

Brief Report on Settlement of Accounts (Consolidated) for Business Year Ending March 31, 2005

Name of Listed Company: **Daikin Industries, Ltd.**

Listed on TSE, OSE, NSE, FSE, SSE
Head Office Located in Osaka

Code No.: 6367

(URL: <http://www.daikin.co.jp/>)

President and Representative Director: Yuki Yoshi Okano

For more information, contact Michio Shiba, General Manager of Public Relations Department of the Head Office (Tel: +81-6-6373-4348) or Takeo Inoue, Manager in charge of Public Relations Department of Tokyo Office (Tel: +81-3-6716-0112)

Date of board meeting on settlement of accounts: May 12, 2005

Use of U.S. Accounting Standards No

1. Consolidated Business Results for the Business Year Ending March 31, 2005 (From April 1, 2004 to March 31, 2005)

(1) Consolidated business results

Note: The amount of money less than million yen is truncated.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 31, 2005	728,880	(16.5)	60,896	(26.9)	63,478	(40.4)
Year ending March 31, 2004	625,717	(9.3)	47,987	(7.1)	45,209	(9.0)

	Net income		Net income per share	Net income per share after adjustment of potential stocks	Ratio of net income for the year to shareholder's equity	Ratio of ordinary income to total shareholder's equity	Ratio of ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ending March 31, 2005	38,747	(35.4)	146.76	146.74	15.2	11.0	8.7
Year ending March 31, 2004	28,611	(32.5)	108.18	-	13.0	8.9	7.2

Note 1: Equity in earnings of associated companies accounted for using the equity method
 March 31, 2005 ¥397million
 March 31, 2004 ¥148million

Note 2: Average number of share outstanding (consolidated)
 March 31, 2005 263,266,789 shares
 March 31, 2004 263,364,644 shares

Note 3: Change in the method of accounting procedure Yes

Note 4: The figures expressed in % for the net sales, operating income, ordinary income and net income for the business year represent the ratio of increase or decrease from the same period a year earlier.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
Year ending March 31, 2005	617,873	274,121	44.4	1,040.87
Year ending March 31, 2004	536,378	235,771	44.0	894.91

Note: The number of issued shares (consolidated basis) was 263,252,803 at the end of the year ending March 31, 2005 and 263,324,348 at the end of the year ending March 31, 2004.

(3) Consolidated cash flow

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ending March 31, 2005	43,970	(42,091)	3,534	55,385
Year ending March 31, 2004	40,305	(31,594)	2,182	50,101

(4) The matters related to the scope of consolidation and the application of equity method:

The number of consolidated subsidiaries is 95, that of non-consolidated subsidiaries that the equity method is applied to is 1, and that of associated companies that the equity method is applied to is 8.

(5) The status of changes in the scope of consolidation and the application of equity method:

Consolidation: 6 companies are newly added and 3 companies are merged.

Equity method: 1 company is newly added and no company is excluded.

2. Prospective Consolidated Business Results for March 31, 2006 (From April 1, 2005 to March 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Half year	405,000	34,000	20,000
Full-business year	815,000	66,000	41,000

(Reference) Prospective net income per share (for the full business year): 155.32 yen

* The above prospects are premised on related matters described on page 18 of this document.

Outline of Settlement of Accounts for Business Year Ending March 31, 2005

1. Consolidated Business Results

Billions of yen, () ratios to net sales

	Year ending March 31, 2005	Year ending March 31, 2004	Changes over the previous year	Prospective business results for the year ending March 31, 2006	Changes over the current year
Net sales	728.9	625.7	116%	815.0	112%
Operating income	(8.4) 60.9	(7.7) 47.9	127%	(8.6) 70.0	115%
Ordinary income	(8.7) 63.4	(7.2) 45.2	140%	(8.1) 66.0	104%
Net income	(5.3) 38.7	(4.6) 28.6	135%	(5.0) 41.0	106%
Net income per common share	146.76 yen	108.18 yen	38.58 yen	155.32 yen	8.56 yen

2. Non-Consolidated Business Results

Billions of yen, () ratios to net sales

	Year ending March 31, 2005	Year ending March 31, 2004	Changes over the previous year	Prospective business results for the year ending March 31, 2006	Changes over the current year
Net sales	438.1	386.9	113%	432.0	99%
Operating income	(3.5) 15.1	(2.4) 9.3	162%	(3.6) 15.5	102%
Ordinary income	(6.1) 26.9	(5.8) 22.5	120%	(4.6) 20.0	74%
Net income	(4.5) 19.8	(3.9) 14.9	133%	(3.2) 14.0	70%
Net income per common share	75.05 yen	56.41 yen	18.64 yen	52.76 yen	(22.29 yen)
Dividend per common share	18 yen	14 yen	4 yen	18 yen	—

<Segment Information (Consolidated)>

Industry Segments

Billions of yen, ()ratios to net sales

		Year ending March 31, 2005		Year ending March 31, 2004		Changes over the previous year
Air conditioning	Net sales	589.3		501.2		118%
	Operating income	(8.7)	51.2	(7.7)	38.5	133%
Chemicals	Net sales	99.6		88.5		113%
	Operating income	(9.0)	8.9	(9.2)	8.1	109%
Others	Net sales	40.0		36.0		111%
	Operating income	(1.8)	0.7	(3.6)	1.3	55%
Total	Net sales	728.9		625.7		116%
	Operating income	(8.4)	60.9	(7.7)	47.9	127%

Sales by Market

Billions of yen

	Year ending March 31, 2005	Year ending March 31, 2004	Changes over the previous year
Domestic	397.6	362.6	110%
Asia, Oceania	123.9	104.3	119%
Europe	168.8	126.2	134%
US	31.8	27.3	117%
Others	6.7	5.4	126%
Total	728.9	625.7	116%

Prospective Industry Segments Results

Billions of yen, ()ratios to net sales

		Year ending March 31, 2006 (prospective)		Year ending March 31, 2005		Changes over the current year
Air conditioning	Net sales	660.0		589.3		112%
	Operating income	(8.6)	56.5	(8.7)	51.2	110%
Chemicals	Net sales	113.0		99.6		113%
	Operating income	(10.6)	120.0	(9.0)	8.9	134%
Others	Net sales	42.0		40.0		105%
	Operating income	(3.6)	1.5	(1.8)	0.7	209%
Total	Net sales	815.0		728.9		112%
	Operating income	(8.6)	70.0	(8.4)	60.9	115%

Situation of Business Groups

Our business groups are engaged in the development, manufacture (including construction and installation), sales and after-sales services of products in each of the fields of air conditioning, refrigeration equipment, chemicals and other industries. Major business contents, consolidated subsidiaries and companies that the equity method is applied to in each field are shown below.

1. Air conditioning

(Major products) Room air conditioners, Commercial air conditioners and Refrigeration equipment, Air conditioning and refrigeration equipment for marine vessels, Electronics

(1) Manufacture:

[Consolidated subsidiaries]

Daikin Electronics Parts Inc. and 2 other companies (manufacture of parts and components for air conditioners)

(2) Sales

[Consolidated subsidiaries]

Daikin Applied Systems Co., Ltd. (manufacture, sales, design and installation of air conditioners, refrigeration equipment and cooling machines)

Daikin Air-conditioning & Technology Tokyo Co., Ltd., and 19 other sales companies (sales of air conditioners)

Daikin Air Technology & Engineering Kinki Co., Ltd. and 7 other companies (sales, construction and installation of air conditioners)

OK Kizai Ltd. (manufacture and sales of accessories and parts of air conditioners)

Daikin Facilities Co., Ltd. (services and maintenance of air conditioners)

Daikin Trading Co., Ltd. (sales of parts and components of air conditioners)

[Companies that the equity method is applied to]

Moritani Daikin Co., Ltd. (sales of air conditioners)

Nikko Engineering Co., Ltd. and 2 other companies (sales of air conditioners)

(3) Others

[Consolidated subsidiaries]

Daikin Air Conditioning R&D Laboratory, Ltd. and 5 other companies (technological development, etc. of air conditioners)

(4) Global operations

[Consolidated subsidiaries]

Daikin Europe N.V., Daikin Industries (Thailand), Ltd. and 15 other companies (manufacture and sales of air conditioners)

Daikin Airconditioning France S.A.S. and 17 other companies (sales of air conditioners)

Daikin Trading (Thailand) Ltd. (sales of parts and components of air conditioners)

Daikin Asia Servicing Pte. Ltd. and 3 other companies (sales of replacement parts and components of air conditioners)

2. Chemicals

(Major products) Fluorocarbon gas, Fluoroplastic, Chemical products, Chemical engineering machine

(1) Manufacture and sales

[Consolidated subsidiary]

Toho Kasei Co., Ltd. (manufacture and sales of fluorochemical products and semiconductor cleaning equipment)

(2) Sales

[Consolidated subsidiary]

Daikin Chemical Sales, Ltd. (sales of fluorochemical products)

(3) Global operations

[Consolidated subsidiaries]

Daikin America, Inc., Daikin Fluorochemicals (China) Co., Ltd. and 2 other companies (manufacture and sales of fluoro-chemical products)

Daikin Chemical France S.A.S. (manufacture of fluoro-chemical products)

Daikin Chemical Europe GmbH and 4 other companies (sales of fluorochemical products)

[Company that the equity method is applied to]

MDA Manufacturing, Inc. (manufacture, sales of fluorochemical products), and 3 other companies

3. Other Businesses

(Major products) Hydraulic equipment for industrial machinery, Hydraulic equipment for construction machinery and vehicles, Centralized lubrication units and systems, Multilevel car-parking systems, Ammunition, Warhead for guided missile, Aircraft parts

(1) Manufacture

[Consolidated subsidiary]

Daikin Sauer-Danfoss Manufacturing, Ltd. (manufacture of hydraulic equipment, etc.)

