Annual Report 2008

Fiscal Year Ended March 31, 2008

DAIKIN INDUSTRIES, LTD.

Corporate Data (As of March 31, 2008)

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	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	29,729
Major Shareholders	Japan Trustee Services Bank, Ltd. The Master Trust Bank of Japan, Ltd. State Street Bank and Trust Company Matsushita Electric Industrial Co., Ltd. Trust & Custody Services Bank, Ltd. Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Nippon Life Insurance Company Northern Trust Company The Chase Manhattan Bank
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 192 Affiliates: 13
Number of Employees	36,300 (Consolidated)
Stock Exchange Listings	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (http://www.daikin.co.jp/e/koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the *Nikkei Shimbun*.
Shareholder Register Administrator	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

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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.

Profile

Founded in 1924, Daikin Industries, Ltd., has grown to become a leading producer of air-conditioning systems and fluorochemical products. Today, as the world has become a single global market characterized by megacompetition, we are continuing to address new challenges as we move ahead toward our goal of attaining the global No. 1 position as a comprehensive air-conditioning and refrigeration manufacturer by 2010.

In addition, in our oil hydraulics and electronics divisions, we are combining our advanced technology and R&D capabilities in fields outside our core businesses to create innovative products and systems that contribute to industry and to the lives of our customers.

To maximize our corporate value as a "global and excellent company," in May 2008, we finalized a mid-term plan that includes revised numerical performance targets for the last three years of the FUSION 10 strategic management plan (fiscal 2009 through fiscal 2011). This mid-term plan gives top priority to proactively contributing to the resolution of global environmental problems while concurrently expanding the scale of business operations, and we are currently moving ahead with diverse measures designed to attain this objective.

In fiscal 2008, ended March 31, 2008, Daikin's consolidated net sales rose to a record-high ¥1,290,893 million, and the Company's operating income reached the record-high level of ¥128,497 million. In view of this, *Newsweek* magazine ranked Daikin 419th among the world's top 500 companies and 94th among Japan-based companies. Daikin is steadily earning greater recognition throughout the world.

To Our Shareholders

Noriyuki Inoue
Chairman of the Board and CEO

Performance in Fiscal 2008

The global economic outlook became increasingly unclear during fiscal 2008, ended March 31, 2008, although the general trend of growth was sustained during the first half of the year. In the latter half of the year, the U.S. subprime loan crisis disrupted financial and capital markets and had an increasingly widespread impact on the economies of Japan, the United States, Europe, and other industrialized countries and regions. Moreover, prospective economic conditions were further clouded by such trends as a surge in the prices of crude oil, copper, and other raw materials and sharp fluctuations in currency exchange rates.

As fiscal 2008 was the first year in which O.Y.L. Industries Bhd (OYL) was effectively integrated with the Group, we considered fiscal 2008 to be a year that offered outstanding opportunities to rapidly expand our operations, and we therefore established the Daikin Group's "breakthrough advance" policy at the start of 2007. In line with that policy, we have been doing our utmost to attain the targets of our FUSION 10 strategic management plan by fiscal 2011, which is the final year of that plan.

As a result, consolidated net sales in fiscal 2008 amounted to ¥1,290.9 billion, up 41.5% from the level in the previous fiscal year. Although the consolidation of OYL contributed to this rise, net sales would have surpassed the ¥1 trillion mark for the first time even without the contribution from OYL.

The Group's profitability was increased by such factors as the rise in net sales and cost-cutting measures as well as the beneficial effects of yen depreciation. As a result, consolidated operating income surged 58.8% above the level in the previous fiscal year, to ¥128.5 billion. Ordinary income was up 55.6%, to ¥122.1 billion, and net income was up 64.9%, to ¥75.2 billion.

Thus, the Group was able to attain a record-high level of consolidated net sales for the eighth consecutive fiscal year. It also reached record-high levels of consolidated operating income and ordinary income for the eighth consecutive year, and consolidated net income rose for the 14th consecutive year.

To maximize its market capitalization, Daikin is promoting "financial ratio (ROA, ROE, etc.) management" and proactively taking measures to expand its operations and strengthen its operating structures. Specifically, the Company is emphasizing its performance regarding such indicators as free cash flow (FCF), Daikin Value Added (DVA, an in-house-developed metric), return on assets (ROA), and return on equity (ROE). Top emphasis is given to FCF, a primary source of corporate value, and we are striving to create additional cash flow through such moves as those to boost profitability and investment efficiency as well as those to lower levels of receivables and inventories.

Fiscal 2008 levels of ROA, ROE, and DVA were all higher than in the previous year, amounting to 6.3%, 15.7%, and ¥6.6 billion, respectively. FCF amounted to ¥6.1 billion.

Addressing Even Greater Challenges

The FUSION 10 strategic management plan covers the five years from fiscal 2007 through fiscal 2011, and Daikin was able in fiscal 2008 to attain the plan's fiscal 2009 targets a year ahead of schedule. In view of this, we have revised the plan for the remaining three years (fiscal 2009 through fiscal 2011) and increased the targets we are aiming to attain in the plan's final year, although the fundamental FUSION 10 concept of "maximizing corporate value to realize global excellence" remains unchanged. Our qualitative conditions for "global excellence" include "becoming a world-leading global No. 1 business," "shifting creation and value creation through technical innovation," and "robust profitability and financial structure with excellent capital efficiency." Moreover, we are aiming to realize these conditions based on "people-oriented" management that earns worldwide renown.

In addition, we recognize that concern regarding the prevention of global warming has rapidly risen worldwide since the start of the FUSION 10 plan, and we believe that responding to this trend is an important task that relates directly to our definition of "global excellence." Accordingly, we have drafted an "environmental fusion" plan to be implemented during the last three years of the plan's term, with particular emphasis on contributing to the prevention of global warming and on taking advantage of opportunities to expand our business by responding to needs associated with environmental protection. We are clarifying our environmental protection contributions by setting such Groupwide environmental performance goals as those for reducing greenhouse gas emissions during manufacturing processes, and we are concurrently bolstering our market competitiveness with highly environment-friendly products.

Benefits of Daikin's Ability to Realize Plans and Promises

Since 1995, the Daikin Group has set itself many strategic management goals in quantitative terms and cleared almost all of those goals. I believe this record of consistent achievement has inspired greater trust and confidence in Daikin among investors, and I think it has thereby had a positive effect on our share price and generated various other benefits. Currently, as our operating environment becomes increasingly changeable and unstable, I think we have entered an era in which the benefits of Daikin's ability to follow through on its plans and promises will be even more evident than previously.

The Daikin Group has chosen "Dynamism & Challenge" as its policy statement for 2008. In accord with this policy, we will be dynamically addressing a great many challenging business development themes. As we do this, we will do our utmost to maintain our outstanding record of having the ability to realize our plans and promises and thereby generate considerable additional benefits for the Group.

Moreover, in addition to stepping up efforts regarding environmental protection, we are committed to further improving other aspects of our corporate social responsibility (CSR) performance, by developing technological capabilities of greater sophistication, strengthening and fostering the development of human resources, ensuring rigorous legal compliance and high ethical standards, and maintaining the safety of operations. In this way, we intend to progressively advance with the fundamental strengthening of the Daikin Group in a manner that generates many benefits for all the Group's stakeholders.

I hope for shareholders' continued support as we implement these farsighted strategies.

June 27, 2008

Noriyuki Inoue

Noriyuki Inoue
Chairman of the Board and CEO

Mid-Term Implementation Plan for Last Three Years of FUSION 10

Background to Drafting of Mid-Term Implementation Plan

In fiscal 2008, Daikin's global air-conditioning business generated synergies with OYL according to plan, and extremely strong performances were recorded in Europe, China, and other markets. This enabled the Company to realize considerable growth in both revenue and profits, just as during fiscal 2007, the first year of FUSION 10. Consolidated net sales in fiscal 2008 reached ¥1,290.9 billion, very close to the ¥1,350.0 billion FUSION 10 fiscal 2009 net sales target, while fiscal 2008 operating income actually did surpass the ¥120.0 billion FUSION 10 fiscal 2009 operating income target.

In view of the clearing of FUSION 10 performance targets a year ahead of schedule and of the rapid pace of change inside the Daikin Group and in the operating environment during the first two years of FUSION 10, we have drafted a mid-term plan that includes revised numerical performance targets for the last three years of FUSION 10 (fiscal 2009 through fiscal 2011).

Mid-Term Implementation Plan Targets

The main concepts of the revised mid-term plan are summarized as follows.

Recognizing that environmental issues are now a key factor in attaining the FUSION 10 goal of "maximizing corporate value to realize global excellence," we have drafted an "environmental fusion" plan that places strong emphasis on contributing to the prevention of global warming and expanding business related to such contributions.

By expanding our business, we are seeking to attain the following targets on a consolidated basis in fiscal 2011.

Net sales	¥1,900.0 billion (previously ¥1,700.0 billion)
Operating income	¥190.0 billion (previously ¥170.0 billion or more)
ROA	7.5%
ROE	15.0%
FCF	¥150.0 billion of cash inflow
DVA	¥25.0 billion

Our environmental contribution goals are as follows.

The entire Daikin Group aims to cut greenhouse gas emissions during production to 1.4 million tons or less by fiscal 2011. (Reductions for individual business divisions are itemized separately.)

Note: Greenhouse gases are defined as including CO_2, hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs).

While the new greenhouse gas emission target calls for reducing greenhouse gas emissions to 50% or less of the fiscal 2006 level, we consider this kind of dramatic reduction to be an essential part of our conception of "global excellence" in terms of contributing to the prevention of global warming. We are doing our utmost to attain the target through such measures as those to switch to energy-conserving manufacturing facilities and expand the use of green electric power and solar thermal energy.

Promoting Environmental Strategies

To attain its performance targets for fiscal 2011, Daikin must make full use of various business opportunities associated with environmental protection measures so that it can leverage innovative environmental protection strategy themes to expand its business scale. Some examples of specific themes are as follows:

- **Popularizing and expanding sales of inverter products throughout the world**
  Increasing the use of inverter products for household and large-scale commercial (applied) air-conditioning applications and increasing the use of hybrid oil hydraulic products with inverters
- **Using heat-pump technologies to establish a full-scale presence in the heater market**
  Realizing superior energy efficiency compared with previous combustion heater technologies
- **Expanding energy-saving solutions business worldwide**
  Adding an energy-saving control function to the Air Net system, which was originally focused on failure prediction for large-scale commercial (applied) air-conditioner systems
- **Increasing sales of products that contribute to environmental protection**
  Augmenting sales of such products as EcoCute heat-pump-type water heaters, heat-shield paint, energy-saving hybrid oil hydraulic products, etc.
- **New approaches to handling air-conditioning refrigerants**
  Developing and promoting the use of natural refrigerants and low global warming potential (GWP) refrigerants

Investment Plan

To promote attainment of the mid-term implementation plan's performance targets, Daikin has prepared an investment plan focused mainly on investments in facilities. While such investments will amount to approximately ¥160.0 billion in the three years through fiscal 2009, plans call for such investments to rise greatly, to ¥230.0 billion, during the three years through fiscal 2011. Some examples of principal investment projects are as follows:

- **Environment investment exceeding ¥26.0 billion**
  This includes such items as ¥12.0 billion of investment in environmental product development and ¥2.7 billion of investment in Groupwide greenhouse gas emission reductions.
- **Other large-scale investment amounting to approximately ¥26.0 billion**
  This includes investment in such items as expanding the capacity of plants in the Czech Republic and Thailand (approximately ¥10.0 billion), establishing a plant in India (approximately ¥4.0 billion), establishing the Applied Development Center in the United States (approximately ¥5.0 billion), and increasing the production of ethylene tetrafluoroethylene (ETFE, a fluoropolymer) (approximately ¥7.0 billion).

We plan to fund these investments from the FCF we generate each year. Despite projections that changes in the external business environment will become even more dramatic during the three years from fiscal 2009, Daikin is setting out to attain even more ambitious targets than previously. We are redoubling the dynamism of our concerted efforts to realize those targets.

Interview with the President

Yukiyoshi Okano
President and COO, Member of the Board

Q: Daikin achieved excellent performance in fiscal 2008. Was that attributable to industry trends and market trends?

———The global economy maintained an expansionary trend during the first half of the year, but it became increasingly difficult to predict the direction of economic trends during the latter half of the year owing to such factors as the emergence of the U.S. subprime loan crisis and related turbulence in financial and capital markets.

Similarly, the Japanese economy initially maintained a gradual expansionary trend supported by external demand but subsequently entered a lull during the fourth quarter due to the rapid deceleration of the U.S. economy and the progress of yen depreciation. Amid the protraction of the subprime loan crisis, the risk of a dip in economic conditions increased, and the views of major corporations regarding the economic outlook deteriorated.

In Japan's commercial air-conditioning system market, overall demand for package air-conditioning systems fell below the fiscal 2007 level. Amid increasing concern regarding the progress of global warming, however, Daikin organized solutions-proposal-type marketing programs centered on the Group's outstanding products able to conserve energy and reduce CO_2 emissions. This enabled us to record a good performance.

In European air-conditioning markets, demand for residential and commercial air conditioners increased, reflecting such factors as extremely hot summer weather during the first quarter of the year and France's creation of energy-conservation-related tax benefits, and the volume of Daikin Group sales surged considerably. The geographic scope of demand for air conditioners in China continued expanding from major cities to peripheral medium-sized cities, and the Group was able to respond effectively to that trend.

Regarding the fluorochemicals sector of our chemicals operations, the Chinese market's expansion provided supportive business conditions, and we enjoyed strong European demand for products for automobile-related applications. However, chemicals operations were negatively impacted by a decrease in semiconductor-related demand and by the U.S. economic slowdown. In the chemical products sector, the sharp drop in new housing construction starts in the United States after the subprime loan crisis emerged led to a decrease in demand for water and oil repellents used for carpeting and other housing-related applications.

Q: Why was Daikin able to attain its FUSION 10 targets for fiscal 2009 a year ahead of time?

———We were previously aiming to generate ¥1,350.0 billion in net sales and ¥120.0 billion in operating income during fiscal 2009. We recorded ¥1,290.9 billion in net sales and ¥128.5 billion in operating income during fiscal 2008, however, so we have essentially attained the fiscal 2009 targets a year early.

In accordance with FUSION 10, we were able to achieve year-on-year growth in both sales and profitability during fiscal 2007 and fiscal 2008. Particularly since the first quarter of fiscal 2008, our overseas air-conditioning business has been a major motive force behind our growth, and that was an important factor enabling us to surpass our performance targets. Surges in raw material costs partially offset other forces that were augmenting our profitability, but we strove to implement comprehensive cost-cutting programs effective enough to cancel out the raw material cost rises, and we also worked to make timely adjustments to our new product selling prices in line with changes in our costs. These management measures were fruitful, and they were facilitated by an expansion of the air-conditioning market that exceeded initial projections. Looking at Daikin's previous air-conditioning operations, excluding OYL, we greatly improved our cost of sales ratio during fiscal 2008, and that was the primary cause for our early attainment of the performance targets.

