

Brief Report on the Settlement of Accounts (Consolidated) for the Business Year Ended March 31, 2006

May 10, 2006

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/>)

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Date of board meeting on the settlement of accounts: May 10, 2006

Use of U.S. Accounting Standards: No

1. Consolidated Business Results for the Business Year Ended March 31, 2006

(From April 1, 2005, to March 31, 2006)

(1) Consolidated business results

Note: Amounts less than one million yen are truncated.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2006	792,857	8.8	67,077	10.1	68,682	8.2
Year ended March 31, 2005	728,880	16.5	60,896	26.9	63,478	40.4

	Net income		Net income per share	Diluted net income per share	Ratio of net income for the year to shareholders' equity	Ratio of ordinary income to gross capital	Ratio of ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended March 31, 2006	40,708	5.1	154.25	154.22	13.2	10.3	8.7
Year ended March 31, 2005	38,747	35.4	146.76	146.74	15.2	11.0	8.7

Notes: 1. Equity in earnings of associated companies accounted for using the equity method was ¥505 million for the year ended March 31, 2006, and ¥397 million for the year ended March 31, 2005.

2. The average number of shares (consolidated basis) was 263,197,950 in the year ended March 31, 2006, and 263,266,789 in the year ended March 31, 2005.

3. Change in accounting methods: Yes

4. The figures expressed in % for 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 ended March 31, 2006	719,382	343,492	47.7	1,304.69
Year ended March 31, 2005	617,873	274,121	44.4	1,040.87

Note: The number of issued shares (consolidated basis) was 263,191,026 at the end of the year ended March 31, 2006, and 263,252,803 at the end of the year ended March 31, 2005.

(3) Consolidated cash flows

	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 ended March 31, 2006	63,511	(63,420)	(4,283)	54,177
Year ended March 31, 2005	43,970	(42,091)	3,534	55,385

- (4) Matters related to the scope of consolidation and the application of the equity method:
 The number of consolidated subsidiaries is 99, that of non-consolidated subsidiaries to which the equity method is applied is 1, and that of associated companies to which the equity method is applied is 8.
- (5) The status of changes in the scope of consolidation and the application of the equity method:
 Consolidation: 6 companies are newly added and 2 companies are merged.
 Equity method: No company is newly added and no company is excluded.

2. Prospective Consolidated Business Results for March 31, 2007 (From April 1, 2006, to March 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Half year	435,000	40,000	23,500
Full business year	880,000	72,000	43,500

(Reference) Prospective net income per share (for the full business year): 164.86 yen

*The above prospects are premised on related matters described on pages 11–12 of this document.

Outline of the Settlement of Accounts for the Business Year Ended March 31, 2006

1. Consolidated Business Results

Billions of yen, ratios to net sales in parentheses

	Year ended March 31, 2006	Year ended March 31, 2005	Changes over the previous year	Projections for the year ending March 31, 2007	Changes over the current year
Net sales	792.9	728.9	9%	880.0	111%
Operating income	(8.5) 67.08	(8.4) 60.90	10%	(8.6) 76.0	113%
Ordinary income	(8.7) 68.68	(8.7) 63.48	8%	(8.2) 72.0	105%
Net income	(5.1) 40.71	(5.3) 38.75	5%	(4.9) 43.5	107%
Net income per common share	154.25 yen	146.76 yen	7.49 yen	164.86 yen	10.61 yen

2. Non-Consolidated Business Results

Billions of yen, ratios to net sales in parentheses

	Year ended March 31, 2006	Year ended March 31, 2005	Changes over the previous year	Projections for the year ending March 31, 2007	Changes over the current year
Net sales	435.0	438.1	(1)%	437.0	100%
Operating income	(5.5) 24.09	(3.5) 15.17	59%	(4.5) 19.5	81%
Ordinary income	(7.5) 32.56	(6.1) 26.91	21%	(6.8) 29.5	91%
Net income	(4.9) 21.38	(4.5) 19.87	8%	(5.0) 22.0	103%
Net income per common share	80.82 yen	75.05 yen	5.77 yen	83.17 yen	2.35 yen
Dividend per common share	22 yen	18 yen	4 yen	22 yen	—

<Segment Information (Consolidated)>

Industry Segments

Billions of yen, ratios to net sales in parentheses

		Year ended March 31, 2006		Year ended March 31, 2005		Changes over the previous year
Air conditioning	Net sales	641.7		589.3		109%
	Operating income	(8.9)	57.11	(8.7)	51.23	111%
Chemicals	Net sales	107.4		99.6		108%
	Operating income	(10.0)	10.75	(9.0)	8.96	120%
Others	Net sales	43.8		40.0		109%
	Operating income	(-1.8)	-0.77	(1.8)	0.72	—
Total	Net sales	792.9		728.9		109%
	Operating income	(8.5)	67.08	(8.4)	60.90	110%

Sales by Market

Billions of yen

	Year ended March 31, 2006	Year ended March 31, 2005	Changes over the previous year
Domestic	425.4	397.6	107%
Asia/Oceania	143.3	123.9	116%
Europe	178.8	168.8	106%
America	36.4	31.8	114%
Others	9.0	6.7	133%
Total	792.9	728.9	109%

Prospective Industry Segment Results

Billions of yen, ratios to net sales in parentheses

		Year ending March 31, 2007 (prospective)		Year ended March 31, 2006		Changes over the current year
Air conditioning	Net sales	717.0		641.7		112%
	Operating income	(8.9)	63.50	(8.9)	57.11	111%
Chemicals	Net sales	120.0		107.4		112%
	Operating income	(9.2)	11.0	(10.0)	10.75	102%
Others	Net sales	43.0		43.8		98%
	Operating income	(3.5)	1.50	(-1.8)	-0.77	—
Total	Net sales	880.0		792.9		111%
	Operating income	(8.6)	76.0	(8.5)	67.08	113%

