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Member, Financial Accounting Standards Foundation

Brief Report on the Settlement of Accounts (Consolidated) for the Nine Months Ended December 31, 2017 (J-GAAP)

February 14, 2018

Name of Listed Company: **Daikin Industries, Ltd.** Listed on TSE
Code No.: 6367
(URL: http://www.daikin.co.jp/)
Representative: Masanori Togawa, President and CEO
Contact: Motoshi Hosomi,
General Manager of the Corporate Communication Department of the Head Office
(Tel.: +81-6-6373-4320)
Planned date of the filing of quarterly report: February 14, 2018
Planned date of start of dividend payment: —
Preparation of supplementary explanatory materials for the settlement of accounts for the third quarter: Yes
Holding briefings on the settlement of accounts for the third quarter: Yes (for institutional investors and analysts)

1. Consolidated Business Results for the Nine Months Ended December 31, 2017

(From April 1, 2017, to December 31, 2017)

(1) Consolidated Business Results (Accumulated)

Note: Amounts less than one million yen are truncated.
Percentages indicate year-over-year increases/decreases.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2017	1,722,440	13.3	201,173	8.0	204,281	8.5	153,937	22.8
December 31, 2016	1,520,572	-2.0	186,273	11.8	188,209	14.3	125,369	17.4

Note: Comprehensive income was ¥246,519 million (85.7%) for the nine months ended December 31, 2017, and ¥132,734 million (99.5%) for the nine months ended December 31, 2016.

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2017	526.46	526.09
December 31, 2016	429.10	428.78

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2017	2,588,634	1,338,384	50.7
As of March 31, 2017	2,356,148	1,135,609	47.2

(Reference) Equity capital was ¥1,313,076 million as of December 31, 2017, and ¥1,111,636 million as of March 31, 2017.

2. Dividends

	(Annual) Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended March 31, 2017	—	60.00	—	70.00	130.00
Fiscal Year ending March 31, 2018	—	65.00	—		
Fiscal Year ending March 31, 2018 (forecast)				65.00	130.00

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

3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2018
(From April 1, 2017, to March 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	2,270,000	11.1	250,000	8.3	249,000	7.8	184,000	19.5	629.23

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

*Notes

(1) Changes in Significant Subsidiaries during the Nine Months Ended December 31, 2017: None

(2) Adoption of Accounting Treatment Specific to Quarterly Consolidated Financial Statement Preparation: Yes

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

(4) Number of Shares Issued (common stock)
- (i) Number of shares issued at end of period (including treasury shares)
  - As of December 31, 2017 293,113,973 shares
  - As of March 31, 2017 293,113,973 shares
- (ii) Number of treasury shares at end of period
  - As of December 31, 2017 694,875 shares
  - As of March 31, 2017 739,660 shares
- (iii) Average number of shares outstanding during the nine months
  - Nine months ended December 31, 2017 292,401,128 shares
  - Nine months ended December 31, 2016 292,165,733 shares

The Brief Report on the Settlement of Accounts is outside the scope of quarterly review.

Explanation about the Appropriate Use of the Business Forecast and Other Noteworthy Points

- The business forecasts are based on information currently available to Daikin Industries, Ltd. (the "Company") and certain assumptions that are deemed reasonable. Actual results may differ significantly from these forecasts. For the basis of presumption of the business forecast and the notes on its use, please refer to "(3) Explanation of Future Forecast Information Such as Consolidated Business Forecast" of "1. Qualitative Information Regarding Settlement of Accounts for the Period under Review."
- The Company plans to hold a briefing on business results (conference call) for institutional investors and analysts on Wednesday, February 14, 2018. Documents and materials for this briefing will be posted on the Company's website soon after the announcement of business results.

Content of Attachment

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

(1) Explanation of Operating Results

Looking at the overall world economy in the nine months ended December 31, 2017 (from April 1, 2017, to December 31, 2017), expansion continued steadily. The U.S. economy was strong due to solid personal consumption and expanding capital investment, while vigorous personal consumption underpinned the European economy. The emerging economies saw continuing stable growth overall as exports recovered due to economic expansion in developed countries. The Chinese economy also grew steadily amid expansion of infrastructure investment and exports. Turning to the Japanese economy, the employment environment improved while personal consumption and capital investment continued on a recovery track.