Q: Could you explain your activities aimed at attaining the global No. 1 position as a comprehensive air-conditioning and refrigeration manufacturer?

———First, obtaining the management resources of OYL has enabled us to expand our geographic operating scope in the United States, the BRICs, and other areas and to establish a new business model involving the provision of solutions proposals covering a comprehensive range of fields, including the marketing of large-scale commercial (applied) air-conditioning systems and other equipment as well as the provision of maintenance, repair, and engineering services. In these various ways, the acquisition has strengthened the Daikin Group's foundation for attaining the global No. 1 position.

In the European market, our offerings are centered on such environment-friendly products as heat-pump heating systems. While the Daikin Group has not previously done business in fuel-combustion-type heating and hot water systems, we are now considering the possibility of strategic business expansion measures, including M&A transactions, that will help us establish an overwhelming global No. 1 position regarding both cooling and heating products.

In China, we are using our solid platform of comprehensive capabilities to build up our operations in six regions—Beijing, Shanghai, Guangzhou, Chengdu, Jiangsu, and Zhejiang—and are accelerating the implementation of our environment-friendly product strategy. We have arranged for cooperation with Gree Electric Appliances, Inc., of Zhuhai, to jointly develop inverter residential air conditioners in an affordable price range suitable for the global market, and we are drawing on the capabilities of McQuay International in the OYL Group to establish a presence in China's market for large-scale commercial (applied) air-conditioning systems and to take other initiatives.

Regarding the Asia and Oceania region, Daikin is aiming to be the No. 1 air-conditioning and refrigeration product manufacturer in the ASEAN market. We are building our own marketing network in each country in the region as well as undertaking the development of full-scale operations in the large-scale commercial (applied) air-conditioning systems markets of those countries.

Despite the challenges of doing business amid the oligopolistic domination of local manufacturers in North America, we are taking various measures to establish a presence there, with particular emphasis on creating our own marketing routes and expanding our product lineup.

In light of rising environmental consciousness among people in North America, we are promoting the sales of Japanese-style, ductless air-conditioning products with noteworthy energy-saving benefits. We were able to boost our sales of variable refrigerant volume (VRV) ductless products from approximately 1,700 units in fiscal 2007 to approximately 3,300 units in fiscal 2008, and we are seeking to further increase the pace of this sales growth.

We anticipate steady growth in the air-conditioning markets of such NICs as those in the Middle East as well as India and Russia, and we are working to leverage OYL's resources to further deepen our presence in those markets.

Q: Could you explain the benefits of the OYL acquisition during fiscal 2008 as well as the kind of additional benefits you expect from OYL in the future?

———The generation of synergies between OYL and other Daikin Group units is going very smoothly. In fiscal 2008, we estimate that about ¥7.3 billion of synergies were generated in terms of operating income.

Throughout the world, we are moving ahead with the integration of our marketing systems and expansion of integrated marketing operations. These measures have led to considerable gains in certain business sectors—for example, sales in Italy of the chillers (air-conditioning facility heat-source units) of the OYL Group's McQuay surged 40% during fiscal 2008. In the United States, McQuay obtained an approximately ¥4.3 billion order for applied air-conditioning systems for the Freedom Tower, which is to be built on the former site of the World Trade Center in New York City.

We will continue proceeding with the integration of marketing systems in Europe and also intend to establish new marketing companies in the Middle East and work to unify Daikin Group marketing systems in the Middle East region.

At the same time, we plan to quickly move ahead with the full-scale expansion of OYL's mainstay applied air-conditioning system business. Specifically, we are considering such measures as those to strengthen related marketing and servicing networks in North America; establish a marketing company in China; reevaluate manufacturing bases in the United States, Europe, and Asia; and initiate the marketing of turbo chillers (heat source units for large-scale air-conditioning facilities) in Japan. Moreover, Daikin has outstanding inverter technologies and technologies for creating packaged air-conditioning units, and it is seeking to increase the application of such technologies to applied air-conditioning systems. As a result of these and other initiatives, we expect to generate about ¥14.0 billion of synergies in terms of operating income during fiscal 2009.

Q: Please explain what kind of efforts you are making to further increase the quality and safety of Daikin products.

———In line with its quality policy of "providing customers with high-quality products based on relentless improvement efforts," the Air-Conditioning Manufacturing Division has obtained and maintained ISO 9001 certification of its quality management system. Since fiscal 2006, the division has employed rigorous design review[1] systems, worked to expedite and increase the scope of quality information sharing, and implemented a thorough San-Gen program.[2] Going forward, the division will continue endeavoring to maintain perfect safety and quality through periodic checking, verification, and analysis programs designed to further increase the sophistication of the quality management system.

Moreover, concurrently with its receipt and maintenance of ISO 9001 certification, the division seeks to earn customers' trust and confidence by emphasizing strong performance regarding such themes as "making continual improvements to realize higher quality" and "setting and attaining quality targets."

Notes:
1. Design review refers to the systematic use of objective evaluations and improvement point proposals regarding the design quality of products under development and each process required to concretely realize design specifications so that each quality issue is fully resolved before operations move ahead to the next product development stage.
2. The San-Gen program promotes three ("*san*") "*gen*" principles. These are "*genba*" (on the actual spot), "*genbutsu*" (the actual things), and "*genjitsu*" (actual reality).

Many of the Daikin Group's fluorochemicals are key raw materials that determine the quality of such products as automobiles, semiconductors, and electric products manufactured at factories throughout the world. It is crucial for such manufacturers that we have a system able to supply products of consistently high quality throughout the world. Accordingly, during fiscal 2008, we moved forward with measures to increase the sharing of quality management information among Daikin Group manufacturing bases in the United States, Europe, and China.

Q: What is the Daikin Group's strategy for realizing growth over the long term?

———The first thing is to establish a solid position as the global No. 1 company in the field of air-conditioning and maintain that position. To do this, we are making environment friendliness a central theme of our operations as we seek to globally expand sales of energy-conserving products, use our heat-pump technologies to establish a full-scale presence in heating markets, establish a full-scale presence in such NICs as Middle Eastern countries and India, establish solid systems for applied air-conditioning systems business, and further expand engineering and service business as well as other businesses on the periphery of our established operations. We plan to proactively address these strategic themes, which we believe have great potential to propel our corporate development.

It is worth noting that the global market for building heating systems is worth about ¥2 trillion annually, and this is estimated to rise to about ¥3 trillion if one expands the definition of the market to include hot water supply products. However, most of the products in the heating/hot water market are fuel-combustion-type products with low levels of energy efficiency and high levels of CO_2 emissions. By supplying our highly energy efficient heat-pump-type heating and hot water products, we aim to establish a large volume of business distinguished by outstanding environment friendliness.

Sales of the heating/hot water systems we have developed for the European market are roughly doubling each year, and we anticipate additional great growth in sales of these products going forward.

As for chemicals business, we are aiming to expand net sales at annual rates exceeding 10% while maintaining double-digit profit margins. To do this, we are seeking to develop new applications and markets for ethylene tetrafluoroethylene (ETFE) in the United States, which is the world's largest ETFE consumer. While ETFE is already widely used to reduce fuel evaporation from automobiles' rubber fuel hoses, we are aiming to promote such additional applications as those associated with solar cell films and electrical wiring in aircraft.

In China, we are emphasizing market creation efforts to expand our sales of such products as highly flame-resistant NEOFLON™ fluorinated ethylene propylene (FEP) insulated LAN cable and water repellent agents.

We are also fostering the development of various new businesses. For example, we are seeking to develop global business in energy-saving hybrid hydraulic systems that incorporate motor inverter technologies and, having established beachheads in the Chinese and U.S. markets, our progress in this regard is accelerating.

Q: What are your performance targets for fiscal 2009?

———In line with our "Dynamism & Challenge" policy statement for 2008, we will be implementing various FUSION 10 measures, working to realize synergies involving OYL, and striving to leverage our environment-friendly technologies and products to powerfully expand our businesses. As a result, we expect to reach record levels of consolidated sales and profit and increase our consolidated operating income and ordinary income for the 15th consecutive fiscal year.

Specifically, compared with fiscal 2008 levels, we are aiming to achieve increases of 8% in net sales, to ¥1,390.0 billion; 5% in operating income, to ¥135.0 billion; 6% in ordinary income, to ¥129.0 billion; and 6% in net income, to ¥79.5 billion. Our main air-conditioning business strategies for attaining these figures are as follows:

- Expand environment-friendly business involving such products as energy-conserving products that leverage Daikin's strengths regarding inverter technologies and heat-pump technologies
- Increase our market shares in Europe and China
- Expand domestic sales by further reinforcing our overall power derived from the Daikin Group's marketing strengths, product strengths, and service strengths
- Leverage synergies with OYL to strengthen applied air-conditioning business and establish a business base in North America
- Stimulate and satisfy demand for reasonably priced inverter products in the room air-conditioning systems market
- Expand business by establishing a full-scale presence in such NIE markets as those of Middle Eastern countries, India, and Russia
- Make additional progress in reducing costs and increasing reliability and take other similar measures to increase the rigor and efficiency of operations

In addition, we are seeking to maintain the trend of recovery in Chemical business performance and get that business back on track for sustained rapid growth, and we will strive to realize growth in other operations at approximately the same rate as growth in consolidated sales.

Q: Could you explain your policies regarding shareholder returns and capital utilization?

———In accordance with its goal of "meeting the expectations of shareholders, investors, and other stakeholders with respect to performance enhancement and rising corporate value," the Daikin Group is relentlessly implementing total-market-value-oriented management policies. We have improved our performance in 14 consecutive fiscal years. Our stock price has approximately sextupled during those 14 years, and our total market valuation at March 31, 2008, exceeded ¥1.1 trillion.

Regarding shareholder returns, we will continue striving to increase our corporate value through proactive investments aimed at taking advantage of opportunities associated with the current expansion of the air-conditioning market, and we are maintaining our fundamental policy of maintaining our ratio of dividends to net assets at a level of 2% or higher. We are seeking to keep dividend levels stable while making appropriate adjustments based on a comprehensive appraisal of such factors as consolidated performance, financial condition, and funding needs.

As for internal reserves, Daikin is seeking to further strengthen its financial position while also making strategic investments designed to accelerate the development of global operations, accelerate the development of environment-friendly products, and upgrade competitiveness. Dividends applicable to fiscal 2008 amounted to ¥38 per share (¥19 per share interim dividend and ¥19 per share year-end dividend), up ¥10 per share from the previous fiscal year.

We hope for shareholders' continued understanding and support.

June 27, 2008

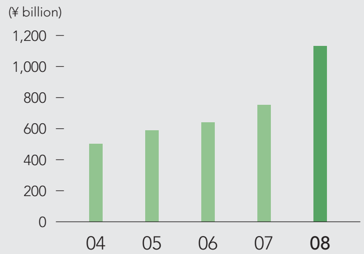
Yukiyoshi Okano
President and COO, Member of the Board

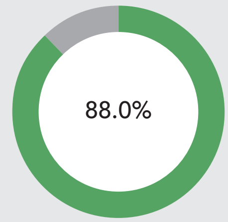
At a Glance

Net Sales

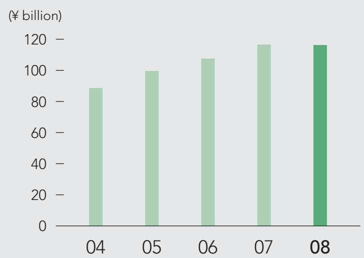
Percentage of Net Sales

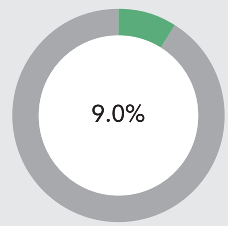
Air-Conditioning



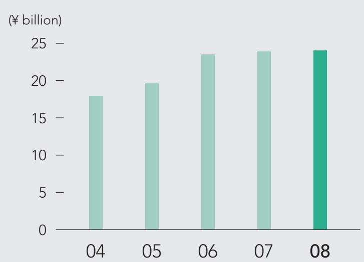


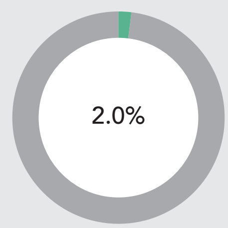
Chemicals



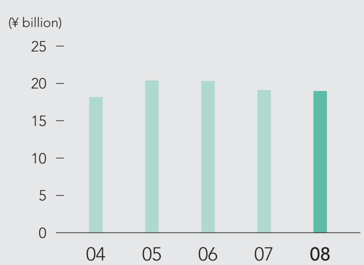


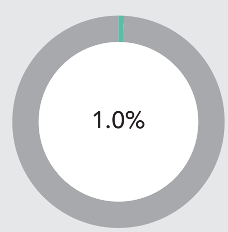
Oil Hydraulics





Defense

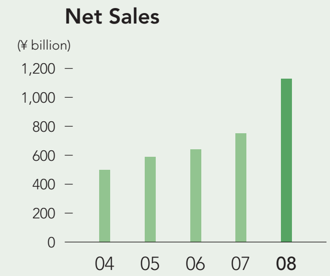




Major Products & Services	Description
• Room air-conditioning systems • Air cleaners • Dehumidifiers • Packaged air-conditioning systems • Medium- and low-temperature air-conditioning systems • Marine-type container refrigeration • Water-chilling units • Absorption refrigerators • Air-handling units	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.
• 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.
• Pumps and motors • Control valves • Stack valves • Positioning motors • Oil-cooling units • Power packages • Hydrostatic transmissions • Centralized lubrication units and systems	Daikin's unique hydraulic technologies are contributing to the development of industry by unleashing the potential of power control.
• Warheads • Home-use oxygen therapy equipment • Aircraft parts	Daikin's superior machining and quality control technologies are used in the production of defense-related products and other industries where high levels of precision and performance are critical.

Air-Conditioning

The Japanese Market



Operating Environment and Performance in Fiscal 2008

Japanese demand for residential air-conditioning systems in fiscal 2008 was above the fiscal 2007 level. Although cool weather negatively impacted demand during the summer, demand was subsequently strong, particularly during the heating season. In response, Daikin actively promoted such mainstay products as the highly differentiated URURU & SALALA room air-conditioning systems—which feature unique humidifying and dehumidifying capabilities—and was able to increase its net sales of such products to above the level in the previous fiscal year. Besides being high-value-added products that feature an extremely quiet automatic filter-cleaning function, URURU & SALALA are environment-friendly products that conform to the Japanese energy-saving standards that will be applied from 2010.

In the commercial air-conditioning system market, demand for package air-conditioning systems fell below the fiscal 2007 level. Daikin emphasized efforts to promote such highly differentiated products as the Ve-up Q multiple air-conditioning system for office buildings, which enables sales outlets and users to rapidly replace units using existing piping. Amid growing consciousness of the global warming issue, Daikin undertook marketing promotion activities centered on proposals presented to marketing agencies and users that emphasized the energy-saving and CO_2 emission-reducing performance of new products.

Thanks to these initiatives, we increased our domestic sales of air-conditioning systems to 5% above the fiscal 2007 level, to ¥372.6 billion.

Striving to Use Overall Strength to Augment Sales

The Daikin Group has a formidable array of strengths, including marketing systems power, product power, service power, and manufacturing responsiveness power. In fiscal 2009, plans call for realizing additional sales gains based on efforts to further reinforce the Group's overall strength, fortify cooperative ties with retailers, and use proposal-based marketing methods to offer customers comprehensive solutions.

One key resource the Group has to facilitate these strategic efforts is innovative products, including two products launched during fiscal 2008—the DESICA commercial-use humidity adjustment air conditioner and ClearForce household humidifier/dehumidifier/air purifier—and plans call for full-scale measures to foster the sales of these products.

DESICA models can humidify and dehumidify without being connected to water pipes, and they enable the creation of climate control systems when combined with temperature control systems because they allow temperature control units to be used exclusively for air temperature adjustment, and their effective dehumidifying capability creates comfortable conditions during Japan's rainy season and muggy summer weather without excessively reducing room temperatures. They are thus part of a comprehensive climate control solution that facilitates the efficiency optimization of air conditioner use and thereby realizes outstanding energy efficiency.

To respond to the Japanese population's rising interest in optimal health and cleanliness as well as meet humidity adjustment needs, our new ClearForce household air purifiers have four functions—humidifying, dehumidifying, odor removal, and dust collection.

Despite projections that the Japanese air-conditioning market will shrink during fiscal 2009, the Daikin Group is aiming to increase its sales to ultimate users of commercial-use and residential-use products.

Further Expanding Business in Energy-Saving Products

As we approach the end of the Kyoto Protocol's first commitment period in 2012, Japanese efforts to reduce greenhouse gas emissions have been redoubled. The Bill for Revision of the Act concerning the Rational Use of Energy (Energy Conservation Act), scheduled to take effect from April 2009, will require energy conservation measures in offices, shops, and some households.

The Daikin Group is intensifying its measures to expand its business in energy-saving products. Specifically, we launched numerous energy-saving products during fiscal 2008, including the ZEAS-Q air conditioner for shops, which features a high-efficiency inverter with outstanding energy conservation performance as well as an automatic filter-cleaning function, and the Hotto Eco Building Multi (Hotto Eko Biru Maru), a multiple air-conditioning system that meets needs in particularly cold regions by offering greatly improved heating efficiency. Plans call for continuing to emphasize sales promotion efforts for these products, and we are also giving a high priority to promoting our EcoCute hot water supply systems that use the natural refrigerant CO_2, to which we added four new models during the past winter. Business in EcoCute and other residential-use products is an important strategic part of Daikin's domestic operations.

We will continue to keep a close watch on demand trends associated with environmental protection laws as we strive to offer customers highly appealing climate control solutions that are both environment- and customer-friendly.

Air-Conditioning
The Global Market

Operating Environment and Performance in Fiscal 2008

During fiscal 2008, Daikin's global air-conditioning operations were strong, particularly in Europe and China, and total consolidated net sales of residential and commercial air-conditioning systems outside Japan were up considerably from the fiscal 2007 level.

In Europe, such factors as extremely hot weather during the first half of the fiscal year, a boom in new housing construction, and the introduction of French tax benefits to promote energy conservation helped support a large increase in residential and commercial air-conditioning systems sales volume. We also made steady progress expanding the heating systems business that we recently initiated in Europe; the large-scale commercial (applied) air-conditioning systems business, which features a greatly expanded product lineup and considerably broadened marketing routes following the integration of our operations with those of OYL; and our business in Russia, Turkey, Middle Eastern countries, and other NIC markets.

In China, the geographic scope of demand continued expanding from major cities to peripheral medium-sized cities. The Group responded to that trend by working to broaden its marketing network and build a city-based specialized marketing network capable of catering more precisely to customer needs, and sales of residential and commercial air-conditioning systems increased.

Sales were also robust in Australia, Thailand, and other ASEAN/Oceania markets.

As a result, sales in the overseas air-conditioning business climbed 90%, to ¥759.1 billion. This reflected vigorous performance by previously existing Daikin Group units as well as the contribution of OYL, which was newly included within the scope of consolidation from fiscal 2008. The overseas share of consolidated air-conditioning business sales rose to 67%.

Entering Heat-Pump Heating Markets

Daikin is placing top emphasis on the European market for air-conditioning systems, which is projected to continue growing over the medium-to-long term with only moderate fluctuations due to economic or weather trends. The Daikin Group has been quicker than other non-European-based companies to establish local manufacturing and marketing networks in Europe, and it has advantages over other companies based on its ability to supply superior products that are always a step ahead of such strict European regulations as energy conservation regulations and the Restriction of the Use of Certain Hazardous Substances (RoHS) directive.

Moreover, because European markets are particularly conscious of environmental issues, they are ideal locations for fully leveraging the environmental advantages of Daikin's core air-conditioning technologies related to heat pumps and inverters. As the global market for fuel-combustion-type building heating and hot water supply systems is estimated to amount to about ¥2 trillion to ¥3 trillion annually, the potential transition of this market to heat-pump systems that use less than one-third the energy of fuel-combustion-type systems to supply the same volume of heat may enable momentous contributions to environmental protection while also presenting huge opportunities for the development and expansion of Daikin's operations. Accordingly, we are working to strengthen and expand our lineup of heat-pump building heating and hot water supply systems, and the first stage of this effort is centering on further upgrading the array of heating/hot water systems we have developed for European markets.

Regarding China, Daikin is expanding its marketing network to cover cities in interior and western regions, where demand is projected to grow, and it has quickly responded to changing market conditions through such measures as those to build new marketing outlet networks and organize demand-stimulating activities at temporary events outside the scope of standard marketing networks. By progressively integrating our previous marketing network with that of OYL, we can offer a broader array of products, including variable refrigerant volume (VRV) multiple air-conditioning systems and large-scale commercial (applied) air-conditioning systems. This integrated marketing network holds particularly strong appeal to potential customers building office buildings or other large-scale urban development structures. We have also decided to enter the local market for relatively inexpensive air conditioners, which is currently dominated by non-inverter products, and we have therefore concluded a basic agreement that provides a framework for collaboration with Gree Electric Appliances, Inc., of Zhuhai, a local air conditioner manufacturer with massive production volume. We believe there is great potential for Daikin to expand its sales of low-cost inverter air conditioners in the global market.

Increasing Emphasis on Applied Business

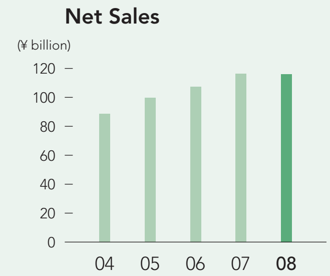
The acquisition of OYL has brought OYL Group member McQuay International into the Daikin Group and led to a large rise in the Group's orders for applied air-conditioning systems. These orders include such prominent orders as those for a local area air-conditioning and heating facility in the Middle East and an air-conditioning system for the Freedom Tower, which is to be built on the former site of the World Trade Center. The growth in applied air-conditioning systems business reflects the smooth progress being made in realizing synergies through operational integration with OYL.

In North America, our local marketing subsidiary Daikin AC (Americas), Inc., has been marketing VRV systems since fiscal 2006, and plans call for additional promotion of VRV systems through McQuay's applied system marketing routes. As a result, we are projecting that the level of VRV sales in North America, which were approximately ¥7 billion in fiscal 2008, will almost double during fiscal 2009.

In Europe, the Middle East, Australia, China, and other principal markets of the world, we are moving ahead with the integration of Daikin's previous marketing units and OYL units, and this is expected to enable acceleration in the global development of applied air-conditioning systems business.

We have gathered together specialists from Japan, the United States, and Europe at our applied air-conditioning systems development center in the U.S. state of Minnesota, and we are also investing approximately ¥5 billion to upgrade that center's development facilities. Plans call for integrating McQuay's applied air-conditioning system technologies with Daikin's energy-saving technologies to create highly efficient, large-scale air-conditioning units appropriate for the special needs of each air-conditioning market in the world.

Chemicals



Operating Environment and Performance in Fiscal 2007

In fiscal 2008, sales of fluorochemicals sector and chemical products sector items were below the fiscal 2007 levels. In the fluorochemicals sector, sales increases were achieved regarding automobile-related products in the Chinese and European markets, but semiconductor-related demand decreased, and economic deceleration in the United States caused a drop in demand for products for use in LAN cables. As for the chemical products sector, the U.S. subprime loan crisis and other factors undercut demand for water and oil repellents used in housing-related applications. Sales in the fluorocarbon gases sector were roughly unchanged from fiscal 2007. As a result, chemical business sales declined 0.3% from the previous year, to ¥116.1 billion.

The operating profit of chemical business dropped 71.1% from the previous year, to ¥3,492 billion, mainly reflecting the delayed implementation of marketing measures in response to demand fluctuations as well as a rise in the fixed expense burden that accompanied the sales decline.

However, another factor reducing profitability was Daikin's resolute implementation of reforms designed to resolve fundamental problems in chemicals operations. Specifically, to enable stronger capabilities and a more-streamlined business structure in the future, the Company took such steps as those to reduce inventory levels and adjust production volumes. In addition to these measures, the Company is undertaking radical initiatives to bolster marketing and product power, and plans call for sustaining such reforms.

Daikin's fluorochemicals operations are a core business on a par with air-conditioning business, and the Company is determined to quickly restore its high profitability levels through unrelenting measures to strengthen related business structures and to expand business volume.

Expanding Sales in Growth Fields

Daikin views its chemicals business as a core business alongside its air-conditioning business. In fiscal 2009, plans call for proceeding further with chemicals business related reforms while also taking measures to fundamentally strengthen marketing and product development capabilities. In other words, we are working to augment efficiency and stability while concurrently moving ahead with measures to promote business expansion, and we are striving to get chemicals business on track for expansion as soon as possible.

A key component of our growth strategy is to take up the challenge of expanding sales in fields and markets with considerable potential demand. For example, while global demand for the fluoropolymer resin ethylene tetrafluoroethylene (ETFE) is growing, we are working to promote its use in applications with greater growth potential. In China, demand is growing for highly flame-resistant fluorinated ethylene propylene (FEP) for use in

LAN cable insulation, and we are emphasizing measures to promote growth for this and other applications. Other high-priority strategic goals are augmenting business in water and oil repellents and increasing sales of fluoropolymer resins used to improve the performance of rubber automobile components.

In addition, cooperative work begun in fiscal 2006 with U.S.-based Dow Corning Corporation and Germany-based LANXESS Deutschland GmbH has begun bearing fruit. Daikin has already begun the global marketing of Unidyne™ TG-5521, a fabric treatment developed with Dow Corning that delivers the superior oil and water repellency of fluorine and the softness of silicone. In cooperation with LANXESS Deutschland, we have jointly developed the world's first water-based fluorinated urethane coating material, which is environmentally friendly and has superior anti-stain properties, weather resistance, and chemical resistance.

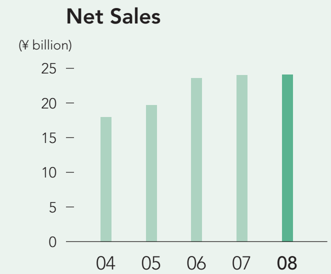
Steady Progress in Environment-Friendly Operations

Daikin maintains rigorous policies regarding the overall management of the chemical substances handled in the course of its chemicals operations. By the end of 2012, for example, the Daikin Group has resolved to voluntarily stop manufacturing, using, and selling perfluorooctanoic acid (PFOA)—a stable compound that persists protractedly in the environment—even though current research has not linked levels of PFOA found in the general environment to human health effects and the material is not regulated.

Daikin has participated in the chemical industry's "2010/15 PFOA Stewardship Program" and previously announced plans to reduce the PFOA it releases or markets 95% by 2010 and 100% by 2015, in line with the program's goals. Regarding releases of PFOA into the environment, for example, Daikin had by fiscal 2007 cut releases from its Yodogawa Plant in Osaka to less than

20% of fiscal 2001 levels. Now intending to meet the stewardship program's goals three years early, Daikin is moving quickly ahead with its shift to non-PFOA alternative products.

Oil Hydraulics



Operating Environment and Performance in Fiscal 2008

Japanese domestic demand for industrial machinery related oil hydraulic equipment was approximately unchanged in fiscal 2008, reflecting the automobile industry's efforts to restrain its capital investment. Daikin was able to increase its market share by promoting its mainstay machine tool related products and such highly differentiated products as inverter oil hydraulic units and the Oil Con Series of oil and water-cooling systems with high-precision temperature control capabilities, however, and the Company's sales rose to above the level in the previous fiscal year. Exports to North America, Europe, and Asia were also higher than in fiscal 2007.

Sales of oil hydraulic equipment for construction machinery were lower than in fiscal 2007, however, reflecting the impact of decreased demand from principal customers in the United States.

In response to the rise of environmental consciousness, Daikin has been working to leverage its distinctive interior permanent magnet (IPM) motor technologies that enable high-efficiency motors based on magnet torque and reluctance torque. By combining IPM technologies with oil hydraulic and inverter technologies to create hybrid oil hydraulic package products with impressive energy-saving performance, the Company is developing new markets going forward.

Organizational Restructuring of Domestic Operations

In May 2008, we consolidated and strengthened oil hydraulic equipment related units ranging from technical consultation, circuitry design, and manufacturing units through after-service units and incorporated those units as Daikin Hydraulic Engineering Co., Ltd. Rather than restricting itself to machinery marketing, the new company is endeavoring to comprehensively meet customer needs by shifting to a business model involving proposals, marketing, and maintenance work.

Basic materials industries are large-volume customers for oil hydraulic package products, and active capital investments by those industries are supporting smooth growth in the oil hydraulic package market. In addition, the rise in consciousness of environmental issues is increasing demand for high-energy-efficiency products.

By leveraging the high-energy-efficiency levels of Daikin Group oil hydraulic package products and the upgraded system engineering capabilities we can now offer via Daikin Hydraulic Engineering, we are striving to create additional demand in the oil hydraulic package market and thereby rapidly expand the scale of our related operations. We are seeking to do this effectively enough to become the No. 1 company in Japan in terms of market share for industrial machinery related oil hydraulic equipment.

Proactive Tripolar Business Development Overseas

Regarding future business development, Daikin is working to expand overseas business with emphasis on three major markets—China, North America, and Europe—and is proactively working to create markets for the hybrid oil hydraulic package products it has developed in advance of competing companies.

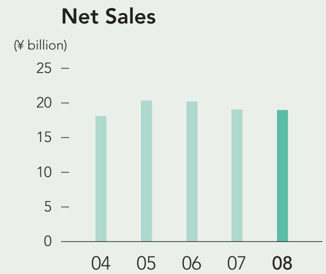
In the United States, where emphasis on energy conservation is generally rising, Daikin acquired a hydraulic equipment agency in February 2008 and is working to build its own marketing network and expand its maintenance and service network. The Company expects these capabilities to provide the base required for the rapid, full-scale development of its business.

In China, Daikin established a local manufacturing and marketing company and is expanding the local manufacture of products centered on the molding and machining equipment field while concurrently stepping up marketing promotion activities.

Regarding Europe, we are in the process of fleshing out our market strategies and plans for establishing local bases.

On the strength of these various initiatives, we are aiming to generate overseas oil hydraulic package product sales during fiscal 2009 that are approximately double the fiscal 2008 level.

Defense



Operating Environment and Performance in Fiscal 2008

Overall, the performance of Daikin's defense business units during fiscal 2008 was approximately as planned.

Regarding defense business, Daikin began mass production of its newly developed rifle grenades and made steady progress in the testing and evaluation of such products under development as new armor-piercing tank shells and medium-range multipurpose guided missiles.

In civil sector business, defense business departments have been handling the production of EcoCute hot water storage tank units on behalf of other Daikin Group departments since fiscal 2007, and this business was expanded to include mass production of hot water storage tanks for the EcoCute J models that have been marketed since December 2007.

With respect to commissioned manufacturing business, the profitability environment for business producing civil aircraft components has been severe, but participation in this business has enabled us to acquire technologies for mold and die production and metal heat treatments that we believe have considerable potential for applications related to next-generation compressors.

In home-use oxygen therapy equipment, the Company made considerable progress toward completing the development of new oxygen concentration units that offer clear-cut competitive advantages regarding size, weight, and functionality.

Further Expanding Civil Sector Business

As Japan's current defense procurement budget indicates a continuation of the trend of decline in the procurement of explosives and guided missiles, Daikin is not anticipating a large rise in its defense business sales but is moving ahead with measures to enhance the profitability of its related operations.

Business manufacturing EcoCute hot water storage tank units is considered to be a key means of expanding the civil sector demand oriented business of defense business departments. In view of this, further expanding the mass production of the EcoCute J model hot water storage tanks is a major project for fiscal 2009, and associated measures are being taken to upgrade quality assurance capabilities and productivity levels for welding processes. We are pursuing still-more-sophisticated welding technologies as a means of differentiating our capabilities from those of competing companies in this and other product fields.

Regarding home-use oxygen therapy equipment, Daikin is emphasizing marketing promotion measures for its mainstay oxygen concentration units. Concurrently, the Company is making various preparations designed to ensure that the new model oxygen concentration units now under development, when launched, will be conspicuously superior to competing products and generate considerable profits.

Having in fiscal 2007 laid plans to leverage core technologies related to explosives and detonator design to create high-value-added products in the safety and disaster prevention fields, Daikin has begun developing such products in cooperation with outside entities. In the future, the Company's defense business departments intend to further accelerate their measures to develop promising new civil sector businesses in cooperation with other Daikin Group units as well as outside entities.

Management and Corporate Information Section

Management Philosophy

The Daikin Group aims to develop each of its businesses dynamically and globally, earn the strong trust of customers and investors throughout the world, and inspire pride on the parts of its employees in Japan and overseas. To promote the attainment of this goal, we drafted the Daikin Group Philosophy in 2002 in a form that centers on three mottos—"Absolute Credibility," "Enterprising Management," and "Harmonious Personal Relations."

Our subsequent management policies and management plans have all been drafted in line with this philosophy. Moreover, in accordance with the Group's "people-oriented management" policies, each Daikin Group member company endeavors to "create flat and speedy management systems that promote the sharing of information among all members, the reaching of consensuses based on free and open discussions, and the resolute and concerted execution of one measure after another as required to generate results"; "offer employees equal opportunities and rewards commensurate with contributions"; "foster two-way communications to facilitate mutual understanding"; and "recruit diverse people with various kinds of expertise to facilitate the creation of new value based on cross-border integration."

The Daikin Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers

2. Contribute to Society with World-Leading Technologies

3. Realize Future Dreams by Maximizing Corporate Value

4. Think and Act Globally

5. Be a Flexible and Dynamic Group

1) Flexible Group Harmony

2) Build Friendly Yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit

6. Be a Company That Leads in Applying Environmentally Friendly Practices

7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust

1) Be Open, Fair, and Known to Society

2) Make Contributions That Are Unique to Daikin to Local Communities

8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group

1) The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development

2) Pride and Loyalty

3) Passion and Perseverance

9. Be Recognized Worldwide by Optimally Managing the Organization and Its Human Resources, under Our Flat & Speedy Management System

1) Participate, Understand, and Act

2) Offer Increased Opportunities to Those Who Take On Challenges

3) Demonstrate Our Strength as a Team Composed of Diverse Professionals

10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

Basic Approach

The Daikin Group considers the fundamental objectives of its corporate governance systems to be to realize the following objectives and thereby increase the Group's corporate value.

- Speedier decision making in advance of environmental changes related to management issues
- A continuous rise in management transparency and soundness

Going forward, we will strive to further increase our corporate value by relentlessly reconsidering how to optimize our corporate governance systems and promote the Groupwide, multidimensional pursuit of best practices.

Corporate Governance Systems

While the Daikin Group's development and changes in the operating environment have presented the Group with increasingly complex management issues and important Groupwide challenges, we are striving to speed up management decision making and operational execution by means of an "integrated management framework" in which the directors have both management responsibility and operational execution responsibility. Under this framework, Daikin entrusts the CEO with the responsibility for making management decisions, including those involving the overall management of the Group, while it assigns the COO the responsibility for executing operations.

To help the Board of Directors make speedy strategic decisions and perform sound supervision for the entire Group, the Board has been designed to include the appropriate number of members for enabling sound discussion and debate as well as to include two or more members who are outside directors.

As of July 2008, the Board of Directors included 10 members, of whom two were outside directors. In principle, the Board of Directors meets once each month.

We have introduced an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function. To thoroughly discuss important operational execution issues and promote speedy execution, we have established the Executive Officers' Meeting, which, in principle, meets once each month.

Daikin has three main decision-making organs—the Group Steering Meeting, the Board of Directors, and the Executive Officers' Meeting. The Group Steering Meeting—the supreme deliberating organ of the Group management system—is designed to strengthen consolidated management. In principle, it meets once each month to determine important management policies and strategies in a timely manner and quickly devise means of resolving problems.

In addition, the Group Management Meeting aims to unify the Group's decisions by thoroughly sharing important management policies and the basic strategies of the Group and supporting and expediting the Group companies' problem-solving efforts.

Daikin has established a four-member Board of Corporate Auditors. To ensure effective, sound, and transparent audits by the corporate auditors, two members of the Board of Corporate Auditors are outside corporate auditors. The outside corporate auditors attend meetings of the Board of Directors as well as sessions of the Executive Officers' Meeting, the Group Steering Meeting, and other important meetings to maintain a good understanding of operational execution situations, supervise those situations, and provide diverse kinds of advice.

To strengthen Groupwide auditing and supervision functions for all Group companies, including overseas subsidiaries, principal Group companies appoint Group auditors. The corporate auditors and Group auditors regularly hold Group Auditors' meetings and otherwise work to increase the smoothness of information flows.

In addition, the corporate auditors have established an Auditing Department separate from the Internal Auditing Department, with staff who assist in auditing activities. The staff of the Auditing Department report directly to the corporate auditors and perform their duties in accordance with the corporate auditors' instructions, and such decisions relating to the staff as personnel reassignments and evaluations are made with due deference to the opinions of the Board of Corporate Auditors.

Committees That Support the Strengthening of Corporate Governance

To promote the additional strengthening of its corporate governance, Daikin has established the following committees that provide support when needed.

- Personnel and Compensation Advisory Committee

Acting as an advisory organ to the CEO, the committee works to increase management transparency related to corporate officer appointment and compensation by conducting deliberations regarding such issues as corporate officer selection standards, corporate officer candidates, and corporate officer remuneration. The members of the committee are outside directors.

• Corporate Advisors

The advisors provide advice regarding diverse management issues from an independent perspective. They meet twice each year.

• Internal Control Construction Committee

This committee works to strengthen internal controls related to financial reporting, and it is chaired by Daikin's president.

• Disclosure Committee

This committee confirms the completeness and appropriateness of annual securities reports (*Yuka Shoken Hokoku-sho*) and diverse other information disclosure media and seeks to upgrade accountability. It is chaired by Daikin's president.

• Independent Committee

Serving as a management regulatory body designed to raise corporate value, this committee is comprised of highly independent outside directors and advisors. In the event that a party purchases or seeks to purchase a large amount of Daikin shares, the Board of Directors will, based on the Daikin Shareholder Relationship Policy, convene a meeting of the Independent Committee, which has the roles of obtaining information from the stock purchaser, considering whether the purchase would be beneficial to corporate value and shareholders, providing shareholders with information and its fair opinion on this issue, and, thereby, creating an environment that facilitates the making of an appropriate decision. Rather than being a mechanism to help prevent a takeover of Daikin, the committee is designed to increase the transparency and objectivity of Daikin's processes for dealing with takeover bids.

In addition, Daikin has established the Corporate Ethics & Risk Management Committee and the CSR Committee.

Compliance and Corporate Ethics

• Rigorous Compliance

The Daikin Group is striving to establish highly rigorous compliance systems that enable it to quickly grasp and respond to compliance problems that occur anywhere in the Group.

Specifically, Daikin has set up the Corporate Ethics & Risk Management Committee, which is chaired by the Company's president and is comprised of members who are corporate officers and department managers. Efforts to implement the committee's decisions center on the Law, Compliance & Intellectual Property Center, which endeavors to promote thorough rigorous Groupwide compliance.

Each division and main Group company appoints "compliance and risk management leaders." To help ensure rigorous compliance and risk management in each division and company, the leaders participate in meetings and other activities designed to promote information sharing, awareness of issues, and the implementation of countermeasures.

All employees are provided with copies of the *Handbook for Corporate Ethics*, which includes legal compliance guidelines. To promote rigorous compliance with those guidelines, each Daikin division and Japan-based Group company undertakes self-assessment activities that call for each employee to perform "daily triple checks."

Based on the results of these self-assessment activities, the Law, Compliance & Intellectual Property Center performs objective legal audits while the Internal Audit Department concurrently performs internal audits.

A compilation of information on the latest relevant laws and regulations gathered by each Daikin division can be accessed on the Company's intranet, and this information is systematically shared with other Group companies.

As for overseas Group companies, nine main Group companies* share information with Daikin's Legal Affairs and Intellectual Property Department and the Law, Compliance & Intellectual Property Center as they endeavor to ensure rigorous performance with respect to compliance and corporate ethics. Going forward, plans call for all overseas Group companies, including OYL and its subsidiaries, to engage in the same Groupwide compliance and corporate ethics systems as the nine main Group companies.

* The nine main overseas Group companies are Daikin Europe N.V.; Daikin America, Inc.; Daikin AC (Americas), Inc.; Daikin Airconditioning (Singapore) Pte Ltd.; Daikin Industries (Thailand) Ltd.; Daikin Australia Pty., Ltd.; Daikin Air-Conditioning (Shanghai) Co., Ltd.; Daikin (China) Investment Co., Ltd.; and Daikin Fluorochemicals (China) Co., Ltd.

Checking Systems for Legal Compliance

1. **Daily triple checks**
   Every month, compliance and risk management leaders head programs that include daily efforts to gather the latest information on relevant laws and regulations as well as checks to ensure that in-house regulations are in line with the latest laws and regulations and that those in-house regulations are being observed.
2. **Self-assessment**
   All employees take part in an annual check to ensure that the legal compliance guidelines in the *Handbook for Corporate Ethics* are being observed.
3. **Legal compliance audit**
   The Law, Compliance & Intellectual Property Center determines the divisions and Group companies to be audited and audit focus items to evaluate the legal compliance of those units.
4. **Internal audit**
   The Internal Auditing Department determines audit themes and carries out audits of each division and Group company on those themes to evaluate the legal compliance of those units.

Daikin provides its executives and other employees with training courses and consciousness-raising activities related to compliance and corporate ethics on a regular basis and as required, and plans call for further augmenting these courses and activities.

• Ensuring Sound Corporate Ethics

The Daikin Group's definition of sound corporate ethics includes measures to ensure rigorous compliance performance as well as sustained efforts to ensure that the Company meets society's demanding expectations regarding the soundness of all corporate activities despite the challenges associated with the ongoing changes in global society.

The Law, Compliance & Intellectual Property Center is continually striving to keep abreast of changes in the Group and throughout society, identify corporate ethics issues that the Group should address, and organize programs designed to ensure the Group strengthens its corporate ethics stance with respect to those issues.

The center has also established a related help line that employees can use to receive consultation or offer their opinions regarding all kinds of corporate ethics issues. When ethics problems are reported, the center investigates and cooperates with relevant Group units to determine the optimal means of preventing the recurrence of such problems. In this way, Daikin has established a system for quickly responding to ethics issues.

Response to J-SOX

To respond to Japan's Financial Instruments and Exchange Law (also referred to as the Japanese version of the U.S. Sarbanes-Oxley Act, or J-SOX), Daikin began revising and upgrading its internal control systems related to financial reporting in August 2005. Subsequently, the Company has introduced systems designed to ensure the appropriateness of all operational processes throughout the Daikin Group that could affect financial reporting.

Daikin is continually evaluating these systems to ensure they are properly functioning so that the Company is able to effectively and appropriately provide the internal control reports required by J-SOX beginning from fiscal 2009. We are preparing to make corrections to the systems if needed to ensure our sustained compliance with J-SOX and related regulations.

In addition to its internal control systems, the Daikin Group has established global accounting regulations and is working to ensure that each Group company is well aware of these regulations as well as to make further improvements with respect to the effectiveness and appropriateness with which the regulations are followed.

Environmental Protection and Corporate Social Responsibility (CSR)

The Daikin Group and the Global Environment

Having drafted its Environmental Action Plan 2010 to cover the five years through fiscal 2011, Daikin is effectively implementing various kinds of environmental protection activities. To augment these activities, the Company has incorporated within its mid-term implementation plan for the last three years of FUSION 10 strategic environmental themes designed to promote global warming prevention and corporate growth concurrently. As the only company in the world that is a manufacturer and marketer of both air conditioners and fluorocarbon gas refrigerants, Daikin is proactively moving ahead with measures to reduce the environmental impact of its business activities in all business fields.

(For more information, please see the "Mid-Term Implementation Plan for Last Three Years of FUSION 10" section on pages four and five of this report.)

● Preventing Global Warming

- Manufacturing activities: We are promoting the reduction of greenhouse gas emissions during manufacturing activities through such measures as those to introduce energy-conserving facilities and comprehensively minimize fluorocarbon gas emissions from manufacturing processes.
- Products: We are creating and promoting the use of products and services that utilize inverter technologies, heat pump technologies, and other technologies that contribute to energy conservation.

● Reducing Use of Chemical Substances

- Manufacturing activities: We are decreasing emissions of chemical substances used in manufacturing processes and moving forward with measures to lower pollution risks.
- Products: We are applying "green procurement guidelines" to suppliers of manufacturing materials and working to provide products that do not have harmful substances at any stage of their entire supply chain.

● Reducing Waste Products

- Manufacturing activities: We are already meeting "zero waste product emissions" recycling targets at domestic manufacturing bases and are working to attain "zero waste product emissions" recycling targets overseas.
- Products: We are striving to design products that are easy to recycle and maintain.

● Undertaking Environmental Communication

By undertaking such activities as publishing a *CSR Report*, providing information through our website, and participating in eco-product exhibitions, the Daikin Group strives to promote a broad understanding of its environment-friendly activities. It is also cooperating with environmental education programs and taking other measures to communicate more effectively with stakeholders regarding environmental issues.

The Daikin Group and Society

Besides seeking to increase its corporate value and shareholder returns, the Daikin Group is endeavoring to fulfill its social responsibilities by living up to numerous kinds of responsibilities it has with respect to its stakeholders and thereby helping society realize sustainable growth.

CSR Report 2007

http://www.daikin.com/csr/index.html

● **Responsibility to Shareholders and Investors**

Daikin believes its first responsibility to shareholders and investors is to maintain a stable level of dividends and strive to increase that level based on due consideration of performance factors. The Company also strives to increase the convenience of shareholder voting rights and has therefore introduced a system that enables voting via the Internet. Moreover, we are proactively undertaking IR activities, disclosing information, and seeking to engage in two-way communications with shareholders and investors.

● **Responsibility to Customers**

Daikin is striving to provide customers with products and support services that generate still-higher levels of customer satisfaction. We are constantly endeavoring to further augment the safety and environment friendliness of our products.

● **Responsibility to Local Communities (and Society)**

Daikin seeks to be truly useful to local communities by undertaking activities that reflect the special characteristics and capabilities of the Daikin Group. Besides doing our utmost to ensure factory safety, we participate in local events and provide financial and other kinds of support for local cultural and sports activities.

● **Responsibility to Business Partners**

Daikin makes efforts to establish fair purchasing processes, comply with the Subcontract Act, and cooperate with suppliers to achieve higher levels of safety and product quality. We strive to build and progressively increase the depth of mutually beneficial relationships founded on strong trust.

● **Responsibility to Employees**

Recognizing that its human resources are its most fundamental source of competitive vitality, Daikin seeks to consistently use people-oriented management processes. Besides emphasizing thorough attention to employee safety and welfare management, we respect diversity among our employees and offer them equal opportunities based on their perceived contributions and potentials, regardless of their age, gender, nationality, race, seniority, or special needs. We strive to fairly evaluate each employee's contributions and to create workplaces in which employees can realize their potentials.

For more-detailed information about Daikin's CSR activities, please visit our website. You may also download our *CSR Report* from the website.
http://www.daikin.com/csr/index.html

Business Risks

Principal Risks Associated with the Daikin Group's Operations

There are diverse factors with the potential for affecting the Daikin Group's performance and financial condition as well as the Company's share price and investment decisions. Principal business risks associated with the Group's development of operations in Japan and overseas include the following:

- Sharp changes in politico-economic conditions or supply-demand relationships in principal markets (Japan, Europe, North America, and China and other Asian countries other than Japan)
- Cold summer weather and other unusual weather patterns accompanied by reduced demand for air conditioners
- Major changes in currency exchange rates (particularly rates associated with the euro and U.S. dollar)
- Major problems with product quality or manufacturing systems
- Major product liability problems
- Changes in the market prices of negotiable securities and other assets
- Improper use of the Group's intellectual property by third parties
- Leakage of personal information or other confidential information
- Unforeseen accidental damage to manufacturing or other facilities due to earthquakes or other natural disasters
- Lawsuits filed against the Company
- Other risks that are difficult to foresee

Risk Management System

Daikin directors and executive officers responsible for supervision of individual fields also have the authority and responsibility for establishing Groupwide risk management systems to counter the possibility of such risks as those associated with product quality or product liability problems, safety issues, problems affecting manufacturing or marketing activities, natural disasters, and other issues.

In addition, with respect to Groupwide risk management, corporate ethics leaders with overall responsibility for risk management and the Law, Compliance & Intellectual Property Center play central roles in undertaking risk assessments to identify particularly important risks. These risks are discussed by the Corporate Ethics & Risk Management Committee and appropriate risk countermeasures are taken to ensure capabilities for sustaining business operations.

Financial Section

Five-Year Summary

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

	Millions of yen				
	2008	2007	2006	2005	2004
Net sales:	**¥1,290,893**	¥912,128	¥792,857	¥728,880	¥625,718
Air conditioning	**1,131,744**	752,560	641,657	589,275	501,186
Chemicals	**116,096**	116,493	107,411	99,612	88,492
Others	**43,053**	43,075	43,789	39,993	36,040
Operating income	**128,497**	80,939	67,077	60,897	47,988
Income before income taxes and minority interests	**118,535**	83,313	67,540	63,802	43,787
Net income	**75,224**	45,619	40,709	38,747	28,611
Per share of common stock (in yen):					
Basic net income*	**¥263.65**	¥173.42	¥154.25	¥146.76	¥108.18
Diluted net income	**263.44**	173.34	154.21		
Cash dividends applicable to the year	**38.00**	28.00	22.00	18.00	14.00
Total assets	**¥1,213,649**	¥1,164,575	¥719,382	¥617,874	¥536,379
Total equity	**563,557**	413,121	343,492	274,122	235,771
Net property, plant and equipment	**243,142**	238,319	196,485	170,209	149,790
Number of employees	**36,300**	33,480	21,747	19,310	17,077

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

Overview of Net Sales

The global economy maintained an expansionary trend during the first half of fiscal 2008. It became increasingly difficult to predict the direction of global economic trends during the latter half of the year, however, as such factors as the emergence of the U.S. subprime loan crisis and related turbulence in financial and capital markets impacted such industrialized economies as those of Japan, the United States, and Europe.

Similarly, the Japanese economy initially maintained a gradual expansionary trend supported by external demand but subsequently entered a lull during the fourth quarter due to the rapid deceleration of the U.S. economy and the progress of yen depreciation. Amid the protraction of the subprime loan crisis, the risk of a dip in economic conditions increased, and the views of major corporations regarding the economic outlook deteriorated.

Despite these severe conditions, on a consolidated basis, Daikin was able to attain record-high levels of sales and profit, recording its 14th consecutive year of increase in operating income and ordinary income and its 8th consecutive year of record-high net sales and operating income. Growth in principal consolidated performance indicators for fiscal 2008 is shown in the following chart.

	FY2008	Year-on-Year Change
Net sales	¥1,290.9 billion	+42%
Operating income	¥128.5 billion	+59%
Net income	¥75.2 billion	+65%

Impact of Changes in Currency Exchange Rates

Compared with fiscal 2007, the yen appreciated relative to the dollar and depreciated relative to the euro during fiscal 2008. These currency exchange rate changes are estimated to have had the effect of causing year-on-year increases of ¥34.0 billion in net sales and ¥10.0 billion in operating income. This estimate is based on a comparison of the yen value of non-yen transactions by each overseas subsidiary and other Group company when converted at the exchange rates for fiscal 2007 and fiscal 2008 shown below.

	Fiscal 2007	Fiscal 2008
Yen-dollar rate	¥117	¥114
Yen-euro rate	¥150	¥161

Net Sales by Product Division

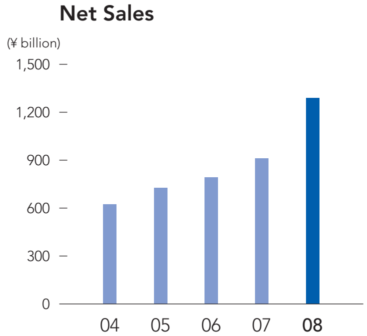
Air-Conditioning

Japan

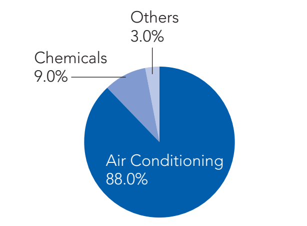
Japanese demand for residential air-conditioning systems rose above the fiscal 2007 level. Although cool weather negatively impacted demand for room air conditioners during the summer, demand was subsequently strong, particularly during the heating season. The Company actively promoted such products as the highly differentiated URURU & SALALA room air-conditioning systems—which feature unique humidifying and dehumidifying capabilities and an extremely quiet automatic filter-cleaning function, and conform to the Japanese energy saving standards that will be applied from 2010—and was able to increase its net sales of such products to above the level in the previous fiscal year.

In the commercial air-conditioning system market, demand for package air-conditioning systems fell below the fiscal 2007 level. However, Daikin was able to increase its sales in this market by undertaking proposal-type sales promotion campaigns directed at marketing agencies and users that focused on such products as the Ve-up Q multiple air-conditioning system for office buildings, which enables the rapid replacement of units using existing piping, and the ZEAS-Q air conditioner for shops, which features outstanding energy conservation performance and therefore helps reduce CO_2 emissions.

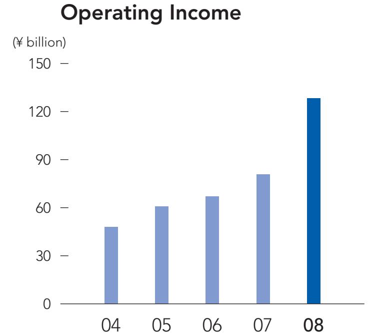
Net Sales



Sales Breakdown



Operating Income



Years Ended March 31,	2008	2007	2006	2005	2004
Gross profit (net sales less cost of sales) as a % of net sales	**34.2%**	34.3%	34.1%	35.2%	34.1%
Operating income as a % of net sales	**10.0**	8.9	8.5	8.4	7.7
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times)	**13.1**	13.8	15.0	13.4	12.1
Net income as a % of net sales	**5.8**	5.0	5.1	5.3	4.6

Adjusting selling prices to reflect the surging prices of steel, aluminum, and other raw materials was made difficult because the supply of air conditioners in Japan continued to be considerably greater than demand, but Daikin consistently implemented pricing policies that emphasized profitability. Moreover, reflecting Daikin's comprehensive power derived from such elements as marketing systems power, product power, service power, and manufacturing responsiveness power, the Company was able to maintain unit volume market shares at approximately the same levels as in fiscal 2007 in both the residential air-conditioning market and the commercial air-conditioning system market.

Overseas

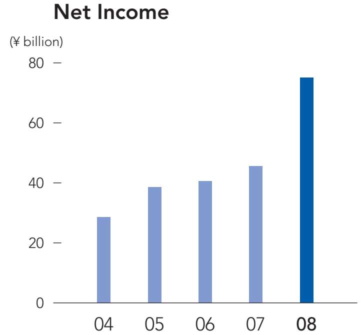
During fiscal 2008, Daikin's global air-conditioning operations were strong, particularly in Europe and China, and total consolidated net sales of residential and commercial air-conditioning systems outside Japan were up considerably from the fiscal 2007 level.

The trend of rising demand in Europe has been sustained ever since the extremely hot weather that hit the region in July 2006, and Daikin has taken initiatives ahead of competing companies to strengthen its capabilities in Europe. These initiatives include the acquisition of marketing agencies and other moves to strengthen the Company's marketing network as well as the establishment of a plant in the Czech Republic and other moves to increase the proximity of manufacturing facilities to users. As a result, Daikin was able to flexibly adjust its supplies and marketing activities in light of growing demand. Additional benefits were derived from synergies between Daikin's previous air-conditioning operations and the large-scale commercial (applied) air-conditioning of McQuay as well as from the contribution of steady growth in such new businesses as home heating product business.

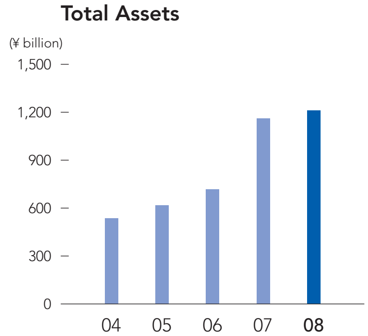
In China, some slackening of demand was seen in major cities owing to the use of restrictive monetary policies to restrain overheated real estate investment, but demand continued to rise at double-digit rates in peripheral medium-sized cities and in regional cities. Amid these trends, Daikin placed strategic emphasis on variable refrigerant volume (VRV) multiple air-conditioning systems for office buildings and executed regional product strategies designed to address special local needs. Consequently, the Company was able to increase its air-conditioner sales in such major metropolises as Shanghai and Beijing, in such peripheral medium-sized cities as Tianjin, Dalian, Nanjing, and Shenzhen, and in such western regional cities as Chengdu, Chongqing, and Wuhan. This rise, along with additional sales stemming from cooperation with McQuay and the addition of that company's large-scale commercial (applied) air-conditioning products to the lineup, supported higher sales.

In North America, demand for ductless air conditioners has trended upward, reflecting a rise in the public's consciousness of energy conservation issues as well as the introduction of environmental protection regulations,

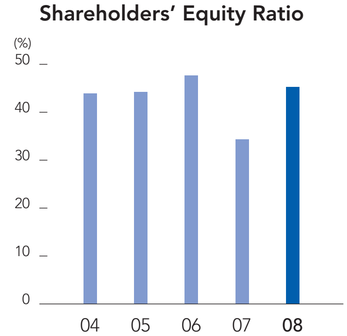
Net Income



Total Assets



Shareholders' Equity Ratio



Years Ended March 31,	Billions of yen				
	2008	2007	2006	2005	2004
Notes and accounts receivable, less allowance for doubtful receivables	**¥221.5**	¥204.2	¥144.9	¥133.7	¥116.0
Inventories	**239.4**	214.5	149.2	141.9	110.4
Interest-bearing debt (not including trade notes discounted)	**356.9**	456.1	173.0	166.4	149.0

and this situation helped enable Daikin to approximately double the volume of its ductless air conditioners in the region. Moreover, although the subprime loan crisis has depressed housing markets, the impact of the crisis on air-conditioning systems for office buildings was small, and McQuay was able to realize a smooth increase in its sales of large-scale commercial (applied) air-conditioning products.

Regarding the ASEAN-Oceania region, Daikin recorded strong sales, particularly in Australia, Singapore, and Thailand.

Among emerging markets, Daikin increased its share of the Russian market for VRV multiple air-conditioning systems for office buildings to over 50%. In the Middle East, the Company leveraged its ability to offer both applied systems and VRV multiple systems to obtain a major order for a development project in Dubai. A decision was made to create a manufacturing base in India, and that base is expected to help the Company expand its business scale there along with local demand, which is projected to continue increasing.

In low-temperature/freezing equipment business, the rise in demand for foodstuffs in the BRICs has expanded demand for the marine shipping of foodstuffs throughout the world. Daikin has worked to promote sales of freezing equipment for shipping containers and has also begun participating in the container leasing market. Moreover, the Company has established a China-based manufacturing subsidiary, strengthened and expanded its service bases, and taken other measures designed to promote sales worldwide and thereby realize the global expansion of related business going forward.

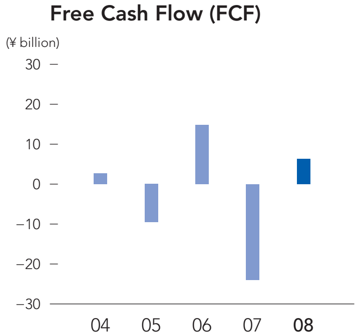
As a result of these situations and the contribution of OYL, which has been included within the scope of consolidation beginning from the year under review, the net sales of Daikin's air-conditioning business in Japan and overseas amounted to ¥1,131,744 million, up 50.4% from the level in the previous fiscal year. Operating income surged 84.4%, to ¥124,582 million.

Chemicals

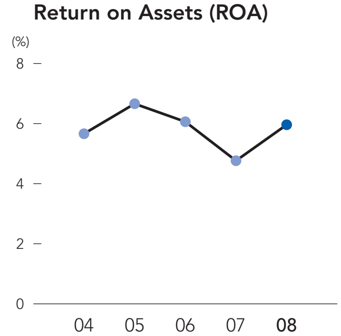
In the fluorochemicals sector, sales increases were achieved in the growing Chinese market, and automobile-related product sales rose in European markets. However, overall sales were lower than in the previous fiscal year, owing to such factors as a decrease in semiconductor-related demand and a drop in demand for products for use in LAN cables amid economic deceleration in the United States. As for the chemical products sector, the U.S. subprime loan crisis and other factors undercut demand for water and oil repellents used on carpets and in other housing-related applications. Sales in the fluorocarbon gases sector were roughly unchanged from fiscal 2007.

As a result, chemical business sales declined 0.3% from the previous year, to ¥116,096 million. The operating profitability ratio was negatively affected by changes in Daikin's product structure in this field and other factors, and the Company increased the level of such related fixed expenses as those associated with medium-term

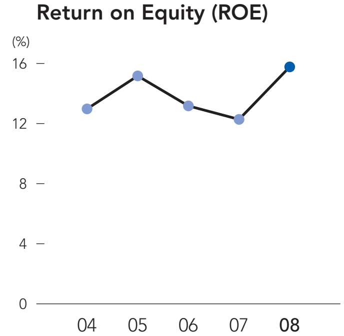
Free Cash Flow (FCF)



Return on Assets (ROA)



Return on Equity (ROE)



To Our Shareholders
Mid-Term Implementation Plan for Last Three Years of FUSION 10
Interview with the President
At a Glance
Review of Operations
Management and Corporate Information Section
Financial Section

strategic investments and investments in safety and environmental protection projects. Consequently, operating income fell 71.1% from the previous year, to ¥3,492 million.

Others

In industrial machinery-related oil hydraulics equipment, Japanese domestic demand was approximately unchanged in fiscal 2008, reflecting the automobile industry's efforts to restrain its capital investment. Daikin was able to increase its market share by promoting its mainstay machine tool-related products and such highly differentiated products as inverter oil hydraulic units, however, and the Company's domestic sales rose to above the level in the previous fiscal year. Exports to North America, Europe, and Asia were also higher than in fiscal 2007. Sales of oil hydraulic equipment for construction machinery were lower than in fiscal 2007, however, reflecting the impact of decreased demand from principal customers in the United States. In defense business, Daikin maintained robust business supplying munitions.

As a result, net sales in this segment declined 0.1% from the previous year, to ¥43,053 million. Reflecting the impact of amortization expenses associated with the acquisition of an oil hydraulics equipment marketing agency in the United States, operating income fell 69.9% from the previous year, to ¥403 million.

Costs, Expenses, and Earnings

The cost of sales amounted to ¥849,041 million, up ¥249,930 million, owing largely to the surge in net sales associated with the inclusion of OYL in the scope of consolidation. Daikin strove to reduce manufacturing costs and make appropriate adjustments to its selling prices, but the considerable impact of surging procurement prices for copper, aluminum, and other raw materials caused the cost of sales ratio to increase 0.1 percentage point from the previous year, to 65.8%.

Selling, general and administrative (SG&A) expenses increased ¥81,277 million from the previous year, to ¥313,355 million. As a share of net sales, however, SG&A expenses decreased to 24.3%, from 25.4% in fiscal 2007. The rise in SG&A expenses reflected various steps taken in response to growth in global sales volume—such as the boosting of advertising, sales promotion, and product shipment—and measures aimed at preparing for further growth in business scale—such as measures to strengthen sales engineering and R&D capabilities.

Operating income amounted to ¥128,497 million, up 58.8% from the previous fiscal year. This represented the 8th consecutive year of record-high levels of operating income and the 14th consecutive year of increase. The operating income ratio improved 1.1 percentage points, to 10.0%.

Other income (expenses)—net amounted to expenses of ¥9,962 million, down ¥12,336 million compared with income of ¥2,374 million in fiscal 2007, reflecting such factors as a shift from short-term borrowings to long-term debt and a related increase in interest expense.

Extraordinary income (expenses)-—net amounted to an expense of ¥8,413 million, owing to the absence in fiscal 2008 of a gain during fiscal 2007 on foreign currency hedges associated with the acquisition of OYL shares as well as write-downs of securities holdings due to a slump in stock prices.

As a result, net income amounted to ¥75,224 million, up 64.9% from fiscal 2007.

Outlook for Fiscal 2009

Regarding the outlook for the current fiscal year, because a large deceleration is projected in the U.S. economy, which has been a principal locomotive of growth in the global economy, we anticipate an increasingly strong trend of deceleration in the global economy.

As for Japan, because corporate profitability is being impacted by yen appreciation and rising raw material prices amid the global trend of economic deceleration, the Company is expecting an intensifying economic slowdown in the Japanese economy, particularly in the corporate sector.

Against the backdrop of these conditions, Daikin will proceed with the implementation of various measures based on its FUSION 10 strategic management plan and with measures to realize synergies involving OYL. In view of the worldwide increase in concern regarding global warming, the Company is planning to proactively use its special environment-friendly technologies and products to make a contribution to protecting the global environment. The Group is making dynamically concerted efforts to address these and numerous other new business development challenges in a manner that will generate results.

In particular, aiming to augment its business scale, Daikin is leveraging its outstanding inverter and heat pump technologies to expand its business in energy-conserving products and other types of environment-friendly products, seeking to increase its shares of European and Chinese markets, and leveraging synergies with OYL to strengthen applied air-conditioning business and establish a solid business base in North America while also striving to establish a full-scale presence in Middle Eastern countries, India, and other NICs as well as in low-end sectors of air-conditioning markets worldwide. At the same time, the Company is endeavoring to reduce costs, increase product reliability, and take other steps that help increase its fundamental business and financial strengths and resilience.

Specifically, compared with fiscal 2008 levels, Daikin is aiming to achieve increases of 7.7% in net sales, to ¥1,390 billion; 5.1% in operating income, to ¥135 billion; 5.6% in ordinary income, to ¥129 billion; and 5.7% in net income, to ¥79.5 billion.

These projections are based on assumed exchange rates of €1=¥160 and $1=¥103.

Financial Position

Assets—At the end of fiscal 2008, consolidated total assets amounted to ¥1,213,649 million, up ¥49,074 million from the previous fiscal year-end. Current assets were increased by growth in receivables and inventories that accompanied the expansion of operations centered on air-conditioning operations. As a result, current assets totaled ¥614,190 million, up ¥73,420 million. Despite increases in fixed assets associated with capital investments in air-conditioning and chemical product manufacturing facilities overseas, changes in the market value of investment securities and other factors decreased total fixed assets to ¥599,459 million, down ¥24,346 million.

Liabilities—Total liabilities amounted to ¥650,092 million, down ¥101,362 million from the previous fiscal year-end. Current liabilities fell ¥225,397 million, to ¥413,022 million, mainly owing to the use of funds procured through the arrangement of long-term debt and the issuance of new shares to repay short-term borrowings, while long-term liabilities increased ¥124,035 million, to ¥237,070 million.

For the above reasons, interest-bearing debt decreased ¥99,145 million compared with the previous year-end, and the ratio of interest-bearing debt to total assets fell 9.8 percentage points, to 29.4%.

Regarding net assets, the issuance of stock during June and July 2007 led to a rise in common stock and capital surplus. Reflecting this and a rise in retained earnings that resulted from growth in net income, net assets grew ¥150,436 million, to ¥563,557 million.

The equity ratio rose to 45.3%, from (34.4%/35.5%) at the end of fiscal 2007, and net assets per share rose from ¥1,523.52 to ¥1,889.01.

Cash Flows

Capital Investment

In accordance with the Daikin Group's fundamental strategy of "concentrating management assets in business fields that offer higher profitability," the Company implemented capital investments during fiscal 2008 with a total value of ¥51,452 million, largely in the air-conditioning and chemicals business fields.

Business Segment	Company	Investment (Millions of yen)
Air-Conditioning	Daikin	13,026
	Daikin Europe N.V.	6,403
	OYL Industries Group	5,174
	Daikin Industries (Thailand) Ltd.	2,273
Chemicals	Daikin	9,159
	Daikin America, Inc.	3,082
Others	Daikin	1,592

Net cash provided by operating activities amounted to ¥103,329 million, reflecting rises in income before income taxes and minority interests and in depreciation and amortization.

Net cash used in investing activities totaled ¥76,428 million, mainly owing to the acquisition of fixed assets.

Net cash provided by financing activities was ¥3,367 million.

As a result, cash and cash equivalents, end of year, totaled ¥110,484 million.

Dividends

Regarding returns to shareholders, Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (consolidated basis) at 2.0% or higher and seeking to set stable levels of dividends based on a comprehensive consideration of such factors as the Company's consolidated performance, financial position, and funding requirements. The Company employs internal reserves for strategic investments designed to further strengthen its management structure as well as to accelerate its global business development, accelerate its development of products that contribute to the global environment with the objectives of increasing the scale of its business operations, and raising the level of its competitiveness.

Dividends applicable to fiscal 2008 amounted to ¥38 per share (¥19 per share interim dividend and ¥19 per share year-end dividend), up ¥10 per share from the previous fiscal year. No decision has yet been finalized regarding the proposed level of dividends for the current fiscal year.

Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen	
ASSETS	**2008**	2007
Current assets:		
Cash and cash equivalents	**¥ 110,484**	¥ 82,659
Short-term investments (Note 7)	**1,173**	1,258
Trade receivables (Notes 6 and 7):		
Notes	**15,027**	12,988
Accounts	**211,906**	197,607
Allowance for doubtful receivables	**(5,453)**	(6,374)
Inventories (Notes 3 and 7)	**239,377**	214,534
Deferred tax assets (Note 11)	**13,358**	12,692
Prepaid expenses and other current assets (Note 7)	**28,318**	25,406
Total current assets	**614,190**	540,770
Property, plant and equipment (Note 7):		
Land	**28,649**	28,500
Buildings and structures	**160,069**	156,201
Machinery and equipment	**345,159**	334,734
Furniture and fixtures	**108,400**	98,632
Construction in progress	**19,070**	20,331
Total	**661,347**	638,398
Accumulated depreciation	**(418,205)**	400,079
Net property, plant and equipment	**243,142**	238,319
Investments and other assets:		
Investment securities (Note 4)	**116,224**	132,840
Investments in unconsolidated subsidiaries and associated companies	**5,031**	4,628
Goodwill (Note 5)	**200,734**	210,505
Deferred tax assets (Note 11)	**5,137**	8,732
Other assets	**29,191**	28,781
Total investments and other assets	**356,317**	385,486
Total	**¥1,213,649**	¥1,164,575

See notes to consolidated financial statements.

	Millions of yen	
LIABILITIES AND EQUITY	**2008**	2007
Current liabilities:		
Short-term borrowings (Note 7)	**¥ 131,951**	¥ 376,783
Current portion of long-term debt (Note 7)	**8,811**	10,755
Trade payables (Note 6):		
Notes	**9,725**	9,468
Accounts	**118,474**	112,359
Construction payable	**12,470**	10,231
Income taxes payable	**13,531**	13,581
Deferred tax liabilities (Note 11)	**1,436**	644
Accrued expenses	**56,851**	49,213
Other current liabilities	**59,773**	55,385
Total current liabilities	**413,022**	638,419
Long-term liabilities:		
Long-term debt (Note 7)	**216,166**	68,535
Liabilities for retirement benefits (Note 8)	**4,291**	5,159
Deferred tax liabilities (Note 11)	**7,130**	24,971
Long-term accounts payable	**8,955**	13,508
Other long-term liabilities	**528**	862
Total long-term liabilities	**237,070**	113,035
Commitments and contingent liabilities (Note 16)		
Equity (Notes 9, 10 and 19):		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2008 and issued 263,813,973 shares in 2007	**85,032**	28,023
Capital surplus	**82,977**	25,968
Stock acquisition rights	**522**	219
Retained earnings	**355,069**	289,106
Net unrealized gain on available-for-sale securities	**10,102**	33,780
Deferred gain (loss) on derivatives under hedge accounting	**371**	(26)
Foreign currency translation adjustments	**19,160**	26,227
Treasury stock, at cost: 981,373 shares in 2008 and 797,424 shares in 2007	**(3,500)**	(2,367)
Total	**549,733**	400,930
Minority interests	**13,824**	12,191
Total equity	**563,557**	413,121
Total	**¥1,213,649**	¥1,164,575

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of yen	
	2008	2007
Net sales (Note 6)	¥1,290,893	¥912,128
Cost of sales (Note 6)	849,041	599,111
Gross profit	441,852	313,017
Selling, general and administrative expenses (Note 6)	313,355	232,078
Operating income	128,497	80,939
Other income (expenses):		
Interest and dividend income	4,568	2,623
Interest expense	(10,160)	(6,065)
Exchange (losses) gains	(444)	691
Gain on sales of land	20	12
Loss on disposals of property, plant and equipment	(879)	(870)
Gain on sales of investment securities	15	347
Gain on sales of shares of subsidiary		16
Gain on the foreign exchange hedge transaction of acquiring subsidiary		4,244
Write-down of investment securities	(2,434)	(25)
Equity in earnings of unconsolidated subsidiaries and associated companies	744	589
Gain on transfer of oil hydraulic multi-tier parking equipment maintenance business		700
Gain on partial termination of defined benefit pension plan		681
Loss on restructuring of subsidiary		(263)
Other—net	(1,392)	(306)
Other (expenses) income—net	(9,962)	2,374
Income before income taxes and minority interests	118,535	83,313
Income taxes (Notes 2 and 11):		
Current	35,413	28,984
Prior years	3,521	
Deferred	1,191	5,792
Total	40,125	34,776
Minority interests	(3,186)	(2,918)
Net income	¥ 75,224	¥ 45,619

	Yen	
Amounts per common share (Notes 2 and 17):		
Basic net income	¥263.65	¥173.42
Diluted net income	263.44	173.34
Cash dividends applicable to the year	38.00	28.00

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

		Millions of yen										
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Right	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, April 1, 2006	263,191,026	¥ 28,023	¥ 25,968		¥ 250,247	¥ 33,054		¥ 7,750	¥ (1,550)	¥ 343,492		¥ 343,492
Reclassified balance as of March 31, 2006 (Note 2)											¥ 11,238	11,238
Effect of change of the fiscal year-end of certain consolidated subsidiary (Note 2)					(38)					(38)		(38)
Net income					45,619					45,619		45,619
Cash dividends, ¥25 per share					(6,577)					(6,577)		(6,577)
Bonuses to directors and corporate auditors					(110)					(110)		(110)
Repurchase of treasury stock	(299,167)								(1,163)	(1,163)		(1,163)
Disposal of treasury stock	124,690				(35)				346	311		311
Net change in the year				¥ 219		726	¥ (26)	18,477		19,396	953	20,349
Balance, March 31, 2007	263,016,549	28,023	25,968	219	289,106	33,780	(26)	26,227	(2,367)	400,930	12,191	413,121
Issuance of new shares (Note 9)	**29,300,000**	**57,009**	**57,009**							**114,018**		**114,018**
Effect of change of the fiscal year-end of certain consolidated subsidiary (Note 2)					**39**					**39**		**39**
Net income					**75,224**					**75,224**		**75,224**
Cash dividends, ¥33 per share					**(9,233)**					**(9,233)**		**(9,233)**
Repurchase of treasury stock	**(293,837)**								**(1,495)**	**(1,495)**		**(1,495)**
Disposal of treasury stock	**109,888**				**(67)**				**362**	**295**		**295**
Net change in the year				**303**		**(23,678)**	**397**	**(7,067)**		**(30,045)**	**1,633**	**(28,412)**
Balance, March 31, 2008	**292,132,600**	**¥85,032**	**¥82,977**	**¥522**	**¥355,069**	**¥10,102**	**¥371**	**¥19,160**	**¥(3,500)**	**¥549,733**	**¥13,824**	**¥563,557**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of yen	
	2008	2007
Operating activities:		
Income before income taxes and minority interests	**¥118,535**	¥ 83,313
Adjustment for:		
Income taxes—paid	**(39,108)**	(24,271)
Proceeds from transfer of oil hydraulic multi-tier parking equipment maintenance business		700
Proceeds on the foreign exchange hedge transaction of acquiring subsidiary—net		4,244
Depreciation and amortization	**51,370**	34,561
Gain on sales of investment securities	**(15)**	(347)
Gain on sales of shares of subsidiary		(16)
Write-down of investment securities	**2,434**	25
Gain on sales of land	**(20)**	(12)
Loss on disposals of property, plant and equipment	**879**	870
Gain on transfer of oil hydraulic multi-tier parking equipment maintenance business		(700)
Gain on the foreign exchange hedge transaction of acquiring subsidiary		(4,244)
Equity in earnings of unconsolidated subsidiaries and associated companies	**(744)**	(589)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(17,508)**	(9,077)
Inventories	**(28,069)**	(21,147)
Other current assets	**(3,468)**	5,745
Prepaid pension cost	**(711)**	(12,598)
Trade notes and accounts payable	**7,661**	5,202
Accrued expenses	**7,863**	4,968
Other current liabilities	**6,559**	6,090
Liabilities for retirement benefits	**(931)**	(3,488)
Account payable for transaction to defined contribution pension plan	**(3,460)**	13,458
Other—net	**2,062**	1,038
Total adjustments	**(15,206)**	412
Net cash provided by operating activities	**103,329**	83,725
Investing activities:		
Payment for purchases of property, plant and equipment	**(47,339)**	(42,573)
Proceeds from sales of property, plant and equipment	**2,331**	777
Payment for acquisition of shares of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 12)	**(2,862)**	(235,686)
Payments for acquisition of investment securities	**(26,016)**	(27,881)
Proceeds from sales of investment securities	**19**	385
Other—net	**(2,561)**	(273)
Net cash used in investing activities	**(76,428)**	(305,251)
Financing activities:		
Net (decrease) increase in short-term borrowings	**(242,987)**	254,098
Increase in long-term debt	**164,683**	4,127
Repayments of long-term debt	**(18,126)**	(3,453)
Payments of cash dividends	**(9,233)**	(6,577)
Proceeds from issuance of new shares	**113,314**	
Other—net	**(4,284)**	(2,220)
Net cash provided by financing activities	**3,367**	245,975
Effect of exchange rate changes on cash and cash equivalents	**(2,459)**	4,014
Net increase in cash and cash equivalents	**27,809**	28,463
Effect of change of the fiscal year-end of consolidated subsidiaries	**16**	18
Cash and cash equivalents, beginning of year	**82,659**	54,178
Cash and cash equivalents, end of year	**¥110,484**	¥ 82,659

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 Corporate Law and in the Japanese Financial Instruments and Exchange Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan, and its consolidated foreign subsidiaries maintain their accounts and records 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 2007 consolidated financial statements to conform to the classification used in 2008.

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 or 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, 2008, the Company consolidated the operation result of a consolidated subsidiary, Daikin Airconditioning Netherlands for the 15-month period ended March 31, 2008, because that subsidiary changed its fiscal year-end from December 31 to March 31.

For the year ended March 31, 2007, the Company consolidated the operation result of a consolidated subsidiary, Daikin Airconditioning Portugal S.A. for the 15-month period ended March 31, 2007, because that subsidiary changed its fiscal year-end from December 31 to March 31.

The Company included the subsidiaries' operation results for the 12-month period in the consolidated statements of income, and included their operation results for the 3-month period in the consolidated statements of changes in 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 20 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 3 months of the date of acquisition.

Marketable debt securities that mature or become due in more than 3 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 principally 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 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. 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.

Property, plant and equipment acquired on and after April 1, 2007 by the Company and its consolidated domestic subsidiaries are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective on and after April 1, 2007. The effect of this treatment was to decrease operating income and income before income taxes and minority interests for the year ended March 31, 2008 by ¥733 million.

Property, plant and equipment of the Company and its consolidated domestic subsidiaries had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law. The effect of this treatment was to decrease operating income and income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,171 million.

The range of useful lives is from 15 to 50 years for buildings and structures and from 5 to 15 years for machinery and equipment.

Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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.

Leases

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

Investment Securities

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

Non-marketable available-for-sale securities are stated at cost principally 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.

Stock Issue Costs

Stock issue costs are charged to income as incurred.

Employees' Retirement Benefits

The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Effective April 1, 2000, the Company and its consolidated domestic subsidiaries 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 was being amortized over 7 years and the annual amortization is presented as selling, general and administrative expenses in the consolidated statements of income. The amortization has already finished within the fiscal year ended March 31, 2007. Some foreign subsidiaries have pension plans.

Based on an agreement between labor and management in March 2006, the Company and certain consolidated subsidiaries implemented a defined benefit pension plan and a defined contribution pension plan effective June 1, 2006, by which time the former qualified defined benefit pension plan was terminated. The effect of this transfer was to increase income before income taxes and minority interests by ¥681 million and was recorded as a gain on partial termination of the defined benefit pension plan in the consolidated statements of income for the year ended March 31, 2007.

Stock Options

On December 27, 2005, Accounting Standard Board of Japan ("the ASBJ") issued ASBJ Statement No. 8, *Accounting Standard for Stock Options* and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

The Company applied this new accounting standard for stock options to those granted on and after May 1, 2006.

Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain or loss on derivatives under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balance of such items as of March 31, 2006 was reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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 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 equity.

Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (the "PITF") No. 13, *Accounting Treatment for Bonuses to Directors and Corporate Auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This standard was effective for fiscal years ending on or after May 1, 2006. Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

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. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. 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.

The Group uses mainly interest rate swaps and interest rate options to manage its exposures to fluctuations in interest rates.

The Group uses commodity future contracts to hedge the risk of fluctuation of commodity prices for materials. 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 consolidated 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.

Amounts per Common Share

Basic net income per common 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 at the beginning of the year (or at the time of issuance).

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

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, *Accounting Standard for Measurement of Inventories*, which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, *Accounting Standard for Lease Transactions*, which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized; however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized recognizing lease assets and lease obligations in the consolidated balance sheet. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*. The PITF prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The PITF is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

Construction Contracts

Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	
	2008	2007
Finished products and merchandise	**¥147,315**	¥122,776
Semi-finished products and work-in-process	**53,641**	51,830
Raw materials and supplies	**38,421**	39,928
Total	**¥239,377**	¥214,534

4. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥95,085**	**¥23,011**	**¥(6,082)**	**¥112,014**
Other	**504**	**118**	**(31)**	**591**
Total	**¥95,589**	**¥23,129**	**¥(6,113)**	**¥112,605**

	Millions of yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥71,942	¥56,704	¥(193)	¥128,453
Other	503	362		865
Total	¥72,445	¥57,066	¥(193)	¥129,318

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2008 and 2007 were as follows:

	Millions of yen	
	Carrying Amount	
	2008	2007
Available-for-sale:		
Equity securities	**¥2,150**	¥2,171
Other	**1,469**	1,351
Total	**¥3,619**	¥3,522

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥19 million and ¥385 million, respectively. Gross realized gains on these sales principally computed on the moving average cost basis were ¥15 million and ¥347 million for the years ended March 31, 2008 and 2007, respectively. The write-down amount of marketable available-for-sale securities was ¥2,407 million for the year ended March 31, 2008.

5. Goodwill

Goodwill at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	
	2008	2007
Consolidation goodwill	**¥199,828**	¥209,396
Other	**906**	1,109
Total	**¥200,734**	¥210,505

Amortization of goodwill was ¥12,348 million and ¥1,635 million for the years ended March 31, 2008 and 2007, respectively.

6. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies at March 31, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Trade notes and accounts receivable	**¥1,489**	¥921
Trade notes and accounts payable	**691**	701

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Sales	**¥15,391**	¥18,984
Purchases	**10,195**	7,546

Material transactions and balances with related individuals for the years ended March 31, 2008 and 2007 were as follows:

			Millions of yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	**2008**	Account	**2008**
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**		
	Director General of Kansai Philharmonic Orchestra		Donation and support money to Kansai Philharmonic Orchestra	**49**		
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission of move business and delivery business	**45**	Other current liabilities	**¥2**

Name	Description of Post	Ownership of the Company (%)	Transactions (Millions of yen): Description of Transaction	2007	Resulting Account Balances: Account	2007
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	¥ 6		
	Director General of Kansai Philharmonic Orchestra		Donation and support money to Kansai Philharmonic Orchestra	48		
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission of move business and delivery business	53	Other current liabilities	¥3

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	
	2008	2007
Bank overdrafts and notes to banks	**¥ 73,951**	¥287,783
Commercial paper	**58,000**	89,000
Total	**¥131,951**	¥376,783

Unused short-term bank credit lines were ¥25,000 million at March 31, 2008. Weighted average interest rates of bank overdrafts and notes to banks at March 31, 2008 and 2007 were 3.06% and 1.28%, respectively.

Weighted average interest rates of commercial paper at March 31, 2008 and 2007 were 0.65% and 0.60%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	
	2008	2007
0.82% unsecured bonds, due October 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 1.40%, due through 2012	**2,000**	2,500
Collateralized loans from banks and others, payable in foreign currencies, with interest 4.00% (2008), and interest ranging from 4.00% to 6.00% (2007), due through 2010	**124**	358
Collateralized loans from banks with:		
Floating interest ranging from 1.45% to 1.47% (2008), and from 1.02% to 1.21% (2007), due through 2010	**6,190**	8,250
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 1.59% to 6.46% (2008), and from 1.59% to 7.00% (2007), due through 2013	**22,365**	34,065
Unsecured loans from banks with interest ranging from 0.91% to 6.10% (2008), and from 0.96% to 6.10% (2007), due through 2027	**173,098**	12,917
Total	**224,977**	79,290
Less current portion	**(8,811)**	(10,755)
Long-term debt, less current portion	**¥216,166**	¥68,535

Annual maturities of long-term debt outstanding at March 31, 2008 were as follows:

Years ending March 31,	Millions of yen
2009	¥ 8,811
2010	28,608
2011	15,736
2012	8,439
2013	58,293
2014 and thereafter	105,090
Total	¥224,977

At March 31, 2008, property, plant and equipment, trade accounts receivables, inventories and prepaid expense and other current assets with a book value of ¥50,060 million, ¥13,391 million, ¥8,102 million and ¥1,128 million, respectively, were pledged as collateral for short-term borrowings and long-term debt, and short-term investments with a book value of ¥1,140 million were pledged as collateral for a supplier's borrowings of ¥828 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.

8. 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.

Based on an agreement between labor and management in March 2006, the Company and certain consolidated subsidiaries implemented a defined benefit pension plan and a defined contribution pension plan effective June 1, 2006, by which time the former qualified defined benefit pension plan was terminated.

The liabilities for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	
	2008	2007
Projected benefit obligation	**¥74,896**	¥74,633
Fair value of plan assets	**(80,619)**	(89,300)
Unrecognized prior service cost	**219**	250
Unrecognized actuarial (gain) loss	**(3,676)**	6,819
Net asset	**(9,180)**	(7,598)
Prepaid pension cost	**(13,471)**	(12,757)
Liabilities for retirement benefits	**¥ 4,291**	¥ 5,159

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Service cost	**¥2,984**	¥2,703
Interest cost	**2,491**	1,347
Expected return on plan assets	**(3,136)**	(1,696)
Amortization of prior service cost	**(31)**	(33)
Amortization of transitional obligation		2,770
Recognized actuarial gain	**(309)**	(81)
Net periodic benefit costs	**1,999**	5,010
Gain on transfer to a defined contribution pension plan		(681)
Contribution to defined contribution pension plan and other	**1,888**	1,124
Total	**¥3,887**	¥5,453

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	Mainly 10 years	Mainly 10 years
Amortization period of transitional obligation		7 years

9. Equity

Since May 1, 2006, Japanese companies have been subject to a new Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On June 22, 2007, the Company issued and publicly offered the 25,500 thousand shares at ¥3,891 per share. The amount of the issuance was ¥99,230 million in total, ¥49,615 million of which was recorded in common stock and the remaining ¥49,615 million was recorded in capital surplus.

On July 23, 2007, the Company issued and allocated the 3,800 thousand shares to a third party at ¥3,891 per share. The amount of the issuance was ¥14,788 million in total, ¥7,394 million of which was recorded in common stock and the remaining ¥7,394 million was recorded in capital surplus.

