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Five-Year Summary

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FINANCIAL SECTION

CORPORATE DATA

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

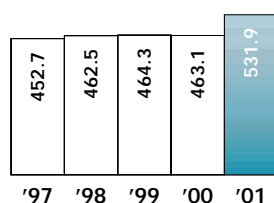
Millions of yen

	2001	2000	1999	1998	1997
Net sales.....	¥531,908	¥463,069	¥464,332	¥462,519	¥452,675
Air conditioning.....	401,192	344,213	345,837	336,663	353,903
Chemicals.....	96,188	81,957	79,629	77,373	66,165
Others.....	34,528	36,899	38,866	48,483	32,607
Operating income.....	39,814	25,888	23,004	21,636	21,670
Income before income taxes and minority interests.....	35,234	19,418	15,351	11,796	15,259
Net income.....	19,939	10,453	6,194	5,455	6,645
Per share of common stock (in yen):					
Net income*.....	¥75.60	¥39.62	¥23.48	¥20.68	¥25.19
Cash dividends applicable to the year.....	12.00	10.00	10.00	10.00	10.00
Total assets.....	¥453,142	¥431,009	¥434,290	¥448,739	¥428,370
Total shareholders' equity.....	173,924	159,635	149,089	145,332	142,885
Net property, plant and equipment.....	135,725	125,612	132,517	136,901	141,466
Number of employees.....	15,047	14,280	14,337	13,852	13,669

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

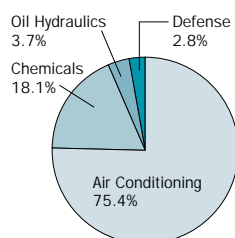
Net Sales

(¥ billion)



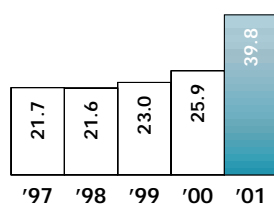
Sales Breakdown

(For fiscal 2001)



Operating Income

(¥ billion)



Net Sales

In fiscal 2001, ended March 31, 2001, despite the yen's appreciation and continuing deflationary pressures, Daikin's efforts to increase sales by expanding its market share in its core businesses of air conditioning and fluorochemicals and by creating new markets resulted in substantial increases in sales volumes, both domestically and overseas. Overall net sales for the term increased 14.9% compared with the previous term, to ¥531,908 million.

Looking at sales by business sector, in air conditioning and cryogenics operations, sales volumes increased substantially both domestically and overseas due to the Company's efforts to enhance price competitiveness through thorough cost reduction, introduce unique products, and strengthen its worldwide sales branches. Despite tumbling retail prices in Japan and the yen's strength against the euro and the Australian dollar, sales leaped 16.6%, to ¥401,192 million.

In chemicals, demand for fluoroplastics expanded substantially in the semiconductor industry in Japan and the United States and demand was also strong for FEP for use in LAN cables. In chemical products, although sales of fluoroalcohol decreased significantly due to CD-R inventory adjustments and partial conversion to other agents, sales of oil- and water-repellent finishes grew considerably in Asia and Europe and sales of semiconductor etching agents also increased in Asia. As a result, net sales increased 17.4%, to ¥96,188 million.

In oil hydraulics, as a result of a significant recovery in demand for machine tools—the division's core products—as well as further increases in demand for multi-level car-parking systems, sales of hydraulic devices for industrial machinery increased 13.6%, to ¥19,726 million. In defense-related operations, net sales declined 24.3%, to ¥14,802 million, due to the partial carryover of ammunitions shipments to Japan's Self Defense Agency because of an accident that occurred at the manufacturing plant of one of Daikin's subcontractors in August 2000. As a result, overall sales in other businesses declined 6.4%, to ¥34,528 million.

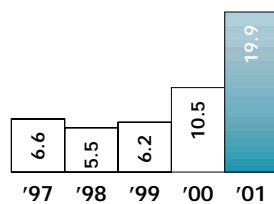
Cost, Expenses, and Earnings

During fiscal 2001, cost of sales amounted to ¥356,325 million, and the cost of sales ratio was 67.0%, an improvement of 0.7 percentage point. This was the result of the

Years Ended March 31,	2001	2000	1999	1998	1997
Gross profit (net sales less cost of sales) as a % of net sales.....	33.0	32.3	31.2	30.0	29.5
Operating income as a % of net sales	7.5	5.6	5.0	4.7	4.8
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times).....	7.8	5.6	3.6	3.5	3.4
Net income as a % of net sales	3.7	2.3	1.3	1.2	1.5

Net Income

(¥ billion)



effectiveness of Companywide efforts to streamline production systems and to reduce costs of design as well as material and component procurement, which offset the effects of the yen's appreciation and declining domestic air conditioner retail prices.