(2) Manufacture and sales

[Consolidated subsidiary]

Daikin Lubrication Products & Engineering Co., Ltd. (sales, construction, installation of lubricating equipment)

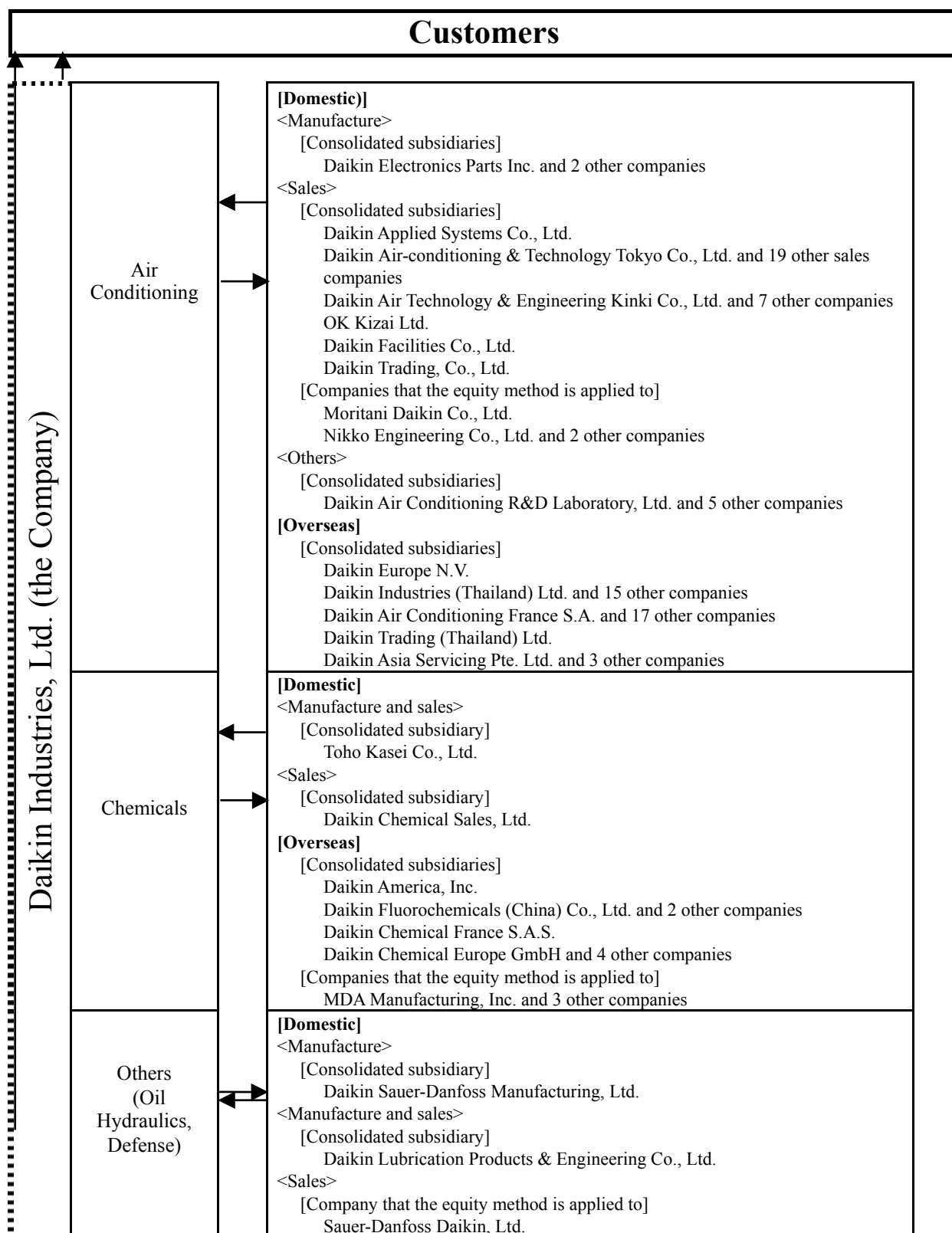
(3) Sales

[Company that the equity method is applied to]

Sauer-Danfoss Daikin, Ltd. (sales of hydraulic equipment, etc.)

[Schematic Diagram of the Company's Business Groups]

The schematic diagram of business contents of the Company Group, 95 consolidated companies (45: domestic, 50: overseas) and 9 companies that the equity method is applied to (5: domestic, 4: overseas) is shown below.



Management Policies

(1) Basic Management Policy

Under the “Our Group Philosophy” which sets forth the basic management perspectives, the Company will, as a corporation continually supplying customers with the highest level of conveniences and amenity, enhance its technical bases, carry out the management of the logic of capital and strive for the maximization of corporate value through the products, materials and services of the highest quality.

The Company will conduct thoroughly fair corporate activities based on high level of ethics and fair competition, information disclosure and fulfillment of accountability in a timely and appropriate manner, proactive responses to global environment and active contribution to local community, as action guidelines common to the Group. Moreover, the Company will make efforts to expand profitability and business operations for the entire Group by enforcing complete information sharing within the Group, establishing a resilient management structure most appropriate for the solution of problems and tasks which may come up from time to time and facilitating the Company’s tradition of “Fast and Flat Management Framework.”

(2) Basic Policy on Appropriation of Profit

By setting the ratio of dividends to shareholders' equity (consolidated basis) to be 2.0% as an immediate target, the Company will carry out stable dividend payments by comprehensively taking into account consolidated business results, financial position and capital requirements.

With regard to internal reserves, the Company will appropriate them to strategic investments aimed to strengthen management structure, accelerate the development of global businesses, promote the penetration of information technology, achieve business expansion and improve competitive power.

(3) Target Management Indicators

The Company considers the maximization of corporate value to be the most important management task, and by setting virtual company system, FCF (free cash flow), DVA (Daikin value added), ROA (return on total assets), ROE (return on equity) and other indicators of the “Ratio Management” as important management administration indicators, the Company is developing businesses and strengthening the management structure. The Company is particularly placing emphasis on FCF as the source of corporate value and also as the integrated indicator which enhances all management indicators, and endeavoring to reduce account receivables and inventories, while taking measures to expand profit and improve investment-efficiency so as to create cash flow from the operating capital.

As for the appropriation of FCF so created, the Company makes decisions on the use of the FCF in view of then business climate and demand trends and primarily from the standpoint of the enhancement of corporate value. The Company is now promoting investments aimed at expanding future return by availing itself of great opportunities to achieve business expansion in global markets such as Europe and China and reinforcing

production capabilities and sales network.

(4) Mid-and-Long Term Management Strategies

In April 2001, the Company formulated “Fusion 05,” a strategic management plan as the year of 2005 being the target year. Under the plan, the Company is taking various measures speedily and timely to conduct the “management of maximizing total corporate value,” enhance its unique “flat and fast management framework applicable to global markets,” develop the Daikin Group to be “a global company” and “a leading company in the true sense” and realize “a fascinating company which attracts people, capital and information.”

During the three-year period, or the first half of “Fusion 05,” the Company attained such results as successive increase of consolidated ordinary income and expansion of market share both in domestic and overseas markets, and development of global businesses. During this period, however, the management climate surrounding the Company deteriorated because of the economic stagnation both at home and abroad after the plan was formulated, the accelerating deflationary trend in Japan, etc. The Company is aware that there are a number of tasks to be addressed to get over such unfavorable climate, strengthen profit-earning capabilities and achieve expansion and development of businesses. For the remaining half of two years of “Fusion 05” until the target year of 2005, the entire Company Group will squarely face management problems to be solved, concentrate on and accelerate the enforcement of above measures and accomplish the target of “Fusion 05.”

In this connection, the Company is now formulating a strategic management plan with the year of 2010 being a target year with a view to achieving further dynamic growth, and is planning to announce early in 2006 contents of the plan to you and the Group employees as well, so as to make it thoroughly known to and implemented by the employees.

(5) Tasks Addressed by the Company

By thoroughly carrying out the measures as mentioned below for the two years of 2004 and 2005 and identifying tasks to be addressed, the Company is making all-out efforts for the attainment of the targets; (1) to take comprehensive measures for realizing profit-earning structure such as total cost down, maximization of sales and promotion of efficiency of indirect departments on the Group level, (2) to promote dynamic business developments through active investments made as stepping stone for the expansion in domestic and overseas markets which are highly likely to provide favorable chances, and achieve early return from these investments (3) to restore the high-profit earning structure of fluoro chemicals business as early as possible, and accelerate the restructuring of oil hydraulic, sophisticated machines and electronic system divisions, (4) to take thorough measures to fulfill the target of the “Daikin’s Technology Statement,” and (5) to enhance and enforce CSR (corporate social responsibilities) including strengthening and education of human resources, legal compliance, corporate ethics, environmental preservation and stable operations.

(6) Basic View on Corporate Governance and Status of Implementation of Related Policies and Measures

(6)-1 Basic view

The Company Group considers that corporate governance raises the corporate value by accelerating the speed with which to make one or two steps earlier decisions on and measures for the management problems and environmental changes surrounding the Group, and by promoting the continual enhancement of transparency and soundness as well.

By further cultivating the existing “all-in-one management framework” under which directors jointly assume the management responsibility and the responsibility of executing operations, the Company will realize the speedy and sophisticated management, strengthen and improve consolidated governance, and secure enhancement of transparency and soundness. The Company will continually examine and review the most appropriate method of conducting corporate governance for the expansion of corporate value, and seek and promote the best practices on the level of the Company Group from various aspects.

(6)-2 Status of implementation of policies and measures for enhancement of corporate governance

① Contents of measures implemented in 2002

The Company carried out the following reforms on the management system for the purpose of, particularly, conducting the sophisticated and speedy management and strengthening consolidated governance. The Company is taking concrete measures for the promotion and enhancement of speedy management and consolidated governance:

- For the management problems and important tasks with ever-increasing depth and width facing the Company Group, the top management, under the “all-in-one management framework” where they jointly assume the management responsibility and the responsibility of executing operations at the same time, are divided into CEO primarily responsible for making decisions and COO primarily responsible for executing operations, relating to the overall management for the Group, so as to accelerate the speed of both making decisions and executing operations, while giving attention to the decision-making and the execution of operations.
- As a supreme deliberating organ of the Group management system, the Company established the “Group Steering Meeting” where important management policies and management strategies are determined promptly and in a timely manner so as to accelerate the speed of resolving problems.
- The Company established the “Group Management Meeting” so as to thoroughly share the important management policies and basic strategies of the Group, and facilitate and strengthen support for the solution of the problems and tasks for the Group companies.

