

Brief Report on the Settlement of Accounts (Consolidated) for the Business Year Ended March 31, 2009

May 12, 2009

Name of Listed Company: **Daikin Industries, Ltd.**

Listed on TSE, OSE

Code No.: 6367

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

President and COO: Yukiyoishi Okano

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Planned date of Ordinary General Meeting of Shareholders: June 26, 2009

Planned date of start of dividend payment: June 29, 2009

Planned filing date of securities report: June 26, 2009

1. Consolidated Business Results for the Business Year Ended March 31, 2009

(From April 1, 2008, to March 31, 2009)

(1) Consolidated Business Results

Note: Amounts less than one million yen are truncated.
Percentages indicate year-over-year increases/decreases.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2009	1,202,419	-6.9	61,394	-52.1	52,007	-57.3
Year ended March 31, 2008	1,291,081	41.6	128,098	58.6	121,708	55.5

	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 total assets	Operating margin
	Millions of yen	%	Yen	Yen	%	%	%
Year ended March 31, 2009	21,755	-70.9	74.51	74.50	4.3	4.5	5.1
Year ended March 31, 2008	74,822	64.7	262.24	262.04	15.9	10.3	9.9

Note: Equity in earnings of unconsolidated subsidiaries and associated companies was ¥537 million for the year ended March 31, 2009, and ¥743 million for the year ended March 31, 2008.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2009	1,117,417	484,485	42.2	1,615.98
Year ended March 31, 2008	1,210,093	559,986	45.1	1,867.79

(Reference) Shareholders' equity was ¥471,686 million at the end of the year ended March 31, 2009, and ¥545,641 million at the end of the year ended March 31, 2008.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2009	62,237	(99,302)	48,382	104,322
Year ended March 31, 2008	103,329	(76,427)	3,367	110,483

2. Dividends for the Business Year Ended March 31, 2009

(Record date)	Dividend per share					Total cash dividends for the year	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Annual			
Year ended March 31, 2008	—	19.00	—	19.00	38.00	Millions of yen 11,101	%	%
Year ended March 31, 2009	—	19.00	—	19.00	38.00			
Year ending March 31, 2010 (forecast)	—	—	—	—	—		—	

Note: Dividends for the year ending March 31, 2010, are undetermined.

3. Prospective Consolidated Business Results for the Business Year Ending March 31, 2010 (From April 1, 2009, to March 31, 2010)

Note: Percentages indicate year-over-year increases/decreases for the corresponding first-half and full-year periods.

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	525,000	-21.3	18,000	-72.6	15,000	-76.2	3,000	-92.3	10.28
Full year	1,070,000	-11.0	40,000	-34.8	34,000	-34.6	12,000	-44.8	41.11

4. Other

(1) The Status of Changes in Major Subsidiaries (Changes in Specified Subsidiaries that might Cause Change in the Scope of Consolidation): None

(2) Changes in Principles, Procedures and Representation of Accounting Procedures (which are stated in the “Changes in the Basis of Presenting the Consolidated Financial Statements”)

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

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

(See the “Changes in the Basis of Presenting the Consolidated Financial Statements” on page 23.)

(3) Number of Shares Issued (common stock)

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

As of March 31, 2009 293,113,973

As of March 31, 2008 293,113,973

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

As of March 31, 2009 1,225,087

As of March 31, 2008 981,373

(See “Per Share Information” on page 31 for the number of shares as the basis for the calculation of consolidated net income per share.)

(Reference) Summary of Non-Consolidated Business Results for the Business Year Ended March 31, 2009
(From April 1, 2008, to March 31, 2009)

(1) Non-Consolidated Business Results

(Percentages indicate year-over-year increases/decreases.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2009	424,917	-14.9	(7,120)	—	(5,218)	—
Year ended March 31, 2008	499,227	9.9	42,254	48.3	38,202	12.0

	Net income		Net income per share	Diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended March 31, 2009	(12,353)	—	(42.31)	—
Year ended March 31, 2008	20,638	-22.0	72.33	72.28

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2009	766,667	315,986	41.1	1,079.92
Year ended March 31, 2008	786,445	365,931	46.5	1,250.82

(Reference) Shareholders' equity was ¥315,221 million at the end of the year ended March 31, 2009, and ¥365,409 million at the end of the year ended March 31, 2008.

Explanation about the Appropriate Use of the Business Forecasts and Other Noteworthy Points

1. The forecasts given above are based on data available at the time of the release of this document. Actual results may differ from forecasts due to various uncertain factors. See "1. Analysis of Results (Prospect for business results for the next business year)" of "1. Operating Results" on page 6 for information relating to the business forecasts above.
2. Daikin Industries, Ltd., has not disclosed the projection on dividends for the year ending March 31, 2010, as it is undetermined at this time. The dividend forecast will be disclosed as soon as possible when it becomes available. See "(3) Basic Policy on Profit Distribution and Dividends for Fiscal 2009 and Fiscal 2010" of "1. Operating Results" on page 8 on the reasons for this decision.

1. Operating Results

1. Analysis of Results

(1) Overview of the year

The global economic crisis accelerated in the second half of fiscal 2009. A synchronous worldwide recession occurred as the financial crisis that started in the United States affected not only the economies of developed nations, such as Japan, Europe and the United States, but also those of emerging nations, including China, which until then had enjoyed relatively favorable economic growth owing to external demand.

The Japanese economy experienced a significant decline in consumer and investor confidence due to sluggish foreign demand, the higher value of the yen, declining stock prices and considerably reduced corporate earnings. The sharp downturn of the economy continued in the second half of fiscal 2009, showing no signs of bottoming.

Meanwhile, having achieved the fiscal 2010 operating income target of the FUSION 10 strategic management plan a year ahead of schedule, we drafted a mid-term plan that includes revised performance targets for the last three years of FUSION 10 (fiscal 2009 through fiscal 2011) and initiated efforts at the beginning of fiscal 2009 to achieve the revised performance targets under the yearlong policy of “Dynamism and Challenge” that was set out at the beginning of calendar year 2008.

However, a decline in demand caused by the rapid economic downturn starting in the second half of fiscal 2009 combined with the effects of foreign exchange translation due to the higher appreciation of the yen led to the Group’s consolidated net sales for fiscal 2009 declining 6.9% from the previous year to ¥1,202,419 million.

Although extensive efforts were promoted to cut fixed and variable costs, factors such as a hike in raw material prices, reduced sales and a lower rate of capacity utilization decreased consolidated operating income by 52.1% to ¥61,394 million and consolidated ordinary income by 57.3% to ¥52,007 million. Consolidated net income declined 70.9% to ¥21,755 million.

An overview of results by business segment follows:

(i) Air-conditioning and refrigeration equipment

In the domestic residential air-conditioning system market, the demand for room air-conditioning systems surpassed the previous year’s level in the first half of fiscal 2009 due to favorable climate conditions from July to September 2008. However, such demand was lower than the previous year throughout the second half of fiscal 2009, putting annual demand at almost the same level as the previous fiscal year. Daikin actively promoted such high-value-added products as the URURU&SALALA air-conditioning systems, which feature quiet automatic filter cleaning and have already cleared the energy-saving standards that Japan will introduce in 2010. Through promotional efforts with a focus on excellence in energy conservation, comfort and convenience, we secured a higher volume of air-conditioning systems sold compared with the level of the previous fiscal year.

In the domestic commercial air-conditioning system market, the demand for packaged air-conditioning systems remained unchanged from the previous year in the first half of fiscal 2009, whereas the economic recession starting in the second half of fiscal 2009 put a curb on capital investment and construction starts, decreasing the annual demand below the previous year’s level. Reflecting the sluggish market demand, the Group’s sales of packaged air-conditioning systems fell in both value and volume. Meanwhile, sales of our core multiple air-conditioning systems for office buildings exceeded the previous year’s level in value and volume, owing to our promotional activities by presenting proposals to marketing agencies and customers through such distinctive products as the Ve-up Q multiple air-conditioning system for office buildings, which enables sales outlets and users to replace units using existing piping in shorter periods and at lower costs, and the Hot Eco Biru Maru heat-pump air-conditioning systems for buildings in cold regions.

Overseas, the bankruptcy of Lehman Brothers in September 2008 triggered a worldwide financial crisis and economic recession, declining demand in various regions of the world and the weakening of many currencies, including the euro and the U.S. dollar, while appreciation of yen developed. Reflecting these factors, the overseas sales of the Group’s air conditioners were higher than the previous year’s level in the first half of the fiscal year but fell below the previous year’s level on an annual basis.

In the mainstay European market, which suffered unseasonable weather, as well as a credit crunch

due to the economic recession and the financial crisis, the Group's air-conditioner sales, both residential and commercial, decreased in volume and value from the previous fiscal year. As the demand in the major Western European nations fell below 70% of the demand in the previous fiscal year, the Daikin Group strengthened efforts to boost its market share to counter the effects of the demand decline, while seeking medium- and long-term growth by promoting the expansion of sales in central and Eastern Europe, Russia and the Middle East and expanding the business lines of heating and central large air-conditioning systems. In particular, the Group acquired Rotex Heating Systems GmbH, a German manufacturer of heating systems in October 2008 to expand its heating business in the European market. The sales volume of our residential heat-pump heating systems more than tripled from the previous year's level.

In China, the economic recession and the slowdown of the real estate market became noticeable after the 2008 Beijing Olympics, but sales of both residential and commercial air conditioners stayed strong, exceeding the previous year's level in volume and value. The Daikin Group continued to expand its sales network from large cities to local regions, with a focus on marketing efforts to seek larger sales of multiple air-conditioning systems, an area of its expertise, for home and office building applications. Responding to the growing demand for cheaper and more energy-saving air conditioners worldwide to prevent global warming, the Daikin Group reached an agreement with Gree Electric Appliances, Inc., of Zhuhai, China, in February 2009 to jointly promote the use of energy-efficient inverter-type air conditioners by combining Daikin's energy-efficiency technology with Gree's low-cost production.

In the Southeast Asia and Oceania markets, the sales volume of air conditioners fell from the previous year's level in Australia, due to economic recession, but rose in Thailand and Malaysia.

