

Summary of Consolidated Interim Financial Results
(For the six months ended September 30, 2005)

Name of Listed Company: Daikin Industries, Ltd.

Listed on TSE, OSE, NSE, FSE, SSE

Code No.: 6367

Head Office Located in Osaka

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

Representative: President and Representative Director: Yuki Yoshi Okano

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Date of Board Meeting on Interim Settlement of Accounts: November 9, 2005

Adoption of US GAAP: No

1. Consolidated Business Results for the Interim Term (From April 1, 2005, to September 30, 2005)

(1) Consolidated business results

Note: The amounts less than million yen are truncated.

| | Net sales | | Operating income | | Ordinary income | |
|----------------|-----------------|------|------------------|------|-----------------|------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| September 2005 | 390,495 | 4.4 | 39,305 | 19.2 | 38,873 | 24.0 |
| September 2004 | 373,864 | 23.0 | 32,964 | 53.5 | 31,360 | 56.4 |
| March 2005 | 728,880 | | 60,896 | | 63,478 | |

| | Net income | | Net income per share | Net income per share after adjustment of potential stocks |
|----------------|-----------------|------|----------------------|---|
| | Millions of yen | % | Yen | Yen |
| September 2005 | 22,185 | 13.3 | 84.29 | 84.28 |
| September 2004 | 19,581 | 56.1 | 74.37 | 74.36 |
| March 2005 | 38,747 | | 146.76 | 146.74 |

Notes:

1) Equity in earnings of associated companies accounted for using the equity method

Interim term ended September 30, 2005: ¥227 million, Interim term ended September 30, 2004: ¥199 million, Year ended March 31, 2005: ¥397 million

2) Average number of shares outstanding during the term (consolidated): Interim term ended September 30, 2005: 263,213,986 shares, Interim term ended September 30, 2004: 263,284,191 shares, Year ended March 31, 2005: 263,266,789 shares

3) Change in accounting method: Yes

4) The figures expressed in % for the net sales, operating income, ordinary income and net income for the interim term represent the ratio of increase or decrease from the same interim 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 |
| September 2005 | 643,877 | 304,199 | 47.2 | 1,155.91 |
| September 2004 | 574,108 | 253,698 | 44.2 | 963.78 |
| March 2005 | 617,873 | 274,121 | 44.4 | 1,040.87 |

Note:

Number of issued shares at end of term (consolidated): 263,168,198 shares at September 30, 2005, 263,232,005 shares at September 30, 2004, 263,252,803 shares at March 31, 2005

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of term |
|----------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| September 2005 | 26,938 | (27,595) | 1,311 | 56,904 |
| September 2004 | 21,315 | (14,081) | 380 | 58,301 |
| March 2005 | 43,970 | (42,091) | 3,534 | 55,385 |

(4) Scope of consolidation and application of equity method:

Consolidated subsidiaries: 97

Unconsolidated subsidiaries accounted for by the equity method: 1

Affiliates accounted for by the equity method: 8

(5) Changes in the scope of consolidation and the application of equity method:

Consolidation (Newly added): 3, Consolidation (Excluded): 1

Equity method (Newly added): None, Equity method (Excluded): None

2. Projected Consolidated Business Results for the Year Ending March 31, 2006 (From April 1, 2005, to March 31, 2006)

| | Net income | Ordinary income | Net income |
|------------|-----------------|-----------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen |
| Full- year | 800,000 | 66,000 | 41,000 |

Reference: Projected net income per share (full-year): ¥155.37

The above projections are premised on related information described on page 15 of the Attachment.

Summary of Consolidated Interim Financial Results
(For the six months ended September 30, 2005)

1. Consolidated Interim Financial Results

Billions of yen, [] Ratios to net sales

| | First-half results | | | Full-year results (Predictions) | | |
|-----------------------------------|--------------------|-----------------|----------------|---------------------------------|-----------------|----------------|
| | September 2005 | September 2004 | Rate of change | March 2006 | March 2005 | Rate of change |
| Net sales | 390.5 | 373.9 | 4.4% | 800.0 | 728.9 | 9.8% |
| Operating income | [10.1%] 39.31 | [8.8%] 32.96 | 19.2% | [8.8%] 70.00 | [8.4%] 60.90 | 14.9% |
| Ordinary income | [10.0%] 38.87 | [8.4%] 31.36 | 24.0% | [8.3%] 66.00 | [8.7%] 63.48 | 4.0% |
| Net income | [5.7%] 22.19 | [5.2%] 19.58 | 13.3% | [5.1%] 41.00 | [5.3%] 38.75 | 5.8% |
| Net income per common share (Yen) | 84.29 | 74.37 | 9.92 | 155.37 | 146.76 | 8.61 |

Note: There are 97 consolidated subsidiaries and 9 associated companies accounted for by the equity method.

2. Nonconsolidated Interim Financial Results

Billions of yen, [] Ratios to net sales

| | First-half results | | | Full-year results (Predictions) | | |
|-----------------------------------|--------------------|----------------|----------------|---------------------------------|-----------------|----------------|
| | September 2005 | September 2004 | Rate of change | March 2006 | March 2005 | Rate of change |
| Net sales | 217.5 | 220.2 | -1.2% | 432.0 | 438.1 | -1.4% |
| Operating income | [4.8%] 10.34 | [3.4%] 7.58 | 36.3% | [3.6%] 15.50 | [3.5%] 15.17 | 2.2% |
| Ordinary income | [6.3%] 13.77 | [4.2%] 9.23 | 49.2% | [5.1%] 22.00 | [6.1%] 26.91 | -18.2% |
| Net income | [4.0%] 8.69 | [2.9%] 6.29 | 38.2% | [3.5%] 15.00 | [4.5%] 19.87 | -24.5% |
| Net income per common share (Yen) | 33.03 | 23.89 | 9.14 | 56.58 | 75.05 | (18.47) |
| Dividend per common share (Yen) | 11 | 7 | 4 | 22 | 18 | 4 |