- In addition to the previously-introduced “Management Advisory Council System,” aimed to improve the management capabilities by inviting outside power, the Company invited two “outside directors,” who are extensively participating in the management decision-making from the standpoint of outsiders with independence and neutrality as well as from higher level perspectives.
- The Company established “Group Auditors’ Meeting” to strengthen auditing functions on the Group level in view of the importance of the consolidated management and replenishment of auditing operations.
- The Company formulated the Group Management Philosophy to share “views on basic management” so as to develop businesses in the same direction as the entire Group, and is making the Group Management Philosophy thoroughly known to and implemented by everyone.
- For the purpose of thoroughly implementing legal compliance for the Group, the Company is promoting the performance of the previously established self-inspection system and the conformance with the legal compliance manual (compliance program). Besides, the Company is not only reinforcing the management of day-to-day operations in a way that ensures that double check or triple check functions including the assignment of compliance leaders to each department, but also promoting education and enlightenment activities by using corporate ethics handbooks and others. Thus, the Company is endeavoring to make the legal compliance thoroughly known to and implemented by everyone.

② Additional efforts for the enhancement of corporate governance that were taken in the past one year

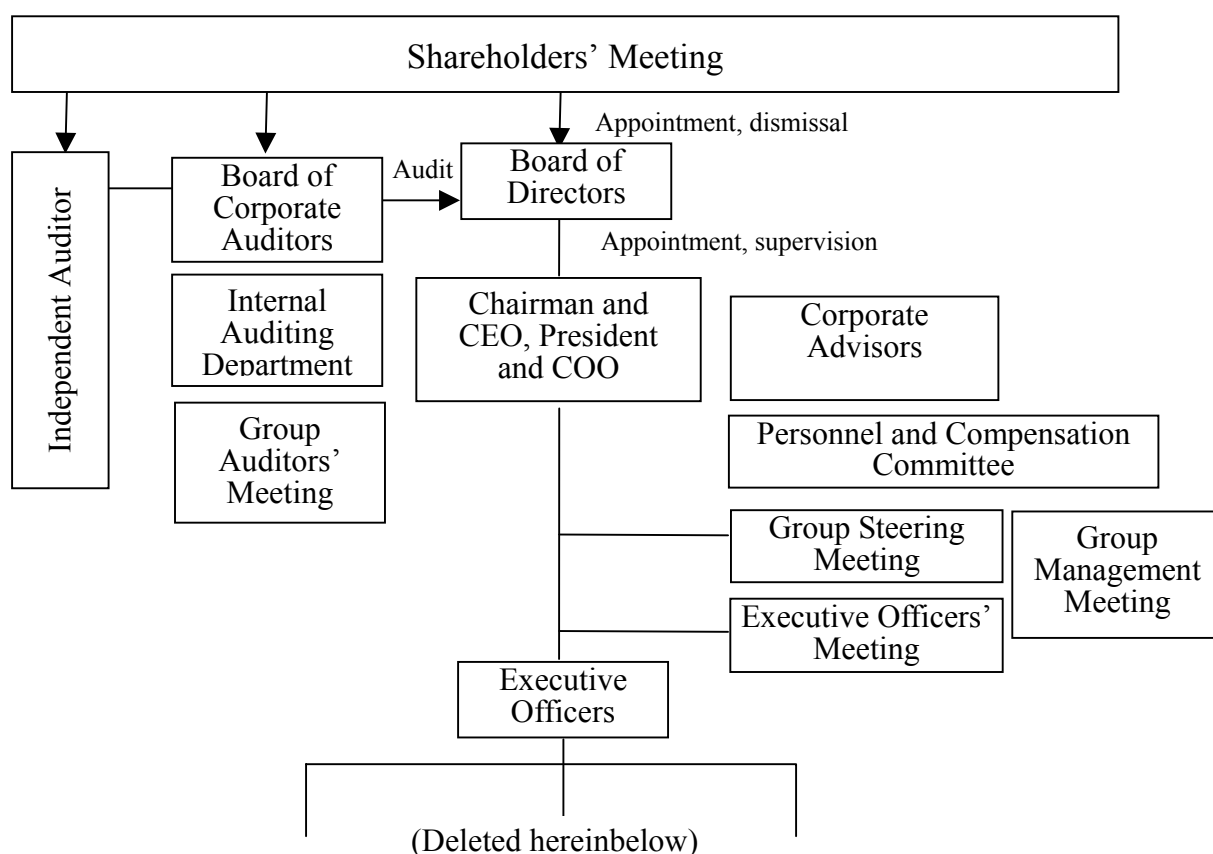
On June 29, 2004, with a view to further strengthening and improving the measures as mentioned above, achieving “acceleration of the speed with which to mobilize and carry out concerted efforts leading to concrete results” and securing “further enhancement of transparency and soundness.”

- The Company introduced “Executive Officers” to accelerate the speed of executing operations based on voluntary judgments and decisions in each of divisions, regions and functions.
- At the same time, the Company reduced the number of directors from 20 to 9 as a result so as to make them assume the responsibility for taking a speedy and strategic decision for the entire Group and conducting a sound supervision.
- The Company made an all-in-one structure of inside directors acting concurrently as executive officers with a view to displaying the strengths of “decision-making, fulfillment of operations and supervision closely-connected to worksite” by making directors enter into actual worksite and assume the responsibility for making decisions on basic strategies and conducting sound and appropriate supervision based on circumstantial judgments while making them face realities.
- Of four auditors, the Company selected additionally one outside auditor, making a total of three outside auditors to seek high level of auditing functions with greater transparency and soundness.

- The Company established “Personnel and Compensation Committee,” as advisory body to CEO, with the chairman being an outside director, with a view to further enhancing transparency of the management relating to the personnel affairs and compensation of directors.
- The Company consolidated eight pseudo companies into four and thus, is strengthening and improving numerical management administration.

As stated above, the Company is, by thoroughly enforcing these new measures, making its endeavor to accelerate the speed of executing operations, enhance transparency and soundness, and consequently expand corporate value on a continuous basis.

<Management Structure Diagram>



(6)-3 Outline of relationship of interests with outside directors and outside auditors

Two outside directors, President and Representative Director of Art Corporation and Advisor to Kaneka Corporation, are invited to the Company. As to Art Corporation, the Company sells air conditioners and commissions house moving services to Art through Company's subsidiaries and as to Kaneka Corporation, the Company is conducting a certain volume of chemical products business with Kaneka and has plans to continue

the business with it. There is no equity relationship with each of these companies.

As for outside auditors, the Company is scheduled to appoint this year the Chairman and Director of Sumitomo Trust and Banking Company, Limited as outside auditor and reappoint the person who worked for our Company as auditor for six years, in addition to the previously-appointed two outside auditors, the lawyer and the advisor to Sony Corporation. The Company is under regular banking transactions with The Sumitomo Trust and Banking Co., Ltd., and is conducting ordinary company-to-company transactions; however, the outside auditor himself has no direct relationship of interests. Also, none of the other outside auditors has relationship of interests.

(6)-4 Situation of internal audit, audit by auditor and that by independent auditor

① Internal audit and audit by auditor

The Company has the Internal Auditing Department (nine members), which identifies potential serious risks and tasks hidden in the development of the Group businesses and conducts the audit conducive to the management focusing on the appropriateness, legal compliance and efficiency of business operations.

The board of auditors are composed of four auditors (including three outside auditors), who are supervising the management status of corporate governance and auditing day-to-day activities of the management including directors. Auditors attend the board of director's meetings, exercise legal powers receiving reports and hearing from directors, employees and independent auditors, also attend such important meetings as executive officers' meetings, visit and inspect offices and plants and Group companies together with the auditor staff and thus, get hold of the status of internal control and provide guidance and training for improvements.

In addition, the Company established in 2003 the "Group Auditors' Meeting" after appointing auditing officers at major eight overseas affiliated companies which had not an auditing system, and is working hard to enhance the effectiveness of the audit by facilitating coordination and information-sharing among the board auditors (auditing officers) within the Group.

The auditors attend internal audits whenever necessary to get hold of the status of internal control, exchange information with the Internal Auditing Department on a regular basis and moreover, strengthen coordination with the independent auditors by receiving reports and explanations from them concerning the plans, system and method of the accounting audit as well as situations of domestic and overseas subsidiaries.

② Audit by independent auditors

The Company appoints Deloitte Touche Tohmatsu ("DTT") as the independent auditors and engages them to audit the Company's consolidated financial statements under the Commercial Code and the Securities Exchange Law. The Company has however no conflict of interests with DTT or the engagement partners of DTT. The names of the engagement partners and the composition of the assistants engaged in the audit shown below:

The names of the engagement partners

Designated partner Engagement partner: Ikuo Yoshikawa, Wakyu Shinmen

Wakyu Shinmen has been an engagement partner of the Company for consecutive 8 years.

The composition of the assistants engaged in the audit

6 certified public accountants, 5 junior accountants and 1 other personnel

(6)-5 Contents of director and auditor's compensation

Annual total compensation amount for directors: 575 million yen (out of which, that for outside directors is 25 million yen)

Annual total compensation amount for auditors: 103 million yen (out of which, that for outside auditors is 64 million yen)

(6)-6 Contents of audit fee

The audit fee for DTT, the independent auditors of the Company, is 50 million yen.

(7) Matters Related to Parent Company

The Company has no parent company.

