

(Attached documents)

Business Report

(Fiscal Year ended March 31, 2010)

1. Review of Operations

(1) Progress and Results of Operations of the Company Group

In Fiscal 2009, the economic recession in the global economy, starting with the financial crisis, ended with the support of the high growth of emerging nations such as China and India. However, the extent of economic recovery varied among countries and regions, with sustained high unemployment rates in developed nations and the advent of deteriorating financial conditions in southern European countries in the second half of the fiscal year.

Similarly, in Japan, the domestic economy started to get back on track for a gradual recovery, evidenced by the recovery of exports and production and improved consumer spending, which had been sluggish. However, there are remaining causes for concern, including the employment outlook, which remains grim, and progressive deflation.

In such a business environment, the Daikin Group announced at the beginning of calendar year 2009 its New Year's slogan, "Now is the time for full focus on the three Cs – Creative Challenge & Change," and thus implemented all possible measures to focus on three main goals: vigilantly striving to secure profits in the short term; accelerating the creation of results in medium-to-long-term business themes that focus on the future; and making structural reforms so that the Group is positioned to take advantage of opportunities presented by the economic recession.

The Group strived to ensure net sales and profit through measures that 1) aim for higher market share of existing products, 2) increase sales of environment-focused products having firm demand even in a global recession, and 3) promote further cost reductions. Nevertheless, a decline in demand combined with the effects of foreign exchange translation led to the Group's consolidated net sales declining 14.8% year over year to ¥1,023,964 million. Profit-wise, consolidated operating income decreased by 28.3% to ¥44,037 million, consolidated ordinary income decreased by 15.8% to ¥43,768 million and consolidated net income decreased by 6.6% to ¥19,390 million.

(2) Review of Operations by Business Segment

(i) Air-Conditioning and Refrigeration Equipment

In the Japanese residential air-conditioning system market, the demand for room air-conditioning systems in the first half was lower than that in the same period of the previous year, due to unseasonable weather and sluggish housing starts. In the second half, the business had a tailwind from the rush in demand for current standard models prior to the 2010 revision of the energy conservation law, and demand is expected to recover and surpass that in the same period of the previous year. However, demand for the full year ended up being lower than that in the previous fiscal year. Amid these conditions, although the Group's sales volume and amount were lower compared with the previous fiscal year, we increased sales of volume zone models in the second half and captured the rush in demand prior to the revision of the energy conservation law as we continued striving to increase sales of high value-added products, which include built-in features such as the Company's proprietary *URURU* humidification function and selectable airflow that has 12 settings to suit the season and the user's lifestyle needs, and also.

In the Japanese commercial air-conditioning system market, industry demand for packaged air-conditioning systems was lower compared with the same period of the previous year (in both the first and second half), due to continued stagnation of capital investment and construction starts. The Group was also impacted by decreased demand. Although sales volume and amount were lower compared with the previous year, there was an increase in sales of high value-added products such as *Clean ZEAS-Q*, featuring automatic filter cleaning, and *Flash Streamer ZEAS-Q*, which inhibits and removes harmful microbes and pollen using our proprietary Streamer technology.

In the overseas air conditioner business market, demand for air conditioners was sluggish in all regions in 2009 due to the impact of the global economic recession, which was triggered by the bankruptcy of Lehman Brothers in September 2008. Amid these conditions, the Company developed measures to increase market share and expand the heating systems business from Europe to all regions worldwide; and entered the residential mass market by leveraging the cooperative agreement with Gree Electric Appliances Inc, of Zhuhai. However, due to such negative effects as the appreciation of the yen, principally against the euro, the Group's overall overseas sales of air conditioners were lower than those in the previous year.

In the European market, stagnant demand because of the economic recession was evident, particularly in major western European nations, the Company's mainstay market, and demand also dropped significantly in emerging countries, such as those in central and eastern Europe, Russia and CIS. Amid these conditions, we implemented such initiatives as strengthening the sales network and releasing new products to increase sales; however, combined with the impact of currency exchange, sales of the existing business were significantly lower compared with the previous year. Meanwhile, although demand was sluggish in the heating business, our new business, due to the impact of reduced incentives for heat-pump water heaters in France, the largest market, and lower housing starts in major European countries, sales increased over the previous fiscal year as a result of proactive measures undertaken in each country, including new development of distribution outlets, strengthening of sales systems and releasing new products.

In China, demand for air conditioners picked up in the latter half of 2009 and the initiatives which had been undertaken from the start of the year to increase sales, including strengthening of the sales network in regional cities and inland areas, and the release of differentiated products, started to bear fruit and the sales volume increased over the previous fiscal year. Substantive progress was made for expanding business in the residential air conditioner market, particularly due to the market launch of the residential inverter volume zone air conditioner, which was the result of the collaborative agreement with Gree Appliances Inc, of Zhuhai, and also due to the establishment and strengthening of sales systems and sales networks. In the heating business, the heat-pump water heater was released in the latter half of 2009 and initiatives such as developing new distribution outlets and PR activities to increase product recognition were started in preparation for market creation and the full-scale setup of the business.

In the Southeast Asia market, initiatives were undertaken for the development of new distribution outlets and increasing orders for small projects amid reduced demand for commercial air conditioners in Thailand and Singapore, particularly due to the impact of the economic slowdown and sluggish construction demand. In the Southeast Asia and Oceania markets the sales volume rose over the previous fiscal year due to increased sales from development of sales networks in emerging countries such as Vietnam, which suffered relatively slighter impacts from the adverse economy, and increased sales of residential air conditioners in Australia due to the government's housing purchase stimulus measures and the hot weather.

In the North America market, the applied market declined significantly due to stagnation in residential and construction markets, resulting in sales below the previous fiscal year for that market. Meanwhile, in the ductless air conditioner segment, continued efforts were made to create markets for ductless air conditioners, and sales of the Company's leading product, VRV air-conditioning systems, were increased by strengthening sales networks, etc. Furthermore, in the second half, the heat-pump heating/hot water supply system was introduced, and such initiatives as establishment of sales systems, dealer support and product promotional activities, etc., commenced in preparation for full-scale entry into the North American heating system market using the heat pump technology.

In the low-temperature and refrigeration products business, demand fell in the first half due to the impact of the global economic recession which had been ongoing since the year before last; however, second half sales rose above the same period of the previous year, and full-year sales recovered to the same level of the previous year.

Overall sales of the Air-Conditioning and Refrigeration Equipment segment decreased by 14.2% to ¥908,564 million, and operating profit decreased by 36.1% to ¥45,784 million.

(ii) Chemicals

Demand for fluorochemicals from the semiconductor and automobile industries has been on a gradual recovery trend and sales in the second half were above the same period in the previous year; however, due to the significant impact of the drop in the first half, full-year sales for all regions worldwide were below the previous year.

Although demand has been recovering with each passing month, sales of specialty chemicals for the full year fell below the previous year. Amid those results, oil and water repellent agents performed relatively well, and sales rose above the previous year in Japan. Sales of semiconductor-etching products were at about the same level as the previous fiscal year in Japan. As a result of development applications, sales of anti-fouling surface coating agents used in devices such as displays grew, predominantly in the Japanese market, in comparison with the previous year. In contrast, intermediary compounds in the fine chemicals category saw their sales fall year over year due to decreased demand.

Sales of fluorocarbon gas decreased year over year due to a decline in demand in the Chinese, Asian and Japanese markets. Overall sales of the Chemicals segment declined 15.4% to ¥86,223 million. As a result of the initiatives to increase sales and cost reductions in response to the possible recovery in demand in the second half and later, profitability recovered by ¥10,218 million from the operating loss in the previous fiscal

year, and operating income was ¥709 million.

(iii) Other Divisions

Sales of oil hydraulic equipment for industrial machinery significantly decreased in Japan from a year earlier. This was due to the impact of weak demand in the Company's main categories of machine tool field and general-purpose industrial machinery field. Exports rose above the previous fiscal year due to steady performance in Asian markets, predominantly South Korea, Taiwan and China. Sales of oil hydraulic equipment for construction machinery and vehicles fell year over year, affected by the worldwide sluggish markets and coupled with a decline in demand in the mainstay Japanese market and in the U.S. and European markets.

Sales of the defense systems-related products decreased due to decreased volume of orders from the Ministry of Defense for ammunitions and warheads for guided missiles.

Overall sales of the 'Others' segment declined 29.0%, to ¥29,175 million. Profit-wise, the segment reported an operating loss of ¥2,577 million.

On a non-consolidated basis, the Company's net sales decreased 14.0% to ¥365,424 million, and an operating loss of ¥13,157 million, an ordinary income of ¥14,968 million and a net income of ¥13,107 million were recorded.

(3) Capital Expenditures

Adhering to the basic strategy of "Focusing Management Resources on More Profitable Areas," the Daikin Group's capital expenditures were mainly allocated to Air-Conditioning and Refrigeration Equipment and Chemicals segments, and the total amounted to ¥30,490 million.

Breakdown of capital expenditures (Millions of yen)

Business segment	Name of company	Amount of capital expenditure
Air-Conditioning and Refrigeration Equipment	Daikin Industries, Ltd.	9,752
	OYL Industries Group	5,771
	Daikin Europe N.V.	2,292
	Shanghai Daikin Airconditioning Co., Ltd.	1,385
Chemicals	Daikin Industries, Ltd.	3,692
	Daikin America, Inc.	980
Others	Daikin Industries, Ltd.	642

(4) Financing Activities

The funds for the above capital expenditures were primarily raised through bank loans payable and funds on hand. The issuance of straight bonds enabled short-term liabilities to be repaid and replaced with long-term liabilities, thus enabling the Group to maintain financial stability.

(5) Succession of Rights and Obligations Relating to Other Corporations' Business due to Transfer of Business, Succession of Business from Other Companies, Acquisition or Disposal of Other Companies' Stock or Other Interests or Subscription Rights to Shares and Merger and Acquisition or Division by Absorption

There is no any important activity.