Selling, general and administrative (SG&A) expenses rose ¥12,137 million, to ¥135,769 million. This was due to an increase in the Company's share of the burden for pension expenses stemming from the adoption of new accounting standards governing retirement benefits, increased logistics expenses associated with the rise in sales volumes, and the allocation of necessary funds to priority and strategic initiatives.

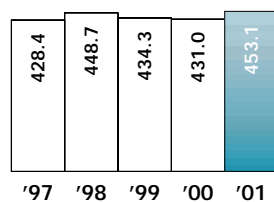
Operating income leaped 53.8%, to ¥39,814 million. Examined by individual segment, operating income for air conditioning surged 81.3%, to ¥24,455 million, as the significant increase in both domestic and overseas sales volumes, due to the Company's aggressive sales promotion activities, absorbed the effects of the yen's appreciation. Rebounding from the effects of a May 1999 accident at the manufacturing plant of Daikin America, Inc., operating income for the Chemicals Division increased 32.5%, to ¥15,955 million.

Other expenses—net declined 29.2% on a Companywide basis, to ¥4,580 million, due largely to an increase in royalty revenues of ¥1,099 million and a ¥1,202 million decrease in foreign currency exchange losses.

As a result, net income for fiscal 2001 soared 90.7%, to ¥19,939 million.

Total Assets

(¥ billion)

**Financial Position**

Concerning assets, Daikin made Groupwide efforts during fiscal 2001 to reduce notes and accounts receivable as well as inventories. In terms of the number of days retained compared with the previous year, notes and accounts receivable decreased by 13 days and inventories decreased by 3 days. Capital expenditures totaled ¥27,152 million and depreciation was ¥19,436 million. As a result, net property, plant and equipment for the term increased ¥10,113 million.

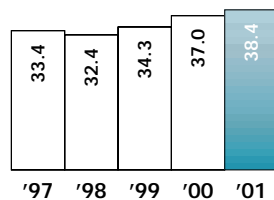
Meanwhile, investment securities increased approximately ¥8,270 million, due to the adoption of the market price accounting rule.

As a result, total assets grew 5.1%, to ¥453,142 million.

Due to the Company's efficient use of assets, interest-bearing debt liabilities declined ¥15,376 million. On the other hand, notes and accounts payable increased ¥9,213 million and construction liabilities increased ¥5,998 million. As a result, total current and long-term liabilities increased ¥7,042 million, to ¥273,960 million.

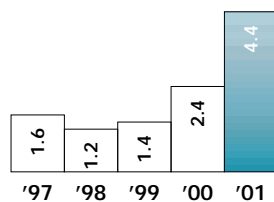
Shareholders' Equity Ratio

(%)

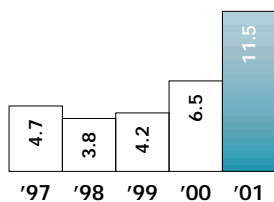


Years Ended March 31,	2001	2000	1999	1998	1997
Notes and accounts receivable (¥ billion).....	104.2	106.3	103.6	110.0	100.4
Inventories (¥ billion).....	92.2	84.2	95.4	102.9	96.6
Interest-bearing debt (not including trade notes discounted) (¥ billion).....	143.7	159.1	171.9	186.4	180.2

Return on Assets (%)



Return on Equity (%)



Total shareholders' equity advanced ¥14,289 million, to ¥173,924 million, and the shareholders' equity ratio increased 1.4 percentage points, to 38.4%.

Cash Flows

Due to the increase in income, net cash provided by operating activities during fiscal 2001 amounted to ¥48,548 million.

On the other hand, net cash used in investing activities totaled ¥23,203 million, the bulk of which was due to the Company's purchases of property, plant and equipment of ¥20,292 million.

Net cash used in financing activities totaled ¥23,679 million, primarily due to a decrease in short-term borrowings.