<Segment Information (Consolidated)>

Industry Segments

Billions of yen, [] Ratios to net sales

| | | September 2005 | | September 2004 | | Rate of change |
|------------------|------------------|----------------|--------|----------------|-------|----------------|
| Air Conditioning | Net sales | | 321.2 | | 309.0 | 3.9% |
| | Operating income | [11.1%] | 35.51 | [9.0%] | 27.85 | 27.5% |
| Chemicals | Net sales | | 50.7 | | 48.7 | 4.1% |
| | Operating income | [9.6%] | 4.86 | [10.7%] | 5.21 | -6.8% |
| Others | Net sales | | 18.6 | | 16.2 | 15.4% |
| | Operating income | [-5.7%] | (1.06) | [-0.6%] | (0.1) | - |
| Total | Net sales | | 390.5 | | 373.9 | 4.4% |
| | Operating income | [10.1%] | 39.31 | [8.8%] | 32.96 | 19.2% |

Sales by Market

Billions of yen

| | September 2005 | | September 2004 | | Rate of change |
|---------------|----------------|-------|----------------|-------|----------------|
| Domestic | | 213.3 | | 202.2 | 5.5% |
| Asia, Oceania | | 66.4 | | 57.9 | 14.7% |
| Europe | | 90.3 | | 94.5 | -4.5% |
| America | | 16.4 | | 15.7 | 4.5% |
| Other regions | | 4.1 | | 3.6 | 14.8% |
| Total | | 390.5 | | 373.9 | 4.4% |

Predicted Business Results by Industry Segment

Billions of yen, [] Ratios to net sales

| | | March 2006 (predictions) | | March 2005 (actual results) | | Rate of change |
|------------------|------------------|-----------------------------|-------|--------------------------------|-------|----------------|
| Air conditioning | Net sales | | 645.0 | | 589.3 | 9.5% |
| | Operating income | (9.1) | 58.50 | (8.7) | 51.23 | 14.2% |
| Chemicals | Net sales | | 113.0 | | 99.6 | 13.4% |
| | Operating income | (10.6) | 12.00 | (9.0) | 8.96 | 34.0% |
| Others | Net sales | | 42.0 | | 40.0 | 5.0% |
| | Operating income | (-1.2) | (0.5) | (1.8) | 0.72 | - |
| Total | Net sales | | 800.0 | | 728.9 | 9.8% |
| | Operating income | (8.8) | 70.00 | (8.4) | 60.90 | 14.9% |

Corporate Group

The Daikin Group is engaged in the development, manufacture (including construction and installation), sales and after-sales services of products in the business segments of “Air conditioning and refrigeration equipment,” “Chemicals” and “Others.” Major business lines and relevant consolidated subsidiaries and associated companies accounted for by the equity method in each business field are as shown below.

1. Air conditioning and Refrigeration Equipment

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

(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 Airconditioning & 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 Co., 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)

[Associated companies accounted for by the equity method]

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

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

(3) Others

[Consolidated subsidiaries]

Daikin Air-Conditioning and Environmental Laboratory, Ltd. and 4 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, Fluoroplastics, Chemical products, Chemical engineering machines

(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 fluorochemical products)

Daikin Chemical France S.A.S. (Manufacture of fluorochemical products)

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

[Associated companies accounted for by the equity method]

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

3. Others

(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 missiles, 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

[Consolidated subsidiaries]

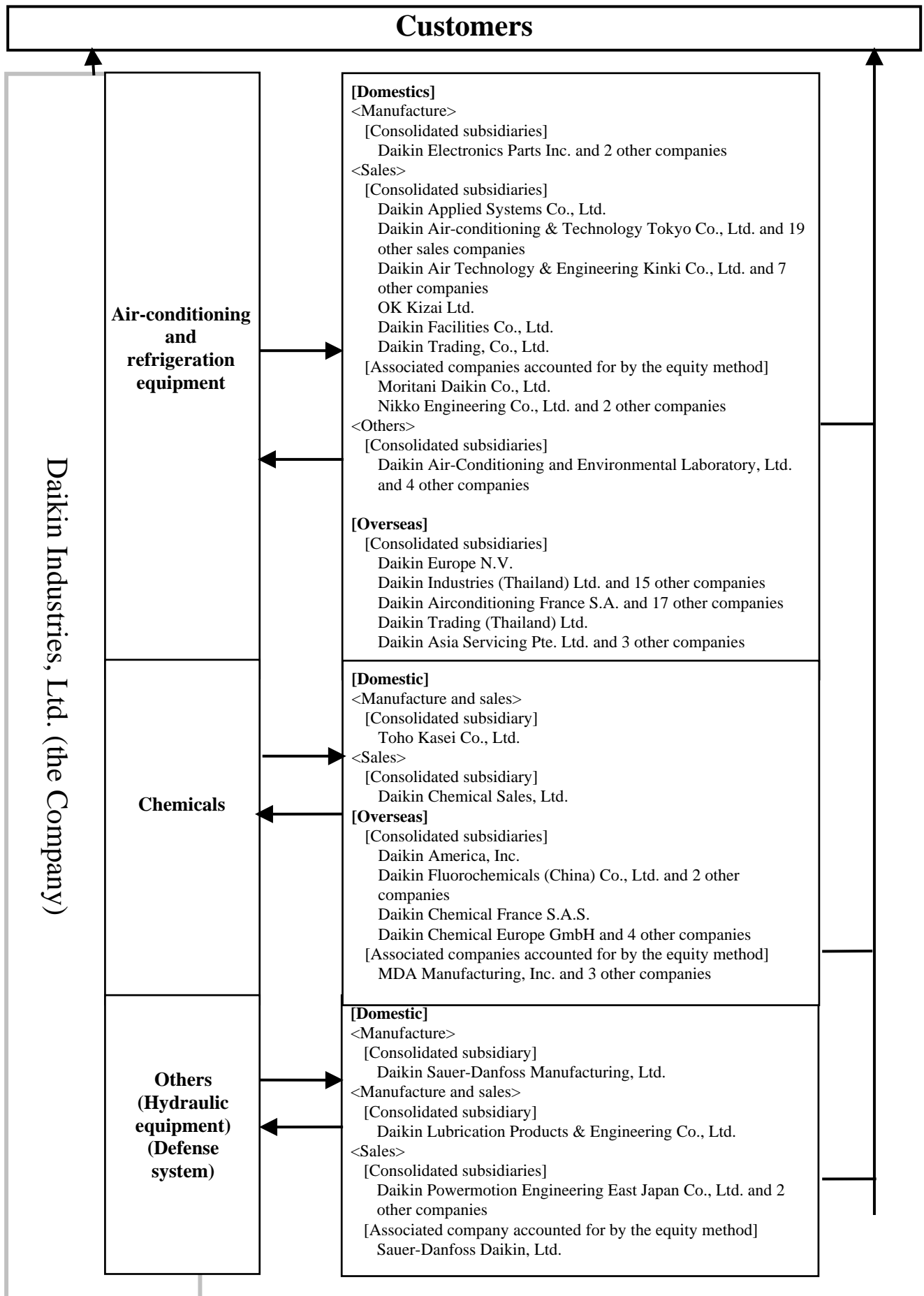
Daikin Powermotion Engineering East Japan Co., Ltd. and 2 other companies (Sales of hydraulic equipment, etc.)

