMMON SHARE (Note 19):		
Basic net income	¥533.97	¥583.61
Diluted net income	533.66	583.22
Cash dividends applicable to the year	160.00	160.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2021

	Millions of Yen	
	2021	2020
NET INCOME	¥ 162,746	¥ 177,198
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):		
Unrealized gain (loss) on available-for-sale securities	38,934	(27,921)
Deferred gain (loss) on derivatives under hedge accounting	4,090	(3,416)
Foreign currency translation adjustments	75,637	(69,587)
Remeasurements of defined benefit plans	3,184	(2,457)
Share of other comprehensive income (loss) in affiliates accounted for using the equity method	260	(495)
Total other comprehensive income (loss)	122,105	(103,876)
COMPREHENSIVE INCOME	¥ 284,851	¥ 73,322
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥276,969	¥68,079
Noncontrolling interests	7,882	5,243

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2019	292,508,233	¥85,032	¥83,650	¥1,721	¥ 1,133,101	¥(2,589)
Net income					170,731	
Cash dividends, ¥160 per share					(49,731)	
Effect of change of the fiscal year-end of a certain consolidated subsidiary (Note 2.a)					(28)	
Repurchase of treasury stock	(97)					(2)
Disposal of treasury stock	76,000		287			326
Change in parent's ownership interest due to transactions with noncontrolling interests			(38)			
Net change in the year				166		
BALANCE, MARCH 31, 2020	292,584,136	85,032	83,899	1,887	1,254,073	(2,265)
Net income					156,250	
Cash dividends, ¥160 per share					(46,818)	
Effect of change of the fiscal year-end of a certain consolidated subsidiary (Note 2.a)						
Repurchase of treasury stock	(458)					(9)
Disposal of treasury stock	60,700		316			261
Change in parent's ownership interest due to transactions with noncontrolling interests						
Net change in the year				132		
BALANCE, MARCH 31, 2021	292,644,378	¥85,032	¥84,215	¥2,019	¥ 1,363,505	¥(2,013)

See notes to consolidated financial statements.

Millions of Yen						
Accumulated Other Comprehensive Income (Loss)						
Unrealized Gains on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
¥ 57,686	¥ 619	¥ 63,808	¥(5,232)	¥ 1,417,796	¥29,054	¥ 1,446,850
				170,731		170,731
				(49,731)		(49,731)
				(28)		(28)
				(2)		(2)
				613		613
				(38)		(38)
(27,921)	(3,416)	(68,860)	(2,455)	(102,486)	(3,318)	(105,804)
29,765	(2,797)	(5,052)	(7,687)	1,436,855	25,736	1,462,591
				156,250		156,250
				(46,818)		(46,818)
				(9)		(9)
				577		577
38,935	4,090	74,522	3,174	120,853	5,051	125,904
¥ 68,700	¥ 1,293	¥ 69,470	¥(4,513)	¥ 1,667,708	¥30,787	¥ 1,698,495

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

OPERATING ACTIVITIES:
Income before income taxes
Adjustments for:
Income taxes – paid
Depreciation and amortization
Losses on impairment of long-lived assets
Gains on sales of investment securities
Impairment losses on investment securities
Losses on disposals of property, plant and equipment and other intangible assets
Equity in earnings of associated companies
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:
Trade notes and accounts receivable
Inventories
Other current assets
Assets for retirement benefits
Trade notes and accounts payable
Accrued expenses
Other current liabilities
Liabilities for retirement benefits
Other – net
Total adjustments
Net cash provided by operating activities

INVESTING ACTIVITIES:
Payments for purchases of property, plant and equipment
Proceeds from sales of property, plant and equipment
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired
Decrease (increase) in investments in and advances to an unconsolidated subsidiary and associated companies
Payment for transfer of business
Payments for acquisition of investment securities
Proceeds from sales of investment securities (Note 6)
Net increase in time deposits
Other – net
Net cash used in investing activities

FINANCING ACTIVITIES:
Net decrease in short-term borrowings
Proceeds from long-term debt
Repayments of long-term debt
Cash dividends paid to owners of the parent
Cash dividends paid to noncontrolling interests
Repayments of lease obligations
Other – net
Net cash provided by (used in) financing activities

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM EXCLUSION OF SUBSIDIARIES FROM CONSOLIDATION

EFFECT OF CHANGE OF THE FISCAL YEAR-END OF CONSOLIDATED SUBSIDIARIES (Note 2.a)

CASH AND CASH EQUIVALENTS, END OF YEAR

See notes to consolidated financial statements.

Millions of Yen	
2021	2020
¥ 238,544	¥ 256,180
(67,588)	(87,360)
133,594	128,486
225	23,555
(313)	(10,810)
472	579
1,208	454
(7)	(166)
511	591
(7,748)	(14,315)
(4,026)	(1,624)
(7,064)	1,695
25,037	(6,365)
5,702	11,347
43,375	6,223
469	2,606
12,300	(8,909)
136,147	45,987
374,691	302,167
(104,971)	(98,095)
4,724	3,963
(28,571)	(13,190)
55	(99)
(346)	
(1,829)	(1,595)
607	22,585
(17,957)	(52,908)
(11,379)	(16,848)
(159,667)	(156,187)
(9,253)	(93,943)
293,218	102,562
(105,904)	(98,196)
(46,721)	(49,731)
(4,357)	(9,859)
(28,085)	(20,919)
44	152
98,942	(169,934)
27,207	(22,029)
341,173	(45,983)
321,152	367,189
	(47)
(58)	(7)
¥ 662,267	¥ 321,152

Daikin Industries, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daikin Industries, Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards (IFRSs).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies*** – The accompanying consolidated financial statements include the accounts of the Company and its 315 (313 in 2020) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those 18 (20 in 2020) companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Group applies the equity method of accounting for investments in unconsolidated subsidiaries and associated companies except for certain insignificant companies. Investments in such insignificant companies are stated at cost, except investments for which the value has been permanently impaired, for which appropriate write-downs are recorded. If these 8 (9 in 2020) subsidiaries and 9 (9 in 2020) associated companies had been consolidated or accounted for using the equity method, respectively, the effect on the accompanying consolidated financial statements would not have been material.

