Annual Review 2005

Fiscal Year Ended March 31, 2005

Profile

Since its founding in 1924, Daikin Industries, Ltd., has grown into a leading producer of air-conditioning systems and fluorochemical products. Faced with a single global market and an era of mega-competition, we are further accelerating efforts to expand our operations on a global basis and continue to meet new challenges.

Combining the advanced technologies and R&D capabilities of our oil hydraulics and electronics-related divisions, we are creating innovative products and systems that contribute to industry and to the lives of our customers.

The Daikin Group is taking concrete steps to achieve targets set forth in the Fusion 05 strategic management plan, which covers the five-year period from fiscal 2001 through fiscal 2006. Daikin is quickly moving ahead to establish management systems that maximize corporate value and introduce management improvements within our unique, world-class "fast & flat" management system.

In fiscal 2005, ended March 31, 2005, both consolidated net sales and operating income reached record highs and operating income rose for the 11th consecutive year. These are major achievements.

To ensure even greater growth, the Daikin Group will take steps to strengthen and improve corporate governance and create even-greater transparency and soundness in management while also fulfilling its corporate social responsibilities.

In alignment with "Our Group Philosophy," the executives and employees of the Daikin Group are working to hone the concept of "people-oriented management" that we have developed over the years to maximize the ability of each and every employee with the goal of achieving a quantum leap on our way to becoming a world-class company.

Paving the way to a new era, the Daikin Group is challenging new technological frontiers and continues to provide outstanding, high-value-added products and systems as it maintains a consistent commitment to meeting the expectations and gaining the confidence of all of its valued stakeholders.

Contents

Forward-Looking Statements

This annual review contains statements regarding the 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.

Corporate Information

As of March 31, 2005

Head Office

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

Tokyo Office

JR Shinagawa East Bldg.,
2-18-1, Konan, Minato-ku,
Tokyo 108-0075, Japan
Phone: 81-3-6716-0111
Facsimile: 81-3-6716-0200

Fiscal Year-end Date

March 31 on an annual basis

Date of Founding

October 25, 1924

Date of Establishment

February 11, 1934

Paid-in Capital

¥28,023 million

Number of Shares of Common Stock Issued

263,813 thousand

Number of Shareholders

15,027

Major Shareholders

Japan Trustee Services Bank, Ltd.
Master Trust Bank of Japan, Ltd.
State Street Bank & Trust Company
Chase Manhattan Bank, London
The Bank of New York
The Northern Trust Company
Trust & Custody Services Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Carillon
Matsushita Electric Industrial Co., Ltd.

Number of Subsidiaries and Affiliated Companies

Domestic: 61
Overseas: 57

Number of Employees

19,310 (Consolidated)
6,535 (Non-consolidated)

Stock Exchange Listings

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Newspapers for Official Notices

The Sankei Shimbun (Osaka)
Nihon Keizai Shimbun (Tokyo)

Transfer Agent and Register

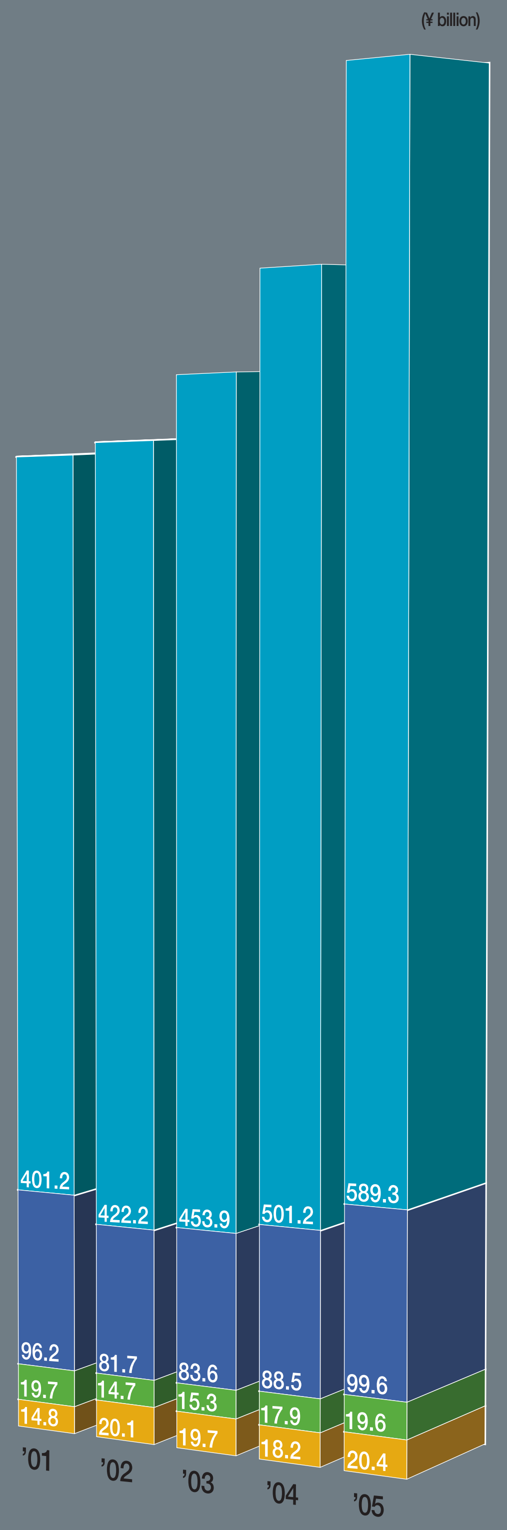
Daiko Shoken Business Co., Ltd.
2-4-6, Kitahama, Chuo-ku,
Osaka 541-8583, Japan

Ordinary General Meeting of Shareholders

June

Auditor

Deloitte Touche Tohmatsu



AIR CONDITIONING

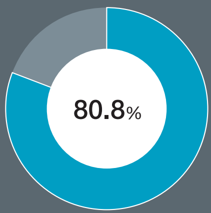
CHEMICALS

OIL HYDRAULICS

DEFENSE

ELECTRONICS

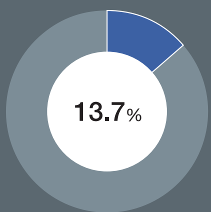
SALES
(% of net sales)



MAJOR PRODUCTS & SERVICES
- Room air-conditioning systems
- Air cleaners
- Dehumidifiers
- Packaged air-conditioning systems
- Medium- and low-temperature air-conditioning systems
- Marine-type container refrigeration
- Water-chilling units
- Absorption refrigerators
- Air-handling units

Since becoming the first in Japan to manufacture packaged air-conditioning systems in 1951, Daikin has supported comfortable living based on the strengths of technologies that it has itself nurtured as the world's sole manufacturer to create a full line of products from refrigerants to air conditioners.

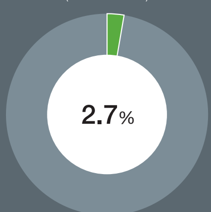
SALES
(% of net sales)



MAJOR PRODUCTS & SERVICES
- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluorinated oils
- Oil- and water-repellent products
- Mold release agents
- Pharmaceuticals and intermediates
- Semiconductor-etching products
- Dry air suppliers

In 1933, Daikin was the first in Japan to engage in research on fluorinated refrigerants. Today, our activities range from research and development to commercialization, and we offer a lineup of more than 1,800 fluorine compounds.

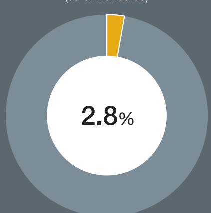
SALES
(% of net sales)



MAJOR PRODUCTS & SERVICES
- Pumps and motors
- Control valves
- Stack valves
- Positioning motors
- Oil-cooling units
- Power packages
- Hydrostatic transmissions
- Centralized lubrication units and systems
- Multilevel car-parking systems

Daikin's unique hydraulic technologies are contributing to the development of industry by unleashing the potential of power control.

SALES
(% of net sales)



MAJOR PRODUCTS & SERVICES
- Ammunition
- Aircraft parts
- Safety and arming devices
- Warheads
- Home-use oxygen therapy equipment

Daikin's superior machining and quality control technologies are used in the production of aircraft parts, defense-related products, and other industries where high levels of precision and performance are critical.

