



## Brief Report on the Settlement of Accounts (Consolidated) for the Business Year Ended March 31, 2014 (J-GAAP)

May 8, 2014

Name of Listed Company: **Daikin Industries, Ltd.**

Listed on TSE

Code No.: 6367

(URL: <http://www.daikin.co.jp/>)

Representative: Masanori Togawa, President and COO

Contact: Susumu Okano,

Senior Executive Officer and 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 27, 2014

Planned date of start of dividend payment: June 30, 2014

Planned date of the filing of securities report: June 27, 2014

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, 2014

(From April 1, 2013, to March 31, 2014)

#### (1) Consolidated Business Results

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ended						
March 31, 2014	1,783,077	38.1	155,075	75.0	154,108	63.7
March 31, 2013	1,290,903	5.9	88,627	9.2	94,145	15.2

Note: Comprehensive income was ¥182,421 million (38.4%) for the fiscal year ended March 31, 2014, and ¥131,767 million (389.0%) for the fiscal year ended March 31, 2013.

	Net income		Net income per share	Diluted net income per share	Ratio of net income for the fiscal year to shareholders' equity	Ratio of ordinary income to total assets	Operating margin
	Millions of yen	%	Yen	Yen	%	%	%
Fiscal Year ended							
March 31, 2014	91,880	110.8	315.21	314.83	12.9	8.2	8.7
March 31, 2013	43,584	5.9	149.73	149.71	7.8	6.5	6.9

(Reference) Equity in earnings of affiliates was ¥1,652 million for the fiscal year ended March 31, 2014, and ¥1,063 million for the fiscal year ended March 31, 2013.

#### (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, 2014	2,012,530	824,348	39.9	2,749.76
As of March 31, 2013	1,735,836	635,996	35.6	2,123.10

(Reference) Equity capital was ¥802,343 million at the end of the fiscal year ended March 31, 2014, and ¥618,118 million at the end of the fiscal year ended March 31, 2013.

### (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, 2014	179,713	(80,834)	(38,249)	257,295
March 31, 2013	103,160	(218,386)	143,520	185,571

### 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, 2013	—	18.00	—	18.00	36.00	10,480	24.0	1.9
March 31, 2014	—	23.00	—	27.00	50.00	14,584	15.9	2.1
Fiscal Year ending March 31, 2015 (forecast)	—	40.00	—	30.00	70.00		20.8	

Note: Dividend per share for the 2Q-end of the fiscal year ending March 31, 2015 (forecast) consists of an ordinary dividend of ¥30 and a commemorative dividend of ¥10 for the Company's 90th anniversary.

### 3. Consolidated Business Forecast for the Fiscal Year Ending March 31, 2015

(From April 1, 2014, to March 31, 2015)

Note: Percentages indicate year-over-year increases/decreases for the corresponding first-half and full-year periods.

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	1,020,000	10.7	100,000	10.2	98,000	9.5	64,000	9.7	219.34
Full year	1,980,000	11.0	170,000	9.6	166,000	7.7	98,000	6.7	335.86

#### \*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

Note: For details, see on page 21 of the attached "(5) Notes to the Consolidated Financial Statements (Changes in Accounting Policy)" of "4. Consolidated Financial Statements."

#### (3) Number of Shares Issued (common stock)

- (i) Number of shares issued at end of period (including treasury shares)
  - As of March 31, 2014 293,113,973
  - As of March 31, 2013 293,113,973
- (ii) Number of shares of treasury shares at end of period
  - As of March 31, 2014 1,326,704
  - As of March 31, 2013 1,974,043
- (iii) Average number of shares outstanding during the period
  - As of March 31, 2014 291,484,588
  - As of March 31, 2013 291,089,302

(Reference) Summary of Non-Consolidated Business Results for the Fiscal Year Ended March 31, 2014  
(From April 1, 2013, to March 31, 2014)

(1) Non-Consolidated Business Results

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ended						
March 31, 2014	499,168	7.9	21,653	76.7	43,448	21.8
March 31, 2013	462,748	3.6	12,254	109.8	35,674	0.6

	Net income		Net income per share	Diluted net income per share
	Millions of yen	%	Yen	Yen
Fiscal Year ended				
March 31, 2014	41,845	49.0	143.56	143.38
March 31, 2013	28,088	34.5	96.49	96.48

(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, 2014	1,265,430	431,058	34.0	1,474.40
As of March 31, 2013	1,140,071	377,509	33.0	1,292.05

(Reference) Shareholders' equity was ¥430,216 million at the end of the fiscal year ended March 31, 2014, and ¥376,174 million at the end of the fiscal year ended March 31, 2013.

**Presentation of Implementation Status of Audit Procedures**

- This Brief Report on the Settlement of Accounts is not subject to audit procedures pursuant to the Financial Instruments and Exchange Act, and audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act had not been completed at the time of the disclosure of this Brief Report on the Settlement of Accounts.

**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 "(1) Analysis of Operating Results (Business Forecast for the Next Fiscal Year)" of "1. Analysis of Operating Results and Financial Position."
- The Company plans to hold a briefing on business results for institutional investors and analysts on Friday, May 9, 2014. Documents and materials distributed in this briefing will be posted on the Company's website soon after the release of the settlement of accounts.

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# 1. Analysis of Operating Results and Financial Position

## (1) Analysis of Operating Results

### Overview of the Fiscal Year

Looking at the overall world economy in fiscal 2013, the U.S. economy showed a gradual recovery, buoyed by strong consumer spending and a strong housing market. Some of the factors putting downward pressure on the European economy included budget austerity, high unemployment, and weak economies in Southern Europe. The emerging economies slowed down slightly.

The Japanese economy recovered slightly. Both corporate profits and capital investment improved, and the economic and fiscal policies of the government and Bank of Japan were effective. Consumer spending was particularly strong, due to an uptick in demand ahead of the consumption tax hike.

In such a business environment, the Daikin Group set its New Year's Slogan for 2013 as "Keep on Challenging with Confidence in Our Path and Potential." Fiscal 2013 marks the midpoint of our strategic management plan, "Fusion 15," with fiscal 2015 set as its target year. The Group pushed forward with initiatives aimed at further growth, including expanding sales in the Japanese air-conditioner market, expanding business in the emerging countries such as China and Asia in particular, and strengthening its business base in North America. We also implemented a group-wide, united initiative to substantially improve profitability.

The Daikin Group reports increases in sales and profits for the fiscal year under review. This was due in large part to strong sales in our mainstay Air-Conditioning and Refrigeration Equipment segment in Japan, China, Asia, and other regions, as well as an increase in the yen-equivalent as a result of the weakening yen. In addition, there were contributions from the U.S. company Goodman Group, which was acquired in November 2012, as its net sales and income were newly consolidated from the first quarter. As a result, the Daikin Group's consolidated net sales increased by 38.1% year over year to ¥1,783,077 million, which was our highest-ever recorded level. We also had record operating and ordinary income; consolidated operating income increased by 75.0% to ¥155,075 million, and consolidated ordinary income increased by 63.7% to ¥154,108 million. Consolidated net income increased significantly by 110.8% to ¥91,880 million, due in part to a large decrease in loss on valuation of investment securities from the previous fiscal year.

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 42.2% to ¥1,592,885 million. Operating income increased by 95.3% to ¥138,477 million.

In the Japanese commercial air-conditioning equipment market, industry demand remained robust, thanks to strong demand and an increase in new construction ahead of the consumption tax hike. In November, the Daikin Group launched "FIVE STAR ZEAS," an air conditioner for stores and offices that is the first commercial air conditioner to use the new refrigerant HFC32 (R32). This product won the Prize of Director General of Agency for Natural Resources and Energy in 2013 Energy Conservation Grand Prize and played a central role in our initiatives to expand sales of high value-added products on the strength of their energy-saving performances and environmental consciousness. As a result of these initiatives, net sales grew year over year.

The Japanese residential air-conditioning equipment market has seen the highest level of demand in years, thanks to favorable weather conditions as well as strong demand and an increase in new construction ahead of the consumption tax hike. We increased sales with a focus on energy-saving products, especially the "Urusara 7" room air conditioner, resulting in a year-over-year increase in net sales.

In Europe, there were signs of recovery in the EU economy together with relatively strong demand in emerging markets, and overall sales increased year over year. Sales of residential air-conditioning systems increased year over year, thanks to strengthened sales of low-priced room air conditioners in the European market and expanded sales to the emerging Turkish market. Sales of commercial air-conditioning systems also increased year over year in the region as a whole. This was a result of the fact that construction demand in the EU hit bottom; competitively priced air-conditioning systems for stores were launched in emerging markets; and sales of VRV air-conditioning systems expanded in Turkey. Sales volume of residential heat pump hot water heating systems increased year over year in the region as a whole, despite a year-over-year decline in France, our largest market in the region, because of progress in dealer development in countries such as Central Europe, Italy, and Spain.

In China, while new large-scale investment and real estate projects decreased due to the impact of a restrictive monetary policy, public consumption remained robust. Sales of both commercial and residential air-conditioning systems increased from the previous fiscal year as a result of the Group shifting its sales to retail stores early on and

focusing on public consumption. The Group brought out complete model changes to all products in 2013, strengthened product lines for products tailored to suburban cities, and expanded the dealer network throughout China while accelerating differentiation of commercial air-conditioning systems. The Group promoted sales to customers by expanding its own retail sales network of "PROSHOPS" and increased market share in residential air-conditioning market through a product strategy of adding multi-split type room air conditioners to room air conditioners. Sales of air purifiers, which continue to expand their market every year, also increased, thanks to a growing interest in the environment and air quality. In the large-scale air-conditioning (Applied Systems) market, which saw a downturn owing to a decline in new building and government construction, sales grew with a focus on private sectors as a result of expanded sales of chillers, air handling units, and other equipment, as well as growth of the maintenance and service businesses.

In the Asia and Oceania markets, although sales in Thailand were flat against the previous fiscal year because of sluggish sales of residential equipment due to the economic slowdown and political instability, sales were robust in Australia, Singapore, and Malaysia. We also achieved year-over-year double-digit growth in sales of both residential and commercial air-conditioning systems in the emerging countries where we had been building sales networks, including India, Vietnam, and Indonesia. As a result of these factors, sales grew significantly year over year in the region as a whole.