[Associated company accounted for by the equity method]

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

[Schematic Diagram of the Daikin Group]

The schematic diagram below describes business lines of the Group consisted of 97 consolidated subsidiaries (47: domestic, 50: overseas) and 9 associated companies accounted for by the equity method (5: domestic, 4: overseas).



Management Policies

(1) Basic Management Policy

Under the “Group Management Philosophy” which sets forth the basic management perspectives, the Company will challenge to enhancing its technological foundation and strive to maximize its corporate value by thoroughly complying with the “logic of capital” as a corporation that continually supply customers with the highest level of convenience and amenity 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 and proactive responses to global environment and active contribution to local communities, as action guidelines to be commonly shared by the Group companies. 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 solving occasional problems and tasks and facilitating the Company’s tradition of “Flat and Fast 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 and achieve business expansion and/or improved competitive power, including the accelerated development of global businesses and further promotion of the enhanced utilization of information technology.

(3) Target Management Indicators

The Company considers the maximization of corporate value to be the most important management task. Accordingly, the Company promotes active development of businesses and the reinforcement of management structure by adopting the virtual company system, as well as 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 business administration indicators. The Company particularly places emphasis on FCF as the source of corporate value and also as the integrated core indicator to improve all the other management indicators. To that end, the Company endeavors to create cash flows from the operating capital by reducing trade notes and accounts receivable and inventories in line with the measures for raising earnings and improving investment efficiency.

As for the appropriation of FCF so created, the Company makes decisions on the use of the FCF in view of the business climate and demand trends and primarily from the standpoint of the enhancement of corporate value. The Company has made investments for higher future returns toward business expansion in global markets such as Europe and China and enhanced or increased production capabilities and sales network to take advantage of potential opportunities for business expansion in global markets such as Europe and China.

(4) Mid-and-Long Term Management Strategies

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

During the three-year period, or the first half of the “Fusion 05” plan, the Company attained such positive results as consecutive year over year increases of consolidated ordinary income, the expansion of both domestic and overseas market shares and the accelerated development of global businesses. In the meanwhile, however, the business environment surrounding the Company considerably deteriorated because of the economic stagnation both at home and abroad after the plan was formulated, the continued deflationary trends in Japan and other factors. The Company is therefore aware that there are a number of tasks to be addressed to get over such an unfavorable climate, strengthen profit-earning capabilities and achieve further expansion and development of businesses. For the last half two years of the “Fusion 05” plan, facing management tasks, concentrating and accelerating the enforcement of above measures, the entire Group will accomplish the targets set forth in the “Fusion 05.”

In this connection, the Company is now formulating a strategic management plan with 2010 as the final target year with a view to achieving further dynamic growth. The plan is scheduled to be announced early in 2006 to make it thoroughly known to and implemented by the employees of the Group companies.

(5) Tasks Ahead of the Company

By thoroughly carrying out the measures as mentioned below for the years of 2004 and 2005 and identifying tasks to be addressed, the Company makes all-out efforts for the attainment of the targets; (1) take comprehensive measures to strengthen profit-earning structure such as total costdown, maximization of sales and promotion of efficiency of indirect departments on the group level, (2) promote dynamic business developments through active investments made as key steps for the expansion in domestic and overseas markets which are highly likely to provide favorable chances, and achieve early return from these investments (3) restore the high-profit earning structure of the fluorochemicals business as early as possible, and accelerate the restructuring of hydraulic, defense systems and electronic system divisions, (4) take thorough measures to fulfill the target of the “Daikin’s Technology Statement,” and (5) enhance and enforce CSR (corporate social responsibilities) including reinforced education of human resources, 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 Daikin Group considers “corporate governance” to be the process of raising its corporate value by speeding up anticipative decision-making and implementation of actions and also promoting continual enhancement of transparency and soundness in business management to cope with management problems and environmental changes surrounding the Group,

By further cultivating the existing “all-in-one management framework” under which directors jointly and severally 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 raising corporate value, and seek and promote the best practices on the level of the 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

In June 2002, the Company carried out the following reforms on the management system particularly to conduct the sophisticated and speedy management and strengthen consolidated governance. The Company takes 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 to which the Group faces, the top management, under the “all-in-one management framework” where they jointly and severally assume the management responsibility and the responsibility of executing operations at the same time, is divided into CEO primarily responsible for making decisions and COO primarily responsible for executing operations, which are related to the overall management for the Group, to accelerate the speed of 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 strategies are determined promptly and in a timely manner to accelerate the speed of resolving problems..

- The Company established the “Group Management Meeting” to thoroughly share important management policies and basic strategies of the Group, and facilitate and strengthen the support for solving problems and tasks of the Group companies.

- In addition to the previously-introduced “Management Advisory Council System,” the Company invited two “outside directors,” who extensively participate in the management decision-making from the standpoint of outsiders with independence and neutrality as well as from higher level perspectives, to improve management capabilities by inviting outside power.

- The Company established “Group Auditors’ Meeting” to strengthen audit 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 make the Group companies share and completely understand the “Basic Views on Management” to develop businesses toward the concerted direction in the entire Group.

- For thoroughly implementing compliance for the Group, the Company promotes the performance of the previously established self-inspection system and the conformance with the legal compliance manual (compliance program). Besides, the Company not only reinforces 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 promotes education and enlightenment activities by using corporate ethics handbooks and others. Thus, the Company endeavors to make the compliance thoroughly known to and implemented by everyone.

2) Additional efforts for the enhancement of corporate governance that were recently taken

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 the divisions, regions and functions.