MAJOR PRODUCTS & SERVICES
- Network management systems
- Computer graphics systems
- DVD-authoring systems
- CAD/CAM/CAE systems

From our unique graphics technologies to the conception of total network environments, Daikin provides a host of next-generation solutions.

AIR CONDITIONING

[The Japanese Market]

Daikin residential air-conditioning systems lead the market for the second year running

Daikin residential air-conditioning systems led the market for the second year running in fiscal 2005, ended March 31, 2005, increasing their share to approximately 18%. During the term, we adopted a policy of marketing highly distinctive products. We enhanced the new R-Series in our still popular URURU & SALALA range with a value-adding function that modulates the airflow, making it gentler on the sensitive skin of women and babies. The popularity of the URURU & SALALA range is supported by patented technologies for year-round optimized humidity control (working even when the cooling function is used)—technologies that have no competitors. Another highly distinctive product was the slim, stylish UX series with humidity elimination functions and a depth profile of only 15cm.

In other developments, we launched the Flash Streamer Light Courier in the approximately two million units per year market for air purification systems. This product is the first in the world to use stream electrical discharge technology to swiftly and effectively eliminate bad odors, bacteria, and formaldehyde.

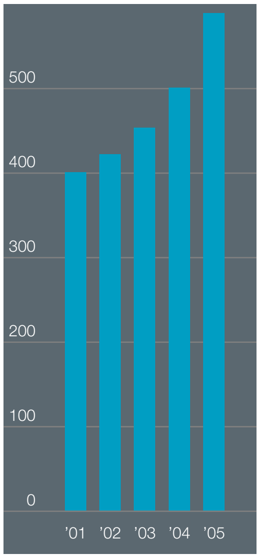
Backed by this product lineup, and as a result of expanding sales via large-scale electronics retailers as well as of pre-installed units to housing-construction materials wholesalers, we increased annual unit sales of residential air conditioners in Japan 18% compared with the previous year.

Daikin air-conditioning systems continue to dominate the commercial market

Our air-conditioning systems also significantly increased their long-standing dominance of the commercial-use air-conditioning system market, growing their share to approximately 44%.

Supported by the very hot summer and a pickup in private-sector capital investment, we launched the Round Flow ZEAS system during the term under review. In addition to low power use, noise, and environmental load—in line with our "small in energy use and size, but convenient and ecofriendly" concept—the system is particularly comfortable as it eliminates temperature variation and the feeling of draftiness. We also launched the Ve-up Q multiple air conditioner for office buildings, a system that enables the replacement of individual units without changing existing refrigerant piping.

Net Sales
(¥ billion)



Thanks to our efforts—with an emphasis on distinctive features and added value—to market finely tailored solutions to retail stores and end users, we increased sales of commercial air-conditioning systems in Japan 13% compared with the previous term.

Boosting market share and profitability

In the current fiscal year, ending March 31, 2006, we are placing greater emphasis on profitability while maintaining our overwhelming dominance of the air-conditioning system market in Japan. Lowering costs is the unavoidable issue in the residential air-conditioning market, where price competition is fierce. However, parts and materials expenses, which account for more than 80% of direct costs, have been severely impacted by soaring raw materials prices. Faced with this situation, we are maximizing cost-cutting by integrating some product lines and scrapping others, standardizing components, and procuring globally. We are also committed to a product price policy that enables us to secure adequate profits while expanding sales.

Another focus is air-conditioning solutions. This business targets the construction industry, with such products as the Eco Cute hot water supply system that uses the natural refrigerant CO_2 (in response to the trend toward all-electric houses), such store systems as the "Convenience Pack" for convenience stores (combining air-conditioning, refrigeration, and freezing functions in a single system), and a warm-water floor heating system incorporating an electric heat pump. This business is earmarked for expansion under the Fusion 05 strategic management plan.

[The Global Market]

Increased revenues in all overseas markets

In fiscal 2005, our main priority was achieving a major increase in sales in Europe and China.

Europe truly embraced air conditioning for the first time in the summer of 2003, which brought unprecedentedly high temperatures. Seizing on this opportunity, we worked to position ourselves to capitalize as soon as possible on residential air-conditioning system demand and the introduction of air-conditioning systems in public buildings. We also created systems to enable smooth and swift supply to European customers, and made full-scale entries into European countries with particularly promising markets.

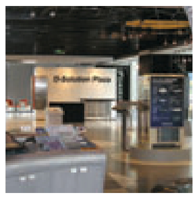
Marketing and service networks were also set up in Southeast Asia and Oceania.

As a result of these efforts, we enjoyed a significant increase in unit sales of residential and commercial air-conditioning systems in Europe—up 35% compared with the previous term, to ¥160 billion. Strong demand also drove sales growth in China as well as in Australia, Taiwan, and other countries that had very hot summers. Sales in China and Oceania rose 25%, and we recorded increased revenues in all overseas markets.

Becoming No. 1 globally on the back of European and Chinese demand

In the year ending March 2006, we aim to increase overseas sales 20%, to ¥326.0 billion. Europe and China remain the priority markets. We are expanding marketing bases there and ensuring that investments made to increase capacity yield steady returns so that sales growth outpaces market expansion.

Thirty-two years have passed since Daikin first set up operations in Europe. And, by March 2005, we had completed the setup of marketing networks in all major EU countries. Based on our projections for growth in the European air-conditioning market—from ¥620 billion in the year ending March 2006 to ¥840 billion three years later—we aim to further boost sales through the full “one-stop” integration of production and marketing systems with logistics centers. We expect these initiatives to lift Daikin’s sales in Europe in the current term 19%, to ¥191.0 billion.



We expect the value of the Chinese air-conditioning system market to expand from ¥540.0 billion in the term under review to ¥710.0 billion in three years. Over the past 10 years, we have abided by a strategy of focusing resources on high-end specialized product ranges for commercial use in China, making good progress particularly in Shanghai. In the current term, ending March 31, 2006, we aim to position our operations for long-term expansion with continuing high profit levels by further broadening business areas while embarking on the second stage of our growth program.

Having brought multiple production bases in China fully onstream during the term under review, we are now capable of full lineup production (residential, commercial, and central air conditioning). We are also expanding marketing networks to include regional cities in China. In a first for China, we are developing an air-conditioning solutions business in partnership with three air-conditioning service companies established by us in the year ended March 2003. As part of this effort, we established the "Solution Plaza Shanghai" in April 2005 to offer tailored services to small-lot users. Based on such initiatives, we target sales of ¥70.0 billion in China in fiscal 2006.

CHEMICALS

Improving safety, maintaining earnings

The accident that occurred in January 2004 during tetrafluoroethylene manufacturing at our Kashima Factory was taken very seriously by Daikin. Having positioned the reestablishment of trust in Daikin's safety record as the main management issue of the year ended March 2005, we have taken many steps to prevent the recurrence of such an event. Until the Kashima Factory reopened to full capacity in February 2005, the Yodogawa Plant, Daikin America, Inc., and the Changshu Plant in China supplied tetrafluoroethylene-based fluoropolymers.

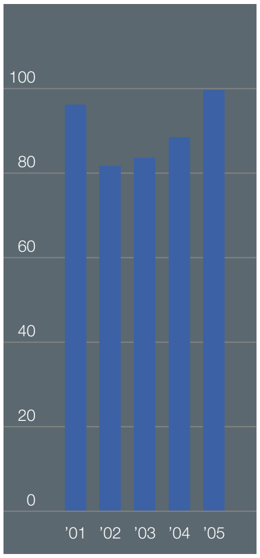
Second only to safety, enhancing our product development capability and steadily reforming our profit structure are management priorities. The purchase of major U.S. fluoroelastomer compounder Cri-Tech Technologies, LLC, in October 2004 confirmed our commitment to this growing market. We expect growth in demand for fluoroelastomers in the automotive industry as emission regulations get tougher. At present, fluoroelastomers are used in chemical-, gasoline-, and heat-resistant automotive fuel hose and sealing materials for the semiconductor and chemical industries. Simultaneously, we aim to further increase the profitability of our oil- and water-repellents business, a major engine of growth for fluorochemicals operations, and expand this business into new markets and applications.

