

A series of thin, light blue wavy lines flow across the page from left to right, starting near the bottom left and curving upwards towards the top right. They create a sense of movement and flow.

ever onward

80TH ANNIVERSARY

Profile

Since its establishment in 1934, Daikin Industries, Ltd., has grown into a leading producer of air-conditioning systems and fluorochemical products. Faced with major competition due to the advent of a single global market, we are further accelerating efforts to expand our operations on a global basis. Combining different specialist technologies with our strength in R&D, we are also expanding our business in the oil hydraulics and electronics industries to generate revolutionary products with industrial and lifestyle applications.

Currently, Daikin is striving to meet the targets set forth in its strategic management plan, Fusion 05. Daikin is quickly taking steps to build management systems that emphasize the maximization of total corporate value while striving to introduce more sophisticated management methods within our unique “fast & flat” management framework that can be applied globally. Daikin is aiming to develop into a “global top-tier company” by fiscal 2006.

In fiscal 2004, ended March 31, 2004, both consolidated net sales and operating income reached record highs and operating income rose for the tenth consecutive year. These are major achievements.

To ensure still greater progress, we will raise the quality of our management by thoroughly renovating our technological strengths, increasing the sophistication of our systems for speedy management, building a unique, solid corporate governance system, and strengthening and enhancing consolidated management systems.

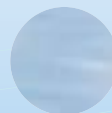
In August 2002, we compiled “Our Group Philosophy,” with the aim of honing our concept of “people-oriented management,” developed over many years, and communicating this philosophy to Group companies around the world. By maximizing the ability of every employee in the Group, we believe we can achieve the Group goal of making a quantum leap forward. Daikin continues to do its utmost to develop leading-edge technologies and provide dependable products and systems so that it can maintain the strong confidence of its stakeholders and evolve in line with stakeholders’ expectations.

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Forward-Looking Statements

This annual report contains statements regarding future plans and strategies of Daikin Industries, Ltd. (the Company), as well as the Company’s future performance. These statements are not statements of past facts but are based on judgments made by the Company on the basis of information known at the time. Therefore, readers should refrain from drawing conclusions based only on these statements regarding the future performance of the Company. The actual future performance of the Company may be influenced by economic trends, strong competition in the industrial sectors where it conducts its operations, foreign currency exchange rates, and changes in taxation and other systems. For these reasons, these forward-looking statements are subject to latent risk and uncertainty.

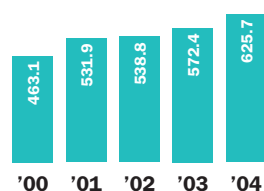


Financial Highlights

Years Ended March 31/March 31

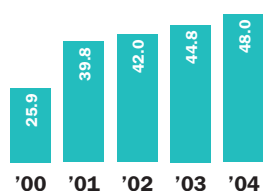
Net Sales

(¥ billion)



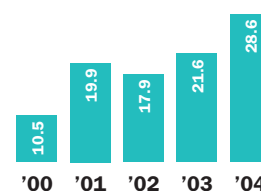
Operating Income

(¥ billion)



Net Income

(¥ billion)



	Millions of yen		
	2004	2003	2002
Net sales	¥625,718	¥572,413	¥538,790
Operating income	47,988	44,789	41,968
Net income	28,611	21,591	17,937
Total assets	536,379	475,760	460,549
Total shareholders' equity	235,771	205,101	191,196
Yen			
Per share of common stock:			
Net income*	¥108.18	¥81.48	¥67.58
Cash dividends applicable to the year	14.00	12.00	12.00

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

Management Perspective



Noriyuki Inoue
*Chairman of the Board
and CEO*

Yukiyoshi Okano
*President and COO,
Member of the Board*

Message to Shareholders

In October 2004, Daikin Industries, Ltd., will celebrate the 80th anniversary of its founding. Having attained new record-high levels of consolidated net sales and operating income during fiscal 2004, ended March 31, 2004, we consider this year a highly significant landmark in Daikin's history. We hope for the continued support of our shareholders as we embark on a new stage of Daikin's corporate evolution.

Before discussing our business operations, we would like to express our sincerest regrets for the considerable concerns shareholders have had regarding the January 2004 explosion at a tetrafluoroethylene production plant at Daikin's Kashima plant in Japan. Restoration has proceeded smoothly, and of eight tetrafluoroethylene production facilities, five have resumed operation after receiving the requisite permission from the Ibaraki prefectural authorities. Construction is progressing rapidly at the other three facilities, and we expect those facilities to begin operating again at the start of 2005. We are taking this accident very seriously and the entire Company is working concertedly to further increase the rigor of safety management systems to preclude the recurrence of such an accident as well as to restore society's confidence in Daikin. We hope for your understanding in this respect.

Currently, the entire Daikin Group is proceeding with efforts to meet the targets set forth in the Fusion 05 strategic management plan, which covers the period through fiscal 2006. Fusion 05 calls for Daikin to employ management systems that emphasize total corporate value and that focus on human resources in a manner applicable worldwide so that the Company can develop into a "global top-tier company." Our performance during the first three years of the plan was negatively affected by large changes in our operating environment that differed from our original projections and assumptions, but we have made steady progress in making our air-conditioning and refrigeration equipment operations and chemicals operations No. 1 and No. 2, respectively, in the global market. We have also advanced smoothly with structural reform efforts aimed at increasing the share of our operations overseas and the share of "innovation businesses" within our operations. These efforts are generating a steady stream of benefits, as is reflected in our ability to sustain growth in consolidated operating income for a tenth consecutive fiscal year.

To ensure that we can realize the transformations called for in Fusion 05 by fiscal 2006, we are working to accelerate the plan's implementation. Based on our recognition that we now face excellent opportunities to achieve a large surge in corporate development, we are reforming our operations and speeding up our efforts to address numerous strategic tasks. In the following section, we present explanations of our fiscal 2004 business performance, the fundamental management measures we are focusing on in fiscal 2005, and the corporate governance reforms we are implementing with the objectives of maximizing the Company's dynamic power and further augmenting the transparency and soundness of its operations.

Overview of Fiscal 2004 Results

During fiscal 2004, the dynamic growth of the U.S. and Chinese economies helped trigger a recovery in global demand for semiconductors and IT investment and promote generally robust conditions in the global economy. The Japanese economy also made steady progress toward recovery due to such factors as the expansion of private-sector capital investment—against the backdrop of recovering corporate performances—and strong exports to China and other Asian countries. Amid these conditions, the Daikin Group adopted a basic policy calling for greater recognition of and stronger emphasis on the many excellent opportunities currently available for achieving a large surge in business development. Based on this policy, the Group worked concertedly to realize the benefits of various reforms and attain its strategic goals.

Consolidated net sales amounted to ¥625,718 million, an increase of 9.3% from the previous year. The Air Conditioning and Refrigeration Equipment Division's sales rose 10.4% from the previous year. The division strove to expand its domestic net sales by promoting such distinctive high-value-added air-conditioning systems as the URURU & SALALA, for residential use, and the SUPER INVERTER ZEAS II, for commercial use. The division's overseas sales surged 127%, reflecting large gains in Europe, which had unusually hot summer weather, and China, where demand is rapidly increasing. Despite signs of recovery in semiconductor markets, the Chemicals Division's total sales advanced only 5.9% owing to the lack of a full-scale recovery in U.S. demand for LAN

cable. Sales of vessel-related products rose due to our receipt of large orders for marine container refrigeration units from P&ON, a leading Europe-based marine shipping company, as well as from Maersk Sealand, the world's largest marine shipping company. Despite various challenges—such as the weakness of domestic demand for air conditioners amid cool summer weather and warm winter weather and the impact of the explosion at the Kashima plant—the effectiveness of our various sales promotion activities enabled a rise in consolidated net sales.

Our profitability was negatively affected by a continued downtrend in sales prices for air-conditioning and refrigeration products in Japan, but this was offset by large sales increases in overseas air-conditioner markets along with our emphasis on comprehensive cost-cutting programs. As a result, operating income rose 7.1%, to ¥47,988 million. This rise and such factors as a reduced tax burden enabled a 32.5% surge in net income, to ¥28,611 million.

Thus, consolidated net sales and operating income reached record highs for the fourth and tenth consecutive year, respectively.

Regarding future trends in our operating environment, there are some causes for concern about such developments as a rise in raw materials costs and the appreciation of the yen, but we expect that the world economy will sustain a steady recovery, helped by strong demand from the rapidly growing Chinese economy as well as by the healthy U.S. economy. In fiscal 2005, Daikin is aiming to attain ¥710 billion in consolidated net sales, up 13.5%; ¥51 billion in consolidated operating income, up 6.3%; and ¥30 billion in consolidated net income, up 4.9%.

Priority Management Measures for Fiscal 2005

For Daikin, fiscal 2005 is a time of opportunity for continuing to increase its consolidated profitability while scattering the business seeds that can be expected to support a rapid surge in corporate development in the near future. We are looking closely at huge and highly promising business opportunities in Europe, China, North America, and Japan. To take full advantage of these opportunities and ensure rapid progress toward our goal of making Daikin a truly global company, we are resolutely making the requisite investments in capital as well as in such areas as human resources.



Although this proactive approach to business development is not without risks, we are confident that the time is ripe for dynamically expanding our operations.

In Europe, extremely hot summer weather last year spurred considerable changes in the structure of local air-conditioner markets. The new structure prevailed even after the usual air-conditioner sales season ended in September, and shows no signs of reverting even now. While we had originally projected that our principal marketing companies in such countries as France, Spain, and Italy would achieve double-digit sales growth during the first four months of 2004, the companies outperformed that projection by large margins, and rapid growth in sales is expected to be sustained throughout the current fiscal year.

The Chinese market is changing more rapidly than any other market that Daikin has ever operated in, and there are huge opportunities for the Group to expand its business there. In fact, all segments of China's air-conditioning market—including those involving products for office buildings, factories, shops and offices, and households—are quickly growing. If we were to be satisfied with our current rate of business expansion in China, it could mean turning our backs on very favorable opportunities. Accordingly, we are promoting rapid Chinese business development by setting ourselves ambitiously high performance goals.

Aiming to make the most of these opportunities and raise the overseas business share of our consolidated net sales to above 50% by fiscal 2006, we are proactively

investing in overseas manufacturing and marketing bases throughout the world. In line with the principle of locating manufacturing operations close to target markets, we are proceeding with measures to greatly increase our air-conditioner manufacturing capacity in the Czech Republic and China. We expect the total value of our capital investments and financial investments during the three years through fiscal 2005 to exceed ¥130.0 billion. Overseas investment accounts for approximately 60% of this figure, and we anticipate a further acceleration of the pace of overseas business expansion centered on the European and Chinese markets. The considerable improvement in market trends seen recently suggests a need for more product supply capabilities, and we are therefore preparing for an additional strengthening of our manufacturing capacity.

Daikin has for some time been working to maximize its corporate value by focusing on such financial ratio-oriented management strategies as those aimed at improving free cash flow (FCF), Daikin economic value added (DVA), return on equity (ROE), return on assets (ROA), and return on investment (ROI). Among the various ratios, we give particular emphasis to FCF, a comprehensive indicator that reflects both profitability and the efficiency of asset utilization, and we have taken numerous steps to boost FCF. We have sustained this focus on FCF during the past two years and sought to take advantage of opportunities to maximize our future corporate value by making various investments aimed at expanding operations while maintaining a basic policy of moderating the scale of investment to within the scope of FCF. This policy was adopted in view of our assessment that the levels of principal financial ratios—ROA of 5.7%, ROE of 13.0%, and ROI of 12.7% during the fiscal year under review—are still not high enough, although we do recognize that they are relatively high compared with other Japanese manufacturers.

While employing an array of financial ratio-oriented management systems, we continue to place strong emphasis on FCF. In the next two years, we will expand our operations while maintaining a basic policy of moderating the scale of investment to within the scope of FCF.

We are confident that our current investments will be seeds for a future surge in business growth and that realizing the benefits of these investments will help maximize Daikin's corporate value over the medium term. We

believe it is important to prepare the basis for utilizing and maximizing the benefits of our investments during the current fiscal year, and we have already begun taking the requisite steps. Before the start-up of any new manufacturing base, for example, we make sure the products we make are regularly selling out, even when the manufacturing capacities of existing facilities are being fully utilized. Accordingly, we are bolstering our marketing capabilities, expanding our marketing networks, and further upgrading service capabilities in areas where Daikin has traditionally been particularly strong. We are also hurrying to increase the appeal of our product lineups for each market.

