



Noriyuki Inoue, President

During fiscal 2001, ended March 31, 2001, Daikin exerted untiring efforts to expand sales volumes in its air conditioning operations, both domestic and overseas, with unrivaled products and to augment sales in its fluorochemicals business by creating new demand and developing new applications. As a result, the Daikin Group recorded consolidated net sales of ¥531.9 billion, a substantial increase

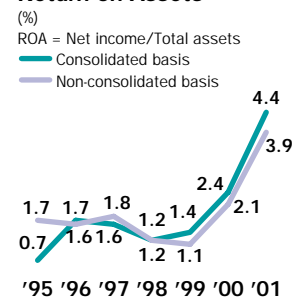
compared with the previous term and the highest annual sales figure in the 77-year history of the Company.

Fiscal 2001 was the final year of Daikin's Fusion 21 strategic management plan, which spanned fiscal 1996 through fiscal 2001. Under the plan, the Company strove tirelessly to radically reform its managerial framework, implement comprehensive cost reductions Companywide, and

develop unique, highly appealing products. As a result, we once again achieved wide profit margins in our fluorochemical and overseas air conditioning operations and expanded our share of Japan's air conditioning market. Operating income increased 54%, to ¥39.8 billion, marking the third consecutive annual increase. Net income surged 91%, to ¥19.9 billion.

This substantial increase in revenue, combined with the Company's efforts to reduce accounts payable and inventories as well as curb capital investment, contributed to the securing of ¥17.8 billion in free cash flow for the term. Revenue improvement also contributed to improved consolidated return on assets (ROA), which rose 2.0 percentage points, to 4.4%.

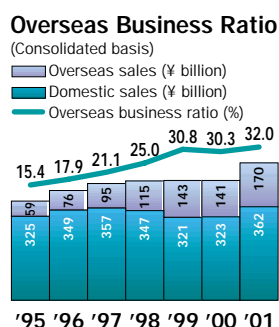
Return on Assets



Furthermore, as a result of rapid global development over the past few years in the air conditioning and fluorochemicals businesses, the percentage of overall net sales accounted for by overseas business climbed to 32%, twice the percentage from five years ago.

In recent years, Daikin has been working to expand and develop the Daikin Group by implementing advanced initiatives, including introducing its own brand of corporate governance, radical reform of

its human resources and compensation schemes, and the separation of research, human resources and general affairs, accounting, and the information systems division into separate companies. External assessment of the Company has also improved, as illustrated by the inclusion of the rise in its aggregate market value and other news about Daikin in various newspapers, magazines, and other media.



At the general shareholders' meeting held on June 28, 2001, the Board of Directors resolved to pay cash dividends applicable to the year of ¥12.00 per share.

An Overview of Fiscal 2001 Operations

In air conditioning operations, sales volumes grew substantially, both domestically and overseas, which helped compensate for the otherwise negative effects of the yen's appreciation—particularly against the euro—on segment sales, which increased 17% compared with the previous term, to ¥401.2 billion. Operating income surged 81%, to ¥24.5 billion. Daikin succeeded in substantially increasing sales in its domestic air conditioning operations through such efforts as the ongoing development of such unrivaled products as the commercial-use SUPER INVERTER

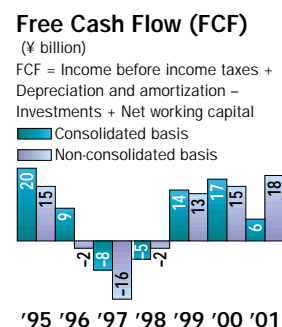
70 and the residential-use URURU & SARARA. Sales promotion campaigns focused on the demand for air conditioner replacement and increased sales to home appliance mass merchandisers. In commercial-use air conditioners, we rapidly boosted our market share to approximately 40%, the greatest share ever achieved in our history. We also increased our share of the residential-use air conditioning market to approximately 12%, thus ranking among the top three in the industry and closing the gap with our major competitors.

Daikin is also leading other Japanese manufacturers in aggressively developing its global framework by acquiring sales agents in the growing markets of Europe and Asia, including China, as well as such emerging markets as India, Central America, and South America. The Company's 1999 global tie-up agreement with Matsushita Electric Industrial Co., Ltd. (Matsushita Electric), in the air conditioning business will steadily solidify over the next few years. As the first step in these operations, we will begin supplying Matsushita Electric with commercial-use air conditioners in China and, in return, Matsushita Electric will supply us with residential-use air conditioners, also for the Chinese market. Through this partnership, we will maximize the strengths of both companies and expand sales in the increasingly competitive market of China.

