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Member, Financial Accounting Standards Foundation

Brief Report on the Settlement of Accounts (Consolidated) for the Business Year Ended March 31, 2020 (J-GAAP)

May 12, 2020

Name of Listed Company: **Daikin Industries, Ltd.** Listed on TSE
Code No.: 6367
(URL: https://www.daikin.co.jp/)
Representative: Masanori Togawa, President and CEO
Contact: Motoshi Hosomi,
General Manager of the Corporate Communication Department of the Head Office
(Tel.: +81-6-6373-4320)
Planned date of Ordinary General Meeting of Shareholders: June 26, 2020
Planned date of start of dividend payment: June 29, 2020
Planned date of the filing of securities report: June 26, 2020
Preparation of supplementary explanatory materials for the settlement of accounts: Yes
Holding briefings on the settlement of accounts: Yes (for institutional investors and analysts)

1. Consolidated Business Results for the Fiscal Year Ended March 31, 2020
(From April 1, 2019, to March 31, 2020)

(1) Consolidated Business Results

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	
Fiscal Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	2,550,305	2.8	265,513	-3.9	269,025	-2.9	170,731	-9.7
March 31, 2019	2,481,109	8.3	276,254	8.9	277,074	8.6	189,048	-0.0

Note: Comprehensive income was ¥73,322 million (-56.8%) for the fiscal year ended March 31, 2020, and ¥169,829 million (-26.4%) for the fiscal year ended March 31, 2019.

	Earnings per share	Diluted earnings per share	Ratio of earnings for the fiscal year to shareholders' equity	Ratio of ordinary profit to total assets	Operating margin
Fiscal Year ended	Yen	Yen	%	%	%
March 31, 2020	583.61	583.22	12.0	10.0	10.4
March 31, 2019	646.39	645.95	13.9	10.7	11.1

(Reference) Equity in earnings of affiliates was ¥166 million for the fiscal year ended March 31, 2020, and ¥2,118 million for the fiscal year ended March 31, 2019.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2020	2,667,512	1,462,591	53.8	4,904.46
As of March 31, 2019	2,700,890	1,446,849	52.4	4,841.15

(Reference) Equity capital was ¥1,434,968 million as of March 31, 2020, and ¥1,416,074 million as of March 31, 2019.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal Year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2020	302,166	(156,187)	(169,933)	321,151
March 31, 2019	250,009	(165,773)	(68,721)	367,189

2. Dividends

	(Annual) Dividend per share					Total cash dividends for the fiscal year (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
Fiscal Year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2019	—	70.00	—	90.00	160.00	46,800	24.8	3.5
March 31, 2020	—	80.00	—	80.00	160.00	46,811	27.4	3.3
Fiscal Year ending March 31, 2021 (forecast)	—	—	—	—	—		—	

Note: The forecast of cash dividends for the fiscal year ending March 31, 2021 have yet to be determined at this point.

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	1,070,000	-21.0	40,000	-76.2	40,000	-76.5	23,000	-80.6	78.61
Full year	2,330,000	-8.6	150,000	-43.5	150,000	-44.2	100,000	-41.4	341.78

*Notes

(1) Changes in Significant Subsidiaries during the Period: None
(Changes in specified subsidiaries resulting in change in scope of consolidation)

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

(3) Number of Shares Issued (common stock)
- (i) Number of shares issued at end of period (including treasury shares)
  - As of March 31, 2020 293,113,973 shares
  - As of March 31, 2019 293,113,973 shares
- (ii) Number of treasury shares at end of period
  - As of March 31, 2020 529,837 shares
  - As of March 31, 2019 605,740 shares
- (iii) Average number of shares outstanding during the period
  - Fiscal Year ended March 31, 2020 292,546,158 shares
  - Fiscal Year ended March 31, 2019 292,470,036 shares

(Reference) Summary of Non-Consolidated Business Results for the Fiscal Year Ended March 31, 2020 (From April 1, 2019, to March 31, 2020)

(1) Non-Consolidated Business Results

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

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	588,263	3.2	53,897	10.6	153,255	8.2	142,518	15.1
March 31, 2019	570,180	8.0	48,752	-0.4	141,634	4.4	123,870	2.4

	Earnings per share	Diluted earnings per share
Fiscal Year ended	Yen	Yen
March 31, 2020	487.16	486.84
March 31, 2019	423.53	423.24

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2020	1,420,493	843,497	59.2	2,876.43
As of March 31, 2019	1,430,855	777,493	54.2	2,652.10

(Reference) Equity capital was ¥841,611 million as of March 31, 2020, and ¥775,772 million as of March 31, 2019.

The Brief Report on the Settlement of Accounts is outside the scope of audit 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 “(4) Business Forecast for the Future” of “1. Overview of Operating Results, etc.”
- The Company plans to hold a briefing on business results (conference call) for institutional investors and analysts on Wednesday, May 13, 2020. Documents and materials distributed in this briefing will be posted on the Company’s website soon after the announcement of business results.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year Ended March 31, 2020

Looking at the overall world economy in the fiscal year ended March 31, 2020 (fiscal 2019), moderate expansion was seen during the first half of the period. The Daikin Group set "With Our 3 Structures of Collaborative Innovation, Let Each of Us Act Quickly and Decisively" (3 Structures of Collaborative Innovation: Collaborative Innovation with Customers, Collaborative Innovation with External Bodies, and Collaborative Innovation within the Group) as the slogan for its Annual Group Policy for 2019. Led by this slogan, it made all-out efforts to strengthen sales and marketing capabilities, improve product development, production, procurement and quality, enhance human resources capabilities, and reduce both fixed and variable costs in each region around the world. Furthermore, in order to respond to changes in industrial and social structures stemming from the advance of digital technologies, the Daikin Group focused on creating new products and services through two-way communication with its customers, engaging in academic-industrial collaboration in technology development, and acquiring differentiated technologies and searching for new business segments through collaboration with other members of industry, including venture capital companies.

