

DAIKIN



A N N U A L R E P O R T

2000

FISCAL YEAR ENDED MARCH 31, 2000

PROFILE

Daikin Industries, Ltd., is a global leader in the manufacture of commercial- and industrial-use air conditioning systems and holds more than one-third of the market share in Japan. The Company is also a leader in fluorochemicals, with an approximate 20% share of the world market.

Daikin boasts an unparalleled combination of mechanical, electronic, and chemical expertise as well as robust R&D capabilities. The Company is committed to leveraging these strengths to create new, innovative products and flexible, highly efficient production systems.

Daikin is a dynamic global company with a well-established presence in five major areas: Japan, China, Southeast Asia, Europe, and North America. Thus, Daikin is poised to excel in an increasingly borderless business environment.

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FINANCIAL HIGHLIGHTS

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

	Millions of yen		
	2000	1999	1998
Net sales.....	¥463,069	¥464,332	¥462,519
Operating income	25,888	23,004	21,636
Net income	10,453	6,194	5,455
Total assets.....	431,009	434,290	448,739
Total shareholders' equity.....	159,635	149,089	145,332
		Yen	
Amounts per common share:			
Net income*	¥39.62	¥23.48	¥20.68
Cash dividends applicable to the year	10.00	10.00	10.00

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



Noriyuki Inoue, President

During fiscal 2000, ended March 31, 2000, Daikin Industries, Ltd., and its Group companies strove to expand sales volumes in its air conditioning and refrigeration equipment division by bringing unique products to market, both in Japan and overseas, and broaden sales

in its chemical division by offering unrivaled products through demand-creating management and application-specific development. Despite declines in revenue from overseas subsidiaries due to the appreciation of the yen, these efforts resulted in consolidated net sales of ¥463.1 billion, a level comparable to the previous fiscal year's results. Operating income

increased a substantial 12.5%, to ¥25.9 billion, thereby making fiscal 2000 our second consecutive year of increase in operating income. This accomplishment is due to the continued securing of high-profit margins in the chemical division and overseas air conditioning operations as well as a substantial improvement in earnings for domestic air conditioning operations. This was a result of Company-wide cost-reduction efforts and operational reforms as part of the structural improvements implemented in line with the Fusion 21st strategic management plan. As a partial result of the application of tax-effect accounting, net income for the term surged 68.8%, to ¥10.5 billion.

The maximization of corporate value—which translates into shareholder value—ranks among Daikin's highest managerial priorities. As such, the Company advocates management based upon the "mandate of capital" philosophy, which emphasizes quality over quantity, as well as independence and total responsibility in business. To promote these ideals, in the previous term we adopted our own original corporate governance to better focus management as well as such new management indicators as return on assets (ROA), free cash flow (FCF), and Daikin's Economic Value Added (DVA), which all Group companies are striving to fulfill.

During the term under review, ROA benefited greatly from the improvement in earnings and totaled

2.4%, an increase from 1.4% in the previous term. FCF also improved substantially and amounted to ¥23.5 billion due to increased earnings, thorough selectivity in investment, and the meticulous reduction of inventories. In DVA, although results of overseas air conditioning and chemical operations had a surplus, all others had a deficit. The Company will strive to achieve profitability in all operations by fiscal 2002.

In light of these conditions, at the general shareholders' meeting on June 29, 2000, the Board of Directors elected to maintain cash dividends applicable to the year at ¥10.00 per share.

Daikin's Basic Management Policy

In the previous fiscal year, Daikin revised its Fusion 21 strategic management plan—originally drawn up in fiscal 1996—and stepped up the pace of the plan under the revised name, Fusion 21^D ("D" for "dash"). The strategy is being implemented with six concrete goals: 1) establish a streamlined profit structure; 2) strengthen our financial structure; 3) obtain the No. 1 position in the global air conditioning market, maintain the No. 2 position in the fluorochemicals market, and strengthen the foundations of our remaining businesses; 4) promote the creation of new fields and the development of highly differentiated products; 5) establish "fast & flat" management on a consolidated basis; and 6) earn society's trust and

establish a company in which one can take pride.

In fiscal 2000, the Company implemented such measures as a complete global alliance with Matsushita Electric Industrial Co., Ltd., for air conditioning operations; the substantial reduction of inventories and condensing of credits through supply chain management strategy; the promotion of specialization among human resources and the thorough implementation of cost awareness and competitiveness through the establishment of research, information technology advancement, human resources, general affairs, and accounting divisions as separate companies; and the adoption of a management advisory committee for the strengthening of corporate governance.

Regarding the development of new products, we released to the Japanese market our new *Ururu & Sarara*—the world's first air conditioner capable of humidifying air from outdoors—and expanded sales of our *SUPER INVERTER 60* and *SUPER INVERTER 70* commercial-use air conditioners, which reduce conventional electricity costs 60% and 70%, respectively. Worldwide, we introduced the industry-leading economy room air conditioner, *Global Mini Split (GMS)*. During the term, Daikin enjoyed some of the best sales results of recent years due to the dynamic promotion of these products. The Company's share of the Japanese room air conditioning market entered double digits for the

first time, reaching 10.8%, and its share of the commercial-use air conditioning market amounted to a record 35.8%.

Issues and Areas of Emphasis in Fiscal 2001

As the final year of Daikin's Fusion 21^D strategic management plan, fiscal 2001 is crucial. Fortunately, highly profitable fluorochemicals business and rapidly expanding global air conditioning operations, coupled with substantial improvement in Japanese air conditioning operations, have resulted in the possibility of achieving tremendous expansion in earnings for the entire Company. By combining these favorable conditions with the numerous initiatives we have implemented thus far and boldly assuming the challenge of new operational tasks, I believe we can achieve remarkable growth, unrivalled in recent years. Hence, in fiscal 2001 the Company will regard the following three points as high-priority management issues: 1) the fulfillment of the goals of the Fusion 21^D strategic management plan; 2) the improvement of our IT competencies and infrastructure; and 3) the establishment and implementation of Daikin's own original corporate governance.

