Annual Report 2013

Fiscal Year Ended March 31, 2013

DAIKIN INDUSTRIES, LTD.

Creating Products and Solutions that Offer Comfort and Amenity together with Environment-Friendliness

The Daikin Group's operations center on air-conditioning systems and have grown to encompass such offerings as fluorochemical refrigerant gases, resins, and elastomers; chemicals; and other products and systems that are providing benefits in a wide range of fields. Having begun undertaking M&A transactions and establishing joint ventures throughout the world from an early date, Daikin has made rapid progress in creating global production, marketing, and service networks while endeavoring to be "a truly global and excellent company" that makes significant contributions to the realization of sustainable growth in the global economy.

Today, the industrialized and emerging countries are facing shared challenges regarding the prevention of global warming and conservation of energy. Japan is striving to balance its supplies of and demand for electric power, and this project is increasing the need for electric power conservation measures. Since air conditioning accounts for a large share of electric power consumption along with associated CO_2 emissions, "energy control" has become one of the Daikin Group's most-important missions.

All of us in the Daikin Group are committed to generating outstanding technologies, products, and solutions that effectively enhance the comfort and amenity of life for people throughout the world while also promoting greater harmony with the global environment. By doing our utmost in these ways to earn high levels of trust and confidence throughout global society, we are building a solid foundation for sustained increases in Daikin's profit-earning power and corporate value.

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Our Group Philosophy

1. Create New Value by Anticipating the Future Needs of Customers

2. Contribute to Society with World-Leading Technologies

3. Realize Future Dreams by Maximizing Corporate Value

4. Think and Act Globally

5. Be a Flexible and Dynamic Group

1. Flexible Group Harmony
2. Build Friendly yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit

6. Be a Company that Leads in Applying Environmentally Friendly Practices

7. With Our Relationship with Society in Mind, Take Action and Earn Society's Trust

1. Be Open, Fair, and Known to Society
2. Make Contributions that Are Unique to Daikin to Local Communities

8. The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group

1. The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development
2. Pride and Loyalty
3. Passion and Perseverance

9. Be Recognized Worldwide by Optimally Managing the Organization and its Human Resources, under Our Fast & Flat Management System

1. Participate, Understand, and Act
2. Offer Increased Opportunities to Those who Take on Challenges
3. Demonstrate Our Strength as a Team Composed of Diverse Professionals

10. An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"

Forward-Looking Statements

This annual review contains statements regarding the future plans and strategies of Daikin Industries, Ltd. (the Company), as well as the Company's future performance. These statements are not statements of past facts but are based on judgments made by the Company on the basis of information known at the time. Therefore, readers should refrain from drawing conclusions based only on these statements regarding the future performance of the Company. The actual future performance of the Company may be influenced by economic trends, strong competition in the industrial sectors where it conducts its operations, foreign currency exchange rates, and changes in taxation and other systems. For these reasons, these forward-looking statements are subject to latent risk and uncertainty.

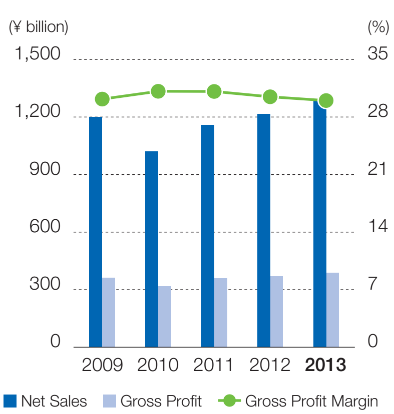
Financial Highlights

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

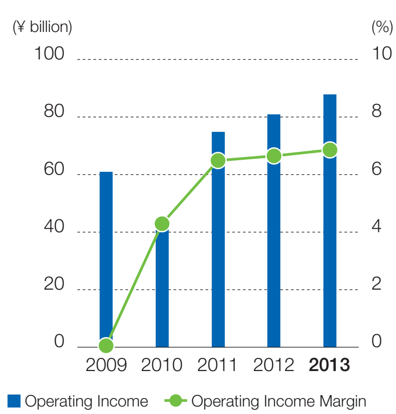
	Millions of yen	
	2012	**2013**
Operating Results (for the year):		
Net sales	¥1,218,701	**¥1,290,903**
Gross profit	371,902	**388,046**
Operating income	81,193	**88,627**
Net income	41,172	**43,585**
Cash Flows (for the year):		
Net cash provided by operating activities	¥44,967	**¥103,161**
Net cash used in investing activities	(62,955)	**(218,386)**
Free cash flow (Note)	(17,988)	**(115,225)**
Net cash provided by (used in) financing activities	(1,113)	**143,520**
Financial Position (at year-end):		
Total assets	¥1,160,564	**¥1,735,836**
Total shareholders' equity	502,309	**618,118**
Per Share Data (yen):		
Net income (basic)	¥ 141.37	**¥ 149.73**
Shareholders' equity	1,725.64	**2,123.10**
Cash dividends	36.00	**36.00**
Cash flow per share	(62)	**(396)**
Ratios (%):		
Gross profit margin	30.52%	**30.06%**
Operating income margin	6.66	**6.87**
Return on shareholders' equity (ROE)	8.30	**7.78**
Shareholders' equity ratio	43.28	**35.61**

Note: Free cash flow = Net cash provided by operating activities + net cash used in investing activities.

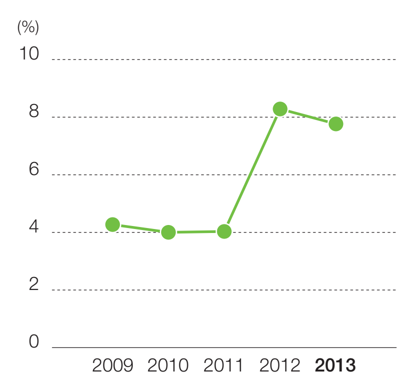
Net Sales, Gross Profit, and Gross Profit Margin



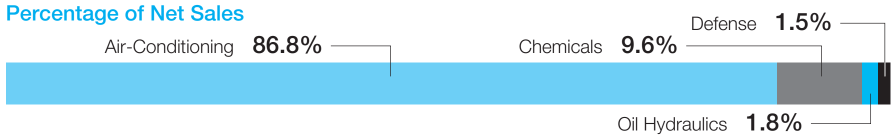
Operating Income and Operating Income Margin



ROE

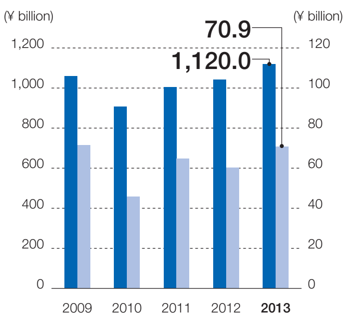


At a Glance



Air-Conditioning

Net Sales and Operating Income (Loss)



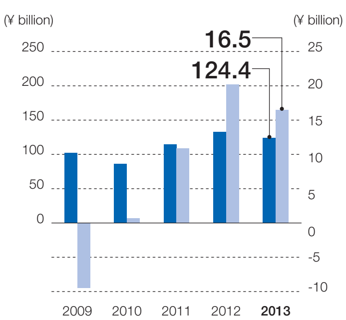
Major Products & Services

- Room air-conditioning systems
- Heat-pump hot-water-supply and room-heating systems
- Packaged air-conditioning systems
- Multiple air-conditioning systems for office buildings
- Air-conditioning systems for facilities and plants
- Medium- and low-temperature air-conditioning systems
- Absorption refrigerators
- Humidity-adjusting external air-processing units
- Air purifiers • Water chillers
- Air-handling units
- Marine-type container refrigeration

Description

Since becoming the first in Japan to manufacture packaged air-conditioning systems, in 1951, Daikin has supported comfortable living based on the strengths of technologies that it has itself nurtured as the world's sole manufacturer to create a full line of products from refrigerants to air conditioners.

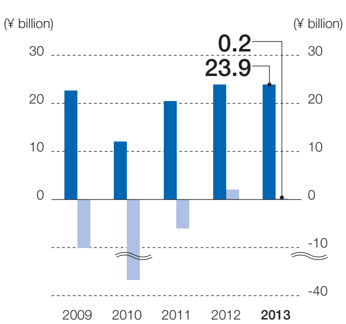
Chemicals



- Fluorocarbons
- Fluoroplastics
- Fluoro coatings
- Fluoroelastomers
- Fluorinated oils
- Oil- and water-repellent products
- Mold release agents
- Pharmaceuticals and intermediates
- Semiconductor-etching products
- Dry air suppliers

In 1933, Daikin was the first in Japan to engage in research on fluorinated refrigerants. Today, our activities range from research and development to commercialization, and we offer a lineup of more than 1,800 fluorine compounds.

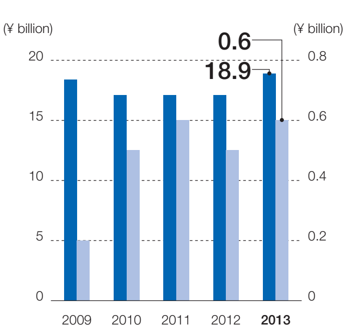
Oil Hydraulics



- Oil hydraulic pumps
- Oil hydraulic units
- Oil hydraulic valves
- Cooling equipment and systems
- Hydrostatic transmissions
- Centralized lubrication units and systems

Daikin's unique hydraulic technologies offer outstanding energy-conservation performance and are contributing to the development of industry by unleashing the potential of power control.

Defense



- Warheads
- Warheads for guided missiles
- Home-use oxygen therapy equipment

Daikin's superior machining and quality control technologies are used in the production of defense-related products and other industries where high levels of precision and performance are critical.

Tackling One Challenge after Another

Despite a harsh operating environment during the fiscal year under review, Daikin made steady progress in implementing key strategies for attaining its FUSION 15 five-year strategic management plan targets and also achieved a third consecutive fiscal year of growth in both sales and profitability. Striving to realize growth in our corporate value, we will continue vigorously addressing one new challenge after another going forward.

Fiscal 2013 (ended March 31, 2013) was a year in which the management environment became even harsher than we had anticipated, owing to such developments as economic sluggishness in Europe and a slowdown in the emerging economies' expansion, as well as such factors as the increasing opacity of China's economic outlook. Emphasizing the sustained generation of short-term profits, the Daikin Group strove to promote greater sales of products centering on air-conditioning products in Japan and overseas markets. As a result of this along with our continued progress in comprehensive cost-cutting programs, thorough attention to marketing price strategies, and relentless quality reform measures, the Group was able to achieve growth in both sales and profitability for a third consecutive fiscal year.

Determined to position Daikin for sustained growth over the medium-to-long term, we reinforced the foundation for realizing the objectives of the FUSION 15 strategic management plan, which covers the five fiscal years through March 31, 2016. Specifically, we prepared to rapidly expand our business in emerging economy markets through such initiatives as those to augment local manufacturing operations in China and India; strengthen marketing systems in such countries as Turkey, Vietnam, and Indonesia; and steadily implement other market cultivation measures. In Japan, we launched the first air conditioner in the world to employ the highly environment-friendly and efficient refrigerant R32 and other high-value-added products that made an important contribution to performance in fiscal 2013. We have continued closely monitoring households' and companies' rising consciousness of electric power conservation needs, and we are providing such customers with the energy conservation solutions that they seek. In addition, in November 2012, we acquired Goodman Global Group, Inc., a leading air-conditioner manufacturing company based in the United States. Goodman has the top share of the U.S. market for household air conditioners, and it also has abundant growth potential regarding commercial-use air conditioners. By taking advantage of synergies between Goodman and other Daikin Group units, we intend to earn a solid position as one of the top players in the North American air-conditioning market in the near future.

As the central third year of FUSION 15's five-year term, fiscal 2014 is an extremely important year during which we must make sure to prepare a solid foundation for the attainment of the strategic management plan's final objectives. Our fundamental growth strategies will be focused on speeding up "expanding our business in emerging economy countries and volume-zone markets," "developing solutions businesses that meet customer needs in each region of the world," and "generating environment-related innovation business." By assiduously implementing these strategies, we are earnestly striving to create a rock-solid foundation that enables Daikin to become the leading company in global air-conditioning markets and fully live up to its stakeholders' expectations regarding growth in corporate value.

June 2013

Noriyuki Inoue
Chairman of the Board and CEO

Focusing on Growth and Profitability

During the fiscal year under review, Daikin maintained robust short-term profitability and moved dynamically ahead with measures based on growth strategies articulated in its FUSION 15 strategic management plan. In fiscal 2014—the central third year of FUSION 15's five-year term—we are determined to make considerable additional progress in expanding our business scale while thoroughly strengthening our profit-generation capabilities.

June 2013

Masanori Togawa
President and COO

Q1: The fiscal year under review (fiscal 2013, ended March 31, 2013) was your second year as Daikin's president and COO, and you faced an operating environment replete with situations requiring difficult decisions. Looking back at the year, could you tell us your thoughts regarding Daikin's performance and related issues?

Togawa: We faced a management environment that was harsher than originally anticipated owing to such situations as the weakness of the European economy and the slackening of growth in emerging country economies. Because of that, making sure that various measures required to maintain robust short-term profitability were effectively implemented was the task requiring the most-intensive efforts.

Specifically, in air-conditioning business, we strove to expand sales in Japan, the United States, China, and other Asian countries and achieve rapid business growth in such emerging economies as those of India, Vietnam, and Turkey. At the same time, we continued moving quickly ahead with such profit structure enhancement measures as a comprehensive cost reduction program encompassing fundamental reevaluation of our fixed costs along with measures to ensure the thorough implementation of selling price adjustment policies.

As a result of those efforts, our consolidated net sales grew 5.9% from the level in the previous fiscal year, to ¥1,290.9 billion, and our operating income was up 9.2%, to ¥88.6 billion. Reflecting foreign exchange gains associated with the correction of the yen's excessive strength near the end of the fiscal year, our ordinary income surged 15.2%, to ¥94.1 billion. And although we recorded a ¥12.7 billion write-down of investment securities, our net income increased to ¥43.6 billion, a year-on-year rise of 5.9%. Fiscal 2013 was the third consecutive year in which we achieved growth in both sales and profitability.

Moreover, rather than simply managing to maintain strong short-term profitability, we also moved vigorously ahead with longer-term management tasks. We began the implementation of numerous new measures designed to elevate our profitability over the medium-to-long term.

The Daikin Group is currently midway through the implementation of the FUSION 15 strategic management plan, which covers the five fiscal years through fiscal 2016, ending March 31, 2016, and we are making steady progress toward realizing the plan's objectives of boosting net sales and operating income to levels in excess of ¥2 trillion and ¥200 billion, respectively.

Q2: Regarding medium- to long-term measures, you are steadily advancing toward the target of completing the implementation of measures emphasized within FUSION 15 by fiscal 2016. Please explain the progress Daikin made in this respect during fiscal 2013.

Togawa: The principal growth strategies emphasized by FUSION 15 include those designed to "expand our business in emerging economy countries and volume-zone markets," "develop solutions businesses that meet customer needs in each region of the world," "generate environment-related innovation business," and "accelerate growth through alliances, partnerships, and M&A transactions."

During fiscal 2013, our progress expanding business in emerging economy countries was particularly noteworthy in the Asian region, where we implemented strategies focused on volume-zone markets by augmenting our local manufacturing operations (China and India) and establishing marketing companies (Indonesia and Vietnam). Regarding solutions business, we have finally been making substantive progress in building HVAC (heating, ventilation, and air-conditioning) solutions designed to contribute to the realization of "zero energy residences, office buildings, and stores" (energy conservation and generation) suitable for the advent of the "smart city" era, and tangible benefits from our efforts in this field are beginning to emerge. With respect to environmental innovation, we launched the Urusara 7 room air conditioner—the first air conditioner in the world to employ the environment-friendly HFC refrigerant R32 and winner of the Minister of Economy, Trade and Industry Prize, the top prize in the 2012 Energy Conservation Award program—and other air-conditioner products with outstanding energy conservation performance in the Japanese market and were thereby able to expand our share of Japan's residential air-conditioner market. Each of these achievements is considerably bolstering the foundation for our attainment of FUSION 15's final-year objectives.

We are also striving to achieve further growth in the sales and profitability of our air-conditioning business in the industrialized countries. During fiscal 2013, we acquired Goodman Global Group, Inc., which has a leading share of the U.S. residential air-conditioner market, and we also progressed with the implementation of business structure reforms in Europe designed to adjust our operations in line with the slack conditions seen in European economies. In China, Japanese companies are facing special challenges amid an operating environment made more difficult by the deceleration of economic growth to the 7%-8% level, but we were able to achieve positive results from large-scale sales promotion programs that made the most of our powerful marketing network.

Q3: How do you expect your acquisition of U.S.-based Goodman to promote the Daikin Group's development going forward?

Togawa: Goodman is an air-conditioner manufacturer with the top share of North America's residential air-conditioner market. It has one of the largest marketing networks in North America (more than 900 directly operated outlets and approximately 60,000 affiliated dealers), and its thorough efforts to rationalize its distribution and marketing systems have enabled it to attain a high level of profit-earning power. Goodman's strong product lineup with respect to ducted residential unitary (central) HVAC systems—the main type of HVAC product in the North American market—as well as furnace heating equipment and commercial HVAC equipment gives it the potential for realizing additional business expansion in both the residential HVAC market, where demand is projected to recover to approximately six million units by 2015, and the commercial HVAC market, which is projected to maintain steady growth.

The acquisition of Goodman with its huge presence in the United States positions the Daikin Group to accelerate the full-scale development of its business in the U.S. residential air-conditioning equipment market—which accounts for most of the U.S. air-conditioning equipment market, the world's largest market for such equipment—and the light commercial air-conditioning market for medium-scale office buildings. By coordinating the operations of Goodman with those of McQuay International, a U.S.-based Daikin subsidiary that offers medium- to large-scale HVAC systems, and Daikin AC (Americas), Inc., a U.S.-based Daikin subsidiary that provides Japanese-style ductless HVAC systems, the Daikin Group can operate as a comprehensive air-conditioning equipment manufacturer prepared to serve all kinds of markets from the residential market through the large-scale office building market. This puts us in a strong position to quickly become the No. 1 air-conditioning company in North America and thereby become the global leading company in the air-conditioning field.

We performed our initial estimates of synergies stemming from the Goodman acquisition at the time of the completion of the acquisition process in November 2012. Based on those estimates, we are anticipating approximately ¥24 billion of cumulative synergy benefits in terms of operating income during the first three years following the acquisition and approximately ¥250 billion of benefits over the first decade following the acquisition.

We have been making smooth progress in realizing those benefits. In fiscal 2014, the first year in which Goodman's performance will be included in the Daikin Group's consolidated statement of income, we are anticipating that such measures as those to integrate the procurement functions of Goodman and McQuay will contribute roughly ¥2 billion of profit. Since May 2013, we have begun marketing ductless products through

Goodman's marketing routes, and we have begun full-scale participation in the light commercial market through the launch of ducted rooftop units for medium-scale commercial applications. We are also giving priority to the expedited implementation of various other Goodman-related business projects with a high level of potential for contributing to Group profitability. For example, we are developing high-value-added products for the premium zone of the U.S. ducted unitary residential air-conditioning market and are planning to launch those products in early 2014, and we are also arranging for Goodman plants to handle the local manufacturing in the United States of ductless products, including multi-split air-conditioning systems for office buildings and room air conditioners.

On a nonconsolidated basis, our fiscal 2014 performance targets call for Goodman to record ¥206.0 billion in net sales, up 6% from the previous year on a local currency basis, and achieve an operating income ratio of 13%. After deductions for such items as the depreciation of goodwill, we are anticipating that Goodman will contribute roughly ¥13.5 billion to the Daikin Group's consolidated operating income. While replacement demand in the U.S. residential air-conditioner market for the types of products regarding which Goodman is particularly strong is recovering only gradually, demand for new installations has become active, so demand for Goodman products is robust overall. Viewing these kinds of market trends as opportunities for business expansion, we intend to launch new energy-conserving versions of ductless (Daikin) products and ducted unitary (Goodman) products and undertake vigorously sales promotion campaigns for those products that leverage the capabilities of Goodman's powerful dealer network. While we are likely to face such new challenges as intensifying competition with other companies and increases in the cost of new product development programs, we are determined to maintain Goodman's high level of profit-generating power.