In the fourth quarter, however, the global economy slowed sharply due to the coronavirus (COVID-19) pandemic. The U.S. economy experienced a slowdown in personal consumption and negative growth from January to March 2020. The European economy was also hit by a serious economic downturn, particularly in the automobile industry. The Chinese economy stalled due to trade friction with the United States and the impact of COVID-19. The economies of Asia and emerging countries, which are highly dependent on China, also faced a significant slowdown. The Japanese economy has entered a recessionary phase since last autumn as consumer and investment sentiment cooled due to the impact of the spread of COVID-19, in addition to the consumption tax hike against a backdrop of an increasingly slowing economy. In response to the spread of COVID-19, the Daikin Group worked to minimize the impact on its business and management including sales, production, and procurement.

The Daikin Group's net sales increased by 2.8% year over year to ¥2,550,305 million for the fiscal year under review, due in part to solid performance up to the third quarter. As for profits, operating profit decreased by 3.9% to ¥265,513 million and ordinary profit decreased by 2.9% to ¥269,025 million due partly to COVID-19. Profit attributable to owners of parent decreased by 9.7% to ¥170,731 million partly due to the effect of the recording of an impairment loss despite a gain on sales of investment securities.

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 3.9% year over year to ¥2,309,116 million. Operating profit decreased by 0.6% to ¥236,184 million.

In the Japanese commercial air-conditioning equipment market, industry demand rose year over year due to firm demand for installation of air conditioning at public elementary and middle schools. In the market for stores and offices, the Daikin Group worked to strengthen sales through measures such as expanding indoor unit variation in the "SkyAir Series" and strengthening proposals for the "machi Multi Series," multi-split type air conditioners that feature individual operation and a slim design. In the market for buildings and facilities, observing an increase in the need for work environment improvements, the Group increased sales of proposal-based products to meet user applications, including the "VRV Series," which has high energy-saving performance and installation flexibility, and "MULTI CUBE," which realizes comfortable individual air conditioning in large spaces such as factories. As a result, net sales of commercial air-conditioning systems exceeded that of the previous fiscal year.

In the Japanese residential air-conditioning equipment market, industry demand fell short of the previous fiscal year as a result of a drop in demand due to the rebound from the rush demand prompted by the consumption tax hike in September as well as a warm winter. Against this demand background, the Group marked the 20th anniversary of the launch of the "Ururu Sarara Series," which features the Group's unique water supply-free humidification technology, by expanding its product lineup with the launch of "Urusara X," which uses this technology to improve cleanliness, "Urusara mini," which is suitable for bedrooms and children's rooms, and "Ururu air purifier." Furthermore, the Group improved the value and promotion of products, including expanding the product lineup of "risora," an air conditioner combining design with functionality. Nonetheless, net sales of residential air-conditioning systems were flat year over year.

In the Americas, although the spread of COVID-19 had an impact in March, the impact on the entire year was limited, and net sales increased year over year as a whole due to the success of sales strategies in addition to strong demand. Net sales of residential air-conditioning systems rose year over year as a result of new product launches such as a mini-split in a low-cost model and "FIT," the industry's first unitary product with a side discharge inverter, and efforts to develop a new sales network and to increase selling prices. In the market for large buildings (Applied Systems), net sales increased year over year as reinforcement of the sales network and enhancement of the product lineup underpinned by strong market growth led to an increase in sales for systems mainly for rooftops and also to the expansion of the after sales service business.

In China, sales were higher than the previous fiscal year up to the third quarter thanks to the development of product and sales strategies responding to rapid changes in the market environment, taking advantage of the effects of softening raw material market conditions, and the promotion of cost reductions such as an expansion of in-house production. However, in the fourth quarter, production and sales were suspended in February due to the spread of COVID-19, and sales declined in March due to market disruption despite a recovery in production. As a result, net sales decreased from the previous fiscal year. In the residential-use market, in order to respond to changes, the Group strengthened its “PROSHOP” specialty shops by shifting sales resources mainly to the regional cities where growth is anticipated. In addition, the Group worked to expand sales of residential multi-split type air conditioners by enhancing its product lineup for the general residential market in addition to the “New Life Multi Series” aimed at the mid-range and high-end residential market. In the commercial-use market, while there was a decline in large-scale real estate investment, the Group responded to steady demand for retail properties such as restaurants and renovations of small and medium-sized properties and captured renewal demand through the introduction of “Intelligent VRV systems” that uses the Internet to connect with customers in the mature markets of big cities. In the Applied Systems air-conditioning equipment market, the Group promoted proposal-based sales in fields with growing demand, such as the field for data centers.

In Asia and Oceania, net sales for March fell year over year due to the suspension or restriction of business activities in Malaysia, the Philippines, India, and other countries as a result of governmental decrees in response to the spread of COVID-19. Meanwhile, throughout the year, the Group worked to develop independent dealer networks covering urban and regional areas and implement measures aimed at differentiating the Group from its competitors by improving its service technology strengths. As a result, net sales increased year over year for the entire region.

