



Annual Report 2012

Fiscal Year Ended March 31, 2012



Addressing Energy Issues and Realizing Corporate Growth in Harmony with Society

More than a year after the Great East Japan Earthquake disaster, the Japanese society is confronting electric power shortages and other energy issues that are comparable to the global warming issue in their critical importance. The increasing emphasis on electric power conservation has brought about considerable changes in the Japanese population's perspectives on energy, and the current situation in Japan has spurred energy-related debates as well as government policy changes in other countries throughout the world.

The Daikin Group's mainstay business field is air conditioning, and products in this field account for a large share of overall electric power consumption. We are strongly conscious that this factor makes it crucial for us to successfully carry out our corporate mission.

As a comprehensive maker of air conditioners with global operations, the Daikin Group is committed to providing air-conditioning products and solutions that help prevent global warming and contribute to the resolution of energy shortages. Aiming to be "a truly global and excellent company" capable of continually creating new value, we are pursuing sustainable growth as a corporation while striving to undertake business operations that consistently harmonize with and contribute to the societies of all the world's countries and regions.



Our Group Philosophy

- 1. Create New Value by Anticipating the Future Needs of Customers**
- 2. Contribute to Society with World-Leading Technologies**
- 3. Realize Future Dreams by Maximizing Corporate Value**
- 4. Think and Act Globally**
- 5. Be a Flexible and Dynamic Group**
 1. Flexible Group Harmony
 2. Build Friendly yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit
- 6. Be a Company that Leads in Applying Environmentally Friendly Practices**
- 7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust**
 1. Be Open, Fair, and Known to Society
 2. Make Contributions that Are Unique to Daikin to Local Communities
- 8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group**
 1. The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development
 2. Pride and Loyalty
 3. Passion and Perseverance
- 9. Be Recognized Worldwide by Optimally Managing the Organization and its Human Resources, under Our 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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A Message from the CEO



Daikin has overcome fierce headwinds to achieve growth in both sales and profitability for two consecutive fiscal years. Going forward, the Daikin Group will continue to leverage its special corporate strengths and the concerted implementation efforts of each of its employees as it demonstrates strong leadership in an era of momentous change.

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Interview with the President



Daikin was successful in smoothly launching its FUSION 15 strategic management plan during fiscal 2012. Aiming to attain the plan's targets by fiscal 2016—the final year of FUSION 15—while maintaining robust profitability over the short term, the Company intends to generate strong results through the speedy implementation of diverse measures.

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At a Glance



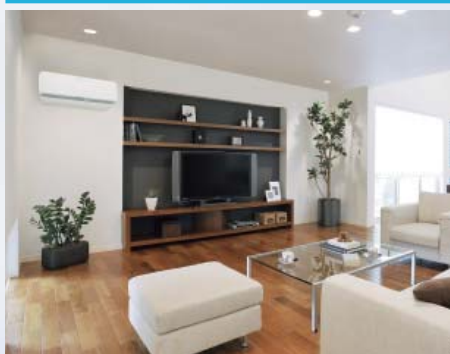
The Daikin Group's technological strengths related to air conditioning and fluorochemicals have enabled the Group to provide products that are increasing the comfort and amenity of life for people throughout the world. The Group is employing leading-edge environmental technologies—such as those related to heat pumps, invertors, and refrigerant controls—to develop and supply products and services that are helping restrain increases in energy consumption.

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.

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Review of Operations



On a consolidated basis, the Daikin Group's net sales rose to ¥1,218.7 billion, and operating income grew to ¥81.2 billion—thus, both sales and profitability were up compared with the previous fiscal year. In air-conditioning business, the Group increased its sales in Japan and recorded strong growth in the markets of China and other emerging countries. With respect to chemicals business, the Group's sales-promotion measures in China and elsewhere in the world contributed to robust performance.

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Corporate Governance



The Daikin Group seeks to stay a half step ahead of changes in its management challenges and its operating environment by promoting the acceleration of its decision-making and implementation processes, and the Group is striving to increase its corporate value through tireless efforts to increase the transparency and soundness of its management.

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Leading in an Era of Momentous Change

Daikin has overcome fierce headwinds to achieve growth in both sales and profitability for two consecutive fiscal years. Going forward, the Daikin Group will continue to leverage its special corporate strengths and the concerted implementation efforts of each of its employees as it demonstrates strong leadership in an era of momentous change.

Fiscal 2012 (ended March 31, 2012)—the first year of our five-year strategic management plan, FUSION 15—was an extremely challenging period for Daikin's management owing to the numerous simultaneous challenges we faced, including natural disasters in Japan and elsewhere as well as the financial crisis stemming from debt issues in Europe.

We tackled diverse critical management tasks during the year, such as those involving the supplementation and restoration of supply chains interrupted by the Great East Japan Earthquake and the major flooding in Thailand, the strengthening of price-setting policies in response to surging raw materials prices, and the implementation of comprehensive cost-cutting programs focused on fixed costs as well as other costs. At the same time, we emphasized measures for accelerating and broadening our business expansion in emerging country markets and made steady progress in our efforts to enhance the profitability of our domestic operations.

By overcoming the harsh conditions in our operating environment, we were able to record year-on-year increases in our consolidated net sales and operating income. Consequently, we are proud to report that the Daikin Group has achieved growth in both sales and profitability for two consecutive fiscal years.

On the other hand, the outlook for the global economy remains opaque, while in Japan it cannot be denied that there are serious dangers associated with the impact of electric power shortages on manufacturing activities. In light of these and other current situations, we drafted the Daikin Group's New Year's policy for 2012, which calls for the Group to "be a leader in an era of momentous changes based on the concerted implementation efforts of each of its employees." This policy calls for accurately assessing the changes in our operating environment and speedily implementing measures in response to those changes while maintaining dual emphasis on the achievement of progressive business growth over the medium-to-long term along with the maintenance of robust profitability over the short term. Being aware that electric power shortages are creating severe problems for our customers in Japan, we are intent on presenting our customers with electric power conservation solution proposals even more proactively than in the past.

We are leveraging the Daikin Group's special strengths to overcome fierce headwinds from diverse directions. We have dynamic flexibility and tenacious implementation powers, and our constant efforts to reappraise our strategies in response to the momentous changes of the current era have given us a highly flexible corporate constitution that facilitates the rapid execution of strategic adjustments. By continuing to make the most of Daikin's strengths amid an era of momentous changes, we are aiming to sustain the upward trajectory of our sales and profitability, attain the ambitious goals of our FUSION 15 plan, and thereby live up to the expectations of our shareholders going forward.

June 2012



Noriyuki Inoue
Chairman of the Board and CEO



Interview with the President

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Interview with the President

At a Glance

Review of Operations

Corporate Governance

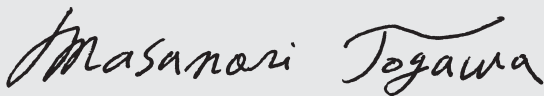
Financial Section



Generating Results with Speedy Implementation Measures

Daikin was successful in smoothly launching its FUSION 15 strategic management plan during fiscal 2012. Aiming to attain the plan's targets by fiscal 2016—the final year of FUSION 15—while maintaining robust profitability over the short term, the Company intends to generate strong results through the speedy implementation of diverse measures.

June 2012



Masanori Togawa
President and COO

Q: While the business environment was particularly harsh for manufacturing companies in fiscal 2012, could you tell us your appraisal of the results of FUSION 15 so far?

Togawa: Fiscal 2012 was my first year as Daikin's president and COO as well as being the first year of the five-year period covered by the FUSION 15 strategic management plan. Looking back at the environment for manufacturers, it goes without saying that we faced continual challenges from such situations as the global economic recession stemming from the European financial and debt crisis along with the extreme appreciation of the yen, surging raw materials prices, the Great East Japan Earthquake, and the major flooding in Thailand. However, the Daikin Group worked concertedly to overcome these difficulties, and it was able to achieve increases in both sales and profitability owing to its speedy implementation of diverse measures. On a consolidated basis, net sales rose to ¥1,218.7 billion, up 5.0% from the previous year, and operating income grew to ¥81.2 billion, up 7.6%, so fiscal 2012 was Daikin's second consecutive year of increases in both sales and profitability.

Designed to address diverse business growth opportunities associated with the economic, industrial, and social paradigm shift that is ongoing and global in scope, FUSION 15 entails implementing the reforms required to ensure our success in the paradigm shift era along with our transformation into "a truly global and excellent company." By fiscal 2016, the final year of FUSION 15, we are aiming to boost our consolidated net sales and operating income to above ¥2 trillion and ¥200 billion, respectively, and achieve an overseas business ratio higher than 70%. The main strategies of the plan call for establishing

full-scale presences in the volume zones of emerging country markets; developing solutions businesses that meet customer needs; expanding environment-related innovation business; and arranging alliances, partnerships, and M&A transactions to further accelerate our business expansion.

FUSION 15 also encompasses a "first-half plan" covering the three-year period through fiscal 2014. Aimed at establishing a new foundation for business development, the first-half plan has the quantitative target of elevating operating income to ¥130 billion. During fiscal 2012, we initiated various measures to attain that target, including moves to establish new development, manufacturing, and marketing promotion systems in Japan and overseas. Although the full-scale benefits of FUSION 15 are yet to come, our achievement of increases in both sales and profitability during fiscal 2012 reflects the smoothness of the plan's launch and the initial realization of the plan's objective with respect to short-term profitability.

Q: One of the current paradigm shifts—the shift of growth markets from industrialized to emerging countries—is proceeding quite quickly. What kinds of measures are you planning in response to that shift?

Togawa: The Daikin Group has achieved great business development based on a business model for marketing high-end products in the Japanese, European, and Chinese markets. The main locus of global competition has moved to the emerging countries, however, and accurately responding to the growing needs of middle-income consumers in those emerging countries is the key to succeeding amid global competition at this point.

The most-important prerequisite for meeting those needs is cost-competitiveness. To ensure we have such cost-competitiveness, we are developing our local manufacturing, local development, and local procurement capabilities at a rapid pace.

In the top priority market of India, we have been appropriately combining measures for establishing local product development and manufacturing capabilities with measures for locally procuring materials and components in accordance with our strategy for strengthening cost-competitiveness and elevating profitability. Having previously begun manufacturing commercial air conditioners (multiple air-conditioning systems for office buildings) in India, we have now also started to locally manufacture residential air-conditioner products. The new residential air-conditioner products we have developed for the Indian market are energy-saving inverter models of a type that is still rare in India, but our moves to increase our local component procurement rates to 75% and higher and other initiatives have enabled us to reduce associated costs by a large margin.

In Brazil, which is another top priority market, we inaugurated our local manufacturing operations in February 2012, and we are moving ahead with a strategy there that calls for considering the potential for developing related business in all the countries in the vicinity of Brazil.

With respect to chemicals business, we are emphasizing measures to augment our operations in the relatively new market of China. By leveraging our local manufacturing strengths and accelerating our development of applications centered on social infrastructure applications, we have been able to accelerate our sales expansion in China.

Q: You are also aiming to maintain the Daikin Group's presence in industrialized countries and augment the Group's revenue in those countries. Please explain your strategies for doing this.

Togawa: While the industrialized country markets are generally mature, we are confident that launching efforts to expand solutions business that encompasses air-conditioner equipment together with operational management systems and maintenance services will make it possible to pioneer new markets. The Great East Japan Earthquake has spurred increasing consciousness of energy issues in Japan as well as other countries throughout the world, and we believe this consciousness is linked to a rise in new kinds of electric power conservation needs or energy management needs. This means that there is additional growth potential even in what are considered mature markets of the industrialized countries. By leveraging our superior technological power to undertake business involving high-value-added solutions, we intend to address latent demand and thereby do our best to expand our revenue in industrialized country markets.

With respect to our business systems in Japan, in April 2011, we strengthened our air-conditioner marketing company functions and established a nationwide network of regional marketing companies for HVAC (heating, ventilation, and air conditioning)

solutions, and we are using that network to respond to electric power conservation needs. In North America, we are promoting the diffusion of energy-saving types of applied (large-scale commercial) air-conditioning equipment while also expanding our service businesses. In these and other ways, we are rapidly bolstering our solutions businesses while focusing on the products, proposal types, and target customers that are most appropriate in light of the degree of market maturity in individual countries and regions.

Concurrently, we are moving ahead with measures to promote the expansion of our environment-related innovation business in industrialized country markets. Regarding room- and water-heating equipment business, we are endeavoring to expand our business involving standard air-source heat pumps as well as hybrid products incorporating gas boilers and even systems incorporating ground-source heat pumps. In Europe, we have been expanding our room-heating equipment business despite the recession, and we were able to achieve a year-on-year increase in our unit sales volume for Daikin Altherma air-to-water heat pump systems for room heating and domestic hot water supply. Going forward, we plan to further broaden the scope and scale of this business by employing our heat-pump technologies to develop new products and offer hybrid systems combining heat-pump and combustion units as well as by adding solar heating and other products to our lineup.

Q: Could you tell us about your progress and prospects related to the FUSION 15 strategy of employing alliances, partnerships, and M&A transactions to further accelerate business expansion?

Togawa: One noteworthy example of this strategy in the past is our fiscal 2007 acquisition of the OYL Group, which gave us a full-scale presence in the North American market. By integrating Daikin's environmental technologies with OYL offerings to create highly differentiated products and services, we have expanded our applied business in the North American market and generated various synergies throughout our global air-conditioning operations.

Our collaboration with China-based Gree Electric Appliances, Inc., of Zhuhai, has enabled us to cooperatively develop low-cost inverter air conditioners that are changing the industry standard in the Chinese air-conditioner market. In fact, the share of inverter models sold in that market has already surged to approximately 60%.

In fiscal 2012, we acquired Airfel A.S., a Turkey-based air-conditioner maker. Airfel has technological capabilities for the in-house development and manufacturing of HVAC products, and it has built up a marketing and service network that is a powerful asset for the Daikin Group.

Turkey was able to quickly reattain rapid economic growth rates following the Lehman shock, and we expect the Turkish air-conditioning market to roughly double in size, to €1,700 million (approximately ¥170 billion) by 2015. While most residential

air conditioners currently sold in Turkey are non-inverter models, such factors as the government's moves to increase the rigor of environmental regulations are expected to spur a shift to inverter models, so Daikin is in an excellent position to expand its share of the residential air-conditioner market.

We plan to quickly expand the Group's operations in Turkey by supplementing Airfel's extensive product lineup with Daikin's highly differentiated, high-value-added offerings, and by making the most of opportunities presented by Turkey's dynamic economic growth, rising demand, and changing regulatory environment.

