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Brief Report on the Settlement of Accounts (Consolidated) for the Nine Months Ended December 31, 2022 (J-GAAP)

February 7, 2023

Name of Listed Company: **Daikin Industries, Ltd.** Listed on TSE
Code No.: 6367
(URL: https://www.daikin.co.jp/)
Representative: Masanori Togawa, President and CEO
Contact: Motoshi Hosomi,
General Manager of the Corporate Communication Department of the Head Office
(Tel.: +81-6-6147-9925)
Planned date of the filing of quarterly report: February 8, 2023
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, 2022

(From April 1, 2022, to December 31, 2022)

(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, 2022	2,985,667	29.7	303,757	17.1	299,255	12.3	208,952	16.9
December 31, 2021	2,301,939	25.0	259,501	33.4	266,435	36.1	178,723	38.8

Note: Comprehensive income was ¥271,319 million (14.9%) for the nine months ended December 31, 2022, and ¥236,071 million (37.8%) for the nine months ended December 31, 2021.

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	713.87	713.44
December 31, 2021	610.68	610.33

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	4,174,178	2,196,809	51.6
As of March 31, 2022	3,823,998	2,008,109	51.5

(Reference) Equity capital was ¥2,154,566 million as of December 31, 2022, and ¥1,969,686 million as of March 31, 2022.

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, 2022	—	90.00	—	110.00	200.00
Fiscal Year ending March 31, 2023	—	100.00	—		
Fiscal Year ending March 31, 2023 (forecast)				120.00	220.00

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

3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2023
(From April 1, 2022, to March 31, 2023)

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	3,910,000	25.8	372,000	17.6	358,000	9.3	235,000	7.9	802.91

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

*Notes

(1) Changes in Significant Subsidiaries during the Nine Months Ended December 31, 2022: Yes
(Changes in specified subsidiaries resulting in change in scope of consolidation)
Newly included: 1 company (Daikin Air Conditioning (Huizhou) Co., Ltd.)

(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, 2022	293,113,973 shares
	As of March 31, 2022	293,113,973 shares
(ii)	Number of treasury shares at end of period	
	As of December 31, 2022	392,644 shares
	As of March 31, 2022	429,774 shares
(iii)	Average number of shares outstanding during the nine months	
	Nine Months Ended December 31, 2022	292,703,477 shares
	Nine Months Ended December 31, 2021	292,661,855 shares

The Brief Report on the Settlement of Accounts is outside the scope of quarterly review by a certified public accountant or an audit corporation.

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

- The business forecasts are based on information currently available to Daikin Industries, Ltd. (the "Company") and certain assumptions that are deemed reasonable. Actual results may differ significantly from these forecasts. For the basis of presumption of the business forecast and the notes on its use, please refer to "(3) Explanation of Future Forecast Information Such as Consolidated Business Forecast" of "1. Qualitative Information Regarding Settlement of Accounts for the Period under Review."
- The Company plans to hold a briefing on business results for institutional investors and analysts on Tuesday, February 7, 2023. Documents and materials distributed in this briefing will be posted on the Company's website by the time that the briefing starts.

Content of Attachment

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

(1) Explanation of Operating Results

In the nine months ended December 31, 2022 (from April 1, 2022, to December 31, 2022), the overall world economy showed signs of recovery in various countries as restrictions on economic activities eased. However, the prolonged Russia-Ukraine situation, global inflation, and rapid interest rate hikes implemented by numerous countries increased uncertainty about the future. In the U.S. economy, the favorable employment and income environment, brisk personal consumption of savings accrued during the COVID-19 pandemic, and increased energy-related exports supported the economy despite the drag placed on it from the ongoing high inflation rate. In the European economy, soaring energy prices and interest rate hikes following the prolonged Russia-Ukraine situation brought about a clear economic slowdown. In Asia and emerging countries, rapidly rising inflation exerted downward pressure on the economy, but the economy gradually recovered due to a resumption of personal consumption from the easing of activity restrictions, the recovery of services exports, and strong product exports. In the Chinese economy, consumption and investment sentiment waned because of the prolonged zero-COVID policy, whereas exports fell due to a slowdown in the economies of Europe and the United States, and activity restrictions caused lower factory operation rates, creating an even greater sense of stagnation in economic activity. The Japanese economy was supported by active personal consumption due to the easing of activity restrictions, robust capital investment, and increased exports and production due to the easing of supply constraints.