The operating environment surrounding Japanese corporations is undergoing tremendous changes, including the globalization of business, the IT revolution, and the overall aging of Japanese society. These

changes are affecting every corner of the economy and bringing about its metamorphosis into a borderless, globally networked economic system.

Against this backdrop, we must swiftly integrate the mobility of human resources and a consciousness of performance in terms of investment and information into our management processes to enhance our competitive strength. As such, we consider the direction that our corporate reforms must take to secure our global competitiveness. This is to be accomplished through the enhancement of IT utilization and core competence, the founding of a new business model, revolutionizing management, and implementing innovative human resources and compensation plans that truly motivate our employees.

The Group will strive to prevail in the months and years ahead by creating an attractive corporation that draws people, investment, and information. The Group also intends to impel people and corporations to want to join and continue working for Daikin, invest in Daikin, or enter into a strategic alliance with Daikin. Thus, the implementation of management based upon the mandate of capital philosophy as well as fast & flat management are crucial factors. Moreover, we recognize the principal initiatives of the fulfillment of Fusion 21^D, the improvement of our IT competencies and infrastructure, and the establishment and implementation of Daikin's

own original corporate governance as top priorities in fiscal 2001.

Outlines of each topic are explained in detail in the topics segment of this report.

We have a great deal to accomplish to achieve further growth in the 21st century. However, we have already begun to come together as a Group by grappling with the task of creating an attractive corporation that draws people, investment, and information under the aforementioned policies, reflected by the slogan "Build a Team with Determination, Committed to Accountability and Responsibility ~Passion, Specialty, Action~"

In closing, I wish to thank our shareholders and business partners for their backing in fiscal 2000. We look forward to your continued support in the current fiscal year.

June 29, 2000



Noriyuki Inoue,
President



T O P I C S



The Fusion 21^D Strategic Management Plan



Establishment of Corporate Governance



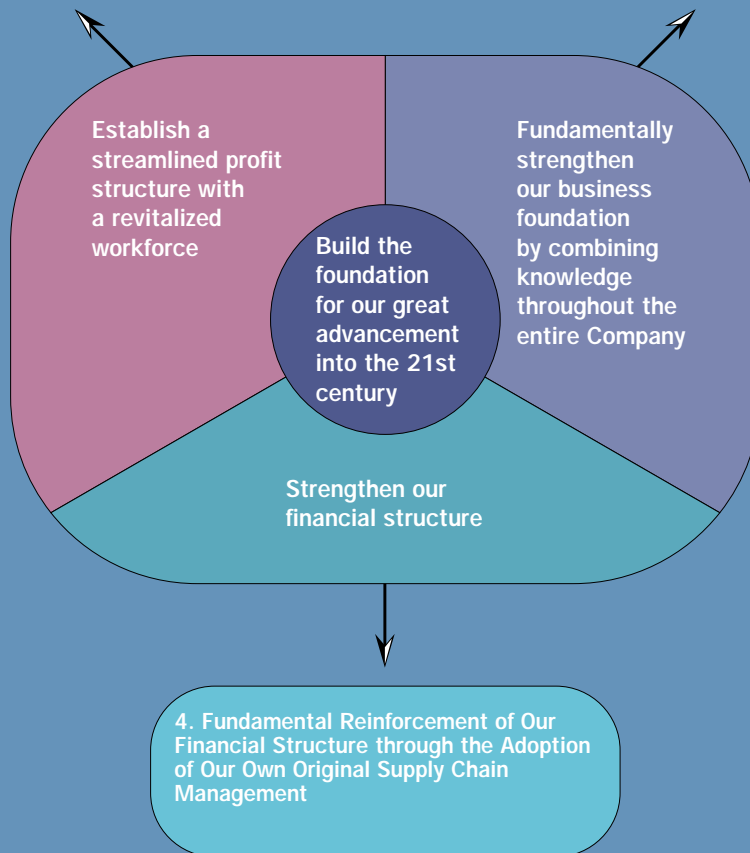
IT Revolution

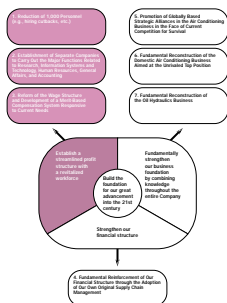
The Fusion 21^D Strategic Management Plan

The following initiatives provide a substantial contribution to the fulfillment of the goals of Fusion 21^D.

Seven Initiatives for the Fundamental Reform of Management Structure

- 1. Reduction of 1,000 Personnel (e.g., hiring cutbacks, etc.)
- 2. Establishment of Separate Companies to Carry Out the Major Functions Related to Research, Information Systems and Technology, Human Resources, General Affairs, and Accounting
- 3. Reform of the Wage Structure and Development of a Merit-Based Compensation System Responsive to Current Needs
- 4. Fundamental Reinforcement of Our Financial Structure through the Adoption of Our Own Original Supply Chain Management
- 5. Promotion of Globally Based Strategic Alliances in the Air Conditioning Business in the Face of Current Competition for Survival
- 6. Fundamental Reconstruction of the Domestic Air Conditioning Business Aimed at the Unrivaled Top Position
- 7. Fundamental Reconstruction of the Oil Hydraulics Business





Establish a Streamlined Profit Structure with a Revitalized Workforce

1. Reduction of 1,000 Personnel (e.g., hiring cutbacks, etc.) between Fiscal 1999 and Fiscal 2002

Promote quality human resources while reducing head count by 600 compared to fiscal 1998 (non-consolidated basis).

