DAIKIN

Annual Report 2001

Fiscal Year Ended March 31, 2001

Profile

Daikin Industries, Ltd., was founded in 1934 and is one of the world's leading companies in the fields of air conditioning systems and fluorochemicals. In the field of industrial-use air conditioning systems, recent data show that Daikin's market share in Japan is approximately 40% and its share of the world market for fluorochemicals is 20%.

Daikin has also diversified its business portfolio into oil hydraulic and electronics-related equipment. By combining the specialized technologies in these various fields with its R&D capabilities, Daikin has created products that have had an epoch-making impact on industry and our everyday lives.

In April 2001, Daikin has prepared a strategic management plan entitled "Fusion 05," with 2005 as the target year. The principal objective of this plan is to draw together the momentum that Daikin has nurtured to date and take this power to a critical point, with the aim of speedily implementing the two goals of "strong focus on management that emphasizes Daikin's market capitalization" and "enhancing the sophistication of Daikin's unique flat and quick management style that meets global standards," on a thorough-going, Companywide basis. The ultimate objective of these activities will be to take the Daikin Group forward to become "an international enterprise" and "a truly first-rate company."

As the world moves toward a single market and an era of megacompetition, Daikin will take up the challenge of accelerating the development of its business operations on a global basis. Daikin's global development in the five regions of Japan, Europe, the Americas, and Asia, including China, is already under way and growth of these borderless business activities will continue.

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.

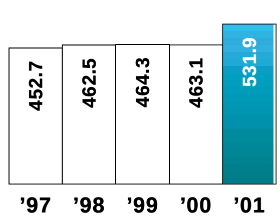
Financial Highlights

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

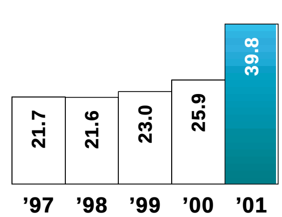
	Millions of yen		
	2001	2000	1999
Net sales	**¥531,908**	¥463,069	¥464,332
Operating income	**39,814**	25,888	23,004
Net income	**19,939**	10,453	6,194
Total assets	**453,142**	431,009	434,290
Total shareholders' equity	**173,924**	159,635	149,089
	Yen		
Per share of common stock:			
Net income*	**¥75.60**	¥39.62	¥23.48
Cash dividends applicable to the year	**12.00**	10.00	10.00

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

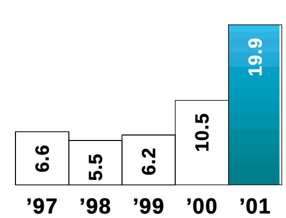
Net Sales
(¥ billion)



Operating Income
(¥ billion)



Net Income
(¥ billion)



Management Perspective

Noriyuki Inoue, President

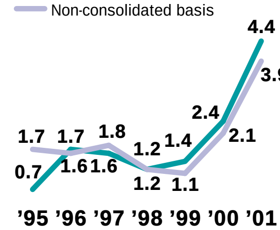
During fiscal 2001, ended March 31, 2001, Daikin exerted untiring efforts to expand sales volumes in its air conditioning operations, both domestic and overseas, with unrivaled products and to augment sales in its fluorochemicals business by creating new demand and developing new applications. As a result, the Daikin Group recorded consolidated net sales of ¥531.9 billion, a substantial increase compared with the previous term and the highest annual sales figure in the 77-year history of the Company.

Fiscal 2001 was the final year of Daikin's Fusion 21 strategic management plan, which spanned fiscal 1996 through fiscal 2001. Under the plan, the Company strove tirelessly to radically reform its managerial framework, implement comprehensive cost reductions Companywide, and develop unique, highly appealing products. As a result, we once again achieved wide profit margins in our fluorochemical and overseas air conditioning operations and expanded our share of Japan's air conditioning market. Operating income increased 54%, to ¥39.8 billion, marking the third consecutive annual increase. Net income surged 91%, to ¥19.9 billion.

This substantial increase in revenue, combined with the Company's efforts to reduce accounts payable and inventories as well as curb capital investment, contributed to the securing of ¥17.8 billion in free cash flow for the term. Revenue improvement also contributed to improved consolidated return on assets (ROA), which rose 2.0 percentage points, to 4.4%.

Return on Assets

(%)
ROA = Net income / Total assets
Consolidated basis
Non-consolidated basis

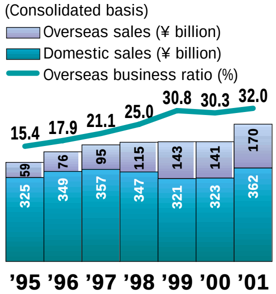


Furthermore, as a result of rapid global development over the past few years in the air conditioning and fluorochemicals businesses, the percentage of overall net sales accounted for by overseas business climbed to 32%, twice the percentage from five years ago.

In recent years, Daikin has been working to expand and develop the Daikin Group by implementing advanced initiatives, including introducing its own brand of corporate governance, radical reform of its human resources and compensation schemes, and the separation of research, human resources and general affairs, accounting, and the information systems division into separate companies. External assessment of the Company has also improved, as illustrated by the inclusion of the rise in its aggregate market value and other news about Daikin in various newspapers, magazines, and other media.

Overseas Business Ratio

(Consolidated basis)



At the general shareholders’ meeting held on June 28, 2001, the Board of Directors resolved to pay cash dividends applicable to the year of ¥12.00 per share.

An Overview of Fiscal 2001 Operations

In air conditioning operations, sales volumes grew substantially, both domestically and overseas, which helped compensate for the otherwise negative effects of the yen’s appreciation—particularly against the euro—on segment sales, which increased 17% compared with the previous term, to ¥401.2 billion. Operating income surged 81%, to ¥24.5 billion. Daikin succeeded in substantially increasing sales in its domestic air conditioning operations through such efforts as the ongoing development of such unrivaled products as the commercial-use SUPER INVERTER 70 and the residential-use URURU & SARARA. Sales promotion campaigns focused on the demand for air conditioner replacement and increased sales to home appliance mass merchandisers. In commercial-use air conditioners, we rapidly boosted our market share to approximately 40%, the greatest share ever achieved in our history. We also increased our share of the residential-use air conditioning market to approximately 12%, thus ranking among the top three in the industry and closing the gap with our major competitors.

Daikin is also leading other Japanese manufacturers in aggressively developing its global framework by acquiring sales agents in the growing markets of Europe and Asia, including China, as well as such emerging markets as India, Central America, and South America. The Company’s 1999 global tie-up agreement with Matsushita Electric Industrial Co., Ltd. (Matsushita Electric), in the air conditioning business will steadily solidify over the next few years. As the first step in these operations, we will begin supplying Matsushita Electric with commercial-use air conditioners in China and, in return, Matsushita Electric will supply us with residential-use air conditioners, also for the Chinese market. Through this partnership, we will maximize the strengths of both companies and expand sales in the increasingly competitive market of China.

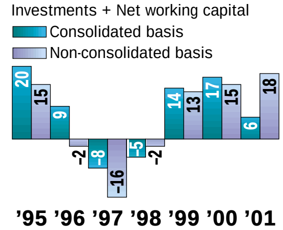
In chemicals, in addition to increased demand for fluoroplastics from Japan’s semiconductor market, business rebounded in the United States in FEP for LAN cable insulation. As a result, segment sales increased 17% compared with the previous term, to ¥96.2 billion, and operating income increased 33%, to ¥16.0 billion, both of which represent substantial improvements in earnings and profit. The share of the global market held by Daikin’s chemicals business has been steadily expanding every year, and in fiscal 2001 it reached 20%, making the Company the number two player in the global industry. As other manufacturers withdraw from the market and restructure their operations, we now have a chance to compete head to head with the industry leader. Seizing this chance, we will strive to capture the number one position in the global industry by fiscal 2006 by achieving gradual growth through the accelerated development of new products, applications, and markets and by seeking high returns through strategic investments. One of our most important projects is the construction of a manufacturing plant in China, approval for which has been granted, and we established a new subsidiary for the plant in April 2001.

In the months and years ahead, we will concentrate our managerial resources on our core businesses of air conditioning and fluorochemicals and expand them into the number one and number two businesses on the global market, respectively.

Free Cash Flow (FCF)

(¥ billion)

FCF = Income before income taxes + Depreciation and amortization – Investments + Net working capital



Daikin's Basic Management Policy

In fiscal 1996, Daikin enacted its Fusion 21 strategic management plan. In mid-2000, we updated the plan and renamed it Fusion 21 D in response to drastic changes in the operating environment. We accelerated our efforts and engaged ourselves in the fulfillment of our objectives.

Specifically, we implemented strategies aimed at the following objectives:
1) Creation of a lean and fortified profit structure
2) Reform of the financial framework
3) Radical strengthening of each business division
4) Creation of new business segments and the development of highly unique products
5) Development of a fast and flat management structure
6) Attainment of a high level of trust from society

As a result, over the past few years—despite severe economic conditions—the Company succeeded in improving its performance. It accelerated the expansion of its global operations and improved its financial standing. We have succeeded in achieving our goal of Fusion 21, which was "to lay the foundation for becoming a global and truly first-rate company at the start of the 21st century."