Furthermore, Turkey's geographical positioning makes it highly suitable to serve as a base for pioneering the promising markets of the Middle East, Africa, and Central Asia regions as well as of Russia and its adjacent countries.

As we are aiming to establish an overwhelmingly strong competitive position in the global market, we will continue to seek additional opportunities for M&A transactions and alliances going forward.

Q: In light of the continued uncertainty regarding the likelihood of a recovery in the global economy during fiscal 2013, could you tell us about any strategic adjustments you may have in mind for the second year of FUSION 15 as well as your views on Daikin's performance forecast? In addition, please explain how you determined the level of cash dividends applicable to fiscal 2012.

Togawa: We believe that competition in our operating environment will inevitably become harsher during fiscal 2013. Moreover, with respect to our attainment of FUSION 15 objectives, we recognize that the impact of progressive yen appreciation will be greater than anticipated at the time we drafted the plan, and we have great concern about the deterioration of economic conditions in Europe and elsewhere in the world. We remain confident that the corporate development road map laid out in FUSION 15 is optimal, however; so, we will be endeavoring to further increase the magnitude of our accomplishments in each market by strategically and proactively striving to overcome whatever obstacles we encounter. We are resolutely committed to attaining the targets of the plan.

Regarding air-conditioning business in fiscal 2013, in China, we are seeking to expand our sales in the country's midwestern region and other inland regions while concurrently taking speedy and proactive steps to expand our presence in additional Chinese markets with growth potential, such as the market for residential multiple air conditioners and the market for manufacturing plant HVAC solutions. In Japan and Europe, we anticipate that the business environment will continue to be severe, but we intend to expand our market shares through the proactive launch of highly differentiated products while also striving to enhance our profitability through the thorough implementation of comprehensive cost-cutting measures.



Rather than restricting its application to emerging countries, we will be implementing our volume-zone strategy in Italy, Spain, and other markets where slack economic conditions are increasing the importance of price factors, together with performance factors, in purchasing decisions. With respect to emerging countries, we would like to get our sales promotion programs firmly on track in Turkey, India, Vietnam, and Brazil. We are also working to accelerate the implementation of our high-earning-power business model through the execution of measures to localize development, procurement, and manufacturing operations.

In chemicals business, we aim to move further ahead with our development of new applications, and we are targeting additional sales increases in markets centered on the Chinese market. We are also planning to implement investments for the concentrated expansion of production capabilities in China and the United States and to boldly proceed with our strategies for becoming the global No. 1 company in our market segments.

In all our businesses, we will be taking thorough steps to reduce fixed costs, lower inventory levels, and implement strategic selling-price measures in response to surging raw materials prices. By resolutely sustaining these and other measures designed to fundamentally improve our management constitution, we will seek to further upgrade our earning power going forward.

By implementing these strategies as quickly as is feasible, we are aiming to sustain the upward momentum of the Daikin Group's sales and profitability during fiscal 2013 and position ourselves to attain the ¥130 billion operating income target of FUSION 15 for fiscal 2014. Specifically, our consolidated performance targets for fiscal 2013 call for increasing net sales to ¥1,380 billion, up 13% from the previous year, and boosting operating income to ¥100 billion, up 23%.

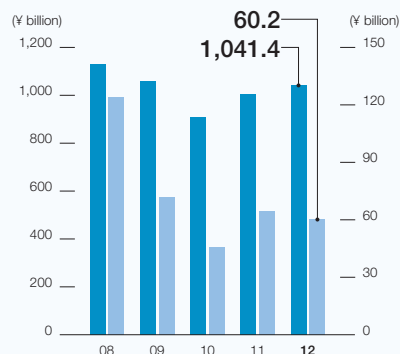
Regarding returns to shareholders, Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (DOE) at 2.0% or higher and is seeking to set stable levels of dividends based on a comprehensive consideration of such factors as the Company's consolidated performance, financial position, and funding requirements. Dividends applicable to fiscal 2012 amounted to ¥36 per share, unchanged from the previous year.

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

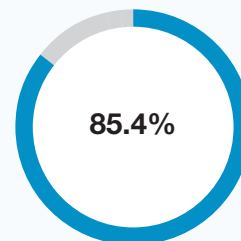
Air-Conditioning



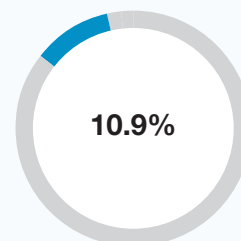
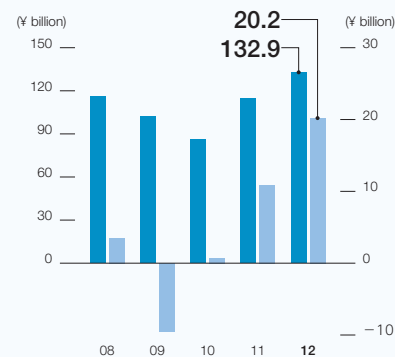
Net Sales and Operating Income (Loss)



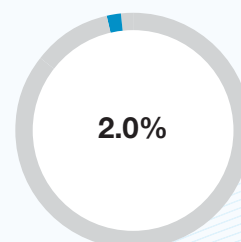
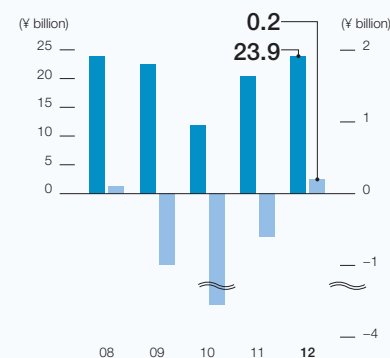
Percentage of Net Sales



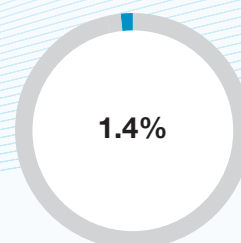
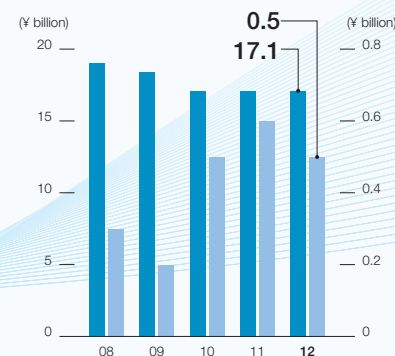
Chemicals



Oil Hydraulics



Defense



■ Net Sales (left scale)
■ Operating Income (Loss) (right scale)

Major Products & Services

Description

- 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

Overcoming Impact of Earthquake Disaster to Post Strong Performance

During fiscal 2012, air-conditioning operations in Japan faced serious challenges owing to the difficulty of obtaining sufficient volumes of certain components in the wake of the Great East Japan Earthquake disaster of March 2011. In response, the Daikin Group did its utmost to provide recovery support to component suppliers, develop replacement microcontrollers, monitor and maintain optimal inventory levels of components and products, and take other measures to minimize the impact of the crisis on its product supply capabilities. Moreover, to prepare for the possibility of other emergency situations, the Group continued working to strengthen its supply chain by taking such measures as those to reorganize its domestic and overseas procurement source network with an eye to increasing procurement stability as well as measures to optimize the allocation of manufacturing tasks.

While the entire air-conditioning industry was impacted by the earthquake disaster at the start of fiscal 2012, the unit volume of residential air-conditioner shipments in Japan during the fiscal year was approximately 8.3 million units, reflecting such supportive situations as hot summer weather

comparable to the record-breaking heat of the previous year, a recovery in housing construction starts, and a rise in replacement demand associated with the consumers' desire to purchase energy-saving air conditioners as a means of reducing their electric power consumption. Against this backdrop, the Daikin Group was able to increase its unit sales of products centered on highly energy-efficient *Ururu Sarara* residential air-conditioner models, and the Group's net sales of such products were higher than in the previous fiscal year.

Regarding commercial air-conditioner products, although shipments were temporarily suspended owing to component shortages, the Daikin Group responded to robust demand stemming from a trend of recovery in capital investments and was able to increase its net sales. Moreover, the Group's efforts to promote sales of high-value-added products and rigorously implement selling-price policies in response to surging raw materials prices enabled it to realize a large improvement in profitability.

Power of Daikin Technologies Evident in Electric Power Conservation

The power of Daikin technologies is among the principal pillars that have supported the Group's efforts to build strong brand power. Energy-saving technologies are among the most-prominent examples of Daikin's outstanding technologies, and the Group has a long record of noteworthy achievements with respect to such technologies. In response to a rise in electric power conservation needs during fiscal 2012, Daikin placed special emphasis on efforts to develop and supply new energy-saving products, services, and solutions.

The new line of *Ururu Sarara* (R Series) room air conditioners launched in February 2012 has special room heating capabilities for heightening perceived temperatures without raising temperature settings. This technology—which works by increasing humidity levels and concentrating heat output in areas near people—enables people to conserve electric power without significantly compromising on comfort levels. When the air conditioners' cooling functions are employed, the products reduce humidity levels while creating a “fluctuating airflow” stream with rhythms similar to those of natural



Eco-ZEAS80 air-conditioning systems can reduce electric power consumption without sacrificing comfort.



Ururu Sarara room air conditioners control humidity levels to enhance energy conservation while maintaining highly comfortable perceived temperatures.

breezes, thereby making it possible to reduce perceived temperatures without lowering temperature settings. Daikin estimates that the use of this room cooling and heating technology can reduce annual consumption of electric power by as much as approximately 30%.

Regarding commercial air-conditioner products, it is estimated that air conditioning accounts for roughly half of office buildings' peak summertime electric power consumption levels, so reducing this consumption is an important task. In response to this need, Daikin established its Electric Power Conservation Control Center facility in May 2011, and this facility is providing users throughout Japan with a menu of approximately 30 highly effective countermeasures for conserving power during the operation of commercial air-conditioning systems.

Representative menu items include the "on-duty energy-saving" service, a remote-control energy tuning service that responds to changing weather conditions and other situations; the "energy cut" services, which sprays water on outside air-conditioning units to increase their cooling efficiency; the "demand control" service, which makes it possible to use a remote controller to specify time periods for electric power saving measure implementation; and the "VRV Energy Tuning" service, which uses energy-conserving methods to optimize the management of multiple air-conditioning systems. Each of these services can reduce electric power consumption by margins of as much as 12% to 30%.

VRV Energy-Saving Tuning Service Wins Environment Minister Prize in 8th Eco-Product Awards

Among Daikin's power-saving support services, the "VRV Energy Tuning" service has won kudos for its high level of effectiveness. During fiscal 2012, it was awarded the Minister of the Environment Prize in the eco service division of Japan's 8th Eco-Product Awards program. This prize is given to products and services that offer outstanding contributions with respect to reducing environmental impact.

The "VRV Energy Tuning" service, offered for the management of Daikin multiple air-conditioning systems for office buildings* since September 2010, tunes external unit control panels in ways that enable power conservation while maintaining emphasis on building occupants' comfort. Accompanying the rise in electric power conservation needs following the Great East Japan Earthquake disaster, this easily introduced power-saving countermeasure has attracted increasing attention, and Daikin has recruited a large number of service subscribers.

In this and other ways, the Daikin Group is leveraging its inverter technologies and other outstanding technologies to create highly efficient air-conditioning products as well as associated control systems that further increase energy-conservation benefits. The Group is offering products together with energy-saving solutions as a means of making a significant contribution to the alleviation of Japan's electric power shortages.

**This service is compatible with four series of cooling-heating systems—the Super EX21 Multiple System for Office Buildings, the Ve-up Multiple System for Office Buildings, the Ve-upQ Renovation-Use Multiple System for Office Buildings, and the Ve-up II Multiple System for Office Buildings (including Ve-upQ models)—which were marketed during the period from 1995 through 2006.*

Air Conditioning— The Global Market

Europe: Compensating for Harsh Conditions with Volume-Zone Products and Heating System Business

During fiscal 2012, Daikin's air-conditioning business in Europe faced challenges associated with unseasonable summer weather in some regions along with a drop in general consumption owing to the economic sluggishness exacerbated by the debt crisis. Because of these situations, sharp drops were seen in sales of residential air conditioners—particularly in Italy, France, and Spain—and overall sales in Europe fell below the fiscal 2011 level.

Regarding commercial air conditioners, Daikin effectively leveraged its powerful marketing network to implement highly focused sales promotion campaigns, including energy-saving proposals and other appealing features. Although financial instability caused a sharp drop in construction-related demand, those sales promotion efforts enabled the Company to achieve a year-on-year increase in unit sales of its high-value-added VRV multi-split type commercial air-conditioning systems.

Furthermore, the recent establishment of marketing

networks for Daikin Altherma air-to-water heat pump water and room heating systems in Germany, the United Kingdom, and Italy supported growth in unit sales of such systems.

On the other hand, Daikin was able to respond to a sharp surge in demand in Russia during the first half of the fiscal year, and continued stable economic growth in Turkey enabled the Company to achieve a year-on-year sales increase in the Turkish market.

Noting that expectations of protracted slack economic conditions centering on southern European countries have generated increased demand for low-cost, volume-zone products, Daikin has decided to launch volume-zone versions of its VRV offerings, and the Company is moving ahead with preparations to launch volume-zone residential air-conditioning products.

Going forward, Daikin will continue working to strengthen its marketing systems in the principal markets of Italy, France, Spain, and the United Kingdom to ensure that those systems can provide overwhelming competitive advantages while also taking steps to promote sales in nearby countries. In Turkey, Daikin recently acquired Airfel A.S. and is planning business development measures that are not restricted to the Turkish market but include moves to build systems for establishing operations in new markets in the Middle East, Africa, and CIS regions.

China: Three Strategies for Consistently Attaining New Record High Sales Levels

During fiscal 2012, Daikin's strong performance in China reflected robust growth in the Chinese economy as well as benefits generated by the Company's strategies for responding to such market trends as those associated with the rectification of disparities between urban and inland regions and a shift to energy-saving products. Daikin was able to expand its sales of its entire array of offerings—ranging from small-sized residential-use air conditioners to applied (large-scale commercial) air-conditioning equipment—and attain a new record high level of sales revenue for the third consecutive year.

Going forward, Daikin will be striving to successfully implement three key strategies in China.

- The first strategy involves proactively addressing the volume-zone market segment, which is expanding in step



Daikin has expanded its lineup of locally developed products in China.