(6) Operating Results and the Status of Assets

	104th Business Year (from April 1, 2006, to March 31, 2007)	105th Business Year (from April 1, 2007, to March 31, 2008)	106th Business Year (from April 1, 2008, to March 31, 2009)	107th Business Year (from April 1, 2009, to March 31, 2010)
Net sales (Millions of yen)	912,128	1,290,893	1,202,419	1,023,964
Ordinary income (Millions of yen)	78,470	122,106	52,007	43,768
Net income (Millions of yen)	45,619	75,223	18,185	19,390
Net income per share (Yen)	173.42	263.65	62.28	66.44
Total assets (Millions of yen)	1,164,575	1,213,648	1,117,417	1,139,655
Net assets (Millions of yen)	413,120	563,556	484,485	510,061

Note: OYL Group was consolidated only on the balance sheets for the 104th term but has been consolidated on both the balance sheets and the statements of income from the 105th term.

In the 104th term, our net sales increased. Sales of the Air-Conditioning and Refrigeration Equipment increased because of our marketing efforts to promote distinguished and high-value-added products in Japan, continued growth of our air conditioning business in Europe and China, as well as strong sales of fluoropolymers in our fluorochemical business in Japan and China. Both ordinary income and net income rose as a result of our promotion of differentiated products and overall cost-cutting measures in Japan and overseas.

Our net sales increased for the 105th term, owing to increased revenue from our core Air-Conditioning and Refrigeration Equipment segment in domestic and overseas markets and the addition of the consolidated subsidiary OYL Group. Both ordinary income and net income increased significantly, reflecting the growth of sales volume, further cost-cutting efforts and the favorable effects of currency translation caused by the yen's depreciation.

In the 106th term, the Air-Conditioning and Refrigeration Equipment segment and fluorochemicals business alike recorded declines of revenue and profits due to the impact of reduced demand from the sharp slowdown of the global economy in the second half and currency from the progressive appreciation of the yen. Reduced sales volumes caused by sluggish demand in the European market, which is a key market for the overseas air-conditioning business, had an effect on these results.

The results of our operations during the 107th term are as described in (1) Progress and Results of Operations of the Company Group.

(7) Issues the Group Ought to Contend with

With respect to the global economy going forward, it is forecast that high growth in emerging countries, including China and India, will lead a recovery. However, there still remains the risk of an economic downturn due to such factors as the harsh employment environment in industrialized countries, inflation in China, concerns of declining personal consumption in the United States, and sovereign risk in certain European countries. Although there are also signs of a bottoming out in domestic demand for the Japanese economy, which had been stagnating, there appears to be no end to deflation. The economy is forecast to continue to recover at a slow pace.

In this environment, the Company will strive to achieve a recovery this year (2010) with increased revenue and profitability. At the beginning of this year we announced that the Group's central strategic theme would be "Achieve Goals Today and Open a New Avenue for Future," and prioritized this year as an important one for formulating the new strategic management plan for 2011 and beyond. In this final year of the FUSION 10 strategic management plan, the Group companies will work together to implement the plan and make it successful, as we believe it will support the Group's continued growth and greater development.

Specifically, the Company will strive to expand business in emerging markets, including China, globally expand sales of environment-focused products such as heat-pump heating/hot water supply systems and inverter air-conditioning systems, improve profitability of domestic businesses, minimize the impacts of currency and market fluctuations, and further develop such CSR (corporate social responsibility) initiatives as improvement of quality and reliability and thorough legal compliance.

(8) Major Operations of the Company Group

The Group is engaged in the manufacture and sales of the following products:

Air-Conditioning and Refrigeration Equipment

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 low temperatures, Air purification systems, Total heat exchangers, Duct ventilating fans, Deodorizers, Infrared ceramic space heaters, Freezers, Ammonia water chilling units, 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

Chemicals

Fluorocarbon gas:	Refrigerants, Cleaning agents
Fluoropolymers:	Ethylene tetrafluoride resins, Molten type resins, Fluoroelastomers, Fluoro paints, Fluoro coatings (for insulating materials, sealing materials, packing, corrosion resistant lining, non-adhesive paint, lubricants, hoses and diaphragms)
Chemicals:	Semiconductor-etching products, Oil and water repellants, Mold release agents, Surface acting agents, Fluorocarbons, Fluorated oils, Pharmaceutical agricultural intermediates
Chemical engineering machinery:	Solvent deodorizing equipment, Dry air suppliers

Others

Oil Hydraulics Division

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 Division

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

(9) Principal Bases and Employee Breakdown of the Group (as of March 31, 2010)

1) Principal bases

The Company	Head office	Osaka (Kita-ku)
	Manufacturing bases	Sakai Plant, Kanaoka Factory (Kita-ku, Sakai City, Osaka) Sakai Plant, Rinkai Factory (Nishi-ku, Sakai City, Osaka) Yodogawa Plant (Settsu City, Osaka) Shiga Plant (Kusatsu City, Shiga) Kashima Plant (Kamisu City, Ibaraki)
	Sales bases	Tokyo Office (Minato-ku, Tokyo)
	Overseas offices	New York Office Düsseldorf Office Beijing Office Shanghai Office Guangzhou Office
Subsidiaries	Domestic	Daikin Applied Systems Co., Ltd. (Minato-ku, Tokyo) Daikin Airconditioning & Technology Tokyo Co., Ltd. (Shinjuku-ku, Tokyo) Daikin Airconditioning & Technology Kanto Co., Ltd. (Omiya-ku, Saitama) Daikin Airconditioning & Technology Tokai Co., Ltd. (Higashi-ku, Nagoya) Daikin Airconditioning & Technology Osaka Co., Ltd. (Naniwa-ku, Osaka) Daikin Airconditioning & Technology Chugoku Co., Ltd. (Higashi-ku, Hiroshima-shi) Daikin Airconditioning & Technology Kyusyu Co., Ltd. (Hakata-ku, Fukuoka) Daikin Airtechnology & Engineering Co., Ltd. (Sumida-ku, Tokyo) Daikin Rexam Electronics Co., Ltd. (Kusatsu City, Shiga) Daikin Piping Co., Ltd. (Kusatsu City, Shiga) Nippon Muki Co., Ltd. (Chuo-ku Tokyo)
	Overseas	Daikin Europe N.V. (Belgium) Daikin Australia Pty. Ltd. Daikin Airconditioning (Singapore) Pte. Ltd. Daikin Industries (Thailand) Ltd. Daikin Compressor Industries Ltd. (Thailand) Daikin AC (Americas), Inc. Daikin Holdings (USA), Inc. Shanghai Daikin Airconditioning Co., Ltd. Xian Daikin Qingan Compressor Co., Ltd. Daikin America Inc. Daikin Fluorochemicals (China) Co., Ltd. AAF McQuay Inc. (America) OYL Manufacturing Company Sdn. Bhd (Malaysia) McQuay Italia SPA AAF McQuay UK Limited Shenzhen McQuay Air Conditioning Co., Ltd. AAF McQuay International Inc. (America) McQuay Air-Conditioning & Refrigeration (Wuhan) Co., Ltd. AAF Limited (UK) Group Associated (C&L) Sdn. Bhd (Malaysia)

2) Employee breakdown

Business segment	Number of employees	Increase (decrease) from the previous year
Air-Conditioning and Refrigeration Equipment	34,806	(869)
Chemicals	2,681	(114)
Others	738	(35)
Companywide (shared)	649	(4)
Total	38,874	(1,022)

Notes:

1. The number of employees is based on the number of employees at work.
2. The number of employees of the Company (based on the number of employees at work) is 6,379 (an increase of 193 from the previous year).

(10) Principal subsidiaries (as of March 31, 2010)

Name of company	Shareholding	Principal operations
Daikin Applied Systems Co., Ltd.	100%	Manufacture, sale, design and installation of air conditioning equipment and refrigeration equipment
Domestic sales companies of air conditioning equipment (20 companies)	100%	Sale of air conditioning equipment
Daikin Airtechnology & Engineering Co., Ltd.	100%	Sale, construction and installation of air conditioning equipment
Nippon Muki Co., Ltd.	100%	Manufacture and sale of air filter and clean room products
Daikin Europe N.V.	100%	Manufacture and sale of air conditioning equipment
Daikin Industries Czech Republic s.r.o.	100% (50.0%)	Manufacture and sale of air conditioning equipment
Daikin Device Czech Republic s.r.o.	100%	Manufacture and sale of compressors for air conditioning equipment
Daikin Australia Pty. Ltd.	100%	Manufacture and sale of air conditioning equipment
Daikin Airconditioning (Singapore) Pte. Ltd.	100%	Manufacture and sale of air conditioning equipment
Daikin Industries (Thailand) Ltd.	100%	Manufacture and sale of air conditioning equipment
Daikin Compressor Industries Ltd.	100%	Manufacture and sale of compressors for air conditioning equipment
Daikin Industries Holdings Co., Ltd.	85.3%	Holding company of air conditioning equipment companies
Shanghai Daikin Airconditioning Co., Ltd.	87.4% (10.8%)	Manufacture and sale of air conditioning equipment
Xian Daikin Qingan Compressor Co., Ltd.	51%	Manufacture and sale of compressors for air conditioning equipment
Daikin Device (Suzhou) Co., Ltd.	100% (10.0%)	Manufacture and sale of compressors for air conditioning equipment
Daikin Motor (Suzhou) Co., Ltd.	60% (10.0%)	Manufacture and sale of motors for compressors for air conditioning equipment
Daikin Air-conditioning Technology (Shanghai), Ltd.	100% (10.0%)	After-sales services and maintenance for air conditioning equipment
Daikin Air-conditioning Technology (Beijing), Ltd.	100%	After-sales services and maintenance for air conditioning equipment
Daikin Air-conditioning Technology (Guangzhou), Ltd.	100%	After-sales services and maintenance for air conditioning equipment
Daikin Airconditioning India Private Ltd.	100%	Sale of air conditioning equipment
Daikin Airconditioning Argentina S.A.	100%	Sale of air conditioning equipment
Daikin AC (Americas), Inc.	100% (97.5%)	Sale of air conditioning equipment
Daikin Holdings (USA), Inc.	100%	Controlling company of U.S. operations
Daikin America, Inc.	100% (100%)	Manufacture and sale of fluorochemicals
Cri-Tech, Inc.	100% (100%)	Manufacture and sale of fluorochemicals
Daikin Fluorochemicals (China) Co., Ltd.	95% (27.6%)	Manufacture and sale of fluorochemicals
Daikin Fluoro Coatings (Shanghai) Co., Ltd.	100%	Manufacture and sale of fluorochemicals
Daikin Chemical France S.A.S.	100%	Manufacture of fluorochemicals
Daikin Sauer-Danfoss Manufacturing, Ltd.	55%	Manufacture of oil hydraulic equipment
Daikin (China) Investment Co., Ltd.	100%	Controlling company of Chinese operations
AAF McQuay Inc.	100% (100%)	Manufacture and sale of air conditioning equipment
OYL Manufacturing Company Sdn Bhd	100%	Manufacture and sale of air conditioning equipment
McQuay Italia SPA	100% (100%)	Manufacture and sale of air conditioning equipment
AAF McQuay UK Limited	100% (100%)	Holdings company

Shenzhen McQuay Air Conditioning Co., Ltd.	100% (100%)	Manufacture and sale of air conditioning equipment
AAF McQuay International Inc.	100% (100%)	Holdings company
McQuay Air-Conditioning & Refrigeration (Wuhan) Co., Ltd.	100% (100%)	Manufacture and sale of air conditioning and refrigeration equipment
AAF Limited	100% (100%)	Manufacture and sale of air conditioning equipment
Group Associated (C&L) Sdn. Bhd	100% (100%)	Sale of air conditioning equipment

Note: The percentage shareholding includes indirect holdings, which are given in brackets.