In the North American Applied Systems market, new non-residential construction starts recovered but industry orders failed to improve. Nevertheless, sales grew from the previous fiscal year, thanks to expanded equipment sales resulting from the strengthened dealer network, expanded after-sales service business, and strong exports to Central and South America. With regard to residential equipment, housing starts recovered, while shipments of residential air-conditioning systems were also strong. Sales of commercial equipment grew year over year against a backdrop of the recovery in the construction market, thanks in particular to steadily securing orders for school and government construction. Overall sales in the region grew significantly compared to the previous fiscal year, due in part to the addition of the Goodman Group to our consolidated results.

Sales in the marine vessels business grew, especially in Asia, from the previous fiscal year, due to an increase in sales volume of marine container refrigeration units.

## **(ii) Chemicals**

Overall sales of the Chemicals segment increased by 12.7% to ¥140,177 million. This was a result of the positive effect of the weakening yen, coupled with a fall in price accompanying the deterioration in the balance between supply and demand against a backdrop of increased supply. Operating income declined by 14.0% year over year to ¥14,189 million.

Sales of fluoropolymers in China grew year over year, due primarily to improvements in infrastructure investment, mainly in railroads and telecommunications, and robust automobile-related demand. Sales in the United States also grew year over year thanks to relatively strong demand mostly in automobiles and airplanes, amid flat demand for LAN cables. Although demand in Japan showed signs of recovery in the semiconductor and automotive markets, sales fell slightly from the previous fiscal year. Sales of fluoroelastomers grew year over year, particularly in the automotive field, thanks to strong demand in China and other overseas markets. As a result, overall sales of fluoropolymers increased from the previous fiscal year.

Turning to specialty chemicals, domestic demand for oil and water repellants declined, while demand for use in fabrics for clothing in China recovered, resulting in increased sales compared to the previous fiscal year. Sales of anti-fouling surface coating agents used in devices, such as touch panels, fell due to a decline in existing demand despite the development of new applications. Sales of other specialty chemicals were at about the same level as the previous fiscal year, due to lack of recovery of demand for semiconductor-etching products and other chemicals. Overall sales of specialty chemicals grew year over year, owing in large part to strong sales of oil and water repellents in overseas markets.

Sales of fluorocarbon gas were flat against the previous fiscal year because demand remained unchanged both in Japan and overseas.

## **(iii) Other Divisions**

Overall sales of the "Others" segment rose by 7.6% to ¥50,014 million. Operating income increased by 96.4% to ¥2,413 million.

Sales of oil hydraulic equipment for industrial machinery grew year over year, thanks to strong performance in the Japanese and U.S. markets. Sales of oil hydraulic equipment for construction machinery and vehicles were up year over year due to increased demand both in domestic and overseas markets of our key customers in Japan.

Sales of defense systems-related products fell year over year, due to decreased orders of ammunitions and components for guided missiles from the Ministry of Defense. Sales of home oxygen equipment were favorable.

As for the electronics business, sales of database systems for design and development sectors increased in the backdrop of a modest recovery in IT investment.

On a non-consolidated basis, the Company's net sales increased by 7.9% to ¥499,168 million. Operating income increased by 76.7% to ¥21,653 million. Ordinary income increased by 21.8% to ¥43,448 million, and net income increased by 49.0% to ¥41,845 million.

### **Business Forecast for the Next Fiscal Year**

With regard to the global economy in the future, we expect the recovery of the U.S. economy to speed up, driven mainly by private-sector demand, while the slump in the European economy appears to have hit bottom. We expect a gradual slowdown of the emerging economies, especially in China and India.

We anticipate a temporary slowdown in the Japanese economy as a rebound from the strong demand ahead of the consumption tax hike, but we expect the government's economic policies and recovering exports to help maintain positive, albeit slight, economic growth.

Amid this business environment, we announced the Group's central strategic theme for this year (2014) would be "Let's All Accomplish Our Goals Now," built on the foundation of the "Fusion 15 Latter-Half Three-Year Plan," which was created last year. We will strive to reconcile medium- and long-term development while ensuring short-term profit by flexibly and quickly coping with the business environment.

Specifically, we will push forward with implementation of growth strategy that includes: expanding sales by strengthening our fundamental marketing capabilities, including expanding sales networks and developing new markets in China and other regions; building our solutions business by enhancing our maintenance service businesses; and expanding our environment-related innovation businesses, including the development of next-generation refrigerants and developing our heating solution business. At the same time, we will increase sales and profits by proceeding with initiatives for establishing a profitable business structure, including careful selection of our investments, and making dramatic cuts in our fixed expenses by streamlining expenses and indirect divisions.

For the fiscal year ending March 31, 2015, we forecast an 11.0% increase in consolidated net sales to ¥1,980,000 million, with operating income rising 9.6% to ¥170,000 million, ordinary income increasing 7.7% to ¥166,000 million and net income increasing 6.7% to ¥98,000 million.

The estimated exchange rate for the fiscal year ending March 31, 2015, is based on the assumption that 1 euro equals ¥132 and US\$1 equals ¥98.

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 euro and U.S. dollar rates)
- Serious problems related to quality and manufacturing
- Substantial fluctuations in the market value of securities and other assets held by the Company
- Impairment of non-current assets
- Natural disasters

## **(2) Analysis of Financial Position**

### **(i) Assets, Liabilities and Net Assets**

Total assets increased by ¥276,694 million from the end of the previous fiscal year to ¥2,012,530 million. Current assets increased by ¥164,545 million to ¥967,871 million, mainly due to increases in cash and deposits, and notes and accounts receivable - trade. Non-current assets increased by ¥112,149 million to ¥1,044,659 million, primarily due to new acquisition of and market value variation in investment securities.

Liabilities increased by ¥88,342 million to ¥1,188,181 million from the end of the previous fiscal year, mainly due to an increase in notes and accounts payable - trade. Interest bearing debt ratio declined to 34.5% from 40.7% at the end of the previous fiscal year.

Net assets increased by ¥188,351 million to ¥824,348 million from the end of the previous fiscal year, primarily reflecting fluctuations in foreign currency translation adjustment, as well as an increase caused by posting of net income, despite the decrease due to the payments of dividends.

**(ii) Cash Flows**

During the current fiscal year, net cash provided by operating activities was ¥179,713 million, an increase of ¥76,552 million from the previous fiscal year, principally due to an increase in income before income taxes and minority interests. Net cash used in investment activities was ¥80,834 million, a decrease of ¥137,551 million, arising primarily from payments for the purchase of the shares of the Goodman Group during the previous fiscal year. Net cash used in financing activities was ¥38,249 million, a decrease of ¥181,769 million from the previous fiscal year, mainly due to an increase in proceeds from long-term loans payable aimed to raise funds for the acquisition of the Goodman Group in the previous fiscal year, and proceeds from issuance of bonds. As a result, net increase in cash and cash equivalents at the end of the current fiscal year amounted to ¥257,295 million, an increase of ¥71,724 million from the end of the previous fiscal year.

**(Reference) Trends in Cash Flow Indicators**

	Fiscal Year ended March 31, 2010	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012	Fiscal Year ended March 31, 2013	Fiscal Year ended March 31, 2014
Equity ratio (%)	43.5	43.1	43.3	35.6	39.9
Market value equity ratio (%)	97.9	64.2	56.5	61.9	83.8
Cash flows/interest-bearing debt ratio (years)	3.1	4.8	8.7	6.8	3.9
Interest coverage ratio (times)	19.5	11.8	6.9	15.3	18.0

Notes:

- 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
- Each indicator is calculated based on the consolidated financial values.
- 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))
- Operating cash flow represents the “Net cash provided by (used in) operating activities” in the consolidated statement of cash flows.
- 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 expenses paid” in the consolidated statement of cash flows.

**(3) Basic Policy on Profit Distribution and Dividends for the fiscal year ended March 31, 2014 and the fiscal year ending March 31, 2015**

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, we will gradually raise our consolidated ratio of dividend to net assets (Dividend on Equity, DOE) from the current base of at least 2.0% to at least 2.5%, and we will roll out initiatives to further increase returns to our shareholders while remaining fully aware of the consolidated dividend payout ratio, 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, 2014, the Company has proposed an annual cash dividend of ¥50 (¥23 for the interim dividend and ¥27 for the year-end dividend), a ¥14 increase over the previous fiscal year.

For the fiscal year ending March 31, 2015, the Company proposes an annual cash dividend of ¥70 (¥40 for the interim dividend and ¥30 for the year-end dividend), with a ¥10 dividend included in the interim dividend to commemorate the Company’s 90th anniversary.



## 2. Status of the Company Group

The Daikin Group (the Company and its subsidiaries and associates) is engaged in the manufacture (including construction and installation), and sale of products in the fields of air-conditioning and refrigeration equipment, chemicals, hydraulic equipment, defense systems-related products and others. The filer of the consolidated financial statements (or “the Company”) engages in the manufacture and sale of all these business lines and the subsidiaries and associates partly engage in the manufacture and/or sale of any of the respective business fields of air-conditioning and refrigeration equipment, chemicals, hydraulic equipment, and defense systems-related products. The major business lines of the Company and the respective subsidiaries and associates are shown below.