In such a business environment, the Daikin Group, with the aim of producing results for the second year of "Fusion 20," the Group's strategic management plan that set fiscal 2020 as its target fiscal year, has made group-wide efforts to further expand sales, reduce costs, and enhance product competitiveness, among other measures. Also, in order to overcome negative factors including the rising raw materials market, the Group worked to expand net sales and profit through efforts including expanding sales of major air-conditioning products in each region around the world and expanding sales in the Chemicals segment related to growing demand for semiconductor-related applications.

The Daikin Group's net sales increased by 13.3% year over year to ¥1,722,440 million for the nine months ended December 31, 2017. As for profits, operating profit increased by 8.0% to ¥201,173 million, and ordinary profit increased by 8.5% to ¥204,281 million. Profit attributable to owners of parent increased by 22.8% to ¥153,937 million, partly due to the decrease in income taxes resulting from tax revisions in the United States.

Results by business segment are as follows:

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment increased by 13.0% year over year to ¥1,557,344 million. Operating profit increased by 5.0% to ¥180,662 million.

In the Japanese commercial air-conditioning equipment market, industry demand rose year over year, reflecting robust capital investment and new construction. The Daikin Group captured demand in the market for air conditioners with its new lineup of "machi Multi," multi-split type room air conditioners for stores and offices that offer individual operation and a slim design, and the SkyAir series including its mainstay product "Eco-ZEAS." In addition, multi-split type room air conditioners for buildings captured strong replacement demand in office buildings and manufacturing industries, and net sales increased year over year.

In the Japanese residential air-conditioning equipment market, industry demand had been strong in the first half of the fiscal year owing to the heat wave in the first half of the summer, and it continued to perform firmly in the third quarter and increased year over year. The Daikin Group made efforts to expand sales for its room air conditioner "Urusara 7," an energy-saving, high value-added product, and for models in the mid-price range. Consequently, net sales exceeded that of the same period of the previous fiscal year.

In the Americas, net sales increased year over year in the region as a whole due to successful sales strategies, in addition to firm demand. Despite the impact of hurricanes, net sales of residential air-conditioning systems rose year over year as a result of efforts to expand and intensify the sales network. Net sales grew year over year in the light commercial air-conditioning systems for medium-sized office buildings as a result of implementing sales strategies for each series and route of multi-split type room air conditioners for buildings. In the market for large buildings (Applied Systems), net sales grew year over year thanks to expanded sales of Applied Systems, mainly chillers and rooftops equipped with inverters. This was backed by a higher demand than the same period of the previous fiscal year. Sales also grew in the after sales service business and in Central and South America.

In China, where personal consumption and private-sector demand remained firm, the Group expanded sales in all regions and for all products, focusing on retail sales, and net sales rose year over year. Despite the impact of rising raw material prices, operating profit also grew year over year as a result of promoting cost reductions including a shift to internal production of parts and improvement of productivity. In the residential-use market, the Group focused on its own specialty "PROSHOPs" and strengthened its proposal and installation capabilities to expand sales by cultivating promising markets mainly in the mid-range and high-end residential market with the "New Life Multi Series," residential multi-split type room air conditioners that propose new lifestyles for customers. In the commercial-use market, the Group expanded sales focusing on the "VRV-X" series, commercial multi-split type room air conditioners that offer high energy-saving performance and design flexibility. By proposing original systems that meet diverse customer needs and introducing new products, the Group captured a broad range of markets from buildings to general stores and from new construction to replacement. Furthermore, the Group worked to increase inquiries by enhancing 'spec-in' activities for architectural firms and developers. In the Applied Systems air-conditioning equipment market, the Group expanded sales by increasing finely tuned sales activities in projects ranging from large to small- to medium-scale through enhancement of the product lineup and reinforcement of the after sales service business.

In Asia and Oceania, net sales were up year over year in the region as a whole. Although second and third quarter net sales of residential air-conditioning systems in Southeast Asia exceeded those of the same period of the previous fiscal year, net sales for the nine months ended December 31, 2017, remained flat year over year in the local currency due to a decline in sales in the first quarter caused by unseasonable weather. Meanwhile, net sales of commercial air-conditioning systems in Southeast Asia rose year over year due to factors such as the expansion of dealer networks. In India, net sales of both residential air-conditioning systems and commercial air-conditioning systems increased significantly year over year mainly due to the expansion of dealer networks.