Daikin's residential air-conditioning/heating systems offer radiators that meet the special needs of European markets.



with the growth of China's middle-class population. Daikin has begun manufacturing residential air conditioners at its new Suzhou Factory and, by boosting cost-competitiveness through the local procurement of components and materials and internalization of additional manufacturing processes and by greatly strengthening its product development systems in China, the Company is endeavoring to supply products that are optimally matched with local needs. Regarding commercial air-conditioning products, the Company is supplementing previously launched high-value-added offerings with low-cost models as a means of further expanding its market share.

- The second strategy is to promote greater sales in inland regions. During fiscal 2013, Daikin intends to increase the number of its marketing outlets in China by roughly 30%, to approximately 11,000, and particular emphasis is being placed on deepening the Company's market penetration in inland and western regions benefitting from an ongoing construction boom.

- The third strategy is designed to meet new demand in the mature markets of major cities. For example, many office building managers are seeking to attract tenants and increase profitability by differentiating and augmenting the value added of their buildings through the introduction of energy-saving systems, new kinds of interior space configurations, and other innovations, and these efforts are generating extremely strong demand for the renovation of air-conditioning systems. In addition, rapid turnover in the ownership of many commercial establishments is generating needs for low-cost commercial air-conditioning products. Making use of the development capabilities of its China R&D Center in Shanghai, which was established in 2010, the Company is endeavoring to quickly create a lineup of products tailored to local requirements, and this is expected to be an important means of meeting emerging needs in large cities.

Asia/Oceania Region: Increasingly Evident Benefits from the Localization of Operations in India

In general, Daikin recorded strong performances in the Asia/Oceania region during fiscal 2012. In local currency denominated terms, the Company achieved year-on-year sales increases of 56% in India, 46% in Vietnam, and 26% in Indonesia. Contributing to the particularly large sales increase

in India were the cost reductions realized through efforts to localize all operations from development through manufacturing. Although unseasonable weather and slack construction market conditions led to a year-on-year sales decline in Australia, total sales in the Asia/Oceania region were roughly the same as in the previous year.

In fiscal 2013, Daikin will inaugurate the operations of a new marketing company in Indonesia. Going forward, the Company is examining the promising growth potential of Myanmar and considering measures for establishing a presence in that country.

North America: Growing Recognition of Energy-Saving Performance Supports Revenue Growth

During fiscal 2012, the North American market environment for business in applied air-conditioning products remained harsh, but measures aimed at strengthening Daikin's local marketing network and service systems along with strong sales of such energy-saving products as air-cooled chillers and turbo chillers—including new products engineered at the Daikin McQuay Applied Development Center—enabled the Company to achieve a 17% year-on-year increase in its local currency denominated sales.

In addition, while duct-type air conditioners continue to constitute the mainstream of the U.S. market, Daikin's strategies for promoting Japanese-style ductless air-conditioning products bore fruit during fiscal 2012 owing to recognition of ductless products' energy-saving performance as well as stepped-up measures taken to develop and support marketing outlets and other marketing promotion activities. Consequently, sales performance figures for products centered on VRV models were higher than in the previous year.

On a local currency denominated basis, Daikin's total product sales in the North America region were up 14% from the previous year.

On August 29, 2012, Daikin Industries, Ltd. (Daikin), reached agreement to acquire Goodman Global Group, Inc. (Goodman). Goodman is the leading manufacturer and distributor in the United States of residential unitary HVAC equipment for air conditioning the entire house. (http://www.daikin.com/press/2012/120829_2/index.html)

Chemicals

Chemicals Segment Attains Record High Levels of Net Sales and Operating Income

In fiscal 2012, demand for fluoropolymer resins fell in the semiconductor field but Daikin proceeded with fluoropolymer resin marketing promotion campaigns that emphasized measures to address such markets with robust demand as expanding Chinese markets centered on infrastructure applications and the U.S. market for LAN cable applications. The Company also maintained strong sales of fluoroelastomers to the global automobile industry.

With respect to the fine chemicals field, large increases were recorded in sales of antismudge surface coating agents used in manufacturing such products as touch panels as well as in sales of other new products for next-generation applications.

Demand for fluorocarbon gas products increased in markets centered on those of China and other Asian countries in step with progress in the shift to new refrigerant products with relatively small environmental impact.

As a result of these situations, Daikin recorded a year-on-year increase in total sales of products in the chemicals business segment. Reflecting this increase as well as the sustained implementation of comprehensive cost-reduction programs and the maintenance of policies for appropriately adjusting selling prices in line with surges in the price of fluorite and other raw materials, the segment's operating income advanced considerably.



OPTOOL™ coating agents prevent fingerprints and other smudges from sticking to surfaces.

Promoting the Development of New Applications in China

Aiming to concurrently generate short-term profits and promote medium- to long-term business development, Daikin is taking the initiative in seeking to create new sources of demand unaffected by the harsh economic environment and changes in traditional sources of demand. During fiscal 2012, the Company further accelerated its development of new applications as a means of expanding the scale of its fluorochemical operations.

While the Daikin Group has traditionally derived much of its strength from its capabilities for developing high-performance functional materials for markets in Japan, the United States, and Europe, the Group is now moving ahead with efforts to develop applications for its products in the markets of China and other emerging countries. Because of an emphasis on cost considerations, there remain many applications for which fluorochemicals are not yet widely used in such emerging country markets. On the other hand, an ongoing rapid rise in the level of end users' consciousness of quality, safety, and environmental issues is bringing to light numerous potential applications for fluorochemicals. In China, Daikin is working in cooperation with processing-oriented manufacturers to undertake marketing programs focused on end users as a means of promoting shifts to the use of fluorochemicals.

To further increase the pace of application development in China, in fiscal 2013, Daikin plans to establish a China



Fluoroelastomer and fluoroelastomer products with excellent heat resistance 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.

Application Development Center focused on fluorochemicals business. This new facility will have the mission of gathering a wide range of information related to the needs of processing-oriented manufacturers and end users and seeking to promote cooperation with both Japan-based and local Chinese molded product manufacturers conducive to the pioneering of new fluorochemical applications.

Accelerating Strategies for Fluorochemical Business in Emerging Countries

Daikin is now beginning to undertake full-scale application development programs focused on emerging countries other than China. With respect to India, for example, Daikin expects that the development of applications related to infrastructure, automobiles, and environmental protection has the potential for expanding the domestic fluorochemical market to five times its current size by 2015, and the Company is planning to create the local bases needed to establish a strong presence in that rapidly growing market. Daikin is also accelerating its implementation of marketing studies in Brazil and its deliberations regarding the development of commercial business in that country. In addition, the Company is carrying out full-scale marketing studies related to the potential demand for volume-zone products in Eastern Europe, Russia, Turkey, and nearby countries and regions.

Proactive Investments for Making Daikin the Global No. 1 Company in Fluorochemicals

As FUSION 15 includes the target of making Daikin the global No. 1 company with respect to mainstay fluorochemical products—including polytetrafluoroethylene (PTFE) resins, fluoroelastomers, refrigerant gases, and oil- and water-repellent agents—the Company is implementing an intensive investment program for increasing production capacities in countries centered on the United States and China during fiscal 2013.

In the United States, Daikin began a project to expand its production capacity for ethylene tetrafluoroethylene (ETFE) resin in fiscal 2012, and that project is scheduled to be



Fluororesin products used in support pier bearings enable elevated highways to make smooth positional adjustments in response to shaking and thermal extensions and contractions.

completed in March 2013. The Company anticipates that demand for ETFE will increase in connection with responses to environmental regulations. Aiming to quickly begin operating the new production facility at full capacity, the Company is also moving ahead with the development of ETFE applications related to aircraft, solar cells, construction materials, and other products.

In China, Daikin is constructing a new facility to produce fluoroelastomers for weathering-resistant thermal insulation coatings as well as for automotive applications, and that facility is scheduled to begin mass-production operations in fiscal 2014. The Company is also planning to construct a hot-melt resin production facility during fiscal 2015.

During the period covered by FUSION 15, Daikin is planning to implement the above-mentioned investments as well as other capital investments in Japan and Europe, and the total value of those investments is expected to be approximately ¥30 billion.

With respect to existing production facilities, Daikin is continuing to take steps to eliminate production bottlenecks and shrink scheduled maintenance periods as a means of increasing production efficiency. In these and other ways, the Company is proactively making investments with the goal of increasing production capacities and strongly positioning itself to respond to future growth in demand.



Fluororesin products with outstanding weather resistance and antifouling properties are used in sliding parts of pipelines.

Oil Hydraulics

Accelerating the Establishment of Businesses in China

During fiscal 2012, Daikin's sales of industrial machinery-related oil hydraulic equipment surpassed their level in the previous year, reflecting robust sales in Japan centered on mainstay products for machine tool and general industrial machinery applications along with strong sales in markets of Asian countries and the United States.

Sales of oil hydraulic equipment used in construction machinery and motor vehicles were also up from the previous year owing to robust demand associated with the exports of principal customers in Japan.

FUSION 15 calls for increasing annual oil hydraulics sales to ¥30 billion by fiscal 2014, and Daikin is seeking to attain this target by establishing full-scale manufacturing operations in China and moving ahead with the expansion of global business. In fiscal 2013, the Group's China-based manufacturing and marketing company, Daikin Hydraulics (Suzhou) Co., Ltd., will begin full-scale operations while placing emphasis on molding equipment, oil hydraulics units for general industrial machinery, oil cooling units, and hybrid systems for power shovels. Aiming to concurrently establish a full-scale presence in volume-zone market sectors, Daikin is undertaking marketing activities that encourage local machinery makers to incorporate Daikin products at initial design specification stages and programs for quickly commercializing products designed to meet local needs. The Company aims

to position itself to speedily respond to volume zone related customer requirements.

Further Strengthening Stable-Earnings Businesses

Daikin plans to make a considerable contribution to the attainment of the FUSION 15 targets by further strengthening its businesses that currently generate stable earnings.

Daikin has advanced into a position from which it is quite feasible to become the No. 1 company in the Japanese market for industrial machinery related oil hydraulic equipment, and it is further increasing its emphasis on product development related marketing programs.

Sauer-Danfoss-Daikin Pte. Ltd., a Singapore-based joint venture with special strengths related to light-load hydrostatic transmissions (closed-circuit hydraulic equipment), boosted its operating income ratio to a record high level in fiscal 2012. In addition, All World Machinery Supply, Inc., a U.S.-based subsidiary, has recorded strong sales centered on maintenance, repair, and operations (MRO) business. Plans call for taking measures to further expand the profitability of both of these Group companies.



Super EcoRich units greatly reduce the electric power consumption of machine tools.



Daikin oil cooling units offer energy conservation along with highly precise temperature control functions.

Defense

Strengthening and Expanding Civil-Sector Operations Centered on Oxygen Concentration Devices

With respect to defense-sector operations in fiscal 2012, although the Japanese government further decreased its defense budget, Daikin was able to increase its orders for artillery shells and guided missile warheads from Japan's Ministry of Defense. Going forward, Daikin will strive to still further increase the level of its ammunition products' quality and safety and—amid harsh conditions stemming from a trend of budget cuts that is projected to continue—the Company will move ahead with thorough inventory reduction measures and other steps designed to bring about structural improvements in its defense-sector operations.

Regarding civil-sector operations, FUSION 15 calls for Daikin to promote the growth of business centered on in-home therapy devices. In Japan, Daikin's three-liter oxygen concentration devices that have been marketed for more than three years have been highly evaluated by customers, and the Company is working to ensure that it can maintain outstanding quality and reliability standards while implementing cost reductions as it prepares to launch new five-liter oxygen concentration devices during fiscal 2013. Besides pursuing cost reductions through initiatives to procure components and handling manufacturing tasks in China, Daikin is aiming to begin marketing products in the fast-growing Chinese market. To realize this objective, the Company is striving to speedily build marketing strategies that include provisions for the recruitment of business partners.

Fundamental Corporate Governance Concept

The Daikin Group's corporate governance systems are designed to help accelerate decision making and operational execution work in anticipation of and 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.

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.

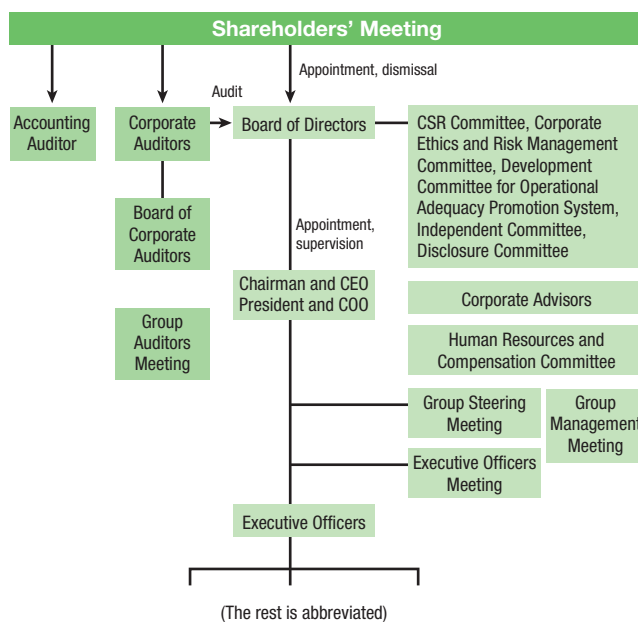
To facilitate speedy decision making based on substantive discussions, the Board of Directors has been designed to include a small number of members. As of June 2012, the Board of Directors included 12 members (including one non-resident director). Based on this system, the Board of Directors is making speedy strategic decisions and performing sound supervision for the entire Group.

Daikin's 12 directors included 2 outside directors as of June 2012. 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.



Activities by External Directors

Name	Principal Activities
Chiyo Terada	Attended 15 out of 17 meetings for the Board of Directors this fiscal year, Chiyo Terada offered timely proposals as needed, based on her abundant experience and deep insight as a corporate manager and especially from her broad and advanced perspective, including proposals concerning management based on the viewpoints of consumers, such as the importance of the brand of the Company, and measures to further promote achievements of female employees.
Kosuke Ikebuchi	Attended 15 out of 17 meetings for the Board of Directors this fiscal year, Kosuke Ikebuchi provided timely proposals as needed, based on his abundant experience and deep insight as a corporate manager and especially from his broad and advanced perspective, including viewpoints concerning manufacturing, such as production innovation, cost reduction, and enhancement of reliability and productivity.

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 June 2012, 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 auditing 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.

Activities by External Corporate Auditors

Name	Principal Activities
Yoshiyuki Kaneda	Attending all 17 meetings for the Board of Directors and all 15 meetings for the Board of Auditors this fiscal year, Yoshiyuki Kaneda offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially in manufacturing technology and production management.
Hitoshi Murakami	Attending 16 out of 17 meetings for the Board of Directors and 14 out of 15 meetings for the Board of Auditors this fiscal year, Hitoshi Murakami offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially in risk management.