In the emerging economies, the global economic recession caused a slowdown in the second half of the fiscal year, but we continued to increase our presence by reinforcing local dealers, which resulted in an increase of sales in central and Eastern Europe, the Middle East and India.

In the U.S. market, despite the sluggish housing and construction markets, the sales volume of commercial air conditioners increased from the previous year and that of residential air conditioners remained almost unchanged. Credited with the Company's energy-saving technologies, Daikin received an order for air-conditioning systems for the Freedom Tower, which is being built to be a new symbol of New York where the twin towers of the World Trade Center once stood. The Company considers such participation as a golden opportunity to boost the recognition of Daikin and facilitate expansion of its businesses in the United States.

Sales of low-temperature and refrigeration products decreased significantly from the previous fiscal year, reflecting the worldwide decline in the demand for marine shipments in the second half of fiscal 2009.

Overall sales of the air-conditioning and refrigeration equipment business shrank 6.4% to ¥1,059,434 million, and operating income fell 42.3% to ¥71,648 million.

(ii) Chemicals

Our fluorochemical sales exceeded the previous year's level in the first half of fiscal 2009, owing to strong sales to the U.S. LAN market and in China and Europe. However, a sharp decline in demand in the semiconductor and automobile markets, which started in the second half of fiscal 2009, and the resulting inventory adjustments depressed fluorochemical sales below the previous year's level on an annual basis.

The chemical products sector saw strong sales of liquid-crystal-related fine chemicals and oil and water repellent agents in the Chinese and Asian markets. However, overall sales of chemical products decreased from the previous year, affected by the lower demand for oil and water repellent agents in Japan, the United States and Europe, as well as the declining demand for semiconductor-etching products.

Sales of fluorocarbon gas increased from the previous year due to favorable sales in the Asian market.

Overall sales of the chemical business fell 12.2% to ¥101,910 million. Because of negative factors, including decreases in sales and output, the deterioration of profitability due to changes in the composition of products, the yen's appreciation and elevated raw material prices, we recorded an operating loss of ¥9,508 million.

(iii) Others

Sales of oil hydraulic equipment for industrial machinery decreased from the previous year, largely due to the significant curtailment of production by the main engine manufacturers—a primary customer of Daikin's oil hydraulic business. In particular, the business was severely affected in the second half of fiscal 2009 by the further reduction of the production of high-precision machining equipment, which is often equipped with our Oil Con series of oil and water cooling systems that enjoy a high market share. Exports were better than the previous year during the first half of the year, mostly due to expanded sales of our highly differentiated SuperUnit series of inverter oil hydraulic units for the molding equipment markets of Taiwan and South Korea, but fell below the previous year's level on an annual basis, reflecting the worldwide market sluggishness.

Sales of oil hydraulic equipment for construction machinery and vehicles surpassed the previous year's level, owing to increased sales of mid-load and closed-circuit pumps (HST) in the world markets, including the United States and Europe.

Sales of ammunition and warheads for guided missiles to the Ministry of Defense grew steadily.

Overall sales of the other businesses declined 4.6% to ¥41,074 million, and an operating loss of ¥818 million was recorded.

On a non-consolidated basis, the Company's net sales decreased 14.9% to ¥424,917 million. An operating loss of ¥7,120 million, an ordinary loss of ¥5,218 million and a net loss of ¥12,353 million were recorded.

Prospect for business results for the next business year

The world economy is expected to face negative growth in 2009 for the first time in the postwar period, reflecting the global economic setback and the deterioration of the real economy. Although respective governments have recently launched several economy-boosting measures in an effort to put the brakes on the economic crisis, an economic recovery will require some time and force us to face a harsh business environment due to the sluggish demand amid the worldwide recession.

In this environment, the Group chose "Creative Challenge and Change" as its policy for calendar year 2009. As the world economic outlook remains uncertain, the Group will continue efforts to enhance its flexible and agile corporate culture to cope with rapid environmental changes by creatively breaking through conventional ideas and behaviors.

Above all, we will place the highest priority on securing profits in the short term and endeavor to carry out diverse measures to achieve this target. At the same time, the Group will accelerate efforts toward businesses that will bring medium- and long-term results, via an enhanced priority-focused management from the viewpoint of selection and focus.

Our specific tasks to be addressed by all the group companies may be summarized as follows:

- Seek higher market share for existing products by demonstrating our integrated corporate capabilities with respect to sales, services, product development, production and supply-chain management (SCM);
- Increase sales of environment-conscious products (e.g., inverter-type air conditioners, heater and

hot-water equipment and applied systems) for which firm demand remains despite the global recession;

- Promote further cost reduction;
- Radically reform the fixed-cost structure (with measures such as restriction of investments, selection of R&D themes, strategic reassignment of staff and companywide cost-cutting efforts); and
- Drastically cut capital investment (suspend almost all projects except for several priority ones).

At the same time, we need to maximize our commitment to the following priorities throughout the Daikin Group as forward-looking steps in view of the coming recovery:

- Accelerate development of environment-focused products such as next-generation refrigerant air conditioners;
- Extend and solidify the marketing network in the emerging countries (especially India and Brazil); and
- Establish new business models around the catchphrase *environmental responsiveness* to supply products, systems and solutions comprehensively that integrate the diversifying customer needs of a wide variety of customers such as residential houses, stores, offices, buildings and factories.

For the fiscal year ending March 31, 2010, we forecast an 11.0% decline in consolidated net sales to ¥1,070,000 million, with operating income falling 34.8% to ¥40,000 million, ordinary income decreasing 34.6% to ¥34,000 million and net income declining 44.8% to ¥12,000 million.

The estimated exchange rate for the fiscal year ending March 31, 2010, is based on the assumption that 1 euro equals ¥120 and \$1 equals ¥90.

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 and supply for products or in the political and economic 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 a cold summer and unseasonable weather
- Drastic changes in the exchange markets (especially the euro and U.S. dollar markets)
- Serious problems related to quality and manufacturing
- Fluctuations in the market value of securities and other assets held by the Company

(2) Financial Position

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

As of March 31, 2009, total assets decreased ¥92,675 million year over year to ¥1,117,417 million. Current assets decreased ¥78,801 million to ¥531,833 million mainly due to a decrease in accounts receivable - trade.

Fixed assets decreased ¥13,874 million to ¥585,583 million due to a change in the market value of investment securities despite an increase in our capital investments for the air-conditioning and refrigeration equipment businesses at overseas manufacturing bases. Liabilities decreased ¥17,174 million to ¥632,931 million owing to an increase in commercial paper, and the interest-bearing debt ratio rose from 29.5% to 37.4%. Net assets decreased ¥75,500 million to ¥484,485 million, reflecting fluctuations in the foreign currency translation adjustments due to the appreciation of the yen and the valuation difference on available-for-sale securities.

During the year ended March 31, 2009, net cash provided by operating activities was ¥62,237 million, principally deriving from an increase in income before income taxes and minority interests. Net cash used in investing activities was ¥99,302 million, arising primarily from the acquisition of fixed assets. Net cash provided by financing activities was ¥48,382 million mainly due to an increase in borrowings. As a result, cash and cash equivalents at the end of the year amounted to ¥104,322 million.

(ii) Trends in cash flow indicators

The trends in cash flow indicators are shown below.

	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008	Year ended March 31, 2009
Equity ratio (%)	44.1	47.5	34.2	45.1	42.2
Market value equity ratio (%)	115.5	151.4	92.9	103.6	70.0
Cash flows/interest-bearing debt ratio (years)	3.8	2.7	5.4	3.5	6.7
Interest coverage ratio (times)	8.5	12.3	12.4	8.9	7.6

Notes:

- Equity ratio = Equity capital/Total assets
Market value equity ratio = Aggregate market value of shares/Total assets
Cash flows/Interest-bearing debt ratio = Interest-bearing debt/Operating cash flow
Interest coverage ratio = Operating cash flow/Interest payment
- Each indicator is calculated based on the consolidated financial values.
- Aggregate market value of shares is calculated as follows: (term-end closing stock price) × (term-end number of shares issued (after deducting shares of treasury stock))
- Operating cash flow represents the “Cash flows from operating activities” in the consolidated statements of cash flows.
- Interest-bearing debt indicates the liabilities for which interest is paid on all the liabilities posted in the consolidated balance sheets. Interest payment corresponds to the amount of “Interest paid” in the consolidated statements of cash flows.

(3) Basic Policy on Profit Distribution and Dividends for Fiscal 2009 and Fiscal 2010

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

Internal reserves are appropriated for strategic investments aimed to strengthen the management structure, accelerate the development of global business and develop new environment-friendly products, thereby expanding business and improving competitive power.

For the year ended March 31, 2009, the Company has proposed the distribution of an annual cash dividend of ¥38 per share (¥19 for the interim dividend and ¥19 for the year-end dividend), which is the same as that for the previous fiscal year.

Given the uncertain business environment, we have not yet forecast dividends for the fiscal year ending March 31, 2010. We intend to project dividends around the time the second quarter accounts close after taking into consideration subsequent trends in business performance.

2. Status of the Company Group

The Daikin Group (the Company and its associated companies) is engaged in the manufacture (including construction and installation), sales and of products in the fields of air-conditioning and refrigeration equipment, chemicals, hydraulic equipment, defense systems-related products and others. The filer of the consolidated financial statements (or “the Company”) engages in the manufacture and sales of all these business lines and the associated companies consisting of subsidiaries and affiliated companies partly engage in the manufacture and/or sales of any of the respective business fields of air-conditioning and refrigeration equipment, hydraulic equipment and chemicals.

The major business lines of the Company and the respective associated companies are shown below.