In Europe, net sales rose year over year due to sales growth particularly for commercial air-conditioning systems and heating systems amid a strong economy. Sales of residential air-conditioning systems in the third quarter were favorable, backed by the strong economy, and the business environment in Italy, which is the largest market, has improved due to optimization of distribution inventory and other factors. However, net sales for the nine months ended December 31, 2017, were down year over year in the local currency because net sales in the first half fell below that of the same period of the previous fiscal year. In commercial air-conditioning systems, efforts to further strengthen dealer networks were successful, and sales of systems for stores grew in major European countries. In particular, new products with a new refrigerant (R32) for small stores contributed to sales expansion. Moreover, in addition to expanded sales of heat pump hot water heating systems in major European countries, sales of combustion type heating equipment grew significantly, including in Southern Europe. As a result, net sales increased substantially year over year.

In the Middle East and Africa, net sales increased year over year in the region as a whole, as a result of boosting orders for large-scale private-sector projects in Dubai and progress in expanding orders for small projects through reinforced dealer networks. This was despite the impact of decreases and delays in projects owing to tightened public investment in the Middle East amid stagnation of crude oil prices. Egypt, where sales are expanding, and the Applied Systems business, where sales also expanded due to the effect of new products, have contributed significantly to the increase in net sales in the region. In Turkey, net sales increased substantially year over year due to sales growth for both residential air-conditioning systems and commercial air-conditioning systems.

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

(ii) Chemicals

Overall sales of the Chemicals segment increased by 18.6% year over year to ¥130,499 million. Operating profit increased by 45.1% year over year to ¥17,844 million.

Overall sales of fluoropolymers rose substantially year over year, despite the decline in demand for LAN cable applications in the U.S. market, thanks to robust demand for semiconductor-related applications mainly in Japan, China, and Asia. As for fluoroelastomers, sales also increased substantially year over year on the strength of robust demand in automotive fields in each region around the world.

Turning to oil and water repellents among specialty chemicals, net sales rose significantly year over year due to progress in switchovers to new products in China and other Asian regions. Sales of anti-fouling surface coating agents fell year over year, reflecting a decrease in sales to major customers in China. Sales of etchant for cleaning semiconductors increased significantly year over year due to sales growth in Asia where related demand was favorable. As a result, overall sales of specialty chemicals were up compared to the same period of the previous fiscal year.

As for fluorocarbon gas, overall sales of gas increased substantially year over year as a result of price revisions in Europe in response to soaring raw material prices and tight supply-demand balance. This was in addition to growth in sales for after sales service in the Americas.

(iii) Other Divisions

Overall sales of the “Others” segment rose by 7.5% year over year to ¥34,597 million. Operating profit increased by 41.6% year over year to ¥2,659 million.

Sales of oil hydraulic equipment for industrial machinery grew year over year, backed by strong performance in the Japanese and U.S. markets. Sales of oil hydraulic equipment for construction machinery and vehicles increased year over year on the strength of robust sales to key customers in Japan and the United States.

In defense systems-related products, sales of ammunitions and components for guided missiles to the Ministry of Defense were down year over year. Sales of home oxygen equipment remained flat year over year.

In the electronics business, net sales remained flat year over year, reflecting progress in product development to match customer needs such as global quality control and shorter design and development periods in database systems for design and development sectors, which are mainstay products.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets increased by ¥232,485 million from the end of the previous fiscal year to ¥2,588,634 million. Current assets increased by ¥146,202 million from the end of the previous fiscal year to ¥1,306,087 million, mainly due to an increase in cash and deposits. Non-current assets increased by ¥86,282 million from the end of the previous fiscal year to ¥1,282,546 million, primarily due to an increase in investment securities associated with market value variation.

Liabilities increased by ¥29,709 million from the end of the previous fiscal year to ¥1,250,249 million, mainly due to an increase in commercial papers. Interest bearing debt ratio fell to 24.5% from 25.9% at the end of the previous fiscal year.

Net assets increased by ¥202,775 million from the end of the previous fiscal year to ¥1,338,384 million, primarily due to an increase caused by posting of profit attributable to owners of parent.