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 to which the equity method is applied 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. (service and maintenance of air conditioners)
Daikin Trading Co., Ltd. (sales of parts and components of air conditioners)
[Companies to which the equity method is applied]
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 and Environmental Laboratory Co., Ltd., and 3 other companies (technological development of air-conditioning equipment)
- (4) Global operations [Consolidated subsidiaries]
Daikin Europe N.V., Daikin Industries (Thailand), Ltd., and 16 other companies (manufacture and sales of air conditioners)
Daikin Airconditioning France S.A.S. and 19 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)

[Company to which the equity method is applied]

MDA Manufacturing, Inc. (manufacture and 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, Warheads 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 and installation of lubricating equipment)

(3) Sales

[Consolidated subsidiary]

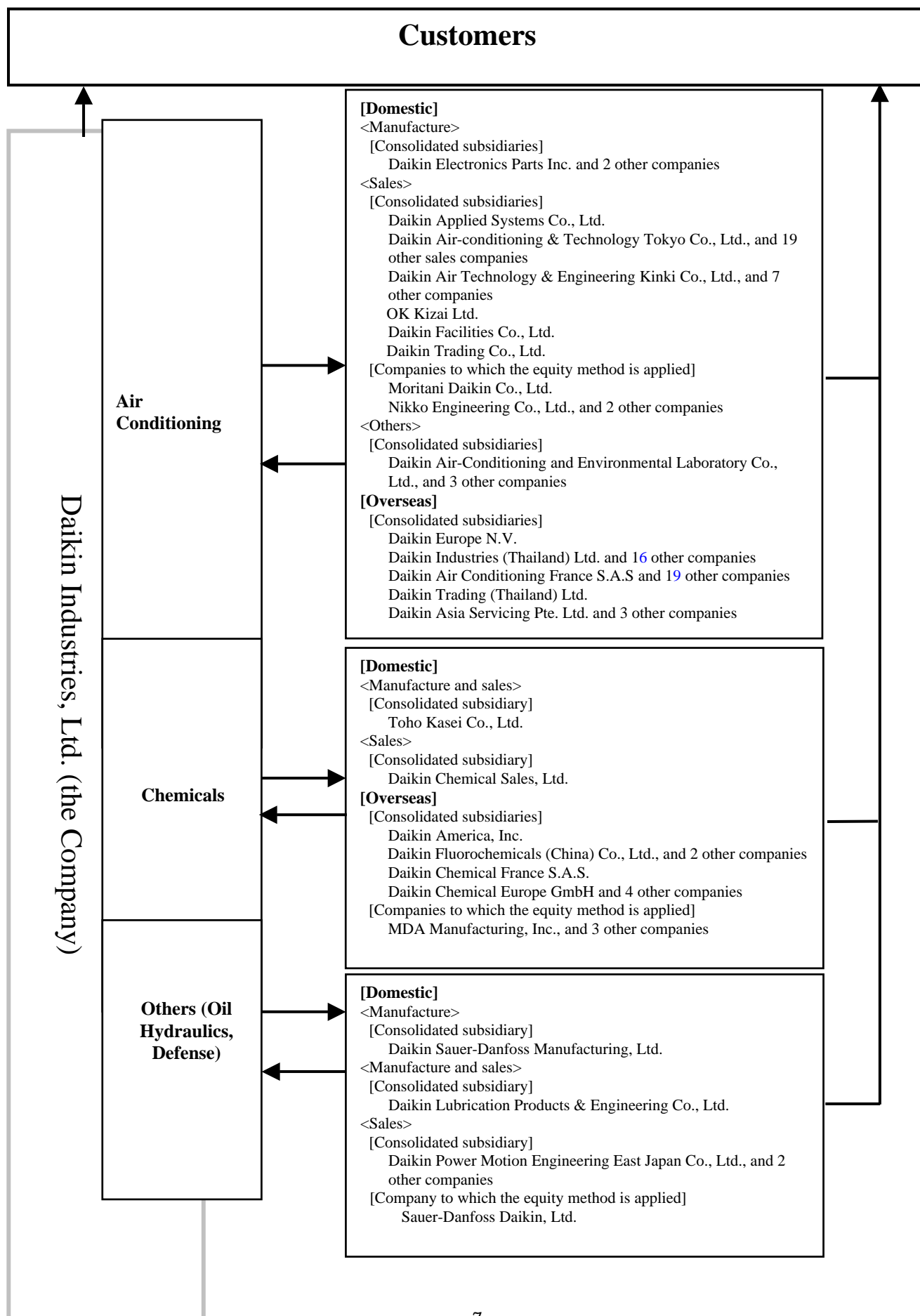
Daikin Power Motion Engineering East Japan Co., Ltd., and 2 other companies (sales of hydraulic equipment, etc.)

[Company to which the equity method is applied]

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

[Schematic Diagram of the Company's Business Groups]

The schematic diagram of the business contents of the Company Group, including 99 consolidated companies (46 domestic, 53 overseas) and 9 companies to which the equity method is applied (5 domestic, 4 overseas), is shown below.



Management Policies

(1) Basic Management Policy

Under “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 to maximize corporate value through the highest-quality products, materials and services.

The Company will conduct thoroughly fair corporate activities based on a high level of ethics and fair competition, information disclosure and the fulfillment of accountability in a timely and appropriate manner, proactive responses to the global environment and active contributions to local communities 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 that 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 an immediate target to achieve a ratio of dividends to shareholders’ equity (consolidated basis) of 2.0%, the Company will carry out stable dividend payments by comprehensively taking into account consolidated business results, the financial position and capital requirements.

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

As to dividend payments after the implementation of the Corporate Code (effective May 1, 2006), the Company intends to continue semiannual dividend payments with record dates of March 31 and September 30.