(11) Principal borrowings (as of March 31, 2010)

Creditors	Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation	50,400
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	23,350
The Norinchukin Bank	17,630
Mizuho Corporate Bank, Ltd.	14,120

2. Status of Shares (as of March 31, 2010)

- (1) Number of Shares Authorized: 500,000 thousand shares
(2) Number of Shares Issued: 293,113 thousand shares
(3) Number of Shareholders: 33,788 (Decrease of 3,140 from the previous year)
(4) Top 10 Shareholders

Shareholders	Holdings in the Company	
	Number of Shares Held (Thousands of shares)	Shareholding (%)
Japan Trustee Services Bank, Ltd.	59,852	20.5
The Master Trust Bank of Japan, Ltd.	21,398	7.3
Panasonic Corporation	15,000	5.1
State Street Bank and Trust Co.	14,487	5.0
Sumitomo Mitsui Banking Corporation	9,000	3.1
The Northern Trust Corporation	7,151	2.5
Trust & Custody Services Bank, Ltd.	6,786	2.3
The Chase Manhattan Bank	5,492	1.9
Mellon Financial Corporation	4,972	1.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,900	1.7

Notes:

- Percentage shareholdings are rounded off to one decimal point.
- In addition to the above, Daikin Industries, Ltd. holds 1,461 thousand shares of treasury stock, but this is excluded from calculations of holdings in the company.
- Of the shareholdings listed in the table above, the numbers of shares relating to trustee services are:

Japan Trustee Services Bank, Ltd.	59,852 thousand shares
The Master Trust Bank of Japan, Ltd.	21,398 thousand shares
Trust & Custody Services Bank, Ltd.	6,786 thousand shares

3. Subscription Rights to Shares

(1) Subscription rights to shares held by Directors and Corporate Auditors at the end of the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of subscription rights to shares	Number of holders
No. 3 (2004)	¥2,957	Common stock 1,000 shares per unit of subscription rights to shares	July 1, 2006, to June 30, 2010	35	5 Directors
No. 4 (2005)	¥2,852	Common stock 100 shares per unit of subscription rights to shares	July 1, 2007, to June 30, 2011	388	8 Directors 1 External Director
No. 5 (2006)	¥3,790	Common stock 100 shares per unit of subscription rights to shares	July 19, 2008, to July 18, 2012	780	8 Directors
No. 6 (2007)	¥4,640	Common stock 100 shares per unit of subscription rights to shares	July 18, 2009, to July 17, 2013	920	8 Directors 1 Corporate Auditor
No. 7 (2008)	¥5,924	Common stock 100 shares per unit of subscription rights to shares	July 15, 2010, to July 14, 2014	940	8 Directors 1 Corporate Auditor
No. 8 (2009)	¥3,250	Common stock 100 shares per unit of subscription rights to shares	July 14, 2011, to July 13, 2015	860	8 Directors

Note: Subscription rights to shares held by the Corporate Auditor were granted when the Corporate Auditor served as an employee, and the term of exercise for the No. 6 is July 18, 2009 to July 17, 2010, and for No.7 is July 15, 2010, to July 14, 2011.

(2) Subscription rights to shares issued to Daikin Industries employees during the fiscal year under review

Issue No.	Exercise price	Type and number of shares reserved	Term of exercise	Number of subscription rights to shares	Number of holders
No. 8 (2009)	¥3,250	Common stock 100 shares per unit of subscription rights to shares	July 14, 2011, to July 13, 2015	2,080	42 Daikin Industries employees

4. Directors and Corporate Auditors

(1) Directors and Corporate Auditors

Position	Name	Responsibility or Significant Positions Concurrently Held
Chairman of the Board, Representative Director	Noriyuki Inoue	Chairman of Daikin Foundation for Contemporary Arts Chairman of the Kansai Philharmonic Orchestra External Director of the Kansai Electric Power Co., Inc. External Director of Hankyu Hanshin Holdings, Inc. Vice Chairman of Kansai Economic Federation
President, Representative Director	Yukiyoshi Okano	Chairman of the CSR Committee Chairman of the Corporate Ethics & Risk Management Committee Chairman of the Disclosure Committee Chairman of the Committee in charge of “Creating the System to Confirm Operational Appropriateness”
External Director	Chiyono Terada	Chairman of the Personnel and Compensation Advisory Committee President and Representative Director of ART CORPORATION President and Representative Director of Art Planning Co., Ltd. President and Representative Director of Coty Co., Ltd. President and Representative Director of Grace Co., Ltd. External Director of Rock Field Co.,Ltd. External Director of Keihan Electric Railway Co., Ltd.
External Director	Kosuke Ikebuchi	Member of the Personnel and Compensation Advisory Committee President of Nagoya Grampus Eight, Inc. Chairman of Central Japan Industries Association (Chu San Ren) External Corporate Auditor of DAIHATSU MOTOR CO., LTD. External Corporate Auditor of HINO MOTORS, LTD.
Director	Guntaro Kawamura	In charge of the Chemicals Division General Manager of Yodogawa Plant
Director	Hiroshi Tanaka	In charge of Domestic Air Conditioning and Cryogenic Businesses Chairman of Daikin Applied Systems Co., Ltd.
Director	Masanori Togawa	In charge of Corporate Communication, Human Resources, General Affairs, and Facilities General Manager of Secretarial Office General Manager of Human Resources Division
Director	Shigeki Hagiwara	Responsible for After Sales Service General Manager of Air Conditioning Manufacturing Division Chairman of PD Alliance Committee
Director	Takeshi Ebisu	General Manager of the Corporate Planning Department Member of Technology and Innovation Center Development Department
Director	Takashi Matsuzaki	Responsible for Air Conditioning, Cryogenic Products and Global Strategy Deputy General Manager of Air Conditioning Manufacturing Division General Manager of Global Procurement Division Member of Technology and Innovation Center Development Department
External Corporate Auditor	Yoshiyuki Kaneda	
External Corporate Auditor	Hitoshi Murakami	
Corporate Auditor (full time)	Shinichi Fujita	
Corporate Auditor (full time)	Yutaka Kato	

Notes:

1. Yutaka Kato was appointed as Corporate Auditor at the 106th Ordinary General Meeting of Shareholders held on June 26, 2009, and assumed the office on the same day.
2. Corporate Auditor Nobuyuki Shibata retired from office when his term of office expired at the conclusion of the 106th Ordinary General Meeting of Shareholders held on June 26, 2009.

(2) Compensation for Directors and Corporate Auditors

(i) Total compensation for Directors and Corporate Auditors

Position	Number of Directors and Corporate Auditors	Total compensation (Millions of yen)
Directors	10	717
Corporate Auditors	5	90
Total	15	808

Notes:

1. Total compensation includes bonuses that are planned for resolution at the 107th Ordinary General Meeting of Shareholders to Directors and Corporate Auditors, as well as the fiscal year's cost which is associated with subscription rights to shares (as stock options) offered to Directors (excluding External Directors).
2. Total compensation includes the compensation for the service of one Corporate Auditor who retired at the conclusion of the 106th Ordinary General Meeting of Shareholders while he was in office.

(ii) Total compensation for External Directors and External Corporate Auditors

	Number of Directors and Corporate Auditors	Total compensation (Millions of yen)
Total compensation for External Directors and Corporate Auditors	4	59

(iii) Computation and determination of compensation for Directors and Corporate Auditors

The Company's compensation system for Directors and Corporate Auditors is designed to enhance their motivation for improved results, contribute to the increase of the value of the Daikin Group as a whole in accordance with the management policy continuously and on a medium-to-long-term basis in order to meet the expectations of the shareholders. With regard to the Directors, their compensation system is comprised of "fixed compensation" and "performance-linked compensation" that reflects the short-term Group results and the business they are in charge of, and "stock options" that will reflect medium-to-long-term results. As to External Directors as well as Corporate Auditors, only "fixed compensation" is provided.

The level of compensation is determined as a result of analyzing and comparing with the compensation data of large Japanese manufacturing companies out of the research data on the compensation for Directors and Corporate Auditors conducted by an external institution. In order to determine the level of compensation, we examine the relative position of the Company's performance position and its compensation level among comparative companies.

The ratio of the performance linkage used for this company's performance linked compensation is set higher than the market in order to secure sufficient incentives for the officers.

As to the assessment scaling exponent linked to the performance of the company as a whole, three indexes of "net sales," "operating margin" and "return on equity (ROE)" have been selected in consideration of the numerical targets for the entire company's administration of the management figures, high correlation with the shareholder value, the indexes' mutual relevance and simplicity, and other company trends. With regard to the indicators linked to the results of departments, we have selected two indexes of "net sales" and "operating income" which serve as the targets particularly for the day-to-day business operations of departments among the most important indicators of the Company's management.

Compensations for Directors and Corporate Auditors are determined by the resolutions of the Board of Directors and consultations among Corporate Auditors respectively. The allowable total compensation for each of Directors and Corporate Auditors is determined at the general meeting of shareholders. These compensations are based on the Company's compensation policy, as well as the proposals made by the Compensation Advisory Committee, which is led by an External Director, is composed of four Directors, and excludes Chairman and President.

