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# Five-Year Summary

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

Millions of yen

	2002	2001	2000	1999	1998
Net sales.....	<b>¥538,790</b>	¥531,908	¥463,069	¥464,332	¥462,519
Air conditioning.....	<b>422,224</b>	401,192	344,213	345,837	336,663
Chemicals.....	<b>81,705</b>	96,188	81,957	79,629	77,373
Others.....	<b>34,861</b>	34,528	36,899	38,866	48,483
Operating income.....	<b>41,968</b>	39,814	25,888	23,004	21,636
Income before income taxes and minority interests.....	<b>31,598</b>	35,234	19,418	15,351	11,796
Net income.....	<b>17,937</b>	19,939	10,453	6,194	5,455
Per share of common stock (in yen):					
Net income*.....	<b>¥68.03</b>	¥75.60	¥39.62	¥23.48	¥20.68
Cash dividends applicable to the year.....	<b>12.00</b>	12.00	10.00	10.00	10.00
Total assets.....	<b>¥460,549</b>	¥453,142	¥431,009	¥434,290	¥448,739
Total shareholders' equity.....	<b>191,196</b>	173,924	159,635	149,089	145,332
Net property, plant and equipment.....	<b>145,259</b>	135,725	125,612	132,517	136,901
Number of employees.....	<b>15,247</b>	15,047	14,280	14,337	13,852

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

## Net Sales

Consolidated net sales amounted to a record ¥538,790 million, an increase of 1.3% compared with the previous term. The increase is attributable to sales growth in our core Air Conditioning and Refrigeration Equipment Division that offset downward pressure on sales in the Chemicals Division due to a sharper-than-expected drop in demand for semiconductors and telecommunications products.

In the Air Conditioning and Refrigeration Equipment Division, significant sales growth both in Japan and abroad combined with the weak yen to push up overall sales in the air-conditioning segment to ¥422,224 million, a 5.2% increase compared with the previous term. In Japan, we introduced distinctive high-value-added products, achieved substantial sales growth, and increased our market share by concentrating on large-scale electronics retailers and our existing sales network, which covers Tokyo, Osaka, and other metropolitan areas. In Europe, which until recently had experienced rapid growth, demand was undermined by highly changeable weather, especially in the south of the region. However, as this decline was offset by powerful growth in Australia, China, and other countries, overseas air-conditioning sales grew at a double-digit rate.

In the Chemicals Division, sales decreased 15.1%, to ¥81,705 million, reflecting a sharp drop in global demand for semiconductors and telecommunications products and slow sales of FEP for LAN cable insulation in the U.S. market.

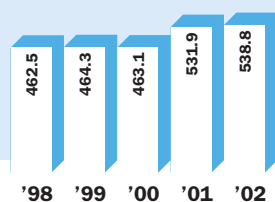
Sales in the Oil Hydraulics Division decreased 25.3%, to ¥14,726 million, reflecting a sharp drop in demand for machine tools.

Sales in defense-related operations increased 36.0%, to ¥20,135 million. The rise was mainly due to increased sales of ammunition that had originally been ordered by Japan's Self Defense Agency in fiscal 2001 but could not be delivered until fiscal 2002 due to an accident that occurred at one of our subcontractors' plants.

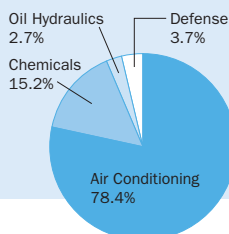
## Costs, Expenses, and Earnings

During the term under review, the cost of sales amounted to ¥359,305 million and the cost of sales ratio was 66.7%, down 0.3 percentage point from the previous term. There were two main reasons for the decrease. First, we managed to reduce manufacturing costs at a rate greater than the decline in sales prices. Second, we expanded sales of distinctive high-value-added products. Reductions in manufacturing costs were achieved mainly by integrating various product models and using cost-effective components from China and the rest of Asia.

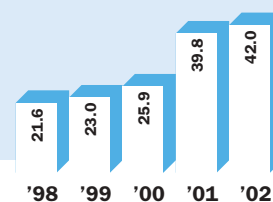
**Net Sales**  
(¥ billion)



**Sales Breakdown**  
(For fiscal 2002)



**Operating Income**  
(¥ billion)



Years Ended March 31,	2002	2001	2000	1999	1998
Gross profit (net sales less cost of sales) as a % of net sales.....	<b>33.3</b>	33.0	32.3	31.2	30.0
Operating income as a % of net sales.....	<b>7.8</b>	7.5	5.6	5.0	4.7
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times).....	<b>9.2</b>	7.8	5.6	3.6	3.5
Net income as a % of net sales.....	<b>3.3</b>	3.7	2.3	1.3	1.2

### Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥1,748 million compared with the previous term, to ¥137,517 million, reflecting a rise in costs associated with the hiring of new employees overseas.