In Europe, net sales increased year over year as a whole. Net sales of residential air-conditioning systems increased year over year due to strong sales in the northern European regions including northern France, Belgium, the Netherlands, and Germany as a result of the summer heat wave and the reinforcement of the Group’s sales capabilities. Net sales of residential heating systems increased significantly year over year, boosted by various countries promoting heat pump hot water heating systems that are effective at reducing CO_2 emissions. Net sales of commercial air-conditioning systems also grew year over year due to the expansion of sales to stores, offices, and hotels by visiting contractors and architectural firms in each country, reinforcing ‘spec-in’ activities, strengthening project management of inquiries, and further promoting differentiated products using environmentally-conscious, recycled refrigerant and air conditioners using R32 refrigerant. However, net sales for March fell year over year as a result of restrictions on economic activity due to the announcement of state of emergency declarations and border closures in various countries in response to the spread of COVID-19 in Italy and throughout Europe.

In the Middle East and Africa, amid the economic slowdown in Dubai, which is one of the major markets, net sales in local currencies were at the same level as the previous fiscal year, led by Egypt and Saudi Arabia, which had strengthened their own sales systems. However, net sales after translation into yen decreased from the previous fiscal year due to the effect of exchange rates. In Turkey, although demand for air-conditioning systems has been sluggish due to the economic downturn following the plunge of the Turkish lira in August 2018, net sales in the local currency increased year over year due to strong sales of heating equipment. However, yen-equivalent net sales decreased year over year due to the impact of the sharp depreciation of the Turkish lira.

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

(ii) Chemicals

Overall sales of the Chemicals segment decreased by 10.4% year over year to ¥179,883 million. Operating profit decreased by 26.9% to ¥23,770 million.

The general condition regarding overall sales of fluorochemical products was harsh and affected by the decline in demand worldwide, mainly in the semiconductor and automotive fields and the downturn in the gas market in Europe, and this combined with the impact of the spread of COVID-19 from the fourth quarter.

Despite relatively strong LAN cable-related demand, net sales of fluoropolymers decreased year over year due to declining demand for semiconductor and automotive-related applications worldwide. Net sales of fluoroelastomers also decreased year over year due to the impact of falling demand in the automotive field mainly in the U.S., European, and Chinese markets.

Among specialty chemicals, net sales of anti-fouling surface coating agents fell year over year due to sluggish sales, mainly in Asia. With regard to oil and water repellents, net sales fell year over year due to stagnant demand in China and the United States. As a result of these factors, overall sales of specialty chemicals were down compared to the previous fiscal year.

As for fluorocarbon gas, the impact of the drop in sales mainly due to the accumulation of distribution inventory was significant in the European market, which was affected by the rebound following the rush demand in the previous fiscal year. As a result, overall sales of gas decreased substantially year over year.

(iii) Other Divisions

Overall sales of the "Others" segment increased by 5.4% year over year to ¥61,304 million. Operating profit decreased by 8.5% to ¥5,548 million.

Sales of oil hydraulic equipment for industrial machinery fell year over year due to stagnant demand in the Japanese, Asian, European, and U.S. markets. On the other hand, sales of oil hydraulic equipment for construction machinery and vehicles were up year over year due to robust sales to key customers in Japan.

In defense systems-related products, sales of ammunition to the Ministry of Defense rose. As a result, net sales increased year over year. Net sales of home oxygen equipment were also up year over year due to robust sales of oxygen concentrators.

In the electronics business, net sales grew year over year, as a result of strong sales of "SpaceFinder," a database system for design and development sectors in line with customer needs such as solutions for quality issues, shortened design and development periods, and support for cost reductions, as well as favorable sales of the related new product "Smart Innovator" and CG creation systems.

(2) Overview of Financial Position for the Fiscal Year Ended March 31, 2020

Total assets decreased by ¥33,378 million from the end of the previous fiscal year to ¥2,667,512 million. Current assets decreased by ¥13,177 million from the end of the previous fiscal year to ¥1,304,427 million, mainly due to a decrease in notes and accounts receivable – trade. Non-current assets decreased by ¥20,200 million from the end of the previous fiscal year to ¥1,363,085 million, primarily due to a decrease in investment securities resulting from sales.

Liabilities decreased by ¥49,119 million from the end of the previous fiscal year to ¥1,204,921 million, mainly due to a decrease in short-term borrowings. Interest bearing debt ratio fell to 20.8% from 21.7% at the end of the previous fiscal year.

Net assets increased by ¥15,741 million from the end of the previous fiscal year to ¥1,462,591 million, primarily due to an increase caused by posting of profit attributable to owners of parent.

(3) Overview of Cash Flows for the Fiscal Year Ended March 31, 2020

During the fiscal year under review, net cash provided by operating activities was ¥302,166 million, an increase of ¥52,157 million from the previous fiscal year, principally due to a decrease in the amount of increase in trade receivables. Net cash used in investing activities was ¥156,187 million, a decrease of ¥9,585 million from the previous fiscal year, primarily due to a decrease in payment for acquisition of consolidated subsidiaries. Net cash used in financing activities was ¥169,933 million, an increase of ¥101,212 million from the previous fiscal year, mainly due to a decrease in short-term borrowings. After including the effect of foreign exchange rate change to these results, net decrease in cash and cash equivalents for the fiscal year under review, amounted to ¥45,983 million, a decrease of ¥56,212 million from the previous fiscal year.

