DAIKIN

Annual Report 2002

Fiscal Year Ended March 31, 2002

Profile

Since its establishment in 1934, Daikin Industries, Ltd., has grown into a leading producer of air-conditioning systems and fluorochemical products. Faced with major competition due to the advent of a single global market, we are making every effort to expand our operations on a global basis.

Combining specialized technologies with distinctive R&D capabilities, Daikin is expanding its business in the oil hydraulics and electronics industries to generate revolutionary products with industrial and household applications.

In addition, the Company is striving to meet the targets set forth in its strategic management plan, “Fusion 05.” To accomplish this, we are taking steps to establish a “fast and flat” management framework emphasizing total corporate value. Aiming to increase the aggregate value of its shares to ¥1 trillion by fiscal 2004, the Daikin Group is working hard to develop into a “global top-tier company” by fiscal 2006.

In fiscal 2002, both consolidated net sales and operating income, which increased for the eighth consecutive term, reached all-time highs.

Daikin aims to expedite the execution of management decisions. To this end, we will raise the quality of our management framework by improving the function of consolidated management, building a unique corporate governance system, and revolutionizing our technological capabilities.

Daikin is challenging itself to develop leading-edge technologies and will continue to provide dependable products and systems and build trust among all of its shareholders.

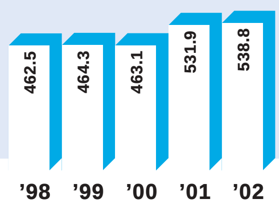
Contents

Forward-Looking Statements

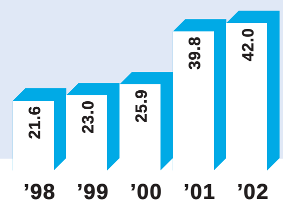
This annual report contains statements regarding future plans and strategies of Daikin Industries, Ltd. (the Company), as well as the Company’s future performance. These statements are not statements of past facts but are based on judgments made by the Company on the basis of information known at the time. Therefore, readers should refrain from drawing conclusions based only on these statements regarding the future performance of the Company. The actual future performance of the Company may be influenced by economic trends, strong competition in the industrial sectors where it conducts its operations, foreign currency exchange rates, and changes in taxation and other systems. For these reasons, these forward-looking statements are subject to latent risk and uncertainty.

Financial Highlights

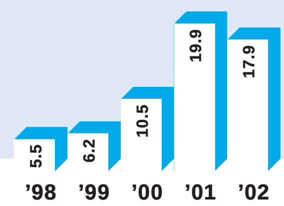
Net Sales
(¥ billion)



Operating Income
(¥ billion)



Net Income
(¥ billion)



Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen		
	2002	2001	2000
Net sales	**¥538,790**	¥531,908	¥463,069
Operating income	**41,968**	39,814	25,888
Net income	**17,937**	19,939	10,453
Total assets	**460,549**	453,142	431,009
Total shareholders’ equity	**191,196**	173,924	159,635
	Yen		
Per share of common stock:			
Net income*	**¥68.03**	¥75.60	¥39.62
Cash dividends applicable to the year	**12.00**	12.00	10.00

** Calculated on the basis of the weighted average number of common shares outstanding during each year*

Management Perspective

Noriyuki Inoue
Chairman and CEO

Hiroyuki Kitai
President and COO

Overview of Fiscal 2002 Results

Although the Chinese market has continued to grow rapidly, the bursting of the IT bubble and the terrorist attacks that occurred in the United States resulted in the rapid deterioration of economies throughout the world, including those of Europe, Japan, and other parts of Asia.

Under these circumstances, Daikin made every effort to achieve the management targets set forth in its strategic management plan, "Fusion 05," in line with the president's policy, for 2001, of "Building a dynamic Daikin through actions of individuals dedicated to change."

During fiscal 2002, ended March 31, 2002, although sales of fluorochemical products decreased due to a sharp drop in global demand for semiconductors and telecommunications products, unit sales in our core Air Conditioning and Refrigeration Equipment Division grew substantially both in Japan and foreign countries. As a result, consolidated net sales amounted to ¥538.8 billion, a 1.3% increase compared with the previous term and an all-time high.

During the term under review, Daikin reduced manufacturing costs, expanded sales of distinctive products both in Japan and foreign countries, and cut operating expenses throughout the Group. Thanks to these efforts, earnings in the Air Conditioning and Refrigeration Equipment Division grew substantially and consolidated operating income increased 5.4%, to an all-time high of ¥42.0 billion. This was the eighth consecutive term in which operating income grew. Due to an increase in the write-down of investment securities and other factors, net income fell 10.0%, to ¥17.9 billion.

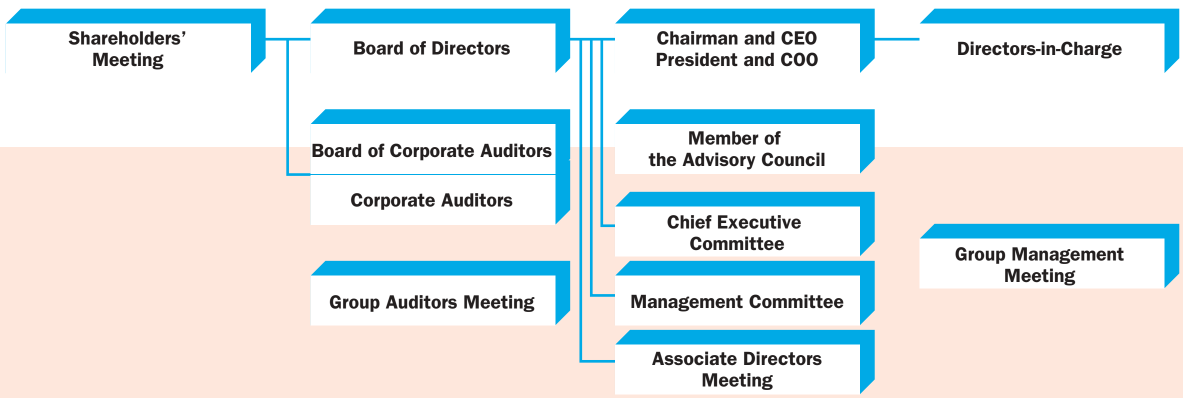
Free cash flow amounted to ¥14.1 billion. This figure is lower than that of the previous term mainly as a result of increased investment outflows. As we used impairment accounting methods that adversely affected profits, return on assets fell 0.6 percentage point, to 3.9%.

At the shareholders' meeting held on June 27, 2002, the Board of Directors resolved to pay cash dividends applicable to the year of ¥12.00 per share.

Overview of Operations

Sales in the Air Conditioning and Refrigeration Equipment Division increased 5.2% compared with the previous term, to ¥422.2 billion, reflecting the positive effects

Daikin's New Management Structure



of the yen's weakness against the dollar and the euro. As sales, helped by the weak yen, increased substantially in the Japanese and overseas markets, operating income surged 31.8%, to ¥32.2 billion.

Daikin expanded its share of the domestic market for commercial air-conditioning systems by 1.6 percentage points and now controls 41.4% of the market, its largest share thus far. This is attributable to the implementation of a sales-expansion policy that, despite a decrease in private-sector capital expenditure, focused on selling replacement units and expanding sales of such high-value-added products as the SUPER INVERTER ZEAS II, the most energy-efficient series in the industry.

In residential air-conditioning systems, we actively promoted a number of unique products, including URURU & SALALA air-conditioning systems, which combine humidity control with minus ion emissions to provide a comfortable room atmosphere, and actively expanded sales through large-scale electronics retailers. As these efforts coincided with an exceptionally hot summer, Daikin sold more air-conditioning systems than any company in the industry and increased its share of the market 1.0 percentage point, to 12.8%. As a result, Daikin now belongs to the group of companies holding the No. 2 position in the domestic market for residential air-conditioning systems.

In the European market, which until recently had experienced rapid growth, demand was undermined by highly changeable weather, especially in the south of the region. However, due to powerful growth in Australia, China, and other countries, overseas air-conditioning sales grew at a double-digit rate.

In November 2001, Daikin supplemented its ongoing alliance with Matsushita Electric Industrial Co., Ltd., by forming a strategic alliance with the Trane Company, the heating, ventilation, air-conditioning, and refrigerating (HVAC) business division of American Standard Inc. The Trane Company is based in the United States, where it is the top rated air-conditioning manufacturer and solutions provider. We believe that this alliance will help us highlight our various strengths and secure the No. 1 position in the global market by facilitating the provision of air-conditioning solutions, improved services, and a full line of air-conditioning systems. For further information regarding this alliance, please refer to the supplementary materials on pages 8 and 9.

In the Chemicals Division, as global demand for semiconductors and telecommunications products dropped sharply and, in the United States, sales of FEP for use in LAN cable insulation decreased, sales and profits from fluoroplastics and related products decreased. As a result, segment sales amounted to ¥81.7 billion, a 15.1% decrease compared with the previous term, and operating income plummeted 41.7%, to ¥9.3 billion.

The entire Group is reforming its operational framework to enhance its earnings power in anticipation of a surge in demand for fluorochemicals in the medium

Aiming for consolidated net sales of ¥630 billion

term. In addition, one of our most important strategic projects, the construction of a new plant in China to capitalize on China's rapidly growing IT and automotive industries, is progressing according to our investment plan.

The "Fusion 05" Strategic Management Plan

In fiscal 2002, Daikin initiated efforts to become a "global top-tier company" by launching its new strategic management plan, "Fusion 05." Although the principles and policies outlined in the plan have not changed, we have set new short-term goals and revised our implementation schedules in response to major changes in our operating environment. Under our original implementation schedule for the medium term, we planned to make every effort to achieve consolidated net sales of ¥700 billion and consolidated ordinary income of ¥70 billion.

However, major changes have occurred that have forced us to alter our initial forecasts for economic growth. For example, Japan's GDP is now expected to contract in both fiscal 2002 and 2003. In light of these changes, we have revised our targets downward and are now aiming for consolidated net sales of ¥630 billion and consolidated ordinary income of ¥57 billion. If we had simply adjusted our forecast downward in line with the negative changes in the economy, our revised targets would be even lower. In fact, in trying to change our targets as little as possible, we have had to implement additional policies to reduce expenses, expand sales of priority products by redistributing human resources, and improve the efficiency of indirect departments. Thus, we have actually set ourselves tougher challenges than those embodied in the original targets.

It must be added, however, that we have not entirely given up on our original targets. Instead, we are trying to move beyond the strictures of conventional thought to achieve these extremely high targets, which we have redesignated as "stretch goals." Furthermore, Daikin is accelerating efforts to capitalize on the alliances it has already formed with other companies, increase the number of innovative business initiatives under way, and enter into additional strategic alliances and tie-ups.

In line with its 12 core strategies for becoming a "global top-tier company," Daikin has implemented a range of policies. At present, particular emphasis has been placed on the following four policies.

1. Achieve Technological Preeminence

As a manufacturer, it is imperative that we rapidly develop the best technology in the world. To this end, in March of the term under review, Daikin implemented a plan to facilitate technological innovation in the Air Conditioning and Refrigeration Equipment Division and has named the plan "Daikin's Technology Statement," targeting the No. 1 or No. 2 position in the global air-conditioning industry by the end of fiscal 2006. To do so, it is absolutely necessary that we develop technologies enabling us to continuously distinguish our products from those of our competitors, add value to our products, and provide solutions to our customers'

Developing the best technology in the world

problems. Technological innovations will be achieved by focusing on the following three strategies.

First, we must form a decision-making framework that enables quick, concise decisions to be made regarding the development of products and technologies.

Second, looking three to five years ahead, we must prioritize our development activities, intensifying our focus in some areas and withdrawing from others.

Third, to improve our technology portfolio, we must introduce incentives to encourage our technicians to be more innovative in thought and action.

