



Brief Report on the Settlement of Accounts (Consolidated) for the Business Year Ended March 31, 2007

May 14, 2007

Name of Listed Company: **Daikin Industries, Ltd.**
Code No.: 6367
(URL: <http://www.daikin.co.jp>)
President and Representative Director: Yukiyoshi Okano

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

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Date of Ordinary General Meeting of Shareholders: June 28, 2007

Date of start of dividend payment: June 29, 2007

Date of settlement of accounts: June 28, 2007

1. Consolidated Business Results for the Business Year Ended March 31, 2007

(From April 1, 2006, to March 31, 2007)

(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, 2007	912,128	15.0	80,939	20.7	78,470	14.3
Year ended March 31, 2006	792,857	8.8	67,077	10.1	68,682	8.2

	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 operating income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended March 31, 2007	45,619	12.1	173.42	173.34	12.3	8.3	8.9
Year ended March 31, 2006	40,708	5.1	154.25	154.21	13.2	10.3	8.5

Note: Equity in earnings of associated companies accounted for using the equity method was ¥589 million for the year ended March 31, 2007, and ¥505 million for the year ended March 31, 2006.

(2) Consolidated Financial Position

	Total assets		Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2007	1,164,575	413,120	413,120	34.4	1,523.52
Year ended March 31, 2006	719,382	343,492	343,492	47.7	1,304.69

Note: Shareholders' equity was ¥400,710 million at the end of the year ended March 31, 2007, and ¥343,492 million at the end of the year ended March 31, 2006.

(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, 2007	83,725	(305,251)	245,975	82,658
Year ended March 31, 2006	63,511	(63,420)	(4,283)	54,177

2. Dividends for the Business Year Ended March 31, 2007

	Dividend per common share			Total cash dividends for the year Millions of yen	Dividend payout ratio (Consolidated) %	Net asset payout ratio (Consolidated) %
	Interim	Year-end	Full year			
Year ended March 31, 2006	Yen 11.00	Yen 11.00	Yen 22.00	5,790	14.3	1.9
Year ended March 31, 2007	14.00	14.00	28.00	7,363	16.1	2.0
Year ended March 31, 2008 (prospective)	TBA	TBA	TBA		TBA	

3. Prospective Consolidated Business Results for March 31, 2008 (From April 1, 2007, to March 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		Net income per share Yen
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	
Half year	640,000	44.6	52,000	26.0	48,000	15.1	28,000	16.8	106.46
Full business year	1,280,000	40.3	97,000	19.8	88,000	12.1	51,000	11.8	193.90

4. Other

(1) The Status of Changes in Major Subsidiaries (Changes in Specified Subsidiaries Arising from Changes in the Scope of Consolidation)

Newly added: 2 (OYL Industries BHD, and AAF McQuay International Inc.)

(See "Status of Business Groups" on page 9)

(2) Changes in Principles, Procedures and Representation of Accounting Procedures Relating to Preparation of the Consolidated Financial Statements

(i) Changes relating to revisions to accounting standards, etc.: Yes

(ii) Changes other than (i) above: No

(See "Changes in Accounting Procedures" on page 22)

(3) Number of Outstanding Shares (common stock)

(i) Number of outstanding shares at year-end (including treasury stock)

As of March 31, 2007 263,813,973

As of March 31, 2006 263,813,973

(ii) Number of shares for treasury stock at year-end

As of March 31, 2007 797,424

As of March 31, 2006 622,947

(See "Per-Share Information" on page 31 for information on number of shares as the basis for calculation of consolidated net income per share)

(Reference) Summary of Non-consolidated Business Results for the Business Year Ended March 31, 2007

(From April 1, 2006, to March 31, 2007)

(1) Non-consolidated Business Results

(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, 2007	454,469	4.5	28,619	18.8	34,230	5.1
Year ended March 31, 2006	434,986	(0.7)	24,085	58.8	32,562	21.0

	Net income		Net income per share	Diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended March 31, 2007	26,597	24.4	101.11	101.06
Year ended March 31, 2006	21,381	7.6	80.82	80.80

(2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2007	794,811	267,933	33.7	1,017.84
Year ended March 31, 2006	499,240	247,873	49.7	941.37

Note: Shareholders' equity was ¥267,713 million at the end of the year ended March 31, 2007, and ¥247,873 million at the end of the year ended March 31, 2006.

* **Prospective Results and Other Special Items**

The forecasts given above are based on data available at the time of preparation of this document. Actual results may differ from forecasts as a result of various factors. See page 7 of the appendix for information relating to forecasts.

Outline of the Settlement of Accounts for the Business Year Ended March 31, 2007**1. Consolidated Business Results**Billions of yen,
ratios to net sales in parentheses

	Year ended March 31, 2007	Year ended March 31, 2006	Changes over the previous year	Projections for the year ending March 31, 2008	Changes over the current year
Net sales	912.1	792.9	15%	1,280.0	40%
Operating income	(8.9) 80.94	(8.5) 67.08	21%	(7.6) 97.00	20%
Ordinary income	(8.6) 78.47	(8.7) 68.68	14%	(6.9) 88.00	12%
Net income	(5.0) 45.62	(5.1) 40.71	12%	(4.0) 51.00	12%
Net income per common share	173.42 yen	154.25 yen	19.17 yen	193.90 yen	20.48 yen

2. Non-Consolidated Business Results

Billions of yen, ratios to net sales in parentheses

	Year ended March 31, 2007	Year ended March 31, 2006	Changes over the previous year
Net sales	454.5	435.0	4%
Operating income	(6.3) 28.62	(5.5) 24.09	19%
Ordinary income	(7.5) 34.23	(7.5) 32.56	5%
Net income	(5.9) 26.60	(4.9) 21.38	24%
Net income per common share	101.11 yen	80.82 yen	20.29 yen
Dividend per common share	28 yen	22 yen	6 yen

<Segment Information (Consolidated)>**Industry Segments**

Billions of yen, ratios to net sales in parentheses

		Year ended March 31, 2007		Year ended March 31, 2006		Changes over the previous year
Air conditioning	Net sales	752.6		641.7		17%
	Operating income	(9.0)	67.54	(8.9)	57.11	18%
Chemicals	Net sales	116.5		107.4		8%
	Operating income	(10.4)	12.07	(10.0)	10.75	12%
Others	Net sales	43.1		43.8		-2%
	Operating income	(3.1)	1.33	(-1.8)	-0.77	—
Total	Net sales	912.1		792.9		15%
	Operating income	(8.9)	80.94	(8.5)	67.08	21%

Sales by Market

Billions of yen

	Year ended March 31, 2007	Year ended March 31, 2006	Changes over the previous year
Domestic	442.7	425.4	4%
Asia/Oceania	181.0	143.3	26%
Europe	235.0	178.8	31%
America	43.2	36.4	19%
Others	10.3	9.0	15%
Total	912.1	792.9	15%

Prospective Industry Segment Results

Billions of yen, ratios to net sales in parentheses

		Year ending March 31, 2008 (prospective)		Year ended March 31, 2007		Changes over the current year
Air conditioning	Net sales	1,105.0		752.6		47%
	Operating income	(7.5)	83.00	(9.0)	67.54	23%
Chemicals	Net sales	130.00		116.5		12%
	Operating income	(10.0)	13.00	(10.4)	12.07	8%
Others	Net sales	45.0		43.1		4%
	Operating income	(2.2)	1.00	(3.1)	1.33	-25%
Total	Net sales	1,280.0		912.1		40%
	Operating income	(7.6)	97.00	(8.9)	80.94	20%

Operating Results

1. Analysis of Results

(1) Overview of the year

During the year ended March 31, 2007, the world economy continued on a strong course. Demand growth in IT-related markets and robust performance by China and other Asian economies offset temporary economic pressures arising from heightened crude oil prices and low global stock prices during May and June 2006.