Operating Results and Financial Position

1. Operating Results

(1) Overview

During the year under review, the global economy remained steady, benefiting from the favorable performance of the US and Chinese economies. In the second half of the year, signs of an economic slowdown became apparent, including a sharp rise in crude oil prices and a shift in conditions in digital-related businesses following the televisation of the Summer Olympics in Athens. Meanwhile, the Japanese economy began exhibiting signs of deceleration, as stagnant consumer spending and private-sector capital investment caused internal demand to slow, although exports to China and other Asian countries remained favorable.

In this business environment, the Company Group strove to establish a base for significant growth through the concerted application of Groupwide strengths under the Group policy espoused at the beginning of 2004 of ensuring strong growth through abundant passion and enthusiasm in execution.

During fiscal 2005, ended March 31, 2005, consolidated net sales increased 16.5%, to 728,880 million yen, buoyed by strong sales in Japan by our mainstay Air Conditioning. Sales in Japan of distinctive, high-value-added products increased thanks to unusually warm summer weather, and overseas sales of air-conditioning systems remained strong, particularly in Europe and China. Demand was also firm for fluorochemical products used in the semiconductor-related fields.

Although service expenses increased, higher domestic and overseas sales of differentiated products, combined with concentrated efforts to pare overall costs, helped achieve a 26.9% increase in consolidated operating income, to 60,896 million yen. Ordinary income rose 40.4%, to 63,478 million yen, and net income advanced 35.4%, to 38,747 million yen.

An overview of results by business segment follows:

① Air Conditioning and Refrigeration Equipment Division

Japan enjoyed unusually warm weather during the summer season of peak demand, which boosted the overall demand for residential air-conditioning systems. We increased our market share and expanded sales of our distinctive URURU & SALALA systems. We added to URURU & SALALA systems a powerful ventilation function and an air-purification function via photocatalyst titanium apatite to the year-round optimized humidity control function. Furthermore, the design and distinctiveness of ultraslim and stylish UX Series air-conditioning systems led to successful growth as well. Sales of these systems increased through the large-scale electronics retailer and electrical equipment wholesale channels.

Sales in Japan of commercial air-conditioning systems expanded, and our share of the market for commercial air-conditioning systems rose through sales promotion to offer solutions to dealers and customers, accompanied by increased industrial demand

due to a rise in private-sector capital investment and the favorable effects of the hot summer weather. Our sales promotion efforts focused on distinctive, high-value-added products, such as the Round Flow ZEAS, which features superior energy efficiency, quieter and more comfortable operation, and greater environmental friendliness, as well as the multiple-room air-conditioner Ve-up Q for office use, which allows individual units to be replaced without changing existing refrigerant piping.

In Europe, sales volumes of residential and commercial air-conditioning systems expanded despite cool summer weather, owing to the aftereffects of record high temperatures during the previous year. Demand was also strong in China, Australia and Taiwan, and sales volumes in these countries expanded considerably.

Sales of marine-type container refrigeration equipment increased, particularly to European container shipping companies.

Total sales of the Air Conditioning and Refrigeration Equipment Division total sales rose 17.6%, to ¥589,274 million. The division's operating income increased 33.0% compared with the previous term, to 51,231 million yen.

② Chemicals

Sales of fluoropolymers increased favorably, supported by steady demand in the automotive and semiconductor markets. Firm demand from US manufacturers of LAN cables also contributed to higher sales.

Sales of chemical products increased, reflecting higher domestic sales of semiconductor-etching products and oil- and water-repellant products in Japan and other Asian markets. Increased sales of fluorocarbon gases, especially new alternative refrigerants, resulted from robust production by air-conditioner manufacturers.

Total sales of the Chemicals Division advanced 12.6%, to 99,611 million yen, and operating income rose 9.5%, to 8,958 million yen.

③ Other Divisions

In the Oil Hydraulics Division, sales of oil hydraulics equipment for industrial machinery increased, mainly due to improved market share, sustained by expanded sales of such distinctive products as inverter-driven hydraulic units and Oilcon oil cooling units condensers and strong US demand for oil hydraulics equipment used in construction machinery. Moreover, mainstay demand for machine tools remained firm.

Sales of multilevel car-parking systems decreased compared with the previous term, owing to a decline in demand.

Sales from defense system operations in fiscal 2005 advanced, owing to increased orders for ammunition for Japan's Self-Defense Forces.

As a result, total sales from Other Divisions increased 11.0%, to 39,993 million yen, but operating income declined 44.8% to 719 million yen, mainly affected by the decline in sales of multilevel car-parking systems.

On a non-consolidated basis, Daikin's net sales improved 13.2%, to 438,129 million

yen, operating income soared 61.9%, to 15,167 million yen, and ordinary income advanced 19.5%, to 2,695 million yen. As a consequence, net income for fiscal 2005 increased 32.7% to 19,868 million yen.

As for the annual dividend for the year under review we proposed that a full-year dividend is 18 yen (consisting of an interim dividend of 7 yen and a year-end dividend of 11 yen) including a ordinary dividend of 16 yen, an increase of 2 yen and a commemorative dividend of 2 yen for the 80th anniversary of the foundation of the Company.

(2) Prospect for Business Results for the Next Business Year

Although there is still a concern that the global economy may be affected by persistently higher crude oil prices and the US credit squeeze policy, the US economy and the Chinese economy remains steady and the global economy is expected to remain on a mild recovery path. The Japanese economy, being buoyed by the global economy, is expected to leave the leveling-off sooner or later and continue to head for recovery.

Under such economic climate, the Company will, under the Annual Group Policy for 2005 “Establish a Firm Footing to Ensure a Quantum Leap Forward,” continue to make every effort to expand businesses, particularly air conditioning and chemical businesses, and strengthen the profit-earning structure. In order for the entire Company Group to establish the foundation for sustainable growth and development in the next year and onward, the Company will specifically implement the following measures:

- Launching of innovative total cost-down measures of absorbing the impact of high market prices and enforcement of thorough pricing policy;
- Further sales expansion of differentiated products and high value-added products;
- Continued working on investment return in the demand-growing markets such as Europe and China;
- Establishment of global supply chain management by setting up production centers close to the markets;
- Securing and training of human resources from both quantitative and qualitative perspectives as the source of maintaining future business growth;
- Building of the Company’s solid foundation for the existence as a corporation through (1) dynamic improvement of quality, (2) establishment of secure and completely accident-free operations and (3) setting up of stronger bases for merchantability and engineering capabilities.

Numerically speaking, the Company expects that the net sales (on consolidated basis) will be 815,000 million yen, a 11.8% increase over the year earlier; the operating income, 70,000 million yen, a 15.0% increase; the ordinary income, 66,000 million yen, up 4.0%; net income for the year, 41,000 million yen, up 5.8% over the year earlier. On non-consolidated basis, the net sales will be 432,000 million yen, down 1.4% over the year earlier; the operating income, 15,500 million yen, a 2.2% increase; the ordinary income, 20,000 million yen, down 25.7%; net income for the year, 14,000 million yen,

down 29.5% over the year earlier.

The foreign exchange rates for the business year 2005 (ending March 2006) are assumed to be 135 yen per Euro and 102 yen per U.S. Dollar, and the annual dividend is scheduled to be 18 yen per share, the same as that for the year under review by adding 2 yen of a commemorative dividend for the 80th anniversary of the Company as an ordinary dividend.

The prospect for the business results are based on the information available at this point of time and certain preconditions judged to be reasonable, and therefore actual results may differ considerably from the prospect. There are some of the factors for causing the difference:

- Fluctuation of demand for air conditioners due to cool summer and bad weather;
- Abrupt changes of political and economic situations and product demand-supply situations in major markets (in Japan, Europe and Asia including China);
- Significant fluctuations of foreign exchange rates (particularly, exchange rates of Euro and Dollar);
- Material quality and production troubles;
- Fluctuations of market value of marketable securities and other assets held by the Company

2. Financial Position

The status of the cash flow for the year under review is as follows:

As for cash flows from operating activities, the funds provided by operating activities increased to 43,970 million yen due to a rise of income before income taxes and minority interests. As for cash flows from investing activities, the funds used in investing activities decreased to 42,091 million yen due to acquisitions of fixed assets and other factors. As for cash flows from financing activities, the funds provided by financing activities rose to 3,534 million yen due to the increase in short term and long-term borrowings. As a result, the cash and cash equivalents at the end of the year under review amounted to 55,385 million yen.

The interest-bearing debt amounted to 166,400 million yen, an increase of 17,500 million yen over the year earlier; however, the interest-bearing debt ratio declined by 0.9% from the previous year to 26.9%.

Trends in cash flow indicators are shown below.

	Year ending March 31, 2001	Year ending March 31, 2002	Year ending March 31, 2003	Year ending March 31, 2004	Year ending March 31, 2005
Equity ratio (%)	38.4	41.5	43.1	44.0	44.4
Equity ratio based on current values (%)	117.0	129.9	107.9	128.6	115.0
Period of debt redemption (years)	3.0	3.8	2.9	3.7	3.8
Instant coverage ratio (times)	8.6	7.9	10.8	9.0	8.5

Notes

Equity ratio: equity capital/total assets

Equity ratio based on current values: aggregate market value of shares/total assets

Period of debt redemption: interest-bearing debt/operating cash flow

Instant coverage ratio: operating cash flow/interest payment

* Each indicator is calculated based on the consolidated financial values.

* An aggregate market value of shares is calculated by: term-end closing price of share × term-end number of shares issued (after deduction of treasury shares)

* The operating cash flow represents the cash flow from operating activities as mentioned in the consolidated statements of cash flows. The interest-bearing debt covers, of the liabilities booked in the consolidated balance sheet, all the liabilities whose interests were paid. The interest payment represents the payment of interest mentioned in the consolidated statements of cash flows.