1. Air conditioning and refrigeration equipment

A) Major Products

For residential use:	Room air conditioning systems, Air cleaners, Dehumidifiers, CO ² heat pump-water heaters
For commercial use:	Packaged air conditioning systems, Spot air conditioners, Water chilling units, Turbo refrigerators, Absorption refrigerators, Screw-type refrigerators, Fan-coil units, Air handling units, Packaged air conditioners for lower temperatures, Air purification systems, Total heat exchangers, Duct ventilating fans, Deodorizers, Infrared ceramic space heaters, Freezers, Ammonia water chilling unit, Air filters, Industrial dust collectors
For marine vessels:	Container refrigeration units, Marine vessel air conditioners and refrigerating units
Electronics:	Database system for R&D, IT network management systems, Computer graphics systems

B) Company Names

(1) Domestic associated companies

[Consolidated subsidiaries]

Daikin Applied Systems Co., Ltd., Daikin Air-conditioning & Technology Tokyo Co., Ltd., and 19 other sales companies

Daikin Air Technology & Engineering Kinki Co., Ltd., and one (1) other company for sales, construction and installation of air conditioners

OK Kizai Ltd., Daikin Rexam Electronics Co., Ltd., Daikin Trading Co., Ltd., Daikin Facilities Co., Ltd., and six (6) other companies

[Companies accounted for by the equity method]

Moritani Daikin Co., Ltd., and three (3) other companies

(2) Overseas associated companies

[Consolidated subsidiaries]

Daikin Europe N.V., Daikin Industries (Thailand), Ltd., Daikin (Shanghai) Air-conditioning Co., Ltd., Daikin (China) Investment, Dakin Airconditioning (Hong Kong) Ltd., Xian Daikin Qingian Compressor Co., Ltd., Daikin Motor (Suzhou) Co., Ltd., Daikin Australia Pty Ltd., Daikin Airconditioning (Singapore) Pte. Ltd., Daikin Compressor Industries Ltd., Daikin Airconditioning India Pvt. Ltd., Daikin Industries Czech Republic, s.r.o., Daikin Device Czech Republic, s.r.o., Daikin AC (Americas), Inc., Daikin Trading (Thailand) Ltd., AAF-McQuay Inc., OYL Manufacturing Company Sdn Bhd, McQuay Italia S.p.A., AAF-Limited, Shenzhen McQuay Air-conditioning Co., Ltd., McQuay Air-conditioning & Refrigeration (Wuhan) Co., Ltd., Group Associated (C&L) Sdn Bhd and 124 other companies

[Companies accounted for by the equity method]

Zhuhai Gree Daikin Device Co., Ltd. and three (3) other companies

2. Chemicals

A) Major Products

Fluorocarbon gas:	Refrigerants, Cleaning agents
Fluoroplastics:	Ethylene tetrafluoride resins, Molten type resins, Fluoroelastomers, Fluoro paints, Fluoro coatings
Chemicals:	Semiconductor-etching products, Oil and water repellent finishes, Mold release agents, Surface acting agents, Fluorocarbons, Fluorated oils, Pharmaceutical agricultural intermediates
Chemical engineering machinery:	Solvent deodorizing equipment, Dry air suppliers

B) Company Names

(1) Domestic associated companies

[Consolidated subsidiaries]

Toho Kasei Co., Ltd., and Daikin Chemical Sales, Ltd.

(2) Overseas associated companies

[Consolidated subsidiaries]

Daikin America, Inc., Daikin Fluorochemicals (China) Co., Ltd., Daikin Chemical France S.A.S., Daikin Chemical Europe GmbH and ten (10) other companies

[Companies accounted for by the equity method]

MDA Manufacturing, Inc., and three (3) other companies

3. Others

A) Major Products

Oil Hydraulics

Hydraulic equipment and systems for industrial use:

Pumps, Valves, Hydraulic systems, Oil cooling units, Inverter-controlled pumps and motors

Hydraulic equipment for construction machinery and vehicles:

Hydraulic transmissions, Valves

Centralized lubrication units and systems:

Grease pumps, Control and stack valves

Defense Systems:

Ammunition, warheads for guided missiles, Home-use oxygen medical equipment

B) Company Names

(1) Domestic associated companies

[Consolidated subsidiaries]

Daikin Sauer-Danfoss Manufacturing, Ltd., Daikin Lubrication Products & Engineering Co., Ltd., Daikin Powermotion Engineering East Japan Co., Ltd., and two (2) other companies

[Company accounted for by the equity method]

Sauer-Danfoss Daikin, Ltd.

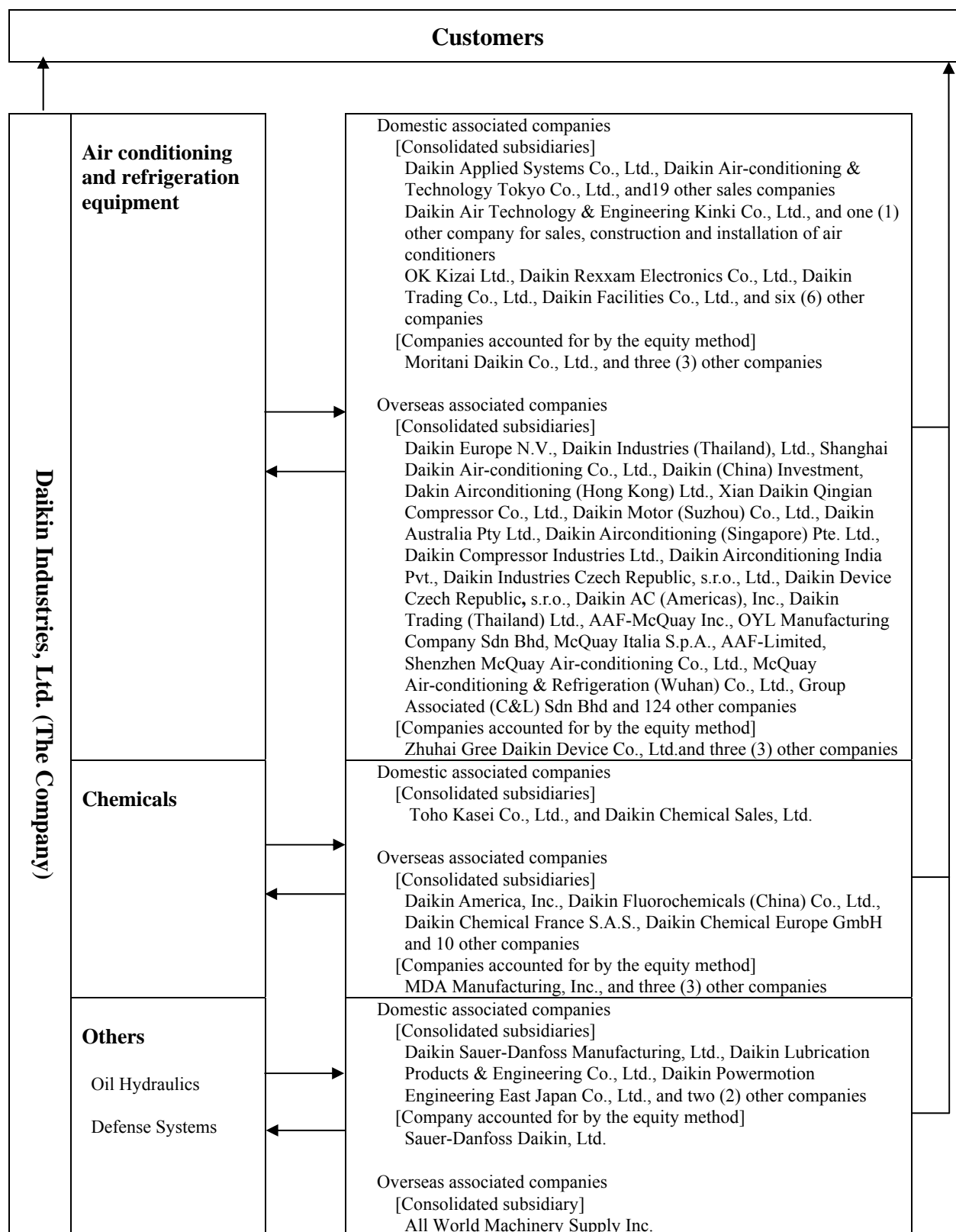
(2) Overseas associated companies

[Consolidated subsidiary]

All World Machinery Supply Inc.

[Schematic Diagram of the Company Group]

A schematic diagram of the business lines of the Daikin Group, including two hundred and two (202) consolidated companies (forty (40) domestic, one hundred and two (162) overseas) and thirteen (13) companies accounted for by the equity method (five (5) domestic, eight (8) overseas), is shown below.



3. Management Policies

(1) Basic Management Policy

Under “Our Group Management Philosophy,” which sets forth our basic management perspectives, the Company will, as a corporation that continually supplies customers with the highest level of conveniences and amenities, enhance its technical bases, carry out management emphasizing a capital increase and strive to maximize corporate value through the provision of high-quality products, materials and services. The Company will conduct 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 a “Fast and Flat” 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.

(3) Medium- and Long-Term Management Strategies

In May 2008, the Company released the “Final Three-Year Plan for Fusion 10.” Positioning a good balance between a proactive contribution to global environmental issues and business expansion as a priority issue of the “Final Three-Year Plan for Fusion 10,” we clarified the specific strategies with the actual measures to be implemented to achieve the objectives set forth in this strategic management plan.

We will aggressively tackle other themes that offer significant growth potential. Specifically, we will reinforce our energy-saving products in worldwide markets, prepare a full-scale launch of our heating business by harnessing our heat pump technology, penetrate emerging markets such as the Middle East and India, establish a structure for the applied business and further expand existing peripheral businesses such as the engineering service business. The results of these efforts should propel the Group toward its objective of becoming the global leader in the air-conditioning industry.

(4) Tasks to Be Addressed by the Company

For the year ending March 31, 2010, we will place the highest priority on securing profits in the short term, as the world economic outlook remains uncertain. Specifically, we will seek higher sales and market share through focused marketing efforts on specific areas and products, achieve a significant cost reduction by leveraging lower material prices and the benefits of a strong yen, and make a drastic reform of the fixed-cost structure via a strategic reassignment of staff and the streamlining of operations throughout the Group.

Meanwhile, the Group will accelerate to generate profit that will bring medium- and long-term results, including environment-conscious subjects, such as heat pumps and next-generation refrigerants.

At the same time, the Group will continue efforts to enhance the corporate climate and management by reinforcing the makeup of each business segment; strengthening our approach to CSR (corporate social responsibility) in terms of legal compliance, business ethics, safe operations, etc.; and nurturing excellent human resources.