Summary of FUSION 15

■ Development Direction and Quantitative Targets

FUSION 15—Designed to Maximize Our Corporate Value as a "Global and Excellent Company"

	FY2011 actual results	FY2014 plan	FY2016 goals
Net sales	¥1,160.3 billion	¥1,600.0 billion	Over ¥2,000.0 billion
Operating income (%)	¥75.5 billion (6.5%)	¥130.0 billion (8.1%)	Over 10%
Overseas business ratio (%)	61%	65%	Over 70%

- Air-conditioning business: Daikin aims to achieve ¥1.9 trillion in net sales and a 10% share of the HVAC&R market in FY2016.
- Chemicals business: Daikin aims to become a global No. 1, excellent company that leads applications development and expands the fluorochemicals market.

■ Details of 11 Group-wide Core Strategy Themes

[Four New Growth Strategy Themes: Innovation that incorporates the changes of the era as growth]

(1) Fully enter emerging markets and the volume zones.
(2) Develop a solutions business that meets customer needs.
(3) Expand environment-related innovation business.
(4) Accelerate growth through alliances, partnerships, and M&A.

[Four Management Constitution Reform Themes: Sophistication of the management platform to succeed in the new era]

(1) Innovate product development, production, procurement, and quality capabilities.
(2) Strengthen global marketing function.
(3) Comprehensively develop capacity to utilize IT.
(4) Fundamentally reinforce profitability.

[Three Themes to Enhance HR Capabilities Based on People-Centered Management]

(1) Implement and sophisticate People-Centered Management, a source of Daikin Group's competitiveness.
(2) Accelerate development of measures to secure and develop quality HR that go beyond past measures.
(3) Speed up management localization and promote two-way communication between the head office and local bases.

Q4: Even compared to the other initiatives emphasized by FUSION 15, your plans for deepening Daikin's presence in emerging economy markets with great growth potential going forward are attracting considerable attention. Could you explain the specifics of your business development plans in individual target countries?

Togawa: To attain our FUSION 15 targets, it will be crucial to accelerate our business expansion in emerging economies as well as further elevate our profitability in those markets, and our business expansion projects have been progressing smoothly in such countries as India, Vietnam, Indonesia, and Turkey.

Looking at principal initiatives in individual countries during fiscal 2014, in India, we are planning to begin full-scale manufacturing of room air conditioners, add models employing the new refrigerant R32 to our lineup, and accelerate the addition of new dealers and marketing routes with an eye to elevating our market share. In Vietnam, we are expediting our measures to develop new dealers and broaden the scope of marketing from large cities to regional cities, and we expect that our vigorous sales promotion campaigns will be facilitated by the government's move to relax its restrictive monetary policies. In Indonesia, the directly operated marketing company we recently acquired began operating in June 2012, and it is expanding its sales of products centered on residential air conditioners. Having acquired another marketing company focused on commercial air-conditioning products in July 2013, we have prepared a solid foundation for implementing our strategy aimed at becoming the No. 1 air-conditioning company in the Indonesian market. In Turkey, we acquired a company two years ago that has begun manufacturing room air conditioners tailored to local needs and is also strengthening its marketing network for its mainstay multi-split air-conditioning systems for office buildings.

We are moving ahead with deliberations regarding the possibility of following up our recent start of local marketing company operations in Brazil with an additional plan for local manufacturing operations in that country, and we are also engaged in full-scale market research programs in connection with our consideration of plans to establish presences in additional promising markets in North Africa, Central Asia, Myanmar, and elsewhere.

In addition, we believe that of all the regions in which we have been developing our air-conditioning business, the region with the greatest potential for additional sales growth is the Asia-Oceania region. In Thailand, we are engaged in a marketing promotion campaign targeting a powerful resurgence of demand associated with such factors as the expansion of direct investments from overseas and growth in the number of middle-class households financially positioned to purchase room air conditioners. While the operating environment in Australia continues to be harsh, we are planning to realize a V-shaped recovery in performance in that country by working to augment our lineup of residential air-conditioner products and concurrently striving to strengthen our sales promotion campaigns for commercial-use air conditioners with particular attention to promoting our products at early architectural design stages.

Q5: On the other hand, the Japanese market is becoming mature, and there appears to be a need to create new paths for demand growth. What is Daikin's strategic vision for mature markets?

Togawa: Measures for strengthening our solutions business are a key part of our strategy for promoting the Daikin Group's development over the medium-to-long term. Aiming to achieve further growth and strengthen profitability in the mature Japanese air-conditioning market, we are implementing structural and organizational reforms in our applied (large-scale commercial) air-conditioning equipment business and solutions business, and our new organizational structure for those operations began operating from April 2013. By leveraging our core competitive strengths regarding air-conditioning equipment to address peripheral service needs—such as those related to the engineering, installation, and operation of air-conditioning systems along with instrumentation and control systems—we are seeking to provide levels of energy conservation, environmental friendliness, and amenity that are unattainable through the supply of equipment alone. We are aiming to build a highly profitable cyclical-type business format encompassing equipment sales together with installation, maintenance, and renovation services.

Q6: Could you explain the recent performance of Daikin's chemicals business along with the challenges you are facing in that business and your strategies for developing that business going forward?

Togawa: During fiscal 2013, the net sales and operating income of our chemicals business fell below the previous year's levels as a result of the large impact of selling price declines stemming from the protraction of slack demand in semiconductor-related markets and the softening of conditions in refrigerant gas markets. At this point, we have fallen behind our time schedule for attaining the realization of the chemicals business objectives of the FUSION 15 strategic management plan. In fiscal 2014, we are accelerating our development of fluorochemical applications designed to enable the use of fluorochemicals in place of other materials, striving to expand our business in the Chinese market and other Asian markets projected to grow over the medium-to-long term, and speedily moving ahead with the implementation of other recovery strategies.

One key focus of our application development programs is the use of composite technologies for enhancing the painting application, adhesion, and mixing of fluorochemicals, and we are also emphasizing new approaches to promoting greater sales of fluorochemical resins in China's volume-zone market in ways that enable us to overcome competition from local chemical makers.

Aiming to maintain our short-term profitability, we are promoting fluorochemical sales in robust markets for automotive applications as well as in next-generation product fields while concurrently moving ahead with comprehensive cost reduction programs. Specifically, we are targeting environment-friendliness-related applications for individual automobile makers by accelerating our efforts to promote the inclusion of our fluorochemical products in initial automobile design specifications with respect to such components as fluoroelastomers used in fuel hoses and fluorochemical additives used in the electrolyte solutions of lithium-ion batteries. We are campaigning to promote greater sales of Daikin's unique high-value-added products, such as OPTOOL anti-smudge surface coating agents used in smartphone touch panels and other products, ZEFFLE anti-fouling and weather-resistant coatings, and fluororesin films used to protect solar cells. In response to major changes in industrial structure, we are preparing to establish new presences in such environmental protection-related business fields as those associated with shale gas/oil production and water filters.

Q7: Could you tell us about any general strategic adjustments you may have in mind for fiscal 2014? In addition, please explain how you determined the level of cash dividends applicable to fiscal 2013.

Togawa: We are aiming to further elevate our Groupwide profit figures and profit-to-sales ratio during fiscal 2014 by proactively promoting additional business expansion and augmenting our fundamental profitability strengthening measures. As the third of the five years covered by our FUSION 15 strategic management plan, fiscal 2014 represents the midpoint of our current medium-term strategy, and our performance during the year will be an extremely important determinant of our success in attaining FUSION 15's ultimate objectives. Accordingly, we will be striving to further speed up the implementation of our fundamental growth strategies focused on "expanding business in emerging economy countries and volume-zone markets," "developing solutions businesses that meet diverse customer needs," and "generating environment-related innovation business."

In Japan, Europe, and China, we will be intensifying our marketing promotion programs for air-conditioning equipment and solutions, accelerating our applications development programs for chemical products, and taking other measures designed to bolster our marketing power. In emerging countries, we will emphasize measures for elevating profitability levels. In Japan, we will thoroughly implement selling price policies that reflect the depreciation of the yen, sustain our comprehensive programs for reducing all kinds of costs, including fixed costs, and endeavor to maximize our free cash flow through such measures as those to streamline inventories.

When it was initially drafted, FUSION 15 called for us to generate ¥130 billion in consolidated operating income during fiscal 2014. In view of such situations as the weakness of demand for air conditioners in Europe and the delay of recovery in demand for fluorochemicals, however, we adjusted our fiscal 2014 operating income forecast downward to ¥125 billion at the start of the fiscal year. It remains difficult to project future trends in our operating environment, but we are maintaining a flexible posture and are ready to rapidly implement suitable responses to whatever may happen in the environment—whether it be a further deterioration of conditions or a sharp recovery. In other words, we are selectively employing defensive and aggressive policies where they are appropriate as we aim to ensure a substantial increase in profitability. Although the operating environment may make our original ¥130 billion operating income target extremely difficult to attain at this point, we remain intent on doing our best to overcome the various challenges that must be surmounted to achieve that target, and that will be a principal objective as we make adjustments to our management strategies during the year.

Regarding returns to shareholders, Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (DOE) at 2.0% or higher and is seeking to set stable levels of dividends based on a comprehensive consideration of such factors as the Company's consolidated performance, financial position, and funding requirements. We are also striving to maintain internal reserves sufficient to further strengthen our management constitution while accelerating global business development, speeding up the development of products that help protect the natural environment, and making strategic investments designed to augment our business expansion and upgrade our competitive power. In light of all these factors, dividends applicable to fiscal 2013 amounted to ¥36 per share, unchanged from the previous year.

I greatly appreciate the understanding and confidence Daikin's stakeholders have shown to date, and I am hoping for your continued support going forward.

Air Conditioning—The Japanese Market

Overview of Operations in Fiscal 2013

Promoting Sales Based on Environment-Friendliness and High-Value-Added Features

During fiscal 2013, the Japanese economy benefited from a sustained gradual recovery in capital investments and housing construction starts. These fundamental trends, rising demand associated with electric power conservation, and the positive effects of a government subsidy program combined to support continued robust demand for commercial air-conditioning products.

In May 2012, the Daikin Group launched two new lines of commercial air-conditioning equipment that offer further improvement in energy-saving performance—the SkyAir series of air conditioners for buildings, stores, and offices and the Ve-up series of variable refrigerant volume (VRV) air-conditioning systems. These new products enabled the Group to meet additional new and replacement demand, and Daikin's commercial air-conditioning equipment sales in Japan surpassed the level in the previous fiscal year.

Overall demand in Japan's residential air-conditioning market was boosted by growth in new housing starts, an increase in demand for energy-saving air conditioners associated with a general rise in energy conservation consciousness, and favorable weather conditions.

In November, 2012, the Daikin Group launched the Urusara 7, the first room air conditioner in the world to use R32, a highly environment-friendly new HFC refrigerant with a low global warming potential (GWP). In recognition of Urusara 7's high energy conservation performance level and the technological innovation underlying that performance, Urusara 7 was awarded the Minister of Economy, Trade and Industry Prize, the top prize in the 2012 Energy Conservation Award program. In April 2012, Daikin launched the RakuAir line of room air conditioners employing easy-to-use remote controllers. Designed based on analyses of user psychology, the new remote controllers offer distinctive features that make them easy for seniors to use, and they also incorporate built-in humidity sensors and functions that facilitate the adjustments required to achieve optimally comfortable room temperatures.

Daikin's sales promotion campaigns for such high-value-added products as Urusara 7 and RakuAir, organization of energy conservation events in major cities, and other efforts helped boost shipments of the Group's residential air-conditioner products at a rate exceeding the rate of growth in market demand, and the Group's net sales of those products were above the level in the previous fiscal year.

Against the backdrop of growing concerns regarding pollen and PM 2.5 fine atmospheric particulates (suspended particles with diameters of 2.5 micrometers or less), overall demand in the Japanese market for residential air purifiers increased. The Daikin Group achieved considerable growth in its sales of such products through such initiatives as the July 2012 launch of new models in its Uruoi Hikari Kurieru line of air purifiers, which feature a dual air purification method—using Daikin's unique Flash Streamer technology and an active plasma ionizer—that clearly differentiates them from competing products.

Initiatives in Fiscal 2014

Addressing Electric Power Conservation Needs and Pioneering New Markets

In fiscal 2014, the Daikin Group believes it will be important to increase the proactiveness and effectiveness of its efforts to address Japan's electric power conservation needs. While diverse and increasingly dynamic measures are being taken to facilitate tangible progress toward zero-energy residences, office buildings, and stores, Daikin plans to promote the realization of zero-energy structures going forward by fostering the development of HVAC (heating, ventilation, air conditioning) solutions business as a principal pillar of its air-conditioning operations in Japan.

The Urusara 7 room air conditioner is the first air conditioner in the world to employ the environment-friendly HFC refrigerant R32.

In the commercial air-conditioning market, the Daikin Group is promoting sales of offerings highly differentiated from competing products on the basis of their high levels of energy-conservation performance, such as offerings in the Eco-ZEAS80 line, and Daikin is concurrently striving to develop a cyclical-type business format involving the provision of solutions that encompass equipment sales together with installation, maintenance, and renovation services.

Daikin is sustaining its efforts to expand its share of the residential air-conditioning market through measures centered on such highly differentiated products as Urusara 7 and RakuAir. The Group is also seeking to increase its annual sales of residential air purifiers to above the one million unit mark by emphasizing the outstanding performance of products in its Uruoi Hikari Kurieru line, and it anticipates that these efforts will be facilitated by the increasing attention air quality issues have received throughout Japanese society in the wake of high-profile findings with respect to the dangers of PM 2.5 particles.

While Japan's air-conditioning market is becoming increasingly mature, Daikin believes it can identify and develop additional growth fields in Japan going forward. Examples of such fields include the communication industry's data centers, which are growing in step with the increasingly widespread use of smartphones and tablets; agricultural production plants, which are aiming to ensure food safety and realize international competitiveness; housing facilities for seniors that offer nursing and other services; and facilities designed in line with the "smart city" concept for realizing zero-energy structures. HVAC solutions that help reduce electric power and energy consumption are an important requirement in all those fields, and Daikin plans to achieve additional growth in its Japanese air-conditioning business operations by proactively pioneering those new markets.

Air Conditioning—The Global Market

Overview of Operations in Fiscal 2013
Sustained Business Expansion in China, the United States, and Emerging Countries

During fiscal 2013, Daikin's air-conditioning business units continued to face harsh conditions in the important European region market but sustained strong sales in other regions of the world. The Group's overall sales in the global market surpassed the level in the previous fiscal year.

In the European region, the strong impact of widespread recessionary economic conditions caused a year-on-year decline in Daikin's sales of residential air conditioners. Regarding commercial air conditioners, the weakness of sales in EU countries was offset by sales growth in the Middle East, Turkey, and other emerging countries, and overall sales of mainstay VRV multi-split type commercial air-conditioning systems were maintained at approximately the same level as in the previous fiscal year. Operations in Turkey continued to contribute to consolidated performance, reflecting the strong performance of a local subsidiary acquired in July 2011. With respect to heat-pump water and room heating systems, demand was down in the major markets of France as well as the United Kingdom, but Daikin's efforts to expand its marketing channels in the central Europe, Italy, Greece, and other new markets enabled it to achieve year-on-year growth in unit sales volume.

With respect to China, demand was robust in the suburbs of major cities and in regional cities but fell in major cities. As a result, Daikin moved further ahead with its development of commercial air-conditioning equipment marketing agencies in suburbs and in China's central and western regions and other inland regions. Regarding residential air-conditioning products, the Group moved ahead with the pioneering of new market segments by expanding its marketing network for residential multi-type air conditioners in all regions of China and by developing special models with specifications tailored to match needs in China. Regarding large-scale (applied) air-conditioning systems, the Group also took measures to strengthen sales networks and bolster product lineups. Despite harsh market conditions, Daikin's proactive expansion of sales promotion measures led to a year-on-year rise in its overall sales in China.

In the Asia/Oceania region, the impact of unseasonable weather and other factors restrained sales in the major market of Australia to roughly the same level as in the previous fiscal year. However, sales growth in such emerging countries as Thailand, India, Vietnam, and Indonesia (where a new marketing company was established in June 2012) caused Daikin's overall sales in the region to surpass the level in the previous fiscal year.

Regarding the Americas region, demand for large-scale (applied) air-conditioning systems in North America was flat, but Daikin was able to increase its sales of such systems in the Americas region by augmenting its sales of new products, expanding its service business operations, and broadening the scope of marketing operations in Central America and South America. In the North American ductless air-conditioner market, the Group stepped up its efforts to elevate the awareness of the Daikin brand on the parts of dealers and construction-related companies and was thereby able to achieve a further increase in sales of VRV building-type multi-split air-conditioning systems. Sales of residential air-conditioning systems as well as air-conditioning systems for small and medium-sized shops were above the level in the previous year.

A Group company in Turkey has begun manufacturing air-conditioner products designed to match local needs.

Initiatives in Fiscal 2014
Europe: Strengthening Business Structures and Expanding Room Heating System Business

While demand in Europe is projected to remain weak during fiscal 2014, Daikin is emphasizing measures to strengthen its regional businesses over the medium term, aiming to fundamentally upgrade its competitive power through such initiatives as those to reform and reinforce the marketing capabilities and cost-competitiveness of all 12 Group marketing companies in Europe. The Group is also proceeding with the implementation of strategies for expanding sales of volume-zone residential air-conditioning products in southern European markets and increasing sales of high-value-added offerings throughout the Europe region. In addition to moving ahead with the expansion of marketing channels for room heating systems throughout the region, Daikin is launching new room heating offerings tailored to local market needs, such as compact Altherma heat-pump water and room heating systems in France and combustion-type heating products in Germany and Italy.

China: Multi-Dimensional Measures for Elevating Marketing Power and Product Power

While the outlook for a recovery in demand in China remains somewhat opaque, Daikin is working to expand its nationwide marketing network—increasing the number of outlets from 12,000 to 14,000—and accelerate its marketing programs in regional cities and inland regional cities. While the demand associated with large-scale projects is declining, the Group is seeking to increase its sales by emphasizing retail sales. The Group reevaluated all its commercial and residential offerings and undertook a full model change transition for more than 1,000 products in March 2013. Regarding its mainstay VRV systems, also, Daikin is striving to increase its market share by introducing new models that feature overwhelmingly superior energy-conservation performance. In the relatively mature markets of major cities, the Group is cultivating replacement demand by proposing solutions packages that include services. The Group is also establishing air-business operations related to air purifiers and total heat exchangers, for which demand is expected to surge along with the general rise in the awareness of the dangers of PM 2.5 fine atmospheric particulates.

Daikin is further expanding and strengthening its marketing network throughout China.

Asia/Oceania Region: Full-Scale Local Manufacturing in India

Daikin is working to promote greater sales and further strengthen its profitability in the strategically emphasized markets of India, Vietnam, and Indonesia, seeking to greatly increase the overall level of its sales in the Asia/Oceania region. In India, the Group inaugurated full-scale local manufacturing operations for room air conditioners and expanded its product lineup with the addition of models that use R32, a highly environment-friendly new HFC refrigerant with a low global warming potential (GWP). In Vietnam, the Group is creating additional marketing outlets and accelerating its business development programs in regional cities. In Indonesia, a newly established local marketing subsidiary is playing a central role in creating additional marketing outlets at a rapid pace.

North America: Accelerating Business Expansion Based on Synergies with Goodman

Overall demand for air-conditioning products in the North America region is projected to recover slowly but steadily. Regarding applied products, Daikin is launching new products, reinforcing its marketing network, and working to expand its solutions business. General awareness of the energy-saving characteristics of ductless air conditioners is rising in the region, and the Group is expanding its lineup of such products as well as its related marketing and servicing systems. The Group is placing strong strategic emphasis on measures to generate synergies between Daikin's environmental technologies and the dealer network of Goodman Global Group, Inc., which was acquired in fiscal 2013. Besides seeking to meet residential replacement demand, Daikin is bolstering its lineup of high-value-added products and working to expand its sales in the newly constructed housing market. Additional initiatives are being made to establish a full-scale presence in the light commercial market for systems used in medium-sized buildings. All these measures are designed to quickly realize Daikin's objective of becoming the No. 1 air-conditioning company in North America.

Daikin's sales of residential air conditioners in the United States have been surging since the acquisition of Goodman Global Group, Inc.

Chemicals

Overview of Operations in Fiscal 2013
OPTOOL Products: A Principal Chemicals Segment Sales Growth Driver

In fiscal 2013, the Chemicals segment recorded year-on-year decreases in sales and operating income.