In April 2001, Daikin commenced its new strategic management plan—Fusion 05—for achieving a global and truly first-rate status by fiscal 2006. Building upon the foundation laid through Fusion 21, Fusion 05 seeks to convert the deteriorating business environment into an opportunity to pull further ahead of our competitors. To do this, we will unleash the power of the momentum we have generated thus far and fuse together our thorough aggregate market value focused approach with our own world-class brand of flat and fast management. We will then implement a range of initiatives based on this fusion to ensure our survival in the ages to come.

In particular, the enhancement of aggregate market value will give us an added edge in stock swap based M&A as well as tie-ups and alliances in which we will play the leading role. It will also enable us to utilize more diversified fund-raising methods, thus broadening our managerial options for future growth and enabling the flexible implementation of various initiatives. From these perspectives, the enhancement of aggregate market value has become an important slogan for managerial objectives.

Also under Fusion 05, Daikin has established clearly distinct three-year and five-year goals for becoming an appealing company that pulls together human resources, capital, and information. Looking to fiscal 2004, we will work to maximize corporate value through cash flow focused management and conduct "statistics management" that fastidiously emphasizes numerical targets. Objectives for fiscal 2006 will focus on structural reform and managerial innovation. Our ultimate goals are to establish a solid revenue and financial framework by fiscal 2004 and, through M&A and other large-scale investments, join the ranks of the global and truly first-rate companies by fiscal 2006.

To achieve these objectives, we will:
1) Achieve the world's number one and number two ranks, respectively, for our core air conditioning and fluorochemicals businesses through tie-ups and alliances
2) Aim to raise our R&I rating to AA or higher through cash flow focused management and achieve an interest-bearing debt ratio of 20% or less
3) Raise the overseas business ratio to 50%
4) Increase the weight of innovative businesses, which seek to convert the overall Group business structure, and strive for a ratio to net sales of 40%
5) Pursue advancements in technology, which is a crucial part of our role as a manufacturer
6) Hone our own brand of fast and flat management and elevate it into a corporate climate and culture worthy of worldwide admiration

An overview of this plan is included in the Topics section of this report for the reader's reference.

To Our Shareholders

This concludes my discussion of Daikin's managerial policies and business results for fiscal 2001. It is my intention to steadily fulfill all of our managerial tasks and achieve further dramatic growth in the 21st century.

In closing, I wish to thank our shareholders for their backing during fiscal 2001. We look forward to their continued support in the current fiscal year.

June 28, 2001

Noriyuki Inoue

Noriyuki Inoue,
President

Daikin FUSION 05

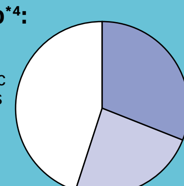
Aim to become a global and truly first-rate company as well as a dynamic company that attracts people, capital, and information by building on the development foundations established by Fusion 21.

In this era, which—due to the progress of globalization and the IT revolution—demands speed more than ever, the key to fast management is gathering and incorporating the necessary people, goods, and money into our management system. Taking advantage of the current vigor of our Group and high evaluation by others, and based on the achievement of Fusion 21, we aim to dramatically develop our business to become a global and truly first-rate company that attracts people, capital, and information, to become a company at which people want to work and continue working, a company in which people want to invest, and a company with which other companies want to form alliances, igniting and displaying the power and momentum we have cultivated.

Direction for Development

Build a dynamic company that

	FY2001 — Establish the foundation for development in the early 21st century.	Targets in FY2004
Expansion of business scale	1. Sales: $5,150 million	1. Net sales:
Improvement in profitability	2. Ordinary profit: $350 million 3. Consolidated break-even point: 84%	2. Ordinary income: 3. Profit ratio 4. Consolidated break-even point
Total commitment to management that prioritizes market capitalization	4. Market capitalization: $5,500 million 5. Three years total FCF: + $467 million 6. Credit rating: A	5. Market capitalization: 6. Three years total FCF: 7. Daikin Value Added (DVA) 8. ROA 9. ROI 10. ROE 11. Credit rating: 12. Ensure a surplus for DVA
Conversion of business structure for sustainable growth	7. Overseas business ratio: 32% 8. Innovation business ratio*4: 24%	13. Overseas business ratio: 14. Innovation business ratio*4:
Enhancement of technology		
Establishment of a corporate culture and management structure in which we can take pride		



*4 Innovation business ratio: Businesses that are designated on a Groupwide basis as those that promote structural reform (Different from our existing concept of New Business Fields.)

Targets for FY2004 and FY2006

attracts people, capital, and information.

Maximize corporate value through a management style emphasizing cash flow.

Minimum requirements to expand

Challenging target: to achieve sales of $10 billion in FY2006

$6,700 million to $7,300 million ($7,000 million*1)

$670 million to $730 million ($700 million*1)

10%

80%

*1 Assumption for annual GDP growth rate in Japan is 1% to 2%; target to be reconsidered if the actual GDP growth rate differs from our assumption

$10 billion (Assuming PER*2=25X)

*2 Price earnings ratio

+$800 million

(+$150 million) to $170 million

7%

20%

16%

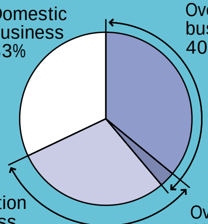
AA*3

*3 By Rating and Investment Information, Inc.

In all eight virtual internal companies in FY2003

More than 40%

More than 30%



Target for FY2006

Become a global and truly first-rate company.

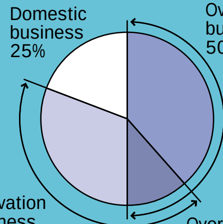
1. Achieve the global number one or two position in the air conditioning market (including after-sales service business but excluding refrigeration business).
2. Achieve the global number one or two position in the fluorochemicals market.

Future aim to secure number one positions globally

(Target: achieve annual net sales of $10 billion)

3. Earn a credit rating of AA or better and reduce interest-bearing debt ratio to 20% or less.

4. Overseas business ratio
   More than 50%
5. Innovation business ratio*4
   More than 40%



6. Dramatic enhancement of Daikin technology

7. Hone our own brand of fast and flat management and elevate it into a corporate culture worthy of worldwide admiration by fusing time-tested Daikin traditions with a forward-looking competitive edge that encourages each employee to perform with self-derived determination and enthusiasm.

Note: Numerical targets in Fusion 05 have been set forth in Japanese yen. However, they are written in U.S. dollars (exchange rate: ¥100=US$1.00) in the English version of Fusion 05.

9 Nine Key Points

FINANCIAL HIGHLIGHTS
MANAGEMENT PERSPECTIVE
TOPICS
REVIEW OF OPERATIONS
FINANCIAL SECTION
CORPORATE DATA

1

Clearly set quantitative targets for the next three years in order to align the direction of all of our employees. Resolutely carry out reforms through quantitative management reforms because this is an era of uncertainty.

1. For the period through fiscal 2004, set ratio management targets for each virtual internal company and for each year as medium-term targets and strive to achieve those set targets.

2. At the same time, for the period after fiscal 2004, set targets for fiscal 2006 with appropriate emphasis on management reforms for the transition period, including the posture that we aim to achieve, and structural reform, so that we may define the goals that will take us in the direction we are headed.

3. Refine tools that enable us to achieve our quantitative targets in an era of drastic changes.

2

Focus on realizing dynamic development.

1. Realize ordinary profit twice that of fiscal 2001 through expanding sales by fiscal 2004.

2. Achieve the global number one or two position in the air conditioning business and fluorochemicals business.

3

Thoroughly implement Ratio Management, which pursues both an increase in profitability and an expansion of business scale by:

1. Achieving Ratio Management quantitative targets,

2. Emphasizing free cash flow and Daikin value added, and

3. Expanding business scale and realizing a paradigm shift of our business structure.

4

Pursue Daikin's best practices by promoting a fusion of time-tested Daikin traditions and evolving fast and flat management responding to the times with a forward-looking competitive edge.

5

Thoroughly implement and improve measures, with an emphasis on our Customer First policy.

Recognizing that support from customers equals company competitiveness, review the work processes in sales, design, R&D, and after-sales service in each business division and in our support and corporate departments from the viewpoint of our Customer First policy.

6

Enhance Daikin technology to drive business structure conversion and the continuous development of highly differentiated products.

1. Target 30% of new product ratio for total sales every year.

2. Review themes annually and formulate measures to solve potential problems (reliability, development speed, product competitiveness, and technology).

7

In this era in which the degree to which IT is integrated into business activities directly affects the level of a company's performance, thoroughly promote management reform utilizing IT, based on the recognition that our utilization of IT originates in our Customer First policy.

8

Clearly distinguish between our core business activities, including those which may become core businesses, and non-core activities (thoroughly outsource non-core activities). Seek mutual advantages by understanding the outsourcing needs of other companies as business opportunities.

9

Thoroughly implement four priority measures to establish global corporate ethics. Add to the Company's appeal by publicizing Daikin's philosophy, strategies, and intentions.

Development of 12 Core Strategies

Scenario for the Development of 12 Core Strategies to Achieve Our Medium-Term Implementation Plan and Realize Our Goals for FY2006

Thoroughly implement market capitalization driven management, which will enable us to implement measures for expansion with a flexible structure.