In chemicals, in addition to increased demand for fluoroplastics from Japan's semiconductor market, business rebounded in the United States in FEP for LAN cable insulation. As a result, segment sales increased 17% compared

with the previous term, to ¥96.2 billion, and operating income increased 33%, to ¥16.0 billion, both of which represent substantial improvements in earnings and profit. The share of the global market held by Daikin's chemicals business has been steadily expanding every year, and in fiscal 2001 it reached 20%, making the Company the number two player in the global industry. As other manufacturers withdraw from the market and restructure their operations, we now have a chance to compete head to head with the industry leader. Seizing this chance, we will strive to capture the number one position in the global industry by fiscal 2006 by achieving gradual growth through the accelerated development of new products, applications, and markets and by seeking high returns through strategic investments. One of our most important projects is the construction of a manufacturing plant in China, approval for which has been granted, and we established a new subsidiary for the plant in April 2001.

In the months and years ahead, we will concentrate our managerial resources on our core businesses of air conditioning and fluorochemicals and expand them into the number one and number two businesses on the global market, respectively.



Daikin's Basic Management Policy

In fiscal 1996, Daikin enacted its Fusion 21 strategic management plan. In mid-2000, we updated the plan and renamed it Fusion 21 D in response to drastic changes in the operating environment. We accelerated our efforts and engaged ourselves in the fulfillment of our objectives.

Specifically, we implemented strategies aimed at the following objectives:

- 1) Creation of a lean and fortified profit structure
- 2) Reform of the financial framework
- 3) Radical strengthening of each business division
- 4) Creation of new business segments and the development of highly unique products
- 5) Development of a fast and flat management structure
- 6) Attainment of a high level of trust from society

As a result, over the past few years—despite severe economic conditions—the Company succeeded in improving its performance. It accelerated the expansion of its global operations and improved its financial standing. We have succeeded in achieving our goal of Fusion 21, which was “to lay the foundation for becoming a global and truly first-rate company at the start of the 21st century.”

In April 2001, Daikin commenced its new strategic management plan—Fusion 05—for achieving a global and truly first-rate status by fiscal 2006. Building upon the foundation laid through Fusion 21, Fusion 05 seeks to convert the deteriorating business environment into an opportunity to pull further ahead of our competitors. To do this, we will unleash the power of the momentum we have generated thus far

and fuse together our thorough aggregate market value focused approach with our own world-class brand of flat and fast management. We will then implement a range of initiatives based on this fusion to ensure our survival in the ages to come.

In particular, the enhancement of aggregate market value will give us an added edge in stock swap based M&A as well as tie-ups and alliances in which we will play the leading role. It will also enable us to utilize more diversified fund-raising methods, thus broadening our managerial options for future growth and enabling the flexible implementation of various initiatives. From these perspectives, the enhancement of aggregate market value has become an important slogan for managerial objectives.

Also under Fusion 05, Daikin has established clearly distinct three-year and five-year goals for becoming an appealing company that pulls together human resources, capital, and information. Looking to fiscal 2004, we will work to maximize corporate value through cash flow focused management and conduct “statistics management” that fastidiously emphasizes numerical targets. Objectives for fiscal 2006 will focus on structural reform and managerial innovation. Our ultimate goals are to establish a solid revenue and financial framework by fiscal 2004 and, through M&A and other large-scale investments, join the ranks of the global and truly first-rate companies by fiscal 2006.

To achieve these objectives, we will:

- 1) Achieve the world's number one and number two ranks, respectively, for our core air conditioning and fluorochemicals businesses through tie-ups and alliances

- 2) Aim to raise our R&I rating to AA or higher through cash flow focused management and achieve an interest-bearing debt ratio of 20% or less

- 3) Raise the overseas business ratio to 50%

- 4) Increase the weight of innovative businesses, which seek to convert the overall Group business structure, and strive for a ratio to net sales of 40%

- 5) Pursue advancements in technology, which is a crucial part of our role as a manufacturer

- 6) Hone our own brand of fast and flat management and elevate it into a corporate climate and culture worthy of worldwide admiration

An overview of this plan is included in the Topics section of this report for the reader's reference.

To Our Shareholders

This concludes my discussion of Daikin's managerial policies and business results for fiscal 2001. It is my intention to steadily fulfill all of our managerial tasks and achieve further dramatic growth in the 21st century.

In closing, I wish to thank our shareholders for their backing during fiscal 2001. We look forward to their continued support in the current fiscal year.

June 28, 2001



Noriyuki Inoue,
President