Among principal fluoropolymer sector products, the Daikin Group achieved robust sales of such melt resins as fluorinated ethylene propylene (FEP) and ethylene tetrafluoroethylene (ETFE) in the U.S. market for LAN cable applications, the Chinese market for communications terminal electrical cables, and other parts of the global market for electric cable-related applications. In China, despite the slowing of economic expansion and deceleration in demand associated with infrastructure investment and exports, the Group was able to maintain strong sales owing to its sales promotion campaigns for polytetrafluoroethylene (PTFE) resins in volume-zone market segments. On the other hand, demand in semiconductor-related and other markets of Japan, elsewhere in Asia, and the United States was sluggish. Sales of fluororubber products were down owing to the impact of factors that included a decrease in automobile-related demand in Europe. As a result, total sales of fluoropolymers were below the level of the previous year.

Regarding the chemical products sector, demand for water and oil repellents associated with apparel-related applications was down in China and other Asian countries, but Daikin moved ahead with the marketing of products for new applications in the U.S. and European markets. In addition, sales of OPTOOL anti-smudge surface coating agents used in smartphone touch panels and other products were up by a considerable margin. This achievement reflected the benefits of efforts to develop applications in fields where fluorochemicals had not previously been used, thoroughly coordinate Group operations and promote information sharing globally, and closely monitor changes in needs related to end users' supply chains and quickly respond to those changes. As a result, overall sales of offerings in the chemical products sector rose to above the level in the previous year.

Sales of fluorocarbon gas refrigerant products were down considerably from the fiscal year owing to the impact of price declines accompanying the softening of market conditions in Japan, China, and other Asian countries, and this fluorocarbon gas sales drop had a large impact on the overall performance of the Chemicals segment.

Fluororesins are used to manufacture automobile components with outstanding heat resistance and low fuel permeability.

Initiatives in Fiscal 2014
Aiming for Sales/Profit Growth Centered on Newly Developed Applications

While Daikin anticipates that demand level recoveries will be delayed to various degrees in individual product segments during fiscal 2014, the Group is accelerating its use of composite technologies for enhancing the painting application, adhesion, and mixing of fluorochemicals while concurrently emphasizing measures to promote the sales of environment-friendly products designed to facilitate the realization of such objectives as fuel efficiency increases and exhaust gas emission reductions.

In China, Daikin is anticipating that the expansion of the automobile-related market and a resurgence of infrastructure investments will support robust growth in demand for such products as fluororubbers, PTFE, and weather-resistant coatings, and the Group is launching new offerings and undertaking marketing promotion campaigns targeting the volume-zone segments of Chinese markets for such products. The FUSION 15 strategic management plan has set the goal of increasing annual Chemicals segment sales in China to roughly ¥100 billion. In addition to leveraging the benefits of previous efforts to strengthen marketing programs designed to be effective in Chinese markets, bolster cost-competitiveness, and progressively boost capabilities for developing products that match local needs, Daikin is seeking to attain this goal by focusing on new applications and making the most of its new local manufacturing base—the Changshu Plant, which began manufacturing DAIEL fluororubber products and ZEFFLE weather-resistant coatings in fiscal 2014.

Other important strategic themes for Chemicals segment operations are expanding operations in new regions, initiating business in new markets, and developing applications for new products.

In line with its strategy of targeting emerging economy country markets, Daikin has begun the full-scale development of operations in South Korea, where it recently established a local marketing base, and is moving ahead with measures for expanding marketing operations to end users in India, Brazil, and ASEAN member countries. In particular, Daikin plans to establish a local base in India and undertake the full-scale development of its operations in that country.

Regarding new markets, Daikin is addressing opportunities associated with emerging markets for information terminal applications of its oil- and water-repellent coating agents as well as applications of R32 HFC refrigerant and other products. The Group is examining numerous opportunities for inaugurating environment-related business associated with oil and gas production—particularly in the United States, which is experiencing a boom in the employment of unconventional methods for exploiting shale oil resources—and it is moving ahead with the development of new product applications related to all aspects of global oil and gas production activities.

With respect to new products, plans call for the development of additional products targeting volume-zone market segments as well for the use of Daikin's unique technologies to develop and launch numerous new highly differentiated offerings.

In addition to these initiatives, aiming to ensure it can increase its sales and profitability during fiscal 2014, Daikin is implementing such measures as those focused on strengthening short-term profitability through the thorough application of product pricing policies, the reduction of raw materials procurement costs amid softening market conditions, and the lowering of fixed-cost levels.

Used here on a railway station building, ZEFFLE Infrared Reflective Coating is a fluorochemical coating that is highly resistant to weathering.

Oil Hydraulics

Overview of Operations in Fiscal 2013

Strong Sales of Oil Hydraulic Equipment Used in Construction Machinery and Motor Vehicles

Daikin's oil hydraulic equipment is used to enable the smooth operation of power shovels and other construction equipment, processing equipment in factories, as well as tractors and other small-scale motor vehicles. The Daikin Group is leveraging energy-conservation technologies accumulated in its air-conditioning operations to develop and manufacture hydraulic pumps, hydraulic units, and other oil hydraulic products that help improve the performance of machinery and vehicles with respect to high-precision operations, noise reduction, compactness, and energy conservation. In addition, by integrating oil hydraulic control technologies and invertor motor technologies to create hybrid hydraulic systems, the Group is developing unique products that contribute to the protection of the natural environment.

In fiscal 2013, Daikin's industrial machinery-related oil hydraulic equipment business maintained robust sales in the U.S. market, although slack demand in European, Japanese, and other Asian markets kept sales below the level in the previous year. Sales of oil hydraulic equipment used in construction machinery and motor vehicles were up year on year, reflecting the strength of domestic and overseas demand.

In January 2013, the Daikin Group moved to strengthen its oil hydraulic transmission operations targeting China's agricultural machinery market by reorganizing those operations within a newly established joint venture, Daikin-Sauer-Danfoss, Ltd. The Group's maintenance, repair, and operations (MRO) business in the U.S. market has continued to realize a smooth increase in sales.

Initiatives in Fiscal 2014

Attaining FUSION 15 Targets through Emphasis on Chinese Business

Fiscal 2014 is the third of the five years covered by the FUSION 15 strategic management plan, and the Daikin Group is implementing various strategically emphasized measures aimed at making steady progress toward the goal of increasing Oil Hydraulics segment sales to ¥30 billion by fiscal 2016, the final year of FUSION 15.

The strategically emphasized measures receiving top priority are those focused on strengthening business in China. In view of the particular importance of cost-competitiveness in Chinese markets, the Oil Hydraulics segment is collaborating with the Group's Air Conditioning segment to progressively increase the local procurement of materials and components and augment the internal production of cast metal components and other components at the plant of Daikin Hydraulics (Suzhou) Co., Ltd.

Regarding industrial machinery-related oil hydraulic equipment business, the Group is emphasizing the realization of global business growth through measures to newly enter such markets as those of South Korea and countries in Europe and the ASEAN countries. In the mainstay Japanese market, Daikin is striving to accelerate the expansion of its customer base by integrating the operations of marketing, technical, and manufacturing units to further enhance its marketing power and engineering power as a means of better meeting such customer needs as those related to electric power and energy conservation as well as low-cost operations.

In addition to the above-mentioned initiatives, Daikin is seeking to utilize the business know-how of Chicago-based subsidiary All World Machinery Supply, Inc., to expand the scope of reliably profitable MRO business in the United States by establishing presences in Latin American and Asian markets.

Defense

Overview of Operations in Fiscal 2013
Achievement of Year-on-Year Sales Growth

During fiscal 2013, orders from Japan's Ministry of Defense for artillery shells and guided missile components increased despite the reduction of Japan's defense budget. With respect to business in civil-sector fields, the segment maintained strong sales of mainstay home-use oxygen therapy equipment offerings. Aiming to better differentiate its offerings from competing products, Daikin launched five-liter oxygen-concentration devices that are roughly as compact as previously marketed three-liter oxygen-concentration devices in December 2012, and the new products have been highly evaluated in the market. As a result, the Defense segment's overall sales surpassed the previous year's level.

Initiatives in Fiscal 2014
Pioneering Chinese Markets for Civil-Sector Offerings

While the restriction of Japan's defense budget is projected to present challenges during fiscal 2014, Daikin is working to overcome those challenges by reducing fixed and variable costs as a means of strengthening profit-earning capabilities while also implementing a comprehensive reform of all business processes from materials procurement through product shipments and further reducing inventory levels. In civil-sector fields, the Group is working to expeditiously initiate and expand the marketing of oxygen-concentration devices in China. Having established Daikin Medical Technology (Suzhou) Co, Ltd., Daikin plans to provide home-use oxygen therapy equipment along with a set of related services, in accordance with its business model for such operations in Japan, and it will concurrently accelerate its development of such equipment designed for the volume-zone market segment.

Corporate Governance

Fundamental Corporate Governance Concept

The Daikin Group's corporate governance systems are designed to help accelerate decision making and operational execution work in anticipation of and response to changes in management tasks and the management environment while concurrently promoting consistently high levels of management transparency and soundness, thereby seeking to increase the Group's corporate value.

Going forward, the Group will be striving to ensure the increasing sophistication of speedy management, the strengthening of consolidated management, and still-higher levels of soundness and transparency. In addition, to realize an increase in corporate value, the Group will continually consider and reevaluate its concepts regarding the most-appropriate forms of corporate governance as it pursues a diverse range of Group-level initiatives aimed at ensuring best practices throughout the Group.

Management and Operational Execution Systems

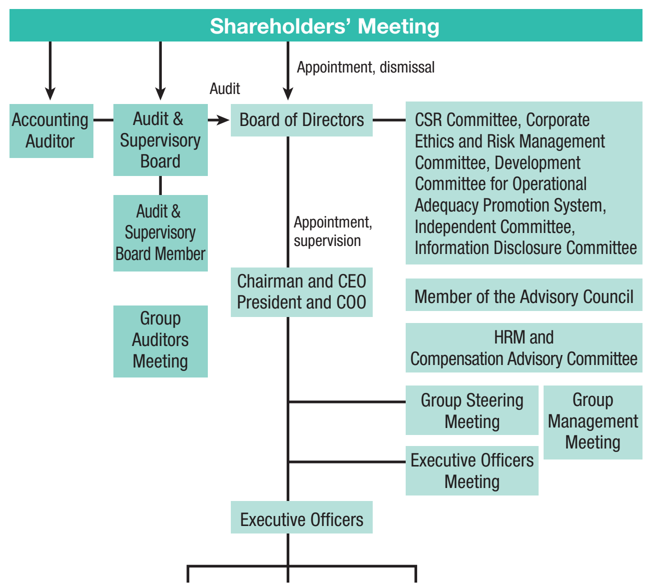
Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management responsibilities as well as for operational execution responsibilities. In view of the special characteristics of the Group's business, it was judged that this is a more-effective means of accelerating decision making and operational execution. In addition, the Group has introduced an Executive Officer System to accelerate the speed of execution based on autonomous judgments and decisions in units handling each region, division, and function.

Daikin entrusts the CEO with the responsibility for making management decisions and assigns the COO the responsibility for executing operations. The CEO bears responsibility primarily for decision making with respect to a full range of management issues, including those involving Group companies. The COO bears responsibility primarily for executing operations. This system is used to give due attention to both decision making and operational execution processes while seeking to accelerate both kinds of processes with respect to all kinds of management tasks, including important management issues.

To facilitate speedy decision making based on substantive discussions, the Board of Directors has been designed to include a small number of members. As of June 2013, the Board of Directors included 12 members, including one female external director and one non-Japanese part-time director. Based on this system, the Board of Directors is making speedy strategic decisions and performing sound supervision for the entire Group.

Daikin's Board of Directors included two outside directors as of June 2013. Daikin seeks to recruit outside directors who have abundant experience and deep insight and can, therefore, offer a sophisticated perspective on a broad range of issues as they participate in decision making and supervise management. Accordingly, experience as a top manager in a listed enterprise is a principal nomination criterion for outside director recruitment.

To ensure that the outside directors can effectively contribute to Daikin's corporate governance system, the outside directors are assigned assistants in the Management Planning Office who strive to provide the outside directors with early notice of Board of Directors meetings. In addition, in the case that an outside director is not able to attend a Board of Directors meeting, the assistants provide the outside director with related materials and subsequently provide the outside director with an explanation of the proceedings of the meeting and provide other assistance.



(The rest is abbreviated)

Activities by External Directors

Name	Principal Activities
Chiyono Terada	Attended 14 out of 16 meetings of the Board of Directors this fiscal year, Chiyono Terada offered timely proposals as needed, based on her abundant experience and deep insight as a corporate manager and especially from her broad and advanced perspective, including proposals concerning management based on the viewpoints of consumers, such as the importance of the brand of the Company, and measures to further promote achievements of female employees.
Kosuke Ikebuchi	Attended all 16 meetings of the Board of Directors this fiscal year, Kosuke Ikebuchi provided timely proposals as needed, based on his abundant experience and deep insight as a corporate manager and especially from his broad and advanced perspective, including viewpoints concerning manufacturing, such as production innovation, cost reduction, and enhancement of reliability and productivity.

Systems for Supporting Speedy Management

The top deliberative unit in the Group's management system is the Group Steering Meeting. This unit determines the direction of important management policies and strategies in a rapid and timely manner, thereby accelerating the resolution of issues.

In addition, the Group Management Meeting aims to thoroughly share information on important management policies and the basic strategies of the Group and support and expedite Group companies' problem-solving efforts. To further increase the Group's overall corporate value and ensure the Group lives up to its responsibilities to society, the Group Management Meeting strives to ensure that the Group is characterized by a unified understanding and speedy corporate operations.

The Group's management system also includes such units as an Executive Officers Meeting as well as an Advisory Council that offers opinions and advice regarding management issues from an independent standpoint.

Audit System

Daikin employs a Board of Corporate Auditors and seeks to nominate two or more outside members to its Board of Corporate Auditors. The principal nomination criteria for outside corporate auditors are the same as those for outside directors and include independence from the Company in terms of not having a relationship of interest with the Company. As of June 2013, Daikin's four corporate auditors included two outside corporate auditors. The outside corporate auditors attend meetings of the Board of Directors as well as other important meetings and receive reports. In addition, they are able to express diverse opinions.

To ensure effective audit functions, the Board of Corporate Auditors receives reports on important issues related to management and performance when necessary and also investigates relevant units, confirms approval of documents, and regularly exchanges opinions with representative directors, executive officers, and the independent auditors. To strengthen Groupwide auditing and auditing functions for all Group companies, including overseas subsidiaries, principal Group companies appoint Group auditors. The corporate auditors and Group auditors regularly hold Group Auditors' meetings and otherwise work to increase the smoothness of information flows.

Activities by External Corporate Auditors

Name	Principal Activities
Yoshiyuki Kaneda	Attending all 16 meetings of the Board of Directors and 14 out of 15 meetings for the Board of Auditors this fiscal year, Yoshiyuki Kaneda offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially in manufacturing technology and production management.
Hitoshi Murakami	Attending all 16 meetings of the Board of Directors and all 15 meetings of the Board of Auditors this fiscal year, Hitoshi Murakami offered timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, especially in risk management. As of June 27, 2013, Hitoshi Murakami retired from his position as a corporate auditor upon the completion of his term.
Ryu Yano	Appointed in June 2013, Ryu Yano is offering timely proposals as needed, based on his abundant experience and deep insight as a corporate manager, particularly with respect to overseas business.

Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer-related personnel and remuneration management processes, Daikin has established the Compensation Advisory Committee, which is chaired by an outside director. This committee engages in discussions and deliberations regarding such issues as those related to corporate officer nomination criteria, corporate officer candidates, and remuneration. The remuneration of directors and corporate auditors is determined so as to fall within the aggregate remuneration ceiling of directors and corporate auditors as determined by a resolution of the general shareholders' meeting. Based on a report from the Compensation Advisory Committee, the directors' remuneration is determined by a resolution of the Board of Directors while the corporate auditors' remuneration is determined by a resolution of the Board of Corporate Auditors.

Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and respond to shareholders' expectations by increasing corporate officers' motivation to promote a sustained increase in Group performance over the medium-to-long term and thereby contributing to a rise in the Group's corporate value.

Directors' remuneration includes "fixed compensation," "performance-linked compensation" that reflects the Group's short-term performance (net sales and operating income) and each director's job responsibilities, and "stock options" that reflect the Group's medium- to long-term performance. The performance-linked compensation of Daikin directors is given a somewhat higher ratio of linkage with performance than average to ensure that the incentive effect of that compensation is sufficient.

The remuneration of outside directors and corporate auditors includes "fixed compensation" only.

Compensation levels are determined based on consideration of Daikin's performance and remuneration levels compared to those of other leading manufacturing companies in Japan after analyzing and comparing data from an outside specialized institution on the remuneration of corporate officers active in approximately 200 Japanese companies listed on the First Section of the Tokyo Stock Exchange.

Total Compensation for Directors and Corporate Auditors

Position	Number of Directors and Corporate Auditors	Total Compensation (Millions of yen)
Directors	13	823
Corporate Auditors	4	89
Total	17	913

Total Compensation for External Directors and External Corporate Auditors

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

Directors, Auditors, and Executive Officers (As of June 27, 2013)

Position(s)	Name	Responsibilities & Principal Jobs
Chairman of the Board and CEO	**Noriyuki Inoue**	
President and COO, Member of the Board	**Masanori Togawa**	
Member of the Board (external)	**Chiyono Terada**	President and CEO of Art Corporation
Member of the Board (external)	**Kosuke Ikebuchi**	Senior Advisor to the Board and Senior Technical Executive of Toyota Motor Corporation
Member of the Board and Senior Executive Officer	**Guntaroh Kawamura**	Responsible for Chemicals Business and General Manager of Yodogawa Plant
Member of the Board and Senior Executive Officer	**Ken Tayano**	Responsible for Domestic Air-Conditioning Business, Representative of China Region, Chairman and President of Daikin (China) Investment Co., Ltd., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Takeshi Ebisu**	Responsible for Corporate Planning and G Company
Member of the Board and Senior Executive Officer	**Masatsugu Minaka**	Representative of Air-Conditioning Operations in the Europe/Middle East/Africa Region, President of Daikin Europe N.V., and Member of Global Air-Conditioning Committee
Member of the Board and Senior Executive Officer	**Jiro Tomita**	General Manager of Air-Conditioning Manufacturing Division, Chairman of PD Alliance Promotion Committee, General Manager of Sakai Plant, Member of Technology and Innovation Center Preparation Office, Sub-leader of ATT Project, and AGH Project Leader
Member of the Board and Senior Executive Officer	**Takashi Matsuzaki**	Responsible for Air-Conditioning Research and Development (including Applied Solution Business and Refrigeration) and Global Procurement, General Manager of Shiga Plant, and Member of Technology and Innovation Center Preparation Office
Member of the Board and Executive Officer	**Koichi Takahashi**	Responsible for Accounting, Finance, and Budget Operations, General Manager of the Finance and Accounting Division, Chairman of Information Disclosure Committee, Chairman of Development Committee for Operational Adequacy Promotion System, IZS Project Leader
Member of the Board (non-resident)	**Frans Hoorelbeke**	Chairman of Daikin Europe N.V.
Audit and Supervisory Board Member	**Shigeru Murakami**	
Audit and Supervisory Board Member	**Kenji Fukunaga**	
Audit and Supervisory Board Member (external)	**Yoshiyuki Kaneda**	Former Officer of Sony Corporation
Audit and Supervisory Board Member (external)	**Ryu Yano**	Director and Chairman of Sumitomo Forestry Co., Ltd.
Senior Executive Officer	**Junichi Sato**	Representative of Air-Conditioning Operations in Central America and South America (including American Air Filter) and Member of Global Air-Conditioning Committee
Senior Executive Officer	**Yukio Hayashi**	Responsible for Liaison Business and Defense Division and General Manager of Tokyo Office
Senior Executive Officer	**Kosei Uematsu**	Responsible for Global Air-Conditioning Business (excluding Japan) and Refrigeration Division and Member of Global Air-Conditioning Committee
Senior Executive Officer	**Shigeki Hagiwara**	Responsible for Applied Solution Business, Service Operations, and Training and General Manager of Applied Solution Business Division
Senior Executive Officer	**Hiroo Yoshioka**	Responsible for Manufacturing Technology and Oil Hydraulics Business, Deputy General Manager of Air-Conditioning Manufacturing Division, and Member of Global Air-Conditioning Committee
Senior Executive Officer	**Susumu Okano**	Responsible for CSR and Corporate Communication, Corporate Ethics, Compliance, Legal Affairs, and IT Development, Department Manager of Corporate Communication Department and Department Manager of Corporate IR Group, and Chairman of CSR Committee and Corporate Ethics and Risk Management Committee
Senior Executive Officer	**Shinya Okada**	Responsible for Global Environment, GRT Project Leader
Senior Executive Officer	**Yasushi Yamada**	Responsible for Safety
Executive Officer	**Katsuyuki Sawai**	Responsible for Human Resources and General Affairs
Executive Officer	**Toshitaka Tsubouchi**	General Manager of Air-Conditioning Sales Division
Executive Officer	**Osamu Tanaka**	Deputy General Manager of Air-Conditioning Manufacturing Division (Product Development), and Member of Technology and Innovation Center Preparation Office
Executive Officer	**Hiroo Sakai**	Responsible for Chemicals Research/Technology Product Commercialization Promotion/Environment/Safety and General Manager of Chemicals Division
Executive Officer	**Yoshikazu Tayama**	Department Manager of Consolidated Management Administration Group, Finance and Accounting Division
Executive Officer	**Yoshiyuki Uemura**	Director of Goodman Global Group, Inc., EVP for Cooperation and Strengthening Technological Capabilities, and Director of Daikin Holdings (Houston), Inc.
Executive Officer	**Masayuki Moriyama**	Director and Vice President of Daikin (China) Investment Co., Ltd. and COO of McQuay China
Executive Officer	**Yoshihiro Mineno**	General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director of Daikin Holdings (Houston), Inc., and Sub-leader of GRT Project
Executive Officer	**Hitoshi Jinno**	Responsible for PL/Quality, Air-Conditioning/Refrigeration/Applied, Manufacturing Excellence in the Newly Emerging Countries, and Deputy General Manager of Air-Conditioning Manufacturing Division

Compliance and Risk Management

Compliance

In fiscal 2004, the Daikin Group established the Corporate Ethics Committee as an organ for promoting corporate ethics throughout the Group, and this committee was renamed as the Corporate Ethics and Risk Management Committee in fiscal 2008. This committee meets twice each year, in principle, with the purpose of undertaking the integrated promotion of compliance (business ethics and legal compliance) and risk management throughout the Group.

