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OVERVIEW OF FISCAL 2003 RESULTS

In fiscal 2003, ended March 31, 2003, the global economy moved in the direction of staging a moderate recovery, with the U.S. economy beginning to firm up, the European economy bottoming out overall despite certain regional unevenness, and the Chinese and other Asian economies continuing to show strong growth. While external demand was healthy, domestic demand in the Japanese economy remained lackluster and was characterized by sluggish consumer spending, reduced capital investment, and other factors that contributed to a challenging operating environment.

In response, we wholly rededicated ourselves to achieving the management objectives set by Daikin Industries, Ltd.'s president in 2002, namely, to "accelerate our fast & flat policy and follow each successful transformation with the next."

In fiscal 2003, Daikin achieved record-high sales and profitability levels Companywide based on its initiatives both in Japan and overseas to expand sales and market share via the launch of high-value-added and

distinctive products; to transform the structure of its business operations into one focused on innovation; to accelerate creation of new market opportunities; and to reduce costs throughout the Group.

Compared to the prior fiscal year, in fiscal 2003, consolidated net sales for the Group increased 6.2%, to ¥572.413 billion; operating income rose 6.7%, to ¥44.789 billion; and net income climbed 20.4%, to ¥21.591 billion. As a result of this performance, Daikin posted a new record in consolidated net sales for the third straight year, and operating income hit a new high and was up for the ninth year in a row.

With the objective of maximizing corporate value, Daikin focused management attention on its total market capitalization. In addition to expanding sales and operating income, we are actively developing our business operations and strengthening the quality of management by focusing on such Ratio Management measures as free cash flow (FCF), Daikin economic value added (DVA), return on assets (ROA), return on investment (ROI), and return on equity (ROE).

In particular, as the underpinning of corporate value, we have chosen to focus on FCF because it serves as the driver of all key management indicators. In fiscal 2003, FCF amounted to ¥8.8 billion, which was lower than fiscal 2002 due to the fact that we gave priority to the implementation of certain strategic investments.

At the shareholders' meeting held on June 27, 2003, a cash dividend applicable to the year of ¥12.00 per share was approved.

Overview of Operations

Sales in the Air Conditioning and Refrigeration Equipment Division rose 7.5% compared with the previous term, to ¥453.850 billion, and operating income increased 6.8%, to ¥34.409 billion.

Turning to the Japanese market for residential air-conditioning systems, demand for room air conditioners contracted due to unseasonable weather in the first half of the season and slack consumer spending. However, we significantly boosted market share by introducing distinctive high-value-added air-conditioning systems, such as the URURU & SALALA, which offers year-round humidity control and generates negative ions to improve health. In addition, efforts to substantially expand sales through large-scale electronics retailers also helped increase market share. Net sales in fiscal 2003 stayed at the same level as the prior fiscal year due to the impact of reduced selling prices.

As one of our so-called "innovation businesses," we substantially increased sales of air purifiers, which mimic the natural atmosphere via healing ultrasonic waves and relaxing modulated airflow.

With regard to commercial air-conditioning systems in Japan, despite lackluster demand conditions associated with a contraction in private-sector investment spending, Daikin won its highest ever market share position by expanding sales of high-value-added products. This includes such products as the SUPER INVERTER ZEAS II, which features the highest energy-saving

efficiency in the industry and a new refrigerant with an ozone-depletion coefficient of zero. Commercial air-conditioning systems sales declined in fiscal 2003 due to slack demand conditions as well as the substantial adverse impact of weakened selling prices.

Daikin has been quick to identify growing markets for air-conditioning systems, and aggressively strengthened marketing organizations in Europe, China, and Australia. Our overseas business now accounts for 37.0% of total sales, an increase of four percentage points above the previous fiscal term. In particular, in fiscal 2002, we strengthened our marketing capabilities in Europe, the largest of our air-conditioning markets overseas, by purchasing a sales distributor in Italy, which is Europe's largest single market for this product. Our decision to acquire two sales distributors in 2003 in the United Kingdom, which is one of the biggest markets of any European country, will drive further sales expansion under a more comprehensive sales policy.

Daikin is also vigorously expanding its container refrigeration and heating unit business beyond mainstay Japanese customers, winning a large volume for marine container refrigeration systems from a major European container fleet operator.

In the Chemicals Division, sales advanced to ¥83.576 billion, a 2.3% gain compared to the previous fiscal term, and operating income improved 3.4%, to ¥9.616 billion. Fluoropolymer sales contracted as a result of delayed semiconductor market demand recovery and narrowing market demand for LAN cable due to slack IT investment in the United States. Sales of chemical products increased overall, reflecting a significant increase in sales of oil- and water-repellents in Asia and the United States and robust performance of semiconductor-etching agents in Asia. We also boosted sales of fluorocarbon gases principally in Japan and the rest of Asia, thanks to the shift to such new alternative refrigerants as R-410A and R-407C and our intensified sales initiatives.