To complete the strategic management plan "Fusion 25" formulated in the fiscal year ended March 31, 2022, the Daikin Group is working on measures under nine key themes, including the three growth strategy themes of "Challenge to achieve carbon neutrality," "Promotion of solutions business connected with customers," and "Creating value with air."

Under this business environment, we strived to minimize the impact of environmental changes on our business activities while further expanding our sales and profitability in regions and businesses with strong performance by closely following the progress of each region and business and responding to issues flexibly. Specifically, we continued and strengthened our efforts for the following themes.

- Promote sales price policies by introducing differentiated products that are recognized for their value by the market and customers
- Strengthen sales and marketing capabilities in each business segment, including commercial air-conditioning equipment
- Promote variable cost reduction to cope with deteriorating raw material market conditions and soaring resource prices
- Implement logistics efficiency improvement measures to cope with further sharp rises in logistics expenses
- Streamline fixed costs while remaining attentive to both aggressive investment and improved profitability
- Strengthen procurement and supply capabilities over the medium term, with a view to the next fiscal year and beyond
- Accelerate generation of results and profitability from large-scale capital investments

In addition, we have taken changes in the world as opportunities to build a strong corporate structure and generate results by setting challenging themes that will lead to the next leap forward by leveraging the Group's strengths, such as accelerating the achievement of carbon neutrality and utilizing digital technology.

The Daikin Group's net sales increased by 29.7% year over year to ¥2,985,667 million for the nine months ended December 31, 2022. As for profits, operating profit increased by 17.1% to ¥303,757 million, ordinary profit increased by 12.3% to ¥299,255 million, and profit attributable to owners of parent increased by 16.9% to ¥208,952 million.

Operating results by business segment are as follows:

(i) Air-Conditioning and Refrigeration Equipment

Overall sales of the Air-Conditioning and Refrigeration Equipment segment increased by 29.9% year over year to ¥2,733,235 million. Operating profit increased by 13.3% to ¥266,169 million.

In the Japanese air-conditioning equipment market, there were moves toward a rally in capital investment as economic activity recovered, and commercial market demand rose year on year. On the other hand, residential market demand fell year on year as a result of the supply constraints from lockdowns in China and a rebound from last year's high demand from people staying at home. Against this backdrop, the Group strengthened its proposals in order to meet rising demand for energy-saving equipment, strove to maintain supply stability by building a robust supply chain, and worked to expand sales. In the commercial air-conditioning equipment market, we have increased proposals that provide both energy cost reductions and air quality improvement by combining the Group's air-conditioning systems, such as the "FIVE STAR ZEAS" and "VRV X" series with their high energy-saving performance, and the Group's ventilation and disinfection products, such as the "Heat Reclaim Ventilator" total heat exchanger unit and "UV Streamer Disinfection Unit." As a result of these efforts, net sales of commercial air-conditioning systems rose year over year. In the residential air-conditioning equipment market, we have strengthened our approach to users by leveraging our unique product appeal of room air conditioners including "Urusara X," which is equipped with proprietary functions such as waterless humidification, air supply ventilation, and exhaust air ventilation, along with "risora," an air conditioner in which close attention was paid to design, and we have enhanced the appeal of our energy-saving equipment to meet growing demand driven by rising electricity prices. As a result of these efforts, sales of residential air-conditioning systems exceeded those of the same period of the previous year.

In the Americas, production and sales remained strong due to efforts to improve productivity despite problems such as tight supply for some models due to parts shortages. Market share for residential air-conditioning systems remained strong due to a strengthening of supply capabilities and sales efforts such as customer development. This was despite stagnating growth in industry demand from prolonged inflation and rising housing loan interest rates. Net sales were significantly higher year over year due to efforts to strengthen the sales network through acquisitions and the implementation of pricing policies. In the market for large buildings (Applied Systems), net sales significantly increased year over year amid strong market conditions due to the sales expansion of air-conditioning systems, where sales exceeded market growth rates, expansion of the after sales service business, and addition of sales channels from the newly acquired sales companies.