For the year ended March 31, 2021, Daikin Airconditioning Norway AS changed its fiscal year-end from December 31 to March 31. The Company included the subsidiary's operating results for the 12-month period in the consolidated statement of income and included their operating results for the 3-month period in the consolidated statement of changes in equity by directly charging to retained earnings as the effect of the change in fiscal year-end of a certain consolidated subsidiary.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – In accordance with the Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP") (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," adjustments are to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRSs or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

d. ***Business Combinations*** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as a capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents*** – Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, which mature within three months of the date of acquisition. Time deposits that mature in more than three months, but within a year of the date of acquisition, are recorded as short-term investments.

f. ***Allowance for Doubtful Receivables*** – The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in receivables outstanding.

g. ***Inventories*** – Inventories of the Company and its consolidated domestic subsidiaries are stated at the lower of cost, principally determined by the average method, or net selling value. Inventories of consolidated foreign subsidiaries are stated at the lower of cost, principally determined by the average method, or market value.

h. ***Property, Plant and Equipment*** – Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the assets.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 5 to 15 years for machinery and equipment. The useful lives for lease assets are dependent on the terms of the respective leases.

i. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is adjusted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. ***Long-Lived Assets*** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

k. ***Leases*** – Non-ownership finance lease transactions and right-of-use assets within the scope of IFRS 16 "Lease" and Accounting Standards Update (ASU) 2016-02 "Lease" are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

All other leases are accounted for as operating leases.

l. ***Investment Securities*** – All marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is principally determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost, principally determined by the moving-average method.

For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by charging such losses to income.

m. ***Goodwill and Intangible Assets*** – Goodwill and intangible assets arise principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over a period of 6 to 20 years. Intangible assets primarily include customer relationships. Customer relationships are amortized using the straight-line method over the estimated useful lives (mainly 30 years).

n. ***Provision for Product Warranties*** – The Group repairs or exchanges certain products without charge under specific circumstances. The provision for product warranties is stated in amounts considered to be appropriate based on past experience and an evaluation of potential losses on the product warranties.

o. ***Employees' Retirement Benefits*** – The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over certain periods (mainly 10 years) no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

p. ***Stock Options*** – The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to non-employees based on the fair value of either the stock options of the goods or services received. In the consolidated balance sheet, the stock options are presented as a stock acquisition right as a separate component of equity until exercised.

q. ***Foreign Currency Transactions*** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. ***Foreign Currency Financial Statements*** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as "foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

s. ***Bonuses to Directors and Audit & Supervisory Board Members*** – Bonuses to Directors and Audit & Supervisory Board Members are accrued at year-end to which such bonuses are attributable. Accrued bonuses are included in accrued expenses.

t. ***Income Taxes*** – The provision for current income taxes is computed based on income before income taxes included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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 subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

u. ***Derivative Financial Instruments*** – The Group uses foreign exchange forward contracts, currency swaps and currency options to manage foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group uses mainly interest rate swaps and interest rate options to manage its exposure to fluctuations in interest rates.

The Group uses commodity futures contracts to manage the risk of fluctuation of commodity prices for materials.

The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) derivatives are principally recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

v. ***Amounts Per Common Share*** – Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retrospectively adjusted for stock splits.

Diluted net income per share of common stock assumes full exercise of the outstanding stock options which have a dilutive effect at the beginning of year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of year.

w. New Accounting Pronouncements

Revenue Recognition – On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Fair Value Measurement – On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, non-marketable available-for-sale equity securities are stated at fair value, while under the current accounting standards, non-marketable available-for-sale securities are stated at cost. The Group expects to apply the New Accounting Standards for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the Standards in future applicable periods.

x. Additional Information

With regard to COVID-19, while it is difficult to predict when the situation will return to normal, the Group has made accounting estimates such as impairment of long-lived assets, based on the assumption that socio-economic activities will recover gradually because of the broad-based vaccination and the effect of the economic measures adopted by governments.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Goodwill, customer relationships, and other intangible assets (collectively, the "Goodwill") had carrying amounts of ¥268,684 million, ¥177,968 million, and ¥96,110 million, respectively, in the consolidated balance sheet as of March 31, 2021. The main components are goodwill ¥160,181 million, customer relationships ¥105,284 million and other intangible assets ¥47,670 million of Goodman Global Group Inc., goodwill ¥25,504 million, customer relationships ¥54,007 million and other intangible assets ¥29,726 million of AHT Cooling Systems GmbH, and goodwill ¥58,371 million of OYL Industries Bhd (currently, Daikin Malaysia Sdn. Bhd., etc.).

For the valuation of the Goodwill, the Group assesses whether any indication of impairment exists for the Goodwill, and then determines whether to recognize impairment losses based on the future cash flows when any indication of impairment is identified.