2. Quickly Capitalize on Corporate Alliances and Form Additional Alliances and Tie-ups

In 1999, we formed an alliance with Matsushita Electric Industrial Co., Ltd. to develop and manufacture ductless air-conditioning systems and, during the term under review, we formed another strategic alliance with the Trane Company. These two alliances will serve as a basis from which to secure the No. 1 position in the global air-conditioning market. During the current term, Daikin must act quickly to integrate its operations with those of its partners and generate positive results.

Daikin is forming policies in conjunction with the Trane Company to generate major synergies. At present, the two companies are working together to supply products to the European market, and these efforts will be expanded to Asia and South America. In addition, plans are on track to supply air-conditioning solutions in Japan and develop ductless air-conditioning systems for the North American market.

3. Develop Strategies for the Chinese Market

With a population of 1.3 billion, China not only serves as the "world's factory," but also comprises an enormous potential market. In light of these considerations, Daikin has designated China as the most important element in its strategic framework for global development. Daikin is acting quickly to expand sales in China while the country's market is still being shaped by rapid growth.

To facilitate these efforts, Daikin is developing a new Chinese holding company, which was established in 2001 and will have comprehensive oversight of the Company's Chinese operations, including engineering, manufacturing, and services. This company will help Daikin expand sales of residential air-conditioning systems and provide services based on knowledge gained in its Japanese operations. In fluorochemicals, Daikin is concentrating on developing applications and generating local demand in preparation for a new fluorochemical plant scheduled for construction in the second half of fiscal 2004.

4. Innovation Business

The "Convenience Pack" is a revolutionary new product for *convenience stores* that combines air conditioning, refrigeration, and freezing functions in a single system and that reduces energy consumption by 50% and occupies 30% less space. We anticipate substantial growth for this solutions business, which will not only sell products tailored to the needs of customers but also provide after-sales maintenance services.

Reducing energy consumption by 50%

This is one of Daikin's 21 innovative business initiatives, designed to reshape the Company's business structure. During the current term, Daikin is establishing goals and policies for each of these initiatives and is aiming for 30% of its sales to come from such businesses by fiscal 2004.

Reinforcing Our Management System

In the current era of intense competition, structural innovation and consolidated management are becoming increasingly important. In light of this, it is imperative that Daikin raises the quality of its management system, which will require the Company to make quick decisions and implement them effectively across business units. To meet this challenge, we have carried out an extensive review of our management system and made changes where necessary. The changes comprise six main points:

1. We want to operate in a way that reflects all our strengths. To accomplish this without introducing a corporate officer system, we are integrating our management functions so that executives share responsibility for both making and executing decisions.
2. As the issues facing management are becoming more complicated, we have established a "Chief Executive Committee" to facilitate faster decision making and problem solving. This committee functions as the Company's highest deliberative body, overseeing Groupwide policies, management strategies, business restructuring, the implementation of new management paradigms, and other issues that are beyond the scope of divisional and departmental management responsibilities.
3. We have divided management responsibilities between the CEO and COO to expedite the execution of management decisions and strengthen our consolidated management framework. The CEO is responsible for making decisions that affect the entire Group, while the COO is in charge of executing those decisions. With both of these functions operating in concert, our management framework is significantly more powerful. The chairman functions as the CEO, and the president functions as the COO. There are many issues related to business development and the enhancement of corporate value, and dividing responsibilities between the CEO and COO facilitates high-speed decision making and execution, thus increasing both the breadth and depth of our Group management.
4. In addition, we are forming a body called the "Group Management Meeting" to improve our consolidated management capabilities and accelerate the execution of management decisions on a global scale. The Group Management Meeting will help promote Groupwide strategies for IT, financing, human resources, and other important functions.
5. We have drawn on external sources to enhance our management capabilities. Ms. Chiyono Terada, the president and CEO of Art Corporation, and Mr. Tadasu Tachi, the counsellor of Kaneka Corporation, serve as Daikin's first external board members and take part in

Reinforcing our management system

the decision-making processes starting in the current term. These two board members provide high-quality advice regarding weaknesses in our operations from an independent point of view. We have also continued to benefit from advice given by members of "The Advisory Council," which was formed in 1999 and has been enhanced to function even more effectively.

6. We have strengthened the auditing function to improve transparency and public disclosure. In line with revisions to the Commercial Code of Japan, we have increased the number of highly professional auditors, and established a "Group Auditors Meeting" to improve the auditing function at the Group level. This auditing system will give us immediate feedback regarding the specific issues faced by each company in the Group and enable us to pool our mental resources to solve any problems.

To Our Shareholders

The outlook for the current term remains grim. Although a partial recovery is under way in the United States among semiconductors, telecommunications, and other IT-related industries, the Japanese economy remains weighed down by structural problems, especially bad debts in the financial sector. That said, in the current term we will maintain the same intense focus that enabled us to come close to meeting the targets set forth in our previous strategic management plan, "Fusion 21," and strive for increased growth and development under "Fusion 05." In addition to the six points mentioned, Daikin will strive to ensure that all of the Group's operations are running according to a customer-centric management paradigm to facilitate the realization of nine consecutive terms of increased operating income and the targets set forth in "Fusion 05."

At the beginning of 2002, Daikin challenged itself to flatten its organization, enhance management performance, and generate a continual stream of new innovations. Daikin will maintain the same dedicated focus that has been successful in the past while aiming to be a "global top-tier company." A continuous series of innovations will support our ongoing efforts to achieve the high targets we have set.

We hope that our shareholders will continue to understand and support Daikin's management efforts.

June 27, 2002

Noriyuki Inoue, Chairman and CEO

Hiroyuki Kitai, President and COO

A Global Strategic Alliance with The Trane Company

The Daikin-Trane Global Strategic Alliance

- Global cross-sourcing of expertise products
- Joint strategic initiative in China
- Joint ductless products market creation in the United States
- Sales and manufacturing cooperation in Latin America
- Applied business cooperation and solutions business cooperation in Japan

Toward the Top Position in the Global HVAC Market

In Daikin's strategic management plan—"Fusion 05"—the Company announced its intention of becoming a "global top-tier company." This means that Daikin aims to hold the No. 1 or No. 2 market positions in all of its business fields, including its HVAC business, by fiscal 2006. To achieve this goal, Daikin signed the "Master Agreement of the Global Strategic Alliance" with the Trane Company, the HVAC business division of American Standard Inc., in November 2001. The global HVAC market is marked by both tough competition and saturation, which has inevitably led to consolidation and the reshaping of the industry. Faced with this environment, Daikin will support the strategic alliance in the following ways.

- With around $9 billion combined sales (thus leading the global market), Daikin and the Trane Company will provide a full line of products to global customers,
- Meeting the changing market requirements, Daikin will supply not only hardware but also air-conditioning solutions,
- The two companies will accelerate global business development in eight regions (Japan, Europe, China, the rest of Asia, India, the Middle East and Africa, North America, and South and Central America) for balanced and stabilized business growth, and
- The two companies will strengthen the competitiveness of large-sized HVAC products in Japan and explore new ductless air-conditioning products markets in the United States.

Daikin believes that the alliance with the Trane Company will contribute substantially toward Daikin's goal of becoming the No. 1 company in the global HVAC industry.

Alliance Will Create Significant Synergies

The Trane Company is the global No. 2 in terms of net sales and holds the global No. 1 position in the applied equipment business as well as in the air-conditioning solutions business. Daikin holds the No. 1 position in the Japanese HVAC market and also maintains a strong global position in the ductless air-conditioning systems business.

Daikin and the Trane Company have an extremely complementary business relationship. Daikin's major strengths lie in ductless air-conditioning systems for residential and small- and medium-sized commercial buildings, while the Trane Company's strengths are in ducted air-conditioning systems for medium- and large-sized commercial buildings. In terms of geography, Daikin maintains a strong position in Japan, Asia, and Europe, while the Trane Company is the industry leader in North America and South America and strong in Asia and Europe. Furthermore, Daikin's sales mainly focus on distribution routes, while the Trane Company's sales expertise is in its commercial routes. Given the complementary strengths of the two companies' products, global sales, and sales routes, a considerable synergistic effect can be expected.

Global Nature of the Alliance

Although the HVAC market is highly competitive and appears to be saturated, there are still good opportunities for global expansion through the speeding up of the development of highly value-added products and highly customized products. Daikin believes that its alliance can facilitate such business development and growth through a regional approach.

Europe

Commercial air-conditioning systems are becoming more popular in such countries as the United Kingdom and France. Also, residential air-conditioning systems are becoming common home appliances in southern European countries such as Italy and Spain. In general, the European markets for HVAC industries are now in the middle of a steady growth phase. Through accelerating cross-sourcing of each party's expertise products, Daikin and the Trane Company will be able to increase their sales through their independent sales channels.

China

The Chinese economy is expanding rapidly and is forecast to soon become the world's largest market in terms of sales volume. This expansion is expected to result in a substantial number of new business opportunities in the HVAC market. Daikin expects sales will expand rapidly due to 2008 Olympics-related projects and constant growth in the residential air-conditioning market offers an opportunity for considerable business expansion. Daikin and the Trane Company will not only conduct joint operations but also work together to develop greater market opportunities.

North America

In the U.S. market, ducted air-conditioning systems are dominant. Daikin expects its high-quality ductless air-conditioning systems to be extremely popular in the U.S. market because of low operating noise levels, high energy-saving capabilities, user-friendly functions including dehumidifiers, moisturizers, deodorizers, and air cleaners, and other environment-friendly characteristics. Daikin will leverage its sales of ductless air-conditioning systems through the mobilization of the Trane Company's nationwide sales network.

Central America and South America

These markets have shown strong growth in the past decade. Brazil is the largest market in this region and the hub of MERCOSUR. Also, ductless air-conditioning systems are expected to become the most popular HVAC products in this market. Daikin plans to jointly produce ductless air-conditioning systems for the Brazilian market with the Trane Company and the two companies will also work together in sales operations, which include the formation of joint sales businesses in Brazil and Argentina.

Japan

The Japanese HVAC market is not only highly competitive but also saturated. Daikin has been increasing its market shares for both commercial and residential air-conditioning systems. Daikin will introduce the Trane Company's highly competitive applied air-conditioning systems along with its unique and customer-oriented business model for HVAC solutions. An approach that is expected to establish Daikin as a market leader in the HVAC business in Japanese. This comprehensive HVAC solutions model consists of product delivery, servicing, engineering, control, and finance. This business promises substantial growth due to the change in customers' requirements for more environmentally friendly products. The Company will target such markets as buildings, factories, retail outlets, and *convenience stores.*

Creating a Win/Win Alliance on a Global Basis

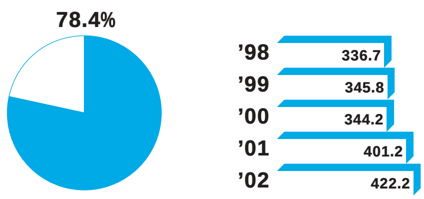
In November 1999, Daikin formed a global strategic alliance with Matsushita Electric Industrial Co., Ltd. in the field of residential and commercial air-conditioning systems. Through the alliance with the Trane Company, all three companies have now become allied. Consequently, we are in the process of creating a system around three core businesses—residential and commercial air-conditioning systems and large centralized air-conditioning systems—in eight global regions.

This is merely the foundation and the framework for future operations. Daikin will mobilize these global alliances for the maximum synergistic effect through the progressive implemention of each project region by region.

We will endeavor to speedily realize individual results of joint operations and will strive to build the world's strongest air-conditioning alliance.

Air Conditioning

Sales (% of net sales, ¥ billion)



In fiscal 2002, ended March 31, 2002, sales in the Air Conditioning and Refrigeration Equipment Division amounted to ¥422.2 billion, a 5.2% increase compared with the previous term. The division's sales accounted for 78.4% of consolidated net sales. Operating income increased 31.8% compared with the previous term, to ¥32.2 billion, and the ratio of operating income to segment sales was 7.6%.

Although sales in Japan were virtually unchanged from the previous year, sales overseas grew at a double-digit rate.