(3) Target Management Indicators

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

As for the appropriation of FCF so created, the Company makes decisions on the use of FCF in view of the current business climate and demand trends and primarily from the standpoint of enhancing corporate value. To avail itself of opportunities to achieve substantial business expansion in global markets, the Company is promoting investments aimed at expanding future returns by upgrading technologies to underlie its competitiveness as a manufacturer, reinforcing its production capabilities and sales network, mergers and acquisitions, partnerships and alliances.

(4) Medium- and Long-Term Management Strategies

The Company has achieved most of the key goals set forth in “Fusion 05,” the strategic management plan with 2005 as its target year. Based on the results of that plan, now we are formulating “Fusion 10,” a strategic management plan with 2010 as the target year to further improve corporate value. The plan aims to maximize corporate value, which is regarded as true global excellence. With total sharing and practice of the Group’s management philosophy as an absolute condition, the Company intends to carry out the following aims to maximize its corporate value:

- 1) Becoming the No. 1 business in the world in its field
- 2) Creating innovation and value through innovative technologies as a leader in bringing changes
- 3) Maintaining sturdy earning capacity and a financial structure with capital efficiency
- 4) Realizing thorough “management based on human resources” based on every employee’s pride and contentment through accomplishing his/her work

(5) Tasks Addressed by the Company

By thoroughly carrying out the measures mentioned below and identifying tasks to be addressed under the goals for this year, the Company is making all-out efforts to attain these targets: (1) to take comprehensive measures to strengthen a profit-earning structure such as keeping total costs down, maximizing sales and promoting the efficiency of indirect departments on the Group level; (2) to promote dynamic business development through active investments made as a stepping stone for expansion in the domestic and overseas markets that are most likely to provide favorable results, and achieve early returns from these investments; (3) to restore the high-profit earning structure of the fluorochemicals business as early as possible and accelerate the restructuring of the oil hydraulic, defense systems and electronics divisions; (4) to take thorough measures to fulfill the targets of “Daikin’s Technology Statement”; and (5) to enhance and enforce CSR (corporate social responsibilities) including the development and strengthening of human resources, legal compliance, corporate ethics, environmental preservation and stable operations.

(6) Matters Related to the 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 progressed steadily, supported by a recovery of demand in IT-related markets and a favorable economy in China and other Asian countries, despite a slight slowdown of the U.S. economy. The U.S. economy usually leverages the global economy, but hurricanes last summer and the credit squeeze had adversely effects, and growth decelerated. Against that backdrop, the Japanese economy exhibited a clear recovery, reflected in an increase in consumer spending supported by favorable growth in capital investment as well as improved stock quotations, a better income and employment environment and steady progress in exports.

In this business environment, the Company Group strove to ensure safe and stable operation as well as perfect quality, and improve marketing and engineering capabilities to establish a base for sustainable growth and development through the concerted application of Groupwide strengths under the Group policy espoused at the beginning of 2005 to “Establish a Firm Footing to Ensure a Quantum Leap Forward.”

During fiscal 2006, ended March 31, 2006, consolidated net sales increased 8.8% to 792,857 million yen, buoyed by strong sales in Japan of distinctive, high-value-added products by our mainstay Air Conditioning & Refrigeration Equipment Division. Overseas sales of air-conditioning systems showed continuing favorable progress, particularly in China and Thailand. Demand expanded for chemical products used in automotive-related fields, and demand advanced for fluoroplastics in China and elsewhere in Asia.

Higher domestic and overseas sales of differentiated products, combined with concentrated efforts to pare overall costs, helped achieve a 10.1% increase in operating income to 67,077 million yen. Ordinary income rose 8.2% to 68,682 million yen and net income advanced 5.1% to 40,708 million yen.

An overview of results by business segment follows:

Air Conditioning and Refrigeration Equipment Division

Sales in Japan of residential air-conditioning systems were almost flat with the previous year due to sluggish growth of compact models despite our efforts to expand sales of high-value-added products such as the URURU & SALALA systems—air-conditioning systems with a humidity control function—targeted at residential demand.

Both sales volume and sales in Japan of commercial air-conditioning systems expanded compared with a year earlier through sales promotions to offer solutions to dealers and customers, accompanied by increased industrial demand due to a rise in private-sector capital investment and increased replacements of models purchased during the bubble era. Our sales promotion efforts focused on distinctive, high-value-added products, such as the Round Flow ZEAS, which features superior energy efficiency, quieter and particularly more comfortable operation, and greater environmental friendliness, as well as the multi split air-conditioner Ve-up Q for office use, which allows individual units to be replaced without changing existing refrigerant piping.

In Europe, unseasonable weather decreased sales volumes of residential air-conditioning systems especially in Italy and France, however, sales promotions of commercial air-conditioning systems improved sales. In China, which is preparing for the Beijing Olympics and the Shanghai World Exposition, demand continued to be strong and sales volumes of both residential and commercial air-conditioning systems advanced. Furthermore, Thailand and Taiwan recorded outstanding progress in sales volume supported by steady demand.

Sales of container refrigeration equipment increased, particularly to Japanese and other Asian container shipping companies, supported by the steady expansion of marine markets.

Total sales of the Air Conditioning and Refrigeration Equipment Division rose 8.9% year over year to 641,657 million yen. The division's operating income increased 11.5% to 57,110 million yen.

Chemicals

Sales of fluoropolymers increased favorably, supported by increased demand in Chinese and other Asian markets, expanded sales of products in the automotive market and sales for U.S. manufacturers of LAN cables. Our supply capabilities, which were enhanced by the completed restoration of the Kashima Plant, also contributed to higher sales.

Sales of chemical products decreased, reflecting sluggish sales in Europe and the U.S. textile markets, which use oil- and water-repellant products as main materials, despite an increase in sales of high-function materials such as surface re-forming materials. Sales of fluorocarbon gases were almost flat with the previous year due to a decrease in demand of air-conditioning systems for the European markets.