The indication of impairment includes continuing operating losses, significant deterioration in the business environment, deviation from the business plan and other factors.

The future cash flows are estimated based on the business plan authorized by management. For the period beyond the term of the business plan, estimated future cash flows include considerations of uncertainties in the future. The significant assumptions in estimating the future cash flows are the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan. Also, the significant assumption in calculating the discounted present value of the future cash flows is the discount rate. These assumptions are affected by future uncertain economic conditions and the business conditions of those companies, and may have a material impact on the consolidated financial statements for the following consolidated fiscal years. The Company continuously monitors its business performance and strives to take measures before it becomes difficult to recover its investment.

The content related to the previous fiscal year is not described in accordance with the transitional treatment prescribed in Paragraph 11 of the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020.)

4. INVENTORIES

Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen	
	2021	2020
Finished products and merchandise	¥326,592	¥292,580
Semi-finished products and work in process	34,766	49,686
Raw materials and supplies	108,040	91,517
Total	¥469,398	¥433,783

5. LONG-LIVED ASSETS

The Group recognized impairment losses for the years ended March 31, 2021 and 2020. The details were as follows:

March 31, 2021

Use	Location	Asset Category	Millions of Yen
Business use	Frankfurt, Germany	Machinery and equipment	¥225
		Total	¥225

Business use assets above were planned to suspend production due to changes in the environment caused by the F-gas regulations in Europe, etc. As a result, the book value was reduced to the recoverable value, and the amount of such reduction was recognized as impairment losses.

The recoverable amounts of these assets were measured by value in use, and the discount rate was not considered due to the short-estimated period of use.

March 31, 2020

Use	Location	Asset Category	Millions of Yen
Other	North Carolina, United States	Goodwill	¥12,965
Business use		Customer relationships	10,590
		Total	¥23,555

At Flanders Holdings LLC, a consolidated subsidiary engaged in the manufacture and sale of filter and clean equipment, goodwill and customer relationships were recorded upon the acquisition of equity interest based on anticipated excess earnings. However, the business conducted by the subsidiary was under-performing compared with the business plan established at the time of the acquisition despite the subsidiary's efforts to strengthen its production and sales structure. As a result of the conservative review of its medium-term business plan, the book value was reduced to the recoverable value, and the amount of such reduction was recognized as impairment losses.

The recoverable amounts of these assets were measured by value in use, and the discount rate used to determine the present value of future cash flows was 8.8%.

6. MARKETABLE AND INVESTMENT SECURITIES

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2021 and 2020 were as follows:

	Millions of Yen			
	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥98,138	¥95,821	¥(1,235)	¥192,724
Debt securities	400		(1)	399
Total	¥98,538	¥95,821	¥(1,236)	¥193,123

	Millions of Yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥98,394	¥46,087	¥(6,299)	¥138,182
Debt securities	300			300
Total	¥98,694	¥46,087	¥(6,299)	¥138,482

Marketable available-for-sale securities that were sold during the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		
March 31, 2021	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥607	¥326	¥13

	Millions of Yen		
March 31, 2020	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥22,585	¥10,810	

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2021 and 2020 were ¥20 million and ¥579 million, respectively.

7. GOODWILL

Amortization expenses for goodwill were ¥30,050 million and ¥30,684 million for the years ended March 31, 2021 and 2020, respectively, which were included in selling, general and administrative expenses.

8. RELATED PARTY TRANSACTIONS

Material transactions and balances with related parties for the years ended March 31, 2021 and 2020 were as follows:

(1) 2021

(a) The Company

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length basis and by reference to the normal market price.

(2) 2020

(a) The Company

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2021	Account	2021
Commissions for moving business and delivery business	¥427	Accrued expenses and other current liabilities	¥45

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2021	Account	2021
Commissions for moving business and delivery business	¥ 72	Accrued expenses and other current liabilities	¥ 4
Sales of products	493	Accounts receivable	68

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2020	Account	2020
Commissions for moving business and delivery business	¥466	Accrued expenses and other current liabilities	¥39

Millions of Yen			
Transactions		Resulting Account Balances	
Description of Transaction	2020	Account	2020
Commissions for moving business and delivery business	¥ 74	Accrued expenses and other current liabilities	¥ 8
Sales of products	332	Accounts receivable	44

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen	
	2021	2020
Bank overdrafts and notes to banks	¥40,755	¥48,938
Total	¥40,755	¥48,938

Unused short-term bank credit lines were ¥261,169 million at March 31, 2021. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2021 and 2020 were 0.71% and 1.02%, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen	
	2021	2020
0.38% unsecured bonds, due 2021	¥ 10,000	¥ 10,000
1.20% unsecured bonds, due 2022	30,000	30,000
0.001% unsecured bonds, due 2023	20,000	
0.68% unsecured bonds, due 2024	10,000	10,000
0.12% unsecured bonds, due 2025	15,000	
0.21% unsecured bonds, due 2026	10,000	10,000
0.13% unsecured bonds, due 2026	15,000	15,000
0.18% unsecured bonds, due 2029	15,000	15,000
0.26% unsecured bonds, due 2030	15,000	
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.00% to 3.00% (2021) and from 0.00% to 4.50% (2020), due through 2030	228,041	214,083
Unsecured loans from banks and others with interest ranging from 0.25% to 3.57% (2021) and from 0.17% to 3.49% (2020), due through 2023	257,041	125,002
Total	625,082	429,085
Less current portion	(76,279)	(105,900)
Long-term debt, less current portion	¥ 548,803	¥ 323,185

Annual maturities of long-term debt outstanding at March 31, 2021 were as follows:

	Millions of Yen
2022	¥ 76,279
2023	354,823
2024	59,398
2025	27,197
2026	47,831
2027 and thereafter	59,554
Total	¥ 625,082

The assets pledged as collateral at March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Time deposits	¥ 919	¥ 368
Note receivables	1,497	1,279
Debt corresponding to the above:		
Note payables	3,806	2,685

In addition, investment securities pledged as collateral for the investee's borrowings from financial institutions at March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Investment securities	¥800	¥800

As is customary in Japan, additional securities must be provided if requested by a lending bank. Certain banks have the right to offset cash deposited against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders have ever exercised these rights with respect to debt of the Group.