Progress in the Japanese economy was hampered by the effects of climatic instability on personal consumption, but favorable corporate postings spurred capital investment and the healthy world economy stimulated exports. As a result, the trend toward recovery continued.

In this operating environment, the Daikin Group faced radical changes in social climate and market structure, while adhering to the directives of its fiscal 2006 strategy of “taking steps to ensure capabilities for addressing new challenges that will enable a major surge of corporate development in the future.” This approach focused on rising to the opportunities presented by change, rather than dwelling on past achievements, to realize a quantum leap forward. In addition, we have been rising wholeheartedly to the targets set for 2010 in this the first year of our “Fusion 10” strategic management plan.

During the year, Daikin Industries, Ltd. (the “Company”), boosted sales of our core air conditioning business by promoting highly distinctive and high-value-added products in the domestic market, while capitalizing on continued favorable overseas markets led by Europe and China. Further, expansion of fluoroplastics operations in the Domestic and Chinese markets propelled our fluorochemicals business. As a result, consolidated net sales grew 15.0% during the year to ¥912,128 million.

Profits were boosted by growth in sales of highly distinctive products in Japan and overseas and a drive for overall cost reductions. This bore fruition in consolidated increases of 20.7% in operating income to ¥80,939 million, 14.3% in ordinary income to ¥78,470 million and 12.1% in net income to ¥45,619 million.

An overview of results by business segment follows:

(i) Air Conditioning

Residential air-conditioning system performance during the year was impacted by a decline in demand for compact models compared with the previous year, arising from a late end to the rainy season and the influence of a wave of cold weather. However, the Company’s high-value-added *URURU & SALALA* lines, which are industry leaders in conformance with 2010 Energy Saving Standards, achieved growth in sales volumes and maintained sales levels through promotions based on their sophisticated humidity control features.

Commercial air conditioning systems sales and quantities rose during the year, despite industry-wide demand contraction for package air conditioners. This was achieved through renewed demand stimulated by sales strategies targeting sales outlets and consumers for such highly distinctive products as *Ve-up Q multiple* air conditioners for office buildings, which enable sales outlets and users to rapidly replace units using existing piping, and *Round Flow ZEAS* systems for commercial premises.

Overall sales in Europe enjoyed significant gains, despite inclement weather in up to mid-June, supported by strong second-half performance by residential and commercial air-conditioning systems, notably in France and Italy. Containment of escalating real-estate investment in China cooled market growth, but cultivation of new demand through intensive development of sales outlets and sales expansion in regional towns and cities facilitated major sales growth. In Australia, sales of both residential and commercial air-conditioning systems were strong, and in Thailand residential air-conditioning systems boomed. Accordingly, overall overseas sales of residential and commercial air-conditioning systems posted large sales increases over the previous year.

Refrigeration equipment for marine vessels recorded increased sales with a drop-off in marine-type container refrigeration demand in Europe offset by expansion in quantity sales led by Japanese and Asian container shipping companies.

During the year, total sales from the Company’s Air Conditioning Division grew 17.3% to ¥752,560 million, and operating income increased 18.3% to ¥67,542 million

(ii) Chemicals

Sales of fluoroplastics expanded, with domestic performance riding steadily on the back of growth in demand for semiconductor-related products and increased capital investment, and swelling demand in China and sales growth in the US and European markets.

Sales of chemical products rose, despite easing oil- and water-repellent products sales, as a result of gains in sales of such high-function materials as sales of surface re-forming materials and pharmaceuticals and intermediates. Fluorocarbon gas sales decreased, due to lackluster sales to Asia.

Total sales by the Chemicals Division shifted up 8.5% to ¥116,493 million during the year, with operating income increasing 12.2% to ¥12,067 million.

(iii) Others

We increased market share and bolstered sales of oil hydraulics equipment for industrial machinery as a result of robust demand from the core market of machine tool manufacturers, in addition to sales growth to Japan and Asia of such highly distinctive products as inverter-driven hydraulic units and Oilcon oil cooling units.

Sales rose for oil hydraulics equipment used in construction machinery, led by robust demand from the US and China.

Sales of defense systems fell back, primarily in response to reduced orders for ammunition for Japan's Ministry of Defense.

Total sales by the Company's division of Others dropped off 1.6% to ¥43,074 million, with operating income of ¥1,334 million.

On a non-consolidated basis, the Company's net sales grew 4.5% to 454,469 million. Operating income increased 18.8% to ¥28,619 million; ordinary income advanced 5.1% to ¥34,230 million; and net income surged 24.4% to ¥26,597 million.

(2) Prospect for business results for the next business year

Although there are concerns over a slowdown in the US economy and risk factors arising from uncertainties regarding crude oil prices and the stock market, Asian economies remain robust. Against this backdrop, the global economy is forecast to remain on its course of stable growth. The outlook for the Japanese economy, too, is for continued expansion, supported by solid corporate results and capital investment. Moreover, a wave of lump payments synchronized with the retirement age of the baby-boom generation is likely to drive consumption.

In this environment, the Company embodied its Annual Group Policy for 2007 in the keyword "Breakthrough."

Through such measures as the "Fusion 10" strategic management plan and generation of synergies with OYL Industries BHD, which we acquired last year, we aim to achieve these breakthroughs as a unified group, addressing completely new themes and linking these to results.

Specifically, Daikin is seeking to increase market share in Europe and China, to utilize synergies with OYL to strengthen applied businesses and establish a North American base, and to make positive inroads into new markets, led by the Middle East and India. In addition, we will realize such new themes as development of highly differentiated products that anticipate the next-generation air-conditioner market and expansion of our refrigeration business. These initiatives will be carried out in parallel with such structural reinforcements as cutting costs and further boosting reliability.

For the fiscal year ending March 31, 2008, we forecast a 40.3% jump in consolidated net sales to ¥1,280,000 million, with operating income climbing 19.8% to 97,000 million, ordinary income increasing 12.1% to ¥88,000 million and net income growing 11.8% to ¥51,000 million.

The exchange rate for the fiscal year ending March 31, 2008, is based on the assumption that 1 euro equals ¥155 and \$1 equals ¥115.

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 trouble related to quality and manufacturing
- Fluctuations in the market value of securities and other assets held by the Company

2. Financial Position

(1) Analysis of assets, liabilities, net assets and cash flows

During the year ended March 31, 2007, net cash provided by operating activities was ¥83,725 million, principally deriving from an increase in net income before income taxes and minority interests. Net cash used in investing activities was ¥305,251 million, arising primarily from the acquisition of OYL Industries BHD. Net cash provided by financing activities was ¥245,975 million, led by an increase in short-term borrowings. As a result, cash and cash equivalents at the end of the year amounted to ¥82,658 million.

Interest-bearing debt expanded 39.2%, to 456,073 million, primarily owing to short-term borrowings to acquire the shares of OYL Industries BHD.

