

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

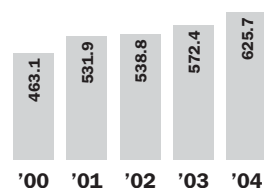
## Net Sales

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.

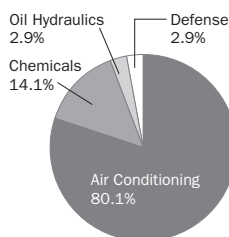
The Air Conditioning and Refrigeration Equipment Division's total sales rose 10.4%, to ¥501,186 million, reflecting large increases in both domestic and overseas sales volumes as well as the positive effect of the yen's depreciation, particularly against the euro. In the Japanese residential air-conditioning 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.

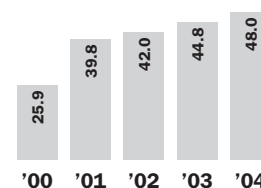
**Net Sales**  
(¥ billion)



**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 .....	<b>34.1%</b>	33.5%	33.3%	33.0%	32.3%
Operating income as a % of net sales .....	<b>7.7</b>	7.8	7.8	7.5	5.6
Interest coverage (operating income plus interest and dividend income divided by interest expense) (times) .....	<b>12.1</b>	11.1	9.2	7.8	5.6
Net income as a % of net sales .....	<b>4.6</b>	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

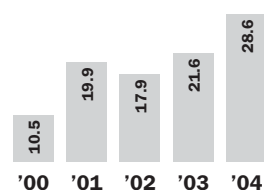
During the fiscal year under review, although the cost of sales rose to ¥412,450 million, the cost of sales ratio was down 0.6 percentage point from the previous year, at 65.9%. The improvement in this ratio resulted from the Company's efforts to promote sales of distinctive and high-value-added products 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.

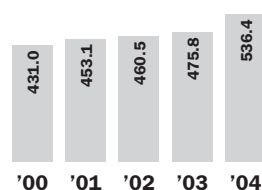
#### Net Income

(¥ billion)



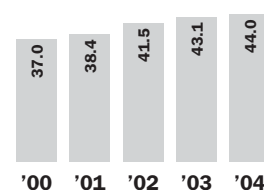
#### Total Assets

(¥ billion)



#### Shareholders' Equity Ratio

(%)



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

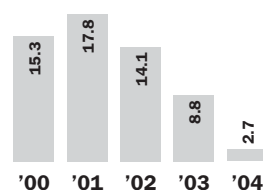
As a result of the above factors, net income totaled ¥28,611 million, up 32.5% from the previous year.

### 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.

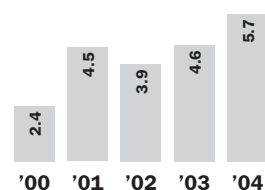
### Free Cash Flow (FCF)

(¥ billion)



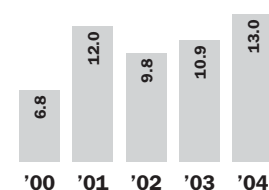
### Return on Assets (ROA)

(%)



### 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
<b>Current assets:</b>		
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
<b>Total current assets</b> .....	<b>312,017</b>	<b>271,957</b>
<b>Property, plant and equipment</b> (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)
<b>Net property, plant and equipment</b> .....	<b>149,790</b>	<b>145,579</b>
<b>Investments and other assets:</b>		
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
<b>Total investments and other assets</b> .....	<b>74,572</b>	<b>58,224</b>
<b>Total</b> .....	<b>¥536,379</b>	<b>¥475,760</b>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2004	2003
<b>Current liabilities:</b>		
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
<b>Total current liabilities</b> .....	<b>223,921</b>	<b>197,621</b>
<b>Long-term liabilities:</b>		
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	
<b>Total long-term liabilities</b> .....	<b>69,829</b>	<b>67,291</b>
<b>Minority interests</b> .....	<b>6,858</b>	<b>5,747</b>
<b>Commitments and contingent liabilities</b> (Note 15)		
<b>Shareholders' equity</b> (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)
<b>Total shareholders' equity</b> .....	<b>235,771</b>	<b>205,101</b>
<b>Total</b> .....	<b>¥536,379</b>	<b>¥475,760</b>

