

Outline of Non-consolidated Financial Statements for 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 settlement of accounts: May 10, 2006

System for payment interim dividends: Yes

Scheduled commencement date of dividend payment: June 30, 2006

Date of ordinary general meeting of shareholders: June 29, 2006

Trading unit of the company's share: 100

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

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

(1) Business Results

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2006	434,986	(0.7)	24,085	58.8	32,562	21.0
Year ended March 31, 2005	438,129	13.2	15,167	61.9	26,905	19.5

	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	21,381	7.6	80.82	80.80	9.3	6.9	7.5
Year ended March 31, 2005	19,868	32.7	75.05	75.04	9.8	6.3	6.1

Note 1: The average number of shares was 263,201,831 in the year ended March 31, 2006, and 263,270,566 in the year ended March 31, 2005

Note 2: Changing in accounting methods Yes

Note 3: The figures expressed in % for the net sales, operating income, ordinary income and net income for the business year represent the ratio of increase or decrease from the same period a year earlier.

(2) Dividends

	Annual dividend per share			Total dividend (annual)	Dividend payout rate	Dividend on shareholders' equity
	Yen	Interim	Year-end			
Year ended March 31, 2006	22.00	11.00	11.00	Millions of yen 5,790	% 27.2	% 2.3
Year ended March 31, 2005	18.00	7.00	11.00	4,738	24.0	2.2

(3) 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	499,240	247,873	49.7	941.37
Year ended March 31, 2005	439,144	211,832	48.2	804.24

Note 1: The number of issued shares was 263,194,961 at the end of the year ended March 31, 2006, and 263,256,636 at the end of the year ended March 31, 2005.

Note 2: The number of treasury stocks was 619,012 at the end of the year ended March 31, 2006, and 557,337 at the end of the year ended March 31, 2005.

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

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim	Year-end	
	Millions of yen	Millions of yen	Millions of yen	Yen	Yen	Yen
Half year	216,000	9,000	8,000	11.00	—	—
Full-business year	437,000	29,500	22,000	—	11.00	22.00

(Reference) Prospective net income per share (for the full business year): 83.17 yen

* The above prospects are premised on related matters described on page 11 of the Brief Report on Settlement of Accounts (Consolidated) for Business Year Ended March 31, 2006.

Non-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	434,986	438,129	(3,143)
Cost of sales	(73.4) 319,474	(73.9) 323,767	(4,293)
Selling, general and administrative expenses	91,426	99,195	(7,768)
Operating income	(5.5) 24,085	(3.5) 15,167	8,918
Non-operating income	10,435	13,932	(3,497)
Interest income	220	186	33
Dividend income	7,855	6,683	1,171
Royalty income	121	112	9
Exchange gains	666	320	346
Gain on loss-of-profit insurance from explosion at Kashima Plant - net	—	5,954	(5,954)
Others	1,572	675	897
Non-operating expenses	1,959	2,195	(235)
Interest expenses	1,599	1,725	(125)
Others	359	469	(110)
Ordinary income	(7.5) 32,562	(6.1) 26,905	5,657
Extraordinary income	1,811	1,450	361
Gains on sales of investment securities	1,247	110	1,136
Reversal of allowance for doubtful receivables	564	410	153
Gain on property-damage insurance from explosion at Kashima Plant - net	—	929	(929)
Extraordinary loss	3,829	603	3,225
Loss of disposal of fixed assets	825	541	284
Impairment loss	211	—	211
Write-down of investment securities	22	61	(39)
Write-down of invests in subsidiary	817	—	817
Loss from discontinued operation of systems of mechanical parking equipment	1,952	—	1,952
Write-down of other investments	—	1	(1)
Income before income taxes	(7.0) 30,544	(6.3) 27,751	2,793
Income taxes - current	8,776	8,683	93
Income taxes - deferred	386	(800)	1,186
Net income	(4.9) 21,381	(4.5) 19,868	1,513
Accumulated income brought forward	4,602	4,581	20
Increase by book value from absorbed subsidiary	194	—	194
Interim dividends	2,894	1,842	1,052
Loss on disposal of treasury stock	1	—	1
Unappropriated income	23,282	22,607	675

As to the notes, refer to page 9.