The Japanese Market

Overview

In fiscal 2002, the Japanese economy was adversely impacted by the slowdown in the U.S. economy and the bursting of the IT bubble. These factors notwithstanding, Japan experienced its second consecutive hot summer, which helped to drive up demand for air-conditioning systems during the first half of the term. However, in the middle of August, demand began to falter due to stagnation in the domestic economy, and this trend was exacerbated by the terrorist attacks that occurred in the United States shortly thereafter. During the second half of the term, overall demand for air-conditioning systems declined compared with the previous year. In particular, sales of commercial air-conditioning systems suffered from reduced capital investment and a correction in demand, which had temporarily risen during the previous year when companies rushed to purchase air-conditioning systems prior to the enactment of the Law Concerning the Measures by Large-Scale Retail Stores for Preservation of Living Environment. In addition, sales of residential air-conditioning systems suffered from a decrease in the number of new housing starts and a change in demand, which had temporarily risen during the previous year when companies rushed to purchase air-conditioning systems prior to the enactment of the Specified Household Appliances Recycling Law.

Despite these adverse conditions, Daikin sold more commercial air-conditioning systems and residential air-conditioning systems than it had during the previous term and achieved stronger growth than the industry average. This is attributable to the value our customers place on our comprehensive line of product and service offerings. For example, we have enhanced our air-conditioning sales network, focusing on specialized retailers, provided unique products, including those capable of meeting the growing demand for replacement products, and implemented a service system operating 24 hours a day, 365 days a year.

In commercial air-conditioning systems, Daikin provides an array of environment-friendly commercial air-conditioning systems that facilitate energy conservation and are designed to suit virtually any market. We expanded the SUPER INVERTER SERIES, a major driver of market share expansion through the end of the previous term, by adding the SUPER INVERTER ZEAS II, featuring high user-value and enhanced performance capabilities. We succeeded in increasing our market share by focusing on the development of extremely efficient Ve-up multi-split systems for office buildings and ZEAS systems for factories that are trying to cut back on energy use.

In residential air-conditioning systems, Daikin has won praise from customers for its URURU & SALALA systems, the industry's first air-conditioning system capable of drawing moisture from the air outside to humidify air inside without a water supply, and this was linked to an increase in the sale of residential air-conditioning systems.

During the term under review, Daikin

increased its share of the markets for residential air-conditioning systems as well as commercial air-conditioning systems. Due to favorable summer weather, Daikin's products made up a large share of sales at large-scale electronics retailers. In addition, we made strong efforts to expand sales via our outstanding sales network, which spans the entire country.

Outlook

The domestic economy is caught in a deflationary spiral, which is driving down prices, the value of assets, and overall product demand. In addition, we fear that there will be a decrease in demand, which, during fiscal 2002, benefited from an exceptionally hot summer. Thus, the air-conditioning industry is facing an uncertain future.

On the other hand, Daikin anticipates increased demand for commercial air-conditioning systems, as many companies become more attuned to environmental problems and the importance of energy conservation and will soon need to replace units purchased during the bubble era. We realize that the provision of total solutions is extremely important and, in fiscal 2003, will strive to acquire the requisite products, consulting knowledge, and service and development systems to provided such services. For example, in February 2002, we introduced the RAKU PITA ZEAS, a new upward-blowing external unit that can be neatly installed in front of shops facing the street or used in narrow urban spaces where conventional units cannot be installed. Daikin will supply not only hardware but also air-conditioning solutions.

There are two reasons why demand for room air-conditioning systems is not expected to increase significantly in fiscal 2003. First, many people already purchased air-conditioning systems during the summer of fiscal 2002 due to exceptionally hot weather. Second, it is not clear when the market for new housing starts will recover. Daikin will strive to expand product sales by focusing on its distinctive URURU & SALALA systems. Furthermore, with demand for residential air-conditioning systems expected to decline, in February 2002, Daikin introduced "ecocute," a natural refrigerant for use in heat pump boilers, as part of efforts to increase sales of units for residential use.

Global Market

Overview

Despite the high growth rates seen in previous terms, growth in the global air-conditioning market tapered off during fiscal 2002. Although growth in the Chinese market remained strong, demand in the European market, which had been the major engine of growth through fiscal 2001, suffered from falling sales of IT products, climatic irregularities, the adverse effects of the terrorist attacks in the United States, and other factors. Added to this, ASEAN countries were unable to shake off the effects of economic stagnation, and price competition intensified for compact residential air-conditioning systems due to changes in the industry, particularly in China, where manufacturers are exploiting cost advantages to expand overseas at a remarkable pace.

However, looking at the industry as a whole, even in the flagging European market, growth in France, Spain, and other countries remained steady. Demand in Australia was strong, enabling Daikin to expand sales of residential air-conditioning systems. And in China, Daikin expanded sales of Variable Refrigerant Volume (VRV) systems and commercial air-conditioning systems for office buildings. As a result, the Company delivered on plans to expand overall sales of residential and commercial air-conditioning systems and VRV systems. In addition, in November 2001, Daikin reached a basic agreement with the Trane Company to form a comprehensive strategic alliance, thus initiating efforts to improve the Company's global performance. This alliance will help strengthen our lineup of large-scale air-conditioning systems. Taken together with our alliance with Matsushita Electric Industrial Co., Ltd. in 1999, which improved our lineup of small-scale systems, we now have a system in place that will facilitate the provision of a full lineup of air-conditioning systems, from compact to super large-scale models.

Outlook

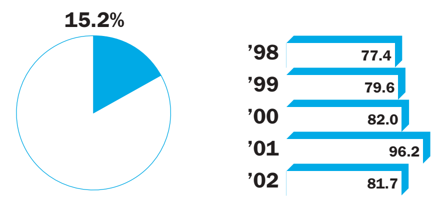
Demand for air-conditioning systems continues to grow in China, other regions of Asia, Europe, Central America, and South America, making prospects for high growth likely in these markets. During fiscal 2003, air-conditioning manufacturers from the United States and Japan as well as China, South Korea, and other countries will accelerate efforts to develop these high-growth markets, resulting in intensified competition.

In anticipation of such competition, Daikin is targeting improved competitiveness in every area of its business. Thus, it is implementing a flexible production system that is responsive to fluctuations in market demand and currency values, providing products to meet global standards and specifications, and reducing costs associated with products and manufacturing by expanding its facilities in China and Thailand. In conjunction with these efforts, Daikin is considering the establishment of manufacturing units in such emerging markets as South America and Eastern Europe to facilitate the provision of products to regional markets. With sales expansion in view, the Company is implementing policies calling for the continued expansion of its sales routes and seeking to take over existing external sales agencies to strengthen its sales systems. In accordance with our mission as a manufacturer, additional efforts will be made to continue generating demand through the provision of distinctive cutting-edge products. In addition to selling air-conditioning systems, we will provide maintenance services and take steps to expand our revenue streams through the development of related businesses dedicated to providing detailed solutions for our customers' needs.

The planned strategic alliance with the Trane Company will go into effect in fiscal 2003. We intend to use the alliance to maximize synergies, which will necessitate collaboration in the provision of superior products, strengthen our alliance on a regional basis, and take concrete steps to integrate our operations.

Chemicals

Sales (% of net sales, ¥ billion)



In fiscal 2002, sales in the Chemicals Division amounted to ¥81.7 billion, a 15.1% decrease compared with the previous term, and accounted for 15.2% of consolidated net sales. Operating income amounted to ¥9.3 billion, a 41.7% decrease, and the ratio of operating income to net sales totaled 11.4%.

Overview

In fiscal 2002, the U.S. IT bubble burst, the Japanese economy continued to stagnate, and, in September, the United States experienced a series of terrorist attacks. As a result, our operating environment underwent momentous changes at an unprecedented rate. Fiscal 2002 was the first year of our strategic management plan, "Fusion 05," which was implemented to facilitate rapid business expansion. However, although we aggressively expanded our business and achieved a substantial sales increase in China, which is the world's fastest growing market, segment sales decreased for the first time in seven years due to the drastic deterioration of our operating environment.

In fluoropolymers and fluoroelastomers, sales declined more than 10% compared with the previous term as global demand for IT products and semiconductor manufacturing devices dropped precipitously and demand in the U.S. market for LAN cables decreased substantially. In Japan and the rest of Asia, demand for semiconductor etching agents decreased substantially, resulting in lower sales.

Sales of fluorocarbons increased for the second straight term, as Japanese and other air-conditioning manufacturers switched to R-410A, R-407C, and other alternative refrigerants, driving up demand.

Daikin has begun using its U.S. subsidiary Daikin America, Inc., to produce oil- and water-repellant finishes, thereby establishing a supply system that covers both the United States and Japan and serves as a basis for global development. As a result of these efforts, sales of oil- and water-repellant finishes increased dramatically compared with the previous term.

Outlook

It is estimated that the fluorochemicals market contracted by approximately 15% in fiscal 2002. In fiscal 2003, as economic prospects remain uncertain and manufacturers need to carry out inventory adjustments, an overall market recovery is unlikely, although a partial recovery is possible. That said, the long-term outlook is quite good, as demand from manufacturers of such cutting-edge products as semiconductors and telecommunication devices as well as automobiles, consumer electronics, and textiles is expected to drive long-term growth.

In line with the operational policies set forth in "Fusion 05," Daikin is taking measures to develop new applications for semiconductors, telecommunications, and other fields, accelerate development on a global basis, and establish peripheral businesses.

Anticipating slow growth, Daikin has established a business plan for fiscal 2003 that calls for the expansion of sales and market share for such products as oil- and water-repellant finishes, fluoroelastomers, and PTFE fluoropolymer. At the same time, the Company is trying to reduce fixed costs and carry out other structural reforms to ensure a stronger foundation for future earnings.

Also on track are plans to create a more powerful operating infrastructure through the implementation of an improved supply system. To accomplish this, the Company will set up new manufacturing bases, enhance the capabilities of existing bases, strengthen sales networks, and enlarge its scale of business.

In oil- and water-repellant finishes, Daikin is aiming for higher sales and a larger market share. To this end, we are planning to augment the capabilities of our manufacturing bases in the United States and Japan in 2002 and provide better technical services.

In fluoroelastomers, the Company has established a new manufacturing subsidiary, Daikin Chemical France S.A.S. The new subsidiary will complement Daikin Chemical Europe GmbH, a subsidiary specializing in the sale of fluorochemicals, and Daikin Chemical Netherlands B.V., which operates a pre-compound production plant for fluoroelastomers. As a result, in Europe, the production and sale of fluoroelastomers will generate an integrated system, thus accelerating the pace of the Company's global development.

Daikin is now building a manufacturing plant in Changshu, Jiangsu Province, China, which is scheduled to begin production in the second half of fiscal 2004 and will supply products for both the Chinese and global markets. In preparation for the start of operations, we are working to expand sales in China and the rest of Asia and lay the groundwork for the creation of new markets.

Daikin America, which completed its 10th year of operations in January 2001, is working to strengthen its position in the United States, home to the world's largest fluorochemical market and some of the most advanced applications developments. To this end, we are improving our technological services and enhancing our product development capabilities.

In August 2001, we established Taiwan Daikin Advanced Chemicals Inc. in Taipei, Taiwan, which is a global center for the production of semiconductors and IT products, to carry out general sales of fluorochemical products. In conjunction with Formosa Daikin Advanced Chemicals Co., Ltd., which produces and sells semiconductor etching agents, Daikin will work to extend the range of its operations in Taiwan.

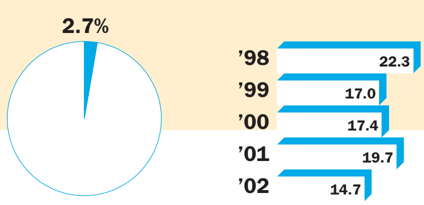
To expedite the execution of management decisions, we have implemented a management policy that stresses the importance of our strategic alliances. Under this policy, we are considering alliances with companies in virtually every field of business, including production, sales, materials procurement, and R&D. For example, to expedite the development of new applications and improve the Company's technological capabilities, Daikin is forming a global research network that includes academic and industrial partnerships as well as stronger contributions from the Daikin Institute of Advanced Chemistry and Technology, Inc., which outsources research projects to venture businesses and research institutions.