As a result, cash and cash equivalents (liquidity in hand), end of year, amounted to ¥35,482 million, approximately the same level as at the previous fiscal year-end. This figure is equivalent to approximately 0.8 times the Company's average monthly net sales of ¥44,326 million. Liquidity in hand, including a commitment line with banks of approximately ¥25,000 million, amounted to ¥60,482 million, or 1.4 times the Company's average monthly net sales.

Dividends

Daikin has positioned the maximization of corporate value (stock value) among its top-priority managerial tasks. As such, the Company is actively working to develop new businesses and strengthen its operational framework by adopting new systems and managerial indicators, including a virtual internal companies system, ROA, free cash flow (FCF), and Daikin's Value Added (DVA). At the same time, focusing on dividends as a means of returning value to our shareholders, we are committed to raising the ratio of cash dividends to shareholders' equity (on a non-consolidated basis) to more than 2.0%.

During fiscal 2001, Daikin achieved substantial increases in both operating income and net income. Starting in fiscal 2002, the Company will strive to achieve further improvements to its operational framework with the ultimate objective of fulfilling the goals of the Fusion 05 strategic management plan. At the same time, we are planning aggressive strategic investment in the acceleration of our global business development comprising such business expansion measures as IT outfitting and the augmentation of our competitive strength. Taking these factors into account, the Company declared cash dividends applicable to the fiscal year of ¥12.00 per share, an increase of ¥2.0 compared with the previous year. The ratio of cash dividends to shareholders' equity (on a non-consolidated basis) was 2.0%.

Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2001 and 2000

Millions of yen

ASSETS	2001	2000
Current assets:		
Cash and cash equivalents	¥ 35,482	¥ 33,334
Short-term investments	320	1,460
Receivables (Note 5):		
Trade notes	19,721	26,508
Trade accounts	85,584	81,275
Allowance for doubtful receivables	(1,119)	(1,467)
Inventories (Note 3)	92,174	84,182
Deferred tax assets (Note 9)	9,159	6,639
Prepaid expenses and other current assets	14,017	9,186
Total current assets	255,338	241,117
Property, plant and equipment (Note 6):		
Land	23,785	23,546
Buildings and structures	111,678	104,861
Machinery and equipment	199,073	186,201
Furniture and fixtures	67,372	64,416
Construction in progress	8,893	6,214
Total	410,801	385,238
Accumulated depreciation	(275,076)	(259,626)
Net property, plant and equipment	135,725	125,612
Investments and other assets:		
Investment securities (Note 4)	41,265	30,584
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	3,233	4,974
Deferred tax assets (Note 9)	671	1,184
Other assets	16,910	15,869
Total investments and other assets	62,079	52,611
Translation adjustments (Note 2)		11,669
Total	¥453,142	¥431,009

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2001	2000
Current liabilities:		
Short-term borrowings (Note 6)	¥ 64,384	¥ 81,707
Current portion of long-term debt (Note 6)	13,123	5,895
Payables (Note 5):		
Trade notes	26,630	24,062
Trade accounts	39,229	32,584
Construction	11,213	5,215
Income taxes payable	11,602	4,217
Deferred tax liabilities (Note 9)	42	
Accrued expenses	20,585	17,423
Other current liabilities	16,959	22,822
Total current liabilities	203,767	193,925
Long-term liabilities:		
Long-term debt (Note 6)	66,224	71,505
Liabilities for retirement benefits (Note 7)	1,698	1,271
Deferred tax liabilities (Note 9)	2,271	217
Total long-term liabilities	70,193	72,993
Minority interests	5,258	4,456
Commitments and contingent liabilities (Note 13)		
Shareholders' equity (Notes 8 and 14):		
Common stock, ¥50 par value—authorized, 500,000,000 shares; issued and outstanding, 263,813,973 shares in 2001 and 2000	28,023	28,023
Additional paid-in capital	25,968	25,968
Retained earnings	122,694	105,646
Net unrealized gain on available-for-sale securities	4,802	
Foreign currency translation adjustments (Note 2)	(7,327)	
Total	174,160	159,637
Treasury stock, at cost	(236)	(2)
Total shareholders' equity	173,924	159,635
Total	¥453,142	¥431,009