### Operating Income

Operating income amounted to a record ¥41,968 million, a 5.4% increase compared with the previous term. It was the 8th consecutive term in which operating income increased. This success resulted from our Companywide efforts to expand sales of distinctive products in Japan and abroad and implement cost-cutting measures in the face of economic uncertainty.

### Net Income

Due to an increase in the write-down of investment securities and other factors, net income fell 10.0% to ¥17.9 billion.

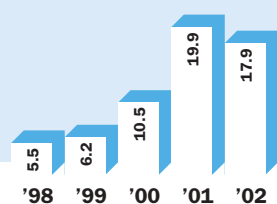
### Financial Position

The entire Company strove to reduce notes and accounts receivable and inventories and made such notable strides as shortening the retaining period for receivables from 71 to 66 days. The retaining period for inventories was almost the same, at 64 days.

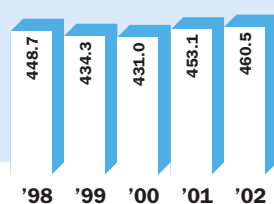
Interest-bearing debt increased ¥9,813 million compared with the previous term, to ¥153,544 million. This was mainly due to investments in a new plant in China. The interest-bearing debt ratio increased 1.6 percentage points, to 33.3%. Daikin is trying to lower this ratio to 25.0% by fiscal 2004 in line with the targets set forth in the "Fusion 05" strategic management plan.

Total shareholders' equity increased ¥17,272 million, to ¥191,196 million, reflecting an increase in internal reserves that accompanied larger earnings. The shareholders' equity ratio increased 3.1 percentage points, to 41.5%.

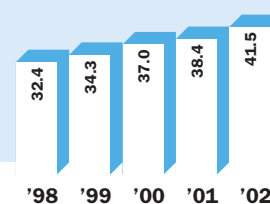
**Net Income**  
(¥ billion)



**Total Assets**  
(¥ billion)



**Shareholders' Equity Ratio**  
(%)



Years Ended March 31,	2002	2001	2000	1999	1998
Notes and accounts receivable (¥ billion) .....	<b>98.0</b>	104.2	106.3	103.6	110.0
Inventories (¥ billion) .....	<b>93.8</b>	92.2	84.2	95.4	102.9
Interest-bearing debt (not including trade notes discounted) (¥ billion) .....	<b>153.5</b>	143.7	159.1	171.9	186.4

### Cash Flows

During the term under review, net cash provided by operating activities was ¥40,183 million, reflecting a slight decrease in income before income taxes and minority interests and a reduction in trade notes and accounts receivable.

Net cash used in investing activities amounted to ¥33,690 million, chiefly reflecting the purchases of property, plant, and equipment.

Net cash provided by financing activities was ¥3,577 million, due mainly to the procurement of funds for capital investment in overseas business units.

As a result, cash and cash equivalents, end of year totaled ¥46,257 million. This figure is close to the Company's average monthly net sales of ¥44,899 million. Liquidity in hand, including a commitment line with banks of approximately ¥25,000 million, amounted to ¥71,256 million, or 1.6 times the average net sales per month.

### Dividends

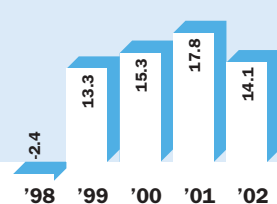
To maximize corporate value, Daikin is taking vigorous action to develop its business within an improved operational framework. As part of this effort, the Company is establishing virtual companies and using managerial indicators to measure free cash flow (FCF), Daikin's Value Added (DVA), return on assets (ROA), and return on investment (ROI). At the same time, as we are committed to returning profits to shareholders, we are striving to raise the ratio of cash dividends to shareholders' equity (on a non-consolidated basis) to more than 2.0%.

Dividend payments were the same as the previous term, at ¥12.0 per share (1.9% of the non-consolidated cash dividend shareholders' equity ratio).