In China, the Group's production and logistics were suspended in April and May due to a lockdown in Shanghai, leading to a delay in product supply and lower sales. However, following the lifting of the lockdown in June, production and logistics quickly resumed operation in full capacity, and sales for the first half of the fiscal year rose year over year. In the second half of the fiscal year, strict activity restrictions aimed at combatting the spread of COVID-19 were followed by a sudden surge in new cases when China abandoned its zero-COVID policy in December. Factors such as these resulted in sluggish sales activity during the third quarter (October to December); however, due in part to the favorable effects of the exchange rate, overall net sales rose year over year. In terms of profits, slowing sales affected profits, but the Group maintained the high level of profit that it has achieved to date by expanding sales of high value-added products and working to reduce costs and curb fixed costs. In the residential air-conditioning equipment market, the Group focused its efforts on acquiring new business inquiry information amid the limitations on customer visits by strengthening online sales utilizing customer centers and live broadcasts. Customers are increasingly concerned about air and environmental issues, and we strengthened our lineup of indoor air quality (IAQ) and ventilation-related products, energy consumption visualization products, and system products including heat pump hot water heating systems which help accelerate society's progress toward achieving carbon neutrality. In the commercial air-conditioning equipment market, the Group expanded customer contact points by leveraging ventilation and cleaning and captured demand for replacement and additional purchase of equipment. By taking the promotion of carbon neutrality policies as an opportunity in the large-scale projects market, the Group provided proposals such as energy solutions and air quality improvements, and in the factory market, the Group strengthened its proposals for power reduction using energy-saving air-conditioning systems. In the Applied Systems air-conditioning equipment market, the Group shifted management resources to growth fields such as infrastructure and semiconductor-related and also strengthened the repair and maintenance business.

In Asia and Oceania during the third quarter (October to December), sales remained strong in India, buoyed by economic growth, but reduced consumer spending prompted by inflation in each country, unseasonable weather, and other factors caused a slight slowdown in residential air-conditioning system sales. However, as COVID-19 activity restrictions were eased, sales remained strong for commercial air-conditioning systems, where progress has been made in alleviating project delays. As a result of maintaining a stable supply of product despite tight supplies of electronic components and other parts, together with the implementation of pricing policies in each country, overall net sales were higher year over year for both residential use and commercial use.

In Europe, the business environment remained challenging due to various problems including soaring energy prices and high inflation resulting from the deteriorating Russia-Ukraine situation, and tight supply of components from China due to COVID-19. However, overall net sales were higher year over year as a result of strengthened cooperation among production, sales, and supply divisions and efforts to enhance the sales and marketing capabilities of individual sales companies. In residential air-conditioning systems, the appeal of heating products was emphasized, primarily in Germany and France, during the third quarter (October to December), when heating use is high. Sales of high-end products with exceptional energy-saving performance were expanded, and sales of residential air-conditioning systems increased year over year. In residential heat pump hot water heating systems, sales maintained an expansionary trend, driven by demand for replacements of gas and oil boilers that was supported by subsidy programs backed by the Green Deal policies of various national governments. To maximize the capture of demand, we strengthened our sales capabilities, including dealer development and support for subsidy applications, expanded our product lineup, and enhanced production and supply capabilities at our nearest factories. As a result of these efforts, net sales of residential heating systems were significantly higher year over year. In commercial air-conditioning systems, we steadily captured one-time pent-up demand for offices, stores, and the like in conjunction with the easing of COVID-19 activity restrictions put in place by various countries. The recovery in demand slowed from the second quarter onward due to hikes in interest rates by the European Central Bank, but we maximized sales by thoroughly following up on inquiries. As a result, net sales of commercial air-conditioning systems were higher year over year. In the refrigeration business, the business environment declined due to caution among food chain supermarkets to invest in new stores and renovations, and net sales were lower year over year.

In the Middle and Near East and Africa, net sales significantly increased year over year, led by strengthened sales in Saudi Arabia, Egypt, and Qatar. In Turkey, net sales were significantly higher year over year due to expanded sales on the strength of quick delivery in commercial air-conditioning systems with the start of local production.

In the filter business, the gradual demand recovery trend continued. In the United States, sales grew significantly as a result of efforts to expand business for high-end commercial applications, development of new customers through direct sales to users, and sales expansion and pricing policies through the active use of distributors acquired in August. In Europe, sales were strong in high-end markets due to steadily growing demand for energy conservation and air quality improvement. This was despite recessionary factors such as energy restrictions, record rise in prices of goods, and increased interest rates. In Asia, sales fell due to the economic slowdown resulting from China's zero-COVID policy and the disruptions caused by rising infection rates when the policy was discontinued, but within Japan, sales of high-performance filters for the semiconductor market remained strong. The gas turbine and dust collection systems business also benefited from ongoing strong sales of special filters for offshore oil fields, and net sales of the filter business overall were significantly higher year over year.