10. SEVERANCE INDEMNITIES AND PENSION PLANS

Under the Group's severance indemnities and pension plans, employees terminating their employment are, in most circumstances, entitled to severance and pension payments based on their average pay during their employment, length of service and certain other factors.

The Group accounts for part of the defined benefit obligations and benefit costs for retirement lump-sum payment using the simplified method.

1. Defined benefit plans

(1) The changes in defined benefit obligations for the years ended March 31, 2021 and 2020 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen	
	2021	2020
Balance at beginning of year	¥ 111,470	¥ 110,871
Service cost	5,450	5,961
Interest cost	1,174	1,424
Net actuarial losses	2,634	2,300
Past service cost	54	(5)
Benefits paid	(4,965)	(6,576)
Effect of changes in the scope of consolidation		199
Foreign currency translation adjustments	4,463	(2,800)
Others	212	96
Balance at end of year	¥ 120,492	¥ 111,470

(2) The changes in plan assets for the years ended March 31, 2021 and 2020 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2021	2020
Balance at beginning of year	¥113,894	¥116,790
Expected return on plan assets	3,293	3,522
Net actuarial gain (loss)	8,281	(2,022)
Contributions from the employer	4,053	3,888
Benefits paid	(4,437)	(6,046)
Foreign currency translation adjustments	3,672	(2,222)
Others	(27)	(16)
Balance at end of year	¥128,729	¥113,894

(3) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020 using the simplified method were as follows:

	Millions of Yen	
	2021	2020
Balance at beginning of year	¥2,760	¥2,507
Periodic benefit cost	1,006	972
Benefits paid	(864)	(719)
Others	(85)	
Balance at end of year	¥2,817	¥2,760

(4) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2021 and 2020 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2021	2020
Funded defined benefit obligation	¥(114,520)	¥(105,617)
Plan assets	128,729	113,894
Total	14,209	8,277
Unfunded defined benefit obligation	(8,789)	(8,611)
Net amount of liabilities and assets recorded in the consolidated balance sheet	¥ 5,420	¥ (334)
Liabilities for retirement benefits	¥(14,540)	¥(13,219)
Assets for retirement benefits	19,960	12,885
Net amount of liabilities and assets recorded in the consolidated balance sheet	¥ 5,420	¥ (334)

(5) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Service cost	¥ 5,450	¥ 5,961
Interest cost	1,175	1,424
Expected return on plan assets	(3,293)	(3,522)
Recognized net actuarial losses	405	266
Amortization of past service cost	54	(65)
Periodic benefit cost calculated by the simplified method	1,006	972
Others	116	152
Total	¥ 4,913	¥ 5,188

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Past service cost	¥ 95	¥ 308
Net actuarial (gain) loss	(4,977)	3,160
Total	¥(4,882)	¥3,468

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Unrecognized past service cost	¥ 726	¥ 631
Unrecognized net actuarial gains	4,602	9,579
Total	¥5,328	¥10,210

(8) Plan assets

(a) Components of plan assets

Plan assets at March 31, 2021 and 2020, consisted of the following:

	2021	2020
Domestic debt securities	0%	1%
Domestic equity securities	0	0
Foreign debt securities	35	38
Foreign equity securities	21	16
Insurance assets (general account)	16	18
Cash and deposits	1	1
Alternative investments	27	26
Total	100%	100%

(b) Method of determining the expected rate of return on plan assets

To determine the expected long-term rate of return on plan assets, we consider current and target asset allocations, as well as historical and expected returns on various categories of plan assets.

(9) Assumptions used for the years ended March 31, 2021 and 2020 were as follows:

	2021	2020
Discount rate	Mainly 0.3%	Mainly 0.3%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 5.9%	Mainly 3.5%

2. Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Group were ¥6,374 million and ¥5,976 million for the years ended March 31, 2021 and 2020, respectively.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account that was charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Purchase of treasury stock acquisition rights are presented as either a separate component of equity and any purchased stock acquisition rights deducted directly from stock acquisition rights.