	Fiscal 1998	Fiscal 2000	Goal for Fiscal 2002
Results	7,775 employees	7,481 employees	6,775 employees

2. Establishment of Separate Companies to Carry Out the Major Functions Related to Research, Information Systems and Technology, Human Resources, General Affairs, and Accounting

Establish the six general administration functions as separate companies and increase efforts to become a more-professional group and enhance market value.

Function	Company Name	Established
Research	Daikin Air-Conditioning R&D Laboratory, Ltd.	April 2000
	Daikin Systems & Solution Laboratory, Ltd.	
	Daikin Environmental Laboratory, Ltd.	
Information	Daikin Information Systems Co., Ltd.	December 1999
Human Resources/General Affairs	Daikin Human Support Co., Ltd.	April 2000
Accounting	Daikin Accounting Solutions Co., Ltd.	April 2000

3. Reform of the Wage Structure and Development of a Merit-Based Compensation System Responsive to Current Needs

Fundamental reforms for up-to-date human resources and compensation programs were determined in April 2000 and will be implemented sequentially in fiscal 2001.

Strengthen Our Financial Structure

4. Fundamental Reinforcement of Our Financial Structure through the Adoption of Our Own Original Supply Chain Management

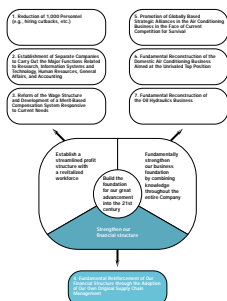
Goal:

Obtain AA rating in fiscal 2003 by reducing inventories and debt and ultimately achieve an interest-bearing debt ratio within 30% by fiscal 2003. (The rating is based on Rating and Investment Information, Inc.)

Our interest-bearing debt ratio has been declining steadily through substantial reductions in inventories and debt. Interest-bearing debt will be reduced approximately ¥30 billion in three years' time.

(Consolidated Basis)	1998	2001	Difference	2003 Goals
Debt turnaround time	88 days	72 days	-9 days	60 days
Inventory turnaround time	81 days	57 days	-32 days	50 days
Interest-bearing debt dependency ratio	42%	35%	-7 percentage points	30%

Strive for IT-driven total supply chain management, take into account the customer's needs and perspectives, and focus on product development, purchase order obtainment, production, sales, and recovery.



Fundamentally Strengthen Our Business Foundation by Combining Knowledge Throughout the Entire Company

5. Promotion of Globally Based Strategic Alliances in the Air Conditioning Business in the Face of Current Competition for Survival

Comprehensive alliance with Matsushita Electric Industrial Co., Ltd., for the manufacturing and R&D of residential- and commercial-use air conditioners (agreement reached November 1999).

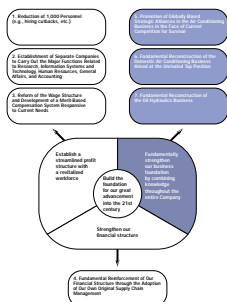
- Matsushita-Daikin Air-Conditioning Technologies Development Center, Ltd., was established in April 2000 for joint product development
- Solidification of this alliance under way in five operational areas, including production and purchasing

6. Fundamental Reconstruction of the Domestic Air Conditioning Business Aimed at the Unrivaled Top Position

Substantial increases in market share and profitability were achieved in the previous term. A market share of 10.8% has been achieved in room air conditioners, and Daikin has acquired the top share in the commercial-use air conditioner market with an unrivaled 35.8% share.

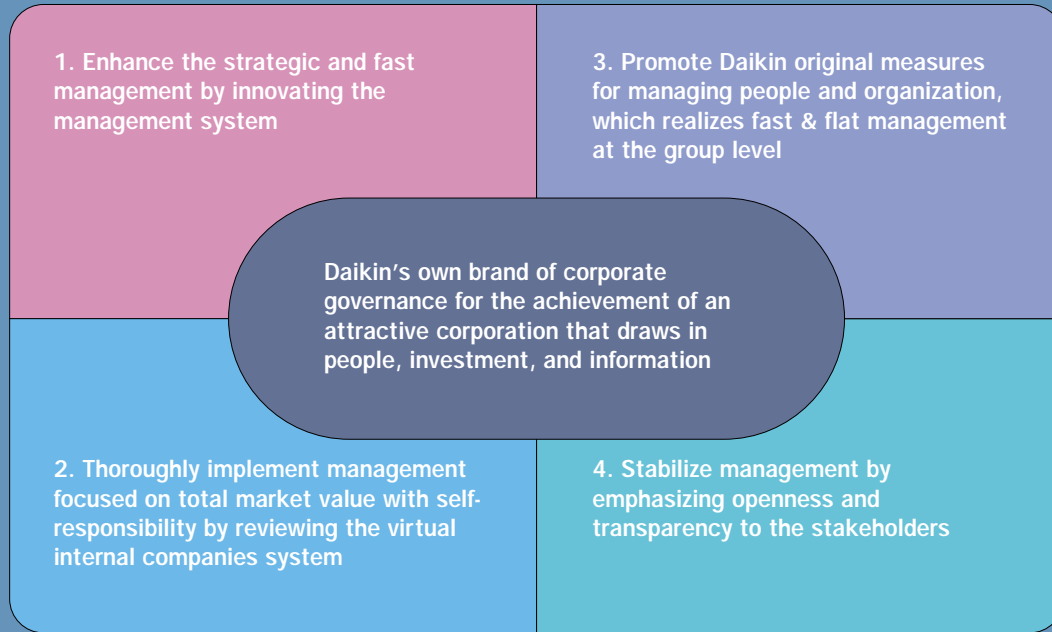
7. Fundamental Reconstruction of the Oil Hydraulics Business

Achieve a stable earnings structure capable of securing profitability, even under current sales levels, through the radical reduction of fixed costs.