### (1) Air-Conditioning and Refrigeration Equipment

#### A) Major Products

For residential use:	Room air conditioners, Air purifiers, Dehumidifiers, CO2 heat pump-water heaters, far-infrared electric heaters, Heat-pump type floor heating systems
For commercial use:	Packaged air conditioning systems, Spot air conditioners, Water chilling units, Centrifugal chillers, Screw-type chillers, Fan-coil units, Air handling units, Packaged air conditioners for low temperatures, Air purification systems, Total heat exchangers, Duct ventilating fans, Deodorizers, Far-infrared electric heaters, Freezers, Ammonia water chilling units, Air filters, Industrial dust collectors, rooftops
For marine vessels:	Container refrigeration units, Marine vessel air conditioners and refrigeration units

#### B) Company Names

##### (i) Domestic subsidiaries and associates

###### [Consolidated subsidiaries]

Daikin Applied Systems Co., Ltd., Daikin Airtechnology & Engineering Co., Ltd., and one (1) other company for sales, construction and installation of air conditioners, Daikin HVAC Solution Tokyo Co., Ltd., and ten (10) other sales companies, OK Kizai Ltd., Daikin Rexxam Electronics Co., Ltd., Daikin Trading Co., Ltd., Nippon Muki Co., Ltd., and six (6) other companies

###### [Entities accounted for using equity method]

Moritani Daikin Co., Ltd., and two (2) other companies

##### (ii) Overseas subsidiaries and associates

###### [Consolidated subsidiaries]

Daikin (China) Investment Co., Ltd., Daikin Air-conditioning (Shanghai) Co., Ltd., Daikin Airconditioning (Hong Kong) Ltd., Xian Daikin Qingan Compressor Co., Ltd., Daikin Device (Suzhou) Co., Ltd., Daikin Motor (Suzhou) Co., Ltd., Shenzhen McQuay Air-conditioning Co., Ltd., McQuay Air-conditioning & Refrigeration (Wuhan) Co., Ltd., Daikin Industries (Thailand) Ltd., Daikin Trading (Thailand) Ltd., Daikin Compressor Industries Ltd., Daikin Airconditioning (Singapore) Pte. Ltd., OYL Manufacturing Company Sdn. Bhd., Group Associated (C&L) Sdn. Bhd., Daikin Airconditioning India Pvt. Ltd., Daikin Australia Pty. Ltd., Daikin Europe N.V., Daikin Industries Czech Republic s.r.o., Daikin Device Czech Republic s.r.o., Daikin Airconditioning France S.A., Daikin Airconditioning Italy S.p.A., Daikin AC Spain, S.A., Daikin Isıtma ve Soğutma Sistemleri Sanayi ve Ticaret A.Ş., McQuay Italia S.p.A., AAF-Limited, Daikin Applied Americas Inc., Goodman Global Group, Inc., and 137 other companies

###### [Entities accounted for using equity method]

Zhuhai Gree Daikin Device Co., Ltd. and two (2) other companies

## (2) Chemicals

### A) Major Products

Fluorocarbon gas:	Refrigerants, Cleaning agents
Fluoropolymers:	Ethylene tetrafluoride resins, Molten type resins, Fluoroelastomers, Fluoro paints, Fluoro coatings
Chemicals:	Semiconductor-etching products, Oil and water repellants, Mold release agents, Surface acting agents, Fluorocarbons, Fluorinated oils, Pharmaceutical agrichemical intermediates
Chemical engineering machinery:	Solvent deodorizing equipment, Dry air suppliers

### B) Company Names

#### (i) Domestic subsidiaries and associates

[Consolidated subsidiary]  
Toho Kasei Co., Ltd.

#### (ii) Overseas subsidiaries and associates

[Consolidated subsidiaries]  
Daikin Fluorochemicals (China) Co., Ltd., Daikin Arkema Refrigerants Asia Ltd., Daikin Chemical Europe GmbH, Daikin America, Inc., and ten (10) other companies

[Entities accounted for using equity method]  
Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd. and two (2) other companies

## (3) Others

### A) Major Products

#### Oil Hydraulics:

Hydraulic equipment and systems for industrial use:

Pumps, Valves, Hydraulic systems, Oil cooling units, Inverter-controlled pumps and motors

Hydraulic equipment for construction machinery and vehicles:

Hydraulic transmissions, Valves

Centralized lubrication units and systems:

Grease pumps, Control and stack valves

Defense Systems: Ammunitions, components for guided missiles, and aircraft components for the Ministry of Defense, Home oxygen equipment

Electronics: Process-improvement and knowledge-sharing systems for the design and development sector, IT infrastructure management systems (network, security, and asset management), Computer graphics solutions such as CAD systems for facility design

### B) Company Names

#### (i) Domestic subsidiaries and associates

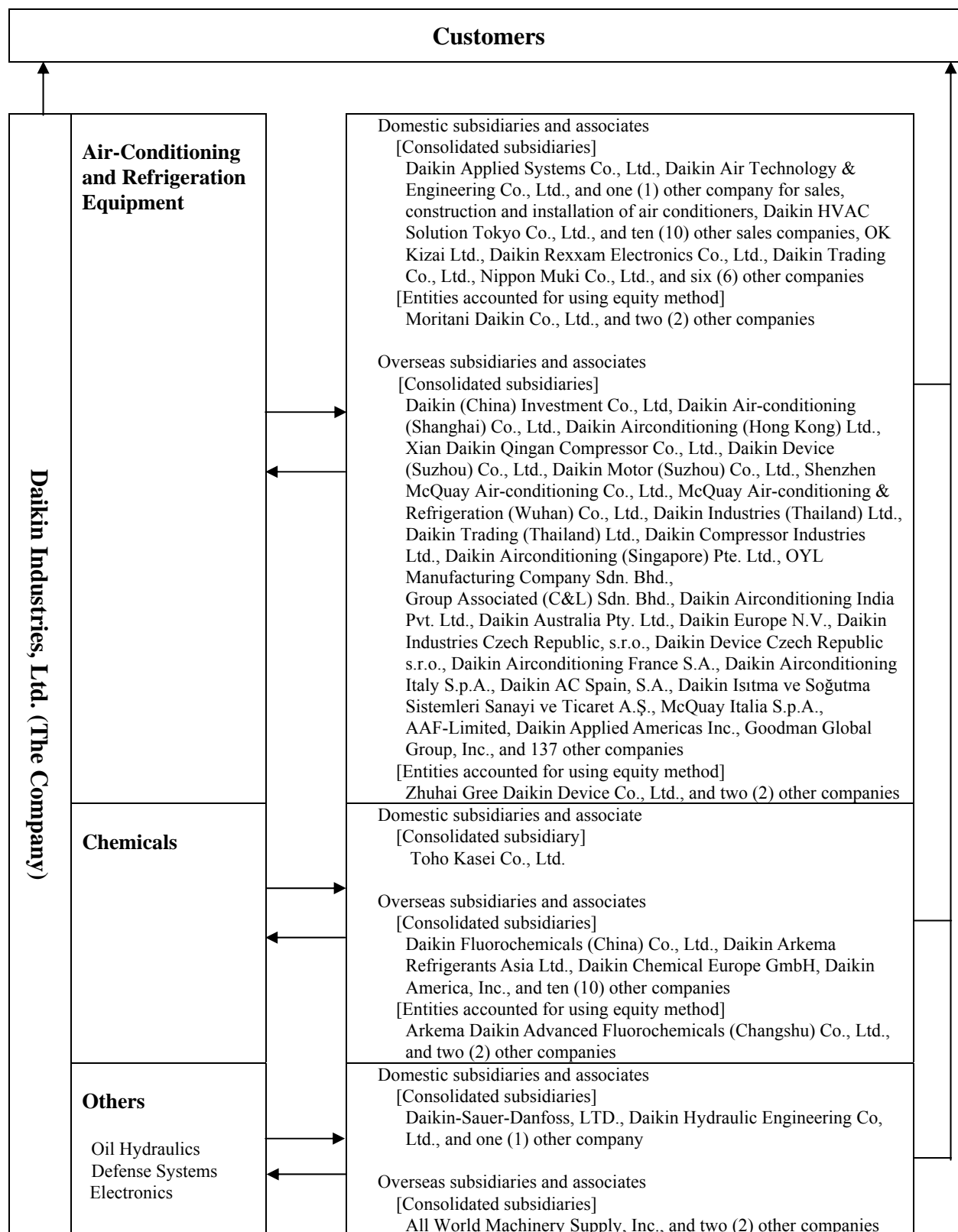
[Consolidated subsidiaries]  
Daikin-Sauer-Danfoss, LTD., Daikin Hydraulic Engineering Co., Ltd., and one (1) other company

#### (ii) Overseas subsidiaries and associates

[Consolidated subsidiaries]  
All World Machinery Supply, Inc., and two (2) other companies

### [Schematic Diagram of the Company Group]

A schematic diagram of the business lines of the Daikin Group, including two hundred and nine (209) consolidated companies (twenty-eight (28) domestic, one hundred and eighty-one (181) overseas) and nine (9) entities accounted for using equity method (three (3) domestic, six (6) overseas), is shown below.



### **3. Management Policies**

#### **(1) Basic Management Policy**

Under “Our Group Philosophy,” which sets forth the fundamental mindset of our management, the Company will, as a corporation that continually supplies customers with the highest level of conveniences and amenities, enhance its technical bases, carry out management emphasizing a capital increase and strive to maximize corporate value through the provision of high-quality products, materials, and services. The Company will conduct fair corporate activities based on a high level of ethics and fair competition, information disclosure and the fulfillment of accountability in a timely and appropriate manner, proactive responses to the global environment and active contributions to local communities as action guidelines common to the Group. Moreover, the Company will make efforts to expand profitability and business operations for the entire Group by enforcing complete information sharing within the Group, establishing a resilient management structure most appropriate for the solution of problems and tasks that may come up from time to time and facilitating the Company’s tradition of a “Fast and Flat” management system.

#### **(2) Target Management Indicators**

The Company considers the maximization of corporate value to be the most important management task, and by setting up FCF (free cash flow), DVA (Daikin value added), ROA (return on total assets), ROE (return on equity) and other indicators of “Ratio Management” as important management administration indicators, the Company is developing businesses and strengthening the management structure. The Company is emphasizing FCF as a source of corporate value and as an integrated indicator that enhances all management indicators and is endeavoring to reduce notes and accounts receivable - trade and inventories while taking measures to expand profit and improve investment efficiency so as to create cash flow from operating capital.

#### **(3) Medium- and Long-Term Management Strategies**

In fiscal 2013, the Company formulated the strategic management plan, “Fusion 15 Latter-Half Three-Year Plan.” This plan defined fiscal 2015 as its target year and set out concrete strategies for achieving its targets.