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

Millions of yen

	2001	2000
Net sales	¥531,908	¥463,069
Cost of sales	356,325	313,549
Gross profit	175,583	149,520
Selling, general and administrative expenses	135,769	123,632
Operating income.....	39,814	25,888
Other income (expenses):		
Interest and dividends.....	1,108	759
Interest expense.....	(5,216)	(4,728)
Gains on sales of investment securities.....	6	1,632
Royalty income.....	1,428	329
Exchange losses.....	(261)	(1,463)
Loss on disposals of property, plant and equipment.....	(898)	(755)
Write-off of investment securities.....	(436)	(1,828)
Write-off of other assets.....	(728)	
Equity in earnings (losses) of associated companies.....	325	(369)
Other—net.....	92	(47)
Other expenses—net	(4,580)	(6,470)
Income before income taxes and minority interests	35,234	19,418
Income taxes (Note 9):		
Current.....	17,537	8,503
Deferred.....	(3,216)	(101)
Total.....	14,321	8,402
Minority interests in net income of subsidiaries	(974)	(563)
Net income	¥ 19,939	¥ 10,453
	Yen	
Per share of common stock (Note 2):		
Net income.....	¥75.60	¥39.62
Cash dividends applicable to the year.....	12.00	10.00

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

	Number of common shares issued	Millions of yen					Treasury stock, at cost
		Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for- sale securities	Foreign currency translation adjustments	
Balance, April 1, 1999	263,813,973	¥28,023	¥25,968	¥ 95,099			¥ (1)
Cumulative effect of consolidating subsidiaries previously unconsolidated				(185)			
Cumulative effect of application of equity method to an associated company previously accounted for by the cost method				(110)			
Adjustment of beginning retained earnings for the adoption of deferred tax accounting method				3,127			
Treasury stock acquisition—net (182 shares).....							(1)
Net income				10,453			
Appropriations:							
Cash dividends, ¥10 per share ...				(2,638)			
Bonuses to directors and corporate auditors				(100)			
Balance, March 31, 2000	263,813,973	¥28,023	¥25,968	¥105,646			(2)
Cumulative effect of consolidating subsidiaries, previously associated companies, accounted for by the cost method				110			
Treasury stock acquisition—net (91,500 shares).....							(234)
Net income				19,939			
Appropriations:							
Cash dividends, ¥12 per share ...				(2,901)			
Bonuses to directors and corporate auditors				(100)			
Net unrealized gain on available-for-sale securities					¥4,802		
Foreign currency translation adjustments.....						¥(7,327)	
Balance, March 31, 2001	263,813,973	¥28,023	¥25,968	¥122,694	¥4,802	¥(7,327)	¥(236)

See notes to consolidated financial statements.

FINANCIAL HIGHLIGHTS

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Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

Millions of yen

	2001	2000
Operating activities:		
Income before income taxes and minority interests	¥35,234	¥19,418
Adjustment for:		
Income taxes—paid	(10,217)	(8,681)
Depreciation and amortization	19,875	19,176
Gain on sales of investment securities	(6)	(1,632)
Write-off of investment securities	436	1,828
Write-off of other assets	728	
Loss on disposals of property, plant and equipment	898	755
Equity in earnings of associated companies	(325)	369
Changes in assets and liabilities:		
Notes and accounts receivable	7,399	(3,750)
Inventories	(3,855)	5,438
Other current assets	(4,180)	823
Trade notes and accounts payable	5,871	283
Accrued expenses	2,550	1,602
Other—net	(5,860)	(3,852)
Total adjustments	13,314	12,359
Net cash provided by operating activities	48,548	31,777
Investing activities:		
Purchases of property, plant and equipment	(20,292)	(15,608)
Increase in investments in unconsolidated subsidiaries and associated companies	(529)	(2,786)
Payments to acquire investment securities	(3,763)	(5,259)
Proceeds from sales of investment securities	2,065	2,319
Other—net	(684)	1,069
Net cash used in investing activities	(23,203)	(20,265)
Financing activities:		
Increase (decrease) in short-term borrowings	(20,318)	658
Increase in long-term debt	5,928	25
Repayments of long-term debt	(5,786)	(8,779)
Payments of cash dividends	(2,901)	(2,638)
Other—net	(602)	(306)
Net cash used in financing activities	(23,679)	(11,040)
Effect of exchange rate changes on cash and cash equivalents	382	(568)
Net increase (decrease) in cash and cash equivalents	2,048	(96)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	100	438
Cash and cash equivalents, beginning of year	33,334	32,992
Cash and cash equivalents, end of year	¥35,482	¥33,334

See notes to consolidated financial statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Daikin Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of the respective countries of their domicile. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

Certain reclassifications have been made for the presentation for the year ended March 31, 2000 to conform to the presentation for the year ended March 31, 2001.