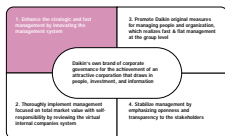
Establishment of Corporate Governance

Daikin's Own Brand of Corporate Governance Management Reform through the Promotion of Four Innovation Initiatives



What's a virtual internal companies system?

1. It is a unit for promoting Profit Management (DVA, ROA, ROE, FCF). It is not an organizational administrative unit. Such units are restricted to business and administrative divisions.
2. It is most effective to implement a system that enables the reciprocal transfer of knowledge and strategies among business divisions. Daikin will not employ the closed, isolated, blunt methods of a pure internal companies system.
3. In its efforts to thoroughly implement capital efficiency and promote profit management, Daikin will integrate the best aspects of internal company systems and avoid redundancy as well as protracted decision-making processes.
4. Officers in charge of the administration of profit management under the virtual internal companies system will be determined by the Board of Directors. These officers will promote profit management at all companies, including subsidiaries, under complete self-responsibility.



1. Enhance the Strategic and Fast Management by Innovating the Management System

1. Further activation of the meetings of the Board of Directors

Daikin's directors assume the responsibility for management collectively as well as for business operation. Daikin has been taking its own unique operation style, such as the collection of know-how through frank and thorough discussions among a relatively small number of directors and the transfer of know-how. This style will be continually brushed up as it has been.

2. Continuation of the advisory council

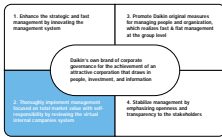
Daikin's Advisory Council made it possible for Daikin to gather valuable advice for important business fields from a broad range of viewpoints and conducted business in a versatile, practical, and active manner. The five advisors will be retained during fiscal 2001.

3. Enhancement and fulfillment of inspection/audit function

Daikin will strive to augment its inspection/audit function to improve ethics and transparency and establish a sound management.

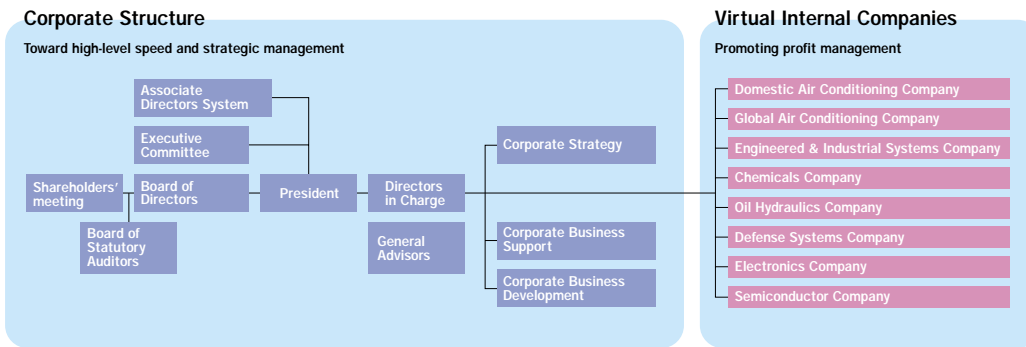
4. Introduction of the associate directors system (eight directors were newly appointed this year, one of whom was appointed from the board of directors of Daikin Europe N.V.)

An Associate Directors System will be introduced to employ the outstanding expertise of various specialists from both inside and outside the Company to work in highly specialized fields, such as the management of domestic and overseas subsidiaries, manufacturing, sales, technology, IT, legal and financial affairs, human resources, and business strategy. By doing so, Daikin will promote innovation by raising the mobility of management in specialized fields and facing and dealing with all the risks that arise.



2. Thoroughly Implement Management Focused on Total Market Value with Self-Responsibility by Reviewing the Virtual Internal Companies System

1. Thoroughly establish the two-tier control system of the corporate and virtual internal companies to implement strategic and fast management



2. Introduction of incentive measures to raise awareness of total market value

Accumulative incentive measures will be introduced to raise awareness of total market value and Daikin's stock price throughout the Company.

- Stock option for directors

Applicants: Board of Directors, Associate directors, and Corporate Advisors

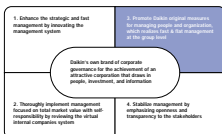
Number of stocks: 2,000 to 10,000 shares

- Compensation system linked to stock price for key positions

Effective range: All employees in key positions and the 10th grade or higher positions at the end of March every year.

Payment: Average rise from the previous year (in ¥) x payment rate corresponding to each position (multiplier)

Payment rate: 100 to 400 times, depending on grade level



3. Promote Daikin Original Measures for Managing People and Organization, Which Realizes Fast & Flat Management at the Group Level

1. Making management principles universally known

Daikin strives for management that values the common ties that bind people together, engender an enterprising corporate atmosphere in which opinions are freely expressed, and work for the

high-level development of management principles.

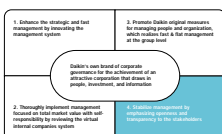
2. Thorough information sharing of the Group at a global level

3. Acceleration of fast & flat management

- Daikin will enhance its knowledge gathering by promoting a high level of information sharing and fostering lively and open discussion of issues
- Daikin's original Core Person and Support Relations philosophies grant responsibility to those with strong ambition as well as a high level of ability to deal responsibly with peers, and positions other qualified persons to provide operational support. The Company will augment and firmly implement this flexible management method and has received high approval ratings from employees.