In July 2001, Daikin formed a strategic alliance with OMNOVA Solutions Inc., based in Ohio, the United States, to jointly develop and commercialize fluorochemical products for surface modification and surfactant applications. The joint effort will focus on fusing OMNOVA's fluoropolymer production technology with Daikin's fluorochemical technology to develop products that benefit from distinctive fluorosurfactants and coatings modifiers.

Daikin will continue to conduct its fluorochemical operations safely with due consideration given to the environment and reinforce its frameworks for providing services and supplying safe, high-quality products on a global scale.

Oil Hydraulics

Sales (% of net sales, ¥ billion)



In fiscal 2002, sales in the Oil Hydraulics Division decreased 25.3% compared with the previous term, to ¥14.7 billion, and accounted for 2.7% of consolidated net sales.

Overview

• Oil Hydraulics Equipment

Aggregate sales in Japan's oil hydraulics equipment industry fell 16.5% compared with the previous term, to ¥194.4 billion.

Daikin focused on studying the nature of the end-user market and cultivating new market segments and latent needs by continuing to develop inverter oil cooling units and the ECORICH series, a line of distinctive, energy-saving products.

Daikin has teamed up with Sauer-Danfoss Inc. (U.S.A.) to form two joint-venture companies that will produce and sell oil-hydraulics products for construction machinery at Daikin's Yodogawa Plant in Japan. Both joint ventures got off to a good start during the term under review.

• Parking Systems

Demand for Daikin's mechanical multi-level car-parking systems, which is strongly influenced by the supply of new condominiums, remained virtually unchanged from the previous term. However, as Daikin was forced to implement extreme price reductions in response to decreased condominium prices, sales from parking systems declined.

• Lubrication

Lubricant sales remained virtually unchanged from the previous term despite dwindling demand in the iron and steel industry, which is one of the largest markets for lubricants. This is attributable to our success in establishing a stable earnings base through the integration of our lubricant operations with those of Nabco, Ltd., in April 2000.

Outlook

• Oil Hydraulics Equipment

Market fluctuations notwithstanding, demand in the market for oil hydraulics equipment will most likely decline over the medium-to-long term due to competition from electrical and pneumatic devices and the global expansion of companies making the products in which our oil hydraulics equipment is installed. Furthermore, with the increase in the number of global manufacturers based in Japan, our operating environment may worsen in the future. In light of these factors, aggregate sales in Japan's oil hydraulics equipment industry are expected to decrease 2.0%, to ¥190.7 billion.

The following strategies have been implemented to ensure success in this tough environment.

1. We will produce new hybrid products through the fusion of our conventional hydraulics technologies with technologies using electrical and pneumatic platforms, thus expanding the scope of our operations to cover an entire range of functions from power control to power motion control.

2. We will develop our business in promising Asian markets while seeking opportunities for business alliances and tie-ups. In line with this strategy, we have strengthened our relationship with Sauer-Danfoss Inc. through the establishment of two joint ventures, which will benefit from the strengths of both companies. Our aim is to secure the No. 1 position in the Asian market for mobile hydraulics by 2005.

• **Parking Systems**

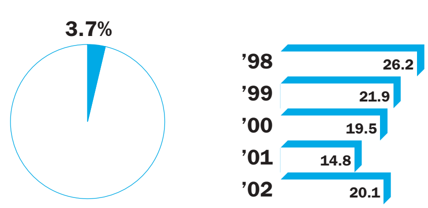
In the medium term, demand for parking systems will remain stable but price competition will intensify. Moreover, the hydraulics-based systems market in which Daikin's products are sold comprises slightly less than 15% of the overall market for multi-level car-parking systems. Therefore:

1. Daikin will form alliances with manufacturers of electric motor-driven parking systems. At present, we are probably the third or fourth largest manufacturer in Japan but an alliance would enable us to jump to the first or second position in the industry.

2. As Daikin has the industry's No. 1 service system, the Company must derive a substantial portion of its earnings from servicing mechanical multi-level car-parking systems.

Defense

Sales (% of net sales, ¥ billion)



In fiscal 2002, sales in Daikin's defense-related operations amounted to ¥20.1 billion, a 36.0% increase compared with the previous term. The division's sales accounted for 3.7% of consolidated net sales, up from 2.8% in the previous term.

Overview

In fiscal 2002, Japan's defense budget remained fairly constant, and there were no significant improvements in the Company's operating environment. In fiscal 2001, Japan's Self Defense Agency placed an order for tank ammunition, which we had begun mass producing during the same year. Unfortunately, we were forced to postpone delivery of the order due to an accident that occurred at one of our subcontractor's plants in fiscal 2001. As a result, the delivery was made during the term under review and sales benefited accordingly. In addition, Daikin is making structural changes to its private-sector business, which includes conventional fiber-reinforced plastic (FRP) composite vessels, oxygen regulators, and, since 2001, ICU devices for small animals. However, these changes notwithstanding, private-sector sales remained virtually unchanged from the previous term due to harsh market conditions.

Outlook

Fiscal 2003 is the second year covered by the New Medium-Term Defense Plan, which provides for a defense budget that is 3.8% higher than that of the previous defense plan. The defense budget for fiscal 2003 amounts to ¥4.94 trillion, a modest increase compared with the previous term and, of this, expenses related to combat equipment are forecast to be ¥766.0 billion, a ¥1.0 billion decrease. However, the budget for ammunition and other products made by Daikin is expected to remain unchanged, which means that prospects for the Defense Division are stable for fiscal 2003.

Defense

In the face of constrained defense spending, Daikin will act to maximize the number of orders it receives for ammunition and other products that it began mass-producing in fiscal 2002. At present, Japan's Self Defense Agency is revising its incentive contract system in an attempt to lower costs, and Daikin is taking vigorous action to use the revised system to improve the efficiency and stability of its operational framework.

Private-Sector Business

Daikin first entered the market for residential oxygen medical equipment in 1996, and in the past few years a number of new companies have followed suit, resulting in tough competition. In fiscal 2003, Daikin plans to expand the scope of its operations by implementing extensive cost reductions, increasing sales of distinctive oxygen regulators, and introducing new FRP composite vessels. Furthermore, in anticipation of increased demand for high-oxygen medical treatment for pets, Daikin will develop a sales strategy for its ICU device DIA M10.

Electronics

In fiscal 2002, demand in the computer graphics industry contracted, reflecting stagnation in the semiconductor market, dwindling demand for computer graphics animation software, reduced investment in computer systems, and a shift to Windows NT® operating systems. Despite these adverse conditions, Daikin's Electronics Division sales changed little from the previous fiscal year due to the launch of a new IT network solutions business and a virtual digital broadcasting studio. Furthermore, by shutting down our DVD department in the United States and focusing on the Japanese market, we recorded profits on the sale of DVD-authoring software.

In the years ahead, IT and network proliferation will accelerate, and the use of broadband and mobile communications will continue to evolve. This trend represents a significant business opportunity insofar as it will increase demand for the computer graphics products we have worked so hard to develop. To build a solid computer graphics business, we are enlarging the scope of our operations and striving to become a total solutions provider.

In network solutions, Daikin is seeking to provide better consulting services and is broadening the scope of its solutions business by providing LSF software, which enables individual computers to share their processing burdens by means of a network. In addition, Daikin's IND and IDD network surveillance systems are used by a wide range of universities, institutes, and corporations. At present, the Company is optimizing the technological platform underpinning such systems and setting up a business that will provide solutions and services related to the management of IT assets.

In 2001, we initiated efforts to market the Vi(z) Virtual Studio, which is used by broadcasting companies. In addition, Daikin is taking steps, sometimes in conjunction with other companies, to construct new ways of handling workflow during the creation of computer games and broadcasting content, data management, streaming-video transmissions, and other aspects of the computer graphics business. Some of the products we have produced in this area include Softimage/DS, a non-linear editing system that enables users to digitize and edit images, and SCENARIST, a DVD-authoring system.

With the No. 1 share of the market for CAD design and genetic engineering software, we are building the world's best portal site enabling users to rent FILDER CAD software via the Internet. Furthermore, anticipating the implementation of the Japanese government's E-JAPAN Strategy and CALS/EC policy, we have built a framework for the provision of IT services and are aiming to attract 2,000 users.

Daikin is closely monitoring the technologies it has developed for three-dimensional interactive TV and bi-directional digital content, making technological adjustments where necessary and forming alliances to facilitate the establishment of new businesses related to such technologies in fiscal 2004.

Financial Section

Contents

Five-Year Summary

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen				
	2002	2001	2000	1999	1998
Net sales	**¥538,790**	¥531,908	¥463,069	¥464,332	¥462,519
Air conditioning	**422,224**	401,192	344,213	345,837	336,663
Chemicals	**81,705**	96,188	81,957	79,629	77,373
Others	**34,861**	34,528	36,899	38,866	48,483
Operating income	**41,968**	39,814	25,888	23,004	21,636
Income before income taxes and minority interests	**31,598**	35,234	19,418	15,351	11,796
Net income	**17,937**	19,939	10,453	6,194	5,455
Per share of common stock (in yen):					
Net income*	**¥68.03**	¥75.60	¥39.62	¥23.48	¥20.68
Cash dividends applicable to the year	**12.00**	12.00	10.00	10.00	10.00
Total assets	**¥460,549**	¥453,142	¥431,009	¥434,290	¥448,739
Total shareholders' equity	**191,196**	173,924	159,635	149,089	145,332
Net property, plant and equipment	**145,259**	135,725	125,612	132,517	136,901
Number of employees	**15,247**	15,047	14,280	14,337	13,852

** Calculated on the basis of the weighted average number of common shares outstanding during each year*

Financial Review

Net Sales

Consolidated net sales amounted to a record ¥538,790 million, an increase of 1.3% compared with the previous term. The increase is attributable to sales growth in our core Air Conditioning and Refrigeration Equipment Division that offset downward pressure on sales in the Chemicals Division due to a sharper-than-expected drop in demand for semiconductors and telecommunications products.

In the Air Conditioning and Refrigeration Equipment Division, significant sales growth both in Japan and abroad combined with the weak yen to push up overall sales in the air-conditioning segment to ¥422,224 million, a 5.2% increase compared with the previous term. In Japan, we introduced distinctive high-value-added products, achieved substantial sales growth, and increased our market share by concentrating on large-scale electronics retailers and our existing sales network, which covers Tokyo, Osaka, and other metropolitan areas. In Europe, which until recently had experienced rapid growth, demand was undermined by highly changeable weather, especially in the south of the region. However, as this decline was offset by powerful growth in Australia, China, and other countries, overseas air-conditioning sales grew at a double-digit rate.

In the Chemicals Division, sales decreased 15.1%, to ¥81,705 million, reflecting a sharp drop in global demand for semiconductors and telecommunications products and slow sales of FEP for LAN cable insulation in the U.S. market.

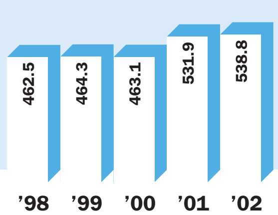
Sales in the Oil Hydraulics Division decreased 25.3%, to ¥14,726 million, reflecting a sharp drop in demand for machine tools.

Sales in defense-related operations increased 36.0%, to ¥20,135 million. The rise was mainly due to increased sales of ammunition that had originally been ordered by Japan's Self Defense Agency in fiscal 2001 but could not be delivered until fiscal 2002 due to an accident that occurred at one of our subcontractors' plants.