We will execute new growth strategies by the full-scale entry into new markets where demand for air-conditioning is expected to grow, such as the Middle East and Central and South America, expanding our business in China and Asia, developing our solutions business by enhancing our service and maintenance businesses, and expanding our lineup of environmentally-conscious products with high energy efficiency or that improve air quality. In addition, we will also take up themes to build a more advanced management base such as improving profitability by reducing variable and fixed costs across the Daikin Group and building a more efficient supply chain management (SCM) system.

#### **(4) Tasks to Be Addressed by the Company**

In order to achieve the targets set forth in the strategic management plan, “Fusion 15,” we are committed to achieving medium- and long-term development, while at the same time ensuring short-term profit, by greatly growing our sales in China and other regions by dramatically improving our sales capabilities, including expanding our sales networks and developing new markets, and expanding our solutions and environmental innovation businesses, as well as dramatically reducing fixed costs by carefully choosing our investments, and streamlining our expenses and indirect costs. We are also committed to building a corporate structure capable of sustainable growth, including improved quality and compliance, and initiatives to strengthen our human resource capabilities.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(Millions of yen)

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
<b>Assets</b>		
Current assets		
Cash and deposits	185,571	257,295
Notes and accounts receivable - trade	263,322	319,449
Merchandise and finished goods	191,195	217,186
Work in process	41,380	41,557
Raw materials and supplies	52,592	57,912
Deferred tax assets	21,782	29,597
Other	53,708	51,470
Allowance for doubtful accounts	(6,226)	(6,598)
Total current assets	803,326	967,871
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	95,816	104,645
Machinery, equipment and vehicles, net	100,404	108,529
Land	33,121	33,624
Leased assets, net	3,117	3,012
Construction in progress	18,110	21,899
Other, net	23,631	28,005
Total property, plant and equipment	274,201	299,716
Intangible assets		
Goodwill	348,411	361,667
Customer relationship	109,723	123,700
Other	52,754	60,389
Total intangible assets	510,888	545,756
Investments and other assets		
Investment securities	106,867	158,550
Long-term loans receivable	605	495
Deferred tax assets	3,569	6,235
Net defined benefit asset	—	10,069
Other	37,353	24,456
Allowance for doubtful accounts	(976)	(622)
Total investments and other assets	147,419	199,185
Total non-current assets	932,510	1,044,659
Total assets	1,735,836	2,012,530
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	127,364	162,084
Short-term loans payable	63,407	43,325
Commercial papers	1,927	—
Current portion of bonds	—	30,000
Current portion of long-term loans payable	4,125	65,885
Lease obligations	1,464	1,731
Income taxes payable	14,693	17,428
Deferred tax liabilities	5,517	13,356
Provision for directors' bonuses	170	250
Provision for product warranties	40,235	46,112
Accrued expenses	66,918	84,368
Other	56,802	69,094
Total current liabilities	382,627	533,637

	(Millions of yen)	
	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
Non-current liabilities		
Bonds payable	150,000	120,000
Long-term loans payable	483,033	430,475
Lease obligations	1,912	2,526
Deferred tax liabilities	54,361	73,299
Provision for retirement benefits	3,960	—
Net defined benefit liability	—	9,975
Other	23,944	18,268
Total non-current liabilities	717,212	654,544
Total liabilities	1,099,839	1,188,181
Net assets		
Shareholders' equity		
Capital stock	85,032	85,032
Capital surplus	83,016	83,549
Retained earnings	438,671	514,583
Treasury shares	(6,772)	(4,549)
Total shareholders' equity	599,948	678,616
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	18,430	40,065
Deferred gains or losses on hedges	(145)	606
Foreign currency translation adjustment	(115)	87,938
Remeasurements of defined benefit plans	—	(4,882)
Total accumulated other comprehensive income	18,169	123,727
Subscription rights to shares	1,335	841
Minority interests	16,543	21,162
Total net assets	635,996	824,348
Total liabilities and net assets	1,735,836	2,012,530

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

<b>Consolidated Statement of Income</b>		(Millions of yen)
	FY2012 (April 1, 2012, to March 31, 2013)	FY2013 (April 1, 2013, to March 31, 2014)
Net sales	1,290,903	1,783,077
Cost of sales	902,856	1,216,216
Gross profit	388,046	566,860
Selling, general and administrative expenses	299,418	411,785
Operating income	88,627	155,075
Non-operating income		
Interest income	3,038	4,325
Dividend income	1,651	2,152
Share of profit of entities accounted for using equity method	1,063	1,652
Foreign exchange gains	6,849	482
Other	2,939	3,458
Total non-operating income	15,542	12,071
Non-operating expenses		
Interest expenses	7,081	9,454
Other	2,943	3,583
Total non-operating expenses	10,024	13,038
Ordinary income	94,145	154,108
Extraordinary income		
Gain on sales of land	38	159
Gain on sales of investment securities	117	55
Gain on reversal of subscription rights to shares	310	208
Gain on sales of shares of subsidiaries and associates	985	—
Gain on insurance adjustment	166	—
Total extraordinary income	1,617	423
Extraordinary losses		
Loss on disposal of non-current assets	496	335
Loss on sales of investment securities	—	0
Loss on valuation of investment securities	12,651	1,531
Loss on liquidation of subsidiaries and associates	783	—
Other	355	10
Total extraordinary losses	14,286	1,878
Income before income taxes and minority interests	81,477	152,653
Income taxes - current	32,677	50,389
Income taxes for prior periods	(1,841)	—
Income taxes - deferred	3,500	5,014
Total income taxes	34,336	55,404
Income before minority interests	47,140	97,249
Minority interests in income	3,556	5,369
Net income	43,584	91,880

**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	FY2012 (April 1, 2012, to March 31, 2013)	FY2013 (April 1, 2013, to March 31, 2014)
Income before minority interests	47,140	97,249
Other comprehensive income		
Valuation difference on available-for-sale securities	18,433	21,632
Deferred gains or losses on hedges	(71)	1,217
Foreign currency translation adjustment	64,782	59,499
Share of other comprehensive income of entities accounted for using equity method	1,482	2,822
Total other comprehensive income	84,627	85,172
Comprehensive income	131,767	182,421
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	126,232	175,572
Comprehensive income attributable to minority interests	5,534	6,848



**(3) Consolidated Statement of Changes in Equity**

FY2012 (April 1, 2012, to March 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	82,977	415,231	(6,960)	576,280
Changes of items during period					
Dividends of surplus			(10,479)		(10,479)
Net income			43,584		43,584
Effect of changes in accounting period of subsidiaries			(9,665)		(9,665)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		39		189	228
Net changes of items other than shareholders' equity					
Total changes of items during period	—	39	23,439	188	23,668
Balance at end of current period	85,032	83,016	438,671	(6,772)	599,948

	Accumulated other comprehensive income					Subscription rights to shares	Minority 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	(2)	(74)	(73,894)	—	(73,971)	1,500	12,110	515,920
Changes of items during period								
Dividends of surplus								(10,479)
Net income								43,584
Effect of changes in accounting period of subsidiaries								(9,665)
Purchase of treasury shares								(0)
Disposal of treasury shares								228
Net changes of items other than shareholders' equity	18,433	(71)	73,779	—	92,140	(165)	4,432	96,407
Total changes of items during period	18,433	(71)	73,779	—	92,140	(165)	4,432	120,075
Balance at end of current period	18,430	(145)	(115)	—	18,169	1,335	16,543	635,996

FY2013 (April 1, 2013, to March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	85,032	83,016	438,671	(6,772)	599,948
Changes of items during period					
Dividends of surplus			(11,946)		(11,946)
Net income			91,880		91,880
Effect of changes in accounting period of subsidiaries			(4,021)		(4,021)
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		532		2,226	2,759
Net changes of items other than shareholders' equity					
Total changes of items during period	—	532	75,912	2,223	78,668
Balance at end of current period	85,032	83,549	514,583	(4,549)	678,616

	Accumulated other comprehensive income					Subscription rights to shares	Minority 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	18,430	(145)	(115)	—	18,169	1,335	16,543	635,996
Changes of items during period								
Dividends of surplus								(11,946)
Net income								91,880
Effect of changes in accounting period of subsidiaries								(4,021)
Purchase of treasury shares								(3)
Disposal of treasury shares								2,759
Net changes of items other than shareholders' equity	21,634	751	88,053	(4,882)	105,557	(493)	4,619	109,683
Total changes of items during period	21,634	751	88,053	(4,882)	105,557	(493)	4,619	188,351
Balance at end of current period	40,065	606	87,938	(4,882)	123,727	841	21,162	824,348

**(4) Consolidated Statement of Cash Flows**

(Millions of yen)

	FY2012 (April 1, 2012, to March 31, 2013)	FY2013 (April 1, 2013, to March 31, 2014)
<b>I. Cash flows from operating activities</b>		
Income before income taxes and minority interests	81,477	152,653
Depreciation	39,447	55,117
Amortization of goodwill	12,076	23,783
Increase (decrease) in allowance for doubtful accounts	(102)	(693)
Interest and dividend income	(4,690)	(6,477)
Interest expenses	7,081	9,454
Share of (profit) loss of entities accounted for using equity method	(1,063)	(1,652)
Loss (gain) on disposal of non-current assets	496	335
Loss (gain) on sales of investment securities	(117)	(54)
Loss (gain) on valuation of investment securities	12,651	1,531
Decrease (increase) in notes and accounts receivable - trade	(22,485)	(30,816)
Decrease (increase) in inventories	10,299	(8,228)
Increase (decrease) in notes and accounts payable - trade	343	19,139
Increase (decrease) in provision for retirement benefits	(203)	(4,142)
Decrease (increase) in prepaid pension costs	(306)	10,568
Increase (decrease) in net defined benefit liability	—	9,654
Decrease (increase) in net defined benefit asset	—	(10,069)
Other, net	(1,840)	8,953
Subtotal	133,063	229,058
Interest and dividend income received	6,536	6,493
Interest expenses paid	(6,751)	(9,963)
Income taxes paid	(29,687)	(45,873)
Net cash provided by (used in) operating activities	103,160	179,713
<b>II. Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(53,045)	(53,647)
Proceeds from sales of property, plant and equipment	1,146	1,738
Purchase of investment securities	(4,877)	(26,742)
Proceeds from sales of investment securities	517	83
Proceeds from sales of shares of subsidiaries and associates	1,882	—
Payments for transfer of business	—	(409)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(163,651)	(856)
Other, net	(358)	(1,001)
Net cash provided by (used in) investing activities	(218,386)	(80,834)