(2) Trends in cash flow indicators

Trends in cash flow indicators are shown below.

	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007
Equity ratio (%)	43.1	44.0	44.4	47.7	34.4
Equity ratio based on current values (%)	107.9	128.6	115.0	150.8	92.6
Period of debt redemption (years)	2.9	3.7	3.8	2.7	5.4
Interest coverage ratio (times)	10.8	9.0	8.5	12.3	12.4

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.

3. Basic Policy on Profit Sharing and Dividends for the Current and Next Years

The Company carries out stable return to shareholders comprehensively taking into account consolidated business results, financial position, capital requirements and other factors, based on maintaining a consolidated ratio of dividends to net assets of 2.0% or more.

Internal reserves are appropriated for strategic investments aimed to strengthen management structure, accelerate the development of global business, promote the penetration of information technology, achieve business expansion and improve competitive power.

During the year ended March 31, 2007, cash dividends increased six (6) yen to 28 yen (14 yen interim, 14 yen at year end).

Dividends for the year ended March 31, 2008, are still to be announced.

Status 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) Residential air conditioners, Commercial air conditioners and Refrigeration equipment, Air conditioning and refrigeration equipment for marine vessels, Electronics systems

(1) Manufacture [Consolidated subsidiaries]

Daikin Rexam Electronics Co., Ltd., and two (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 seven (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 two (2) other companies (sales of air conditioners)

(3) Others [Consolidated subsidiaries]

Daikin AirConditioning and Environmental Laboratory Co., Ltd., and three (3) other companies (technological development of air-conditioning equipment)

(4) Global operations [Consolidated subsidiaries]

Daikin Europe N.V., Daikin Industries (Thailand), Ltd., and 13 other companies (manufacture and sales of air conditioners)

Daikin Airconditioning France S.A.S. and 20 other companies (sales of air conditioners)

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

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

In addition, acquisition proceedings for OYL Industries BHD, were completed in January 2007. In addition to the inclusion of this wholly owned subsidiary, this transaction adds AAF McQuay International Inc. and 91 other consolidated subsidiaries and eight (8) companies to which the equity method is applied to the consolidated group. The former OYL Group's primary products are residential air conditioners, commercial air conditioners and refrigeration equipment.

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 two (2) other companies (manufacture and sales of fluorochemical products)
Daikin Chemical France S.A.S. (manufacture of fluorochemical products)
Daikin Chemical Europe GmbH and four (4) other companies (sales of fluorochemical products)
[Company to which the equity method is applied]
MDA Manufacturing, Inc., and three (3) other companies (manufacture and sales of fluorochemical products)

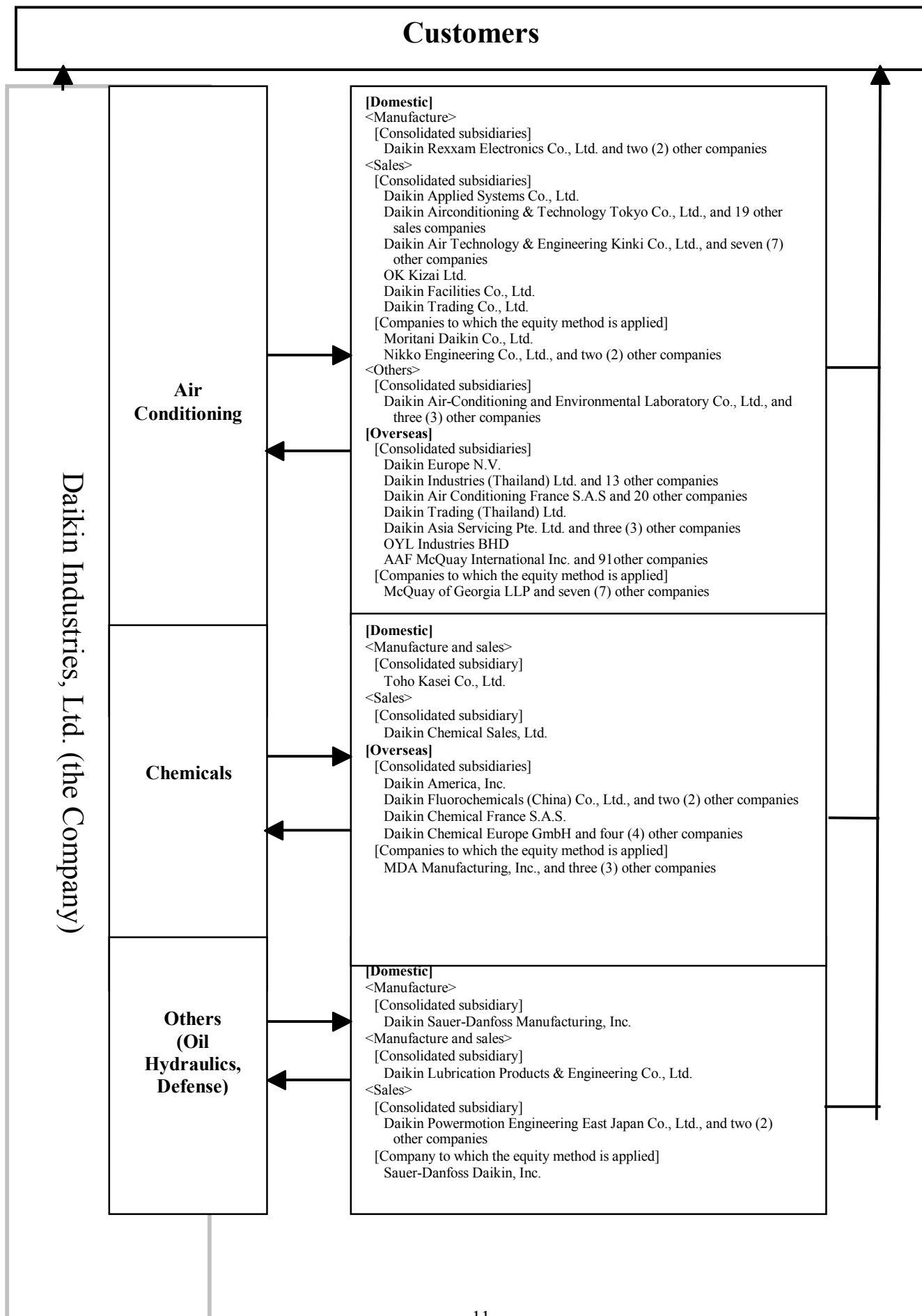
3. Others

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

- (1) Manufacture [Consolidated subsidiary]
Daikin Sauer-Danfoss Manufacturing, Inc. (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 Powermotion Engineering East Japan Co., Ltd., and two (2) other companies (sales of hydraulic equipment, etc.)
[Company to which the equity method is applied]
Sauer-Danfoss Daikin, Inc. (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 190 consolidated companies (46 domestic, 144 overseas) and 17 companies to which the equity method is applied (five (5) domestic, 12 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 “Flat and Fast” management system.

(2) 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.

Application of FCF is assessed based on raising corporate value with consideration of the prevalent operating environment and demand trends at the time. At present, to capitalize on opportunities for 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.