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 each director's job responsibilities, and "stock options" that reflect the Group's medium- to 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.

Total Compensation for Directors and Corporate Auditors

Position	Number of Directors and Corporate Auditors	Total Compensation (Millions of yen)
Directors	13	801
Corporate Auditors	5	89
Total	18	891

Total Compensation for External Directors and External Corporate Auditors

	Number of Directors and Corporate Auditors	Total Compensation (Millions of yen)
Total Compensation for External Directors and External Corporate Auditors	4	59

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

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

Compliance

In fiscal 2004, the Daikin Group established the Corporate Ethics Committee as an organ for promoting corporate ethics throughout the Group, and this committee was renamed as the Corporate Ethics and Risk Management Committee in fiscal 2008. This committee meets twice each year, in principle, with the purpose of undertaking the integrated promotion of compliance (business ethics and legal compliance) and risk management throughout the Group.

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 has drafted a business continuity plan and is implementing such measures as those to prevent damage to manufacturing facilities and strengthen supply chains.

In addition, based on consideration of issues that came to light in connection with the Great East Japan Earthquake, the Company is improving its system for confirming the safety of employees and their families while also placing satellite phones at principal business sites as a means of ensuring emergency communications capabilities. The Company is also taking such initiatives as those to reevaluate its

emergency management systems and increase the amount of disaster relief supplies that are stored in preparation for use during emergency situations.

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.

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.

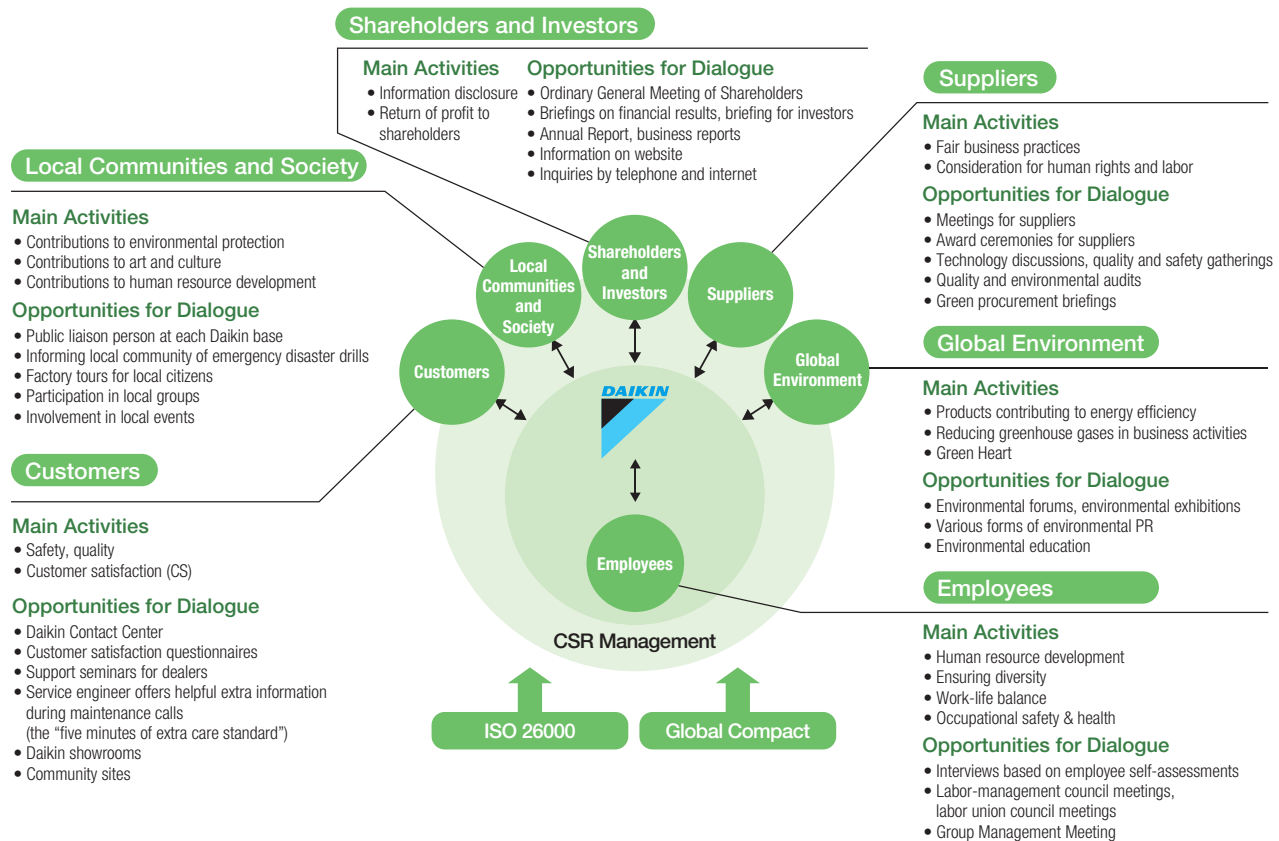
Daikin has also undertaken diverse management measures in response to the feedback that it receives from its shareholders and investors.

Corporate Social Responsibility (CSR)

While striving to supply customers with maximum levels of utility and amenity through the provision of high-quality products and services, the Daikin Group concurrently endeavors to achieve strong CSR performance based on its Groupwide action policies by dynamically promoting the preservation of the global environment, providing workplaces that enable diverse employees to realize personal growth and development, proactively contributing to local communities, and taking various other initiatives. The Group also acts in accordance with such global standards as those defined by the United Nations Global Compact and the ISO 26000 standard as it promotes CSR programs designed to reflect feedback obtained from stakeholders.

Efforts to Preserve the Global Environment

In accordance with its fundamental policy of pursuing the concomitant objectives of proactively contributing to the global environment and expanding business operations, the Daikin Group is striving to reduce the environmental impact of its manufacturing operations while concurrently providing customers with products and solutions that promote energy conservation and otherwise emphasizing measures within its business operations that contribute to the protection of the natural environment. The Group also provides support for other entities' programs aimed at protecting and reinvigorating the precious natural environment.



Contributing by Means of Environment-Friendly Technologies

The Daikin Group has been a pioneer of inverter technologies that greatly contribute to the energy-saving performance of air conditioners, and it is striving to restrain CO2 emissions associated with air conditioners by promoting the use of those technologies in both industrialized and emerging countries. The Group's heat pump technologies have made it possible to provide room heating systems that do not entail combustion and generate relatively low levels of CO2. Furthermore, the Group has been developing peripheral services—such as services that remotely control air-conditioning systems—that promote energy conservation, and the Group is contributing to the reduction of environmental impact by providing solutions as well as individual products.

The FUSION 15 management plan—covering the period from fiscal 2012 through fiscal 2016—calls for the Group to leverage its foundation of highly energy-efficient products and outstanding energy-saving technologies to develop

energy-saving solutions businesses and environmental innovation businesses as well as help reduce energy consumption associated with the entirety of product life cycles.

Responding to Electric Power Conservation Needs

Particularly since the Great East Japan Earthquake disaster, electric power conservation has become one of the top issues faced by the Japanese society, and it is noteworthy that air conditioning accounts for roughly half of office buildings' peak summertime electric power consumption levels. In view of this, the Daikin Group is providing customers with diverse electric power conservation solutions related to air-conditioning systems, and it estimates that these solutions had the effect of reducing electric power consumption throughout Japan by approximately 600 kW during the summer of 2011.

The Daikin Group expects that electric power conservation needs will increase throughout the world, and the Group

plans to make the most of its special technologies to effectively respond to those needs going forward.

Electric Power Conservation Proposals Regarding Commercial Air-Conditioning Systems: Daikin is presenting customers with proposals that enable electric power conservation benefits without replacing currently employed air-conditioning equipment.

Reducing Greenhouse Gas Emissions

The Daikin Group's total level of greenhouse gas emissions is primarily determined by CO₂ emissions associated with energy consumption and emissions of fluorocarbon gases handled in manufacturing processes.

Drafted in fiscal 2006, Daikin's FUSION 10 management plan included an environmental strategy theme that called for lowering the Group's total greenhouse gas emissions to 50% below the fiscal 2006 level by fiscal 2011. The actual reduction achieved during FUSION 10 was 73%, considerably more than the targeted reduction.

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, and it is devising concrete strategies for attaining this target.

Conserving Biodiversity

Besides emitting oxygen in connection with photosynthesis processes, forests release water vapor and thereby exert a "cooling effect" that mitigates trends toward rising temperatures. The Daikin Group—which has business operations centering on products that provide comfortable air environments—views forests as "the earth's natural air conditioners," and the Group is therefore placing strong emphasis on activities designed to protect forests and promote their sound development.

The Daikin Group is striving to make effective contributions to the preservation of biodiversity through such activities as those to support a reforestation project in Indonesia, which has lost a considerable share of its forests, and those support environmental protection programs in the Shiretoko Peninsula of Hokkaido, a World Natural Heritage site.

Efforts to Human Resources

Because it considers "people" to be the primary source of its competitive power, the Daikin Group has created "people-centered management" policies and has been effectively implementing those policies as part of its efforts to build a Group organization that respects diversity and makes the most of the potentials of each of its employees, regardless of their gender, nationality, or race.

Implementing "People-Centered Management" Overseas

The share of the Daikin Group's overseas sales to its consolidated net sales surpassed 60% in fiscal 2012, and the Group is moving ahead with proactive measures aimed at localizing its overseas business sites through the appointment of local corporate officers and the promotion of local staff into management positions. The Group established the Daikin Business School in 2004 as part of its programs for fostering the development of leaders, and 57 local management candidates from overseas business sites attended that school by fiscal 2012.

To sustain its growth going forward, the Daikin Group must enable the speedy execution of local employees' business concepts with respect to the provision of products and solutions tailored to the needs of customers in each country and region of the world. In view of this, FUSION 15 includes policies designed to strengthen the Group's global human resources and promote the hiring, development, and appropriate evaluation and remuneration of local staff overseas as well as good two-way communications between headquarters units in Japan and overseas Group units.

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 attaches great importance to the human resources employed at its overseas business sites and is striving to promote the development of those resources.

Supporting the Recovery of Areas Impacted by Natural Disasters

In response to the damage caused by the large-scale flooding disaster that occurred in Thailand beginning from July 2011, Daikin and five local Group companies made donations of funds and relief aid goods and also undertook support activities for the benefit of local Group company employees who were forced to evacuate their homes.

Moreover, in response to the considerable damage caused by a series of tornadoes that impacted numerous North American communities during May 2011, the Daikin Group's local companies donated foodstuffs, relief aid goods, and funds as well as also organized volunteer programs to assist in the removal of rubble.

Organizing Festivals to Deepen Ties with Local Communities

Since 1973, employees at Daikin's Yodogawa Plant in Osaka have organized "*Bon Odori*" nighttime dance festivals in which large numbers of local communities participate, and a special commemorative festival was organized during fiscal 2012 to celebrate the 40th annual festival of this type.

"*Bon Odori*" dance festivals are also organized and implemented by the employees of overseas Group companies in the United States, China, and Belgium.

Support for Sports/Culture/Art and Regional Revitalization

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

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.

Nine-Year Financial Highlights

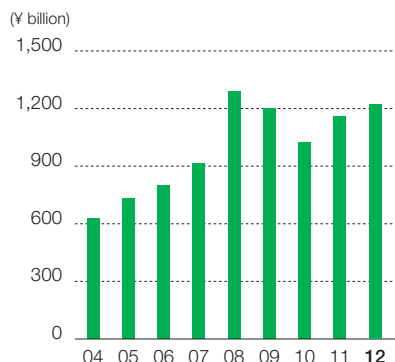
Daikin Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2004	2005	2006	2007
Operating Results (for the year):				
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
Cash Flows (for the year):				
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
Financial Position (at year-end):				
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
Per Share Data (yen):				
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
Ratios (%):				
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

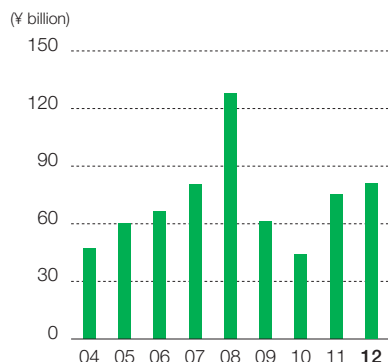
Notes:

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.

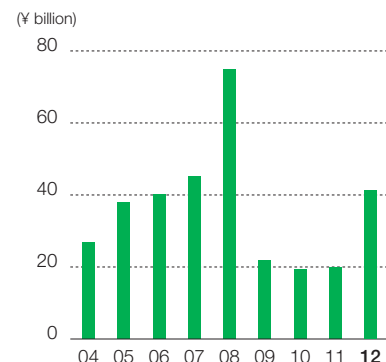
Net Sales



Operating Income



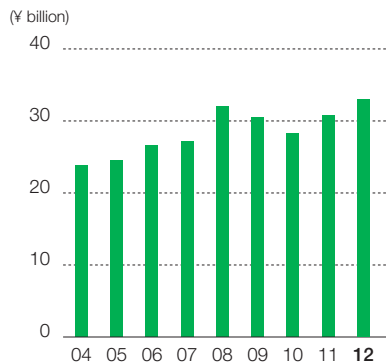
Net Income



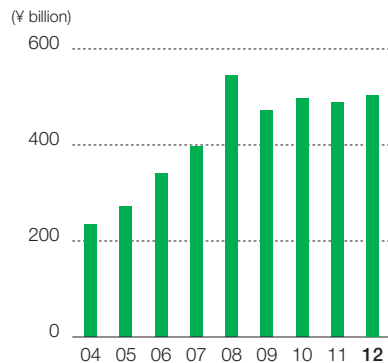
Millions of yen

2008	2009	2010	2011	2012
¥1,291,081	¥1,202,420	¥1,023,964	¥1,160,331	¥1,218,701
441,549	363,660	319,301	361,665	371,902
313,451	302,266	275,263	286,210	290,709
32,075	30,535	28,220	30,771	32,987
128,098	61,394	44,038	75,455	81,193
179,469	118,325	96,462	127,168	131,719
74,822	21,755	19,391	19,873	41,172
¥103,329	¥ 62,238	¥129,227	¥78,411	¥44,967
(76,428)	(99,302)	(39,848)	(23,306)	(62,955)
26,902	(37,065)	89,379	55,105	(17,988)
3,367	48,382	(34,942)	(37,623)	(1,113)
¥1,210,094	¥1,117,418	¥1,139,656	¥1,132,507	¥1,160,564
356,928	417,919	399,313	372,481	389,891
545,641	471,686	496,179	487,876	502,309
¥ 262.24	¥ 74.51	¥ 66.44	¥ 68.14	¥ 141.37
1,867.79	1,615.98	1,701.29	1,672.74	1,725.64
38.00	38.00	32.00	36.00	36.00
34.20%	30.24%	31.19%	31.17%	30.52%
9.92	5.11	4.30	6.50	6.66
13.90	9.84	9.42	10.96	10.81
15.87	4.28	4.01	4.04	8.30
45.09	42.21	43.54	43.08	43.28

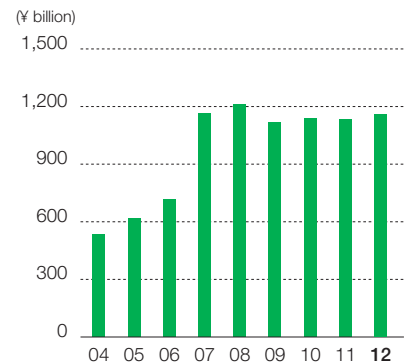
Research and Development Expenses



Shareholders' Equity



Total Assets



Overview of Net Sales

During fiscal 2012, the global economy suffered from an intensifying trend of deceleration owing to the impact of the European financial and debt crisis. The U.S. economy showed signs of recovery with respect to personal consumption and the employment situation, but slack conditions in the housing market continued, and the recovery trend remained weak. European countries were unable to eliminate the risk of a renewed flare-up of the debt crisis, and the impact of such factors as austere fiscal policies, credit contractions, and high unemployment rates led to sluggish economic conditions in countries centered on the southern European region. Although domestic demand was generally robust in emerging countries, the rate of such countries' economic expansion was reduced by various factors, particularly the effects of contractionary monetary policies and a deceleration of exports stemming from the European economy's weakness.