These measures, in combination with across-the-board 10% year-on-year growth in the fluorochemical market, resulted in satisfactory earnings for the business in the year under review. Fluoropolymer revenues grew steadily in the automotive and semiconductor industries, and there was solid growth in Daikin's affiliated products business as well as increased demand for LAN cable in the United States. In chemical products, semiconductor-etching products drove sales in Japan, and sales of oil and water repellents grew in the Japanese and Asian markets. In fluorocarbon gases, sales of hydrofluorocarbon (HFC) refrigerants increased amid buoyant demand for these environment-friendly products from other air-conditioning equipment manufacturers.

Becoming No. 2 in the world through the U.S. and Chinese markets

In fiscal 2006, we plan to implement further safety initiatives in the Fluorochemicals Business. At the same time, in light of the vital need to increase sales, we aim to expand marketing activities globally, supported by a full return to production at the

Net Sales
(¥ billion)



Kashima Factory and the start of full-fledged operations at the Changshu Plant, which opened in 2003, as well as at the Pierreu-Benite factory in France.

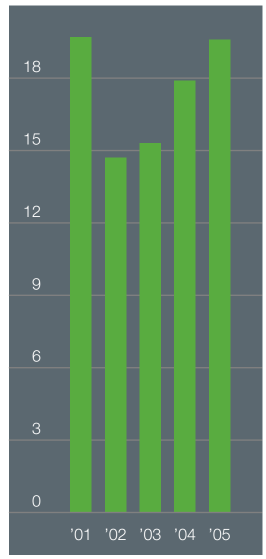
Harnessing our strengths as the only fluorochemical manufacturer in China with large-scale production facilities, we are hastening efforts to build up demand in that country by introducing fluoropolymer applications developed in Japan and the United States. In particular, we have partnered with a local electric wire company to encourage the adoption of LAN cable using fluoropolymer Neoflon FEP cladding material to meet increasingly tough flame-resistance regulations and standards. We are also stepping up sales efforts in the promising markets for new refrigerants and fluorine paint for construction use, both of which are fast-growing segments in the overall Chinese market.

In the United States, we are focusing our resources on enhancing productivity and technical service capability to grow our share of the market for oil and water repellents. We also aim to increase sales of fluoroelastomers through the recently acquired Cri-Tech Technologies, creating a new profit driver in addition to the oil- and water-repellents and fluoropolymer businesses. Using the strengths that Cri-Tech Technologies brings to our business, we will form partnerships and alliances with molding and processing equipment manufacturers to build up marketing channels for supplying automakers with EFEP (a fluoropolymer with superior adhesion, processing, and transparency characteristics).

Looking ahead, it will not be enough to expand our presence in established fluorochemical markets. For further growth, we urgently need to expand the markets themselves by developing new applications and creating compounds using other materials. With regard to finding new applications, products under development include adhesives used in optical fiber manufacturing and antifouling agents for building stone. In addition, we teamed up with the Dow Corning Corporation in April 2005 to launch the development of fluorosilicon, intended as a new compound material combining the unique properties of fluorine and silicon to create many potential new applications.

OIL HYDRAULICS

Net Sales
(¥ billion)



Accelerating the advance from oil hydraulics to PMC

In the field of oil hydraulics equipment for industrial machinery, Daikin is progressively supplementing its core oil hydraulics technology with core motor inverter technologies and thereby undertaking a fundamental reform that is shifting the focus of its operations from the power control business to the power motion control (PMC) business, which involves products with diverse functions. In particular, drawing on the interior permanent magnet (IPM) motor technologies it has created for high-efficiency air-conditioning motors with embedded rare earth magnets, the Company has become the first in the world to develop IPM motors for oil hydraulics applications, and it is leveraging the superior characteristics of these motors to develop expanding business in energy-saving oil hydraulics package products. Among these products, Daikin has completed the development of basic models in the High-Pressure Super Unit line, which was chosen by the Japan Machinery Federation for its "Chairman's Award" in the energy-saving category. The Company is also moving ahead in stages with the development of products designed to further increase customer satisfaction as well as with the development of products designed to facilitate the pioneering of new markets.

In fiscal 2005, Daikin enjoyed robust demand from machine-tool manufacturers, a key customer base. This and measures to promote greater sales of such highly differentiated products as the High-Pressure Super Unit line and such other hybrid products as the Oil Con Series of oil and water cooling systems with high-precision temperature control capabilities enabled the Company to increase its sales revenue and market share.

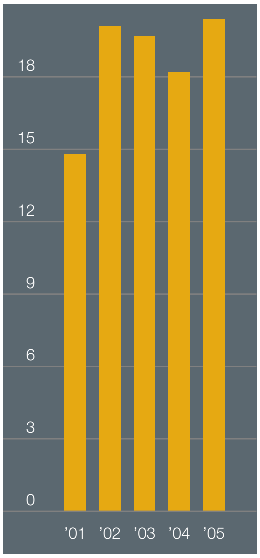
In fiscal 2006, Daikin anticipates that its progressive transition to the PMC business will further accelerate, and the Company is aiming to boost the share of its oil hydraulics sales revenue derived from hybrid products to 50%. Daikin is also endeavoring to obtain patents that will enable it to leverage its technologies while striving to build a solid position with unique strengths and profit-generating capabilities clearly superior to those of competing companies.

In the field of oil hydraulics equipment for construction machinery, Daikin enjoyed continued strong demand from the United States that helped increase overall sales revenue. In fiscal 2006, the Company is aiming to win the No. 1 share of the Japanese/Asian market for oil hydraulics equipment for construction machinery.

Regarding hydraulic multilevel car-parking systems, a decrease in overall Japanese demand for such products caused a year-on-year decline in Daikin's sales revenue.

DEFENSE

Net Sales
(¥ billion)



Non-military earnings are going strong

To secure sustainable development and growth into the future, Daikin is transforming its defense business structure by broadening activities from the production of shells and missile parts for Japan's Defense Agency to include production for non-military demand. To accelerate this transformation, in fiscal 2005 we expanded our consignment manufacturing business in civil aircraft components and air-conditioning parts as well as our home-use oxygen therapy equipment business.

In our consignment manufacturing business, we set up facilities for non-military production in June 2004 and increased orders from Japan and overseas for such products as components for the V2500 jet engine for non-military aircraft and prototype air-conditioning systems. In addition, sales soared in the home-use oxygen therapy equipment business after our full-fledged market launch of oxygen concentration systems.

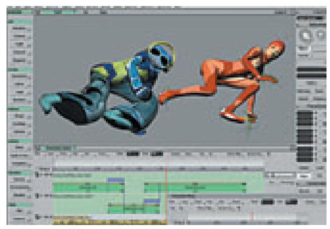
At the same time, shell orders from the Defense Agency rose and revenues from the defense business grew.

The key to growth: shifting to non-military production

The defense planning outline for fiscal 2005 onwards approved by the Cabinet at the end of fiscal 2004 envisions deep cuts in such frontline equipment as tanks. As a result, our defense-related business has poor long-term growth prospects. The only way to ensure future growth will be a concerted effort to successfully convert all such operations to non-military production.

For fiscal 2006, creating a robust profit base is the main issue. To strengthen the profit structure of non-military consignment manufacturing operations, we urgently need to establish a multi-product, combined production system using the production methods of our air-conditioning business. We are also increasing the sophistication of our technologies, such as non-stick and hard-to-cut materials, for applications in next-generation products. In the home-use oxygen therapy equipment business, we aim to increase the sales and market shares of our oxygen concentration systems, oxygen conservers (devices that administer oxygen only in response to a patient's inhalation), and fiber-reinforced plastic (FRP) oxygen vessels, which are small and lightweight. In the defense-related business, we will meet the Defense Agency's evolving needs through the development of ammunition for the latest tank models and mass production of new rifle grenades.

ELECTRONICS



Our strong suit: clearly distinctive solutions

In the year ended March 31, 2005, engineering operations performed strongly in the field of construction facility CAD, with robust sales posted by *FILDER PLUS,* a new product featuring simple operation yet sophisticated functionality. Demand for our *Visual R&D* knowledge-management system for R&D use is also increasing among automobile, electrical machinery, and appliance manufacturers, which appreciate its proprietary workflow functions. Going forward, we expect this market to expand further. We also enjoyed increased market recognition for our network security management and IT total asset management systems and have released version upgrades for both.