In the marine vessels business, marine container refrigeration units were affected by the impact of lockdowns in China and sales declined in April and May due to a decrease in production caused by parts shortages and logistics disruptions. As the impact of this sales decline was significant, unit sales declined year over year. However, due to factors such as an increase in sales of marine vessel air conditioners and refrigeration units, net sales of the marine vessels business overall increased year over year.

(ii) Chemicals

Overall sales of the Chemicals segment increased by 25.2% year over year to ¥193,910 million. Operating profit increased by 61.5% to ¥32,710 million.

Overall sales of fluorochemical products were significantly higher year over year due to robust demand in a wide range of fields, particularly semiconductors and automobiles, and the implementation of pricing policies against the backdrop of soaring raw material prices.

Net sales of fluoropolymers increased year over year due to strong global demand for semiconductor and automotive-related applications. Net sales of fluoroelastomers were also significantly higher year over year due to strong demand, especially in the automotive field, and the implementation of pricing policies against the backdrop of soaring raw material prices.

Among specialty chemicals, demand for semiconductor etching agents remained strong, despite stagnant demand for anti-fouling surface coating agents and oil and water repellents. As a result, overall net sales of specialty chemicals increased year over year.

As for fluorocarbon gas, net sales were significantly higher year over year due to the implementation of pricing policies in response to soaring raw material prices.

(iii) Other Divisions

Overall sales of the "Others" segment increased by 35.3% year over year to ¥58,522 million. Operating profit increased by 11.6% to ¥4,897 million.

In the oil hydraulic equipment business, net sales of oil hydraulic equipment for industrial machinery increased year over year due to increased sales in the Japanese market, especially for machine tools, as well as increased sales to Europe and the United States contributed by the company acquired at the fiscal year under review. In addition, net sales of oil hydraulic equipment for construction machinery and vehicles increased year on year due to increased sales to the Japanese and U.S. markets.

In the defense systems-related product business, sales of oxygen concentrators and pulse oximeters (medical devices that can easily measure blood oxygen saturation without blood collection) decreased from the falloff in demand fueled by the COVID-19 pandemic, whereas sales for ammunition to the Ministry of Defense increased, and net sales increased year over year.

In the electronics business, 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 sales of "Smart Innovator," remained strong due to increased IT investments by large companies in promoting digital transformation (DX). However, net sales decreased year over year due to decreased sales of CG creation software for the game market.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets increased by ¥350,179 million from the end of the previous fiscal year to ¥4,174,178 million. Current assets increased by ¥191,661 million from the end of the previous fiscal year to ¥2,357,285 million, mainly due to an increase in merchandise and finished goods. Non-current assets increased by ¥158,517 million from the end of the previous fiscal year to ¥1,816,892 million, primarily due to an increase in goodwill and the effect of foreign exchange rates resulting from yen depreciation.

Liabilities increased by ¥161,480 million from the end of the previous fiscal year to ¥1,977,369 million, mainly due to an increase in short-term borrowings. Interest bearing debt ratio fell to 21.5% from 21.6% at the end of the previous fiscal year.

Net assets increased by ¥188,699 million from the end of the previous fiscal year to ¥2,196,809 million, primarily due to the recording of profit attributable to owners of parent.

(ii) Cash Flows

During the nine months ended December 31, 2022, net cash provided by operating activities was ¥124,598 million, a decrease of ¥94,215 million from the same period of the previous fiscal year, principally due to an increase in inventories. Net cash used in investing activities was ¥183,411 million, an increase of ¥41,252 million from the same period of the previous fiscal year, primarily due to an increase in purchase of shares of subsidiaries. Net cash used in financing activities was ¥75,082 million, a decrease of ¥15,472 million from the same period of the previous fiscal year, mainly due to an increase 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 nine months ended December 31, 2022, amounted to ¥131,172 million, a decrease of ¥135,358 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 business results of the nine months ended December 31, 2022, and the changes in the business environment, the business forecast, which was previously announced on November 8, 2022, has been revised as follows.

The global economy for the fourth quarter onward is becoming more uncertain due to ongoing geopolitical risks in Europe, rising energy costs, accelerating inflation, and rising interest rates in countries around the world.