1. Shift the paradigm of the business structure and maximize profits by promoting reform strategies for each strategic business unit (SBU).
2. Establish a profit structure resilient to the external environment.
3. Establish a streamlined and robust financial structure.

Build a dynamic attracts people, cap-

FY2004

Maximize corporate value through a management style emphasizing cash flow.

Enhance our unique fast and flat management to be recognized globally.

8. Build an aspiring team through each member's determination and enthusiasm.
9. Establish a management style adequate to a global company.

10. Accelerate management reform by promoting IT tools.

Achieve the global number one or two positions in our air conditioning and fluorochemicals businesses and a 50% overseas business ratio by using flexible strategic alliances.

4 Achieve the global number one or two positions in our air conditioning and fluorochemicals businesses.

5 Promote strategic alliances to expand and develop business in each virtual internal company.

Develop innovation business to promote a realization of a paradigm shift of our business structure.

6 Promote 21 themes for innovation business aiming at reformation of our business structure.

company that
ital, and information.

FY2006
Become a global and
truly first-rate company.

Enhance DAIKIN technology.

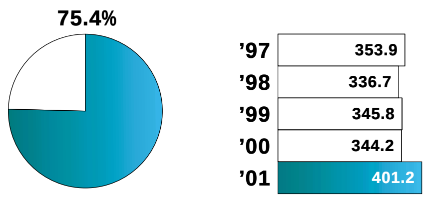
7 Enhance Daikin technology to drive business structure conversion and the ongoing development of highly differentiated products.

11 Promote “arbitrage strategy” to concentrate our management resources on core areas and obtain external expertise.

12 Establish corporate ethics and actively raise the level of corporate transparency.

Air Conditioning

Sales (% of net sales, ¥ billion)



In fiscal 2001, sales by Daikin's Air Conditioning and Refrigeration Equipment Division rose 16.6%, to ¥401.2 billion. The division's sales accounted for 75.4% of consolidated net sales.

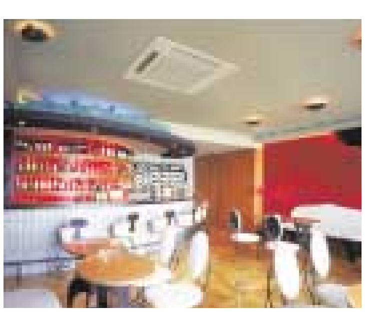
The Japanese Market

Overview

Demand in Japan's air conditioning market underwent a dramatic recovery during fiscal 2001. In the first half, private sector capital investment rebounded and seasonal demand was strong due to hot weather during the summer season, which offset the relative decline in public works spending. In the second half, as well, private sector capital investment remained strong and demand from the housing market was bolstered by the impending enforcement of the Recycling Law.

Against this backdrop, increases in Daikin's unit sales of package air conditioners and room air conditioners substantially exceeded the average growth rate for the industry, proving the effectiveness of Daikin's efforts to expand its retail focused sales network and its powerful product lineup featuring products unique to Daikin that have proved well suited to the rising demand for air conditioner replacements.

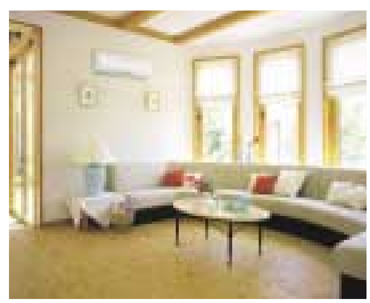
• Commercial-Use Air Conditioners



In the commercial-use air conditioning market, we succeeded in substantially increasing our market share through sales expansion initiatives focused on high-value-added products that easily appeal to our customers. Such products include the SUPER INVERTER SERIES, which contributed greatly to market share expansion in the previous term. In fiscal 2001, we further enhanced the energy efficiency of the series and expanded our lineup into the high-capacity zone with the SUPER INVERTER 70, the FACILITIES INVERTER, which is intended for use in manufacturing plants, and multi-air conditioners for office buildings, which feature independent control of individual units and are designed to meet the demand for building renovation in metropolitan areas.

• Residential-Use Air Conditioners

In the residential-use air conditioner market, the URURU & SARARA air conditioner—now in its second year on the market—proved extremely popular with consumers and



contributed to increased sales. Sales through mass merchandisers of home appliances also grew substantially, boosted by increased demand stemming from the hot summer.

Outlook

The slowdown in the U.S. economy and declining private sector capital investment—the primary driver of market industry demand—owing to deflationary pressures, are cause for concern in the Japanese air conditioning market.

Over the months and years ahead, meeting customer needs with comprehensive solutions will become paramount as the huge stock of package air conditioners installed during the bubble economy era approach replacement age and the majority of commercial-use air conditioners will be converted to HFC coolant in autumn 2001. As such, we are firmly aware that a major factor in marketing strategies in fiscal 2002 will be ensuring the competence and efficacy of the products, services, and sales operations that enable the Company to provide solutions to the problems this situation presents.

Meager prospects for increased demand for room air conditioners are foreseen in fiscal 2002 as new housing starts are expected to stagnate and the increase in demand seen during fiscal 2001 leaves little opportunity for further expansion. Nevertheless, we will continue to strive to expand sales by leveraging our priority product URURU & SARARA, a unique product available only from Daikin.

The Global Market

Overview

The global market for air conditioning equipment saw demand in Europe continuing to expand during fiscal 2001, supported by strong consumer spending and capital investment. However, growth remained stagnant in Asia, where economic conditions have yet to recover. It appears likely to be some time yet before full recovery is achieved in the construction sector. Meanwhile, local makers are coming to the fore in the growing Chinese market and Korean manufacturers are expanding worldwide with a focus on Europe, factors that are driving up prices and market share competition.

Against this backdrop, Daikin balanced out a decline in weak markets with stepped-up sales in such markets as Europe, Australia, and Hong Kong, where demand was strong, leading to increased sales of all products in its building-use multi-air conditioner lineup. Sales growth was particularly strong in Hong Kong, where we obtained large purchase orders for compact air conditioners for large-scale housing complex projects. In the growing Chinese market, our local joint venture for manufacturing and sales, Shanghai Daikin Air-Conditioning Co., Ltd., steadily increased sales amid severe competition.

In South America, through the purchase of a local company, we established Daikin Airconditioning Argentina S.A., our first subsidiary in South America.

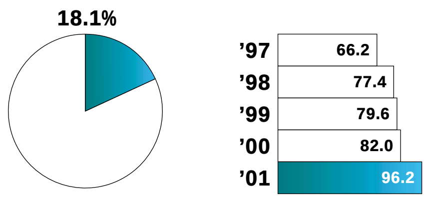
Sales and manufacturing operations were also commenced at Daikin Shriram Airconditioning Pvt. Ltd., the joint venture we established in the previous term in the burgeoning market of India.

Outlook

In our core air conditioning operations, although the Japanese market is expected to stabilize, no prospects for substantial growth in the future are foreseen. While the global market is anticipated to continue to expand in the medium term, price competition is expected to grow increasingly intense worldwide as not only Japanese manufacturers but manufacturers from Korea and China expand into the markets of China, the Middle East, Australia, and Europe, particularly in the markets for compact air conditioners. In the months and years ahead, Daikin will strive for the top world market share by enhancing competitiveness and securing air conditioning revenues on a Groupwide basis by strengthening its overseas operations and expanding its comprehensive air conditioning business, spanning residential-use air conditioners, commercial-use air conditioners, and central air conditioning systems in the world's five major markets. To remain a significant player in the global air conditioning market, we will not only continue to establish new sales subsidiaries of our own through acquisition of other companies but also search for globally based strategic alliance partners. Moreover, we are developing globally complementary business operations with Matsushita Electric Industrial Co., Ltd., with whom we concluded a strategic alliance agreement in autumn 1999. As the first step in these operations, we began marketing compact air conditioners supplied from Matsushita on an OEM basis in China.

Chemicals

Sales (% of net sales, ¥ billion)



During fiscal 2001, sales by Daikin’s Chemicals Division rose 17.4%, to ¥96.2 billion. This figure represented 18.1% of consolidated net sales.

Overview

During the term under review, Daikin succeeded in increasing sales for the sixth consecutive year, owing to expansion in the semiconductor markets of Japan and other countries, global business development, and favorable market conditions in the United States and Europe. Fiscal 2001 was the final year of the Fusion 21 strategic management plan, and we succeeded in meeting the plan’s targets for improving business scale and profitability with a global market share of 20%.

In fluoroplastics and fluoroelastomers, Daikin achieved a 20% increase in sales year on year amid growing demand from the semiconductor industries of Japan and the United States and recovery in the FEP market for LAN cables in the United States.

In fluorocarbons, increased demand for alternative refrigerants led to an increase in net sales for the term.

Demand for R-407C and R-410A surged, especially from Japanese air conditioning manufacturers. In response to these market conditions, in January 2001 Daikin commenced operations at Japan’s first mass production plant for HFC125, the base gas from which these new alternative coolants are derived, and it is now supplying this gas worldwide along with HFC32.

In other chemicals, although sales of fluoroalcohol—a CD-R dye solvent—declined due to changes in the CD-R market, we succeeded in substantially expanding our share of the international market for oil- and water-repellant finishes and significantly increased our sales. We commenced local production of these finishes at Daikin America, Inc., in February 2001 and will work to strengthen the supply capabilities of our plants in Japan and the United States.