In the field of digital content, *Alienbrain* groupware for corporate content production services was adopted by industry leaders, and there is now a good chance that it will become a standard tool in this industry. We have broadened the market for *Softimage* 3D CG software to include a wide range of developers, both large and small, of next-generation game machines. For the widely adopted *SCENARIST* DVD-authoring software, we are aiming for replacement demand by introducing new versions compatible with next-generation DVD formats. Through these developments, we have laid down a clear road map to growth for the business.

In the current term, we will continue to regard advanced functionality—such as ease of use and educational use—as our strong suit in both the engineering and digital content businesses. We are aggressively developing and marketing a range of clearly distinctive solutions.

Going forward, we will deepen our transformation into a solutions provider, aiming to build a business base capable of generating steady income and rich in development potential.

Five-Year Summary

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

	Millions of yen				
	2005	2004	2003	2002	2001
Net sales	¥728,880	¥625,718	¥572,413	¥538,790	¥531,908
Air conditioning	589,275	501,186	453,850	422,224	401,192
Chemicals	99,612	88,492	83,576	81,705	96,188
Others	39,993	36,040	34,987	34,861	34,528
Operating income	60,897	47,988	44,789	41,968	39,814
Income before income taxes and minority interests	63,802	43,787	36,561	31,598	35,234
Net income	38,747	28,611	21,591	17,937	19,939
Per share of common stock (in yen):					
Net income*	¥146.76	¥108.18	¥81.48	¥67.58	¥75.60
Cash dividends applicable to the year	18.00	14.00	12.00	12.00	12.00
Total assets	¥617,874	¥536,379	¥475,760	¥460,549	¥453,142
Total shareholders' equity	274,122	235,771	205,101	191,196	173,924
Net property, plant and equipment	170,209	149,790	145,579	145,259	135,725
Number of employees	19,310	17,077	15,845	15,247	15,047

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

Net Sales

Consolidated net sales amounted to ¥728,880 million, an increase of 16.5% from the previous fiscal year. This reflected the Air Conditioning Division's efforts to promote sales of highly differentiated, value-added products in Japan, the positive effect of hot summer temperatures on domestic sales, and a trend of strong performance in overseas markets, particularly in Europe and China, that was sustained from the previous fiscal year. Other factors contributing to the rise in consolidated net sales included growth in the Chemicals Division's sales, particularly sales of semiconductor-related products.

The Air Conditioning Division's total sales surged 17.6%, to ¥589,275 million, owing to large increases achieved in both domestic and overseas sales volumes.

Japan

In the Japanese residential air-conditioning system market, the division's sales benefited from extremely hot weather during the peak demand period, which increased overall demand for air conditioners in Japan. Sales were also boosted by a rise in market share that resulted from sales promotions emphasizing distinctive and high-value-added products sold through large-scale home electric product retailers as well as electrical fixture wholesalers.

In the Japanese commercial-use air-conditioning system market, overall demand benefited from a rise in private-sector capital investment as well as the hot summer weather. Against this backdrop, the division's sales promotion efforts focused largely on highly differentiated, high-value-added products led to growth in both net sales and market share.

Europe

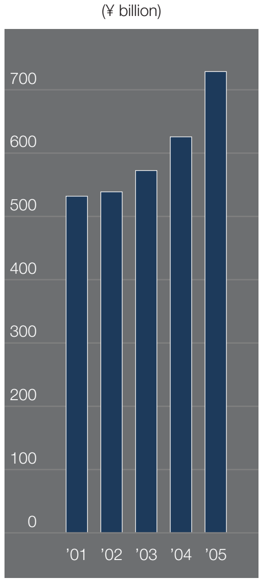
Europe experienced relatively cool summer weather, but the division's sales in the region surged owing to the start of moves to strengthen the direct marketing network through the acquisition of marketing agencies in such countries as Italy, Spain, and the United Kingdom.

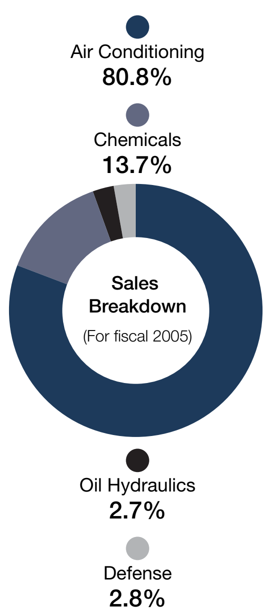
Asia and Oceania

Although the Chinese government adopted restrictive monetary policies, the division was able to greatly augment its sales by promoting demand through such measures as a thoroughgoing program to develop new marketing outlets.

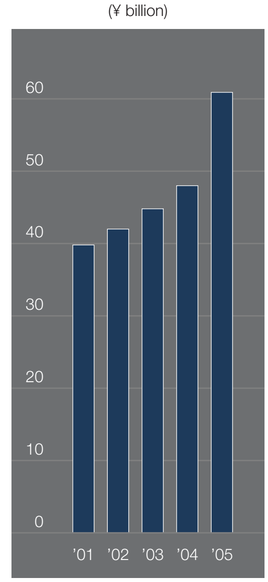
Amid robust growth in Oceanian markets, the division worked to make the most of its product strengths and was thereby able to boost its sales at a rate exceeding the rate of market growth.

Net Sales
(¥ billion)





Operating Income
(¥ billion)



Years Ended March 31,	2005	2004	2003	2002	2001
Gross profit (net sales less cost of sales) as a % of net sales	**35.2%**	34.1%	33.5%	33.3%	33.0%
Operating income as a % of net sales	**8.4**	7.7	7.8	7.8	7.5
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times)	**13.4**	12.1	11.1	9.2	7.8
Net income as a % of net sales	**5.3**	4.6	3.8	3.3	3.7

Regarding the Chemicals Division, the January 2004 explosion in one of the Kashima Factory's fluororesin production facilities led to a continuation of tight market conditions for certain products. In view of particularly large increases in demand associated with semiconductor, information, and communications equipment and automobiles, Daikin proactively increased its chemicals production at such facilities as the Yodogawa Plant and Daikin America as well as related marketing activities, thus enabling a recovery in performance compared with the previous year.

Examining performance by individual product type, Daikin's fluoropolymer product sales associated with automobile and semiconductor markets grew steadily, supported by firm demand. Demand for fluoropolymers used to manufacture LAN cable marketed in the United States was also strong, resulting in a rise in the Company's sales. In addition, increases were achieved in sales of semiconductor-etching products to domestic customers and oil- and water-repellent products to customers in Japan and other Asian countries. Regarding fluorocarbon gas products, sales of new alternative refrigerants rose, reflecting the high production levels of most manufacturers of air-conditioning and refrigeration equipment.

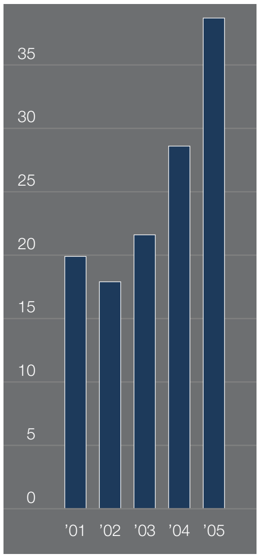
As a result, the Chemicals Division's total sales advanced 12.6%, to ¥99,612 million.

With respect to the Oil Hydraulics Division, demand for the division's mainstay machine-tool-related products was robust, and the division's marketing promotion programs for distinctive inverter-driven oil hydraulic units and other highly differentiated products resulted in a rise in market share. Sales of oil hydraulics equipment for construction machinery also grew, reflecting strong demand from customers in the United States. However, a drop in overall Japanese demand for mechanical multi-storied parking systems depressed the Company's sales of such products.

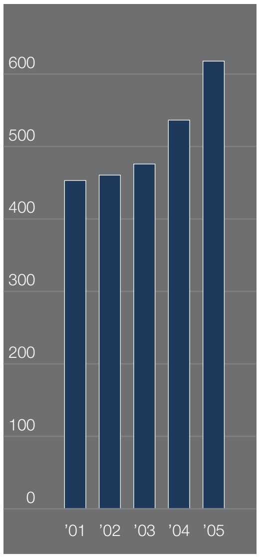
Consequently, the Oil Hydraulics Division's total sales rose 9.8%, to ¥19,617 million

Total sales in defense-related operations grew 12.1%, to ¥20,376 million, due to an increase in the Japanese Defense Agency's orders for artillery shells.