Regarding compliance, each division and Group company (including principal overseas Group companies) appoint "compliance and risk management leaders" (CRLs) who play a central role in the daily gathering of up-to-date information on relevant laws and regulations. The CRLs also adjust internal regulations and manuals to reflect the new information and play a central role in "daily triple check" activities to confirm that compliance with respect to the regulations and manuals is rigorous. The results of checks are reported at monthly CRL meetings, and related information is shared at those meetings. In addition, each employee annually performs a "compliance self-assessment check" to confirm that his or her behavior is in accordance with the behavior guidelines articulated in Daikin's *Handbook for Corporate Ethics*.

Risk Management

Regarding risk management, in light of the Daikin Group's rapid business expansion, Daikin is endeavoring to accurately and quickly execute comprehensive risk assessments (related to such issues as profitability, product quality, safety, manufacturing, and marketing activities, etc.) from a global perspective and institute Groupwide systems for alleviating risks. Each year, after each division conducts its own risk assessment to identify major risks, Daikin drafts and implements individual divisional countermeasures as well as Companywide countermeasures.

In preparation for the incidence of major earthquakes, Daikin has built a system for quickly confirming the safety of employees and their families and, therefore, maintains a list of mobile phone contact numbers for all Group employees and their families. The Company is also seeking to ensure employees' safety by promoting measures to upgrade the resistance to earthquakes of its offices and other facilities.

Furthermore, to promote the resumption of operations with maximum expeditiousness in the case that Daikin facilities were to suffer major damage from a natural disaster, the Company has drafted a business continuity plan and is implementing such measures as those to prevent damage to manufacturing facilities and strengthen supply chains.

In addition, based on consideration of issues that came to light in connection with the Great East Japan Earthquake, the Company is improving its system for confirming the safety of employees and their families while also placing satellite phones at principal business sites as a means of ensuring emergency communications capabilities. The Company is also taking such initiatives as those to reevaluate its emergency management systems and increase the amount of disaster relief supplies that are stored in preparation for use during emergency situations.

Responsibility to Shareholders and Investors

To live up to the expectations of shareholders and investors, the Daikin Group believes that it must increase its corporate value. It, therefore, emphasizes free cash flow as a source of corporate value and works to augment its profitability while lowering the levels of its trade receivables and inventories.

Stable Levels of Cash Dividends

Daikin has a fundamental policy of maintaining the ratio of cash dividends to net assets (consolidated basis) at 2.0% or higher and is seeking to set stable levels of dividends based on a comprehensive consideration of such factors as the Company's consolidated performance, financial position, and funding requirements.

Respect for the Exercise of Voting Rights

To enable shareholders to exercise voting rights after due consideration of resolution items, Daikin provides shareholders with invitations to general shareholders' meetings and ancillary materials a week in advance of the statutory deadline. Non-Japanese institutional investors are provided with English-language versions of the invitations and ancillary materials, and both English- and Japanese-language versions of the invitations and ancillary materials are also posted on the Company's website.

Furthermore, Daikin has established systems that enable shareholders to exercise their voting rights via personal computers and mobile phones.

Information Disclosure

Recognizing that it has an important responsibility to increase its management transparency from the perspectives of shareholders and investors, Daikin is proactively working to disclose relevant information by executing diverse kinds of IR activities.

For analysts and institutional investors, Daikin holds performance explanation briefings when announcing its second-quarter and full-year financial results, and telephone conference briefings are organized when announcing first-quarter and third-quarter financial results. The Company also undertakes visits to institutional investors in Japan and overseas and organizes meetings with individual investors.

Daikin's website offers access to such legally mandated materials as securities reports *(yuka shoken hokoku-sho)* as well as other corporate performance-related materials that are posted as soon as they are prepared. Daikin endeavors to post these reports and materials in a fair and timely manner.

Daikin has also undertaken diverse management measures in response to the feedback that it receives from its shareholders and investors.

Corporate Social Responsibility (CSR)

As a global company, the Daikin Group believes that it has the responsibility to expand its business operations while concurrently making contributions to global society. This belief is reflected in the FUSION 15 strategic management plan—covering the five fiscal years through March 31, 2016—which specifies the key objective of "concurrently achieving environmental contributions and business expansion" as well as the key strategy of "strengthening human resource capabilities" as a means of attaining that objective.

CSR and Management Strategies

To realize sustainable corporate growth, it is important to draft management strategies based on consideration of society's needs and demands and then proceed to make systematic efforts to address those needs and demands. As a global enterprise rapidly expanding its business operations, the Daikin Group maintains a strong emphasis on its Group Philosophy and "people-centered management" policies and has therefore incorporated provisions for addressing CSR issues within its FUSION 15 strategic management plan designed to ensure that it implements all the measures required to fully live up to its responsibilities to society. The Group is committed to responding to society's expectations and thereby earning the trust and confidence of stakeholders throughout the world.

Daikin signed the United Nations Global Compact in 2008 and gives due emphasis to the compact's core values regarding human rights, labor standards, environmental protection, and anti-corruption efforts. Specific policies for promoting those values are incorporated in the Group Compliance Guidelines and *Handbook for Corporate Ethics*, which are the foundation of the action guidelines instituted by individual Group companies. This is the method by which Daikin is seeking to ensure that all of its business activities are in harmony with the spirit of the Global Compact. Based on the ISO 26000 international CSR standard, Daikin is also striving to move ahead with CSR programs that are in accord with global CSR standards.

- Our Group Philosophy (Instituted in 1990)
  http://www.daikin.com/company/rinen.html
- Group Compliance Guidelines (Instituted in 2008)
  http://www.daikin.com/csr/company/idea.html#chap07

CSR Issues Daikin Is Addressing

As an enterprise engaged in business operations primarily in the field of air conditioning, the Daikin Group considers climate change to be the most-important CSR issue it should be addressing. Given that it is expanding its operations in geographic regions throughout the world, Daikin also considers it highly important to emphasize contributions to regional development.

Daikin's Measures for Addressing CSR Issues

Issue 1: Climate Change	
Responding to growing demand for air conditioners in emerging countries	Rapidly rising demand for air conditioners in China, India, Turkey, and other emerging countries accompanied by growth in electric power consumption → **Respond by providing energy-saving products that match local needs**
Preventing global warming	Energy shortages are becoming increasingly serious problems, particularly in Japan following the recent earthquake disaster → **Pursue progress in the energy conservation performance of air conditioners, which account for a large share of overall electric power consumption**
Preventing environmental damage from fluorochemicals	The greenhouse gas characteristics of alternative fluorochemical refrigerants are considered problematic → **Employ next-generation refrigerants that do not harm the ozone layer and that have low global warming potential (GWP)**
Issue 2: Regional Development	
Promoting regional development by expanding employment and fostering the development of human resources	Emerging countries are demanding greater opportunities for employment and human resource development → **Expand local manufacturing/marketing facilities in emerging countries and offer employment and human resource development opportunities at those facilities**

CSR Policies within the FUSION 15 Strategic Management Plan

The FUSION 15 strategic management plan specifies four emphasized CSR themes—the environment, quality/customer service, human resources, and social contributions—and Daikin is moving ahead with various initiatives regarding those themes.

■ Environment

Positioning climate change prevention as its top-priority CSR theme, Daikin is implementing measures associated with the following three emphasized themes: (1) globally providing products that help customers conserve energy, (2) minimizing the environmental impact of manufacturing operations, and (3) promoting the global spread of a "green-hearted" spirit that cherishes the Earth and emphasizes environmental friendliness

(1) Providing energy-saving products: Daikin is aiming to promote the widespread use of invertor products and other environment-friendly products, particularly in emerging countries realizing rapid economic growth, aiming to reduce emerging countries' annual CO_2 emissions by 30 million tons by fiscal 2016. Daikin is aiming to develop technologies and launch products in accordance with the latest refrigerant-related standards and act as a world leader in globally cultivating demand associated with the electric power conservation business.

(2) Minimizing environmental impact: Daikin is aiming to reduce greenhouse gas emissions from manufacturing and other Group activities to 67% below the fiscal 2006 level by fiscal 2016. In fiscal 2013, manufacturing volume was almost twice the fiscal 2006 level, but overall Group greenhouse gas emissions were 68% below the fiscal 2006 level. Daikin is also seeking to reduce its water consumption. In fiscal 2013, water consumption per unit of manufacturing output had been reduced to 4% below the fiscal 2011 level in the case of Group companies in Japan and to 25% below the fiscal 2011 level in the case of overseas Group companies. Daikin is seeking to reduce its use of hazardous chemicals. In fiscal 2013, the volume of PRTR (Pollutant Release

and Transfer Registry) substances used was 16% below the fiscal 2011 level.
(3) Promoting a "green-hearted" spirit: Daikin is promoting biodiversity programs in numerous locations around the world, such as a reforestation program in Indonesia and environmental protection and renovation programs on Japan's Shiretoko Peninsula. Working in cooperation with local governments and residents, NGOs, and other organizations, Daikin is engaged in an increasingly wide range of activities designed to help maintain ecological balances and restore the vitality of natural environments.

■ Quality/Customer Service

Based on the emphasized theme of "providing customers with the highest levels of satisfaction," Daikin is striving to anticipate societal and regional needs and provide high-quality products that precisely match those needs as means of progressively elevating customer satisfaction (CS).
Ensuring quality/safety: Based on consideration of customers' perspectives, Daikin is endeavoring to ensure that all of its products are safe and offer outstanding quality. Daikin has obtained ISO 9001 certification of its quality management systems and is sustaining its efforts at development and manufacturing stages to further elevate product quality levels. Daikin discloses information with the goal of ensuring the safety of customers when they are using Daikin products. In addition, Daikin collects post-marketing information on products and seeks to employ that information to realize additional product quality improvements.
Elevating CS levels: Based on the fundamental policy of "realizing optimal after-services with respect to speed, accuracy, and friendliness," Daikin is endeavoring to attain still-higher levels of CS. In Japan, the Daikin Contact Center accepts all kinds of inquiries, including requests for repairs and technical consultation, 24 hours a day, 365 days a year. In addition, Daikin is working to bolster its local service systems in countries worldwide.

■ Human Resources

Because it considers "people" to be the primary source of its competitive power, the Daikin Group emphasizes the implementation of "people-centered management" policies as part of its efforts to create environments that make the most of the potentials of each of its employees. In the geographical regions where it operates, Daikin is doing its utmost to employ and foster the development of local human resources, and each Group facility is striving to contribute to the sustainable growth of its region.
Human resource development: Daikin's corporate philosophy states that "The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group," and Daikin considers this to be true with respect to all Group employees regardless of their nationality or the specific Group unit they are employed by. Based on the concept that "people grow by means of work experience," Daikin is striving to develop the potentials and promote the career development of all employees. In addition to proactively establishing educational and training programs for local staff at each global base, Daikin is seeking to promote a growing number of local staff to managerial positions.
Promoting diversity: Daikin has set itself the ambitious goal of building a Group organization that makes the most of the potentials of each of its employees—regardless of their age, gender, nationality, or race—and employs diverse people who respect different value systems. Daikin believes that this kind of organization serves as a primary source of the Group's dynamic strength. In accordance with this concept and the Group Compliance Guidelines—which state, "We shall respect the human rights of each and every employee and diversity in values and approach to work while striving to create a workplace that is safe and comfortable to work"—Daikin encourages its employees to work in a harmoniously concerted manner that enables individuals to boldly pursue their dreams while maintaining high levels of enthusiasm and ambition.
Work-life balance: Daikin emphasizes measures to enable employees to realize optimal work-life balances. As a result of initiatives that include those aimed at providing work environments that enable employees with children to concurrently handle work and child-raising tasks with confidence and peace of mind, Daikin has introduced diverse work systems that offer flexible work modes and time schedules suitable for diverse employees.
Occupational safety and health: In accordance with the Group Compliance Guidelines—which state, "We shall take all possible precautions for safe operations and act with a mind-set of 'Safety First' to ensure the safety of the workplace"—Daikin endeavors to make sure all its employees and employees of subcontractors enjoy safe work environments. To this end, and to promote the peace of mind of people in communities near Group facilities, Daikin strives to realize a "zero accident" performance at each of its facilities.

■ Social Contributions

Aiming to be a company with deep roots in the many communities throughout the world where it is developing business operations, Daikin organizes numerous kinds of activities that enable participating employees to contribute to local societies. These activities center on the emphasized themes of "environmental protection," "support for education," and "art and culture."
Environmental protection: Daikin is moving ahead with programs to protect and revitalize the natural environment at numerous locations worldwide. In addition, overseas Group companies organize their own programs, including tree-planting and nature conservation programs.
Support for education: Daikin provides support for the education of young people in each region where it has a presence. Besides offering scholarships and technical training programs, Daikin organizes experiential education events and plant study visits for the students of each region's primary schools.
Art and culture: To promote art and culture, Daikin has established the Daikin Foundation for Contemporary Arts, which supports exhibitions, lectures, academic research, publishing programs, and other activities of the National Museum of Art, Osaka. In addition, Daikin contributes to the arts overseas through such initiatives as those to sponsor music concerts.

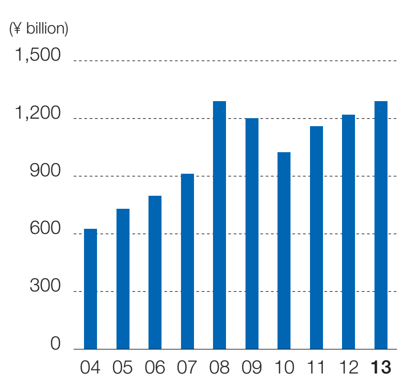
Ten-Year Financial Highlights

Daikin Industries, Ltd. and Consolidated Subsidiaries
Years Ended March 31

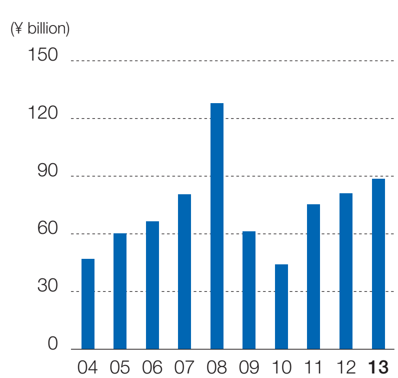
	2004	2005	2006
Operating Results (for the year):			
Net sales	¥625,080	¥729,414	¥792,837
Gross profit	212,402	256,289	269,906
Selling, general and administrative expenses	165,482	196,083	203,359
Research and development expenses (Note 1)	23,817	24,583	26,648
Operating income	46,920	60,206	66,547
EBITDA (Note 2)	68,835	83,630	95,816
Net income	26,869	38,083	40,146
Cash Flows (for the year):			
Net cash provided by operating activities	¥ 40,306	¥ 43,970	¥ 63,511
Net cash used in investing activities	(31,594)	(42,091)	(63,420)
Free cash flow (Note 3)	8,711	1,879	91
Net cash provided by (used in) financing activities	2,182	3,534	(4,284)
Financial Position (at year-end):			
Total assets	¥534,726	¥615,596	¥716,440
Total interest-bearing liabilities	148,949	166,442	172,995
Total shareholders' equity	234,029	271,716	340,523
Per Share Data (yen):			
Net income (basic)	¥101.57	¥ 144.24	¥ 152.11
Shareholders' equity	888.29	1,031.73	1,293.41
Cash dividends	14.00	18.00	22.00
Ratios (%):			
Gross profit margin	33.98%	35.14%	34.04%
Operating income margin	7.51	8.25	8.39
EBITDA margin	11.01	11.47	12.09
Return on shareholders' equity (ROE)	12.24	15.06	13.11
Shareholders' equity ratio	43.77	44.14	47.53

Notes:
1. R&D expenses are included within general administrative expenses and manufacturing expenses.
2. EBITDA = Operating income + depreciation and amortization.
3. Free cash flow = Net cash provided by operating activities + net cash used in investing activities.

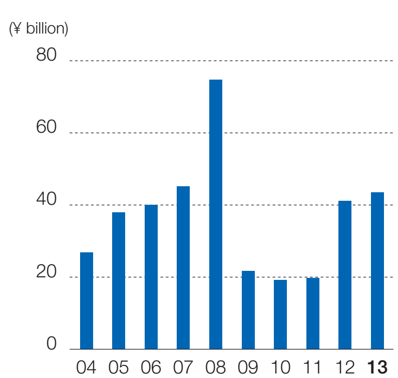
Net Sales



Operating Income



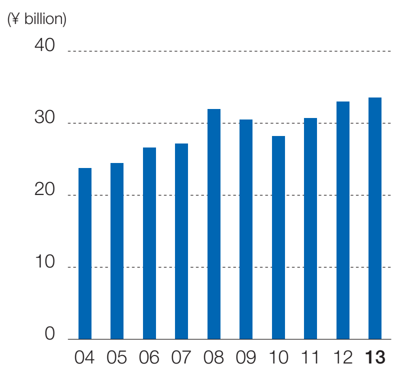
Net Income



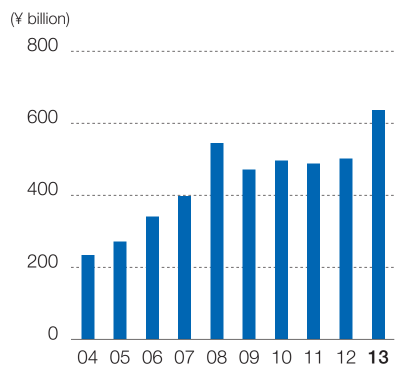
Millions of yen

2007	2008	2009	2010	2011	2012	**2013**
¥911,749	¥1,291,081	¥1,202,420	¥1,023,964	¥1,160,331	¥1,218,701	**¥1,290,903**
312,688	441,549	363,660	319,301	361,665	371,902	**388,046**
231,934	313,451	302,266	275,263	286,210	290,709	**299,419**
27,204	32,075	30,535	28,220	30,771	32,987	**33,569**
80,754	128,098	61,394	44,038	75,455	81,193	**88,627**
115,315	179,469	118,325	96,462	127,168	131,719	**140,151**
45,420	74,822	21,755	19,391	19,873	41,172	**43,585**
¥ 83,725	¥103,329	¥ 62,238	¥129,227	¥78,411	¥44,967	**¥103,161**
(305,251)	(76,428)	(99,302)	(39,848)	(23,306)	(62,955)	**(218,386)**
(221,526)	26,902	(37,065)	89,379	55,105	(17,988)	**(115,225)**
245,975	3,367	48,382	(34,942)	(37,623)	(1,113)	**143,520**
¥1,161,364	¥1,210,094	¥1,117,418	¥1,139,656	¥1,132,507	¥1,160,564	**¥1,735,836**
456,074	356,928	417,919	399,313	372,481	389,891	**705,871**
397,542	545,641	471,686	496,179	487,876	502,309	**618,118**
¥ 172.66	¥ 262.24	¥ 74.51	¥ 66.44	¥ 68.14	¥ 141.37	**¥ 149.73**
1,511.47	1,867.79	1,615.98	1,701.29	1,672.74	1,725.64	**2,123.10**
28.00	38.00	38.00	32.00	36.00	36.00	**36.00**
34.30%	34.20%	30.24%	31.19%	31.17%	30.52%	**30.06%**
8.86	9.92	5.11	4.30	6.50	6.66	**6.87%**
12.65	13.90	9.84	9.42	10.96	10.81	**10.86%**
12.31	15.87	4.28	4.01	4.04	8.30	**7.78%**
34.23	45.09	42.21	43.54	43.08	43.28	**35.61%**

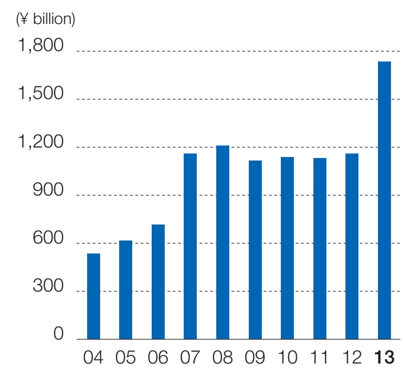
Research and Development Expenses



Shareholders' Equity



Total Assets



Financial Review

Overview of Net Sales

Looking at economic conditions throughout the world during fiscal 2013, the U.S. economy showed signs of recovery, while the European economy remained weak against the backdrop of debt problems and fiscal budget austerity measures. Overall, emerging country economies benefitted from robust domestic demand but generally lacked vigor as the pace of their expansion slowed amid the deceleration of exports to industrialized countries.