(3) External Directors and External Corporate Auditors

(i) Significant Positions Concurrently Held by External Directors and External Corporate Auditors

There is no special relationship between the Company and other companies at which External Directors and External Corporate Auditors hold their concurrent significant positions as listed in “(1) Directors and Corporate Auditors.”

(ii) Activities by External Directors and External Corporate Auditors

Position	Name	Principal Activities
External Director	Chiyono Terada	Attended 13 out of 18 meetings for the Board of Directors this fiscal year, Chiyono Terada offered timely proposals as needed, based on her abundant experience and broad perspective as a successful entrepreneur.
	Kosuke Ikebuchi	Attended 14 out of 18 meetings for the Board of Directors this fiscal year, Kosuke Ikebuchi provided timely proposals as needed, based on his broad viewpoint and plentiful experience in revolutionizing and managing manufacturing businesses.
External Corporate Auditor	Yoshiyuki Kaneda	Attended 17 out of 18 meetings for the Board of Directors and 16 out of 17 meetings for the Board of Auditors this fiscal year, Yoshiyuki Kaneda offered timely proposals as needed, based on his insightful corporate management experience, especially in manufacturing technology and production management.
	Hitoshi Murakami	Attended all 18 meetings for the Board of Directors and all 17 meetings for the Board of Auditors this fiscal year, Hitoshi Murakami, a Director of a financial institution, gave timely suggestions as needed, based on his thoughtful insight and ample experience, especially in risk management.

Note: Support System

Staff members in the Secretarial Office/Corporate Planning Department have been assigned to be responsible for assisting External Directors. The staff also takes attendance, and coordinates in advance the meeting schedule for the Board of Directors. When any of the External Directors are unable to attend meetings, related material will be sent, and the Director will be briefed by the General Manager of Corporate Planning Department after the next meeting for the Board of Directors.

(iii) Contract liability limitation for External Directors and External Corporate Auditors

Complying with Article 427, Paragraph 1, of Japan’s Corporation Act, as well as Articles 25 and 33 of the Company’s Articles of Incorporation, all External Directors and External Corporate Auditors sign a contract which limits their liabilities under the Article 423, Paragraph 1 of the Corporation Act. This contract states that the maximum liability equals to the minimum liability stipulated under Article 425, Paragraph 1, of the Corporation Act.

5. Independent Auditors

(1) Name of the Independent Auditors to the Company	Deloitte Touche Tohmatsu LLC(Audit Corporation) (Note) Deloitte Touche Tohmatsu converted to a limited liability company as of July 1, 2009 and accordingly changed its name to Deloitte Touche Tohmatsu LLC.
(2) Total amount of compensation to be paid by the Company to the Independent Auditors for the current fiscal year	¥168 million
(3) Non-auditing services provided to the Company by the Independent Auditors	The Company does not consign to the Independent Auditors any services that fall outside the auspices of audit certification services under Article 2, Paragraph 1 of the Certified Public Accountant Law.
(4) Policy on dismissal of or resolution not to re-engage the Independent Auditors	In addition to reasons for dismissal stipulated under Corporation Act Article 340, a movement for dismissal of or resolution not to re-engage the Independent Auditors will be presented to the General Meeting of Shareholders if it is recognized that it is difficult for the Independent Auditors to effectively perform their duties.
(5) Total amount of compensation to be paid by the Company and its subsidiaries to the Independent Auditors	¥168 million
(6) Other items	Major subsidiaries of the Company engaging certified public accounts or audit corporations other than the Company's Independent Auditors to conduct their audits (under Japan's Corporation Act or Financial Instruments and Exchange Act, or the overseas equivalents) are as follows: Daikin (China) Investment Co., Ltd. Shanghai Daikin Airconditioning Co., Ltd. Xian Daikin Qingan Compressor Co., Ltd. Daikin Fluorochemicals (China) Co., Ltd. Daikin Device (Suzhou) Co., Ltd. Daikin Motor (Suzhou) Co., Ltd.

6. Outline of Resolutions to Establish a System to Confirm Operational Appropriateness

<Basic Philosophy on and Status of an Internal Control System>

The Daikin Group's system to confirm operational appropriateness based on Japan's Corporation Act and its Enforcement Regulations is outlined below.

(1) System to ensure compliance with laws and regulations by Directors and employees in execution of their duties

We establish a compliance system that tackles and swiftly responds to compliance issues Group-wide.

Specific measures follow:

- (i) In accordance with the management basic direction and code of conduct stipulated in our Group Management Philosophy (2002), Corporate Ethics Handbook (revised in 2008) and other directives, we will be diligent in execution of duties, use initiative and apply these principles.
- (ii) We have established a Corporate Ethics & Risk Management Committee made up of Directors and department managers and presided over by the President. This committee oversees Legal Affairs, Compliance and Intellectual Property Department, which spearheaded thorough legal compliance Group-wide. Each department and Group company assigns a compliance, risk management leader to ensure thorough compliance in the Company, their respective departments and Group companies. We hold Compliance, Risk Management Leader and Group Compliance, Risk Management Leader Meetings to share information, address issues and promote implementation of policies.
- (iii) We have introduced a unique self-inspection system through which each division and Group company conducts an annual autonomous check from the standpoint of legality and risk. Using the results of this check, the Legal Affairs, Compliance and Intellectual Property Department carries out a legal audit of each division and Group company, along with the Internal Auditing Department's Legal Compliance Audit.
- (iv) We have established a Help-line for Corporate Ethics. The Legal Affairs, Compliance and Intellectual Property Department investigates reports made to this facility and forms strategies to prevent recurrence after deliberations with the manager of the relevant division. We have established a system to promote swift adoption of such measures Company-wide.
- (v) As stated clearly in our Corporate Ethics Handbook, we, as a business entity, stand firmly against antisocial forces that damage social order and healthy corporate activities.
- (vi) We carry out and are currently improving capacities for periodic and occasional compliance and corporate ethics education across management and employee strata.

(2) System for data storage, management and disclosure relating to execution of duties by Directors

The minutes of important committee and other meetings are retained for a storage period based on the stipulations of separate in-house regulations. Regarding disclosure of important information outside the Company, the Disclosure Committee, chaired by the President, ensures completeness and appropriateness of important disclosure and is working to improve accountability.

(3) Rules and other systems relating to risk management

Executive Officers and the Directors responsible for operations have the authority and responsibility for building risk management systems, which oversees the entire Group. Each of them in their own domain focuses on product liability, quality, safety, production, sales activities and natural disasters. Regarding Company-wide risks, the Officer responsible for Corporate Ethics and Compliance supervises risk management, and operates through the Legal Affairs, Compliance and Intellectual Property Department, in order to specify major risks based on risk assessment, and to formulate countermeasures after deliberations with the Corporate Ethics and Risk Management Committee which is headed by the President.

(4) System to ensure efficient execution of duties by Directors

We have introduced the efficient execution framework dubbed “Executive Officer system,” which allows us to achieve prompt decisions through substantive discussions by the reduced number of Directors. It also accelerates the Directors’ decision-making process in each business division, geographical location and corporate function.

We have established the “Group Steering Meeting,” which acts as the supreme deliberating body that manages our Group. Important management policies and strategies are determined promptly and in a timely manner, resulting in faster problem-solving processes. We have also implemented a system which allows our Directors and Executive Officers to appropriately and effectively execute their duties through administrative authority and decision-making rules, based on various internal regulations, centered on the Board of Directors’ regulations, the Executive Officers Meeting regulations and collective decision-making regulations. This initiative encourages participation, advice and guidance in management decision-making from an independent and neutral external standpoint and provides a check function to raise appropriate and effective execution of duties by Directors and Executive Officers. This is achieved through permanently maintaining two or more External Directors with no contradicting interests in the Company. At the same time, we have established a Management Advisory Council system to garner advice and opinions from an independent standpoint for management problems facing the Group.

(5) System to ensure fair business practice in the Group comprising Daikin Industries, its parent company, and subsidiaries

To raise corporate value throughout the Group and fulfill social responsibilities, the Company and its subsidiaries aspire to conduct that upholds the Group Management Philosophy, strengthen links of authority and communication between Group companies, and ensure fair business practice Group-wide, while carrying out guidance, advice and assessment. Important items determined by the Board of Directors and Executive Officers meeting are promptly shared throughout the Group, with the exclusion of data that could be construed as insider information. Thus through corporate behavior based on unanimous intent, we aim to cultivate an understanding and secure fair business practice.

The departments responsible for management and support for Group companies are determined at the Head Office, and we promote strategies for continuous cooperation in day-to-day operations. Simultaneously, we have established Group Management Meeting to unify corporate action across the entire Group by thoroughly sharing important management policies and basic strategies of the Group by facilitating and strengthening support for solving problems and tasks of the Group companies.

We strive to handle important decisions and business execution in subsidiaries through pre-emptive consultation and involvement and regular ascertainment of business conditions based on the stipulations of the Affiliated Companies’ Management Regulations, which was updated and further subdivided in April 2008.

To respond to the internal control reporting system (Financial Instruments and Exchange Law), the Company began revising and upgrading its internal control systems related to financial reporting in August 2005, and has subsequently developed and established systems designed to ensure the appropriateness of all operational processes throughout the Daikin Group that could affect financial reporting. In order to submit valid and appropriate internal control reports as stipulated in Article 24.4.4 of the Financial Instruments and Exchange Law, Daikin will carry out ongoing evaluations and make required corrections to ensure that the structures established to date are functioning properly, and also continually ensure conformity with the Financial

Instruments and Exchange Law and other related laws and ordinances. In addition to its internal control systems, in fiscal 2008 Daikin established global accounting regulations and is working to ensure familiarity with these regulations at a global level, and make further improvements with respect to the validity and accuracy of accounting and financial reporting.

Furthermore, it was revealed in March last year that the After Sales Service Division of the Company and its subsidiary had been using inappropriate accounting procedures, in response the Company strengthened accounting functions in business divisions and subsidiaries throughout the company, implemented accounting audits by the Finance and Accounting Division, implemented special audits by the Internal Audit Department, developed and strengthened self-monitoring in each business division, and carried out training of persons in charge of accounting, and implemented monitoring by the Finance and Accounting Division; furthermore Daikin formulated and implemented company-wide preventative measures such as strengthening communication functions of the Law, Compliance & Intellectual Property Center to convey the importance of compliance, and has established and strengthened appropriate systems to support preparation of reliable financial reports.