Outlook

Fluorochemicals are used in a wide range of industries, including automotive equipment, IT, and semiconductor manufacturing facilities, and, therefore, long-term market stability is expected.

Daikin has instituted a growth strategy for its chemicals business that is aimed at dramatic growth and will be implemented in concert with the new Companywide Fusion 05 strategic management plan.

Our growth strategy can be broken up into three major sections. First, we will develop new applications for fluorochemicals in the strong growth potential areas of IT and semiconductors in order to create a market for these specialty chemicals. Second, we will expand those operations related to products that promote global development. Third, we will create new peripheral businesses that leverage the unique properties of our functional chemicals.

In June 2000, Daikin established the Daikin Institute of Advanced Chemistry and Technology, Inc., in the United States—the center of leading-edge applications development—as a research center for the efficient outsourcing of the latest fluorochemical technological development and applications development to external research institutions and venture corporations. In the months and years ahead, we will expand our global technologies network and accelerate the development of new applications and new products and the establishment of new businesses.

We will strive to raise the ratio to net sales of the products we have developed over the past five years from the current 31%, to 35% by fiscal 2006.

We recognize that alliances are an indispensable tool for swiftly expanding our business and enhancing our competitiveness in response to the rapidly changing times. We will strive to establish competitive business operations by considering alliances in such areas as new business development, technology platform enhancement, applications development, and raw materials procurement.

To respond to sales expansion, our growth strategy calls for an increase in supply capacity over the next five years to 1.5 times the current level by augmenting the production capacity of existing facilities and establishing new manufacturing plants. To help achieve this objective, in fiscal 2002 we will commence the supply of semiconductor etching agents from Formosa Daikin Advanced Chemicals Co., Ltd., a joint venture with Formosa Plastics Corporation of Taiwan, the IT equipment production nexus of the world.

To strengthen fluoroelastomer operations in Europe, we plan to commence fluoroelastomer production in France in fiscal 2003 to follow up on Daikin Chemical Netherlands B.V.'s commencement of precompounding.

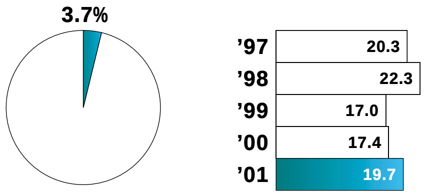
In China, we have broken ground on the construction of a new plant at Daikin Fluorochemicals (China) Co., Ltd., which we established in Changshu, Jiangsu, in April 2001, and plan to commence the supply of fluoroplastics and fluorochemical products in fiscal 2003. The Jiangsu plant will supply highly cost-competitive products—made possible through the application of cutting edge production technologies—to the high growth potential markets of China and other countries in Asia.

By constantly developing and implementing new technologies, Daikin will continue to conduct safe and environmentally sound operations and supply high-quality, reliable products to the entire world.

By maintaining profitability and proactively allocating managerial resources to our fluorochemicals business, we will augment our capabilities and create new markets, and strive to achieve the number two position in the world with a 25% global market share.

Oil Hydraulics

Sales (% of net sales, ¥ billion)



In fiscal 2001, sales for the Oil Hydraulics Division rose 13.6%, to ¥19.7 billion. This amount accounted for 3.7% of consolidated net sales.

Overview

The environment surrounding the oil hydraulics business for the term under review was generally favorable as capital investment recovered, particularly in IT-related sectors, and exports to Asia increased. Overall demand for oil hydraulics equipment increased 7.2%, to ¥232.7 billion.

Against this backdrop, Daikin strove to increase sales of its unique lineup of energy-conserving products, which includes inverter coil cooling units and the ECORICH series of inverter oil hydraulic systems, as well as develop new customers. As a result, we succeeded in increasing division sales and market share for the second consecutive year.

•Parking Systems

Owing to a steady increase in condominium construction, which represents the majority of market demand, mechanical multi-level car-parking systems saw a demand increase of approximately 15% compared with the previous term.

During fiscal 2001, Daikin strove to expand sales of its HIGH SPEED SERIES, which was introduced in fiscal 2000, as well as cultivate latent demand for the renovation and new installation of parking facilities. As a result, we successfully increased both net sales and market share substantially.

•Lubrication

During fiscal 2001, Daikin integrated Daikin Lubrication Products & Engineering Co., Ltd. (DLP), business into the lubrication division of Nabuco, Ltd., and commenced operations under this new configuration in April 2000. Strong results have been obtained and we succeeded in becoming the number one company in the domestic grease lubrication industry and securing a stable revenue base.

Outlook

The domestic market for oil hydraulics has always been extremely sensitive to economic fluctuations, but the medium- to long-term outlook for the industry is particularly severe due to the globalization of master machinery makers and competition from electric and air pressure formats. The expansion into the Japanese market of other manufacturers further exacerbates future business prospects, and the JFPA (Japan Fluid Power Association) anticipates that overall demand for oil hydraulics equipment in fiscal 2002 will decline 5%, to ¥221.6 billion.

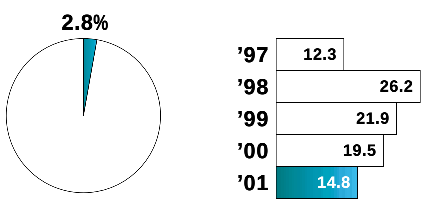
Against this backdrop, Daikin will expand the scope of the business from merely power control to power motion control by fusing such other technologies as electric pressure powered formats with its traditional oil hydraulic technologies and developing new hybrid products. We will also embrace strategic alliances and partnerships and expand our business into the high growth potential markets of Asia. Through these initiatives, Daikin will remain a significant player in the market.

Moreover, in May 2001, Daikin and Sauer Danforth, Inc., of the United States agreed to establish two joint ventures for manufacturing and sales in the mobile hydraulics industry in Japan with the objective of better serving both parties' customers in Japan, China, and other parts of Asia by leveraging each other's strengths and unique features to expand their businesses and improve their operational frameworks. After working out details of the agreement, the joint ventures are scheduled to be established in October 1, 2001. Through these joint ventures and mutual cooperation, we will strive to achieve a top market share of 30% in the mobile hydraulics market of Japan and elsewhere in Asia.

At the same time that demand is expected to stagnate in the medium term, market prices are also anticipated to become increasingly competitive. The oil hydraulic market represents a mere 15% of the overall market for multi-level car parking systems. As such, we are aware that the potential for further business expansion with a lineup restricted only to oil hydraulic products is limited. Therefore, leveraging the industry's top service network, we will develop our multi-level car parking systems service business into a new pillar of revenue and enter into partnerships with electric multi-level car parking systems. Through these and other initiatives, we will strive to expand from our current position as Japan's number three player in the industry to the number two and eventually number one position.

Defense

Sales (% of net sales, ¥ billion)



In fiscal 2001, Daikin's defense-related sales declined 24.3%, to ¥14.8 billion, due to an explosion during the term at one of its subcontractors. This figure represented 2.8% of consolidated net sales, down from 4.2% in the previous term.

Overview

Reflecting the significant role economic reform initiatives took in the Japanese government's market recovery oriented budget for fiscal 2001, a substantial increase of 3.8% compared with the previous year was noted. However, because the defense budget remained the same, at ¥4.93 trillion, no significant improvement in business conditions was gained. Fiscal 2002 is the first year in the government's new five-year New Mid-Term Defense Program. Although this plan represents an approximate 3.8% increase in total spending compared with the previous defense plan, it also includes a minor 1% cut in frontal armaments. Frontal armaments spending for fiscal 2002 is budgeted at ¥767.0 billion, a 0.6% decrease from the previous term, an indication that business conditions will most likely remain severe. Although increases in spending on ammunition and guided missiles—which are supplied by Daikin—have been budgeted for, future business conditions remain uncertain, and management will need to keep a watchful eye on future government budget trends.

Outlook

In fiscal 2001, an accidental explosion at one of Daikin's subcontractors caused net sales in defense-related operations to decline 24.3%, to ¥14.8 billion. We will make up this loss in fiscal 2002 and it is not expected to have any substantial effect on performance for fiscal 2002 and fiscal 2003. Despite efforts to expand demand for fiber-reinforced plastic (FRP) composite vessels and demand oxygen controllers, sales declined slightly during the term due to changes in business conditions.

From fiscal 2002, in the manufacture of ammunition, processes formerly used for ammunition will be switched to mass production. Seizing this opportunity, we will configure efficient production systems and work to strengthen our business capacity. We will strive to expand business in new private sector operations and convert our operational structure to suit the changing needs of the market.

• Defense

Starting in fiscal 2002, Daikin will receive purchase orders from Japan's Self Defense Agency for new types of ammunition that can be used in training drills even in the cramped confines of the Japanese archipelago. Because these will be mass-produced, we will consolidate and streamline our production systems and convert our operations into a stable business structure capable of fulfilling the requirements of the cost reductions demanded by the Self Defense Agency. We will also pursue greater efficiency in the development of high-value-added products and strive to maximize Self Defense Agency purchase orders.