In Japan, the perception of an economic slowdown intensified as a result of export weakness accompanying the strong yen and slumping demand overseas. However, the correction of the yen's excessive strength during the last three months of the fiscal year, increasing demand from the public sector, and other factors have spurred growing expectations of an economic recovery.

Although the Daikin Group's operating environment was made harsh by situations, including the slackness of air-conditioner demand in Europe and a delay in the recovery of demand for fluorochemicals, particularly fluorochemicals with semiconductor applications, the Group was able to boost its consolidated sales and profits during fiscal 2013, thanks to such factors as the growth of air-conditioner business sales in Japan, China, elsewhere in Asia, and other regions. This strong performance, which followed three consecutive years of growth in that business's sales and profits, reflected the Group's efforts to promote the sales of highly differentiated products designed to leverage Japanese customers' increasingly general consciousness of energy conservation issues, measures to promote the global sales of relatively popular products in relatively robust markets, and concerted Groupwide cost-cutting measures. Moreover, it was achieved despite a decline in the sales and profits of the Group's Chemicals business.

Overall, consolidated net sales reached ¥1,290.9 billion, up 5.9% from the level in the previous fiscal year. Gross profit amounted to ¥388.0 billion, up ¥16.1 billion, and the gross profit ratio for the fiscal year was 30.1%.

Currency Exchange Rates

Because of the sharp depreciation of the yen beginning from the third quarter of fiscal 2013, the average currency exchange rate during the fiscal year was ¥83 to one U.S. dollar, compared to the assumed rate of ¥80 to one U.S. dollar, and ¥107 to one euro, compared to the assumed rate of ¥100 to one euro.

As a result of these movements in foreign currency exchange rates, Daikin consolidated net sales were estimated to be ¥20.0 billion higher and operating income ¥0.5 billion higher than they would have been without movements in exchange rates.

	Fiscal 2012	**Fiscal 2013**
Yen-U.S. dollar rate	¥ 79	**¥ 83**
Yen-euro rate	¥109	**¥107**

SG&A Expenses and Operating Income

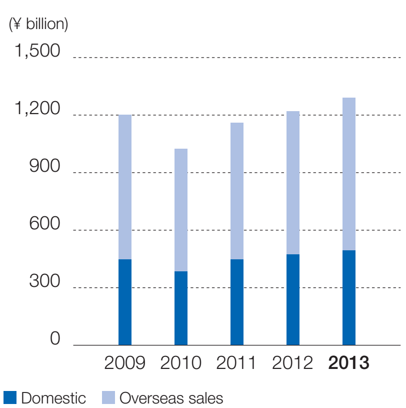
As a result of a rise in personnel expenses associated with the acquisition of Goodman, SG&A expenses increased to ¥299.4 billion, but the ratio of SG&A expenses to net sales improved to 23.2%, a decrease of 0.7 percentage point from the previous fiscal year. Operating income grew 9.2%, to ¥88.6 billion, and the operating income ratio rose 0.2 percentage point, to 6.9%.

R&D Expenses

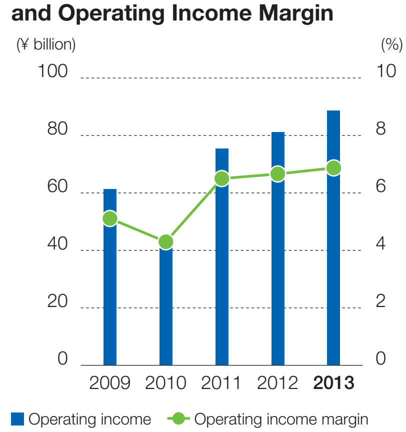
R&D expenses amounted to ¥33.6 billion and corresponded to 2.6% of net sales.

Of this, R&D expenses for air-conditioning and refrigeration equipment operations totaled ¥28,532 million. Regarding residential air-conditioning equipment, Daikin launched the Urusara 7 wall-mounted room air conditioner, which is the first air conditioner in the world to employ the environment-friendly refrigerant R32 and the industry's first 4.0kW-class product offering energy conservation performance that exceeds the annual performance factor (APF) 7.0 level. With respect to other residential equipment, Daikin launched DESICA HOME AIR, which employs heat-pump technology to overcome the challenges of optimally controlling ventilation and humidity in residences with increasingly high levels of air tightness and thermal insulation, thereby realizing both comfortable living spaces and energy savings. In North America, Daikin launched Smart Source, a water source heat pump unit that offers improved partial load efficiency as well as low noise, as well as the Revel, a rooftop-mounted, energy-conserving heat pump equipped with an inverter scroll compressor that offers the highest integrated energy efficiency ratio (IEER) among AHRI-certified products. In China, Daikin expanded its product lineup

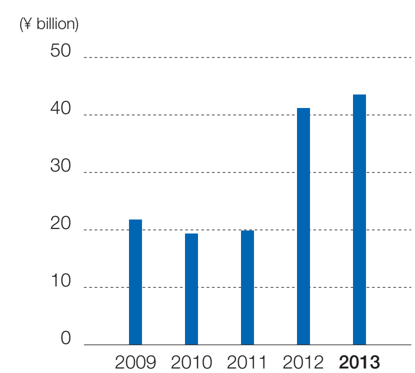
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income



with the introduction of water-cooled screw chillers equipped with large capacity screw compressors as well as the introduction of air-cooled inverter module chillers that have realized higher integrated part load values (IPLVs) through their incorporation of inverter compressors.

R&D expenses for Chemicals operations totaled ¥3,889 million. Daikin's Chemical Research and Development Center is responsible for generating a steady flow of new products and major next-generation research themes, and its Technical Service Department is quickly responding to customer requests by implementing medium- and short-term intensive research programs.

R&D expenses for oil hydraulics, defense systems, and other operations totaled ¥1,148 million.

Other Income (Expenses) and Net Income

Reflecting a rise in foreign exchange gains as well as such other income (expense) items as a ¥12,651 million write-down of investment securities, net income amounted to ¥43,585 million, 5.9% higher than in the previous fiscal year.

Dividend Policy and Dividends Applicable to the Fiscal Year

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

Internal reserves will be applied to strategic investments aimed at expanding business operations and increasing competitiveness by such means as further strengthening management systems, accelerating the development of global businesses, and accelerating the development of environmentally conscious products.

For the year ended March 31, 2013, the Company has proposed distributing an annual cash dividend of ¥36 per share (an interim dividend of ¥18 per share and a year-end dividend of ¥18 per share), unchanged from the previous fiscal year. Reflecting the rise in shareholders' equity resulting from the sharp depreciation of the yen, the consolidated ratio of dividends to net assets for the fiscal year under review will be 1.9%.

Performance by Business Segment

• Air-Conditioning

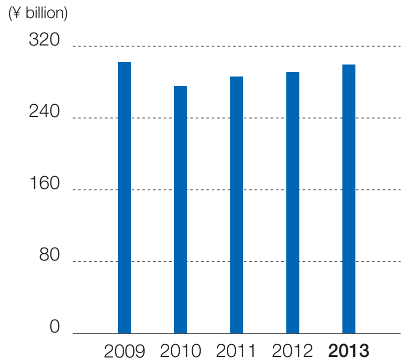
Reflecting higher revenues stemming from measures to promote sales of such highly differentiated products as Urusara 7 and Eco-ZEAS80, total sales of the Air-Conditioning and Refrigeration Equipment segment increased to ¥1,119,972 million, up 7.5% from the previous fiscal year. Operating income increased 17.8%, to ¥70,905 million.

Japan

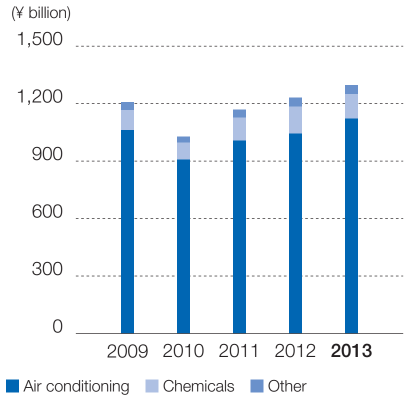
Industry demand remained robust in Japan's commercial air-conditioning equipment market owing to a continuing moderate recovery trend in capital investment and construction starts along with rising demand for energy-saving equipment and the effects of the government's subsidy system. Aiming to offer even greater energy-saving performance, the Group launched the SkyAir series of air conditioners for buildings, stores, and offices and the Ve-up series of variable refrigerant volume (VRV) air-conditioning systems in May 2012. These new products enabled the Group to meet additional new and replacement demand, and Daikin's commercial air-conditioning equipment sales in Japan rose to above the level in the previous fiscal year.

In Japan's residential air-conditioning market, industry demand was boosted by growth in new housing starts, an increase in demand for energy-saving air conditioners associated with a general rise in energy conservation consciousness, and favorable weather conditions. In November, the Group launched the Urusara 7, the first room air conditioner in the world to use R32, a highly environment-friendly new HFC refrigerant with a low global warming potential (GWP). In recognition of Urusara 7's high energy conservation performance level and the technological innovation underlying that performance, Urusara 7 was awarded the Minister of Economy, Trade and Industry Prize, the top prize in the 2012 Energy Conservation Award program. Daikin's implementation of sales promotion campaigns for such high-value-added products as RakuAir room air conditioners employing easy-to-use remote controllers along with the Group's organization of energy-conservation events in major cities helped boost sales to above the level in the previous fiscal year. Pollen and air-pollution issues contributed to a rise in demand for residential air purifiers, and Daikin achieved considerable year-on-year growth in its sales of such products through such initiatives as the launch of Uruoi Hikari Kurieru air purifiers, which feature a dual air purification method—using Daikin's unique Flash Streamer technology and an active plasma ionizer—that clearly differentiates them from competing products.

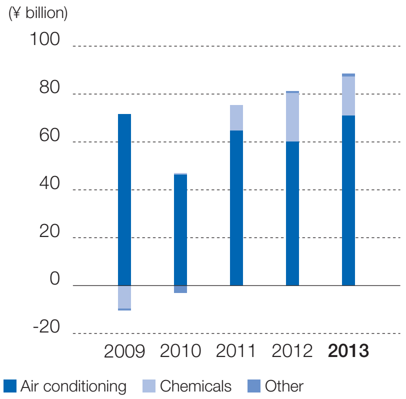
Selling, General and Administrative Expenses



Revenues by Segment



Segment Profit (Loss)



Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2013)

(1,000 units)

	First half	Year on year	Second half	Year on year	Full year	Fiscal 2013
Residential use	5,579	103%	2,942	102%	8,521	103%
Commercial use	436	104%	343	95%	779	100%

Overseas

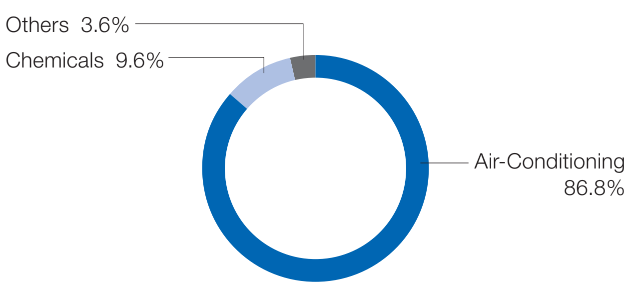
Due to robust sales mainly in China and other regions, overall sales in the overseas air-conditioner business market exceeded those in the previous fiscal year, despite persistently harsh conditions with regard to demand in the mainstay European market.

• *Europe Region*—The European air-conditioner market recovered temporarily during the high-demand season of July and August owing to favorable weather in southern Europe, and Daikin's sales in principal countries increased during the latter half of the fiscal year, reflecting the Group's stepped-up visits to dealers and other sales promotion efforts, but the strong impact of Europe's economic recession restrained the Group's overall sales of residential air-conditioning systems to below the previous year's level. Regarding commercial air-conditioning systems, Daikin's sales were down in EU countries where construction demand was sluggish, but the Group maintained its overall sales of mainstay VRV building-type multi-split air-conditioning systems at roughly the same level as in the previous fiscal year due to business expansion in the Middle East, Turkey, and other emerging countries. In particular, the strong performance of a Turkey-based subsidiary acquired in July 2011 continued to make a major contribution. Business providing residential heat pump water and room heating systems faced challenges—including sluggish demand in the major market of France and a slump in demand for products targeting public housing facilities in the United Kingdom—but the bolstering of sales promotion activities focused on dealers and end users supported a shift to year-on-year sales growth during the latter half of the fiscal year. As a result of this and sales growth achieved throughout the year in such peripheral markets as those of central European countries, Italy, and Greece, overall sales of residential heat pump water and room heating systems were up year on year. As part of its profitability-strengthening strategy, Daikin implemented various measures during the year to reform its fixed-cost structure, including moves to unify distribution, IT, and other support operations.

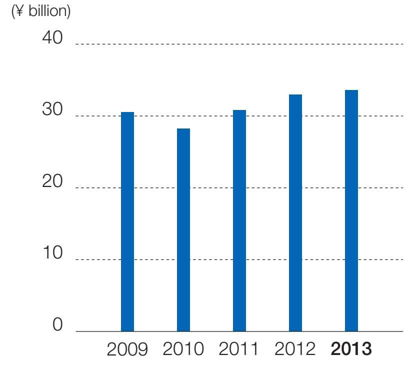
• *China*—In China, demand in major cities slowed due to worsening conditions regarding large-scale real estate and new building projects, although robust demand expansion continued in suburbs of major cities as well as regional cities. Amid these circumstances, the Group was able to achieve year-on-year growth in sales of both residential and commercial air-conditioning systems by focusing on retail sales. In its mainstay commercial air-conditioning systems market, the Group launched products designed for retailing, and sustained efforts to develop dealers and cultivate demand associated with specific customer groups and applications. Regarding residential air-conditioning products, Daikin moved ahead with the pioneering of new market segments by expanding its marketing network for residential multi-type air conditioners in all regions of China and by assembling a broad product lineup through the development of special models with specifications tailored to match needs in China. Despite shrinking demand in the room air-conditioner market, the Group made additional progress in building a new sales network and launching new products and thereby realized a year-on-year sales increase in that market. Although demand for large-scale (applied) air-conditioning systems increased only marginally, Daikin was able to increase its sales of such systems by means of measures to strengthen sales networks and bolster product lineups. Smooth growth was also achieved in service business operations.

• *Asia/Oceania Region*—Daikin was able to realize considerable year-on-year growth in its overall sales in the region, despite the impact of unseasonable weather and other factors that restrained sales in the major market of Australia to roughly the same level as in the previous fiscal year. This reflected robust sales achieved in Thailand owing to favorable weather and demand associated with the recovery from recent floods; the contribution of expanded marketing operations in Vietnam and other emerging markets, including Indonesia, where a new marketing company was established during the year; and measures taken in India to expand local manufacturing operations, launch locally developed products, and intensify comprehensive cost reduction campaigns.

Composition of Sales



Research and Development Expenses



• *Americas Region*—Despite flat demand for large-scale (applied) air-conditioning systems in North America, Daikin was able to increase its sales of such systems in the Americas Region by augmenting its sales of new products, expanding its service business operations, and broadening the scope of marketing operations in Central America and South America.

In the North American ductless air-conditioner market, demand associated with government buildings with high levels of non-centralized air-conditioning needs decreased, but the Group stepped up its efforts to elevate awareness of the Daikin brand on the parts of dealers and construction-related companies, and it was thereby able to achieve a further increase in its sales of building-type multi-split air-conditioning systems. Considerable year-on-year growth was realized in sales of residential air-conditioning systems as well as air-conditioning systems for small and medium-sized shops, reflecting the strength of shipments to wholesalers with whom transactions were recently initiated.

• Chemicals

Daikin maintained robust sales of fluoropolymer resins in the U.S. market for applications related to LAN cables and other electrical cables as well as in Chinese markets, despite the slowing of China's economic expansion and decelaration in Chinese demand associated with infrastructure investment and exports. On the other hand, demand in semiconductor-related and other markets of Japan, elsewhere in Asia, and the United States was sluggish. Sales of fluororubber products were down owing to the impact of an automobile-related demand decrease and inventory adjustments in Europe. As a result, total sales of fluoropolymers were below the level of the previous year.

Regarding the chemical products sector, demand for water and oil repellents associated with apparel-related applications was down in China and other Asian countries, particularly in the first half of the fiscal year, although Daikin moved ahead with the development of new applications for the U.S. and European markets. In addition, successful programs to develop new applications for anti-smudge surface coating agents used in smartphone touch panels and other products led to the expansion of surface coating agent sales, contributing to a year-on-year increase in overall sales of offerings in the chemical products sector.

Sales of fluorocarbon gas products were down considerably from the level in the previous fiscal year owing to the impact of price declines accompanying the softening of market conditions in Japan, China, and other Asian countries.

The Daikin Group's total sales in the Chemicals segment decreased 6.4% from the previous year, to ¥124,436 million, reflecting the large impact of the drop in fluorocarbon gas product sales. The segment's operating income fell to ¥16,491 million, down 18.2% from the previous year.

• Others

Total net sales of the Others segment amounted to ¥46,495 million, up 4.8% from the previous fiscal year. The segment's operating income increased 44.2%, to ¥1,229 million.

Daikin's industrial machinery-related oil hydraulic equipment business maintained robust sales in the U.S. market, although slack demand in European, Japanese, and other Asian markets caused a year-on-year decrease in sales in those markets. A year-on-year increase was realized in sales of oil hydraulic equipment used in construction machinery and motor vehicles, reflecting the strength of domestic and overseas demand for the products of our key customers in Japan.

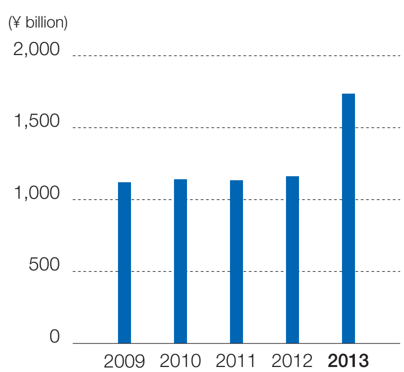
Sales in the defense business sector were up owing to a rise in orders from Japan's Ministry of Defense for artillery shells and guided missile components. Sales of home-use oxygen therapy equipment were also strong. Electronic systems business sales exceeded the level in the previous year owing to growth in sales of database systems for design and development applications.