(3) Medium- and Long-Term Management Strategies

In 2006, the Company introduced “Fusion 10,” a strategic management plan with 2010 as the target year. We have begun making progress toward the goals outlined in this plank, which provides the foundation for new challenges and various other measures designed for substantial future growth. 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

In particular, last year’s acquisition of OYL Industries BHD, has increased our share in the air conditioner market. The use of common components and joint purchasing are some of the synergies that the Company and OYL Industries are exploring. The results of these efforts should propel the Group toward the Fusion 10 objective of becoming the global leader in the air conditioning industry.

(4) 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 optimize synergies with OYL Industries; (2) to take comprehensive measures to strengthen a profit-earning structure such as keeping total costs down, further enhancing trustworthiness and promoting the efficiency of indirect departments on the global Group level; (3) 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; (4) 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; (5) to take thorough measures to fulfill the targets of “Daikin’s Technology Statement”; and (6) 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.

Consolidated Statements of Income

(Millions of yen)

	Current year (From April 1, 2006, to March 31, 2007)		Previous year (From April 1, 2005, to March 31, 2006)		Changes
Net sales		912,128		792,857	119,270
Cost of sales		599,111		522,385	76,725
Gross profit	(34.3)	313,016	(34.1)	270,471	42,545
Selling, general and administrative expenses		232,077		203,394	28,683
Operating income	(8.9)	80,939	(8.5)	67,077	13,862
Non-operating income		6,895		8,282	(1,387)
Interest income		1,518		1,324	193
Dividend income		1,104		726	378
Equity in earnings of unconsolidated subsidiaries and associated companies		589		505	84
Exchange gains		691		1,049	(358)
Others		2,991		4,677	(1,685)
Non-operating expenses		9,363		6,677	2,686
Interest expense		6,064		4,614	1,449
Others		3,299		2,062	1,236
Ordinary income	(8.6)	78,470	(8.7)	68,682	9,788
Extraordinary income		6,000		2,696	3,304
Gain on disposal of land		11		—	11
Gain on sales of investment securities		346		1,248	(902)
Gain on the sale of shares in associated companies		16		—	16
Gain on partial termination of defined benefit plan		681		—	681
Gain on transfer of system of mechanical parking equipment maintenance business		700		—	700
Exchange hedge gain on the transaction of acquiring associated company		4,244		—	4,244
Gain on property-damage insurance from fire accident in Spain		—		1,447	(1,447)
Extraordinary loss		1,158		3,838	(2,680)
Loss on disposals of property, plant and equipment		869		1,045	(175)
Impairment loss		—		796	(796)
Write-down of investment securities		25		44	(19)
Loss from discontinued operation of systems of mechanical parking equipment		—		1,952	(1,952)
Loss on restructuring of associated companies		262		—	262
Income before income taxes and minority interests	(9.1)	83,312	(8.5)	67,540	15,772
Income taxes—current		28,984		23,936	5,048
Income taxes—deferred		5,791		274	5,517
Minority interests		2,917		2,621	295
Net income	(5.0)	45,619	(5.1)	40,708	4,910

Consolidated Balance Sheets**(Millions of yen)**

	Current year (As of March 31, 2007)	Previous year (As of March 31, 2006)	Changes
(Assets)			
Current assets	540,770	390,970	149,799
Cash and deposits with banks	83,917	55,461	28,455
Notes and accounts receivable-trade	210,595	147,679	62,915
Inventories	214,533	149,242	65,291
Deferred tax assets	12,692	14,845	(2,152)
Other	25,405	26,564	(1,159)
Allowance for doubtful receivables	(6,373)	(2,821)	(3,551)
Fixed assets	623,804	328,411	295,393
Tangible fixed assets	238,319	196,485	41,834
Buildings and structures	63,860	55,568	8,291
Machinery & equipment, and delivery equipment	105,221	89,571	15,650
Land	28,499	24,263	4,236
Construction in progress	20,330	9,239	11,091
Others	20,407	17,842	2,564
Intangible fixed assets	218,134	13,632	204,502
Trade rights	—	1,280	(1,280)
Goodwill	210,505	—	210,505
Consolidation goodwill	—	5,426	(5,426)
Others	7,629	6,925	703
Investments and other assets	167,351	118,293	49,057
Investment securities	137,467	107,730	29,737
Long-term loan receivables	1,153	1,280	(127)
Deferred tax assets	8,732	2,044	6,687
Prepaid pension expenses	12,757	—	12,757
Others	8,346	8,370	(24)
Allowance for doubtful receivables	(1,105)	(1,131)	26
Total assets	1,164,575	719,382	445,192

(Millions of yen)

	Current year (As of March 31, 2007)	Previous year (As of March 31, 2006)	Changes
(Liabilities)			
Current liabilities	638,419	284,453	353,965
Notes and accounts payable	121,827	84,252	37,574
Short-term borrowings	287,783	53,044	234,738
Commercial paper	89,000	60,642	28,357
Current portion of long-term debt	10,755	3,277	7,477
Income taxes payable	13,580	7,643	5,937
Deferred tax liabilities	644	31	612
Reserves for bonuses to directors	150	—	150
Reserves for guarantee for finished products	17,365	9,542	7,822
Accrued expenses	49,062	29,785	19,277
Others	48,250	36,232	12,017
Long-term liabilities	113,035	80,198	32,837
Straight bonds	20,000	20,000	—
Long-term debt	48,535	36,030	12,505
Deferred tax liabilities	24,971	18,530	6,440
Liabilities for retirement benefits	5,159	5,072	87
Long-term accounts payable	13,507	564	12,942
Others	861	—	861
Total liabilities	751,454	364,651	386,802
(Minority interests)			
Minority interests	—	11,238	—
(Shareholders' Equity)			
Common stock	—	28,023	—
Capital surplus	—	25,968	—
Retained earnings	—	250,247	—
Net unrealized gain (loss) on available-for-sale securities	—	33,053	—
Foreign currency translation adjustments	—	7,749	—
Treasury stock	—	(1,550)	—
Total shareholders' equity	—	343,492	—
Total liabilities, minority interests and shareholders' equity	—	719,382	—
(Net Assets)			
Shareholders' equity	340,729	—	—
Common stock	28,023	—	—
Capital surplus	25,968	—	—
Retained earnings	289,105	—	—
Treasury stock	(2,367)	—	—
Valuation, currency translation and other adjustments	59,980	—	—
Net unrealized gain on available-for-sale securities	33,780	—	—
Net loss on deferred hedging	(26)	—	—
Foreign currency translation adjustments	26,226	—	—
Stock acquisition rights	219	—	—
Minority interests	12,191	—	—
Total net assets	413,120	—	—
Total liabilities and net assets	1,164,575	—	—

Consolidated Statements of Changes in Shareholders' Equity

(From April 1, 2006, to March 31, 2007)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	28,023	25,968	250,247	(1,550)	302,689
Changes during the year					
Dividends from retained earnings*			(2,895)		(2,895)
Dividends from retained earnings			(3,681)		(3,681)
Bonuses to directors and corporate auditors*			(110)		(110)
Net income			45,619		45,619
Effect of change of the fiscal year-end of consolidated subsidiaries			(37)		(37)
Repurchase of treasury stock				(1,163)	(1,163)
Disposal of treasury stock			(35)	345	309
Net changes to items other than shareholders' equity during the year					
Total changes during the year	—	—	38,858	(817)	38,040
Balance as of March 31, 2007	28,023	25,968	289,105	(2,367)	340,729

(Millions of yen)

	Valuation, currency translation and other adjustments				Stock acquisition rights	Minority interests	Total net assets
	Net unrealized gain on available-for-sale securities	Hedging losses brought forward	Foreign currency translation adjustments	Total valuation, currency translation and other adjustments			
Balance as of March 31, 2006	33,053	—	7,749	40,803	—	11,238	354,730
Changes during the year							
Dividends from retained earnings*							(2,895)
Dividends from retained earnings							(3,681)
Bonuses to directors and corporate auditors*							(110)
Net income							45,619
Effect of change of the fiscal year-end of consolidated subsidiaries							(37)
Repurchase of treasury stock							(1,163)
Disposal of treasury stock							309
Net changes to items other than shareholders' equity during the year	726	(26)	18,476	19,177	219	952	20,349
Total changes during the year	726	(26)	18,476	19,177	219	952	58,390
Balance as of March 31, 2007	33,780	(26)	26,226	59,980	219	12,191	413,120

* Appropriation of income was resolved at the Ordinary General Meeting of Shareholders in June 2006.