- At the same time, the Company reduced the number of directors from 20 to 9 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.

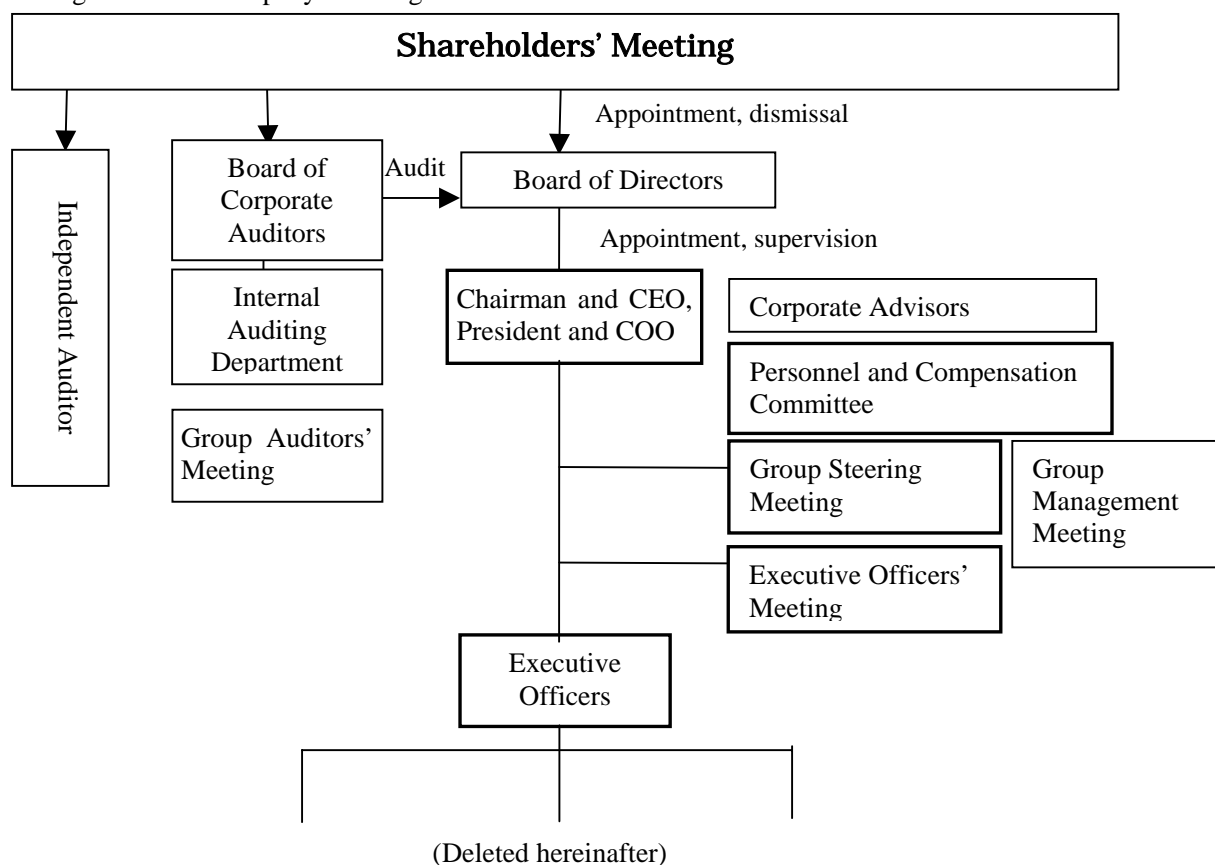
- Of four auditors, the Company selected additionally one outside auditor, making a total of three outside auditors to seek high level of auditing functions with greater transparency and soundness.

- The Company established the “Personnel and Compensation Committee,” as advisory body to CEO, with the chairman being an outside director, for further enhancing transparency of the management related to the personnel affairs and compensation of directors.

- The Company consolidated eight pseudo companies into four and thus endeavors to strengthen and improve the numerical management administration.

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

<Schematic Diagram of the Company's Management Structure>



(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.

The Company sells air conditioners and commissions house moving services to Art through Company's subsidiaries and the Company conducts 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, this year the Chairman and Director of Sumitomo Trust and Banking Company, Limited as outside auditor and the person who worked for our Company as auditor for six years were appointed, 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 conducts ordinary inter-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 (10 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 is composed of four auditors who supervise the management status of corporate governance and audit day-to-day activities of the management including directors. Auditors attend the Board of Directors meetings, exercise legal powers such as receiving reports and hearing from directors, employees and independent auditors, also attend such important meetings as Executive Officers' Meetings, visit and inspect offices and factories and Group companies together with the auditor's staff and thus, get hold of the status of internal control and provide guidance and training for improvements.

In addition, after appointing auditing officers at one domestic associated company and eight major overseas associated companies which had not adopted an auditors system, the Company established the "Group Auditors' Meeting." Since then, the Company continues to enhance the effectiveness of the audit by facilitating coordination and information-sharing among the 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, however, has no relationship of interests with DTT or the engagement partners of DTT.

(7) Matters Related to Parent Company

The Company has no parent company.

Operating Results and Financial Position

1. Operating Results

(1) Overview of the interim term

During the interim term ended September 30, 2005, the global economy continued to maintain a recovery undertone, benefiting from the steady US and high-growth Chinese economies. The Japanese economy showed signs of getting on a track to private-sector-led recovery with a powerful expansion in capital investment and the encouraged rally of consumer spending, against the backdrop of generally steady exports and favorable corporate profits. Accordingly, the management presumes the Japanese economy has returned to growth by getting out of the leveling-off state.

In this business environment, the Daikin Group established the Annual Group Policy for 2005: "Establish a Firm Footing to Ensure a Quantum Leap Forward." Toward the goal of being a genuinely reliable corporate group, the Group companies have made every effort to expand businesses to establish the foundation for sustainable growth and development with honed actions under the recognition of a manufacturer's start point—"Supply customers with best products and services."

During the interim term under review, consolidated net sales increased 4.4%, to ¥390,495 million. This rise is attributable to strong sales in the mainstay Air-Conditioning and refrigeration equipment businesses due to enhanced sales promotion of differentiating, high-value-added products in Japan, favorable overseas sales of air-conditioning systems especially in China despite adverse effects of unseasonable weather conditions in Europe and a steady sales expansion of fluorchemical products centering the automotive field.