Outlook for Fiscal 2014

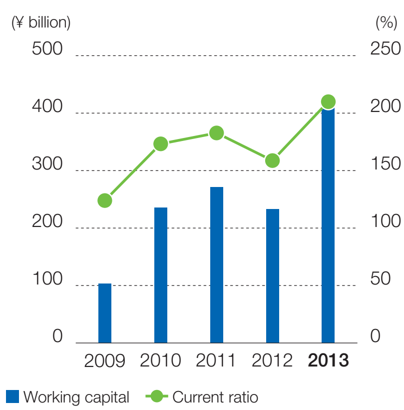
For fiscal 2014, ending March 31, 2014, Daikin has instituted the Group new year's policy "Maintain confidence in our current development path and potential while addressing challenge after challenge." In accordance with this policy, the Group is striving to flexibly and quickly respond to changes in its operating environment as it seeks to maintain a balanced emphasis on both medium- to long-term corporate development and short-term profitability going forward.

Specifically, the Daikin Group will strive to increase sales and profits by addressing such Group-wide key challenges as accelerating the expansion of businesses in emerging markets through the development and promotion of products that meet local needs, maximizing business synergy with the newly acquired Goodman Group, building solutions businesses that meet the needs of customers around the world, expanding sales of air-conditioning equipment that uses next-generation refrigerants with low global warming potentials (GWPs),

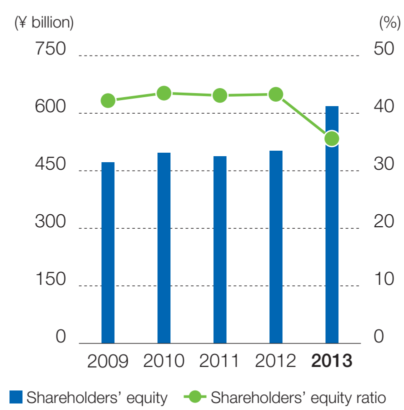
Total Assets



Working Capital and Current Ratio



Total Shareholders' Equity and Shareholders' Equity Ratio



expanding environment-related innovation businesses that encompass responses to the increasingly widespread awareness of electric power conservation needs through the proposal of energy-saving products, promoting a decrease in variable costs, as well as reducing the levels of fixed costs and inventories.

Daikin's performance outlook on a consolidated basis for fiscal 2014 is for a 36.3% increase in net sales, to ¥1,760.0 billion, a 41.0% increase in operating income, to ¥125.0 billion, and a 46.8% increase in net income, to ¥64.0 billion. Foreign currency exchange rates assumed for fiscal 2014 are ¥125 to one euro and ¥95 to one U.S. dollar.

Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2013, current assets amounted to ¥803,326 million, up ¥174,279 million from the end of the previous fiscal year, owing to such factors as an increase resulting from the Goodman Group's conversion into a consolidated subsidiary as well as to increases in cash and cash equivalents and trade receivables. Noncurrent assets were ¥400,993 million higher than at the end of the previous fiscal year, at ¥932,510 million, due to such factors as the recording of goodwill resulting from the acquisition of the Goodman Group and an increase in the customer relationship item resulting from the Goodman Group's conversion into a consolidated subsidiary.

Daikin made the Goodman Group a wholly owned subsidiary during the fiscal year under review. The assumed acquisition date is December 31, 2012, and the financial statements of the newly consolidated subsidiary as of December 31, 2012 were used as a basis for the consolidation process. Therefore, only the Goodman Group's balance sheets were subject to consolidation as of the end of the consolidated fiscal year under review. Consequently, total assets amounted to ¥1,735,836 million as of March 31, 2013, up ¥575,272 million from the end of the previous fiscal year.

• Liabilities and Total Equity

Total liabilities rose to ¥1,099,839 million, up ¥455,196 million from the end of the previous fiscal year, owing to an increase in long-term debt associated with the procurement of funds for the acquisition of the Goodman Group and other factors. As a result, the ratio of interest-bearing debt grew to 40.7%, from 33.6% at the end of the previous fiscal year. Despite a decrease associated with the disbursal of cash dividends, total equity increased ¥120,076 million, to ¥635,997 million, owing to such factors as the generation of net income and changes in foreign currency translation adjustments, and the equity ratio stood at 35.6% at the end of the fiscal year.

Capital Investment and Depreciation

In accordance with the Daikin Group's fundamental strategy of "concentrating management assets in business fields that offer higher profitability," the Company implemented capital investments during fiscal 2013 with a total value of ¥54,323 million, largely in the air-conditioning and chemicals business fields. In the air-conditioning field, the Company invested ¥8,920 million, mainly for R&D related to room air conditioners and package air conditioners and for rationalization objectives, and Daikin Air-conditioning (Suzhou) Co., Ltd., implemented ¥7,663 million of capital investments, mainly for increasing its manufacturing capabilities. In the chemicals field, the Company invested ¥5,671 million, mainly for increasing production capacity and for rationalization objectives, and Daikin Fluorochemicals (China) Co., Ltd., implemented ¥4,993 million of capital investments, mainly for increasing its production capabilities.

Depreciation expense amounted to ¥39.4 billion, up ¥1.2 billion from the previoius fiscal year.

Cash Flows

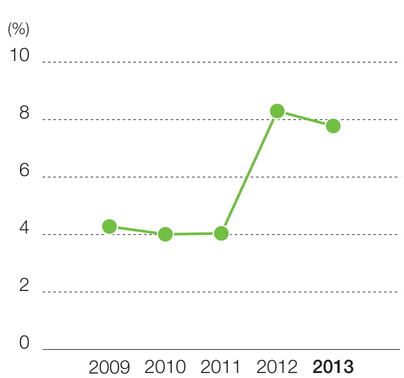
Net cash provided by operating activities amounted to ¥103,161 million, up ¥58,194 million compared with the previous fiscal year, reflecting such factors as a decrease in inventories.

Net cash used in investing activities amounted to ¥218,386 million, up ¥155,431 million compared with the previous fiscal year, owing to such factors as payments for the acquisition of shares in Goodman Global Group, Inc.

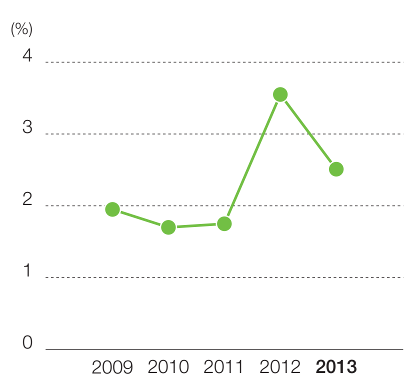
Net cash provided by financing activities amounted to ¥143,520 million, a change of ¥144,633 million from ¥1,113 million of cash used in financing activities in the previous fiscal year, owing to such factors as an increase in proceeds from long-term loans payable and proceeds from the issuance of bonds for the purpose of financing the acquisition of the Goodman Group.

As a result of these changes, cash and cash equivalents at March 31, 2013, amounted to ¥185,571 million, up ¥50,144 million from the previous fiscal year-end.

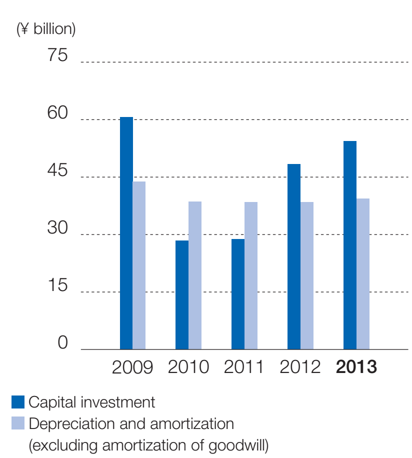
ROE



ROA



Capital Investment and Depreciation and Amortization

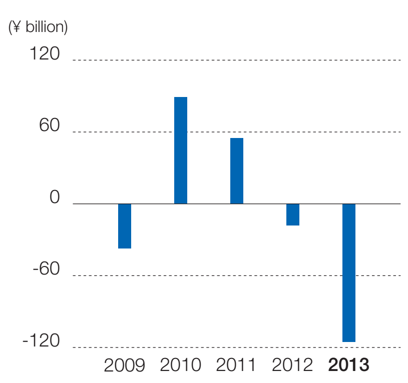


Principal Risks Associated with the Daikin Group's Operations

•Sharp changes in politico-economic conditions or supply-demand relationships in principal markets

The Group provides goods and services throughout the world, and there is a possibility that Group performance could be impacted in the case of changes in politico-economic situations related to such markets as those of Japan, Europe, North America, China, and other countries in the Asian region. In particular, because the Group is proactively developing its business operations outside Japan through such measures as the establishment of new air-conditioning equipment manufacturing facilities and acquisition of air-conditioning equipment dealers in Europe as well as the establishment of manufacturing and marketing companies in China, there is a possibility that the Group's performance could be impacted by business environment changes in one or more global regions, such as the deterioration of economic conditions, raw material price surges that elevate costs, or the intensification of competition with other companies. Regarding the United States, on November 1, 2012, Daikin completed all procedures related to the acquisition of Goodman Global Group, Inc. (Head Office: Houston, Texas, U.S.A. - hereinafter "Goodman") for a purchase price of US$3.7 billion (including the refinancing of Goodman's existing indebtedness). By means of this acquisition, Daikin intends to reinforce Goodman's sales network—the largest sales network in the U.S. residential and commercial air-conditioning equipment market—through the launch of environment-friendly products incorporating Daikin's state-of-the-art environmental technologies, thereby aiming to bring about new trends in the U.S. air-conditioner market that will enable the Group to concurrently realize business expansion and environmental protection contributions. Furthermore, Daikin hopes to further improve its competitiveness by leveraging Goodman's low-cost management know-how to develop business in emerging economies and volume-zone markets as well as reform the earnings structure of the Daikin Group's operations, including activities in the advanced economies, and there is a possibility that the degree of progress toward realizing those objectives could impact the Daikin Group's performance.

Free Cash Flow



•Cold summer weather and other unusual weather patterns accompanied by changes in demand for air conditioners

Because air-conditioning and refrigeration operations account for 86.8% of the Daikin Group's consolidated net sales, the Group strives to accurately monitor weather information and demand trends in the world's principal markets, and it employs flexible manufacturing methods and marketing policies designed to minimize the impact of demand trends on its performance. Depending on the magnitude of changes regarding cold summer weather and other unusual weather patterns accompanied by changes in demand for air conditioners, however, there is a possibility that such changes could impact the Group's performance.

•Large fluctuations in currency exchange rates

Overseas sales account for 62% of the Daikin Group's consolidated net sales, and the acceleration of global business development going forward is expected to further elevate the level of the Group's overseas sales ratio. Consolidated financial statements are prepared by translating local-currency-denominated items for Group operations in each global region, including local currency figures for sales, expense, and assets. Accordingly, depending on currency exchange rates at the time of the currency translation, there may be an impact on yen translation values even when there has been no change in local-currency-denominated figures. In addition, because the Group engages in foreign-currency-denominated transactions related to the procurement of raw materials and components as well as related to the sale of goods and services, there is a possibility that changes in currency exchange rates could have an impact on manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging by means of forward exchange contracts and similar instruments and undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them with respect to changing currency exchange-rate trends, promote a balance of imports and exports related to each currency, and otherwise realize a business structure that is not greatly impacted by changes in currency exchange rates. However, it cannot be claimed that currency exchange rate-related risks can be completely avoided.

The Group also recognizes significant risks associated with the following items.

- Major product quality claims
- Major problems with manufacturing systems
- Major changes in the market prices of negotiable securities and other assets
- Natural disasters

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2013

	Millions of yen	
ASSETS	**2013**	2012
Current assets:		
Cash and cash equivalents (Note 17)	**¥ 185,571**	¥ 135,427
Short-term investments (Note 17)		221
Trade receivables (Notes 8, 9 and 17):		
Notes	**43,464**	36,348
Accounts	**219,859**	172,729
Allowance for doubtful receivables	**(6,227)**	(4,808)
Inventories (Notes 3 and 9)	**285,169**	243,600
Deferred tax assets (Note 13)	**21,782**	9,381
Prepaid expenses and other current assets	**53,708**	36,149
Total current assets	**803,326**	629,047
Property, plant and equipment (Note 9):		
Land	**33,121**	30,739
Buildings and structures	**216,148**	182,550
Machinery and equipment	**414,716**	362,450
Furniture and fixtures	**131,921**	116,034
Lease assets (Note 16)	**6,279**	6,635
Construction in progress	**18,111**	18,313
Total	**820,296**	716,721
Accumulated depreciation	**(546,095)**	(492,364)
Net property, plant and equipment	**274,201**	224,357
Investments and other assets:		
Investment securities (Notes 6 and 17)	**102,588**	84,219
Investments in and advances to unconsolidated subsidiaries and associated companies	**14,831**	15,205
Goodwill (Notes 5 and 7)	**348,411**	166,276
Customer relationships (Note 5)	**109,723**	4,271
Other intangible assets (Note 5)	**52,754**	9,939
Deferred tax assets (Note 13)	**3,570**	9,276
Other assets (Note 10)	**26,432**	17,974
Total investments and other assets	**658,309**	307,160
Total	**¥1,735,836**	¥1,160,564

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2013	2012
Current liabilities:		
Short-term borrowings (Notes 9 and 17)	¥ 65,335	¥ 90,449
Current portion of long-term debt (Notes 9 and 17)	4,126	57,290
Current portion of long-term lease obligations (Note 16)	1,464	2,042
Trade payables (Note 17):		
Notes	7,377	6,392
Accounts	119,987	103,716
Income taxes payable (Note 17)	14,694	9,836
Deferred tax liabilities (Note 13)	5,518	2,974
Provision for product warranties	40,235	23,674
Accrued expenses	67,089	52,748
Other current liabilities (Note 8)	56,802	47,218
Total current liabilities	382,627	396,339
Long-term liabilities:		
Long-term debt (Notes 9 and 17)	633,033	238,108
Long-term lease obligations (Note 16)	1,912	2,002
Liabilities for retirement benefits (Note 10)	3,960	2,016
Deferred tax liabilities (Note 13)	54,362	4,327
Long-term accounts payable	1,387	443
Other long-term liabilities	22,558	1,408
Total long-term liabilities	717,212	248,304
Commitments and contingent liabilities (Notes 16 and 18)		
Equity (Notes 11, 12 and 22):		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2013 and 2012	85,032	85,032
Capital surplus	83,017	82,977
Stock acquisition rights	1,335	1,501
Retained earnings	438,671	415,231
Treasury stock, at cost: 1,974,043 shares in 2013 and 2,028,808 shares in 2012	(6,772)	(6,961)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	18,431	(2)
Deferred loss on derivatives under hedge accounting	(146)	(74)
Foreign currency translation adjustments	(115)	(73,894)
Subtotal	619,453	503,810
Minority interests	16,544	12,111
Total equity	635,997	515,921
Total	¥1,735,836	¥1,160,564

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of yen	
	2013	2012
Net sales (Note 8)	**¥1,290,903**	¥1,218,701
Cost of sales (Note 15)	**902,857**	846,799
Gross profit	**388,046**	371,902
Selling, general and administrative expenses (Notes 7, 8 and 15)	**299,419**	290,709
Operating income	**88,627**	81,193
Other income (expenses):		
Interest and dividend income	**4,690**	4,875
Interest expense	**(7,081)**	(6,136)
Exchange gains	**6,849**	22
Loss on disposals of property, plant and equipment	**(497)**	(430)
Gain on sales of investment securities (Note 6)	**117**	1,437
Impairment losses on investment securities (Note 6)	**(12,651)**	(1,874)
Equity in earnings of unconsolidated subsidiaries and associated companies	**1,063**	2,918
Gain on reversal of stock acquisition rights	**310**	69
Gain on insurance adjustment	**166**	
Gain on sales of shares of an associated company	**986**	
Loss on restructuring of a subsidiary	**(783)**	
Compensation for cancellation of contracts		(1,502)
Loss on impairment of long-lived assets (Note 4)		(356)
Other—net (Note 10)	**(319)**	352
Other expenses—net	**(7,150)**	(625)
Income before income taxes and minority interests	**81,477**	80,568
Income taxes (Note 13):		
Current	**32,677**	26,152
Prior years	**(1,841)**	
Deferred	**3,500**	9,796
Total income taxes	**34,336**	35,948
Net income before minority interests	**47,141**	44,620
Minority interests in net income	**(3,556)**	(3,448)
Net income	**¥ 43,585**	¥ 41,172

	Yen	
Amounts per common share (Note 20):		
Basic net income	**¥149.73**	¥141.37
Diluted net income	**149.71**	
Cash dividends applicable to the year	**36.00**	36.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of yen	
	2013	2012
Net income before minority interests	**¥ 47,141**	¥44,620
Other comprehensive income (loss) (Note 19):		
Unrealized gain (loss) on available-for-sale securities	**18,434**	(4,642)
Deferred (loss) gain on derivatives under hedge accounting	**(72)**	17
Foreign currency translation adjustments	**64,782**	(12,968)
Share of other comprehensive income (loss) in affiliates accounted for using the equity method	**1,483**	(78)
Total other comprehensive income (loss)	**84,627**	(17,671)
Comprehensive income	**¥131,768**	¥26,949
Total comprehensive income attributable to:		
The Company's shareholders	**¥126,233**	¥23,561
Minority interests	**5,535**	3,388

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2013

		Millions of yen										
							Accumulated Other Comprehensive Income (Loss)					
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
Balance, April 1, 2011	291,662,445	¥85,032	¥82,977	¥1,293	¥385,761	¥(5,473)	¥ 4,641	¥ (91)	¥(64,971)	¥489,169	¥11,759	¥500,928
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2)					(1,205)					(1,205)		(1,205)
Net income					41,172					41,172		41,172
Cash dividends, ¥36 per share					(10,490)					(10,490)		(10,490)
Repurchase of treasury stock	(586,496)					(1,521)				(1,521)		(1,521)
Disposal of treasury stock	9,067				(7)	33				26		26
Change in equity in affiliates accounted for by equity method—treasury stock	149											
Net change in the year				208			(4,643)	17	(8,923)	(13,341)	352	(12,989)
Balance, March 31, 2012	291,085,165	85,032	82,977	1,501	415,231	(6,961)	(2)	(74)	(73,894)	503,810	12,111	515,921
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2)					**(9,666)**					**(9,666)**		**(9,666)**
Net income					**43,585**					**43,585**		**43,585**
Cash dividends, ¥36 per share					**(10,479)**					**(10,479)**		**(10,479)**
Repurchase of treasury stock	**(310)**											
Disposal of treasury stock	**55,075**		**40**			**189**				**229**		**229**
Net change in the year				**(166)**			**18,433**	**(72)**	**73,779**	**91,974**	**4,433**	**96,407**
Balance, March 31, 2013	**291,139,930**	**¥85,032**	**¥83,017**	**¥1,335**	**¥438,671**	**¥(6,772)**	**¥18,431**	**¥(146)**	**¥ (115)**	**¥619,453**	**¥16,544**	**¥635,997**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of yen	
	2013	2012
Operating activities:		
Income before income taxes and minority interests	**¥ 81,477**	¥ 80,568
Adjustments for:		
Income taxes—paid	**(29,688)**	(28,116)
Depreciation and amortization	**51,524**	50,526
Gain on sales of investment securities	**(117)**	(1,437)
Impairment losses on investment securities	**12,651**	1,874
Loss on disposals of property, plant and equipment	**497**	430
Equity in earnings of unconsolidated subsidiaries and associated companies	**(1,063)**	(2,918)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(22,587)**	(15,680)
Inventories	**10,299**	(33,398)
Other current assets	**(3,924)**	(5,878)
Prepaid pension cost	**(306)**	896
Trade notes and accounts payable	**343**	(5,566)
Accrued expenses	**1,801**	2,888
Other current liabilities	**1,672**	(819)
Liabilities for retirement benefits	**(204)**	(1,763)
Accounts payable for transaction to defined contribution pension plan	**(510)**	(699)
Other—net	**1,296**	4,059
Total adjustments	**21,684**	(35,601)
Net cash provided by operating activities	**103,161**	44,967
Investing activities:		
Payments for purchases of property, plant and equipment	**(53,046)**	(42,459)
Proceeds from sales of property, plant and equipment	**1,146**	728
Payments for acquisition of shares of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 14)	**(163,652)**	(20,875)
Payments for acquisition of investment securities	**(4,877)**	(1,304)
Proceeds from sales of investment securities (Note 6)	**518**	1,892
Proceeds from sales of shares of an associated company	**1,883**	
Other—net	**(358)**	(937)
Net cash used in investing activities	**(218,386)**	(62,955)
Financing activities:		
Net (decrease) increase in short-term borrowings	**(42,868)**	14,237
Increase in long-term debt	**383,246**	2,996
Repayments of long-term debt	**(183,354)**	(2,321)
Cash dividends paid to the Company's shareholders	**(10,479)**	(10,490)
Cash dividends paid to minority interests	**(1,232)**	(1,915)
Proceeds from issuance of shares to minority interests	**674**	
Other—net	**(2,467)**	(3,620)
Net cash provided by (used in) financing activities	**143,520**	(1,113)
Effect of exchange rate changes on cash and cash equivalents	**19,740**	(4,617)
Net increase (decrease) in cash and cash equivalents	**48,035**	(23,718)
Effect of change of the fiscal year-end of consolidated subsidiaries	**2,109**	(8,151)
Cash and cash equivalents, beginning of year	**135,427**	167,296
Cash and cash equivalents, end of year	**¥185,571**	135,427

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2013

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Daikin Industries, Ltd. (the “Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (the “Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company’s consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classification used in 2013.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (collectively, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Group applies the equity method of accounting for investments in unconsolidated subsidiaries and associated companies except for certain insignificant companies. Investments in such insignificant companies are stated at cost except that appropriate write-downs are recorded for investments for which the value has been permanently impaired. If these subsidiaries and associated companies had been consolidated or accounted for using the equity method, respectively, the effect on the accompanying consolidated financial statements would not have been material.