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"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, those companies over whose operations 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 associated companies except for certain insignificant associated companies. Investments in such insignificant associated companies are stated at cost except that appropriate write-downs are recorded for investments for which the value has been permanently impaired.

For the year ended March 31, 2001, certain associated companies, previously accounted for by the cost method, were newly included in the consolidated financial statements due to the Company's additional investments in their common stock.

For the year ended March 31, 2000, certain subsidiaries, previously accounted for by the cost method, were newly included in the consolidated financial statements due to their growing significance. The net effect on the beginning of year balances of consolidating these subsidiaries has been reflected in the statements of shareholders' equity and cash flows for the year ended March 31, 2000.

For the year ended March 31, 2000, a certain associated company, previously accounted for by the cost method, was newly accounted for by the equity method due to its growing significance. The effect on the beginning of year retained earnings of the initial application of the equity method has been reflected in the statement of shareholders' equity for the year ended March 31, 2000.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has been eliminated.

Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and marketable debt securities issued by the Japanese Government and private companies, all of which mature or become due within three months of the date of acquisition.

Short-Term Investments

Short-term investments consist of debt securities issued by quoted companies and time deposits other than cash equivalents.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost, determined by the average method. Inventories of consolidated foreign subsidiaries are principally stated at the lower of cost, determined by the average method, or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. 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 15 to 50 years for buildings and structures, 5 to 15 years for machinery and equipment and 2 to 10 years for furniture and fixtures.

Leases

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

Investment Securities

Prior to April 1, 2000, publicly traded securities were carried at the lower of cost, determined by the moving-average method, or market. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments. Under this standard, 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 shareholders' equity. The cost of securities sold is determined based on the moving-average method.

The effect of this change was to increase income before income taxes and minority interests by ¥1,761 million for the year ended March 31, 2001. Marketable securities classified as current assets decreased by ¥1,195 million and investment securities increased by the same amount as of April 1, 2000.

Non-marketable available-for-sale securities are stated at cost 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 has a non-contributory funded pension plan covering substantially all of its employees. Prior to April 1, 2000, the amounts contributed to the fund, including past service costs amortized over eight years, were charged to income when paid. Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥25,249 million at the beginning of the year ended March 31, 2001 is being amortized over seven years, and the annual amortization is presented within selling, general and administrative expenses in the consolidated statements of

income. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method increased by ¥570 million and income before income taxes decreased by ¥570 million for the year ended March 31, 2001.

Directors and corporate auditors are not covered by the aforementioned plans. The Company makes provision for severance indemnities to its directors and corporate auditors based upon management's estimates of amounts which will be payable, subject to the approval of shareholders, for services rendered to date.

Research and Development

Research and development costs are charged to income as incurred. Research and development costs amounted to ¥24,039 million and ¥21,111 million for the years ended March 31, 2001 and 2000, respectively.

Stock and Bond Issuance Expenses

Stock and bond issuance expenses are charged to income as incurred.

Foreign Currency Translations

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, 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 rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rates. Revenue and expense accounts of the Company's consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Prior to April 1, 2000, differences arising from such translations were shown as "Translation adjustments" as either an asset or liability in the balance sheets. Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

Income Taxes

Effective April 1, 1999, the Group adopted an accounting method for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥3,127 million is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of April 1, 1999.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Group adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions be recognized in the statement of income and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

The interest rate swaps 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.

As a result of adopting the new accounting standards for derivative financial instruments, income before income taxes and minority interests for the year ended March 31, 2001 decreased by ¥61 million.

Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year upon shareholders' approval.

Per Share of Common Stock

The computation of net income per common share is based on the weighted average number of shares outstanding, less treasury stock. The average number of common shares used in the computation for the years ended March 31, 2001 and 2000 was 263,748 thousand and 263,813 thousand, respectively.

Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

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.

3. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Finished products and merchandise.....	¥49,641	¥46,333
Semi-finished products and work in process.....	31,192	28,224
Raw materials and supplies.....	11,341	9,625
Total.....	¥92,174	¥84,182

4. Investment Securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2001 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥28,212	¥10,281	¥(1,757)	¥36,736
Debt securities.....	2,140	13	(1)	2,152
Other.....	764		(266)	498
Total.....	¥31,116	¥10,294	¥(2,024)	¥39,386

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2001 were as follows:

	Millions of yen
Carrying amount:	
Available-for-sale:	
Equity securities	¥1,461
Other	418
Total	<u>¥1,879</u>

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥1,065 million. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥6 million.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2001 are as follows:

	Millions of yen
Available-for-sale:	
Due after one year through five years	¥ 306
Due after five years through ten years	1,846
Total	<u>¥2,152</u>

Carrying amounts and aggregate market values of current and non-current marketable equity securities and debt securities included in short-term investments and investment securities at March 31, 2000 were as follows:

	Millions of yen		
	Carrying Amount	Aggregate Market Value	Unrealized Gains
Current.....	¥ 205	¥ 205	¥
Non-current	26,697	43,159	16,462
Total	<u>¥26,902</u>	<u>¥43,364</u>	<u>¥16,462</u>

5. Investments in Unconsolidated Subsidiaries and Associated Companies

Certain financial information (unaudited), with respect to unconsolidated subsidiaries and associated companies, at March 31, 2001 and 2000 is as follows:

	Millions of yen	
	2001	2000
Current assets	¥26,624	¥17,847
Other assets.....	4,095	4,678
Current liabilities.....	(21,994)	(13,600)
Other liabilities.....	(1,680)	(1,840)
Net assets.....	<u>¥ 7,045</u>	<u>¥ 7,085</u>

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Trade notes and accounts receivable	¥2,024	¥2,433
Trade notes and accounts payable.....	1,125	699

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Sales.....	¥9,757	¥8,068
Purchases.....	8,220	5,912

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group consisted of bank overdrafts, notes to banks and commercial paper.

As is customary in Japan, the Group obtains financing by discounting trade notes receivable with banks. Such discounted notes and the related contingent liabilities are not included in the consolidated balance sheets but are disclosed as contingent liabilities (see Note 13). Unused short-term bank credit lines were ¥25,000 million at March 31, 2001. Weighted average interest rates of short-term borrowings at March 31, 2001 and 2000 were 2.89% and 2.54%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
1.60% unsecured bonds, due 2002.....	¥20,000	¥20,000
1.925% unsecured bonds, due 2004.....	10,000	10,000
2.70% unsecured bonds, due 2006.....	10,000	10,000
Collateralized loans from government-sponsored banks with interest ranging from 5.05% to 8.15% (2001) and from 4.60% to 8.15% (2000), due through 2005.....	3,880	6,555
Collateralized loans from banks with: Fixed interest ranging from 3.46%, due through 2002.....	2,000	4,200
Floating interest ranging from 0.47% to 0.68% (2001) and 0.52% to 0.70% (2000), due through 2007.....	21,550	19,700
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 3.20% to 6.67% (2001) and 2.75% to 6.59% (2000), due through 2006.....	9,082	3,945
Unsecured loans from banks with interest ranging from 0.52% to 7.30% (2001) and 0.55% to 8.00% (2000), due through 2026.....	2,835	3,000
Total.....	79,347	77,400
Current portion due within one year.....	(13,123)	(5,895)
Total.....	¥66,224	¥71,505

The Group has entered into various interest rate swap agreements covering certain portions of long-term debt as a means of managing interest rate exposure. Because the counterparties to those agreements are limited to major financial institutions, the Companies do not anticipate any losses arising from credit risk. The impact on interest expense from these agreements is recognized over the lives of the respective agreements, which are the same as the terms of the related loans.

Annual maturities of long-term debt outstanding at March 31, 2001 were as follows:

Year ending March 31	Millions of yen
2002.....	¥13,123
2003.....	27,894
2004.....	13,794
2005.....	11,300
2006 and thereafter.....	13,236
Total.....	¥79,347

At March 31, 2001, property, plant and equipment with a net book value of ¥57,629 million were pledged as collateral for short-term borrowings and long-term debt.