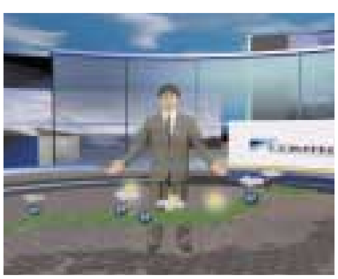
• New Private Sector Business

In 1996, Daikin first applied its defense-related technologies to the private sector market by developing Japan's first FRP composite vessels. Since then, they have found a wide range of uses, including home oxygen therapy, demand oxygen controllers, and breathing apparatus cylinders for use in fire fighting, and have steadily increased in sales. In the months and years ahead, we will do our utmost to develop such new private sector businesses into major pillars of our operations on a par with defense.

Computer Graphics

In the Japanese market, with demand stimulated by investment in IT, sales of Daikin's network computing software increased steadily. Demand for LSF, which optimizes the burden shared by computers by allocating data processing over a network, grew dramatically, particularly in the semiconductor design sector. Our newly introduced network management system, KINNETICS, also contributed to sales expansion as its use by universities and research institutions helped boost recognition of its product value. However, overall sales stagnated due to a falloff of demand for our SOFTIMAGE 3-D computer graphics animation software, recent computer downsizing, and shrinkage in the market due to the widespread conversion to the Windows NT operating system.

Daikin's Computer Graphics Division is currently positioning itself in close proximity to the IT industry, an industry that has brought about enormous upheaval in recent years and is the current leader of industry trends. In the months and years ahead, the Company will strive to convert its Computer Graphics Division into an IT-related business and thereby expand its operations. Specifically, we will work to obtain profitable business results at the earliest possible date for such new businesses as network solutions, which we brought to market in the second half of fiscal 2001, our virtual digital broadcast studio business, and our application service provider (ASP), which is centered around time rentals of equipment CAD software.



Furthermore, although we developed our SCENARIST DVD authoring system, which we introduced in June 1996, into a global business with sales in the United States, Europe, and Asia, overseas organizational management costs proved to be prohibitive and we sold off the business. From now on, we will merge our DVD authoring software with that of Sonic Solutions Inc. of the United States, continue to act as the central representative in Japan, and conduct marketing, sales, and support operations. Sonic Solutions will continue to develop new DVD authoring software and conduct marketing, sales, and support for the global market.

Semiconductor Manufacturing Equipment

In our cryogenics business during fiscal 2001, we focused on expanding sales of our cryo-pumps to producers of manufacturing equipment, including semiconductors, and sales of our cryo-coolers, introducing new products to market. Daikin posted an all-time high in unit sales of cryo-pumps, thanks to strong demand in semiconductor markets and successful efforts to expand sales of these pumps in Korea and Taiwan. On the other hand, a delay in new product development prevented us from realizing an increase in sales of cryo-coolers. Nevertheless, overall sales in our cryogenics business exceeded our targets.

Amid a rapid recession of the semiconductor market, in the current fiscal year we plan to maintain sales at the same level as in the previous fiscal year by focusing on sales of cryo-pumps for use in the manufacturing of electronic devices other than semiconductors and by targeting sales of cryo-coolers for use in linear motors on Japan Railways trains.

Regarding cluster tools for semiconductor manufacturing, we achieved a more than fourfold rise in sales by stepping up marketing activities aimed at our targeted users and introducing products in the market for compact cluster tools. Despite these efforts, we were unable to attain the targets of our initial plans for increasing sales volume mainly owing to a lag in repeat orders from users.

In the current fiscal year, we will work to increase sales by concentrating on securing repeat orders from current customers, carrying out horizontal marketing activities among them, and developing new products for use in the production of 300mm wafers.

Financial Section

Contents

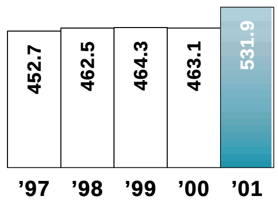
Five-Year Summary

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

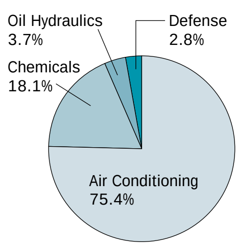
	Millions of yen				
	2001	2000	1999	1998	1997
Net sales	**¥531,908**	¥463,069	¥464,332	¥462,519	¥452,675
Air conditioning	**401,192**	344,213	345,837	336,663	353,903
Chemicals	**96,188**	81,957	79,629	77,373	66,165
Others	**34,528**	36,899	38,866	48,483	32,607
Operating income	**39,814**	25,888	23,004	21,636	21,670
Income before income taxes and minority interests	**35,234**	19,418	15,351	11,796	15,259
Net income	**19,939**	10,453	6,194	5,455	6,645
Per share of common stock (in yen):					
Net income*	**¥75.60**	¥39.62	¥23.48	¥20.68	¥25.19
Cash dividends applicable to the year	**12.00**	10.00	10.00	10.00	10.00
Total assets	**¥453,142**	¥431,009	¥434,290	¥448,739	¥428,370
Total shareholders' equity	**173,924**	159,635	149,089	145,332	142,885
Net property, plant and equipment	**135,725**	125,612	132,517	136,901	141,466
Number of employees	**15,047**	14,280	14,337	13,852	13,669

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

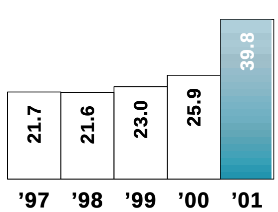
Net Sales
(¥ billion)



Sales Breakdown
(For fiscal 2001)



Operating Income
(¥ billion)



Net Sales

In fiscal 2001, ended March 31, 2001, despite the yen’s appreciation and continuing deflationary pressures, Daikin’s efforts to increase sales by expanding its market share in its core businesses of air conditioning and fluorochemicals and by creating new markets resulted in substantial increases in sales volumes, both domestically and overseas. Overall net sales for the term increased 14.9% compared with the previous term, to ¥531,908 million.

Looking at sales by business sector, in air conditioning and cryogenics operations, sales volumes increased substantially both domestically and overseas due to the Company’s efforts to enhance price competitiveness through thorough cost reduction, introduce unique products, and strengthen its worldwide sales branches. Despite tumbling retail prices in Japan and the yen’s strength against the euro and the Australian dollar, sales leaped 16.6%, to ¥401,192 million.

In chemicals, demand for fluoroplastics expanded substantially in the semiconductor industry in Japan and the United States and demand was also strong for FEP for use in LAN cables. In chemical products, although sales of fluoroalcohol decreased significantly due to CD-R inventory adjustments and partial conversion to other agents, sales of oil- and water-repellent finishes grew considerably in Asia and Europe and sales of semiconductor etching agents also increased in Asia. As a result, net sales increased 17.4%, to ¥96,188 million.

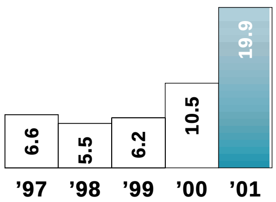
In oil hydraulics, as a result of a significant recovery in demand for machine tools—the division’s core products—as well as further increases in demand for multi-level car-parking systems, sales of hydraulic devices for industrial machinery increased 13.6%, to ¥19,726 million. In defense-related operations, net sales declined 24.3%, to ¥14,802 million, due to the partial carryover of ammunitions shipments to Japan’s Self Defense Agency because of an accident that occurred at the manufacturing plant of one of Daikin’s subcontractors in August 2000. As a result, overall sales in other businesses declined 6.4%, to ¥34,528 million.

Cost, Expenses, and Earnings

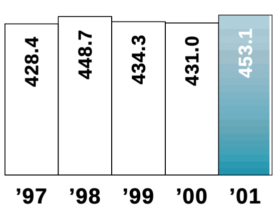
During fiscal 2001, cost of sales amounted to ¥356,325 million, and the cost of sales ratio was 67.0%, an improvement of 0.7 percentage point. This was the result of the

Years Ended March 31,	**2001**	2000	1999	1998	1997
Gross profit (net sales less cost of sales) as a % of net sales	**33.0**	32.3	31.2	30.0	29.5
Operating income as a % of net sales	**7.5**	5.6	5.0	4.7	4.8
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times)	**7.8**	5.6	3.6	3.5	3.4
Net income as a % of net sales	**3.7**	2.3	1.3	1.2	1.5

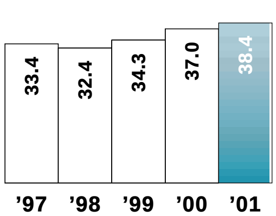
Net Income
(¥ billion)



Total Assets
(¥ billion)



Shareholders’ Equity Ratio
(%)



effectiveness of Companywide efforts to streamline production systems and to reduce costs of design as well as material and component procurement, which offset the effects of the yen’s appreciation and declining domestic air conditioner retail prices.

Selling, general and administrative (SG&A) expenses rose ¥12,137 million, to ¥135,769 million. This was due to an increase in the Company’s share of the burden for pension expenses stemming from the adoption of new accounting standards governing retirement benefits, increased logistics expenses associated with the rise in sales volumes, and the allocation of necessary funds to priority and strategic initiatives.