Total sales of the Chemicals Division advanced 7.8% to 107,411 million yen, and operating income rose 20.0% to 10,753 million yen.

Other Divisions

Sales from the Defense Systems Division were almost flat with the previous year due to a decrease in sales of home-use oxygen medical equipment although orders for ammunition for Japan's Self-Defense Forces increased.

In the Oil Hydraulics Division, sales of oil hydraulics equipment for industrial machinery increased, mainly due to expanded sales of such distinctive products as inverter-driven hydraulic units and Oilcon oil cooling units to Asia and in Japan, whereas mainstay demand for machine tools remained firm.

Sales of oil hydraulics equipment used in construction machinery increased thanks to steady U.S. demand.

Sales of multilevel car-parking systems plunged compared with a year earlier, owing to a decline in demand.

As a result, total sales from Other Divisions increased 9.5% to 43,788 million yen, but a decrease in sales of multilevel car-parking systems caused an operating loss of 773 million yen.

The business environment related to multilevel car-parking systems is considerably deteriorating, reflecting stagnant demand, low sales price caused by intensifying competition and a surge in prices of raw materials, and the expectation of an increase in future demand is low. Therefore, we decided to withdraw from the business with a view to focusing management resources on more profitable areas.

As a result, an extraordinary loss of 1,952 million yen was accounted for due to the withdrawal from the business for the fiscal term under review.

On a non-consolidated basis, Daikin's net sales decreased 0.7% to 434,986 million, operating income soared 58.8% to 24,085 million yen and ordinary income rose 21.0% to 32,562 million yen. As a result, net income for fiscal 2006 increased 7.6% to 21,381 million yen.

As for the annual dividend for the year under review, we proposed a full-year dividend of 22 yen per share (consisting of an interim dividend of 11 yen and a year-end dividend of 11 yen), an increase of 6 yen over the previous year, including 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

Amid concerns about the potential effects on the global economy of persistently high crude oil prices and a credit squeeze in the United States and China, both the U.S. and Chinese economies remain firm. Under these

circumstances, the global economy should progress steadily. Buoyed by a stable global economy, the Japanese economy should continue to enjoy sustainable growth through a virtuous circle of aggressive capital investment and steady consumer spending.

In this environment, the Company defined its Annual Group Policy for 2006, “Boldly Challenge New Themes to Create a Bright Future,” and will strive to generate solid results from our innovations and numerous implemented measures and thoroughly address new challenges to realize a quantum leap forward through our group-wide integrated strength. We should not stick to conventional ways and methods in the face of dramatic changes in the social environment and market structures but rather regard such changes as opportunities.

Specifically, the Group will strive to eliminate complaints, flexibly supply and reduce inventory by carrying out global SCM and reduce costs, as well as nurture and reinforce human resources to enable winning engineering, marketing and service capabilities to be competitive with the world’s leading manufacturers.

For the fiscal year ending March 31, 2007, we forecast an 11% year-over-year increase in consolidated net sales to 880,000 million yen, a 13.3% jump in operating income to 76,000 million yen, a 4.8% rise in ordinary income to 72,000 million yen and a 6.9% uptick in net income to 43,500 million yen.

Regarding non-consolidated results for the year ending March 31, 2007, we project net sales of 437,000 million yen, almost flat with the previous year; a decline of 19.0% in operating income to 19,500 million yen; a decrease of 9.4% in ordinary income to 29,500 million yen; and an increase of 2.9% in net income to 22,000 million yen.

The exchange rate for the fiscal year ending March 31, 2007, is based on the assumption that 1 euro equals 138 yen and \$1 equals 110 yen.

We intend to pay a full-year dividend of 22 yen per share, the same as the previous year.

Statements made with respect to expectations and forecasts are forward-looking statements based on information available at present and certain assumptions that we consider reasonable. A number of factors, some major ones of which are explained below, could cause actual results to differ materially from those discussed in the forward-looking statements:

- Drastic changes in demand for products or in political and economical situations in the major markets of Japan, Europe, the United States, China and other Asian countries
- Fluctuations in demand for air-conditioning equipment due to cold summer and unseasonable weather
- Drastic changes in exchange markets (especially the euro and dollar markets)
- Serious troubles related to quality and manufacturing
- Fluctuations in the market value of securities and other assets held by the Company

2. Financial Position

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

Net cash provided by operating activities was 63,511 million yen, due to a rise of income before income taxes and minority interests. Net cash used in investing activities was 63,420 million yen, due to the acquisition of fixed assets and other factors. Net cash used in financing activities was 4,283 million yen, due to the redemption of bonds, etc. As a result, cash and cash equivalents at the end of the year under review amounted to 54,177 million yen.

Interest-bearing debt amounted to 172,900 million yen, an increase of 6,500 million yen over the year earlier. However, the interest-bearing debt ratio declined 2.9% from the previous year to 24.0%.

Trends in cash flow indicators are shown below.

	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Equity ratio (%)	41.5	43.1	44.0	44.4	47.7
Equity ratio based on current values (%)	129.9	107.9	128.6	115.0	150.8
Period of debt redemption (years)	3.8	2.9	3.7	3.8	2.7
Interest coverage ratio (times)	7.9	10.8	9.0	8.5	12.3