“Fusion 05” Strategy: Efforts toward Achieving the Goals Outlined in the Medium-Term Implementation Plan

Daikin is focused on “Becoming an appealing company that pulls together human resources, capital, and information,” and, as a part of this, in April 2001, we formulated our “Fusion 05” strategic management plan set to run through fiscal 2006. We are committed to making Daikin a “global top-tier company” through our focus on market capitalization and global implementation of our unique “fast & flat” management style.

“Fusion 05” specifies both the Medium-Term Implementation Plan through fiscal 2004 and a core strategy to be realized in fiscal 2006. Our Medium-Term Implementation Plan sets concrete quantitative targets that we will thoroughly focus on via our Ratio Management approach. When the Medium-Term Implementation Plan culminates in fiscal 2004, Daikin aims both to boost operating income for the tenth straight year and to make steady progress toward our fiscal 2006 strategic target of attaining the number one or number two position in the air-conditioning and fluorochemical markets. We are committed to making steady progress by taking however many concrete acts of creative destruction are needed and by seizing opportunities in growing markets.



While targeting record-high sales and an improvement in profitability, on a consolidated basis our specific quantitative targets for fiscal 2004 are a 9% increase in net sales, to ¥625.0 billion, and an 8.3% rise in operating income, to ¥48.5 billion.

PRIORITY MANAGEMENT MEASURES FOR FISCAL 2004

1. Accelerating Business Strategies for China

We have achieved sustained progress in China, which we consider one of the most important areas of our global strategy and where we have established a solid foothold. By following strategies to stay ahead of the growth and changes taking place, we aim to achieve net sales of ¥100.0 billion in China in fiscal 2006.

As regards the air-conditioning systems business in particular, we will strengthen the capabilities of the regional headquarters company set up in September 2001, make it the core entity of Group strategy in China, and concentrate all air-conditioning systems businesses under it for coordinated production, sales, and services.

2. Further Expansion of Global Air-Conditioning Operations

In addition to carrying out our strategy in China, we are accelerating the development of a global business focused on key markets.

This is why we are expanding production and sales operations at a rapid pace. As regards production strategy, we are building a flexible production and procurement framework based on the principle of being as close as possible to the target area or market.

In fiscal 2004, we plan to establish two new manufacturing companies in Shanghai, China, one for commercial air conditioning and variable refrigerant volume systems for office use and one for central air-conditioning systems. Turning to Europe, we also intend to set up an air-conditioning systems production facility in Plzen in the Czech Republic.

Based on production facilities located in strategic market areas, Daikin aims to set up a system where international manufacturing costs are identical no matter where production takes place. Daikin will establish a global-scale supply chain management (SCM) system by transferring overseas its advanced production methodologies first developed in Japan. Such high-cycle methodologies feature globally optimized procurement of parts and materials and lead times that are reduced to absolute minimums.

3. Transforming the Fluorochemicals Business

To progress to a higher level and compete as a major global player, Daikin is setting up new business models to develop fresh market opportunities, particularly in China and the United States.

In China, we are focused on building a rapid-growth integrated operational structure, launching full-scale demand-creation initiatives together with the start of operations at our Changshu Plant in Jiangsu Province in fall 2003.

With demand for fluorocarbons still in its infancy in China, we believe there is a sizable opportunity as both the market and applications are developed. In the future, the business model will be to have our own fluorochemical business in China, potentially supported by collaborative or M&A activities with Japanese, North American, or European companies as well as by our own plastics processing businesses. Further, we will strengthen the marketing of repellents and fluoroelastomers in the United States, which accounts for about 45% of global demand for fluorochemical products, and actively target applications development there. We are also developing and implementing a plan for overhauling the chemicals business, to give it a stronger, more flexible operating structure.

Our plan has 11 main elements, including intensive development of new applications, strengthening basic technologies and continually developing new products, overhauling process technologies and enhancing

engineering capabilities, and undertaking far-reaching cost-cutting measures. We will make the organization and framework flatter to facilitate the rigorous implementation of each measure across the business.

4. Speeding Up the Creation of “Innovation Businesses”

With demand for air-conditioning products reaching maturity in Japan, Daikin is working to build up “innovation businesses” to assure future growth and profitability and transform operating structures, while expanding sales of existing products as well as current market share positions.

Daikin continues to focus on operations in some 21 areas, including retail store systems and service, total-management systems for buildings, factory engineering, air-conditioning systems, water-heating systems, and low-temperature logistics. For many of these new developments, we have reached the point where future success is now discernable.

For example, the “Convenience Pack” for convenience stores combines air conditioning, refrigeration, and freezing functions in a single system, reducing energy consumption by 50% and occupying 60% less space. It has won praise in convenience store field tests.