12. STOCK OPTIONS

The stock options outstanding at March 31, 2021, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 Stock Option	9 directors 45 employees	310,000 shares	2014.7.14	¥6,715	From July 15, 2016 to July 14, 2020
2015 Stock Option	9 directors 46 employees	53,200 shares	2015.7.13	¥1	From July 14, 2018 to July 13, 2030
2016 Stock Option	8 directors 53 employees	58,100 shares	2016.7.14	¥1	From July 15, 2019 to July 14, 2031
2017 Stock Option	8 directors 53 employees	48,800 shares	2017.7.14	¥1	From July 15, 2020 to July 14, 2032
2018 Stock Option	7 directors 59 employees	42,700 shares	2018.7.13	¥1	From July 14, 2021 to July 13, 2033
2019 Stock Option	7 directors 54 employees	46,100 shares	2019.7.12	¥1	From July 13, 2022 to July 12, 2034
2020 Stock Option	7 directors 57 employees	39,000 shares	2020.7.10	¥1	From July 11, 2023 to July 10, 2035

The stock option activity was as follows:

	Shares			
	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
Year Ended March 31, 2020				
Vested				
April 1, 2019 - Outstanding	40,000	22,700	58,100	48,800
Granted				
Exercised	(32,000)	(10,500)	(33,500)	
Canceled			(1,000)	(800)
March 31, 2020 - Outstanding	8,000	12,200	23,600	48,000
Year Ended March 31, 2021				
Vested				
April 1, 2020 - Outstanding	8,000	12,200	23,600	48,000
Granted				
Exercised	(8,000)	(4,900)	(13,900)	(33,900)
Canceled		(1,000)		
March 31, 2021 - Outstanding		6,300	9,700	14,100
Exercise price	¥6,715	¥1	¥1	¥1
Average stock price at exercise	¥16,651	¥18,234	¥19,712	¥19,542
Fair value price at grant date	¥1,697	¥7,726	¥7,859	¥10,711

The assumptions used to measure the fair value of 2020 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	30.1%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥160 per share
Risk-free interest rate:	(0.0)%

2018 Stock Option	2019 Stock Option	2020 Stock Option
42,700		
	46,100	
(700)		
42,000	46,100	
42,000	46,100	
		39,000
42,000	46,100	39,000
¥1	¥1	¥1
¥11,670	¥12,777	¥17,035

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Deferred tax assets:		
Provision for product warranties	¥ 15,593	¥ 13,625
Tax loss carryforwards	13,695	11,655
Software and other intangible assets	12,247	10,256
Unrealized profit on inventories	9,708	9,271
Inventories	6,546	6,059
Accrued bonus	5,890	4,628
Liabilities for retirement benefits	4,051	3,538
Investment securities	3,753	3,871
Allowance for doubtful receivables	2,892	2,343
Deferred revenue	2,786	2,933
Foreign income tax credit	1,035	70
Other	23,741	22,445
Total of tax loss carryforwards and temporary differences	101,937	90,694
Less valuation allowance for tax loss carryforwards	(10,544)	(8,707)
Less valuation allowance for temporary differences	(8,198)	(6,374)
Total valuation allowance	(18,742)	(15,081)
Total deferred tax assets	¥ 83,195	¥ 75,613
Deferred tax liabilities:		
Intangible assets	¥ 63,240	¥ 64,092
Undistributed earnings of consolidated subsidiaries	49,391	40,385
Unrealized gains on available-for-sale securities	26,074	10,131
Assets for retirement benefits	6,381	4,131
Deferred gains on sales of property	1,700	1,705
Other	23,323	18,462
Total deferred tax liabilities	¥ 170,109	¥ 138,906
Net deferred tax liabilities	¥ (86,914)	¥ (63,293)

The expiration of tax loss carryforwards, related valuation allowances, and the resulting net deferred tax assets as of March 31, 2021 were as follows:

	Millions of Yen						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 70	¥ 155	¥ 107	¥ 462	¥ 386	¥ 12,516	¥ 13,696
Less valuation allowances for tax loss carryforwards	(62)	(128)	(89)	(129)	(177)	(9,960)	(10,545)
Net deferred tax assets relating to tax loss carryforwards	8	27	18	333	209	2,556	3,151

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective tax rate is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the years ended March 31, 2021 and 2020.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥71,738 million and ¥67,968 million for the years ended March 31, 2021 and 2020, respectively.

15. LEASES

The Group mainly leases certain buildings, land and vehicles.

Obligations for future minimum payments on non-cancelable operating leases at March 31, 2021 was as follows:

	Millions of Yen
	Operating Leases
Due within one year	¥1,220
Due after one year	6,871
Total	¥8,091

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group policy for financial instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Short-term bank loans and commercial paper are used to fund the Group's ongoing operations, and cash surpluses are invested in low-risk financial assets. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described below.

Nature and extent of risks arising from financial instruments and risk management for financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables based on the internal policies, which include monitoring of payment terms and balances of major customers to identify the default risk of the customers.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Although receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the net position of receivables and payables in each foreign currency is hedged by using mainly forward foreign currency contracts and currency swaps. In addition, receivables and payables in foreign currencies which are expected from forecasted transactions are hedged by using forward foreign currency contracts and currency swaps.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are periodically managed by monitoring market values and financial position of issuers.

Short-term bank loans and commercial papers are mainly used to fund the Group's ongoing operations. Long-term bank loans and bonds are used mainly for capital expenditures. Although the payables such as trade notes and trade accounts, bank loans and bonds are exposed to liquidity risk, the Group manages the liquidity risk through adequate financial planning by the corporate finance department. In addition, the Group has short-term bank credit lines. Some long-term bank loans are exposed to market risk from changes in interest rates, which is hedged by mainly using interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps and commodity futures contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, interest rates of bank loans, and market value fluctuation of raw materials.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Because the counterparties to these derivatives are limited to financial institutions with high creditworthiness, the Group does not anticipate any losses arising from credit risk.