(ii) Cash Flows

During the nine months ended December 31, 2017, net cash provided by operating activities was ¥191,552 million, a decrease of ¥28,335 million from the same period of the previous fiscal year, principally due to an increase in income taxes paid. Net cash used in investing activities was ¥93,929 million, a decrease of ¥7,542 million from the same period of the previous fiscal year, primarily due to a decrease in payment for acquisition of consolidated subsidiaries. Net cash used in financing activities was ¥22,873 million, an increase of ¥25,182 million from the same period of the previous fiscal year, due mainly to a decrease in the amount of increase in short-term loans payable. After including the effect of foreign exchange rate change to these results, net increase in cash and cash equivalents for the nine months ended December 31, 2017, amounted to ¥97,946 million, a decrease of ¥21,437 million from the same period of the previous fiscal year.

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

In light of the most recent trend in business results and the enactment of the Tax Cuts and Jobs Act in the United States, the Group revised the business forecast announced on November 7, 2017, as below.

In and after the fourth quarter of the fiscal year ending March 31, 2018, we will aim to achieve the targets set for fiscal 2018 in “Fusion 20,” the Group’s strategic management plan, by continuing to overcome the negative impact of the rising raw materials market through efforts such as expanding global sales in each region and proceeding with the reduction of overall costs. Additionally, the Company intends to maintain the trend of increased sales and profits and to strive for further growth and development in the medium to long term while investing its assets strategically.

(Reference) Consolidated Business Forecast for the Fiscal Year Ending March 31, 2018
(From April 1, 2017, to March 31, 2018)

(Millions of yen except for per share amounts and percentages)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Earnings per share (Yen)
Previous forecasts (A)	2,270,000	250,000	249,000	165,000	564.28
Revised forecasts (B)	2,270,000	250,000	249,000	184,000	629.23
Increase/decrease (B-A)	—	—	—	19,000	—
Increase/decrease (%)	—	—	—	11.5	—
(Reference) Results for the fiscal year ended March 31, 2017	2,043,968	230,769	231,013	153,938	526.81

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.

- Drastic changes in demand and supply for products or in the political and economic situations in the major markets of Japan, Europe, the United States, China, and other Asian countries
- Fluctuations in demand for air-conditioning equipment due to unseasonable weather
- Drastic changes in the exchange rates (especially the U.S. dollar and euro rates)
- Serious problems related to quality and manufacturing
- Substantial fluctuations in the market value of securities held by the Company
- Impairment of non-current assets
- Natural disasters

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2016 (As of March 31, 2017)	Third Quarter of FY2017 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	344,093	442,040
Notes and accounts receivable – trade	369,061	385,448
Merchandise and finished goods	249,487	263,893
Work in process	42,249	51,372
Raw materials and supplies	66,565	78,508
Other	96,642	94,376
Allowance for doubtful accounts	(8,216)	(9,552)
Total current assets	1,159,884	1,306,087
Non-current assets		
Property, plant and equipment	424,527	451,345
Intangible assets		
Goodwill	330,876	328,484
Other	206,087	216,317
Total intangible assets	536,963	544,802
Investments and other assets		
Investment securities	185,251	234,349
Other	50,258	52,904
Allowance for doubtful accounts	(735)	(854)
Total investments and other assets	234,773	286,399
Total non-current assets	1,196,264	1,282,546
Total assets	2,356,148	2,588,634
Liabilities		
Current liabilities		
Notes and accounts payable – trade	173,147	176,562
Short-term loans payable	57,699	50,794
Commercial papers	—	62,000
Current portion of bonds	10,000	—
Current portion of long-term loans payable	67,177	78,145
Income taxes payable	27,769	23,682
Provision for product warranties	49,750	52,170
Other	241,132	250,696
Total current liabilities	626,676	694,052
Non-current liabilities		
Bonds payable	110,000	110,000
Long-term loans payable	353,292	321,743
Net defined benefit liability	11,939	10,454
Other	118,631	113,999
Total non-current liabilities	593,863	556,197
Total liabilities	1,220,539	1,250,249

(Millions of yen)

	FY2016 (As of March 31, 2017)	Third Quarter of FY2017 (As of December 31, 2017)
Net assets		
Shareholders' equity		
Capital stock	85,032	85,032
Capital surplus	84,544	84,711
Retained earnings	837,968	952,432
Treasury shares	(3,160)	(2,969)
Total shareholders' equity	1,004,385	1,119,206
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	53,041	83,493
Deferred gains or losses on hedges	(119)	1,101
Foreign currency translation adjustment	61,037	115,644
Remeasurements of defined benefit plans	(6,707)	(6,369)
Total accumulated other comprehensive income	107,251	193,870
Subscription rights to shares	1,079	1,529
Non-controlling interests	22,893	23,778
Total net assets	1,135,609	1,338,384
Total liabilities and net assets	2,356,148	2,588,634