For the year ended March 31, 2013, OYL Manufacturing Company Sdn. Bhd. and 49 other subsidiaries changed their fiscal year-end from December 31 to March 31. In addition, Daikin Fluorochemicals (China) Co., Ltd. and 33 other subsidiaries whose fiscal year-end is other than March 31, closed their books at March 31 for consolidation reporting purpose.

The Company included the subsidiaries’ operating results for the 12-month period in the consolidated statement of income and included their operating results for the 3-month period in the consolidated statement of changes in equity directly charging into retained earnings as effect of change of the fiscal year-end of certain consolidated subsidiaries.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In accordance with the Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

In accordance with ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments,” adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

Business Combinations

As discussed in more detail in Note 5 to the consolidated financial statements, the Group acquired Goodman Global Group, Inc. and its subsidiaries on November 1, 2012, and AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş. on July 8, 2011. The Group accounted for these transactions by the purchase method in accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations."

Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, which mature within three months of the date of acquisition. Time deposits that mature in more than three months, but within a year of the date of acquisition, are recorded as short-term investments.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Inventories

Inventories of the Company and its consolidated domestic subsidiaries are principally stated at the lower of cost, determined by the average method, or net selling value. Inventories of consolidated foreign subsidiaries are principally stated at the lower of cost, determined by the average method, or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Depreciation of property, plant and equipment of the consolidated foreign subsidiaries is principally computed by the straight-line method at rates based on the estimated useful lives of the assets.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 5 to 15 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

Asset Retirement Obligations

In accordance with ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed the asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company and its consolidated domestic subsidiaries continue to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

Investment Securities

All marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is principally determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost principally determined by the moving-average method.

For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by charging such losses to income.

Goodwill and Intangible Assets

Goodwill and intangible assets arise principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over a period of 3 to 20 years. Intangible assets include primarily customer relationships. Customer relationships are amortized using the straight-line method over the estimated useful lives (mainly 30 years).

Provision for Product Warranties

The Group repairs or exchanges certain products without charge under specific circumstances. The provision for product warranties is stated in amounts considered to be appropriate based on the past experience and an evaluation of potential losses on the product warranties.

Employees' Retirement Benefits

The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans. The liabilities for retirement benefits are computed based on projected benefit obligations and plan assets at the balance sheet date.

Stock Options

In accordance with ASBJ Statement No. 8, "Accounting Standard for Stock Options," the Company measures the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheets, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rates. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as "foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Income Taxes

The provision for current income taxes is computed based on the income before income taxes and minority interests included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Derivative Financial Instruments

The Group uses foreign exchange forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group uses mainly interest rate swaps and interest rate options to manage its exposures to fluctuations in interest rates.

The Group uses commodity future contracts to hedge the risk of fluctuation of commodity price for materials.

The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) derivatives are principally recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Amounts per Common Share

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share of common stock assumes full exercise of the outstanding stock options which have dilutive effect at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

New Accounting Pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.
Major changes are as follows:
(a) Treatment in the balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
(b) Treatment in the statement of income and the statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.
(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases
The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

The accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. Inventories

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen	
	2013	2012
Finished products and merchandise	**¥191,195**	¥153,913
Semifinished products and work in process	**41,381**	42,153
Raw materials and supplies	**52,593**	47,534
Total	**¥285,169**	¥243,600

4. Long-Lived Assets

The Group reviewed its long-lived assets for impairment for the year ended March 31, 2012. As a result, the Group recognized an impairment loss as other expense for certain machinery and equipment and other, which were deemed to be idle assets with no future plan for utilization and for which the carrying amount exceeded the fair value at March 31, 2012, as follows:

Asset Category	Location	Millions of yen
Machinery and equipment, etc.	Settsu City, Osaka Prefecture	¥261
Machinery and equipment, etc.	Kamisu City, Ibaraki Prefecture	95
Total		¥356

The carrying amounts of the relevant assets were written down to the recoverable amount. The recoverable amounts of these assets were measured by the net selling price at disposition.

No impairment loss was recognized for the year ended March 31, 2013.

5. Business Combination

Acquisition of an entity during the year ended March 31, 2013

1. Outline of the business combination:
   (1) Name and business contents of the acquiree
   Name: Goodman Global Group, Inc.
   Business contents: Development, manufacture and sale of residential and commercial air-conditioning equipment
   (2) Main reason for the business combination: The Company has assessed that Goodman Global Group, Inc. has an extensive sales network and a significant presence in the residential unitary HVAC (heating, ventilating and air-conditioning) segment in North America. Through the business combination, the Group's sales are expected to grow substantially with an outstanding and complementary product portfolio covering not only ducted and ductless air-conditioning systems but also furnace and heat-pump systems in the world's largest HVAC market, and to consolidate its position as a leading company in the global air-conditioning market.
   (3) Date of the business combination: November 1, 2012
   (4) Legal form of the business combination: Merger with a special purpose company for acquisition which was set up in the United States by Daikin Holdings (Houston), Inc., the Company's newly established subsidiary in the United States.
   (5) Name of the acquiree after business combination:
   Goodman Global Group, Inc.
   (6) Ratio of voting rights acquired: Ratio of voting rights held just before the business combination: —%
   Ratio of additional voting rights acquired on the date of business combination: 100%
   Ratio of voting rights held after the business combination: 100%
   (7) Basis for determination of the acquirer: Goodman Global Group, Inc. merged with the special purpose company for acquisition which was set up in the United States by Daikin Holdings (Houston), Inc., a subsidiary of the Company, and Daikin Holdings (Houston), Inc. held 100% of the voting rights of Goodman Global Group, Inc.
2. Period of operating result of the acquiree included in the consolidated financial statements:
   The operating result of the acquiree was not included in the consolidated statement of income for the year ended March 31, 2013, because the Company deemed the acquisition date as December 31, 2012, and used the financial statements of the subsidiary as of December 31, 2012, in the preparation of the consolidated financial statements.
3. Amount and breakdown of the acquisition costs:
   Payment for acquisition of shares: USD2,200 million
   Expenses related directly to the acquisition, including mainly advisory expenses: ¥2,824 million
4. Amount of goodwill recognized, reason for recognition, and method and period for amortization of goodwill:
   (1) Amount of goodwill recognized: USD2,260 million
   (2) Reason for recognition: Future business activities are expected to generate excess profitability.
   (3) Method and period for amortization of goodwill: Straight-line method over 20 years

5. Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date:

Year Ended March 31, 2013	Millions of USD
Current assets	$ 795
Fixed assets	4,190
Total assets	$4,985
Current liabilities	$2,005
Long-term liabilities	744
Total liabilities	$2,749

In the purchase price allocation, those allocated to intangible assets other than goodwill mainly include customer relationships of USD1,218 million and rights of trademarks of USD425 million, and the amortization periods for these assets are determined individually based on their useful lives.

6. Unaudited summaries of estimated impact on consolidated financial statement of income:
Estimated impact on the consolidated financial statement of income for the fiscal year ended March 31, 2013, which provide the effects of the acquisition as if it had been completed on April 1, 2012, are as follows:

	Millions of Yen
Net sales	¥159,599
Operating income	21,219
Income before income taxes and minority interests	12,355
Net income	7,607

	Yen
Amount per common share	¥26.13

These summaries of estimated impact were based on the hypothesis that this business combination had been completed on April 1, 2012, the beginning of the fiscal year ended March 31, 2013. Amortization of goodwill and other intangible assets arising from this acquisition for the period from April 1, 2012 to March 31, 2013, is not reflected in the estimated impact.

These summaries have not been audited by an independent auditor.

Acquisition of an entity during the year ended March 31, 2012

1. Outline of the business combination:
   (1) Name and business contents of the acquiree
   Name: AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.
   Business contents: Manufacture and distribution of air-conditioning equipment
   (2) Main reason for the business combination: To strengthen product offering and sales network in the Turkish market and expand the business in the Middle East, Africa and CIS
   (3) Date of the business combination: July 8, 2011
   (4) Legal form of the business combination: The issued shares were acquired for cash
   (5) Name of the acquiree after business combination:
   AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.
   (Corporate name was changed to DAIKIN ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş.)
   (6) Ratio of voting rights acquired: Ratio of voting rights held just before the business combination: —%
   Ratio of additional voting rights acquired on the date of business combination: 100%
   Ratio of voting rights held after the business combination: 100%
   (7) Basis for determination of the acquirer: Daikin Europe N.V., a consolidated subsidiary of the Company, acquired the shares by cash and held 100% of voting rights of the acquiree.
2. Period of operating result of the acquiree included in the consolidated financial statements:
   From July 1, 2011 to December 31, 2011
3. Amount and breakdown of the acquisition costs:

Year Ended March 31, 2012	Millions of EUR
Payment for acquisition of shares	178
Acquisition costs	178

4. Amount of goodwill recognized, reason for recognition, and method and period for amortization of goodwill
   (1) Amount of goodwill recognized: TRY178 million
   (2) Reason for recognition: Future business activities are expected to generate excess profitability.
   (3) Method and period for amortization of goodwill: Straight-line method over 10 years
5. Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date:

Year Ended March 31, 2012	Millions of TRY
Current assets	201
Fixed assets	190
Total assets	391
Current liabilities	119
Long-term liabilities	30
Total liabilities	149

6. Even if this business combination had been completed as of April 2011, the beginning of the fiscal year ended March 31, 2012, the Company believes the effect of consolidating this company on the financial statements would be minor. Therefore, the unaudited pro forma financial statements are omitted.

6. Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2013 and 2012, were as follows:

	Millions of yen			
	2013			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥66,833**	**¥29,193**	**¥(2,415)**	**¥93,611**
Debt securities	**125**	**4**		**129**
Total	**¥66,958**	**¥29,197**	**¥(2,415)**	**¥93,740**

	Millions of yen			
	2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥74,570	¥12,396	¥(12,353)	¥74,613
Debt securities	150	4		154
Other	396	45	(4)	437
Total	¥75,116	¥12,445	¥(12,357)	¥75,204

The information of available-for-sale securities which were sold during the years ended March 31, 2013 and 2012, is as follows:

	Millions of yen		
March 31, 2013	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities	**¥518**	**¥117**	

	Millions of yen		
March 31, 2012	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities	¥1,892	¥1,437	

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2013 and 2012 were ¥12,651 million and ¥1,874 million, respectively.

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7. Goodwill

Amortization of goodwill is ¥12,077 million and ¥12,147 million for the years ended March 31, 2013 and 2012, respectively, which is included in selling, general and administrative expenses.

8. Related Party Transactions

Material transactions and balances with related individuals for the years ended March 31, 2013 and 2012, were as follows:

(1) 2013

(a) The Company

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	**2013**	Account	**2013**
Chiyono Terada	Outside Director/ Chief Executive Officer (CEO) and President of Art Corporation	0.00	Commission for moving business and delivery business	**¥488**	Other current liabilities	**¥39**

(b) The Company's consolidated subsidiaries

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	**2013**	Account	**2013**
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	**¥70**	Other current liabilities	**¥ 4**
			Sales of products and other	**77**	Accounts receivable	**16**

The terms and conditions applicable to the above-mentioned transactions have been determined on the basis of arm's length and by reference to the normal market price.

(2) 2012

(a) The Company

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2012	Account	2012
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥470	Other current liabilities	¥42

(b) The Company's consolidated subsidiaries

			Millions of yen			
		Ownership of the Company	Transactions		Resulting Account Balances	
Name	Description of Post	(%)	Description of Transaction	2012	Account	2012
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥72	Other current liabilities	¥ 4
			Sales of products and other	71	Accounts receivable	13

The terms and conditions applicable to the above-mentioned transactions have been determined on the basis of arm's length and by reference to the normal market price.

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2013 and 2012, consisted of the following:

	Millions of yen	
	2013	2012
Bank overdrafts and notes to banks	**¥63,408**	¥67,395
Commercial paper	**1,927**	23,054
Total	**¥65,335**	¥90,449

Unused short-term bank credit lines were ¥150,000 million at March 31, 2013. Weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2013 and 2012 were 1.37% and 0.89%, respectively.

Weighted-average interest rates of commercial paper at March 31, 2013 and 2012 were 0.25% and 0.13%, respectively.

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen	
	2013	2012
1.00% unsecured bonds, due 2014	**¥ 30,000**	¥ 30,000
1.42% unsecured bonds, due 2016	**30,000**	30,000
0.46% unsecured bonds, due 2017	**10,000**	
1.86% unsecured bonds, due 2019	**40,000**	40,000
0.72% unsecured bonds, due 2019	**10,000**	
1.20% unsecured bonds, due 2022	**30,000**	
Unsecured loans from government-sponsored banks, with interest 1.75%, due through 2019	**20,000**	20,000
Collateralized loans from banks and others, payable in foreign currencies, with interest 4.75% (2013) and 7.63% (2012), due through 2016	**28**	26
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.71% to 5.90% (2013) and from 0.71% to 5.99% (2012), due through 2022	**152,088**	13,318
Unsecured loans from banks and others with interest ranging from 0.30% to 3.59% (2013) and from 0.39% to 3.63% (2012), due through 2026	**315,043**	162,054
Total	**637,159**	295,398
Less current portion	**(4,126)**	(57,290)
Long-term debt, less current portion	**¥633,033**	¥238,108

Annual maturities of long-term debt outstanding at March 31, 2013, were as follows:

Year Ending March 31	Millions of yen
2014	¥ 4,126
2015	94,697
2016	35,170
2017	70,233
2018	65,106
2019 and thereafter	367,827
Total	¥637,159

At March 31, 2013, property, plant and equipment; trade accounts receivables; inventories; and other with a book value of ¥39,212 million, ¥15,952 million, ¥8,241 million and ¥4,220 million, respectively, were pledged as collateral for short-term borrowings and long-term debt.

Certain loan agreements provide that the lender may require the Group to submit proposals for paying dividends, issuing additional long-term debt and certain other matters, for prior approval. As is customary in Japan, security must be given if requested by a lending bank. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders has ever exercised these rights with respect to debt of the Group.

10. Severance Indemnities and Pension Plans

Under the Group's severance indemnities and pension plans, employees terminating their employment are, in most circumstances, entitled to severance and pension payments based on their average pay during their employment, length of service and certain other factors.

For the year ended March 31, 2013, one domestic consolidated subsidiary implemented a defined contribution pension plan and then terminated a part of its defined benefit pension plan. In addition, the subsidiary withdrew from the employees' pension fund. The effect of this implementation and this withdrawal were to decrease income before taxes and minority interests by ¥346 million and were included in other-net of other expenses of the consolidated statement of income for the year ended March 31, 2013.

The liabilities for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Millions of yen	
	2013	2012
Projected benefit obligation	**¥84,071**	¥69,387
Fair value of plan assets	**(80,088)**	(66,632)
Unrecognized prior service cost	**225**	10
Unrecognized actuarial gain	**(10,816)**	(10,976)
Net assets	**(6,608)**	(8,211)
Prepaid pension cost (included in other assets of investments and other assets)	**(10,568)**	(10,227)
Liabilities for retirement benefits	**¥3,960**	¥ 2,016

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	Millions of yen	
	2013	2012
Service cost	**¥4,015**	¥3,543
Interest cost	**1,856**	1,912
Expected return on plan assets	**(2,210)**	(2,186)
Amortization of prior service cost	**(46)**	(24)
Recognized actuarial loss	**557**	1,400
Net periodic benefit costs	**4,172**	4,645
Contribution to defined contribution pension plan and other	**2,922**	2,766
Total	**¥7,094**	¥7,411

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013	2012
Discount rate	**Mainly 1.2%**	Mainly 2.0%
Expected rate of return on plan assets	**Mainly 2.5%**	Mainly 2.5%
Amortization period of prior service cost	**Mainly 10 years**	Mainly 10 years
Recognition period of actuarial gain/loss	**Mainly 10 years**	Mainly 10 years

11. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the Shareholders' meeting. For companies that meet certain criteria, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account that was charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. Stock Options

The stock options outstanding for the year ended March 31, 2013, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2006 Stock Option	9 directors 44 employees	298,000 shares	2006.7.18	¥3,790	From July 19, 2008 to July 18, 2012
2007 Stock Option	9 directors 42 employees	292,000 shares	2007.7.17	¥4,640	From July 18, 2009 to July 17, 2013
2008 Stock Option	8 directors 44 employees	308,000 shares	2008.7.14	¥5,924	From July 15, 2010 to July 14, 2014
2009 Stock Option	8 directors 42 employees	294,000 shares	2009.7.13	¥3,250	From July 14, 2011 to July 13, 2015
2010 Stock Option	8 directors 41 employees	290,000 shares	2010.7.14	¥3,050	From July 15, 2012 to July 14, 2016
2011 Stock Option	10 directors 39 employees	296,000 shares	2011.7.14	¥2,970	From July 15, 2013 to July 14, 2017
2012 Stock Option	10 directors 41 employees	300,000 shares	2012.7.13	¥2,186	From July 14, 2014 to July 13, 2018

The stock option activity was as follows:

	Shares							
	2005 Stock Option	2006 Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option
Year Ended March 31, 2012								
Vested								
April 1, 2011—Outstanding	88,800	254,700	262,000	308,000	294,000	290,000		
Granted							296,000	
Exercised	(9,000)							
Canceled	(79,800)	(20,000)	(20,000)	(42,000)				
March 31, 2012—Outstanding		234,700	242,000	266,000	294,000	290,000	296,000	
Year Ended March 31, 2013								
Vested								
April 1, 2012—Outstanding		234,700	242,000	266,000	294,000	290,000	296,000	
Granted								300,000
Exercised					(16,000)	(39,000)		
Canceled		(234,700)	(40,000)	(46,000)	(66,000)			
March 31, 2013—Outstanding			202,000	220,000	212,000	251,000	296,000	300,000
Exercise price	¥2,852	¥3,790	¥4,640	¥5,924	¥3,250	¥3,050	¥2,970	¥2,186
Average stock price at exercise	¥2,792				¥3,756	¥3,756		
Fair value price at grant date		¥ 736	¥1,035	¥ 803	¥ 899	¥1,113	¥ 935	¥ 676

The assumptions used to measure fair value of 2012 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	47.5%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥36 per share
Risk-free interest rate:	0.1%

13. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.9% for the years ended March 31, 2013 and 40.6% for the year ended March 31, 2012.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities, at March 31, 2013 and 2012, were as follows:

	Millions of yen	
	2013	2012
Deferred tax assets:		
Tax loss carryforwards	**¥ 15,325**	¥18,511
Provision for product warranties	**11,583**	5,576
Inventories	**9,474**	5,202
Investment securities	**7,434**	2,924
Accrued bonus	**3,430**	3,146
Software and other intangible assets	**3,243**	3,045
Foreign income tax credit	**1,436**	1,048
Allowance for doubtful receivables	**1,352**	737
Liabilities for retirement benefits	**878**	1,140
Other	**17,112**	7,793
Less valuation allowance	**(21,927)**	(16,094)
Total deferred tax assets	**¥ 49,340**	¥33,028
Deferred tax liabilities:		
Intangible assets	**¥ 47,895**	¥ 895
Undistributed earnings of consolidated subsidiaries	**14,197**	9,965
Unrealized gain on available-for-sale securities	**8,346**	86
Prepaid pension cost	**3,697**	4,288
Deferred gains on sales of property	**1,961**	1,906
Other	**7,772**	4,532
Total deferred tax liabilities	**¥ 83,868**	¥21,672
Net deferred tax (liabilities) assets	**¥(34,528)**	¥11,356

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2013 and 2012, is as follows:

	2013	2012
Normal effective statutory income tax rate	**37.9%**	40.6%
Difference in foreign subsidiaries' tax rate	**(13.5)**	(16.4)
Tax and tax effect on dividends from foreign subsidiaries	**7.0**	4.3
Amortization of goodwill	**5.2**	5.4
Consolidation adjustment for gain on sales of shares of a subsidiary	**5.0**	
Valuation allowance	**3.2**	7.3
Income taxes—prior years	**(2.1)**	
Unrecognized tax effect on unrealized profit	**(1.8)**	0.2
Unrecognized tax effect on foreign income tax credit	**1.3**	
Foreign taxes on royalties and other		1.3
Amendment of deferred tax assets by change in the income tax rates		1.0
Other—net	**(0.1)**	0.9
Actual effective income tax rate	**42.1%**	44.6%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.6% to 37.9% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterward.

