Annual Report 2014

Fiscal Year Ended March 31, 2014

DAIKIN INDUSTRIES, LTD.

On Daikin's 90th Anniversary, Toward a New Phase of Development as a Global Company Based on Long Years of History and Experience

Founded in 1924, Daikin has become a global company with its air-conditioning systems and fluorochemistry businesses at the core. The year 2014 is the 90th anniversary of its founding, and today the Daikin Group does business in 145 countries with 74 production facilities.

Preventing global warming and raising energy efficiency are key topics shared by developed countries and emerging ones. Air conditioners use electricity and gas, and emit CO_2. The Daikin Group believes that energy control is an important part of its mission. Offering products and solutions that bring about both comfortable living and environmental friendliness to a high level, going forward, the Group will strive to raise corporate value even higher and further contribute to society.

Based on its 90 years of history and experience, the Daikin Group will continue to earn the trust and meet the expectations of investors and the global community, and aim for a new phase of development.

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Our Group Philosophy

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1. The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development
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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.

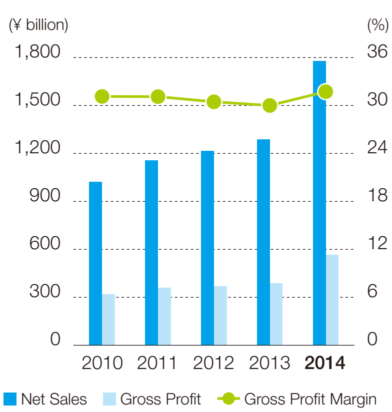
Financial Highlights

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

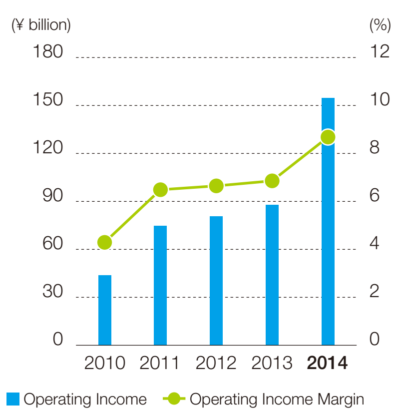
	Millions of yen	
	2013	**2014**
Operating Results (for the year):		
Net sales	¥1,290,903	**¥1,783,077**
Gross profit	388,046	**566,861**
Operating income	88,627	**155,075**
Net income	43,585	**91,880**
Cash Flows (for the year):		
Net cash provided by operating activities	¥103,161	**¥179,713**
Net cash used in investing activities	(218,386)	**(80,835)**
Free cash flow (Note)	(115,225)	**98,878**
Net cash provided by (used in) financing activities	143,520	**(38,249)**
Financial Position (at year-end):		
Total assets	¥1,735,836	**¥2,012,531**
Total shareholders' equity	618,118	**802,344**
Per Share Data (yen):		
Net income (basic)	¥ 149.73	**¥ 315.21**
Shareholders' equity	2,123.10	**2,749.76**
Cash dividends	36.00	**50.00**
Cash flow per share	(396)	**339**
Ratios (%):		
Gross profit margin	30.06%	**31.79%**
Operating income margin	6.87	**8.70**
Return on shareholders' equity (ROE)	7.78	**12.94**
Shareholders' equity ratio	35.61	**39.87**

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

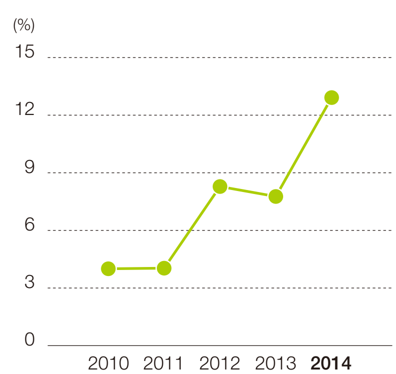
Net Sales, Gross Profit, and Gross Profit Margin



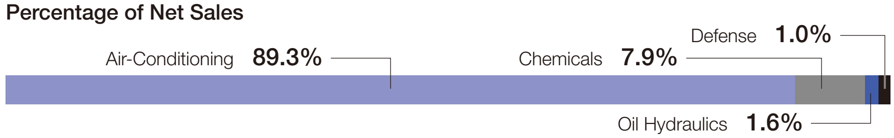
Operating Income and Operating Income Margin



ROE

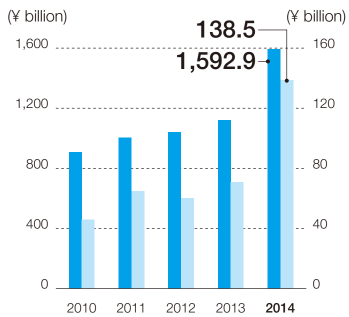


Percentage of Net Sales



Air-Conditioning

Net Sales and Operating Income (Loss)



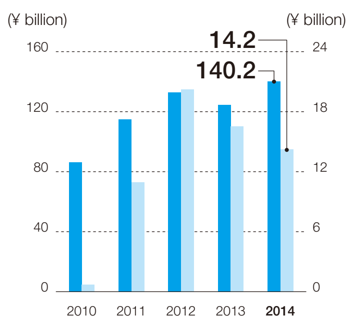
Major Products

- 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.