# Consolidated Statements of Income

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

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

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 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
<b>Balance, April 1, 2002</b> .....	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)	
<b>Balance, March 31, 2003</b> .....	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)	
<b>Balance, March 31, 2004</b> .....	<b>263,324,348</b>	<b>¥28,023</b>	<b>¥25,969</b>	<b>¥180,945</b>	<b>¥11,200</b>	<b>¥(9,256)</b>	<b>¥(1,110)</b>

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
<b>Operating activities:</b>		
Income before income taxes and minority interests .....	<b>¥43,787</b>	¥36,561
Adjustment for:		
Income taxes—paid .....	<b>(14,667)</b>	(13,989)
Depreciation and amortization .....	<b>21,916</b>	21,694
Gain on sales of investment securities .....	<b>(1,028)</b>	(425)
Write-down of investment securities.....	<b>173</b>	3,962
Write-down of other assets .....	<b>73</b>	43
Loss on disposals of property, plant and equipment .....	<b>661</b>	844
Equity in earnings of unconsolidated subsidiaries and associated companies.....	<b>(148)</b>	(142)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries and a newly consolidated subsidiary:		
Trade notes and accounts receivable .....	<b>(13,050)</b>	(2,165)
Inventories .....	<b>(9,997)</b>	(5,345)
Other current assets .....	<b>(1,890)</b>	(2,632)
Trade notes and accounts payable .....	<b>8,934</b>	6,607
Accrued expenses .....	<b>3,217</b>	1,179
Increase in liabilities from loss on explosion at Kashima plant—net .....	<b>665</b>	
Other—net.....	<b>1,660</b>	2,310
Total adjustments .....	<b>(3,481)</b>	11,941
Net cash provided by operating activities .....	<b>40,306</b>	48,502
<b>Investing activities:</b>		
Purchases of property, plant and equipment.....	<b>(29,794)</b>	(23,741)
Increase in investments in unconsolidated subsidiaries and associated companies .....	<b>(110)</b>	
Payment for purchase of a subsidiary, net of cash acquired.....	<b>(2,115)</b>	(2,851)
Payment for purchase of minority interest .....		(710)
Net increase in short-term investments.....	<b>(448)</b>	(1,068)
Payments to acquire investment securities .....	<b>(2,258)</b>	(7,617)
Proceeds from sales of investment securities .....	<b>3,099</b>	1,034
Other—net.....	<b>32</b>	(1,939)
Net cash used in investing activities.....	<b>(31,594)</b>	(36,892)
<b>Financing activities:</b>		
Net increase (decrease) in short-term borrowings .....	<b>4,930</b>	(8,693)
Increase in long-term debt .....	<b>15,095</b>	3,418
Repayments of long-term debt.....	<b>(14,290)</b>	(7,919)
Payments of cash dividends.....	<b>(3,161)</b>	(3,163)
Other—net.....	<b>(392)</b>	(355)
Net cash provided by (used in) financing activities .....	<b>2,182</b>	(16,712)
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>(1,143)</b>	(850)
<b>Cash and cash equivalents of newly consolidated subsidiaries, beginning of year.....</b>	<b>46</b>	
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>9,797</b>	(5,952)
<b>Cash and cash equivalents, beginning of year .....</b>	<b>40,305</b>	46,257
<b>Cash and cash equivalents, end of year .....</b>	<b>¥50,102</b>	¥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 .....	<b>¥110,419</b>	¥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 .....	<b>¥27,729</b>	<b>¥19,475</b>	<b>¥(696)</b>	<b>¥46,508</b>

	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 .....	<b>¥27,629</b>	<b>¥4,453</b>	<b>¥(5,778)</b>	<b>¥26,304</b>

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 .....	<b>¥2,812</b>	¥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 .....	<b>¥2,031</b>