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

Interest coverage ratio: operating cash flow/interest payment

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

* The aggregate market value of shares is calculated as follows: term-end closing price of shares × term-end number of shares issued (after deducting 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 for which interest was 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, 2005, to March 31, 2006)		Previous year (from April 1, 2004, to March 31, 2005)		Changes
Net sales		792,857		728,880	63,977
Cost of sales	(65.9)	522,385	(64.8)	472,221	50,164
Selling, general and administrative expenses		203,394		195,761	7,632
Operating income	(8.5)	67,077	(8.4)	60,896	6,180
Non-operating income		8,282		10,099	(1,816)
Interest income		1,324		691	633
Dividend income		726		449	276
Equity in earnings of unconsolidated subsidiaries and associated companies		505		397	107
Royalty income		121		112	9
Exchange gains		1,049		794	255
Gain on loss-of-profit insurance from an explosion at the Kashima Plant - net		—		5,954	(5,954)
Others		4,555		1,699	2,856
Non-operating expenses		6,677		7,518	(840)
Interest expense		4,614		4,617	(2)
Others		2,062		2,900	(837)
Ordinary income	(8.7)	68,682	(8.7)	63,478	5,204
Extraordinary income		2,696		1,040	1,655
Gain on sales of investment securities		1,248		110	1,137
Gain on property-damage insurance from fire accident in Spain		1,447		—	1,447
Gain on property-damage insurance from an explosion at the Kashima Plant - net		—		929	(929)
Extraordinary loss		3,838		716	3,121
Loss on disposals of property, plant and equipment		1,045		651	394
Impairment loss		796		—	796
Write-down of investment securities		44		61	(16)
Loss from discontinued operation of systems of mechanical parking equipment		1,952		—	1,952
Write-down of other assets		—		3	(3)
Income before income taxes and minority interests	(8.5)	67,540	(8.8)	63,801	3,738
Income taxes - current		23,936		23,835	100
Income taxes - deferred		274		(1,831)	2,105
Minority interests		2,621		3,051	(429)
Net income	(5.1)	40,708	(5.3)	38,747	1,961

Please refer to page 22 for notes.

Consolidated Statements of Surplus

(Millions of yen)

Accounts	Current year (from April 1, 2005, to March 31, 2006)	Previous year (from April 1, 2004, to March 31, 2005)	Changes
Capital surplus			
Capital surplus at the beginning of year	25,971	25,969	1
Increase in capital surplus	—	1	(1)
Gains on disposal of treasury stock	—	1	(1)
Decrease in capital surplus	3	—	3
Reversal of gains on disposal of treasury stock	3	—	3
Capital surplus at the end of year	25,968	25,971	(3)
Retained earnings			
Retained earnings at the beginning of year	215,681	180,945	34,736
Increase in retained earnings	40,731	38,805	1,925
Net income	40,708	38,747	1,961
Cumulative effect of consolidating previously unconsolidated subsidiaries	23	51	(28)
Effect of change of the fiscal year-end of consolidated subsidiaries	—	7	(7)
Decrease in retained earnings	6,165	4,069	2,095
Dividends	5,790	3,949	1,841
Bonuses to directors and corporate auditors	110	120	(10)
Disposal of treasury stock	0	—	0
Effect of change of the fiscal year-end of consolidated subsidiary	264	—	264
Retained earnings at the end of year	250,247	215,681	34,566

Consolidated Balance Sheets

(Millions of yen)

Accounts	Current year (as of March 31, 2006)	Previous year (as of March 31, 2005)	Changes
(Assets)			
Current assets	390,970	367,582	23,388
Cash and deposits with banks	55,461	41,842	13,619
Notes and accounts receivable - trade	147,679	136,292	11,386
Marketable securities	—	14,003	(14,003)
Inventories	149,242	141,893	7,348
Deferred tax assets	14,845	15,027	(182)
Other	26,564	21,158	5,405
Allowance for doubtful receivables	(2,821)	(2,636)	(185)
Fixed assets	328,411	250,291	78,119
Tangible fixed assets	196,485	170,209	26,276
Buildings and structures	55,568	49,315	6,253
Machinery & equipment, and delivery equipment	89,571	70,883	18,687
Land	24,263	23,590	673
Construction in progress	9,239	11,016	(1,776)
Others	17,842	15,402	2,439
Intangible fixed assets	13,632	13,477	154
Goodwill	1,280	1,533	(253)
Consolidation goodwill	5,426	6,205	(779)
Others	6,925	5,738	1,187
Investments and other assets	118,293	66,605	51,688
Investment securities	107,730	56,698	51,031
Long-term loan receivables	1,280	1,370	(89)
Deferred tax assets	2,044	1,849	194
Others	8,370	7,892	478
Allowance for doubtful receivables	(1,131)	(1,205)	74
Total assets	719,382	617,873	101,508

Accounts	Current year (as of March 31, 2006)	Previous year (as of March 31, 2005)	Changes
(Liabilities)			
Current liabilities	284,453	268,167	16,285
Notes and accounts payable	84,252	78,065	6,186
Short-term borrowings	53,044	57,643	(4,599)
Commercial paper	60,642	38,000	22,642
Current portion of long-term debt	3,277	3,838	(560)
Current portion of straight bonds	—	10,000	(10,000)
Income taxes payable	7,643	9,488	(1,844)
Deferred tax liabilities	31	6	24
Reserves for guarantee for finished products	9,542	9,373	169
Accrued expenses	29,785	28,635	1,150
Notes payable - construction	1,590	1,503	86
Others	34,642	31,612	3,029
Long-term liabilities	80,198	66,950	13,247
Straight bonds	20,000	20,000	—
Long-term debt	36,030	36,960	(930)
Deferred tax liabilities	18,530	4,833	13,697
Liabilities for retirement benefits	5,072	4,553	518
Long-term accounts payable	564	602	(38)
Total liabilities	364,651	335,118	29,532
(Minority interests)			
Minority interests	11,238	8,633	2,605
(Common stock)			
Common stock	28,023	28,023	—
Capital surplus	25,968	25,971	(3)
Retained earnings	250,247	215,681	34,566
Net unrealized gain (loss) on available-for-sale securities	33,053	12,294	20,758
Foreign currency translation adjustments	7,749	(6,501)	14,251
Treasury stock	(1,550)	(1,347)	(202)
Total shareholders' equity	343,492	274,121	69,370
Total liabilities, minority interests and shareholders' equity	719,382	617,873	101,508

Please refer to page 22 for notes.