Operating income leaped 53.8%, to ¥39,814 million. Examined by individual segment, operating income for air conditioning surged 81.3%, to ¥24,455 million, as the significant increase in both domestic and overseas sales volumes, due to the Company’s aggressive sales promotion activities, absorbed the effects of the yen’s appreciation. Rebounding from the effects of a May 1999 accident at the manufacturing plant of Daikin America, Inc., operating income for the Chemicals Division increased 32.5%, to ¥15,955 million.

Other expenses—net declined 29.2% on a Companywide basis, to ¥4,580 million, due largely to an increase in royalty revenues of ¥1,099 million and a ¥1,202 million decrease in foreign currency exchange losses.

As a result, net income for fiscal 2001 soared 90.7%, to ¥19,939 million.

Financial Position

Concerning assets, Daikin made Groupwide efforts during fiscal 2001 to reduce notes and accounts receivable as well as inventories. In terms of the number of days retained compared with the previous year, notes and accounts receivable decreased by 13 days and inventories decreased by 3 days. Capital expenditures totaled ¥27,152 million and depreciation was ¥19,436 million. As a result, net property, plant and equipment for the term increased ¥10,113 million.

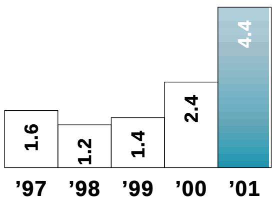
Meanwhile, investment securities increased approximately ¥8,270 million, due to the adoption of the market price accounting rule.

As a result, total assets grew 5.1%, to ¥453,142 million.

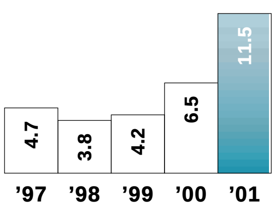
Due to the Company’s efficient use of assets, interest-bearing debt liabilities declined ¥15,376 million. On the other hand, notes and accounts payable increased ¥9,213 million and construction liabilities increased ¥5,998 million. As a result, total current and long-term liabilities increased ¥7,042 million, to ¥273,960 million.

Years Ended March 31,	**2001**	2000	1999	1998	1997
Notes and accounts receivable (¥ billion).........	**104.2**	106.3	103.6	110.0	100.4
Inventories (¥ billion).....................................	**92.2**	84.2	95.4	102.9	96.6
Interest-bearing debt (not including trade notes discounted) (¥ billion)................	**143.7**	159.1	171.9	186.4	180.2

Return on Assets
(%)



Return on Equity
(%)



Total shareholders’ equity advanced ¥14,289 million, to ¥173,924 million, and the shareholders’ equity ratio increased 1.4 percentage points, to 38.4%.

Cash Flows

Due to the increase in income, net cash provided by operating activities during fiscal 2001 amounted to ¥48,548 million.

On the other hand, net cash used in investing activities totaled ¥23,203 million, the bulk of which was due to the Company’s purchases of property, plant and equipment of ¥20,292 million.

Net cash used in financing activities totaled ¥23,679 million, primarily due to a decrease in short-term borrowings.

As a result, cash and cash equivalents (liquidity in hand), end of year, amounted to ¥35,482 million, approximately the same level as at the previous fiscal year-end. This figure is equivalent to approximately 0.8 times the Company’s average monthly net sales of ¥44,326 million. Liquidity in hand, including a commitment line with banks of approximately ¥25,000 million, amounted to ¥60,482 million, or 1.4 times the Company’s average monthly net sales.

Dividends

Daikin has positioned the maximization of corporate value (stock value) among its top-priority managerial tasks. As such, the Company is actively working to develop new businesses and strengthen its operational framework by adopting new systems and managerial indicators, including a virtual internal companies system, ROA, free cash flow (FCF), and Daikin’s Value Added (DVA). At the same time, focusing on dividends as a means of returning value to our shareholders, we are committed to raising the ratio of cash dividends to shareholders’ equity (on a non-consolidated basis) to more than 2.0%.

During fiscal 2001, Daikin achieved substantial increases in both operating income and net income. Starting in fiscal 2002, the Company will strive to achieve further improvements to its operational framework with the ultimate objective of fulfilling the goals of the Fusion 05 strategic management plan. At the same time, we are planning aggressive strategic investment in the acceleration of our global business development comprising such business expansion measures as IT outfitting and the augmentation of our competitive strength. Taking these factors into account, the Company declared cash dividends applicable to the fiscal year of ¥12.00 per share, an increase of ¥2.0 compared with the previous year. The ratio of cash dividends to shareholders’ equity (on a non-consolidated basis) was 2.0%.

Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2001 and 2000

ASSETS	Millions of yen 2001	Millions of yen 2000
Current assets:		
Cash and cash equivalents	¥ 35,482	¥ 33,334
Short-term investments	320	1,460
Receivables (Note 5):		
Trade notes	19,721	26,508
Trade accounts	85,584	81,275
Allowance for doubtful receivables	(1,119)	(1,467)
Inventories (Note 3)	92,174	84,182
Deferred tax assets (Note 9)	9,159	6,639
Prepaid expenses and other current assets	14,017	9,186
Total current assets	255,338	241,117
Property, plant and equipment (Note 6):		
Land	23,785	23,546
Buildings and structures	111,678	104,861
Machinery and equipment	199,073	186,201
Furniture and fixtures	67,372	64,416
Construction in progress	8,893	6,214
Total	410,801	385,238
Accumulated depreciation	(275,076)	(259,626)
Net property, plant and equipment	135,725	125,612
Investments and other assets:		
Investment securities (Note 4)	41,265	30,584
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	3,233	4,974
Deferred tax assets (Note 9)	671	1,184
Other assets	16,910	15,869
Total investments and other assets	62,079	52,611
Translation adjustments (Note 2)		11,669
Total	¥453,142	¥431,009

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	2000
Current liabilities:		
Short-term borrowings (Note 6)	**¥ 64,384**	¥ 81,707
Current portion of long-term debt (Note 6)	**13,123**	5,895
Payables (Note 5):		
Trade notes	**26,630**	24,062
Trade accounts	**39,229**	32,584
Construction	**11,213**	5,215
Income taxes payable	**11,602**	4,217
Deferred tax liabilities (Note 9)	**42**	
Accrued expenses	**20,585**	17,423
Other current liabilities	**16,959**	22,822
Total current liabilities	**203,767**	193,925
Long-term liabilities:		
Long-term debt (Note 6)	**66,224**	71,505
Liabilities for retirement benefits (Note 7)	**1,698**	1,271
Deferred tax liabilities (Note 9)	**2,271**	217
Total long-term liabilities	**70,193**	72,993
Minority interests	**5,258**	4,456
Commitments and contingent liabilities (Note 13)		
Shareholders' equity (Notes 8 and 14):		
Common stock, ¥50 par value—authorized, 500,000,000 shares; issued and outstanding, 263,813,973 shares in 2001 and 2000	**28,023**	28,023
Additional paid-in capital	**25,968**	25,968
Retained earnings	**122,694**	105,646
Net unrealized gain on available-for-sale securities	**4,802**	
Foreign currency translation adjustments (Note 2)	**(7,327)**	
Total	**174,160**	159,637
Treasury stock, at cost	**(236)**	(2)
Total shareholders' equity	**173,924**	159,635
Total	**¥453,142**	¥431,009

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

	Millions of yen	
	2001	2000
Net sales	**¥531,908**	¥463,069
Cost of sales	**356,325**	313,549
Gross profit	**175,583**	149,520
Selling, general and administrative expenses	**135,769**	123,632
Operating income	**39,814**	25,888
Other income (expenses):		
Interest and dividends	**1,108**	759
Interest expense	**(5,216)**	(4,728)
Gains on sales of investment securities	**6**	1,632
Royalty income	**1,428**	329
Exchange losses	**(261)**	(1,463)
Loss on disposals of property, plant and equipment	**(898)**	(755)
Write-off of investment securities	**(436)**	(1,828)
Write-off of other assets	**(728)**	
Equity in earnings (losses) of associated companies	**325**	(369)
Other—net	**92**	(47)
Other expenses—net	**(4,580)**	(6,470)
Income before income taxes and minority interests	**35,234**	19,418
Income taxes (Note 9):		
Current	**17,537**	8,503
Deferred	**(3,216)**	(101)
Total	**14,321**	8,402
Minority interests in net income of subsidiaries	**(974)**	(563)
Net income	**¥ 19,939**	¥ 10,453

	Yen	
Per share of common stock (Note 2):		
Net income	**¥75.60**	¥39.62
Cash dividends applicable to the year	**12.00**	10.00

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

	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, 1999	263,813,973	¥28,023	¥25,968	¥ 95,099			¥ (1)
Cumulative effect of consolidating subsidiaries previously unconsolidated				(185)			
Cumulative effect of application of equity method to an associated company previously accounted for by the cost method				(110)			
Adjustment of beginning retained earnings for the adoption of deferred tax accounting method				3,127			
Treasury stock acquisition—net (182 shares)							(1)
Net income				10,453			
Appropriations:							
Cash dividends, ¥10 per share				(2,638)			
Bonuses to directors and corporate auditors				(100)			
Balance, March 31, 2000	263,813,973	¥28,023	¥25,968	¥105,646			(2)
Cumulative effect of consolidating subsidiaries, previously associated companies, accounted for by the cost method				**110**			
Treasury stock acquisition—net (91,500 shares)							**(234)**
Net income				**19,939**			
Appropriations:							
Cash dividends, ¥12 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)**

See notes to consolidated financial statements.