Reflecting sales expansion in Japan and overseas and the concentrated efforts to pare overall costs, operating income increased 19.2% year over year to ¥39,305 million, ordinary income rose 24.0% to ¥38,873 million and net income improved 13.3% to ¥22,185 million on a consolidated basis.

An overview of results by business segment is as follows:

1) Air-Conditioning and Refrigeration Equipment

Domestically, overall demand for residential air-conditioning systems for the interim term was higher compared with the corresponding period a year earlier. Although we focused on sales promotion mainly for the high-value-added URURU & SALALA systems to emphasize enhanced use of air conditioners in the living room, sales of the small-sized, diffusion models were flat, resulting in almost the same year over year sales level.

Demand for commercial air-conditioning systems expanded in Japan especially for packaged air conditioners due to the renewal demand for equipment bought and delivered during the Japanese bubble economy era in addition to the rising private-sector capital investment. The Group's sales promotion efforts focused on proposal activities to distributors and users mainly for the multiple-room air conditioner Ve-up Q for building use, which allows individual units to be replaced without changing existing refrigerant piping, and the distinctive, high-value-added Round Flow ZEAS, which features superior energy efficiency, quieter and more comfortable operation. Our sales promotion resulted in increased sales in this division.

In Europe, sales of commercial air-conditioning systems grew reflecting the expanded demand although sales volume of residential air-conditioning systems hit the wall due to unusual weather conditions by June 2005. Demand continued to remain strong and sales volumes increased in China and Taiwan.

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

Total segment sales of the Air-Conditioning and Refrigeration Equipment rose 3.9% to ¥321,172 million and operating income increased 27.5% to ¥35,509 million.

2) Chemicals

Sales of fluoropolymers increased favorably, supported by expanded sales to the Chinese market and steady demand in the automotive market. Sales of chemical products decreased, affected by sluggish textile market in Europe and the United States, which is the main application field of oil- and water-repellant products, although sales of functional surface-processing agents increased. Sales of fluorocarbon gases rose, reflecting continuously robust sales of new alternative refrigerant gases.

Total segment sales of the Chemicals rose 4.1% to ¥50,681 million. However, operating income decreased 6.8% to ¥4,856 million, principally affected by the decreased sales of oil- and water-repellant products.

3) Others

Sales from defense system operations advanced, owing to the increased orders of ammunition for guided missiles for the Self-Defense force.

Sales of hydraulic equipment for industrial machinery increased mainly due to improved market share, sustained by expanded sales of such differentiating products as inverter-driven hydraulic units and Oilcon oil cooling units condensers and strong US demand for hydraulics equipment for construction equipments. Moreover, mainstay demand for machine tools remained firm.

Sales of multilevel car-parking systems considerably decreased year over year owing to a decline in demand.

As a result, total segment sales of the Others increased 15.4% year over year to ¥18,641 million, whereas operating loss of ¥1,062 million was recorded affected by the decline in sales of the multilevel car-parking systems.

The business environment of the multilevel car-parking systems business has been deteriorating because of the sluggish demand, a decline in sales prices affected by intensifying competition and a hike in raw material prices. As the future growth in demand cannot be so much expected, management decided to withdraw from the business according to the policy of "Selection and Consolidation" and accordingly recorded an extraordinary loss of ¥1,955 million for the first-half of the current fiscal year.

On a nonconsolidated basis, Daikin's net sales for the first six-month period decreased 1.2% to ¥217,456 million, operating income increased 36.3% to ¥10,340 million, and ordinary income advanced 49.2% to ¥13,766 million. As a consequence, net income for the interim term increased 38.2% to ¥8,693 million.

The Company decided to distribute interim dividend of ¥11 per share, an increase of ¥4 over ¥7 for the corresponding interim term a year earlier.

(2) Predictions on Annual Business Results

Although there are several concerns such as the persistently higher crude oil prices, the global economy is expected to remain on a mild recovery path in view of positive factors such as the rallied IT related demand. The Japanese economy is expected to follow a steady undertone as the improved consumer mind is likely to firmly support future capital investment and consumer spending as represented by the hike of stock prices in the equities market despite such concerns as increased prices of crude oil and raw materials.

In such an economic climate, the Company will continue to make every effort to expand sales in the growth markets, particularly in the field of global air-conditioning and chemical businesses. Furthermore, the Company intends to achieve 12-year consecutive increase in profit by surely executing innovative measures to improve its profit-earning structure such as promotion of cost cutting measures, pursuit of the policy of maintaining product prices and reducing working capital.

Meanwhile, the Daikin Group will make groupwide efforts toward the goal of establishing the foundation for sustainable growth in the next year and onward. Specific steps to that end include securing and training of globally-passable human resources for future business growth, leaping improvement of product quality, safe factory operations and establishment of the foundation for competitive product performance and engineering capabilities.

For the year ending March 31, 2006, net sales of ¥800.0 billion, up 9.8% over the previous fiscal year, operating income of ¥70.0 billion, up 14.9%, ordinary income of ¥66.0 billion, up 4.0%, and net income of ¥41.0 billion, up 5.8%, are expected on a consolidated basis.

On a nonconsolidated basis, net sales of ¥432.0 billion, down 1.4% over the previous fiscal year, operating income of ¥15.5 billion, up 2.2%, ordinary income of ¥22.0 billion, down 18.2%, and net income of ¥15.0 billion, down 24.5%, are expected,

*The foreign exchange rates for fiscal year 2005 (ending March 2006) are assumed to be ¥135 per Euro and ¥110 per U.S. Dollar.

Annual dividend for the year is scheduled to be ¥22 per share, consisting of ¥11 in interim dividend per share and ¥11 in year-end dividend, an increase of ¥6 over the previous fiscal year including ¥2 that was paid during the last year as commemorative ordinary dividend for the 80th anniversary of the Company.

The Predictions on Business Results above are based on the information available at the time of preparing this document and certain premises judged reasonable, and actual results may considerably differ from the predictions.

Several factors that might cause such difference are as follows:

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

2. Financial Position

Net cash provided by operating activities during the interim term under review was ¥26,938 million due to an increase in income before income taxes. Net cash used in investing activities was ¥27,595 million due to purchases of fixed assets. Net cash provided by financing activities was ¥1,311 million mainly due to an increase in short-term borrowings. As a result, cash and cash equivalents at end of the interim term under review amounted to ¥56,904 million.