Consolidated Statements of Cash Flows

(Millions of yen)

Accounts	Current year (from April 1, 2005, to March 31, 2006)	Previous year (from April 1, 2004, to March 31, 2005)
I. Cash flows from operating activities		
Income before income taxes and minority interests	67,540	63,801
Depreciation	28,409	22,207
Interest expenses	5,117	5,075
Write-down of investment securities	44	61
Trade notes and accounts receivable	(8,402)	(2,458)
Inventories assets	(5,084)	(28,042)
Increase (decrease) in accounts payable	4,945	2,322
Other - net	(4,020)	277
Subtotal	88,549	63,244
Income taxes paid	(25,281)	(22,795)
Other - net	243	3,521
Net cash provided by operating activities	63,511	43,970
II. Cash flows from investing activities		
Time deposits	(824)	—
Purchases of property, plant and equipment	(46,168)	(37,506)
Payments to acquire investment securities	(18,089)	(1,046)
Payment for purchase of a subsidiary, net of cash acquired	—	(3,407)
Other - net	1,662	(130)
Net cash used in investing activities	(63,420)	(42,091)
III. Cash flows from financing activities		
Net increase in short-term borrowings	15,759	15,024
Increase in long-term debt	1,903	9,759
Repayments of long-term debt	(4,418)	(6,821)
Redemption of bonds	(10,000)	(10,000)
Payment of cash dividends	(5,790)	(3,949)
Other - net	(1,737)	(478)
Net cash provided by (used in) financing activities	(4,283)	3,534
IV. Effect of exchange rate changes on cash and cash equivalents	3,226	129
V. Net increase or decrease in cash and cash equivalents	(966)	5,543
VI. Cash and cash equivalents at the beginning of the year	55,385	50,101
VII. Cash and cash equivalents of newly consolidated subsidiaries, at the beginning of the year	346	151
VIII. Effect of the change of the fiscal year-end of consolidated subsidiaries	(588)	(410)
IX. Cash and cash equivalents at the end of the year	54,177	55,385

Basic and Important Matters in Preparing the Consolidated Financial Statements

1. Matters Related to the Scope of Consolidation

(1) Number of consolidated subsidiaries: 99

Major subsidiaries Daikin Applied Systems Co., Ltd., Daikin Air-conditioning & 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 Air-conditioning Co., Ltd., Daikin America, Inc., Daikin Fluorochemicals (China) Co., Ltd.

(Newly added)

Due to new establishment:
Daikin Holdings (USA), Inc., Daikin U.S. Corporation

Subsidiaries included in the consolidation in view of their growing importance:

Daikin Power Motion Engineering East Japan Co., Ltd., Daikin Power Motion Engineering Central Co., Ltd., Daikin Power Motion Engineering West Japan Co., Ltd.,
Daikin AC (Americas), Inc.

(Excluded) Due to mergers between consolidated subsidiaries:

Daikin Air-Conditioning and Environmental Laboratory Co., Ltd., Daikin Systems & Solutions Laboratory, Ltd.

(2) Number of non-consolidated subsidiaries: 8

The impact of total assets, net sales, net income and retained earnings and others of non-consolidated subsidiaries on the respective consolidated total assets, consolidated net sales, consolidated net income and consolidated retained earnings and others is insignificant. For this reason, these companies are excluded from consolidation.

2. Matters Related to the Application of the Equity Method

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

Number of non-consolidated subsidiaries to which the equity method is applied: 1

Daikin America Funding Corporation

Number of affiliated companies accounted for by the equity method: 8

Major affiliated companies:

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

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

Of the consolidated subsidiaries, the date of the settlement of accounts of Shanghai Daikin Air-conditioning Co., Ltd., and 20 other consolidated companies is December 31. In preparing the consolidated financial statements, we use the financial statements made available as of December 31. As for any important deals made between the date of the respective settlement of accounts and the date of our consolidated settlement of accounts, we apply adjustments that are required for consideration. As to Daikin Airconditioning UK Ltd., the date of its settlement of accounts has been changed to March 31 from December 31, starting from this term under review.

4. Matters Related to the Accounting Standards

(1) Standards and method of assessment 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 term-end of the 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

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

(2) Method of depreciation of important depreciable assets:

Domestic companies use the diminishing method, provided that the straight-line method is used for buildings (excluding fixtures) that were acquired on and after April 1, 1998. 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: 15–50 years

Machinery & equipment, and delivery equipment: 5–15 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 an estimated amount of uncollectible debts.

Reserves for guarantee for finished products

We appropriate the reserves for free repair costs on sold products based on the past track record, factoring in prospective future guarantees.

Allowance for retirement benefits

To prepare for employees' severance and retirement benefits, we appropriate an 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 the difference due to the revision of accounting standards, the amount proportionately divided over 7 years is treated as cost.

As for the recognized actuarial gain/loss, the amount proportionately divided by the straight-line method in a certain number of years (10 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 (10 years) within the average remaining service period of an employee at the time of occurrence of such liabilities is treated as cost.

(Additional information)

Based on an agreement between labor and management concluded in March 2006, it was determined that the Company would abolish the qualified retirement pension plan and adopt a defined benefit corporate pension system and a defined contribution pension system, effective on June 1, 2006.

(4) Method of treatment of important lease deals

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

(5) Method of important hedge accounting

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.

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, whereas financial liabilities including borrowings from banks are deemed as hedge coverage.

Hedging policy and assessment method of the effectiveness of hedges

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

A 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 the hedging functions of that particular derivative prior to the start of such derivative deals. The effectiveness of the hedge is judged by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedge coverage and that of the market fluctuations or the cash flow fluctuations for the means of hedging. Such techniques as regression analysis are used whenever necessary. The same check system is adopted in the Company's consolidated subsidiaries.