#### Free Cash Flow (FCF)

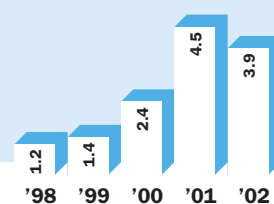
(¥ billion)

FCF = Income before income taxes +  
Depreciation and amortization –  
Investments ± Net working capital



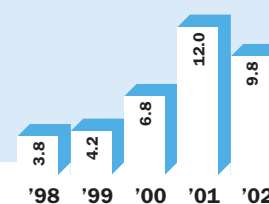
#### Return on Assets (ROA)

(%)



#### Return on Equity (ROE)

(%)



# C Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries  
March 31, 2002 and 2001

ASSETS	Millions of yen	
	2002	2001
<b>Current assets:</b>		
Cash and cash equivalents .....	¥ 46,257	¥ 35,482
Short-term investments.....	320	320
Trade receivables (Note 5):		
Notes .....	12,039	19,721
Accounts .....	86,867	85,584
Allowance for doubtful receivables .....	(913)	(1,119)
Inventories (Note 3).....	93,840	92,174
Deferred tax assets (Note 10).....	9,212	9,159
Prepaid expenses and other current assets.....	12,513	14,017
<b>Total current assets</b> .....	<b>260,135</b>	<b>255,338</b>
<b>Property, plant and equipment (Note 6):</b>		
Land.....	24,302	23,785
Buildings and structures .....	118,745	111,678
Machinery and equipment .....	218,375	199,073
Furniture and fixtures.....	70,115	67,372
Construction in progress .....	5,482	8,893
Total .....	437,019	410,801
Accumulated depreciation .....	(291,760)	(275,076)
<b>Net property, plant and equipment</b> .....	<b>145,259</b>	<b>135,725</b>
<b>Investments and other assets:</b>		
Investment securities (Note 4) .....	31,635	41,265
Investments in and advances to unconsolidated subsidiaries and associated companies.....	3,146	3,233
Deferred tax assets (Note 10).....	3,350	671
Other assets.....	17,024	16,910
<b>Total investments and other assets</b> .....	<b>55,155</b>	<b>62,079</b>
<b>Total</b> .....	<b>¥460,549</b>	<b>¥453,142</b>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2002	2001
<b>Current liabilities:</b>		
Short-term borrowings (Note 6) .....	¥ 72,288	¥ 64,384
Current portion of long-term debt (Note 6) .....	27,799	13,123
Trade payables (Note 5):		
Notes .....	19,343	26,630
Accounts .....	35,769	39,229
Construction payable .....	7,832	11,213
Income taxes payable .....	5,476	11,602
Deferred tax liabilities (Note 10) .....	7	42
Accrued expenses .....	20,630	20,585
Other current liabilities .....	17,706	16,959
<b>Total current liabilities</b> .....	<b>206,850</b>	<b>203,767</b>
<b>Long-term liabilities:</b>		
Long-term debt (Note 6) .....	53,457	66,224
Liabilities for retirement benefits (Note 7) .....	2,722	1,698
Deferred tax liabilities (Note 10) .....	290	2,271
<b>Total long-term liabilities</b> .....	<b>56,469</b>	<b>70,193</b>
<b>Minority interests</b> .....	<b>6,034</b>	<b>5,258</b>
<b>Commitments and contingent liabilities</b> (Note 14)		
<b>Shareholders' equity</b> (Notes 8, 9 and 15):		
Common stock, no par value—authorized, 500,000,000 shares; issued 263,813,973 shares in 2002 and 2001 .....	28,023	28,023
Additional paid-in capital .....	25,968	25,968
Retained earnings .....	137,347	122,694
Net unrealized gain on available-for-sale securities .....	2,331	4,802
Foreign currency translation adjustments (Note 2) .....	(2,007)	(7,327)
<b>Total</b> .....	<b>191,662</b>	<b>174,160</b>
Treasury stock, at cost: 192,571 shares in 2002 and 93,032 shares in 2001 .....	(466)	(236)
<b>Total shareholders' equity</b> .....	<b>191,196</b>	<b>173,924</b>
<b>Total</b> .....	<b>¥460,549</b>	<b>¥453,142</b>