Consolidated Interim Statements of Income

(Millions of yen)

| Accounts | Current interim term (From April 1, 2005, to September 30, 2005) | | Previous interim term (From April 1, 2004, to September 30, 2004) | | Changes | Previous year (From April 1, 2004, to March 31, 2005) | |
|--|--|----------------|---|----------------|---------------|---|----------------|
| Net sales | | 390,495 | | 373,864 | 16,630 | | 728,880 |
| Cost of sales | 64.2% | 250,807 | 64.6% | 241,682 | 9,124 | 64.8% | 472,221 |
| Selling, general and administrative expenses | | 100,383 | | 99,218 | 1,165 | | 195,761 |
| Operating income | 10.1% | 39,305 | 8.8% | 32,964 | 6,340 | 8.4% | 60,896 |
| Non-operating income | | 3,441 | | 2,210 | 1,231 | | 10,099 |
| Interest income | | 569 | | 330 | 239 | | 691 |
| Dividend income | | 463 | | 323 | 139 | | 449 |
| Equity in earnings of unconsolidated subsidiaries and associated companies | | 227 | | 199 | 27 | | 397 |
| Royalty income | | 46 | | 62 | (15) | | 112 |
| Exchange gains | | – | | 592 | (592) | | 794 |
| Income from penalty | | 778 | | – | 778 | | – |
| Gain on loss-of-profit insurance from explosion at Kashima Plant-net | | – | | – | – | | 5,954 |
| Others | | 1,357 | | 701 | 655 | | 1,699 |
| Non-operating expenses | | 3,873 | | 3,814 | 59 | | 7,518 |
| Interest expense | | 2,427 | | 2,114 | 313 | | 4,617 |
| Exchange losses | | 119 | | – | 119 | | – |
| Others | | 1,326 | | 1,700 | (373) | | 2,900 |
| Ordinary income | 10.0% | 38,873 | 8.4% | 31,360 | 7,513 | 8.7% | 63,478 |
| Extraordinary income | | 1,188 | | 3 | 1,185 | | 1,040 |
| Gain on sales of investment securities | | 1,188 | | 3 | 1,185 | | 110 |
| Gain on property-damage insurance from explosion at Kashima Plant-net | | – | | – | – | | 929 |
| Extraordinary loss | | 3,379 | | 369 | 3,009 | | 716 |
| Loss on disposals of property, plant and equipment | | 344 | | 288 | 56 | | 651 |
| Impairment charge for long-lived assets | | 796 | | – | 796 | | – |
| Write-down of investment securities | | 22 | | 80 | (57) | | 61 |
| Loss on fire of a warehouse in Spain | | 260 | | – | 260 | | – |
| Loss on discontinued operation | | 1,955 | | – | 1,955 | | – |
| Write-down of other assets | | – | | 1 | (1) | | 3 |
| Income before income taxes and minority interests | 9.4% | 36,683 | 8.3% | 30,993 | 5,689 | 8.8% | 63,801 |
| Income taxes—current | | 10,804 | | 9,008 | 1,796 | | 23,835 |
| Income taxes—deferred | | 2,454 | | 890 | 1,563 | | (1,831) |
| Minority interests | | 1,238 | | 1,513 | (274) | | 3,051 |
| Net income | 5.7% | 22,185 | 5.2% | 19,581 | 2,604 | 5.3% | 38,747 |

Consolidated Interim Statements of Surplus

(Millions of yen)

| Accounts | Current interim term (From April 1, 2005, to September 30, 2005) | Previous interim term (From April 1, 2004, to September 30, 2004) | Changes | Previous year (From April 1, 2004, to March 31, 2005) |
|---|--|---|---------------|---|
| Capital surplus | | | | |
| Capital surplus at the beginning of year | 25,971 | 25,969 | 2 | 25,969 |
| Increase in capital surplus | - | 2 | (2) | 1 |
| Gains on disposal of treasury stock | - | 2 | (2) | 1 |
| Decrease in capital surplus | 2 | - | 2 | - |
| Reversal of gains on disposal of treasury stock | 2 | - | 2 | - |
| Capital surplus at the end of year | 25,969 | 25,971 | (2) | 25,971 |
| Retained earnings | | | | |
| Retained earnings at the beginning of year | 215,681 | 180,945 | 34,736 | 180,945 |
| Increase in retained earnings | 22,185 | 19,632 | 2,552 | 38,805 |
| Net income | 22,185 | 19,581 | 2,604 | 38,747 |
| Cumulative effect of consolidating subsidiaries previous unconsolidated | - | 51 | (51) | 51 |
| Effect of change of the fiscal year-end of consolidated subsidiaries | - | - | - | 7 |
| Decrease in retained earnings | 3,013 | 2,226 | 787 | 4,069 |
| Cash dividends | 2,895 | 2,106 | 789 | 3,949 |
| Bonuses to directors and corporate auditors | 110 | 120 | (9) | 120 |
| Cumulative effect of consolidating subsidiaries previous unconsolidated | 7 | - | 7 | - |
| Retained earnings at the end of year | 234,852 | 198,350 | 36,502 | 215,681 |

Consolidated Interim Balance Sheets

(Millions of yen)