Consolidated Statements of Income

(Millions of yen)

Accounts	Current year (from April 1, 2004 to March 31, 2005)		Previous year (from April 1, 2003 to March 31, 2004)		Changes
Net sales		728,880		625,717	103,162
Cost of sales	(64.8)	472,221	(65.9)	412,450	59,771
Selling, general and administrative expenses		195,761		165,279	30,481
Operating income	(8.4)	60,896	(7.7)	47,987	12,909
Non-operating income		10,099		3,763	6,335
Interest income		691		469	221
Dividend income		449		379	70
Equity in earnings of unconsolidated subsidiaries and associated companies		397		148	249
Royalty income		112		296	(184)
Exchange gains		794		—	794
Gain on loss-of-profit insurance from explosion at Kashima Plant-net		5,954		806	5,148
Others		1,699		1,662	36
Non-operating expenses		7,518		6,541	976
Interest expense		4,617		4,028	589
Exchange losses		—		526	(526)
Others		2,900		1,987	913
Ordinary income	(8.7)	63,478	(7.2)	45,209	18,269
Extraordinary income		1,040		1,279	(238)
Gain on sales of land		—		111	(111)
Gain on sales of investment securities		110		1,027	(916)
Gain on property-damage insurance from explosion at Kashima Plant-net		929		—	929
Gain on liquidation of associated companies		—		140	(140)
Extraordinary loss		716		2,700	(1,984)
Loss on sales of land		—		75	(75)
Loss on disposals of property, plant and equipment		651		697	(46)
Loss on explosion at Kashima Plant-net		—		1,682	(1,682)
Write-down of investment securities		61		172	(111)
Write-down of other assets		3		72	(68)
Income before income taxes and minority interests	(8.8)	63,801	(7.0)	43,787	20,014
Income taxes—current		23,835		17,582	6,252
Income taxes—deferred		(1,831)		(4,546)	2,714
Total		41,797		30,751	11,046
Minority interests		3,051		2,139	911
Net income	(5.3)	38,747	(4.6)	28,611	10,135

Consolidated Statements of Surplus

(Millions of yen)

Accounts	Current Year (from April 1, 2004 to March 31, 2005)	Previous year (from April 1, 2003 to March 31, 2004)	Changes
Capital surplus			
Capital surplus at the beginning of year	25,969	25,968	1
Increase in capital surplus	1	1	0
Gains on disposal of treasury stock	1	1	0
Capital surplus at the end of year	25,971	25,969	1
Retained earnings			
Retained earnings at the beginning of the year	180,945	155,654	25,290
Increase in retained earnings	38,805	28,678	10,127
Cumulative effect of consolidating subsidiaries previous unconsolidated	51	67	(15)
Effect of change of the fiscal year-end of consolidated subsidiaries	7	–	7
Net income	38,747	28,611	10,135
Decrease in retained earnings	4,069	3,387	681
Cumulative effect of application of equity method to an associated company previously accounted for by the cost method	–	106	(106)
Cash dividends	3,949	3,160	788
Bonuses to directors and corporate auditors	120	120	–
Retained earnings at the end of year	215,681	180,945	34,736

Consolidated Balance Sheets

(Millions of yen)

Accounts	Current year (as of March 31, 2005)	Previous year (as of March 31, 2004)	Changes
Current assets	367,582	312,017	55,564
Cash and deposits with banks	41,842	50,547	(8,705)
Notes and accounts receivable-trade	136,292	117,928	18,363
Marketable securities	14,003	1,530	12,473
Inventories	141,893	110,419	31,474
Deferred tax assets	15,027	13,184	1,842
Others	21,158	20,370	787
Allowance for doubtful receivables	(2,636)	(1,963)	(672)
Fixed assets	250,291	224,361	25,930
Tangible fixed assets	170,209	149,790	20,418
Buildings and structures	49,315	44,937	4,377
Machinery and equipment, delivery equipment	70,883	60,632	10,251
Land	23,590	23,514	76
Construction in progress	11,016	8,523	2,492
Others	15,402	12,182	3,219
Intangible fixed assets	13,477	10,767	2,709
Goodwill	1,533	821	711
Consolidation goodwill	6,205	5,571	633
Others	5,738	4,373	1,364
Investment and other assets	66,605	63,803	2,801
Investment securities	56,698	52,440	4,258
Long-term loan receivables	1,370	1,595	(225)
Deferred tax assets	1,849	2,110	(261)
Others	7,892	8,815	(923)
Allowance for doubtful receivables	(1,205)	(1,158)	(47)
Total assets	617,873	536,378	81,495
Current liabilities	268,167	223,920	44,247
Notes and accounts payable	78,065	70,181	7,884
Short-term borrowings	57,643	51,341	6,301
Commercial paper	38,000	21,000	17,000
Current portion of long-term debts	3,838	6,680	(2,842)
Current portion of straight bonds	10,000	10,000	–
Income taxes payable	9,488	7,837	1,650
Deferred tax liabilities	6	10	(3)
Reserves for guarantee for finished products	9,373	5,198	4,175
Accrued expenses	28,635	25,202	3,432
Notes payable-construction	1,503	747	756
Others	31,612	25,720	5,892
Long-term liabilities	66,950	69,828	(2,877)
Straight bonds	20,000	30,000	(10,000)
Long-term debts	36,960	29,926	7,034
Deferred tax liabilities	4,833	4,377	456
Liabilities for retirement benefits	4,553	4,542	11
Long-term accounts payable	602	982	(379)
Total liabilities	335,118	293,749	41,369
Minority interests	8,633	6,858	1,775
Common stock	28,023	28,023	–
Capital surplus	25,971	25,969	1
Retained earnings	215,681	180,945	34,736
Net unrealized gain (loss) on available-for-sale securities	12,294	11,199	1,095
Foreign currency translation adjustments	(6,501)	(9,256)	2,755
Treasury stock	(1,347)	(1,109)	(238)
Total shareholders' equity	274,121	235,771	38,350
Total liabilities, minority interests and shareholders' equity	617,873	536,378	81,495

As to the notes, refer to page 29.

Consolidated Statements of Cash Flows

(Millions of yen)

Accounts	Current year (from April 1, 2004 to March 31, 2005)	Previous year (from April 1, 2003 to March 31, 2004)
I. Cash flows from operating activities		
Income before income taxes and minority interests	63,801	43,787
Depreciation	22,207	21,274
Interest expenses	5,075	4,449
Write-down of investment securities	61	172
Trade notes and accounts receivable	(2,458)	(13,147)
Inventories assets	(28,042)	(9,996)
Increase in accounts payable	2,322	8,934
Other-net	277	3,316
Subtotal	63,244	58,791
Income taxes paid	(22,795)	(14,667)
Other-net	3,521	(3,818)
Net cash provided by operating activities	43,970	40,305
II. Cash flows from investing activities		
Purchases of property, plant and equipment	(37,506)	(29,794)
Payments to acquire investment securities	(1,046)	(2,258)
Payment for purchase of a subsidiary, net of cash acquired	(3,407)	(2,114)
Other-net	(130)	2,573
Net cash used in investing activities	(42,091)	(31,594)
III. Cash flows from financing activities		
Net increase in short-term borrowings	15,024	4,930
Increase in long-term debts	9,759	15,094
Repayments of long-term debts	(6,821)	(14,290)
Redemption of bonds	(10,000)	-
Payment of cash dividends	(3,949)	(3,160)
Other-net	(478)	(391)
Net cash provided by (used in) financing activities	3,534	2,182
IV. Effect of exchange rate changes on cash and cash equivalents	129	(1,142)
V. Net increase or decrease in cash and cash equivalents	5,543	9,750
VI. Cash and cash equivalents, beginning of year	50,101	40,304
VII. Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	151	46
VIII. Effect of change of the fiscal year-end of consolidated subsidiaries	(410)	-
IX. Cash and cash equivalents, end of year	55,385	50,101

Basic and Important Matters to Prepare Consolidated Financial Statements

1. The Matters Related to the Scope of Consolidation

(1) The number of consolidated subsidiaries: 95

Major subsidiaries: Daikin Applied Systems Co., Ltd., Daikin Airconditioning & Technology Tokyo Co., Ltd., Daikin Airconditioning & Technology Osaka Co., Ltd., Daikin Airconditioning & Technology Kyushu Co., Ltd., Daikin Airconditioning & Technology Tokai Co., Ltd., Daikin Europe N.V. Daikin Industries (Thailand) Ltd., Shanghai Daikin Airconditioning Co., Ltd., Daikin America, Inc., Daikin Fluorochemicals (China) Co., Ltd.

(Newly added): due to new establishments and acquisitions

Daikin Airconditioning UK North, Ltd., Daikin Airconditioning Portugal, Ltd., Daikin Device (Suzhou) Co., Ltd., Cri-Tech, Inc., Daikin Device Czech Republic sro

The subsidiary that was included in the consolidation in view of the growing importance:

Daikin Chemical (Hong Kong) Ltd.

(Excluded): due to mergers between consolidated subsidiaries

Daikin Airconditioning UK North, Ltd., Daikin Airconditioning UK West, Ltd., Daikin Airconditioning UK East, Ltd.

(2) The number of non-consolidated subsidiaries: 12

The impact by each of the total assets, net sales, net income and retained earnings and others of non-consolidated subsidiaries upon the consolidated total assets, consolidated net sales, consolidated net income, consolidated retained earnings and others is minor and is not important as a whole. For this reason these companies are excluded from the consolidation.

2. The Matters Related to the Application of the Equity Method

(1) The number of companies that the equity method is applied to: 9

The number of non-consolidated subsidiaries that the equity method is applied to: 1

Daikin America Funding, Inc.

The number of consolidated subsidiaries that the equity method is applied to: 8

Major affiliated companies

Moritani Daikin Co., Ltd., Nikko Engineering Co., Ltd., MDA Manufacturing, Inc.

(Newly added): due to new establishment

Ningbo Orient-Daikin Service & Technology Communication Co., Ltd.

3. The Matters Related to the Dates of Business Years of Consolidated Subsidiaries

Of the consolidated subsidiaries, the dates of settlement of accounts of Shanghai Daikin Air-conditioning Co., Ltd. and 21 other consolidated companies are December 31. In preparing the consolidated financial statements, we use the financial statements made available as of the date of December 31. As for any important deals made between the dates of their respective settlement of accounts and the date of our consolidated settlement of account, we apply adjustments that are required for consideration. As to Daikin Air-conditioning France S.A. and 5 other companies, the date of their respective settlement of accounts has been changed to March 31 from December 31, starting from this year under review.