# C Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2002 and 2001

	Millions of yen	
	2002	2001
<b>Net sales</b> .....	<b>¥538,790</b>	¥531,908
<b>Cost of sales</b> .....	<b>359,305</b>	356,325
<b>Gross profit</b> .....	<b>179,485</b>	175,583
<b>Selling, general and administrative expenses</b> .....	<b>137,517</b>	135,769
<b>Operating income</b> .....	<b>41,968</b>	39,814
<b>Other income (expenses):</b>		
Interest and dividends income.....	1,157	1,108
Interest expense.....	(4,699)	(5,216)
Royalty income.....	287	1,428
Exchange losses.....	(363)	(261)
Loss on disposals of property, plant and equipment.....	(680)	(898)
Write-down of investment securities.....	(7,696)	(436)
Write-down of other assets.....	(357)	(728)
Equity in earnings of unconsolidated subsidiaries and associated companies.....	176	325
Insurance proceeds received.....	1,660	238
Other—net.....	145	(140)
<b>Other expenses—net</b> .....	<b>(10,370)</b>	(4,580)
<b>Income before income taxes and minority interests</b> .....	<b>31,598</b>	35,234
<b>Income taxes (Note 10):</b>		
Current.....	15,236	17,537
Deferred.....	(2,899)	(3,216)
<b>Total</b> .....	<b>12,337</b>	14,321
<b>Minority interests</b> .....	<b>(1,324)</b>	(974)
<b>Net income</b> .....	<b>¥ 17,937</b>	¥ 19,939
		Yen
<b>Amounts per common share (Note 2):</b>		
Net income.....	<b>¥68.03</b>	¥75.60
Cash dividends applicable to the year.....	<b>12.00</b>	12.00

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2002 and 2001

	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	
<b>Balance, April 1, 2000</b> .....	263,813,973	¥28,023	¥25,968	¥105,646			¥ (2)
Cumulative effect of consolidating former associated companies, previously accounted for by the cost method.....				110			
Treasury stock acquisition—net (91,500 shares).....							(234)
Net income .....				19,939			
Appropriations:							
Cash dividends, ¥11 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)	
<b>Balance, March 31, 2001</b> .....	263,813,973	28,023	25,968	122,694	4,802	(7,327)	(236)
Treasury stock acquisition—net (99,539 shares).....							(230)
Net income .....				17,937			
Appropriations:							
Cash dividends, ¥12 per share ...				(3,164)			
Bonuses to directors and corporate auditors.....				(120)			
Net unrealized loss on available-for-sale securities.....					(2,471)		
Foreign currency translation adjustments.....						5,320	
<b>Balance, March 31, 2002</b> .....	<b>263,813,973</b>	<b>¥28,023</b>	<b>¥25,968</b>	<b>¥137,347</b>	<b>¥2,331</b>	<b>¥(2,007)</b>	<b>¥(466)</b>

See notes to consolidated financial statements.

# C Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2002 and 2001

	Millions of yen	
	2002	2001
<b>Operating activities:</b>		
Income before income taxes and minority interests .....	¥31,598	¥35,234
Adjustment for:		
Income taxes—paid .....	(21,402)	(10,217)
Depreciation and amortization.....	20,956	19,875
Write-down of investment securities.....	7,696	436
Write-down of other assets .....	357	728
Loss on disposals of property, plant and equipment .....	680	898
Equity in earnings of unconsolidated subsidiaries and associated companies.....	(176)	(325)
Changes in assets and liabilities:		
Trade notes and accounts receivable.....	8,340	7,399
Inventories .....	884	(3,855)
Other current assets .....	1,892	(4,180)
Trade notes and accounts payable .....	(11,372)	5,871
Accrued expenses .....	(340)	2,550
Other—net.....	1,070	(5,866)
Total adjustments .....	8,585	13,314
Net cash provided by operating activities .....	<u>40,183</u>	<u>48,548</u>
<b>Investing activities:</b>		
Purchases of property, plant and equipment.....	(31,023)	(20,292)
Increase in investments in unconsolidated subsidiaries and associated companies.....	(155)	(529)
Payments to acquire investment securities .....	(2,314)	(3,763)
Proceeds from sales of investment securities .....	4	1,065
Other—net.....	(202)	316
Net cash used in investing activities .....	<u>(33,690)</u>	<u>(23,203)</u>
<b>Financing activities:</b>		
Increase (decrease) in short-term borrowings .....	6,400	(20,318)
Increase in long-term debt .....	14,405	5,928
Repayments of long-term debt.....	(13,260)	(5,786)
Payments of cash dividends.....	(3,164)	(2,901)
Other—net.....	(804)	(602)
Net cash provided by (used in) financing activities .....	<u>3,577</u>	<u>(23,679)</u>
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>705</b>	<b>382</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>10,775</b>	<b>2,048</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries .....</b>		<b>100</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>35,482</b>	<b>33,334</b>
<b>Cash and cash equivalents, end of year .....</b>	<b><u>¥46,257</u></b>	<b><u>¥35,482</u></b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2002 and 2001

## 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 and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of their 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 year ended March 31, 2001 to conform to the presentation for the year ended March 31, 2002.