Certain loan agreements provide that the lender may require the Group to submit proposals for paying dividends, issuing additional long-term debt and certain other matters, for prior approval. As is customary in Japan, security must be given if requested by a lending bank. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders has ever exercised this right with respect to debt of the Group. In addition, the indentures for the mortgage bonds require prior approval for an issue of bonds, merger, pledge of assets as collateral for other indebtedness and the disposal of any significant facilities. The indentures also grant holders with the right to request additional collateral.

7. Severance Indemnities and Pension Plans

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

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

The liabilities for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen
Projected benefit obligation.....	¥61,045
Fair value of plan assets.....	(34,395)
Unrecognized actuarial loss.....	(4,103)
Unrecognized transitional obligation.....	(21,642)
Net liabilities.....	<u>¥ 905</u>

The components of net periodic benefit costs for the year ended March 31, 2001 were as follows:

	Millions of yen
Service cost.....	¥3,180
Interest cost.....	2,123
Expected return on plan assets.....	(1,239)
Amortization of transitional obligation.....	3,607
Net periodic benefit costs.....	<u>¥7,671</u>

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate: 3.5%

Expected rate of return on plan assets: 3.5%

Recognition period of actuarial gain/loss: 10 years

Amortization period of transitional obligation: 7 years

The amounts contributed to the fund, which were charged to income for the year ended March 31, 2000, were ¥35,409 million.

Liability for retirement benefits at March 31, 2001 and 2000 included retirement benefits for directors and corporate auditors of ¥793 million and ¥940 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

8. Shareholders' Equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders. Such legal reserve included in retained earnings was ¥5,895 million and ¥5,595 million at March 31, 2001 and 2000, respectively.

The Company may transfer portions of additional paid-in capital and the legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

The balance of treasury stock recorded in the shareholders' equity section as of March 31, 2001 includes treasury stock purchased for the purpose of reissuance upon the exercise of stock options granted to directors and key employees. As of March 31, 2001, stock options for 93 thousand shares have been granted and are exercisable through June 30, 2006.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2001, retained earnings recorded on the Company's books were ¥95,273 million. Such retained earnings included ¥80,869 million which is designated as general and specific reserves but is available for future dividends subject to approval by shareholders and legal reserve requirements.

9. 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 42% for the years ended March 31, 2001 and 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen	
	2001	2000
Deferred tax assets:		
Inventories.....	¥ 4,975	¥ 3,625
Pension and severance costs.....	665	486
Tax loss carryforwards.....	335	1,007
Bonus payment reserve.....	1,291	932
Reserve for warranty.....	849	589
Software.....	2,542	1,630
Property and equipment.....	1,100	965
Other.....	1,937	829
Total deferred tax assets.....	¥13,694	¥10,063
Deferred tax liabilities:		
Deferred gains on sales of property.....	¥ 2,240	¥ 2,240
Unrealized gain on available-for-sale securities.....	3,474	
Other.....	462	218
Total deferred tax liabilities.....	6,176	2,458
Net deferred tax assets.....	¥ 7,518	¥ 7,605

The actual effective income tax rates reflected in the accompanying statements of income differed from the normal statutory rates for the following reasons:

	2001	2000
Normal statutory income tax rate.....	42.0%	42.0%
Permanent non-deductible expenses.....	2.5	4.1
Losses of consolidated subsidiaries.....	0.5	0.5
Utilization of loss carryforwards of consolidated subsidiaries.....	(1.2)	(1.3)
Difference in subsidiaries' tax rates.....	(3.9)	(3.3)
Other—net.....	0.7	1.3
Actual effective income tax rate.....	40.6%	43.3%

10. Research and Development Costs

Research and development costs charged to income were ¥24,039 million and ¥21,111 million for the years ended March 31, 2001 and 2000, respectively.