(6) Accounting treatment of the consumption tax

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

5. Matters Related to the 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 5–10 year period is used.

7. Matters Related to the Treatment of the 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. 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 on 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)

(Accounting standards for the impairment of fixed assets)

From the current year, the Company has adopted the “Accounting standard for the derogation of fixed assets (Opinion Concerning Establishment of the Accounting Standard for the derogating of Fixed Assets issued by the Business Accounting Deliberation Council on August 9, 2002, and the applied Guidance for the Accounting Standard for the derogation of Fixed Assets issued by the Accounting Standards Board of Japan (ASBJ) on October 31, 2003). As a result, income before income taxes for the current year decreased by 796 million yen. The impact of adopting the standards on the segment information is indicated in the note to the segment information.

Relating to the Consolidated Balance Sheets

		(Millions of yen)	
		Current year	Previous year
1.	Accumulated depreciation of tangible fixed assets	346,863	325,365
2.	Liabilities on guarantee		
	Guarantee	—	152
	Commitment to guarantee	1,082	1,490
3.	Assets pledged as collateral		
	Time deposits	1,284	1,511
	Accounts receivable - trade	6,203	4,515
	Inventory assets	4,611	6,043
	Tangible fixed assets	48,183	45,626
	Others	713	—

Relating to the Consolidated Statements of Income

		(Millions of yen)	
		Current year	Previous year
1.	Research-and-development costs included in general and administrative expenses and manufacturing costs	26,647	24,582

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	[8.9]	[7.8]	[9.5]	[8.8]		[8.8]
	(1) Sales to customers	641,657	107,411	43,788	792,857	—	792,857
	(2) Intersegment sales	487	3,376	19	3,883	-3,883	—
	Total	642,145	110,787	43,808	796,740	-3,883	792,857
	Operating expenses	585,034	100,034	44,582	729,651	-3,870	725,780
	Operating income	(8.9) 57,110	(10.0) 10,753	(-1.8) -773	(8.5) 67,089	-12	(8.5) 67,077
Previous year	II. Assets, depreciation and capital expenditure						
	Assets	440,199	129,918	29,258	599,376	120,006	719,382
	Depreciation	16,841	10,272	1,245	28,360	—	28,360
	Capital expenditure	33,737	14,401	1,551	49,690	—	49,690
	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) 51,231	(9.0) 8,958	(1.8) 719	(8.4) 60,909	-12	(8.4) 60,896	
Previous year	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

- Notes:
- The type of business is determined by taking into account the similarities of the kinds, manufacturing methods and sales methods of products.
 - The figures expressed in parentheses indicate the ratio to net sales, and those expressed in brackets indicate the ratio of growth over the previous year.
 - Major products included in each type of business are as follows:
 - Air conditioning, Residential air conditioners, commercial air conditioners and refrigeration equipment, air-conditioning and refrigeration equipment for ships, electronic systems
 - Chemicals: Fluorocarbon gas, fluoroplastics, chemical products, chemical engineering machines

- (3) Others: Hydraulic equipment for industrial machinery, Hydraulic equipment and machines for construction machines and vehicles, centralized lubrication units and systems, multilevel car-parking systems, ammunition, warheads for guided missiles, aircraft parts
4. Of the assets, the corporate assets included in the eliminations and corporate items are 124,657 million yen in the current year and 80,463 million yen in the previous year, and the major factors are such assets as the total surplus funds (cash and securities) and long-term investment funds (investment securities) of the parent company.
5. As is recorded in the changes in accounting methods, in the past royalty income has been treated as non-operating income. From the current term the method of accounting has changed so that royalty income from subsidiaries and associated companies is treated as sales. The effect of this change on industry segment information is slight.

2. Geographical Segments

(Millions of yen)

	Japan	Europe	America	Asia and Oceania	Other	Total	Eliminations	Consolidate	
Current year	I. Net sales and operating income or loss								
	Net sales	[5.8]	[8.7]	[22.4]	[18.6]	[11.0]	[8.8]		[8.8]
	(1) Sales to outside customers	465,539	174,810	33,443	116,276	2,786	792,857	—	792,857
	(2) Intersegment transfers	96,162	3,270	3,571	67,278	—	170,283	-170,283	—
	Total	561,702	178,081	37,015	183,555	2,786	963,141	-170,283	792,857
	Operating expenses	531,341	165,635	36,703	163,344	2,640	899,666	-173,886	725,780
Previous 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) Intersegment 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
Previous year	II. Assets								
	Operating income	(6.5)	(7.1)	(0.9)	(17.4)	(5.2)	(8.0)		(8.5)
		30,360	12,445	311	20,211	145	63,474	3,602	67,077
		416,261	114,811	38,702	159,943	2,490	732,210	-12,827	719,382

- (注) 1. The figures expressed in parentheses indicate the ratio to net sales, and those expressed in brackets indicate the ratio of growth over the previous year.
2. Of the assets, the corporate assets included in the eliminations and corporate items are 124,657 million yen in the current year and 80,463 million yen in the previous year, and the major factors are such assets as the total surplus funds (cash and securities) and long-term investment funds (investment securities) of the parent company.
3. As indicated in the Revision of Accounting Treatment Method, from the fiscal year under review, the Company has adopted the Accounting standards for the impairment of fixed assets—"Opinion concerning the Establishment of the Accounting Standard for the Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council (BADC) on August 9, 2002, and the Implementation Guidance for the Accounting Standard for the Impairment of Fixed Assets (Financial Accounting Standards Implementation Guidance No. 6 issued on October 31, 2003, by the Accounting Standards Board of Japan (ASBJ)). As a result, an impairment loss of 796 million yen and a decrease in assets of the same amount occurred in Japan.

3. Sales to Foreign Customers

(Millions of yen)

	Asia and Oceania	Europe	America	Other	Total	
Current year	I. Overseas sales	143,310	178,821	36,403	8,965	367,500
	II. Consolidated sales					792,857
	III. Ratio of overseas sales to consolidated sales	18.1%	22.6%	4.6%	1.1%	46.4%
Previous 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%

Lease Deals

Descriptions are omitted as they are disclosed on the EDINET.