(6) Ensuring effectiveness of the audit by the Corporate Auditors

In addition to the Board of Directors' Meeting, Corporate Auditors attend meetings of the Executive Officers Meeting and Company-wide technology meetings to receive reports and deliver opinions. In addition, to ensure effectiveness of the audit a system is in place by which the Board of Corporate Auditors is updated on important items that influence management and performance.

The Corporate Auditors meet periodically to exchange opinions with Representative Directors, Executive Officers and the Independent Auditors. They also attend various types of important meetings and verify investigations and documents on related departments, and we make sure their authority extends throughout the Group without restraint. To support this system, Group Auditors have been appointed to each of the major Group companies, ensuring smooth flow of information. Corporate Auditors also periodically assemble Group Auditors' Meetings in order to exchange information and make improvements to auditing procedures.

The Corporate Auditors also appoint auditing staff members, and establish Corporate Auditing Department to assist with their duties. Audit Office members act on the order of the Corporate Auditors, and their transfer and performance assessment are conducted based on the opinions of the Board of Corporate Auditors.

7. Basic Policy on Company Control

The Company publicly announced on May 10, 2006, that its Board of Directors at a meeting held on the same day adopted the DAIKIN Shareholder Relationship Policy (hereinafter the "DSR Policy"), a basic policy that refers to the persons who control the Company's decisions on financial matters and business policies, in accordance with Article 118, paragraph 3, of the Enforcement Regulations of the Corporation Act, and that the Board of Directors determined the Company's special commitment guidelines to implement this basic policy, in accordance with Item 3 b (1) of the same article.

The DSR Policy is intended to raise the level of transparency and objectivity in the event of a large-scale acquisition and ensure the provision of sufficient information to allow the Company's shareholders to make appropriate decision making on such an acquisition. Accordingly, the DSR Policy is not a so-called takeover defense measure using methods such as the allocation of subscription rights to shares or new shares.

Meanwhile, the Board of Directors of the Company has further reviewed the advisability of maintaining the DSR Policy from the viewpoint of ensuring and furthering the corporate value of the Company and the common interests of the shareholders while taking into account subsequent changes in the situation or the like after the DSR Policy was implemented.

As a result of the study on the extension, the Company today announced that its Board of Directors at a meeting held on May 12, 2009, determined the extension of the DSR Policy with partial revisions thereto as the Company's basic policy that refers to the persons who control the Company's decisions on financial matters and business policies.

(1) Basic policy content

As the sole global air-conditioner manufacturer of both refrigerants and air conditioning equipment, the Company is proactively committed to improving its corporate value and the common interests of shareholders through long-accumulated core technologies for air conditioning and chemicals.

Given the increasingly intense competition in the air conditioning and chemical industries, it is essential for the Daikin Group to ensure its sustainable growth through a corporate culture that cultivates new demand and markets based on technological innovations independent of conventional ideas and constraints. In this context,

we believe the capability to implement future innovations and challenges comes from the power derived from people and organization, such as strong teamwork, underlying a “people-oriented management” infrastructure. The Company intends to aggressively promote among its employees three corporate policies—“Absolute Credibility,” “Enterprising Management” and “Harmonious Personal Relations”—detailed in the “Group Management Philosophy” formulated in August 2002. The successful growth of the Daikin Group to date has been supported by the strong human resources created through strong relationships and mutual trust between management and employees, and also by the aforementioned management policies.

Moreover, it is necessary for the Group to globalize further in order to maintain rapid growth from medium to long-term basis. To realize inevitable globalization, the Company must build powerful production bases and sales networks in various regions, and maintain a multinational corporate culture that supports and promotes such initiatives. Also we must maintain trust among diverse stakeholders, including customers, suppliers and employees worldwide by increasing the level of reliance and recognition of the Company as a “a truly global and excellent company” through coexistence with the environment and society. It can be said that our corporate value has been derived from various tangible and intangible properties that the Company has long nurtured.

Unless the Company’s corporate value can be improved in the medium to long term, even by a potential large-scale purchaser, the Company’s corporate value and the common interests of the shareholders might be damaged. Should the objective of a large-scale purchaser imply that such damage might occur, the sale to such purchaser could be judged inappropriate.

Furthermore, actual large-scale purchases may include cases where shareholders are forced to sell their shares, in effect; where the shareholders or the Board of Directors do not have sufficient time and information to examine the conditions or the Board of Directors does not have time to offer alternative plans; and where the Board of Directors has to negotiate with the purchaser to submit more advantageous conditions than those the purchaser has proposed. All of these have the potential to infringe on the corporate value and the common interests of the shareholders. The Company believes that such large-scale purchases are generally inappropriate.

We believe it’s desirable for our shareholders to make “informed judgment,” where the shareholders evaluate whether a proposed large-scale purchase would secure and enhance the Company’s corporate value and the shareholders’ common interest, by first obtaining sufficient information with regard to the management policies and other views of the current management staff toward the proposed large-scale purchase. We also believe that any large-scale purchase or act is inappropriate when it runs counter to the Company’s corporate value of the shareholders’ interest, or impairs the proper judgment of shareholders. The Company’s Board of Directors believes that these concepts accurately reflect the intent of Article 118, Paragraph 3, of the Enforcement Regulations of the Corporation Act and have therefore integrated them into our DSR Policy.

(2) The Company’s commitment to implement this basic policy

Special measures that contribute to the realization of this basic policy are being implemented through the “FUSION 10” strategic management plan, and the Company intends to make effective use of its management resources and further enhance the corporate value of the Company. In the event of a large-scale acquisition of the Company’s shares, we believe it important that the situation be evaluated transparently and objectively, with appropriate disclosure to shareholders and investors in Japan and overseas.

- 1) The Company will pursue a goal in “FUSION 10” to “Maximize Corporate Worth to Become a Truly Global and Excellent Company.” The Company addresses specific measures on the assumption that thorough sharing and practice of the Group Management Policy are the absolute conditions for realizing the following objectives to employ management resources effectively and maximize corporate value:
 - a) World-leading global No. 1 business;
 - b) Technological innovation to create shifts and generate value;
 - c) Robust profitability and financial constitution with excellent capital efficiency; and
 - d) World-renowned people-oriented management to pursue maximum output through concentrated efforts based on the pride and enthusiasm of each employee.

Thus, the Company intends to implement the DSR policy while endeavoring to raise the corporate value and the common interests of the shareholders by gaining the trust and understanding of its shareholders and investors through the execution of the “FUSION 10” plan.

- 2) Measures to ensure objective and transparent evaluation in the event of large-scale purchases
 - (a) Outline of the measures

The Company has determined the procedure (the “DSR Rules” hereinafter) where an independent committee of External Directors and other members, who are independent from the Company’s Board

of Directors, collects sufficient information, studies the specific purchase and expresses its opinion to shareholders before a large-scale purchase actually takes place.

(b) Content of the procedures

(i) Application of the DSR Rules

The DSR Rules shall apply to actions or proposals for the purchase or similar acts (collectively the “Purchase” hereinafter) of the Company’s shares and other short-term investment securities that fall under either <1> or <2> below. Any purchaser who intends to make such a Purchase (the “Purchaser” hereinafter) is requested by the Company to comply with the DSR Rules in advance.

<1> For the shares and other short-term investment securities issued by the Company, when the Purchaser’s share holding ratio is expected to exceed 20% of the total share.

<2> For the shares and other short-term investment securities issued by the Company, when a public trader and special party’s combined share holding ratio is expected to exceed 20% of the total share.

(ii) Independent Committee

The Company establishes the Independent Committee, to objectively judge whether a Purchaser conforms to the view of the DSR Policy at the time of advancing the procedure defined by the DSR Rules. The Independent Committee consists of External Directors and other members who are independent from the Company’s Board of Directors. The Committee shall request that the Purchaser supply information in advance to the Committee, as well as study and judge the content of the Purchase and express its opinion regarding the Purchase in order to improve objectivity, rationality and transparency of the measures against large-scale Purchases of the Company’s shares. The Committee shall be assembled immediately when the type of purchase described in (i) is observed.

(iii) Content of the DSR Rules

a) Supply of Required Information

Without prior consent of the Board of Directors, the Independent Committee will request the Purchaser, who attempts to propose the type of purchase defined in (i) above, sufficient information (“Required Information” hereafter) prior to the actual purchase, so the Committee will be able to evaluate its content.

b) Review of the content of the Purchase, negotiation with the Purchaser and proposal of alternative plans

If all the Required Information is provided by the Purchaser, the Independent Committee may also request the Company’s Board of Directors for their opinions (which might include some restrictions) regarding the content of the Purchase, supporting materials to show its reasoning, alternative plans (if any) and other information deemed necessary by the Committee within the predetermined period set by the Committee. In addition, the Independent Committee may even request some opinions of the Company’s stakeholders such as employees, the labor union, customers and suppliers, if necessary.

Within 60 days (which may be extended maximum 30 days in accordance with the Item c) below, and the period is referred to as “Assessment Period” hereafter) from the acquisition of information provided by the Purchaser and the Company’s Board of Directors (where the Committee had requested the Board of Directors to supply such information described above), the Independent Committee will review the content of the Purchase, examine any alternative plans submitted by the Board of Directors, collect information and compare proposals made by the Purchaser and the Board of Directors.

To ensure the Independent Committee’s decision will satisfy the Company’s corporate value and the shareholders’ common interests, the Committee may seek advice from independent third parties, including financial advisors, certified public accountants, lawyers, consultants and other experts, at the expense of the Company.

In regard to the Required Information and the fact that such information has been submitted, the Independent Committee may decide when and what to disclose, and makes announcements to the shareholders accordingly.

c) Disclosure of opinion by the Independent Committee

The Independent Committee shall, after the elapse of the Assessment Period stated above, judge whether the Purchase falls under any of the conditions stipulated below. The Independent Committee shall inform the results of the assessment, its opinion, the reasons and other information that may help shareholders make their own judgment.