4. Radical reform of human resources and compensation systems

- Daikin has always taken pride in its management, which highly values its personnel. By advancing this philosophy, the Company will transform the manner in which it values its employees and strive for management methods that truly motivate its workers.
- Daikin will adopt a compensation system that, in particular, rewards those with enthusiasm and a high level of specialization and who contribute to the growth of the Company.



4. Stabilize Management by Emphasizing Openness and Transparency to the Stakeholders

1. Thorough disclosure to Company stakeholders

2. Strengthen strategic public relations

3. Strengthen investor relations efforts

4. Further stabilization of operations through amicable labor management relations

5. Augment accountability based on international accounting standards and increased integrity

IT Revolution

1-1. Establish Internet-based materials acquisition across all Company divisions

1-5. Establish air conditioning value chain strategies as part of the structural conversion to a total solutions business

1-2. Configure Internet sales one step ahead of the competition

1-6. Establish an administrative system to accelerate the conversion from tally to profit management (ROA, DVA, FCF)

1-3. Provide a clearly delineated Companywide supply chain management model

1-7. Use networks to enhance productivity

1-4. The reflection of customer needs through reciprocal communication

1. Improve our IT competencies and infrastructure in production, sales, research, administration, and all operational functions

2. Adapt to increasingly barrier-free, international, intercorporate, and inter-departmental human resources, funds, and information

3. Convert from a vertically organized company to a horizontally organized one

IT Revolution

2-1. Promote cooperation, tie-ups, and alliances on small, medium, and large scales and swiftly incorporate external advantages into the Company (fully demonstrate synergistic power)

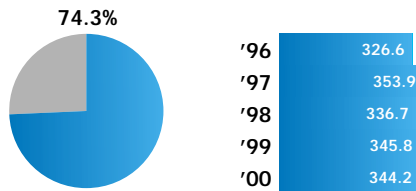
3-1. Establish fast & flat management

3-2. Accumulate and process information for the data- and knowledge-sharing in the IT era

3-3. Develop training systems that transcend the boundaries of the Group and are undeterred by time or place

AIR CONDITIONING

Sales (% of net sales, ¥ billion)



In fiscal 2000, sales by Daikin's Air Conditioning and Refrigeration Equipment Division slipped 0.5%, to ¥344.2 billion, and accounted for 74.3% of consolidated net sales, approximately the same level as the previous term.

Japanese Market

Overview

The environment surrounding Japan's air conditioning industry during the first half of fiscal 2000 remained severe, owing to slow consumer spending, sluggish capital investment, and lackluster construction starts. However, recovery was seen in the second half of the term, bolstered by demand from Japanese government bodies—mostly generated by public works—and a sharp rise in demand near year-end underpinned by favorable financial standings among industry leaders. In room air conditioners, strong performances in new housing starts, high-rise complexes, and apartment buildings supported sales, resulting in an increase compared to the previous fiscal year.



Against this backdrop, unit sales of packaged air conditioners and room air conditioners exceeded the industry average. The Company interprets this as proof of the successful synergy of its augmented sales network—focused on retail operations—with its unique product lineup, designed to meet the demand for air conditioner replacement units.

In the commercial-use air conditioning market, *SUPER INVERTER 60*, now in its third year of sales, contributed enormously to expansion in market share. Additionally, orders for multiunit air conditioners for office buildings and ice storage multiunit air conditioners grew dramatically, driven by the demand for replacement units from corporations rebounding from their previously depressed conditions in the latter half of the term. Through the marketing of such high-value-added products and strategies that emphasize responding to the demand for air conditioner replacement units, the Company was successful in increasing its market share, although the overall lackluster demand led to a slight decrease in net sales.



In the residential-use air conditioning market, Daikin's share of the market exceeded 10% for the first time in its history. The Company's introduc-

tion of *Ururu & Sarara*—the world's first air conditioner capable of humidifying air from outdoors—and other top-class, low-cost units, combined with its mass merchandiser-focused sales channels, resulted in a brisk increase in unit sales. However, owing to the decline in retail prices, net sales did not increase substantially.

In customized large-scale central air conditioning systems, owing to the decline in new large-scale construction starts and the persistent severity in the business environment, net sales decreased for the term.

Outlook

In Japan's air conditioning market, capital investment recovered during fiscal 2000, bolstered mainly by IT- and semiconductor-related firms and other large corporations in high profit fields. Also, a revival in the currently stagnant demand for air conditioner replacement units is expected. Daikin places extremely high priority on providing total solutions to its customers and will implement operational reforms to secure the demand for air conditioner

replacement units by focusing on energy conservation and environment-friendliness. In room air conditioners, although growth in new housing starts is expected to slacken in the latter half of fiscal 2001, overall demand is expected to exceed that of the previous term, and the Company will continue to strive for sales expansion. We also recognize the urgency of increasing the portion of net sales accounted for by such new products as central air conditioning systems, air cleaners, total heat exchangers, and deodorizers and will work to establish new sales networks and methods of selling.

Daikin has succeeded in improving the profitability of its air conditioning business in the Japanese market through significant cost-reduction and sales-expansion efforts. We will continue to strive for enhanced profitability through marketing efforts to leverage powerful sales networks, production-cost reductions to compensate for the decline in selling prices, and the reduction of interest-bearing debt.