One of the measures we are taking to bolster marketing capabilities in Europe is to acquire marketing agents and convert them into marketing subsidiaries. Having acquired Italian and U.K. marketing agents in 2002 and 2003, respectively, we are building a network of marketing subsidiaries in all the principal countries of Europe. This year, we will increase our marketing staff by approximately 200 people. We are also rapidly proceeding with the development of products tailored to the diverse needs of Europe's various regional markets. Besides appealing to highly environmentally conscious Europeans by, for example, offering products that use new environment-friendly refrigerants and high-performance inverters to reduce energy consumption, we are seeking to develop new products in response to a projected rapid rise in Russian demand for room air conditioners.

In China, we have made our regional headquarters company the hub of Groupwide strategic implementation measures that provide for the continued comprehensive development of local air-conditioning product operations based on coordinated production, sales, and service operations. We are aiming to further develop and expand our marketing activities in China, much of which has been concentrated in the Shanghai area, by establishing presences in the Beijing and Guangzhou areas and then rapidly extending our operations into other regional cities. To do this, we are increasing the number of regional marketing offices from 17 to 30 and hiring approximately 300 additional marketing staff. Regarding our product strategies, we are working to further increase our market share for office-building-use multiunit air-conditioner systems and other commercial-use systems. At the same time,

following the start-up of additional Daikin Group manufacturing companies in China, we are seeking to expand our sales of large-scale air-conditioning equipment as well as medium- and small-scale air-conditioning products for residential applications.

These various initiatives are designed to make the most of the huge opportunities we have identified, and we think they have the potential for enabling us to earn top shares of the air-conditioning product markets of Europe and China in the near future. In the current fiscal year, we are aiming to boost our sales in Europe and China to ¥147.0 billion and ¥60.0 billion, respectively.

In the U.S. market, which is the world's largest, consciousness of ductless air conditioners has been rapidly increasing, and we see an excellent opportunity to create a local market for such products in the near future. While ductless air conditioners currently account for a very small share of the market, their superior energy-saving, low-noise operation and other advantages make it highly likely that their market share will grow. In view of this, Daikin is planning to establish a strong presence in ductless air conditioners as soon as possible.

In its home market of Japan, last year Daikin won the top share of the room air-conditioner market, which it had avidly been seeking for some time. Taking advantage of this momentum, we are striving to further augment our product, marketing, and supply capabilities so that we can earn an overwhelming share of the



domestic market for all types of air-conditioning products, including packaged air conditioners, and thereby become generally acknowledged as Japan's true No. 1 air-conditioner maker.

Daikin's Corporate Governance

To maximize our capabilities for quickly and effectively addressing the various management tasks we have described, we decided to reform our corporate governance systems with an eye to further boosting the transparency and soundness of our operations. The new corporate governance systems were launched in June 2004.

For some time, Daikin has aimed to increase management efficiency and strengthen its consolidated Group management systems by progressing toward the following four objectives: (1) renovating management systems in a way that promotes strategic management and speedier management decisions; (2) implementing measures related to unique personnel and organizational management systems needed to realize a "fast & flat" Group management framework; (3) using the virtual company system to promote strong management emphasis on corporate value and give divisional managers greater authority and responsibility; and (4) ensuring that management emphasizes openness, transparency, and responsiveness to stakeholders.

In line with the first objective, we have introduced an executive officer system designed to promote autonomous judgments and decisions in each business, regional, and functional area, thereby quickening strategic implementation. At the same time, we reduced the number of directors by half to help the board of directors better perform its roles of quickly making strategic decisions for the entire Daikin Group and rigorously overseeing the execution of those decisions. We also integrated the board with the executive officer system by introducing a system in which all inside directors concurrently serve as executive officers. This system is strengthening our decision-making and strategic execution capabilities by placing directors at the front lines of operations, allowing them to gain a more accurate understanding of business conditions and thereby create and execute strategies designed to respond to them.

Regarding the second objective, we have broadened

the scope of responsibilities of Daikin officers serving as vice presidents and corporate advisors as well as executive officers. In addition to their usual responsibilities, they are now given Groupwide responsibilities for "mission items" related to their personal fields of expertise. This new system helps utilize and consolidate the total capabilities of our directors and top executives, and we expect it to generate tangible benefits in the near future.

In line with the third objective, four years ago, we introduced eight virtual companies with the aims of maximizing the benefits of having managers with autonomous responsibility, promoting long-term perspectives on strategic business decisions, and preventing the bloating of support and administrative departments. Recently, with the principal goal of optimizing the efficient allocation and utilization of Group resources, we consolidated the eight virtual companies into four—the Domestic Air Conditioning Company, the Global Air Conditioning Company, the Chemicals Company, and the Business Development Company. We have also established a clear-cut system for using such quantitative performance indices as operating income, ROA, and FCF to evaluate the virtual companies. By strengthening our emphasis on results-oriented management, we are doing our utmost to increase Daikin's overall corporate value.

The fourth objective is to implement measures that boost management transparency and soundness. Aiming to increase the participation of people with independent and neutral perspectives in management decision making, two years ago we welcomed two outside directors to our board—Tadasu Tachi, who also serves as counsel for Kaneka Corporation, and Chiyono Terada, who also serves as president and CEO for Art Corporation—and they have continued to serve as Daikin directors since that time. Under the Management Advisory Council system we adopted five years ago, council members provide opinions and guidance based on their broad range of perspectives on many business issues, and this input has proved to be highly valuable due to the difficulty of forecasting future trends amid a diversely changing business environment. Accordingly, we have retained all the council members to serve in the current fiscal year and expect them to play a role in boosting the quality of our management capabilities. We have also

established a Personnel and Remuneration Committee, which provides advice to the CEO and works to promote highly transparent discussions and consultations and also helps to foster the development of top executives.

Daikin has for many years assigned directors to proactively handle issues related to workers' safety, product quality, and the global environment. In June 2003, we established the Corporate Ethics Committee, which is chaired by Daikin's president and COO, and assigned a director to take responsibility for corporate ethics oversight, with top priority on ensuring the rigorous enforcement of strict compliance standards throughout the Group. We recently assigned another director to take responsibility for corporate social responsibility (CSR) oversight. Daikin recognizes that companies have diverse responsibilities to society related to environmental protection, safe operations, honest relations with customers, human rights, and corporate openness and transparency. We are proactively working to ensure exemplary CSR performance that meets standards higher than mere legal compliance.

On October 25, 2004, Daikin will celebrate the 80th anniversary of its founding. Over its long history, Daikin has established numerous venerable traditions and a dynamic corporate culture that includes our creed of "people-oriented management" and diverse other philosophical approaches to management issues. Drawing on these accumulated strengths, we are setting ambitious corporate development goals and making sustained efforts to respond to the changing times, one step at a time. In this way, we are seeking to realize a major surge in corporate development.

One of our dreams is developing an air conditioner that will keep rooms warm even when it is -20°C outside. Currently, about one-third of the world's heating needs are met by burning such fuels as wood, coal, or kerosene. If we can develop air conditioners that use electric power to effectively and efficiently heat rooms even in severely cold climates, we can expect the market for such products to expand rapidly and also make a major contribution to protecting the global environment. We are working hard to improve our technological capabilities—emphasizing such themes as "creating comfortable spaces and environments," "health," and "energy"—



and we are confident that our unique technologies will enable us to make meaningful contributions to society through our business operations, products, and services.

Regarding cash dividends, the June 29th Regular General Meeting of Shareholders approved the proposal of increasing dividends per share applicable to the year under review to ¥14, up ¥2 from the previous fiscal year. In addition, from October 1, the minimum trading unit for our shares will be reduced from 1,000 shares to 100 shares. We expect this change to offer greater investment opportunities to individual investors and others, thereby further broadening Daikin's solid shareholder base.

As we work toward our goals, we hope for the continued support and understanding of our shareholders.

June 29, 2004

Noriyuki Inoue

Noriyuki Inoue, Chairman of the Board and CEO

Yukiyoshi Okano

Yukiyoshi Okano, President and COO,
Member of the Board

Meeting Our Social Responsibilities

Cognizant of its status as a corporate citizen, Daikin is committed to benefiting society by fulfilling its corporate economic and legal responsibilities through transparent and fair conduct of its business and through proactive environmental preservation and regional contribution activities.

Working for the Environment

Our corporate activities, centered on cooling/air-conditioning and fluorochemical products, are closely connected with global warming and other environmental issues. Daikin considers it a matter of the utmost importance to minimize such environmental impact and, to this end, incorporates energy-saving functions into its air-conditioning products and works to minimize fluorocarbon emissions. Daikin is determined to contribute proactively to a healthier global environment across the full spectrum of its business activities, from development through production and marketing, by reducing environmental load and waste products as well as product recycling.

● Promoting energy-saving

Because air-conditioning systems consume a large amount of energy, models with power-saving features make a significant contribution to curbing global warming. Daikin quantifies the environmental impact of its products through a point system based on independent in-house standards. These standards—which require the adoption of energy-saving features, avoidance of harmful chemical substances in product manufacture, and “green” procurement that prioritizes environment-friendly components and materials—are stricter than official environmental laws and regulations.

We are working to protect energy resources and prevent global warming by improving the energy efficiency of each of our products and developing energy-saving systems and systems that regulate and reduce power consumption when used in conjunction with our products.

● Controlling fluorocarbons

For refrigerants for our air-conditioning systems, we are shifting from fluorocarbons to new hydrofluorocarbons (HFCs), which do not damage the ozone layer. By the end of fiscal 2002 (ended March 31, 2002), all the major product series we sell in Japan and Europe had been fully converted to HFCs.

Because fluorocarbons have been implicated in global warming, we are also taking measures to prevent their emission into the atmosphere. All substances produced during our air-conditioning system manufacturing processes are recovered and disposed of in an appropriate way. In our manufacturing processes for fluorochemical products, we have set up facilities for recovering and destroying fluorocarbons generated as by-products. By fiscal 2005, we plan to have reduced the environmental impact of such emissions by 97% compared with fiscal 2001 levels.

We are also making significant contributions to the protection of the ozone layer and prevention of global warming in our Japan-based operations through integrated disposal systems for recovering refrigerants from scrapped commercial air-conditioning systems.

As a good corporate citizen, Daikin engages in a range of initiatives to promote harmonious coexistence within its regions and the wider communities it serves.

● Enabling the disabled to work happily and productively

Daikin Sunrise Settsu Ltd.—set up and financed by Daikin, the Osaka prefectural government, and Settsu City—employs the disabled in the manufacture of components for oil hydraulics and air-conditioning equipment. Since the company's establishment in 1993, people with disabilities have worked there with pride, confidence, and energy, with the goal of achieving economic independence through their own efforts and mutual cooperation. Improvement measures are continuously undertaken to enhance ease of work, including briefings using sign-language every morning, the use of mobile phone email, conversions of procedural instructions into visual (non-text) formats, the upgrading of production lines, and efforts to make tools easier to handle. We also contribute to the regional community, for example by giving over 100 trainees every year the opportunity for hands-on experience at our facilities. These initiatives have drawn much praise from many quarters, including Japan's Ministry of Health, Labour and Welfare.

● Contributions to arts and culture

In 1996, we set up the Daikin Foundation of Contemporary Art to support the National Museum of Art, Osaka, the original "home" of modern art in Japan. Through its wide-ranging support for the



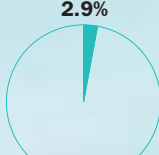
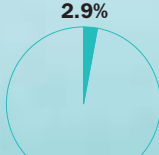
exhibits, lectures, publishing ventures, surveys, and research staged or undertaken by this museum, which acts as a platform for the hottest modern art from Japan and abroad, Daikin is putting its weight behind the revitalization of culture and the arts in its home area of Osaka. The museum moved to the Nakanoshima district of Osaka in autumn 2004. Loved by Osaka people, its role in developing arts and culture can be expected to grow in importance.

● Prioritizing contact with local communities at the factory level

As a corporation, Daikin can exist only if it operates in harmony with local communities. To assist in the development of regional society, Group companies in Japan and abroad are involved in a wide range of activities. In Japan, we hold large *O-Bon* (mid-summer) festivals on Company premises in various locations for local residents, with attendance exceeding 20,000. Similarly, Daikin America, Inc., regularly opens its gates to the public, staging a festival featuring elements of Japanese culture and customs such as *O-Bon* dancing and *wadaiko* drumming. It has also helped with the financing of Japanese gardens in two parks in its neighborhood. Daikin Industries (Thailand), Ltd. makes annual contributions to educational facilities at local schools. It also hosts factory visits by students of many kinds, seeing these visits as opportunities to help the next generation of engineers acquire new technologies and expertise.