In Japan, the economy was impacted by the Great East Japan Earthquake disaster and the major flooding in Thailand, causing a temporary slump in manufacturing, but the progressive restoration of supply chains supported a gradual trend of economic recovery. Although personal consumption and other components of domestic demand continued to be robust, the impact of overseas economic deceleration and the persistent appreciation of the yen prevented exports from getting fully on track for recovery.

Amid this business environment, the Daikin Group began implementing its FUSION 15 strategic management plan, which covers the period through fiscal 2016. In accordance with its 2011 New Year's policy—"Starting a Dash toward New Growth"—the Group worked concertedly to achieve such objectives as accelerating business development in the markets of India, Brazil, and other emerging countries; further expanding business operations in the robust markets of China and other Asian countries; and enhancing the profitability of business operations in Japan.

With respect to consolidated performance during fiscal 2012, the Group's operating environment continued to be harsh owing to surging raw materials prices, the further appreciation of the yen, the rapid deterioration of the business environment in Europe, and other factors. Despite this, however, the Group's air-conditioning business enhanced its profitability in Japan and realized sales growth in China and other emerging countries, and the Group's chemicals business contributed to performance by expanding its sales in China and other regions of the world. Consequently, the Group was able to achieve increases in its overall sales revenue as well as in its overall profitability. On a consolidated basis, net sales rose to ¥1,218.7 billion, up 5.0%

from the previous year. Despite a decline in the profitability of the air-conditioning business, a large contribution from the chemicals business helped boost operating income to ¥81.2 billion, up 7.6% from the previous year. Reflecting the impact of a ¥26,854 million extraordinary loss on the write-down of investment securities recorded in the previous year and the lack of such an extraordinary loss item in fiscal 2012, the level of net income surged considerably and amounted to ¥41,172 million, up 107.2% from the level in the previous year.

Impact of Changes in Currency Exchange Rates

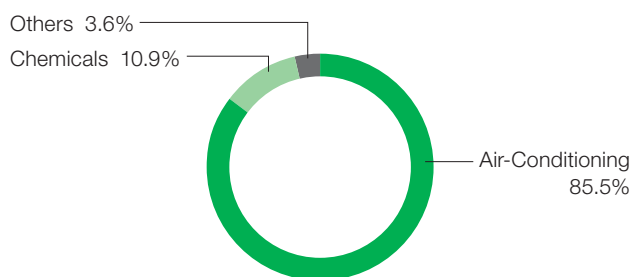
The yen's further appreciation against the euro and other currencies during fiscal 2012 exerted a negative impact on the Daikin Group's performance. As a result of these movements in foreign currency exchange rates, Daikin consolidated net sales were estimated to be ¥45.0 billion lower and operating income ¥7.5 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 2011	Fiscal 2012
Yen-U.S. dollar rate	¥86	¥79
Yen-euro rate	¥113	¥109

Net Sales by Product Segment

Sales by Industry Segment



•Air-Conditioning

Total sales of air-conditioning and refrigeration products in Japan and overseas amounted to ¥1,041,387 million, up 3.7% from the previous year. Reflecting the impact of a decrease in sales in Europe and the appreciation of the yen, operating income from those products totaled ¥60,175 million, down 6.9%.

Japan

Demand in Japan's residential air-conditioner market continued to be robust, reflecting an improvement in housing construction starts, and Daikin's product shipments were at a high level beginning from the start of the fiscal year. Sales during the first half of the fiscal year exceeded the level in the same period of the previous year owing to the effectiveness of marketing promotion efforts that emphasized the electric power-saving features of high-value-added products. Although sales in the latter half of the fiscal year were below the level in the same period of the previous year due to an unusual sales surge during the previous year prior to the scale-down of the government's Eco-point subsidy program for purchases of energy-efficient appliances, sales for the fiscal year as a whole were higher than in the previous year.

Daikin's effective response to robust demand in Japan's commercial air-conditioner market enabled the Company to achieve a year-on-year increase in its sales of commercial air-conditioner products. A particularly large rise was seen in unit sales of the Eco-ZEAS 80, a new product in the SkyAir series of store- and office-use air conditioners that was launched in the previous fiscal year. Eco-ZEAS 80 enables associated CO₂ emissions and electric power consumption to be reduced by as much as 80% compared with constant speed (non-inverter) Daikin inverter air conditioners, and it has been highly evaluated for its electric power conservation performance as well as for the benefits of the value-added marketing proposals made on its behalf.

Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2012)

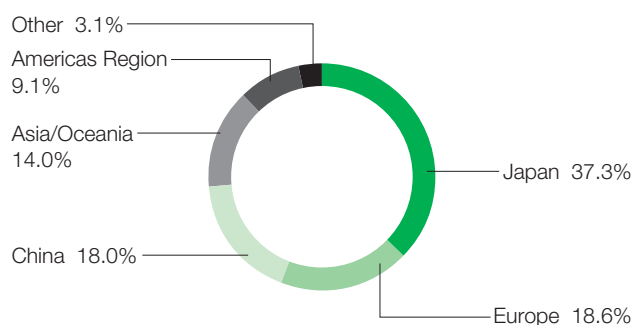
(1,000 units)

	First half	Year on year	Second half	Year on year	Full year	Year on year
Residential use	5,421	105%	2,882	98%	8,303	100%
Commercial use	454	109%	372	106%	826	105%

Overseas

Although overseas air-conditioning business performance was negatively impacted by the further appreciation of the yen against the euro, the U.S. dollar, and other currencies as well as by a sales decrease in mainstay European markets, the Daikin Group recorded strong sales in the markets of China and other emerging countries, and it was consequently able to achieve an overall year-on-year increase in yen-denominated net sales.

Sales by Geographical Segments (Air-Conditioning and Refrigeration Equipment)



•**Europe Region**—Consumption in European air-conditioning product markets generally slumped owing to unseasonably cool summer weather in the western and southern regions

as well as the protracted economic slump, causing Daikin's unit sales volume of residential air-conditioning products to fall below the level in the previous year. On the other hand, Daikin was able to respond to a sharp surge in demand in Russia, particularly during the first half of the fiscal year, and continued stable economic growth in Turkey enabled the Company to achieve a year-on-year sales increase in the Turkish market. With respect to commercial air-conditioning products, financial instability caused a sharp drop in construction-related demand, but Daikin employed its marketing network to implement intensive follow-up activities and stepped up order promotion activities that led to a year-on-year increase in unit sales of multi-type commercial air-conditioning systems. Regarding heat pump water and room heating systems, although decreasing demand in France—currently, the most-important market for such products—created a harsh business environment, Daikin's implementation of effective marketing promotion programs in the United Kingdom, Germany, and Italy supported growth in its unit sales of heat pump water and room heating systems.

•**China**—Although an economic slowdown stemming from contractionary monetary policies had a negative impact on certain sectors of China's air-conditioning product markets centered on large cities, robust growth in demand enabled Daikin to record year-on-year increases with respect to net sales of both residential- and commercial-use offerings,

and particularly large sales increases were achieved in the suburbs of large cities and such regions as inland regions. The Company continued to expand the scope of its marketing operations for mainstay commercial-use air-conditioning products by developing new dealers in all regions of China.

Regarding residential air-conditioning products, Daikin moved ahead with the pioneering of new market segments by expanding its marketing network for residential multi-type air conditioners in all regions of China and by assembling a broad product lineup through the development of special models with specifications tailored to match needs in China. Amid a continued rapid shift to inverter models in the room air-conditioner market, rapid growth was achieved in sales of energy-saving models with respect to which the Daikin Group is particularly strong. Conditions in the large-scale air-conditioning equipment (applied air-conditioning) market were also positive, and the Group was able to greatly increase its sales of products centered on turbo chillers.

●*Asia/Oceania Region*—Although Daikin faced such challenges as slack demand for residential air conditioners owing to unseasonable weather in peak-demand periods and product supply concerns owing to the large-scale flooding in Thailand, contributions from higher sales centered on such emerging countries as India and Vietnam enabled the Company to maintain its total sales in the region at approximately the same level as in the previous year.

●*Americas Region*—Reflecting a trend of demand recovery in the large-scale air-conditioning equipment (applied air-conditioning) market, strong sales of newly launched products, and the strengthening of the Group's service network, Daikin was able to increase its total sales in the region. Regarding ductless air-conditioning products, recognition of energy-saving performance advantages enabled the Group to sustain robust sales of products centered on multi-type air conditioners for office buildings, and total sales of ductless air-conditioning products in local currency terms grew at a double-digit rate, just as in the previous fiscal year. In addition, a Brazil-based marketing company established in the previous fiscal year commenced full-scale marketing operations for products centered on commercial air conditioners from April 2011—in this and other ways, Daikin intensified its efforts to expand its operations in emerging countries.

●Chemicals

The Daikin Group's total sales in the chemicals segment rose 15.8% from the previous year, to ¥132,931 million. Reflecting the implementation of sales-promotion and cost-reduction measures, the segment's operating income surged to ¥20,172 million, up 85.9% from the previous year.

Robust sales of fluoropolymer resins were maintained, particularly in the expanding market of China and in the markets of Europe and the United States, where demand was firm. Despite a drop in semiconductor-related demand in Japan and the rest of Asia beginning from the second quarter, marketing efforts in regions throughout the world supported a year-on-year increase in sales, and particularly strong sales were recorded in European and Chinese markets for automotive applications, the U.S. market for LAN cable applications, and other market segments characterized by strong demand.

In the chemical products sector, sales of anti-smudge surface coating agents used in touch panels and other products grew smoothly in markets centered on the Japanese market. In addition, demand for water and oil repellents continued to be robust in China and other Asian countries, primarily for apparel-related applications, and Daikin's sales of those products increased. As a result, the Group's total sales of chemical products were higher than in the previous year.

A large year-on-year increase was recorded in sales of fluorocarbon gas products owing to an increase in demand associated with a shift to new refrigerant products in China and other Asian countries as well as owing to Daikin's efforts to adjust selling prices in Japan and elsewhere in line with surging raw materials prices.

●Others

Total net sales of the other segment amounted to ¥44,383 million, up 8.3% from the previous fiscal year. The segment recorded an operating loss in the previous year but was able to generate ¥852 million of operating income during fiscal 2012.

Daikin's industrial machinery-related oil hydraulic equipment business was able to achieve a year-on-year sales increase owing to a strong performance in Japanese market sectors centered on those for applications related to machine tools and general industrial machinery as well as the robust performance in the markets of other Asian countries and the United States. A year-on-year increase was also realized in sales of oil hydraulic equipment used in construction machinery and motor vehicles, reflecting the strength of overseas demand for domestic customers' products.

In the defense business sector, orders from Japan's Ministry of Defense for artillery shells and guided missile warheads were firm.

Electronic systems business sales were negatively affected by corporations' efforts to restrain their IT investments, but efforts to increase sales to universities and research institutions enabled Daikin to maintain its sales at almost the same level as in the previous year.

Costs, Expenses, and Earnings

Amid a business environment undergoing rapid changes owing to such situations as the deceleration of European economies, the dramatic appreciation of the yen, and the impact of such natural disasters as the Great East Japan Earthquake and the major flooding in Thailand, the Daikin Group's air-conditioning business expanded its sales in Japan, China, and the United States; established full-scale presences in such emerging countries as India, Vietnam, and Turkey; and strove to minimize the impact of a sharp drop in European demand. The Group's chemicals business accelerated its development of product applications, particularly in China.

Regarding the impact of natural disasters, the Daikin Group estimates that the decreases in its operating income attributable to the Great East Japan Earthquake and the major flooding in Thailand were approximately ¥7 billion and ¥2 billion, respectively. The Group also estimates that its operating income was reduced by approximately ¥7.5 billion due to yen appreciation. The Group strove to minimize the impact of the earthquake and flooding disasters by developing replacement microcontrollers, implementing intensive countermeasures to alleviate component shortage problems, and making optimal use of its inventories, and it endeavored to offset the impact of surging raw materials prices by thoroughly implementing selling-price adjustments as well as by moving ahead with comprehensive cost-cutting programs that included measures to reevaluate and reduce fixed costs.

As a result of the expansion of net sales and the flexible implementation of strategies for generating profits, the Daikin Group was able to achieve growth in both revenue and profitability. Consolidated net sales rose to ¥1,218.7 billion, up 5.0% from the previous year. Although the profitability of the air-conditioning business declined, a large contribution from the chemicals business helped increase operating income to ¥81.2 billion, up 7.6% from the previous year.

The operating income ratio rose 0.2 percentage point, to 6.7%. 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, adjusting selling prices, and implementing marketing promotion activities. Moreover, the operating income ratio of the chemicals business segment increased 5.7 percentage points, to 15.2%.