Global Air Conditioning Equipment Operations

Overview

In the global market for air conditioning equipment, European demand has continued enjoying a high rate of growth over the past two years. In the recovering ASEAN economies, although substantial growth in sales has yet to be achieved, figures are steadily improving in politically and economically troubled Indonesia. Meanwhile, price and market competition has intensified in China—a growing market for air conditioners—due to the emergence of local manufacturers, as well as in the Middle East and Australia, due to the expansion of South Korean manufacturers.



Amid this business environment, Daikin compensated for the decline of its performance in lackluster markets by responding to high demand in the markets of Europe and Australia, and reported increased sales of all products in

the room air conditioner, packaged air conditioner, and office building multiunit air conditioner segments. Facing severe competition in the growing Chinese market, the



Company's local production and sales joint venture—Shanghai Daikin Air-Conditioning Co., Ltd.—steadily increased its sales performance and eliminated its accumulated losses. To organize and fortify our sales network in Europe, we established Daikin Airconditioning Central Europe GmbH and Daikin Airconditioning Spain S.L. by acquiring local firms in Austria and Spain. Furthermore, to promote sales network organization and sales expansion in promising, new-growing markets, Daikin established a joint venture in India—Daikin Shriram Airconditioning Pvt. Ltd.—and has commenced manufacturing and sales operations.

Outlook

In the global air conditioning market, particularly in the small-scale room air conditioner market, not only Japanese, but also South Korean and Chinese manufacturers have remarkably extended their businesses to the Middle East, Australia, and Europe, and worldwide price competition is expected to intensify substantially in the near future. The prospects are very reassuring, and growth is expected over the medium term through the increase in global familiarity with air conditioning.

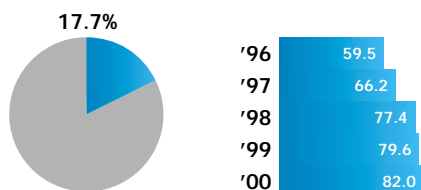
Moving forward, by further strengthening overseas business development the Company will secure profitability for the air conditioning business of the entire Group. At the same time, it will raise competitiveness and develop comprehensive air conditioning operations, from residential- and commercial-use air conditioners to customized large-scale central air conditioning systems, in five major areas—Japan, China, Southeast Asia, Europe, and North America.

Furthermore, the Company strives to achieve a top-ranking global market share for air conditioning systems.

Europe is a particularly important market due to its expanding demand; therefore, we will develop more sales subsidiaries in other principal European countries with Daikin Europe Coordination Center N.V. in Belgium as the main partner, manufacturing and selling residential- and commercial-use air conditioning equipment and water-chilling units. From this foothold, Daikin has also joined with Matsushita Electric Industrial in a global alliance for air conditioning operations.

CHEMICALS

Sales (% of net sales, ¥ billion)



During the period under review, sales by Daikin's Chemical Division increased 2.9%, to ¥82.0 billion. The figure represented 17.7% of consolidated net sales, up from 17.1% in the previous fiscal year.

Overview

Regarding the business environment for the term, despite a temporary decline in demand for fluorinated ethylene propylene (FEP) for local area network (LAN) cable in the



United States due to the Y2K issue, the Chemical Division once again achieved record net sales. Factors contributing to this outstanding performance included

the recovery in demand for semiconductor manufacturing equipment in Japan, increased demand for CD-R dye solvents in Japan and Taiwan, continued resilience of the U.S.

economy, recovery in demand from Asian economies, and the development of new applications through the Company's global business development. In fiscal 2001, recovery and stability in Asian economies and growth supported by global IT investments are expected to continue. In preparation, Daikin expanded its production capacities in Japan and the United States with an emphasis on resin operations.

Sales of fluoropolymers and fluoroelastomers declined during the term, due to a temporary decline in FEP demand caused by the shift in IT investment to an emphasis on software for Y2K compliance. In fiscal 2001, FEP demand is expected to recover, as is demand for LAN cable, as high-tech standardization progresses.

Opening ceremonies were also held for Daikin Chemical Netherlands B.V., which has commenced the precompounding of fluoroelastomers. Many high-ranking officials, including the mayor of Oss, were invited to the event, which helped solidify ties with the local community. Hereafter, we will strive to strengthen our global supply organization.

In fluorocarbons, increased demand for R-407C, R-410A, and other alternative refrigerants as well as sales expansion in Asia led to an increase in net sales for the term. Global development through the cross-licensing agreement for new alternative refrigerants with E.I. du Pont de Nemours and Company has also proved effective.

Regarding other chemicals, thanks to the Company's global marketing efforts and the recovery in demand in Asia, sales of oil- and water-repellent and semiconductor-etching reagents increased in all regions, most notably in Asia. In intermediaries, we are striving for business expansion through strengthening ties to chemical manufacturers, strategic alliances, and reciprocal supply arrangements.

Daikin is also aggressively pursuing further global expansion and the development of new applications for its other chemical products. We are expanding the scope



of our *LEZANOVA* fluorinated natural leather to such nonleather products as cashmere. Our high-performance fluoropolymer air filter, *NEUROFINE*, was displayed at the WEST 99 World Semiconductor Exhibition in the United States, and our *ZEFFLE* fluoropolymer paint base received the best single booth raw materials award at the International Coating Expo.

Outlook

As fluorochemicals are largely used in automobiles, IT equipment, and semiconductor manufacturing facilities, we expect to continue to sustain stable, long-term demand. We are devoting our resources to globalization in efforts to improve our business performance as we enter the 21st century, emphasizing applications development and market creation by leveraging our strengths as a chemical materials manufacturer.

As a comprehensive fluorochemicals manufacturer, Daikin aims to expand the demand for fluorochemical products by introducing new products and developing new applications, especially in the advanced areas of semiconductors, IT, and environmental solutions. Our goal is a 25% share of the global market in a few years.