## 5. Goodwill

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

	Millions of yen	
	2004	2003
Consolidation goodwill .....	<b>¥5,572</b>	¥4,442
Others .....	<b>822</b>	1,113
Total.....	<b>¥6,394</b>	¥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 .....	<b>¥2,473</b>	¥3,575
Trade notes and accounts payable.....	<b>790</b>	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 .....	<b>¥13,334</b>	¥14,666
Purchases .....	<b>6,225</b>	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 .....	<b>¥51,342</b>	¥48,640
Commercial paper .....	<b>21,000</b>	17,000
Total.....	<b>¥72,342</b>	¥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 .....	<b>¥10,000</b>	¥10,000
2.70% unsecured bonds, due 2006 .....	<b>10,000</b>	10,000
0.82% unsecured bonds, due 2009 .....	<b>20,000</b>	20,000
Collateralized loans from government sponsored banks, with interest 1.75%, due through 2012 .....	<b>1,200</b>	1,200
Unsecured loans from government sponsored banks, with interest ranging from 1.40% to 6.53%, due through 2012.....	<b>4,342</b>	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.....	<b>8,250</b>	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.....	<b>9,788</b>	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 .....	<b>13,028</b>	2,624
Total.....	<b>76,608</b>	76,639
Less current portion .....	<b>(16,681)</b>	(13,858)
Long-term debt, less current portion .....	<b>¥59,927</b>	¥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 .....	<b>¥68,355</b>	¥70,061
Fair value of plan assets .....	<b>(44,190)</b>	(33,364)
Unrecognized prior service cost .....	<b>109</b>	122
Unrecognized actuarial loss.....	<b>(8,911)</b>	(18,954)
Unrecognized transitional obligation.....	<b>(10,821)</b>	(14,428)
Net liability.....	<b>¥ 4,542</b>	¥ 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 .....	<b>¥ 3,613</b>	¥3,598
Interest cost .....	<b>1,742</b>	1,735
Expected return on plan assets .....	<b>(834)</b>	(901)
Amortization of prior service cost.....	<b>(13)</b>	(4)
Amortization of transitional obligation .....	<b>3,607</b>	3,607
Recognized actuarial loss.....	<b>2,080</b>	1,433
Net periodic benefit costs .....	<b>¥10,195</b>	¥9,468

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

	2004	2003
Discount rate .....	<b>2.5%</b>	2.5%
Expected rate of return on plan assets.....	<b>2.5%</b>	2.5%
Amortization period of prior service cost.....	<b>10 years</b>	10 years
Recognition period of actuarial gain/loss .....	<b>10 years</b>	10 years
Amortization period of transitional obligation .....	<b>7 years</b>	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.....	<b>¥21,888</b>	¥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.....	<b>10,979</b>	2,391
Net deferred tax assets.....	<b>¥10,909</b>	¥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.....	<b>29.8%</b>	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
<b>For the year ended March 31, 2004</b>			
Acquisition cost .....	<b>¥5,830</b>	<b>¥1,968</b>	<b>¥7,798</b>
Accumulated depreciation.....	<b>3,085</b>	<b>957</b>	<b>4,042</b>
Net leased property.....	<b>¥2,745</b>	<b>¥1,011</b>	<b>¥3,756</b>
<b>For the year ended March 31, 2003</b>			
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 .....	<b>¥1,742</b>	¥1,770
Due after one year.....	<b>2,014</b>	2,041
Total.....	<b>¥3,756</b>	¥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 .....	<b>¥2,171</b>	¥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

	Millions of yen				
	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
<b>For the year ended March 31, 2004</b>					
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

	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
<b>For the year ended March 31, 2004</b>					
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

	Millions of yen				
	Air Conditioning	Chemicals	Others	Eliminations	Consolidated
<b>For the year ended March 31, 2003</b>					
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

	Millions of yen				
	Air Conditioning	Chemicals	Others	Corporate	Consolidated
<b>For the year ended March 31, 2003</b>					
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



Deloitte Touche Tohmatsu  
Osaka Kokusai Building  
2-3-13 Azuchi-machi  
Chuo-ku, Osaka 541-0052  
Japan  
Tel: +81 6 6261 1381  
Fax: +81 6 6261 1238  
www.deloitte.com/jp

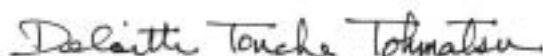
## INDEPENDENT AUDITORS' REPORT

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