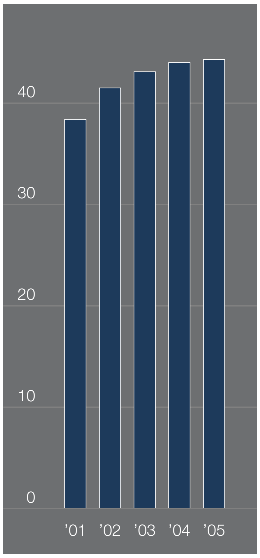
Net Income
(¥ billion)



Total Assets
(¥ billion)



Shareholders' Equity Ratio
(%)



Years Ended March 31,	2005	2004	2003	2002	2001
Notes and accounts receivable, less allowance for doubtful receivables (¥ billion)	**133.7**	116.0	103.1	98.0	104.2
Inventories (¥ billion)	**141.9**	110.4	101.1	93.8	92.2
Interest-bearing debt (not including trade notes discounted) (¥ billion)	**166.4**	149.0	142.3	153.5	143.7

Costs, Expenses, and Earnings

The cost of sales amounted to ¥472,222 million, and the cost of sales ratio decreased 1.1 percentage points from the previous year, to 64.8%. The improvement in this ratio resulted from the Company's efforts to reduce manufacturing costs.

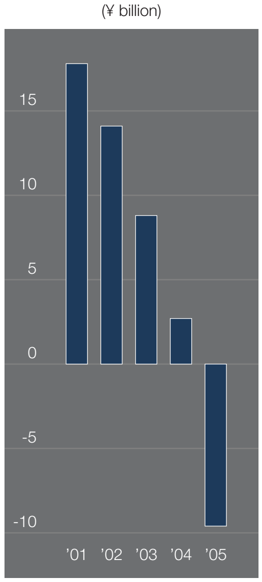
Selling, general and administrative (SG&A) expenses increased ¥30,481 million from the previous year, to ¥195,761 million. This rise reflected various steps taken in response to the global growth in demand. These included measures associated with the large rise in sales volume—such as the boosting of advertising, sales promotion, product shipment, and product servicing—and measures aimed at preparing for further growth in business scale—such as measures to strengthen sales engineering and R&D capabilities, accelerate global expansion through the acquisition of sales agents in various countries, and achieve other strategic objectives. Operating income amounted to a record ¥60,897 million, a 26.9% rise from the previous fiscal year and the 11th consecutive year of increase. Other income (expenses)—net, amounted to income of ¥2,905 million, compared with expenses of ¥4,201 million in the previous fiscal year.

As a result of the above factors, net income totaled ¥38,747 million, up 35.4% from the previous year.

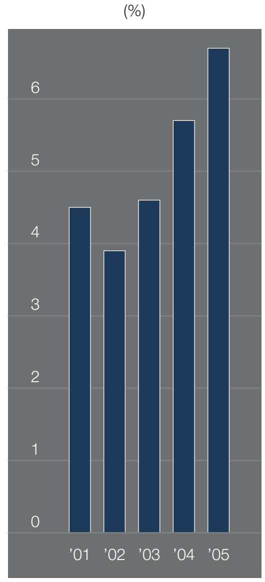
Financial Position

Groupwide efforts were made to reduce notes and accounts receivable and inventories, and the retaining period for receivables was 68 days, down one day from the previous term. The retaining period for inventories was 71 days, up 7 days from the previous fiscal year's level. This rise reflected the impact of weather factors in Europe—extremely hot summer weather two years ago greatly reduced inventory levels, while cool summer weather during the fiscal year under review cause inventory levels to rise, particularly with regard to residential air conditioners.

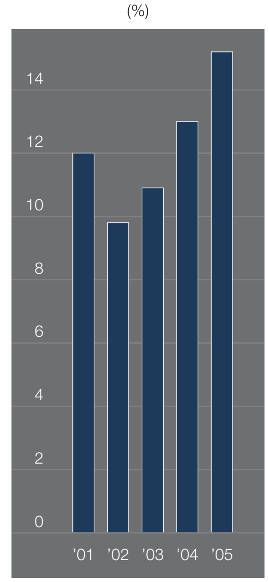
Free Cash Flow (FCF)
(¥ billion)



Return on Assets (ROA)
(%)



Return on Equity (ROE)
(%)



Interest-bearing debt increased ¥17,492 million compared with the previous year-end, to ¥166,442 million; however, the interest-bearing debt ratio improved 0.9 percentage point, to 26.9%.

Total shareholders' equity increased ¥38,350 million compared with the previous year-end, to ¥274,121 million, chiefly reflecting an increase in internal reserves accompanying a rise in profitability. The shareholders' equity ratio rose 0.4 percentage point, to 44.4%.

Cash Flows

While income before income taxes and minority interests for the fiscal year under review increased substantially, net cash provided by operating activities amounted to only ¥43,970 million, among other factors reflecting a rise in trade notes and accounts receivable.

Net cash used in investing activities totaled ¥42,091 million, and was chiefly associated with purchases of property, plant and equipment.

Net cash provided by financing activities was ¥3,534 million, reflecting the procurement of funds for capital investment projects.

As a result, cash and cash equivalents, end of year, totaled ¥55,386 million. This corresponds to 0.9 times the Company's average monthly net sales level, which was ¥60,740 million. Liquidity, including commitment lines with banks for up to ¥25,000 million in financing, amounted to ¥80,386 million, or 1.3 times average net sales per month.

Dividends

Daikin is taking various measures to expand its operations and bolster its operating structure and thereby realize its top-priority objective of maximizing corporate value. For example, the Company is establishing virtual companies and introducing the use of such indicators as FCF, DVA (Daikin Value Added, an in-house-developed metric), ROA, and ROI as management tools. Regarding returns to shareholders, the Company aims to raise the ratio of cash dividends to shareholders' equity (consolidated basis) to at least 2.0%.

Dividend payments applicable to the fiscal year under review were ¥18.00 per share and included a special ¥2.00 per share dividend to commemorate the 80th anniversary of Daikin's founding. The ratio of cash dividends to shareholders' equity (consolidated basis) was thus 1.9%.

Capital Investment

Because of the need to increase supply capabilities in light of expanding demand for air conditioners overseas, particularly in Europe and China, Daikin has begun investing in the establishment of four new manufacturing bases in China for compressors, central air-conditioning units, motors, and air conditioners; a new manufacturing base in the Czech Republic for air conditioners; and additional manufacturing facilities at the Company's bases in Thailand for compressors. As a result, capital investment during the fiscal year under review amounted to ¥44,727 million, up ¥13,041 million.

In the current fiscal year, the Company plans to make approximately ¥58 billion in capital investment centered mainly on the construction of a compressor manufacturing base in the Czech Republic along with other projects designed to boost manufacturing capacity and enable the Company to meet rapidly rising demand in overseas markets.

Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of yen 2005	2004
Current assets:		
Cash and cash equivalents	¥ 55,386	¥ 50,102
Short-term investments	460	1,976
Trade receivables (Notes 7 and 8):		
Notes	8,006	7,064
Accounts	128,287	110,865
Allowance for doubtful receivables	(2,637)	(1,964)
Inventories (Notes 4 and 8)	141,894	110,419
Deferred tax assets (Note 12)	15,028	13,185
Prepaid expenses and other current assets	21,158	20,370
Total current assets	367,582	312,017
Property, plant and equipment (Note 8):		
Land	23,590	23,514
Buildings and structures	125,858	117,958
Machinery and equipment	254,783	233,500
Furniture and fixtures	80,326	73,288
Construction in progress	11,017	8,524
Total	495,574	456,784
Accumulated depreciation	(325,365)	(306,994)
Net property, plant and equipment	170,209	149,790
Investments and other assets:		
Investment securities (Note 5)	53,072	49,320
Investments in and advances to unconsolidated subsidiaries and associated companies	3,627	3,120
Goodwill (Note 6)	7,739	6,394
Deferred tax assets (Note 12)	1,850	2,111
Other assets	13,795	13,627
Total investments and other assets	80,083	74,572
Total	¥617,874	¥536,379