Recently, it was revealed that the After Sales Service Division and several subsidiaries of Daikin Industries Ltd. were involved in inappropriate accounting practices. Taking this incident with the utmost seriousness, the Daikin Group will make all-out efforts as a unified entity to restore the trust of its stakeholders by implementing measures to prevent the recurrence of such a problem, as well as measures to raise awareness about compliance and to improve internal controls.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous year (As of March 31, 2008)	Current year (As of March 31, 2009)
(Assets)		
Current assets		
Cash and deposits with banks	111,656	105,241
Trade receivables—notes and accounts	226,193	178,248
Inventories	236,553	—
Merchandise and finished products	—	133,740
Work in progress	—	44,450
Raw materials and supplies	—	38,453
Deferred tax assets	13,365	9,781
Other	28,318	27,021
Allowance for doubtful receivables	(5,452)	(5,103)
Total current assets	610,635	531,833
Fixed assets		
Tangible fixed assets		
Buildings and structures	65,519	72,484
Machinery & equipment, and delivery equipment	108,683	98,930
Land	28,648	27,825
Lease assets	—	2,361
Construction in progress	19,069	21,890
Others	21,221	19,590
Total tangible fixed assets	243,142	243,082
Intangible fixed assets		
Goodwill	200,733	193,404
Others	7,125	9,400
Total intangible fixed assets	207,859	202,804
Investments and other assets		
Investment securities	121,254	94,346
Long-term loan receivables	938	1,135
Deferred tax assets	5,136	18,960
Others	22,111	26,279
Allowance for doubtful receivables	(984)	(1,026)
Total investments and other assets	148,457	139,696
Total fixed assets	599,458	585,583
Total assets	1,210,093	1,117,417

(Millions of yen)

	Previous year (As of March 31, 2008)	Current year (As of March 31, 2009)
(Liabilities)		
Current liabilities		
Trade notes and accounts payable	128,198	80,318
Short-term borrowings	73,950	74,879
Commercial paper	58,000	120,000
Current portion of straight bonds	—	20,000
Current portion of long-term debt	8,810	9,418
Lease obligations	—	1,236
Income taxes payable	13,531	8,742
Deferred tax liabilities	1,436	3
Reserve for bonuses to directors	190	140
Reserve for guarantee for finished products	18,968	17,393
Accrued expenses	56,661	48,028
Others	53,288	49,144
Total current liabilities	413,036	429,124
Long-term liabilities		
Straight bonds	20,000	—
Long-term debt	196,166	190,778
Long-term accounts payable	8,955	5,768
Lease obligations	—	1,605
Deferred tax liabilities	7,129	1,266
Liability for retirement benefits	4,291	3,939
Others	528	449
Total long-term liabilities	237,070	203,807
Total liabilities	650,106	632,931
(Net Assets)		
Shareholders' equity		
Common stock	85,032	85,032
Capital surplus	82,977	82,977
Retained earnings	351,499	366,836
Treasury stock	(3,500)	(4,743)
Total shareholders' equity	516,008	530,102
Valuation, currency translation and other adjustments		
Valuation difference on available-for-sale securities	10,101	(15,397)
Net loss on deferred hedging	371	464
Foreign currency translation adjustments	19,159	(43,482)
Total valuation, currency translation and other adjustments	29,632	(58,415)
Stock acquisition rights	521	764
Minority interests	13,823	12,035
Total net assets	559,986	484,485
Total liabilities and net assets	1,210,093	1,117,417

(2) Consolidated Statements of Income

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Net sales	1,291,081	1,202,419
Cost of sales	849,532	838,759
Gross profit	441,548	363,660
Selling, general and administrative expenses	313,450	302,265
Operating income	128,098	61,394
Non-operating income		
Interest income	2,640	2,378
Dividend income	1,927	2,195
Equity in earnings of unconsolidated subsidiaries and associated companies	743	537
Others	4,622	4,263
Total non-operating income	9,934	9,374
Non-operating expenses		
Interest expense	10,159	7,032
Exchange losses	443	5,556
Others	5,720	6,172
Total non-operating expenses	16,324	18,761
Ordinary income	121,708	52,007
Extraordinary income		
Gain on disposal of land	20	—
Gain on sales of investment securities	14	3
Total extraordinary income	34	3
Extraordinary loss		
Loss on disposals of fixed assets	879	1,704
Write-down of investment securities	2,434	2,774
Loss on transfer of the retirement benefit plan	—	1,222
Other extraordinary loss	293	335
Total extraordinary loss	3,606	6,036
Income before income taxes and minority interests	118,136	45,973
Income taxes—current	35,413	21,391
Income taxes for prior years	3,520	—
Income taxes—deferred	1,193	(202)
Total income taxes	40,128	21,189
Minority interests	3,185	3,029
Net income	74,822	21,755

(3) Consolidated Statements of Changes in Shareholders' Equity

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Shareholders' equity		
Common stock		
Balance at the end of the covered accounting period	28,023	85,032
Changes during the year		
Issuance of new shares	57,009	—
Total changes during the year	57,009	—
Balance at the end of the covered accounting period	85,032	85,032
Capital surplus		
Balance at the end of the covered accounting period	25,968	82,977
Changes during the year		
Issuance of new shares	57,009	—
Total changes during the year	57,009	—
Balance at the end of the accounting period under review	82,977	82,977
Retained earnings		
Balance at the end of the covered accounting period	285,937	351,499
Increase due to change in the accounting policy of overseas subsidiaries	—	4,749
Changes during the year		
Dividends from surplus	(9,232)	(11,096)
Net income	74,822	21,755
Increase(decrease) due to change in the accounting term of consolidated subsidiaries	39	(14)
Disposal of treasury stock	(66)	(56)
Total changes during the year	65,562	10,587
Balance at the end of the covered accounting period	351,499	366,836
Treasury stock		
Balance at the end of the covered accounting period	(2,367)	(3,500)
Changes during the year		
Repurchase of treasury stock	(1,495)	(1,487)
Disposal of treasury stock	362	243
Total changes during the year	(1,132)	(1,243)
Balance at the end of the covered accounting period	(3,500)	(4,743)
Total shareholders' equity		
Balance at the end of the covered accounting period	337,561	516,008
Increase due to change in the accounting policy of overseas subsidiaries	—	4,749
Changes during the year		
Issuance of new shares	114,018	—
Dividends from surplus	(9,232)	(11,096)
Net income	74,822	21,755
Increase (decrease) due to change in the accounting term of consolidated subsidiaries	39	(14)
Repurchase of treasury stock	(1,495)	(1,487)
Disposal of treasury stock	295	187

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Total changes during the year	178,447	9,343
Balance at the end of the accounting period under review	516,008	530,102
Valuation, currency translation and other adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of the covered accounting period	33,780	10,101
Changes during the year		
Net changes to items other than shareholders' equity during the year	(23,678)	(25,499)
Total changes during the year	(23,678)	(25,499)
Balance at the end of the covered accounting period	10,101	(15,397)
Deferred gains or loss on hedges		
Balance at the end of the covered accounting period	(26)	371
Changes during the year		
Net changes to items other than shareholders' equity during the year	397	93
Total changes during the year	397	93
Balance at the end of the covered accounting period	371	464
Foreign currency translation adjustments		
Balance at the end of the covered accounting period	26,226	19,159
Changes during the year		
Net changes to items other than shareholders' equity during the year	(7,067)	(62,641)
Total changes during the year	(7,067)	(62,641)
Balance at the end of the covered accounting period	19,159	(43,482)
Total valuation, currency translation and other adjustments		
Balance at the end of the covered accounting period	59,980	29,632
Changes during the year		
Net changes to items other than shareholders' equity during the year	(30,348)	(88,048)
Total changes during the year	(30,348)	(88,048)
Balance at the end of the covered accounting period	29,632	(58,415)
Stock acquisition rights		
Balance at the end of the covered accounting period	219	521
Changes during the year		
Net changes to items other than shareholders' equity during the year	302	242
Total changes during the year	302	242
Balance at the end of the covered accounting period	521	764
Minority interests		

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Balance at the end of the covered accounting period	12,191	13,823
Changes during the year		
Net changes to items other than shareholders' equity during the year	1,632	(1,788)
Total changes during the year	1,632	(1,788)
Balance at the end of the covered accounting period	13,823	12,035
Total net assets		
Balance at the end of the covered accounting period	409,952	559,986
Increase due to change in the accounting policy of overseas subsidiaries	—	4,749
Changes during the year		
Issuance of new shares	114,018	—
Dividends from surplus	(9,232)	(11,096)
Net income	74,822	21,755
Increase (decrease) due to change in the accounting term of consolidated subsidiaries	39	(14)
Repurchase of treasury stock	(1,495)	(1,487)
Disposal of treasury stock	295	187
Net changes to items other than shareholders' equity during the year	(28,413)	(89,594)
Total changes during the year	150,034	(80,250)
Balance at the end of the covered accounting period	559,986	484,485

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
I. Cash flows from operating activities		
Income before income taxes and minority interests	118,136	45,973
Depreciation and amortization	39,022	44,811
Amortization of goodwill	12,348	12,119
Increase (decrease) in allowance for doubtful receivables	(979)	880
Interest and dividend income	(4,568)	(4,573)
Interest expense, etc.	11,103	—
Interest expense	—	7,032
Equity in earnings of unconsolidated subsidiaries and associated companies	(743)	(537)
Gain on sales of land	(20)	—
Loss on disposal of tangible fixed assets	879	1,704
Gain on sales of investment securities	(14)	(3)
Write-down of investment securities	2,434	2,774
(Increase) Decrease in trade notes and accounts receivable	(16,716)	20,495
Increase in inventories	(27,540)	(3,884)
Increase (Decrease) in trade payables	7,660	(31,191)
Decrease in liability for retirement benefits	(931)	(248)
Increase in prepaid pension costs	(710)	(892)
Decrease in accounts payable—other due to the shift to a defined-contribution pension plan	(3,460)	(706)
Other—net	13,627	4,018
Subtotal	149,526	97,772
Interest and dividends received	4,556	4,569
Interest paid	(11,645)	(8,152)
Income taxes paid	(39,108)	(31,951)
Net cash provided by operating activities	103,329	62,237
II. Cash flows from investing activities		
Purchases of tangible fixed assets	(47,339)	(61,381)
Proceeds from sales of tangible fixed assets	2,330	441
Purchases of investment securities	(26,015)	(19,286)
Proceeds from sales of investment securities	19	5
Payment for the transfer of business	—	(731)
Payment for the acquisition of the shares of consolidated subsidiaries as a result of a change in the scope of consolidation	(2,861)	(8,282)
Payment for the acquisition of investments in consolidated subsidiaries as a result of a change in the scope of consolidation	—	(510)
Other—net	(2,561)	(9,557)
Net cash used in investing activities	(76,427)	(99,302)