Conditions for an Inappropriate Purchase

- 1) In case the Purchase does not comply with the DSR Rules;
- 2) In case the Purchase is likely to cause a clear violation of the corporate value of the Company or consequently the common interests of the Company's shareholders (e.g., the below-mentioned actions):
 - Buy up a considerable ratio of the Company's shares and demand that the Company purchase the shares at a considerably higher price;
 - Realize individual interests of the Purchaser through temporary control of the Company's management initiatives and acquisition of the Company's important assets at unfairly low prices causing the Company certain sacrifices.
 - Appropriate the Company's assets as collateral for liabilities or as underlying assets for payments for the sake of the Purchaser or any of its group companies; and
 - Make management distribute temporarily higher dividends or the Company shares soar and sell them off at a higher price by leveraging a temporarily raised share price through temporarily increased dividends by forcing the Company to dispose of its highly valued assets which are not relevant to the Company's ongoing businesses.
- 3) In case the Purchase refers to a compulsory action, in effect, through a forced two-tier purchase procedure that compels shareholders to sell their shares (i.e., making the purchase in the form of a tender offer, etc., by unilaterally setting unfavorable second-tier purchase conditions without inviting shareholders to purchase all shares at the first tier or intentionally not clarifying the second-tier purchase conditions to shareholders);
- 4) In case the Purchase features do not give the Company a reasonably necessary Assessment Period to allow the Company to submit alternative plans with respect to the Purchase;
- 5) In case the Purchaser does not sufficiently supply the Company's shareholders with reasonably necessary information such as the Required Information and other materials from which to help shareholders form their own opinions and make decisions; and
- 6) In case the Purchase conditions (including the value and type of compensation, Purchase timing, the propriety of the Purchase method and the probability of the Purchase being executed, guidelines to treat stakeholders such as minority shareholders, employees, business partners and customers after the Purchase has completed) are insufficient or improper in view of the Company's primary values.

In case the Independent Committee cannot make a judgment as outlined above by the end of the initial Assessment Period, it may be extended maximum 30 days within the scope deemed necessary to review the content of the purchase, but requires the disclosure of status of the assessment.

(iv) Termination or modification of the DSR Rules

The DSR Rules is in effect for three years, starting July 1, 2009. However, the Company may review and modify the DSR Rules, from time to time, as necessary.

Consolidated Balance Sheets
As of March 31, 2010

(Millions of yen, rounded down to the nearest million yen)

(Assets)		(Liabilities)	
Current assets	557,131	Current liabilities	321,533
Cash and deposits	160,038	Notes and accounts payable-trade	97,733
Notes and accounts receivable-trade	181,137	Short-term loans payable	69,730
Merchandise and finished goods	111,866	Commercial papers	17,000
Work in process	41,860	Current portion of long-term loans payable	13,381
Raw materials and supplies	31,437	Lease obligations	1,431
Deferred tax assets	10,564	Accrued expenses	48,954
Other	25,312	Income taxes payable	8,114
Allowance for doubtful accounts	(5,086)	Deferred tax liabilities	970
		Provision for directors' bonuses	123
Noncurrent Assets	582,524	Provision for product warranties	22,180
Property, plant and equipment	234,650	Other	41,915
Buildings and structures, net	77,052	Noncurrent liabilities	308,061
Machinery, equipment and vehicles, net	96,312	Bonds payable	100,000
Land	29,607	Long-term loans payable	196,208
Lease assets, net	2,591	Lease obligations	1,562
Construction in progress	9,278	Long-term accounts payable-other	1,751
Other, net	19,808	Deferred tax liabilities	2,648
		Provision for retirement benefits	4,469
Intangible assets	192,303	Other	1,421
Goodwill	182,867		
Other	9,436	Total liabilities	629,594
		(Net Assets)	
Investments and other assets	155,570	Shareholders' equity	538,433
Investment securities	117,026	Capital stock	85,032
Long-term loans receivable	1,134	Capital surplus	82,977
Deferred tax assets	9,708	Retained earnings	375,952
Prepaid pension cost	12,262	Treasury stock	(5,528)
Other	16,477	Valuation and translation adjustments	(42,255)
Allowance for doubtful accounts	(1,039)	Valuation difference on available-for-sale securities	(500)
		Deferred gains or losses on hedges	161
		Foreign currency translation adjustment	(41,916)
		Subscription rights to shares	1,014
		Minority interests	12,867
		Total net assets	510,061
Total assets	1,139,655	Total liabilities and net assets	1,139,655

Consolidated Statements of Income
From April 1, 2009, to March 31, 2010

(Millions of yen, rounded down to the nearest million yen)

Net sales		1,023,964
Cost of sales		704,663
Gross profit		319,300
Selling, general and administrative expenses		275,263
Operating income		44,037
Non-operating income		
Interest income	2,206	
Dividends income	1,726	
Equity in earnings of affiliates	345	
Foreign exchange gains	945	
Other	5,399	10,623
Non-operating expenses		
Interest expenses	6,718	
Other	4,174	10,893
Ordinary income		43,768
Extraordinary income		
Gain on sales of investment securities	13	
Gain on reversal of subscription rights to shares	12	
Other	1	27
Extraordinary loss		
Loss on disposal of noncurrent assets	967	
Loss on cancellation of lease contracts	1,040	
Loss on valuation of investment securities	3,633	
Other	142	5,784
Income before income taxes		38,011
Income taxes-current	16,512	
Income taxes-deferred	(599)	15,913
Minority interests in income		2,707
Net income		19,390

Consolidated Statements of Changes in Net Assets
From April 1, 2009, to March 31, 2010

(Millions of yen, rounded down to the nearest million yen)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at the end of previous period	85,032	82,977	366,836	(4,743)	530,102
Changes of items during the period					
Dividends from surplus			(10,216)		(10,216)
Net income			19,390		19,390
Effect of changes in accounting period of subsidiaries			2		2
Purchase of treasury stock				(995)	(995)
Disposal of treasury stock			(60)	210	150
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	9,116	(784)	8,331
Balance at the end of current period	85,032	82,977	375,952	(5,528)	538,433

	Valuation and Translation Adjustments				Subscription Rights to shares	Minority Interests	Total Net Assets
	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustment	Total Valuation and Translation Adjustments			
Balance at the end of previous period	(15,397)	464	(43,482)	(58,415)	764	12,035	484,485
Changes of items during the period							
Dividends from surplus							(10,216)
Net income							19,390
Effect of changes in accounting period of subsidiaries							2
Purchase of treasury stock							(995)
Disposal of treasury stock							150
Net changes of items other than shareholders' equity	14,897	(302)	1,566	16,160	250	832	17,243
Total changes of items during the period	14,897	(302)	1,566	16,160	250	832	25,575
Balance at the end of current period	(500)	161	(41,916)	(42,255)	1,014	12,867	510,061

Notes to the Consolidated Financial Statements

Basis for Presenting the Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries and names of major companies among them

Number of consolidated subsidiaries: 198

Major subsidiaries: Omitted as they are described in “(10) Principal subsidiaries” of “1. Review of Operations” in the Business Report.

(2) Names of major non-consolidated subsidiaries

A major non-consolidated subsidiary: Kyoei Kasei Industries, Ltd.

Reason for exclusion of the non-consolidated subsidiaries from consolidation:

The non-consolidated subsidiaries are small in corporate size and the impact of their aggregate total assets, net sales, net income (loss) (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others on the respective consolidated total assets, consolidated net sales, consolidated net income (loss) and consolidated retained earnings and others on the consolidated financial statements is insignificant. For this reason, these companies are excluded from the scope of consolidation.

2. Application of the Equity Method

(1) Number of major non-consolidated subsidiaries and affiliated companies accounted for by the equity method and names of major companies among them

Number of non-consolidated subsidiaries accounted for by the equity method : 1

Daikin America Funding Corporation

Number of affiliated companies accounted for by the equity method: 10

Major affiliated companies:
MDA Manufacturing, Inc.

(2) Names of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

Major companies: (Non-consolidated subsidiary)
Kyoei Kasei Industries, Ltd.
(Affiliated company)
Daimics Co., Ltd.

Reason for not applying the equity method to these companies:

The impact of excluding these non-consolidated subsidiaries and affiliated companies without applying the equity method on the consolidated financial statements is insignificant in view of the net income (loss) (amounts corresponding to the equity held by the Company) and retained earnings (amounts corresponding to the equity held by the Company) and others, and their intra-group positioning is immaterial on the whole. For this reason, the equity method is not applied to these companies.

3. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

(i) Securities:

Available-for-sale securities

Available-for-sale

securities for which the fair market values are readily determinable

Mainly valued at market at the end of the fiscal year. 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.

(2) Depreciation method of major depreciable assets

1) Property, plant and equipment (excluding lease assets)

The depreciation of property, plant and equipment 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 buildings and accompanying facilities) acquired on or after April 1, 1998, by the Company and/or its domestic consolidated subsidiaries are depreciated using the straight-line method.

2) Intangible assets

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

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 3 to 20 years on a straight-line basis.

3) 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 accounts

The allowance for doubtful accounts 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) Provision for directors' bonuses

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

(iii) Provision for product warranties

The provision for product warranties 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) Provision for retirement benefits

The provision 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.

(4) Other important matters as the basis for presenting the consolidated financial statements

(i) Important hedge accounting method

(a) 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.

(b) 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.

(c) 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.

(ii) Accounting for consumption tax

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

4. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are fully valued at the market value at the respective dates when the subsidiaries were initially consolidated.

5. Changes in the Basis for Presenting the Consolidated Financial Statements

Partial Amendments to "Accounting Standard for Retirement Benefits" (Part 3)

The Company and its domestic consolidated subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) from the fiscal year under review. This change has no impact on projected benefit obligation and income and loss.