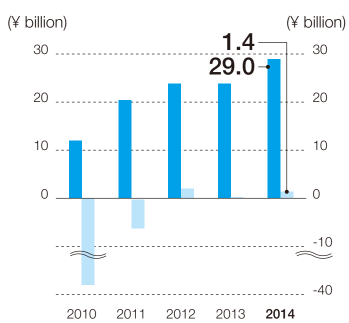
Chemicals



- Fluorocarbons
- Fluoroplastics
- Fluoroelastomers
- Fluoropaints
- Fluoro coatings
- 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.

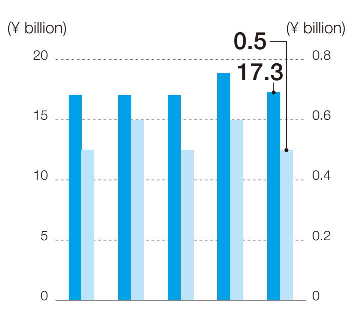
Oil Hydraulics



- 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 for Japan's Ministry of Defense
- Warhead parts 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.

Aiming for Sustainable Growth

Continuing the momentum of record results in fiscal 2014, Daikin has welcomed fiscal 2015, which is the 90th anniversary of our founding. Going forward, the Daikin Group will expand business globally while reforming its business model and improving the environmental performance of its products and technologies.

Fiscal 2014 (ended March 31, 2014) saw record levels of net sales, operating income, ordinary income, and net income. The year also welcomed fiscal 2015, which is our 90th anniversary. The Daikin Group continues to place all efforts for sustained growth by responding speedily and flexibly to a changing market environment.

Specifically, under the FUSION 15 strategic management plan, aiming for a large expansion in net sales, we will increase our sales capabilities by reinforcing our sales network and developing new sales outlets in all markets, including in emerging countries. Also, Daikin will work to further develop its solutions business, including service, maintenance, installation, and control, and expand its environmental innovations business, which places next-generation refrigerants and heating systems as core business lines. Together with this growth strategy, the Group will carefully manage investments and fundamentally reduce fixed costs to further build a business structure with high profitability. Furthermore, we will raise quality assurance and compliance systems, and strengthen our human resources, which are the core of global Group management, to further put in place the business structure needed for sustainable growth.

In 2012, the Daikin Group adopted the new refrigerant R32, which reduces the global warming factor by two-thirds over traditional refrigerants. Since then, aiming for R32 to be adopted globally, we have actively worked with environmental and air-conditioning-related parties in each country and region on setting a new global standard. Through this, we are meeting our role as a top maker of air-conditioning systems. Moreover, we think it is pressing to work quickly to switch systems in emerging markets. Daikin is also introducing energy-efficient inverter system air conditioners in mass market price ranges in emerging markets, and, through this and other efforts, we will both contribute to preventing global warming and expand business.

I have always believed that the key to corporate growth is above all responding flexibly and with agility to changing times, and sparking innovation. Looking forward to our 100th anniversary, I aim for further development of the Daikin Group, striving to continue to win the support of the global markets and meet the expectations of our shareholders and other stakeholders.

June 2014

Masanori Togawa
President and CEO

Overcoming Global Competition

Fiscal 2014 was the middle year of the five-year FUSION 15 strategic management plan, and Daikin reached business results that surpassed quantitative targets for the first half of the FUSION 15 plan. At the same time, we made a running start to the three years in the second half of the plan, which is a great success. In fiscal 2015, the Daikin Group will turn its focus on meeting the second-half targets of FUSION 15 and on making Daikin a "Truly Global and Excellent Company." To this end, we will overcome fierce competition and win.

June 2014

Masanori Togawa

Masanori Togawa
President and CEO

Q1 Please explain the market environment in fiscal 2014 and Daikin's business results, which were at record highs.

Togawa: In fiscal 2014, the global economy recovered from the depths, and we saw a bright market environment. Using this opportunity, under the FUSION 15 strategic management plan, which covers fiscal 2012–2016, we worked to fundamentally strengthen profitability and further accelerate growth.

In the air-conditioner business in Japan, Europe, the United States, China, and other markets around the world, we put in place unique actions before competitors. Also, effects from the Goodman Group, which Daikin acquired in November 2012, moving into consolidation and the impact of the weakened yen brought air-conditioning and refrigeration business sales 42% higher than the previous year, to ¥1,592.9 billion. Operating income increased 95% year on year, to ¥138.5 billion.

In the chemicals business, sales grew in auto-related applications, the semiconductor sector—which is recovering—and infrastructure applications in China. Sales reached ¥140.2 billion, up 13% over the previous year. However, operating income decreased 14% year on year, to ¥14.2 billion, as falling sales prices on increases in market supply had a large impact.

In other businesses, sales for oil hydraulics, defense, and electronic systems combined totaled ¥50.0 billion, and operating income came to ¥2.4 billion. Both sales and operating income increased over the previous year.

Overall, consolidated sales totaled ¥1,783.1 billion (a 38.1% increase year on year), and operating income reached ