



# Annual Report 2011

Fiscal Year Ended March 31, 2011





## Environmental Management and Electric Power Conservation Needs

On March 11, 2011, eastern Japan was hit by a magnitude nine earthquake that has come to be referred to as the Great East Japan Earthquake disaster. The aftermath of the disaster has led to concerns regarding electric power shortages during peak summertime demand periods, and the Japanese government has, therefore, set the target of achieving a 15% across-the-board reduction in the amount of power consumed by companies and households in the regions served by Tokyo Electric Power Company and Tohoku Electric Power Company. Companies and households in western Japan have also been requested to cooperate with electric power conservation programs. These targets for reducing total electric power consumption along with other targets, such as those for reducing peak daytime power consumption levels, have made the optimization of energy consumption a major issue within Japanese society.

As a comprehensive maker of air conditioners, which account for a substantial share of electric power consumption, the Daikin Group believes that it should take responsibility for the important mission of helping Japanese society realize the requisite sharp cuts in total electric power consumption and lowering of peak power consumption levels. The Group has been proactively carrying out that mission by proposing solutions for diminishing the power consumption of commercial air-conditioning systems and by providing information that facilitates efforts to lower the power consumption of household air-conditioning systems.

In various ways, the Great East Japan Earthquake disaster has had a major impact throughout the world, and it is anticipated that the trend toward increasing consciousness of the importance of energy control methods will persist. Moreover, while energy conservation programs have previously focused primarily on the objective of preserving the global environment, there is a strong likelihood of a global increase in needs associated with the objective of conserving electrical power to bring consumption in line with generation capabilities.

The objectives of the FUSION 10 management plan the Daikin Group implemented during the period from fiscal 2007 through fiscal 2011 (ended March 31, 2011) included those of helping protect the global environment while expanding environmental business. Currently, the Group is sustaining its efforts toward those objectives and the realization of a low-carbon society while concurrently striving to accurately and quickly respond to global needs related to electric power conservation. In addition to developing and providing products that facilitate the restraint of electric power consumption over the medium term, Daikin aims over the long term to promote energy control systems based on consideration of overall societal energy demand efficiency and to promote the efficient utilization of renewable energy sources. By pursuing these strategies, the Group plans to make a significant contribution to global society as well as capture a large share of the emerging electric power conservation market.



- 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 Fast & Flat 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"**

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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.

## A Message from the CEO



### **Noriyuki Inoue**

Chairman of the Board and CEO

Looking ahead to prospective developments over the next 5 to 10 years, the Daikin Group has drafted and begun implementing a new strategic management plan, FUSION 15. The Group is working to accurately assess and effectively address the diverse business growth opportunities being presented by the waves of technological innovation as well as other major changes associated with the ongoing economic/industrial paradigm shift. Aiming to capitalize on those opportunities in advance of our rivals, we are boldly and proactively implementing numerous strategic measures within the framework of FUSION 15.

As a result of its implementation of the FUSION 10 strategic management plan during the period from fiscal 2007 through fiscal 2011 (ended March 31, 2011), Daikin was able to attain a record high level of operating income in fiscal 2008, and the Company subsequently undertook thorough measures to overcome the challenges presented by the global financial crisis and recession so that it could maintain its short-term profitability while concurrently reforming and bolstering its corporate management constitution. During fiscal 2011, these strategies enabled us to realize a V-shaped performance recovery and become the global No. 1 air-conditioning company in terms of net sales.

During the period from fiscal 2012 through fiscal 2016, we will be moving ahead with our ambitious new strategic management plan, FUSION 15. Amid intensifying global competition, our plan calls for us to take bold measures to realize the additional reforms required to ensure our success in the paradigm shift era along with our transformation into “a truly global and excellent company.”

The emerging countries have come to play a leading role in the global economy. Targeting the volume zones of emerging country markets, Daikin is developing an increasingly broad array of highly differentiated products featuring price and quality levels tailored to the requirements of those markets.

In industrialized country markets, the ongoing paradigm shift is causing the focus of needs to shift from equipment to solutions. In response, the Daikin Group is leveraging its special strengths to progressively expand its solutions business operations that offer unique benefits regarding such issues as electric-power and energy conservation.

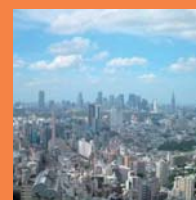
Through our implementation of FUSION 15, we intend to realize a new surge of corporate growth and thereby live up to the expectations of our shareholders.

June 2011

*Noriyuki Inoue*

Noriyuki Inoue  
Chairman of the Board and CEO

## Aiming to Be “A Truly Global and Excellent Company”





## A Message from the Management Team



**Noriyuki Inoue**

Chairman of the Board and CEO

**Masanori Togawa**

President and COO

## Speedily Implementing FUSION 15 Is Our Top Management Priority

Before explaining our management strategies, we would like to express our deepest condolences to the many people who have suffered from the Great East Japan Earthquake disaster and offer our prayers for the swift recovery of the impacted region.

Our concept of dynamic management centers on two elements—speedy decision-making capabilities and powerful execution capabilities. In particular, we are emphasizing management speed as a means of overcoming global competition.

Through the implementation of the FUSION 15 strategic management plan, we are seeking to expand the Daikin Group's business scale by effectively addressing emerging country demand and leveraging other growth engines. Moreover, international consciousness of energy-related issues has increased in the wake of the Great East Japan Earthquake disaster, and we are undertaking various initiatives related to energy control related business as well as other kinds of business. Based on these measures, we are aiming to realize corporate growth that boosts our consolidated net sales above ¥2 trillion by fiscal 2016.

It is no exaggeration to say that the key to realizing our goals is strong human resources. We are, therefore, giving special emphasis going forward to recruiting and fostering the development of outstanding human resources on a global scale, especially in emerging countries.

To achieve success amid the myriad challenges of the paradigm shift era, companies must continuously undertake self-reform initiatives. Having reinforced our management team with the appointment of a new COO, we are determined to attain the challenging strategic objectives of FUSION 15 by implementing numerous strategic initiatives in a concerted and speedy manner.

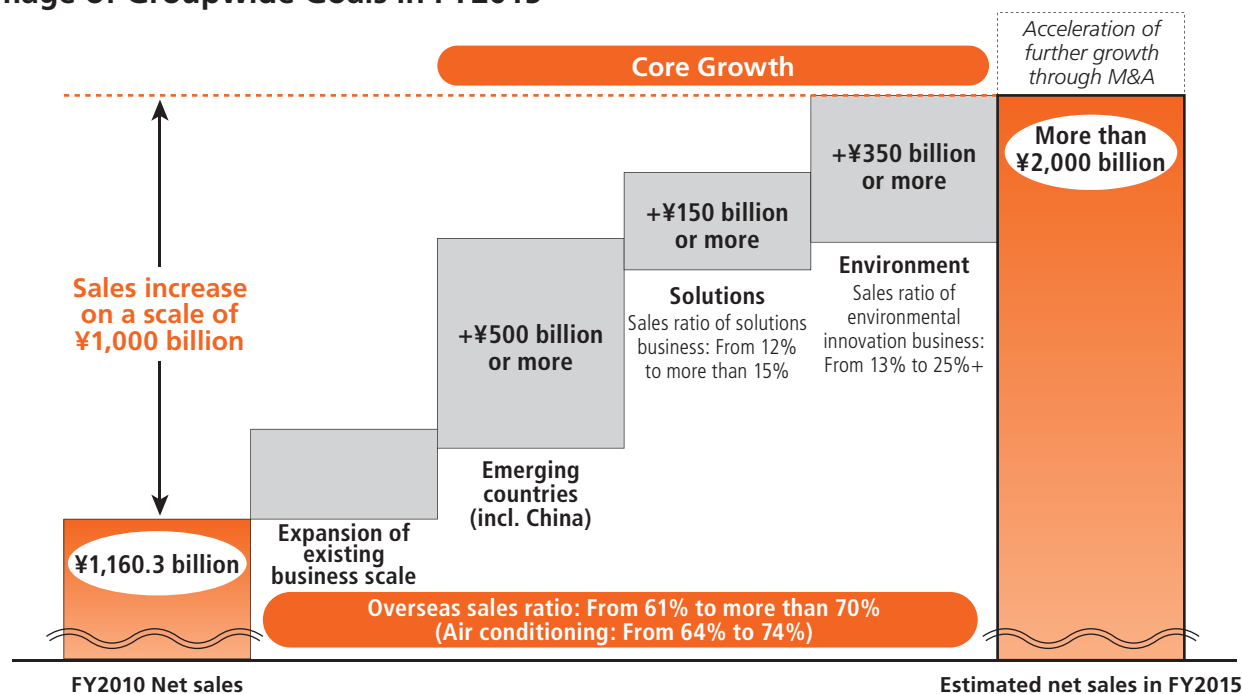
### Masanori Togawa Personal History

|      |   |
|------|---|
| 1973 | Entered the Company   |
| 1995 | General Manager of General Affairs Department and Manager of Secretarial Office   |
| 1996 | General Manager of Secretarial Office   |
| 2002 | Director, responsible for General Affairs Department and Corporate Communication Strategy, and Secretarial Office   |
| 2004 | Director and Managing Executive Officer, responsible for Human Resources Division and Corporate Communication Department, in charge of General Manager of Secretarial Office  |
| 2007 | Director and Senior Executive Officer, responsible for Human Resources Division, General Affairs Department, and Corporate Communication Department, in charge of General Manager of Human Resources Division   |
| 2007 | Director and Senior Executive Officer, responsible for Corporate Communication Department, Human Resources Division, General Affairs Department, and Facility Department, General Manager of Secretarial Office, and in charge of General Manager of Human Resources Division |
| 2011 | President and COO, Representative Director  |

# FUSION 15

Strategic Management Plan (Target fiscal year-end: Fiscal 2015 (year ending March 31, 2016))

## •Image of Groupwide Goals in FY2015



## •Mid-term Implementation Plan (Quantitative Targets for FY2014)

**Group-wide Targets** Set clear targets for the plan's first 3 years and ensure achievement to build a new growth foundation

|                  | 2011 results  | 2012 plan     | 2014 targets   | 2016 image |
|------------------|---------------|---------------|----------------|------------|
| Net sales        | ¥1,160.3B     | ¥1,310.0B     | ¥1,600.0B      | ¥2,000.0B+ |
| Operating income | (6.5%) ¥75.5B | (6.5%) ¥85.0B | (8.1%) ¥130.0B | 10%+       |

\*Assumed FY2013 exchange rates: ¥85/\$, ¥120/€

### Financial Targets

|                        | 2011 results | 2012 plan | 2014 targets |
|------------------------|--------------|-----------|--------------|
| ROA                    | 1.7%         | 3.6%      | 5%           |
| ROE                    | 4.0%         | 8.3%      | 11%          |
| FCF (3-yr. cumulative) | +¥112.3B     |           | +¥85.0B      |
| DVA (EVA)              | -¥17.8B      | -¥2.5B*   | ¥18.0B*      |

\*Revise capital cost ratio from 2011 (from 6% to 5%)

### Investment Plan

|                   | 2012-2014 |
|-------------------|-----------|
| 3-year cumulative | ¥190.0B   |
|                   | 2009-2011 |
|                   | ¥142.9B   |

Plan of major investments for 2011-2013:

- Increase production capacity in China
- Expand resin capacity in China and USA
- Air-conditioning factory in Brazil

### Alliances, Partnerships, and M&A

Set priorities and actively employ as a management option

HVAC in North America, combustion heating in Europe, local manufacturers and distributors in emerging countries, acquisition of new technologies, etc.



## Aiming to be the global No. 1 company by providing the best energy conservation solutions

**Masanori Togawa**

President and COO

In fiscal 2011, the Daikin Group realized a V-shaped recovery in its performance through the expansion of sales of core products that are currently the main pillar of the Group's profitability and the proactive launch of new products with special environment-friendly features as well as through the progressive implementation of thorough reform measures designed to bolster the Group's management constitution. Daikin's new President and COO recognizes that it is crucial to maintain the Group's momentum by giving top priority to the implementation of FUSION 15 strategies and the attainment of associated targets.



**Q: What is your evaluation and analysis of the V-shaped performance recovery that Daikin achieved in fiscal 2011?**

- Generated short-term profits
- Proceeded with management reforms without being unduly swayed by the business environment
- Effectively responded to surging raw material prices
- Attained “global No. 1 air-conditioning company” objective

In fiscal 2011 (ended March 31, 2011), Daikin recorded ¥1,160,331 million in consolidated net sales (up 13.3% from the previous fiscal year) and ¥75,455 million in consolidated operating income (up 71.3%).

Responding to the impact of the global recession triggered by the Lehman Shock, we gave top priority to generating short-term profits through concerted Companywide efforts to increase the market shares of existing products, expand sales of environment-friendly products, and move ahead with comprehensive cost-reduction programs. By measures including those to prioritize investments and reduce expenses, we strongly promoted greater fixed-cost efficiency. While being subjected to pressures from such trends in the business environment as surging prices in raw materials markets and the continued appreciation of the yen, we avoided being unduly swayed by such trends as we resolutely advanced further with reforms designed to equip Daikin with a resiliently strong management structure.

Moreover, despite the increasingly severe conditions in our operating environment, we sustained such measures as those to expand sales in relatively strong markets and sales of relatively popular products. Our proactive business expansion strategies enabled us to record air-conditioning sales exceeding those of the U.S.-based company that had previously been the top air-conditioning company in the world. As a result, we were able to realize our dream of becoming the “global No. 1 air-conditioning company,” which had been Daikin’s objective for many years.

**Q: We would like to hear more about your perspective on the strategic goals of the FUSION 15 strategic management plan (please see pages 5 and 10-13 of this report for additional information on the plan). First, what are your ideas about the Group’s emphasis on targeting the volume zones of emerging country markets?**

- Emphasizing markets of India, Brazil, Turkey, Russia, Vietnam, and the Middle East
- Speedy development of products tailored to local markets
- Balanced emphasis on expansion and profitability

Currently, it is the growing markets of such emerging countries as China, India, and Brazil that are playing the role of a locomotive in the global economy. Daikin has already established a large presence in China’s air-conditioner market. We have been manufacturing commercial air conditioners in India since fiscal 2010, and our Brazil-based marketing company began full-scale operations in April 2011. However, capturing market share in the volume zones of emerging country markets requires fundamental changes to product development programs. Regarding air conditioners as well as other products, it is frequently the products that offer a bare minimum of functions along with low prices that can be marketed with the greatest success in emerging countries. Naturally, it is still important to differentiate our products from those of our competitors, as this is a key basis for promoting a rise in profitability.

To ensure our capabilities for speedily developing optimal products and launching them in advance of our competitors, we are fundamentally reforming our global product development system. While continuing to elevate our technological power to the highest level so we can develop products with an abundance of added value in Japan, we are working to strengthen the development capabilities of our business bases elsewhere throughout the world. Specifically, we are establishing new development facilities in Japan, the United States, Europe, China, the ASEAN region, Oceania, and India. Each of the facilities is staffed with development managers responsible for accelerating the development of highly profitable products that are designed to match local needs.

**Q: Please explain what Daikin is doing to expand its solutions business.**

- Promoting product sales while accelerating the strengthening of service networks
- Building a new business foundation by fiscal 2014

In the mature markets of industrialized countries, rather than restrict ourselves to business marketing equipment, we are leveraging our special strengths related to technologies and services to create unique kinds of solutions business in accordance with the needs of individual regions and countries as well as needs associated with specific applications. For example, we are providing climate control

operational management systems that employ remote monitoring methods to conserve energy, marketing air-conditioning equipment products together with related maintenance services, and taking other initiatives designed to offer our customers a comprehensive range of support. To attain the solutions business volume target of our FUSION 15 plan, we intend to build a substantial solutions business foundation on a global scale by fiscal 2014.

On the other hand, particularly since the Great East Japan Earthquake disaster, a growing number of people throughout the world have begun reconsidering their countries' energy policies, and this trend is expected to bring about dramatic changes in the environment for air-conditioning business. We anticipate that the level of interest in energy-saving air-conditioning products will become still higher than it has been in the past as people strive to respond to the need to reduce electric power consumption and to other pressing new kinds of needs that are emerging worldwide.

Daikin has many technologies that can reduce electric power consumption. By combining those technologies, we can provide various kinds of energy- and power-saving solutions, such as a solution that employs a power-saving control system to manage the operation of high-efficiency air-conditioning equipment incorporating heat-pump and inverter technologies. We believe that providing solutions of this nature is a key way for us to contribute to society as an HVAC\* solutions enterprise.

Moreover, the potential applications of our power-saving technologies are not restricted to air conditioning. Our technologies can be used to comprehensively control lighting fixtures, elevators, and other kinds of electrical equipment found in buildings. The Daikin Group is already conducting pilot testing of technologies for communicating with smart grids\*\* in the United States, Europe, China, Southeast Asia, and elsewhere. Over the medium-to-long term, we are considering the creation of what we call "energy control business extending to energy creation and energy storage."

\*HVAC is an acronym representing heating, ventilation, and air conditioning.

\*\*Smart grids are next-generation electric power transmission networks that seek to optimize and increase the efficiency of power transmission by employing IT to control both supply- and demand-related factors associated with power flows from generation plants to electrical equipment that consumes power.

#### **Q: What is Daikin doing to create environment-related innovation business?**

- Environmental preservation as a global issue equally important for emerging countries
- Future-oriented investments in such fields as fluorochemicals and air-filter business

It is clear that the prevention of global warming and other

environmental preservation issues are going to be increasingly important global issues affecting both industries and households during the 21st century, and it is, therefore, expected that the ability to create innovative environmental technologies will become a key factor determining the viability of corporate enterprises.

By promoting the use of air-conditioning equipment in countries including emerging countries, there is a possibility that the air-conditioning industry may also cause an increase in electric power consumption along with CO<sub>2</sub> emissions, and it is also worth remembering that the fluorochemical refrigerants used in air-conditioning equipment have greater greenhouse effects than CO<sub>2</sub>. While countries throughout the world are responding to those situations by progressively strengthening environmental regulations and introducing environmental incentive systems, Daikin has, for many years, been engaged in leading-edge R&D programs aimed at developing a diverse range of increasingly sophisticated environmental technologies, such as those related to inverters, heat pumps, desiccant air conditioners, and new refrigerants. We are wielding these technologies to maintain our lead over other companies regarding the development of highly differentiated products with distinctive environment-friendly features, and our lead in technological power has been among the factors that sustained our lead regarding business expansion.

With respect to our operations in emerging country markets going forward, we are aiming to promote the use of air conditioners while concurrently contributing to environmental protection through such measures as our recent moves to promote greater use of inverter technologies. We plan to progressively expand our environment-related innovation business going forward, and we are, therefore, making various future-oriented investments, such as those focused on developing new fluorochemical applications and expanding our air-filter business.

#### **Q: What is Daikin's posture regarding alliances, partnerships, and M&A transactions?**

- Ensuring survival as a manufacturer through the pursuit of overwhelmingly superior technologies
- Promoting the Group's collaboration with other companies in ways that produce synergies

We are expecting continued stable growth in our air-conditioner operations in Japan, Europe, and China, and our current goals are to further consolidate our position as the "global No. 1 air-conditioning company" while reinforcing the foundation for endeavors to attain our next ambitious objective. However, effectively taking advantage of

opportunities in a way that enables us to maintain our lead in global markets and sustain our corporate viability and vitality will require overwhelmingly superior technological power. Besides that core of technological power, we also have to establish transformational business models that our competitors cannot emulate and that expand our operational scope to encompass promising new realms. We are confident that our policy of emphasizing self-reliant technological development will continue to be successful but also recognize that there are limits to the benefits of self-reliance. Going forward, we will be emphasizing the arrangement of alliances, partnerships, and M&A transactions that enable the Daikin Group to obtain additional promising technologies from sources all over the world.

To date, the Daikin Group has achieved dynamically progressive growth through large-scale corporate acquisitions. Our acquisition of the OYL Group gave us a full-scale presence in the North American market and considerably reinforced our operations in the applied (large-scale commercial) air-conditioning equipment business and low-cost room air-conditioner business, and it also was designed to generate synergies throughout our global air-conditioning business. Our collaboration with China-based Gree Electric Appliances, Inc., of Zhuhai, has enabled us to effectively promote the widespread use of inverter air conditioners in China, and, by changing China's industry standard in this way, we have been seeking to create a huge new market. At this time, the share of inverter models sold in China's room air-conditioner market has risen to approximately 30%.

Going forward, we intend to continue emphasizing measures for obtaining outstanding resources that can help us further accelerate our business expansion.

#### **Q: Could you explain Daikin's concept of "People-Centered Management"?**

- Rapid measures to proceed with the global recruitment and development of human resources
- Augmenting recruiting activities that leverage Daikin's appeal as the "global No. 1 air-conditioning company"
- Promoting management localization and greater two-way communication between the Head Office and local bases

It goes without saying that outstanding human resources are a prerequisite for attaining our FUSION 15 objectives. While there is increasingly intense recruitment competition for such resources throughout the world, the Daikin Group has positioned the strengthening of human resources as a core component of its strategies for supporting business

development and expansion. We are committed to steadily reinforcing our human resources going forward.

As "People-Centered Management" is an integral part of "Our Group Management Philosophy," we are determined to implement it rigorously throughout our global operations, and we also believe it is important to rapidly apply new kinds of personnel recruitment and development policies.

Besides leveraging Daikin's position as the "global No. 1 air-conditioning company" in our human resource recruitment programs, we are endeavoring to offer the kind of highly appealing global career paths that will attract truly outstanding people. We are also building personnel and remuneration systems that give Daikin competitive advantages in the global personnel recruitment market. Aiming to facilitate the autonomous development of overseas Group companies, we are creating personnel policies that promote management localization at those companies as well as close and smooth two-way communication between those companies and the Head Office.

#### **Q: What is Daikin's policy regarding returns to shareholders?**

- Maintaining the ratio of cash dividends to consolidated net assets at 2.0% or higher
- Dividends per share applicable to fiscal 2011 up ¥4 from the fiscal 2010 level, to ¥36

Regarding returns to shareholders, Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (on a consolidated basis) at 2.0% or higher and is 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 objective of increasing the scale of its business operations, and raise the level of its competitiveness.

Dividends applicable to fiscal 2011 amounted to ¥36 per share (interim dividends of ¥18 per share and year-end dividends of also ¥18 per share), up ¥4 per share from the fiscal 2010 level.

I am hoping for shareholders' continued understanding and support going forward.

*Masanori Togawa*

Masanori Togawa  
President and COO



# Making Daikin “A Truly Global and Excellent Company”

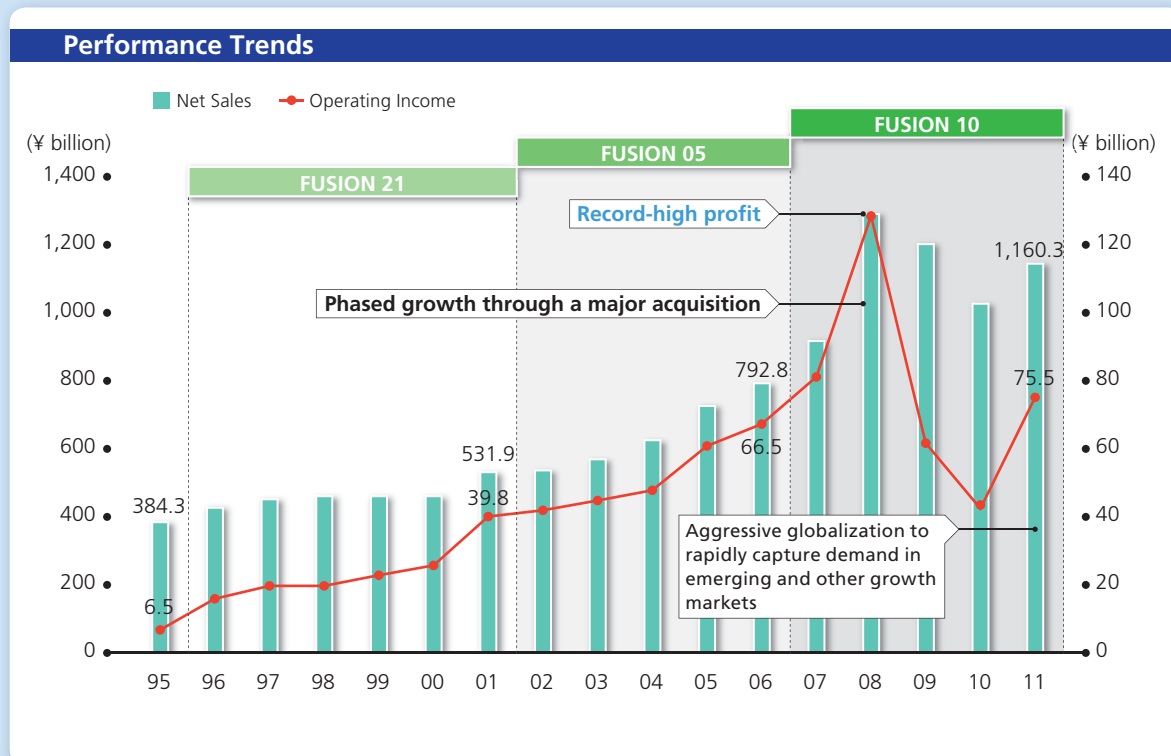
## Results of the FUSION 10 Plan

The Daikin Group implemented its FUSION 10 strategic management plan during the period from fiscal 2007 through fiscal 2011. In fiscal 2008, the Group increased its consolidated net income for the 14th consecutive year and attained a new record high level of operating income (¥128.1 billion), thereby attaining its fiscal 2009 performance targets a year ahead of schedule. Although its performance was impacted by the recession following the global financial crisis that began in 2008, the Group undertook thorough measures to maintain its short-term profitability while reforming and bolstering its corporate management constitution. During fiscal 2011, the Group realized a V-shaped performance recovery and became the global No. 1 air-conditioning company in terms of net sales. Reflecting the steady expansion of the Group's global business, the overseas share of consolidated net sales surged from 46% in fiscal 2006 to 61% in fiscal 2011.

Factors that were particularly important in adding impetus to the Group's global business expansion included the 2006 acquisition of the O.Y.L. Industries Bhd. Group and the 2008 arrangement of an alliance with China-based Gree Electric Appliances, Inc., of Zhuhai.

FUSION 10 also called for Daikin to augment its contributions to protecting the natural environment by bolstering and augmenting its environmental business operations. Reflecting this objective, the Group was able to expand its heat-pump room- and water-heating equipment business, particularly in Europe, and achieved outstanding results in pioneering the Chinese market for room air conditioners with inverters.

Having striven to strengthen its profit base throughout the five-year period of FUSION 10, the Group was able to generate an aggregate total of more than ¥100 billion of free cash flow during the three years through fiscal 2011.





## Pursuing 11 Groupwide Core Strategy Themes

During the period from fiscal 2012 through fiscal 2016, Daikin will be implementing its new strategic management plan, FUSION 15, which is designed to ensure the Group's success in the paradigm shift era along with its transformation into "a truly global and excellent company."

FUSION 15 includes 11 Groupwide Core Strategy Themes, which provide relatively specific descriptions of the growth directions and strategic policies that will be key means of attaining the plan's objectives. The 11 themes are organized into three groups—Four New Growth Strategy Themes for expanding new businesses and otherwise achieving growth by taking advantage of opportunities presented by changes in the operating environment, Four Management Constitution Reform Themes for ensuring corporate success amid the new era, and Three Themes to Enhance HR Capabilities based on People-Centered Management.

In response to changes emerging in the market environment following the Great East Japan Earthquake, Daikin has supplemented FUSION 15 with such additional elements as plans for creating a distinctive kind of Daikin Group energy control business intended to help meet electric power conservation needs.

Progress in implementing these plans will be accompanied by urgent needs to recruit, develop, and deploy requisite human resources on a global scale. Accordingly, the Daikin Group will be establishing clear-cut compensation standards and systems that are highly acceptable to globally recruited personnel, recruiting local managers to take responsibility for operations at overseas Group companies, and taking such other measures as those to promote international personnel exchanges and personnel transfers among Group companies.

### Eleven Groupwide Core Strategy Themes

Execute 11 themes to build a foundation for growth, boldly reforming what needs to be changed, continuously sophisticating core competencies that transcend the times, and consistently outperforming competitors

#### I. 4 New Growth Strategy Themes

1. Fully enter emerging markets and the high-volume market
2. Develop solutions business that meets customer needs
3. Expand environment-related innovation business
4. Accelerate growth through alliances, partnerships, and M&A

#### II. 4 Management Constitution Reform Themes

1. Innovate product development, production, procurement, and quality capabilities
2. Strengthen global marketing function
3. Comprehensively develop capacity to utilize IT
4. Fundamentally reinforce profitability

### Become a Truly Global and Excellent Company

#### III. 3 Themes to Enhance HR Capabilities

1. Implement and sophisticate People-Centered Management
2. Accelerate measures to secure and develop quality HR
3. Speed up management localization and promote communication between Group companies

#### Additional Themes in Response to the Earthquake

- Unique Daikin initiatives to meet power-saving needs
- Power-saving measures for this summer
  - Enhance initiatives related to all types of power-saving technologies and products (To be further substantiated and expanded)

# Four New Growth Strategy Themes

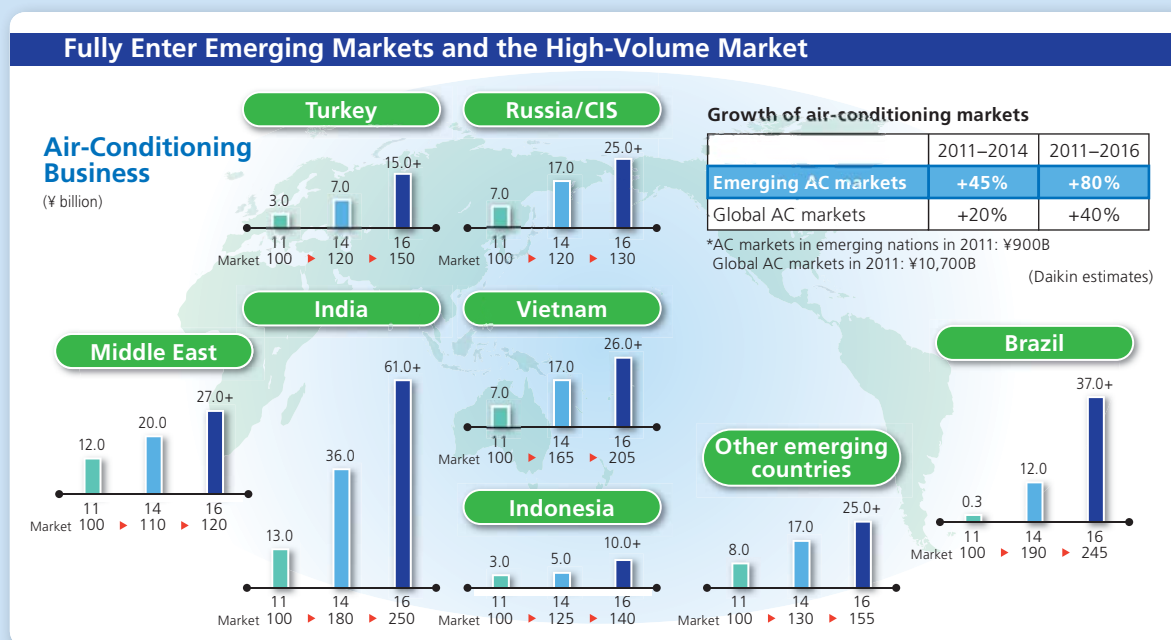
The following sections of this article provide an introduction to the Four New Growth Strategy Themes that are key pillars of the FUSION 15 strategic management plan.

## Establish Full-Scale Presences in Emerging Countries' Volume-Zone Market Segments

It is not an exaggeration to say that the emerging countries' volume-zone market segments are a primary focus of contemporary global business competition.

With respect to air-conditioning business, Daikin is working to rapidly establish (vertically integrated) operations in India and Brazil, which it has designated top-priority markets, and accelerate the pace of growth in the next generation of emerging markets—including those of Russia/the CIS, Turkey, the Middle East, and Indonesia—in line with the pace of economic growth in each market region. By fiscal 2016, the Group aims to increase its annual net sales in emerging markets to ¥300 billion and raise its overseas sales ratio to above 70%.

Regarding the chemicals business, Daikin plans to establish itself as the only company that produces a comprehensive array of fluorochemicals products in China, which is expected to become the world's largest source of demand for such products, and capture the top share of China's fluorochemicals product market. The Group also intends to create business bases in the markets of India and Brazil, which are projected to become the next generation of growth markets. By fiscal 2016, the Group aims to increase its annual net sales in emerging countries to a level greater than ¥50 billion.



## Develop Solutions Business that Meets Customer Needs

Particularly in industrialized country markets, the contemporary paradigm shift is shifting the focus of needs from individual units of equipment to solutions, and Daikin intends to be a leader in addressing the rising need for solutions.

With respect to air-conditioning business in Japan, the United States, Europe, and China, Daikin is endeavoring to increase its sales of equipment for individual applications while concurrently expanding its after-sales service operations. Based on consideration of each region's market maturity, the Group will address the challenges of developing solutions business while tightening its focus on optimal products—including water heating, humidity



controlling, and ventilation offerings—as well as optimal kinds of solutions proposals and target customers. In Europe, plans call for offering solutions associated with smart grids. Daikin aims to establish solutions business generating ¥300 billion of annual net sales by fiscal 2016.

The chemicals business is centered on the presentation of application development proposals to prospective customers. To upgrade the appeal of its proposals and strengthen its solutions business development measures, the Group intends to broaden its business scope. Rather than focusing exclusively on fluorochemicals, the Group will prepare and submit proposals that are associated with fluorochemicals in combination with other products as well as proposals that are not related to fluorochemicals.

## Expand Environment-Related Innovation Business

The mid-term implementation plan for the last three years of FUSION 10 included strategic environmental themes prescribing that Daikin help society effectively address environmental problems while making the most of corporate growth opportunities presented by environmental issues, and these themes have been retained in FUSION 15. By strengthening existing operations, undertaking full-scale room- and water-heating equipment business, expanding environment-related fluorochemicals operations and air-filter business, and creating new businesses, the Group is aiming to create global environment-related innovation business that generates roughly ¥500 billion of annual net sales by fiscal 2016.

The driving force behind these strategies is the Daikin Group's core competence of environmental technologies. By progressively increasing the sophistication of those technologies and expanding the scope for fully realizing the potentials of those technologies in additional countries and regions, the Group is endeavoring to provide the global society with the means required to achieve conformance with increasingly rigorous environmental regulations.

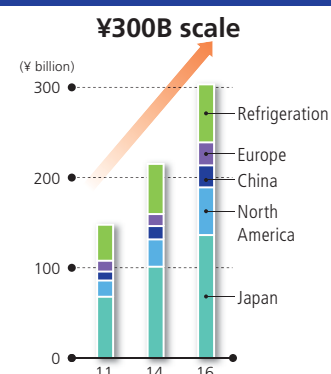
## Accelerate Growth through Alliances, Partnerships, and M&A

Obtaining additional resources through alliances, partnerships, and M&A transactions offers additional management options for responding to major contemporary trends, and Daikin believes that proactively utilizing those options is a key requirement for accelerating its growth and structural reforms. In the course of its implementation of FUSION 15, the Group intends to maintain a flexible approach to the arrangement of alliances, partnerships, and M&A transactions.

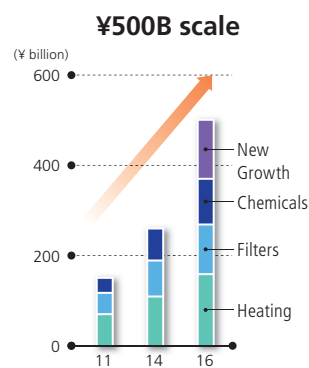
More specifically, Daikin anticipates that alliances, partnerships, and M&A transactions are likely to be useful for obtaining marketing networks and production facilities in emerging country markets as well as for acquiring technologies that will effectively promote the establishment and expansion of solutions business and environment-related innovation business.

The Group is striving to strengthen its capabilities for arranging alliances, partnerships, and M&A transactions and bolster its organizational systems required to maximize the synergies that it can generate through its relationships with other companies.

### Total Net Sales of Solutions Business



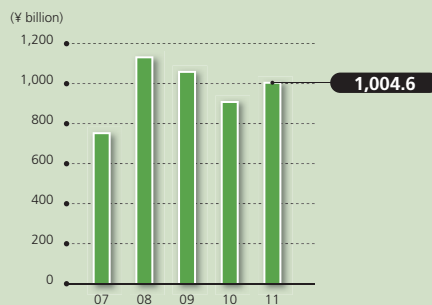
### Total Sales of Environment-Related Business



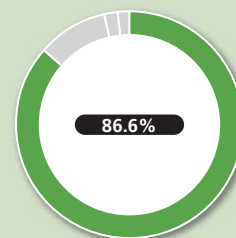
## Air-Conditioning



Net Sales



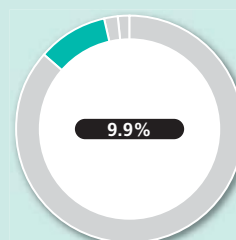
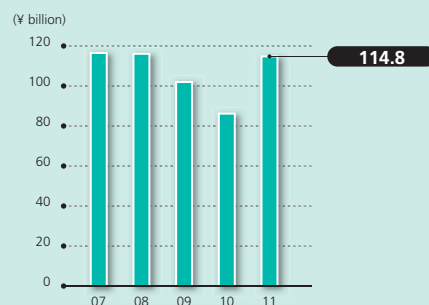
Percentage of Net Sales



## Chemicals



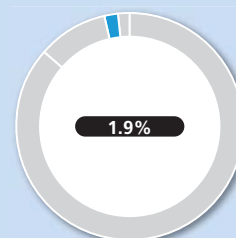
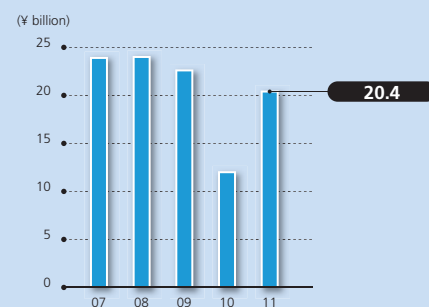
Net Sales



## Oil Hydraulics



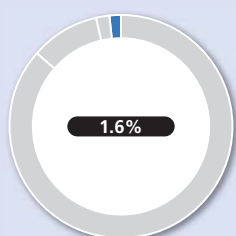
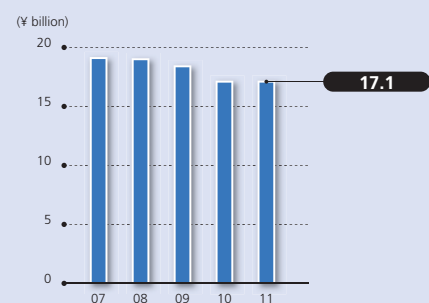
Net Sales



## Defense



Net Sales



- Room air-conditioning systems
- Heat-pump hot-water-supply and room-heating systems
- Packaged air-conditioning systems
- Multiple air-conditioning systems for office buildings
- Air-conditioning systems for facilities and plants
- Medium- and low-temperature air-conditioning systems
- Absorption refrigerators
- Humidity-adjusting external air-processing units
- Air purifiers
- Water chillers
- Air-handling units
- Marine-type container refrigeration

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
- Fluoro coatings
- 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.

- Oil hydraulic pumps
- Oil hydraulic units
- Oil hydraulic valves
- Cooling equipment and systems
- Hydrostatic transmissions
- Centralized lubrication units and systems

Daikin's unique hydraulic technologies offer outstanding energy-conservation performance and are contributing to the development of industry by unleashing the potential of power control.

- Warheads
- Warheads for guided missiles
- Home-use oxygen therapy equipment

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

In fiscal 2011, overall Japanese demand for air-conditioning products was higher than in the previous fiscal year. Amid this trend, the Daikin Group increased the unit volume of its domestic sales of air conditioners, with growth centered on highly differentiated products. In particular, the Group increased the annual unit volume of its domestic sales of room air conditioners to a new record high level. FUSION 15 calls for Daikin to make efforts to further increase its shares of the domestic markets for both residential and commercial air conditioners while also working to strengthen solutions business operations encompassing air conditioners along with ventilation and water-heating products.

## Conditions in Fiscal 2011

During fiscal 2011, unit sales of residential air conditioners in Japan rose approximately 28% year on year, to a new record high level of approximately 8.6 million units. Record-breaking hot summer weather and the government's Eco-point subsidy program for purchases of energy-efficient appliances had the effect of increasing demand, and other factors contributing to a rise in demand included a heightening of needs for clean heating products amid unusually cold winter weather.

In these circumstances, the Daikin Group worked to expand its sales of products with high levels of added value owing to their incorporation of such proprietary technologies as the Ururu humidification function; the *Joge Sayu no Shiho Kiryu* system, which allows users to direct airflows in four directions; and the Flash Streamer system, which controls and disposes of harmful microorganisms and pollen in rooms as well as within air-conditioning units. As a result of these measures and proactive efforts to respond to demand for products covered by the Eco-point system and for clean heating products, the Group attained a new record high level of room air-conditioner unit sales volume.

Japan's commercial air-conditioner market grew considerably in scale compared to the previous fiscal year owing to a trend of gradual recovery in capital investments, and the Daikin Group achieved a large increase in its unit sales of commercial air conditioners. This reflected the market's high evaluation of such highly differentiated products as the newly launched Eco-ZEAS 80, an office-use air conditioner that enables an 80% reduction of associated CO<sub>2</sub> emissions and electric power consumption compared with standard Daikin non-inverter air conditioners marketed 15 years ago.

The scale of the market for EcoCute heat-pump room- and water-heater products grew smoothly during fiscal 2011. The Daikin Group launched highly differentiated products while strengthening its own sales network through such measures as those to broaden the network of sales shops (ECO Planners Club shops) adept at marketing household appliances, and these various initiatives enabled the Group to considerably increase its market share.

Consequently, the Daikin Group's domestic air-conditioning business generated net sales that were 12% higher than in the previous fiscal year.

## FUSION 15 Objectives

The FUSION 15 plan calls for the Daikin Group to increase the market shares of its mainstay products while expanding operations in new business fields so that it can generate

¥550 billion in annual net sales (1.5 times the fiscal 2011 level) by fiscal 2016.

The main pillar of the Group's new businesses is solutions business. Rather than simply recommending that numerous buildings and public facilities incorporating Daikin products renovate their air-conditioning systems with new energy-saving products, the Group's solutions business is seeking to present customers with proposals for the installation of such highly differentiated products as Desica energy-saving ventilation systems that utilize technologies for improving indoor air quality (IAQ). Daikin has also been broadening its solutions menu with the addition of such items as the Performance Watch service (through which the Company's remote monitoring and control center works to maintain an optimal balance between energy consumption and comfort targets of customers' air-conditioning systems) and other operational management systems as well as maintenance services, which are one of the Group's special strengths. In these ways, we are endeavoring to expand our provision of comprehensive energy conservation solutions.

Following the Great East Japan Earthquake, it is anticipated that—in addition to conventional energy conservation requirements—there will be a global trend of increasing demand for rapid reductions in electric power consumption. There are particularly pressing needs for more-effective means of reducing the electric power consumption of air-conditioning systems in Japan, where the air-conditioning systems account for roughly 40% of the electric power consumption of large buildings, and the Daikin Group has an abundant array of solutions for meeting those needs. For many years, Daikin has offered diverse solutions of this kind, including Demand Control solutions that can manage air-conditioning systems in ways that reduce power consumption by up to 30% and Energy Tuning solutions that use energy-conserving methods for managing multiple air-conditioning systems of office buildings in ways that reduce power consumption by up to 20%. In May 2011, the Company established its Electric Power Conservation Control Center facility, which is staffed with specialists capable of tailoring responses to various kinds of customer requests.

Daikin is also strengthening its capabilities for developing numerous types of power-conservation technologies and products for the residential market. It is moving ahead with the commercialization of Comprehensive Heat Systems solutions that reduce a dwelling's total energy consumption by controlling structural heat losses. By fiscal 2016, the Group is aiming to increase the scale of its domestic air-conditioning solutions business to a level that makes it a principal pillar of its domestic air-conditioning business.



*Ururu Sarara room air conditioners offer innovative energy-saving and comfort-promoting features.*



*Optimal energy-saving control performance is realized in accordance with operating conditions.  
Eco-ZEAS 80 air conditioner for shops and offices*

As part of its initial measures for promoting the attainment of FUSION 15 targets, Daikin is working during fiscal 2012 to reorganize its marketing companies throughout Japan and to strengthen its capabilities for proposal-based marketing systems that emphasize responses to environment issues, particularly with respect to commercial air-conditioning systems. The Group is also seeking to quickly establish business operations in water-heating, room-heating, and ventilation systems that are intended to be important components of the foundation for solutions business.

# Air Conditioning— The Global Market

In fiscal 2011, the Daikin Group's business in the global air-conditioning market was greatly impacted by the trend of yen appreciation. By launching new products tailored to match the nature of demand in each country and region and by strengthening its marketing networks, however, the Group was able to achieve year-on-year increases in its net sales in each of its principal markets, including those of Europe, China, elsewhere in Asia, Oceania, and North America.

The FUSION 15 plan calls for the implementation of measures based on Four New Growth Strategy Themes in countries throughout the world, and the Group is seeking to realize a considerable surge of business expansion as a result of those measures.

## Conditions in Fiscal 2011

With respect to business in Europe during fiscal 2011, sales of residential air conditioners were robust, particularly in Italy and Spain. Daikin moved ahead with measures to promote greater sales of reasonably priced models in Russia, and a steady year-on-year rise was achieved in the unit volume of residential air-conditioner sales in Europe as a whole. In commercial air-conditioner business, similarly, the Group continued to provide marketing outlets with meticulous support and present energy-conservation proposals as well as was able to realize a year-on-year increase in its unit sales volume with respect to mainstay multiple air conditioners for office buildings. Although Daikin's heating system business was negatively impacted by the sluggishness of housing construction in the important market of France, the Group's moves to build marketing networks in such new markets as those of Germany, the United Kingdom, Italy, and Spain and to strengthen service networks made it possible to sustain Europe-wide unit sales volume at a level roughly equivalent to that in the previous fiscal year.

In China, Daikin more than doubled the size of its marketing outlet network in the course of a single year, and it was, thereby, able to make particularly noteworthy progress in addressing abundant demand in the country's midwestern region and other inland regions. Reflecting China's rapid economic growth, sales of the Group's mainstay commercial air conditioners have continued to be robust, while applied air-conditioning product business sales surged greatly as a result of moves to launch new products and highly differentiated products. Regarding residential air conditioners, Daikin responded to an increase in the rigor of energy-conservation regulations and launched reasonably priced inverter models, thereby achieving a large increase in its unit sales volume.

In the Asia/Oceania region, Daikin's moves to strengthen its marketing network and product lineup have supported a rise in the level of unit sales of residential air conditioners to a level comparable to that recorded in Europe. Particularly large sales increases were realized in India and Vietnam, reflecting the strong sales of residential air conditioners. In Australia, operations were negatively impacted by a reduction of governmental housing purchase subsidies and other factors, but the Group was able to overcome those factors and achieve a year-on-year increase in its sales there.

In North America, although the market and operating environment for business in applied air-conditioning products continued to be harsh, Daikin realized a year-on-year increase in its sales owing to the robustness of demand for newly launched products as well as to initiatives aimed



at expanding service business. The Group also strengthened its marketing network for Japanese-style ductless air-conditioning products.

Consequently, despite the negative impact of yen appreciation, the Daikin Group's global air-conditioning business increased its unit sales volume to an extent that supported a year-on-year increase in its yen-denominated net sales.

## FUSION 15 Objectives

In accordance with FUSION 15, Daikin is seeking to further enhance the competitive power of its existing businesses through such measures as those related to heat pump and inverter technologies, strengthened marketing and service systems, and the development of highly differentiated products. At the same time, the plan calls for the Group to build a new foundation for growth by establishing full-scale presences in emerging countries, promoting the development of solutions business, and accelerating the creation of environment-related innovation business.

Plans call for almost doubling annual sales in emerging country markets during the period from fiscal 2011 through fiscal 2016, and Daikin is working to rapidly expand its operations in India and Brazil, which it has designated top-priority markets. Already manufacturing commercial air conditioners in India, the Group is preparing to initiate the local manufacture of residential air conditioners there, and plans are also being drafted for local manufacturing operations in Brazil. Regarding Turkey, the Middle East, Indonesia, Vietnam, and the Russia/CIS region, the Group is developing products that match local needs and strengthening its local marketing networks with the objective of expanding its sales at rates exceeding the growth rate of each local market.

Regarding solutions business, Daikin is endeavoring to expand its sales of the applied products that form the base of such business while also building a service network covering the entirety of North America. By taking such initiatives as those to make use of smart grids in Europe, the Group is aiming to expand solutions business operations that are responsive to the special needs of each region.

Annual sales in the global market for room and water heating products, including fuel-burning systems, are roughly ¥4 trillion, and Daikin is emphasizing measures to develop environment-related innovation business centered on room and water heating products. The Group is striving to expand its array of highly differentiated room and water heating system products—including standard heat pumps



*A room air conditioner designed in Europe*



*(Part of) the expanding dealer network in China*

as well as hybrid products incorporating gas boilers and even systems incorporating ground- and water-source heat pumps—and laying plans to begin full-scale business development programs in Europe, China, and North America.

In the first year of FUSION 15, fiscal 2012, the Daikin Group is endeavoring to maximize the profitability of its existing operations and product lines in various regions of the world while proactively implementing future-oriented investments in new business fields and geographical regions. As a top-priority strategic objective is establishing full-scale presences in the volume-zone segments of emerging country markets, the Group is building optimal business models for individual countries and taking measures to progressively confirm the best methods for effectively capturing substantial shares of each market.

# Chemicals

In fiscal 2011, growing demand for fluorochemicals products in China and many other countries and regions provided a powerfully positive impetus to the Daikin Group's chemicals operations. By taking measures to cope with surging raw materials prices and reform its business constitution while seeking to respond to additional demand, the Group was able to sustain a smooth rise in its revenue. In accordance with FUSION 15, the Group is endeavoring to expand the scale of its chemicals business and reestablish a highly profitable business structure by increasing its sales in the Chinese market, broadening the scope of its environment-friendly product related business, and accelerating the development of new product applications.

## Conditions in Fiscal 2011

Against the backdrop of a recovery in semiconductor- and automobile-related demand during fiscal 2011, the Daikin Group implemented new pricing policies in response to surging raw materials prices and advanced with comprehensive cost-cutting measures. Aiming to implement additional business constitution reforms, the Group strove to increase its production volume to levels that enable the optimal utilization of existing production facilities. Although the incidence of the Great East Japan Earthquake disaster near the end of the fiscal year caused a three-week interruption in the operation of the Kashima Plant, the Group was able to alleviate the impact of this interruption by augmenting production in the United States.

Daikin recorded robust sales of fluoropolymer resins in each region of the world, and sales of high-performance rubber products increased owing to a rise in demand for automotive applications. Large year-on-year sales increases were realized with respect to both resin and rubber offerings.

In the fine chemicals field, the Daikin Group responded to robust demand for water and oil repellents and semiconductor-etching products and was able to increase its sales of those products. The expansion of smartphone-related demand for OPTOOL anti-fouling (fingerprint smudge-preventing) coating agents supported a considerable surge in domestic sales of those products. As a result, overall sales of fine chemicals products rose greatly both in Japan and overseas.

Regarding individual markets, demand in the Chinese market has been growing rapidly, and Daikin's efforts to respond to demand associated with government investments in electric power and communications infrastructure supported a large year-on-year increase in the Group's sales in China.

The chemicals business segment recorded robust sales of all types of products while concurrently generating benefits from business constitution reform measures. Consequently, the segment was able to elevate its operating income from approximately ¥0.7 billion in fiscal 2010 to approximately ¥10.8 billion in fiscal 2011.

## FUSION 15 Objectives

FUSION 15 calls for greatly expanding chemicals business by moving ahead with measures to expand sales in Japan, the United States, and Europe, and other industrialized country markets as well as in China and other emerging country markets while concurrently accelerating the development of environment-related business and new product applications.

Principal focuses of environment-related business development include materials for lithium-ion secondary batteries, thermal barrier coatings, liquid crystal materials that help reduce the power requirements of LCDs, and films for solar cells. As demand for low global warming potential (GWP) refrigerants is rapidly expanding in markets including that of China, the Group is making plans to ensure it can expand its supply capabilities in a timely manner.

The Daikin Group's ZEFFLE Infrared Reflective Coating is finding a diverse and growing array of applications related to factories, warehouses, shipping vessels and containers, and other structures. As its ability to control the incursion of heat can increase the efficiency of electric power conservation measures, the Group is strongly positioned to combine its fluorochemicals and air-conditioning technologies to create unique power conservation solutions that are outstanding in their effectiveness.

By developing operations related to the broad range of products just described, the chemicals segment is seeking to build environment-related innovation business operations that generate annual sales of ¥100 billion by fiscal 2016.

In light of projections that market environments will continue to be robust and demand for fluorochemicals will rise further during the first year of FUSION 15, fiscal 2012, the Daikin Group is aiming to sustain the cost structure it has achieved through recent operational streamlining measures while concurrently striving to maximize its global supply capabilities and implement pricing policies that overcome challenges associated with surging raw materials prices. As a means of preparing to deepen its presence in the Chinese market, the Group will continue advancing with efforts to develop new fluorochemicals applications so that it can effectively respond to demand associated with infrastructure- and environmental protection-related investments, accelerate its business expansion, and establish a solid position as the "No. 1 fluorochemicals maker" in China.



*Hydrofluorocarbon (HFC) refrigerants that do not harm the ozone layer*



*Fluoro-rubbers with excellent resistance to heat and oil are used in diverse auto parts.*



*ZEFFLE Infrared Reflective Coating maintains its heat-insulation properties over long periods of time and helps keep painted surfaces clean.*

# Oil Hydraulics

In fiscal 2011, the Daikin Group was able to increase the net sales of its oil hydraulics operations owing to a recovery in domestic demand for oil hydraulics products as well as marketing expansion measures taken by the Group in China, Taiwan, and South Korea.

FUSION 15 calls for the Group to structurally reform its oil hydraulics business to upgrade its systems engineering and proposal presentation capabilities with respect to unit manufacturing, construction, and service operations in the domestic industrial machinery field while also initiating manufacturing operations in China and advancing with programs to quickly launch products matching local needs there.



*High-performance oil hydraulic units that contribute to energy conservation at manufacturing plants*

## Conditions in Fiscal 2011

During fiscal 2011, Daikin worked to strengthen the engineering capabilities of its domestic industrial machinery operations by reorganizing its marketing system through the consolidation of three marketing companies within Daikin Hydraulic Engineering Co., Ltd. The Group also undertook thorough market surveys and made future-oriented investments in China and, in January 2011, initiated the operation of a China-based manufacturing company, Daikin Hydraulics (Suzhou) Co., Ltd.

Looking at individual business fields, Daikin achieved a year-on-year increase in its exports of industrial machinery-related oil hydraulic equipment owing to robust conditions in Asian markets centered on China, Taiwan, and South Korea as well as the recovery of demand in North American and European markets. Regarding operations in Japan, a recovery in demand for the Group's mainstay products in the machine tool and general industrial machinery sector along with the expansion of the Group's market share supported a year-on-year sales increase in that sector, and a year-on-year increase was also realized in sales of oil hydraulic equipment used in construction machinery and

motor vehicles, reflecting an increase in overseas demand for domestic customers' products.

Consequently, total net sales of the oil hydraulics segment during fiscal 2011 were 70% higher than in the previous fiscal year.

## FUSION 15 Objectives

FUSION 15 calls for Daikin to accelerate the global expansion of its oil hydraulics business through measures that include the initiation of full-scale manufacturing operations in China with the objective of increasing annual net sales to ¥30 billion by fiscal 2014.

Aiming to further expedite the strategic growth of its oil hydraulics business during the first year of FUSION 15, fiscal 2012, the Daikin Group is giving top priority to the task of building a highly competitive business base. The Group will sustain its comprehensive cost-cutting programs while endeavoring to realize a business structure capable of maintaining stable levels of profitability.

In Japan, Daikin is striving to immediately leverage the benefits stemming from the consolidation of its marketing companies to capture the No. 1 market share in the domestic machine tool sector. In the Chinese market, the Group is stepping up its efforts to promote sales of hybrid oil hydraulic equipment products (super units and oil cooling units) that make large contributions to energy-conservation efforts. The Group has set itself the ambitious goal of quickly establishing vertically integrated manufacturing and marketing operations in China and is working at an extremely rapid pace to develop products that meet local market needs in terms of specifications and price levels. Daikin is intent on rapidly initiating full-scale manufacturing operations in China.



# Defense

In fiscal 2011, the Daikin Group's defense business sector enjoyed a rise in defense-related demand and worked to expand its civil-sector sales through such measures as those to promote greater sales of oxygen conserving devices designed for home therapy. FUSION 15 calls for the sector to expand its civil-sector operations in global markets and promote the development of oxygen conserving device business in China.

## Conditions in Fiscal 2011

In fiscal 2011, Daikin's defense business saw an increase in its orders for artillery shells and guided missile warheads for Japan's Ministry of Defense, undertook the reevaluation of its civil-sector operations, and advanced with measures to promote greater sales of products centered on oxygen conserving devices designed for home therapy that incorporate air compressors, which were launched in fiscal 2010. With respect to the manufacture of hot water storage tanks for the EcoCute products of the Group's air-conditioner business, the sector is striving to make additional progress in reducing costs while also increasing its production capacity. The Group has discontinued its business producing civil aircraft components.

Consequently, total net sales of the defense business sector were maintained at a level roughly equivalent to that in the previous fiscal year.

## FUSION 15 Objectives

Regarding civil-sector operations, FUSION 15 calls for Daikin to strengthen and expand medical business through such measures as those to plan the establishment of oxygen conserving device business in the Chinese market. The defense business sector as a whole has the target of increasing its annual net sales to ¥20 billion by fiscal 2014.

As of fiscal 2012, it is not inconceivable that defense business could be impacted by cuts to Japan's defense budget. However, the basic defense program articulated by the government in December 2010 notes that there is a need to maintain and foster a domestic base of manufacturing and technological capabilities in light of the importance of such capabilities for ensuring national security, and Daikin will redouble its efforts to identify and meet the related needs.

In civil-sector business, the Group will continue positioning its oxygen conserving devices as mainstay products and move ahead with measures to promote greater sales of those products based on painstaking sales activities as well as with measures designed to increase productivity and reduce procurement costs and thereby strengthen the profitability of domestic operations.

# Corporate Governance

## 1. Fundamental Corporate Governance Concept

The Daikin Group's corporate governance, in accord with the Group Management Philosophy, is designed to help accelerate decision making and operational execution work in response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby seeking to increase the Group's corporate value.

Going forward, the Group will be striving to ensure the increasing sophistication of speedy management, the strengthening of consolidated management, and still-higher levels of soundness and transparency. In addition, to realize an increase in corporate value, the Group will continually consider and reevaluate its concepts regarding the most appropriate forms of corporate governance as it pursues a diverse range of Group-level initiatives aimed at ensuring best practices throughout the Group.

## 2. Management and Operational Execution Systems

Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management responsibilities as well as for operational execution responsibilities. In view of the special characteristics of the Group's business, it was judged that this is a more effective means of accelerating decision making and operational execution.

Daikin entrusts the CEO with the responsibility for making management decisions and assigns the COO the responsibility for executing operations. The CEO bears responsibility primarily for decision making with respect to a full range of management issues, including those involving Group companies. The COO bears responsibility primarily for executing operations. This system is used to give due attention to both decision making and operational execution processes while seeking to accelerate both kinds of processes with respect to all kinds of management tasks, including important management issues.

To facilitate speedy decision making based on substantive discussions, the Board of Directors has been designed to include a small number of members. As of July 2011, the Board of Directors included 12 members (including one non-resident director). Based on this system, the Board of Directors is making speedy strategic decisions and performing sound supervision for the entire Group.

Daikin's 12 directors included 2 outside directors as of July 2011. Daikin seeks to recruit outside directors that have abundant experience and deep insight and can therefore offer a sophisticated perspective on a broad range of

issues as they participate in decision making and supervise management. Accordingly, experience as a top manager in a listed enterprise is a principal nomination criterion for outside director recruitment.

To ensure that the outside directors can effectively contribute to Daikin's corporate governance system, the outside directors are assigned assistants in the Management Planning Office who strive to provide the outside directors with early notice of Board of Directors meetings. In addition, in the case that an outside director is not able to attend a Board of Directors meeting, the assistants provide the outside director with related materials and subsequently provide the outside director with an explanation of the proceedings of the meeting and provide other assistance.

Since 2004, Daikin has employed an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

## Systems for Supporting Speedy Management

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction of important management policies and strategies in a rapid and timely manner, thereby accelerating the resolution of issues.

In addition, the Group Management Meeting aims to thoroughly share information on important management policies and the basic strategies of the Group and support and expedite Group companies' problem-solving efforts. To further increase the Group's overall corporate value and ensure the Group lives up to its responsibilities to society, the Group Management Meeting aims to ensure that the Group is characterized by a unified understanding and speedy corporate operations.

## Audit System

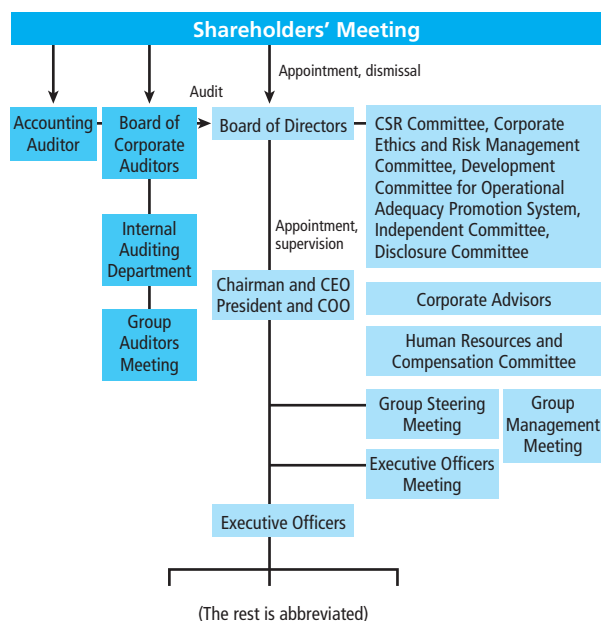
Daikin employs a Board of Corporate Auditors and seeks to nominate two or more outside members to its Board of Corporate Auditors. The principal nomination criteria for outside corporate auditors are the same as those for outside directors and include not having a relationship of interest with the Company. As of July 2011, Daikin's four corporate auditors included two outside corporate auditors.

The outside corporate auditors attend meetings of the Board of Directors as well as other important meetings and receive reports. In addition, they are able to express diverse opinions.

To ensure effective audit functions, the Board of Corporate Auditors receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of

documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors.

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.



## Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer-related personnel and remuneration management processes, Daikin has established the Compensation Advisory Committee, which is chaired by an outside director. This committee engages in discussions and deliberations regarding such issues as those related to corporate officer nomination criteria, corporate officer candidates, and remuneration. The remuneration of directors and corporate auditors is determined so as to fall within the aggregate remuneration ceiling of directors and corporate auditors as determined by a resolution of the general shareholders' meeting. Based on a report from the Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Board of Corporate Auditors.

Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium-to-long term and thereby contributing to a rise in the Group's corporate value.

Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term performance and job responsibilities, and "stock options" that reflect the Group's long-term performance. The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient.

The remuneration of outside directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing data from an outside specialized institution on the remuneration of corporate officers active in approximately 200 Japanese companies listed on the First Section of the Tokyo Stock Exchange.

## Directors, Auditors, and Executive Officers (As of June 29, 2011)

| Position(s)                            | Name                       | Responsibilities & Principal Jobs   |
|--|----------------------------|---|
| Chairman of the Board and CEO          | <b>Noriyuki Inoue</b>      |   |
| President and COO, Member of the Board | <b>Masanori Togawa</b>     |   |
| Outside Director                       | <b>Chiyono Terada</b>      | President and CEO of Art Corporation  |
| Outside Director                       | <b>Kosuke Ikebuchi</b>     | Senior Advisor to the Board and Senior Technical Executive of Toyota Motor Corporation  |
| Director and Senior Executive Officer  | <b>Guntaroh Kawamura</b>   | Responsible for Chemicals Business and General Manager of Yodogawa Plant  |
| Director and Senior Executive Officer  | <b>Ken Tayano</b>          | Responsible for China Region Business, President of the Board of Daikin (China) Investment Co., Ltd., and Member of Air-Conditioning Global Committee   |
| Director and Senior Executive Officer  | <b>Takeshi Ebisu</b>       | Responsible for Corporate Planning  |
| Director and Senior Executive Officer  | <b>Masatsugu Minaka</b>    | Responsible for Global Strategy Division's Operations regarding Air-Conditioning Operations in the Europe/Middle East/Africa Region, President of Daikin Europe N.V., and Member of Air-Conditioning Global Committee   |
| Director and Senior Executive Officer  | <b>Jiro Tomita</b>         | General Manager of Air-Conditioning Manufacturing Division, Chairman of PD Alliance Promotion Committee, General Manager of Sakai Plant, and DJ Project Leader  |
| Director and Executive Officer         | <b>Koichi Takahashi</b>    | Responsible for Accounting, Finance, and Budget Operations, General Manager of the Finance and Accounting Division, and Chairman of Information Disclosure Committee, Development Committee for Operational Adequacy Promotion System                               |
| Director and Executive Officer         | <b>Osamu Tanaka</b>        | Responsible for Air-Conditioning Development Business (including Applied Solution Division and Refrigeration Division), Deputy General Manager of Air-Conditioning Manufacturing Division, and Sub-leader of DJ Project   |
| Part-time Director                     | <b>Frans Hoorelbeke</b>    | Director and Chairman of Daikin Europe N.V.   |
| Corporate Auditor                      | <b>Yutaka Kato</b>         |   |
| Corporate Auditor                      | <b>Shigeru Murakami</b>    |   |
| Outside Corporate Auditor              | <b>Yoshiyuki Kaneda</b>    | Former Officer of Sony Corporation  |
| Outside Corporate Auditor              | <b>Hitoshi Murakami</b>    | Senior Advisor to Sumitomo Trust & Banking Co., Ltd.  |
| Senior Executive Officer               | <b>Osamu Okumura</b>       | Responsible for Oil Hydraulics Business, Corporate Ethics, Compliance, Legal Affairs, and Chairman of Corporate Ethics and Risk Management Committee  |
| Senior Executive Officer               | <b>Junichi Sato</b>        | Responsible for Global Air-Conditioning Business (excluding Japan), Member of Global Air-Conditioning Committee, and F.J. Project Leader  |
| Senior Executive Officer               | <b>Yukio Hayashi</b>       | Responsible for Liaison Business and Defense Division and General Manager of Tokyo Branch   |
| Senior Executive Officer               | <b>Kiyohiko Ihara</b>      | Responsible for Chemicals Research/Technology/Product Commercialization Promotion/Environment/Safety and Chemicals Patents, Member of Technology and Innovation Center Development Department   |
| Senior Executive Officer               | <b>Kosei Uematsu</b>       | General Manager of New York Branch, President and Member of the Board of Daikin Holdings (USA), Inc., President and Member of the Board of Daikin U.S. Corporation, and Member of Global Air-Conditioning Committee   |
| Senior Executive Officer               | <b>Shigeki Hagiwara</b>    | Responsible for Applied Solution Business, Service Operations, and Training and General Manager of Applied Solution Business  |
| Senior Executive Officer               | <b>Seiji Ideno</b>         | Responsible for Oil Hydraulics China Business and President of Daikin Hydraulics (Suzhou) Co., Ltd.   |
| Senior Executive Officer               | <b>Takashi Matsuzaki</b>   | Global Procurement Business, General Manager of Global Procurement Division, and Member of Technology and Innovation Center Development Department  |
| Senior Executive Officer               | <b>Hiroo Yoshioka</b>      | Responsible for Strengthening Air-Conditioning Overseas Base, Air-Conditioning Manufacturing Technology, and Chemicals Manufacturing Technology, Deputy General Manager of Air-Conditioning Manufacturing Division, and Member of Global Air-Conditioning Committee |
| Senior Executive Officer               | <b>Susumu Okano</b>        | Responsible for CSR and Corporate Communication, General Manager of Corporate Communication Department and General Manager of Corporate IR Group, Corporate Communication Department, and Chairman of CSR Committee   |
| Senior Executive Officer               | <b>Shinya Okada</b>        | Responsible for PL/Quality, Air-Conditioning/Refrigeration QA, Global Environment, Deputy General Manager of Air-Conditioning Manufacturing Division, General Manager of Shiga Plant, and Member of Technology and Innovation Center Development Department         |
| Senior Executive Officer               | <b>Yasushi Yamada</b>      | Responsible for Safety  |
| Executive Officer                      | <b>Katsuyuki Sawai</b>     | Responsible for Human Resources and General Affairs   |
| Executive Officer                      | <b>Toshitaka Tsubouchi</b> | General Manager of Japan Air-Conditioning Business  |
| Executive Officer                      | <b>Hiroo Sakai</b>         | General Manager of Chemicals Division   |
| Executive Officer                      | <b>Yoshikazu Tayama</b>    | General Manager of Consolidated Management Administration Group, Finance and Accounting Division  |
| Executive Officer                      | <b>Yoshiyuki Uemura</b>    | Director and Vice President of Daikin AC (Americas), Inc. and Director of Daikin Holdings (USA), Inc.   |
| Executive Officer                      | <b>Masayuki Moriyama</b>   | Director and Vice President of Daikin (China) Investment Co., Ltd. and COO of McQuay China  |



# Compliance and Risk Management

Established to serve as an organization for promoting sound corporate ethics throughout the Daikin Group, the Corporate Ethics & Risk Management Committee comprehensively promotes compliance (business ethics and legal compliance) and risk management for the Daikin Group as a whole.

## Compliance

Regarding compliance, each division and Group company (including principal overseas Group companies) appoint “compliance and risk management leaders” (CRLs) who play a central role in the daily gathering of up-to-date information on relevant laws and regulations. The CRLs also adjust internal regulations and manuals to reflect the new information and play a central role in “daily triple check” activities to confirm that compliance with respect to the regulations and manuals is rigorous. The results of checks are reported at monthly CRL meetings, and related information is shared at those meetings. In addition, each employee annually performs a “compliance self-assessment check” to confirm that his or her behavior is in accordance with the behavior guidelines articulated in Daikin’s *Handbook for Corporate Ethics*.

## Risk Management

Regarding risk management, in light of the Daikin Group’s rapid business expansion, Daikin is endeavoring to accurately and quickly execute comprehensive risk assessments (related to such issues as profitability, product quality, safety, manufacturing, and marketing activities, etc.) from a global perspective and institute Groupwide systems for alleviating risks. Each year, after each division conducts its own risk assessment to identify major risks, Daikin drafts and implements individual divisional countermeasures as well as Companywide countermeasures.

In preparation for the incidence of major earthquakes, Daikin has built a system for quickly confirming the safety of employees and their families and therefore maintains a list of mobile phone contact numbers for all Group employees and their families. The Company is also seeking to ensure employees’ safety by promoting measures to upgrade the resistance to earthquakes of its offices and other facilities.

Furthermore, to promote the resumption of operations with maximum expeditiousness in the case that Daikin facilities were to suffer major damage from a natural disaster, the Company is currently in the process of drafting a business continuity plan.

## Responsibility to Shareholders and Investors

To live up to the expectations of shareholders and investors, the Daikin Group believes that it must increase its corporate value. It, therefore, emphasizes free cash flow as a source of corporate value and works to augment its profitability while lowering the levels of its trade receivables and inventories.

### Stable Levels of Cash Dividends

Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (consolidated basis) at 2.0% or higher and is 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.

### Respect for the Exercise of Voting Rights

To enable shareholders to exercise voting rights after due consideration of resolution items, Daikin provides shareholders with invitations to general shareholders’ meetings and ancillary materials a week in advance of the statutory deadline. Non-Japanese institutional investors are provided with English-language versions of the invitations and ancillary materials, and both English- and Japanese-language versions of the invitations and ancillary materials are also posted on the Company’s website.

Furthermore, Daikin has established systems that enable shareholders to exercise their voting rights via personal computers and mobile phones.

### Information Disclosure

Recognizing that it has an important responsibility to increase its management transparency from the perspectives of shareholders and investors, Daikin is proactively working to disclose relevant information by executing diverse kinds of IR activities.

For analysts and institutional investors, Daikin holds performance explanation briefings when announcing its second-quarter and full-year financial results, and telephone conference briefings are organized when announcing first-quarter and third-quarter financial results. The Company also undertakes visits to institutional investors in Japan and overseas and organizes meetings with individual investors.

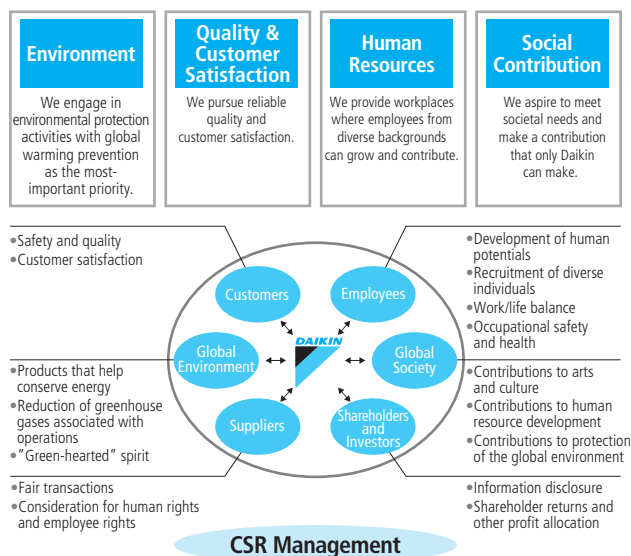
The IR section of Daikin’s website offers access to such legally mandated materials as securities reports (*yuka shoken hokoku-sho*) as well as other corporate performance-related materials that are posted as soon as they are prepared. Daikin endeavors to post these reports and materials in a fair and timely manner.

Daikin has also undertaken diverse management measures in response to the feedback that it receives from its shareholders and investors.

# Corporate Social Responsibility (CSR)

In addition to striving to supply customers with maximum levels of utility and amenity through the provision of high-quality products and services, the Daikin Group endeavors to achieve strong CSR performance based on its Groupwide action policies by engaging in fair and proper corporate activities, dynamically promoting the preservation of the global environment, proactively contributing to local communities, and taking various other initiatives.

## Key CSR Themes



## Efforts to Preserve the Global Environment

### Product Assessment Evaluation

In addition to emphasizing such factors as performance and ease of use when developing new products, Daikin gives a high priority to developing products that are environment-friendly. Aiming to further increase the environment-friendliness of its products, the Company has introduced a product assessment process at the planning and design stage of its new product development programs.

Having established detailed evaluation standards with respect to 14 product assessment items, Daikin is moving forward with its product development programs in accordance with those standards.

### Greenhouse Gas Reduction

The principal greenhouse gas emissions of the Daikin Group as a whole relate to CO<sub>2</sub> associated with energy consumption and fluorocarbons handled during manufacturing processes.

The environmental strategy themes incorporated in the FUSION 10 plan in fiscal 2006 called for the entire Group to cut its greenhouse gas emissions to 50% below the fiscal 2006 level by fiscal 2011. This target was exceeded by a

large margin, as fiscal 2011 greenhouse gas emissions were lowered to 73% below the fiscal 2006 level.

### Biodiversity Conservation

The Daikin Group is advancing with measures to increase CO<sub>2</sub> absorption through the rehabilitation of forests and other natural environments as well as with measures to preserve the habitats of diverse species.

#### [Preserving and Rehabilitating Coastal Dune Environments]

The Idegahama region of Japan's Tottori Prefecture—famous for its "singing sand" and close to the Daikin Ales Aoya Global Training Center established in Tottori City in 2008—is rapidly losing its special sand dune vegetation, which tends to gradually move inland from the coast. Since establishing its Global Training Center in this region, Daikin has naturally worked to help preserve the coastal sand dune environment. Going further, the Company has moved ahead with the implementation of vegetation planting and monitoring programs and adaptive vegetation promotion management programs aimed at restoring coastal vegetation, including coastal forests.

In recognition of these initiatives, Daikin was recognized by the Urban Green Space Development Foundation in October 2010 as one of the "100 Green Companies for Biodiversity Conservation."

#### [Reforestation in Indonesia]

Since 2008, Daikin has worked with a leading international NGO—Conservation International—to implement a reforestation project aimed at preserving a water source and valuable biohabitat in Indonesia's Gunung Gede Pangrango National Park. With the cooperation of more than 550 local residents, the program has completed the planting of 80,000 trees in an approximately 200 hectare area during the three years through fiscal 2012. Plans call for sustaining this program to reforest an additional 100 hectare area of degraded land within the park by the end of fiscal 2015.

This project is a product user-participation-type reforestation activity supported by the eco-operation point system organized to promote energy-conserving methods of operating Daikin room air conditioners.

### FUSION 15 Environmental Protection Activities

While manufacturing volume growth and other results of the implementation of FUSION 15 may have the effect of increasing the Daikin Group's total greenhouse gas emissions, the Group has set itself the target of lowering its total emissions to 66% below the fiscal 2006 level by fiscal 2016. Moreover, through the development of energy-conserving products and technologies, the Group is helping reduce energy consumption associated with product life cycles.

In addition, the Group is sustaining such biodiversity-preservation projects as the various initiatives of the Daikin Ales Aoya Global Training Center and the reforestation programs under way in Indonesia.

## Activities for Contributing to Society

Aiming to be a company with deep roots in the many communities throughout the world where it is developing business operations, the Daikin Group is organizing numerous kinds of activities that enable participating employees to contribute to local societies. The Group is focusing mainly on programs aimed at “promoting arts, culture, and sports,” “fostering human resource development,” and “preserving the environment.”

### Support for Sports and Regional Revitalization

Since 1988, Daikin has promoted regional revitalization in Okinawa as well as economic exchanges involving Okinawa by organizing the annual Daikin Orchid Ladies Golf Tournament event within the Japan Ladies Professional Golfers' Association Tour. In connection with those events, the Company has raised money through Orchid Bounty fund-raiser events and donated those funds to organizations promoting artistic, cultural, sporting, and educational activities in Okinawa.

### Support for Arts and Music

To promote arts and culture in Osaka, Daikin's birthplace, the Company has established the Daikin Foundation for Contemporary Arts, which supports a wide range of activities of the National Museum of Art, Osaka.

In addition, the Company provides support for the operations of the Kansai Philharmonic Orchestra.

### Support for Human Resource Development in China

Since fiscal 2011, Daikin (China) Investment Co., Ltd., has organized the Daikin Air Conditioning Cup competition for Chinese university students studying subjects related to air-conditioning and refrigeration technologies. In this way, the Company is helping foster the development of people who will be responsible for the future development of the air-conditioning industry in China.

In fiscal 2011, more than 700 students submitted presentation papers and prototype products to the contest, which focused on the themes of CO<sub>2</sub> emission reductions and environmental technologies.

### Support for Restoring Areas Impacted by the Great East Japan Earthquake

In March 2011, the Daikin Group provided approximately ¥300 million of support for refugee centers, medical facilities, and other programs designed to improve the lives of people impacted by the Great East Japan Earthquake. This support included ¥100 million in monetary aid and approximately 600 commercial-use air purifiers and 500 far-infrared electric heaters.

The Group also solicited donations from employees and provided those donations to the impacted areas.

### Fostering Strong Ties with Local Communities

For almost four decades since the 1973 establishment of Daikin's Local Community Section, that unit has worked to strengthen Daikin's relationships of mutual trust with communities near the Group's facilities by organizing festivals, sports competitions, and other activities.

In particular, the “*Bon Odori*” dance festival of the Yodogawa Plant in Osaka attracts roughly 25,000 participants, making it one of the largest company-organized summer festivals in Japan.

“*Bon Odori*” dance festivals are also organized by the employees of overseas Group companies, including Daikin America, Inc., Daikin Air-Conditioning (Shanghai) Co., Ltd., and Daikin Europe N.V. (Belgium).

### Expanding the Employment of People with Disabilities

In accordance with its objective of “working through manufacturing activities to help people with disabilities autonomously develop their abilities and grow into people who can play roles that contribute to society,” the Daikin Group has promoted the employment of people with disabilities. In 1993, Daikin Industries collaborated with the Osaka prefectural and Settsu municipal governments in establishing a special subsidiary, Daikin Sunrise Settsu Co., Ltd., that has undertaken business operations with a workforce comprised mainly of people with disabilities. As of March 31, 2011, Daikin Sunrise Settsu employed 89 people with disabilities.

Based on the success of Daikin Sunrise Settsu, China-based Daikin Air Conditioning Systems (Shanghai) Co., Ltd., has also moved forward with the hiring of people with disabilities. As of March 31, 2011, Daikin Air Conditioning Systems (Shanghai) employed 63 people with disabilities on its manufacturing lines, and people with disabilities accounted for 9.22% of that company's workforce.

# Eight-Year Financial Highlights

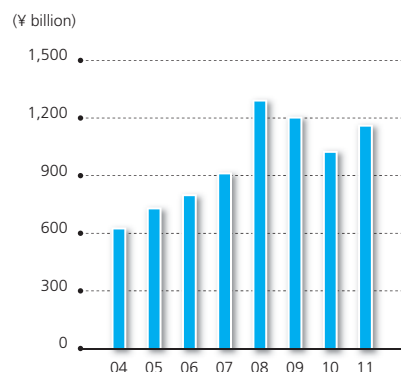
Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years ended March 31

|   | 2004     | 2005     | 2006     | 2007       |
|---|----------|----------|----------|------------|
| <b>Operating Results (for the year):</b>            |          |          |          |            |
| Net sales   | ¥625,080 | ¥729,414 | ¥792,837 | ¥ 911,749  |
| Gross profit  | 212,402  | 256,289  | 269,906  | 312,688    |
| Selling, general and administrative expenses        | 165,482  | 196,083  | 203,359  | 231,934    |
| Research and development expenses (Note 1)          | 23,817   | 24,583   | 26,648   | 27,204     |
| Operating income                                    | 46,920   | 60,206   | 66,547   | 80,754     |
| EBITDA (Note 2)                                     | 68,835   | 83,630   | 95,816   | 115,315    |
| Net income  | 26,869   | 38,083   | 40,146   | 45,420     |
| <b>Cash Flows (for the year):</b>                   |          |          |          |            |
| Net cash provided by operating activities           | ¥ 40,306 | ¥ 43,970 | ¥ 63,511 | ¥ 83,725   |
| Net cash used in investing activities               | (31,594) | (42,091) | (63,420) | (305,251)  |
| Free cash flow (Note 3)                             | 8,711    | 1,879    | 91       | (221,526)  |
| Net cash provided by (used in) financing activities | 2,182    | 3,534    | (4,284)  | 245,975    |
| <b>Financial Position (at year-end):</b>            |          |          |          |            |
| Total assets  | ¥534,726 | ¥615,596 | ¥716,440 | ¥1,161,364 |
| Total interest-bearing liabilities                  | 148,949  | 166,442  | 172,995  | 456,074    |
| Total shareholders' equity                          | 234,029  | 271,716  | 340,523  | 397,542    |
| <b>Per Share Data:</b>                              |          |          |          |            |
| Net income (basic)                                  | ¥ 101.57 | ¥ 144.24 | ¥ 152.11 | ¥ 172.66   |
| Shareholders' equity                                | 888.29   | 1,031.73 | 1,293.41 | 1,511.47   |
| Cash dividends                                      | 14.00    | 18.00    | 22.00    | 28.00      |
| <b>Ratios:</b>                                      |          |          |          |            |
| Gross profit margin                                 | 33.98%   | 35.14%   | 34.04%   | 34.30%     |
| Operating income margin                             | 7.51     | 8.25     | 8.39     | 8.86       |
| EBITDA margin                                       | 11.01    | 11.47    | 12.09    | 12.65      |
| Return on shareholders' equity (ROE)                | 12.24    | 15.06    | 13.11    | 12.31      |
| Shareholders' equity ratio                          | 43.77    | 44.14    | 47.53    | 34.23      |

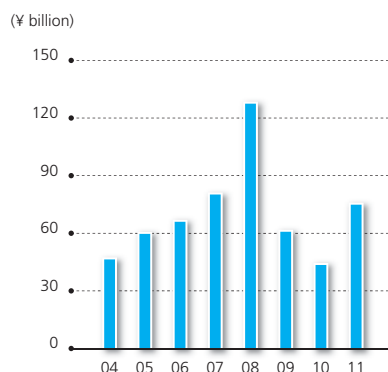
## Notes:

1. R&D expenses are included within general administrative expenses and manufacturing expenses.
2. EBITDA = Operating income + depreciation and amortization.
3. Free cash flow = Net cash provided by operating activities + net cash used in investing activities.

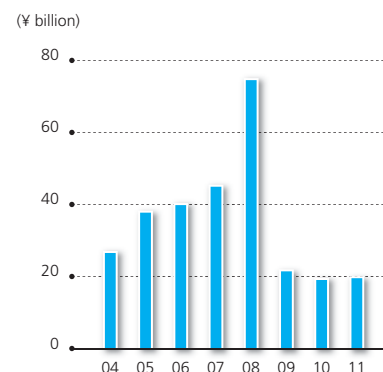
**Net Sales**



**Operating Income**



**Net Income**



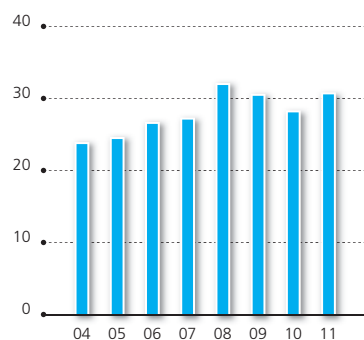


Millions of yen

| 2008       | 2009       | 2010       | 2011              |
|------------|------------|------------|-------------------|
| ¥1,291,081 | ¥1,202,420 | ¥1,023,964 | <b>¥1,160,331</b> |
| 441,549    | 363,660    | 319,301    | <b>361,665</b>    |
| 313,451    | 302,266    | 275,263    | <b>286,210</b>    |
| 32,075     | 30,535     | 28,220     | <b>30,771</b>     |
| 128,098    | 61,394     | 44,038     | <b>75,455</b>     |
| 179,469    | 11,325     | 96,462     | <b>127,168</b>    |
| 74,822     | 21,755     | 19,391     | <b>19,873</b>     |
| ¥ 103,329  | ¥ 62,238   | ¥ 129,227  | <b>¥ 78,411</b>   |
| (76,428)   | (99,302)   | (39,848)   | <b>(23,306)</b>   |
| 26,902     | (37,065)   | 89,379     | <b>55,105</b>     |
| 3,367      | 48,382     | (34,942)   | <b>(37,623)</b>   |
| ¥1,210,094 | ¥1,117,418 | ¥1,139,656 | <b>¥1,132,507</b> |
| 356,928    | 417,919    | 399,313    | <b>372,481</b>    |
| 545,641    | 471,686    | 496,179    | <b>487,876</b>    |
| ¥ 262.24   | ¥ 74.51    | ¥ 66.44    | <b>¥ 68.14</b>    |
| 1,867.79   | 1,615.98   | 1,701.29   | <b>1,672.74</b>   |
| 38.00      | 38.00      | 32.00      | <b>36.00</b>      |
| 34.20%     | 30.24%     | 31.19%     | <b>31.17%</b>     |
| 9.92       | 5.11       | 4.30       | <b>6.50</b>       |
| 13.90      | 9.84       | 9.42       | <b>10.96</b>      |
| 15.87      | 4.28       | 4.01       | <b>4.04</b>       |
| 45.09      | 42.21      | 43.54      | <b>43.08</b>      |

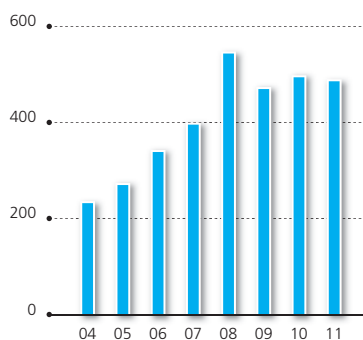
Research and Development Expenses

(¥ billion)



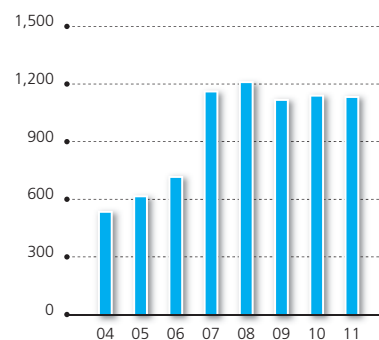
Shareholders' Equity

(¥ billion)



Total Assets

(¥ billion)



# Financial Review

## Overview of Net Sales

During fiscal 2011, the global economy maintained a fundamental trend of expansion against the backdrop of rapid growth in such emerging countries in Asia as China and India.

The industrialized countries generally sustained a fundamental trend of gradual recovery—although there were some divergences from this trend in certain countries and regions—owing to such factors as exports to emerging countries that continued to achieve economic growth as well as to increases in investment and production.

The Japanese economy also sustained a trend of recovery, a trend that stemmed from such factors as an increase in exports supported by robust economic conditions overseas as well as the beneficial results of various government policies. However, there remain concerns with respect to the impact of the Great East Japan Earthquake, which occurred in March 2011.

Amid this business environment, the Daikin Group took diverse measures in accordance with its New Year's slogan "Achieve Goals Today and Open a New Avenue for the Future." These measures included those aimed at expanding business in the markets of such emerging countries as China and India; globally promoting greater sales of heat-pump room- and water-heating equipment, inverter air conditioners, and other kinds of environment-friendly products; enhancing the profitability of domestic business; minimizing the impact of fluctuations in currency exchange rates and market conditions; increasing the quality and reliability of products; and thoroughly ensuring rigorous legal compliance performance.

On the day following the March 11 incidence of the Great East Japan Earthquake, Daikin established its Disaster Countermeasures Headquarters, which did its utmost to ensure the Group effectively carried out its responsibilities to society by taking such measures as those to provide relief aid to employees, employees' families, affiliated companies, suppliers, and customers as well as those to donate funds and provide products to people and regions particularly impacted by the disaster. The Disaster Countermeasures Headquarters also strove to minimize the impact of the disaster on the Group's business operations.

With respect to consolidated performance during fiscal 2011, the Group undertook sales promotion measures focused on recovering market segments while also endeavoring to offset the negative impact of surging raw materials prices and yen appreciation through cost-cutting measures. These efforts enabled the Group to achieve higher levels of sales and profitability in its mainstay air-conditioning and chemicals businesses. Compared with the previous year, consolidated net sales were up 13.3%, to ¥1,160,331 million, and consolidated operating income surged 71.3%, to ¥75,455 million. Reflecting the impact of a ¥26,854 million extraordinary loss on the write-down of investment

securities and other factors, consolidated net income amounted to ¥19,873 million, up 2.5% from the previous fiscal year.

The Daikin Group implemented its FUSION 10 strategic management plan during the five-year period through fiscal 2011. In fiscal 2008, the Group attained a new record high level of operating income and attained its fiscal 2009 performance targets a year ahead of schedule. Confronted by the global recession triggered by the Lehman Shock in September 2008, the Group undertook 49 themes of strategic measures to maintain its short-term profitability, and thereby concentrated on enhancing its performance in each fiscal year while concurrently reforming its business constitution. As a result, the Group realized a V-shaped performance recovery within a short period of time in fiscal 2011.

### Impact of Changes in Currency Exchange Rates

The yen's further appreciation against the euro and other currencies during fiscal 2011 exerted a negative impact on the Daikin Group's performance. As a result of these movements in foreign currency exchange rates, Daikin consolidated sales were estimated to be ¥51.0 billion lower and operating income ¥16.5 billion lower than they would have been without movements in exchange rates.

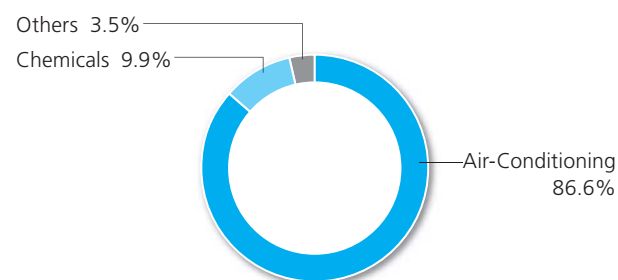
The impact of changes in foreign exchange rates was estimated based on a comparison of the yen value of non-yen transactions by each overseas subsidiary and other Group companies when converted at the exchange rates shown below.

|                      | Fiscal 2010 | Fiscal 2011 |
|----------------------|-------------|-------------|
| Yen-U.S. dollar rate | ¥93         | ¥86         |
| Yen-euro rate        | ¥131        | ¥113        |

## Net Sales by Product Segment

Beginning from fiscal 2011, Daikin is applying ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and related guidance provisions, and the Company's segment definitions have, therefore, been modified. For purposes of year-on-year comparisons, the segment information for fiscal 2010 has been restated based on the new segment definitions.

### Sales by Industry Segment



## •Air-Conditioning

Total sales of air-conditioning and refrigeration products in Japan and overseas amounted to ¥1,004,579 million, up 10.9% from the previous year, and operating income from those products totaled ¥64,658 million, up 39.7%.

### Japan

In Japan's commercial air-conditioner market, amid a trend of gradual recovery in capital investments, the positive impact of extremely hot summer weather helped support a year-on-year rise in total demand for package air conditioners. Reflecting this, the Daikin Group was able to achieve a large year-on-year increase in sales during the

first half of fiscal 2011. Total market demand continued to be robust from October 2010, and the Daikin Group effectively addressed this demand to realize a year-on-year increase in sales during the latter half of the fiscal year. A major contribution to this performance was made by the Eco-ZEAS 80, a new product in the SkyAir series of store- and office-use air conditioners that was launched in May 2010. Eco-ZEAS 80 enables associated CO<sub>2</sub> emissions and electric power consumption to be reduced by as much as 80% compared with constant speed (non-inverter) Daikin inverter air conditioners marketed 15 years ago, and it has been highly evaluated for its environment-friendliness and energy-conservation performance.

## Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2011)

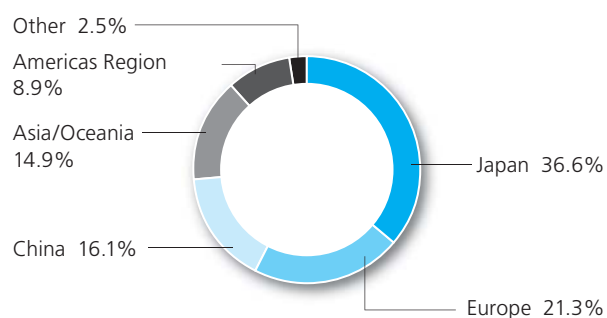
(1,000 units)

|                 | First half | Year on year | Second half | Year on year | Full year | Year on year |
|-----------------|------------|--------------|-------------|--------------|-----------|--------------|
| Residential use | 5,737      | 130%         | 2,929       | 126%         | 8,666     | 128%         |
| Commercial use  | 372        | 113%         | 349         | 125%         | 721       | 119%         |

### Overseas

Although overseas air-conditioning business performance was negatively impacted by the further appreciation of the yen against the euro and other currencies, the Daikin Group strove to expand its sales volume in each overseas market, and it was, thereby, able to achieve a year-on-year increase in yen-denominated net sales.

## Sales by Geographical Segments



•**Europe Region**—In the Europe region, Daikin expanded its sales in such principal markets as those of Italy, the United Kingdom, and Germany, and it was, thereby, able to achieve a year-on-year increase in local currency-denominated net sales. Regarding commercial air-conditioner business, the recovery in demand was kept to a gradual pace owing to the slackness of the construction market, but the Group continued to provide dealers with meticulous support and was able to realize a year-on-year increase in its unit sales volume. With respect to residential air

conditioners, the positive impact of extremely hot weather in July enabled the Group to record a large year-on-year increase in its unit sales volume centered on Italy and Spain. Although Daikin's heating system business faced sluggish demand in the important markets of France and Germany, sales expansion stemming from the Group's moves to build marketing networks in such new markets as those of the United Kingdom, Italy, and Spain; moves to strengthen product lineups with new products; and other measures enabled the Group to maintain its unit sales volume at approximately the same level as in the previous fiscal year.

•**China**—The Daikin Group endeavored to develop new dealers in all regions of China, and its net sales in China were considerably higher than in the previous fiscal year. Reflecting China's rapid economic growth, sales of the Group's mainstay commercial air conditioners continued to be robust. Regarding residential air conditioners, an increase in the rigor of energy-conservation regulations supported a large increase in sales of the Group's reasonably priced inverter models. In the large-scale air-conditioning equipment (applied air-conditioning) market, benefits associated with the Group's launch of new and highly differentiated products led to a substantial rise in sales. The Group also worked to create a solid foundation for its heating system business by advancing with the development of new marketing outlets while concurrently launching heat-pump heating products that meet special regional needs and expanding the scope of public relations activities.

•**Asia/Oceania Region**—In the Asia/Oceania region, Daikin's moves to strengthen its sales network and product lineup

supported a year-on-year rise in sales. In the emerging country markets of India and Vietnam, strong sales of products centered on residential air conditioners enabled particularly large sales increases. In the Oceania region, Daikin's performance was negatively affected by such factors as flooding in the Australian state of Queensland, an earthquake in New Zealand, and a reduction of Australia's governmental housing purchase subsidies. However, the level of the Group's net sales in the Oceania region was roughly equivalent to that in fiscal 2010 and up considerably compared with that in fiscal 2009.

•**Americas Region**—In the North America region, although the market and operating environment for business in applied air-conditioning products continued to be harsh, Daikin realized a year-on-year increase in its sales owing to the robustness of demand for newly launched products engineered at the Daikin McQuay Applied Development Center, which began operating in 2009, as well as to initiatives aimed at expanding service business. The Group achieved a large year-on-year increase in its sales of Japanese-style ductless air-conditioning products owing to such measures as those to step up the development of marketing outlets and augment support for those outlets. Reflecting a recovery in demand for container refrigeration units, which dropped significantly in the previous fiscal year, the Group recorded a year-on-year increase in marine equipment.

#### •**Chemicals**

A year-on-year increase was recorded in fluoropolymer resin sales, reflecting robust demand centered on semiconductor- and automobile-related markets, and particularly large gains were achieved in the Asian region, Japan, and China. In addition, sales of high-performance rubber products were up substantially in the Japan, Europe, North America, Asia, and China regions owing to strong demand for automotive and other applications.

In the chemical products sector, domestic sales of anti-smudge surface coating agents for LCD applications were up greatly, and robust sales were recorded of such fine chemical products as functional materials and chemical compounds used as pharmaceutical intermediates. Moreover, the Group responded to robust demand for water and oil repellents and semiconductor-etching products and was able to increase its sales of those products. As a result, total sales of chemical products were considerably higher than in the previous fiscal year in the Japan, North America, China, Asia, and Europe regions.

Similarly, a large year-on-year increase was recorded in sales of fluorocarbon gas products owing to strong growth in demand in the China, Asia, and Japan regions.

The Daikin Group's total sales in the chemicals segment rose 33.1%, to ¥114,774 million. Reflecting the implementation of sales-promotion measures in response to demand growth and the maintenance of cost-reduction measures,

the segment was able to greatly elevate its operating income, which surged from ¥710 million in the previous fiscal year to approximately ¥10,852 million.

#### •**Others**

Daikin's industrial machinery-related oil hydraulic equipment business was able to achieve a year-on-year increase in its exports owing to robust conditions in Asian markets centered on those of South Korea, Taiwan, and China as well as to the recovery of demand in Europe and the United States. Regarding operations in Japan, a recovery in demand for the Group's mainstay products in the machine tool and general industrial machinery sector along with the expansion of the Group's market share supported a year-on-year sales increase in that sector. A year-on-year increase was also realized in sales of oil hydraulic equipment used in construction machinery and motor vehicles, reflecting an increase in overseas demand for domestic customers' products.

In the defense business sector, the discontinuation of business producing civil aircraft components had the effect of reducing revenues, but an increase in orders from Japan's Ministry of Defense for artillery shells and guided missile warheads kept the sector's sales at a level roughly equivalent to that in the previous fiscal year.

Electronic systems business sales increased owing to a fundamental trend of gradual increase in the overall level of domestic IT investments.

Consequently, total net sales of the other segment amounted to ¥40,978 million, up 27.4% from the previous fiscal year, although an operating loss of ¥43 million was recorded.

### Costs, Expenses, and Earnings

During fiscal 2011, the Daikin Group undertook sales promotion activities in response to trends of recovery in demand while also pursuing cost-cutting programs designed to offset the negative impact of surging raw materials prices and yen appreciation, and these efforts enabled the Group to achieve higher levels of net sales and operating income in its mainstay air conditioning and chemicals business segments. Consolidated net sales in the fiscal year rose to ¥1,160,331 million, up 13.3% from the level in the previous fiscal year, and consolidated operating income amounted to ¥75,455 million, up 71.3%. Reflecting the impact of a ¥26,854 million extraordinary loss on the write-down of investment securities and other factors, consolidated net income increased to ¥19,873 million, up 2.5%.

The operating income ratio rose 2.2 percentage points, to 6.5%. Despite the negative impact of surging raw materials prices and yen appreciation, the Group was able to considerably improve its profitability by moving further ahead with its comprehensive cost-cutting programs.

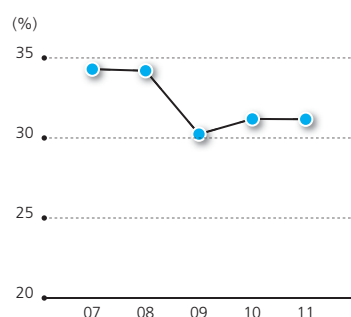


Although the cost of sales increased ¥94,003 million from the previous fiscal year and rose to ¥798,666 million along with the sales increase, the gross profit margin stayed at 31.2% thanks to efforts to keep costs down for absorbing the impact of raw material price increases. SG&A expenses rose ¥10,947 million, to ¥286,210 million, owing to increases in product shipment expenses, sales promotion and advertising expenses, and research and development expenses.

Other income (expenses)—net amounted to an expense of ¥29,746 million, a deterioration of ¥23,720 million compared with the previous year, owing to an increase in losses on the write-down of investment securities as well as to the recording of natural disaster-related losses.

As a result, net income amounted to ¥19,873 million, 2.5% higher than in the previous fiscal year.

### Gross Profit Margin



### Outlook for Fiscal 2012

The Japanese economy is being subjected to increasing downward pressure owing to electric power shortages and other factors stemming from the Great East Japan Earthquake, which have led to a slackening of manufacturing activities and a decrease in consumers' buying propensities, and this situation appears likely to cause the economy to continue marking time. However, robust growth is expected to be sustained in the global economy owing to the locomotive effect of rapid growth in the emerging country economies. On the other hand, there is concern regarding the risk that economic conditions may be worsened by such factors as the stubbornly high level of prices for natural resources and raw materials, the fiscal and financial instability seen in Europe, and the impact of the Great East Japan Earthquake.

Amid this business environment, the Daikin Group has begun implementing its FUSION 15 strategic management plan, which covers the period from fiscal 2012 through fiscal 2016, and the Group is taking diverse measures in accordance with its New Year's policy "Starting a Dash toward New Growth." The Group is working concertedly to promote progress toward realizing future business

expansion through such measures as those to augment the scale of business in emerging countries' volume-zone market segments and accelerating the growth of environment-related business.

Regarding negative factors associated with the recent earthquake disaster, it should be noted that the direct impact of the disaster to the Daikin Group in such forms as damage to manufacturing facilities and products was slight. At one point, there was concern regarding the possibility of a major negative impact on the Group's supply chain (component procurement), but efforts made to date (determined efforts to ensure supply chain continuity by providing support for the rehabilitation of suppliers, decisive judgments regarding the in-house development of alternative items, moves to accelerate such development in response to needs, and careful examination of component inventories) have led to daily improvement in the outlook even though there remain certain factors that require additional clarification. In this way, the Group will continue making painstaking efforts to minimize the potential for a production volume diminution during the first half of fiscal 2012 and aim to appropriately increase production volume during the latter half of the fiscal year.

In addition, as the recent earthquake disaster has spotlighted the need to conserve electrical power, the Daikin Group is responding by proposing a power-conservation menu of solutions that entail leveraging the Group's various power conservation technologies and environment-friendly product technologies. The Group intends to demonstrate dynamic leadership commensurate with its position as the "global No. 1 air-conditioning company" by proactively developing technologies that contribute to power conservation and providing related products and services. In this way, the Group is committed to making a widespread contribution to global society going forward.

By redoubling its concerted efforts to implement various measures—including those to expand sales in emerging countries' volume-zone market segments, further accelerate the growth of environment-related business, control the surge in raw materials procurement costs and adjust selling prices in line with those costs, and execute comprehensive cost-cutting programs—the Group is aiming to attain higher levels of sales and profitability during fiscal 2012.

Daikin's outlook on a consolidated basis for fiscal 2012 is for a 12.9% increase in net sales, to ¥1,310.0 billion, a 12.6% increase in operating income, to ¥85.0 billion, and a 106.3% increase in net income, to ¥41.0 billion.

Foreign currency exchange rates assumed for fiscal 2012 are ¥115 to one euro and ¥80 to one U.S. dollar.

### Assets

At the end of fiscal 2011, consolidated total assets amounted to ¥1,132,507 million, ¥7,149 million less than at the previous fiscal year-end. Current assets grew ¥41,981

million, to ¥599,112 million, as a consequence of growth in trade receivables and other factors.

Fixed assets were down ¥49,130 million from the previous fiscal year-end, to ¥533,395 million, despite increases in the market prices of investment securities, reflecting such factors as decreases in tangible fixed assets and the market prices of investment securities.

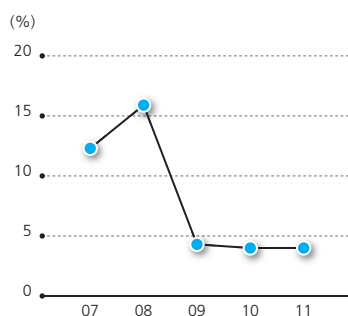
## Liabilities and Total Equity

Total liabilities rose ¥1,984 million, to ¥631,579 million, as decreases in commercial paper outstanding and short-term borrowings were more than offset by increases in such items as trade payables and deferred tax liabilities. The ratio of interest-bearing debt declined to 32.9%, from 35.0% at the end of the previous fiscal year.

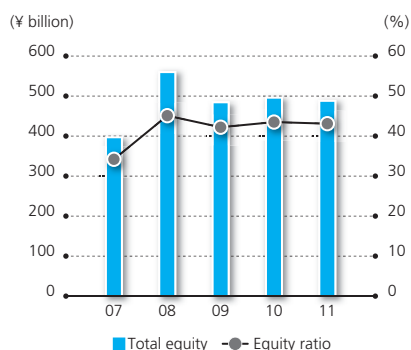
Although positively impacted by the recording of a higher level of net income, total equity declined ¥9,133 million, to ¥500,928 million, owing to such factors as the disbursal of cash dividends and fluctuations in foreign currency translation adjustments.

As a consequence, the ratio of shareholders' equity to total assets declined to 43.1%, compared with 43.5% at the end of the previous fiscal year, and net assets per share decreased to ¥1,672.74, versus ¥1,701.29 at the end of the prior year.

## ROE



## Total Equity and Equity Ratio



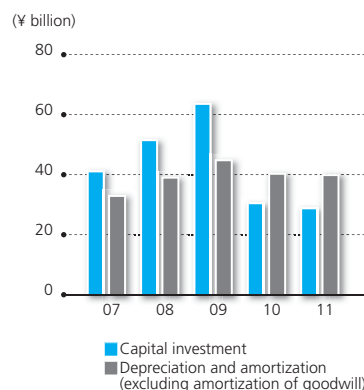
## Cash Flows

### Capital Investment

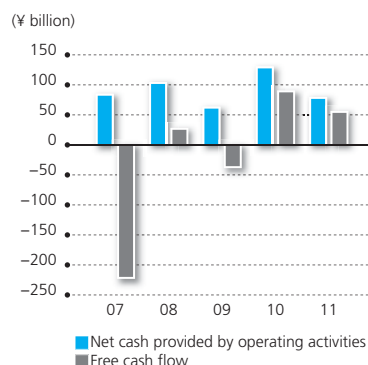
In accordance with the Daikin Group's fundamental strategy of "concentrating management assets in business fields that offer higher profitability," the Company implemented capital investments during fiscal 2011 with a total value of ¥29,994 million, largely in the air-conditioning and chemicals business fields. Based on comprehensive consideration of such factors as the production plans, marketing plans, and investment-to-profit-ratio plans for the upcoming three fiscal years, it is projected that investments in fiscal 2012 will amount to ¥37,648 million.

| Business segment | Company name                       | Investment amount<br>(¥ million) |
|------------------|------------------------------------|----------------------------------|
| Air-conditioning | Daikin                             | 7,997                            |
|                  | Daikin Europe N.V.                 | 2,993                            |
| Chemicals        | Daikin                             | 2,781                            |
|                  | Jiangxi Datang Chemicals Co., Ltd. | 1,101                            |

### Capital Investment and Depreciation and Amortization



### Net Cash Provided by Operating Activities and Free Cash Flow



Net cash provided by operating activities amounted to ¥78,411 million, down ¥50,816 million compared with the previous fiscal year, reflecting such factors as rises in inventories and in trade notes and accounts payable.

Net cash used in investing activities amounted to ¥23,306 million, down ¥16,542 million compared with the

previous fiscal year, owing to such factors as a decrease in payment for purchases of property, plant and equipment.

Net cash used in financing activities amounted to ¥37,623 million, an increase of ¥2,681 million compared with the previous fiscal year, owing to the issuance of bonds in the previous fiscal year.

Consequently, cash and cash equivalents at March 31, 2011, amounted to ¥167,296 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 2011 amounted to ¥36 per share (an ¥18 per share interim dividend and also an ¥18 per share year-end dividend), up ¥4 per share from the level in the previous fiscal year.

No decision has yet been finalized regarding the proposed level of dividends for fiscal 2012, although plans call for seeking to propose the level of dividends for the year based on consideration of current and prospective performance trends at the time of the announcement of second quarter results.

## Principal Risks Associated with the Daikin Group's Operations

Principal external risk factors with the potential for affecting the Daikin Group's performance and financial condition 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, etc.)
- Cold summer weather and other unusual weather patterns accompanied by reduced demand for air conditioners
- Large fluctuations in currency exchange rates
- Major product quality claims
- Major problems with manufacturing systems
- Major changes in the market prices of negotiable securities and other assets
- Product liability

- 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

## Impact of the Great East Japan Earthquake

The incidence of the Great East Japan Earthquake on March 11, 2011, did not cause major damage to Daikin Group facilities. The Kashima Plant did suffer some damage, although it has progressively resumed its production operations following the restoration of utilities (electric power and water supply) on April 1.

Immediately after the earthquake disaster, the Daikin Group gathered top managers from all relevant business departments of all global bases and established a Companywide response team. After confirming the component supply capabilities of suppliers impacted by the disaster and performing the unified compilation of related information, the Group determined that there would be an impact to the supply of 92 items (electronic components, resins, rubber, copper tubes, steel tubes, etc.), and that the outlook regarding supplies of microcontrollers and capacitors was particularly bad.

With respect to component procurement, the Group planned such concentrated countermeasures as those to provide support for the rehabilitation of suppliers, increase the diversity of procurement methods, and obtain inventories of components. While continuing to check and monitor inventory situations, the Group made decisions regarding the classification of components as "components for which the recovery of supply capabilities is to be awaited" and "components for which alternatives are to be developed." A diverse range of concerted measures were made in connection with problematic component supplies, including those to accelerate the development of alternative components.

Regarding microcontroller components for which it was determined that the restoration of supplies would require 10 months, the Group immediately decided to develop alternative components and quickly shifted personnel (approximately 220 employees) so that they could work on this development program. After approximately 1.5 months, the Group had gained the imminent prospect of the attainment of its objectives for minimizing component procurement problems, and the impact on manufacturing operations became slight.

Currently, the Group is drafting a business continuity plan to promote the resumption of operations with maximum expeditiousness in the case that Daikin facilities were to suffer significant damage from a natural disaster.

# Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries  
March 31, 2011 and 2010

|   | Millions of yen   |                   |
|---|-------------------|-------------------|
| ASSETS  | 2011              | 2010              |
| <b>Current assets:</b>  |                   |                   |
| Cash and cash equivalents (Note 14)   | ¥ 167,296         | ¥ 159,325         |
| Short-term investments (Notes 7 and 14)   | 423               | 714               |
| Trade receivables (Notes 6, 7 and 14):  |                   |                   |
| Notes   | 20,666            | 19,991            |
| Accounts  | 178,254           | 161,147           |
| Allowance for doubtful receivables  | (4,952)           | (5,087)           |
| Inventories (Notes 3 and 7)   | 201,772           | 185,165           |
| Deferred tax assets (Note 11)   | 9,726             | 10,564            |
| Prepaid expenses and other current assets (Note 7)  | 25,927            | 25,312            |
| <b>Total current assets</b>   | <b>599,112</b>    | <b>557,131</b>    |
| <br><b>Property, plant and equipment (Note 7):</b>  |                   |                   |
| Land  | 30,480            | 29,607            |
| Buildings and structures  | 176,338           | 179,803           |
| Machinery and equipment   | 353,280           | 355,949           |
| Furniture and fixtures  | 111,483           | 112,550           |
| Lease assets (Note 13)  | 4,973             | 3,903             |
| Construction in progress  | 8,367             | 9,278             |
| Total   | 684,921           | 691,090           |
| Accumulated depreciation  | (470,913)         | (456,439)         |
| <b>Net property, plant and equipment</b>  | <b>214,008</b>    | <b>234,651</b>    |
| <br><b>Investments and other assets:</b>  |                   |                   |
| Investment securities (Notes 4 and 14)  | 93,410            | 112,644           |
| Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14) | 12,999            | 12,820            |
| Goodwill (Note 5)   | 170,562           | 182,867           |
| Deferred tax assets (Note 11)   | 15,023            | 9,709             |
| Other assets  | 27,393            | 29,834            |
| <b>Total investments and other assets</b>   | <b>319,387</b>    | <b>347,874</b>    |
| <b>Total</b>  | <b>¥1,132,507</b> | <b>¥1,139,656</b> |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY  | Millions of yen   |                   |
|---|-------------------|-------------------|
|   | 2011              | 2010              |
| <b>Current liabilities:</b>   |                   |                   |
| Short-term borrowings (Notes 7 and 14)  | ¥ 73,978          | ¥ 86,730          |
| Current portion of long-term debt (Notes 7 and 14)                                      | 2,322             | 13,381            |
| Current portion of long-term lease obligations (Note 13)                                | 1,369             | 1,431             |
| Trade payables (Notes 6 and 14):  |                   |                   |
| Notes   | 7,963             | 7,072             |
| Accounts  | 108,943           | 90,662            |
| Construction payable  | 7,189             | 5,381             |
| Income taxes payable (Note 14)  | 11,857            | 8,114             |
| Deferred tax liabilities (Note 11)  | 2,449             | 971               |
| Accrued expenses  | 50,355            | 49,077            |
| Other current liabilities (Note 6)  | 61,387            | 58,715            |
| <b>Total current liabilities</b>  | <b>327,812</b>    | <b>321,534</b>    |
| <b>Long-term liabilities:</b>   |                   |                   |
| Long-term debt (Notes 7 and 14)   | 292,849           | 296,208           |
| Long-term lease obligations (Note 13)   | 1,963             | 1,562             |
| Liabilities for retirement benefits (Note 8)  | 3,942             | 4,469             |
| Deferred tax liabilities (Note 11)  | 2,460             | 2,649             |
| Long-term accounts payable  | 1,188             | 1,752             |
| Other long-term liabilities   | 1,365             | 1,421             |
| <b>Total long-term liabilities</b>  | <b>303,767</b>    | <b>308,061</b>    |
| <b>Commitments and contingent liabilities</b> (Notes 13 and 15)                         |                   |                   |
| <b>Equity</b> (Notes 9, 10 and 20):   |                   |                   |
| Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2011 and 2010 | 85,032            | 85,032            |
| Capital surplus   | 82,977            | 82,977            |
| Stock acquisition rights  | 1,293             | 1,015             |
| Retained earnings   | 385,761           | 375,952           |
| Treasury stock, at cost: 1,451,528 shares in 2011 and 1,465,756 shares in 2010          | (5,473)           | (5,528)           |
| Accumulated other comprehensive income:   |                   |                   |
| Unrealized gain (loss) on available-for-sale securities                                 | 4,641             | (501)             |
| Deferred (loss) gain on derivatives under hedge accounting                              | (91)              | 162               |
| Foreign currency translation adjustments  | (64,971)          | (41,916)          |
| Total   | 489,169           | 497,193           |
| Minority interests  | 11,759            | 12,868            |
| <b>Total equity</b>   | <b>500,928</b>    | <b>510,061</b>    |
| <b>Total</b>  | <b>¥1,132,507</b> | <b>¥1,139,656</b> |



# Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

|  | Millions of yen   |            |
|--|-------------------|------------|
|  | 2011              | 2010       |
| <b>Net sales</b> (Note 6)  | <b>¥1,160,331</b> | ¥1,023,964 |
| <b>Cost of sales</b> (Notes 6 and 12)                                      | <b>798,666</b>    | 704,663    |
| <b>Gross profit</b>  | <b>361,665</b>    | 319,301    |
| <b>Selling, general and administrative expenses</b> (Notes 6 and 12)       | <b>286,210</b>    | 275,263    |
| <b>Operating income</b>  | <b>75,455</b>     | 44,038     |
| <b>Other income (expenses):</b>  |                   |            |
| Interest and dividend income   | 4,155             | 3,933      |
| Interest expense   | (6,231)           | (6,719)    |
| Exchange (losses) gains  | (1,377)           | 946        |
| Gain on valuation of derivatives (Note 14)                                 | 54                | 1,136      |
| Refunds of customs duty  | 1,215             | 65         |
| Loss on disposals of property, plant and equipment                         | (656)             | (967)      |
| (Loss) gain on sales of investment securities (Note 4)                     | (616)             | 13         |
| Impairment losses on investment securities (Note 4)                        | (26,854)          | (3,634)    |
| Equity in earnings of unconsolidated subsidiaries and associated companies | 1,341             | 345        |
| Loss on cancellation of lease contracts                                    |                   | (1,041)    |
| Loss on termination of a retirement benefit plan (Note 8)                  | (147)             |            |
| Gain on reversal of stock acquisition rights                               | 45                | 13         |
| Gain on extinguishment of tie-in shares                                    | 430               |            |
| Losses from a natural disaster (Note 19)                                   | (1,105)           |            |
| Other—net  |                   | (116)      |
| <b>Other expenses—net</b>  | <b>(29,746)</b>   | (6,026)    |
| <b>Income before income taxes and minority interests</b>                   | <b>45,709</b>     | 38,012     |
| <b>Income taxes</b> (Note 11):   |                   |            |
| Current  | 28,914            | 16,513     |
| Deferred   | (6,846)           | (600)      |
| Total  | 22,068            | 15,913     |
| <b>Net income before minority interests</b>                                | <b>23,641</b>     | 22,099     |
| <b>Minority interests in net income</b>                                    | <b>(3,768)</b>    | (2,708)    |
| <b>Net income</b>  | <b>¥ 19,873</b>   | ¥ 19,391   |
|  | Yen               |            |
| <b>Amounts per common share</b> (Note 17):                                 |                   |            |
| Basic net income   | ¥68.14            | ¥66.44     |
| Diluted net income   | 68.14             | 66.43      |
| Cash dividends applicable to the year                                      | 36.00             | 32.00      |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2011

|   | Millions of yen |
|---|-----------------|
|   | 2011            |
| <b>Net income before minority interests</b>   | <b>¥23,641</b>  |
| <b>Other comprehensive income</b> (Note 16):  |                 |
| Unrealized gain on available-for-sale securities  | 5,142           |
| Deferred loss on derivatives under hedge accounting                                     | (253)           |
| Foreign currency translation adjustments  | (23,141)        |
| Share of other comprehensive income in affiliates accounted for using the equity method | (870)           |
| <b>Total other comprehensive income</b>   | <b>(19,122)</b> |
| <b>Comprehensive income</b> (Note 16)   | <b>¥ 4,519</b>  |
| <b>Total comprehensive income attributable to</b> (Note 16):                            |                 |
| The Company's shareholders  | ¥ 1,706         |
| Minority interests  | 2,813           |

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

|  | Millions of yen                                     |                 |                    |                                |                      |                   |  |  |   |                 |                       |                 |
|--|---|-----------------|--------------------|--------------------------------|----------------------|-------------------|--|--|---|-----------------|-----------------------|-----------------|
|  | Outstanding<br>Number of<br>Common<br>Shares Issued | Common<br>Stock | Capital<br>Surplus | Stock<br>Acquisition<br>Rights | Retained<br>Earnings | Treasury<br>Stock | Accumulated Other Comprehensive Income                               |  |   | Total           | Minority<br>Interests | Total<br>Equity |
|  |   |                 |                    |                                |                      |                   | Unrealized<br>Gain (Loss)<br>on Available-<br>for-Sale<br>Securities | Deferred<br>(Loss) Gain<br>on Derivatives<br>under Hedge<br>Accounting | Foreign<br>Currency<br>Translation<br>Adjustments |                 |                       |                 |
| <b>Balance, April 1, 2009</b>  | 291,888,886   | ¥85,032         | ¥82,977            | ¥ 764                          | ¥366,836             | ¥(4,744)          | ¥(15,398)  | ¥465   | ¥(43,481)   | ¥472,451        | ¥12,035               | ¥484,486        |
| Effect of change of the fiscal year-end of certain consolidated subsidiary (Note 2)  |   |                 |                    |                                | 2                    |                   |  |  |   | 2               |                       | 2               |
| Net income   |   |                 |                    |                                | 19,391               |                   |  |  |   | 19,391          |                       | 19,391          |
| Cash dividends, ¥35 per share  |   |                 |                    |                                | (10,217)             |                   |  |  |   | (10,217)        |                       | (10,217)        |
| Repurchase of treasury stock   | (295,469)   |                 |                    |                                |                      | (995)             |  |  |   | (995)           |                       | (995)           |
| Disposal of treasury stock   | 54,800  |                 |                    |                                | (60)                 | 211               |  |  |   | 151             |                       | 151             |
| Net change in the year   |   |                 |                    | 251                            |                      |                   | 14,897   | (303)  | 1,565   | 16,410          | 833                   | 17,243          |
| <b>Balance, March 31, 2010</b>   | 291,648,217   | 85,032          | 82,977             | 1,015                          | 375,952              | (5,528)           | (501)  | 162  | (41,916)  | 497,193         | 12,868                | 510,061         |
| Adjustment of retained earnings due to an adoption of ASBJ Statement No. 16 (Note 2) |   |                 |                    |                                | (159)                |                   |  |  |   | (159)           |                       | (159)           |
| Effect of change of the fiscal year-end of certain consolidated subsidiary (Note 2)  |   |                 |                    |                                | (13)                 |                   |  |  |   | (13)            |                       | (13)            |
| Cumulative effect of consolidating subsidiary previously unconsolidated              |   |                 |                    |                                | 37                   |                   |  |  |   | 37              |                       | 37              |
| Net income   |   |                 |                    |                                | 19,873               |                   |  |  |   | 19,873          |                       | 19,873          |
| Cash dividends, ¥34 per share  |   |                 |                    |                                | (9,916)              |                   |  |  |   | (9,916)         |                       | (9,916)         |
| Repurchase of treasury stock   | (1,772)   |                 |                    |                                |                      | (5)               |  |  |   | (5)             |                       | (5)             |
| Disposal of treasury stock   | 16,000  |                 |                    |                                | (13)                 | 60                |  |  |   | 47              |                       | 47              |
| Net change in the year   |   |                 |                    | 278                            |                      |                   | 5,142  | (253)  | (23,055)  | (17,888)        | (1,109)               | (18,997)        |
| <b>Balance, March 31, 2011</b>   | <b>291,662,445</b>                                  | <b>¥85,032</b>  | <b>¥82,977</b>     | <b>¥1,293</b>                  | <b>¥385,761</b>      | <b>¥(5,473)</b>   | <b>¥ 4,641</b>   | <b>¥ (91)</b>  | <b>¥(64,971)</b>                                  | <b>¥489,169</b> | <b>¥11,759</b>        | <b>¥500,928</b> |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

|  | Millions of yen |                 |
|--|-----------------|-----------------|
|  | 2011            | 2010            |
| <b>Operating activities:</b>   |                 |                 |
| Income before income taxes and minority interests  | ¥ 45,709        | ¥ 38,012        |
| Adjustment for:  |                 |                 |
| Income taxes—paid  | (22,040)        | (14,113)        |
| Depreciation and amortization  | 51,713          | 52,424          |
| Loss (gain) on sales of investment securities  | 616             | (13)            |
| Impairment losses on investment securities   | 26,854          | 3,634           |
| Loss on disposals of property, plant and equipment   | 656             | 967             |
| Equity in earnings of unconsolidated subsidiaries and associated companies                             | (1,341)         | (345)           |
| Changes in assets and liabilities, net of effects of the purchase of subsidiaries:                     |                 |                 |
| Trade notes and accounts receivable  | (23,980)        | 309             |
| Inventories  | (24,501)        | 33,055          |
| Other current assets   | (7,947)         | (1,168)         |
| Prepaid pension cost   | 1,187           | 1,841           |
| Trade notes and accounts payable   | 25,880          | 16,154          |
| Accrued expenses   | 3,605           | 397             |
| Other current liabilities  | 6,941           | 1,066           |
| Liabilities for retirement benefits  | (491)           | (116)           |
| Account payable for transaction to defined contribution pension plan                                   | (3,890)         | (3,946)         |
| Other—net  | (560)           | 1,069           |
| Total adjustments  | 32,702          | 91,215          |
| Net cash provided by operating activities  | 78,411          | 129,227         |
| <b>Investing activities:</b>   |                 |                 |
| Payments for purchases of property, plant and equipment  | (24,578)        | (29,984)        |
| Proceeds from sales of property, plant and equipment   | 869             | 2,146           |
| Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired |                 | (4,598)         |
| Payments for transfer of business  |                 | (465)           |
| Increase in investments in and advances to unconsolidated subsidiaries and associated companies        | (393)           | (4,984)         |
| Payments for acquisition of investment securities  | (164)           | (2,081)         |
| Proceeds from sales of investment securities   | 897             | 34              |
| Other—net  | 63              | 84              |
| Net cash used in investing activities  | (23,306)        | (39,848)        |
| <b>Financing activities:</b>   |                 |                 |
| Net decrease in short-term borrowings  | (11,444)        | (108,616)       |
| Increase in long-term debt   | 837             | 120,031         |
| Repayments of long-term debt   | (13,527)        | (30,821)        |
| Cash dividends paid to the Company's shareholders  | (9,916)         | (10,217)        |
| Cash dividends paid to minority interests  | (1,510)         | (2,466)         |
| Other—net  | (2,063)         | (2,853)         |
| Net cash used in financing activities  | (37,623)        | (34,942)        |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                    | <b>(9,504)</b>  | <b>380</b>      |
| <b>Net increase in cash and cash equivalents</b>   | <b>7,978</b>    | <b>54,817</b>   |
| <b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>                        | <b>1</b>        |                 |
| <b>Effect of change of the fiscal year-end of consolidated subsidiaries</b>                            | <b>(8)</b>      | <b>185</b>      |
| <b>Cash and cash equivalents, beginning of year</b>  | <b>159,325</b>  | <b>104,323</b>  |
| <b>Cash and cash equivalents, end of year</b>  | <b>¥167,296</b> | <b>¥159,325</b> |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Daikin Industries, Ltd. (the “Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (the “Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under the Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 16. In addition, “net income before minority interests” is disclosed in the consolidated statements of income from the year ended March 31, 2011.

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 2010 consolidated financial statements to conform to the classification used in 2011.

## 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, 2011, the Company consolidated the operating results of a consolidated subsidiary, McQuay Hellas Airconditioning S.A for the 15-month period ended March 31, 2011, because that subsidiary changed its fiscal year-end from December 31 to March 31.

For the year ended March 31, 2010, the Company consolidated the operating results of a consolidated subsidiary, Daikin Airconditioning Poland Sp. z o.o for the 15-month period ended March 31, 2010, because that subsidiary changed its fiscal year-end from December 31 to March 31.

The Company included the subsidiaries’ operating results for the 12-month period in the consolidated statements of income, and included their operating results for the 3-month period in the consolidated statements of changes in equity as effect of change of the fiscal year-end of certain 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 3 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.

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

In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. PITF No. 18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of research and development; 4) cancellation of the fair value model accounting for property, plant and

equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

#### **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments". The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of research and development; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. This standard was applicable to equity method of accounting for investments for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to increase income before income taxes and minority interests by ¥153 million. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2010 by ¥159 million as if this accounting standard had been retrospectively applied.

#### **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 which mature within three months of the date of acquisition. Time deposits that mature in more than three months but within a year of the date of acquisition are recorded as short-term investments.

#### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the 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 the lower of cost, determined by the average method, or net selling value. 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 principally 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.

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. The useful lives for lease assets are the terms of the respective leases.

#### **Asset Retirement Obligations**

In March, 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability.



and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Group applied this accounting standard effective April 1, 2010. There is no effect of this change on operating income and income before income taxes and minority interests.

### **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**

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company and its consolidated domestic subsidiaries continue to account for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

### **Investment Securities**

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.

### **Employees' Retirement Benefits**

The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Certain consolidated foreign subsidiaries have pension plans. The liabilities for retirement benefits are computed based on projected benefit obligations and plan assets at the balance sheet date.

In July 2008, the ASBJ issued ASBJ Statement No. 19 "Partial Amendment to Accounting Standard for Retirement Benefit (Part 3)". This standard was effective for the end of the fiscal years beginning on or after April 1, 2009 with early adoption permitted for the end of the fiscal years beginning on or before March 31, 2009.

Under the previous accounting standard, the discount rate were permitted to be determined taking into consideration fluctuations in the yield of bonds over a certain period. This amendment to accounting standard requires that the discount rate should be determined by the yield of bonds at the end of the fiscal year.

The Company and its consolidated domestic subsidiaries applied this amendment to accounting standard effective March 31, 2010.

### **Stock Options**

The ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance 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 has applied this accounting standard for stock options to those granted on and after May 1, 2006.

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

### Income Taxes

The provision for current income taxes is computed based on the income before income taxes and minority interests included in the consolidated statements of income. 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 are classified and accounted for as follows: 1) derivatives are principally 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 2) 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 are 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

#### Accounting Changes and Error Corrections

In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows:

##### (1) Changes in Accounting Policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

##### (2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

##### (3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

##### (4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

### 3. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

|  | Millions of yen |          |
|--|-----------------|----------|
|  | 2011            | 2010     |
| Finished products and merchandise          | ¥121,508        | ¥111,867 |
| Semi-finished products and work-in-process | 42,267          | 41,860   |
| Raw materials and supplies                 | 37,997          | 31,438   |
| Total                                      | ¥201,772        | ¥185,165 |

### 4. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2011 and 2010 were as follows:

|  | Millions of yen |                  |                   |            |
|--|-----------------|------------------|-------------------|------------|
|  | 2011            |                  |                   |            |
|  | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: |                 |                  |                   |            |
| Equity securities                            | ¥76,790         | ¥12,093          | ¥(4,103)          | ¥84,780    |
| Debt securities                              | 175             | 4                |                   | 179        |
| Other  | 396             | 45               |                   | 441        |
| Total  | ¥77,361         | ¥12,142          | ¥(4,103)          | ¥85,400    |

|  | Millions of yen |                  |                   |            |
|--|-----------------|------------------|-------------------|------------|
|  | 2010            |                  |                   |            |
|  | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: |                 |                  |                   |            |
| Equity securities                            | ¥104,729        | ¥15,487          | ¥(16,621)         | ¥103,595   |
| Debt securities                              | 200             | 4                |                   | 204        |
| Other  | 503             | 62               | (88)              | 477        |
| Total  | ¥105,432        | ¥15,553          | ¥(16,709)         | ¥104,276   |

The information of available-for-sale securities which were sold during the years ended March 31, 2011 and 2010 were as follows:

|                       | Millions of yen |                |               |
|-----------------------|-----------------|----------------|---------------|
|                       | Proceeds        | Realized Gains | Realized Loss |
| <b>March 31, 2011</b> |                 |                |               |
| Available-for-sale:   |                 |                |               |
| Equity securities     | ¥897            | ¥1             | ¥617          |

|                     | Millions of yen |                |               |
|---------------------|-----------------|----------------|---------------|
|                     | Proceeds        | Realized Gains | Realized Loss |
| March 31, 2010      |                 |                |               |
| Available-for-sale: |                 |                |               |
| Equity securities   | ¥34             | ¥13            |               |

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥26,595 million and ¥3,616 million, respectively.

### 5. Goodwill

Goodwill at March 31, 2011 and 2010 consisted of the following:

|                        | Millions of yen |          |
|------------------------|-----------------|----------|
|                        | 2011            | 2010     |
| Consolidation goodwill | ¥169,803        | ¥181,842 |
| Other                  | 759             | 1,025    |
| Total                  | ¥170,562        | ¥182,867 |

Amortization of goodwill was ¥11,843 million and ¥12,112 million for the years ended March 31, 2011 and 2010, respectively.

## 6. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies at March 31, 2011 and 2010 were as follows:

|                                     | Millions of yen |        |
|-------------------------------------|-----------------|--------|
|                                     | 2011            | 2010   |
| Trade notes and accounts receivable | <b>¥1,386</b>   | ¥1,563 |
| Trade notes and accounts payable    | <b>1,249</b>    | 1,015  |

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2011 and 2010 were as follows:

|           | Millions of yen |        |
|-----------|-----------------|--------|
|           | 2011            | 2010   |
| Sales     | <b>¥11,693</b>  | ¥8,874 |
| Purchases | <b>10,368</b>   | 7,620  |

Material transactions and balances with related individuals for the years ended March 31, 2011 and 2010 were as follows:

### (1) 2011

#### (a) The Company

| Name           | Description of Post                                   | Ownership of the Company (%) | Millions of yen                                      |                            |
|----------------|---|------------------------------|--|----------------------------|
|                |   |                              | Transactions   | Resulting Account Balances |
|                |   |                              | Description of Transaction                           | Account                    |
| Chiyono Terada | Outside Director/CEO and President of Art Corporation | 0.00                         | Commission for moving business and delivery business | Other current liabilities  |
|                |   |                              | <b>¥439</b>  | <b>¥42</b>                 |

#### (b) The Company's consolidated subsidiaries

| Name           | Description of Post                                   | Ownership of the Company (%) | Millions of yen                                      |                            |
|----------------|---|------------------------------|--|----------------------------|
|                |   |                              | Transactions   | Resulting Account Balances |
|                |   |                              | Description of Transaction                           | Account                    |
| Chiyono Terada | Outside Director/CEO and President of Art Corporation | 0.00                         | Commission for moving business and delivery business | Other current liabilities  |
|                |   |                              |  | <b>¥ 6</b>                 |
|                |   |                              | Sales of products and other                          | Accounts receivable        |
|                |   |                              | <b>55</b>  | <b>15</b>                  |

The terms and conditions applicable to the above mentioned transactions have been determined on the basis of arm's length and by reference to the normal market price.

### (2) 2010

#### (a) The Company

| Name           | Description of Post                                   | Ownership of the Company (%) | Millions of yen                                      |                            |
|----------------|---|------------------------------|--|----------------------------|
|                |   |                              | Transactions   | Resulting Account Balances |
|                |   |                              | Description of Transaction                           | Account                    |
| Chiyono Terada | Outside Director/CEO and President of Art Corporation | 0.00                         | Commission for moving business and delivery business | Other current liabilities  |
|                |   |                              |  | <b>¥31</b>                 |

#### (b) The Company's consolidated subsidiaries

| Name           | Description of Post                                   | Ownership of the Company (%) | Millions of yen                                      |                            |
|----------------|---|------------------------------|--|----------------------------|
|                |   |                              | Transactions   | Resulting Account Balances |
|                |   |                              | Description of Transaction                           | Account                    |
| Chiyono Terada | Outside Director/CEO and President of Art Corporation | 0.00                         | Commission for moving business and delivery business | Other current liabilities  |
|                |   |                              |  | <b>¥5</b>                  |
|                |   |                              | Sales of products and other                          | Accounts receivable        |
|                |   |                              | <b>44</b>  | <b>8</b>                   |

The terms and conditions applicable to the above mentioned transactions have been determined on the basis of arm's length and by reference to the normal market price.

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2011 and 2010 consisted of the following:

|                                    | Millions of yen |         |
|------------------------------------|-----------------|---------|
|                                    | 2011            | 2010    |
| Bank overdrafts and notes to banks | <b>¥68,899</b>  | ¥69,730 |
| Commercial paper                   | <b>5,079</b>    | 17,000  |
| Total                              | <b>¥73,978</b>  | ¥86,730 |

Unused short-term bank credit lines were ¥75,000 million at March 31, 2011. Weighted average interest rates of bank overdrafts and notes to banks at March 31, 2011 and 2010 were 1.03% and 1.06%, respectively.

Weighted average interest rates of commercial paper at March 31, 2011 and 2010 were 0.20% and 0.11%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

|  | Millions of yen |          |
|--|-----------------|----------|
|  | 2011            | 2010     |
| 1.00% unsecured bonds, due 2014  | <b>¥ 30,000</b> | ¥ 30,000 |
| 1.42% unsecured bonds, due 2016  | <b>30,000</b>   | 30,000   |
| 1.86% unsecured bonds, due 2019  | <b>40,000</b>   | 40,000   |
| Collateralized loans from government sponsored banks, with interest 1.75%, due through 2012  | <b>1,200</b>    | 1,200    |
| Unsecured loans from government sponsored banks, with interest ranging from 1.40% to 1.75%, due through 2019   | <b>20,500</b>   | 21,000   |
| Collateralized loans from banks and others, payable in foreign currencies, with interest 7.63% (2011), and from 3.00% to 7.63% (2010), due through 2012                  | <b>28</b>       | 694      |
| Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.70% to 5.70% (2011), and from 0.83% to 5.70% (2010), due through 2017 | <b>13,351</b>   | 14,593   |
| Unsecured loans from banks and others with interest ranging from 0.39% to 3.50% (2011), and from 0.49% to 3.55% (2010), due through 2027                                 | <b>160,092</b>  | 172,102  |
| Total  | <b>295,171</b>  | 309,589  |
| Less current portion   | <b>(2,322)</b>  | (13,381) |
| Long-term debt, less current portion   | <b>¥292,849</b> | ¥296,208 |

Annual maturities of long-term debt outstanding at March 31, 2011 were as follows:

| Years ending March 31, | Millions of yen |
|------------------------|-----------------|
| 2012                   | ¥ 2,322         |
| 2013                   | 57,158          |
| 2014                   | 10,574          |
| 2015                   | 80,029          |
| 2016                   | 10,424          |
| 2017 and thereafter    | 134,664         |
| Total                  | ¥295,171        |

At March 31, 2011, property, plant and equipment, trade accounts receivables, inventories and prepaid expense and other current assets with a book value of ¥40,629 million, ¥14,853 million, ¥8,599 million and ¥1,346 million, respectively, were pledged as collateral for short-term borrowings and long-term debt. In addition short-term investments with a book value of ¥420 million were pledged as collateral for a supplier's borrowings of ¥216 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 these rights with respect to debt of the Group.



## 8. Severance Indemnities and Pension Plans

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

The liabilities for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

|                                     | Millions of yen |          |
|-------------------------------------|-----------------|----------|
|                                     | 2011            | 2010     |
| Projected benefit obligation        | ¥68,818         | ¥69,068  |
| Fair value of plan assets           | (66,130)        | (67,355) |
| Unrecognized prior service cost     | 75              | 218      |
| Unrecognized actuarial gain         | (9,892)         | (9,724)  |
| Net asset                           | (7,129)         | (7,793)  |
| Prepaid pension cost                | (11,071)        | (12,262) |
| Liabilities for retirement benefits | ¥ 3,942         | ¥ 4,469  |

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 were as follows:

|   | Millions of yen |         |
|---|-----------------|---------|
|   | 2011            | 2010    |
| Service cost  | ¥3,175          | ¥3,137  |
| Interest cost   | 1,930           | 1,968   |
| Expected return on plan assets                              | (2,148)         | (1,950) |
| Amortization of prior service cost                          | (39)            | (33)    |
| Recognized actuarial loss                                   | 1,376           | 1,927   |
| Net periodic benefit costs                                  | 4,294           | 5,049   |
| Contribution to defined contribution pension plan and other | 2,275           | 3,039   |
| Total   | ¥6,569          | ¥8,088  |

Certain of the Company's consolidated domestic subsidiaries implemented a defined benefit pension plan and a defined contribution pension plan effective September 2010 and then terminated the severance lump-sum payment plan. The effect of this transfer was to decrease income before income taxes and minority interests by ¥147 million and was recorded as a loss on termination of a retirement benefit plan in the consolidated statement of income for the year ended March 31, 2011.

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

|   | 2011            | 2010            |
|---|-----------------|-----------------|
| Discount rate                             | Mainly 2.0%     | Mainly 2.0%     |
| Expected rate of return on plan assets    | Mainly 2.5%     | Mainly 2.5%     |
| Amortization period of prior service cost | Mainly 10 years | Mainly 10 years |
| Recognition period of actuarial gain/loss | Mainly 10 years | Mainly 10 years |

## 9. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, 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 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 Companies Act 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 Companies Act 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 Companies Act 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act 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.

## 10. Stock Options

The stock options outstanding for the year ended March 31, 2011 were as follows:

| Stock Option      | Persons<br>Granted          | Number of<br>Options Granted | Date of Grant | Exercise Price | Exercise Period                        |
|-------------------|-----------------------------|------------------------------|---------------|----------------|--|
| 2004 Stock Option | 9 directors<br>40 employees | 144,000 shares               | 2004.7.27     | ¥2,957         | From July 1, 2006<br>to June 30, 2010  |
| 2005 Stock Option | 9 directors<br>44 employees | 153,000 shares               | 2005.7.29     | ¥2,852         | From July 1, 2007<br>to June 30, 2011  |
| 2006 Stock Option | 9 directors<br>44 employees | 298,000 shares               | 2006.7.18     | ¥3,790         | From July 19, 2008<br>to July 18, 2012 |
| 2007 Stock Option | 9 directors<br>42 employees | 292,000 shares               | 2007.7.17     | ¥4,640         | From July 18, 2009<br>to July 17, 2013 |
| 2008 Stock Option | 8 directors<br>44 employees | 308,000 shares               | 2008.7.14     | ¥5,924         | From July 15, 2010<br>to July 14, 2014 |
| 2009 Stock Option | 8 directors<br>42 employees | 294,000 shares               | 2009.7.13     | ¥3,250         | From July 14, 2011<br>to July 13, 2015 |
| 2010 Stock Option | 8 directors<br>41 employees | 290,000 shares               | 2010.7.14     | ¥3,050         | From July 15, 2012<br>to July 14, 2016 |

The stock option activity was as follows:

|                                   | 2003<br>Stock<br>Option | 2004<br>Stock<br>Option | 2005<br>Stock<br>Option | 2006<br>Stock<br>Option | 2007<br>Stock<br>Option | 2008<br>Stock<br>Option | 2009<br>Stock<br>Option | 2010<br>Stock<br>Option |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                   | (Shares)                |                         |                         |                         |                         |                         |                         |                         |
| For the year ended March 31, 2010 |                         |                         |                         |                         |                         |                         |                         |                         |
| Vested                            |                         |                         |                         |                         |                         |                         |                         |                         |
| March 31, 2009—Outstanding        | 22,000                  | 90,000                  | 101,300                 | 292,000                 | 292,000                 | 308,000                 |                         |                         |
| Granted                           |                         |                         |                         |                         |                         |                         | 294,000                 |                         |
| Exercised                         | 22,000                  | 19,000                  | 12,500                  | 1,300                   |                         |                         |                         |                         |
| Canceled                          |                         |                         |                         | 12,000                  | 4,000                   |                         |                         |                         |
| March 31, 2010—Outstanding        |                         | 71,000                  | 88,800                  | 278,700                 | 288,000                 | 308,000                 | 294,000                 |                         |
| For the year ended March 31, 2011 |                         |                         |                         |                         |                         |                         |                         |                         |
| Vested                            |                         |                         |                         |                         |                         |                         |                         |                         |
| March 31, 2010—Outstanding        |                         | 71,000                  | 88,800                  | 278,700                 | 288,000                 | 308,000                 | 294,000                 |                         |
| Granted                           |                         |                         |                         |                         |                         |                         |                         | 290,000                 |
| Exercised                         |                         | 16,000                  |                         |                         |                         |                         |                         |                         |
| Canceled                          |                         | 55,000                  |                         | 24,000                  | 26,000                  |                         |                         |                         |
| March 31, 2011—Outstanding        |                         |                         | 88,800                  | 254,700                 | 262,000                 | 308,000                 | 294,000                 | 290,000                 |
| Exercise price                    | ¥2,405                  | ¥2,957                  | ¥2,852                  | ¥3,790                  | ¥4,640                  | ¥5,924                  | ¥3,250                  | ¥3,050                  |
| Average stock price at exercise   | ¥3,094                  | ¥3,256                  |                         |                         |                         |                         |                         |                         |
| Fair value price at grant date    |                         |                         |                         | ¥ 736                   | ¥1,035                  | ¥ 803                   | ¥ 899                   | ¥1,113                  |

The assumptions used to measure fair value of 2010 Stock Option

|   |                                    |
|---|------------------------------------|
| Estimate method:                        | Black-Scholes option pricing model |
| Volatility of stock price:              | 49.1%                              |
| Estimated remaining outstanding period: | 4 years                            |
| Estimated dividend:                     | ¥32 per share                      |
| Interest rate with risk free:           | 0.2%                               |

## 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, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

|   | Millions of yen |          |
|---|-----------------|----------|
|   | 2011            | 2010     |
| Deferred tax assets:                                |                 |          |
| Investment securities                               | ¥13,017         | ¥ 4,475  |
| Tax loss carryforwards                              | 11,308          | 12,879   |
| Inventories   | 6,270           | 6,430    |
| Warranty reserve                                    | 6,184           | 7,535    |
| Software and other intangible assets                | 3,711           | 4,073    |
| Accrued bonus                                       | 3,428           | 3,263    |
| Liabilities for retirement benefits                 | 1,344           | 1,518    |
| Foreign income tax credit                           | 817             | 364      |
| Allowance for doubtful receivables                  | 796             | 1,117    |
| Accounts payable other                              | 763             | 1,867    |
| Long-term accounts payable                          | 484             | 714      |
| Unrealized loss on available-for-sale securities    |                 | 867      |
| Other   | 7,368           | 5,280    |
| Less valuation allowance                            | (12,041)        | (12,100) |
| Total deferred tax assets                           | ¥43,449         | ¥38,282  |
| Deferred tax liabilities:                           |                 |          |
| Undistributed earnings of consolidated subsidiaries | ¥ 8,816         | ¥10,417  |
| Prepaid pension cost                                | 4,505           | 4,997    |
| Unrealized gain on available-for-sale securities    | 3,386           |          |
| Deferred gains on sales of property                 | 2,224           | 2,267    |
| Other   | 4,678           | 3,948    |
| Total deferred tax liabilities                      | ¥23,609         | ¥21,629  |
| Net deferred tax assets                             | ¥19,840         | ¥16,653  |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2011 was as follows:

|   | 2011   |
|---|--------|
| Normal effective statutory income tax rate                | 40.6%  |
| Difference in foreign subsidiaries' tax rate              | (28.3) |
| Unrecognized tax effect on foreign income tax credit      | 13.6   |
| Amortization of goodwill                                  | 9.5    |
| Valuation allowance                                       | 7.1    |
| Tax and tax effect on dividends from foreign subsidiaries | 3.2    |
| Other—net   | 2.6    |
| Actual effective income tax rate                          | 48.3%  |

A reconciliation of difference between the normal effective statutory tax rates and the actual effective tax rates was not disclosed since the difference was less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2010.

At March 31, 2011, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥26,932 million, which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2012                 | ¥ 42            |
| 2013                 | 146             |
| 2014                 | 741             |
| 2015                 | 309             |
| 2016                 | 6,478           |
| 2017 and thereafter  | 19,216          |
| Total                | ¥26,932         |

## 12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥30,771 million and ¥28,220 million for the years ended March 31, 2011 and 2010, respectively.

## 13. Leases

The Group leases certain computer equipment and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

|                     | Millions of yen |                  |
|---------------------|-----------------|------------------|
|                     | <b>2011</b>     |                  |
|                     | Finance Leases  | Operating Leases |
| Due within one year | <b>¥1,369</b>   | <b>¥ 3,543</b>   |
| Due after one year  | <b>1,963</b>    | <b>9,574</b>     |
| Total               | <b>¥3,332</b>   | <b>¥13,117</b>   |

### Pro Forma Information for the Years Ended March 31, 2011 and 2010

As discussed in Note 2, the Company and its consolidated domestic subsidiaries account for leases which existed at the transition date of ASBJ Statement No. 13 and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense on an “as if capitalized” basis for the years ended March 31, 2011 and 2010 were as follows:

|                          | Millions of yen        |             |               |                        |        |        |
|--------------------------|------------------------|-------------|---------------|------------------------|--------|--------|
|                          | <b>2011</b>            |             |               | 2010                   |        |        |
|                          | Furniture and Fixtures | Others      | Total         | Furniture and Fixtures | Others | Total  |
| Acquisition cost         | <b>¥1,246</b>          | <b>¥633</b> | <b>¥1,879</b> | ¥2,665                 | ¥1,366 | ¥4,031 |
| Accumulated depreciation | <b>972</b>             | <b>503</b>  | <b>1,475</b>  | 1,977                  | 945    | 2,922  |
| Net leased property      | <b>¥ 274</b>           | <b>¥130</b> | <b>¥ 404</b>  | ¥ 688                  | ¥ 421  | ¥1,109 |

Obligations under finance leases:

|                     | Millions of yen |        |
|---------------------|-----------------|--------|
|                     | <b>2011</b>     | 2010   |
| Due within one year | <b>¥262</b>     | ¥ 610  |
| Due after one year  | <b>142</b>      | 499    |
| Total               | <b>¥404</b>     | ¥1,109 |

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Lease payments and depreciation expense under finance leases:

|                      | Millions of yen |        |
|----------------------|-----------------|--------|
|                      | <b>2011</b>     | 2010   |
| Lease payments       | <b>¥592</b>     | ¥1,006 |
| Depreciation expense | <b>592</b>      | 1,006  |

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

## 14. Financial Instruments and Related Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No. 19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures”. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

### Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Short-term bank loans and commercial paper are used to fund its ongoing operations, and cash surpluses are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in below.

## Nature and Extent of Risks Arising from Financial Instruments, and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of the internal policies, which include monitoring of payment term and balances of major customers to identify the default risk of the customers.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Although receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the net position of receivables and payables in each foreign currency is hedged by using mainly forward foreign currency contracts and currency swaps. In addition, receivables and payables in foreign currencies which are expected from forecasted transactions are hedged by using forward foreign currency contracts and currency swaps.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are periodically managed by monitoring market values and financial position of issuers.

Short-term bank loans and commercial paper are mainly used to fund its ongoing operations. Long-term bank loans and bonds are used mainly for capital expenditures. Although the payables such as trade notes and trade accounts, bank loans and bonds are exposed to liquidity risk, the Group manages its liquidity risk along with adequate financial planning by the corporate treasury department and has short-term bank credit lines. A part of long-term bank loans which are exposed to market risks from change in interest rates are hedged by using mainly interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps and commodity future contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, from changes in interest rates of bank loans, and from changes in market value fluctuation of the raw materials.

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

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

### Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Instruments whose fair value cannot be readily determined are not included in the following.

|                                      | Millions of yen |            |                      |
|--------------------------------------|-----------------|------------|----------------------|
|                                      | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents            | ¥167,296        | ¥167,296   |                      |
| Short-term investments               | 423             | 423        |                      |
| Trade notes and accounts receivables | 198,920         | 198,920    |                      |
| Investment securities                | 85,400          | 85,400     |                      |
| Total                                | ¥452,039        | ¥452,039   |                      |
| Trade notes and accounts payables    | ¥116,906        | ¥116,906   |                      |
| Short-term borrowings                | 73,978          | 73,978     |                      |
| Income taxes payable                 | 11,857          | 11,857     |                      |
| Long-term debt                       | 295,171         | 304,169    | ¥8,998               |
| Total                                | ¥497,912        | ¥506,910   | ¥8,998               |
| Derivatives                          | ¥ (411)         | ¥ (411)    |                      |

|                                      | Millions of yen |            |                      |
|--------------------------------------|-----------------|------------|----------------------|
|                                      | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents            | ¥159,325        | ¥159,325   |                      |
| Short-term investments               | 714             | 714        |                      |
| Trade notes and accounts receivables | 181,138         | 181,138    |                      |
| Investment securities                | 104,276         | 104,276    |                      |
| Total                                | ¥445,453        | ¥445,453   |                      |
| Trade notes and accounts payables    | ¥ 97,733        | ¥ 97,733   |                      |
| Short-term borrowings                | 86,730          | 86,730     |                      |
| Income taxes payable                 | 8,114           | 8,114      |                      |
| Long-term debt                       | 309,590         | 316,060    | ¥6,470               |
| Total                                | ¥502,167        | ¥508,637   | ¥6,470               |
| Derivatives                          | ¥ 455           | ¥ 455      |                      |



## Assets

### **Cash and cash equivalents and short-term investments**

The carrying values of cash and cash equivalents and short-term investments approximate fair value because of their short maturities.

### **Trade notes and accounts receivables**

The carrying values of trade notes and accounts receivables approximate fair value because of their short maturities.

### **Investment securities**

The fair values of equity securities are measured at the quoted market price of the stock exchange for the equity instruments, the fair value of debt securities are measured at the amount to be received through maturity discounted at the Group's assumed corporate discount rate, and the fair values of investment trusts are measured at the constant value. The information of the fair value for the investment securities by classification is included in Note 4.

## Liabilities

### **Trade notes and accounts payables, short-term borrowings, and income taxes payable**

The carrying values of trade notes and accounts payables, short-term borrowings, and income taxes payable approximate fair value because of their short maturities.

### **Long-term debt**

The fair values of bonds are determined at the quoted market price of the over-the-counter market for the corporate bonds, and the fair values of long-term loans are determined by discounting the cash flows related to the loans at the Group's assumed corporate borrowing rate. The fair values of long-term loans with floating interest, which are hedged by the interest rate swaps which qualify for hedge accounting and meet specific matching criteria, are determined by discounting the cash flows related to the loans and the interest rate swaps at the Group's assumed corporate borrowing rate.

### **Derivatives**

The fair value of derivatives is measured at quoted price obtained from the financial institution.

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

### **Derivative transactions to which hedge accounting is not applied**

|                             | Millions of yen |                                    |            |                        |
|-----------------------------|-----------------|------------------------------------|------------|------------------------|
|                             | 2011            |                                    |            |                        |
|                             | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain (Loss) |
| Forward exchange contracts: |                 |                                    |            |                        |
| Selling: GBP                | ¥ 3,122         |                                    | ¥ 53       | ¥ 53                   |
| EUR                         | 28,829          |                                    | (225)      | (225)                  |
| USD                         | 12,560          |                                    | 51         | 51                     |
| AUD                         | 4,200           |                                    | (109)      | (109)                  |
| NZD                         | 113             |                                    | (11)       | (11)                   |
| ZAR                         | 1,364           |                                    | (11)       | (11)                   |
| CZK                         | 4,432           |                                    | (134)      | (134)                  |
| HKD                         | 856             |                                    | 1          | 1                      |
| PLN                         | 324             |                                    | 1          | 1                      |
| SGD                         | 1,727           |                                    | (23)       | (23)                   |
| MYR                         | 1,731           |                                    | (12)       | (12)                   |
| CAD                         | 11              |                                    | (1)        | (1)                    |
| BRL                         | 725             |                                    | (42)       | (42)                   |
| INR                         | 508             |                                    | (8)        | (8)                    |
| Buying: USD                 | 499             |                                    | 8          | 8                      |
| Currency swaps:             |                 |                                    |            |                        |
| Receive JPY/Pay HKD         | ¥ 165           | ¥83                                | ¥ 33       | ¥ 33                   |
| Receive JPY/Pay USD         | 6,596           |                                    | (63)       | (63)                   |
| Commodity future contracts: |                 |                                    |            |                        |
| Metal                       |                 |                                    |            |                        |
| Buying                      | ¥ 877           |                                    | ¥332       | ¥332                   |

| Millions of yen             |                 |                                    |            |                        |
|-----------------------------|-----------------|------------------------------------|------------|------------------------|
| 2010                        |                 |                                    |            |                        |
|                             | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain (Loss) |
| Forward exchange contracts: |                 |                                    |            |                        |
| Selling: GBP                | ¥ 1,934         |                                    | ¥ 8        | ¥ 8                    |
| EUR                         | 23,526          |                                    | 134        | 134                    |
| USD                         | 8,663           |                                    | 31         | 31                     |
| AUD                         | 3,468           |                                    | (29)       | (29)                   |
| NZD                         | 215             |                                    | 29         | 29                     |
| ZAR                         | 2,375           |                                    | (53)       | (53)                   |
| CZK                         | 1,771           |                                    | (14)       | (14)                   |
| HKD                         | 725             |                                    | 10         | 10                     |
| PLN                         | 277             |                                    | (4)        | (4)                    |
| SGD                         | 1,414           |                                    | 12         | 12                     |
| MYR                         | 201             |                                    | 2          | 2                      |
| CAD                         | 354             |                                    | 4          | 4                      |
| MXN                         | 583             |                                    | 6          | 6                      |
| INR                         | 449             |                                    | (13)       | (13)                   |
| Buying: EUR                 | 96              |                                    | 0          | 0                      |
| CZK                         | 12              |                                    | 0          | 0                      |
| Currency swaps:             |                 |                                    |            |                        |
| Receive JPY/Pay HKD         | ¥ 248           | ¥165                               | ¥ 24       | ¥ 24                   |
| Receive JPY/Pay USD         | 5,915           |                                    | (284)      | (284)                  |
| Commodity future contracts: |                 |                                    |            |                        |
| Metal                       |                 |                                    |            |                        |
| Buying                      | ¥ 1,183         |                                    | ¥225       | ¥225                   |

#### Derivative transactions to which hedge accounting is applied

| Millions of yen                            |                |                 |                                    |            |
|--|----------------|-----------------|------------------------------------|------------|
| 2011                                       |                |                 |                                    |            |
|  | Hedged Item    | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Forward exchange contracts:                |                |                 |                                    |            |
| Selling: GBP                               | Receivables    | ¥ 5,235         |                                    | ¥ 156      |
| EUR  | Receivables    | 27,106          |                                    | 2          |
| USD  | Receivables    | 291             |                                    | 10         |
| AUD  | Receivables    | 1,118           |                                    | (43)       |
| ZAR  | Receivables    | 946             |                                    | (8)        |
| CZK  | Receivables    | 7,085           |                                    | (338)      |
| PLN  | Receivables    | 926             |                                    | 10         |
| Buying: USD                                | Payables       | 3,409           |                                    | 78         |
| Interest rate swaps:                       |                |                 |                                    |            |
| Fixed rate payment, floating rate receipt  | Long-term debt | ¥ 30,000        | ¥ 30,000                           | ¥(118)     |
| Fixed rate payment, floating rate receipt* | Long-term debt | 122,000         | 122,000                            |            |

|  |                | Millions of yen |                                    |            |
|--|----------------|-----------------|------------------------------------|------------|
|  |                | 2010            |                                    |            |
|  | Hedged Item    | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Forward exchange contracts:                |                |                 |                                    |            |
| Selling: GBP                               | Receivables    | ¥ 4,805         |                                    | ¥ 19       |
| EUR  | Receivables    | 21,323          |                                    | 406        |
| USD  | Receivables    | 1,433           |                                    | (5)        |
| AUD  | Receivables    | 683             |                                    | (26)       |
| ZAR  | Receivables    | 1,306           |                                    | (81)       |
| CZK  | Receivables    | 4,436           |                                    | 101        |
| PLN  | Receivables    | 754             |                                    | (31)       |
| Buying: USD                                | Payables       | 2,512           |                                    | 106        |
| Interest rate swaps:                       |                |                 |                                    |            |
| Fixed rate payment, floating rate receipt  | Long-term debt | ¥ 30,000        | ¥ 30,000                           | ¥(122)     |
| Fixed rate payment, floating rate receipt* | Long-term debt | 131,030         | 122,000                            |            |

\*The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in long-term debt.

#### Financial instruments whose fair value cannot be reliably determined

|   |  | Millions of yen |         |
|---|--|-----------------|---------|
|   |  | Carrying Amount |         |
|   |  | 2011            | 2010    |
| Non-listed equity securities  |  | ¥ 7,038         | ¥ 7,177 |
| Investment securities in unconsolidated subsidiaries and associated companies |  | 4,400           | 4,383   |
| Investments in limited partnerships and other investments                     |  | 972             | 1,190   |
| Total   |  | ¥12,410         | ¥12,750 |

#### Maturity analysis for financial assets and securities with contractual maturities

|  |  | Millions of yen         |                                       |  |                     |
|--|--|-------------------------|---------------------------------------|--|---------------------|
|  |  | 2011                    |                                       |  |                     |
|  |  | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and cash equivalents  |  | ¥167,296                |                                       |  |                     |
| Short-term investments   |  | 423                     |                                       |  |                     |
| Trade notes and accounts receivable  |  | 198,920                 |                                       |  |                     |
| Investment securities  |  |                         |                                       |  |                     |
| Available-for-sale securities with contractual maturities (Corporate Bond) |  | 25                      | ¥100                                  | ¥50                                    |                     |
| Total  |  | ¥366,664                | ¥100                                  | ¥50                                    |                     |

Please see Note 7 for annual maturities of long-term debt.

## 15. Commitments and Contingent Liabilities

At March 31, 2011, the Group had the following commitment.

|                      | Millions of yen |
|----------------------|-----------------|
| Capital expenditures | <b>¥8,587</b>   |

At March 31, 2011, the Group had the following contingent liabilities.

|  | Millions of yen |
|--|-----------------|
| Trade notes discounted                     | <b>¥ 142</b>    |
| Trade notes endorsed                       | <b>1,928</b>    |
| Guarantees and similar items of bank loans | <b>668</b>      |

## 16. Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 consists of the following.

|   | Millions of yen |
|---|-----------------|
| Other comprehensive income:   |                 |
| Unrealized gain on available-for-sale securities  | ¥14,896         |
| Deferred loss on derivatives under hedge accounting                                     | (303)           |
| Foreign currency translation adjustments  | 2,019           |
| Share of other comprehensive income in affiliates accounted for using the equity method | (240)           |
| Total other comprehensive income  | <b>¥16,372</b>  |

Total comprehensive income for the year ended March 31, 2010 comprises the following.

|   | Millions of yen |
|---|-----------------|
| Total comprehensive income attributable to: |                 |
| Owners of the Company                       | ¥35,551         |
| Minority interests                          | 2,920           |
| Total comprehensive income                  | <b>¥38,471</b>  |

## 17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 was as follows:

|   | Millions of yen | Thousands of shares        | Yen           |
|---|-----------------|----------------------------|---------------|
|   | Net Income      | Weighted<br>Average Shares | EPS           |
| <b>For the year ended March 31, 2011</b>    |                 |                            |               |
| Basic EPS                                   |                 |                            |               |
| Net income available to common shareholders | <b>¥19,873</b>  | <b>291,661</b>             | <b>¥68.14</b> |
| Effect of dilutive securities               |                 |                            |               |
| Stock options                               |                 | <b>6</b>                   |               |
| Diluted EPS                                 |                 |                            |               |
| Net income for computation                  | <b>¥19,873</b>  | <b>291,667</b>             | <b>¥68.14</b> |
| <b>For the year ended March 31, 2010</b>    |                 |                            |               |
| Basic EPS                                   |                 |                            |               |
| Net income available to common shareholders | ¥19,391         | 291,867                    | ¥66.44        |
| Effect of dilutive securities               |                 |                            |               |
| Stock options                               |                 | 28                         |               |
| Diluted EPS                                 |                 |                            |               |
| Net income for computation                  | ¥19,391         | 291,895                    | ¥66.43        |

## 18. Segment Information

### For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance were applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

### 1. Description of Reportable Segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Company's Board of Directors is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the "Air Conditioning" segment and the "Chemicals" segment.

The "Air Conditioning" segment manufactures, distributes and installs air conditioning and refrigeration equipment. The "Chemicals" segment manufactures and distributes of chemicals.

### 2. Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are approximately consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".

### 3. Information about Sales, Profit (Loss), Assets and Other Items is as Follows.

|  | Millions of yen     |           |            |         |            |                 |              |
|--|---------------------|-----------|------------|---------|------------|-----------------|--------------|
|  | 2011                |           |            |         |            |                 |              |
|  | Reportable Segment  |           |            |         |            |                 | Consolidated |
|  | Air<br>Conditioning | Chemicals | Total      | Other   | Total      | Reconciliations |              |
| Sales:   |                     |           |            |         |            |                 |              |
| Sales to external customers  | ¥1,004,579          | ¥114,774  | ¥1,119,353 | ¥40,978 | ¥1,160,331 |                 | ¥1,160,331   |
| Intersegment sales   | 1,039               | 6,411     | 7,450      | 262     | 7,712      | ¥ (7,712)       |              |
| Total  | 1,005,618           | 121,185   | 1,126,803  | 41,240  | 1,168,043  | (7,712)         | 1,160,331    |
| Segment profit (loss)  | 64,658              | 10,852    | 75,510     | (43)    | 75,467     | (12)            | 75,455       |
| Segment assets   | 875,921             | 117,038   | 992,959    | 29,916  | 1,022,875  | 109,632         | 1,132,507    |
| Other:   |                     |           |            |         |            |                 |              |
| Depreciation   | ¥ 26,928            | ¥ 10,487  | ¥ 37,415   | ¥ 2,094 | ¥ 39,509   |                 | ¥ 39,509     |
| Amortization of goodwill   | 11,765              | 78        | 11,843     |         | 11,843     |                 | 11,843       |
| Investment balance in<br>unconsolidated subsidiaries<br>and associated companies<br>accounted for using<br>the equity method | 6,979               | 4,329     | 11,308     | 651     | 11,959     |                 | 11,959       |
| Investment in property, plant<br>and equipment and<br>intangible assets  | 23,070              | 5,380     | 28,450     | 1,544   | 29,994     |                 | 29,994       |



| Millions of yen  |                     |           |          |         |            |                 |              |
|--|---------------------|-----------|----------|---------|------------|-----------------|--------------|
| 2010   |                     |           |          |         |            |                 |              |
| Reportable Segment   |                     |           |          |         |            |                 |              |
|  | Air<br>Conditioning | Chemicals | Total    | Other   | Total      | Reconciliations | Consolidated |
| Sales:   |                     |           |          |         |            |                 |              |
| Sales to external customers  | ¥905,571            | ¥ 86,224  | ¥991,795 | ¥32,169 | ¥1,023,964 |                 | ¥1,023,964   |
| Intersegment sales   | 340                 | 3,682     | 4,022    | 13      | 4,035      | ¥ (4,035)       |              |
| Total  | 905,911             | 89,906    | 995,817  | 32,182  | 1,027,999  | (4,035)         | 1,023,964    |
| Segment profit (loss)  | 46,296              | 710       | 47,006   | (3,089) | 43,917     | 121             | 44,038       |
| Segment assets   | 870,449             | 118,987   | 989,436  | 30,404  | 1,019,840  | 119,816         | 1,139,656    |
| Other:   |                     |           |          |         |            |                 |              |
| Depreciation   | ¥ 27,766            | ¥ 10,242  | ¥ 38,008 | ¥ 2,263 | ¥ 40,271   |                 | ¥ 40,271     |
| Amortization of goodwill   | 12,027              | 85        | 12,112   |         | 12,112     |                 | 12,112       |
| Investment balance in<br>unconsolidated subsidiaries<br>and associated companies<br>accounted for using<br>the equity method | 7,519               | 3,690     | 11,209   | 458     | 11,667     |                 | 11,667       |
| Investment in property, plant<br>and equipment and<br>intangible assets  | 23,438              | 5,668     | 29,106   | 1,384   | 30,490     |                 | 30,490       |

- Notes: 1. The "Other" segment is the aggregation of the other operating segments which are not included in the reportable segments and consists of "Oil Hydraulics" segment, "Defense" segment, and "Electronics" segment.
2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amount to ¥118,148 million and ¥129,533 million at March 31, 2011 and 2010, respectively, which consolidated mainly of the Company's cash, time deposits, short-term investments and investment securities.
3. The aggregated amount of segment profit (loss) equals to operating income in the consolidated statements of income.
4. Intersegment sales are recorded at values that approximate market prices.

#### 4. Supplemental Information

##### (1) Information about geographical areas

###### a. Sales

| Millions of yen |          |          |                     |          |         |              |
|-----------------|----------|----------|---------------------|----------|---------|--------------|
| 2011            |          |          |                     |          |         |              |
| Japan           | China    | Europe   | Asia and<br>Oceania | Americas | Other   | Consolidated |
| ¥446,840        | ¥182,314 | ¥224,377 | ¥162,733            | ¥118,806 | ¥25,261 | ¥1,160,331   |

Note: Sales are classified in countries or regions based on location of customers.

###### b. Property, Plant and Equipment

| Millions of yen |         |          |         |                     |        |              |
|-----------------|---------|----------|---------|---------------------|--------|--------------|
| 2011            |         |          |         |                     |        |              |
| Japan           | China   | Americas | Europe  | Asia and<br>Oceania | Other  | Consolidated |
| ¥95,459         | ¥31,992 | ¥26,388  | ¥30,767 | ¥27,841             | ¥1,561 | ¥214,008     |

##### (2) Information about Goodwill

Goodwill for each reportable segment at March 31, 2011 was as follows:

| Millions of yen |                     |           |       |                               |              |
|-----------------|---------------------|-----------|-------|-------------------------------|--------------|
| 2011            |                     |           |       |                               |              |
|                 | Air<br>Conditioning | Chemicals | Other | Eliminations<br>and Corporate | Consolidated |
| Goodwill        | ¥170,524            | ¥38       |       |                               | ¥170,562     |

## For the year ended March 31, 2010

### (1) Industry Segments

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Group prior to the revision of ASBJ Statement No. 17 for the year ended March 31, 2010, was as follows:

#### a. Sales and Operating Income

|                         | Millions of yen  |           |           |                            |              |
|-------------------------|------------------|-----------|-----------|----------------------------|--------------|
|                         | 2010             |           |           |                            |              |
|                         | Air Conditioning | Chemicals | Other     | Eliminations and Corporate | Consolidated |
| Sales to customers      | ¥908,565         | ¥86,224   | ¥29,175   |                            | ¥1,023,964   |
| Intersegment sales      | 340              | 3,682     | 12        | ¥(4,034)                   |              |
| Total sales             | 908,905          | 89,906    | 29,187    | (4,034)                    | 1,023,964    |
| Operating expenses      | 863,120          | 89,196    | 31,765    | (4,155)                    | 979,926      |
| Operating income (loss) | ¥ 45,785         | ¥ 710     | ¥ (2,578) | ¥ 121                      | ¥ 44,038     |

#### b. Assets, Depreciation and Capital Expenditures

|                      | Millions of yen  |           |         |                            |              |
|----------------------|------------------|-----------|---------|----------------------------|--------------|
|                      | 2010             |           |         |                            |              |
|                      | Air Conditioning | Chemicals | Other   | Eliminations and Corporate | Consolidated |
| Assets               | ¥874,177         | ¥118,987  | ¥26,675 | ¥119,817                   | ¥1,139,656   |
| Depreciation         | 28,382           | 10,243    | 1,646   |                            | 40,271       |
| Capital expenditures | 23,985           | 5,669     | 836     |                            | 30,490       |

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

Notes: Air Conditioning consists of Air Conditioning and Refrigeration Equipment, Electronics, Vacuums and Cryogenics and Medical Equipment.

Chemicals consists of Fluorochemicals.

Other consists of Oil Hydraulics and Defense.

### (2) Geographical Segments

The geographical segments of the Group for the year ended March 31, 2010 were summarized below:

|                            | Millions of yen |                  |          |           |         |                            |
|----------------------------|-----------------|------------------|----------|-----------|---------|----------------------------|
|                            | 2010            |                  |          |           |         |                            |
|                            | Japan           | Asia and Oceania | Europe   | Americas  | Other   | Eliminations and Corporate |
| Sales to outside customers | ¥409,223        | ¥260,303         | ¥240,632 | ¥ 98,034  | ¥15,772 |                            |
| Interarea transfers        | 86,375          | 62,758           | 13,490   | 5,680     | 115     | ¥(168,418)                 |
| Total sales                | 495,598         | 323,061          | 254,122  | 103,714   | 15,887  | (168,418)                  |
| Operating expenses         | 507,448         | 285,075          | 233,533  | 107,978   | 15,243  | (169,351)                  |
| Operating income (loss)    | ¥ (11,850)      | ¥ 37,986         | ¥ 20,589 | ¥ (4,264) | ¥ 644   | ¥ 933                      |
| Assets                     | ¥501,672        | ¥393,839         | ¥208,846 | ¥115,376  | ¥12,294 | ¥ (92,371)                 |

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

### (3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2010 were as follows:

|                                  | Millions of yen |
|----------------------------------|-----------------|
|                                  | 2010            |
| Asia and Oceania                 | ¥275,709        |
| Europe                           | 228,885         |
| Americas                         | 108,950         |
| Other                            | 25,440          |
| Total sales to foreign customers | ¥638,984        |

## 19. Losses from a Natural Disaster

Losses from a natural disaster was the loss attributed from the impact of the Great East Japan Earthquake and details of loss are as follows:

|   | Millions of yen |
|---|-----------------|
|   | 2011            |
| Write-down and cost for repair of inventories         | ¥ 682           |
| Expenses for repair of property, plant and equipments | 233             |
| Other   | 190             |
| Total   | ¥1,105          |

## 20. Subsequent Events

Resolutions approved by the Company's Board of Directors meeting held on May 11, 2011, which is subject to approval at the general shareholders' meeting planned to be held on June 29, 2011;

### a. Appropriations of Retained Earnings

Payment of a year-end cash dividend of ¥18 per share to holders of record at March 31, 2011, totaling ¥5,250 million was approved.

### b. Purchase of Treasury Stock

Repurchase up to 400 thousand shares of the Company's common stock (aggregate amount of ¥1,600 million) as treasury stock until the next general shareholders' meeting was approved.



Deloitte Touche Tohmatsu LLC  
Yodoyabashi Mitsui Building  
4-1-1, Imabashi, Chuo-ku  
Osaka 541-0042  
Japan

Tel: +81 (6) 4560 6000  
Fax: +81 (6) 4560 6001  
[www.deloitte.com/jp](http://www.deloitte.com/jp)

## 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 (the "Group") as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011 and the related consolidated statements of changes in equity, and cash flows for the years then ended March 31, 2011 and 2010. 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, 2011 and 2010, 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 L.L.C*

June 27, 2011

Member of  
Deloitte Touche Tohmatsu Limited

## Corporate Data (As of March 31, 2011)

|  |  |
|--|--|
| <b>Head Office</b>                                     | Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan<br>Phone: 81-6-6373-4312 Facsimile: 81-6-6373-4380<br>URL: <a href="http://www.daikin.com/">http://www.daikin.com/</a>  |
| <b>Tokyo Office</b>                                    | JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan<br>Phone: 81-3-6716-0111 Facsimile: 81-3-6716-0200  |
| <b>Fiscal Year-End Date</b>                            | March 31 on an annual basis  |
| <b>Date of Founding</b>                                | October 25, 1924   |
| <b>Date of Establishment</b>                           | February 11, 1934  |
| <b>Paid-in Capital</b>                                 | ¥85,032 million  |
| <b>Number of Shares of Common Stock Issued</b>         | 293,113 thousand   |
| <b>Number of Shareholders</b>                          | 48,191   |
| <b>Major Shareholders</b>                              | Japan Trustee Services Bank, Ltd.<br>State Street Bank and Trust Company<br>The Master Trust Bank of Japan, Ltd.<br>Panasonic Corporation<br>Sumitomo Mitsui Banking Corporation<br>Northern Trust Company<br>Trust & Custody Services Bank, Ltd.<br>The Bank of New York Mellon Corporation<br>SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS<br>Chase Manhattan Bank |
| <b>Number of Subsidiaries and Affiliated Companies</b> | Subsidiaries: 191 Affiliates: 11   |
| <b>Number of Employees</b>                             | 41,569 (Consolidated)  |
| <b>Stock Exchange Listings</b>                         | Tokyo, Osaka   |
| <b>Advertising Method</b>                              | The Company uses the electronic advertising method, posting advertisements on its website ( <a href="http://www.daikin.co.jp/e/koukoku/">http://www.daikin.co.jp/e/koukoku/</a> ). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the <i>Nikkei Shimbun</i> .    |
| <b>Shareholder Register Administrator</b>              | Mitsubishi UFJ Trust and Banking Corporation<br>3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan  |
| <b>Ordinary General Meeting of Shareholders</b>        | June   |
| <b>Auditor</b>   | Deloitte Touche Tohmatsu LLC   |





## **DAIKIN INDUSTRIES, LTD.**



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