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
III. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(242,987)	66,728
Increase in long-term debt	164,683	11,259
Repayment of long-term debt	(18,126)	(13,659)
Cash dividends paid	(9,232)	(11,096)
Cash dividends paid to minority shareholders	(3,083)	(2,283)
Proceeds from issuance of new shares	113,314	—
Other—net	(1,199)	(2,566)
Net cash provided by financing activities	3,367	48,382
IV. Effect of exchange rate changes on cash and cash equivalents	(2,459)	(17,393)
V. Net increase (decrease) in cash and cash equivalents	27,809	(6,076)
VI. Cash and cash equivalents at the beginning of the year	82,658	110,483
VII. Increase (decrease) of cash and cash equivalents due to a change in the accounting term of consolidated subsidiaries	15	(85)
VIII. Cash and cash equivalents at the end of the year	110,483	104,322

(5) Event or Situation That Might Foster Suspicion on the Premises of the Company as a “Going Concern”

None applicable

(6) Basis of Presenting the Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 202

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., Daikin (China) Investment, Shanghai Daikin Air-conditioning Co., Ltd., Daikin America, Inc., Daikin Fluorochemicals (China) Co., Ltd., OYL Manufacturing Company Sdn Bhd., AAF McQuay International, Inc.

(Newly added) Due to new establishment:

Daikin MR Engineering Co., Ltd., Daikin Airconditioning Korea Co., Ltd., Daikin Arkema Refrigerants Trading (Shanghai) Co., Ltd., Daikin-McQuay Central Airconditioning Co., Ltd., Daikin McQuay LLC.

Due to acquisition:

Vietnam Joint Stock Company, Szanyo Service Kft, ROTEX Heating Systems GmbH and 10 ROTEX Heating Systems' subsidiaries

Due to additional purchase of equity holding:

McQuay Carib, Inc., Ningbo Orient-Daikin Communication Science & Technology Co., Ltd. (renamed Daikin Communication Science & Technology (Ningbo) Co., Ltd.), McQuay Szanyo Klimatechnika Kft.

(Excluded) Due to liquidation:
 O.Y.L. Industries Berhad, AAF Holding Limited, Bermuda, McQuay Holdings Limited, Bermuda, AAF Sdn Bhd., OYL (BVI) Limited
 Due to merger between the consolidated subsidiaries:
 Daikin Airconditioning & Technology Kanto Co., Ltd., and six (6) other consolidated subsidiaries merged into Daikin Air Technology and Engineering Co., Ltd.

(2) Number of nonconsolidated subsidiaries: 10

The impact of total assets, net sales, net income and retained earnings of the nonconsolidated subsidiaries on the respective consolidated total assets, consolidated net sales, consolidated net income and consolidated retained earnings is insignificant and their intra-group positioning is immaterial on the whole. For this reason, these companies are excluded from the scope of consolidation.

2. Application of the Equity Method

(1) Number of companies accounted for by the equity method: 13

Number of nonconsolidated subsidiaries accounted for by the equity method: 1
 Daikin America Funding Corporation

Number of affiliated companies accounted for by the equity method: 12

Major affiliated companies	Moritani Daikin Co., Ltd., Zhuhai Gree Daikin Device Co., Ltd., MDA Manufacturing, Inc., Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd.
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3. Settlement Date of Accounts of Consolidated Subsidiaries

The settlement date of the accounts of 120 consolidated subsidiaries differs from the consolidated settlement date of the Company: June 30 for 21 companies, December 31 for 65 companies and January 3 for 34 companies. In preparing the consolidated financial statements, the financial statements of these companies are provided as of December 31 including provisional ones, with necessary adjustments for consolidation purposes with regard to material transactions between their respective settlement dates and the consolidated settlement date.

As Daikin Sweden AB changed its settlement date of accounts to March 31, effective from the year under review, its settlement of accounts was prepared for a period of 15 months. In the consolidated financial statements, its financial results only for the portion of 12 months are reflected, and the change in net assets for the remaining three months is presented in "Increase/Decrease due to change in the accounting term of consolidated subsidiaries" of the Consolidated Statement of Changes in Shareholders' Equity.

4. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

(i) Securities:

Other securities

Available-for-sale securities for which the fair market values are readily determinable

Valued at market as of the balance sheet date. Unrealized gain or loss is included directly in net assets. The cost of securities sold is determined by the moving-average method.

Available-for-sale securities for which the fair market values are not readily determinable:

Mainly valued at cost determined by the moving-average method.

(ii) Derivatives: Derivative instruments are valued at fair market value.

(iii) Inventories: Mainly valued at cost determined by the gross average method (write-down of book values due to the decline in profitability) for inventories at domestic companies, whereas mainly the lower of cost or market determined by the gross average method is adopted for inventories at overseas consolidated subsidiaries.

(Change in accounting principle)

Effective from the fiscal year ended March 31, 2009, the Company and the domestic consolidated subsidiaries have adopted the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006) and the assessment standard for inventories of domestic companies has been changed from the previous cost method to a cost method according to which cost is determined by the gross average method (write-down of book values due to the decline in profitability). Consequently, operating income, ordinary income and income before income taxes and minority interests decreased ¥4,228 million each compared with the respective amounts that would have been reported under the previous accounting method. The impact on segment information is stated later in the corresponding points of Segment Information.

(2) Depreciation method of major depreciable assets

(i) Tangible fixed assets (excluding lease assets)

The depreciation of tangible fixed assets at the Company and its domestic consolidated subsidiaries is computed by the declining-balance method using the applicable rates based on the estimated useful lives of the assets, whereas the straight-line method based on the estimated service lives is used at overseas consolidated subsidiaries.

However, buildings (excluding building improvements) acquired on or after April 1, 1998, by the Company and/or its domestic consolidated subsidiaries are depreciated using the straight-line method.

The range of useful lives is as follows:

Buildings and structures:	15–50 years
Machinery & equipment, and delivery equipment:	5–15 years

(ii) Intangible fixed assets

The amortization of intangible fixed assets is computed by the straight-line method.

Computer software for sales in the market is amortized by the straight-line method over the effective salable period (3 years). The amounts of goodwill are equally amortized over 5 to 20 years on a straight-line basis.

(iii) Lease assets

Lease assets related to the finance lease transactions other than those where the ownership of the Lease assets is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value. Of finance lease transactions other than those where the ownership of the Lease assets is deemed to be transferred to the lessee, those of which the commencement day of the lease transaction is prior to March 31, 2008, are accounted for as ordinary rental transactions.

(3) Accounting standards for important reserves

(i) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

(ii) Reserve for bonuses to directors

The reserve for bonuses to directors is provided at an amount based on the amount estimated to be paid at the end of the fiscal year under review.

(iii) Reserve for guarantee for finished products

The reserve for guarantee for finished products is provided for possible free repair costs of sold products at an amount considered necessary based on the past track record plus projected future guarantees.

(iv) Liability for retirement benefits

The liability for retirement benefits is provided for possible payment of employees' post-retirement benefits at the amount to be accrued at the balance sheet date and is calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

Actuarial gain or loss is amortized by the straight-line method over a certain period (mainly 10 years), which is shorter than the average remaining service years for employees at the time of

recognition, from the following accounting period of recognition.

Past service liability is amortized by the straight-line method over a period of 10 years, which is shorter than the average remaining service years for employees at the time of recognition.

(Additional information)

With January 1, 2009, as the enforcement date, the 22 domestic consolidated subsidiaries shifted a part of their retirement benefit plans to the defined contribution pension plan system and have applied the Accounting for Transfer between Retirement Benefit Plans (ASBJ Practical Solution No. 1). The impact of this system transfer was ¥1,222 million recorded as an extraordinary loss.

(4) Important hedge accounting method

(i) Hedge accounting method

The Daikin Group adopts the deferral hedge accounting method, in principle. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(ii) Hedging instruments and hedged items

For the purpose of hedging exposure to exchange rate fluctuation risk, the Group adopts foreign exchange contracts, currency swaps and currency options as hedging instruments, and financial assets and liabilities denominated in foreign currencies such as monetary receivables and payables as hedged items. Moreover, as for interest rate fluctuation risk, the Group adopts interest rate swaps and interest rate options as hedging instruments, and financial liabilities such as bank loans as hedged items.

(iii) Hedging policy and method of assessing hedging effectiveness

The Daikin Group's risk management focuses on the effective utilization of derivative transactions to avoid the exposure of assets and liabilities to exchange rate fluctuation risk and reduce interest payments for the purpose of circumventing an unexpectedly huge loss. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Group. An additional derivative of any kind is subject to the above hedging function test and prior assessment before starting such derivative transactions. The hedging effectiveness is judged through the comparison of the cumulative total of the market fluctuations or the cash flow fluctuations of the hedged item with the respective counterparts of the hedging instrument. Financial techniques such as regression analysis are used if necessary. A similar check system is adopted by the consolidated subsidiaries with regard to the assessment of hedging effectiveness.

(5) Accounting for consumption tax

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

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

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits and short-term investments due within three months from the date of acquisition, which are easily convertible into cash with little or no risk from fluctuation in value.

(7) Changes in the Basis of Presenting the Consolidated Financial Statements

1. Application of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" in the Preparation of the Consolidated Financial Statements

Effective from the fiscal year ended March 31, 2009, the Group has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF Practical Solution No. 18, May 17, 2006), and the amendments necessary for consolidated accounting have been included. Consequently, the surplus at the opening of the period increased ¥4,749 million. Moreover, operating income decreased ¥2,165 million and ordinary income and income before income taxes and minority interests each decreased ¥672 million as rough estimations compared with the respective amounts that would have been reported under the previous accounting method. The impact on segment information is stated later in the corresponding points of Segment Information.