4. The Matters Related to Accounting Standards

(1) The standards and method of assessment of important assets

① Securities

Available-for-sale securities

Securities with market values: The market value method based on market prices, etc. on the date of the term end of settlement of accounts (the assessment difference is treated by the full capital inclusion method, and the cost of sale is calculated mainly by the moving average method)

Securities without market value: Mainly, the cost method by the moving average method

② Derivatives: The market value method

③ Inventory assets: For assessment, the domestic companies mainly use the cost accounting method by the gross average method, while the overseas companies mainly use the lower-of-cost-or-market method by the gross average method.

(2) The methods of depreciation of important depreciable assets:

The domestic companies use the diminishing method; provided that the straight-line method is used for the buildings (excluding fixtures) that were acquired on and after April 1, 1998. The overseas companies mainly use the straight-line method based on the estimated service life.

The service life of major items is as follows:

Buildings and structures: 15 to 50 years

Machinery & equipment, and delivery equipment: 5 to 15 years

(3) The standards to appropriate important reserves

① Allowance for doubtful receivables

To prepare for the losses due to uncollectible bad debts, we review the possibility of collecting debts in general based on the loan loss ratio, and that of collecting special debts such as the debts that are likely to become bad debts, on an individual basis, and appropriate the estimated amount of uncollectible debts.

② Reserves for guarantee for finished products

We appropriate the reserves for guarantee for finished products based on the past track records, factoring in prospective guarantees in the future, for the free-repair costs that are expected to be caused on the sold products.

③ Allowance for retirement benefits

To prepare for employee's severance and retirement benefits, we appropriate the amount based on the estimated amount of the liabilities of severance and retirement benefits and that of pension assets at the end of the consolidated accounting year.

As for difference due to the revision of accounting standards, the amount proportionately divided over seven years is treated as cost.

As for difference in terms of mathematical computation, the amount proportionately divided by the straight-line method in a certain number of years (ten years) within the average remaining service period of an employee at the time of occurrence of such liabilities is treated as cost from the next consolidated accounting year.

As for past service liabilities, the amount proportionately divided by the straight-line method in a certain number of years (ten years) within the average remaining service period of an employee at the time of occurrence of such liabilities is treated as cost.

(4) The methods of treatment of important lease deals

The finance lease deals other than those that transfer the ownership rights of leased properties to lessees are subject in principle to the accounting treatments in conformance with the methods of normal lease deals.

(5) The method of important hedge accounting

① The method of hedge accounting

For the Company Group, the deferral hedge accounting treatment is applied in principle. As to the foreign currency monetary claims and debts on which forward-exchange contracts are concluded, allocation treatment is applied. As for the interest rate swaps that meet the hedge accounting requirements, special

treatment is applied.

② Means of hedging and hedge coverage

For the purpose of avoiding foreign currency risks, the Company Group deems foreign exchange contracts, currency swaps and currency options as means of hedging, and foreign currency financial assets and liabilities including foreign currency monetary claims and debts as hedge coverage. Moreover, as to interest-rate fluctuation risks, interest rate swaps and interest rate options are deemed as means of hedging, while financial liabilities including borrowings from banks are deemed as hedge coverage.

③ Hedging policy and assessment method of effectiveness of hedges

The Company Group's risk management places emphasis on effective utilization of derivative deals aimed to avoid foreign currency fluctuation risks exposed to assets and liabilities and reduce interest payments for the purpose of circumventing unexpectedly huge management loss.

Regular test is conducted on the effectiveness of hedging functions of the derivatives held by the Company Group. Any additional derivative deal of any kind is subject to the above test as to hedging functions of that particular derivative prior to the start of such derivative deals. The effectiveness of the hedge is judged by comparing cumulative total of market fluctuations or cash flow fluctuations for the hedge coverage and that of market fluctuations or cash flow fluctuations for the means of hedging. Such technique as regression analysis is used whenever necessary. The same check system is adopted in the Company's consolidated subsidiaries.

(6) The accounting treatment of consumption tax

Accounting for consumption tax is performed using the tax exclusion method.

5. Matters Related to Assessment of Assets and Liabilities of Consolidated Subsidiaries

We use the full-fair-value method entirely for the assessment of assets and liabilities of consolidated subsidiaries.

6. Matters Related to the Amortization of Consolidation Goodwill

As to the amortization of consolidation goodwill, the straight-line method over a 5-to-10 year period is used.

7. Matters Related to Treatment of Appropriation of Surplus

The consolidated statements of surplus are prepared based on the appropriation of surplus that has become final during the consolidated accounting year under review.

8. The Scope of Funds in the Consolidated Statements of Cash Flow

The funds in the consolidated statements of cash flow (cash and cash equivalents) are composed of the funds in hand, savings that can be drawn at any time, and the short-term investments that can be easily converted into cash and that have little risk of fluctuation of values because they are redeemable within three months from the date of acquisition.

(Revision of Accounting Treatment Method)

Royalty incomes have been accounted as non-operating income so far. There has been a sign of an increase in royalty incomes in recent years, and on the occasion of having incorporated in the Articles of Incorporation the technical assistance to subsidiaries and associated companies as the Company's business purpose, it is decided that incomes from subsidiaries and associated companies out of royalty incomes will be included in and accounted as sales in the accounting year under review and onward. However, as transactions between consolidated subsidiaries are offset and deleted, the impact on the consolidated financial statements is minor, except for that on the segment information. The impact on the segment information is described in the notes to the segment information.

Relating to Consolidated Balance Sheets

	Current year (Millions of yen)	Previous year (Millions of yen)
1. Accumulated depreciation of tangible fixed assets	325,365	306,993
2. Liabilities on guarantee		
Guarantee	152	-
Commitment to guarantee	1,490	2,172
3. Assets pledged as collateral		
Time deposits	1,511	1,516
Accounts receivable-trade	4,515	-
Inventory assets	6,043	-
Tangible fixed assets	45,626	46,352

Relating to Consolidated Statements of Income

	Current year (Millions of yen)	Previous year (Millions of yen)
1. Research and development costs included in general and administrative expenses and manufacturing costs	24,582	23,817

Segment Information

1. Industry Segments

(Millions of yen)

		Air conditioning	Chemicals	Others	Total	Eliminations	Consolidated
Current year	I. Net sales and operating income or loss						
	Net sales	[17.6]	[12.6]	[11.0]	[16.5]		[16.5]
	(1) Sales to customers	589,274	99,611	39,993	728,880	–	728,880
	(2) Intersegment sales	385	2,769	–	3,155	(3,155)	–
	Total	589,660	102,381	39,993	732,035	(3,155)	728,880
	Operating expenses	538,428	93,422	39,274	671,126	(3,142)	667,983
	Operating income	(8.7)	(9.0)	(1.8)	(8.4)	(12)	(8.4)
	51,231	8,958	719	60,909		60,896	
	II. Assets, depreciation and capital expenditure						
	Assets	398,064	111,191	30,847	540,103	77,770	617,873
Depreciation	13,141	7,849	1,173	22,164	–	22,164	
Capital expenditure	30,092	12,925	1,439	44,457	–	44,457	
Previous year	I. Net sales and operating income or loss						
	Net sales	[10.4]	[5.9]	[3.0]	[9.3]		[9.3]
	(1) Sales to customers	501,186	88,492	36,039	625,717	–	625,717
	(2) Intersegment sales	355	2,596	–	2,951	(2,951)	–
	Total	501,541	91,088	36,039	628,668	(2,951)	625,717
	Operating expenses	463,034	82,904	34,735	580,673	(2,944)	577,729
	Operating income	(7.7)	(9.2)	(3.6)	(7.7)	(7)	(7.7)
	38,507	8,184	1,303	47,994		47,987	
	II. Assets, depreciation and capital expenditure						
	Assets	325,775	109,383	29,857	465,016	71,362	536,378
Depreciation	12,225	7,945	1,082	21,254	–	21,254	
Capital expenditure	18,693	11,834	1,158	31,686	–	31,686	

Note 1: Type of business is determined by taking into account the similarities of kinds, manufacturing methods and sales methods of products.

Note 2: The figures expressed in () indicate the ratio to the net sales, and those expressed in [] indicate the ratio of growth over the previous year.

Note 3: Major products included in each type of business are as follows:

- (1) Air conditioning, refrigeration equipment: Residential air conditioners, commercial air conditioners and refrigeration equipment, air conditioning and refrigeration equipment for ships, electronic systems, cryogenic and ultrahigh vacuum equipment, semiconductor related manufacturing equipment
- (2) Chemicals: Fluorocarbon gas, fluoroplastic, chemical products, chemical engineering machine
- (3) Others: Hydraulic equipment for industrial machinery, Hydraulic equipment and machines for construction machine and vehicles, centralized lubrication unit and systems, multilevel car-parking system, ammunition, warhead for guided missile, aircraft parts

Note 4: Of the assets, the corporate assets included in the eliminations and corporate items are 80,463 million yen in the current year and 77,061 million yen in the previous year, and its major factor is such assets as total surplus funds (cash and securities) and long-term investment funds (investment securities) of the parent company.

Note 5: As mentioned in the revision of the accounting methods, royalty incomes have been accounted as non-operating income so far. It is decided that incomes from subsidiaries and associated companies out of royalty incomes are and will be included in and accounted as sales in the current year and onward. The impact of this revision on the Industry Segments is minor.