Tax-Effect Accounting

(Millions of yen)

Current year From April 1, 2005, to March 31, 2006	Previous year From April 1, 2004, to March 31, 2005
1. Breakdown of deferred tax assets and deferred tax liabilities by occurrence of major causes	1. Breakdown of deferred tax assets and deferred tax liabilities by occurrence of major causes
Deferred tax assets	Deferred tax assets
Unrealized profit of inventory assets	Unrealized profit of inventory assets
5,824	7,380
Software	Software
4,161	3,679
Warranty reserve	Warranty reserve
2,931	3,121
Accrued bonus	Accrued bonus
2,928	2,641
Retirement benefits	Retirement benefits
1,983	1,750
Foreign tax credit	Foreign tax credit
1,626	1,572
Inventory assets	Inventory assets
1,891	1,422
Business tax payable	Business tax payable
769	554
Tax loss carryforwards	Tax loss carryforwards
390	385
Allowance for doubtful receivables	Allowance for doubtful receivables
583	375
Property and equipment	Property and equipment
469	284
Long-term accounts payable	Long-term accounts payable
229	244
Investment securities	Investment securities
190	111
Other	Other
2,731	2,031
Total deferred tax assets	Subtotal deferred tax assets
26,710	25,556
	Less valuation allowance
	(53)
Deferred tax liabilities	Total deferred tax assets
Deferred gains on sales of property	25,502

	(2,167)		
Unrealized gain on available-for-sale securities	(22,598)	Deferred tax liabilities	
Other	(3,617)	Deferred gains on sales of property	
Total deferred tax liabilities	(28,383)		(2,167)
		Unrealized gain on available-for-sale securities	(8,405)
Net deferred tax assets		Other	(2,892)
	(1,672)	Total deferred tax liabilities	(13,466)
		Net deferred tax assets	12,036
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	40.6%
(Adjustment)		(Adjustment)	
Difference in foreign subsidiaries tax rate	(6.1)%	Difference in foreign subsidiaries tax rate	(6.2)%
Permanent non-deductible expenses	3.4%	Permanent non-deductible expenses	1.7%
Tax credit for research-and-development costs	(2.8)%	Tax credit for research-and-development costs	(2.8)%
Losses of consolidated subsidiaries	1.0%	Losses of consolidated subsidiaries	(0.6)%
Other - net	(0.3)%	Other - net	(0.6)%
Actual effective income tax rate	35.8%	Actual effective income tax rate	34.5%

Investment Securities

Current year (As of March 31, 2006)

1. Marketable Available-for-Sale Securities Included in Investment Securities at March 31, 2006

(Millions of yen)

Classification	Current year (As of March 31, 2006)		
	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost			
Equity securities	42,990	98,209	55,219
Bonds	—	—	—
Others	503	948	444
Subtotal	43,494	99,158	55,663
Securities for which fair value does not exceed cost			
Equity securities	1,918	1,896	(21)
Bonds	—	—	—
Others	—	—	—
Subtotal	1,918	1,896	(21)
Total	45,412	101,055	55,642

2. Sales of Available-for-Sale Securities Included in Investment Securities for the Year Ended March 31, 2006

(Millions of yen)

Proceeds from sale	Total gains on sale	Total loss on sale
3,203	1,248	—

3. Available-for-Sale Securities without Marketable Value as of March 31, 2006

(Millions of yen)

Content	Carrying amount
Unlisted shares (except for securities traded over the counter)	1,909
Commercial paper	—
Others	1,032

Note: For the year under review, impairment loss accounting of 44 million yen was applied to available-for-sale securities without market value.

4. Carrying Value of Available-for-Sale Securities with Maturity Dates, as of March 31, 2006

None applicable

Previous Year as of March 31, 2005

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

(Millions of yen)

Classification	Previous year (As of March 31, 2005)		
	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost			
Equity securities	18,960	40,209	21,249
Bonds	—	—	—
Others	503	610	106
Total	19,463	40,819	21,355
Securities for which fair value does not exceed cost			
Equity securities	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 year under review

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

(Millions of yen)

Content	Amount booked in the consolidated balance sheet
Unlisted shares (except for securities traded over the counter)	1,790
Commercial paper	—
Others	16,143

4. Carrying Values of Available-for-Sale Securities with Maturity Dates, as of March 31, 2006

(Millions of yen)

Classification	Due in one year	Due in 2–5 years	Due in 5–10 years	Due in more than 10 years
Bonds	—	—	—	—
Others	14,000	—	—	—
Total	14,000	—	—	—

Derivative Deals

Descriptions are omitted as they are disclosed on the EDINET.

Employees' Severance and Retirement Benefits and Related Matters

(Millions of yen)

Year under review (from April 1, 2005, to March 31, 2006)	Previous year (from April 1, 2004, to March 31, 2005)																																																
<p>1. Outline of employees' severance indemnities and pension plans being adopted</p> <p>The Company and its domestic consolidated subsidiaries adopt a qualified employee retirement pension plan and one-off retirement payment plan as a defined benefit pension system.</p> <p>Based on an agreement between labor and management concluded in March 2006, it was determined that the Company would abolish the qualified retirement pension plan and adopt a defined benefit corporate pension system and a defined contribution pension plan system, effective on June 1, 2006.</p>	<p>1. Outline of employees' severance indemnities and pension plans being adopted</p> <p>The Company and its domestic consolidated subsidiaries adopt a qualified employee retirement pension plan and one-off retirement payment plan as a defined benefit pension system.</p>																																																
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Transactions with Related Parties

Current Year (from April 1, 2005, to March 31, 2006)

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	Director of the Company, Director General of Daikin Foundation for Contemporary Arts	0.02	Contribution to Daikin Foundation for Contemporary Arts	7 million yen	—	—

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

Previous 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	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.

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.