In the United States, the hub of demand for advanced technologies for fluorochemicals, the Company established The Daikin Institute of Advanced Chemistry and Technology, Inc., in June 2000. Daikin America, Inc., which has been in operation since 1994, strove to augment its lineup of locally manufactured products and optimize its technical service and marketing operations. In May 1999, at Daikin America's Decatur, Alabama plant, there was a small, unfortunate accident. However, the matter was resolved and operations were quickly resumed in August 1999. We are installing facilities for oil- and water-repellent reagents and expanding sales of PFA resins and fluoroelastomers.

In the future growth markets of Asia, Daikin is planning the construction of a new plant in a joint venture with China National Chemical Construction Corp. (CNCCC) in

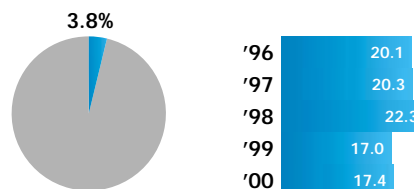


Changshu, China, and plans to commence production of fluorine resins and other chemicals in a few years' time. In addition, the Company has been supplying fluorine coating produced by Daikin Fluoro Coatings (Shanghai) Co., Ltd., and Daikin Chemical

(Hong Kong), Ltd., since 1998 and has steadily expanding sales. Furthermore, in Taiwan—a major hub of IT devices—we established Formosa Daikin Advanced Chemicals Co., Ltd., in December 1999 as a joint venture with Formosa Plastics Corporation. Through this new affiliate, the Company will manufacture and market semiconductor-etching reagents for the 21st century.

OIL HYDRAULICS

Sales (% of net sales, ¥ billion)



In fiscal 2000, sales for the Oil Hydraulics Division increased 2.1%, to ¥17.4 billion. This represented 3.8% of consolidated net sales, up from 3.7% in the previous fiscal year.

Overview

•Oil Hydraulics Equipment

Although demand increased in the plastic machinery and export segments, the environment surrounding the oil hydraulics equipment business during the term under review progressed sluggishly due to the lackluster state of the Japanese economy. The overall demand for oil hydraulics equipment declined 0.6%, to ¥217.0 billion.

Against this backdrop, Daikin's efforts to expand sales to the general machine tools market and acquire new customers in the hydraulic transmission (HST) industry produced increases in both net sales and market share.

•Parking Systems

Although units supplied to apartment complexes—the main source of demand for multilevel car-parking systems—increased, little growth was seen in non-mechanical (self-propelled) units. As a result, demand in multilevel car-parking systems remained at about the same level as in the previous term.

Amid falling market prices, Daikin succeeded in expanding its market share by pushing through market penetration of its *HIGH SPEED SERIES* of multilevel car-parking systems—a stronger, faster version of the traditional hydraulic type that features superior cost-competitiveness.

Outlook

•Oil Hydraulics Equipment

Although signs of economic recovery in Japan are evident, the severe conditions surrounding the market for oil hydraulics equipment is expected to continue, and results for fiscal 2001 are only anticipated to increase 2.3%. To cope with this business environment, we intend in the



short term to pursue the following goals:
1) expand sales by bringing to market such unique products as our *ECORICH* series of inverter-driven

hydraulic systems, inverter oil-cooling units, and other high-energy efficiency products; 2) develop new business through enhanced responsiveness to the end user; and 3) achieve early penetration into the markets as they convert to HST.

Through these efforts, Daikin will expand its market share and improve profitability. The Company will also initiate dynamic global strategies focused on Asian

markets, where the demand for oil hydraulics equipment is expected to expand.

•Parking Systems

The enormous decline in selling prices is expected to persist in fiscal 2001. However, Daikin will strive to improve profitability by promoting its total cost-cutting program, which places emphasis on international procurement.

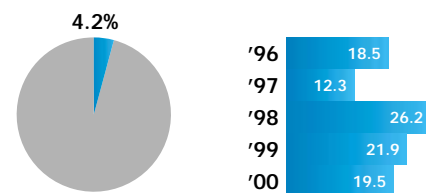
We will also strive to raise our standing in the industry by expanding sales of our *HIGH SPEED SERIES* and penetrating such non-residential markets as manufacturing plants and offices.

•Lubricants

The Company integrated the lubricants division of Nabco Inc. into its Daikin Lubricant Products and Engineering Co., Ltd., which commenced operations on April 1, 2000. Daikin has always held a top share in primarily large-scale machine tools, while Nabco has held a top share in compact machine tools. The merger of the two businesses will leverage the merits of both companies to enable highly effective business development.

DEFENSE

Sales (% of net sales, ¥ billion)



In fiscal 2000, Daikin's defense-related sales declined 10.6%, to ¥19.5 billion, representing 4.2% of consolidated net sales, down from 4.7% in the previous fiscal year.

Overview

Giving first priority to economic recovery, the Japanese government passed a bill that halted the Fiscal Structural Reforms Act. However, Japan's defense budget in fiscal 2000 was trimmed 0.2%, to ¥4.92 trillion, and frontline

equipment budgets were likewise trimmed 0.2%. In fiscal 2001 as well, Japanese government budgets continue to place priority on economic recovery, with the overall defense budget set at approximately the same level. However, frontline budgets have been cut 3.1%, to ¥24.5 billion, continuing their downward slide. As Japan's Defense Agency will continue to promote equipment procurement cost-cutting, conditions for the defense industry are expected to worsen.

Outlook

Amid this severe environment, although sales grew in the new areas of fiber-reinforced plastic (FRP) composite vessels and demand oxygen controllers, sales for fiscal 2000 declined 10.6%, to ¥19.5 billion, reflecting the reduction of federal budgeting.