Against this backdrop, the Group will refine its accumulated strengths and respond flexibly and proactively to changes that occur one after another. We will continue our efforts to achieve carbon neutrality in society as a whole, expand sales by taking advantage of growing energy-saving needs, aggressively introduce differentiated products, and maximize variable cost reductions by replacing materials and standardizing key components, aiming to further increase sales and profits and strengthen our corporate structure.

The estimated exchange rate from the fourth quarter onward is based on the assumption that US$1 equals ¥125 and 1 euro equals ¥130.

Revisions to Consolidated Business Forecast for the Fiscal Year Ending March 31, 2023
(From April 1, 2022, to March 31, 2023)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Earnings per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecasts (A)	3,760,000	363,000	358,000	235,000	802.91
Revised forecasts (B)	3,910,000	372,000	358,000	235,000	802.91
Increase/decrease (B – A)	150,000	9,000	—	—	—
Increase/decrease (%)	4.0	2.5	—	—	—
(Reference) Results for the fiscal year ended March 31, 2022	3,109,106	316,350	327,496	217,709	743.88

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

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

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2021 (As of March 31, 2022)	Third Quarter of FY2022 (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	817,619	668,379
Notes and accounts receivable – trade, and contract assets	595,076	639,674
Merchandise and finished goods	450,974	615,896
Work in process	44,931	72,138
Raw materials and supplies	175,556	241,351
Other	98,392	138,155
Allowance for doubtful accounts	(16,928)	(18,311)
Total current assets	2,165,623	2,357,285
Non-current assets		
Property, plant and equipment	743,364	833,951
Intangible assets		
Goodwill	270,467	306,578
Other	307,820	346,758
Total intangible assets	578,288	653,337
Investments and other assets		
Investment securities	200,187	182,820
Other	137,811	148,123
Allowance for doubtful accounts	(1,275)	(1,339)
Total investments and other assets	336,722	329,603
Total non-current assets	1,658,374	1,816,892
Total assets	3,823,998	4,174,178
Liabilities		
Current liabilities		
Notes and accounts payable – trade	302,621	327,375
Short-term borrowings	97,376	290,050
Commercial papers	—	140,000
Current portion of bonds payable	30,000	20,000
Current portion of long-term borrowings	334,528	46,620
Income taxes payable	36,745	30,046
Provision for product warranties	72,443	79,818
Other	432,523	491,170
Total current liabilities	1,306,239	1,425,081
Non-current liabilities		
Bonds payable	120,000	140,000
Long-term borrowings	140,526	142,292
Retirement benefit liability	16,116	18,066
Other	233,006	251,928
Total non-current liabilities	509,649	552,287
Total liabilities	1,815,888	1,977,369

(Millions of yen)

	FY2021 (As of March 31, 2022)	Third Quarter of FY2022 (As of December 31, 2022)
Net assets		
Shareholders' equity		
Share capital	85,032	85,032
Capital surplus	83,834	79,265
Retained earnings	1,530,107	1,664,322
Treasury shares	(1,846)	(1,689)
Total shareholders' equity	1,697,128	1,826,931
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	59,534	51,803
Deferred gains or losses on hedges	3,436	(2,137)
Foreign currency translation adjustment	212,278	281,958
Remeasurements of defined benefit plans	(2,691)	(3,988)
Total accumulated other comprehensive income	272,558	327,635
Share acquisition rights	2,546	3,138
Non-controlling interests	35,876	39,103
Total net assets	2,008,109	2,196,809
Total liabilities and net assets	3,823,998	4,174,178

(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 FY2021 (April 1, 2021, to December 31, 2021)	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)
Net sales	2,301,939	2,985,667
Cost of sales	1,503,355	1,986,786
Gross profit	798,583	998,881
Selling, general and administrative expenses	539,082	695,123
Operating profit	259,501	303,757
Non-operating income		
Interest income	5,951	8,480
Dividend income	4,435	5,109
Share of profit of entities accounted for using equity method	1,280	1,436
Foreign exchange gains	—	2,423
Other	5,131	5,874
Total non-operating income	16,798	23,324
Non-operating expenses		
Interest expenses	6,574	13,170
Settlement payments	—	4,228
Inflation accounting adjustment	—	6,347
Foreign exchange losses	1,198	—
Other	2,092	4,079
Total non-operating expenses	9,864	27,826
Ordinary profit	266,435	299,255
Extraordinary income		
Gain on sale of land	302	—
Gain on sale of investment securities	180	7,490
Gain on sale of investments in capital of subsidiaries and associates	201	—
Gain on liquidation of subsidiaries and associates	18	101
Gain on reversal of share acquisition rights	—	5
Total extraordinary income	703	7,597
Extraordinary losses		
Loss on disposal of non-current assets	365	774
Loss on sale of land	65	10
Loss on valuation of investment securities	334	343
Loss on liquidation of subsidiaries and associates	—	93
Loss on restructuring of subsidiaries and associates	—	190
Loss on disaster	912	—
Other	—	0
Total extraordinary losses	1,677	1,413
Profit before income taxes	265,460	305,439
Income taxes	80,560	89,872
Profit	184,899	215,567
Profit attributable to non-controlling interests	6,176	6,614
Profit attributable to owners of parent	178,723	208,952