| Accounts | Current interim term (As of September 30, 2005) | Previous interim term (As of September 30, 2004) | Changes | Previous year (As of March 31, 2005) |
|--|---|--|---------------|--|
| Assets | | | | |
| Current assets | 367,931 | 350,039 | 17,892 | 367,582 |
| Cash and deposits with banks | 55,648 | 57,272 | (1,623) | 41,842 |
| Notes and accounts receivable—trade | 125,173 | 136,989 | (11,816) | 136,292 |
| Marketable securities | 3,000 | 3,148 | (148) | 14,003 |
| Inventories | 151,246 | 121,854 | 29,391 | 141,893 |
| Deferred tax assets | 13,376 | 13,101 | 275 | 15,027 |
| Others | 22,084 | 19,773 | 2,310 | 21,158 |
| Allowance for doubtful receivables | (2,598) | (2,101) | (496) | (2,636) |
| Fixed assets | 275,945 | 224,069 | 51,876 | 250,291 |
| Tangible fixed assets | 182,247 | 153,025 | 29,222 | 170,209 |
| Buildings and structures | 51,290 | 46,806 | 4,483 | 49,315 |
| Machinery and equipment, delivery equipment | 77,015 | 63,577 | 13,438 | 70,883 |
| Land | 23,381 | 23,651 | (270) | 23,590 |
| Construction in progress | 14,420 | 6,333 | 8,087 | 11,016 |
| Others | 16,139 | 12,655 | 3,483 | 15,402 |
| Intangible fixed assets | 13,131 | 11,352 | 1,778 | 13,477 |
| Goodwill | 1,581 | 780 | 800 | 1,533 |
| Consolidation goodwill | 5,657 | 5,719 | (62) | 6,205 |
| Others | 5,892 | 4,852 | 1,040 | 5,738 |
| Investment and other assets | 80,566 | 59,691 | 20,875 | 66,605 |
| Investment securities | 69,815 | 48,478 | 21,336 | 56,698 |
| Long-term loan receivables | 1,332 | 1,496 | (164) | 1,370 |
| Deferred tax assets | 1,993 | 1,768 | 224 | 1,849 |
| Others | 8,696 | 9,050 | (354) | 7,892 |
| Allowance for doubtful receivables | (1,270) | (1,103) | (167) | (1,205) |
| Total assets | 643,877 | 574,108 | 69,768 | 617,873 |

(Millions of yen)

| Accounts | Current interim term | Previous interim term | Changes | Previous year |
|---|-------------------------------|-------------------------------|----------------|---------------------------|
| | (As of September 30, 2005) | (As of September 30, 2004) | | (As of March 31, 2005) |
| Liabilities | | | | |
| Current liabilities | 258,844 | 240,148 | 18,696 | 268,167 |
| Notes and accounts payable | 68,208 | 77,142 | (8,934) | 78,065 |
| Short-term borrowings | 56,503 | 51,457 | 5,045 | 57,643 |
| Commercial paper | 48,668 | 22,000 | 26,668 | 38,000 |
| Current portion of long-term debts | 2,766 | 8,239 | (5,473) | 3,838 |
| Current portion of straight bonds | 10,000 | 10,000 | – | 10,000 |
| Income taxes payable | 8,497 | 7,477 | 1,020 | 9,488 |
| Reserves for guarantee for finished products | 9,095 | 9,842 | (746) | 9,373 |
| Accrued expenses | 28,382 | 27,437 | 945 | 28,635 |
| Others | 26,722 | 26,551 | 171 | 33,123 |
| Long-term liabilities | 70,572 | 71,793 | (1,220) | 66,950 |
| Straight bonds | 20,000 | 30,000 | (10,000) | 20,000 |
| Long-term debts | 35,014 | 33,516 | 1,497 | 36,960 |
| Deferred tax liabilities | 10,513 | 3,206 | 7,307 | 4,833 |
| Liabilities for retirement benefits | 4,479 | 4,467 | 12 | 4,553 |
| Long-term accounts payable | 564 | 602 | (38) | 602 |
| Total liabilities | 329,417 | 311,941 | 17,476 | 335,118 |
| Minority interests | 10,260 | 8,469 | 1,791 | 8,633 |
| Shareholders' equity | | | | |
| Common stock | 28,023 | 28,023 | – | 28,023 |
| Capital surplus | 25,969 | 25,971 | (2) | 25,971 |
| Retained earnings | 234,852 | 198,350 | 36,501 | 215,681 |
| Net unrealized gain(loss) on available-for-sale securities | 20,092 | 8,962 | 11,129 | 12,294 |
| Foreign currency translation adjustments | (3,132) | (6,213) | 3,081 | (6,501) |
| Treasury stock | (1,606) | (1,397) | (208) | (1,347) |
| Total shareholders' equity | 304,199 | 253,698 | 50,501 | 274,121 |
| Total liabilities, minority interests and shareholders' equity | 643,877 | 574,108 | 69,768 | 617,873 |

Consolidated Interim Statements of Cash Flows

(Millions of yen)

| Accounts | Current interim term (From April 1, 2005, to September 30, 2005) | Previous interim term (From April 1, 2004, to September 30, 2004) | Previous year (From April 1, 2004, to March 31, 2005) |
|--|--|---|---|
| Cash flows from operating activities | | | |
| Income before income taxes and minority interests | 36,683 | 30,993 | 63,801 |
| Depreciation | 12,862 | 10,583 | 22,207 |
| Interest expenses | 2,662 | 2,347 | 5,075 |
| Write-down of investment securities | 22 | 80 | 61 |
| Trade notes and accounts receivable | 12,360 | (16,023) | (2,458) |
| Inventories assets | (11,419) | (8,915) | (28,042) |
| Increase in accounts payable | (10,922) | 5,307 | 2,322 |
| Other-net | (3,741) | 7,328 | 277 |
| Subtotal | 38,506 | 31,701 | 63,244 |
| Income taxes paid | (11,574) | (9,472) | (22,795) |
| Other-net | 6 | (913) | 3,521 |
| Net cash provided by operating activities | 26,938 | 21,315 | 43,970 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | (26,559) | (13,306) | (37,506) |
| Payments to acquire investment securities | (1,056) | (22) | (1,046) |
| Payment for purchase of a subsidiary, net of cash acquired | - | (135) | (3,407) |
| Other-net | 20 | (616) | (130) |
| Net cash used in investing activities | (27,595) | (14,081) | (42,091) |
| Cash flows from financing activities | | | |
| Net increase in short-term borrowings | 9,171 | (664) | 15,024 |
| Increase in long-term debts | 1,356 | 6,814 | 9,759 |
| Repayments of long-term debts | (4,528) | (2,228) | (6,821) |
| Payment of cash dividends | (2,895) | (2,106) | (3,949) |
| Other-net | (1,792) | (1,433) | (10,478) |
| Net cash provided by(used in) financing activities | 1,311 | 380 | 3,534 |
| Effect of exchange rate changes on cash and cash equivalents | 863 | 432 | 129 |
| Net increase or decrease in cash and cash equivalents | 1,517 | 8,047 | 5,543 |
| Cash and cash equivalents, beginning of year | 55,385 | 50,101 | 50,101 |
| Cash and cash equivalents of newly consolidated subsidiaries, beginning of year | 1 | 151 | 151 |
| Effect of change of the fiscal year-end of consolidated subsidiaries | - | - | (410) |
| Cash and cash equivalents, end of year | 56,904 | 58,301 | 55,385 |

Basis of Presenting the Consolidated Interim Financial Statements

1. Matters Related to the Scope of Consolidation

(1) Number of consolidated subsidiaries: 97

Major consolidated 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)

Included in the consolidation in view of the growing importance:

Daikin Powermotion Engineering East Japan Co., Ltd. Daikin Powermotion Engineering Central Japan Co., Ltd. Daikin Powermotion Engineering West Japan Co., Ltd.

