

Outline of Non-consolidated Financial Statements 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

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

System for payment interim dividends: Yes

Scheduled commencement date of dividend payment: June 30, 2005

Date of ordinary general meeting of shareholders: June 29, 2005

Trading unit of the company's share: 100

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

(1) 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	438,129	13.2	15,167	61.9	26,905	19.5
Year ending March 31, 2004	386,931	4.1	9,366	(56.4)	22,508	(16.1)

	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	19,868	32.7	75.05	75.04	9.8	6.3	6.1
Year ending March 31, 2004	14,975	10.0	56.41	—	8.2	5.8	5.8

Note 1: The average number of shares was 263,270,566 in the year ending March 31, 2005 and 263,368,903 in the year ending March 31, 2004.

Note 2: Changing in accounting methods Yes

Note 3: 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) Dividends

	Annual dividend per share			Total dividend (annual)	Dividend payout rate	Dividend on shareholders' equity
	Interim	Year-end				
	Yen	Yen	Yen	millions of yen	%	%
Year ending March 31, 2005	18.00	7.00	11.00	4,738	24.0	2.2
Year ending March 31, 2004	14.00	6.00	8.00	3,686	24.8	1.9

Note: Breakdown of year-end dividend for the year ending March 31, 2005: ordinary dividend 9 yen: commemorative dividend 2 yen

(3) 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	439,144	211,832	48.2	804.24
Year ending March 31, 2004	410,733	195,204	47.5	740.84

Note 1: The number of issued shares was 263,256,636 at the end of the year ending March 31, 2005 and 263,328,068 at the end of the year ending March 31, 2004.

Note 2: The number of treasury stocks was 557,337 at the end of the year ending March 31, 2005, and 485,905 at the end of the year ending March 31, 2004.

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

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim	Year-end	
	Millions of yen	Millions of yen	Millions of yen	Yen	Yen	Yen
Half year	212,000	9,500	6,500	9.00	–	–
Full-business year	432,000	20,000	14,000	–	9.00	18.00

(Reference) Prospective net income per share (for the full business year): 52.76 yen

* The above prospects are premised on related matters described on page 18 of the Brief Report on Settlement of Accounts (Consolidated) for Business Year Ending March 31, 2005

Non-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		438,129		386,931	51,198
Cost of sales	73.9	323,767	75.4	291,667	32,100
Selling, general and administrative expenses		99,195		85,897	13,297
Operating income	3.5	15,167	2.4	9,366	5,800
Non-operating income		13,932		16,048	(2,115)
Interest income		186		240	(54)
Dividend income		6,683		5,778	904
Royalty income		112		8,667	(8,555)
Exchange gains		320		-	320
Gain on loss-of-profit insurance from explosion at Kashima Plant-net		5,954		806	5,148
Others		675		554	121
Non-operating expenses		2,195		2,906	(711)
Interest expenses		1,725		1,825	(100)
Exchange losses		-		756	(756)
Others		469		323	146
Ordinary income	6.1	26,905	5.8	22,508	4,396
Extraordinary income		1,450		1,278	171
Gains on sales of land		-		111	(111)
Gains on sales of investment securities		110		1,027	(916)
Gains on liquidation of associated companies		-		140	(140)
Reversal of allowance for doubtful receivables		410		-	410
Gain on property-damage insurance from explosion at Kashima Plant-net		929		-	929
Extraordinary loss		603		2,610	(2,006)
Loss on sales of land		-		75	(75)
Loss of disposal of fixed assets		541		626	(85)
Loss on explosion at Kashima Plant-net		-		1,682	(1,682)
Write-down of investment securities		61		172	(110)
Write-down of other investments		1		54	(53)
Income before income taxes	6.3	27,751	5.5	21,176	6,575
Income taxes - current		8,683		10,689	(2,006)
Income taxes - deferred		-800		(4,488)	3,688
Net income	4.5	19,868	3.9	14,975	4,892
Accumulated income brought forward		4,581		3,909	671
Interim dividends		1,842		1,579	262
Unappropriated income		22,607		17,305	5,301

As to the notes, refer to page 9.