Consolidated Statements of Surplus (Millions of yen)

	Previous year (From April 1, 2005, to March 31, 2006)
(Capital surplus)	
Capital surplus at the beginning of year	25,971
Increase in capital surplus	3
Reversal of gains on disposal of treasury stock	3
Capital surplus at the end of year	25,968
(Retained earnings)	
Retained earnings at the beginning of year	215,681
Increase in retained earnings	40,731
Net income	40,708
Cumulative effect of consolidating previously unconsolidated subsidiaries	23
Decrease in retained earnings	6,165
Dividends	5,790
Bonuses to directors and corporate auditors	110
Disposal of treasury stock	0
Effect of change of the fiscal year-end of consolidated subsidiaries	264
Retained earnings at the end of year	250,247

Consolidated Statements of Cash Flows

(Millions of yen)

	Current year (From April 1, 2006, to March 31, 2007)	Previous year (From April 1, 2005, to March 31, 2006)
I. Cash flows from operating activities		
Income before income taxes and minority interests	83,312	67,540
Depreciation	32,925	28,409
Interest expenses	6,886	5,117
Write-down of investment securities	25	44
Trade notes and accounts receivable	(9,394)	(8,402)
Inventories assets	(21,147)	(5,084)
Trade notes and accounts payable	5,201	4,945
Other—net	9,343	(4,020)
Subtotal	107,153	88,549
Income taxes paid	(24,270)	(25,281)
Other—net	842	243
Net cash provided by operating activities	83,725	63,511
II. Cash flows from investing activities		
Time deposits	—	(824)
Purchases of property, plant and equipment	(42,573)	(46,168)
Payments to acquire investment securities	(27,880)	(18,089)
Payment for purchase of a subsidiary, net of cash acquired	(235,685)	—
Other—net	888	1,662
Net cash used in investing activities	(305,251)	(63,420)
III. Cash flows from financing activities		
Net increase in short-term borrowings	254,098	15,759
Increase in long-term debt	4,127	1,903
Repayments of long-term debt	(3,452)	(4,418)
Redemption of bonds	—	(10,000)
Payment of cash dividends	(6,576)	(5,790)
Other—net	(2,220)	(1,737)
Net cash provided by (used in) financing activities	245,975	(4,283)
IV. Effect of exchange rate changes on cash and cash equivalents	4,014	3,226
V. Net increase or decrease in cash and cash equivalents	28,462	(966)
VI. Cash and cash equivalents at the beginning of the year	54,177	55,385
VII. Cash and cash equivalents of newly consolidated subsidiaries, at the beginning of the year	—	346
VIII. Effect of the change of the fiscal year-end of consolidated subsidiaries	18	(588)
IX. Cash and cash equivalents at the end of the year	82,658	54,177

Basic and Important Matters in Preparing the Consolidated Financial Statements

1. Matters Related to the Scope of Consolidation

(1) Number of consolidated subsidiaries: 190

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 acquisition:
OYL Industries BHD, AAF McQuay International Inc., and 91 other companies
Due to new establishment:
Daikin Air Conditioning Greece S.A.

(Excluded) Due to mergers between consolidated subsidiaries:
Daikin Chuo Air Conditioning (Huizhou), Daikin Chuo Air Conditioning (Shanghai),
Daikin Sogo Air Conditioning

(2) Number of non-consolidated subsidiaries: Nine (9)

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: 17

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: 16

Major affiliated companies Moritani Daikin Co., Ltd., Nikko Engineering Co., Ltd., MDA Manufacturing, Inc.

(Newly added) Due to new acquisition:
McQuay of Georgia LLC and 7 other companies

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 31 other consolidated companies is December 31 and the date of the settlement of accounts of OYL Industries BHD, and 76 other companies is June 30. 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 Portugal S.A., 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

(i) Securities

Other 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

(ii) Derivatives: The market value method

(iii) 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

(i) 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.

(ii) 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.

(iii) Reserves for bonuses to directors

To prepare for bonuses to directors, we appropriate an amount based on the estimated amount to be paid at the end of the consolidated accounting year

(iv) 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 seven (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 (ten (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 (ten (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)

It was determined that the Company and certain subsidiaries would partially transfer the qualified retirement pension plan to a defined contribution corporate pension system, effective on June 1, 2006, applying "Accounting Standard Relating to Transfer between Retirement Benefit Schemes" (Corporate Accounting Standard Application Guideline No. 1). This change generated extraordinary income of ¥681 million.

(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

(i) 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.

(ii) 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.

(iii) 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 5–20 year period is used.

7. 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 (3) months from the date of acquisition.

(Changes in Accounting Procedures)

(Accounting standards on the presentation of net assets on balance sheets)

From the current year, the Company has adopted the "Accounting Standard Concerning the Disclosure of Net Assets in the Balance Sheet" (Corporate Accounting Standard No. 5, December 9, 2005) and the "Accounting Standard Concerning the Disclosure of Net Assets in the Balance Sheet Application Guideline" (Corporate Accounting Standard No. 8, December 9, 2005). The equivalent amount that was previously included in the shareholders' equity section is ¥400,736 million).

(Accounting standards concerning Stock Options)

From the current year, the Company has adopted the "Accounting Standard Related to Stock Options, etc.," (Corporate Accounting Standard No. 8, December 27, 2005) and the "Accounting Standard Related to Stock Options, etc. Application Guideline" (Corporate Accounting Standard No. 11, May 31, 2006). This application had the effect of reducing operating income, ordinary income and income before income taxes by ¥219 million).

(Accounting standards concerning reserve for bonuses to directors and corporate auditors)

From the current year, the Company has adopted the “Accounting Standard Related to Bonuses to Directors and Corporate Auditors” (Corporate Accounting Standard No. 4, November 29, 2005). This application had the effect of reducing operating income, ordinary income and income before income taxes by ¥150 million).

(Accounting standards related to corporate combinations)

From the fiscal year under review, the Company has adopted the “Accounting Standard for Corporate Combinations” (Accounting Standards Board of Japan, October 31, 2003), the “Accounting Standard for Corporate Separation” (Financial Accounting Standards Foundation, December 27, 2005, Corporate Accounting Standard No. 7), and the “Corporate Combination and Separation Accounting Standard Application Guidelines” (Financial Accounting Standards Foundation, last revised December 22, 2006, Corporate Accounting Standard Application Guideline No. 10).

(Changes in presentation method)

From the fiscal year under review, the items presented in the preceding term as “goodwill” and “consolidation goodwill” are presented together under “goodwill.”

Related to the Consolidated Balance Sheets

	(Millions of yen)	
	Current year	Previous year
1. Accumulated depreciation of tangible fixed assets	400,078	346,863
2. Liabilities on guarantee		
Commitment to guarantee	891	1,082
3. Assets pledged as collateral		
Time deposits	1,258	1,284
Accounts receivable—trade	10,063	6,203
Inventory assets	6,060	4,611
Tangible fixed assets	49,326	48,183
Others	2,159	713

Related 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	27,203	26,647

Related to the Consolidated Statement of Changes in Shareholders' Equity

Current year (April 1, 2006, to March 31, 2007)

1. Items pertaining to shares issued and outstanding

Type of Shares	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock (thousands of shares)	263,813	—	—	263,813

2. Items pertaining to treasury stock

Type of Shares	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock (thousands of shares)	622	299	124	797

(Overview of reasons for change)

The principal reason for the increase is as follows:

The Company acquired 298 thousand shares from the market.

The principal reason for the decrease is as follows:

The exercise of Stock Option Rights caused a decrease of 124 thousand shares.

3. Items pertaining to stock acquisition rights

Company Name	Particulars	Balance on March 31, 2007 (Millions of yen)
Offering company	Stock acquisition rights as Stock Options	219

4. Items pertaining to dividends

(1) Dividend payment amounts

Resolution	Type of Shares	Total Dividend Payments (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Issue Date
June 29, 2006, Ordinary General Meeting of Shareholders	Common stock	2,895	11	March 31, 2006	June 29, 2006
November 14, 2006, Board of Directors meeting	Common stock	3,681	14	September 30, 2006	December 11, 2006

(2) Dividends with a record date pertaining to the consolidated fiscal year under review that have an effective issued date in the next consolidated fiscal year.

Resolution (Expected)	Type of Shares	Source of Dividends	Total Dividend Payments (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Issue Date
June 28, 2007, Ordinary General Meeting of Shareholders	Common stock	Retained earnings	3,682	14	March 31, 2007	June 29, 2007

Segment Information

1. Industry Segments

(Millions of yen)

	Air conditioning	Chemicals	Others	Total	Eliminations	Consolidated	
Current year	I. Net sales and operating income or loss						
	Net sales	[17.3]	[8.5]	[- 1.6]	[15.0]	[15.0]	
	(1) Sales to outside customers	752,560	116,493	43,074	912,128	—	912,128
	(2) Intersegment sales	614	2,515	146	3,277	(3,277)	—
	Total	753,174	119,009	43,221	915,405	(3,277)	912,128
	Operating expenses	685,632	106,941	41,887	834,461	(3,272)	831,189
		(9.0)	(10.4)	(3.1)	(8.9)		(8.9)
	Operating income	67,542	12,067	1,334	80,944	(5)	80,939
	II. Assets, depreciation and capital expenditure						
	Assets	843,866	146,789	30,235	1,020,891	143,683	1,164,575
Depreciation and amortization	20,398	11,214	1,242	32,855	—	32,855	
Capital expenditure	22,169	17,631	1,334	41,134	—	41,134	
Previous year	I. Net sales and operating income or loss						
	Net sales	[8.9]	[7.8]	[9.5]	[8.8]		[8.8]
	(1) Sales to outside 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
		(8.9)	(10.0)	(-1.8)	(8.5)		(8.5)
	Operating income	57,110	10,753	(773)	67,089	(12)	67,077
	II. Assets, depreciation and capital expenditure						
	Assets	440,199	129,918	29,258	599,376	120,006	719,382
Depreciation and amortization	16,841	10,272	1,245	28,360	—	28,360	
Capital expenditure	33,737	14,401	1,551	49,690	—	49,690	

- 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 at upper left in a cell 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
 - 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
 - Of assets, the corporate assets included in the eliminations and corporate items are ¥147,303 million in the current year and ¥124,657 million in the previous year, and the major factors are such assets as the total surplus funds (cash and deposits with banks and securities) and long-term investment funds (investment securities) of the parent company.
 - As is recorded in the changes in accounting methods, from the current year, the Company has adopted the “Accounting Standard Related to Stock Options, etc.” (Corporate Accounting Standard No. 8, December 27, 2005) and the “Accounting Standard Related to Stock Options, etc. Application Guideline” (Corporate Accounting Standard No. 11, May 31, 2006). This application had the effect of increasing operating expenses by ¥168 million for Air Conditioning, ¥36 million for Chemicals and ¥14 million for others, with corresponding decreases in operating income.
 - As is recorded in the changes in accounting methods, from the current year the Company has adopted the “Accounting Standard Related to Executive Bonuses” (Corporate Accounting Standard No. 4, November 29, 2005). This application had the effect of increasing operating expenses in the Air conditioning segment by ¥113 million, in the Chemicals segment by ¥25 million and in the Others segment by ¥11 million. Operating income in these business segments decreased by the corresponding amount.

2. Geographical Segments

(Millions of yen)

	Japan	Europe	America	Asia and Oceania	Other	Total	Eliminations	Consolidated	
Current year	I. Net sales and operating income or loss								
	Net sales	[3.5]	[34.6]	[10.6]	[32.9]	[25.8]	[15.0]	[15.0]	
	(1) Sales to outside customers	481,745	235,328	36,993	154,555	3,504	912,128	—	912,128
	(2) Intersegment sales	117,948	4,814	4,467	72,861	—	200,093	(200,093)	—
	Total	599,694	240,143	41,461	227,417	3,504	1,112,221	(200,093)	912,128
	Operating expenses	564,209	213,194	42,983	206,771	3,331	1,030,489	(199,300)	831,189
	Operating income	(7.4)	(11.5)	(-4.1)	(13.4)	(4.9)	(7.3)	(792)	(8.9)
II. Assets	487,765	200,570	145,564	371,237	5,642	1,210,780	(46,204)	1,164,575	
Previous 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 sales	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
	Operating income	(6.5)	(7.1)	(0.9)	(17.4)	(5.2)	(8.0)	3,602	(8.5)
II. Assets	416,261	114,811	38,702	159,943	2,490	732,210	(12,827)	719,382	

- Notes: 1. The figures expressed in parentheses at upper left in a cell indicate the ratio to net sales, and those expressed in brackets indicate the ratio of growth over the previous year.
2. Of assets, the corporate assets included in the eliminations and corporate items are ¥147,303 million in the current year and ¥124,657 million in the previous year, and the major factors are such assets as the total surplus funds (cash and deposits with banks and securities) and long-term investment funds (investment securities) of the parent company.
3. As is recorded in the changes in accounting methods, from the current year, the Company has adopted the “Accounting Standard Related to Stock Options, etc.” (Corporate Accounting Standard No. 8, December 27, 2005) and the “Accounting Standard Related to Stock Options, etc. Application Guideline” (Corporate Accounting Standard No. 11, May 31, 2006). This application had the effect of increasing operating expenses in Japan by ¥219 million, with a corresponding decrease in operating income.
4. As is recorded in the changes in accounting methods, from the current year the Company has adopted the “Accounting Standard Related to Executive Bonuses” (Corporate Accounting Standard No. 4, November 29, 2005). This application had the effect of increasing operating expenses in Japan by ¥150 million, with a corresponding decrease in operating income.