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2005	2004
Current liabilities:		
Short-term borrowings (Note 8)	**¥ 95,643**	¥ 72,342
Current portion of long-term debt (Note 8)	**13,838**	16,681
Trade payables (Note 7):		
Notes	**7,413**	8,658
Accounts	**70,653**	61,523
Construction payable	**11,618**	9,723
Income taxes payable	**9,488**	7,838
Deferred tax liabilities (Note 12)	**7**	10
Accrued expenses	**28,635**	25,202
Other current liabilities	**30,873**	21,944
Total current liabilities	**268,168**	223,921
Long-term liabilities:		
Long-term debt (Note 8)	**56,961**	59,927
Liabilities for retirement benefits (Note 9)	**4,553**	4,542
Deferred tax liabilities (Note 12)	**4,834**	4,377
Other long-term liabilities (Note 9)	**603**	983
Total long-term liabilities	**66,951**	69,829
Minority interests	**8,633**	6,858
Commitments and contingent liabilities (Note 16)		
Shareholders' equity (Notes 10, 11 and 18):		
Common stock—authorized, 500,000,000 shares; issued 263,813,973 shares in 2005 and 2004	**28,023**	28,023
Capital surplus	**25,971**	25,969
Retained earnings	**215,681**	180,945
Net unrealized gain on available-for-sale securities	**12,295**	11,200
Foreign currency translation adjustments	**(6,501)**	(9,256)
Total	**275,469**	236,881
Treasury stock, at cost: 561,170 shares in 2005 and 489,625 shares in 2004	**(1,347)**	(1,110)
Total shareholders' equity	**274,122**	235,771
Total	**¥617,874**	¥536,379

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of yen	
	2005	2004
Net sales (Note 7)	**¥728,880**	¥625,718
Cost of sales (Note 7)	**472,222**	412,450
Gross profit	**256,658**	213,268
Selling, general and administrative expenses (Note 7)	**195,761**	165,280
Operating income	**60,897**	47,988
Other income (expenses):		
Interest and dividend income	**1,141**	849
Interest expense	**(4,618)**	(4,028)
Royalty income	**112**	297
Exchange gains (losses)	**794**	(527)
Loss on disposals of property, plant and equipment	**(651)**	(661)
Gain on sales of investment securities	**111**	1,028
Write-down of investment securities	**(62)**	(173)
Write-down of other assets	**(3)**	(73)
Equity in earnings of unconsolidated subsidiaries and associated companies	**398**	148
Gain on loss-of-profit insurance from explosion at Kashima plant—net	**6,884**	807
Loss on explosion at Kashima plant—net		(1,683)
Other—net	**(1,201)**	(185)
Other income (expenses)—net	**2,905**	(4,201)
Income before income taxes and minority interests	**63,802**	43,787
Income taxes (Note 12):		
Current	**23,836**	17,582
Deferred	**(1,832)**	(4,546)
Total	**22,004**	13,036
Minority interests	**(3,051)**	(2,140)
Net income	**¥ 38,747**	¥ 28,611
	Yen	
Amounts per common share (Note 17):		
Basic net income	**¥146.76**	¥108.18
Diluted net income	**146.74**	
Cash dividends applicable to the year	**18.00**	14.00

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Outstanding Number of Common Shares Issued	Millions of yen					
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, March 31, 2003	263,450,438	¥28,023	¥25,968	¥155,654	¥ (784)	¥(2,938)	¥ (822)
Cumulative effect of consolidating subsidiaries previously unconsolidated				67			
Cumulative effect of application of equity method to an associated company previously accounted for by the cost method				(106)			
Net income				28,611			
Cash dividends, ¥12 per share				(3,161)			
Bonuses to directors and corporate auditors				(120)			
Repurchase of treasury stock	(129,289)						(295)
Disposal of treasury stock	3,199		1				7
Net unrealized gain on available-for-sale securities					11,984		
Foreign currency translation adjustments						(6,318)	
Balance, March 31, 2004	263,324,348	28,023	25,969	180,945	11,200	(9,256)	(1,110)
Cumulative effect of consolidating subsidiaries previously unconsolidated				**51**			
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2)				**7**			
Net income				**38,747**			
Cash dividends, ¥15 per share				**(3,949)**			
Bonuses to directors and corporate auditors				**(120)**			
Repurchase of treasury stock	**(153,303)**						**(432)**
Disposal of treasury stock	**81,758**		**2**				**195**
Net unrealized gain on available-for-sale securities					**1,095**		
Foreign currency translation adjustments						**2,755**	
Balance, March 31, 2005	**263,252,803**	**¥28,023**	**¥25,971**	**¥215,681**	**¥12,295**	**¥(6,501)**	**¥(1,347)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of yen	
	2005	2004
Operating activities:		
Income before income taxes and minority interests	**¥63,802**	¥43,787
Adjustment for:		
Income taxes—paid	**(22,796)**	(14,667)
Proceeds from loss-of-profit insurance from explosion or payments related to explosion at Kashima plant—net	**7,517**	(211)
Depreciation and amortization	**23,425**	21,916
Gain on sales of investment securities	**(111)**	(1,028)
Write-down of investment securities	**62**	173
Write-down of other assets	**3**	73
Loss on disposals of property, plant and equipment	**651**	661
Gain on loss-of-profit insurance from explosion or loss on explosion at Kashima plant—net	**(6,884)**	876
Equity in earnings of unconsolidated subsidiaries and associated companies	**(398)**	(148)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries and a newly consolidated subsidiary:		
Trade notes and accounts receivable	**(1,851)**	(13,050)
Inventories	**(28,043)**	(9,997)
Other current assets	**(2,419)**	(2,679)
Trade notes and accounts payable	**2,322**	8,934
Accrued expenses	**2,746**	3,217
Other current liabilities	**6,001**	2,491
Other—net	**(57)**	(42)
Total adjustments	**(19,832)**	(3,481)
Net cash provided by operating activities	**43,970**	40,306
Investing activities:		
Purchases of property, plant and equipment	**(37,506)**	(29,794)
Increase in investments in unconsolidated subsidiaries and associated companies	**(427)**	(110)
Payment for purchase of a subsidiary, net of cash acquired	**(3,408)**	(2,115)
Payment for purchase of minority interest	**(960)**	
Net increase in time deposits		(448)
Payments to acquire investment securities	**(1,047)**	(2,258)
Proceeds from sales of investment securities	**363**	3,099
Other—net	**894**	32
Net cash used in investing activities	**(42,091)**	(31,594)
Financing activities:		
Net increase (decrease) in short-term borrowings	**15,025**	4,930
Increase in long-term debt	**9,759**	15,095
Repayments of long-term debt	**(16,822)**	(14,290)
Payments of cash dividends	**(3,949)**	(3,161)
Other—net	**(479)**	(392)
Net cash provided by financing activities	**3,534**	2,182
Effect of exchange rate changes on cash and cash equivalents	**129**	(1,143)
Net increase in cash and cash equivalents	**5,542**	9,751
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**152**	46
Effect of change of the fiscal year-end of consolidated subsidiaries	**(410)**	
Cash and cash equivalents, beginning of year	**50,102**	40,305
Cash and cash equivalents, end of year	**¥55,386**	¥50,102

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 Financial Reporting Standards. Daikin Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of their respective countries of their domicile.

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.

In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classification used in 2005.

2. Summary of Significant Accounting Policies

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

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

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

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

For the year ended March 31, 2005, the Company consolidated results of 6 consolidated subsidiaries including Daikin Airconditioning France S.A.S. for the 15 month period ended March 31, 2005 because such subsidiaries changed their fiscal year-end from December 31 to March 31. The Company included the subsidiaries' results for the 12 month period in the consolidated statements of income, and included their results for the 3 month period in the consolidated statements of shareholders' equity as effect of change of the fiscal year-end of consolidated subsidiaries.

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

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

Cash Equivalents

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

Cash equivalents include time deposits, 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.

Marketable debt securities that mature or become due in more than three months but within a year of the date of acquisition are recorded as short-term investments.

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-cost method, or market.

Property, Plant and Equipment

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

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

Leases

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

Investment Securities

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

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

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

Employees' Retirement Benefits

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

Directors and corporate auditors are not covered by the aforementioned plans. Prior to June 27, 2003, the Company recorded a provision for severance indemnities to its directors and corporate auditors based upon management's estimates of amounts. On June 27, 2003 such plan was terminated and the benefits granted prior to the termination date are recorded as other long-term liabilities (also see Note 9).