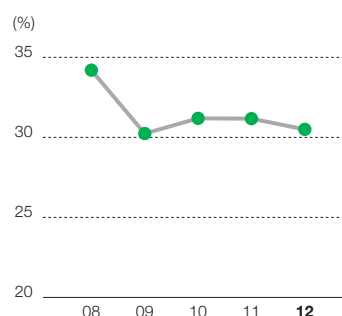
Owing to the rise in net sales and the surge in raw materials prices, the cost of sales increased ¥48,133 million from the previous fiscal year, to ¥846,799 million. However, the gross profit margin was approximately unchanged from the previous year, at 30.5%, thanks to the benefits of cost-cutting efforts and other factors. SG&A expenses edged slightly

upward, to ¥290,709 million, owing to increases in product shipment expenses, provisions for the remuneration of officers and employees, and goodwill amortization.

Other income (expenses)—net amounted to an expense of ¥625 million, an improvement of ¥29,121 million, compared with the previous year, owing to decreases in losses on the write-down of investment securities and in natural disaster-related losses.

As a result, net income amounted to ¥41,172 million, 107.2% higher than in the previous fiscal year.

Gross Profit Margin



Outlook for Fiscal 2013

Looking at the outlook for the global economy, the U.S. economy is realizing a trend of gradual recovery, but the European economy appears likely to remain sluggish, particularly in southern European countries, as a result of such factors as austere fiscal policies, credit contractions, and high unemployment rates. With respect to the economies of emerging countries, China has reduced its growth target, and other countries are expected to experience slackening rates of economic growth owing to the impact of economic deceleration elsewhere in the world. It is anticipated that conditions in the Japanese economy will benefit from demand associated with post-earthquake reconstruction activities as well from the effects of such government programs as the Eco-car subsidy program, but the dissipation of such benefits beginning from the latter half of the fiscal year is expected to cause the pace of economic recovery to decelerate. Moreover, Japan is continuing to suffer from a serious electric power shortage, and this is likely to have an impact on manufacturing activities.

Against this backdrop, the Daikin Group is striving to concurrently realize medium- to long-term business development and short-term profitability by flexibly and speedily responding to changes in its business environment in accordance

with its 2013 New Year's policy "Lead a Changing World with Everyone's Action."

Specifically, the Group is seeking to further expand and increase the profitability of its business operations in such emerging countries as India and Brazil, expand its solutions businesses and environmental innovation businesses that anticipate rising energy conservation needs stemming from the trend toward tight supply-demand relationships for electric power, promote the reduction of total costs, and achieve additional reductions in fixed costs and inventories. By promoting progress with respect to the implementation of these and other top-priority Groupwide strategies, the Daikin Group is aiming to realize another consecutive year of increase in both revenue and profitability during fiscal 2013 and prepare a strong foundation for attaining the FUSION 15 target of generating ¥130 billion in operating income during fiscal 2014.

Daikin's outlook on a consolidated basis for fiscal 2013 is for a 13.2% increase in net sales, to ¥1,380.0 billion, a 23.2% increase in operating income, to ¥100.0 billion, and a 28.7% increase in net income, to ¥53.0 billion.

Foreign currency exchange rates assumed for fiscal 2013 are ¥105 to one euro and ¥80 to one U.S. dollar.

Assets

At the end of fiscal 2012, consolidated total assets amounted to ¥1,160,564 million, ¥28,057 million more than at the previous fiscal year-end. Although cash and deposits declined, current assets grew ¥29,935 million, to ¥629,047 million, as a consequence of growth in inventory assets and other factors. Fixed assets were down ¥1,878 million from the previous fiscal year-end, to ¥531,517 million, reflecting such factors as changes in the market prices of investment securities.

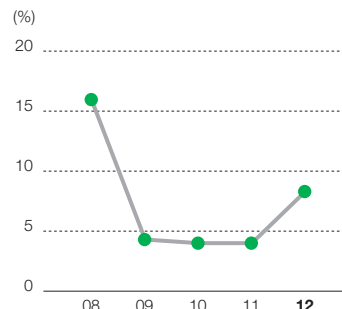
Liabilities and Total Equity

Total liabilities rose ¥13,064 million, to ¥644,643 million, owing to a decrease in commercial paper outstanding and other factors. The ratio of interest-bearing debt edged upward to 33.6%, from 32.9% at the end of the previous fiscal year.

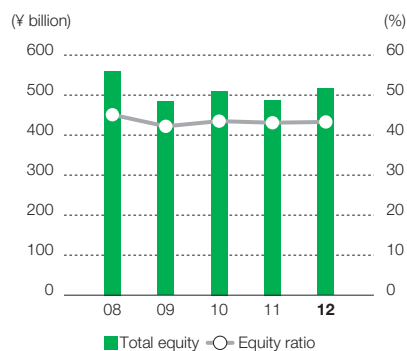
Despite a decrease associated with the disbursement of cash dividends, total equity increased ¥14,993 million, to ¥515,921 million, owing to such factors as the generation of net income.

As a consequence, the ratio of shareholders' equity to total assets advanced to 43.3%, compared with 43.1% at the end of the previous fiscal year, and net assets per share increased to ¥1,725.64, versus ¥1,672.74 at the end of the prior year.

ROE



Total Equity and Equity Ratio



Cash Flows

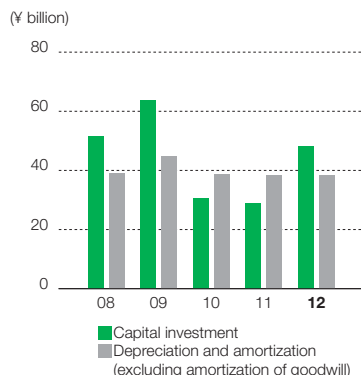
Net cash provided by operating activities amounted to ¥44,967 million, down ¥33,444 million compared with the previous fiscal year, reflecting such factors as a decrease in trade notes and accounts payable.

Net cash used in investing activities amounted to ¥62,955 million, up ¥39,649 million compared with the previous fiscal year, owing to such factors as an increase in payment for purchases of property, plant and equipment and payments for the acquisition of shares in Airfel A.S.

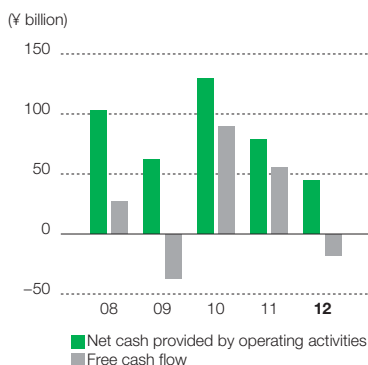
Net cash used in financing activities amounted to ¥1,113 million, a decrease of ¥36,510 million compared with the previous fiscal year, owing to such factors as a net increase in short-term borrowings.

As a result of these changes as well as the effect of a change of the fiscal year-end of consolidated subsidiaries and other factors, cash and cash equivalents at March 31, 2012, amounted to ¥135,427 million, down ¥31,869 million from the previous fiscal year-end.

Capital Investment and Depreciation and Amortization



Net Cash Provided by Operating Activities and Free Cash Flow



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 such strategic investments as those designed to further strengthen its management constitution as well as to accelerate its global business development and 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 2012 amounted to ¥36 per share (an ¥18 per share interim dividend and also an ¥18 per share year-end dividend).

The Company is planning to propose the level of dividends for fiscal 2013 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
- Natural disasters

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2012

	Millions of yen	
ASSETS	2012	2011
Current assets:		
Cash and cash equivalents (Note 17)	¥ 135,427	¥ 167,296
Short-term investments (Notes 9 and 17)	221	423
Trade receivables (Notes 8, 9 and 17):		
Notes	36,348	20,666
Accounts	172,729	178,254
Allowance for doubtful receivables	(4,808)	(4,952)
Inventories (Notes 3 and 9)	243,600	201,772
Deferred tax assets (Note 13)	9,381	9,726
Prepaid expenses and other current assets (Note 9)	36,149	25,927
Total current assets	629,047	599,112
Property, plant and equipment (Note 9):		
Land	30,739	30,480
Buildings and structures	182,550	176,338
Machinery and equipment	362,450	353,280
Furniture and fixtures	116,034	111,483
Lease assets (Note 16)	6,635	4,973
Construction in progress	18,313	8,367
Total	716,721	684,921
Accumulated depreciation	(492,364)	(470,913)
Net property, plant and equipment	224,357	214,008
Investments and other assets:		
Investment securities (Notes 6 and 17)	84,219	93,410
Investments in and advances to unconsolidated subsidiaries and associated companies	15,205	12,999
Goodwill (Note 7)	166,276	170,562
Deferred tax assets (Note 13)	9,276	15,023
Other assets	32,184	27,393
Total investments and other assets	307,160	319,387
Total	¥1,160,564	¥1,132,507

See notes to consolidated financial statements.

	Millions of yen	
LIABILITIES AND EQUITY	2012	2011
Current liabilities:		
Short-term borrowings (Notes 9 and 17)	¥ 90,449	¥ 73,978
Current portion of long-term debt (Notes 9 and 17)	57,290	2,322
Current portion of long-term lease obligations (Note 16)	2,042	1,369
Trade payables (Notes 8 and 17):		
Notes	6,392	7,963
Accounts	103,716	108,943
Construction payable	8,809	7,189
Income taxes payable (Note 17)	9,836	11,857
Deferred tax liabilities (Note 13)	2,974	2,449
Accrued expenses	52,748	50,355
Other current liabilities (Note 8)	62,083	61,387
Total current liabilities	396,339	327,812
Long-term liabilities:		
Long-term debt (Notes 9 and 17)	238,108	292,849
Long-term lease obligations (Note 16)	2,002	1,963
Liabilities for retirement benefits (Note 10)	2,016	3,942
Deferred tax liabilities (Note 13)	4,327	2,460
Long-term accounts payable	443	1,188
Other long-term liabilities	1,408	1,365
Total long-term liabilities	248,304	303,767
Commitments and contingent liabilities (Notes 16 and 18)		
Equity (Notes 11, 12 and 23):		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2012 and 2011	85,032	85,032
Capital surplus	82,977	82,977
Stock acquisition rights	1,501	1,293
Retained earnings	415,231	385,761
Treasury stock, at cost: 2,028,808 shares in 2012 and 1,451,528 shares in 2011	(6,961)	(5,473)
Accumulated other comprehensive loss:		
Unrealized (loss) gain on available-for-sale securities	(2)	4,641
Deferred loss on derivatives under hedge accounting	(74)	(91)
Foreign currency translation adjustments	(73,894)	(64,971)
Total	503,810	489,169
Minority interests	12,111	11,759
Total equity	515,921	500,928
Total	¥1,160,564	¥1,132,507

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of yen	
	2012	2011
Net sales (Note 8)	¥1,218,701	¥1,160,331
Cost of sales (Notes 8 and 15)	846,799	798,666
Gross profit	371,902	361,665
Selling, general and administrative expenses (Notes 8 and 15)	290,709	286,210
Operating income	81,193	75,455
Other income (expenses):		
Interest and dividend income	4,875	4,155
Interest expense	(6,136)	(6,231)
Exchange gains (losses)	22	(1,377)
Refunds of customs duty		1,215
Loss on disposals of property, plant and equipment	(430)	(656)
Gain (loss) on sales of investment securities (Note 6)	1,437	(616)
Impairment losses on investment securities (Note 6)	(1,874)	(26,854)
Equity in earnings of unconsolidated subsidiaries and associated companies	2,918	1,341
Loss on termination of a retirement benefit plan (Note 10)		(147)
Gain on reversal of stock acquisition rights	69	45
Gain on extinguishment of tie-in shares		430
Losses from a natural disaster (Note 22)		(1,105)
Compensation for cancellation of contracts	(1,502)	
Loss on impairment of long-lived assets (Note 4)	(356)	
Other—net	352	54
Other expenses—net	(625)	(29,746)
Income before income taxes and minority interests	80,568	45,709
Income taxes (Note 13):		
Current	26,152	28,914
Deferred	9,796	(6,846)
Total	35,948	22,068
Net income before minority interests	44,620	23,641
Minority interests in net income	(3,448)	(3,768)
Net income	¥ 41,172	¥ 19,873
	Yen	
Amounts per common share (Note 20):		
Basic net income	¥141.37	¥68.14
Diluted net income		68.14
Cash dividends applicable to the year	36.00	36.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of yen	
	2012	2011
Net income before minority interests	¥44,620	¥23,641
Other comprehensive income (loss) (Note 19):		
Unrealized (loss) gain on available-for-sale securities	(4,642)	5,142
Deferred gain (loss) on derivatives under hedge accounting	17	(253)
Foreign currency translation adjustments	(12,968)	(23,141)
Share of other comprehensive loss in affiliates accounted for using the equity method	(78)	(870)
Total other comprehensive loss	(17,671)	(19,122)
Comprehensive income (Note 19)	¥26,949	¥ 4,519
Total comprehensive income attributable to:		
The Company's shareholders	¥23,561	¥ 1,706
Minority interests	3,388	2,813

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of yen											
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss			Total	Minority Interests	Total Equity
							Unrealized (Loss) Gain on Available- for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
Balance, April 1, 2010	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					(159)					(159)		(159)
Effect of change of the fiscal year-end of certain consolidated subsidiaries (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)
Balance, March 31, 2011	291,662,445	85,032	82,977	1,293	385,761	(5,473)	4,641	(91)	(64,971)	489,169	11,759	500,928
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2)					(1,205)					(1,205)		(1,205)
Net income					41,172					41,172		41,172
Cash dividends, ¥36 per share					(10,490)					(10,490)		(10,490)
Repurchase of treasury stock	(586,496)					(1,521)				(1,521)		(1,521)
Disposal of treasury stock	9,067				(7)	33				26		26
Change in equity in affiliates accounted for by equity method—treasury stock	149											
Net change in the year				208			(4,643)	17	(8,923)	(13,341)	352	(12,989)
Balance, March 31, 2012	291,085,165	¥85,032	¥82,977	¥1,501	¥415,231	¥(6,961)	¥ (2)	¥ (74)	¥(73,894)	¥503,810	¥12,111	¥515,921

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of yen	
	2012	2011
Operating activities:		
Income before income taxes and minority interests	¥ 80,568	¥ 45,709
Adjustment for:		
Income taxes—paid	(28,116)	(22,040)
Depreciation and amortization	50,526	51,713
(Gain) loss on sales of investment securities	(1,437)	616
Impairment losses on investment securities	1,874	26,854
Loss on disposals of property, plant and equipment	430	656
Equity in earnings of unconsolidated subsidiaries and associated companies	(2,918)	(1,341)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	(15,680)	(23,980)
Inventories	(33,398)	(24,501)
Other current assets	(5,878)	(7,947)
Prepaid pension cost	896	1,187
Trade notes and accounts payable	(5,566)	25,880
Accrued expenses	2,888	3,605
Other current liabilities	(819)	6,941
Liabilities for retirement benefits	(1,763)	(491)
Account payable for transaction to defined contribution pension plan	(699)	(3,890)
Other—net	4,059	(560)
Total adjustments	(35,601)	32,702
Net cash provided by operating activities	44,967	78,411
Investing activities:		
Payments for purchases of property, plant and equipment	(42,459)	(24,578)
Proceeds from sales of property, plant and equipment	728	869
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 14)	(20,875)	
Payments for acquisition of investment securities	(1,304)	(164)
Proceeds from sales of investment securities	1,892	897
Other—net	(937)	(330)
Net cash used in investing activities	(62,955)	(23,306)
Financing activities:		
Net increase (decrease) in short-term borrowings	14,237	(11,444)
Increase in long-term debt	2,996	837
Repayments of long-term debt	(2,321)	(13,527)
Cash dividends paid to the Company's shareholders	(10,490)	(9,916)
Cash dividends paid to minority interests	(1,915)	(1,510)
Other—net	(3,620)	(2,063)
Net cash used in financing activities	(1,113)	(37,623)
Effect of exchange rate changes on cash and cash equivalents	(4,617)	(9,504)
Net (decrease) increase in cash and cash equivalents	(23,718)	7,978
Increase in cash and cash equivalents from newly consolidated subsidiary		1
Effect of change of the fiscal year-end of consolidated subsidiaries	(8,151)	(8)
Cash and cash equivalents, beginning of year	167,296	159,325
Cash and cash equivalents, end of year	¥135,427	¥167,296

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2012

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.