	FY2012 (April 1, 2012, to March 31, 2013)	FY2013 (April 1, 2013, to March 31, 2014)
III. Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(42,867)	(19,179)
Proceeds from long-term loans payable	333,488	15
Repayments of long-term loans payable	(183,354)	(5,023)
Proceeds from issuance of bonds	49,758	—
Cash dividends paid	(10,479)	(11,946)
Cash dividends paid to minority shareholders	(1,231)	(2,604)
Proceeds from share issuance to minority shareholders	674	297
Other, net	(2,467)	192
Net cash provided by (used in) financing activities	143,520	(38,249)
IV. Effect of exchange rate change on cash and cash equivalents	19,740	10,896
V. Net increase (decrease) in cash and cash equivalents	48,035	71,525
VI. Cash and cash equivalents at beginning of period	135,427	185,571
VII. Increase (decrease) of cash and cash equivalents resulting from change in accounting period of subsidiaries	2,108	198
VIII. Cash and cash equivalents at end of period	185,571	257,295

## (5) Notes to Consolidated Financial Statements

### Notes on the Premises of the Company as a “Going Concern”

None applicable

### Basis of Presenting the Consolidated Financial Statements

#### 1. Scope of Consolidation

##### (1) Number of consolidated subsidiaries: 209

Major subsidiaries Daikin Applied Systems Co., Ltd., Daikin Airtechnology & Engineering Co., Ltd., Daikin HVAC Solution Tokyo Co., Ltd., Daikin (China) Investment Co., Ltd., Daikin Air-conditioning (Shanghai) Co., Ltd., Daikin Device (Suzhou) Co., Ltd., Daikin Industries (Thailand) Ltd., Daikin Compressor Industries Ltd., OYL Manufacturing Company Sdn. Bhd., Daikin Airconditioning India Pvt. Ltd., Daikin Australia Pty. Ltd., Daikin Europe N.V., Daikin Industries Czech Republic s.r.o., Daikin Airconditioning France S.A., Daikin Isıtma ve Soğutma Sistemleri Sanayi ve Ticaret A.Ş., Goodman Global Group, Inc., Daikin Applied Americas Inc., Daikin Fluorochemicals (China) Co., Ltd., Daikin America, Inc., Daikin Hydraulic Engineering Co., Ltd.

(Newly added) Due to new establishment:

Daikin Air Conditioning Amazonas LTDA., AAF International Air Filtration LLC, Daikin Airconditioning Chile S.A., Daikin Airconditioning Colombia S.A.S., Daikin Airconditioning Saudi Arabia LLC, Daikin Airconditioning Peru S.A.C.

Due to acquisition:

PT. Tatasolusi Pratama (Corporate name was changed to PT. Daikin Applied Solutions Indonesia.), Solutions Pte. Ltd. (Corporate name was changed to Daikin Holdings Singapore Pte. Ltd.)

Due to an increase in the number of shares purchased:

MDA Manufacturing, Inc.

(Excluded)

Due to liquidation:

McQuay Airconditioning (Singapore) Pte. Ltd., Rotex Heating Systems Ltd., Suzhou O.Y.L. Technology Co., Ltd., McQuay Asia Limited, AAF Italia S.r.l., Daikin America Funding Corporation, Inc.

Due to merger of consolidated subsidiaries:

Daikin Holdings (USA), Inc. had been merged with another consolidated subsidiary.

##### (2) Number of nonconsolidated subsidiaries: 7

The impact of total assets, net sales, net income and retained earnings of the nonconsolidated subsidiaries on the respective consolidated total assets, consolidated net sales, consolidated net income and consolidated retained earnings is insignificant and their intra-group positioning is immaterial on the whole. For this reason, these companies are excluded from the scope of consolidation.

#### 2. Application of the Equity Method

Number of entities accounted for using equity method: 9

Number of affiliated companies accounted for using equity method: 9

Major affiliated companies

Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd.

#### 3. Fiscal Year of Consolidated Subsidiaries

The settlement date of the accounts of 48 consolidated subsidiaries differs from the consolidated settlement date of the Company: June 30 for 2 companies and December 31 for 46 companies. With respect to 46 consolidated subsidiaries thereof, upon preparing the consolidated financial statements, their accounts are provisionally settled as of March 31 and their financial statements are provided as of March 31. As for the other 2 consolidated subsidiaries, their financial statements are provided as of December 31, with necessary adjustments for consolidation purposes with regard to material transactions between their respective settlement dates and the consolidated settlement date. As Goodman Global Group, Inc. and 21 other companies changed their settlement date of accounts from December 31 to March 31, effective from the year under review, their settlements of accounts were prepared for a period of 15 months. The financial results for the portion of 12 months of these subsidiaries are reflected in the consolidated statement of income and the change in retained earnings for the

remaining three months is presented in “Effect of changes in accounting period of subsidiaries” of the Consolidated Statement of Changes in Equity.

#### 4. Summary of Significant Accounting Policies

##### (1) Valuation basis and method for important assets

###### (i) Securities:

###### Available-for-sale securities

Available-for-sale securities for which the fair market values are readily determinable:

Mainly valued at market at the end of the fiscal year. Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.

Available-for-sale securities for which the fair market values are not readily determinable:

Mainly valued at cost determined by the moving-average method.

(ii) Derivatives: Derivative instruments are valued at fair market value.

(iii) Inventories: Mainly valued at cost determined by the gross average method (write-down of book values due to the decline in profitability) for inventories at domestic companies, whereas mainly the lower of cost or market determined by the gross average method is adopted for inventories at overseas consolidated subsidiaries.

##### (2) Depreciation method of major depreciable assets

###### (i) Property, plant and equipment (excluding leased assets)

The depreciation of property, plant and equipment at the Company and its domestic consolidated subsidiaries is computed by the declining-balance method, whereas the straight-line method based on the estimated service lives is used at overseas consolidated subsidiaries. However, buildings (excluding buildings and accompanying facilities) acquired on or after April 1, 1998, by the Company and/or its domestic consolidated subsidiaries are depreciated using the straight-line method.

The range of useful lives is as follows:

Buildings and structures:	15–50 years
Machinery, equipment and vehicles:	5–15 years

###### (ii) Intangible assets

The amortization of intangible assets is computed by the straight-line method.

Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years). Customer relationship is amortized by the straight-line method over their useful lives (mainly 30 years).

The amounts of goodwill are equally amortized over 9 to 20 years on a straight-line basis.

###### (iii) Leased assets

Leased assets related to the finance lease transactions other than those that transfer ownership right is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

Of finance lease transactions other than those that transfer ownership right, those of which the commencement day of the lease transaction is prior to March 31, 2008, are accounted for as ordinary rental transactions.

##### (3) Accounting standards for important reserves

###### (i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

###### (ii) Provision for directors' bonuses

The provision for directors' bonuses is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

###### (iii) Provision for product warranties

The provision for product warranties is provided for possible free repair costs of sold products at an

amount considered necessary based on the past track record plus projected future guarantees.

(4) Important hedge accounting

(i) Hedge accounting method

The Group adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(ii) Hedging instruments and hedged items

For the purpose of hedging exposure to exchange rate fluctuation risk, the Group adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Group adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank loans as hedged items.

(iii) Hedging policy and method of assessing hedging effectiveness

The Group's risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for the purpose of circumventing an unexpectedly huge loss. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Group. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary. A similar check system is adopted by the consolidated subsidiaries with regard to the assessment of hedging effectiveness.

(5) Accounting policy for retirement benefits

(i) Method of attributing expected benefit to periods of service

The method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on straight-line attribution.

(ii) Method of recognizing actuarial gains/losses and prior service costs

Actuarial gains and losses are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

Prior service costs are amortized by the straight-line method over a certain period (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

(6) Accounting for consumption tax

Consumption tax and local consumption tax are excluded from each transaction amount.

5. Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits and short-term investments due within three months from the date of acquisition, which are easily convertible into cash with little or no risk from fluctuation in value.

## Changes in Accounting Policy

(Adoption of accounting standard for retirement benefits)

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 May 17, 2012, hereafter “Accounting Standard for Retirement Benefits”) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 May 17, 2012, hereafter “Guidance on Retirement Benefits”) are applied from the end of the consolidated fiscal year under review (however, excluding the regulations stipulated under Article No. 35 of Accounting Standard for retirement benefits and Article No. 67 of Guidance on Accounting Standard).

Net defined benefit assets and liabilities are calculated by reducing the amount of pension assets from projected benefit obligation, and unrecognized actuarial gains and losses and prior service costs are recorded under net defined benefit assets and liabilities.

In regard to the adoption of Accounting Standard for Retirement Benefits, the Group follows the transitional measure stipulated under Article No. 37 of Accounting Standard for Retirement Benefits, and the amount of financial impact caused by this change in accounting policy is added to or subtracted from remeasurements of defined benefit plan under accumulated other comprehensive income.

As a result, net defined benefit assets of ¥10,069 million and net define benefit liability of ¥9,975 million are recorded, and accumulated other comprehensive income and minority interest decreased by ¥4,882 million and ¥13 million, respectively, at the end of the consolidated fiscal year under review.

The impact on per share information is listed in the relevant part.