FINANCIAL HIGHLIGHTS
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CORPORATE DATA

Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

	Millions of yen	
	2001	2000
Operating activities:		
Income before income taxes and minority interests	**¥35,234**	¥19,418
Adjustment for:		
Income taxes—paid	**(10,217)**	(8,681)
Depreciation and amortization	**19,875**	19,176
Gain on sales of investment securities	**(6)**	(1,632)
Write-off of investment securities	**436**	1,828
Write-off of other assets	**728**	
Loss on disposals of property, plant and equipment	**898**	755
Equity in earnings of associated companies	**(325)**	369
Changes in assets and liabilities:		
Notes and accounts receivable	**7,399**	(3,750)
Inventories	**(3,855)**	5,438
Other current assets	**(4,180)**	823
Trade notes and accounts payable	**5,871**	283
Accrued expenses	**2,550**	1,602
Other—net	**(5,860)**	(3,852)
Total adjustments	**13,314**	12,359
Net cash provided by operating activities	**48,548**	31,777
Investing activities:		
Purchases of property, plant and equipment	**(20,292)**	(15,608)
Increase in investments in unconsolidated subsidiaries and associated companies	**(529)**	(2,786)
Payments to acquire investment securities	**(3,763)**	(5,259)
Proceeds from sales of investment securities	**2,065**	2,319
Other—net	**(684)**	1,069
Net cash used in investing activities	**(23,203)**	(20,265)
Financing activities:		
Increase (decrease) in short-term borrowings	**(20,318)**	658
Increase in long-term debt	**5,928**	25
Repayments of long-term debt	**(5,786)**	(8,779)
Payments of cash dividends	**(2,901)**	(2,638)
Other—net	**(602)**	(306)
Net cash used in financing activities	**(23,679)**	(11,040)
Effect of exchange rate changes on cash and cash equivalents	**382**	(568)
Net increase (decrease) in cash and cash equivalents	**2,048**	(96)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**100**	438
Cash and cash equivalents, beginning of year	**33,334**	32,992
Cash and cash equivalents, end of year	**¥35,482**	¥33,334

See 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 (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of the 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 presentation for the year ended March 31, 2000 to conform to the presentation for the year ended March 31, 2001.

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"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

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 associated companies except for certain insignificant associated companies. Investments in such insignificant associated companies are stated at cost except that appropriate write-downs are recorded for investments for which the value has been permanently impaired.

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.

For the year ended March 31, 2000, certain subsidiaries, previously accounted for by the cost method, were newly included in the consolidated financial statements due to their growing significance. The net effect on the beginning of year balances of consolidating these subsidiaries has been reflected in the statements of shareholders' equity and cash flows for the year ended March 31, 2000.

For the year ended March 31, 2000, a certain associated company, previously accounted for by the cost method, was newly accounted for by the equity method due to its growing significance. The effect on the beginning of year retained earnings of the initial application of the equity method has been reflected in the statement of shareholders' equity for the year ended March 31, 2000.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has been 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 appropriate 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 lessee's financial statements.

Investment Securities

Prior to April 1, 2000, publicly traded securities were carried at the lower of cost, determined by the moving-average method, or market. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments. Under this standard, 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.

The effect of this change was to increase income before income taxes and minority interests by ¥1,761 million for the year ended March 31, 2001. Marketable securities classified as current assets decreased by ¥1,195 million and investment securities increased by the same amount as of April 1, 2000.

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. Prior to April 1, 2000, the amounts contributed to the fund, including past service costs amortized over eight years, were charged to income when paid. 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 at the beginning of the year ended March 31, 2001 is being amortized over seven years, and the annual amortization is presented within selling, general and administrative expenses in the consolidated statements of income. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method increased by ¥570 million and income before income taxes decreased by ¥570 million for the year ended March 31, 2001.

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 the approval of shareholders, for services rendered to date.

Research and Development

Research and development costs are charged to income as incurred. Research and development costs amounted to ¥24,039 million and ¥21,111 million for the years ended March 31, 2001 and 2000, respectively.

Stock and Bond Issuance Expenses

Stock and bond issuance expenses are charged to income as incurred.

Foreign Currency Translations

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, 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 statement 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 the historical rates. Revenue and expense accounts of the Company's consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Prior to April 1, 2000, differences arising from such translations were shown as "Translation adjustments" as either an asset or liability in the balance sheets. Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

Income Taxes

Effective April 1, 1999, the Group adopted an accounting method for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥3,127 million is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of April 1, 1999.

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 derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Group adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions be 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 which 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.

As a result of adopting the new accounting standards for derivative financial instruments, income before income taxes and minority interests for the year ended March 31, 2001 decreased by ¥61 million.

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.

Per Share of Common Stock

The computation of net income per common share is based on the weighted average number of shares outstanding, less treasury stock. The average number of common shares used in the computation for the years ended March 31, 2001 and 2000 was 263,748 thousand and 263,813 thousand, respectively.

Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

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, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Finished products and merchandise	**¥49,641**	¥46,333
Semi-finished products and work in process	**31,192**	28,224
Raw materials and supplies	**11,341**	9,625
Total	**¥92,174**	¥84,182

4. Investment Securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2001 were as follows:

	Millions of yen			
	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 was not readily determinable as of March 31, 2001 were as follows:

	Millions of yen
Carrying amount:	
Available-for-sale:	
Equity securities	¥1,461
Other	418
Total	¥1,879

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

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2001 are as follows:

	Millions of yen
Available-for-sale:	
Due after one year through five years	¥ 306
Due after five years through ten years	1,846
Total	¥2,152

Carrying amounts and aggregate market values of current and non-current marketable equity securities and debt securities included in short-term investments and investment securities at March 31, 2000 were as follows:

	Millions of yen		
	Carrying Amount	Aggregate Market Value	Unrealized Gains
Current	¥ 205	¥ 205	¥
Non-current	26,697	43,159	16,462
Total	¥26,902	¥43,364	¥16,462

5. Investments in Unconsolidated Subsidiaries and Associated Companies

Certain financial information (unaudited), with respect to unconsolidated subsidiaries and associated companies, at March 31, 2001 and 2000 is as follows:

	Millions of yen	
	2001	2000
Current assets	**¥26,624**	¥17,847
Other assets	**4,095**	4,678
Current liabilities	**(21,994)**	(13,600)
Other liabilities	**(1,680)**	(1,840)
Net assets	**¥ 7,045**	¥ 7,085

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Trade notes and accounts receivable	**¥2,024**	¥2,433
Trade notes and accounts payable	**1,125**	699

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Sales	**¥9,757**	¥8,068
Purchases	**8,220**	5,912

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. Such discounted notes and the related contingent liabilities are not included in the consolidated balance sheets but are disclosed as contingent liabilities (see Note 13). Unused short-term bank credit lines were ¥25,000 million at March 31, 2001. Weighted average interest rates of short-term borrowings at March 31, 2001 and 2000 were 2.89% and 2.54%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
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 5.05% to 8.15% (2001) and from 4.60% to 8.15% (2000), due through 2005	**3,880**	6,555
Collateralized loans from banks with:		
Fixed interest ranging from 3.46%, due through 2002	**2,000**	4,200
Floating interest ranging from 0.47% to 0.68% (2001) and 0.52% to 0.70% (2000), due through 2007	**21,550**	19,700
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 3.20% to 6.67% (2001) and 2.75% to 6.59% (2000), due through 2006	**9,082**	3,945
Unsecured loans from banks with interest ranging from 0.52% to 7.30% (2001) and 0.55% to 8.00% (2000), due through 2026	**2,835**	3,000
Total	**79,347**	77,400
Current portion due within one year	**(13,123)**	(5,895)
Total	**¥66,224**	¥71,505

The Group has entered into various interest rate swap agreements covering certain portions of long-term debt as a means of managing interest rate exposure. Because the counterparties to those agreements are limited to major financial institutions, the Companies do not anticipate any losses arising from credit risk. 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.

Annual maturities of long-term debt outstanding at March 31, 2001 were as follows:

Year ending March 31	Millions of yen
2002	¥13,123
2003	27,894
2004	13,794
2005	11,300
2006 and thereafter	13,236
Total	¥79,347

At March 31, 2001, property, plant and equipment with a net book value of ¥57,629 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 disposal 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.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

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

	Millions of yen
Projected benefit obligation	¥61,045
Fair value of plan assets	(34,395)
Unrecognized actuarial loss	(4,103)
Unrecognized transitional obligation	(21,642)
Net liabilities	¥ 905

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

	Millions of yen
Service cost	¥3,180
Interest cost	2,123
Expected return on plan assets	(1,239)
Amortization of transitional obligation	3,607
Net periodic benefit costs	¥7,671

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate: 3.5%

Expected rate of return on plan assets: 3.5%

Recognition period of actuarial gain/loss: 10 years

Amortization period of transitional obligation: 7 years

The amounts contributed to the fund, which were charged to income for the year ended March 31, 2000, were ¥35,409 million.