Non-consolidated Balance Sheets

(Millions of yen)

Assets			
Accounts	Current year (as of March 31, 2005)	Previous year (as of March 31, 2004)	Changes
Current assets	196,916	191,284	5,631
Cash and deposits with banks	14,932	27,471	(12,539)
Notes receivable - trade	2,283	2,485	(201)
Accounts receivable - trade	60,841	59,480	1,361
Marketable securities	14,000	1,530	12,469
Finished products and merchandise	29,036	28,527	508
Work in process	33,481	28,365	5,115
Raw materials and supplies	3,785	3,068	717
Advance payment	36	8	28
Prepaid expenses	529	386	142
Deferred tax assets	8,044	7,831	213
Short-term loan receivables	14,387	15,233	(845)
Accounts receivable-other	14,618	15,763	(1,145)
Other current assets	1,017	1,178	(160)
Allowance for doubtful receivables	(78)	(45)	(32)
Fixed assets	242,228	219,448	22,779
Tangible fixed assets	95,255	93,650	1,604
Buildings	25,998	26,631	(632)
Structures	2,494	2,507	(13)
Machinery and equipment	38,291	35,948	2,343
Vehicles and delivery equipment	62	61	0
Furniture and fixtures	7,441	6,498	943
Land	19,908	19,908	-
Construction in progress	1,058	2,094	(1,036)
Intangible fixed assets	1,404	977	426
Patents, etc.	1,404	977	426
Investment and other assets	145,569	124,820	20,748
Investment securities	53,961	49,945	4,016
Investments in subsidiaries and associated companies	86,697	68,592	18,105
Long-term loan receivables	1,166	1,343	(177)
Long-term prepaid expenses	204	154	50
Deposits for guarantee	2,792	2,949	(156)
Other investments	2,291	3,857	(1,566)
Allowance for doubtful receivables	(1,545)	(2,022)	477
Total assets	439,144	410,733	28,411

As to the notes, refer to page 9.

(Millions of yen)

Liabilities and Shareholders' Equity			
Accounts	Current year (As of March 31, 2005)	Previous year (As of March 31, 2004)	Change
Current liabilities	174,406	151,717	22,688
Notes payable-trade	3,895	4,914	(1,019)
Accounts payable-trade	42,272	40,022	2,250
Short-term borrowings	25,280	25,280	-
Commercial paper	38,000	21,000	17,000
Current portion of long-term debts	517	521	(4)
Current portion of straight bonds	10,000	10,000	-
Accounts payable-other	6,582	4,808	1,774
Accrued expenses	18,718	19,033	(314)
Income tax payable	2,682	5,356	(2,674)
Advances received	1,106	1,169	(63)
Deposits received	7,667	7,040	626
Reserves for guarantee for finished products	6,975	3,940	3,035
Construction Payable	10,676	8,514	2,161
Others	31	114	(82)
Long-term liabilities	52,906	63,811	(10,905)
Straight bonds	20,000	30,000	(10,000)
Long-term debts	25,407	25,955	(548)
Long-term accounts payable	602	982	(379)
Deferred tax liabilities	3,524	3,382	141
Liabilities for retirement benefits	3,371	3,489	(118)
Total liabilities	227,312	215,528	11,783
Common stock	28,023	28,023	-
Capital surplus	25,970	25,968	1
Additional paid in capital	25,968	25,968	-
Other capital surplus	1	0	1
Retained earnings	147,054	131,255	15,799
Legal reserves	6,066	6,066	-
Reserves for development of computer-software	0	3	(2)
Deferred capital gains on sale of property	3,170	3,170	-
General reserves	115,210	104,710	10,500
Unappropriated income	22,607	17,305	5,301
Net unrealized gain on available-for-sale securities	12,129	11,064	1,064
Treasury stock	(1,344)	(1,107)	(237)
Total shareholders' equity	211,832	195,204	16,628
Total liabilities and shareholders' equity	439,144	410,733	28,411

As to the notes, refer to page 9.

Significant Accounting Policies

1. The standards and method of assessment of securities

① The shares of subsidiaries and associated companies: The cost method by the moving average method

② Available-for-sale securities

Securities with market value: 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 sales is calculated by the moving average method)

Securities without market value: The cost method by the moving average method

2. The standards and method of assessment of derivatives

The market value method

3. The standards and method of assessment of inventory assets

The cost method by the gross average method

4. The method of depreciation of fixed assets

① Tangible fixed assets The diminishing method is used. However, the buildings (except for fixtures) that were acquired on and after April 1, 1998 are depreciated by the straight-line method.