## 2. Summary of Significant Accounting Policies

### ***Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies***

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies 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 unconsolidated subsidiaries and associated companies except for certain insignificant companies. Investments in such insignificant companies are stated at cost except that appropriate write-downs are recorded for investments for which the value has been permanently impaired. If these subsidiaries and associated companies had been consolidated and accounted for using the equity method, respectively, the effect on the accompanying consolidated financial statements would not have been material.

For the year ended March 31, 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.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 to 10 years.

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

### ***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 appropriated 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 financial statements.

### ***Investment Securities***

Under Japanese accounting standards for financial instruments, 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.

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. 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 as of April 1, 2000 is being amortized over seven years and the annual amortization is presented as selling, general and administrative expenses in the consolidated statements of income.

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 approval of shareholders, for services rendered to date.

### ***Foreign Currency Translations***

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

### ***Foreign Currency Financial Statements***

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at historical rates. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average exchange rate. Differences

arising from such translations were shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

### ***Income Taxes***

The provision for current income taxes is computed based on the income before income taxes and minority interests included in the consolidated statements of income. 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 foreign exchange forward contracts and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are 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 that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

### ***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.

### ***Amounts Per Common Share***

The computation of net income per common share is based on the weighted average number of shares outstanding. The average number of common shares used in the computation for the years ended March 31, 2002 and 2001 were 263,656 thousand and 263,748 thousand, respectively.

Diluted net income per share is not disclosed because potentially dilutive securities are not issued and stock options issued by the Company had no dilutive effect.

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, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
Finished products and merchandise.....	<b>¥54,388</b>	¥49,641
Semi-finished products and work in process .....	<b>29,309</b>	31,192
Raw materials and supplies .....	<b>10,143</b>	11,341
Total .....	<b>¥93,840</b>	¥92,174

#### 4. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2002 and 2001 were as follows:

	Millions of yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities .....	¥22,821	¥6,370	¥(1,993)	¥27,198
Debt securities .....	2,140		(11)	2,129
Other .....	764		(357)	407
Total .....	¥25,725	¥6,370	¥(2,361)	¥29,734

	Millions of yen			
	2001			
	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 is not readily determinable as of March 31, 2002 and 2001 were as follows:

	Millions of yen	
	Carrying amount	
	2002	2001
Available-for-sale:		
Equity securities .....	¥1,897	¥1,461
Other .....	4	418
Total .....	¥1,901	¥1,879

Proceeds from sales of available-for-sale securities for the year ended March 31, 2002 and 2001 were ¥4 million and ¥1,065 million, respectively. Gross realized gains (losses) on these sales for the years ended March 31, 2002 and 2001, computed on the moving average cost basis, were (¥1) million and ¥6 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2002 were as follows:

	Millions of yen
Available-for-sale:	
Due after one year through five years .....	¥ 139
Due after five years through ten years .....	1,990
Total .....	¥2,129

## 5. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Trade notes and accounts receivable .....	<b>¥3,738</b>	¥2,024
Trade notes and accounts payable.....	<b>533</b>	1,125

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Sales.....	<b>¥7,537</b>	¥9,757
Purchases.....	<b>7,284</b>	8,220

## 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. Unused short-term bank credit lines were ¥25,000 million at March 31, 2002. Weighted average interest rates of short-term borrowings at March 31, 2002 and 2001 were 2.01% and 2.89%, respectively.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
1.60% unsecured bonds, due 2002.....	<b>¥20,000</b>	¥20,000
1.925% unsecured bonds, due 2004.....	<b>10,000</b>	10,000
2.70% unsecured bonds, due 2006.....	<b>10,000</b>	10,000
Collateralized loans from government sponsored banks, with interest ranging from 1.40% to 6.53% (2002), and from 5.05% to 8.15% (2001), due through 2012.....	<b>6,064</b>	3,880
Collateralized loans from banks with: Fixed interest 3.46%, due through 2002 .....		2,000
Floating interest ranging from 0.48% to 0.68% (2002), and from 0.47% to 0.68% (2001), due through 2008.....	<b>21,850</b>	21,550
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 2.75% to 6.00% (2002), and from 3.20% to 6.67% (2001), due through 2006.....	<b>10,645</b>	9,082
Unsecured loans from banks with interest ranging from 0.53% to 7.30% (2002), and from 0.52% to 7.30% (2001), due through 2026 .....	<b>2,697</b>	2,835
Total .....	<b>81,256</b>	79,347
Less current portion .....	<b>(27,799)</b>	(13,123)
Long-term debt, less current portion .....	<b>¥53,457</b>	¥66,224