Review of Operations

At a Glance

Segment	Major Products & Services	Sales										
Air Conditioning	<ul style="list-style-type: none"> • Room air-conditioning systems • Air cleaners • Dehumidifiers • Packaged air-conditioning systems • Medium- and low-temperature air-conditioning systems • Marine-type container refrigeration • Water-chilling units • Absorption refrigerators • Air-handling units 	<p>Sales (% of net sales, ¥ billion)</p> <p>80.1%</p>  <table border="1"> <tr><td>'00</td><td>344.2</td></tr> <tr><td>'01</td><td>401.2</td></tr> <tr><td>'02</td><td>422.2</td></tr> <tr><td>'03</td><td>453.9</td></tr> <tr><td>'04</td><td>501.2</td></tr> </table>	'00	344.2	'01	401.2	'02	422.2	'03	453.9	'04	501.2
'00	344.2											
'01	401.2											
'02	422.2											
'03	453.9											
'04	501.2											
Chemicals	<ul style="list-style-type: none"> • Fluorocarbons • Fluoroplastics • Fluoroelastomers • Fluorinated oils • Oil- and water-repellent products • Mold release agents • Pharmaceuticals and intermediates • Semiconductor-etching products • Dry air suppliers 	<p>Sales (% of net sales, ¥ billion)</p> <p>14.1%</p>  <table border="1"> <tr><td>'00</td><td>82.0</td></tr> <tr><td>'01</td><td>96.2</td></tr> <tr><td>'02</td><td>81.7</td></tr> <tr><td>'03</td><td>83.6</td></tr> <tr><td>'04</td><td>88.5</td></tr> </table>	'00	82.0	'01	96.2	'02	81.7	'03	83.6	'04	88.5
'00	82.0											
'01	96.2											
'02	81.7											
'03	83.6											
'04	88.5											
Oil Hydraulics	<ul style="list-style-type: none"> • Pumps and motors • Control valves • Stack valves • Positioning motors • Oil-cooling units • Power packages • Hydrostatic transmissions • Centralized lubrication units and systems • Multilevel car-parking systems 	<p>Sales (% of net sales, ¥ billion)</p> <p>2.9%</p>  <table border="1"> <tr><td>'00</td><td>17.4</td></tr> <tr><td>'01</td><td>19.7</td></tr> <tr><td>'02</td><td>14.7</td></tr> <tr><td>'03</td><td>15.3</td></tr> <tr><td>'04</td><td>17.9</td></tr> </table>	'00	17.4	'01	19.7	'02	14.7	'03	15.3	'04	17.9
'00	17.4											
'01	19.7											
'02	14.7											
'03	15.3											
'04	17.9											
Defense	<ul style="list-style-type: none"> • Ammunition • Aircraft parts • Safety and arming devices • Warheads • Home-use oxygen therapy equipment 	<p>Sales (% of net sales, ¥ billion)</p> <p>2.9%</p>  <table border="1"> <tr><td>'00</td><td>19.5</td></tr> <tr><td>'01</td><td>14.8</td></tr> <tr><td>'02</td><td>20.1</td></tr> <tr><td>'03</td><td>19.7</td></tr> <tr><td>'04</td><td>18.2</td></tr> </table>	'00	19.5	'01	14.8	'02	20.1	'03	19.7	'04	18.2
'00	19.5											
'01	14.8											
'02	20.1											
'03	19.7											
'04	18.2											
Electronics	<ul style="list-style-type: none"> • Network management systems • Computer graphics systems • DVD-authoring systems • CAD/CAM/CAE systems 											



Air Conditioning

In fiscal 2004, ended March 31, 2004, sales in the Air Conditioning and Refrigeration Equipment Division rose 10.4% compared with the previous term, to ¥501.2 billion. The division's sales accounted for approximately 80% of consolidated net sales. Operating income increased 11.9% compared with the previous term, to ¥38.5 billion. The ratio of operating income to segment sales was 7.7%.

The Japanese Market

Market share grew for both residential and commercial air-conditioning systems

In residential air-conditioning systems, we endeavored to further increase sales of distinctive products such as the URURU & SALALA systems, which offer year-round optimized humidity control and ventilation functions, through large-scale electronics retailers and electrical equipment wholesale channels. Although overall air-conditioning demand was dampened by the cool summer of 2003, we recorded a rise in sales volume from the previous fiscal year, substantially increasing our share of the market, and expanded sales.

Demand for commercial air-conditioning systems also grew despite some adverse impact from a cool summer, on the back of increased private-sector capital investment and replacement demand for systems delivered during the bubble economy period of the 1980s. We focused marketing efforts on distinctive, high-value-added products, such as the SUPER INVERTER ZEAS II system, which features superior energy efficiency, quieter and more comfortable operation, and greater environment friendliness. However, although we increased market share, sales declined, partly reflecting a fall in selling prices.

• Marketing proposals tailored closely to user needs

In fiscal 2005, we expect demand for commercial air-conditioning systems to increase. Although we do not foresee significant growth from construction starts, demand is likely to be supported by recovery in capital investment and building refurbishment, particularly in the manufacturing sector. We are beginning to feel the effects of a new round of heavy bulk demand as systems delivered during the bubble economy period reach replacement age. Further demand and business chances are being created by increased environmental and energy-conservation awareness as well as Japan's low birthrate and rapidly aging population.

Our newly developed products include the Round Flow ZEAS cassette-type, ceiling-embedded system, which eliminates temperature variation and draft sensations and offers 360-degree operation, an industry first; and the multiple-room air-conditioner Ve-up Q for office use, which enables replacement of individual units without changing existing refrigerant piping. These products, with features that no competitor can rival, are spearheading our aggressive drive to offer solutions.

• The UX: A slim and stylish air-conditioning system

We forecast demand for residential air-conditioning systems to grow in fiscal 2005, fueled by an extension of a tax reduction on housing loans, the televisation of the Athens Olympics, and other positive factors.

Residential air-conditioning systems are now required to have a high coefficient of performance (COP) point under the revised Law Concerning the Rational Use of Energy that went into effect in October 2003. To further increase our share of the market, we are developing products with superior energy-saving properties and proprietary special features. We are aggressively expanding sales with a focus on two unique products: URURU & SALALA, a driver of increased market share due to its ability to draw moisture from the air outside



to humidify air inside without a water supply, and the UX series of design-led residential room air conditioners with the slimmest profile—15cm—in the industry.

• Expanding sales of chillers

Demand for central air-conditioning systems remains anemic, but we outperformed the industry in sales volume growth for chillers. We recorded buoyant sales for our industrial-use Inverter Chiller, designed for factory use, which earned plaudits for its high-precision water-supply temperature control and energy-saving properties attributable to the inverter.

We plan to increase sales of chillers for factory use, as capital investment is now showing recovery momentum. Our carefully tailored solutions for energy-saving and other applications are based on a product mix that matches diversified customer needs. Our systems similar to the Inverter Chiller and heat-recovery-capable systems include a system that slashes energy costs through a process of extracting low-temperature water during heat recovery as well as the High-Efficiency Air-Cooled Chiller system, which boasts the highest efficiency level in the industry.

The Global Air-Conditioning Market

Expanding business in Europe and China

In fiscal 2004, sustained stable growth trends in the global economy fueled a steady increase in demand for air-conditioning equipment. Demand growth was notable in China, which continues to grow strongly, and Europe, where 2003 summer temperatures reached record high levels. We forecast air-conditioning demand to keep expanding worldwide.

In such an environment, we were able to expand our share of the global air-conditioning market, increasing revenues and income in every field of the household and commercial-use sectors, and sustaining growth momentum in earnings, particularly in Europe and China.

We purchased two sales agencies in the United Kingdom in 2003—following similar acquisitions in Italy in 2002—and aim to further strengthen our marketing capability in Europe by converting these companies into wholly owned subsidiaries. In addition, we took advantage of the opportunities presented by ramped-up air-conditioning demand in Europe along with the June 2003 heat wave and continued to enjoy robust sales into the low season beginning in autumn. In China, we were able to increase sales of multiple air-conditioning systems for office buildings and commercial air-conditioning systems. In Australia, very hot weather in the latter part of the summer helped us greatly expand sales despite the negative impact of the termination of a tax reduction for housing construction.

New production bases in the Czech Republic and China

To further expand our overseas air-conditioner business, we are rapidly setting up distribution networks. In addition to building a second air-conditioning equipment production base in Europe, in the Czech Republic, and thereby expanding our European presence, we built new manufacturing facilities in China for room and commercial air conditioners, large air-conditioning systems, and compressors.

Recent global expansion by South Korea- and China-based air-conditioning manufacturers, particularly in the market for small residential units, has resulted in a further intensification of price competition. This, together with the striking upward trend in global raw material prices since the previous fiscal year, has made it imperative for us to respond effectively to price competition. By establishing production networks in all our major air-conditioning markets, we aim to better position ourselves to deal quickly and flexibly with changes in demand while reducing exchange-rate fluctuation risk.



We are taking every measure to strengthen competitiveness by continuously launching new products while promoting the existing main products sold in all our markets.

Further strengthening marketing capability

In Europe and China, our priority regions, as well as Australia, we are enhancing marketing frameworks by further strengthening sales networks and staff effectiveness. We are also positioning our marketing operations to respond more accurately to demand growth in the ASEAN region, which has shown striking economic recovery momentum.

In addition, we are increasing earnings through an integrated approach to our air-conditioning operations, with solutions businesses tailored to customer needs and followed up by maintenance and other services.

We are expanding sales through tie-ups with other companies (Matsushita Electric Industrial Co., Ltd., and the Trane Company, for example) and deepening synergies through closer relationships.

Chemicals

In fiscal 2004, sales in the Chemicals Division amounted to ¥88.5 billion, a 5.9% increase compared with the previous term. The division accounted for approximately 14% of consolidated net sales. Operating income decreased 14.9% compared with the previous term, to ¥8.2 billion, and the ratio of operating income to segment sales was 9.2%.

Sales of fluoropolymers did not exceed previous-year levels. Although demand showed signs of recovering momentum with regard to semiconductor manufacturers and expanded in Europe and China, a pickup in demand from LAN cable manufacturers in the United States was delayed.

In contrast, chemical products enjoyed increased sales on the back of another year of robust demand in the United States and Asia for oil- and water-repellent products as well as sharp growth in demand for high-performance fluorine materials in the IT sector.

Sales of fluorocarbon gas expanded in Japan and elsewhere in Asia amid continued robust demand following the switch from environmentally suspect refrigerants to R-410A and other alternative substances.

Sales growth in IT/telecommunications and digital consumer electronics

Overall, we expect the business environment in fiscal 2005 to turn positive, on the back of further growth in the U.S. economy ahead of the presidential election, recovery momentum driven by the digital consumer electronics market in Japan, and Chinese demand.

In overseas markets, led by the United States, demand for chemical products is likely to grow at a rapid pace amid a bullish market for semiconductor-manufacturing equipment—a driver of fluoropolymer demand—reflecting buoyant production in that industry.

In the Japanese market, we expect to see strong production among general machinery makers and automakers, the principal customers for fluoropolymers and chemical products.

We see strong potential for stable, long-term growth in fluorine materials, used in a wide range of leading industries such as IT/telecommunications and digital consumer electronics.

Early establishment of a high-profitability operating structure

We are committed to realizing the early establishment of a high-profitability operating structure in our chemical



businesses through rigorous overseas expansion and development of new applications for our products.

Daikin America, Inc., is expanding sales of a full range of fluorochemical products, including FEP resins, general-purpose resins, oil- and water-repellent products, and fluoroelastomers, and developing new applications for the U.S. fluorochemical market—the world's largest. The subsidiary has the goal of becoming No. 2 in this market. While further strengthening marketing and technical support structures, it is simultaneously accelerating its strategy of collaborative tie-ups and alliances with molded- and processed-product vendors.

In China, operations began at Daikin Fluorochemicals (China) Co., Ltd.'s plant in Changshu, Jiangsu Province, in autumn 2003. Building on the lead this plant gives us, we are nurturing and developing local markets for such products as FEP resin for LAN cable in the rapidly growing IT/telecommunications sector, fluoroelastomer for autoparts (as automakers worldwide converge on China), and fluoropolymers for the high-growth field of semiconductor products, keeping pace with Japanese, U.S., and European manufacturers as they enter the Chinese market.

In Europe, Daikin Chemical France S.A. began fluoroelastomer production at the beginning of 2004. This company's operations, along with the pre-compound fluoroelastomer production of Daikin Chemical Netherlands N.V. and the fluorochemical-product marketing activities of Daikin Chemical Europe GmbH, are enabling the creation of a unified network for fluoroelastomer operations in Europe from production to marketing.

Developing new applications

Based in the United States, a crucible for the development of new applications, Daikin Institute of Advanced Chemistry and Technology, Inc. (DAI-ACT), is expanding its global R&D network. In its U.S. operations, the company also

pursues development related to meeting very strict local environmental regulations and is expected to commercialize new environment-friendly fluorochemical products at an early date.