Fair values of financial instruments

The carrying amounts, fair values and unrealized loss of significant financial instruments were as follows. Fair values of financial instruments were based on quoted price in active markets. If quoted prices were not available, other rational valuation techniques were used instead. Instruments whose fair values could not be readily determined were not included in the following:

	Millions of Yen		
	March 31, 2021		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 662,267	¥ 662,267	
Short-term investments	73,831	73,831	
Trade notes and accounts receivable	468,331	468,331	
Investment securities	193,123	193,123	
Total	¥ 1,397,552	¥ 1,397,552	
Trade notes and accounts payable	¥ 229,746	¥ 229,746	
Short-term borrowings	40,755	40,755	
Income taxes payable	20,757	20,757	
Long-term debt	625,082	625,184	¥ 102
Lease obligations	85,376	87,171	1,795
Total	¥ 1,001,716	¥ 1,003,613	¥ 1,897
Derivatives	¥660	¥660	

	Millions of Yen		
	March 31, 2020		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 321,152	¥ 321,152	
Short-term investments	49,641	49,641	
Trade notes and accounts receivable	440,755	440,755	
Investment securities	138,482	138,482	
Total	¥ 950,030	¥ 950,030	
Trade notes and accounts payable	¥ 189,844	¥ 189,844	
Short-term borrowings	48,938	48,938	
Income taxes payable	19,894	19,894	
Long-term debt	429,085	430,452	¥ 1,367
Lease obligations	75,784	78,156	2,372
Total	¥ 763,545	¥ 767,284	¥ 3,739
Derivatives	¥(6,055)	¥(6,055)	

Assets

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Short-term investments

The carrying values of short-term investments approximate fair value because of their short maturities.

Trade notes and accounts receivable

The carrying values of trade notes and accounts receivable approximate fair value because of their short maturities.

Investment securities

The fair values of equity securities are measured at the quoted market prices of the stock exchange for the equity instruments, and the fair values of debt securities are measured at the amounts to be received through maturity discounted at the Group's assumed corporate discount rate. Fair value information for investment securities by classification is included in Note 6.

Liabilities

Trade notes and accounts payable, short-term borrowings and income taxes payable

The carrying values of trade notes and accounts payable, short-term borrowings and income taxes payable approximate fair value because of their short maturities.

Long-term debt

The fair values of bonds are determined at the quoted market prices of the over-the-counter market for the corporate bonds, and the fair values of long-term loans are determined by discounting the cash flows related to the loans at the Group's assumed corporate borrowing rate. The fair values of long-term loans with floating interest rates, which are hedged by the interest rate swaps that qualify for hedge accounting and meet specific matching criteria, are determined by discounting the cash flows related to the loans and the interest rate swaps at the Group's assumed corporate borrowing rate.

Lease obligations

The fair market value of lease obligations is calculated by discounting the total amount of principal and interest by the interest rate that would be used if similar new lease transactions were entered into.

Derivatives

The fair values of derivatives are measured at the quoted price obtained from the financial institution.

The contracts or notional amounts of derivatives that are shown in the table below do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting is not applied

		Millions of Yen			
		March 31, 2021			
		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:					
Selling:	GBP	¥ 3,482		¥ (29)	¥ (29)
	EUR	30,282		(39)	(39)
	USD	39,669		(1,195)	(1,195)
	AUD	8,456		(178)	(178)
	NZD	1,176		(12)	(12)
	ZAR	147		(2)	(2)
	CZK	3,797		4	4
	HKD	1,344		(39)	(39)
	SGD	2,434		(45)	(45)
	MYR	5,050		39	39
	TRY	9,387		738	738
	IDR	2,156		73	73
	INR	996		4	4
	NOK	344		(4)	(4)
	PHP	790		(2)	(2)
	HUF	36		0	0
	THB	35		1	1
	MXN	1,523		(169)	(169)
Buying:	CNY	2,526		149	149
	EUR	273		1	1

No commodity futures contract was applied at March 31, 2021.

		Millions of Yen			
		March 31, 2020			
		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:					
Selling:	GBP	¥ 5,470		¥ (86)	¥ (86)
	EUR	22,901		(223)	(223)
	USD	49,711		(3,753)	(3,753)
	AUD	5,144		38	38
	NZD	453		10	10
	ZAR	15		0	0
	CZK	4,088		205	205
	HKD	1,567		(98)	(98)
	SGD	2,753		(63)	(63)
	MYR	2,738		(7)	(7)
	TRY	4,591		842	842
	IDR	4,990		670	670
	INR	653		1	1
	NOK	445		(33)	(33)
	QAR	392		(10)	(10)
	PHP	1,474		(3)	(3)
	HUF	175		2	2
	THB	114		2	2
	CNY	122		1	1
	AED	1,172		3	3
Buying:	CNY	2,143		(24)	(24)
	EUR	186		0	0
Commodity futures contracts:					
Buying:	Metal	¥985		¥(102)	¥(102)

Derivative transactions to which hedge accounting is applied

			Millions of Yen		
			March 31, 2021		
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:					
Selling:	GBP	Receivables	¥ 4,932		¥(205)
	EUR	Receivables	48,644		267
	USD	Receivables	4,406		(224)
	CZK	Receivables	7,695		184
	TRY	Receivables	1,997		56
Buying:	CNY	Payables	13,135		556
Interest rate swaps:					
Fixed-rate payment, floating-rate receipt		Long-term debt	¥96,998	¥78,123	¥ (537)
Fixed-rate payment, floating-rate receipt (*)		Long-term debt	10,000		
Commodity futures contracts:					
Buying:	Metal	Raw materials	¥5,448		¥1,269

	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
		Millions of Yen		
		March 31, 2020		
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 7,533		¥ 218
EUR	Receivables	34,299		(1,155)
USD	Receivables	5,224		39
CZK	Receivables	5,519		263
TRY	Receivables	2,962		158
Buying: CNY	Payables	9,033		(71)
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥141,417	¥92,680	¥ (872)
Fixed-rate payment, floating-rate receipt (*)	Long-term debt	63,000	10,000	
Commodity futures contracts:				
Buying: Metal	Raw materials	¥13,708		¥(2,006)

(*) The above interest rate swaps that qualify for hedge accounting and meet specific matching criterion are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair values of such interest rate swaps are included in long-term debt.