Annual maturities of long-term debt outstanding at March 31, 2002 were as follows:

Years ending March 31	Millions of yen
2003 .....	¥27,799
2004 .....	13,716
2005 .....	17,468
2006 .....	11,777
2007 .....	500
2008 and thereafter.....	9,996
Total .....	<b>¥81,256</b>

At March 31, 2002, property, plant and equipment with a net book value of ¥55,373 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 disposition 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.

The liabilities for employees' retirement benefits at March 31, 2002 and 2001 consisted of the following:

	Millions of yen	
	2002	2001
Projected benefit obligation.....	¥69,816	¥61,045
Fair value of plan assets.....	(36,042)	(34,395)
Unrecognized actuarial loss .....	(13,923)	(4,103)
Unrecognized transitional obligation.....	(18,035)	(21,642)
Net liabilities .....	¥ 1,816	¥ 905

The components of net periodic benefit costs for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Service cost.....	¥3,184	¥3,180
Interest cost .....	2,124	2,123
Expected return on plan assets .....	(1,204)	(1,239)
Amortization of transitional obligation .....	3,607	3,607
Recognized actuarial loss.....	410	
Net periodic benefit costs .....	¥8,121	¥7,671

Assumptions used for the years ended March 31, 2002 and 2001 were set forth as follows:

	Millions of yen	
	2002	2001
Discount rate.....	2.5%	3.5%
Expected rate of return on plan assets .....	3.5%	3.5%
Recognition period of actuarial gain/loss .....	10 years	10 years
Amortization period of transitional obligation .....	7 years	7 years

Liability for retirement benefits at March 31, 2002 and 2001 included retirement benefits for directors and corporate auditors of ¥906 million and ¥793 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

## 8. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required that 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 were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set

aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, was ¥6,066 million and ¥5,895 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Under the Code, the amount available for dividends is based on the Company's retained earnings, less the legal reserve, treasury stock and certain other items. At March 31, 2002, the amount of retained earnings recorded in the Company's books that is available for future dividends subject to the approval of the shareholders and legal reserve requirements was ¥102,696 million.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

## 9. Stock Option Plan

On June 29, 2000, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 93 thousand shares of the Company's common stock in the period from July 1, 2002 to June 30, 2006. On July 25, 2000, the options were granted at an exercise price of ¥2,471 per share.

Also, on June 28, 2001, the Company's shareholders approved a stock option plan for the Company's directors and key employees that will enable them to purchase up to 92 thousand shares of the Company's common stock in the period from July 1, 2003 to June 30, 2007. On July 30, 2001, the options were granted at an exercise price of ¥2,541 per share.

## 10. 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, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Deferred tax assets:		
Inventories.....	¥ 4,638	¥ 4,975
Retirement benefits.....	1,100	665
Tax loss carryforwards.....	678	335
Accrued bonus.....	1,576	1,291
Warranty reserve.....	933	849
Software.....	2,820	2,542
Property and equipment.....	788	1,100
Investment securities.....	1,787	
Other.....	2,475	1,937
Less valuation allowance.....	(485)	
Total deferred tax assets.....	¥16,310	¥13,694
Deferred tax liabilities:		
Deferred gains on sales of property.....	¥ 2,240	¥ 2,240
Unrealized gain on available-for-sale securities.....	1,690	3,474
Other.....	115	462
Total deferred tax liabilities.....	4,045	6,176
Net deferred tax assets.....	¥12,265	¥ 7,518

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

	2002	2001
Normal statutory income tax rate.....	42.0%	42.0%
Permanent non-deductible expenses.....	2.8	2.5
Difference in foreign subsidiaries' tax rates.....	(5.6)	(3.9)
Foreign tax credit.....	(1.9)	
Other—net.....	1.7	0.0
Actual effective income tax rate.....	39.0%	40.6%

## 11. Research and Development Costs

Research and development costs were ¥23,414 million and ¥24,039 million for the years ended March 31, 2002 and 2001, respectively.