In Japan, Daikin uses tie-ups and collaborative arrangements, with leading companies in all fields as well as universities and other institutes, to speed its development of new technologies. We continue to focus our research on the latest technological trends in the semiconductor industry and on environmental regulations affecting the automotive industry. In addition, we are developing applications that move away from pure fluorine to fluorine materials and compounds with other materials.

Some recent results of our R&D activities include the successful commercialization of the fluorine liquid agent ZIELEX, which enables the miniaturization needed for the development of next-generation semiconductor LSIs, and the cleaning gas COF₂, which contributes to semiconductor manufacturers' efforts to combat global warming.

Rigorous pursuit of safe operation

In January 2004, an accident occurred in the tetrafluoroethylene manufacturing process of our Kashima plant. We are making a Groupwide effort to prevent the repetition of such an incident by strengthening safety procedures at plants and through exhaustive equipment safety reviews.

We believe we can contribute to society by strengthening our frameworks for environment-friendly production and stable, high-quality global product supply and development through a renewed commitment to our basic principle that safe operation is paramount. The affected facilities at Kashima will take approximately one year to bring back onstream. Until then, supplies of fluoropolymers for tetrafluoroethylene will be handled by the Yodogawa plant, Daikin America, and our Changshu plant in China.



Oil Hydraulics

In fiscal 2004, sales in the Oil Hydraulics Division amounted to ¥17.9 billion, a 16.8% increase compared with the previous term.

Shipments of oil hydraulics equipment increased 20% compared with the previous term, to approximately ¥240 billion, due mainly to recovery in private-sector capital investment in Japan and buoyant demand in the Asian region, especially China.

In oil hydraulics equipment for industrial machinery, we developed new products and applications, including high-efficiency air-conditioning motors with embedded rare earth magnets and high-precision, high-sensitivity IPM motors. Our oil hydraulics systems based on IPM motor drives out-class conventional oil hydraulics systems in terms of energy-saving and functionality, and our High-Pressure Super Unit line of hydraulic equipment, which commercializes this technology, has won plaudits from the market. In fiscal 2004, sales of these distinctive products surpassed year-earlier levels by approximately 20%, reflecting the success of a marketing offensive and recovery in demand from machine-tool manufacturers, a key customer base.

In oil hydraulics equipment for construction machinery, Daikin has embarked on a global collaborative strategy, establishing joint ventures in 2001 with Sauer-Danfoss, Inc., that target substantial market shares in the promising Asian region while working to expand applications for hydrostatic transmissions. In 2005, we aim to become No. 1 in the Japanese and other Asian markets for construction machinery oil hydraulics equipment.

Demand for our multilevel car-parking systems is being driven by the trend toward apartment towers, mainly in the Tokyo and Kansai areas. We aim to continue creating distinctive systems that can accommodate ever more vehicles in limited space using proprietary technologies that facilitate less noise and low vibration, higher operating speeds, and greater energy conservation. In fiscal 2004, sales were approximately 15% higher than in the previous term. Going forward, we will develop the multilevel car-parking systems business into a driver of profitability by expanding into the Chinese market, backed by our unparalleled servicing capability.

Lubricant sales exceeded year-earlier levels, on expanded sales to steel- and press-machinery manufacturers, both key customer segments, and recovery in private-sector capital investment.

We expect shipments of oil hydraulics equipment to rise 8%, to ¥262.0 billion, in fiscal 2005. However, we anticipate that operating conditions in the Japanese oil hydraulics equipment sector will remain severe over the medium-to-long term, due to the accelerated overseas expansion of manufacturers producing the machinery in which Daikin units are installed and competition from companies producing electrically driven, air pressure driven, and other such systems using different technologies.

With regard to future growth, we plan to develop new hybrid products through the fusion of our conventional hydraulics technologies with those using electrical and pneumatic platforms, shifting the focal point of the oil hydraulics business from power control devices to power motion control devices that regulate power and location.



Defense

Sales in defense-related operations in fiscal 2004 decreased 7.7%, to ¥18.2 billion, compared with the previous term.

In private-sector business, which we are working to make a part of this division's operations, we stepped up sales of our home-use oxygen therapy equipment. On the other hand, overall division revenues were significantly affected by reduced orders for ammunition due to defense budget cutbacks.

Despite the harsh budgetary environment in defense-related operations, we aim to increase orders for practice ammunition for tank guns, which went into mass production in 2001, as well as newly developed armor-piercing shells for tanks and rifle grenades. We also expect changes in the equipment needs of the Japanese Self-Defense Force due to a revision of the country's general defense principles, but we will continue to aggressively develop new kinds of ammunition, as the importance of medium-bore products is increasing.

In home-use oxygen therapy equipment, operating conditions have grown more difficult due to an increase in the proportion of medical expenses shouldered by the patient as a result of health insurance reforms as well as a reduction in state subsidies for medical diagnosis and treatment services. Looking ahead, we plan to bolster sales of fiber-reinforced plastic composite vessels and respiratory adjusters, in anticipation of recovery in these markets. We also aim to expand sales and market share for oxygen-concentration vessels.

Electronics

We had a second year of profit in this division, which we are transforming from a sales-agency-based operation into a solutions-provider-type business.

In the engineering field, we aim to provide optimized IT environments tailored to customer needs across the full spectrum of corporate business models by harnessing the expansion of the market through our Digital Consumer Electronics Development Department. "IT-optimized" solutions mean making more effective use of IT resources shared across divisions and projects and optimizing IT investment.

In CAD/CAM/CAE systems, Neckar drastically reduces the expense and time needed for upgrading CAD software.

Our visual R&D solutions deliver work flow and data management systems. Looking beyond analytical and design sections, we aim to expand sales to production technology, quality control, and other departments.

We are building the above-mentioned products into pillars of our solutions-type business model.

In digital content, we forecast a pickup in high-definition format and data transmission activities at local base stations in Japan in anticipation of the full-fledged launch of digital terrestrial broadcasting. We aim to fully develop proposals for broadcasters by adding 3-D features into our Sportcorder display system that will enable viewers to access scores from sports programs and image profiles of athletes, as well as through virtual broadcasting, subtitle writing, and other services.

Financial Section

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Five-Year Summary

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

	Millions of yen				
	2004	2003	2002	2001	2000
Net sales	¥625,718	¥572,413	¥538,790	¥531,908	¥463,069
Air conditioning.....	501,186	453,850	422,224	401,192	344,213
Chemicals.....	88,492	83,576	81,705	96,188	81,957
Others	36,040	34,987	34,861	34,528	36,899
Operating income	47,988	44,789	41,968	39,814	25,888
Income before income taxes and minority interests	43,787	36,561	31,598	35,234	19,418
Net income	28,611	21,591	17,937	19,939	10,453
Per share of common stock (in yen):					
Net income*	¥108.18	¥81.48	¥67.58	¥75.60	¥39.62
Cash dividends applicable to the year	14.00	12.00	12.00	12.00	10.00
Total assets.....	¥536,379	¥475,760	¥460,549	¥453,142	¥431,009
Total shareholders' equity	235,771	205,101	191,196	173,924	159,635
Net property, plant and equipment.....	149,790	145,579	145,259	135,725	125,612
Number of employees	17,077	15,845	15,247	15,047	14,280

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

Financial Review

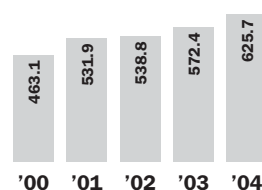
Net Sales

Consolidated net sales amounted to ¥625,718 million, an increase of 9.3% from the previous fiscal year. Although the sales of the Air Conditioning and Refrigeration Equipment Division were negatively impacted by cool summer temperatures and a continued trend of falling sales prices in Japan, the division was able to boost consolidated net sales owing to its efforts to promote sales of highly differentiated, value-added products as well as its strong performance in overseas markets, particularly in Europe and China. Also contributing to consolidated net sales were signs of recovery in demand for the Chemicals Division's products.

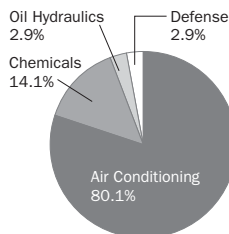
The Air Conditioning and Refrigeration Equipment Division's total sales rose 10.4%, to ¥501,186 million, reflecting large increases in both domestic and overseas sales volumes as well as the positive effect of the yen's depreciation, particularly against the euro. In the Japanese residential air-conditioning system market, the division was able to greatly augment its market share due to its sales promotion measures emphasizing distinctive and high-value-added products and its efforts to further increase sales through large-scale home electric product retailers and electrical fixture wholesalers. In the Japanese commercial-use air-conditioning system market, the division's sales promotion efforts focused largely on highly differentiated, high-value-added products led to market share growth, but net sales decreased because of the impact of a drop in selling prices and other factors. Overseas, the positive effect on air-conditioner sales accompanying record high summer temperatures in Europe continued through mid-autumn and subsequently, with large increases in sales volume seen in such countries as Italy, Spain, and France. This, and a sales volume rise supported by continued strong demand in China, Australia, and other countries, led to a considerable advance in overall overseas net sales of air conditioners.

Regarding the Chemicals Division, sales of fluoropolymers were flat owing to the weakness of demand in the U.S. LAN cable market as well as the lack of a full-scale recovery in sales of the Company's semiconductor-related products despite emerging recovery in semiconductor markets. However, overall sales of chemical products were up greatly due to a large rise in U.S. sales of oil- and water-repellent products as well as to a considerable increase in demand for high-performance functional fluoropolymers with IT-related applications. Sales of such new alternative refrigerants as R-410A grew in Japan and other Asian markets, but decreased sales of such existing products as HCFC22 kept overall sales of fluorocarbon gases flat. Thus, the Chemicals Division's total sales advanced 5.9%, to ¥88,492 million.

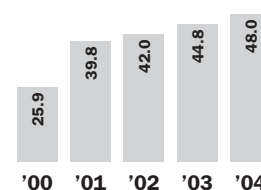
Net Sales
(¥ billion)



Sales Breakdown
(For fiscal 2004)



Operating Income
(¥ billion)



Years Ended March 31,	2004	2003	2002	2001	2000
Gross profit (net sales less cost of sales) as a % of net sales	34.1%	33.5%	33.3%	33.0%	32.3%
Operating income as a % of net sales	7.7	7.8	7.8	7.5	5.6
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times)	12.1	11.1	9.2	7.8	5.6
Net income as a % of net sales	4.6	3.8	3.3	3.7	2.3

Sales in the Oil Hydraulics Division surged 16.8%, to ¥17,862 million. This reflected the recovery of domestic demand for mainstay machine-tool-related and other products, market share increases owing to sales promotion activities for inverter-driven oil hydraulic units and other distinctive products, and the launch of such new products as mechanical multi-storied parking systems.

Sales in defense-related operations decreased 7.7%, to ¥18,177 million, due to the impact of a drop in the Japanese Defense Agency's orders for artillery shells.

Costs, Expenses, and Earnings

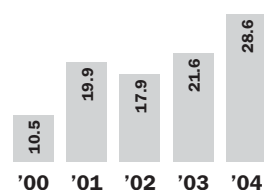
During the fiscal year under review, although the cost of sales rose to ¥412,450 million, the cost of sales ratio was down 0.6 percentage point from the previous year, at 65.9%. The improvement in this ratio resulted from the Company's efforts to promote sales of distinctive and high-value-added products as well as its ability to reduce the cost of sales to a degree that more than offset the impact of the fall in selling prices.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥18,389 million from the previous year, to ¥165,280 million. This increase reflected rises in marketing promotion and distribution expenses as well as such strategic expenses as those related to the acquisition of overseas subsidiaries.

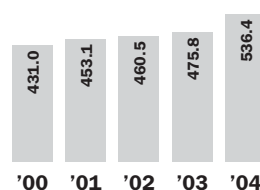
Net Income

(¥ billion)



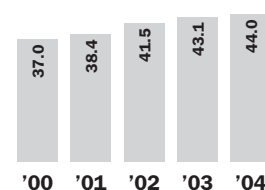
Total Assets

(¥ billion)



Shareholders' Equity Ratio

(%)



Years Ended March 31,	2004	2003	2002	2001	2000
Notes and accounts receivable (¥ billion)	116.0	103.1	98.0	104.2	106.3
Inventories (¥ billion)	110.4	101.1	93.8	92.2	84.2
Interest-bearing debt (not including trade notes discounted) (¥ billion)	149.0	142.3	153.5	143.7	159.1

Operating Income

Operating income amounted to a record ¥47,988 million, a 7.1% rise compared with the previous fiscal year and the tenth consecutive year of increase. This rise was due to efforts to promote overseas sales of distinctive products, a comprehensive cost-cutting program, and other factors, which offset the impact of drops in selling prices and the accident at the Kashima plant.

Other Income (Expenses)

The accident at the Kashima plant resulted in a loss of ¥1,683 million; however, the write-down of investment securities for fiscal 2004 fell ¥3,789 million. As a result, other expenses—net, dropped 48.9% from the previous year, to ¥4,201 million.