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 2011 consolidated financial statements to conform to the classification used in 2012.

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, 2012, Siam Daikin Sales Co., Ltd. and 14 other subsidiaries changed their fiscal year end from December 31 to March 31. In addition, Daikin (China) Investment Co., Ltd., and 9 other subsidiaries whose fiscal year end are December 31, closed their books at March 31 for consolidation reporting purpose.

The Company included the subsidiaries' operating results for the 12-month period in the consolidated statement of income and included their operating results for the 3-month period in the consolidated statement 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: a) amortization of goodwill; b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; c) expensing capitalized development costs of research and development; d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and e) exclusion of minority interests from net income, if contained in net income.

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 such 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 of America 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; and 5) exclusion of minority interests from net income, if contained in net income.

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 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 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.

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 be capitalized by recognizing 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 their 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.

Stock Options

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated 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.

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 statement of income to the extent that they are not hedged by forward exchange contracts.

Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange 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 are 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 statement 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 price 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 statement 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).

In June 2010, the ASBJ issued ASBJ Statement No. 2, "Accounting Standard for Earnings Per Share" and ASBJ Guidance No. 4, "Guidance on Accounting Standard for Earnings Per Share." The Company applied these accounting standard and guidance effective April 1, 2011. In the calculation of diluted net income per share for the period, a change is made to the method concerning stock options, the right to which is decided after a certain period of service. Under the new method for obtaining the fair evaluation value of stock options, the portion related to services the Company is offered in the future is included in the amount of payment in case such a payment is made upon exercising the right. There is no effect on this change on diluted net income per share of common stock.

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.

Accounting Changes and Error Corrections

In December 2009, the 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.

The Company and its consolidated subsidiaries applied these accounting standard and guidance effective April 1, 2011.

3. Inventories

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of yen	
	2012	2011
Finished products and merchandise	¥153,913	¥121,508
Semifinished products and work-in-process	42,153	42,267
Raw materials and supplies	47,534	37,997
Total	¥243,600	¥201,772

4. Long-Lived Assets

The Group reviewed its long-lived assets for impairment for the year ended March 31, 2012. As a result, the Group recognized an impairment loss as other expense for certain machinery and equipment and other, which were deemed to be idle assets with no future plan for utilization and of which the carrying amount exceeded the fair value were as follows:

		Millions of yen
Asset Category	Location	2012
Machinery and equipment, etc.	Settsu City, Osaka Prefecture	¥261
Machinery and equipment, etc.	Kamisu City, Ibaraki Prefecture	95
Total		¥356

The carrying amounts of the relevant assets were written down to the recoverable amount. The recoverable amounts of these assets were measured by the net selling price at disposition.

5. Business Combination

Transactions under common control during the year ended March 31, 2012

1. Outline of the transaction

(1) Names and business contents of combining companies

Names: Daikin Airconditioning & Technology Tokyo Co., Ltd., and 14 other companies
 Business contents: Distribution of air conditioning equipment in the domestic market

(2) Date of the business combination: April 1, 2011

(3) Legal forms of the business combinations: Merger

The surviving companies and the absorbed companies were as follows (all of them were consolidated subsidiaries):

The Surviving Companies	The Absorbed Companies
(a) Daikin Airconditioning & Technology Tokyo Co., Ltd.	Daikin Airconditioning & Technology Kanagawa Co., Ltd. Daikin Airconditioning & Technology Kanto Co., Ltd. Daikin Airconditioning & Technology Chiba Co., Ltd. Daikin Airconditioning & Technology Ibaraki Co., Ltd.
(b) Daikin Airconditioning & Technology Osaka Co., Ltd.	Daikin Airconditioning & Technology Kobe Co., Ltd. Daikin Airconditioning & Technology Keiji Co., Ltd.
(c) Daikin Airconditioning & Technology Tokai Co., Ltd.	Daikin Airconditioning & Technology Shizuoka Co., Ltd.
(d) Daikin Airconditioning & Technology Chugoku Co., Ltd.	Daikin Airconditioning & Technology Shikoku Co., Ltd.
(e) Daikin Airconditioning & Technology Miyazaki Co., Ltd.	Daikin Airconditioning & Technology Kyusyu Co., Ltd. Daikin Airconditioning & Technology Kagoshima Co., Ltd.

(4) Names of the companies after business combinations

- (a) Daikin HVAC Solution Tokyo Co., Ltd. (the Company's consolidated subsidiary)
- (b) Daikin HVAC Solution Kinki Co., Ltd. (the Company's consolidated subsidiary)
- (c) Daikin HVAC Solution Tokai Co., Ltd. (the Company's consolidated subsidiary)
- (d) Daikin HVAC Solution Chushikoku Co., Ltd. (the Company's consolidated subsidiary)
- (e) Daikin HVAC Solution Kyusyu Co., Ltd. (the Company's consolidated subsidiary)

(5) Outline and purpose of the transaction

These mergers aimed at expanding the HVAC business (heating, ventilation, and air conditioning) by increasing the efficiency of the indirect department and reinforcing the sales staff.

2. Overview of accounting methods used

These business combinations were accounted as transactions under common control in accordance with ASBJ Statement No. 21 "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10 "Guidance for Accounting Standard for Business Combination and Business Divestitures."

Acquisition of the company during the year ended March 31, 2012

1. Outline of the business combination:

(1) Name and business contents of the acquiree

Name: AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.
Business contents: Manufacture and distribution of air conditioning equipment

(2) Main reason for the business combination: To strengthen product offering and sales network in the Turkish market and expand the business in the Middle East, Africa and CIS

(3) Date of the business combination: July 8, 2011

(4) Legal form of the business combination: The issued shares were acquired for cash

(5) Name of the acquiree after business combination:

AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.
(Corporate name was changed to DAIKIN ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.)

(6) Ratio of voting rights acquired: Ratio of voting rights held just before the business combination —% Ratio of additional voting rights acquired on the date of business combination 100%

Ratio of voting rights held after the business combination 100%

(7) Basis for determination of the acquirer: Daikin Europe N.V., a consolidated subsidiary of the Company, acquired the shares by cash and held 100% of voting rights of the acquiree.

2. Period of operating result of the acquiree included in the consolidated financial statement:

From July 1, 2011 to December 31, 2011

3. Amount and breakdown of the acquisition costs:

Year ended March 31, 2012	Millions of EUR
Payment for acquisition of shares	178
Acquisition costs	178

4. Amount of goodwill recognized, reason for recognition, and method and period for amortization of goodwill

(1) Amount of goodwill recognized: 178 million TRY

(2) Reason for recognition: Future business activities are expected to generate excess profitability.

(3) Method and period for amortization of goodwill: Straight-line method over 10 years

5. Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date:

Year ended March 31, 2012	Millions of TRY
Current assets	201
Fixed assets	190
Total assets	391
Current liabilities	119
Long-term liabilities	30
Total liabilities	149

6. Even if this business combination had been completed as of April 2011, the beginning of the fiscal year ended March 31, 2012, the Company believes the effect of consolidating this company on the financial statements would be minor. Therefore, the unaudited pro forma financial statements are omitted.

6. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥74,570	¥12,396	¥(12,353)	¥74,613
Debt securities	150	4		154
Other	396	45	(4)	437
Total	¥75,116	¥12,445	¥(12,357)	¥75,204

	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

The information of available-for-sale securities which were sold during the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		
	Proceeds	Realized Gains	Realized Loss
March 31, 2012			
Available-for-sale:			
Equity securities		¥1,892	¥1,437

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

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2012 and 2011 were ¥1,874 million and ¥26,595 million, respectively.

7. Goodwill

Goodwill at March 31, 2012 and 2011 consisted of the following:

	Millions of yen	
	2012	2011
Consolidation goodwill	¥165,719	¥169,803
Other	557	759
Total	¥166,276	¥170,562

Amortization of goodwill was ¥12,147 million and ¥11,843 million for the years ended March 31, 2012 and 2011, respectively.

8. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies at March 31, 2012 and 2011 were as follows:

	Millions of yen	
	2012	2011
Trade notes and accounts receivable	¥2,336	¥1,386
Trade notes and accounts payable	1,451	1,249

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen	
	2012	2011
Sales	¥19,979	¥11,693
Purchases	17,028	10,368

Material transactions and balances with related individuals for the years ended March 31, 2012 and 2011 were as follows:

(1) 2012

(a) The Company

Name	Description of Post	Ownership of the Company (%)	Millions of yen		Resulting Account Balances	
			Transactions			
			Description of Transaction	2012	Account	2012
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥470	Other current liabilities	¥42

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)	Millions of yen		Resulting Account Balances	
			Transactions			
			Description of Transaction	2012	Account	2012
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥72	Other current liabilities	¥ 4
			Sales of products and other	71	Accounts receivable	13

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) 2011

(a) The Company

Name	Description of Post	Ownership of the Company (%)	Millions of yen		Resulting Account Balances	
			Transactions			
			Description of Transaction	2011	Account	2011
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥439	Other current liabilities	¥42

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)	Millions of yen		Resulting Account Balances	
			Transactions			
			Description of Transaction	2011	Account	2011
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥59	Other current liabilities	¥ 6
			Sales of products and other	55	Accounts receivable	15

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.

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2012 and 2011 consisted of the following:

	Millions of yen	
	2012	2011
Bank overdrafts and notes to banks	¥67,395	¥68,899
Commercial paper	23,054	5,079
Total	¥90,449	¥73,978

Unused short-term bank credit lines were ¥150,000 million at March 31, 2012. Weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2012 and 2011 were 0.89% and 1.03%, respectively.

Weighted-average interest rates of commercial paper at March 31, 2012 and 2011 were 0.13% and 0.20%, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen	
	2012	2011
1.00% unsecured bonds, due 2014	¥ 30,000	¥ 30,000
1.42% unsecured bonds, due 2016	30,000	30,000
1.86% unsecured bonds, due 2019	40,000	40,000
Collateralized loans from government-sponsored banks, with interest 1.75%, due through 2012		1,200
Unsecured loans from government-sponsored banks, with interest 1.75% (2012), and ranging from 1.40% to 1.75% (2011), due through 2019	20,000	20,500
Collateralized loans from banks and others, payable in foreign currencies, with interest 7.63%, due through 2012	26	28
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.71% to 5.99% (2012), and from 0.70% to 5.70% (2011), due through 2017	13,318	13,351
Unsecured loans from banks and others with interest ranging from 0.39% to 3.63% (2012), and from 0.39% to 3.50% (2011), due through 2027	162,054	160,092
Total	295,398	295,171
Less current portion	(57,290)	(2,322)
Long-term debt, less current portion	¥238,108	¥292,849

Annual maturities of long-term debt outstanding at March 31, 2012 were as follows:

Year ending March 31	Millions of yen
2013	¥ 57,290
2014	10,573
2015	80,173
2016	10,570
2017	40,563
2018 and thereafter	96,229
Total	¥295,398

At March 31, 2012, property, plant and equipment; trade accounts receivables; inventories; and prepaid expenses and other current assets with a book value of ¥39,142 million, ¥15,570 million, ¥7,882 million and ¥2,667 million, respectively, were pledged as collateral for short-term borrowings and long-term debt. In addition short-term investments with a book value of ¥220 million were pledged as collateral for a supplier's borrowings of ¥45 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.

10. 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.

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.

The liabilities for employees' retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of yen	
	2012	2011
Projected benefit obligation	¥69,387	¥68,818
Fair value of plan assets	(66,632)	(66,130)
Unrecognized prior service cost	10	75
Unrecognized actuarial gain	(10,976)	(9,892)
Net asset	(8,211)	(7,129)
Prepaid pension cost	(10,227)	(11,071)
Liabilities for retirement benefits	¥ 2,016	¥3,942

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen	
	2012	2011
Service cost	¥3,543	¥3,175
Interest cost	1,912	1,930
Expected return on plan assets	(2,186)	(2,148)
Amortization of prior service cost	(24)	(39)
Recognized actuarial loss	1,400	1,376
Net periodic benefit costs	4,645	4,294
Contribution to defined contribution pension plan and other	2,766	2,275
Total	¥7,411	¥6,569

Assumptions used for the years ended March 31, 2012 and 2011 were set forth as follows:

	2012	2011
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

11. 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 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.