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

(Consolidated Statement of Income)

For the Nine Months Ended December 31 (Millions of yen)

	First Nine Months of FY2016 (April 1, 2016, to December 31, 2016)	First Nine Months of FY2017 (April 1, 2017, to December 31, 2017)
Net sales	1,520,572	1,722,440
Cost of sales	968,318	1,115,373
Gross profit	552,253	607,067
Selling, general and administrative expenses	365,980	405,893
Operating profit	186,273	201,173
Non-operating income		
Interest income	4,827	5,081
Dividend income	3,524	4,254
Share of profit of entities accounted for using equity method	622	2,023
Other	2,593	3,489
Total non-operating income	11,568	14,848
Non-operating expenses		
Interest expenses	7,220	8,062
Foreign exchange losses	—	265
Other	2,411	3,412
Total non-operating expenses	9,631	11,740
Ordinary profit	188,209	204,281
Extraordinary income		
Gain on sales of land	4	32
Gain on sales of investment securities	—	1
Gain on sales of shares of subsidiaries and associates	48	—
Total extraordinary income	53	34
Extraordinary losses		
Loss on disposal of non-current assets	468	320
Loss on valuation of investment securities	—	0
Other	0	2
Total extraordinary losses	468	322
Profit before income taxes	187,795	203,992
Income taxes	57,511	45,091
Profit	130,283	158,901
Profit attributable to non-controlling interests	4,914	4,963
Profit attributable to owners of parent	125,369	153,937

(Consolidated Statement of Comprehensive Income)

For the Nine Months Ended December 31

(Millions of yen)

	First Nine Months of FY2016 (April 1, 2016, to December 31, 2016)	First Nine Months of FY2017 (April 1, 2017, to December 31, 2017)
Profit	130,283	158,901
Other comprehensive income		
Valuation difference on available-for-sale securities	6,395	30,450
Deferred gains or losses on hedges	2,227	1,221
Foreign currency translation adjustment	(4,824)	55,272
Remeasurements of defined benefit plans	1,313	340
Share of other comprehensive income of entities accounted for using equity method	(2,661)	334
Total other comprehensive income	2,450	87,617
Comprehensive income	132,734	246,519
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	128,235	240,556
Comprehensive income attributable to non-controlling interests	4,498	5,962

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Nine Months of FY2016 (April 1, 2016, to December 31, 2016)	First Nine Months of FY2017 (April 1, 2017, to December 31, 2017)
I. Cash flows from operating activities		
Profit before income taxes	187,795	203,992
Depreciation	43,486	49,604
Amortization of goodwill	18,938	21,344
Increase (decrease) in allowance for doubtful accounts	2,061	741
Interest and dividend income	(8,352)	(9,335)
Interest expenses	7,220	8,062
Share of (profit) loss of entities accounted for using equity method	(622)	(2,023)
Loss (gain) on disposal of non-current assets	468	320
Loss (gain) on sales of investment securities	—	(1)
Loss (gain) on valuation of investment securities	—	0
Decrease (increase) in notes and accounts receivable – trade	16,447	3,968
Decrease (increase) in inventories	(17,544)	(19,859)
Increase (decrease) in notes and accounts payable – trade	(3,335)	(6,413)
Increase (decrease) in net defined benefit liability	190	(2,273)
Decrease (increase) in net defined benefit asset	16	(359)
Other, net	9,552	4,908
Subtotal	256,322	252,676
Interest and dividend income received	8,489	9,831
Interest expenses paid	(7,479)	(8,175)
Income taxes paid	(37,445)	(62,780)
Net cash provided by (used in) operating activities	219,887	191,552
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(65,707)	(62,979)
Proceeds from sales of property, plant and equipment	1,424	1,944
Purchase of investment securities	(107)	(5,449)
Proceeds from sales of investment securities	5	3
Purchase of shares of subsidiaries and associates	—	(108)
Purchase of investments in capital of subsidiaries and associates	—	(2,405)
Proceeds from transfer of business	—	368
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(10,586)	(17,359)
Payments for investments in capital of subsidiaries resulting in change in scope of consolidation	(22,452)	(3,735)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	705	—
Other, net	(4,754)	(4,208)
Net cash provided by (used in) investing activities	(101,472)	(93,929)