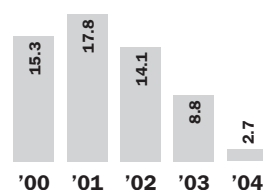
As a result of the above factors, net income totaled ¥28,611 million, up 32.5% from the previous year.

Financial Position

Although Groupwide efforts were made to reduce notes and accounts receivable and inventories, the retaining period for receivables was 69 days, up two days from the previous term. This primarily reflected a rise in overseas sales of air conditioners. The retaining period for inventories was kept at the previous fiscal year's level of 64 days.

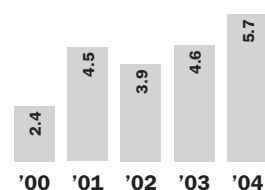
Free Cash Flow (FCF)

(¥ billion)



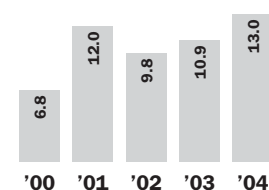
Return on Assets (ROA)

(%)



Return on Equity (ROE)

(%)



Interest-bearing debt increased ¥6,671 million compared with the previous year-end, to ¥148,950 million, but the interest-bearing debt ratio improved 2.1 percentage points, to 27.8%.

Total shareholders' equity increased ¥30,670 million compared with the previous year-end, to ¥235,771 million, chiefly reflecting an increase in internal reserves accompanying a rise in profitability. The shareholders' equity ratio rose 0.9 percentage point, to 44.0%.

Financial Risk Management

Exchange Rate Risk

The ratio of the Daikin Group's overseas sales to consolidated net sales in the fiscal year under review was 42.1%, and the ongoing expansion of the Group's global operations is projected to further increase this proportion in the future. In view of this and the Group's foreign currency denominated transactions associated with materials and component procurement as well as with products and services, there is a possibility that currency exchange rate fluctuations could have a significant impact on the Group's manufacturing costs and sales revenues.

Aiming to reduce exchange rate risks accompanying its ordinary business operations, the Company uses forward exchange contracts and options to hedge risks associated with up to 100% of its projected foreign currency cash flow. The implementation of hedging transactions is conducted within the framework of a risk management system that covers the Company and its consolidated subsidiaries and is used to comprehensively monitor and manage risks. The Company does not engage in the trading of financial derivatives nor does it use such derivatives for speculative purposes.

When preparing its consolidated financial statements, the Company translates the value of net sales, expenses, assets, and other items for each overseas region into yen terms. Accordingly, changes in currency exchange rates at the times of yen translation may affect the yen value of the items even when the value of overseas accounts in local-currency terms is unchanged. The Company does not, however, engage in hedging related to yen translation risks.

Interest Rate Risk

The Company is exposed to interest rate risks associated with the fund procurement and management activities it undertakes in connection with investments and loans, manufacturing, and marketing transactions in each country and region of the world in which it operates. In particular, the Company works to diversify its procurement sources with an eye to limiting related liquidity risks. At the same time, seeking to reduce related interest rate risks and to hedge risks associated with related cash flows, the Company undertakes transactions in interest rate swaps and options covering a value of up to 100% of bank loans and other financial obligations. Just as in the case of exchange rate risk hedging transactions, the implementation of interest rate risk hedging transactions is conducted within the framework of a risk management system that covers the Company and its consolidated subsidiaries and is used to comprehensively monitor and manage risks.

Cash Flows

During the fiscal year under review, net cash provided by operating activities fell to ¥40,306 million, reflecting a rise in trade notes and accounts receivable that more than offset the rise in income before income taxes and minority interests.

Net cash used in investing activities shrank to ¥31,594 million, and was chiefly associated with purchases of property, plant and equipment.

Net cash provided by financing activities was ¥2,182 million, reflecting the procurement of funds for future capital investment projects at overseas bases.

As a result, cash and cash equivalents, end of year, totaled ¥50,102 million, very close to the Company's average monthly net sales of ¥52,143 million. Liquidity in hand, including commitment lines with banks for up to ¥25,000 million in financing, amounted to ¥77,143 million, or 1.4 times average net sales per month. To further promote its goal of supplementing liquidity, the Company chose to arrange two commitment lines providing for a total of ¥25,000 million in financing, of which 64% is covered by a contract with a group of Japanese banks and 36% is covered by a contract with a group of non-Japanese banks.

Dividends

To maximize corporate value, Daikin is vigorously expanding its business domains and bolstering its operating structure. As part of this effort, the Company is establishing virtual companies and introducing managerial indicators for items such as FCF, DVA, ROA, and ROI. At the same time, as we are committed to returning profits to shareholders, we aim to raise the ratio of cash dividends to shareholders' equity to at least 2.0%.

Dividend payments applicable to the fiscal year under review were ¥14.00 per share, up ¥2.00 from the level of ¥12.00 per share in the previous year.

Consolidated Balance Sheets

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen	
	2004	2003
Current assets:		
Cash and cash equivalents	¥ 50,102	¥ 40,305
Short-term investments (Note 7).....	1,976	1,499
Trade receivables (Note 6):		
Notes	7,064	10,112
Accounts	110,865	94,547
Allowance for doubtful receivables	(1,964)	(1,582)
Inventories (Note 3).....	110,419	101,118
Deferred tax assets (Note 11).....	13,185	9,413
Prepaid expenses and other current assets.....	20,370	16,545
Total current assets	312,017	271,957
Property, plant and equipment (Note 7):		
Land.....	23,514	23,685
Buildings and structures	117,958	118,120
Machinery and equipment	233,500	224,023
Furniture and fixtures.....	73,288	71,612
Construction in progress	8,524	11,833
Total	456,784	449,273
Accumulated depreciation	(306,994)	(303,694)
Net property, plant and equipment	149,790	145,579
Investments and other assets:		
Investment securities (Note 4)	49,320	29,233
Investments in and advances to unconsolidated subsidiaries and associated companies.....	3,120	3,261
Goodwill (Note 5).....	6,394	5,555
Deferred tax assets (Note 11).....	2,111	5,386
Other assets.....	13,627	14,789
Total investments and other assets	74,572	58,224
Total	¥536,379	¥475,760

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2004	2003
Current liabilities:		
Short-term borrowings (Note 7).....	¥ 72,342	¥ 65,640
Current portion of long-term debt (Note 7).....	16,681	13,858
Trade payables (Note 6):		
Notes	8,658	11,051
Accounts	61,523	51,241
Construction payable	9,723	8,492
Income taxes payable	7,838	4,986
Deferred tax liabilities (Note 11).....	10	4
Accrued expenses	25,202	22,300
Other current liabilities	21,944	20,049
Total current liabilities	223,921	197,621
Long-term liabilities:		
Long-term debt (Note 7).....	59,927	62,781
Liabilities for retirement benefits (Note 8).....	4,542	4,294
Deferred tax liabilities (Note 11).....	4,377	216
Other long-term liabilities (Note 8).....	983	
Total long-term liabilities	69,829	67,291
Minority interests	6,858	5,747
Commitments and contingent liabilities (Note 15)		
Shareholders' equity (Notes 9, 10 and 16):		
Common stock, no par value—authorized, 500,000,000 shares; issued 263,813,973 shares in 2004 and 2003.....	28,023	28,023
Capital surplus.....	25,969	25,968
Retained earnings	180,945	155,654
Net unrealized gain (loss) on available-for-sale securities	11,200	(784)
Foreign currency translation adjustments	(9,256)	(2,938)
Total	236,881	205,923
Treasury stock, at cost: 489,625 shares in 2004 and 363,535 shares in 2003.....	(1,110)	(822)
Total shareholders' equity	235,771	205,101
Total	¥536,379	¥475,760

Consolidated Statements of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of yen	
	2004	2003
Net sales	¥625,718	¥572,413
Cost of sales	412,450	380,733
Gross profit	213,268	191,680
Selling, general and administrative expenses	165,280	146,891
Operating income	47,988	44,789
Other income (expenses):		
Interest and dividend income	849	894
Interest expense	(4,028)	(4,104)
Royalty income.....	297	400
Exchange losses	(527)	(404)
Loss on disposals of property, plant and equipment	(661)	(844)
Gain on sales of investment securities	1,028	425
Write-down of investment securities.....	(173)	(3,962)
Write-down of other assets.....	(73)	(43)
Equity in earnings of unconsolidated subsidiaries and associated companies	148	142
Gain on loss-of-profit insurance from explosion at Kashima plant—net	807	
Loss on explosion at Kashima plant—net	(1,683)	
Other—net.....	(185)	(732)
Other expenses—net	(4,201)	(8,228)
Income before income taxes and minority interests	43,787	36,561
Income taxes (Note 11):		
Current	17,582	13,482
Deferred	(4,546)	50
Total	13,036	13,532
Minority interests	(2,140)	(1,438)
Net income	¥ 28,611	¥ 21,591
	Yen	
Amounts per common share:		
Net income	¥108.18	¥81.48
Cash dividends applicable to the year	14.00	12.00

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Outstanding number of common shares issued	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for- sale securities	Foreign currency translation adjustments	Treasury stock
Balance, April 1, 2002	263,621,402	¥28,023	¥25,968	¥137,347	¥ 2,331	¥(2,007)	¥ (466)
Net income				21,591			
Repurchase of treasury stock	(170,964)						(356)
Cash dividends, ¥12 per share				(3,163)			
Bonuses to directors and corporate auditors				(121)			
Net unrealized loss on available-for-sale securities					(3,115)		
Foreign currency translation adjustments.....						(931)	
Balance, March 31, 2003	263,450,438	28,023	25,968	155,654	(784)	(2,938)	(822)
Cumulative effect of consolidating subsidiaries previously unconsolidated				67			
Cumulative effect of application of equity method to an associated company previously accounted for by the cost method.....				(106)			
Net income				28,611			
Cash dividends, ¥12 per share				(3,161)			
Bonuses to directors and corporate auditors				(120)			
Repurchase of treasury stock	(129,289)						(295)
Disposal of treasury stock	3,199		1				7
Net unrealized gain on available-for-sale securities					11,984		
Foreign currency translation adjustments.....						(6,318)	
Balance, March 31, 2004	263,324,348	¥28,023	¥25,969	¥180,945	¥11,200	¥(9,256)	¥(1,110)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of yen	
	2004	2003
Operating activities:		
Income before income taxes and minority interests	¥43,787	¥36,561
Adjustment for:		
Income taxes—paid	(14,667)	(13,989)
Depreciation and amortization	21,916	21,694
Gain on sales of investment securities	(1,028)	(425)
Write-down of investment securities.....	173	3,962
Write-down of other assets	73	43
Loss on disposals of property, plant and equipment	661	844
Equity in earnings of unconsolidated subsidiaries and associated companies.....	(148)	(142)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries and a newly consolidated subsidiary:		
Trade notes and accounts receivable	(13,050)	(2,165)
Inventories	(9,997)	(5,345)
Other current assets	(1,890)	(2,632)
Trade notes and accounts payable	8,934	6,607
Accrued expenses	3,217	1,179
Increase in liabilities from loss on explosion at Kashima plant—net	665	
Other—net.....	1,660	2,310
Total adjustments	(3,481)	11,941
Net cash provided by operating activities	40,306	48,502
Investing activities:		
Purchases of property, plant and equipment.....	(29,794)	(23,741)
Increase in investments in unconsolidated subsidiaries and associated companies	(110)	
Payment for purchase of a subsidiary, net of cash acquired.....	(2,115)	(2,851)
Payment for purchase of minority interest		(710)
Net increase in short-term investments.....	(448)	(1,068)
Payments to acquire investment securities	(2,258)	(7,617)
Proceeds from sales of investment securities	3,099	1,034
Other—net.....	32	(1,939)
Net cash used in investing activities.....	(31,594)	(36,892)
Financing activities:		
Net increase (decrease) in short-term borrowings	4,930	(8,693)
Increase in long-term debt	15,095	3,418
Repayments of long-term debt.....	(14,290)	(7,919)
Payments of cash dividends.....	(3,161)	(3,163)
Other—net.....	(392)	(355)
Net cash provided by (used in) financing activities	2,182	(16,712)
Effect of exchange rate changes on cash and cash equivalents.....	(1,143)	(850)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year.....	46	
Net increase (decrease) in cash and cash equivalents	9,797	(5,952)
Cash and cash equivalents, beginning of year	40,305	46,257
Cash and cash equivalents, end of year	¥50,102	¥40,305

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2004 and 2003

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 Financial Reporting 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.

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.

In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classification used in 2004.

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 in which 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.

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 (the "Consolidation goodwill") 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.

Marketable debt securities that mature or become due in more than three months but within a year of the date of acquisition are recorded as short-term investments.