2. Geographical Segments

(Millions of yen)

		Japan	Europe	America	Asia, and Oceania	Other	Total	Eliminations and Corporate	Consolidated
Current year	I. Net sales and operating income or loss								
	Net sales	[8.7]	[34.9]	[16.8]	[28.6]	[31.8]	[16.5]		[16.5]
	(1) Sales to outside customers	440,221	160,757	27,326	98,065	2,509	728,880	-	728,880
	(2) Interarea transfers	110,434	913	5,446	67,593	-	184,387	(184,387)	-
	Total	550,656	161,670	32,772	165,659	2,509	913,267	(184,387)	728,880
	Operating expenses	528,581	147,314	28,512	142,389	2,305	849,104	(181,121)	667,983
	Operating income	(5.0) 22,074	(8.9) 14,355	(15.6) 4,259	(23.7) 23,269	(8.1) 203	(8.8) 64,163		(3,266) 60,896
II. Assets	391,697	122,212	25,449	131,247	1,267	671,874	(54,000)	617,873	
Previous year	I. Net sales and operating income or loss								
	Net sales	[3.3]	[26.4]	[-1.2]	[25.9]	[7.9]	[9.3]		[9.3]
	(1) Sales to outside customers	404,969	119,210	23,389	76,244	1,903	625,717	-	625,717
	(2) Interarea transfers	74,632	477	2,901	44,784	-	122,797	(122,797)	-
	Total	479,602	119,688	26,291	121,029	1,903	748,514	(122,797)	625,717
	Operating expenses	465,202	111,219	25,530	105,271	1,711	708,935	(131,205)	577,729
	Operating income	(3.6) 14,400	(7.1) 8,469	(3.3) 760	(20.7) 15,757	(10.1) 191	(6.3) 39,578		8,408 47,987
II. Assets	365,055	73,539	23,532	93,114	1,339	556,580	(20,202)	536,378	

Note 1: The figures expressed in () indicate the ratio to the net sales, and those expressed in [] indicate the ratio of growth over the previous year.

Note 2: Of the assets, the company-wide assets included in the deleted or the company-wide items are 80,463 million yen in the current year and 77,061 million yen in the previous year, and its major factor is such assets as total surplus funds (cash and securities) and long-term investment funds (investment securities) of the parent company.

Note 3: As mentioned in the revision of the accounting methods, royalty incomes have been accounted as non-operating income so far. It is decided that incomes from subsidiaries and associated companies out of royalty incomes are and will be included in and accounted as sales in the current year and onward. As a result, internal sales between segments and operating income in the domestic segment increased by 10,547 million yen, respectively, and the deleted amount of the internal sales between segments under the "deleted or company-wide" column increased by the same amount while the operating income decreased by the same amount. However, there is no impact on the consolidated operating income.

3. Sales to Foreign Customers

(Millions of yen)

		Asia, and Oceania	Europe	America	Other	Total
Current Year	I Overseas sales	123,920	168,806	31,807	6,745	331,279
	II Consolidated sales					728,880
	III Ratio of overseas sales to consolidated sales	17.0%	23.2%	4.4%	0.9%	45.5%
Previous year	I Overseas sales	104,345	126,150	27,294	5,356	263,147
	II Consolidated sales					625,717
	III Ratio of overseas sales to consolidated sales	16.7%	20.2%	4.4%	0.9%	42.1%

Lease Deals

Descriptions are omitted as they are disclosed on the EDINET.

Tax Effect Accounting

Current year From April 1, 2004 to March 31, 2005	Previous year From April 1, 2003 to March 31, 2004
1 Breakdown of deferred tax assets and deferred tax liabilities by occurrence of major causes (Millions of yen)	1 Breakdown of deferred tax assets and deferred tax liabilities by occurrence of major causes (Millions of yen)
Deferred tax assets	Deferred tax assets
Unrealized profit of inventory assets	Unrealized profit of inventory assets
7,380	4,431
Software	Software
3,679	3,229
Warranty reserve	Accrued bonus
3,121	2,614
Accrued bonus	Retirement benefits
2,641	1,744
Retirement benefits	Warranty reserve
1,750	1,609
Foreign tax credit	Inventory assets
1,572	1,305
Inventory assets	Foreign tax credit
1,422	1,249
Business tax payable	Tax loss carryforwards
554	1,193
Tax loss carryforwards	Business tax payable
385	898
Allowance for doubtful receivables	Long-term accounts payable
375	399
Property and equipment	Allowance for doubtful receivables
284	323
Long-term accounts payable	Property and equipment
244	321
Investment securities	Investment securities
111	92
Others	Others
2,031	2,938
Total deferred tax assets	Total deferred tax assets
25,556	22,350
Less valuation allowance	Less valuation allowance
(53)	(462)
Total deferred tax assets	Total deferred tax assets
25,502	21,888

Deferred tax liabilities		Deferred tax liabilities	
Deferred gains on sales of property	(2,167)	Deferred gains on sales of property	(2,167)
Unrealized gain on available-for-sale securities	(8,405)	Unrealized gain on available-for-sale securities	(7,658)
Others	(2,892)	Others	(1,153)
Total deferred tax liabilities	(13,466)	Total deferred tax liabilities	(10,979)
Net deferred tax assets	12,036	Net deferred tax assets	10,908
2 A reconciliation between the normal effective statutory tax rate and the actual effective tax rate is as follows.		2 A reconciliation between the normal effective statutory tax rate and the actual effective tax rate is as follows.	
Normal statutory income tax rate	40.6%	Normal statutory income tax rate	42.0%
(Adjustment)		(Adjustment)	
Difference in foreign subsidiaries tax rate	(6.2%)	Difference in foreign subsidiaries tax rate	(13.2%)
Permanent non-deductible expenses	1.7%	Permanent non-deductible expenses	3.3%
Tax credit for research and development costs	(2.8%)	Foreign tax credit	(0.7%)
Losses of consolidated subsidiaries	0.6%	Tax credit for research and development costs	(4.2%)
Others	0.6%	Losses of consolidated subsidiaries	1.9%
Actual effective income tax rate	34.5%	Others	0.7%
		Actual effective income tax rate	29.8%

Investment Securities

Current this Year as of March 31, 2005

1. Marketable Available-for-Sale Securities Included in Investment Securities at March 31, 2005

(Millions of yen)

Classification	Current year(As of March 31, 2005)		
	Cost	Fair Value	Unrealized gains and (losses)
Securities whose fair value exceeds cost			
Equity securities	18,960	40,209	21,249
Bonds	–	–	–
Others	503	610	106
Subtotal	19,463	40,819	21,355
Securities whose fair value does not exceed cost			
Shares	9,012	8,322	(690)
Bonds	–	–	–
Others	–	–	–
Subtotal	9,012	8,322	(690)
Total	28,476	49,142	20,665

2. Sales of Available-for-Sale Securities Included in Investment Securities for the Year Ended March 31, 2005

(Millions of yen)

Proceeds from sale	Total gains on sale	Total loss on sale
362	110	–

Note: As for the securities with market value out of available-for-sale securities, impairment accounting of 53 million yen was made for the current year.

3. Available-for-Sale Securities without Marketable Value as of March 31, 2005

(Millions of yen)

Contents	Carrying amount
Unlisted shares (except for securities traded over the counter)	1,790
Commercial paper	–
Others	16,143

4. The Carrying Values of Available-for-Sale Securities with Maturity Dates,
as of March 31, 2005

(Millions of yen)

Classification	Due in one year	Due in 1 year to 5 years	Due in 5 year to 10 years	Due in over 10 years
Bonds	–	–	–	–
Others	14,000	–	–	–
Total	14,000	–	–	–

Previous Year as of March 31, 2004

1. Marketable Available-for-Sale Securities Included in Investment Securities
at March 31, 2005

(Millions of yen)

Classification	Previous year (As of March 31, 2004)		
	Cost	Fair Value	Unrealized gains and (losses)
Securities whose fair value exceeds cost			
Equity securities	17,062	36,367	19,304
Bonds	30	30	0
Others	613	784	170
Subtotal	17,706	37,181	19,474
Securities whose fair value does not exceed cost			
Equity securities	10,052	9,356	(696)
Bonds	–	–	–
Others	–	–	–
Subtotal	10,052	9,356	(696)
Total	27,759	46,538	18,778

2. Sales of Available-for-Sale Securities Included in Investment Securities
for the Year Ended March 31, 2004

(Millions of yen)

Proceeds from sale	Total gains on sale	Total loss on sale
3,098	1,027	0

Note: As for the securities with market value out of available-for-sale securities, impairment accounting of 22 million yen was made for the year under review.

3. Available-for-Sale Securities without Marketable Value as of March 31, 2005

(Millions of yen)

Contents	Amount booked in consolidated balance sheets
Unlisted shares (except for securities traded over the counter)	1,809
Commercial paper	–
Others	2,502

4. The Carrying Values of Available-for-Sale Securities with Maturity Dates, as of March 31, 2005

(Millions of yen)

Classification	Due in one year	Due in 1 year to 5 years	Due in 5 year to 10 years	Due in over 10 years
Bonds	30	–	–	–
Others	1,656	–	–	–
Total	1,686	–	–	–

Derivative Deals

Descriptions are omitted as they are disclosed on the EDINET.

Related Party Transactions

Current Year(From April 1, 2004 to March 31, 2005)

Directors and main individual shareholders, etc.

Attribute	Name	Content of business or profession	Share of voting rights in possession (non-possession) (%)	Content of transaction	Transaction amount	Title of account	Balance at the end of the year
Director	Noriyuki Inoue	Chairman and Representative Director of the Company, Director General of Daikin Foundation for Contemporary Arts	0.02	Contribution to Daikin Foundation for Contemporary Arts	104 million yen	-	-

Note: The above figure is the amount of the transaction for the so-called third person.

Previous Year(From April 1, 2003 to March 31, 2004)

Directors and main individual shareholders, etc.