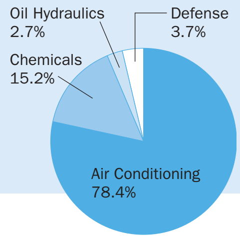
Costs, Expenses, and Earnings

During the term under review, the cost of sales amounted to ¥359,305 million and the cost of sales ratio was 66.7%, down 0.3 percentage point from the previous term. There were two main reasons for the decrease. First, we managed to reduce manufacturing costs at a rate greater than the decline in sales prices. Second, we expanded sales of distinctive high-value-added products. Reductions in manufacturing costs were achieved mainly by integrating various product models and using cost-effective components from China and the rest of Asia.

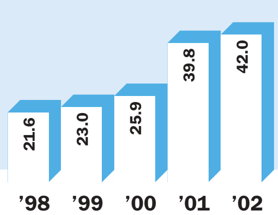
Net Sales
(¥ billion)



Sales Breakdown
(For fiscal 2002)



Operating Income
(¥ billion)



Years Ended March 31,	**2002**	2001	2000	1999	1998
Gross profit (net sales less cost of sales) as a % of net sales	**33.3**	33.0	32.3	31.2	30.0
Operating income as a % of net sales	**7.8**	7.5	5.6	5.0	4.7
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times)	**9.2**	7.8	5.6	3.6	3.5
Net income as a % of net sales	**3.3**	3.7	2.3	1.3	1.2

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥1,748 million compared with the previous term, to ¥137,517 million, reflecting a rise in costs associated with the hiring of new employees overseas.

Operating Income

Operating income amounted to a record ¥41,968 million, a 5.4% increase compared with the previous term. It was the 8th consecutive term in which operating income increased. This success resulted from our Companywide efforts to expand sales of distinctive products in Japan and abroad and implement cost-cutting measures in the face of economic uncertainty.

Net Income

Due to an increase in the write-down of investment securities and other factors, net income fell 10.0% to ¥17.9 billion.

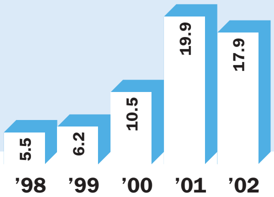
Financial Position

The entire Company strove to reduce notes and accounts receivable and inventories and made such notable strides as shortening the retaining period for receivables from 71 to 66 days. The retaining period for inventories was almost the same, at 64 days.

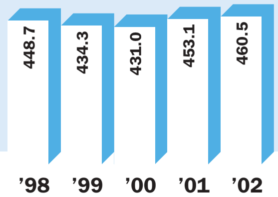
Interest-bearing debt increased ¥9,813 million compared with the previous term, to ¥153,544 million. This was mainly due to investments in a new plant in China. The interest-bearing debt ratio increased 1.6 percentage points, to 33.3%. Daikin is trying to lower this ratio to 25.0% by fiscal 2004 in line with the targets set forth in the “Fusion 05” strategic management plan.

Total shareholders’ equity increased ¥17,272 million, to ¥191,196 million, reflecting an increase in internal reserves that accompanied larger earnings. The shareholders’ equity ratio increased 3.1 percentage points, to 41.5%.

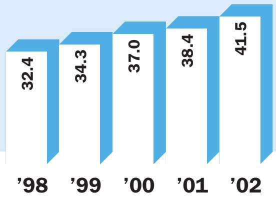
Net Income
(¥ billion)



Total Assets
(¥ billion)



Shareholders’ Equity Ratio
(%)



Years Ended March 31,	**2002**	2001	2000	1999	1998
Notes and accounts receivable (¥ billion)	**98.0**	104.2	106.3	103.6	110.0
Inventories (¥ billion)	**93.8**	92.2	84.2	95.4	102.9
Interest-bearing debt (not including trade notes discounted) (¥ billion)	**153.5**	143.7	159.1	171.9	186.4

Cash Flows

During the term under review, net cash provided by operating activities was ¥40,183 million, reflecting a slight decrease in income before income taxes and minority interests and a reduction in trade notes and accounts receivable.

Net cash used in investing activities amounted to ¥33,690 million, chiefly reflecting the purchases of property, plant, and equipment.

Net cash provided by financing activities was ¥3,577 million, due mainly to the procurement of funds for capital investment in overseas business units.

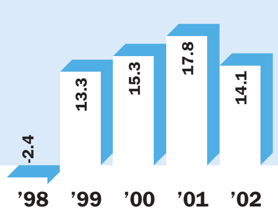
As a result, cash and cash equivalents, end of year totaled ¥46,257 million. This figure is close to the Company's average monthly net sales of ¥44,899 million. Liquidity in hand, including a commitment line with banks of approximately ¥25,000 million, amounted to ¥71,256 million, or 1.6 times the average net sales per month.

Dividends

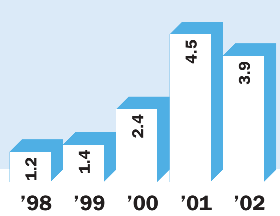
To maximize corporate value, Daikin is taking vigorous action to develop its business within an improved operational framework. As part of this effort, the Company is establishing virtual companies and using managerial indicators to measure free cash flow (FCF), Daikin's Value Added (DVA), return on assets (ROA), and return on investment (ROI). At the same time, as we are committed to returning profits to shareholders, we are striving to raise the ratio of cash dividends to shareholders' equity (on a non-consolidated basis) to more than 2.0%.

Dividend payments were the same as the previous term, at ¥12.0 per share (1.9% of the non-consolidated cash dividend shareholders' equity ratio).

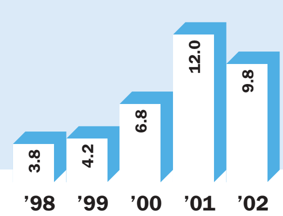
Free Cash Flow (FCF)
(¥ billion)
FCF = Income before income taxes + Depreciation and amortization – Investments ± Net working capital



Return on Assets (ROA)
(%)



Return on Equity (ROE)
(%)



Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

ASSETS	Millions of yen 2002	Millions of yen 2001
Current assets:		
Cash and cash equivalents	**¥ 46,257**	¥ 35,482
Short-term investments	**320**	320
Trade receivables (Note 5):		
Notes	**12,039**	19,721
Accounts	**86,867**	85,584
Allowance for doubtful receivables	**(913)**	(1,119)
Inventories (Note 3)	**93,840**	92,174
Deferred tax assets (Note 10)	**9,212**	9,159
Prepaid expenses and other current assets	**12,513**	14,017
Total current assets	**260,135**	255,338
Property, plant and equipment (Note 6):		
Land	**24,302**	23,785
Buildings and structures	**118,745**	111,678
Machinery and equipment	**218,375**	199,073
Furniture and fixtures	**70,115**	67,372
Construction in progress	**5,482**	8,893
Total	**437,019**	410,801
Accumulated depreciation	**(291,760)**	(275,076)
Net property, plant and equipment	**145,259**	135,725
Investments and other assets:		
Investment securities (Note 4)	**31,635**	41,265
Investments in and advances to unconsolidated subsidiaries and associated companies	**3,146**	3,233
Deferred tax assets (Note 10)	**3,350**	671
Other assets	**17,024**	16,910
Total investments and other assets	**55,155**	62,079
Total	**¥460,549**	¥453,142

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen	
	2002	2001
Current liabilities:		
Short-term borrowings (Note 6)	**¥ 72,288**	¥ 64,384
Current portion of long-term debt (Note 6)	**27,799**	13,123
Trade payables (Note 5):		
Notes	**19,343**	26,630
Accounts	**35,769**	39,229
Construction payable	**7,832**	11,213
Income taxes payable	**5,476**	11,602
Deferred tax liabilities (Note 10)	**7**	42
Accrued expenses	**20,630**	20,585
Other current liabilities	**17,706**	16,959
Total current liabilities	**206,850**	203,767
Long-term liabilities:		
Long-term debt (Note 6)	**53,457**	66,224
Liabilities for retirement benefits (Note 7)	**2,722**	1,698
Deferred tax liabilities (Note 10)	**290**	2,271
Total long-term liabilities	**56,469**	70,193
Minority interests	**6,034**	5,258
Commitments and contingent liabilities (Note 14)		
Shareholders' equity (Notes 8, 9 and 15):		
Common stock, no par value—authorized, 500,000,000 shares; issued 263,813,973 shares in 2002 and 2001	**28,023**	28,023
Additional paid-in capital	**25,968**	25,968
Retained earnings	**137,347**	122,694
Net unrealized gain on available-for-sale securities	**2,331**	4,802
Foreign currency translation adjustments (Note 2)	**(2,007)**	(7,327)
Total	**191,662**	174,160
Treasury stock, at cost: 192,571 shares in 2002 and 93,032 shares in 2001	**(466)**	(236)
Total shareholders' equity	**191,196**	173,924
Total	**¥460,549**	¥453,142

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Millions of yen	
	2002	2001
Net sales	**¥538,790**	¥531,908
Cost of sales	**359,305**	356,325
Gross profit	**179,485**	175,583
Selling, general and administrative expenses	**137,517**	135,769
Operating income	**41,968**	39,814
Other income (expenses):		
Interest and dividends income	**1,157**	1,108
Interest expense	**(4,699)**	(5,216)
Royalty income	**287**	1,428
Exchange losses	**(363)**	(261)
Loss on disposals of property, plant and equipment	**(680)**	(898)
Write-down of investment securities	**(7,696)**	(436)
Write-down of other assets	**(357)**	(728)
Equity in earnings of unconsolidated subsidiaries and associated companies	**176**	325
Insurance proceeds received	**1,660**	238
Other—net	**145**	(140)
Other expenses—net	**(10,370)**	(4,580)
Income before income taxes and minority interests	**31,598**	35,234
Income taxes (Note 10):		
Current	**15,236**	17,537
Deferred	**(2,899)**	(3,216)
Total	**12,337**	14,321
Minority interests	**(1,324)**	(974)
Net income	**¥ 17,937**	¥ 19,939

	Yen	
Amounts per common share (Note 2):		
Net income	**¥68.03**	¥75.60
Cash dividends applicable to the year	**12.00**	12.00

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Number of common shares issued	Millions of yen: Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance, April 1, 2000	263,813,973	¥28,023	¥25,968	¥105,646			¥ (2)
Cumulative effect of consolidating former associated companies, previously accounted for by the cost method				110			
Treasury stock acquisition—net (91,500 shares)							(234)
Net income				19,939			
Appropriations:							
Cash dividends, ¥11 per share				(2,901)			
Bonuses to directors and corporate auditors				(100)			
Net unrealized gain on available-for-sale securities					¥4,802		
Foreign currency translation adjustments						¥(7,327)	
Balance, March 31, 2001	263,813,973	28,023	25,968	122,694	4,802	(7,327)	(236)
Treasury stock acquisition—net (99,539 shares)							**(230)**
Net income				**17,937**			
Appropriations:							
Cash dividends, ¥12 per share				**(3,164)**			
Bonuses to directors and corporate auditors				**(120)**			
Net unrealized loss on available-for-sale securities					**(2,471)**		
Foreign currency translation adjustments						**5,320**	
Balance, March 31, 2002	**263,813,973**	**¥28,023**	**¥25,968**	**¥137,347**	**¥2,331**	**¥(2,007)**	**¥(466)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Millions of yen	
	2002	2001
Operating activities:		
Income before income taxes and minority interests	**¥31,598**	¥35,234
Adjustment for:		
Income taxes—paid	**(21,402)**	(10,217)
Depreciation and amortization	**20,956**	19,875
Write-down of investment securities	**7,696**	436
Write-down of other assets	**357**	728
Loss on disposals of property, plant and equipment	**680**	898
Equity in earnings of unconsolidated subsidiaries and associated companies	**(176)**	(325)
Changes in assets and liabilities:		
Trade notes and accounts receivable	**8,340**	7,399
Inventories	**884**	(3,855)
Other current assets	**1,892**	(4,180)
Trade notes and accounts payable	**(11,372)**	5,871
Accrued expenses	**(340)**	2,550
Other—net	**1,070**	(5,866)
Total adjustments	**8,585**	13,314
Net cash provided by operating activities	**40,183**	48,548
Investing activities:		
Purchases of property, plant and equipment	**(31,023)**	(20,292)
Increase in investments in unconsolidated subsidiaries and associated companies	**(155)**	(529)
Payments to acquire investment securities	**(2,314)**	(3,763)
Proceeds from sales of investment securities	**4**	1,065
Other—net	**(202)**	316
Net cash used in investing activities	**(33,690)**	(23,203)
Financing activities:		
Increase (decrease) in short-term borrowings	**6,400**	(20,318)
Increase in long-term debt	**14,405**	5,928
Repayments of long-term debt	**(13,260)**	(5,786)
Payments of cash dividends	**(3,164)**	(2,901)
Other—net	**(804)**	(602)
Net cash provided by (used in) financing activities	**3,577**	(23,679)
Effect of exchange rate changes on cash and cash equivalents	**705**	382
Net increase in cash and cash equivalents	**10,775**	2,048
Cash and cash equivalents of newly consolidated subsidiaries		100
Cash and cash equivalents, beginning of year	**35,482**	33,334
Cash and cash equivalents, end of year	**¥46,257**	¥35,482

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Daikin Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of their respective countries of their domicile. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

Certain reclassifications have been made for the year ended March 31, 2001 to conform to the presentation for the year ended March 31, 2002.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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

For the year ended March 31, 2001, certain associated companies, previously accounted for by the cost method, were newly included in the consolidated financial statements due to the Company's additional investments in their common stock.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 to 10 years.