## Notes to the Consolidated Balance Sheet

### 1. Accumulated depreciation of property, plant and equipment

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Accumulated depreciation of property, plant and equipment	546,095	595,684

### 2. Assets pledged as collateral

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Time deposits	173	107
Accounts receivable - trade	15,951	11,755
Merchandise and finished goods	7,805	7,564
Raw materials and supplies	434	563
Property, plant and equipment	39,211	2,662
Other	4,046	5,710

## Notes to the Consolidated Statement of Income

### 1. Total research and development expenses included in general and administrative expenses and manufacturing costs

	(Millions of yen)	
	Previous fiscal year (April 1, 2012, to March 31, 2013)	Current fiscal year (April 1, 2013, to March 31, 2014)
	33,568	40,177



## Notes to the Consolidated Statement of Comprehensive Income

### 1. Reclassification adjustments and tax effects related to other comprehensive income

	(Millions of yen)	
	Previous fiscal year (April 1, 2012, to March 31, 2013)	Current fiscal year (April 1, 2013, to March 31, 2014)
Valuation difference on available-for-sale securities		
Amount that occurred during the period	14,172	25,373
Reclassification adjustments	12,533	1,474
Before tax effect adjustments	26,706	26,847
Tax effects	(8,272)	(5,215)
Valuation difference on available-for-sale securities	18,433	21,632
Deferred gains or losses on hedges		
Amount that occurred during the period	(190)	4,151
Reclassification adjustments	89	(2,365)
Before tax effect adjustments	(101)	1,785
Tax effects	29	(568)
Deferred gains or losses on hedges	(71)	1,217
Foreign currency translation adjustment		
Amount that occurred during the period	64,782	59,500
Reclassification adjustments	—	(1)
Before tax effect adjustments	64,782	59,499
Tax effects	—	—
Foreign currency translation adjustment	64,782	59,499
Share of other comprehensive income of entities accounted for using equity method		
Amount that occurred during the period	1,482	2,822
Total other comprehensive income	84,627	85,172

## Notes to the Consolidated Statement of Changes in Equity

Previous fiscal year (April 1, 2012, to March 31, 2013)

### 1. Shares issued

Type of shares	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock (Thousands of shares)	293,113	—	—	293,113

### 2. Treasury shares

Type of shares	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock (Thousands of shares)	2,028	0	55	1,974

(Overview of reasons for change)

Principal reason for the increase:

The Company purchased 0 thousand odd lots share of the Company.

Principal reason for the decrease:

The exercise of stock options caused a decrease of 55 thousand shares.

### 3. Subscription rights to shares

Company name	Breakdown	Balance at March 31, 2013 (Millions of yen)
The Company	Subscription rights to shares as stock options	1,335

## 4. Dividends

## (1) Dividend amounts paid

Resolution	Type of Shares	Total amount of Dividends (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 28, 2012	Common stock	5,239	18	March 31, 2012	June 29, 2012
Board of Directors meeting held on November 7, 2012	Common stock	5,239	18	September 30, 2012	December 4, 2012

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2013, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2014

Planned date of resolution	Type of Shares	Source of Funds for Dividends	Total Amount of Dividends (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 27, 2013	Common stock	Retained earnings	5,240	18	March 31, 2013	June 28, 2013

Current fiscal year (April 1, 2013, to March 31, 2014)

## 1. Shares issued

Type of shares	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock (Thousands of shares)	293,113	—	—	293,113

## 2. Treasury shares

Type of shares	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock (Thousands of shares)	1,974	0	648	1,326

(Overview of reasons for change)

Principal reason for the increase:

The Company purchased 0 thousand odd lots share of the Company.

Principal reason for the decrease:

The exercise of stock options caused a decrease of 648 thousand shares.

## 3. Subscription rights to shares

Company name	Breakdown	Balance at March 31, 2014 (Millions of yen)
The Company	Subscription rights to shares as stock options	841

## 4. Dividends

## (1) Dividend amounts paid

Resolution	Type of Shares	Total amount of Dividends (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 27, 2013	Common stock	5,240	18	March 31, 2013	June 28, 2013
Board of Directors meeting held on November 6, 2013	Common stock	6,705	23	September 30, 2013	December 3, 2013

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2014, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2015

Planned date of resolution	Type of Shares	Source of Funds for Dividends	Total Amount of Dividends (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders to be held on June 27, 2014	Common stock	Retained earnings	7,878	27	March 31, 2014	June 30, 2014

## Retirement Benefits

Previous fiscal year (April 1, 2012, to March 31, 2013)

### 1. Outline of the retirement benefit plans adopted

The Company and its domestic consolidated subsidiaries have a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans.

One domestic consolidated subsidiary revised its retirement benefit plan and changed a part of the defined benefit corporate pension plan to a defined contribution pension plan, withdrawing from the employees' pension fund.

### 2. Projected benefit obligation

(Millions of yen)

(1)	Projected benefit obligation (Note)	(84,070)
(2)	Fair value of plan assets	80,088
	Subtotal	(3,982)
(3)	Unrecognized prior service cost	(224)
(4)	Unrecognized actuarial gain	10,815
	Net amount recorded on the Consolidated Balance Sheets	6,607
(5)	Prepaid pension cost	10,568
(6)	Provision for retirement benefits	(3,960)

(Note) Some subsidiaries adopt the simple method for calculating benefit obligations.

### 3. Periodic benefit costs

(Millions of yen)

(1)	Service cost (Note 1)	4,015
(2)	Interest cost	1,856
(3)	Expected return on plan assets	(2,210)
(4)	Amortization of prior service cost	(46)
(5)	Recognized actuarial loss	557
(6)	Net periodic benefit cost	4,171
(7)	Other (Note 2)	2,921
	Total	7,093

- Notes:
1. Some subsidiaries adopt the simple method for calculating benefit obligations.
  2. "Other" mainly consists of amount of Company's annual contribution to defined contribution pension plan.
  3. Other than those mentioned above, contribution for withdrawal from employees' pension fund of ¥209 million and a loss on abolishment of retirement benefit plan of ¥137 million were posted under extraordinary loss.

## 4. Basis for computation used in determining projected benefit obligation

## (1) Term-allocation method of employees' estimated retirement benefit amount

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year.

## (2) Discount rate

Mainly 1.2%

## (3) Rate of expected return on plan assets

Mainly 2.5%

## (4) Amortization period of prior service cost

Mainly 10 years (prior service cost is recognized as an expense and amortized over a fixed number of years within the average remaining service period of the current employees.)

## (5) Amortization period of actuarial gain/loss

Mainly 10 years (actuarial gain/loss is recognized as an expense and amortized over a fixed number of years within the average remaining service period of the current employees, starting from the following consolidated fiscal year).

Current fiscal year (April 1, 2013, to March 31, 2014)

## 1. Outline of the retirement benefit plans adopted

The Company and its domestic consolidated subsidiaries have a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans.

## 2. Defined benefit plan

## (1) Adjustment table for the beginning and the ending balance for projected benefit obligation (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for projected benefit obligation	83,770
Service cost	4,098
Interest cost	1,919
Actuarial gain arising during the period	(993)
Prior service cost arising during the period	7
Amount of retirement benefits paid	(4,064)
Effect of changes in the scope of consolidation	72
Effect of changes in accounting period	(121)
Foreign currency translation adjustment	5,078
Other	(134)
Ending balance for projected benefit obligation	89,633

## (2) Adjustment table for the beginning and the ending balance for plan assets (excluding the benefit plan applying the simplified method)

	(Millions of yen)
Beginning balance for plan assets	80,088
Expected return on plan assets	3,057
Actuarial gain arising during the period	3,907
Employer contributions	4,839
Amount of retirement benefits paid	(3,732)
Effect of changes in accounting period	167
Foreign currency translation adjustment	3,845
Other	55
Ending balance for plan assets	92,228

## (3) Adjustment table for the beginning and the ending balance for net defined benefit liabilities under the simplified method

	(Millions of yen)
Beginning balance for net defined benefit liability	300
Periodic benefit cost	2,963
Amount of retirement benefits paid	(763)
Ending balance for net defined benefit liability	2,500

- (4) Adjustment table for the ending balance for projected benefit obligation and plan assets, and net defined benefit liabilities and assets recorded on the consolidated balance sheet

	(Millions of yen)
Retirement benefit obligation (funded)	(88,051)
Plan assets	92,228
	4,177
Retirement benefit obligation (unfunded)	(4,082)
Net amount for assets and liabilities recorded on the consolidated balance sheet	94
Net defined benefit liabilities	(9,975)
Net defined benefit assets	10,069
Net amount for assets and liabilities recorded on the consolidated balance sheet	94

(Note) Including the benefit plan applying the simplified method.

- (5) Amount of periodic benefit cost and its breakdown

	(Millions of yen)
Service cost	4,098
Interest cost	1,919
Expected return on plan assets	(3,057)
Recognized actuarial loss during the period	(113)
Amortization of prior service cost during the period	(42)
Periodic benefit cost calculated by the simplified method	2,963
Other	70
Total	5,838

- (6) Remeasurements of defined benefit plans

Breakdown of the items (before adoption of tax-effect accounting) recorded in remeasurements of defined benefit plans is as follows:

	(Millions of yen)
Unrecognized prior service cost	(18)
Unrecognized actuarial gain	6,801
Total	6,782

- (7) Plan assets

- (i) Breakdown of plan assets

Percentages of major asset classes to total plan assets are as follows:

Domestic bonds	6%
Domestic equities	8%
International bonds	24%
International equities	18%
Insurance assets (general account)	17%
Cash and deposits	2%
Real estate	2%
Other	23%
Total	100%

- (ii) Method for setting the expected long-term rate of return on plan assets

Current and expected allocation of plan assets and long-term rate of return on various assets composing the plan assets are taken into account in determining the expected long-term rate of return on plan assets.

- (8) Basis for computation used in actuarial calculation

Basis for computation used in major actuarial calculation at the end of the consolidated fiscal year under review.

Discount rate	Mainly 1.2%
Expected long-term rate of return on plan assets	Mainly 2.5%

3. Defined contribution plan

Amount of contribution required to defined contribution plan paid by the Company and its subsidiaries is ¥4,181 million.