(Reference) Trends in Cash Flow Indicators

	Fiscal Year ended March 31, 2016	Fiscal Year ended March 31, 2017	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020
Equity ratio (%)	46.3	47.2	52.4	52.4	53.8
Market value equity ratio (%)	112.1	138.8	138.6	140.5	144.5
Cash flows/Interest-bearing debt ratio (years)	2.7	2.3	2.5	2.3	1.8
Interest coverage ratio (times)	25.9	26.8	20.9	21.2	25.6

Notes:

1. Equity ratio = Equity capital/Total assets
   Market value equity ratio = Aggregate market value of shares/Total assets
   Cash flows/Interest-bearing debt ratio = Interest-bearing debt/Operating cash flow
   Interest coverage ratio = Operating cash flow/Interest payment
2. Each indicator is calculated based on the consolidated financial values.
3. Aggregate market value of shares is calculated as follows: (term-end closing stock price) × (term-end number of shares issued [after deducting shares of treasury shares])
4. Operating cash flow represents the "Net cash provided by (used in) operating activities" in the consolidated statement of cash flows.
5. Interest-bearing debt indicates the liabilities for which interest is paid on all the liabilities posted in the consolidated balance sheet. Interest payment corresponds to the amount of "Interest paid" in the consolidated statement of cash flows.

(4) Business Forecast for the Future

With regard to the future world economy, due to the global spread of COVID-19, the world economy is experiencing a decline in demand and the impact of restrictions on economic activity is growing at present. Therefore, it is unclear when the spread of COVID-19 and restrictions will end and when demand will recover after they end.

In such a business environment, the Daikin Group aims to generate results that meet the targets set forth in the final year of “Fusion 20,” the Group’s strategic management plan, under the Group’s slogan for its Annual Group Policy for this year (2020), “Accelerating Our 3 Structures of Collaborative Innovation, Let Us Win in this Era of Change.” We will continue our efforts made since the previous fiscal year to expand sales of high value-added products by strengthening our sales networks and introducing new products, to strengthen our earnings capabilities in existing business by reducing overall costs, and to expand the Energy Solutions business in an effort to transform our business structure. Besides these measures, in response to the COVID-19 problem, we will implement short-term countermeasures and take advantage of this problem to strengthen and reform our corporate structure. We will further strengthen collaborative innovation and cooperation among related divisions and make decisions swiftly while increasing our speed and agility to tackle important management issues amid this difficult time to predict the outlook for the future.

Specifically, we will strengthen our global procurement, production, inventory, and logistics systems to avoid losing sales opportunities and prevent excess inventory in the face of declining demand and restrictions on logistics and production. With the aim of increasing market share by outperforming our competitors in a shrinking market, we will implement new sales measures that take advantage of our strengths in our sales network, including proactive moves, telework, and e-commerce by keeping close contact with customers and keeping abreast of market and competitor trends. We will also expand sales of air and ventilation products, develop and launch new differentiated products, and develop solutions on a global level to thoroughly capture the growing demand for air quality, ventilation, air purification, sanitization, and cleaning in which interest is growing around the world. Furthermore, based on the recognition that the air-conditioning service business is a socially significant business that supports lifelines, we will capture the growing demand for services during the economic recession and create new businesses that provide healthy and safe air by leveraging our strengths in connecting directly with customers through services. In addition to these measures, we will work to drastically reduce fixed costs, prioritize large investments, and build a financing structure.

For the fiscal year ending March 31, 2021, we forecast an 8.6% decrease in consolidated net sales to ¥2,330,000 million, with operating profit falling 43.5% to ¥150,000 million, ordinary profit decreasing 44.2% to ¥150,000 million, and profit attributable to owners of parent decreasing 41.4% to ¥100,000 million. The Daikin Group has prepared countermeasures based on four cases for degree of impact of COVID-19: a case of containment in the quarter of April to June, a case in which the impact will continue until the first half of the fiscal year, a case in which the impact will continue until the end of December, and a worst case scenario in which it will not be contained by the end of the fiscal year. While the situation differs greatly from region to region and business to business, we have prepared a plan based on the current forecast according to the actual situation for each region and business that assumes the impact will generally continue until the first half of the fiscal year. We have made a start with this plan, and we are poised to achieve a rapid V-shaped recovery in our business results depending on the degree of the impact of COVID-19 and market trends. Meanwhile, we are also prepared for the case in which the impact will continue until the end of December and the worst case scenario in which it will not be contained by the end of the fiscal year. We will flexibly respond to rapidly changing conditions and review our plan from time to time going forward.

The estimated exchange rate for the fiscal year ending March 31, 2021, is based on the assumption that US$1 equals ¥108 and 1 euro equals ¥120.

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

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

(5) Basic Policy on Profit Distribution and Dividends for the Fiscal Year Ended March 31, 2020, and the Fiscal Year Ending March 31, 2021

The Company will continue to focus on expanding its businesses while investing its assets strategically and improving its financial structure by such means as proceeding with the reduction of overall costs and enhancing its fiscal position. Through these initiatives, we are committed to being a truly global and excellent company while at the same time further improving our corporate value and enhancing profit returns to our shareholders.

Specifically, by striving to maintain a consolidated ratio of dividend to net assets (Dividend on Equity, DOE) of 3.0% while at the same time aiming for an even higher consolidated dividend payout ratio, we will introduce initiatives to further increase returns to our shareholders with the core goal of stable and continuous dividends.