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-cost method, or market.

2. Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. 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 the Japanese accounting standard 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.

Bond Issue Costs

Bond issue costs are charged to income as incurred.

Employees' Retirement Benefits

The Company and its consolidated domestic subsidiaries have 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. Prior to June 27, 2003, the Company made provision for severance indemnities to its directors and corporate auditors based upon management's estimates of amounts. On June 27, 2003 such plan was terminated and the benefits granted prior to the termination date are recorded as other long-term liabilities (also see Note 8).

Foreign Currency Transactions

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 Japanese yen at the average exchange rates.

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 statements 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

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

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.

New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets,” and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, “Guidance for Accounting Standard for Impairment of Fixed Assets.” These new pronouncements are effective for fiscal years beginning on or after April 1, 2005, with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Finished products and merchandise	¥ 63,552	¥ 60,420
Semi-finished products and work-in-process	34,921	31,165
Raw materials and supplies	11,946	9,533
Total	¥110,419	¥101,118

4. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2004 and 2003 were as follows:

	Millions of yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥27,115	¥19,305	¥(696)	¥45,724
Other	614	170		784
Total	¥27,729	¥19,475	¥(696)	¥46,508

	Millions of yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥24,985	¥4,452	¥(5,709)	¥23,728
Debt securities	2,030	1		2,031
Other	614		(69)	545
Total	¥27,629	¥4,453	¥(5,778)	¥26,304

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Millions of yen	
	Carrying amount	
	2004	2003
Available-for-sale:		
Equity securities	¥1,810	¥1,926
Other	1,002	1,003
Total	¥2,812	¥2,929

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥3,099 million and ¥1,034 million, respectively. Gross realized gains on these sales computed on the moving average cost basis were ¥1,028 million and ¥425 million for the years ended March 31, 2004 and 2003, respectively.

The Company did not have investments in debt securities at March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 were as follows:

	Millions of yen
Available-for-sale:	
Due in one year to five years	¥ 30
Due in five years to ten years	2,001
Total	¥2,031

5. Goodwill

Goodwill at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Consolidation goodwill	¥5,572	¥4,442
Others	822	1,113
Total.....	¥6,394	¥5,555

6. Related Party Transactions

Receivables and payables, with respect to transactions with unconsolidated subsidiaries and associated companies, at March 31, 2004 and 2003 were as follows:

	Millions of yen	
	2004	2003
Trade notes and accounts receivable	¥2,473	¥3,575
Trade notes and accounts payable.....	790	685

Sales to and purchases from unconsolidated subsidiaries and associated companies for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen	
	2004	2003
Sales	¥13,334	¥14,666
Purchases	6,225	6,642

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Bank overdrafts and notes to banks	¥51,342	¥48,640
Commercial paper	21,000	17,000
Total.....	¥72,342	¥65,640

Unused short-term bank credit lines were ¥25,000 million at March 31, 2004. Weighted average interest rates of bank overdrafts and notes to banks at March 31, 2004 and 2003 were 1.62% and 1.67%, respectively.

Weighted average interest rates of commercial paper at March 31, 2004 and 2003 were 0.01% and 0.05%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
1.925% unsecured bonds, due 2004	¥10,000	¥10,000
2.70% unsecured bonds, due 2006	10,000	10,000
0.82% unsecured bonds, due 2009	20,000	20,000
Collateralized loans from government sponsored banks, with interest 1.75%, due through 2012	1,200	1,200
Unsecured loans from government sponsored banks, with interest ranging from 1.40% to 6.53%, due through 2012.....	4,342	4,585
Collateralized loans from banks with: Fixed interest 5.49%, due through 2005		303
Floating interest ranging from 0.44% to 0.58% (2004) and from 0.44% to 0.58% (2003), due through 2010.....	8,250	18,779
Unsecured loans from banks, payable in foreign currencies, with interest ranging from 1.64% to 10.50% (2004) and from 2.75% to 5.99% (2003), due through 2008.....	9,788	9,148
Unsecured loans from banks with interest ranging from 0.43% to 7.20% (2004), and from 0.49% to 7.30% (2003), due through 2027	13,028	2,624
Total.....	76,608	76,639
Less current portion	(16,681)	(13,858)
Long-term debt, less current portion	¥59,927	¥62,781

Annual maturities of long-term debt outstanding at March 31, 2004 were as follows:

Years ending March 31,	Millions of yen
2005.....	¥16,681
2006.....	12,406
2007.....	1,066
2008.....	2,915
2009.....	5,164
2010 and thereafter.....	38,376
Total	<u>¥76,608</u>

At March 31, 2004, property, plant and equipment with a net book value of ¥46,353 million were pledged as collateral for short-term borrowings and long-term debt, and short-term investments with a value of ¥1,516 million were pledged as collateral for a supplier's borrowings of ¥1,363 million.

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.

8. 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, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Projected benefit obligation	¥68,355	¥70,061
Fair value of plan assets	(44,190)	(33,364)
Unrecognized prior service cost	109	122
Unrecognized actuarial loss.....	(8,911)	(18,954)
Unrecognized transitional obligation.....	(10,821)	(14,428)
Net liability.....	¥ 4,542	¥ 3,437

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen	
	2004	2003
Service cost	¥ 3,613	¥3,598
Interest cost	1,742	1,735
Expected return on plan assets	(834)	(901)
Amortization of prior service cost.....	(13)	(4)
Amortization of transitional obligation	3,607	3,607
Recognized actuarial loss.....	2,080	1,433
Net periodic benefit costs	¥10,195	¥9,468

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.5%	2.5%
Expected rate of return on plan assets.....	2.5%	2.5%
Amortization period of prior service cost.....	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	7 years	7 years

9. Shareholders' Equity

Liability for retirement benefits at March 31, 2003 included retirement benefits for directors and corporate auditors of ¥857 million. On June 27, 2003, the Company terminated this retirement benefits plan except cumulative benefits granted prior to the termination date. The amount is recorded as other long-term liabilities.

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminates restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥124,082 million as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

10. 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.

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.

On June 27, 2002, 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 118 thousand shares of the Company's common stock in the period from July 1, 2004 to June 30, 2008. On July 30, 2002, the options were granted at an exercise price of ¥2,330 per share.

On June 27, 2003, 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 118 thousand

shares of the Company's common stock in the period from July 1, 2005 to June 30, 2009. On July 30, 2003, the options were granted at an exercise price of ¥2,405 per share.

11. 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 42.0% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen	
	2004	2003
Deferred tax assets:		
Inventories.....	¥ 5,736	¥ 3,936
Retirement benefits.....	1,745	1,708
Foreign tax credit.....	1,249	848
Tax loss carryforwards.....	1,193	1,072
Accrued bonus.....	2,614	2,190
Warranty reserve.....	1,610	1,386
Software.....	3,229	3,034
Business tax payable.....	898	398
Property and equipment.....	321	929
Investment securities.....	93	115
Other.....	3,662	2,016
Less valuation allowance.....	(462)	(662)
Total deferred tax assets.....	¥21,888	¥16,970
Deferred tax liabilities:		
Deferred gains on sales of property.....	¥ 2,168	¥ 2,168
Unrealized gain on available-for-sale securities.....	7,659	10
Other.....	1,152	213
Total deferred tax liabilities.....	10,979	2,391
Net deferred tax assets.....	¥10,909	¥14,579

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003 is as follows:

	2004	2003
Normal statutory income tax rate.....	42.0%	42.0%
Permanent non-deductible expenses.....	3.3	2.7
Difference in foreign subsidiaries' tax rates.....	(13.2)	(6.8)
Tax credit for research and development costs.....	(4.2)	(4.2)
Foreign tax credit.....	(0.7)	(1.4)
Effect of tax rate reduction.....	1.9	0.2
Other—net.....	0.7	0.3
Actual effective income tax rate.....	29.8%	37.0%

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory income tax rate to be used for the calculation of deferred income taxes concerning temporary differences, which are expected to be realized or settled after April 1, 2004, will be changed from approximately 42.0% to 40.6%. The effect of this change was to decrease net deferred tax assets by ¥95 million, increase income taxes—deferred and net unrealized loss on available-for-sale securities by ¥78 million and ¥17 million respectively, for the year ended March 31, 2003.

12. Research and Development Costs

Research and development costs were ¥23,817 million and ¥23,906 million for the years ended March 31, 2004 and 2003, respectively.

13. Leases

The Group leases certain computer equipment and other assets.

Lease payments under finance leases were ¥2,171 million and ¥2,058 million for the years ended March 31, 2004 and 2003, respectively.

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, 2004 and 2003, was as follows:

	Millions of yen		
	Furniture and Fixtures	Others	Total
For the year ended March 31, 2004			
Acquisition cost	¥5,830	¥1,968	¥7,798
Accumulated depreciation.....	3,085	957	4,042
Net leased property.....	¥2,745	¥1,011	¥3,756
For the year ended March 31, 2003			
Acquisition cost	¥6,348	¥2,065	¥8,413
Accumulated depreciation.....	3,582	1,020	4,602
Net leased property.....	¥2,766	¥1,045	¥3,811

Obligations under finance leases:

	Millions of yen	
	2004	2003
Due within one year	¥1,742	¥1,770
Due after one year.....	2,014	2,041
Total.....	¥3,756	¥3,811

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

Depreciation expense under finance leases:

	Millions of yen	
	2004	2003
Depreciation expense	¥2,171	¥2,058

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, was computed by the straight-line method over the respective lease periods.

14. 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, 2004 and 2003 were as follows:

	Millions of yen					
	2004			2003		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Selling: GBP	¥ 4,782	¥ 4,772	¥ 10	¥ 4,105	¥4,099	¥ 6
EUR	2,991	2,967	24	4,070	4,087	(17)
US\$	3,868	3,803	65	751	752	(1)
AU\$	310	317	(7)			
ZAR	545	584	(39)			
HK\$				225	231	(6)
TBH	1,217	1,142	75	27	28	(1)
Currency option contracts:						
Buying: GBP				1,558	42	(14)
EUR	674	26	26			
Total	¥14,387	¥13,611	¥154	¥10,736	¥9,239	¥(33)

	Millions of yen					
	2004			2003		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Interest rate swaps contracts:						
Pay fixed/receive floating	¥2,578	¥ (82)	¥ (82)	¥2,597	¥(18)	¥(18)
Interest rate option contracts:						
Buying	5,259	473	473	4,544	8	(13)
Total	¥7,837	¥391	¥391	¥7,141	¥(10)	¥(31)

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 sheets at March 31, 2004 and 2003 are excluded from the disclosure of market value information.

The contract or notional amounts of the 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.

15. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2004 totaled approximately ¥2,858 million.

Guarantees of bank loans and items of a similar nature at March 31, 2004 were ¥2,173 million.

16. Subsequent Events

At the general shareholders' meeting held on June 29, 2004, the Company's shareholders approved the following:

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2004 were approved:

	Millions of yen
Year-end cash dividends, ¥8.00 per share	¥2,107
Bonuses to directors and corporate auditors	120

Stock Option Plan

The plan provides for granting options to directors and key employees to purchase up to 144 thousand shares of the Company's common stock in the period from July 2006 to June 2010. 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.

17. Segment Information

Purchase of Treasury Stock

The Company is authorized to repurchase up to 150 thousand shares of the Company's common stock (aggregate amount of ¥500 million) as treasury stock until the next general shareholders' meeting.