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

Cash Equivalents

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

Cash equivalents include time deposits and marketable debt securities issued by the Japanese Government and private companies, all of which mature or become due within three months of the date of acquisition.

Short-Term Investments

Short-term investments consist of debt securities issued by quoted companies and time deposits other than cash equivalents.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriated based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed by the straight-line method at rates based on the estimated useful lives of the assets.

The range of useful lives is 15 to 50 years for buildings and structures, 5 to 15 years for machinery and equipment, and 2 to 10 years for furniture and fixtures.

Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the financial statements.

Investment Securities

Under Japanese accounting standards for financial instruments, all marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders’ equity. The cost of securities sold is determined based on the moving-average method.

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

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

Employees’ Retirement Benefits

The Company has a non-contributory funded pension plan covering substantially all of its employees. Effective April 1, 2000, the Company adopted a new accounting standard for employees’ retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥25,249 million as of April 1, 2000 is being amortized over seven years and the annual amortization is presented as selling, general and administrative expenses in the consolidated statements of income.

Directors and corporate auditors are not covered by the aforementioned plans. The Company makes provision for severance indemnities to its directors and corporate auditors based upon management’s estimates of amounts which will be payable, subject to approval of shareholders, for services rendered to date.

Foreign Currency Translations

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

Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders’ equity, which is translated at historical rates. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average exchange rate. Differences arising from such translations were shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

Income Taxes

The provision for current income taxes is computed based on the income before income taxes and minority interests included in the consolidated statements of income. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Derivative Financial Instruments

The Group uses foreign exchange forward contracts and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Group does not enter into derivatives for trading or speculative purposes.

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

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

Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders’ approval.

Amounts Per Common Share

The computation of net income per common share is based on the weighted average number of shares outstanding. The average number of common shares used in the computation for the years ended March 31, 2002 and 2001 were 263,656 thousand and 263,748 thousand, respectively.

Diluted net income per share is not disclosed because potentially dilutive securities are not issued and stock options issued by the Company had no dilutive effect.

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

3. Inventories

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
Finished products and merchandise	**¥54,388**	¥49,641
Semi-finished products and work in process	**29,309**	31,192
Raw materials and supplies	**10,143**	11,341
Total	**¥93,840**	¥92,174

4. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2002 and 2001 were as follows:

	Millions of yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥22,821**	**¥6,370**	**¥(1,993)**	**¥27,198**
Debt securities	**2,140**		**(11)**	**2,129**
Other	**764**		**(357)**	**407**
Total	**¥25,725**	**¥6,370**	**¥(2,361)**	**¥29,734**

	Millions of yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥28,212	¥10,281	¥(1,757)	¥36,736
Debt securities	2,140	13	(1)	2,152
Other	764		(266)	498
Total	¥31,116	¥10,294	¥(2,024)	¥39,386

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 and 2001 were as follows:

	Millions of yen	
	Carrying amount	
	2002	2001
Available-for-sale:		
Equity securities	**¥1,897**	¥1,461
Other	**4**	418
Total	**¥1,901**	¥1,879

Proceeds from sales of available-for-sale securities for the year ended March 31, 2002 and 2001 were ¥4 million and ¥1,065 million, respectively. Gross realized gains (losses) on these sales for the years ended March 31, 2002 and 2001, computed on the moving average cost basis, were (¥1) million and ¥6 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2002 were as follows:

	Millions of yen
Available-for-sale:	
Due after one year through five years	¥ 139
Due after five years through ten years	1,990
Total	¥2,129

5. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Trade notes and accounts receivable	**¥3,738**	¥2,024
Trade notes and accounts payable	**533**	1,125

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Sales	**¥7,537**	¥9,757
Purchases	**7,284**	8,220

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group consisted of bank overdrafts, notes to banks and commercial paper.

As is customary in Japan, the Group obtains financing by discounting trade notes receivable with banks. Unused short-term bank credit lines were ¥25,000 million at March 31, 2002. Weighted average interest rates of short-term borrowings at March 31, 2002 and 2001 were 2.01% and 2.89%, respectively.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
1.60% unsecured bonds, due 2002	**¥20,000**	¥20,000
1.925% unsecured bonds, due 2004	**10,000**	10,000
2.70% unsecured bonds, due 2006	**10,000**	10,000
Collateralized loans from government sponsored banks, with interest ranging from 1.40% to 6.53% (2002), and from 5.05% to 8.15% (2001), due through 2012	**6,064**	3,880
Collateralized loans from banks with:		
Fixed interest 3.46%, due through 2002		2,000
Floating interest ranging from 0.48% to 0.68% (2002), and from 0.47% to 0.68% (2001), due through 2008	**21,850**	21,550
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 2.75% to 6.00% (2002), and from 3.20% to 6.67% (2001), due through 2006	**10,645**	9,082
Unsecured loans from banks with interest ranging from 0.53% to 7.30% (2002), and from 0.52% to 7.30% (2001), due through 2026	**2,697**	2,835
Total	**81,256**	79,347
Less current portion	**(27,799)**	(13,123)
Long-term debt, less current portion	**¥53,457**	¥66,224

Annual maturities of long-term debt outstanding at March 31, 2002 were as follows:

Years ending March 31	Millions of yen
2003	¥27,799
2004	13,716
2005	17,468
2006	11,777
2007	500
2008 and thereafter	9,996
Total	¥81,256

At March 31, 2002, property, plant and equipment with a net book value of ¥55,373 million were pledged as collateral for short-term borrowings and long-term debt.

Certain loan agreements provide that the lender may require the Group to submit proposals for paying dividends, issuing additional long-term debt and certain other matters, for prior approval.

As is customary in Japan, security must be given if requested by a lending bank. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders has ever exercised this right with respect to debt of the Group. In addition, the indentures for the mortgage bonds require prior approval for an issue of bonds, merger, pledge of assets as collateral for other indebtedness, and the disposition of any significant facilities. The indentures also grant holders with the right to request additional collateral.

7. Severance Indemnities and Pension Plans

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

The liabilities for employees' retirement benefits at March 31, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
Projected benefit obligation	**¥69,816**	¥61,045
Fair value of plan assets	**(36,042)**	(34,395)
Unrecognized actuarial loss	**(13,923)**	(4,103)
Unrecognized transitional obligation	**(18,035)**	(21,642)
Net liabilities	**¥ 1,816**	¥ 905

The components of net periodic benefit costs for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Service cost	**¥3,184**	¥3,180
Interest cost	**2,124**	2,123
Expected return on plan assets	**(1,204)**	(1,239)
Amortization of transitional obligation	**3,607**	3,607
Recognized actuarial loss	**410**	
Net periodic benefit costs	**¥8,121**	¥7,671

Assumptions used for the years ended March 31, 2002 and 2001 were set forth as follows:

	Millions of yen	
	2002	2001
Discount rate	**2.5%**	3.5%
Expected rate of return on plan assets	**3.5%**	3.5%
Recognition period of actuarial gain/loss	**10 years**	10 years
Amortization period of transitional obligation	**7 years**	7 years

Liability for retirement benefits at March 31, 2002 and 2001 included retirement benefits for directors and corporate auditors of ¥906 million and ¥793 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

8. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, was ¥6,066 million and ¥5,895 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Under the Code, the amount available for dividends is based on the Company's retained earnings, less the legal reserve, treasury stock and certain other items. At March 31, 2002, the amount of retained earnings recorded in the Company's books that is available for future dividends subject to the approval of the shareholders and legal reserve requirements was ¥102,696 million.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

9. Stock Option Plan

On June 29, 2000, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 93 thousand shares of the Company's common stock in the period from July 1, 2002 to June 30, 2006. On July 25, 2000, the options were granted at an exercise price of ¥2,471 per share.

Also, on June 28, 2001, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 92 thousand shares of the Company's common stock in the period from July 1, 2003 to June 30, 2007. On July 30, 2001, the options were granted at an exercise price of ¥2,541 per share.

10. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Deferred tax assets:		
Inventories	**¥ 4,638**	¥ 4,975
Retirement benefits	**1,100**	665
Tax loss carryforwards	**678**	335
Accrued bonus	**1,576**	1,291
Warranty reserve	**933**	849
Software	**2,820**	2,542
Property and equipment	**788**	1,100
Investment securities	**1,787**	
Other	**2,475**	1,937
Less valuation allowance	**(485)**	
Total deferred tax assets	**¥16,310**	¥13,694
Deferred tax liabilities:		
Deferred gains on sales of property	**¥ 2,240**	¥ 2,240
Unrealized gain on available-for-sale securities	**1,690**	3,474
Other	**115**	462
Total deferred tax liabilities	**4,045**	6,176
Net deferred tax assets	**¥12,265**	¥ 7,518

The actual effective income tax rates reflected in the accompanying statements of income differed from the normal statutory rates for the following reasons:

	2002	2001
Normal statutory income tax rate	**42.0%**	42.0%
Permanent non-deductible expenses	**2.8**	2.5
Difference in foreign subsidiaries' tax rates	**(5.6)**	(3.9)
Foreign tax credit	**(1.9)**	
Other—net	**1.7**	0.0
Actual effective income tax rate	**39.0%**	40.6%

11. Research and Development Costs

Research and development costs were ¥23,414 million and ¥24,039 million for the years ended March 31, 2002 and 2001, respectively.

12. Leases

The Group leases certain computer equipment and other assets.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2002 and 2001, was as follows:

	Millions of yen		
For the year ended March 31, 2002	Furniture and Fixtures	Others	Total
Acquisition cost	**¥6,128**	**¥1,954**	**¥8,082**
Accumulated depreciation	**3,030**	**1,012**	**4,042**
Net leased property	**¥3,098**	**¥ 942**	**¥4,040**

	Millions of yen		
For the year ended March 31, 2001	Furniture and Fixtures	Others	Total
Acquisition cost	¥6,037	¥1,526	¥7,563
Accumulated depreciation	3,218	706	3,924
Net leased property	¥2,819	¥ 820	¥3,639

Obligations under finance leases:

	Millions of yen	
	2002	2001
Due within one year	**¥1,749**	¥1,559
Due after one year	**2,291**	2,080
Total	**¥4,040**	¥3,639

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Lease payments, including depreciation expense and interest expense, under finance leases were ¥2,143 million and ¥1,974 million for the years ended March 31, 2002 and 2001, respectively. Depreciation expense is computed by the straight-line method.