Internal reserves will be applied to strategic investments in order to expand business and increase competitiveness such as reinforcing management practices, promoting global businesses, and accelerating eco-conscious product development.

For the fiscal year ended March 31, 2020, the Company has proposed an annual cash dividend of ¥160 (¥80 for the interim dividend and ¥80 for the year-end dividend).

For the fiscal year ending March 31, 2021, the Company has not yet decided on a dividend because the impact of the spread of COVID-19 cannot be foreseen. However, we expect to provide a dividend based on the Company’s dividend policy, after making every effort to ensure maximum performance. The Company will disclose the dividend forecast as soon as it becomes possible to do so.

2. Basic Stance Regarding Choice of Accounting Standards

The Daikin Group applies Japanese general accepted accounting principle (J-GAAP).

In terms of the International Financial Reporting Standards (IFRS), the difference between IFRS and J-GAAP, its potential impact on the Daikin Group and other effects are currently being studied. We will address the application of the IFRS appropriately upon taking into account various circumstances both in Japan and abroad.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	367,781	370,793
Notes and accounts receivable – trade	447,831	440,755
Merchandise and finished goods	293,445	292,579
Work in process	50,746	49,686
Raw materials and supplies	92,165	91,517
Other	74,782	69,657
Allowance for doubtful accounts	(9,147)	(10,561)
Total current assets	1,317,605	1,304,427
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	200,602	251,404
Machinery, equipment and vehicles, net	159,786	181,302
Land	43,492	54,969
Leased assets, net	1,709	2,125
Construction in progress	34,823	46,119
Other, net	42,548	44,058
Total property, plant and equipment	482,962	579,980
Intangible assets		
Goodwill	322,318	281,969
Customer relationship	189,364	169,765
Other	106,457	90,921
Total intangible assets	618,140	542,656
Investments and other assets		
Investment securities	204,950	157,328
Long-term loans receivable	1,188	1,458
Deferred tax assets	25,057	26,793
Retirement benefit asset	14,510	12,884
Other	37,810	43,189
Allowance for doubtful accounts	(1,335)	(1,206)
Total investments and other assets	282,182	240,448
Total non-current assets	1,383,285	1,363,085
Total assets	2,700,890	2,667,512

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	204,535	189,843
Short-term borrowings	136,066	48,937
Commercial papers	10,000	—
Current portion of bonds	50,000	—
Current portion of long-term borrowings	42,385	105,900
Lease obligations	1,241	17,300
Income taxes payable	25,575	19,893
Provision for bonuses for directors (and other officers)	333	300
Provision for product warranties	52,602	52,849
Accrued expenses	134,847	141,768
Other	111,228	117,163
Total current liabilities	768,815	693,957
Non-current liabilities		
Bonds payable	60,000	90,000
Long-term borrowings	275,988	233,184
Lease obligations	9,959	58,482
Deferred tax liabilities	101,956	90,087
Retirement benefit liability	11,097	13,219
Other	26,222	25,989
Total non-current liabilities	485,225	510,963
Total liabilities	1,254,040	1,204,921
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	83,649	83,898
Retained earnings	1,133,100	1,254,072
Treasury shares	(2,589)	(2,264)
Total shareholders' equity	1,299,193	1,420,739
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	57,685	29,764
Deferred gains or losses on hedges	619	(2,797)
Foreign currency translation adjustment	63,808	(5,051)
Remeasurements of defined benefit plans	(5,231)	(7,687)
Total accumulated other comprehensive income	116,881	14,228
Share acquisition rights	1,720	1,886
Non-controlling interests	29,054	25,736
Total net assets	1,446,849	1,462,591
Total liabilities and net assets	2,700,890	2,667,512

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

(Consolidated Statement of Income)

(Millions of yen)

	FY2018 (April 1, 2018, to March 31, 2019)	FY2019 (April 1, 2019, to March 31, 2020)
Net sales	2,481,109	2,550,305
Cost of sales	1,612,186	1,665,407
Gross profit	868,922	884,897
Selling, general and administrative expenses	592,668	619,384
Operating profit	276,254	265,513
Non-operating income		
Interest income	7,119	7,969
Dividend income	5,129	5,144
Share of profit of entities accounted for using equity method	2,118	166
Foreign exchange gains	—	460
Subsidy income	2,569	3,239
Other	4,311	2,731
Total non-operating income	21,249	19,712
Non-operating expenses		
Interest expenses	11,851	11,008
Foreign exchange losses	4,848	—
Other	3,729	5,192
Total non-operating expenses	20,428	16,200
Ordinary profit	277,074	269,025
Extraordinary income		
Gain on sales of land	0	658
Gain on sales of investment securities	40	10,809
Gain on insurance claims	—	255
Gain on reversal of share acquisition rights	—	24
Total extraordinary income	40	11,748
Extraordinary losses		
Loss on disposal of non-current assets	802	453
Loss on sales of land	7	—
Loss on valuation of investment securities	315	579
Impairment loss	—	23,554
Loss on disaster	679	—
Other	—	5
Total extraordinary losses	1,804	24,593
Profit before income taxes	275,310	256,180
Income taxes – current	77,606	81,132
Income taxes – deferred	2,038	(2,150)
Total income taxes	79,645	78,982
Profit	195,665	177,197
Profit attributable to non-controlling interests	6,616	6,466
Profit attributable to owners of parent	189,048	170,731