3. Sales to Foreign Customers

(Millions of yen)

	Asia and Oceania	Europe	America	Other	Total	
Current year	I. Overseas sales	180,968	234,988	43,238	10,279	469,474
	II. Consolidated sales					912,128
	III. Ratio of overseas sales to consolidated sales	19.8%	25.8%	4.7%	1.1%	51.5%
Previous 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%

Tax Effect Accounting

Current year From April 1, 2006, to March 31, 2007	Previous year From April 1, 2005, to March 31, 2006
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
Software	Unrealized profit of inventory assets
¥7,620 million	¥5,824 million
Unrealized profit of inventory assets	Software
5,761 million	4,161 million
Warranty reserve	Warranty reserve
4,966 million	2,931 million
Long-term accounts payable	Accrued bonus
4,302 million	2,928 million
Accrued bonus	Liabilities for retirement benefits
3,477 million	1,983 million
Inventory assets	Inventory assets
2,831 million	1,891 million
Foreign tax credit	Foreign tax credit
1,634 million	1,626 million
Loss carryforwards of subsidiaries	Business tax payable
1,176 million	769 million
Business tax payable	Allowance for doubtful receivables
1,010 million	583 million
Allowance for doubtful receivables	Property and equipment
872 million	469 million
Liabilities for retirement benefits	Loss carryforwards of subsidiaries
787 million	390 million
Property and equipment	Long-term accounts payable
674 million	229 million
Investment securities	Investment securities
195 million	190 million
Others	Others
8,211 million	2,731 million
Subtotal of deferred tax assets	
¥43,522 million	
Less valuation allowance	
(1,541 million)	
Total deferred tax assets	Total deferred tax assets
¥41,981 million	¥26,710 million
Deferred tax liabilities	Deferred tax liabilities
Deferred gain on sales of property	Deferred gain on sales of property
¥(2,167 million)	¥(2,167 million)
Prepaid pension costs	
(5,102 million)	
Tax effect of retained surplus	
(10,915 million)	
Unrealized gain on available-for-sale securities	Unrealized gain on available-for-sale securities
(23,103 million)	(22,598 million)

Others	(4,882 million)	Others	(3,617 million)
Total deferred tax liabilities	¥(46,172 million)	Total deferred tax liabilities	¥(28,383 million)
Net deferred tax liabilities	¥(4,191 million)	Net deferred tax liabilities	¥(1,672 million)
2. Reconciliation between the normal effective statutory tax rate and the actual effective tax rate		2. Reconciliation between the normal effective statutory tax rate and the actual effective tax rate	
As the difference is less than 5%, a description has been omitted.		Normal statutory income tax rate	40.6%
		(Adjustment)	
		Difference in foreign subsidiaries' tax rates	(6.1)%
		Permanent non-deductible expenses	3.4%
		Tax credit for research and development costs	(2.8)%
		Losses of consolidated subsidiaries	1.0%
		Others	(0.3)%
		Actual effective income tax rate	35.8%

Matters related to Liabilities for Severance and Retirement Benefits

Current year From April 1, 2006, to March 31, 2007	Previous year From April 1, 2005, to March 31, 2006																																				
<p>1. Matters related to liabilities for retirement benefits In the past, the Company and some of its domestic consolidated subsidiaries employed a qualified employee retirement pension plan as a defined benefit pension system. However, this system has been discontinued. In June 2006, some companies moved to a defined benefit pension plan system, and others moved to a defined contribution pension plan system. Some other domestic consolidated subsidiaries employ as a defined benefit corporate pension system a qualified employee retirement pension plan and a one-off retirement payment plan. Also, some overseas consolidated subsidiaries employ a defined benefit pension system, and some a defined contribution pension system.</p>	<p>1. Matters related to liabilities for retirement benefits 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. Based on an agreement between labor and management concluded in March 2006, it was determined that the Company and some of its domestic consolidated subsidiaries 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>																																				
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Per-Share Information

	Current year From April 1, 2006, to March 31, 2007	Previous year From April 1, 2005, to March 31, 2006
Net assets per share	1,523.52 yen	1,304.69 yen
Net income per share	173.42 yen	154.25 yen
Diluted net income per share	173.34 yen	154.21 yen

Note: The basis for calculations is provided below.

1. Net assets per share

	Current year From April 1, 2006, to March 31, 2007	Previous year From April 1, 2005, to March 31, 2006
Total shown in the net assets section of the consolidated balance sheets (Millions of yen)	413,120	—
Net assets of common stock (Millions of yen)	400,710	—
Breakdown of difference (Millions of yen)		
Stock acquisition rights	219	—
Minority interests	12,191	—
Common stock issued and outstanding (Thousands of shares)	263,813	—
Common stock owned as treasury stock (Thousands of shares)	797	—
Common stock used to calculate net assets per share (Thousands of shares)	263,016	—

2. Net income per share and diluted net income per share

	Current year From April 1, 2006, to March 31, 2007	Previous year From April 1, 2005, to March 31, 2006
Net income (Millions of yen)	45,619	40,708
Amount unattributed to owners of common stock (Millions of yen)	—	110
(Of which, appropriation of retained earnings for executive bonuses) (Millions of yen)	—	110
Net income related to common stock (Millions of yen)	45,619	40,598
Average shares of common stock during the year (Thousands of shares)	263,051	263,197
Breakdown of increase in shares of common stock used to calculate diluted net income per share (Thousands of shares)		
Treasury stock acquired for Stock Options	13	16
Stock acquisition rights as Stock Options	108	54
Increase in shares of common stock (Thousands of shares)	121	70
Overview of latent shares excluded from calculation of diluted net income per share, as they have no dilutive effect	Stock Options resolved at the Ordinary General Meeting of Shareholders on June 29, 2006 Stock acquisition rights: 2,980 (298 thousand shares)	—

The Consolidated Statement of Cash Flows and notes concerning lease transactions, related-party transactions, investment securities, derivative transactions, Stock Options and corporate consolidation have been omitted here, as their importance to the Brief Report on the Settlement of Accounts was not considered to be significant.

Non-Consolidated Statement of Income

(Millions of yen)

	Current year From April 1, 2006, to March 31, 2007		Previous year From April 1, 2005, to March 31, 2006		Change
Net sales		454,469		434,986	19,482
Cost of sales		329,641		319,474	10,167
Gross profit	(27.5)	124,827	(26.6)	115,512	9,315
Selling, general and administrative expenses		96,207		91,426	4,781
Operating income	(6.3)	28,619	(5.5)	24,085	4,533
Non-operating income		8,453		10,435	(1,982)
Interest income		214		219	(5)
Interest on marketable securities		2		0	1
Dividend income		7,506		7,855	(348)
Exchange gains		284		666	(381)
Others		445		1,694	(1,248)
Non-operating expenses		2,842		1,959	883
Interest expenses		1,343		542	801
Bond interest expenses		164		392	(228)
Interest expenses on commercial paper		296		12	283
Sales discounts		695		652	42
Others		343		359	(16)
Ordinary income	(7.5)	34,230	(7.5)	32,562	1,668
Extraordinary income		6,489		1,811	4,677
Gains on sales of investment securities		346		1,247	(901)
Gain on the sale of shares in associated companies		406		—	406
Reversal of allowance for doubtful receivables		—		564	(564)
Gain on partial termination of defined benefit plan		792		—	792
Gain on transfer of system of mechanical parking equipment maintenance business		700		—	700
Exchange hedge gain on the transaction of acquiring associated company		4,244		—	4,244
Extraordinary loss		720		3,829	(3,108)
Loss on disposal of fixed assets		696		825	(129)
Impairment loss		—		211	(211)
Write-down of investment securities		23		22	1
Write-down of investments in subsidiary		—		817	(817)
Loss from discontinued operation of systems of mechanical parking equipment		—		1,952	(1,952)
Income before income taxes	(8.8)	39,999	(7.0)	30,544	9,454
Income taxes – current		12,860		8,776	4,083
Income taxes – deferred		541		386	155
Net income	(5.9)	26,597	(4.9)	21,381	5,215
Accumulated income brought forward		—		4,602	—
Increase by book value from absorbed subsidiary		—		194	—
Interim dividends		—		2,894	—
Loss on disposal of treasury stock		—		1	—
Unappropriated income		—		23,282	—