2. Accounting Standard for Lease Transactions

Effective from the fiscal year ended March 31, 2009, the Group has early applied ASBJ Statement No. 13,

“Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 issued on June 17, 1993, and last revised on March 30, 2007), and the “Implementation Guidance for the Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants issued on January 18, 1994, and last revised on March 30, 2007). Consequently, the finance leases that do not transfer ownership of lease assets to the lessee, which were previously accounted for as rental transactions, have come to be accounted for by the accounting method for ordinary sales transactions and are recorded as “Lease assets.” In addition, lease assets are amortized by the straight-line method, assuming the lease period as the useful life and no residual value. The finance leases of which the commencement day of the lease transaction is prior to March 31, 2008, are continuously accounted for as ordinary rental transactions. The impact on income and loss for the fiscal year ended March 31, 2009, is immaterial.

3. Change in Presentation Method

The account title “Inventories” for the previous year has been separately presented as “Merchandise and finished products,” “Work in progress” and “Raw materials and supplies” effective from the year under review.

Merchandise and finished products, work in progress and raw materials and supplies included in Inventories for the previous fiscal year were ¥147,315 million, ¥50,817 million and ¥38,421 million, respectively.

(8) Notes to the Consolidated Financial Statements

Notes to the Consolidated Balance Sheets

		(Millions of yen)	
		Previous year	Current year
1.	Accumulated depreciation of tangible fixed assets	418,204	426,496
2.	Liabilities on guarantee		
	Commitment to guarantee	894	1,264
3.	Assets pledged as collateral		
	Time deposits	1,159	919
	Accounts receivable—trade	13,390	9,036
	Inventories	8,101	5,314
	Tangible fixed assets	50,060	46,618
	Others	1,108	812

Notes to the Consolidated Statements of Income

		(Millions of yen)	
		Previous year	Current year
1.	Research-and-development costs included in general and administrative expenses and manufacturing costs	32,075	30,534

Notes to the Consolidated Statements of Changes in Shareholders' Equity

Previous year (April 1, 2007, to March 31, 2008)

1. Shares issued

Type of shares	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock (thousands of shares)	263,813	29,300	—	293,113

(Overview of reasons for change)

Principal reason for the increase:

The Company acquired 25,500 thousand shares by issuing new shares through a public offering.

The Company acquired 3,800 thousand shares through an allocation of new shares to a third party.

2. Treasury stock

Type of shares	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock (thousands of shares)	797	293	109	981

(Overview of reasons for change)

Principal reason for the increase:

The Company purchased 292 thousand shares from the market.

Principal reason for the decrease:

The exercise of stock options caused a decrease of 109 thousand shares.

3. Stock acquisition rights

Company name	Breakdown	Balance at March 31, 2008 (Millions of yen)
The Company	Stock acquisition rights as stock options	521

4. Dividends

(1) Dividend amounts paid

Resolution	Type of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 28, 2007	Common stock	3,682	14	March 31, 2007	June 29, 2007
Board of Directors meeting held on November 14, 2007	Common stock	5,550	19	September 30, 2007	December 10, 2007

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2008, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2009

Planned date of resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 27, 2008	Common stock	Retained earnings	5,550	19	March 31, 2008	June 30, 2008

Current year (April 1, 2008, to March 31, 2009)

1. Shares issued

Type of shares	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock (thousands of shares)	293,113	—	—	293,113

2. Treasury stock

Type of shares	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock (thousands of shares)	981	310	66	1,225

(Overview of reasons for change)

Principal reason for the increase:

The Company purchased 308 thousand shares from the market.

Principal reason for the decrease:

The exercise of stock options caused a decrease of 66 thousand shares.

3. Stock acquisition rights

Company name	Breakdown	Balance at March 31, 2009 (Millions of yen)
The Company	Stock acquisition rights as stock options	764

4. Dividends

(1) Dividend amounts paid

Resolution	Type of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 27, 2008	Common stock	5,550	19	March 31, 2008	June 30, 2008
Board of Directors meeting held on November 6, 2008	Common stock	5,545	19	September 30, 2008	December 3, 2008

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2009, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2010

Planned date of resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 26, 2009	Common stock	Retained earnings	5,545	19	March 31, 2009	June 29, 2009

Segment Information

1. Business Segments

(Millions of yen)

	Air conditioning	Chemicals	Others	Total	Eliminations or corporate	Consolidated	
Previous year	I. Net sales and operating income or loss						
	Net sales	[50.5]	[-0.3]	[-0.1]	[41.6]		[41.6]
	(1) Sales to outside customers	1,131,932	116,096	43,052	1,291,081	—	1,291,081
	(2) Intersegment sales	507	3,018	22	3,548	(3,548)	—
	Total	1,132,439	119,114	43,075	1,294,629	(3,548)	1,290,101
	Operating expenses	1,008,255	115,623	42,672	1,166,551	(3,568)	1,162,983
	Operating income	(11.0)	(3.0)	(0.9)	(9.9)	20	(9.9)
		124,183	3,491	402	128,077		128,098
	II. Total assets, depreciation and amortization and capital expenditures						
	Total assets	913,239	139,992	29,853	1,083,085	127,008	1,210,093
Depreciation and amortization	24,794	12,649	1,498	38,942	—	38,942	
Capital expenditures	35,450	13,944	2,057	51,452	—	51,452	
Current year	I. Net sales and operating income or loss						
	Net sales	[-6.4]	[-12.2]	[-4.6]	[-6.9]		[-6.9]
	(1) Sales to outside customers	1,059,434	101,910	41,074	1,202,419	—	1,202,419
	(2) Intersegment sales	546	4,684	14	5,244	(5,244)	—
	Total	1,059,980	106,594	41,089	1,207,664	(5,244)	1,202,419
	Operating expenses	988,332	116,102	41,907	1,146,342	(5,317)	1,141,025
	Operating income (loss)	(6.8)	(-9.3)	(-2.0)	(5.1)	72	(5.1)
		71,648	(9,508)	(818)	61,321		61,394
	II. Total assets, depreciation and capital expenditures						
	Total assets	857,538	126,871	29,334	1,013,744	103,673	1,117,417
Depreciation and amortization	29,064	13,595	2,095	44,754	—	44,754	
Capital expenditures	47,895	13,300	2,402	63,598	—	63,598	

- Notes:
- The business segmentation is determined by taking into account similarities of the type, manufacturing methods and sales methods of products.
 - The figures expressed in parentheses () in the chart above indicate the ratios to net sales, and those expressed in brackets [] indicate the ratio of growth over the previous year.
 - The major products for the respective business segments are as follows:
 - Air conditioning and refrigeration equipment: Residential air conditioners, Commercial air conditioners and refrigeration equipment, Air-conditioning and refrigeration equipment for ships and Electronic systems
 - Chemicals: Fluorocarbon gas, Fluoroplastics, Chemical products and Chemical engineering machines
 - Others: Hydraulic equipment for industrial machinery, Hydraulic equipment and machines for construction machines and vehicles, Centralized lubrication units and systems, Ammunition, Warheads for guided missiles, Aircraft parts
 - Of the "Total assets" above, corporate assets included in "Eliminations or corporate" was ¥130,320 million for the previous year and ¥113,024 million for the current year. They mainly consisted of surplus funds for management (cash and deposits with banks) and long-term investment funds (investment securities) of the Company.
 - Change in accounting method
 - As described in the Basis of Presenting the Consolidated Financial Statements, effective from the fiscal year ended March 31, 2009, the Company and the domestic consolidated subsidiaries have adopted the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006) and the assessment standard for inventories of domestic companies has been changed from the previous cost method to a cost method according to which cost is determined by the gross average method (write-down of book values due to the decline in profitability). Consequently, operating income in Air conditioning decreased ¥3,202 million, and the operating loss in Chemicals and Others increased ¥883 million and ¥143 million, respectively, compared with the respective amounts that would have been reported under the previous accounting method.
 - As described in the Changes in the Basis of Presenting the Consolidated Financial Statements, effective from the fiscal year ended March 31, 2009, the Group has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF Practical Solution No. 18, May 17, 2006), and the amendments necessary for consolidated accounting have been included. Consequently, operating income in Air conditioning decreased ¥2,026 million, and the operating loss in Chemicals increased ¥138 million as rough estimations compared with the respective amounts that would have been reported under the previous accounting method.

2. Geographical Segments

(Millions of yen)

	Japan	Asia and Oceania	Europe	America	Other	Total	Eliminations or corporate	Consolidated	
Previous year	I. Net sales and operating income or loss								
	Net sales	[3.5]	[84.1]	[56.0]	[255.9]	[164.6]	[41.6]		[41.6]
	(1) Sales to outside customers	498,446	284,546	367,140	131,676	9,271	1,291,081	—	1,291,081
	(2) Intersegment sales	156,587	108,990	7,793	7,726	21	281,118	(281,118)	—
	Total	655,033	393,536	374,933	139,403	9,292	1,572,199	(281,118)	1,291,081
	Operating expenses	603,499	353,873	336,777	138,657	9,111	1,441,919	(278,936)	1,162,983
	Operating income (loss)	(10.3)	(13.9)	(10.4)	(0.6)	(2.0)	(10.1)		(9.9)
	51,534	39,662	38,156	745	181	130,280	(2,182)	128,098	
	II. Total assets								
	511,841	402,128	212,508	164,648	6,222	1,297,349	(87,255)	1,210,093	
Current year	I. Net sales and operating income or loss								
	Net sales	[-4.5]	[0.4]	[-18.1]	[-5.3]	[62.4]	[-6.9]		[-6.9]
	(1) Sales to outside customers	476,067	285,745	300,801	124,746	15,058	1,202,419	—	1,202,419
	(2) Intersegment sales	102,837	84,152	8,998	9,296	873	206,158	(206,158)	—
	Total	578,905	369,898	309,799	134,042	15,931	1,408,577	(206,158)	1,202,419
	Operating expenses	583,006	337,660	285,640	137,910	15,333	1,359,551	(218,526)	1,141,025
	Operating income (loss)	(-0.9)	(11.3)	(8.0)	(-3.1)	(4.0)	(4.1)		(5.1)
	(4,100)	32,237	24,158	(3,867)	598	49,026	12,368	61,394	
	II. Total assets								
	507,387	358,150	205,504	122,774	10,250	1,204,068	(86,650)	1,117,417	