Foreign Currency Transactions

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

Foreign Currency Financial Statements

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

Income Taxes

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

Derivative Financial Instruments

The Group uses foreign exchange forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies, and mainly interest rate swaps and interest rate option to manage its exposures to fluctuations in interest rates. The Group does not enter into derivatives for trading or speculative purposes.

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

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

Appropriations of Retained Earnings

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

Amounts per Common Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share of common stock assumes full exercise of the outstanding stock options which have dilutive effect.

Diluted net income per share for the year ended March 31, 2004, is not disclosed because there were no potentially dilutive securities outstanding, except for stock options which did not have a dilutive effect.

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

New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005, with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. Accounting Change

Royalty Income

Prior to April 1, 2004, royalty income was recorded as other income. Effective April 1, 2004, the Company changed its method of accounting to reflect royalty income from subsidiaries and associated companies as sales for the year ended March 31, 2005 since the Company considers royalty income from its subsidiaries and associated companies as part of its standard business purpose. The Company included royalty income from its subsidiaries and associated companies in its explanation of standard business purposes in its articles of incorporation. As transactions between consolidated subsidiaries are eliminated, there is no material impact on the consolidated financial statements, except for the disclosures related to geographical segment information. The effect on the geographical segment information is described in Note 19.

4. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen	
	2005	2004
Finished products and merchandise	¥ 84,099	¥ 63,552
Semi-finished products and work-in-process	41,570	34,921
Raw materials and supplies	16,225	11,946
Total	¥141,894	¥110,419

5. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥27,973	¥21,249	¥(690)	¥48,532
Other	503	107		610
Total	¥28,476	¥21,356	¥(690)	¥49,142

	Millions of yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥27,115	¥19,305	¥(696)	¥45,724
Other	614	170		784
Total	¥27,729	¥19,475	¥(696)	¥46,508

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Millions of yen	
	Carrying Amount	
	2005	2004
Available-for-sale:		
Equity securities	¥1,790	¥1,810
Other	2,140	1,002
Total	¥3,930	¥2,812

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥363 million and ¥3,099 million, respectively. Gross realized gains on these sales computed on the moving average cost basis were ¥111 million and ¥1,028 million for the years ended March 31, 2005 and 2004, respectively.

The Company did not have investments in debt securities at March 31, 2005 and 2004.

6. Goodwill

Goodwill at March 31, 2005 and 2004 consisted of the following:

	Millions of yen	
	2005	2004
Consolidation goodwill	**¥6,205**	¥5,572
Others	**1,534**	822
Total	**¥7,739**	¥6,394

7. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Trade notes and accounts receivable	**¥2,745**	¥2,473
Trade notes and accounts payable	**727**	790

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Sales	**¥17,317**	¥13,334
Purchases	**8,986**	6,225

Material transactions and balances with related individuals, including shareholders and directors, for the years ended March 31, 2005 and 2004 were as follows:

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	**2005**	Account	**2005**
Noriyuki Inoue	Chairman of the Board and CEO/Director general of Daikin Foundation for Contemporary Arts	0.02	Donation to Daikin Foundation for Contemporary Arts	**¥105**		

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2004	Account	2004
Noriyuki Inoue	Chairman of the Board and CEO/Director general of Daikin Foundation for Contemporary Arts	0.02	Donation to Daikin Foundation for Contemporary Arts	¥5		

8. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2005 and 2004 consisted of the following:

	Millions of yen	
	2005	2004
Bank overdrafts and notes to banks	**¥57,643**	¥51,342
Commercial paper	**38,000**	21,000
Total	**¥95,643**	¥72,342

Unused short-term bank credit lines were ¥25,000 million at March 31, 2005. Weighted average interest rates of bank overdrafts and notes to banks at March 31, 2005 and 2004 were 2.16% and 1.62%, respectively.

Weighted average interest rates of commercial paper at March 31, 2005 and 2004 were 0.02% and 0.01%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen	
	2005	2004
1.925% unsecured bonds, due 2004		¥10,000
2.70% unsecured bonds, due 2006	**¥10,000**	10,000
0.82% unsecured bonds, due 2009	**20,000**	20,000
Collateralized loans from government sponsored banks, with interest 1.75%, due through 2012	**1,200**	1,200
Unsecured loans from government sponsored banks, with interest ranging from 1.40% to 6.53%, due through 2012	**3,674**	4,342
Collateralized loans from banks with:		
Floating interest ranging from 0.44% to 0.58% (2005 and 2004) due through 2010	**8,250**	8,250
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 2.30% to 11.36% (2005), and from 1.64% to 10.50% (2004), due through 2009	**14,701**	9,788
Unsecured loans from banks with interest ranging from 0.44% to 6.10% (2005), and from 0.43% to 7.20% (2004), due through 2027	**12,974**	13,028
Total	**70,799**	76,608
Less current portion	**(13,838)**	(16,681)
Long-term debt, less current portion	**¥56,961**	¥59,927

Annual maturities of long-term debt outstanding at March 31, 2005 were as follows:

Years ending March 31,	Millions of yen
2006	¥13,838
2007	2,072
2008	6,055
2009	5,927
2010	28,553
2011 and thereafter	14,354
Total	¥70,799

At March 31, 2005, property, plant and equipment, trade accounts receivables and inventories with a net book value of ¥45,627 million, ¥4,516 million and ¥6,043 million, respectively, were pledged as collateral for short-term borrowings and long-term debt, and time deposits with a value of ¥1,511 million were pledged as collateral for a supplier's borrowings of ¥1,460 million.

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.

9. Severance Indemnities and Pension Plans

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

The liabilities for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen	
	2005	2004
Projected benefit obligation	¥68,458	¥68,355
Fair value of plan assets	(50,285)	(44,190)
Unrecognized prior service cost	97	109
Unrecognized actuarial loss	(6,503)	(8,911)
Unrecognized transitional obligation	(7,214)	(10,821)
Net liability	¥ 4,553	¥ 4,542

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Service cost	¥3,487	¥ 3,613
Interest cost	1,698	1,742
Expected return on plan assets	(1,105)	(834)
Amortization of prior service cost	(13)	(13)
Amortization of transitional obligation	3,607	3,607
Recognized actuarial loss	1,283	2,080
Net periodic benefit costs	¥8,957	¥10,195

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	7 years	7 years

10. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥139,645 million as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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

11. Stock Option Plan

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

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

On June 27, 2002, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 118 thousand shares of the Company's common stock in the period from July 1, 2004 to June 30, 2008. On July 30, 2002, the options were granted at an exercise price of ¥2,330 per share.

On June 27, 2003, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 118 thousand shares of the Company's common stock in the period from July 1, 2005 to June 30, 2009. On July 30, 2003, the options were granted at an exercise price of ¥2,405 per share.

On June 29, 2004, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 144 thousand shares of the Company's common stock in the period from July 1, 2006 to June 30, 2010. On July 30, 2004, the options were granted at an exercise price of ¥2,957 per share.

12. 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 40.6% and 42% for the years ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Deferred tax assets:		
Inventories	**¥ 8,803**	¥ 5,736
Retirement benefits	**1,750**	1,745
Foreign tax credit	**1,572**	1,249
Tax loss carryforwards	**386**	1,193
Accrued bonus	**2,641**	2,614
Warranty reserve	**3,121**	1,610
Software	**3,680**	3,229
Business tax payable	**555**	898
Property and equipment	**284**	321
Investment securities	**112**	93
Other	**2,652**	3,662
Less valuation allowance	**(53)**	(462)
Total deferred tax assets	**¥25,503**	¥21,888
Deferred tax liabilities:		
Deferred gains on sales of property	**¥ 2,168**	¥ 2,168
Unrealized gain on available-for-sale securities	**8,406**	7,659
Other	**2,892**	1,152
Total deferred tax liabilities	**¥13,466**	¥10,979
Net deferred tax assets	**¥12,037**	¥10,909

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal statutory income tax rate	**40.6%**	42.0%
Permanent non-deductible expenses	**1.7**	3.3
Difference in foreign subsidiaries' tax rates	**(6.2)**	(13.2)
Tax credit for research and development costs	**(2.8)**	(4.2)
Foreign tax credit	**(0.1)**	(0.7)
Losses of consolidated subsidiaries	**0.6**	1.9
Other—net	**0.7**	0.7
Actual effective income tax rate	**34.5%**	29.8%

13. Research and Development Costs

Research and development costs were ¥24,583 million and ¥23,817 million for the years ended March 31, 2005 and 2004, respectively.