12. Stock Options

The stock options outstanding for the year ended March 31, 2012 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option	9 directors 44 employees	153,000 shares	2005.7.29	¥2,852	From July 1, 2007 to June 30, 2011
2006 Stock Option	9 directors 44 employees	298,000 shares	2006.7.18	¥3,790	From July 19, 2008 to July 18, 2012
2007 Stock Option	9 directors 42 employees	292,000 shares	2007.7.17	¥4,640	From July 18, 2009 to July 17, 2013
2008 Stock Option	8 directors 44 employees	308,000 shares	2008.7.14	¥5,924	From July 15, 2010 to July 14, 2014
2009 Stock Option	8 directors 42 employees	294,000 shares	2009.7.13	¥3,250	From July 14, 2011 to July 13, 2015
2010 Stock Option	8 directors 41 employees	290,000 shares	2010.7.14	¥3,050	From July 15, 2012 to July 14, 2016
2011 Stock Option	10 directors 39 employees	296,000 shares	2011.7.14	¥2,970	From July 15, 2013 to July 14, 2017

The stock option activity was as follows:

	2004 Stock Option	2005 Stock Option	2006 Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option
	(Shares)							
Year ended March 31, 2011								
Vested								
April 1, 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	
Year ended March 31, 2012								
Vested								
April 1, 2011—Outstanding		88,800	254,700	262,000	308,000	294,000	290,000	
Granted								296,000
Exercised		9,000						
Canceled		79,800	20,000	20,000	42,000			
March 31, 2012—Outstanding			234,700	242,000	266,000	294,000	290,000	296,000
Exercise price	¥2,957	¥2,852	¥3,790	¥4,640	¥5,924	¥3,250	¥3,050	¥2,970
Average stock price at exercise	¥3,256	¥2,792						
Fair value price at grant date			¥ 736	¥1,035	¥ 803	¥ 899	¥1,113	¥ 935
The assumptions used to measure fair value of 2011 Stock Option								
Estimate method:	Black-Scholes option pricing model							
Volatility of stock price:	50.4%							
Estimated remaining outstanding period:	4 years							
Estimated dividend:	¥36 per share							
Interest rate with risk free:	0.3%							

13. 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, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, at March 31, 2012 and 2011 were as follows:

	Millions of yen	
	2012	2011
Deferred tax assets:		
Tax loss carryforwards	¥18,511	¥11,308
Warranty reserve	5,576	6,184
Inventories	5,202	6,270
Accrued bonus	3,146	3,428
Software and other intangible assets	3,045	3,711
Investment securities	2,924	13,017
Liabilities for retirement benefits	1,140	1,344
Foreign income tax credit	1,048	817
Accounts payable other	810	763
Allowance for doubtful receivables	737	796
Other	6,983	7,852
Less valuation allowance	(16,094)	(12,041)
Total deferred tax assets	¥33,028	¥43,449
Deferred tax liabilities:		
Undistributed earnings of consolidated subsidiaries	¥ 9,965	¥ 8,816
Prepaid pension cost	4,288	4,505
Deferred gains on sales of property	1,906	2,224
Unrealized gain on available-for-sale securities	86	3,386
Other	5,427	4,678
Total deferred tax liabilities	¥21,672	¥23,609
Net deferred tax assets	¥11,356	¥19,840

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 years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Normal effective statutory income tax rate	40.6%	40.6%
Difference in foreign subsidiaries' tax rate	(16.4)	(28.3)
Valuation allowance	7.3	7.1
Amortization of goodwill	5.4	9.5
Tax and tax effect on dividends from foreign subsidiaries	4.3	3.2
Foreign taxes on royalties and other	1.3	
Amendment of deferred tax assets by change in the income tax rates	1.0	
Unrecognized tax effect on foreign income tax credit		13.6
Other—net	1.1	2.6
Actual effective income tax rate	44.6%	48.3%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.6% to 37.9% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterward.

As a result, amount of deferred income tax assets (net of deferred income tax liabilities) decreased by ¥797 million. Also, income taxes—deferred for this fiscal year by ¥809 million, unrealized loss on available-for-sale securities by ¥12 million, and deferred loss on derivatives under hedge accounting by ¥0 million, increased respectively.

At March 31, 2012, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥52,204 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
2013	¥ 938
2014	2,134
2015	966
2016	8,657
2017	7,481
2018 and thereafter	32,028
Total	¥52,204

14. Supplemental Cash Flow Information

The Group acquired AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş. during the year ended March 31, 2012.

A reconciliation between cash paid for the shares of AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş. and payment for the acquisition of this newly consolidated subsidiary, net of cash and cash equivalents acquired, was as follows:

	Millions of yen
	2012
Current assets	¥ 9,991
Fixed assets	9,422
Goodwill	8,826
Current liabilities	(5,915)
Long-term liabilities	(1,500)
Cash paid for the shares	20,824
Cash and cash equivalents of consolidated subsidiary	(124)
Payment for acquisition of shares of newly consolidated subsidiary, net cash and cash equivalents acquired	¥20,700

15. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥32,987 million and ¥30,771 million for the years ended March 31, 2012 and 2011, respectively.

16. 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	
	March 31, 2012	
	Finance Leases	Operating Leases
Due within one year	¥2,042	¥ 7,513
Due after one year	2,002	11,770
Total	¥4,044	¥19,283

Pro Forma Information for the Years Ended March 31, 2012 and 2011

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, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	¥669	¥249	¥918	¥1,246	¥633	¥1,879
Accumulated depreciation	580	198	778	972	503	1,475
Net leased property	¥ 89	¥ 51	¥140	¥ 274	¥130	¥ 404
Obligations under finance leases:						
	Millions of yen					
	2012			2011		
Due within one year	¥ 88			¥262		
Due after one year	52			142		
Total	¥140			¥404		

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	
	2012	2011
Lease payments	¥260	¥592
Depreciation expense	260	592

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, was computed using the straight-line method.

17. Financial Instruments and Related Disclosures

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 is 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 a quoted price is not available, another rational valuation technique is used instead. Instruments whose fair value cannot be readily determined are not included in the following.

	Millions of yen		
	March 31, 2012		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥135,427	¥135,427	
Short-term investments	221	221	
Trade notes and accounts receivables	209,077	209,077	
Investment securities	75,204	75,204	
Total	¥419,929	¥419,929	
Trade notes and accounts payables	¥110,108	¥110,108	
Short-term borrowings	90,449	90,449	
Income taxes payable	9,836	9,836	
Long-term debt	295,398	305,991	¥10,593
Total	¥505,791	¥516,384	¥10,593
Derivatives	¥ 51	¥ 51	

	Millions of yen		
	March 31, 2011		
	Carrying Amount	Fair Value	Unrealized 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)	

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 6.

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				
March 31, 2012				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 583		¥ (2)	¥ (2)
EUR	24,023		250	250
USD	12,058		(129)	(129)
AUD	4,647		66	66
NZD	269		(4)	(4)
ZAR	778		1	1
CZK	3,547		(13)	(13)
HKD	953		(7)	(7)
PLN	301			
SGD	1,997		(8)	(8)
MYR	1,641		20	20
TRY	6,274		(26)	(26)
MXN	180		(2)	(2)
INR	468		(21)	(21)
Buying: USD	1,232		84	84
EUR	6,551		32	32
Currency swaps:				
Receive JPY/Pay HKD	¥ 83		¥ 18	¥ 18
Commodity future contracts:				
Metal				
Buying	¥ 1,706		¥(134)	¥(134)

Millions of yen				
March 31, 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

Derivative transactions to which hedge accounting is applied

Millions of yen				
March 31, 2012				
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 5,171		¥ (75)
EUR	Receivables	20,873		174
USD	Receivables	1,306		13
AUD	Receivables	673		(27)
ZAR	Receivables	631		(9)
CZK	Receivables	8,013		(241)
PLN	Receivables	910		(28)
TRY	Receivables	1,599		(56)
Buying: USD	Payables	2,464		218
Interest rate swaps:				¥ (43)
Fixed rate payment, floating rate receipt	Long-term debt	¥ 30,000		
Fixed rate payment, floating rate receipt*	Long-term debt	122,000	¥97,000	

		Millions of yen		
		March 31, 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	

*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 is 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	
		2012	2011
Non-listed equity securities		¥8,235	¥7,038
Investments in limited partnerships and other investments		780	972
Total		¥9,015	¥8,010

Maturity analysis for financial assets and securities with contractual maturities

		Millions of yen			
		March 31, 2012			
		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		¥135,427			
Short-term investments		221			
Trade notes and accounts receivable		209,073	¥ 4		
Investment securities					
Available-for-sale securities with contractual maturities (Corporate Bond)		25	100	¥25	
Total		¥344,746	¥104	¥25	

		Millions of yen			
		March 31, 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 9 for annual maturities of long-term debt.

18. Commitments and Contingent Liabilities

At March 31, 2012, the Group had the following commitment:

	Millions of yen
Capital expenditures	¥12,944

At March 31, 2012, the Group had the following contingent liabilities:

	Millions of yen
Trade notes endorsed	¥2,462

19. Comprehensive Loss

The components of other comprehensive loss for the year ended March 31, 2012 were as follows:

	Millions of yen
Unrealized loss on available-for-sale securities:	
Losses arising during the year	¥ (8,380)
Reclassification adjustments to profit or loss	437
Amount before income tax effect	(7,943)
Income tax effect	3,301
Total	¥ (4,642)
Deferred gain on derivative under hedge accounting:	
Gains arising during the year	¥ 376
Reclassification adjustments to profit or loss	(298)
Amount before income tax effect	78
Income tax effect	(61)
Total	¥ 17
Foreign currency translation adjustments—	
Adjustments arising during the year	¥(12,968)
Share of other comprehensive income in affiliates accounted for using the equity method—	
Adjustments arising during the year	¥ (78)
Total other comprehensive loss	¥(17,671)

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive loss as an exemption for the first year of adopting that standard and not disclosed herein.

20. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen	Thousands of shares	Yen
Year ended March 31, 2012	Net Income	Weighted Average Shares	EPS
Basic EPS			
Net income available to common shareholders	¥41,172	291,242	¥141.37

Diluted net income per share is not disclosed because there is no dilutive share, which has an effect of dilution.

	Millions of yen	Thousands of shares	Yen
Year ended March 31, 2011	Net Income	Weighted Average Shares	EPS
Basic EPS			
Net income available to common shareholders	¥19,873	291,661	¥68.14
Effect of dilutive securities			
Stock options		6	
Diluted EPS			
Net income for computation	¥19,873	291,667	¥68.14

21. Segment Information

Under the ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

1. Description of Reportable Segments

The Group's reportable segments are those for which separate 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 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 with 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						
	March 31, 2012						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,041,387	¥132,931	¥1,174,318	¥44,383	¥1,218,701		¥1,218,701
Intersegment sales	1,193	10,071	11,264	232	11,496	¥(11,496)	
Total	1,042,580	143,002	1,185,582	44,615	1,230,197	(11,496)	1,218,701
Segment profit	60,175	20,172	80,347	852	81,199	(6)	81,193
Segment assets	903,203	130,213	1,033,416	28,788	1,062,204	98,360	1,160,564
Other:							
Depreciation	¥ 26,152	¥ 9,832	¥ 35,984	¥ 2,263	¥ 38,247		¥ 38,247
Amortization of goodwill	12,098	49	12,147		12,147		12,147
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	7,202	6,287	13,489	763	14,252		14,252
Investment in property, plant and equipment and intangible assets	37,485	9,151	46,636	1,713	48,349		48,349

Millions of yen							
March 31, 2011							
Reportable Segment							
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
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 unconsolidated subsidiaries and associated companies accounted for using the equity method	6,979	4,329	11,308	651	11,959		11,959
Investment in property, plant and equipment and intangible assets	23,070	5,380	28,450	1,544	29,994		29,994

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 ¥105,756 million and ¥118,148 million at March 31, 2012 and 2011, respectively, which consisted 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						
March 31, 2012						
Japan	China	Europe	Asia and Oceania	Americas	Other	Consolidated
¥474,572	¥215,655	¥205,656	¥163,502	¥127,268	¥32,048	¥1,218,701
Millions of yen						
March 31, 2011						
Japan	China	Europe	Asia and 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						
March 31, 2012						
Japan	China	USA	Europe	Asia and Oceania	Other	Consolidated
¥93,585	¥45,108	¥24,573	¥28,630	¥27,450	¥5,011	¥224,357
Millions of yen						
March 31, 2011						
Japan	China	USA	Europe	Asia and Oceania	Other	Consolidated
¥95,459	¥31,992	¥26,388	¥30,767	¥27,841	¥1,561	¥214,008

(2) Significant Impairment Loss on Noncurrent Assets

	Millions of yen				
	March 31, 2012				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on noncurrent assets		¥356			¥356

(3) Information about Goodwill

a. Balance of Goodwill by Reportable Segment

Goodwill for each reportable segment at March 31, 2012 and 2011 was as follows:

	Millions of yen				
	2012				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥166,276				¥166,276

	Millions of yen				
	2011				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥170,524	¥38			¥170,562

22. Losses from a Natural Disaster

Losses from a natural disaster were the losses attributed from the impact of the Great East Japan Earthquake in March 2011 and details of which loss are as follows:

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

23. Subsequent Events

Resolutions approved by the Company's Board of Directors at the meeting held on May 10, 2012, are subject to approval at the general shareholders' meeting planned to be held on June 28, 2012.

Appropriations of Retained Earnings

Payment of a year-end cash dividend of ¥18 per share to holders of record at March 31, 2012, totaling ¥5,239 million was approved.



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Daikin Industries, Ltd., and consolidated subsidiaries as of March 31, 2012, and the related consolidated statement of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu LLC.

June 26, 2012

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data (As of March 31, 2012)

Head Office	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan Phone: 81-6-6373-4312 URL: http://www.daikin.com/
Tokyo Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan Phone: 81-3-6716-0111
Fiscal Year-End Date	March 31 on an annual basis
Date of Founding	October 25, 1924
Date of Establishment	February 11, 1934
Paid-in Capital	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	50,167
Major Shareholders	<ul style="list-style-type: none"> • The Master Trust Bank of Japan, Ltd. (Trust account) • Japan Trustee Services Bank, Ltd. (Trust account) • Japan Trustee Services Bank, Ltd. (Sumitomo Metal Industries, Ltd. Retirement Benefit Trust Account re-entrusted by The Sumitomo Trust & Banking Co., Ltd.) • Sumitomo Mitsui Banking Corporation • Panasonic Corporation • SSBT OD05 OMNIBUS ACCOUNT TREATY CLIENTS • Japan Trustee Services Bank, Ltd. (The Norinchukin Bank Retirement Benefit Trust Account re-entrusted by The Sumitomo Trust & Banking Co., Ltd.) • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • Japan Trustee Services Bank, Ltd. (Trust account 4) • Japan Trustee Services Bank, Ltd. (Trust account 9)
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 182 Affiliates: 11
Number of Employees	44,110 (Consolidated)
Stock Exchange Listings	Tokyo, Osaka
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (http://www.daikin.co.jp/e/koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the <i>Nikkei Shimbun</i> .
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

DAIKIN INDUSTRIES, LTD.



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