(Millions of yen)

	First Nine Months of FY2016 (April 1, 2016, to December 31, 2016)	First Nine Months of FY2017 (April 1, 2017, to December 31, 2017)
III. Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	74,781	51,695
Proceeds from long-term loans payable	39,030	45,180
Repayments of long-term loans payable	(54,642)	(67,052)
Proceeds from issuance of bonds	9,946	—
Redemption of bonds	(30,000)	(10,000)
Cash dividends paid	(36,518)	(39,473)
Dividends paid to non-controlling interests	(131)	(1,709)
Proceeds from share issuance to non-controlling shareholders	233	—
Other, net	(391)	(1,514)
Net cash provided by (used in) financing activities	2,308	(22,873)
IV. Effect of exchange rate change on cash and cash equivalents	(1,340)	23,197
V. Net increase (decrease) in cash and cash equivalents	119,383	97,946
VI. Cash and cash equivalents at beginning of period	291,205	344,093
VII. Cash and cash equivalents at end of period	410,589	442,040

(4) Notes to Consolidated Financial Statements

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

None applicable

Notes on Significant Changes in Shareholders' Equity

None applicable

Adoption of Accounting Treatment Specific to Quarterly Consolidated Financial Statement Preparation

[Calculation of tax expenses]

The Company and some of its consolidated subsidiaries, reasonably estimate the effective income tax rate after the adoption of tax-effect accounting for profit before income taxes for the consolidated fiscal year ending March 31, 2018, and multiply profit before income taxes for the reporting period by the estimated effective tax rate. However, if as a result of the computation using the estimated effective income tax rate lacks rationality to a remarkable extent, the Company adopts the method of using the legal effective tax rate.

Additional Information

[Impact of the change in income tax rates, etc. in the United States]

The Tax Cuts and Jobs Act was enacted in the United States on December 22, 2017 (local time) which mainly featured the reduction of federal income tax rates. In accordance with this change, deferred tax assets and deferred tax liabilities have been calculated using the legal effective tax rate based on the revised tax rates. As a result, income taxes recorded for the nine months ended December 31, 2017 decreased by ¥19,111 million.

Segment Information, etc.

I. For the nine months ended December 31, 2016 (From April 1, 2016, to December 31, 2016)

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

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Sales to outside customers	1,378,402	109,991	1,488,394	32,177	1,520,572	—	1,520,572
Intersegment sales	185	8,961	9,146	336	9,482	(9,482)	—
Total	1,378,588	118,952	1,497,540	32,514	1,530,055	(9,482)	1,520,572
Segment profit	172,086	12,294	184,380	1,877	186,258	15	186,273

Notes: 1. The "Others" segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related product business, and the electronics business.
2. The adjustment of ¥15 million to segment profit comprises the elimination of intersegment transactions.
3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

2. Information related to impairment loss of non-current assets and goodwill by reported segment

(Significant impairment loss of non-current assets)

None applicable

(Significant change in goodwill amount)

None applicable

(Significant gain on bargain purchase)

None applicable

II. For the nine months ended December 31, 2017 (From April 1, 2017, to December 31, 2017)

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

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Sales to outside customers	1,557,344	130,499	1,687,843	34,597	1,722,440	—	1,722,440
Intersegment sales	472	11,620	12,093	289	12,382	(12,382)	—
Total	1,557,816	142,119	1,699,936	34,886	1,734,823	(12,382)	1,722,440
Segment profit	180,662	17,844	198,507	2,659	201,166	6	201,173

Notes: 1. The “Others” segment is a business segment not included in reported segments. It includes the oil hydraulic equipment business, the defense systems-related product business, and the electronics business.
2. The adjustment of ¥6 million to segment profit comprises the elimination of intersegment transactions.
3. Segment profit is adjusted with operating profit in the Consolidated Statement of Income.

2. Information related to impairment loss of non-current assets and goodwill by reported segment

(Significant impairment loss of non-current assets)

None applicable

(Significant change in goodwill amount)

None applicable

(Significant gain on bargain purchase)

None applicable