## 12. 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, 2002 and 2001, was as follows:

	Millions of yen		
	Furniture and Fixtures	Others	Total
<b>For the year ended March 31, 2002</b>			
Acquisition cost.....	¥6,128	¥1,954	¥8,082
Accumulated depreciation.....	3,030	1,012	4,042
Net leased property.....	¥3,098	¥ 942	¥4,040

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

Obligations under finance leases:

	Millions of yen	
	2002	2001
Due within one year .....	¥1,749	¥1,559
Due after one year .....	2,291	2,080
Total .....	¥4,040	¥3,639

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

Lease payments, including depreciation expense and interest expense, under finance leases were ¥2,143 million and ¥1,974 million for the years ended March 31, 2002 and 2001, respectively. Depreciation expense is computed by the straight-line method.

### 13. Derivatives

The Group enters into various interest rate swap agreements covering certain portions of long-term debt as a means of managing interest rate exposure. 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.

The Group also enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

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, 2002 and 2001 were as follows:

	Millions of yen					
	2002			2001		
	Contract Amount	Fair Value	Unrealized Loss	Contract Amount	Fair Value	Unrealized Loss
Forward exchange contracts:						
Selling:						
GBP .....	¥4,057	¥4,083	¥(26)	¥3,471	¥3,546	¥(75)
US\$ .....				3,160	3,195	(35)

Information related to derivative contracts that qualify for hedge accounting and forward contracts that are assigned to associated assets and liabilities and recorded on the balance sheet at March 31, 2002 and 2001 are excluded from the disclosure of market value information.

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

### 14. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2002 totaled approximately ¥3,494 million.

Guarantees of bank loans and items of a similar nature at March 31, 2002 were ¥1,799 million.



## b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2002	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
Assets.....	¥273,062	¥107,313	¥24,835	¥55,339	¥460,549
Depreciation .....	10,502	8,947	1,280		20,729
Capital expenditures.....	12,188	14,989	1,795		28,972

For the year ended 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

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.

**(2) Geographical Segments**

The foreign operations of the Group for the years ended March 31, 2002 and 2001 were summarized below:

For the year ended March 31, 2002	Millions of yen						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers.....	¥385,864	¥51,902	¥74,482	¥24,936	¥1,606		¥538,790
Interarea transfers .....	67,489	25,832	798	1,242		¥(95,361)	
Total sales .....	453,353	77,734	75,280	26,178	1,606	(95,361)	538,790
Operating expenses .....	424,639	71,480	68,372	25,337	1,456	(94,462)	496,822
Operating income.....	¥ 28,714	¥ 6,254	¥ 6,908	¥ 841	¥ 150	¥ (899)	¥ 41,968
Assets .....	¥327,623	¥63,662	¥45,994	¥32,169	¥ 918	¥ (9,817)	¥460,549

For the year ended March 31, 2001	Millions of yen						
	Japan	Asia and Oceania	Europe	Americas	Other	Eliminations and Corporate	Consolidated
Sales to outside customers.....	¥392,772	¥37,760	¥68,045	¥32,141	¥1,190		¥531,908
Interarea transfers .....	69,062	22,571	281	1,245		¥(93,159)	
Total sales .....	461,834	60,331	68,326	33,386	1,190	(93,159)	531,908
Operating expenses .....	437,028	56,464	61,115	30,658	1,223	(94,394)	492,094
Operating income (loss).....	¥ 24,806	¥ 3,867	¥ 7,211	¥ 2,728	¥ (33)	¥ 1,235	¥ 39,814
Assets .....	¥317,415	¥44,036	¥45,110	¥30,280	¥ 886	¥ 15,415	¥453,142

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

### **(3) Sales to Foreign Customers**

Sales to foreign customers for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen	
	2002	2001
Asia and Oceania .....	¥ <b>70,323</b>	¥ 57,879
Europe .....	<b>74,609</b>	68,820
Americas .....	<b>28,427</b>	37,790
Other.....	<b>5,366</b>	5,711
Total sales to foreign customers .....	<b>¥178,725</b>	¥170,200

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**Deloitte  
Touche  
Tohmatsu**

## INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

*Deloitte Touche Tohmatsu*

June 27, 2002