11. Leases

The Group leases certain computer equipment and other assets.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		
	Furniture and Fixtures	Others	Total
For the year ended March 31, 2001			
Acquisition costs	¥6,037	¥1,526	¥7,563
Accumulated depreciation	3,218	706	3,924
Net leased property	¥2,819	¥ 820	¥3,639

	Millions of yen		
	Furniture and Fixtures	Others	Total
For the year ended March 31, 2000			
Acquisition costs	¥6,836	¥1,399	¥8,235
Accumulated depreciation	3,473	641	4,114
Net leased property	¥3,363	¥ 758	¥4,121

Obligations under finance leases:

	Millions of yen	
	2001	2000
Due within one year	¥1,559	¥1,850
Due after one year	2,080	2,271
Total	¥3,639	¥4,121

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

Lease payments, including depreciation expense and interest expense, under finance leases were ¥1,974 million and ¥2,390 million for the years ended March 31, 2001 and 2000, respectively. Depreciation expense is computed by the straight-line method.

12. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

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

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

Fair Value of Derivative Financial Instruments

The fair values of the Group's derivative financial instruments at March 31, 2001 and 2000 were as follows:

	Millions of yen					
	2001			2000		
	Contract Amount	Fair Value	Unrealized Loss	Contract Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Selling:						
US\$	¥3,160	¥3,195	¥(35)	¥ 1,528	¥1,581	¥ (53)
GBP	3,471	3,546	(75)	7,384	7,641	(257)
A\$				408	407	1
HK\$				129	133	(4)
S\$				135	134	1
EUR				1,432	1,418	14
SEK				123	122	1
Buying						
JPY				1,346	1,431	85
US\$				155	152	(3)
Interest rate swaps:						
Floating rate payment, fixed rate receipt				1,061	6	6
Fixed rate payment, floating rate receipt				16,011	(528)	(528)
Fixed rate payment, fixed rate receipt				1,923	145	145

Information related to foreign currency forward contracts that qualify for hedge accounting for the year ended March 31, 2001 and forward contracts that are assigned to associated assets and liabilities and recorded on the balance sheet at March 31, 2000 are excluded from the disclosure of market value information.

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

13. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2001 totaled approximately ¥7,558 million.

Contingent liabilities at March 31, 2001 were as follows:

	Millions of yen
Trade notes discounted	¥300
Trade notes endorsed	7
Guarantees and items of a similar nature to bank loans	215

14. Subsequent Events

At the general shareholders' meeting held on June 28, 2001, the Company's shareholders approved the following:

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2001 were approved at the Company's shareholders' meeting held on June 28, 2001:

	Millions of yen
Year-end cash dividends, ¥6.00 per share	¥1,582
Transfer to legal reserve	170
Bonuses to directors and corporate auditors	120

15. Segment Information

Stock Option Plan

This plan provides for granting options to directors and key employees to purchase up to 92 thousand shares of the Company's common stock, or ¥300 million, in the period from July 1, 2003 to June 30, 2007. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the date of option grant.

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Group for the years ended March 31, 2001 and 2000 is as follows:

(1) Industry Segments

a. Sales and Operating Income

For the year ended March 31, 2001	Millions of yen				
	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥401,192	¥96,188	¥34,528	¥	¥531,908
Intersegment sales.....	656	1,476	3	(2,135)	
Total sales.....	401,848	97,664	34,531	(2,135)	531,908
Operating expenses.....	377,393	81,709	35,129	(2,137)	492,094
Operating income (loss)	¥ 24,455	¥15,955	¥ (598)	¥ 2	¥ 39,814

For the year ended March 31, 2000	Millions of yen				
	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
Sales to customers	¥344,213	¥81,957	¥36,899	¥	¥463,069
Intersegment sales.....	28	1,035	2	(1,065)	
Total sales.....	344,241	82,992	36,901	(1,065)	463,069
Operating expenses.....	330,749	70,951	36,546	(1,065)	437,181
Operating income	¥ 13,492	¥12,041	¥ 355	¥	¥ 25,888

b. Assets, Depreciation and Capital Expenditures

March 31, 2001	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets.....	¥266,617	¥89,517	¥28,708	¥68,300	¥453,142
Depreciation	9,839	8,735	862		19,436
Capital expenditures.....	9,961	14,372	2,819		27,152

March 31, 2000	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets.....	¥252,469	¥81,125	¥29,751	¥67,664	¥431,009
Depreciation	10,392	7,702	1,003		19,097
Capital expenditures.....	7,838	8,238	628		16,704

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

Notes: Air Conditioning consists of air conditioning and refrigeration equipment, electronics, vacuums and cryogenics and medical equipment.

Chemicals consists of fluorochemicals.

Others consists of oil hydraulics and defense.