(Excluded)

Due to merger between consolidated subsidiaries:

Daikin Airconditioning R&D Laboratory, Ltd

(2) Number of **unconsolidated subsidiaries**: 9

The impact by each of the total assets, net sales, net income and retained earnings and others of unconsolidated subsidiaries upon the consolidated total assets, consolidated net sales, consolidated interim 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. Matters Related to the Application of the Equity Method

(1) Total number of companies accounted for by the equity method: 9

Unconsolidated subsidiary accounted for by the equity method: 1

Daikin America Funding Corporation

Affiliates accounted for by the equity method: 8

Major affiliates

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

3. Matters Related to the Interim Closing Date of Consolidated Subsidiaries

Of the consolidated subsidiaries, the interim closing date for the settlement of accounts of Shanghai Daikin Airconditioning Co., Ltd. and 21 other consolidated companies is June 30. In preparing the consolidated interim financial statements, we use the financial statements made available as of the date of June 30 for these consolidated subsidiaries. As for any important deals made between the interim closing date of their respective settlement of accounts and the interim closing date of our consolidated settlement of account, we apply adjustments that are required for consideration.

4. Summary of Significant Accounting Policies

(1) Standards and method of valuation of important assets

Securities

Available-for-sale securities

Securities with market values: The market value method based on market prices, etc. on the date of the interim 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

Derivatives: The market value method

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

(2) Methods of depreciation of important depreciable assets:

Property, plant and equipment

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 subsidiaries 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 and equipment, and delivery equipment: 5 to 15 years

(3) Standards to appropriate important reserves

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.

Reserve for guarantee for finished products

We appropriate the reserve 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.

Liability for retirement benefits

To prepare for employee's severance and retirement benefits, we appropriate the liability for retirement benefits at an amount recognized to have accrued as of the interim closing date, based on the estimated amount of the liabilities of severance and retirement benefits and that of pension assets as of March 31, 2006.

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

As for actuarial 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 employees 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 employees at the time of occurrence of such liabilities is treated as cost.

(4) 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) Method of important hedge accounting

Method of hedge accounting

In the Daikin 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.

Means of hedging and hedge coverage

For the purpose of avoiding foreign currency risks, the Daikin 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.

Hedging policy and assessment method of effectiveness of hedges

The Daikin 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 Daikin 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) Accounting treatment of consumption taxes

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

5. Cash and Cash Equivalents in the Consolidated Interim Statements of Cash Flows

Cash and cash equivalents in the consolidated interim statements of cash flows 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.

6. Change in accounting method

Impairment loss on fixed assets

Effective from the current interim term ended September 30, 2005, the Company has adopted the “Accounting Standard on the Impairment of Fixed Assets” (“Opinion Concerning the Establishment of Accounting Standard for the Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the “Implementation Guideline on the Accounting Standard for the Impairment of Fixed Assets” (Business Accounting Standard Implementation Guideline No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003)

As a result, income before income taxes and minority interest for the interim term under review was reduced by ¥796 million compared with the computation with the previous accounting method.

Consolidated Interim Balance Sheets

| | | (Millions of yen) | | |
|----|---|--|---|--|
| | | Current interim term As of September 30, 2005 | Previous interim term As of September 30, 2004 | Previous fiscal year As of March 31, 2005 |
| 1. | Accumulated depreciation of property, plant and equipment | 335,027 | 316,774 | 325,365 |
| 2. | Contingent liabilities | | | |
| | Liabilities on guarantee | | | |
| | Guarantee | 150 | 130 | 152 |
| | Commitment to guarantee | 926 | 1,570 | 1,490 |
| 3. | Assets pledged as collateral | | | |
| | Property, plant and equipment | 47,520 | 46,171 | 45,626 |
| | Time deposits | 1,284 | 1,511 | 1,511 |
| | Accounts receivable trade | 4,446 | - | 4,515 |
| | Inventories | 4,562 | - | 6,043 |
| | Others | 344 | - | - |

Lease Deals

Descriptions are omitted as they are disclosed on the EDINET.

Securities

1. Available-for-sale securities with market values

(Millions of yen)

| Category | Current interim term As of September 30, 2005 | | | Previous interim term As of September 30, 2004 | | | Previous fiscal year As of March 31 2005 | | |
|----------|--|--|------------------|---|--|------------------|---|--|------------------|
| | Acquisition cost | Book value per consolidated interim balance sheets | Unrealized gains | Acquisition cost | Book value per consolidated interim balance sheets | Unrealized gains | Acquisition cost | Book value per consolidated balance sheets | Unrealized gains |
| Stocks | 27,935 | 61,432 | 33,496 | 27,084 | 42,009 | 14,925 | 27,972 | 48,531 | 20,559 |
| Other | 503 | 746 | 243 | 613 | 725 | 111 | 503 | 610 | 106 |
| Total | 28,439 | 62,179 | 33,739 | 27,698 | 42,735 | 15,037 | 28,476 | 49,142 | 20,665 |

2. Available-for-Sale Securities without Marketable Value as of September 30, 2005 and 2004, and March 31, 2005

(Millions of yen)

| Category | Current interim term As of September 30, 2005 | Previous interim term As of September 30, 2004 | Previous fiscal year As of March 31 2005 |
|--|---|---|---|
| | Book value per consolidated interim balance sheets | Book value per consolidated interim balance sheets | Book value per consolidated balance sheets |
| Unlisted shares (except for securities traded over the counter) | 1,911 | 1,779 | 1,790 |
| Others | 5,233 | 4,002 | 16,143 |

Derivative Deals

Descriptions are omitted as they are disclosed on the EDINET.