- Notes: 1. The figures expressed in parentheses () in the chart above indicate the ratios to net sales, and those expressed in brackets [] indicate the ratio of growth over the previous year.
2. Of the “Total assets” above, corporate assets included in “Eliminations or corporate” was ¥130,320 million for the previous year and ¥113,024 million for the current year. They mainly consisted of surplus funds for management (cash and deposits with banks) and long-term investment funds (investment securities) of the Company.
3. Change in accounting method
 (1) As described in the Basis of Presenting the Consolidated Financial Statements, effective from the fiscal year ended March 31, 2009, the Company and the domestic consolidated subsidiaries have adopted the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006) and the assessment standard for inventories of domestic companies has been changed from the previous cost method to a cost method according to which cost is determined by the gross average method (write-down of book values due to the decline in profitability). Consequently, the operating loss in Japan increased ¥4,228 million compared with the amount that would have been reported under the previous accounting method.
 (2) As described in the Changes in the Basis of Presenting the Consolidated Financial Statements, effective from the fiscal year ended March 31, 2009, the Group has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF Practical Solution No. 18, May 17, 2006), and the amendments necessary for consolidated accounting have been included. Consequently, operating income decreased ¥368 million in Asia and Oceania and ¥1,705 million in Europe, and the operating loss in America increased ¥92 million as rough estimations compared with the respective amounts that would have been reported under the previous accounting method.

3. Sales to Foreign Customers

(Millions of yen)

	Asia and Oceania	Europe	America	Other	Total	
Previous year	I. Overseas sales	311,399	354,553	134,210	29,305	829,468
	II. Consolidated sales					1,291,081
	III. Ratio of overseas sales to consolidated sales	24.1%	27.5%	10.4%	2.3%	64.2%
Current year	I. Overseas sales	301,831	282,433	134,706	35,390	754,362
	II. Consolidated sales					1,202,419
	III. Ratio of overseas sales to consolidated sales	25.1%	23.5%	11.2%	2.9%	62.7%

Tax-Effect Accounting

(Millions of yen)

Previous year From April 1, 2007, to March 31, 2008	Current year From April 1, 2008, to March 31, 2009
1. Breakdown of deferred tax assets and deferred tax liabilities by major cause	1. Breakdown of deferred tax assets and deferred tax liabilities by major cause
(Millions of yen)	(Millions of yen)
Deferred tax assets:	Deferred tax assets:
Unrealized profit of inventories	Valuation difference on available-for-sale securities
Reserve for guarantee for finished products	Loss carryforwards
Software	Reserve for guarantee for finished products
Accrued bonus	Software
Long-term accounts payable	Unrealized profit of inventories
Inventories	Inventories
Liability for retirement benefits	Accrued bonus
Loss carryforwards of subsidiaries	Investment securities
Accounts payable—other	Long-term accounts payable
Investment securities	Accounts payable—other
Business tax payable	Liability for retirement benefits
Foreign tax credit	Allowance for doubtful receivables
Excess of depreciation amount	Excess of depreciation amount
Allowance for doubtful receivables	Others
Others	Subtotal of deferred tax assets
Subtotal of deferred tax assets	Less valuation allowance
Less valuation allowance	Total deferred tax assets
Total deferred tax assets	
Deferred tax liabilities:	Deferred tax liabilities:
Tax effect of retained surplus	Tax effect of retained surplus
Valuation difference on available-for-sale securities	Prepaid pension costs
Prepaid pension costs	Deferred gain on sales of property
Deferred gain on sales of property	Others
Others	Total deferred tax liabilities
Total deferred tax liabilities	Net deferred tax assets
Net deferred tax assets	
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
(%)	(%)
Normal statutory income tax rate (Reconciliation items)	Normal statutory income tax rate (Reconciliation items)
Difference in tax rates with those of foreign subsidiaries	Difference in tax rates with those of foreign subsidiaries
Amortization of goodwill	Unrecognized tax effect on foreign tax credit
Income taxes for prior years	Valuation allowance
Rescission of exchange losses due to reorganization of consolidated subsidiaries	Amortization of goodwill
Tax credit for research-and-development costs	Tax effect of retained surplus
Unrecognized tax effect on write-down of investment securities	Others
Others	Actual effective income tax rate after the adoption of tax-effect accounting
Actual effective income tax rate after the adoption of tax-effect accounting	

Retirement Benefits

Previous year From April 1, 2007, to March 31, 2008		Current year From April 1, 2008, to March 31, 2009	
1. Liability for retirement benefits The Company and its domestic consolidated subsidiaries have a qualified employee retirement pension plan, a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans.		1. Liability for retirement benefits The Company and its domestic consolidated subsidiaries have a defined benefit corporate pension plan and a retirement lump-sum plan as defined-benefit plans, as well as a defined contribution pension plan. Several overseas consolidated subsidiaries have either defined benefit or defined contribution pension plans.	
2. Projected benefit obligation		2. Projected benefit obligation	
	(Millions of yen)		(Millions of yen)
Projected benefit obligation	(74,896)	Projected benefit obligation	(64,421)
Fair value of plan assets	80,619	Fair value of plan assets	59,367
Subtotal	5,722	Subtotal	(5,053)
Unrecognized prior service cost	(218)	Unrecognized prior service cost	(280)
Unrecognized actuarial gain	3,675	Unrecognized actuarial gain	15,502
Net amount recorded on the consolidated balance sheets	9,179	Net amount recorded on the consolidated balance sheets	10,167
Prepaid pension costs	13,470	Prepaid pension costs	14,107
Liability for retirement benefits	(4,291)	Liability for retirement benefits	(3,939)
3. Periodic benefit costs		3. Periodic benefit costs	
Service cost	2,984	Service cost	3,070
Interest cost	2,490	Interest cost	2,491
Expected return on plan assets	(3,136)	Expected return on plan assets	(2,702)
Amortization of prior service cost	(31)	Amortization of prior service cost	(25)
Recognized actuarial loss	(309)	Recognized actuarial loss	588
Net periodic benefit costs	1,998	Net periodic benefit costs	3,422
Other	1,888	Other	2,287
Total	3,886	Total	5,709
“Other” refers to the total of annual pension contributions during the year.		“Other” refers to the total of annual pension contributions during the year.	
4. Basis for computation used in determining projected benefit obligation		4. Basis for computation used in determining projected benefit obligation	
Term-allocation method of employees’ estimated retirement benefit amount	The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year.	Term-allocation method of employees’ estimated retirement benefit amount	The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year.
Discount rate	Mainly 2.5%	Discount rate	Mainly 2.0%
Expected return on plan assets	Mainly 2.5%	Expected return on plan assets	Mainly 2.5%
Amortization period of prior service cost	10 years	Amortization period of prior service cost	Mainly 10 years
Amortization period of actuarial gain/loss	Mainly 10 years	Amortization period of actuarial gain/loss	Mainly 10 years

Per Share Information

(Yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Net assets per share	1,867.79	1,615.98
Net income per share	262.24	74.51
Diluted net income per share	262.04	74.50

Note: The basis for calculations is provided below.

1. Net assets per share

	Previous year (As of March 31, 2008)	Current year (As of March 31, 2009)
Total net assets in the consolidated balance sheets (Millions of yen)	559,986	484,485
Shareholders' equity pertaining to common stock (Millions of yen)	545,641	471,686
Breakdown of the difference between the two amounts above (Millions of yen):		
Stock acquisition rights	521	764
Minority interests	13,823	12,035
Shares issued of common stock (Thousands of shares)	293,113	293,113
Treasury stock of common stock (Thousands of shares)	981	1,225
Number of shares of common stock used to calculate net assets per share (Thousands of shares)	292,132	291,888

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

	Previous year From April 1, 2007, to March 31, 2008	Current year From April 1, 2008, to March 31, 2009
Net income (Millions of yen)	74,822	21,755
Amount not belonging to common shareholders (Millions of yen)	—	—
Net income related to common stock (Millions of yen)	74,822	21,755
Average number of shares of common stock during the year (Thousands of shares)	285,321	291,970
Breakdown of the increase in shares of common stock used to calculate diluted net income per share (Thousands of shares):		
Stock options via acquisition of treasury stock	1	—
Stock options by exercising stock acquisition rights	219	44
Increase in the number of shares of common stock (Thousands of shares)	220	44
Overview of residual securities excluded from the calculation of diluted net income per share, as they have no dilutive effect		Stock options resolved by the Board of Directors meeting held on June 29, 2006: Stock acquisition rights: 2,920 units (292,000 shares) Stock options resolved by the Board of Directors meeting held on June 28, 2007: Stock acquisition rights: 2,920 units (292,000 shares)

		Stock options resolved by the Board of Directors meeting held on June 27, 2008: Stock acquisition rights: 3,080 units (308,000 shares)
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(Omission of Disclosure)

The notes to Consolidated Statements of Cash Flows, lease transactions, related-party transactions, securities, derivative transactions, stock options and corporate consolidation have been omitted hereby, as the information disclosure of the respective statements on the Brief Report on the Settlement of Accounts was considered insignificant.