(Consolidated Statement of Comprehensive Income)

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

	First Nine Months of FY2021 (April 1, 2021, to December 31, 2021)	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)
Profit	184,899	215,567
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,357)	(7,732)
Deferred gains or losses on hedges	1,186	(5,574)
Foreign currency translation adjustment	47,722	67,754
Remeasurements of defined benefit plans	1,770	(1,302)
Share of other comprehensive income of entities accounted for using equity method	1,851	2,607
Total other comprehensive income	51,172	55,752
Comprehensive income	236,071	271,319
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	228,557	264,029
Comprehensive income attributable to non-controlling interests	7,514	7,289

(3) Consolidated Statement of Cash Flows

(Millions of yen)

	First Nine Months of FY2021 (April 1, 2021, to December 31, 2021)	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)
I. Cash flows from operating activities		
Profit before income taxes	265,460	305,439
Depreciation	85,206	105,688
Amortization of goodwill	24,163	29,087
Increase (decrease) in allowance for doubtful accounts	2,273	822
Interest and dividend income	(10,387)	(13,590)
Interest expenses	6,574	13,170
Share of loss (profit) of entities accounted for using equity method	(1,280)	(1,436)
Loss (gain) on disposal of non-current assets	365	774
Loss (gain) on sale of investment securities	(180)	(7,490)
Loss (gain) on valuation of investment securities	334	343
Decrease (increase) in trade receivables	(20,652)	(8,240)
Decrease (increase) in inventories	(106,912)	(219,539)
Increase (decrease) in trade payables	21,393	6,123
Increase (decrease) in accounts payable - other	(6,694)	(16,647)
Increase (decrease) in accrued expenses	36,020	39,759
Increase (decrease) in retirement benefit liability	138	1,078
Decrease (increase) in retirement benefit asset	(4,574)	(794)
Other, net	(881)	(7,583)
Subtotal	290,366	226,965
Interest and dividends received	10,491	14,830
Interest paid	(6,733)	(13,021)
Income taxes paid	(75,310)	(104,175)
Net cash provided by (used in) operating activities	218,814	124,598
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(83,479)	(118,200)
Proceeds from sale of property, plant and equipment	4,182	6,073
Purchase of investment securities	(1,056)	(1,481)
Proceeds from sale of investment securities	218	16,300
Proceeds from sale of investments in capital of subsidiaries and associates	2,021	—
Purchase of shares of subsidiaries and associates	—	(909)
Proceeds from sale of businesses	437	—
Payments for acquisition of businesses	(2,029)	(5,496)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(14,552)	(63,987)
Payments for investments in capital of subsidiaries resulting in change in scope of consolidation	(15,164)	(14,388)
Decrease (increase) in time deposits	(11,456)	17,191
Other, net	(21,280)	(18,512)
Net cash provided by (used in) investing activities	(142,159)	(183,411)

(Millions of yen)

	First Nine Months of FY2021 (April 1, 2021, to December 31, 2021)	First Nine Months of FY2022 (April 1, 2022, to December 31, 2022)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	47,693	331,435
Proceeds from long-term borrowings	15,216	62,612
Repayments of long-term borrowings	(70,881)	(381,599)
Proceeds from issuance of bonds	—	39,837
Redemption of bonds	(10,000)	(30,000)
Dividends paid	(49,767)	(61,485)
Proceeds from share issuance to non-controlling shareholders	1,585	1,652
Dividends paid to non-controlling interests	(2,546)	(1,476)
Repayments of lease liabilities	(20,793)	(30,257)
Other, net	(1,063)	(5,801)
Net cash provided by (used in) financing activities	(90,555)	(75,082)
IV. Effect of exchange rate change on cash and cash equivalents	18,086	2,722
V. Net increase (decrease) in cash and cash equivalents	4,185	(131,172)
VI. Cash and cash equivalents at beginning of period	662,267	717,802
VII. Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(1,586)	(570)
VIII. Cash and cash equivalents at end of period	664,866	586,059

(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, 2023, and multiply profit before income taxes for the reporting period by the estimated effective tax rate. However, if as a result of the computation using the estimated effective income tax rate lacks rationality to a remarkable extent, the Company adopts the method of using the legal effective tax rate.