Non-consolidated Balance Sheets

(Millions of yen)

Accounts	Assets		
	Current year (as of March 31, 2006)	Previous year (as of March 31, 2005)	Changes
Current assets	195,294	196,916	(1,621)
Cash and deposits with banks	22,896	14,932	7,964
Notes receivable - trade	1,887	2,283	(396)
Accounts receivable - trade	68,243	60,841	7,401
Marketable securities	—	14,000	(14,000)
Finished products and merchandise	30,724	29,036	1,688
Work in process	30,843	33,481	(2,637)
Raw materials and supplies	3,437	3,785	(348)
Advance payment	—	36	(36)
Prepaid expenses	607	529	78
Deferred tax assets	8,213	8,044	168
Short-term loan receivables	13,520	14,387	(867)
Accounts receivable - other	13,918	14,618	(699)
Other current assets	1,062	1,017	45
Allowance for doubtful receivables	(59)	(78)	18
Fixed assets	303,945	242,228	61,717
Tangible fixed assets	97,785	95,255	2,529
Buildings	25,419	25,998	(578)
Structures	2,667	2,494	172
Machinery and equipment	40,063	38,291	1,772
Vehicles and delivery equipment	74	62	11
Furniture and fixtures	7,598	7,441	156
Land	19,767	19,908	(141)
Construction in progress	2,193	1,058	1,135
Intangible fixed assets	1,763	1,404	359
Patents, etc.	1,763	1,404	359
Investment and other assets	204,396	145,569	58,827
Investment securities	104,143	53,961	50,181
Investments in subsidiaries and associated companies	95,001	86,697	8,303
Long-term loan receivables	1,123	1,166	(43)
Long-term prepaid expenses	170	204	(34)
Deposits for guarantee	2,792	2,792	(0)
Other investments	2,141	2,291	(149)
Allowance for doubtful receivables	(975)	(1,545)	570
Total assets	499,240	439,144	60,095

As to the notes, refer to page 9.

(Millions of yen)

Liabilities and Shareholders' Equity			
Accounts	Current year (as of March 31, 2006)	Previous year (as of March 31, 2005)	Change
Current liabilities	184,177	174,406	9,771
Notes payable - trade	4,256	3,895	361
Accounts payable - trade	37,844	42,272	(4,427)
Short-term borrowings	26,080	25,280	800
Commercial paper	60,000	38,000	22,000
Current portion of long-term debts	515	517	(1)
Current portion of straight bonds	—	10,000	(10,000)
Accounts payable - other	5,404	6,582	(1,177)
Accrued expenses	18,889	18,718	171
Income tax payable	3,172	2,682	489
Advances received	1,103	1,106	(2)
Deposits received	9,348	7,667	1,681
Reserves for guarantee for finished products	6,100	6,975	(875)
Construction payable	11,345	10,676	669
Others	114	31	82
Long-term liabilities	67,190	52,906	14,284
Straight bonds	20,000	20,000	—
Long-term debts	24,882	25,407	(524)
Long-term accounts payable	564	602	(38)
Deferred tax liabilities	18,146	3,524	14,621
Liabilities for retirement benefits	3,596	3,371	225
Total liabilities	251,367	227,312	24,055
Common stock	28,023	28,023	—
Capital surplus	25,968	25,970	(1)
Additional paid-in capital	25,968	25,968	—
Other capital surplus	—	1	(1)
Retained earnings	162,728	147,054	15,674
Legal reserves	6,066	6,066	—
Reserves for development of computer-software	—	0	(0)
Deferred capital gains on sale of property	3,170	3,170	—
General reserves	130,210	115,210	15,000
Unappropriated income	23,282	22,607	675
Net unrealized gain on available-for-sale securities	32,699	12,129	20,569
Treasury stock	(1,546)	(1,344)	(201)
Total shareholders' equity	247,873	211,832	36,040
Total liabilities and shareholders' equity	499,240	439,144	60,095

As to the notes, refer to page 9.

Significant Accounting Policies

1. The standards and method of assessment of securities

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

Available-for-sale securities

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

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

2. The standards and method of assessment of derivatives

The market value method

3. The standards and method of assessment of inventory assets

The cost method by the gross average method

4. The method of depreciation of fixed assets

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

The service life of major items is set as follows:

Buildings: 15 to 50 years

Machinery and equipment: 6 to 12 years

Tools and Furniture: 2 to 6 years

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

5. The standards of appropriation of reserves

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.