Financial instruments whose fair values cannot be readily determinable

	Millions of Yen	
	Carrying Amount	
	2021	2020
Nonlisted equity securities	¥11,500	¥11,060
Investments in limited partnerships and other investments	1,754	1,076
Total	¥13,254	¥12,136

The impairment losses on nonlisted equity securities for the year ended March 31, 2021 were ¥452 million.

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	March 31, 2021			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 662,267			
Short-term investments	73,831			
Trade notes and accounts receivable	468,274	¥56	¥1	
Available-for-sale securities with contractual maturities (corporate bonds)				¥300
Available-for-sale securities with contractual maturities (others)				100
Total	¥ 1,204,372	¥56	¥1	¥400

	Millions of Yen			
	March 31, 2020			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥321,152			
Short-term investments	49,641			
Trade notes and accounts receivable	440,752	¥3		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				¥300
Total	¥811,545	¥3		¥300

Please see Note 9 for annual maturities of long-term debt.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2021 totaled approximately ¥20,240 million.

The Group had the following contingent liabilities at March 31, 2021 and 2020.

	Millions of Yen	
	2021	2020
Trade notes endorsed	¥2,634	¥1,835

18. COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Unrealized gains (losses) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 55,170	¥ (26,901)
Reclassification adjustments to profit or loss	(293)	(10,231)
Amount before income tax effect	54,877	(37,132)
Income tax effect	(15,943)	9,211
Total	¥ 38,934	¥ (27,921)
Deferred gains (losses) on derivatives under hedge accounting:		
Gains (losses) arising during the year	¥ 5,214	¥ (3,859)
Reclassification adjustments to profit or loss	143	(568)
Amount before income tax effect	5,357	(4,427)
Income tax effect	(1,267)	1,011
Total	¥ 4,090	¥ (3,416)
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ 75,617	¥ (69,568)
Reclassification adjustments to profit or loss	20	(19)
Amount before income tax effect	75,637	(69,587)
Total	¥ 75,637	¥ (69,587)
Remeasurements of defined benefit plans:		
Adjustments arising during the year	¥ 4,423	¥ (3,670)
Reclassification adjustments to profit or loss	459	202
Amount before income tax effect	4,882	(3,468)
Income tax effect	(1,698)	1,011
Total	¥ 3,184	¥ (2,457)
Share of other comprehensive income in affiliates accounted for using the equity method:		
Gains (losses) arising during the year	¥ 260	¥ (495)
Total other comprehensive income (loss)	¥ 122,105	¥ (103,876)

19. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted-Average Shares	EPS
Year Ended March 31, 2021			
Basic EPS:			
Net income available to common shareholders	¥ 156,250	292,621	¥ 533.97
Effect of dilutive securities:			
Stock options		168	
Diluted EPS:			
Net income for computation	¥ 156,250	292,789	¥ 533.66
Year Ended March 31, 2020			
Basic EPS:			
Net income available to common shareholders	¥ 170,731	292,546	¥ 583.61
Effect of dilutive securities:			
Stock options		193	
Diluted EPS:			
Net income for computation	¥ 170,731	292,739	¥ 583.22

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

   The Group's reportable segments are those for which separate financial information is available and regularly evaluated by the Company's Board of Directors in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the Air Conditioning segment and the Chemicals segment.

   The Air Conditioning segment manufactures, distributes and installs air conditioning and refrigeration equipment. The Chemicals segment manufactures and distributes chemicals.

2. Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

   The accounting policies of each reportable segment are generally consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit, assets and other items

	Reportable Segment			
	Millions of Yen, March 31, 2021			
	Air Conditioning	Chemicals	Total	Other
Sales:				
Sales to external customers	¥ 2,273,822	¥ 164,166	¥ 2,437,988	¥ 55,399
Intersegment sales	1,676	9,617	11,293	883
Total	2,275,498	173,783	2,449,281	56,282
Segment profit	223,110	11,371	234,481	4,133
Segment assets	2,477,852	272,005	2,749,857	39,747
Other:				
Depreciation	¥86,603	¥15,199	¥101,802	¥1,734
Amortization of goodwill	29,863	187	30,050	
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	14,536	8,848	23,384	
Investment in property, plant and equipment and intangible assets	92,855	42,296	135,151	1,834

	Reportable Segment			
	Millions of Yen, March 31, 2020			
	Air Conditioning	Chemicals	Total	Other
Sales:				
Sales to external customers	¥ 2,309,117	¥ 179,884	¥ 2,489,001	¥ 61,304
Intersegment sales	871	13,850	14,721	699
Total	2,309,988	193,734	2,503,722	62,003
Segment profit	236,185	23,770	259,955	5,549
Segment assets	2,228,944	239,069	2,468,013	35,297
Other:				
Depreciation	¥ 81,373	¥14,618	¥ 95,991	¥1,802
Amortization of goodwill	30,497	187	30,684	
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	13,760	9,434	23,194	
Investment in property, plant and equipment and intangible assets	101,113	28,209	129,322	2,633

Notes: 1. The Other segment is the aggregation of other operating segments which are not included in the reportable segments and consists of the Oil Hydraulics segment, the Defense segment and the Electronics segment.