14. Leases

The Group leases certain computer equipment and other assets.

Lease payments under finance leases were ¥2,141 million and ¥2,171 million for the years ended March 31, 2005 and 2004, respectively.

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, 2005 and 2004, was as follows:

	Millions of yen		
For the year ended March 31, 2005	Furniture and Fixtures	Others	Total
Acquisition cost	**¥5,983**	**¥1,909**	**¥7,892**
Accumulated depreciation	**3,044**	**812**	**3,856**
Net leased property	**¥2,939**	**¥1,097**	**¥4,036**

	Millions of yen		
For the year ended March 31, 2004	Furniture and Fixtures	Others	Total
Acquisition cost	¥5,830	¥1,968	¥7,798
Accumulated depreciation	3,085	957	4,042
Net leased property	¥2,745	¥1,011	¥3,756

Obligations under finance leases:

	Millions of yen	
	2005	2004
Due within one year	**¥1,780**	¥1,742
Due after one year	**2,256**	2,014
Total	**¥4,036**	¥3,756

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

Depreciation expense under finance leases:

	Millions of yen	
	2005	2004
Depreciation expense	**¥2,141**	¥2,171

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, was computed by the straight-line method over the respective lease periods.

15. Derivatives

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

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

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

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

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

Fair Value of Derivative Financial Instruments

The fair values of the Group's derivative financial instruments at March 31, 2005 and 2004 were as follows:

	Millions of yen					
	2005			2004		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Selling: GBP	**¥ 3,015**	**¥ 3,050**	**¥(35)**	¥ 4,782	¥ 4,772	¥ 10
EUR	**11,421**	**11,409**	**12**	2,991	2,967	24
US$	**3,125**	**3,168**	**(43)**	3,868	3,803	65
AU$	**2,418**	**2,454**	**(36)**	310	317	(7)
ZAR	**600**	**595**	**5**	545	584	(39)
TBH				1,217	1,142	75
CZK	**69**	**69**				
HUF	**38**	**37**	**1**			
PLN	**107**	**105**	**2**			
SKK	**24**	**24**				
Currency option contracts:						
Buying: EUR				674	26	26
Total	**¥20,817**	**¥20,911**	**¥(94)**	¥14,387	¥13,611	¥154

	Millions of yen					
	2005			2004		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Interest rate swaps contracts:						
Pay fixed/receive floating	**¥ 2,775**	**¥(63)**	**¥(63)**	¥2,578	¥(82)	¥(82)
Interest rate option contracts:						
Buying	**5,661**	**(1)**	**(1)**	5,259		
Forward rate agreement contracts:						
Buying	**2,081**					
Total	**¥10,517**	**¥(64)**	**¥(64)**	¥7,837	¥(82)	¥(82)

Information related to derivative contracts that qualify for hedge accounting and forward contracts that are assigned to associated assets and liabilities and recorded on the balance sheets at March 31, 2005 and 2004 are excluded from the disclosure of market value information.

The contract or notional amounts of the 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.

16. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2005 totaled approximately ¥4,703 million.

Guarantees of bank loans and items of a similar nature at March 31, 2005 were ¥1,642 million.

17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 was as follows:

	Millions of yen	Thousands of shares	Yen
For the year ended March 31, 2005	Net Income	Weighted Average Shares	EPS
Basic EPS			
Net income available to common shareholders	¥38,637	263,267	¥146.76
Effect of dilutive securities			
Stock options		42	
Diluted EPS			
Net income for computation	¥38,637	263,309	¥146.74

18. Subsequent Events

At the general shareholders' meeting held on June 29, 2005, the Company's shareholders approved the following:

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2005 were approved:

Years ending March 31, 2005	Millions of yen
Year-end cash dividends, ¥11 per share	¥2,895
Bonuses to directors and corporate auditors	110

Stock Option Plan

The plan provides for granting options to directors and key employees to purchase up to 160 thousand shares of the Company's common stock in the period from July 2007 to June 2011. 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.

Purchase of Treasury Stock

The Company is authorized to repurchase up to 160 thousand shares of the Company's common stock (aggregate amount of ¥600 million) as treasury stock until the next general shareholders' meeting.

19. 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, 2005 and 2004 was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
For the year ended March 31, 2005	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥589,275	¥99,612	¥39,993		¥728,880
Intersegment sales	385	2,770		¥(3,155)	
Total sales	589,660	102,382	39,993	(3,155)	728,880
Operating expenses	538,428	93,423	39,274	(3,142)	667,983
Operating income	¥ 51,232	¥ 8,959	¥ 719	¥ (13)	¥ 60,897

b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2005	Millions of yen Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets	**¥398,065**	**¥111,192**	**¥30,847**	**¥77,770**	**¥617,874**
Depreciation	**13,141**	**7,850**	**1,174**		**22,165**
Capital expenditures	**30,093**	**12,926**	**1,439**		**44,458**

a. Sales and Operating Income

For the year ended March 31, 2004	Millions of yen Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥501,186	¥88,492	¥36,040		¥625,718
Intersegment sales	355	2,596		¥(2,951)	
Total sales	501,541	91,088	36,040	(2,951)	625,718
Operating expenses	463,034	82,904	34,736	(2,944)	577,730
Operating income	¥ 38,507	¥ 8,184	¥ 1,304	¥ (7)	¥ 47,988

b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2004	Millions of yen Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets	¥325,776	¥109,384	¥29,857	¥71,362	¥536,379
Depreciation	12,226	7,946	1,082		21,254
Capital expenditures	18,694	11,835	1,158		31,687

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

The effect of the change in the accounting for royalty income for the year ended March 31, 2005 in Note 3 was not material.

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 geographical segments of the Group for the years ended March 31, 2005 and 2004 were summarized below:

For the year ended March 31, 2005	Millions of yen Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	**¥440,222**	**¥ 98,066**	**¥160,757**	**¥27,326**	**¥2,509**		**¥728,880**
Interarea transfers	**110,434**	**67,594**	**913**	**5,447**		**¥(184,388)**	
Total sales	**550,656**	**165,660**	**161,670**	**32,773**	**2,509**	**(184,388)**	**728,880**
Operating expenses	**528,581**	**142,390**	**147,315**	**28,513**	**2,306**	**(181,122)**	**667,983**
Operating income	**¥ 22,075**	**¥ 23,270**	**¥ 14,355**	**¥ 4,260**	**¥ 203**	**¥ (3,266)**	**¥ 60,897**
Assets	**¥391,698**	**¥131,247**	**¥122,213**	**¥25,449**	**¥1,268**	**¥ (54,001)**	**¥617,874**

For the year ended March 31, 2004	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
	Millions of yen						
Sales to outside customers	¥404,970	¥ 76,245	¥119,211	¥23,389	¥1,903		¥625,718
Interarea transfers	74,633	44,784	478	2,902		¥(122,797)	
Total sales	479,603	121,029	119,689	26,291	1,903	(122,797)	625,718
Operating expenses	465,202	105,272	111,220	25,531	1,711	(131,206)	577,730
Operating income	¥ 14,401	¥ 15,757	¥ 8,469	¥ 760	¥ 192	¥ 8,409	¥ 47,988
Assets	¥365,056	¥ 93,114	¥ 73,540	¥23,532	¥1,339	¥ (20,202)	¥536,379

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

The effect of the change in the accounting for royalty income in Note 3 was to increase interarea transfers and operating income of Japan by ¥10,548 million, and decrease interarea transfers and operating income of eliminations and corporate by ¥10,548 million for the year ended March 31, 2005. Consolidated operating income was not changed.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen	
	2005	2004
Asia and Oceania	**¥123,920**	¥104,346
Europe	**168,806**	126,150
Americas	**31,808**	27,294
Other	**6,745**	5,357
Total sales to foreign customers	**¥331,279**	¥263,147

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

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