The service life of major items is set as follows:

Buildings: 15 to 50 years

Machinery and equipment: 6 to 12 years

Tools and Furniture: 2 to 6 years

② Intangible fixed assets The straight-line method is used. However, software for sales in the market is depreciated by the straight-line method based on the salable effective period (three years)

5. The standards of appropriation of 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.

6. The method of treatment of lease deals

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

7. The method of hedge accounting

① The method of hedge accounting

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

The Company has risk management regulations in order, setting forth the upper amount of derivative deals and risk management methods, in accordance with which derivative deals and risk management are carried out. Derivative deal operations are conducted by the Financial Affairs Department, while daily risk management is conducted by the Corporate Planning Department and the implementation status is reported to the Board of Director of the Company on a regular basis.

Regular test is conducted on the effectiveness of hedging functions of the derivatives held by the Company. 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.

8. The method of accounting treatment of consumption taxes

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

(Revision of Accounting Treatment Method)

Royalty incomes have been accounted as non-operating income until now. However, in recent years royalty income has increased, and on the occasion of incorporating into the Articles of Incorporation the technical assistance to subsidiaries and associated companies as the Company's business purpose, we have decided that royalty income from subsidiaries and associated companies will be included in and accounted for as sales beginning from the year. This revision is intended to more appropriately indicate classified income statements as a result of the expansion of the Company Group's overseas production bases and sales centers and in view of the growing importance of their incomes.

Although net sales and operating income each increased by 10,694 million yen and non-operating income declined by the same amount because of the revision, there is no impact on ordinary income and income before income taxes for the fiscal year.

Relating to Balance Sheets

	Current year (Millions of yen)	Previous year (Millions of yen)
1. Accumulated depreciation of tangible fixed assets	259,040	249,609
2. Liabilities on guarantee		
Guarantee	152	—
Commitment to guarantee	16,183	21,884
Recognition letters of borrowing, etc.	6,865	5,488
3. Assets pledged as collateral		
Tangible fixed assets	45,549	46,275
Time deposits	1,511	1,516
4. Net assets provided in Article 124, paragraph 3 of the Enforcement Regulations of the Commercial Code	12,129	11,064

Relating to 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	24,421	23,155

Lease Deals

Related descriptions are omitted because they are disclosed on the EDINET.

Securities

There are no shares of subsidiaries and associated companies with market values for the current and previous years

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
Software	Software
3,496	3,019
Reserves for guarantee for finished products	Accrued bonus
2,832	1,722
Accrued bonus	Reserves for guarantee for finished products
1,732	1,600
Foreign tax credit	Retirement benefits
1,572	1,369
Retirement benefits	Foreign tax credit
1,329	1,249
Inventory assets	Inventory assets
1,111	1,105
Business tax payable	Business tax payable
417	784
Allowance for doubtful receivables	Allowance for doubtful receivables
365	566
Long-term accounts payable	Long-term accounts payable
244	399
Others	Others
1,881	2,366
Total deferred tax assets	Total deferred tax assets
14,982	14,183
Deferred tax liabilities	Deferred tax liabilities
Unrealized gain on available-for-sale securities	Unrealized gain on available-for-sale securities
(8,294)	(7,566)
Deferred gains on sales property	Deferred gains on sales property
(2,167)	(2,168)
Total deferred tax liabilities	Total deferred tax liabilities
(10,462)	(9,735)

Net deferred tax assets	4,520	Net deferred tax assets	4,448
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.	
Legal effective tax rate	40.6%	Legal effective tax rate	42.0%
(Adjustment)		(Adjustment)	
Permanent non-deductible expenses	2.6%	Permanent non-deductible expenses	3.5%
Per capita local inhabitants tax	0.3%	Per capita local inhabitants tax	0.4%
Foreign tax credit	(7.7%)	Foreign tax credit	(9.2%)
Tax credit for research and development costs	(6.3%)	Tax credit for research and development costs	(8.6%)
Other-net	(1.1%)	Other-net	1.2%
Actual effective income tax rate	28.4%	Actual effective income tax rate	29.3%

Proposed appropriation of retained earnings

(Millions of yen)

Accounts	Current year	Previous year
Unappropriated income	22,607	17,305
Reversal of reserves for development of computer-software	0	2
Total	22,607	17,307
The above amount shall be appropriated as follows:		
	(Ordinary dividend 9 yen per share, commemorative dividend 2 yen per share)	(Ordinary dividend 8 yen per share)
Cash dividends	2,895	2,106
Bonuses to directors and corporate auditors	110	120
〈 Bonuses for corporate auditors included in the above amount 〉	〈 4 〉	〈 6 〉
General reserves	15,000	10,500
Accumulated income to be carried forward	4,602	4,581

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.