2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amounted to ¥475,777 million and ¥175,010 million at March 31, 2021 and 2020, respectively, which consisted mainly of the Company's cash, time deposits and investment securities.

3. The aggregated amount of segment profit equals operating income in the consolidated statement of income.

4. Intersegment sales are recorded at values that approximate market prices.

Total	Reconciliations	Consolidated
¥ 2,493,387		¥ 2,493,387
12,176	¥ (12,176)	
2,505,563	(12,176)	2,493,387
238,614	9	238,623
2,789,604	450,059	3,239,663
¥103,536		¥103,536
30,050		30,050
23,384		23,384
136,985		136,985

Total	Reconciliations	Consolidated
¥ 2,550,305		¥ 2,550,305
15,420	¥ (15,420)	
2,565,725	(15,420)	2,550,305
265,504	9	265,513
2,503,310	164,203	2,667,513
¥ 97,793		¥ 97,793
30,684		30,684
23,194		23,194
131,955		131,955

4. Supplemental information

(1) Information about geographical areas

(a) Sales

Millions of Yen						
March 31, 2021						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥585,574	¥641,296	¥369,819	¥351,044	¥417,225	¥128,429	¥2,493,387

Millions of Yen						
March 31, 2020						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥596,978	¥666,305	¥341,284	¥395,462	¥405,611	¥144,665	¥2,550,305

Note: Sales are classified by country or region based on the physical locations of customers.

(b) Property, plant and equipment

Millions of Yen						
March 31, 2021						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥168,477	¥194,494	¥105,943	¥93,241	¥66,599	¥18,657	¥647,411

Millions of Yen						
March 31, 2020						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥165,554	¥176,687	¥80,095	¥83,741	¥58,710	¥15,194	¥579,981

(2) Significant impairment losses on long-lived assets by reportable segment

	Millions of Yen				
	March 31, 2021				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets		¥225			¥225

	Millions of Yen				
	March 31, 2020				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets	¥23,555				¥23,555

(3) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2021 and 2020 was as follows:

	Millions of Yen				
	2021				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥267,938	¥746			¥268,684

	Millions of Yen				
	2020				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥281,061	¥908			¥281,969

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

Resolutions approved by the Company's Board of Directors at the meeting held on May 11, 2021 are subject to approval at the general shareholders' meeting planned to be held on June 29, 2021.

Payment of year-end cash dividends of ¥80 per share to shareholders at March 31, 2021, totaling ¥23,412 million is to be settled.

* * * * * *

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daikin Industries, Ltd.:

Opinion

We have audited the consolidated financial statements of Daikin Industries, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

<table>
<tr><th colspan="2">Valuation of Goodwill and Intangible Assets</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As discussed in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATES" to the consolidated financial statements, goodwill, customer relationships, and other intangible assets (collectively, the "Goodwill") had carrying amounts of ¥268,684 million, ¥177,968 million, and ¥96,110 million, respectively, in the consolidated balance sheet as of March 31, 2021. The Goodwill is primarily related to Goodman Global Group Inc., AHT Cooling Systems GmbH, and OYL Industries Bhd (currently, Daikin Malaysia Sdn. Bhd., etc.).

For valuation of the Goodwill, the Group assesses whether any indication of impairment exists for the Goodwill, and then determines whether to recognize impairment losses based on the future cash flows when any indication of impairment is identified.

As the result of the valuation of the Goodwill, the Group determined that impairment losses need not be recognized.

The indication of impairment includes continuing operating losses, significant deterioration in the business environment, deviation from the business plan and other factors.

The future cash flows are estimated based on the business plan authorized by management. For the period beyond the term of the business plan, estimated future cash flows include considerations of uncertainties in the future. The significant assumptions in estimating the future cash flows are the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan. Also, the significant assumption in calculating the discounted present value of the future cash flows is the discount rate.

As the Goodwill accounts for a large portion of the consolidated balance sheet, the appropriateness of its valuation is significant to our audit. Also, estimating the future cash flows and their discounted present value involves uncertainty and requires management judgment. Therefore, we determined that the valuation of the Goodwill is a key audit matter.</td><td>Our audit procedures related to the valuation of the Goodwill, partly assisted by the auditors for such related subsidiaries under our direction and supervision, included the following, among others:

・ We tested the design and operating effectiveness of controls over the valuation of the Goodwill.

・ We assessed the reasonableness of management's determination as to whether there was an indication of impairment by performing an analysis of the historical financial performance, having discussions with management regarding changes in the business environment, comparing the actual financial performance to the business plan, and inspecting the related documents.

・ We determined whether the future cash flows and the underlying business plan authorized by management were consistent.

・ We evaluated the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan, which were the significant assumptions in estimating the future cash flows, by having discussions with management and inspecting the related documents. For the revenue growth rate, we compared the long-term market forecast for the regions where the related business was operated to available external market reports and inspected the documents related to the revenue increase measures. For the expected profit margin, we compared the profit margin used by management to the competitors' profit margin and inspected the documents related to the cost reduction measures.

・ We evaluated the reasonableness of the valuation methodology and the discount rate with assistance of our overseas network firm fair value specialists.</td></tr>
</table>

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2021