Attribute	Name	Content of business or profession	Share of voting rights in possession (non-possession) (%)	Content of transaction	Transaction amount	Title of account	Balance at the end of the year
Director	Noriyuki Inoue	Chairman and Representative Director of the Company, Director General of Daikin Foundation for Contemporary Arts	0.02	Contribution to Daikin Foundation for Contemporary Arts	4 million yen	-	-

Employee's Severance and Retirement Benefits Related Matters

Year under review (from April 1, 2004 to March 31, 2005)	Previous year (from April 1, 2003 to March 31, 2004)																																						
<p>1. Outline of employee's severance indemnities and pension plans being adopted The Company and its domestic consolidated subsidiaries are adopting a qualified employee retirement pension plan and one-off retirement payment plan as a defined benefit pension system.</p>	<p>1. Outline of employee's severance indemnities and pension plans being adopted The Company and its domestic consolidated subsidiaries are adopting a qualified employee retirement pension plan and one-off retirement payment plan as a defined benefit pension system.</p>																																						
<p>2. Matters relating to the liabilities for employees' retirement benefits</p> <p style="text-align: right;">(Millions of yen)</p> <table> <tr> <td>Projected benefit obligation</td> <td style="text-align: right;">(68,458)</td> </tr> <tr> <td>Fair value of plan assets</td> <td style="text-align: right;">50,285</td> </tr> <tr> <td>Non-reserved liabilities for retirement benefits</td> <td style="text-align: right;">(18,173)</td> </tr> <tr> <td>Unrecognized transitional obligation</td> <td style="text-align: right;">7,214</td> </tr> <tr> <td>Unrecognized prior service cost</td> <td style="text-align: right;">(97)</td> </tr> <tr> <td>Unrecognized actuarial loss</td> <td style="text-align: right;">6,503</td> </tr> <tr> <td>Net liability</td> <td style="text-align: right;">(4,553)</td> </tr> </table>	Projected benefit obligation	(68,458)	Fair value of plan assets	50,285	Non-reserved liabilities for retirement benefits	(18,173)	Unrecognized transitional obligation	7,214	Unrecognized prior service cost	(97)	Unrecognized actuarial loss	6,503	Net liability	(4,553)	<p>2. Matters relating to the liabilities for employees' retirement benefits</p> <p style="text-align: right;">(Millions of yen)</p> <table> <tr> <td>Projected benefit obligation</td> <td style="text-align: right;">(68,354)</td> </tr> <tr> <td>Fair value of plan assets</td> <td style="text-align: right;">44,189</td> </tr> <tr> <td>Non-reserved liabilities for retirement benefits</td> <td style="text-align: right;">(24,164)</td> </tr> <tr> <td>Unrecognized transitional obligation</td> <td style="text-align: right;">10,821</td> </tr> <tr> <td>Unrecognized prior service cost</td> <td style="text-align: right;">(109)</td> </tr> <tr> <td>Unrecognized actuarial loss</td> <td style="text-align: right;">8,911</td> </tr> <tr> <td>Net liability</td> <td style="text-align: right;">(4,542)</td> </tr> </table>	Projected benefit obligation	(68,354)	Fair value of plan assets	44,189	Non-reserved liabilities for retirement benefits	(24,164)	Unrecognized transitional obligation	10,821	Unrecognized prior service cost	(109)	Unrecognized actuarial loss	8,911	Net liability	(4,542)										
Projected benefit obligation	(68,458)																																						
Fair value of plan assets	50,285																																						
Non-reserved liabilities for retirement benefits	(18,173)																																						
Unrecognized transitional obligation	7,214																																						
Unrecognized prior service cost	(97)																																						
Unrecognized actuarial loss	6,503																																						
Net liability	(4,553)																																						
Projected benefit obligation	(68,354)																																						
Fair value of plan assets	44,189																																						
Non-reserved liabilities for retirement benefits	(24,164)																																						
Unrecognized transitional obligation	10,821																																						
Unrecognized prior service cost	(109)																																						
Unrecognized actuarial loss	8,911																																						
Net liability	(4,542)																																						
<p>3. Matters relating to net periodic benefit costs</p> <p style="text-align: right;">(Millions of yen)</p> <table> <tr> <td>Service cost</td> <td style="text-align: right;">3,486</td> </tr> <tr> <td>Interest cost</td> <td style="text-align: right;">1,698</td> </tr> <tr> <td>Expected return on plan assets</td> <td style="text-align: right;">(1,104)</td> </tr> <tr> <td>Amortization of transitional obligation</td> <td style="text-align: right;">3,607</td> </tr> <tr> <td>Amortization of prior service cost</td> <td style="text-align: right;">(12)</td> </tr> <tr> <td>Recognized actuarial loss</td> <td style="text-align: right;">1,283</td> </tr> <tr> <td>Net periodic benefit costs</td> <td style="text-align: right;"><u>8,958</u></td> </tr> </table>	Service cost	3,486	Interest cost	1,698	Expected return on plan assets	(1,104)	Amortization of transitional obligation	3,607	Amortization of prior service cost	(12)	Recognized actuarial loss	1,283	Net periodic benefit costs	<u>8,958</u>	<p>3. Matters relating to net periodic benefit costs</p> <p style="text-align: right;">(Millions of yen)</p> <table> <tr> <td>Service cost</td> <td style="text-align: right;">3,612</td> </tr> <tr> <td>Interest cost</td> <td style="text-align: right;">1,741</td> </tr> <tr> <td>Expected return on plan assets</td> <td style="text-align: right;">(834)</td> </tr> <tr> <td>Amortization of transitional obligation</td> <td style="text-align: right;">3,607</td> </tr> <tr> <td>Amortization of prior service cost</td> <td style="text-align: right;">(12)</td> </tr> <tr> <td>Recognized actuarial loss</td> <td style="text-align: right;">2,079</td> </tr> <tr> <td>Net periodic benefit costs</td> <td style="text-align: right;"><u>10,194</u></td> </tr> </table>	Service cost	3,612	Interest cost	1,741	Expected return on plan assets	(834)	Amortization of transitional obligation	3,607	Amortization of prior service cost	(12)	Recognized actuarial loss	2,079	Net periodic benefit costs	<u>10,194</u>										
Service cost	3,486																																						
Interest cost	1,698																																						
Expected return on plan assets	(1,104)																																						
Amortization of transitional obligation	3,607																																						
Amortization of prior service cost	(12)																																						
Recognized actuarial loss	1,283																																						
Net periodic benefit costs	<u>8,958</u>																																						
Service cost	3,612																																						
Interest cost	1,741																																						
Expected return on plan assets	(834)																																						
Amortization of transitional obligation	3,607																																						
Amortization of prior service cost	(12)																																						
Recognized actuarial loss	2,079																																						
Net periodic benefit costs	<u>10,194</u>																																						
<p>4. Matters relating to the computation basis for employee's severance and retirement benefit liabilities, etc.</p> <table> <tr> <td rowspan="2" style="vertical-align: middle;">Term-allocation method of estimated employee's severance and retirement benefit amount:</td> <td style="text-align: center;">Fixed amount standard</td> <td rowspan="2" style="vertical-align: middle;">}</td> </tr> <tr> <td style="text-align: center;">for the term</td> </tr> <tr> <td>Discount rate:</td> <td style="text-align: right;">2.5%</td> <td></td> </tr> <tr> <td>Expected rate of return on plan assets</td> <td style="text-align: right;">2.5%</td> <td></td> </tr> <tr> <td>Amortization period of prior service cost</td> <td style="text-align: right;">10 years</td> <td></td> </tr> <tr> <td>Recognition period of actuarial gain/loss</td> <td style="text-align: right;">10 years</td> <td></td> </tr> <tr> <td>Amortization period of transitional obligation</td> <td style="text-align: right;">7 years</td> <td></td> </tr> </table>	Term-allocation method of estimated employee's severance and retirement benefit amount:	Fixed amount standard	}	for the term	Discount rate:	2.5%		Expected rate of return on plan assets	2.5%		Amortization period of prior service cost	10 years		Recognition period of actuarial gain/loss	10 years		Amortization period of transitional obligation	7 years		<p>4. Matters relating to the computation basis for employee's severance and retirement benefit liabilities, etc.</p> <table> <tr> <td rowspan="2" style="vertical-align: middle;">Term-allocation method of estimated employee's severance and retirement benefit amount:</td> <td style="text-align: center;">Fixed amount standard</td> <td rowspan="2" style="vertical-align: middle;">}</td> </tr> <tr> <td style="text-align: center;">for the term</td> </tr> <tr> <td>Discount rate:</td> <td style="text-align: right;">2.5%</td> <td></td> </tr> <tr> <td>Expected rate of return on plan assets</td> <td style="text-align: right;">2.5%</td> <td></td> </tr> <tr> <td>Amortization period of prior service cost</td> <td style="text-align: right;">10 years</td> <td></td> </tr> <tr> <td>Recognition period of actuarial gain/loss</td> <td style="text-align: right;">10 years</td> <td></td> </tr> <tr> <td>Amortization period of transitional obligation</td> <td style="text-align: right;">7 years</td> <td></td> </tr> </table>	Term-allocation method of estimated employee's severance and retirement benefit amount:	Fixed amount standard	}	for the term	Discount rate:	2.5%		Expected rate of return on plan assets	2.5%		Amortization period of prior service cost	10 years		Recognition period of actuarial gain/loss	10 years		Amortization period of transitional obligation	7 years	
Term-allocation method of estimated employee's severance and retirement benefit amount:		Fixed amount standard		}																																			
	for the term																																						
Discount rate:	2.5%																																						
Expected rate of return on plan assets	2.5%																																						
Amortization period of prior service cost	10 years																																						
Recognition period of actuarial gain/loss	10 years																																						
Amortization period of transitional obligation	7 years																																						
Term-allocation method of estimated employee's severance and retirement benefit amount:	Fixed amount standard	}																																					
	for the term																																						
Discount rate:	2.5%																																						
Expected rate of return on plan assets	2.5%																																						
Amortization period of prior service cost	10 years																																						
Recognition period of actuarial gain/loss	10 years																																						
Amortization period of transitional obligation	7 years																																						

The above represents a translation, for reference and convenience only, of the original notice issued in Japanese. We did our utmost to ensure accuracy in our translation and believe it to be of the highest standard. However, due to differences of accounting, legal and other systems as well as of language, this English version might contain inaccuracies, and therefore might be inconsistent with the original intent imported from the Japanese. In the event of any discrepancies between the Japanese and English versions, the former shall prevail as the official version.