Reserves for guarantee for finished products

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

Allowance for retirement benefits

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

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

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

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

(Additional information)

Based on the 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.

6. The method of treatment of lease deals

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

7. The method of hedge accounting

The method of hedge accounting

Deferral hedge accounting treatment is applied in principle. As to the foreign currency monetary claims and debts on which forward-exchange contracts are concluded, allocation treatment is applied. As for the

interest rate swaps that meet the hedge accounting requirements, special treatment is applied.

Means of hedging and hedge coverage

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

Hedging policy and assessment method of effectiveness of hedges

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

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

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

8. The method of accounting treatment of consumption taxes

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

(Revision of Accounting Treatment Method)

(Accounting standard for 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 211 million yen.

Relating to Balance Sheets

	Current year (Millions of yen)	Previous year (Millions of yen)
1 Accumulated depreciation of tangible fixed assets	263,450	259,040
2 Liabilities on guarantee		
Guarantee	140	152
Commitment to guarantee	28,939	16,183
Recognition letters of borrowing, etc.	4,523	6,865
3 Assets pledged as collateral		
Tangible fixed assets	46,535	45,549
Time deposits	1,284	1,511
4 Net assets provided in Article 124, paragraph 3 of the Enforcement Regulations of the Commercial Code	32,699	12,129

Relating to Statements of Income

	Current year (Millions of yen)	Previous year (Millions of yen)
1 Research and development costs included in general and administrative expenses and manufacturing costs	24,822	24,421

Lease Deals

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

Securities

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

Tax Effect Accounting

Current year From April 1, 2005, to March 31, 2006	Previous year From April 1, 2004, to March 31, 2005
1 Breakdown of the occurrence of deferred tax assets and deferred tax liabilities by major causes (Millions of yen)	1 Breakdown of the occurrence of deferred tax assets and deferred tax liabilities by major causes (Millions of yen)
Deferred tax assets	Deferred tax assets
Software	Software
3,608	3,496
Reserves for guarantee for finished products	Reserves for guarantee for finished products
2,477	2,832
Accrued bonus	Accrued bonus
1,894	1,732
Foreign tax credit	Foreign tax credit
1,626	1,572
Retirement benefits	Retirement benefits
1,460	1,329
Inventory assets	Inventory assets
865	1,111
Business tax payable	Business tax payable
558	417
Allowance for doubtful receivables	Allowance for doubtful receivables
97	365
Long-term accounts payable	Long-term accounts payable
229	244
Others	Others
1,777	1,881
Total deferred tax assets	Total deferred tax assets
14,596	14,982
Deferred tax liabilities	Deferred tax liabilities
Unrealized gain on available-for-sale securities	Unrealized gain on available-for-sale securities
(22,361)	(8,294)

Deferred gains on sales property	(2,167)	Deferred gains on sales property	(2,167)
Total deferred tax liabilities	(24,529)	Total deferred tax liabilities	(10,462)
Net deferred tax liabilities	(9,932)	Net deferred tax assets	(4,520)
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)	
Permanent non-deductible expenses	3.7%	Permanent non-deductible expenses	2.6%
Per capita local inhabitants tax	0.3%	Per capita local inhabitants tax	0.3%
Foreign tax credit	(8.1%)	Foreign tax credit	(7.7%)
Tax credit for research and development costs	(6.1%)	Tax credit for research and development costs	(6.3%)
Other - net	(0.4%)	Other - net	(1.1%)
Actual effective income tax rate	30.0%	Actual effective income tax rate	28.4%

Proposed appropriation of retained earnings

(Millions of yen)

Accounts	Current year	Previous year
Unappropriated income	23,282	22,607
Reversal of reserves for development of computer-software	—	0
Total	23,282	22,607
The above amount shall be appropriated as follows:		
	(Ordinary dividend 11 yen per share)	(Ordinary dividend 9 yen per share, commemorative dividend 2 yen per share)
Cash dividends	2,895	2,895
Bonuses to directors and corporate auditors	110	110
<Bonuses for corporate auditors included in the above amount>	<2>	<4>
General reserves	14,000	15,000
Accumulated income to be carried forward	6,277	4,602

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.