Non-Consolidated Balance Sheet

(Millions of yen)

	Current year (As of March 31, 2007)	Previous year (As of March 31, 2006)	Change
Current assets	199,563	195,294	4,268
Cash and deposits with banks	16,731	22,896	(6,164)
Notes receivables – trade	1,249	1,887	(637)
Accounts receivable – trade	69,156	68,243	913
Finished products and merchandise	37,686	30,724	6,962
Raw materials	2,414	2,285	129
Work in process	33,675	30,843	2,831
Supplies	1,256	1,151	104
Advances payment	25	—	25
Prepaid expenses	843	607	236
Deferred tax assets	10,098	8,213	1,885
Short-term loan receivables	10,705	13,520	(2,814)
Accounts receivable – other	14,638	13,918	719
Other current assets	1,146	1,062	84
Allowance for doubtful receivables	(66)	(59)	(6)
Fixed assets	595,248	303,945	291,302
Tangible fixed assets	99,313	97,785	1,527
Buildings	25,117	25,419	(302)
Structures	2,713	2,667	46
Machinery and equipment	41,952	40,063	1,888
Vehicles and delivery equipment	78	74	4
Furniture and fixtures	8,216	7,598	617
Land	19,932	19,767	164
Construction in progress	1,302	2,193	(891)
Intangible fixed assets	1,863	1,763	99
Patents, etc.	1,863	1,763	99
Investment and other assets	494,071	204,396	289,674
Investment securities	131,856	102,887	28,969
Shares of associated companies	297,058	49,859	247,199
Investments in associated companies	48,410	46,825	1,584
Long-term loan receivables	999	1,123	(123)
Long-term prepaid expenses	204	170	33
Prepaid pension expenses	12,045	—	12,045
Deposits for guarantee	2,760	2,792	(32)
Other investments	1,833	1,714	119
Allowance for doubtful receivables	(1,096)	(975)	(121)
Total assets	794,811	499,240	295,570

(Millions of yen)

	Current year (As of March 31, 2007)	Previous year (As of March 31, 2006)	Change
Current liabilities	451,527	184,177	267,350
Notes payable – trade	4,621	4,256	364
Accounts payable – trade	39,528	37,844	1,683
Short-term borrowings	257,020	26,080	230,940
Commercial paper	89,000	60,000	29,000
Current portion of long-term debts	2,363	515	1,848
Accounts payable – other	7,150	5,404	1,745
Accrued expenses	19,437	18,889	547
Income tax payable	6,519	3,172	3,347
Advances received	726	1,103	(377)
Deposits received	8,981	9,348	(367)
Accrued executive bonuses	150	—	150
Warranty reserve	6,583	6,100	483
Notes payable for acquisition of facilities	1,052	1,504	(451)
Construction payable	8,305	9,841	(1,535)
Others	86	114	(27)
Long-term liabilities	75,351	67,190	8,160
Straight bonds	20,000	20,000	—
Long-term debts	22,503	24,882	(2,379)
Long-term accounts payable	11,739	564	11,174
Deferred tax liabilities	21,107	18,146	2,961
Liabilities for retirement benefits	—	3,596	(3,596)
Total liabilities	526,878	251,367	275,510
Common stock	—	28,023	—
Capital surplus	—	25,968	—
Additional paid-in capital	—	25,968	—
Retained earnings	—	162,728	—
Legal reserves	—	6,066	—
Deferred capital gain on sales of property	—	3,170	—
General reserves	—	130,210	—
Unappropriated income	—	23,282	—
Unrealized gain on available-for-sale securities	—	32,699	—
Treasury stock	—	(1,546)	—
Total shareholders' equity	—	247,873	—
Total liabilities and shareholders' equity	—	499,240	—
Shareholders' equity	234,231	—	—
Common stock	28,023	—	—
Capital surplus	25,968	—	—
Additional paid-in capital	25,968	—	—
Retained earnings	182,603	—	—
Legal reserves	6,066	—	—
Other retained earnings	—	—	—
Deferred capital gain on sales of property	3,170	—	—
Contingent reserves	144,210	—	—
Retained earnings brought forward	29,157	—	—
Treasury stock	(2,363)	—	—
Valuation and exchange differences	33,482	—	—
Unrealized gain on available-for-sale securities	33,479	—	—
Hedging gains brought forward	3	—	—
Stock acquisition rights	219	—	—
Net assets	267,933	—	—
Total liabilities and net assets	794,811	—	—

Non-Consolidated Statement of Changes in Shareholders' Equity

Current year (From April 1, 2006, to March 31, 2007)

(Millions of yen)

	Shareholders' Equity								
	Common stock	Capital surplus		Retained earnings				Treasury stock	Total shareholders' equity
		Capital reserve	Legal reserves	Other retained earnings			Total retained earnings		
				Deferred gain on sales of property	Other reserves	Retained earnings brought forward			
Balance as of March 31, 2006	28,023	25,968	6,066	3,170	130,210	23,282	162,728	(1,546)	215,173
Changes during the year									
Dividends from retained earnings*						(2,895)	(2,895)		(2,895)
Dividends from retained earnings						(3,681)	(3,681)		(3,681)
Bonuses to directors and corporate auditors*						(110)	(110)		(110)
Accumulation of other reserves*					14,000	(14,000)	—		—
Net income						26,597	26,597		26,597
Repurchase of treasury stock								(1,162)	(1,162)
Disposal of treasury stock						(35)	(35)	345	309
Net changes to items other than shareholders' equity during the year									
Total changes during the year	—	—	—	—	14,000	5,875	19,875	(817)	19,058
Balance as of March 31, 2007	28,023	25,968	6,066	3,170	144,210	29,157	182,603	(2,363)	234,231

	Valuation, currency translation and other adjustments			Stock acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Hedging losses brought forward	Total valuation, currency translation and other adjustments		
Balance as of March 31, 2006	32,699	—	32,699	—	247,873
Changes during the year					
Dividends from retained earnings*					(2,895)
Dividends from retained earnings					(3,681)
Bonuses to directors and corporate auditors*					(110)
Accumulation of other reserves*					—
Net income					26,597
Repurchase of treasury stock					(1,162)
Disposal of treasury stock					309
Net changes to items other than shareholders' equity during the year	779	3	782	219	1,002
Total changes during the year	779	3	782	219	20,060
Balance as of March 31, 2007	33,479	3	33,482	219	267,933

* Appropriation of income was resolved at the Ordinary General Meeting of Shareholders in June 2006.

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.