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

	FY2018 (April 1, 2018, to March 31, 2019)	FY2019 (April 1, 2019, to March 31, 2020)
Profit	195,665	177,197
Other comprehensive income		
Valuation difference on available-for-sale securities	(16,898)	(27,920)
Deferred gains or losses on hedges	(109)	(3,416)
Foreign currency translation adjustment	(8,109)	(69,586)
Remeasurements of defined benefit plans	447	(2,456)
Share of other comprehensive income of entities accounted for using equity method	(1,166)	(495)
Total other comprehensive income	(25,835)	(103,875)
Comprehensive income	169,829	73,322
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	163,450	68,079
Comprehensive income attributable to non-controlling interests	6,378	5,243

(3) Consolidated Statement of Changes in Equity

FY2018 (April 1, 2018, to March 31, 2019) (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	84,388	987,546	(2,894)	1,154,073
Changes in items during period					
Dividends of surplus			(42,407)		(42,407)
Profit attributable to owners of parent			189,048		189,048
Effect of changes in accounting period of subsidiaries			(1,087)		(1,087)
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		178		307	485
Change in ownership interest of parent due to transactions with non-controlling interests		(917)			(917)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	(739)	145,554	304	145,119
Balance at end of current period	85,032	83,649	1,133,100	(2,589)	1,299,193

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	74,586	728	72,834	(5,668)	142,479	1,510	26,258	1,324,321
Changes in items during period								
Dividends of surplus								(42,407)
Profit attributable to owners of parent								189,048
Effect of changes in accounting period of subsidiaries								(1,087)
Purchase of treasury shares								(2)
Disposal of treasury shares								485
Change in ownership interest of parent due to transactions with non-controlling interests								(917)
Net changes in items other than shareholders' equity	(16,900)	(109)	(9,025)	436	(25,598)	210	2,796	(22,591)
Total changes in items during period	(16,900)	(109)	(9,025)	436	(25,598)	210	2,796	122,528
Balance at end of current period	57,685	619	63,808	(5,231)	116,881	1,720	29,054	1,446,849

FY2019 (April 1, 2019, to March 31, 2020) (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	83,649	1,133,100	(2,589)	1,299,193
Changes in items during period					
Dividends of surplus			(49,730)		(49,730)
Profit attributable to owners of parent			170,731		170,731
Effect of changes in accounting period of subsidiaries			(28)		(28)
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		287		326	613
Change in ownership interest of parent due to transactions with non-controlling interests		(38)			(38)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	248	120,971	325	121,545
Balance at end of current period	85,032	83,898	1,254,072	(2,264)	1,420,739

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	57,685	619	63,808	(5,231)	116,881	1,720	29,054	1,446,849
Changes in items during period								
Dividends of surplus								(49,730)
Profit attributable to owners of parent								170,731
Effect of changes in accounting period of subsidiaries								(28)
Purchase of treasury shares								(1)
Disposal of treasury shares								613
Change in ownership interest of parent due to transactions with non-controlling interests								(38)
Net changes in items other than shareholders' equity	(27,920)	(3,416)	(68,859)	(2,455)	(102,652)	165	(3,317)	(105,804)
Total changes in items during period	(27,920)	(3,416)	(68,859)	(2,455)	(102,652)	165	(3,317)	15,741
Balance at end of current period	29,764	(2,797)	(5,051)	(7,687)	14,228	1,886	25,736	1,462,591

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY2018 (April 1, 2018, to March 31, 2019)	FY2019 (April 1, 2019, to March 31, 2020)
I. Cash flows from operating activities		
Profit before income taxes	275,310	256,180
Depreciation	72,323	97,802
Impairment loss	—	23,554
Amortization of goodwill	26,992	30,683
Increase (decrease) in allowance for doubtful accounts	792	1,541
Interest and dividend income	(12,249)	(13,114)
Interest expenses	11,851	11,008
Share of loss (profit) of entities accounted for using equity method	(2,118)	(166)
Loss (gain) on disposal of non-current assets	802	453
Loss (gain) on sales of investment securities	(40)	(10,809)
Loss (gain) on valuation of investment securities	315	579
Decrease (increase) in trade receivables	(37,638)	(950)
Decrease (increase) in inventories	(38,790)	(14,315)
Increase (decrease) in trade payables	8,619	(6,364)
Increase (decrease) in retirement benefit liability	(137)	2,606
Decrease (increase) in retirement benefit asset	291	1,695
Other, net	14,085	7,396
Subtotal	320,410	387,780
Interest and dividends received	12,831	13,568
Interest paid	(11,817)	(11,822)
Income taxes paid	(71,415)	(87,360)
Net cash provided by (used in) operating activities	250,009	302,166
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(85,487)	(98,094)
Proceeds from sales of property, plant and equipment	1,821	3,962
Purchase of investment securities	(1,443)	(1,594)
Proceeds from sales of investment securities	46	22,585
Purchase of shares of subsidiaries and associates	—	(141)
Payments for acquisition of businesses	(6,160)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(667)	(11,086)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	21	—
Payments for investments in capital of subsidiaries resulting in change in scope of consolidation	(67,264)	(2,103)
Proceeds from merger	48	—
Decrease (increase) in time deposits	(591)	(52,908)
Other, net	(6,095)	(16,805)
Net cash provided by (used in) investing activities	(165,773)	(156,187)

(Millions of yen)