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Group for the years ended March 31, 2004 and 2003 was as follows:

(1) Industry Segments

a. Sales and Operating Income

For the year ended March 31, 2004	Millions of yen				Consolidated
	Air Conditioning	Chemicals	Others	Eliminations	
Sales to customers.....	¥501,186	¥88,492	¥36,040		¥625,718
Intersegment sales	355	2,596		¥(2,951)	
Total sales	501,541	91,088	36,040	(2,951)	625,718
Operating expenses	463,034	82,904	34,736	(2,944)	577,730
Operating income.....	¥ 38,507	¥ 8,184	¥ 1,304	¥ (7)	¥ 47,988

b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2004	Millions of yen				Consolidated
	Air Conditioning	Chemicals	Others	Corporate	
Assets	¥325,776	¥109,384	¥29,857	¥71,362	¥536,379
Depreciation.....	12,226	7,946	1,082		21,254
Capital expenditures	18,694	11,835	1,158		31,687

a. Sales and Operating Income

For the year ended March 31, 2003	Millions of yen				Consolidated
	Air Conditioning	Chemicals	Others	Eliminations	
Sales to customers.....	¥453,850	¥83,576	¥34,987		¥572,413
Intersegment sales	257	2,723	3	¥(2,983)	
Total sales	454,107	86,299	34,990	(2,983)	572,413
Operating expenses	419,698	76,683	34,226	(2,983)	527,624
Operating income.....	¥ 34,409	¥ 9,616	¥ 764	¥ 0	¥ 44,789

b. Assets, Depreciation and Capital Expenditures

For the year ended March 31, 2003	Millions of yen				Consolidated
	Air Conditioning	Chemicals	Others	Corporate	
Assets	¥287,965	¥109,496	¥26,708	¥51,591	¥475,760
Depreciation.....	11,028	9,164	1,142		21,334
Capital expenditures	11,548	14,153	615		26,316

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 geographical segments of the Group for the years ended March 31, 2004 and 2003 were summarized below:

For the year ended March 31, 2004	Millions of yen						Eliminations and Corporate	Consolidated
	Japan	Asia and Oceania	Europe	Americas	Other			
Sales to outside customers	¥404,970	¥ 76,245	¥119,211	¥23,389	¥1,903		¥625,718	
Interarea transfers	74,633	44,784	478	2,902		¥(122,797)		
Total sales	479,603	121,029	119,689	26,291	1,903	(122,797)	625,718	
Operating expenses.....	465,202	105,272	111,220	25,531	1,711	(131,206)	577,730	
Operating income	¥ 14,401	¥ 15,757	¥ 8,469	¥ 760	¥ 192	¥ 8,409	¥ 47,988	
Assets.....	¥365,056	¥ 93,114	¥ 73,540	¥23,532	¥1,339	¥ (20,202)	¥536,379	

For the year ended March 31, 2003	Millions of yen						Eliminations and Corporate	Consolidated
	Japan	Asia and Oceania	Europe	Americas	Other			
Sales to outside customers	¥392,147	¥60,540	¥94,284	¥23,678	¥1,764		¥572,413	
Interarea transfers	68,115	36,684	404	1,782		¥(106,985)		
Total sales	460,262	97,224	94,688	25,460	1,764	(106,985)	572,413	
Operating expenses.....	436,735	86,135	88,170	23,143	1,579	(108,138)	527,624	
Operating income	¥ 23,527	¥11,089	¥ 6,518	¥ 2,317	¥ 185	¥ 1,153	¥ 44,789	
Assets.....	¥339,324	¥70,854	¥64,095	¥27,170	¥1,300	¥ (26,983)	¥475,760	

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, 2004 and 2003 were as follows:

	Millions of yen	
	2004	2003
Asia and Oceania	¥104,346	¥ 82,725
Europe.....	126,150	97,717
Americas	27,294	27,459
Other.....	5,357	6,418
Total sales to foreign customers.....	¥263,147	¥214,319

Independent Auditors' Report



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Fax: +81 6 6261 1238
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daikin Industries, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.



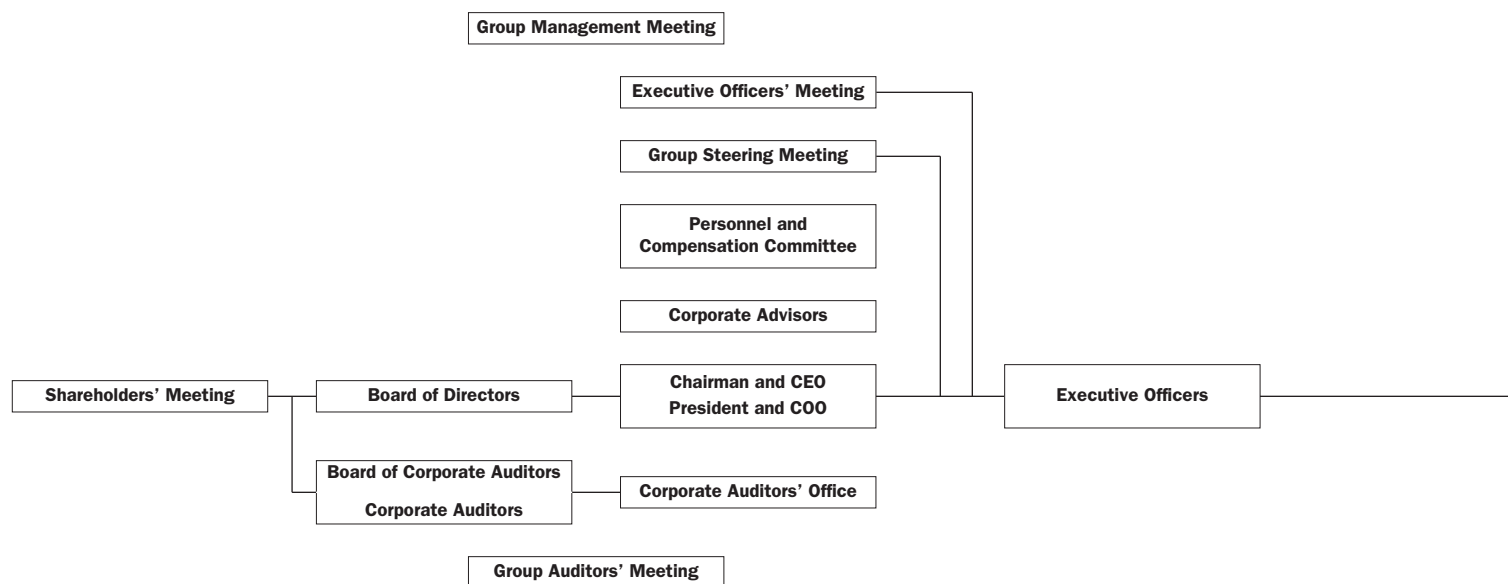
June 29, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Data

As of August 1, 2004

CORPORATE ORGANIZATIONAL DIAGRAM



- Company-wide Strategic Staff Departments**
- Secretarial Office
 - Corporate Ethics Dept.
 - Internal Auditing Dept.
 - Facility Operations Auditing Dept.
 - Corporate Planning Dept.
 - Financial Affairs Dept.
 - Human Resources Dept.
 - General Affairs Dept.
 - Public Relations Dept.
 - IT Development Dept.
 - Legal Affairs and Intellectual Property Dept.
 - Daikin (China) Investment Co., Ltd.

- Business Development Departments**
- Global Environment Dept.
 - Air Conditioning Product & Technology Planning Dept.
 - Air Conditioning Quality Control Innovation Dept.
 - Daikin Air Conditioning R&D Laboratory, Ltd.
 - Daikin Systems & Solutions Laboratory, Ltd.
 - Daikin Environmental Laboratory, Ltd. – Bio Theta Co., Ltd.

- Company-wide Support Departments**
- After Sales Service Division – Daikin Asia Servicing Pte. Ltd.
 - Daikin Air-Conditioning Technology (Beijing) Co., Ltd.
 - Daikin Air-Conditioning Technology (Shanghai) Co., Ltd.
 - Daikin Air-Conditioning Technology (Guangzhou) Co., Ltd.
 - Daikin Facilities Co., Ltd.
 - Logistics Division
 - Training Department
 - Tokyo Office
 - Sakai Plant
 - Yodogawa Plant
 - Shiga Plant
 - Kashima Plant
 - New York Office
 - Dusseldorf Office
 - Singapore Office
 - Beijing Office
 - Shanghai Office
 - Guangzhou Office
 - Daikin Information Systems Co., Ltd.
 - Daikin Accounting Solutions Co., Ltd.
 - Daikin Management Services Asia Pte. Ltd.
 - Daikin Human Support Co., Ltd.
 - Daikin Fukushi Services Co., Ltd.
 - Daikin Sunrise Settsu, Ltd.

- Air Conditioning Sales Division**
- Daikin Airconditioning & Technology Hokkaido Co., Ltd.
 - Daikin Airconditioning & Technology Tohoku Co., Ltd.
 - Daikin Airconditioning & Technology Niigata Co., Ltd.
 - Daikin Airconditioning & Technology Kanto Co., Ltd.
 - Daikin Airconditioning & Technology Ibaraki Co., Ltd.
 - Daikin Airconditioning & Technology Chiba Co., Ltd.
 - Daikin Airconditioning & Technology Tokyo Co., Ltd.
 - Daikin Airconditioning & Technology Kanagawa Co., Ltd.
 - Daikin Airconditioning & Technology Shizuoka Co., Ltd.
 - Daikin Airconditioning & Technology Tokai Co., Ltd.
 - Daikin Airconditioning & Technology Hokuriku Co., Ltd.
 - Daikin Airconditioning & Technology Keiji Co., Ltd.
 - Daikin Airconditioning & Technology Osaka Co., Ltd.
 - Daikin Airconditioning & Technology Kobe Co., Ltd.
 - Daikin Airconditioning & Technology Shikoku Co., Ltd.
 - Daikin Airconditioning & Technology Chugoku Co., Ltd.
 - Daikin Airconditioning & Technology Kyushu Co., Ltd.
 - Daikin Airconditioning & Technology Miyazaki Co., Ltd.
 - Daikin Airconditioning & Technology Kagoshima Co., Ltd.
 - Daikin Airconditioning & Technology Okinawa Co., Ltd.
 - Daikin Airtechnology & Engineering Kanto Co., Ltd.
 - Daikin Airtechnology & Engineering Tokyo Co., Ltd.
 - Daikin Airtechnology & Engineering Chukyo Co., Ltd.
 - Daikin Airtechnology & Engineering Kinki Co., Ltd.
 - Daikin Airtechnology & Engineering Chugoku Co., Ltd.
 - Daikin Airtechnology & Engineering Shikoku Co., Ltd.
 - Daikin Airtechnology & Engineering Kyushu Co., Ltd.
 - OK Kizai Co., Ltd.
 - D.S. Tech Co., Ltd.

- Global Operations Division**
- Daikin Europe N.V.
 - Daikin Airconditioning Belgium N.V.
 - Daikin Europe Coordination Center N.V.
 - Daikin Airconditioning UK Ltd.
 - Daikin Airconditioning France S.A.
 - Daikin Airconditioning Germany GmbH
 - Daikin Airconditioning Central Europe GmbH
 - Daikin Industries Czech Republic s.r.o.
 - Daikin Airconditioning Spain S.L.
 - Daikin Airconditioning Poland sp.zo.o
 - Daikin Airconditioning Italy S.r.l.
 - Daikin Industries (Thailand), Ltd.
 - Daikin Airconditioning (Thailand), Ltd.
 - Siam Daikin Sales Co., Ltd.
 - Daikin Compressor Industries Ltd.
 - Daikin Industries Holdings Co., Ltd.
 - Daikin Airconditioning Singapore Pte. Ltd.
 - Daikin Airconditioning Malaysia Sdn. Bhd.
 - Daikin-Alen Airconditioning, Inc.
 - Daikin-Shriram Airconditioning, Ltd.
 - Shanghai Daikin Airconditioning Co., Ltd.
 - Daikin General Airconditioning (Shanghai) Co., Ltd.
 - Daikin Device (Suzhou) Co., Ltd.
 - Xi'an Daikin Qing'an Compressor Co., Ltd.
 - Huizhou Daikin Suns Airconditioning Co., Ltd.
 - Daikin Central Airconditioning (Shanghai) Co., Ltd.
 - Daikin Airconditioning (Hong Kong) Ltd.
 - Daikin U.S. Corporation
 - Daikin Airconditioning Argentina S.A.
 - Daikin Australia Pty. Ltd.
 - Daikin Airconditioning South Africa Pty. Ltd.