In fiscal 2001 and beyond, with defense budgets in continual decline, conditions are expected to become even more severe. However, even in this harsh environment, Daikin will endeavor to stabilize revenue in this division and quickly develop business in new private-sector fields with a focus on the FRP composite vessels market.

Maintaining Profitability in Current Business

To maintain the consistent profitability of defense-related operations in this environment, Daikin will continue with the R&D of high-performance, high-value-added products. The Company will work to maximize orders from Japan's Defense Agency and reduce operational costs by improving quality and productivity as well as streamlining related operations. As part of these efforts, in fiscal 2000 Daikin became the first in the ammunitions industry to obtain ISO 9001 certification and has organized an advanced quality-assurance system.

Expanding into New Businesses

Leveraging its ammunitions manufacturing technology, Daikin was the first in Japan to develop FRP composite vessels and in 1996 introduced these vessels for home-use oxygen therapy. Sales of these have grown steadily

ever since. In 1997, we launched the *DS10A* demand oxygen controller and, in 1998 came out with the lightweight, 8.4-liter breathing apparatus cylinder for use in fire fighting. In 1999, the Company added the *DS20* new demand oxygen controller to its lineup. We will continue to add new peripheral devices to our product offerings.



COMPUTER GRAPHICS

In June 1996, Daikin launched *SCENARIST* DVD-authoring software, which it aggressively promoted in global markets, including the United States, Europe, and Asia. *SCENARIST* has now become the global standard in the entertainment field. Also, in line with the rising popularity of DVD players and DVD-authoring systems, the Company has commenced its full-fledged penetration into the field of corporate public relations and is now developing that business. Furthermore, demand from general consumers is expected to grow.

Looking at Japanese business in the field of network computing, demand for *LSF* (load sharing facility) software surged during the year, primarily owing to demand from the semiconductor design field. When information processing operations are conducted over a multiplatform computer network, *LSF* optimizes the burden shared by the machines. Our newly introduced network management system, *KINNETICS*, is also reporting brisk sales.

Sales of our *SOFTIMAGE* computer graphics animation software—hitherto the pillar of the division—slumped, mostly due to declining demand from video game manufacturers, broadcast stations, and specialty schools. Competitive products aimed at the low-cost tier of the market also declined on a unit basis, having been negatively affected by recent computer downsizing and

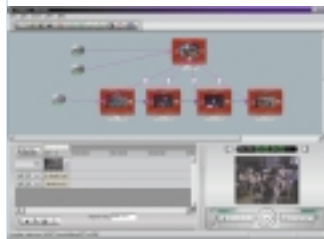
the shift from UNIX-style workstations to Windows platform PCs.

Outlook

To expand future operations, Daikin will address the following issues.

•Reconfiguration of Global DVD Operations

Considering the present state of infrastructure ground-work, the higher purchasing of *SCENARIST* by general consumers is predicted to begin in fiscal 2001. In response, Daikin is striving to firmly grasp the trends in leading-edge technologies and products and push through further business developments. Our efforts include the enhancement of *SCENARIST*'s competitiveness. We took steps to expand new product business by differentiating ourselves from



the competition with the December 1999 release of the Internet-compatible *EDK* (enhanced DVD kit)-authoring software, which features added functions

that can be used immediately by CD-R authors. We will also expand sales of *Reel DVD*—released in January 2000—the low-cost simplified version of our video CD-authoring system with added DVD-authoring features for general consumers.

•Expanding New Areas of Business in Japan

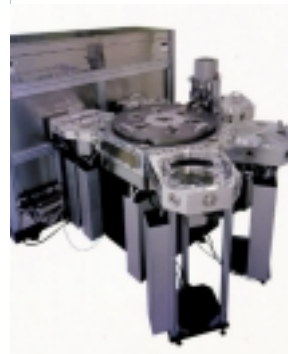
The trend toward downsized systems and open standards is advancing rapidly in the DVD- and video-authoring industry, the core of which comprises multimedia, networking, construction CAD, the new *SOFTIMAGE DS* (digital studio) system for non-compressed audio and visual authoring, and *SCENARIST*. In response to this, Daikin will convert the hardware it supplies from UNIX-style workstations to Windows platform PCs. We will also maintain our competitiveness and expand demand in existing markets by continually introducing new products. At the same time, we will step up investment in IT and expand our business in the network systems market, which is achieving rapid growth amid the symbiosis of

workstations and PCs. Specifically, we will supply integration technologies, comprising *LSF*, the network administration integrated software solution for intermixed environments—for which we hold the exclusive sales rights in the Japanese market—and *KINNETICS*, the industry first JAVA and Web-compatible network management system.

SEMICONDUCTOR MANUFACTURING EQUIPMENT

In the cryogenics business during fiscal 2000, Daikin strove to expand sales with a focus on cryo-pumps and laboratory cryo-coolers. However, the Company was unable to rebound from lackluster sales in this segment as principal customers delayed investments and competitors drastically lowered their prices.

For the near future, we have narrowed our focus to



sales promotion efforts for cryo-pumps and laboratory cryo-coolers in South Korea and Taiwan—markets in which we successfully initiated sales during the previous term—and new sales generation through short-term product development.

In the cluster tools business, Daikin stimulated purchase orders through a rapid recovery in the semiconductor industry. However, owing to the time required for customer evaluation of our products, these developments did not result in a substantial increase in sales for fiscal 2000.

Looking forward, as further improvements in the market environment are predicted, dynamic sales promotion efforts will be aimed at securing a substantial increase in sales through repeat orders from large users, which was the objective of our efforts during fiscal 2000.