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10. Stock Option

The stock option outstanding for the year ended March 31, 2008 was as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2001 Stock Option	18 directors 12 employees	92,000 shares	2001.7.30	¥2,541	From July 1, 2003 to June 30, 2007
2002 Stock Option	20 directors 19 employees	118,000 shares	2002.7.26	¥2,330	From July 1, 2004 to June 30, 2008
2003 Stock Option	20 directors 19 employees	118,000 shares	2003.7.30	¥2,405	From July 1, 2005 to June 30, 2009
2004 Stock Option	9 directors 40 employees	144,000 shares	2004.7.27	¥2,957	From July 1, 2006 to June 30, 2010
2005 Stock Option	9 directors 44 employees	153,000 shares	2005.7.29	¥2,852	From July 1, 2007 to June 30, 2011
2006 Stock Option	9 directors 44 employees	298,000 shares	2006.7.18	¥3,790	From July 19, 2008 to July 18, 2012
2007 Stock Option	9 directors 42 employees	292,000 shares	2007.7.17	¥4,640	From July 18, 2009 to July 17, 2013

The stock option activity was as follows:

	2000 Stock Option	2001 Stock Option	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option	2006 Stock Option	2007 Stock Option
				(Shares)				
For the year ended March 31, 2007								
Vested								
March 31, 2006—Outstanding	26,100	47,900	50,000	98,000	144,000	153,000		
Granted							298,000	
Exercised	20,900	20,600	29,000	40,000	14,000			
Canceled	5,200			2,000	2,000	2,000		
March 31, 2007—Outstanding		27,300	21,000	56,000	128,000	151,000	298,000	
For the year ended March 31, 2008								
Vested								
March 31, 2007—Outstanding		27,300	21,000	56,000	128,000	151,000	298,000	
Granted								292,000
Exercised		27,300	6,000	21,000	28,000	27,500		
Canceled								
March 31, 2008—Outstanding			15,000	35,000	100,000	123,500	298,000	292,000
Exercise price	¥2,471	¥2,451	¥2,330	¥2,405	¥2,957	¥2,852	¥3,790	¥4,640
Average stock price at exercise	¥3,655	¥4,307	¥4,862	¥4,727	¥4,953	¥5,113		
Fair value price at grant date							¥ 736	¥1,035

The assumptions used to measure fair value of 2007 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	28%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥28 per share
Interest rate with risk free:	1.4%

11. 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% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Deferred tax assets:		
Inventories	**¥11,206**	¥ 8,592
Warranty reserve	**5,373**	4,967
Software and other assets	**4,982**	7,620
Accrued bonus	**3,428**	3,478
Long-term account payable	**2,891**	4,302
Liabilities for retirement benefits	**1,955**	787
Tax loss carryforwards of consolidated subsidiaries	**1,685**	1,176
Account payable other	**1,470**	1,468
Investment securities	**1,179**	195
Business tax payable	**1,052**	1,011
Foreign tax credit	**983**	1,634
Property, plant and equipment	**888**	675
Allowance for doubtful receivables	**859**	873
Other	**5,104**	6,744
Less valuation allowance	**(2,103)**	(1,541)
Total deferred tax assets	**¥40,952**	¥41,981
Deferred tax liabilities:		
Undistributed earnings of consolidated subsidiaries	**¥11,790**	¥10,916
Unrealized gain on available-for-sale securities	**6,917**	23,104
Prepaid pension cost	**6,006**	5,102
Deferred gains on sales of property	**2,174**	2,168
Other	**4,136**	4,882
Total deferred tax liabilities	**¥31,023**	¥46,172
Net deferred tax assets (liabilities)	**¥ 9,929**	¥ (4,191)

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 year ended March 31, 2008 was as follows:

Normal effective statutory income tax rate	40.6%
Difference in foreign subsidiaries' tax rate	(11.0)
Amortization of goodwill	4.0
Income taxes—prior years	2.9
Elimination of exchange losses from reorganization of consolidated subsidiaries	(2.7)
Tax credit for research and development cost	(1.8)
Write-down of investment securities	0.8
Other—net	1.1
Actual effective income tax rate	33.9%

A reconciliation of difference between the normal effective statutory tax rates and the actual effective tax rates is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2007.

Additional tax amounts estimated to result from the transfer pricing taxation assessment regarding the transaction between the Company and its foreign subsidiary is presented as income taxes—prior years in the consolidated statements of income for the year ended March 31, 2008. On June 26, 2008, the Company received a transfer pricing taxation assessment, however, the difference from the estimated amount was minor. The Company will take appropriate action on the assessment.

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12. Supplemental Cash Flow Information

The Company acquired O.Y.L. Industries Bhd and its 92 subsidiaries in the year ended March 31, 2007.

A reconciliation between cash paid for the capital and payment for acquisition of shares of newly consolidated subsidiaries, net of cash and cash equivalents acquired were as follows:

	Millions of yen
	2007
Assets	¥127,712
Goodwill	204,413
Liabilities	(84,339)
Minority interests	(1,724)
Cash paid for the capital	246,062
Cash and cash equivalents of consolidated subsidiaries	(10,376)
Payment for acquisition of shares of newly consolidated subsidiaries, net of cash and cash equivalents acquired	¥235,686

13. Research and Development Costs

Research and development costs were ¥32,075 million and ¥27,204 million for the years ended March 31, 2008 and 2007, respectively.

14. Leases

The Group leases certain computer equipment and other assets.

Lease payments under finance leases were ¥2,201 million and ¥2,333 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 was as follows:

	Millions of yen		
As of March 31, 2008	Furniture and Fixtures	Others	Total
Acquisition cost	**¥5,822**	**¥2,144**	**¥7,966**
Accumulated depreciation	**3,004**	**1,003**	**4,007**
Net leased property	**¥2,818**	**¥1,141**	**¥3,959**

	Millions of yen		
As of March 31, 2007	Furniture and Fixtures	Others	Total
Acquisition cost	¥5,920	¥1,897	¥7,817
Accumulated depreciation	2,862	855	3,717
Net leased property	¥3,058	¥1,042	¥4,100

Obligations under finance leases:

	Millions of yen	
	2008	2007
Due within one year	**¥1,787**	¥1,843
Due after one year	**2,172**	2,257
Total	**¥3,959**	¥4,100

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

Depreciation expense under finance leases:

	Millions of yen	
	2008	2007
Depreciation expense	**¥2,201**	¥2,333

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.

The minimum rental commitments under noncancellable operating leases at March 31, 2008 were as follows:

	Millions of yen
Due within one year	¥14
Due after one year	30
Total	¥44

15. Derivatives

The Group enters into mainly various interest rate swap agreements and interest rate options 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.

In addition, the Group enters into commodity future contracts to hedge the risk of fluctuation of commodity prices for materials.

All derivative transactions are entered into to hedge interest, foreign currency and commodity price 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 enter into derivatives for trading or speculative 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, 2008 and 2007 were as follows:

	Millions of yen					
	2008			2007		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Selling: GBP	**¥ 4,514**	**¥ 4,273**	**¥241**	¥ 5,095	¥ 5,114	¥ (19)
EUR	**30,822**	**31,046**	**(224)**	9,080	9,126	(46)
USD	**9,540**	**9,481**	**59**	1,451	1,429	22
ZAR	**2,033**	**1,890**	**143**	1,184	1,190	(6)
CZK	**2,290**	**2,418**	**(128)**	1,505	1,502	3
PLN	**528**	**539**	**(11)**	326	326	
MYR	**923**	**927**	**(4)**	1,190	1,216	(26)
AUD	**1,834**	**1,791**	**43**	2,194	2,229	(35)
HKD	**193**	**177**	**16**	348	347	1
SGD	**1,234**	**1,236**	**(2)**	70	69	1
Currency swaps:						
Receive JPY/Pay HKD	**413**	**(2)**	**(2)**	495	(87)	(87)
Receive JPY/Pay USD	**889**	**74**	**74**			
Total	**¥55,213**	**¥53,850**	**¥205**	¥22,938	¥22,461	¥(192)

	Millions of yen					
	2008			2007		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Commodity futures contracts:						
Metal						
Buying	**¥2,280**	**¥2,149**	**¥(131)**	¥918	¥813	¥(105)

Information related to derivative contracts that qualify for hedge accounting and forward contracts that are assigned to associated assets and liabilities and recorded in the consolidated balance sheets at March 31, 2008 and 2007 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, 2008 totaled ¥18,706 million.

Guarantees of bank loans and items of a similar nature at March 31, 2008 were ¥894 million.

17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen	Thousands of shares	Yen
For the year ended March 31, 2008	Net Income	Weighted Average Shares	EPS
Basic EPS			
Net income available to common shareholders	**¥75,224**	**285,321**	**¥263.65**
Effect of dilutive securities			
Stock options		**221**	
Diluted EPS			
Net income for computation	**¥75,224**	**285,542**	**¥263.44**
For the year ended March 31, 2007			
Basic EPS			
Net income available to common shareholders	¥45,619	263,051	¥173.42
Effect of dilutive securities			
Stock options		122	
Diluted EPS			
Net income for computation	¥45,619	263,173	¥173.34

18. 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, 2008 and 2007 was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2008				
	Air Conditioning	Chemicals	Others	Eliminations and Corporate	Consolidated
Sales to customers	**¥1,131,744**	**¥116,096**	**¥43,053**		**¥1,290,893**
Intersegment sales	**507**	**3,019**	**22**	**¥(3,548)**	
Total sales	**1,132,251**	**119,115**	**43,075**	**(3,548)**	**1,290,893**
Operating expenses	**1,007,669**	**115,623**	**42,672**	**(3,568)**	**1,162,396**
Operating income	**¥ 124,582**	**¥ 3,492**	**¥ 403**	**¥ 20**	**¥ 128,497**

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2008				
	Air Conditioning	Chemicals	Others	Eliminations and Corporate	Consolidated
Assets	**¥916,795**	**¥139,992**	**¥29,853**	**¥127,009**	**¥1,213,649**
Depreciation	**24,795**	**12,649**	**1,499**		**38,943**
Capital expenditures	**35,450**	**13,945**	**2,057**		**51,452**

a. Sales and Operating Income

	Millions of yen				
	2007				
	Air Conditioning	Chemicals	Others	Eliminations and Corporate	Consolidated
Sales to customers	¥752,560	¥116,493	¥43,075		¥912,128
Intersegment sales	615	2,516	146	¥(3,277)	
Total sales	753,175	119,009	43,221	(3,277)	912,128
Operating expenses	685,633	106,941	41,887	(3,272)	831,189
Operating income	¥ 67,542	¥ 12,068	¥ 1,334	¥ (5)	¥ 80,939

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2007				
	Air Conditioning	Chemicals	Others	Eliminations and Corporate	Consolidated
Assets	¥843,867	¥146,789	¥30,235	¥143,684	¥1,164,575
Depreciation	20,399	11,214	1,243		32,856
Capital expenditures	22,169	17,631	1,335		41,135

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

The effect of calculating depreciation expense using the declining-balance method in accordance with the revised corporate tax law as stated in Note 2 was to decrease operating income of air conditioning, chemicals and other by ¥444 million, ¥246 million and ¥43 million, respectively, for the year ended March 31, 2008.

The effect of systematically amortizing the 5% residual portion of property, plant and equipment in accordance with the revised corporate tax law as stated in Note 2 was to decrease operating income of air conditioning, chemicals and other by ¥630 million, ¥473 million and ¥68 million, respectively, for the year ended March 31, 2008.

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, 2008 and 2007 were summarized below:

	Millions of yen						
	2008						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	**¥498,259**	**¥284,546**	**¥367,140**	**¥131,677**	**¥9,271**		**¥1,290,893**
Interarea transfers	**156,587**	**108,990**	**7,794**	**7,727**	**21**	**¥(281,119)**	
Total sales	**654,846**	**393,536**	**374,934**	**139,404**	**9,292**	**(281,119)**	**1,290,893**
Operating expenses	**602,913**	**353,874**	**336,777**	**138,658**	**9,111**	**(278,937)**	**1,162,396**
Operating income	**¥ 51,933**	**¥ 39,662**	**¥ 38,157**	**¥ 746**	**¥ 181**	**¥ (2,182)**	**¥ 128,497**
Assets	**¥515,396**	**¥402,128**	**¥212,509**	**¥164,648**	**¥6,223**	**¥ (87,255)**	**¥1,213,649**

	Millions of yen						
	2007						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers	¥481,745	¥154,556	¥235,329	¥ 36,994	¥3,504		¥ 912,128
Interarea transfers	117,949	72,861	4,815	4,468		¥(200,093)	
Total sales	599,694	227,417	240,144	41,462	3,504	(200,093)	912,128
Operating expenses	564,209	206,771	213,195	42,983	3,331	(199,300)	831,189
Operating income (loss)	¥ 35,485	¥ 20,646	¥ 26,949	¥ (1,521)	¥ 173	¥ (793)	¥ 80,939
Assets	¥487,765	¥371,238	¥200,571	¥145,564	¥5,642	¥ (46,205)	¥1,164,575

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

The effect of calculating depreciation expense using the declining-balance method in accordance with the revised corporate tax law as stated in Note 2 was to decrease operating income of Japan by ¥733 million for the year ended March 31, 2008.

The effect of systematically amortizing the 5% residual portion of property, plant and equipment in accordance with the revised corporate tax law as stated in Note 2 was to decrease operating income of Japan by ¥1,171 million for the year ended March 31, 2008.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Asia and Oceania	**¥311,399**	¥180,968
Europe	**354,554**	234,988
Americas	**134,210**	43,239
Other	**29,305**	10,280
Total sales to foreign customers	**¥829,468**	¥469,475

19. Subsequent Events

(1) Resolutions Approved by the Company's Shareholders at the General Shareholders' Meeting Held on June 27, 2008

a. Appropriations of Retained Earnings

The shareholders approved payment of a year-end cash dividend of ¥19 per share to holders of record at March 31, 2008, totaling ¥5,551 million.

b. Purchase of Treasury Stock

The Company is authorized to repurchase up to 400 thousand shares of the Company's common stock (aggregate amount of ¥3,000 million) as treasury stock until the next general shareholders' meeting.

(2) Stock Option Plan

At the meeting of the Company's Board of Directors held on June 27, 2008, the Company determined the following stock option plan for the Company's directors and key employees:

The plan provides for granting options to directors and key employees to purchase up to 308 thousand shares of the Company's common stock in the period from July 15, 2010 to July 14, 2014. The options will be granted at an exercise price of 105 percent of the average fair market value of the Company for the last month of the date of option granted. The Company plans to issue acquired treasury stock upon exercise of the stock options.

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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. (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in 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, 2008 and 2007, 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 27, 2008

Member of
Deloitte Touche Tohmatsu

DAIKIN INDUSTRIES, LTD.

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