- | | | | |
|--|---|---|---|
| <p>Air Conditioning Manufacturing Division</p> <ul style="list-style-type: none"> • Daikin Electronics Parts Co., Ltd. • Daikin Piping Co., Ltd. • Daikin Sheet-Metal Co., Ltd. • Daikin Trading, Ltd. • Daikin Trading (Thailand) Ltd. • Matsushita-Daikin Air Conditioning Technologies Development, Ltd. | <p>• Daikin Applied Systems Co., Ltd.</p> | <p>Transportation and Refrigeration Systems Division</p> | <p>Chemicals Division</p> <ul style="list-style-type: none"> • Toho Kasei Co., Ltd. • Kyoei Kasei Industries, Ltd. • Daikin Chemical Sales, Ltd. • Daikin Fine Chemical Laboratory Co., Ltd. • Daikin America, Inc. • MDA Manufacturing, Inc. • DAI-ACT • Daikin Chemical Europe GmbH • Daikin Chemical Netherlands N.V. • Daikin Chemical France S.A. • Daikin Fluorochemicals (China) Co., Ltd. • Daikin Chemical International Trading (Shanghai) Co., Ltd. • Daikin Fluoro Coatings (Shanghai) Co., Ltd. • Daikin Chemical (Hong Kong) Ltd. • Formosa Daikin Advanced Chemicals Co., Ltd. • Taiwan Daikin Advanced Chemicals, Inc. |
|--|---|---|---|

- | | | | |
|--|--|------------------------------------|--------------------------------------|
| <p>Oil Hydraulics Division</p> <ul style="list-style-type: none"> • Daikin Lubrication Products & Engineering Co., Ltd. • Tokyo Hydrautechno Co., Ltd. • Chukyo Hydrautechno Co., Ltd. • Osaka Hydraulics Co., Ltd. • Sauer-Danfoss Daikin, Inc. • Daikin Sauer-Danfoss Manufacturing, Inc. | <p>Defense Systems Division</p> | <p>Electronics Division</p> | <p>Semiconductor Division</p> |
|--|--|------------------------------------|--------------------------------------|

BOARD OF DIRECTORS

Noriyuki Inoue

Chairman of the Board and CEO

Yukiyoshi Okano

President and COO, Member of the Board

Tadasu Tachi

Director, Member of the Board
Counsellor, Kaneka Corporation

Chiyono Terada

Director, Member of the Board
President and CEO, Art Corporation

Katsuhiko Takagi

Director, Member of the Board and
Senior Executive Officer

Guntaro Kawamura

Director, Member of the Board and
Senior Executive Officer

Hiroshi Tanaka

Director, Member of the Board and
Senior Executive Officer

Yasushi Yamada

Director, Member of the Board and
Senior Executive Officer

Masanori Togawa

Director, Member of the Board and
Senior Executive Officer

CORPORATE AUDITORS

Yoshiaki Hanaoka

Senior Corporate Auditor

Nobuyuki Shibata

Senior Corporate Auditor

Yoshitake Hata

Corporate Auditor

Yoshiyuki Kaneda

Corporate Auditor

EXECUTIVE OFFICERS

Osamu Okumura

Senior Executive Officer

Masahiko Amano

Senior Executive Officer

Ken Tayano

Senior Executive Officer

Junichi Sato

Senior Executive Officer

Kiyoshi Ninomiya

Senior Executive Officer

Kunikazu Torikoshi

Senior Executive Officer

Toshinari Oka

Senior Executive Officer

Takenori Miyamoto

Senior Executive Officer

Yutaka Kato

Senior Executive Officer

Yukio Hayashi

Senior Executive Officer

Kiyohiko Ihara

Executive Officer

Kosei Uematsu

Executive Officer

Katsuyuki Mizuno

Executive Officer

Susumu Okano

Executive Officer

Minoru Soejima

Executive Officer

Seiji Ideno

Executive Officer

Shinya Okada

Executive Officer

Takashi Matsuzaki

Executive Officer

Satoru Akama

Executive Officer

ASSOCIATE OFFICERS

Minoru Yoshino

Senior Associate Officer

Kenji Ogura

Senior Associate Officer

Yoshibumi Katayama

Senior Associate Officer

Frans Hoorelbeke

Senior Associate Officer

Satoshi Koyama

Associate Officer

Hideki Tsujii

Associate Officer

Masanori Fujikawa

Associate Officer

Shigetoshi Shimoo

Associate Officer

Kazunobu Ohyama

Associate Officer

Masahiro Kobayashi

Associate Officer

PRODUCTS

AIR-CONDITIONING SYSTEMS AND INDUSTRIAL REFRIGERATION EQUIPMENT

RESIDENTIAL AIR-CONDITIONING SYSTEMS

- Room air-conditioning systems
- Air cleaners
- Dehumidifiers

COMMERCIAL AIR-CONDITIONING SYSTEMS AND INDUSTRIAL REFRIGERATORS

- Packaged air-conditioning systems
- Spot air-conditioning systems
- Medium- and low-temperature air-conditioning systems
- Air cleaners
- Total heat exchangers
- Infrared ceramic space heaters

- Marine-type container refrigeration units
- Marine vessel air-conditioning systems and refrigerators

CUSTOM AND LARGE-SCALE REFRIGERATORS AND AIR- CONDITIONING SYSTEMS

- Water-chilling units
- Screw-type refrigerators
- Turbo refrigerators
- Absorption refrigerators
- Air-handling units
- Fan-coil units

FLUORO-CHEMICALS

- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluorinated oils
- Oil- and water-repellent products
- Mold release agents
- Surfactants
- LEZANOVA fluorinated natural leather
- Pharmaceuticals and intermediates
- Semiconductor-etching products
- NEUROFINE high-performance air filters
- ZEFFLE fluoropolymer paint base
- Organic solvent recovery and treatment equipment
- Dry air suppliers (open dry chambers, dry dehumidifiers)

OIL HYDRAULICS AND LUBRICATION EQUIPMENT

- Pumps and motors
- Control valves
- Stack valves
- Positioning motors
- Oil-cooling units
- Power packages
- Hydrostatic transmissions
- Centralized lubrication units and systems
- Multilevel car-parking systems

DEFENSE PRODUCTS

- Ammunition
- Aircraft parts
- Safety and arming devices
- Warheads
- Home-use oxygen therapy equipment

COMPUTER GRAPHICS

- Network management systems
- Computer graphics systems
- DVD-authoring systems
- CAD/CAM/CAE systems

SEMICONDUCTOR MANUFACTURING EQUIPMENT

- Cryo-pumps

As of March 31, 2004

CORPORATE INFORMATION

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Umeda Center Bldg.,
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Phone: 81-3-6716-0111
Facsimile: 81-3-6716-0200

Fiscal Year-end Date

March 31 on an annual basis

Date of Establishment

February 11, 1934

Paid-in Capital

¥28,023 million

Number of Shares of Common Stock Issued

263,813 thousand

Number of Shareholders

9,045

Major Shareholders

Japan Trustee Services Bank, Ltd.
Master Trust Bank of Japan, Ltd.
State Street Bank & Trust Company
Chase Manhattan Bank, London
Sumitomo Mitsui Banking Corporation
Trust & Custody Services Bank, Ltd.
The Bank of New York
The Nomura Trust and Banking Co., Ltd.
Matsushita Electric Industrial Co., Ltd.
Mitsui Sumitomo Insurance Co., Ltd.

Number of Subsidiaries and Affiliated Companies

Domestic: 67
Overseas: 54

Number of Employees

17,077 (Consolidated)
6,782 (Non-consolidated)

Stock Exchange Listings

Tokyo, Osaka, Nagoya, Fukuoka,
Sapporo

Newspapers for Official Notices

The Sankei Shimbun (Osaka)
Nihon Keizai Shimbun (Tokyo)

Transfer Agent and Register

Daiko Shoken Business Co., Ltd.
2-4-6, Kitahama, Chuo-ku,
Osaka 541-8583, Japan

Ordinary General Meeting of Shareholders

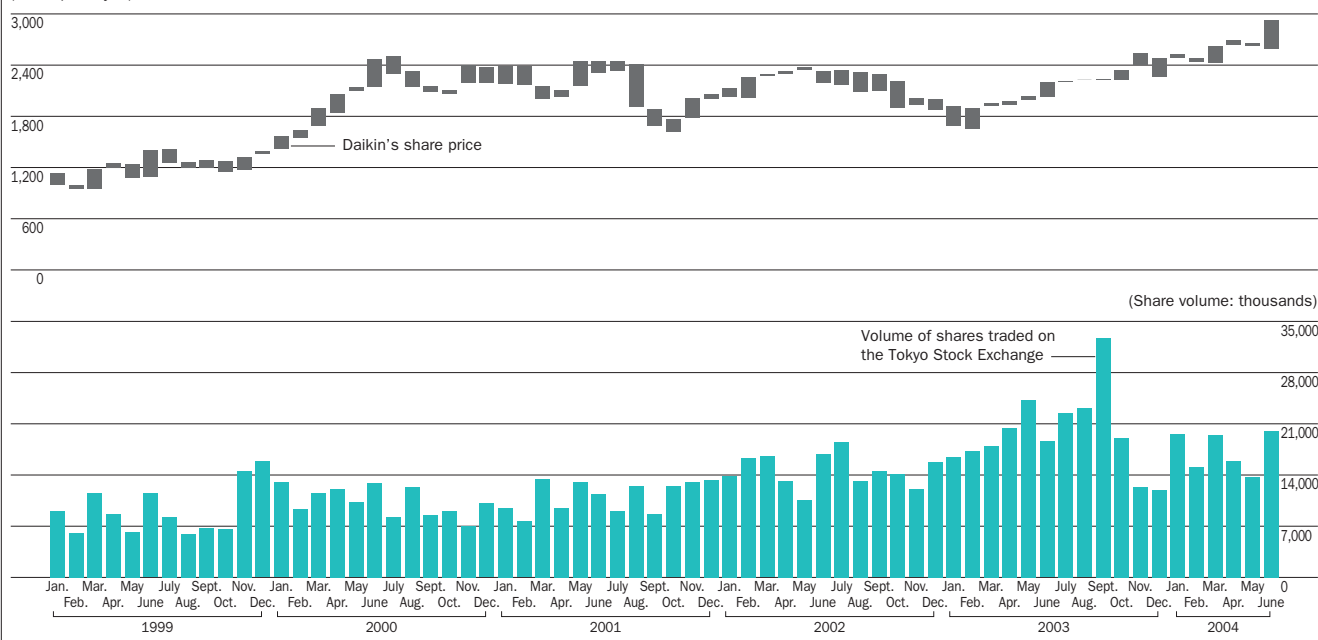
June

Auditor

Deloitte Touche Tohmatsu

Share Price Movement (Tokyo Stock Exchange)

(Share price: yen)



As of March 31, 2004

CORPORATE INFORMATION

Head Office

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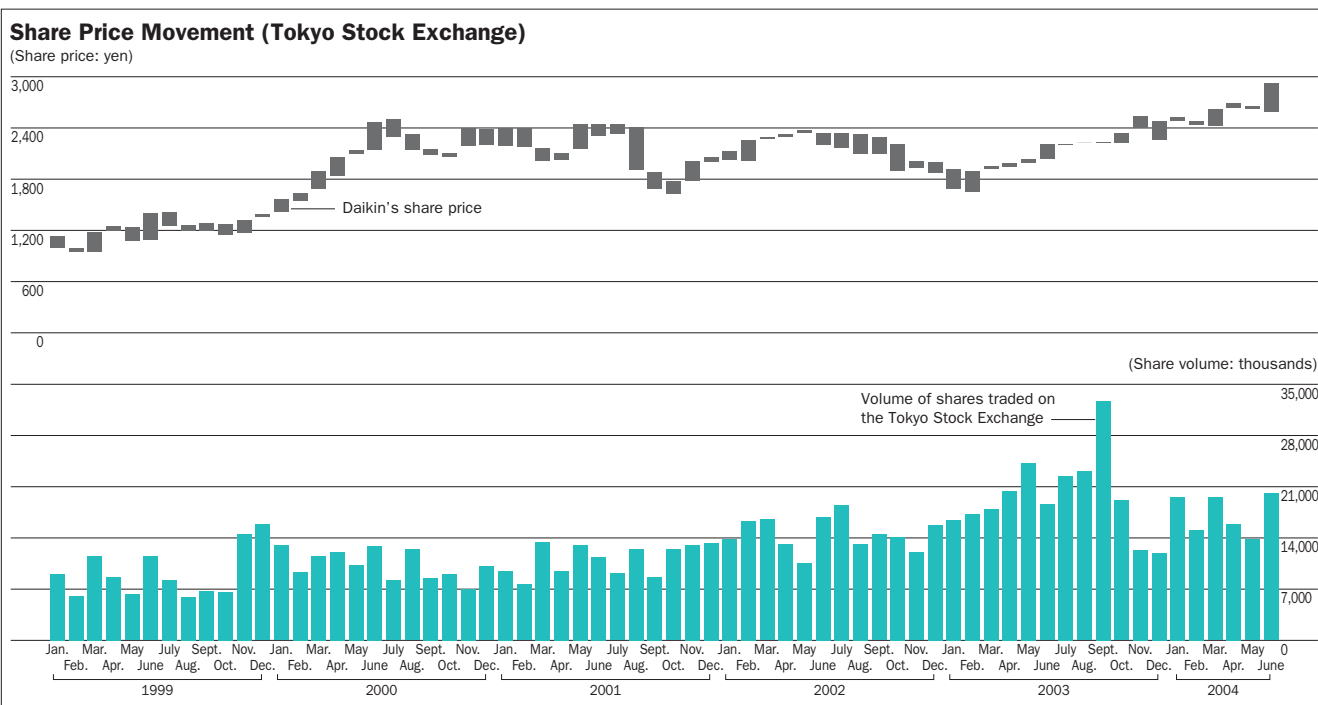
Daiko Shoken Business Co., Ltd.
2-4-6, Kitahama, Chuo-ku,
Osaka 541-8583, Japan

Ordinary General Meeting of Shareholders

June

Auditor

Deloitte Touche Tohmatsu



DAIKIN INDUSTRIES, LTD.



Printed on 100% recycled paper with vegetable ink by waterless printing
Printed in Japan

<http://www.daikin.com>

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