Notes to the Consolidated Balance Sheets

1. Assets pledged as collateral and corresponding secured debt

(Millions of yen)

Property, plant and equipment	43,599
Time deposits	642
Accounts receivable-trade	11,775
Inventories	6,795
Other	992
Debt secured by the above collateral	
Short-term loans payable	1,910
Long-term loans payable (including current portion of long-term loans payable)	1,444
Bank loans payable by business partners	418

2. Accumulated depreciation of property, plant and equipment: ¥456,439 million

3. Liabilities on guarantee and amount of notes endorsed

(1) Commitment to guarantee

	(Millions of yen)
Formosa Daikin Advanced Chemicals Co., Ltd.	615
Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd.	545
Sauer-Danfoss Daikin, Ltd.	<u>160</u>
Total	1,320

(2) Amount of notes endorsed: ¥1,450 million

Notes to the Consolidated Statements of Changes in Net Assets

1. Type and total number of shares issued as of March 31, 2010

Common stock: 293,113,973 shares

2. 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 26, 2009	Common stock	5,545	19	March 31, 2009	June 29, 2009
Board of Directors meeting held on November 10, 2009	Common stock	4,670	16	September 30, 2009	December 4, 2009

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2010, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2011

Planned Date of Resolution	Type of Shares	Total Amount of Dividends (Millions of yen)	Source of Funds for Dividends	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders to be held on June 29, 2010	Common stock	4,666	Retained earnings	16	March 31, 2010	June 30, 2010

3. Type and number of shares subject to subscription rights to shares at March 31, 2010 (excluding those for which the first day of the exercise period has not yet arrived)

Common stock: 726,500 shares

Notes to Financial Instruments

1. Status of Financial Instruments

(1) Policy on treatment of financial instruments

The Group raises necessary funds (mainly, bank loans and bond issuance) in the light of business capital expenditure projects. For short-term working capital, funds are raised from bank loans and commercial papers, and temporary surplus funds are being managed with secure financial funds. We use derivatives trading for actual demand only, and do not use it for speculation purposes, in order to mitigate the risks described below. The Group does not use any special type of derivatives trading (leveraged trading) that involves high price volatility.

(2) Details of financial instruments, their risks and risk management systems

Operating receivables, namely, notes and accounts receivable-trade are exposed to customer credit risk. In order to deal with these risks, in accordance with the credit management policy and global accounting regulations, we have a system to check the credit status of our key business partners as well as a system to control due dates and balances of each business partner.

For notes and accounts payable-trade, payment due dates are usually within one year.

The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using forward exchange contracts and currency swaps etc. in principle against the net amount of the debts and credits in the same currency. Also, depending on the foreign exchange market conditions, similar derivatives transactions are used in respect of the foreign currency debts and credits which are expected to incur from the anticipated transactions.

Investment securities are mainly shares in the companies which are business partners for the purpose of business alliances or capital tie-ups. While investment securities are exposed to market value fluctuation risks, we review the market value and the financial conditions of the issuers (business partners) on a regular basis and continuously review the status of the shareholdings by taking into account relationships with business partners.

Short-term loans payable and commercial papers are mainly used as working capital. Long-term loans payable and bonds payable are used mainly for the purpose of procuring funds necessary for capital expenditures and the longest of the debt maturity dates is nine years and four months after balance sheet date. While the operating debts, loans payable and bonds payable are exposed to liquidity risk, the Finance and Accounting Division manages such risk by timely planning and updating the cash management planning and is prepared for liquidity risk by setting up a commitment credit line so that funds settlement may be done if there is any sudden change in the fund raising markets. Part of the long-term loans payable on a floating rate basis which is exposed to interest rate fluctuation risks is hedged by the use of derivative transactions such as interest rate swaps etc..

Derivative transactions are transactions which include forward exchange contracts etc. for the purpose of hedging exchange fluctuation risks of the debts and credits denominated in foreign currencies, interest rates swap transactions etc. for the purpose of hedging interest fluctuation risks of loans, and commodity futures transactions for the purpose of hedging the market price fluctuation risks of the raw materials. Derivative transactions are entered into in accordance with Regulation of Derivatives Trading which set out the authority for transactions and the maximum amount etc. Derivative transactions are conducted by the Finance and Accounting Division and monitored daily by the Corporate Planning Department for internal checking and are regularly reported to the Company's Board of Directors. A similar management system is also adopted by consolidated subsidiaries. Derivative transactions are entered into only with financial institutions with high credit ratings in order to mitigate credit risk.

With respect to derivative transactions which satisfy the hedge accounting criteria, hedge accounting is applied. Hedging instruments and hedged items related to hedge accounting, hedge policies and methods for evaluating effectiveness of hedges are set forth in "Important hedge accounting method" under "Basis for Presenting the Consolidated Financial Statements".

(3) Supplementary explanation of matters concerning fair market value, etc. of financial instruments

Methods for determining fair market value of financial instruments include pricing based on market price, and where there is no market price, a price which is calculated using reasonable methods. Variable factors are considered in calculating the pricing, and therefore the pricing may fluctuate if different assumptions are applied.

2. Matters concerning fair market value, etc. of financial instruments

The prices recorded in the consolidated balance sheet, fair market value and the difference between those as of March 31, 2010 (consolidated financial closing date for the fiscal year under review) are as follows. Instruments for which it is deemed extremely difficult to ascertain the fair market value are not included in the below chart (see Note 2).

(Millions of yen)

	Price recorded in the consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	160,038	160,038	—
(2) Notes and accounts receivable-trade	181,137	181,137	—
(3) Investment securities Available-for-sale securities	104,276	104,276	—
Total assets	445,452	445,452	—
(1) Notes and accounts payable-trade	97,733	97,733	—
(2) Short-term loans payable	69,730	69,730	—
(3) Commercial papers	17,000	17,000	—
(4) Income taxes payable	8,114	8,114	—
(5) Bonds payable	100,000	101,848	1,848
(6) Long-term loans payable	209,589	214,211	4,622
Total liabilities	502,166	508,637	6,470
Derivative Transactions (*)	455	455	—

(*) Net credits/debts arising from derivative transactions are shown at net value, and items that total to a net debt are shown in parentheses.

Note: 1.Method for calculating fair market value of financial instruments

Assets

(1) Cash and deposits

All deposits are liquid in the short term and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(2) Notes and accounts receivable-trade

These instruments are settled in a short term and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(3) Investment securities

The fair market value of shares is stated at the price on the relevant stock exchange, and the fair market value of bonds is stated at the present value of the total of principal and interest discounted by an interest rate adjusted for the remaining period to bond maturity and credit risk. Investment trusts are stated at the published standard price.

Liabilities

(1) Notes and accounts payable-trade, (2) short-term loans payable, (3) commercial papers and (4) income taxes payable

These instruments are settled in a short term and fair market value is roughly equal to book value. The fair market value is therefore stated at book value.

(5) Bonds payable

The fair market value of bonds payable issued by the Company is stated at the market price.

(6) Long-term loans payable

The fair market value of long-term loans payable has been determined by discounting the total of principal and interest by the interest rate on similar new loans payable. For loans payable with variable interest, the fair market value of long-term loans payable subject to special treatment such as interest rate swaps has been determined by discounting the total of principal and interest stated in association with the interest rate swap by an interest rate reasonably estimated from that applied to similar loans payable.

Derivatives transactions

The fair market value of currency-related instruments is stated at the futures exchange market value or the price from the supplying financial institution. The fair market value of interest-related instruments is stated at the price presented by the transacting financial institution. The fair market value of commodity is stated at the market value of futures listed on the future exchange. Instruments subject to special treatment such as interest rate swaps are stated in association with hedged long-term loans payable and their fair market value is therefore included in the fair market value of the relevant long-term loans payable.

Note: 2 Unlisted shares (amount recorded in the consolidated balance sheet was ¥7,177 million), investments, etc. in investment funds (amount recorded in the consolidated balance sheet was ¥1,190 million) and shares of non-consolidated subsidiaries and affiliated companies (amount recorded in the consolidated balance sheet was ¥4,382 million) are not included in “(3) Investment securities”, as it is deemed to be extremely difficult to ascertain the fair market value as those instruments have no market prices, and it is not possible to estimate their future cash flows.

(Additional information)

From this consolidated fiscal year Daikin applies the “Accounting Standards for Financial Instruments “(ASBJ Statement No. 10, issued on March 10, 2008), and Guidance on Disclosure about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March 10, 2008).

Per Share Information

Net assets per share:	¥1,701.29
Net income per share:	¥66.44

Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

Deferred tax assets:

Loss carryforwards	12,878
Provision for product warranties	7,534
Investment securities	4,474
Software	4,073
Inventories	3,771
Provision for bonuses	3,262
Unrealized profit of inventories	2,658
Accounts payable-other	1,866
Provision for retirement benefits	1,517
Allowance for doubtful accounts	1,116
Valuation difference on available-for-sale securities	867
Long-term accounts payable-other	714
Others	5,644

Subtotal of deferred tax assets	50,381
Less valuation allowance	(12,099)
Total deferred tax assets	38,282

Deferred tax liabilities:

Tax effect of retained surplus	(10,417)
Prepaid pension cost	(4,996)
Reserve for advanced depreciation of noncurrent assets	(2,266)
Others	(3,948)

Total deferred tax liabilities	(21,628)
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Net deferred tax assets	16,653
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Retirement Benefits

1. Outline of the retirement benefit plans adopted

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

	(Millions of yen)
Projected benefit obligation	(69,068)
Fair value of plan assets	67,355
Subtotal	(1,712)
Unrecognized prior service cost	(217)
Unrecognized actuarial gain	9,723
Net amount recorded on the consolidated balance sheets	7,793
Prepaid pension cost	12,262
Provision for retirement benefits	(4,469)

3. Periodic benefit cost

Service cost	3,137
Interest cost	1,968
Expected return on plan assets	(1,950)
Amortization of prior service cost	(33)
Recognized actuarial loss	1,926
Net periodic benefit cost	5,048
Other	3,039
Total	8,087

“Other” refers to the total of annual pension contributions during the year.