In fall 2002, we began redeploying sales people in line with our new system of management priorities. In fiscal 2004, we are including in the management plan a target of increasing sales to ¥60.0 billion compared with fiscal 2001.

5. Expanding Benefits of Synergy from Tie-ups and Alliances

In fiscal 2004, we expect our balance sheet to begin to reflect the benefits of synergies from our tie-ups, notably with the Trane Company of the United States. We plan to launch full-fledged cross-sourcing of products, especially in Europe, North America, China, and Japan.

In addition, our tie-up with Matsushita Electric Industrial Co., Ltd., has steadily borne fruit, for example, in such areas as the joint development of residential air-conditioning systems, provision of commercial air-conditioning systems to Matsushita Electric Industrial, joint procurement of parts, and participation in recycling projects. In fall 2003, Matsushita Electric Industrial will begin full-fledged supply of residential air-conditioning systems to Daikin.

Our tie-up with Sauer-Danfoss Inc. (U.S.A.) in the oil hydraulics field, now into its third year, is proceeding according to plan. We aspire to expand sales in the

Chinese market based on its remarkable growth rate to obtain still greater benefits from the collaboration.

6. Adding Value to Products and Cutting Costs Across the Board

With sales prices in the domestic air-conditioning business set to continue to decrease in fiscal 2004, Daikin recognizes the need to improve its ability to generate revenues. Developing products that anticipate each new customer demand, we will assure revenues by launching multifunctional, high-value-added products. Moreover, while reducing manufacturing costs, we will work to cut costs across the board, not only reducing manufacturing expenses but also improving the efficiency of peripheral operations and reducing expenses for plant, property, and equipment.

A CLOSER FOCUS ON CORPORATE ETHICS

Based on a philosophy that can be summarized as “Absolute Credibility,” “Enterprising Management,” and “Harmonious Personal Relations,” Daikin has always viewed “maintenance and strictest possible observance of corporate ethics” as a management priority for the entire Group. Recently, we strengthened and extended our ethical framework to ensure “establishment and maintenance of the strictest possible adherence to corporate ethics” throughout each of the Group’s offices around the world, including overseas subsidiaries and affiliates.

We have established the Corporate Ethics Committee, responsible for assurance of a high level of corporate ethics across the Group, with Daikin’s president and COO as chairman. By setting up the Corporate Ethics Department with a specialist staff under the Officer in Charge of Corporate Ethics, Daikin will be able to keep track of internal and external developments at all times, identify the issues that the Group needs to address more rigorously, and resolve them.

At a special desk in the Corporate Ethics Department, suggestions and advice can be offered by Group

employees in all matters of legal compliance and other aspects of corporate ethical conduct. In the future, we plan various initiatives to promote corporate ethics and further enhance our record of accomplishment in this area, including the compilation of the *Handbook for Group Corporate Ethics*, implementation of various educational programs, enhancement and fine-tuning of self-appraisal mechanisms, and creation of mechanisms for double-checking audits of corporate ethics compliance.

TO OUR SHAREHOLDERS

For the beginning of the year 2003, Daikin adopted a policy of “using the present as an excellent opportunity to boldly strive for a quantum leap.” While Japan’s economy continues to face unprecedented challenges, the Group has managed to increase operating income on a consolidated basis for nine straight terms, and we have developed a strong business foundation. Even as a feeling of uncertainty about the future has spread due to deflationary and lackluster conditions in the Japanese economy, and, despite the defensive mentality created, pressure on stock prices, the SARS epidemic, and other factors, Daikin is keen to take on world markets and hasten its transformation into a multinational corporate group. The tasks ahead are many and varied, but the course of action is clear; there is no sense of uncertainty at Daikin. We believe the time is ripe for a significant move forward.

In fiscal 2002, Daikin decided on a coordinated policy essential for this substantial step forward. It rests on three principles: “Daikin’s Technology Statement” specifying strategies and initiatives for taking our technological capabilities to the next level; strengthening of corporate governance to further hone our management capabilities; and “Our Group Philosophy,” which spells out the thinking and beliefs shared by the Group as a whole.

In fiscal 2003, all employees across the Daikin Group will work together in a concerted way to boost the value of the Daikin brand.



Daikin will reinforce the level of corporate ethics in every section of the Group, conducting its business fairly and according to high ethical standards. In addition to addressing the previously raised issues, we will meet the challenge of ensuring that every office in the Group is led by “customer first” management, aim for a tenth consecutive term of increased operating income, and meet the targets of the “Fusion 05” strategic management plan.

We would like to express our appreciation to all of our shareholders for their understanding and unwavering support over the years.

June 27, 2003

A handwritten signature in black ink that reads "Noriyuki Inoue".

Noriyuki Inoue, Chairman and CEO

A handwritten signature in black ink that reads "Hiroyuki Kitai".

Hiroyuki Kitai, President and COO