13. Derivatives

The Group enters into various interest rate swap agreements covering certain portions of long-term debt as a means of managing interest rate exposure. The impact on interest expense from these agreements is recognized over the lives of the respective agreements, which are the same as the terms of the related loans.

The Group also enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

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

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

Fair Value of Derivative Financial Instruments

The fair values of the Group's derivative financial instruments at March 31, 2002 and 2001 were as follows:

	Millions of yen					
	2002			2001		
	Contract Amount	Fair Value	Unrealized Loss	Contract Amount	Fair Value	Unrealized Loss
Forward exchange contracts:						
Selling:						
GBP	**¥4,057**	**¥4,083**	**¥(26)**	¥3,471	¥3,546	¥(75)
US$				3,160	3,195	(35)

Information related to derivative contracts that qualify for hedge accounting and forward contracts that are assigned to associated assets and liabilities and recorded on the balance sheet at March 31, 2002 and 2001 are excluded from the disclosure of market value information.

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

14. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2002 totaled approximately ¥3,494 million.

Guarantees of bank loans and items of a similar nature at March 31, 2002 were ¥1,799 million.

15. Subsequent Events

At the general shareholders' meeting held on June 27, 2002, the Company's shareholders approved the following:

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2002 were approved:

	Millions of yen
Year-end cash dividends, ¥6.00 per share	¥1,581
Bonuses to directors and corporate auditors	120

Stock Option Plan

The plan provides for granting options to directors and key employees to purchase up to 118 thousand shares of the Company's common stock in the period from July 2004 to June 2008. The options will be granted at an exercise price of 105% of the fair market value of Company's common stock at the date of option grant.

Purchase of Treasury Stock

The Company is authorized to repurchase up to 120 thousand shares of the Company's common stock (aggregate amount of ¥500 million).

16. Segment Information

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Group for the years ended March 31, 2002 and 2001 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
For the year ended March 31, 2002	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	**¥422,224**	**¥81,705**	**¥34,861**		**¥538,790**
Intersegment sales	**400**	**1,217**		**¥(1,617)**	
Total sales	**422,624**	**82,922**	**34,861**	**(1,617)**	**538,790**
Operating expenses	**390,402**	**73,624**	**34,413**	**(1,617)**	**496,822**
Operating income	**¥ 32,222**	**¥ 9,298**	**¥ 448**	**¥ 0**	**¥ 41,968**

	Millions of yen				
For the year ended March 31, 2001	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥401,192	¥96,188	¥34,528		¥531,908
Intersegment sales	656	1,476	3	¥(2,135)	
Total sales	401,848	97,664	34,531	(2,135)	531,908
Operating expenses	377,393	81,709	35,129	(2,137)	492,094
Operating income (loss)	¥ 24,455	¥15,955	¥ (598)	¥ 2	¥ 39,814

b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2002	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets	**¥273,062**	**¥107,313**	**¥24,835**	**¥55,339**	**¥460,549**
Depreciation	**10,502**	**8,947**	**1,280**		**20,729**
Capital expenditures	**12,188**	**14,989**	**1,795**		**28,972**

For the year ended March 31, 2001	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets	¥266,617	¥89,517	¥28,708	¥68,300	¥453,142
Depreciation	9,839	8,735	862		19,436
Capital expenditures	9,961	14,372	2,819		27,152

Corporate assets consist principally of the Company's cash, time deposits, short-term investments and investment securities.

Notes: Air Conditioning consists of Air Conditioning and Refrigeration Equipment, Electronics, Vacuums and Cryogenics and Medical Equipment.
Chemicals consists of Fluorochemicals.
Others consists of Oil Hydraulics and Defense.

(2) Geographical Segments

The foreign operations of the Group for the years ended March 31, 2002 and 2001 were summarized below:

For the year ended March 31, 2002	Millions of yen						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	**¥385,864**	**¥51,902**	**¥74,482**	**¥24,936**	**¥1,606**		**¥538,790**
Interarea transfers	**67,489**	**25,832**	**798**	**1,242**		**¥(95,361)**	
Total sales	**453,353**	**77,734**	**75,280**	**26,178**	**1,606**	**(95,361)**	**538,790**
Operating expenses	**424,639**	**71,480**	**68,372**	**25,337**	**1,456**	**(94,462)**	**496,822**
Operating income	**¥ 28,714**	**¥ 6,254**	**¥ 6,908**	**¥ 841**	**¥ 150**	**¥ (899)**	**¥ 41,968**
Assets	**¥327,623**	**¥63,662**	**¥45,994**	**¥32,169**	**¥ 918**	**¥ (9,817)**	**¥460,549**

For the year ended March 31, 2001	Millions of yen						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	¥392,772	¥37,760	¥68,045	¥32,141	¥1,190		¥531,908
Interarea transfers	69,062	22,571	281	1,245		¥(93,159)	
Total sales	461,834	60,331	68,326	33,386	1,190	(93,159)	531,908
Operating expenses	437,028	56,464	61,115	30,658	1,223	(94,394)	492,094
Operating income (loss)	¥ 24,806	¥ 3,867	¥ 7,211	¥ 2,728	¥ (33)	¥ 1,235	¥ 39,814
Assets	¥317,415	¥44,036	¥45,110	¥30,280	¥ 886	¥ 15,415	¥453,142

The above amounts are summarized by geographic area based on the countries where subsidiaries are located.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Asia and Oceania	**¥ 70,323**	¥ 57,879
Europe	**74,609**	68,820
Americas	**28,427**	37,790
Other	**5,366**	5,711
Total sales to foreign customers	**¥178,725**	¥170,200

Independent Auditors’ Report

Tohmatsu & Co.
Osaka Kokusai Building
3-13, Azuchimachi 2-chome,
Chuo-ku, Osaka 541-0052, Japan

Tel:+81-6-6261-1381
Fax:+81-6-6261-1238
www.tohmatsu.co.jp

Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Deloitte Touche Tohmatsu

June 27, 2002

Corporate Data

As of June 27, 2002

CONSOLIDATED SUBSIDIARIES

(OVERSEAS)

Daikin Europe N.V.
Zandvoordestraat 300,
B-8400 Oostende, Belgium
Phone: 32-59-558111
Facsimile: 32-59-558899

Daikin Australia Pty. Ltd.
77-83 Alfred Road, Chipping Norton,
P.O. Box 120, Moorebank N.S.W. 2170,
Australia
Phone: 61-2-9755-3322
Facsimile: 61-2-9755-2017

A.C.E. Daikin (Singapore) Pte. Ltd.
No. 10, Ang Mo Kio Industrial Park 2,
569501 Singapore
Phone: 65-583-8888
Facsimile: 65-484-0140

Daikin Airconditioning (Hong Kong) Ltd.
Room 801, Block B, Sea View Estate,
Watson Road, North Point, Hong Kong, China
Phone: 852-2570-2786
Facsimile: 852-2807-2484

Daikin Industries (Thailand) Ltd.
700/11 Bangpakong Industrial Estate,
Bangna-Trad Road, KM57,
Tambol Klongtamru, Amphur Muang,
Chonburi 20000, Thailand
Phone: 66-38-213-032
Facsimile: 66-38-213-047

Shanghai Daikin
Air-Conditioning Co., Ltd.
No. 318, Shen Fu Road, Xing Zhuang
Industry Zone, Shanghai, China
Phone: 86-21-6466-0472
Facsimile: 86-21-6415-0874

Xi'an Daikin Qingan
Compressor Co., Ltd.
No. 10, Gao Xin Road 2, Western Area,
Xi'an Newly Hi-Tech Industrial Development
Zone, Xi'an, China
Phone: 86-29-8311830
Facsimile: 86-29-8317543

Huizhou Daikin Suns
Air-Conditioning Co., Ltd.
Suns Industrial Base,
Xinle Industrial Area, Maan Town,
Huizhou City, Guangdong 516257, China
Phone: 86-752-361-3400
Facsimile: 86-752-361-3438

Daikin Airconditioning
South Africa Pty. Ltd.
P.O. Box 1147, Milnerton 7435,
Cape Town, South Africa
Phone: 27-21-551-7776
Facsimile: 27-21-551-8434

Daikin-Alen Air Conditioning, Inc.
41 Linaw Street Sta, Mesa Heights,
Quezon City 1114, Philippines
Phone: 632-712-2144
Facsimile: 632-712-4501

Daikin Shriram Airconditioning Pvt. Ltd.
12 Floor, Surya Kiran Building,
19 KG Marg, New Delhi 110001, India
Phone: 91-11-375-2647
Facsimile: 91-11-375-2646

Daikin Compressor Industries Ltd.
700/11 Bangpakong Industrial Estate,
Bangna-Trad Road, KM57,
Tambol Klongtamru, Amphur Muang,
Chonburi 20000, Thailand
Phone: 66-38-213-032
Facsimile: 66-38-213-047

Daikin Airconditioning (Thailand) Ltd.
700/444 Moo, 7 (Bangpakong Industrial
Park 2) Bangna-Trad Road, KM57,
Tambol Donhualor, Amphur Muang,
Chonburi 20000, Thailand
Phone: 66-38-717-066
Facsimile: 66-38-214-943

Siam Daikin Sales Co., Ltd.
49/9 Moo 5, Soi Onnuch 55/1 Onnuch Road,
K.M. 7.5., Pravet Subdistrict, Pravet District,
Bangkok 10250, Thailand
Phone: 66-2-721-7677
Facsimile: 66-2-721-7607

Daikin Industries Holdings Co., Ltd.
700/444 Moo, 7 (Bangpakong Industrial
Park 2) Bangna-Trad Road, KM57,
Tambol Donhualor, Amphur Muang,
Chonburi 20000, Thailand
Phone: 66-38-717-066
Facsimile: 66-38-214-943

Daikin Airconditioning Argentina S.A.
Marcero T de Alvear 1430, 1° Piso C
1060AAB-Buenos Aires, Argentina
Phone: 54-11-4816-3274
Facsimile: 54-11-4375-4280

Daikin Trading (Thailand) Ltd.
283/79 Home Place Office Building,
15th Floor, Soi Thonglor 13,
Sukhumvit 55 Road, Klongtonnua,
Klongtoey, Bangkok 10110, Thailand
Phone: 66-2-712-7314
Facsimile: 66-2-712-7316

Daikin Asia Servicing Pte. Ltd.
19 Loyang Way #02-21 (Rear Block),
Changi International Logistic Center,
508724 Singapore
Phone: 65-546-8678
Facsimile: 65-546-9727

Daikin (China) Investment Co., Ltd.
Room 1403, Union Plaza, No. 20 Chao
Waidajie Chaoyang District,
Beijing 100020, China
Phone: 86-10-651050
Facsimile: 86-10-651050

Daikin America, Inc.
20 Olympic Drive, Orangeburg, NY 10962, U.S.A.
Phone: 1-845-365-9500
Facsimile: 1-845-365-9515

Daikin Chemical Europe GmbH
Immermannstr. 65D,
40210 Düsseldorf, Germany
Phone: 49-211-1792250
Facsimile: 49-211-1640732

Daikin Fluoro Coatings (Shanghai) Co., Ltd.
No. 388, Chun Guan Road, Xinzhuang
Industry Zone, Shanghai 201108, China
Phone: 86-21-5442-1840
Facsimile: 86-21-5442-1835

Daikin Industries Management
Services Asia Pte. Ltd.
19 Loyang Way #02-21 (Rear Block),
Changi International Logistic Center,
508724 Singapore
Phone: 65-546-8678
Facsimile: 65-546-9727

Daikin Airconditioning France S.A.
"Le Capitole" 55,
Avenue Des Champs Pierreux,
92012 Nanterre Cedex, France
Phone: 33-1-46-69-95-69
Facsimile: 33-1-47-21-41-60

Daikin Airconditioning Belgium N.V.
Avenue Franklin 1B, B-1300, Wavre, Belgium
Phone: 32-10-237223
Facsimile: 32-10-244910

Daikin Europe Coordination Center N.V.
Zandvoordestraat 300,
B-8400 Oostende, Belgium