Additional Information

[Application of practical solution on the accounting and disclosure under the group tax sharing system]

The Company and some domestic consolidated subsidiaries transitioned from the consolidated taxation system to the group tax sharing system from the first quarter of the fiscal year ending March 31, 2023. Accordingly, the Company and some domestic consolidated subsidiaries comply with the treatment prescribed in "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021, hereinafter the "Practical Solution No. 42") regarding the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting. Additionally, the changes in accounting policies in conjunction with the application of the Practical Solution No. 42, in accordance with paragraph 32 (1) of the Practical Solution No. 42, are deemed to have no effect.

[Accounting estimates related to the impact of COVID-19]

There are no significant changes to the presumption related to the impact of COVID-19 stated in Additional Information of the securities report for the fiscal year ended March 31, 2022.

[Application of hyperinflationary accounting to Turkish subsidiaries]

As Turkey's cumulative inflation rate over the previous three years has exceeded 100%, from the beginning of the first quarter of the fiscal year ending March 31, 2023, the Group has consolidated the financial statements of Turkish subsidiaries upon adjustment in accordance with International Accounting Standard 29 (IAS 29) "Financial Reporting in Hyperinflationary Economies." As a result, the cumulative impact of the application of this accounting standard has been reflected as a decrease of ¥13,070 million in the balance of retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2023. Additionally, the effect of inflation on the net monetary position of the Group for the nine months ended December 31, 2022, is presented as "inflation accounting adjustment" under "non-operating expenses."

Revenue Recognition

Information on disaggregate revenue from contracts with customers is as stated in "(4) Notes to Consolidated Financial Statements (Segment Information, etc.)" of "2. Consolidated Financial Statements and Primary Notes."

Segment Information, etc.

[Segment Information]
I. For the nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)
1. Information on net sales and profit or loss amounts by reported segment and information on disaggregate revenue

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Japan	390,793	41,839	432,632	34,399	467,032	—	467,032
U.S.	578,891	29,034	607,925	5,579	613,505	—	613,505
Europe	372,520	23,934	396,455	666	397,122	—	397,122
Asia and Oceania	280,091	19,093	299,185	788	299,974	—	299,974
China	359,670	39,231	398,902	1,621	400,523	—	400,523
Other	121,865	1,708	123,574	206	123,781	—	123,781
Revenue from contracts with customers	2,103,833	154,842	2,258,675	43,263	2,301,939	—	2,301,939
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	2,103,833	154,842	2,258,675	43,263	2,301,939	—	2,301,939
Intersegment sales	1,232	9,095	10,328	804	11,132	(11,132)	—
Total	2,105,065	163,938	2,269,004	44,067	2,313,071	(11,132)	2,301,939
Segment profit	234,862	20,258	255,121	4,390	259,511	(10)	259,501

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 ¥(10) 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, 2022 (From April 1, 2022, to December 31, 2022)

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

(Millions of yen)

	Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Statement of Income (Note 3)
	Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Net sales							
Japan	410,805	51,458	462,264	41,348	503,613	—	503,613
U.S.	919,305	42,426	961,731	7,929	969,660	—	969,660
Europe	462,731	30,146	492,877	5,229	498,106	—	498,106
Asia and Oceania	404,370	25,207	429,578	1,635	431,214	—	431,214
China	369,931	42,856	412,787	1,771	414,558	—	414,558
Other	166,090	1,815	167,906	607	168,513	—	168,513
Revenue from contracts with customers	2,733,235	193,910	2,927,145	58,522	2,985,667	—	2,985,667
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	2,733,235	193,910	2,927,145	58,522	2,985,667	—	2,985,667
Intersegment sales	1,713	16,804	18,518	1,207	19,726	(19,726)	—
Total	2,734,949	210,715	2,945,664	59,729	3,005,393	(19,726)	2,985,667
Segment profit	266,169	32,710	298,879	4,897	303,777	(19)	303,757

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 ¥(19) 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