	FY2018 (April 1, 2018, to March 31, 2019)	FY2019 (April 1, 2019, to March 31, 2020)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	100,640	(93,943)
Proceeds from long-term borrowings	—	72,688
Repayments of long-term borrowings	(118,172)	(48,195)
Proceeds from issuance of bonds	—	29,874
Redemption of bonds	—	(50,000)
Dividends paid	(42,407)	(49,730)
Dividends paid to non-controlling interests	(4,414)	(9,859)
Repayments of lease obligations	(1,520)	(20,918)
Other, net	(2,847)	151
Net cash provided by (used in) financing activities	(68,721)	(169,933)
IV. Effect of exchange rate change on cash and cash equivalents	(5,286)	(22,029)
V. Net increase (decrease) in cash and cash equivalents	10,228	(45,983)
VI. Cash and cash equivalents at beginning of period	357,027	367,189
VII. Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(47)
VIII. Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(66)	(7)
IX. Cash and cash equivalents at end of period	367,189	321,151

(5) Notes to Consolidated Financial Statements

Notes on the Premises of the Company as a "Going Concern"

None applicable

Changes in Accounting Policy

From the beginning of the fiscal year ended March 31, 2020, the overseas consolidated subsidiaries have applied "Leases" (IFRS 16, January 13, 2016; ASU 2016-02, February 25, 2016). Following the application of this accounting standard, as of March 31, 2020, "property, plant and equipment," "lease obligations" under "current liabilities" and "lease obligations" under "non-current liabilities" increased by ¥63,098 million, ¥15,951 million, and ¥48,128 million, respectively. Furthermore, ¥12,256 million of leasehold interests in land hitherto included in "other" under "intangible assets" has been included in "land" under "property, plant and equipment" from the fiscal year under review. This change does not have a significant impact on profit or loss for the fiscal year under review.

Changes in Presentation Methods

[Consolidated Statement of Cash Flows]

From the fiscal year ended March 31, 2020, "repayments of lease obligations," which had been included in "other, net" under "cash flows from financing activities" for the fiscal year ended March 31, 2019, is presented separately due to its increasing materiality. The consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified to reflect this change in presentation.

As a result, ¥(4,367) million of "other, net" presented under "cash flows from financing activities" in the Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2019 has been reclassified as ¥(1,520) million of "repayments of lease obligations" and ¥(2,847) million of "other, net."

Segment Information, etc.

[Segment Information]

1. Summary of reported segments

Reported segments of the Company are constituent units of the Company, for which separate financial statements are available and are subject to periodic review by the Board of Directors when deciding the allocation of management resources and evaluating business results.

The Company designates “Air-Conditioning and Refrigeration Equipment” and “Chemicals,” which are segmented based on similarities among products and services, as reported segments.

“Air-Conditioning and Refrigeration Equipment” is engaged in the manufacture (including installation work) and sale of air-conditioning and refrigeration equipment. “Chemicals” is engaged in the manufacture and sale of chemicals.

2. Method of calculating net sales, profit or loss, assets, liabilities and other items by reported segment

Methods of accounting procedures for reported business segments are in accordance with the accounting policies used to prepare consolidated financial statements.

Profit of reported segments is the figure based on operating profit. Intersegment profit is based on market prices.

3. Information on net sales, profit or loss, assets, liabilities and other items by reported segment

Previous fiscal year (From April 1, 2018, to March 31, 2019)

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on the Consolidated Financial Statements (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Sales to outside customers	2,222,172	200,790	2,422,963	58,145	2,481,109	—	2,481,109
Intersegment sales	714	18,123	18,837	646	19,483	(19,483)	—
Total	2,222,887	218,913	2,441,800	58,792	2,500,592	(19,483)	2,481,109
Segment profit	237,645	32,533	270,179	6,065	276,245	9	276,254
Segment asset	2,230,118	230,736	2,460,854	41,008	2,501,863	199,027	2,700,890
Other items							
Depreciation	57,166	13,488	70,654	1,667	72,321	—	72,321
Amortization of goodwill	26,792	200	26,992	—	26,992	—	26,992
Investments in entities accounted for using equity method	13,552	10,096	23,648	—	23,648	—	23,648
Increase in property, plant and equipment, and intangible assets	68,982	15,913	84,895	2,266	87,161	—	87,161

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

2. The breakdown of adjustment is as follows:

(1) The adjustment of ¥9 million to segment profit comprises the elimination of intersegment transactions.

(2) The adjustment of ¥199,027 million to segment assets includes corporate assets not allocated to each reported segment of ¥211,636 million and ¥(12,609) million of intersegment transaction elimination. Corporate assets mainly consist of surplus funds for management (cash and deposits) and long-term investment funds (investment securities) of the Company.

3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

Current fiscal year (From April 1, 2019, to March 31, 2020)

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on the Consolidated Financial Statements (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Sales to outside customers	2,309,116	179,883	2,489,000	61,304	2,550,305	—	2,550,305
Intersegment sales	870	13,850	14,721	698	15,419	(15,419)	—
Total	2,309,987	193,734	2,503,721	62,003	2,565,724	(15,419)	2,550,305
Segment profit	236,184	23,770	259,955	5,548	265,503	9	265,513
Segment asset	2,228,944	239,068	2,468,012	35,297	2,503,310	164,202	2,667,512
Other items							
Depreciation	81,373	14,618	95,991	1,801	97,792	—	97,792
Amortization of goodwill	30,496	187	30,683	—	30,683	—	30,683
Investments in entities accounted for using equity method	13,760	9,434	23,194	—	23,194	—	23,194
Increase in property, plant and equipment, and intangible assets	101,112	28,209	129,322	2,632	131,954	—	131,954

Notes: 1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related product business, and the electronics business.
2. The breakdown of adjustment is as follows:
(1) The adjustment of ¥9 million to segment profit comprises the elimination of intersegment transactions.
(2) The adjustment of ¥164,202 million to segment assets includes corporate assets not allocated to each reported segment of ¥175,010 million and ¥(10,807) million of intersegment transaction elimination. Corporate assets mainly consist of surplus funds for management (cash and deposits) and long-term investment funds (investment securities) of the Company.
3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

[Relevant Information]
Previous fiscal year (From April 1, 2018, to March 31, 2019)

1. Information by product and by service
Information by product and by service is omitted, as segmentation of products and services is the same as that of reported segments.