Liability for retirement benefits at March 31, 2001 and 2000 included retirement benefits for directors and corporate auditors of ¥793 million and ¥940 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

8. Shareholders' Equity

The Code requires 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 are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders. Such legal reserve included in retained earnings was ¥5,895 million and ¥5,595 million at March 31, 2001 and 2000, respectively.

The Company may transfer portions of additional paid-in capital and the legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

The balance of treasury stock recorded in the shareholders' equity section as of March 31, 2001 includes treasury stock purchased for the purpose of reissuance upon the exercise of stock options granted to directors and key employees. As of March 31, 2001, stock options for 93 thousand shares have been granted and are exercisable through June 30, 2006.

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

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2001, retained earnings recorded on the Company's books were ¥95,273 million. Such retained earnings included ¥80,869 million which is designated as general and specific reserves but is available for future dividends subject to approval by shareholders and legal reserve requirements.

9. 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, 2001 and 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen	
	2001	2000
Deferred tax assets:		
Inventories	**¥ 4,975**	¥ 3,625
Pension and severance costs	**665**	486
Tax loss carryforwards	**335**	1,007
Bonus payment reserve	**1,291**	932
Reserve for warranty	**849**	589
Software	**2,542**	1,630
Property and equipment	**1,100**	965
Other	**1,937**	829
Total deferred tax assets	**¥13,694**	¥10,063
Deferred tax liabilities:		
Deferred gains on sales of property	**¥ 2,240**	¥ 2,240
Unrealized gain on available-for-sale securities	**3,474**	
Other	**462**	218
Total deferred tax liabilities	**6,176**	2,458
Net deferred tax assets	**¥ 7,518**	¥ 7,605

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

	2001	2000
Normal statutory income tax rate	**42.0%**	42.0%
Permanent non-deductible expenses	**2.5**	4.1
Losses of consolidated subsidiaries	**0.5**	0.5
Utilization of loss carryforwards of consolidated subsidiaries	**(1.2)**	(1.3)
Difference in subsidiaries' tax rates	**(3.9)**	(3.3)
Other—net	**0.7**	1.3
Actual effective income tax rate	**40.6%**	43.3%

10. Research and Development Costs

Research and development costs charged to income were ¥24,039 million and ¥21,111 million for the years ended March 31, 2001 and 2000, respectively.

11. 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, 2001 and 2000 is as follows:

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

	Millions of yen		
For the year ended March 31, 2000	Furniture and Fixtures	Others	Total
Acquisition costs	¥6,836	¥1,399	¥8,235
Accumulated depreciation	3,473	641	4,114
Net leased property	¥3,363	¥ 758	¥4,121

Obligations under finance leases:

	Millions of yen	
	2001	2000
Due within one year	**¥1,559**	¥1,850
Due after one year	**2,080**	2,271
Total	**¥3,639**	¥4,121

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

Lease payments, including depreciation expense and interest expense, under finance leases were ¥1,974 million and ¥2,390 million for the years ended March 31, 2001 and 2000, respectively. Depreciation expense is computed by the straight-line method.

12. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

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, 2001 and 2000 were as follows:

	Millions of yen					
	2001			2000		
	Contract Amount	Fair Value	Unrealized Loss	Contract Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Selling:						
US$	**¥3,160**	**¥3,195**	**¥(35)**	¥ 1,528	¥1,581	¥ (53)
GBP	**3,471**	**3,546**	**(75)**	7,384	7,641	(257)
A$				408	407	1
HK$				129	133	(4)
S$				135	134	1
EUR				1,432	1,418	14
SEK				123	122	1
Buying						
JPY				1,346	1,431	85
US$				155	152	(3)
Interest rate swaps:						
Floating rate payment, fixed rate receipt				1,061	6	6
Fixed rate payment, floating rate receipt				16,011	(528)	(528)
Fixed rate payment, fixed rate receipt				1,923	145	145

Information related to foreign currency forward contracts that qualify for hedge accounting for the year ended March 31, 2001 and forward contracts that are assigned to associated assets and liabilities and recorded on the balance sheet at March 31, 2000 are excluded from the disclosure of market value information.

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

13. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2001 totaled approximately ¥7,558 million.

Contingent liabilities at March 31, 2001 were as follows:

	Millions of yen
Trade notes discounted	¥300
Trade notes endorsed	7
Guarantees and items of a similar nature to bank loans	215

14. Subsequent Events

At the general shareholders' meeting held on June 28, 2001, the Company's shareholders approved the following:

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2001 were approved at the Company's shareholders' meeting held on June 28, 2001:

	Millions of yen
Year-end cash dividends, ¥6.00 per share	¥1,582
Transfer to legal reserve	170
Bonuses to directors and corporate auditors	120

Stock Option Plan

This plan provides for granting options to directors and key employees to purchase up to 92 thousand shares of the Company's common stock, or ¥300 million, in the period from July 1, 2003 to June 30, 2007. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the date of option grant.

15. 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, 2001 and 2000 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	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**

	Millions of yen				
For the year ended March 31, 2000	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥344,213	¥81,957	¥36,899	¥	¥463,069
Intersegment sales	28	1,035	2	(1,065)	
Total sales	344,241	82,992	36,901	(1,065)	463,069
Operating expenses	330,749	70,951	36,546	(1,065)	437,181
Operating income	¥ 13,492	¥12,041	¥ 355	¥	¥ 25,888

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
March 31, 2001	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**

	Millions of yen				
March 31, 2000	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets	¥252,469	¥81,125	¥29,751	¥67,664	¥431,009
Depreciation	10,392	7,702	1,003		19,097
Capital expenditures	7,838	8,238	628		16,704

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 Companies for the years ended March 31, 2001 and 2000 are summarized below:

	Millions of yen						
For the year ended March 31, 2001	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**

	Millions of yen						
For the year ended March 31, 2000	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	¥349,001	¥32,098	¥54,859	¥25,679	¥1,432	¥	¥463,069
Interarea transfers	56,379	17,444	115	746		(74,684)	
Total sales	405,380	49,542	54,974	26,425	1,432	(74,684)	463,069
Operating expenses	390,594	46,891	49,913	26,410	1,336	(77,963)	437,181
Operating income	¥ 14,786	¥ 2,651	¥ 5,061	¥ 15	¥ 96	¥ 3,279	¥ 25,888
Assets	¥314,563	¥33,756	¥33,373	¥27,350	¥1,056	¥20,911	¥431,009

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, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Asia and Oceania	**¥ 57,879**	¥ 49,044
Europe	**68,820**	55,738
Americas	**37,790**	29,946
Other	**5,711**	5,793
Total sales to foreign customers	**¥170,200**	¥140,521

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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, 2001 and 2000, 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, 2001 and 2000, 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.

As described in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

Deloitte Touche Tohmatsu

June 28, 2001

Corporate Data

As of June 28, 2001

BOARD OF DIRECTORS

Noriyuki Inoue
President

Yasushi Yamada
Executive Vice President

Satoshi Mizuno
Senior Managing Director

Yukiyoshi Okano
Senior Managing Director

Hiroyuki Kitai
Senior Managing Director

Osamu Okumura
Senior Managing Director

Katsuhiko Takagi
Senior Managing Director

Yoshihiro Kato
Managing Director

Tadashi Shibai
Managing Director

Katashi Uryu
Managing Director

Masahiko Amano
Managing Director

Kiyoshi Ninomiya
Managing Director

Guntaro Kawamura
Managing Director

Kunikazu Torikoshi
Managing Director

Hiroshi Tanaka
Managing Director

Toshinari Oka
Managing Director

Takenori Miyamoto
Director

Kiyohiko Ihara
Director

CORPORATE AUDITORS

Kenji Kohsaka
Senior Corporate Auditor

Yoshiaki Hanaoka
Senior Corporate Auditor

Nobuyuki Shibata
Corporate Auditor

Yoshitake Hata
Corporate Auditor

ASSOCIATE DIRECTORS

Minoru Yoshino
Associate Managing Director

Ken Tayano
Associate Director

Kenji Ogura
Associate Director

Junichi Sato
Associate Director

Satoshi Koyama
Associate Director

Takahiko Sakanoue
Associate Director

Hideki Tujii
Associate Director

Frans Hoorelbeke
Associate Director

PRODUCTS

AIR CONDITIONING AND INDUSTRIAL-REFRIGERATION EQUIPMENT

Residential-Use Air Conditioners
- Room air conditioners
- Air cleaners
- Dehumidifiers

Industrial Refrigerators and Air Conditioners
- Packaged air conditioners
- Spot air conditioners
- Medium- and low-temperature air conditioners
- Air cleaners
- Total heat exchangers
- Infrared ceramic space heaters
- Marine-type container refrigeration units
- Marine vessel air conditioners and refrigerators

Custom and Large-Scale Refrigerators and Air Conditioners
- 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
- Cryogenic refrigerators
- Vacuum transport modules

CONSOLIDATED SUBSIDIARIES

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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.

50 other companies

AFFILIATED COMPANIES

(OVERSEAS)

Daikin U.S. Corporation

Daikin Chemical Netherlands B.V.

8 other companies

(DOMESTIC)

Kyoei Kasei Industries, Ltd.

Daikin Sunrise Settsu, Ltd.

18 other companies

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Shiga Plant, Kashima Factory

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