During the current year, the Company received a refund notice from the Japanese tax authority informing that they reached an agreement with the Chinese tax authority regarding the taxation of the Company's intercompany transactions. The refund amount to ¥1,841 million is presented as income taxes-prior years in the consolidated statement of income for the year ended March 31, 2013.

At March 31, 2013, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥35,679 million, which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen
2014	¥ 137
2015	113
2016	68
2017	861
2018	2,903
2019 and thereafter	31,597
Total	¥35,679

14. Supplemental Cash Flow Information

The Group acquired Goodman Global Group, Inc. and its consolidated subsidiaries during the year ended March 31, 2013.

A reconciliation between cash paid for the shares of Goodman Global Group, Inc. and payment for the acquisition of these newly consolidated subsidiaries, net of cash and cash equivalents acquired, was as follows:

	Millions of yen
	2013
Current assets	**¥ 68,866**
Fixed assets	**166,943**
Goodwill	**195,711**
Current liabilities	**(173,607)**
Long-term liabilities	**(64,386)**
Foreign currency translation adjustments	**(17,879)**
Cash paid for the shares	**175,648**
Cash and cash equivalents of consolidated subsidiary	**(11,996)**
Payment for acquisition of shares of newly consolidated subsidiary, net of cash and cash equivalents acquired	**¥163,652**

The Group acquired AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş. during the year ended March 31, 2012.

A reconciliation between cash paid for the shares of AİRFEL ISITMA VE SOĞUTMA SİSTEMLERİ SANAYİ VE TİCARET A.Ş. and payment for the acquisition of this newly consolidated subsidiary, net of cash and cash equivalents acquired, was as follows:

	Millions of yen
	2012
Current assets	¥ 9,991
Fixed assets	9,422
Goodwill	8,826
Current liabilities	(5,915)
Long-term liabilities	(1,500)
Cash paid for the shares	20,824
Cash and cash equivalents of consolidated subsidiary	(124)
Payment for acquisition of shares of newly consolidated subsidiary, net of cash and cash equivalents acquired	¥20,700

15. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥33,569 million and ¥32,987 million for the years ended March 31, 2013 and 2012, respectively.

16. Leases

The Group leases certain computer equipment and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases as of March 31, 2013, were as follows:

	Millions of yen	
	Finance Leases	Operating Leases
Due within one year	¥1,464	¥11,138
Due after one year	1,912	19,542
Total	¥3,376	¥30,680

Pro Forma Information for the Years Ended March 31, 2013 and 2012

As discussed in Note 2, the Company and its consolidated domestic subsidiaries account for leases which existed at the transition date of ASBJ Statement No. 13 and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense on an "as if capitalized" basis for the years ended March 31, 2013 and 2012, were as follows:

	Millions of yen					
	2013			2012		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	¥147	¥111	¥258	¥669	¥249	¥918
Accumulated depreciation	120	86	206	580	198	778
Net leased property	¥ 27	¥ 25	¥ 52	¥ 89	¥ 51	¥140

Obligations under finance leases:

	Millions of yen	
	2013	2012
Due within one year	¥27	¥ 88
Due after one year	25	52
Total	¥52	¥140

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Lease payments and depreciation expense under finance leases:

	Millions of yen	
	2013	2012
Lease payments	¥87	¥260
Depreciation expense	87	260

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, was computed using the straight-line method.

17. Financial Instruments and Related Disclosures

Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Short-term bank loans and commercial paper are used to fund the Group's ongoing operations, and cash surpluses are invested in low-risk financial assets. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described below.

Nature and Extent of Risks Arising from Financial Instruments, and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of the internal policies, which include monitoring of payment term and balances of major customers to identify the default risk of the customers.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Although receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the net position of receivables and payables in each foreign currency is hedged by using mainly forward foreign currency contracts and currency swaps. In addition, receivables and payables in foreign currencies which are expected from forecasted transactions are hedged by using forward foreign currency contracts and currency swaps.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are periodically managed by monitoring market values and financial position of issuers.

Short-term bank loans and commercial paper are mainly used to fund the Group's ongoing operations. Long-term bank loans and bonds are used mainly for capital expenditures. Although the payables such as trade notes and trade accounts, bank loans and bonds, are exposed to liquidity risk, the Group manages its liquidity risk along with adequate financial planning by the corporate treasury department and has short-term bank credit lines. A part of long-term bank loans, which are exposed to market risks from change in interest rates, is hedged by using mainly interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps, and commodity future contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, from changes in interest rates of bank loans, and from changes in market value fluctuation of the raw materials.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Because the counterparties to these derivatives are limited to financial institutions with high creditworthiness, the Group does not anticipate any losses arising from credit risk.

Fair Values of Financial Instruments

The carrying amount, fair value and unrealized loss of significant financial instruments were as follows. Fair values of financial instruments are based on quoted price in active markets. If a quoted price is not available, another rational valuation technique is used instead. Instruments whose fair value cannot be readily determined are not included in the following:

	Millions of yen		
	March 31, 2013		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥185,571**	**¥185,571**	
Trade notes and accounts receivable	**263,323**	**263,323**	
Investment securities	**93,740**	**93,740**	
Total	**¥542,634**	**¥542,634**	
Trade notes and accounts payable	**¥127,364**	**¥127,364**	
Short-term borrowings	**65,335**	**65,335**	
Income taxes payable	**14,694**	**14,694**	
Long-term debt	**637,159**	**647,497**	**¥10,338**
Total	**¥844,552**	**¥854,890**	**¥10,338**
Derivatives	**¥ 893**	**¥ 893**	

	Millions of yen		
	March 31, 2012		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥135,427	¥135,427	
Short-term investments	221	221	
Trade notes and accounts receivable	209,077	209,077	
Investment securities	75,204	75,204	
Total	¥419,929	¥419,929	
Trade notes and accounts payable	¥110,108	¥110,108	
Short-term borrowings	90,449	90,449	
Income taxes payable	9,836	9,836	
Long-term debt	295,398	305,991	¥10,593
Total	¥505,791	¥516,384	¥10,593
Derivatives	¥ 51	¥ 51	

Assets

Cash and cash equivalents and short-term investments

The carrying values of cash and cash equivalents and short-term investments approximate fair value because of their short maturities.

Trade notes and accounts receivable

The carrying values of trade notes and accounts receivable approximate fair value because of their short maturities.

Investment securities

The fair values of equity securities are measured at the quoted market price of the stock exchange for the equity instruments, the fair value of debt securities are measured at the amount to be received through maturity discounted at the Group's assumed corporate discount rate, and the fair values of investment trusts are measured at the constant value. The information related to the fair value of the investment securities by classification is included in Note 6.

Liabilities

Trade notes and accounts payable, short-term borrowings, and income taxes payable

The carrying values of trade notes and accounts payable, short-term borrowings, and income taxes payable approximate fair value because of their short maturities.

Long-term debt

The fair values of bonds are determined at the quoted market price of the over-the-counter market for the corporate bonds, and the fair values of long-term loans are determined by discounting the cash flows related to the loans at the Group's assumed corporate borrowing rate. The fair values of long-term loans with floating interest, which are hedged by the interest rate swaps which qualify for hedge accounting and meet specific matching criteria, are determined by discounting the cash flows related to the loans and the interest rate swaps at the Group's assumed corporate borrowing rate.

Derivatives

The fair value of derivatives is measured at quoted price obtained from the financial institution.

The contracts or notional amounts of derivatives that are shown in the below table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
	March 31, 2013			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 920		¥ 29	¥ 29
EUR	42,962		(169)	(169)
USD	17,233		970	970
AUD	3,887		42	42
NZD	1,556		(12)	(12)
ZAR	866		(9)	(9)
CZK	5,457		78	78
HKD	1,215		29	29
PLN	188			
SGD	2,183		53	53
MYR	1,667		(4)	(4)
TRY	8,826		(127)	(127)
BRL	1,692		27	27
Buying: EUR	164			
CNY	303		(8)	(8)
USD	752		70	70
Commodity future contracts:				
Metal				
Buying	¥ 1,278		¥ (47)	¥ (47)

	Millions of yen			
	March 31, 2012			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 583		¥ (2)	¥ (2)
EUR	24,023		250	250
USD	12,058		(129)	(129)
AUD	4,647		66	66
NZD	269		(4)	(4)
ZAR	778		1	1
CZK	3,547		(13)	(13)
HKD	953		(7)	(7)
PLN	301			
SGD	1,997		(8)	(8)
MYR	1,641		20	20
TRY	6,274		(26)	(26)
MXN	180		(2)	(2)
INR	468		(21)	(21)
Buying: EUR	6,551		32	32
USD	1,232		84	84
Currency swaps:				
Receive JPY/Pay HKD	¥ 83		¥ 18	¥ 18
Commodity future contracts:				
Metal				
Buying	¥ 1,706		¥(134)	¥(134)

Derivative transactions to which hedge accounting is applied

		Millions of yen		
		March 31, 2013		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 5,953**		**¥ 21**
EUR	Receivables	**25,013**		**(426)**
USD	Receivables	**630**		**(16)**
AUD	Receivables	**630**		**(50)**
ZAR	Receivables	**588**		**(7)**
CZK	Receivables	**8,469**		**247**
PLN	Receivables	**893**		**(2)**
TRY	Receivables	**4,650**		**(105)**
Buying: CNY	Payables	**32**		**(7)**
USD	Payables	**12,550**		**440**
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term debt	**¥ 80,000**	**¥ 80,000**	**¥(126)**
Fixed rate payment, floating rate receipt*	Long-term debt	**215,000**	**215,000**	

	Hedged Item	Millions of yen March 31, 2012 Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	¥ 5,171		¥ (75)
EUR	Receivables	20,873		174
USD	Receivables	1,306		13
AUD	Receivables	673		(27)
ZAR	Receivables	631		(9)
CZK	Receivables	8,013		(241)
PLN	Receivables	910		(28)
TRY	Receivables	1,599		(56)
Buying: USD	Payables	2,464		218
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term debt	¥ 30,000		¥ (43)
Fixed rate payment, floating rate receipt*	Long-term debt	122,000	¥97,000	

*The above interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in long-term debt.

Financial instruments whose fair value cannot be reliably determined

	Millions of yen Carrying Amount 2013	2012
Nonlisted equity securities	**¥8,180**	¥8,235
Investments in limited partnerships and other investments	**668**	780
Total	**¥8,848**	¥9,015

Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen **March 31, 2013** Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**¥185,571**			
Trade notes and accounts receivable	**263,290**	**¥ 33**		
Investment securities:				
Available-for-sale securities with contractual maturities (Corporate Bond)	**25**	**100**		
Total	**¥448,886**	**¥133**		

	Millions of yen March 31, 2012 Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥135,427			
Short-term investments	221			
Trade notes and accounts receivable	209,073	¥ 4		
Investment securities:				
Available-for-sale securities with contractual maturities (Corporate Bond)	25	100	¥25	
Total	¥344,746	¥104	¥25	

Please see Note 9 for annual maturities of long-term debt.

18. Commitments and Contingent Liabilities

At March 31, 2013, the Group had the following commitment:

	Millions of yen
Capital expenditures	**¥14,451**

At March 31, 2013, the Group had the following contingent liabilities:

	Millions of yen
Trade notes endorsed	**¥3,536**

19. Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the year ended March 31, 2013 and 2012, were as follows:

	Millions of yen	
	2013	2012
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the year	**¥14,173**	¥ (8,380)
Reclassification adjustments to profit or loss	**12,534**	437
Amount before income tax effect	**26,707**	(7,943)
Income tax effect	**(8,273)**	3,301
Total	**¥18,434**	¥ (4,642)
Deferred (loss) gain on derivative under hedge accounting:		
(Losses) gains arising during the year	**¥ (191)**	¥ 376
Reclassification adjustments to profit or loss	**90**	(298)
Amount before income tax effect	**(101)**	78
Income tax effect	**29**	(61)
Total	**¥ (72)**	¥ 17
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥64,782**	¥(12,968)
Share of other comprehensive income in affiliates accounted for using the equity method:		
Adjustments arising during the year	**¥ 1,483**	¥ (78)
Total other comprehensive income (loss)	**¥84,627**	¥(17,671)

20. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2012, was as follows:

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2013	Net Income	Weighted Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥43,585**	**291,089**	**¥149.73**
Effect of dilutive securities			
Stock options		**39**	
Diluted EPS:			
Net income for computation	**¥43,585**	**291,128**	**¥149.71**

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2012	Net Income	Weighted Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	¥41,172	291,242	¥141.37

Diluted net income per share for the year ended March 31, 2012, is not disclosed because there were no dilutive shares.

21. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's Board of Directors is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the "Air Conditioning" segment and the "Chemicals" segment.

The "Air Conditioning" segment manufactures, distributes and installs air conditioning and refrigeration equipment. The "Chemicals" segment manufactures and distributes chemicals.

2. Methods of Measurement for the Amounts of Sales, Profit, Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are generally consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies".

3. Information about Sales, Profit, Assets and Other Items

	Millions of yen						
	March 31, 2013						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,119,972	¥124,436	¥1,244,408	¥46,495	¥1,290,903		¥1,290,903
Intersegment sales	855	5,804	6,659	225	6,884	¥ (6,884)	
Total	1,120,827	130,240	1,251,067	46,720	1,297,787	(6,884)	1,290,903
Segment profit	70,905	16,491	87,396	1,229	88,625	2	88,627
Segment assets	1,445,186	150,099	1,595,285	29,719	1,625,004	110,832	1,735,836
Other:							
Depreciation	¥ 27,614	¥ 9,696	¥ 37,310	¥ 2,099	¥ 39,409		¥ 39,409
Amortization of goodwill	12,051	26	12,077		12,077		12,077
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	8,436	5,605	14,041		14,041		14,041
Investment in property, plant and equipment and intangible assets	36,944	15,549	52,493	1,830	54,323		54,323

	Millions of yen						
	March 31, 2012						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥1,041,387	¥132,931	¥1,174,318	¥44,383	¥1,218,701		¥1,218,701
Intersegment sales	1,193	10,071	11,264	232	11,496	¥(11,496)	
Total	1,042,580	143,002	1,185,582	44,615	1,230,197	(11,496)	1,218,701
Segment profit	60,175	20,172	80,347	852	81,199	(6)	81,193
Segment assets	903,203	130,213	1,033,416	28,788	1,062,204	98,360	1,160,564
Other:							
Depreciation	¥ 26,152	¥ 9,832	¥ 35,984	¥ 2,263	¥ 38,247		¥ 38,247
Amortization of goodwill	12,098	49	12,147		12,147		12,147
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	7,202	6,287	13,489	763	14,252		14,252
Investment in property, plant and equipment and intangible assets	37,485	9,151	46,636	1,713	48,349		48,349

Notes: 1. The "Other" segment is the aggregation of other operating segments which are not included in the reportable segments and consists of "Oil Hydraulics" segment, "Defense" segment, and "Electronics" segment.

2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amount to ¥118,702 million and ¥105,756 million at March 31, 2013 and 2012, respectively, which consisted mainly of the Company's cash, time deposits, short-term investments and investment securities.

3. The aggregated amount of segment profit equals to operating income in the consolidated statements of income.

4. Intersegment sales are recorded at values that approximate market prices.

4. Supplemental Information

(1) Information about Geographical Areas

a. Sales

	Millions of yen						
	March 31, 2013						
	Japan	China	Europe	Asia and Oceania	Americas	Other	Consolidated
	¥494,284	**¥234,774**	**¥195,053**	**¥186,219**	**¥137,479**	**¥43,094**	**¥1,290,903**

	Millions of yen						
	March 31, 2012						
	Japan	China	Europe	Asia and Oceania	Americas	Other	Consolidated
	¥474,572	¥215,655	¥205,656	¥163,502	¥127,268	¥32,048	¥1,218,701

Note: Sales are classified in countries or regions based on location of customers.

b. Property, Plant and Equipment

	Millions of yen						
	March 31, 2013						
	Japan	China	USA	Europe	Asia and Oceania	Other	Consolidated
	¥91,759	**¥69,951**	**¥42,717**	**¥31,460**	**¥32,615**	**¥5,699**	**¥274,201**

	Millions of yen						
	March 31, 2012						
	Japan	China	USA	Europe	Asia and Oceania	Other	Consolidated
	¥93,585	¥45,108	¥24,573	¥28,630	¥27,450	¥5,011	¥224,357

(2) Significant Impairment Loss on Noncurrent Assets

	Millions of yen				
	March 31, 2012				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on noncurrent assets		¥356			¥356

(3) Information about Goodwill

a. Balance of Goodwill by Reportable Segment

Goodwill for each reportable segment at March 31, 2013 and 2012, was as follows:

	Millions of yen				
	2013				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	**¥348,411**				**¥348,411**

	Millions of yen				
	2012				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥166,276				¥166,276

22. Subsequent Events

Resolutions approved by the Company's Board of Directors at the meeting held on May 8, 2013, are subject to approval at the general shareholders' meeting planned to be held on June 27, 2013.

Appropriations of Retained Earnings

Payment of a year-end cash dividend of ¥18 per share to holders of record at March 31, 2013, totaling ¥5,241 million was approved.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daikin Industries, Ltd.:

We have audited the accompanying consolidated balance sheet of Daikin Industries, Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daikin Industries, Ltd., and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2013

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2013)

Head Office	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka 530-8323, Japan Phone: 81-6-6373-4312 URL: http://www.daikin.com/
Tokyo Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-0075, Japan Phone: 81-3-6716-0111
Fiscal Year-End Date	March 31 on an annual basis
Date of Founding	October 25, 1924
Date of Establishment	February 11, 1934
Paid-in Capital	¥85,032 million
Number of Shares of Common Stock Issued	293,113 thousand
Number of Shareholders	41,662
Major Shareholders	• The Master Trust Bank of Japan, Ltd. (Trust account) • Japan Trustee Services Bank, Ltd. (Trust account) • Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account for Nippon Steel & Sumitomo Metal Industries, Ltd.) • Sumitomo Mitsui Banking Corporation • SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS • Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account for The Norinchukin Bank) • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • Japan Trustee Services Bank, Ltd. (Trust account 9) • Japan Trustee Services Bank, Ltd. (Trust account 4) • Mellon Bank, N.A. as Agent for Its Client Mellon Omnibus U.S. Pension
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 207 Affiliates: 10
Number of Employees	51,398 (Consolidated)
Stock Exchange Listing	Tokyo
Advertising Method	The Company uses the electronic advertising method, posting advertisements on its website (http://www.daikin.co.jp/e-koukoku/). However, when electronic advertising is not possible due to technical problems or other circumstances, the Company will post advertisements in the *Nikkei Shimbun.*
Shareholder Register Administrator	Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimicho, Chuo-ku, Osaka 541-8502, Japan
Ordinary General Meeting of Shareholders	June
Auditor	Deloitte Touche Tohmatsu LLC

DAIKIN INDUSTRIES, LTD.

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