2. Information by geographical segment
(1) Net sales

(Millions of yen)

Japan	U.S.	Europe	Asia and Oceania	China	Other	Total
585,106	625,041	366,670	387,092	379,628	137,570	2,481,109

Note: Net sales are classified based on countries or regions where respective customers are located.

(2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	Asia and Oceania	China	Europe	Other	Total
161,703	134,542	61,802	70,656	44,606	9,651	482,962

3. Information by principal customers
None applicable

Current fiscal year (From April 1, 2019, to March 31, 2020)

1. Information by product and by service
   Information by product and by service is omitted, as segmentation of products and services is the same as that of reported segments.

2. Information by geographical segment
   (1) Net sales

(Millions of yen)

Japan	U.S.	Europe	Asia and Oceania	China	Other	Total
596,978	666,305	405,610	395,461	341,284	144,665	2,550,305

Note: Net sales are classified based on countries or regions where respective customers are located.

   (2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	Asia and Oceania	China	Europe	Other	Total
165,554	176,687	83,740	80,095	58,709	15,194	579,980

3. Information by principal customers
   None applicable

[Information Related to Impairment Loss of Non-current Assets by Reported Segment]
Previous fiscal year (From April 1, 2018, to March 31, 2019)
None applicable

Current fiscal year (From April 1, 2019, to March 31, 2020)

(Millions of yen)

	Air-Conditioning and Refrigeration Equipment	Chemicals	Others	Corporate or eliminations	Total
Impairment loss	23,554	—	—	—	23,554

[Information Related to Amount of Amortization of Goodwill and Unamortized Balance by Reported Segment]
Previous fiscal year (From April 1, 2018, to March 31, 2019)

(Millions of yen)

	Air-Conditioning and Refrigeration Equipment	Chemicals	Others	Corporate or eliminations	Total
Balance at end of current period	321,182	1,136	—	—	322,318

Note: Amount of amortization of goodwill is omitted, as similar information is disclosed in segment information.

Current fiscal year (From April 1, 2019, to March 31, 2020)

(Millions of yen)

	Air-Conditioning and Refrigeration Equipment	Chemicals	Others	Corporate or eliminations	Total
Balance at end of current period	281,060	908	—	—	281,969

Note: Amount of amortization of goodwill is omitted, as similar information is disclosed in segment information.

[Information Related to Gain on Bargain Purchase by Reported Segment]
Previous fiscal year (From April 1, 2018, to March 31, 2019)
No important items applicable.

Current fiscal year (From April 1, 2019, to March 31, 2020)
No important items applicable.

[Impairment Loss]
In the fiscal year ended March 31, 2020, the Company recorded an impairment loss of ¥23,554 million on goodwill and customer relationship of Flanders Holdings LLC, its consolidated subsidiary.
Flanders Holdings LLC, which manufactures and sells filter and clean equipment, has been performing below the business plan formulated at the time of the acquisition. Consequently, upon reinforcing its production and sales structures and conservatively revising its medium-term business plan, the book value has been reduced to the recoverable value.

Per Share Information

(Yen)

Item	Previous fiscal year (April 1, 2018, to March 31, 2019)	Current fiscal year (April 1, 2019, to March 31, 2020)
Net assets per share	4,841.15	4,904.46
Earnings per share	646.39	583.61
Diluted earnings per share	645.95	583.22

Notes:
1. The basis for calculations of earnings per share and diluted earnings per share is provided below.

Item	Previous fiscal year (April 1, 2018, to March 31, 2019)	Current fiscal year (April 1, 2019, to March 31, 2020)
Earnings per share		
Profit attributable to owners of parent (Millions of yen)	189,048	170,731
Amount not belonging to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent related to common stock (Millions of yen)	189,048	170,731
Average number of shares of common stock during the year (Thousands of shares)	292,470	292,546
Diluted earnings per share		
Increase in the number of shares of common stock (Thousands of shares)	197	193
[Of the above, stock options by exercising share acquisition rights] (Thousands of shares)	[197]	[193]
Overview of residual securities excluded from the calculation of diluted earnings per share, as they have no dilutive effect	—	—

2. The basis for calculations of net assets per share is provided below.

Item	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Total net assets (Millions of yen)	1,446,849	1,462,591
Deduction from total net assets (Millions of yen)	30,775	27,623
[Of the above, share acquisition rights] (Millions of yen)	[1,720]	[1,886]
[Of the above, non-controlling interests] (Millions of yen)	[29,054]	[25,736]
Shareholders' equity pertaining to common stock at the end of the fiscal year (Millions of yen)	1,416,074	1,434,968
Number of shares of common stock used to calculate net assets per share (Thousands of shares)	292,508	292,584

Significant Subsequent Events

None applicable