## Tax-Effect Accounting

### 1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Deferred tax assets:		
Provision for product warranties	11,582	13,857
Unrealized profit of inventories	5,978	9,057
Investment securities	7,434	8,104
Tax loss carryforwards	15,325	7,168
Inventories	3,495	4,739
Software and other assets	3,243	4,083
Provision for bonuses	3,430	4,012
Provision for retirement benefits	878	—
Net defined benefit liabilities	—	2,439
Foreign income tax credit	1,436	1,735
Allowance for doubtful accounts	1,351	1,159
Other	17,112	20,284
Subtotal of deferred tax assets	71,267	76,642
Less valuation allowance	(21,926)	(20,055)
Total deferred tax assets	49,340	56,587

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Deferred tax liabilities:		
Intangible assets	(47,895)	(58,123)
Undistributed earnings of consolidated subsidiaries	(14,197)	(21,084)
Valuation difference on available-for-sale securities	(8,345)	(13,560)
Prepaid pension cost	(3,697)	—
Net defined benefit assets	—	(3,585)
Reserve for advanced depreciation of non-current assets	(1,960)	(1,905)
Other	(7,771)	(9,149)
Total deferred tax liabilities	(83,868)	(107,409)
Net deferred tax assets (liabilities)	(34,527)	(50,822)

## 2. Reconciliation between the normal statutory effective income tax rate and the actual effective tax rate after the adoption of tax-effect accounting

		(%)
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Normal statutory effective income tax rate (Reconciliation items)	37.9	—
Difference in tax rates with those of foreign subsidiaries	(13.5)	—
Tax and tax effect imposed on dividends from foreign subsidiaries	7.0	—
Amortization of goodwill	5.2	—
Consolidated adjustment to gain on sales of investments in capital of subsidiaries and associates	5.0	—
Valuation allowance	3.2	—
Income taxes for prior periods	(2.1)	—
Unrecognized tax effect on unrealized profit	(1.8)	—
Unrecognized tax effect on foreign income tax credit	1.3	—
Others	(0.0)	—
Actual effective income tax rate after the adoption of tax-effect accounting	42.1	—

(Note) Notes regarding the difference between the normal statutory effective income tax rate and the actual effective tax rate after the adoption of tax-effect accounting are omitted as the difference is not more than 5% of the normal statutory effective income tax rate for the current fiscal year.

## 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, income or loss, assets, liabilities and other items by reported segment

Methods of accounting procedures for reported business segments are generally the same as those for statements in “Basis of Presenting the Consolidated Financial Statements.”

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

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

Previous fiscal year (April 1, 2012, to March 31, 2013)

(Millions of yen)

		Reported segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded on Consolidated Financial Statements (Note 3)
		Air-Conditioning and Refrigeration Equipment	Chemicals	Subtotal				
Current fiscal year	Net sales							
	Sales to outside customers	1,119,972	124,435	1,244,408	46,494	1,290,903	—	1,290,903
	Intersegment sales	855	5,804	6,659	224	6,884	(6,884)	—
	Total	1,120,827	130,240	1,251,067	46,719	1,297,787	(6,884)	1,290,903
	Segment income	70,904	16,491	87,396	1,228	88,625	2	88,627
	Segment asset	1,445,185	150,099	1,595,284	29,719	1,625,003	110,832	1,735,836
	Other items							
	Depreciation	27,614	9,695	37,309	2,098	39,408	—	39,408
	Amortization of goodwill	12,050	25	12,076	—	12,076	—	12,076
	Investments in entities accounted for using equity method	8,436	5,604	14,040	—	14,040	—	14,040
	Increase in property plant and equipment, and intangible assets	36,944	15,549	52,493	1,829	54,322	—	54,322

- Notes:
- 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.
  - The breakdown for Adjustment is as follows:
    - Adjustment to segment income, ¥2 million, is intersegment transaction elimination.
    - Adjustment to segment assets, ¥110,832 million, includes corporate assets not allocated to each reported segment of ¥118,701 million and ¥ (7,869) 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.
  - Segment income is adjusted with operating income in the Consolidated Statement of Income.



Current fiscal year (April 1, 2013, to March 31, 2014)

(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				
Current fiscal year	Net sales							
	Sales to outside customers	1,592,885	140,177	1,733,062	50,014	1,783,077	—	1,783,077
	Intersegment sales	841	7,452	8,294	407	8,701	(8,701)	—
	Total	1,593,726	147,630	1,741,357	50,422	1,791,779	(8,701)	1,783,077
	Segment income	138,477	14,189	152,667	2,413	155,081	(5)	155,075
	Segment asset	1,618,355	176,020	1,794,375	30,839	1,825,214	187,315	2,012,530
	Other items							
	Depreciation	41,303	12,111	53,414	1,671	55,086	—	55,086
	Amortization of goodwill	23,767	16	23,783	—	23,783	—	23,783
	Investments in entities accounted for using equity method	10,880	5,604	16,485	—	16,485	—	16,485
	Increase in property plant and equipment, and intangible assets	37,113	20,359	57,472	1,878	59,350	—	59,350

- 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 for Adjustment is as follows:  
 (1) Adjustment to segment income, ¥ (5) million, is intersegment transaction elimination.  
 (2) Adjustment to segment assets, ¥187,315 million, includes corporate assets not allocated to each reported segment of ¥196,124 million and ¥ (8,808) 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 income is adjusted with operating income in the Consolidated Statement of Income.

## [Relevant Information]

Previous fiscal year (April 1, 2012, to March 31, 2013)

## 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.	China	Europe	Asia and Oceania	Other	Total
494,284	113,252	234,774	195,052	186,218	67,320	1,290,903

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

## (2) Property, plant and equipment

(Millions of yen)

Japan	China	U.S.	Europe	Asia and Oceania	Other	Total
91,758	69,951	42,716	31,459	32,615	5,699	274,201

## 3. Information by principal customers

None applicable

Current fiscal year (April 1, 2013, to March 31, 2014)

## 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.	China	Europe	Asia and Oceania	Other	Total
512,753	359,122	322,883	247,058	239,632	101,625	1,783,077

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

## (2) Property, plant and equipment

(Millions of yen)

Japan	China	U.S.	Europe	Asia and Oceania	Other	Total
95,318	80,118	52,375	34,484	31,595	5,824	299,716

## 3. Information by principal customers

None applicable

## [Information Related to Impairment Loss of Non-current Assets by Reported Segment]

Previous fiscal year (April 1, 2012, to March 31, 2013)

None applicable

Current fiscal year (April 1, 2013, to March 31, 2014)

None applicable

## [Information Related to Amount of Amortization of Goodwill and Unamortized Balance by Reported Segment]

Previous fiscal year (April 1, 2012, to March 31, 2013)

(Millions of yen)

	Air-Conditioning and Refrigeration Equipment	Chemicals	Others	Corporate or eliminations	Total
Balance at end of current period	348,411	—	—	—	348,411

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

Current fiscal year (April 1, 2013, to March 31, 2014)

(Millions of yen)

	Air-Conditioning and Refrigeration Equipment	Chemicals	Others	Corporate or eliminations	Total
Balance at end of current period	361,667	—	—	—	361,667

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 (April 1, 2012, to March 31, 2013)

No important items applicable.

Current fiscal year (April 1, 2013, to March 31, 2014)

No important items applicable.

**Per Share Information**

(Yen)

	Previous fiscal year (April 1, 2012, to March 31, 2013)	Current fiscal year (April 1, 2013, to March 31, 2014)
Net assets per share	2,123.10	2,749.76
Net income per share	149.73	315.21
Diluted net income per share	149.71	314.83

- Notes: 1. The basis for calculations of net income per share and diluted net income per share is provided below.  
2. As stated in "Changes in Accounting Policy," the Accounting Standard for Retirement Benefits, etc., are applied in line with the transitional measure set forth under Article No. 37 of Accounting Standard for Retirement Benefits.  
As a result, net assets per share for the current fiscal year have decreased by ¥16.73.

	Previous fiscal year (April 1, 2012, to March 31, 2013)	Current fiscal year (April 1, 2013, to March 31, 2014)
Net income per share		
Net income (Millions of yen)	43,584	91,880
Amount not belonging to common shareholders (Millions of yen)	—	—
Net income related to common stock (Millions of yen)	43,584	91,880
Average number of shares of common stock during the year (Thousands of shares)	291,089	291,484
Diluted net income per share		
Increase in the number of shares of common stock (Thousands of shares)	38	352
[Of the above, stock options by exercising subscription rights to shares] (Thousands of shares)	[38]	[352]
Overview of residual securities excluded from the calculation of diluted net income per share, as they have no dilutive effect	<p>Stock options resolved by the Board of Directors meeting held on June 28, 2007: Subscription rights to shares: 2,020 units (202,000 shares)</p> <p>Stock options resolved by the Board of Directors meeting held on June 27, 2008: Subscription rights to shares: 2,200 units (220,000 shares)</p> <p>Stock options resolved by the Board of Directors meeting held on June 26, 2009: Subscription rights to shares: 2,120 units (212,000 shares)</p> <p>Stock options resolved by the Board of Directors meeting held on June 29, 2010: Subscription rights to shares: 2,510 units (251,000 shares)</p> <p>Stock options resolved by the Board of Directors meeting held on June 29, 2011: Subscription rights to shares: 2,960 units (296,000 shares)</p>	<p>Stock options resolved by the Board of Directors meeting held on June 27, 2008: Subscription rights to shares: 1,700 units (170,000 shares)</p>

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

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Total net assets (Millions of yen)	635,996	824,348
Deduction from total net assets (Millions of yen)	17,878	22,004
[Of the above, subscription rights to shares] (Millions of yen)	[1,335]	[841]
[Of the above, minority interests] (Millions of yen)	[16,543]	[21,162]
Shareholders' equity pertaining to common stock at the end of the fiscal year (Millions of yen)	618,118	802,343
Number of shares of common stock used to calculate net assets per share (Thousands of shares)	291,139	291,787

**Significant Subsequent Events**

None applicable

**Omission of Disclosure**

The notes to Consolidated Statements of Cash Flows, lease transactions, related-party transactions, financial instruments, securities, derivative transactions, stock options have been omitted hereby, as the information disclosure of the respective statements on the Brief Report on the Settlement of Accounts was considered insignificant.