4. Basis for computation used in determining projected retirement 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.
Discount rate	Mainly 2.0%
Expected return on plan assets	Mainly 2.5%
Amortization period of prior service cost	Mainly 10 years
Amortization period of actuarial gain/loss	Mainly 10 years

Non-Consolidated Statements of Income
From April 1, 2009, to March 31, 2010

(Millions of yen, rounded down to the nearest million yen)

Net sales		365,424
Cost of sales		284,720
Gross profit		80,704
Selling, general and administrative expenses		93,861
Operating income (loss)		(1,3157)
Non-operating income		
Interest income	265	
Interest on securities	17	
Dividends income	34,450	
Other	811	35,544
Non-operating expenses		
Interest expenses	3,828	
Interest on bonds	1,076	
Interest on commercial papers	166	
Sales discounts	506	
Foreign exchange loss	299	
Other	1,543	7,419
Ordinary income		14,968
Extraordinary income		
Gain on sales of investment securities	13	
Gain on liquidation of subsidiaries and affiliates	159	
Gain on extinguishment of tie-in shares	165	
Gain on reversal of subscription rights to shares	12	
Other	0	351
Extraordinary loss		
Loss on disposal of noncurrent assets	612	
Loss on cancellation of lease contracts	1,026	
Loss on valuation of investment securities	3,624	
Loss on valuation of stocks of subsidiaries and affiliates	236	
Other	56	5,556
Income before income taxes		9,762
Income taxes-current	1,214	
Income taxes-deferred	(4,559)	(3,344)
Net income		13,107

Non-Consolidated Statements of Changes in Net Assets
From April 1, 2009, to March 31, 2010

(Millions of yen, rounded down to the nearest million yen)

	Shareholders' Equity									
	Capital Stock	Capital Surplus	Retained Earnings						Treasury Stock	Total Shareholders' Equity
		Legal Capital Surplus	Legal Retained Earnings	Other Retained Earnings				Total Retained Earnings		
				Reserve for Advanced Depreciation of Noncurrent Assets	Reserve for Special Depreciation	General Reserve	Retained Earnings Brought Forward			
Balance at the end of previous period	85,032	82,977	6,066	3,179	35	168,210	(10,086)	167,405	(4,739)	330,675
Changes of items during the period										
Dividends from surplus							(10,216)	(10,216)		(10,216)
Reversal of reserve for special depreciation					(5)		5	—		—
Reversal of general reserve						(22,000)	22,000	—		—
Net income							13,107	13,107		13,107
Purchase of treasury stock									(994)	(994)
Disposal of treasury stock							(60)	(60)	210	150
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	(5)	(22,000)	24,835	2,830	(783)	2,046
Balance at the end of current period	85,032	82,977	6,066	3,179	30	146,210	14,749	170,235	(5,523)	332,721

	Valuation and Translation Adjustments			Subscription Rights to Shares	Total Net Assets
	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Total Valuation and Translation Adjustments		
Balance at the end of previous period	(15,418)	(34)	(15,453)	764	315,986
Changes of items during the period					
Dividends from surplus					(10,216)
Reversal of reserve for special depreciation					—
Reversal of general reserve					—
Net income					13,107
Purchase of treasury stock					(994)
Disposal of treasury stock					150
Net changes of items other than shareholders' equity	14,808	51	14,860	250	15,110
Total changes of items during the period	14,808	51	14,860	250	17,157
Balance at the end of current period	(610)	16	(593)	1,014	333,143

Notes to the Non-Consolidated Financial Statements

Significant Accounting Policies

1. Valuation basis and method for assets

(1) Securities

Shares of subsidiaries and affiliated companies: Valued at cost determined by the moving-average method.

Available-for-sale securities

Available-for-sale

securities for

which the fair

market values are

readily

determinable

Available-for-sale

securities for

which the fair

market values are

not 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.

Valued at cost determined by the moving-average method.

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

(3) Inventories: Mainly valued at cost determined by the gross average method (write-down of book values due to the decline in profitability) for the Company's inventories.

2. Depreciation method of fixed assets:

(1) Property, plant and equipment (excluding lease assets)

The depreciation of property, plant and equipment at the Company is computed by the declining-balance method using the applicable rates based on the estimated useful lives of the assets.

However, buildings (excluding buildings and accompanying facilities) acquired on or after April 1, 1998, by the Company are depreciated using the straight-line method.

(2) Intangible assets

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

Software for sales in the market is amortized by the straight-line method over the effective salable period (3 years).

(3) 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 reserves

(1) Allowance for doubtful accounts

The allowance for doubtful accounts 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.

(2) Provision for directors' bonuses

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

(3) Provision for product warranties

The provision for product warranties 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.

(4) Provision for retirement benefits

The provision 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 (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.

4. Other important matters as the basis for presenting the non-consolidated financial statements

(1) Hedge accounting method

(i) Hedge accounting method

The Company 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 Company 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 Company 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 Company'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. The Company has formulated the Risk Management Rules, which outline a risk management method and other details such as a cap on the amount of funds that can be used for derivative transactions. Derivative transactions are routinely conducted by the Finance and Accounting Division and routine risk management operations by the Corporate Planning Department based on the Rules, and the status of derivative trading is regularly reported to the Company's Board of Directors. A regular test is conducted to verify the effectiveness of the hedging function of the derivatives held by the Company. 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.

(2) Accounting for the consumption tax

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

5. Changes in the Significant Accounting Policies

Partial Amendments to "Accounting Standard for Retirement Benefits" (Part 3)

The Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) from the fiscal year ended March 31, 2010. This change has no impact on projected benefit obligation and income and loss.

Notes to the Non-Consolidated Balance Sheets

1. Assets pledged as collateral and corresponding secured debt

(Millions of yen)

Components of the industrial foundation's assets	
Buildings	10,974
Machinery and equipment	16,146
Tools, furniture and fixtures	1,941
Land	11,182
Total	(40,244)
Time deposits	640
Debt secured by the above collateral	
Long-term loans payable (including current portion of long-term loans payable)	1,410
Bank loans payable by business partners	418

2. Accumulated depreciation of property, plant and equipment:

(Millions of Yen)
302,095

3. Liabilities on guarantee

(1) Guarantees

Guarantees on the bank loans of the following affiliated companies payable to financial institutions

(Millions of yen)

Daikin America Inc.	10,164
Daikin Communication Science & Technology (Ningbo) Co., Ltd.	831
Number of other company: Two (2)	283
Total	11,279

(2) Commitments to guarantee

Commitments to guarantee on the bank loans of the following affiliated companies payable to financial institutions

(Millions of yen)

Daikin Fluorochemicals (China) Co., Ltd.	1,256
Daikin Europe N.V.	635
Formosa Daikin Advanced Chemicals Co., Ltd.	615
Arkema Daikin Advanced Fluorochemicals (Changshu) Co., Ltd.	545
AAF McQuay Limited	398
Twelve (12) other companies	1,324
Total	(4,776)

(3) Acknowledgements of loans payable

Acknowledgments of loans payable are deposited for bank loans of the following affiliated companies payable to financial institutions

(Millions of yen)

AAF-McQuay Inc.	16,185
Daikin Australia Pty. Ltd.	426
One (1) other company	146
Total	(16,757)

4. Monetary receivables/payables from/to affiliated companies (excluding those separately presented under the respective account titles)

(Millions of yen)

Short-term monetary receivables	72,666
Long-term monetary receivables	2,231
Short-term monetary payables	17,191

Notes to the Non-Consolidated Statements of Income

1. Volume of transactions with affiliated companies

	(Millions of yen)
Operating transactions	
Sales amount	241,708
Purchase amount	65,806
Non-operating transactions	63,246

Notes to the Non-Consolidated Statements of Changes in Net Assets

Type and number of shares of treasury stock as of March 31, 2010

Common stock: 1,461,456 shares

Tax Effect Accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

	(Millions of yen)
Deferred tax assets:	
Loss carryforwards	7,010
Provision for product warranties	4,559
Investment securities	4,467
Software	3,623
Provision for bonuses	2,138
Inventories	2,048
Accounts payable-other	1,389
Valuation difference on available-for-sale securities	751
Allowance for doubtful accounts	606
Long-term accounts payable-other	182
Enterprise tax payable	83
Others	1,555
Subtotal of deferred tax assets	28,417
Less valuation allowance	(5,390)
Total deferred tax assets	23,026
Deferred tax liabilities:	
Prepaid pension cost	(4,402)
Reserve for advanced depreciation of noncurrent assets, etc.	(2,266)
Total deferred tax liabilities	(6,669)
Net deferred tax assets	16,356

2. Reconciliation between the normal effective statutory tax rate and the actual effective tax rate

	(%)
Normal statutory income tax rate	40.6
(Reconciliation items)	
Valuation allowance	18.7
Unrecognized tax effect on foreign tax credit	18.3
Foreign income tax withheld relating to dividends from foreign subsidiaries	7.9
Entertainment expenses and others, which are permanently non-deductible	5.8
Per capita inhabitant's tax	1.0
Dividends income and others which are permanently excluded from taxable income	(111.2)
Refunds of income tax for prior periods	(13.7)
Others	(1.7)
Actual effective income taxes rate after the adoption of tax-effect accounting	(34.3)

Noncurrent Assets Used under Lease Contracts

In addition to the noncurrent assets recorded in the non-consolidated balance sheets, certain assets, including several sets of computers, are held and used under lease contracts.

Transactions with Related Parties

Directors, Corporate Auditors, major individual shareholders, etc.

Attribute	Name	Business Line or Occupation	Ownership Percentage of Voting Rights (%)	Description of Transactions	Transaction Amount (Millions of yen)	Account Title	Year-End Balance (Millions of yen)
Director/ Corporate Auditor	Chiyono Terada	External Director President and Representative Director of Art Corporation	0.00 (held)	Commissioned removal and merchandise distribution business ^{1,2,3}	361	Accounts payable-other	31

Notes:

1 Refers to so-called arm's length transactions.

2 The above transactions are determined by taking into account the market price and other factors similar to those for general transactions.

3 The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.

Subsidiaries

Attribute	Company Name	Ownership Percentage of Voting Rights (%)	Relationship with the Company	Description of Transactions	Transaction Amount (Millions of yen)	Account Title	Year-End Balance (Millions of yen)
Subsidiary	AAF-McQuay Inc.	100% (indirectly holding)	Manufacturing and sales of Daikin air conditioners	Guarantee of debt ¹	16,185	—	—
Subsidiary	Daikin America Inc.	100% (indirectly holding)	Manufacturing and sales of Daikin chemicals	Guarantee of debt ²	10,164	—	—
				Acceptance of guarantee commission ²	5	Accounts receivable-other	4

Notes:

1. The Company provides the acknowledgment of loans payable deposited for the bank loans of AAF-McQuay Inc.

2. The Company provides the guarantee for the bank loans of Daikin America Inc. Guarantee commission is set in view of the guarantee form.

Per Share Information

Net assets per share:

¥1,138.78

Net income per share:

¥44.91

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.