Non-Consolidated Balance Sheets

(Millions of yen)

	Previous year (As of March 31, 2008)	Current year (As of March 31, 2009)
(Assets)		
Current assets		
Cash and deposits with banks	15,712	25,144
Notes receivable—trade	1,954	1,455
Accounts receivable—trade	74,582	40,845
Finished products	38,904	—
Merchandise and finished products	—	38,115
Raw materials	2,406	—
Work in progress	31,816	29,610
Supplies	1,325	—
Raw materials and supplies	—	6,953
Advance payment	27	10
Prepaid expenses	1,161	1,270
Deferred tax assets	9,364	8,503
Short-term loan receivables	12,686	14,061
Accounts receivable—other	10,009	13,007
Other current assets	1,062	5,747
Allowance for doubtful receivables	(0)	(0)
Total current assets	201,014	184,723
Fixed assets		
Tangible fixed assets		
Buildings	24,845	29,661
Structures	2,809	3,151
Machinery and equipment	42,239	39,533
Vehicles and delivery equipment	94	112
Furniture and fixtures	7,884	7,059
Land	20,127	20,243
Lease assets	—	1,812
Construction in progress	5,345	2,551
Total tangible fixed assets	103,346	104,126
Intangible fixed assets		
Patents	27	5
Leaseholds	284	284
Trademark rights	1	0
Utility rights	2	17
Software	1,560	1,819
Telephone subscription rights	141	139
Total intangible fixed assets	2,017	2,267
Investment and other assets		
Investment securities	115,550	88,887
Shares of associated companies	291,044	294,813
Other securities in associated companies	69	—
Investments in associated companies	55,874	60,177
Long-term loan receivables	496	1,196
Long-term loans receivable from employees	273	250
Long-term prepaid expenses	389	289
Prepaid pension costs	12,649	12,452
Deferred tax assets	—	13,629
Deposits for guarantee	2,978	3,167
Other investments	1,862	2,331
Allowance for doubtful receivables	(1,124)	(1,645)
Total investment and other assets	480,067	475,550
Total fixed assets	585,431	581,943
Total assets	786,445	766,667

(Millions of yen)

	Previous year (As of March 31, 2008)	Current year (As of March 31, 2009)
(Liabilities)		
Current liabilities		
Notes payable—trade	4,989	3,695
Accounts payable—trade	37,217	23,456
Short-term borrowings	38,850	48,870
Commercial paper	58,000	120,000
Current portion of straight bonds	—	20,000
Current portion of long-term debt	4,612	3,551
Lease obligations	—	1,022
Accounts payable—other	6,499	6,674
Accrued expenses	21,822	18,390
Income tax payable	4,349	—
Advances received	1,180	826
Deposits received	10,766	10,104
Reserve for bonuses to directors	190	140
Reserve for guarantee for finished products	6,983	6,867
Notes payable for acquisition of facilities	2,670	1,605
Construction payable	9,534	6,720
Others	3	45
Total current liabilities	207,669	271,969
Long-term liabilities		
Straight bonds	20,000	—
Long-term debt	177,875	174,316
Long-term accounts payable	8,333	3,472
Lease obligations	—	922
Deferred tax liabilities	6,635	—
Total long-term liabilities	212,844	178,711
Total liabilities	420,514	450,681
(Net assets)		
Shareholders' equity		
Common stock	85,032	85,032
Capital surplus		
Additional paid-in capital	82,977	82,977
Total capital surplus	82,977	82,977
Retained earnings		
Legal reserve	6,066	6,066
Other retained earnings		
Reserve for special depreciation	—	35
Deferred gain on sales of property	3,179	3,179
Contingent reserve	161,210	168,210
Retained earnings brought forward	20,455	(10,086)
Total retained earnings	190,911	167,405
Treasury stock	(3,496)	(4,739)
Total shareholders' equity	355,424	330,675
Valuation, currency translation and other adjustments		
Valuation difference on available-for-sale securities	9,985	(15,418)
Net loss on deferred hedging	(0)	(34)
Total valuation, currency translation and other adjustments	9,984	(15,453)
Stock acquisition rights	521	764
Total net assets	365,931	315,986
Total liabilities and net assets	786,445	766,667

Non-Consolidated Statements of Income

(Millions of yen)

	Previous year From April 1, 2007, to March 31, 2008	Current year From April 1, 2008, to March 31, 2009
Net sales	499,227	424,917
Cost of sales	355,155	332,835
Gross profit	144,072	92,081
Selling, general and administrative expenses	101,817	99,202
Operating income (loss)	42,254	(7,120)
Non-operating income		
Interest income	331	341
Interest on marketable securities	39	29
Dividend income	8,855	11,321
Others	446	427
Total non-operating income	9,672	12,119
Non-operating expenses		
Interest expense	2,963	3,747
Bond interest expense	164	164
Sales discounts	667	620
Interest expense on commercial paper	497	717
Exchange loss	8,081	3,546
Others	1,349	1,422
Total non-operating expenses	13,723	10,217
Ordinary income (loss)	38,202	(5,218)
Extraordinary income		
Gain on sales of land	20	—
Gain on sales of investment securities	1	0
Gain on extinguishment of tie-in shares	623	—
Total extraordinary income	645	0
Extraordinary loss		
Loss on disposal of fixed assets	614	849
Write-down of investment securities	2,423	2,754
Write-down of shares of associated companies	—	2,946
Other	293	335
Total extraordinary loss	3,331	6,885
Income (loss) before income taxes	35,516	(12,104)
Income taxes—current	9,044	1,719
Income taxes for prior years	3,520	—
Income taxes—deferred	2,312	(1,470)
Total income taxes	14,878	248
Net income (loss)	20,638	(12,353)

Non-Consolidated Statements of Changes in Shareholders' Equity

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Shareholders' equity		
Common stock		
Balance at the end of the covered accounting period	28,023	85,032
Changes during the year		
Issuance of new shares	57,009	—
Total changes during the year	57,009	—
Balance at the end of the covered accounting period	85,032	85,032
Capital surplus		
Additional paid-in capital		
Balance at the end of the covered accounting period	25,968	82,977
Changes during the year		
Issuance of new shares	57,009	—
Total changes during the year	57,009	—
Balance at the end of the covered accounting period	82,977	82,977
Retained earnings		
Legal reserve		
Balance at the end of the covered accounting period	6,066	6,066
Changes during the year		
Total changes during the year	—	—
Balance at the end of the covered accounting period	6,066	6,066
Other retained earnings		
Deferred gain on sales of property		
Balance at the end of the covered accounting period	3,170	3,179
Changes during the year		
Reversal of deferred gain on sales of property	(0)	—
Accumulation of deferred gain on sales of property	9	—
Total changes during the year	9	—
Balance at the end of the covered accounting period	3,179	3,179
Reserve for special depreciation		
Balance at the end of the covered accounting period	—	—
Changes during the year		
Accumulation of reserve for special depreciation	—	35
Total changes during the year	—	35
Balance at the end of the covered accounting period	—	35
Contingent reserve		
Balance at the end of the covered accounting period	144,210	161,210
Changes during the year		
Accumulation of contingent reserve	17,000	7,000
Total changes during the year	17,000	7,000
Balance at the end of the covered accounting period	161,210	168,210

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Retained earnings brought forward		
Balance at the end of the covered accounting period	26,126	20,455
Changes during the year		
Dividends from surplus	(9,232)	(11,096)
Accumulation of contingent reserve	(17,000)	(7,000)
Reversal of deferred gain on sales of property	0	—
Accumulation of deferred gain on sales of property	(9)	—
Accumulation of reserve for special depreciation	—	(35)
Net income	20,638	(12,353)
Disposal of treasury stock	(66)	(56)
Total changes during the year	(5,671)	(30,541)
Balance at the end of the covered accounting period	20,455	(10,086)
Total retained earnings		
Balance at the end of the covered accounting period	179,573	190,911
Changes during the year		
Dividends from surplus	(9,232)	(11,096)
Accumulation of contingent reserve	—	—
Reversal of deferred gain on sales of property	—	—
Accumulation of deferred gain on sales of property	—	—
Accumulation of reserve for special depreciation	—	—
Net income	20,638	(12,353)
Disposal of treasury stock	(66)	(56)
Total changes during the year	11,338	(23,506)
Balance at the end of the covered accounting period	190,911	167,405
Treasury stock		
Balance at the end of the covered accounting period	(2,363)	(3,496)
Changes during the year		
Repurchase of treasury stock	(1,494)	(1,487)
Disposal of treasury stock	362	243
Total changes during the year	(1,132)	(1,243)
Balance at the end of the covered accounting period	(3,496)	(4,739)
Total shareholders' equity		
Balance at the end of the covered accounting period	231,200	355,424
Changes during the year		
Issuance of new shares	114,018	—
Dividends from surplus	(9,232)	(11,096)
Net income	20,638	(12,353)
Repurchase of treasury stock	(1,494)	(1,487)
Disposal of treasury stock	295	187
Total changes during the year	124,224	(24,749)
Balance at the end of the covered accounting period	355,424	330,675

(Millions of yen)

	Previous year (From April 1, 2007, to March 31, 2008)	Current year (From April 1, 2008, to March 31, 2009)
Valuation, currency translation and other adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of the covered accounting period	33,479	9,985
Changes during the year		
Net changes to items other than shareholders' equity during the year	(23,493)	(25,404)
Total changes during the year	(23,493)	(25,404)
Balance at the end of the covered accounting period	9,985	(15,418)
Net loss on deferred hedging		
Balance at the end of the covered accounting period	3	(0)
Changes during the year		
Net changes to items other than shareholders' equity during the year	(3)	(34)
Total changes during the year	(3)	(34)
Balance at the end of the covered accounting period	(0)	(34)
Total valuation, currency translation and other adjustments		
Balance at the end of the covered accounting period	33,482	9,984
Changes during the year		
Net changes to items other than shareholders' equity during the year	(23,497)	(25,438)
Total changes during the year	(23,497)	(25,438)
Balance at the end of the covered accounting period	9,984	(15,453)
Stock acquisition rights		
Balance at the end of the covered accounting period	219	521
Changes during the year		
Net changes to items other than shareholders' equity during the year	302	242
Total changes during the year	302	242
Balance at the end of the covered accounting period	521	764
Total net assets		
Balance at the end of the covered accounting period	264,902	365,931
Changes during the year		
Issuance of new shares	114,018	—
Dividends from surplus	(9,232)	(11,096)
Net income	20,638	(12,353)
Repurchase of treasury stock	(1,494)	(1,487)
Disposal of treasury stock	295	187
Net changes to items other than shareholders' equity during the year	(23,195)	(25,195)
Total changes during the year	101,028	(49,945)
Balance at the end of the covered accounting period	365,931	315,986

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.