Daikin Airconditioning Germany GmbH
Inselkammer Strasse 2,
82008 Unterhaching, Germany
Phone: 49-89-74427-210
Facsimile: 49-89-74427-223

Daikin Airconditioning
Central Europe GmbH
Campus 21-Businesspark,
Wien Siid Europaring F21/402,
A-2345 Brunn am Gebirge, Austria
Phone: 43-223-632557
Facsimile: 43-223-632557-900

Daikin Airconditioning Spain S.A.
Calle Labastida 2 28034, Madrid, Spain
Phone: 349-1-334-5600
Facsimile: 349-1-334-5630

Daikin Airconditioning Poland Sp.zo.o.
Ul, 17-GO STYCZNIA, Number 56,
02-146 WARSZAWA, Poland
Phone: 48-22-846-43-92-101
Facsimile: 48-22-846-43-92-116

Daikin Airconditioning Italy SpA
Via Trebbia 20-20135 Milan, Italy
Phone: 39-02-5841-551
Facsimile: 39-02-5831-7313

A.C.E. Daikin (Malaysia) Sdn. Bhd.
No. 1 Jalan Pjs 11/9, Bandar Sunway,
46150 Petaling Jaya, Selangor, Malaysia
Phone: 60-5636-8888
Facsimile: 60-5634-3398

Daikin Institute of Advanced Chemistry and Technology, Inc.
20 Olympic Drive, Orangeburg, NY 10963, U.S.A.
Phone: 1-845-365-9501
Facsimile: 1-845-365-9545

Daikin Fluorochemicals (China) Co., Ltd.
No.41 Hai Yu Bei Road,
Changshu, Jiangsu, China
Phone: 86-520-281-7656
Facsimile: 86-520-281-7659

Daikin Chemical France S.A.S
Rue H. Moisson et Chemin de la Lone,
69310 Pierre-Benite, France
Phone: 33-4-7239-6449
Facsimile: 33-4-7239-6464

Taiwan Daikin Advanced Chemicals Inc.
8F-E, No.168, Tun-Hwa N.Rd., Taipei, Taiwan
Phone: 886-2-2547-1269
Facsimile: 886-2-2547-1279

(DOMESTIC)

Daikin Plant Co., Ltd.

Daikin Airconditioning and Technology Tokyo Co., Ltd.

Daikin Airconditioning and Technology Osaka Co., Ltd.

Daikin Airconditioning and Technology Kyushu Co., Ltd.

Daikin Airconditioning and Technology Tokai Co., Ltd.

O.K. Kizai Co., Ltd.

39 other companies

NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

(OVERSEAS)

Daikin U.S. Corporation

Daikin Chemical Netherlands B.V.

6 other companies

(DOMESTIC)

Kyoei Kasei Industries, Ltd.

Daikin Sunrise Settsu, Ltd.

19 other companies

OFFICES

HEAD OFFICE
Umeda Center Bldg., 2-4-12, Nakazaki-Nishi,
Kita-ku, Osaka 530-8323, Japan
Phone: 81-6-6373-4312
Facsimile: 81-6-6373-4380

TOKYO OFFICE
Shinjuku-Sumitomo Bldg., 2-6-1, Nishi-Shinjuku,
Shinjuku-ku, Tokyo 163-0235, Japan
Phone: 81-3-3344-8111
Facsimile: 81-3-3344-8021

MAIN BRANCH OFFICES
New York, Düsseldorf, Singapore, Beijing,
Shanghai, Guangzhou

PLANTS AND FACTORIES
Sakai Plants (Kanaoka Factory,
Rinkai Factory), Yodogawa Plant,
Shiga Plant, Kashima Factory

BOARD OF DIRECTORS

Noriyuki Inoue
Chairman and CEO

Hiroyuki Kitai
President and COO

Satoshi Mizuno
Executive Vice President

Yukiyoshi Okano
Executive Vice President

Osamu Okumura
Senior Managing Director

Katsuhiko Takagi
Senior Managing Director

Guntaro Kawamura
Senior Managing Director

Hiroshi Tanaka
Senior Managing Director

Masahiko Amano
Managing Director

Kiyoshi Ninomiya
Managing Director

Kunikazu Torikoshi
Managing Director

Toshinari Oka
Managing Director

Takenori Miyamoto
Managing Director

Yasushi Yamada
Executive Advisor, Member of the Board

Tadasu Tachi
Director
Member of the Board
Counsellor, Kaneka Corporation

Chiyono Terada
Director
Member of the Board
President and CEO, Art Corporation

Kiyohiko Ihara
Director

Yutaka Kato
Director

Masanori Togawa
Director

Kousei Uematsu
Director

CORPORATE AUDITORS

Yoshiaki Hanaoka
Senior Corporate Auditor

Nobuyuki Shibata
Senior Corporate Auditor

Katsuyuki Mizuno
Corporate Auditor

Yoshitake Hata
Corporate Auditor

ASSOCIATE DIRECTORS

Minoru Yoshino
Associate Managing Director

Ken Tayano
Associate Managing Director

Kenji Ogura
Associate Managing Director

Junichi Sato
Associate Director

Satoshi Koyama
Associate Director

Takahiko Sakanoue
Associate Director

Hideki Tujii
Associate Director

Frans Hoorelbeke
Associate Director

Yoshibumi Katayama
Associate Director

Kiyoshi Nakajima
Associate Director

Susumu Okano
Associate Director

Kenji Fukunaga
Associate Director

PRODUCTS

AIR-CONDITIONING SYSTEMS AND INDUSTRIAL-REFRIGERATION EQUIPMENT

Residential Air-Conditioning Systems
- Room air-conditioning systems
- Air cleaners
- Dehumidifiers

Commercial Air-Conditioning Systems and Industrial Refrigerators
- Packaged air-conditioning systems
- Spot air-conditioning systems
- Medium- and low-temperature air-conditioning systems
- Air cleaners
- Total heat exchangers
- Infrared ceramic space heaters
- Marine-type container refrigeration units
- Marine vessel air-conditioning systems and refrigerators

Custom and Large-Scale Refrigerators and Air-Conditioning Systems
- Water-chilling units
- Screw-type refrigerators
- Turbo refrigerators
- Absorption refrigerators
- Air-handling units
- Fan-coil units

FLUOROCHEMICALS
- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluorinated oils
- Oil- and water-repellent finishes
- Mold release agents
- Surfactants
- *LEZANOVA* fluorinated natural leather
- Pharmaceuticals and intermediates
- Semiconductor-etching reagents
- *NEUROFINE* high-performance air filters
- *ZEFFLE* fluoropolymer paint base
- Organic solvent recovery and treatment equipment
- Dry air suppliers (open dry chambers, dry dehumidifiers)

OIL HYDRAULICS AND LUBRICATION EQUIPMENT
- Pumps and motors
- Control valves
- Stack valves
- Positioning motors
- Oil-cooling units
- Power packages
- Hydrostatic transmissions
- Centralized lubrication units and systems
- Multi-level car-parking systems

DEFENSE PRODUCTS
- Ammunition
- Aircraft parts
- Safety and arming devices
- Warheads
- Home-use oxygen therapy equipment

COMPUTER GRAPHICS
- Network management systems
- Computer graphics systems
- DVD-authoring systems
- CAD / CAM / CAE systems

SEMICONDUCTOR MANUFACTURING EQUIPMENT
- Cryo-pumps

CORPORATE INFORMATION

Head Office
Umeda Center Bldg.,
2-4-12, Nakazaki-Nishi, Kita-ku,
Osaka, 530-8323, Japan
Phone: 81-6-6373-4312
Facsimile: 81-6-6373-4380
URL: http://www.daikin.com

Fiscal Year-End Date
March 31 on an annual basis

Date of Establishment
February 11, 1934

Paid-in Capital
¥28,023 million

Number of Shares of Common Stock Issued
263,813 thousand

Number of Shareholders
10,433

Major Shareholders
Japan Trustee Services Bank, Ltd.
The Mitsubishi Trust and Banking Corporation
Sumitomo Mitsui Banking Corporation
The Chuo Mitsui Trust and Banking Company, Limited
UFJ Trust Bank Limited
Nippon Life Insurance Company
Mizuho Trust & Banking Co., Ltd.
Sumitomo Life Insurance Company
The Dai-ichi Mutual Life Insurance Company
Asahi Trust and Banking Co., Ltd.

Number of Subsidiaries and Affiliated Companies
Domestic: 67
Overseas: 43

Number of Offices and Facilities
Domestic: 5
Overseas: 6

Number of Employees
15,466 (Consolidated)
7,002 (Non-consolidated)

Stock Exchange Listings
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

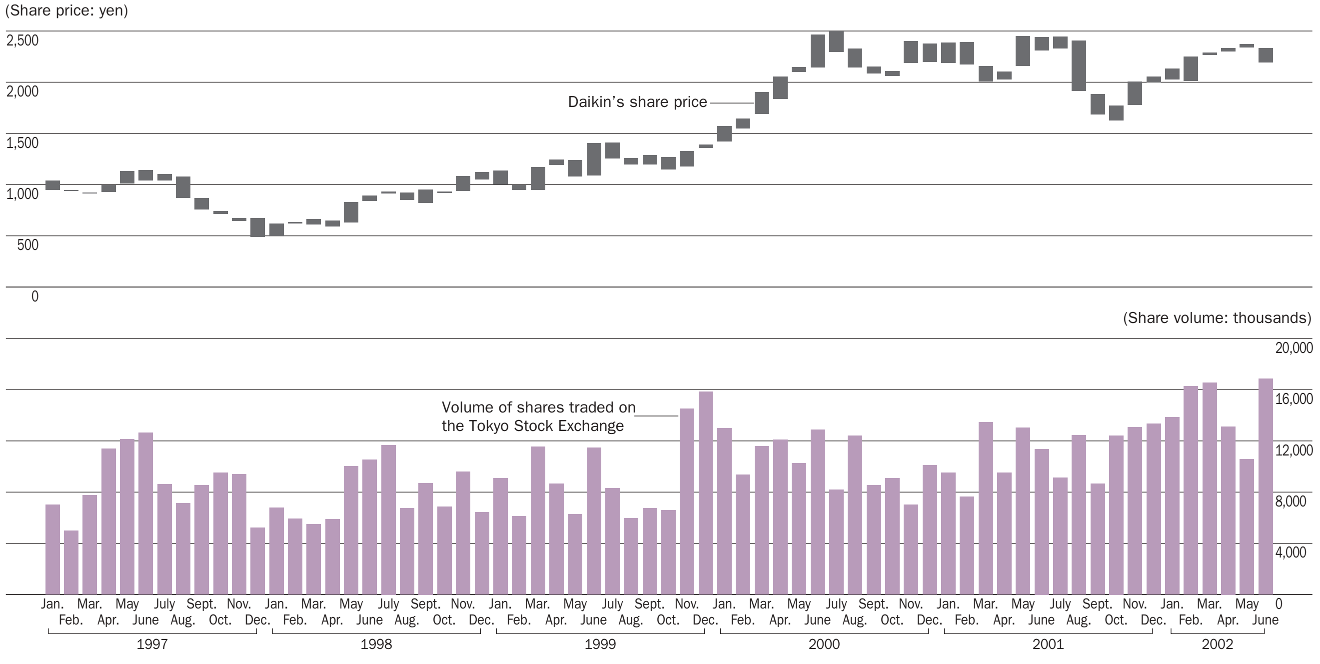
Newspapers for Official Notices
The Sankei Shimbun (Osaka)
Nihon Keizai Shimbun (Tokyo)

Transfer Agent and Register
Daiko Shoken Business Co., Ltd.
2-4-6, Kitahama, Chuo-ku,
Osaka, 541-8583, Japan
Phone: 81-6-6233-4555 (Osaka)
81-3-3666-2246 (Tokyo)

Ordinary General Meeting of Shareholders
June

Auditor
Tohmatsu & Co.

Share Price Movement (Tokyo Stock Exchange)



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