## 5. Non-Consolidated Financial Statements

### (1) Balance Sheet

(Millions of yen)

	FY2012 (As of March 31, 2013)	FY2013 (As of March 31, 2014)
<b>Assets</b>		
Current assets		
Cash and deposits	19,604	45,329
Notes receivable - trade	626	534
Accounts receivable - trade	89,827	97,192
Merchandise and finished goods	35,474	37,022
Work in process	29,682	29,731
Raw materials and supplies	5,090	5,739
Advance payments - trade	49	482
Prepaid expenses	1,594	1,092
Deferred tax assets	7,412	5,152
Other	35,596	69,956
Allowance for doubtful accounts	(18)	(9)
Total current assets	224,939	292,225
Non-current assets		
Property, plant and equipment		
Buildings, net	26,560	27,424
Structures, net	2,517	2,722
Machinery and equipment, net	26,448	25,366
Vehicles, net	50	50
Tools, furniture and fixtures, net	5,017	6,065
Land	20,241	20,241
Leased assets, net	2,262	2,277
Construction in progress	2,357	5,148
Total property, plant and equipment	85,456	89,296
Intangible assets		
Patent right	45	39
Leasehold right	284	284
Trademark right	0	0
Software	1,087	1,047
Other	152	152
Total intangible assets	1,570	1,524
Investments and other assets		
Investment securities	101,464	153,201
Shares of subsidiaries and associates	467,879	477,676
Investments in capital of subsidiaries and associates	103,501	98,360
Long-term loans receivable	115	106
Long-term loans receivable from employees	117	109
Long-term loans receivable from subsidiaries and associates	141,315	139,088
Long-term prepaid expenses	1,517	1,308
Prepaid pension cost	8,660	9,187
Other	4,482	4,275
Allowance for doubtful accounts	(950)	(929)
Total investments and other assets	828,103	882,383
Total non-current assets	915,131	973,204
Total assets	1,140,071	1,265,430

	(Millions of yen)	
	FY2012	FY2013
	(As of March 31, 2013)	(As of March 31, 2014)
<b>Liabilities</b>		
Current liabilities		
Notes payable - trade	4,012	4,790
Accounts payable - trade	32,475	38,483
Short-term loans payable	26,900	60,020
Current portion of bonds	—	30,000
Current portion of long-term loans payable	5	65,434
Lease obligations	1,093	1,107
Accounts payable - other	3,630	2,843
Accrued expenses	22,355	26,219
Income taxes payable	2,344	2,009
Advances received	895	997
Deposits received	19,550	24,034
Provision for directors' bonuses	170	250
Provision for product warranties	7,606	7,687
Notes payable - facilities	1,001	1,763
Accounts payable - facilities	6,120	7,050
Other	317	220
Total current liabilities	128,480	272,912
Non-current liabilities		
Bonds payable	150,000	120,000
Long-term loans payable	476,052	423,912
Lease obligations	1,279	1,281
Provision for retirement benefits	—	1,862
Deferred tax liabilities	6,395	14,050
Other	353	353
Total non-current liabilities	634,080	561,459
Total liabilities	762,561	834,371
<b>Net assets</b>		
Shareholders' equity		
Capital stock	85,032	85,032
Capital surplus		
Legal capital surplus	82,977	82,977
Other capital surplus	39	572
Total capital surpluses	83,016	83,549
Retained earnings		
Legal retained earnings	6,066	6,066
Other retained earnings		
Reserve for advanced depreciation of non-current assets	3,451	3,452
Reserve for special depreciation	16	11
General reserve	146,210	146,210
Retained earnings brought forward	40,863	70,765
Total retained earnings	196,606	226,505
Treasury shares	(6,767)	(4,543)
Total shareholders' equity	357,888	390,544
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	18,209	39,799
Deferred gains or losses on hedges	75	(126)
Total valuation and translation adjustments	18,285	39,672
Subscription rights to shares	1,335	841
Total net assets	377,509	431,058
Total liabilities and net assets	1,140,071	1,265,430

**(2) Statement of Income**

(Millions of yen)

	FY2012 (April 1, 2012, to March 31, 2013)	FY2013 (April 1, 2013, to March 31, 2014)
Net sales	462,748	499,168
Cost of sales	350,227	368,509
Gross profit	112,521	130,658
Selling, general and administrative expenses	100,266	109,005
Operating income	12,254	21,653
Non-operating income		
Interest income	757	1,601
Interest on securities	12	6
Dividend income	23,688	25,634
Foreign exchange gains	6,113	2,827
Other	647	976
Total non-operating income	31,218	31,046
Non-operating expenses		
Interest expenses	4,186	5,301
Interest on bonds	1,615	1,950
Sales discounts	552	527
Other	1,443	1,470
Total non-operating expenses	7,798	9,251
Ordinary income	35,674	43,448
Extraordinary income		
Gain on sales of land	38	—
Gain on sales of investment securities	114	32
Gain on reversal of subscription rights to shares	310	208
Gain on sales of shares of subsidiaries and associates	1,735	—
Gain on sales of investments in capital of subsidiaries and associates	10,760	12,608
Total extraordinary income	12,958	12,849
Extraordinary losses		
Loss on disposal of non-current assets	119	370
Loss on sales of investment securities	—	0
Loss on valuation of investment securities	12,649	1,531
Loss on liquidation of subsidiaries and associates	851	—
Total extraordinary losses	13,621	1,902
Income before income taxes	35,011	54,395
Income taxes - current	3,982	7,691
Income taxes for prior periods	(1,418)	—
Income taxes - deferred	4,359	4,858
Total income taxes	6,923	12,549
Net income	28,088	41,845



**(3) Statement of Changes in Equity**

FY2012 (April 1, 2012, to March 31, 2013)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings
						Reserve for advanced depreciation of non-current assets
Balance at beginning of current period	85,032	82,977	—	82,977	6,066	3,453
Changes of items during period						
Dividends of surplus						
Reversal of reserve for advanced depreciation of non-current assets						(2)
Provision of reserve for advanced depreciation of non-current assets						
Reversal of reserve for special depreciation						
Provision of reserve for special depreciation						
Net income						
Purchase of treasury shares						
Disposal of treasury shares			39	39		
Net changes of items other than shareholders' equity						
Total changes of items during period	—	—	39	39	—	(2)
Balance at end of current period	85,032	82,977	39	83,016	6,066	3,451

	Shareholders' equity					
	Retained earnings				Treasury shares	Total shareholders' equity
	Other retained earnings			Total retained earnings		
	Reserve for special depreciation	General reserve	Retained earnings brought forward			
Balance at beginning of current period	21	146,210	23,245	178,997	(6,955)	340,051
Changes of items during period						
Dividends of surplus			(10,479)	(10,479)		(10,479)
Reversal of reserve for advanced depreciation of non-current assets			2	—		—
Provision of reserve for advanced depreciation of non-current assets						—
Reversal of reserve for special depreciation	(5)		5	—		—
Provision of reserve for special depreciation						—
Net income			28,088	28,088		28,088
Purchase of treasury shares					(0)	(0)
Disposal of treasury shares					189	228
Net changes of items other than shareholders' equity						
Total changes of items during period	(5)	—	17,617	17,609	188	17,837
Balance at end of current period	16	146,210	40,863	196,606	(6,767)	357,888

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	(133)	1	(132)	1,500	341,418
Changes of items during period					
Dividends of surplus					(10,479)
Reversal of reserve for advanced depreciation of non-current assets					—
Provision of reserve for advanced depreciation of non-current assets					—
Reversal of reserve for special depreciation					—
Provision of reserve for special depreciation					—
Net income					28,088
Purchase of treasury shares					(0)
Disposal of treasury shares					228
Net changes of items other than shareholders' equity	18,343	74	18,418	(165)	18,252
Total changes of items during period	18,343	74	18,418	(165)	36,090
Balance at end of current period	18,209	75	18,285	1,335	377,509

FY2013 (April 1, 2013, to March 31, 2014)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings
						Reserve for advanced depreciation of non-current assets
Balance at beginning of current period	85,032	82,977	39	83,016	6,066	3,451
Changes of items during period						
Dividends of surplus						
Reversal of reserve for advanced depreciation of non-current assets						(1)
Provision of reserve for advanced depreciation of non-current assets						2
Reversal of reserve for special depreciation						
Provision of reserve for special depreciation						
Net income						
Purchase of treasury shares						
Disposal of treasury shares			532	532		
Net changes of items other than shareholders' equity						
Total changes of items during period	—	—	532	532	—	1
Balance at end of current period	85,032	82,977	572	83,549	6,066	3,452

	Shareholders' equity					
	Retained earnings				Treasury shares	Total shareholders' equity
	Other retained earnings			Total retained earnings		
	Reserve for special depreciation	General reserve	Retained earnings brought forward			
Balance at beginning of current period	16	146,210	40,863	196,606	(6,767)	357,888
Changes of items during period						
Dividends of surplus			(11,946)	(11,946)		(11,946)
Reversal of reserve for advanced depreciation of non-current assets			1	—		—
Provision of reserve for advanced depreciation of non-current assets			(2)	—		—
Reversal of reserve for special depreciation	(5)		5	—		—
Provision of reserve for special depreciation	0		(0)	—		—
Net income			41,845	41,845		41,845
Purchase of treasury shares					(3)	(3)
Disposal of treasury shares					2,226	2,759
Net changes of items other than shareholders' equity						
Total changes of items during period	(5)	—	29,902	29,899	2,223	32,655
Balance at end of current period	11	146,210	70,765	226,505	(4,543)	390,544

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	18,209	75	18,285	1,335	377,509
Changes of items during period					
Dividends of surplus					(11,946)
Reversal of reserve for advanced depreciation of non-current assets					—
Provision of reserve for advanced depreciation of non-current assets					—
Reversal of reserve for special depreciation					—
Provision of reserve for special depreciation					—
Net income					41,845
Purchase of treasury shares					(3)
Disposal of treasury shares					2,759
Net changes of items other than shareholders' equity	21,589	(202)	21,387	(493)	20,893
Total changes of items during period	21,589	(202)	21,387	(493)	53,548
Balance at end of current period	39,799	(126)	39,672	841	431,058

The above represents a translation, for reference and convenience only, of the original notice issued in Japanese. We did our utmost to ensure accuracy in our translation and believe it to be of the highest standard. However, due to differences of accounting, legal and other systems as well as of language, this English version might contain inaccuracies, and therefore might be inconsistent with the original intent imported from the Japanese. In the event of any discrepancies between the Japanese and English versions, the former shall prevail as the official version.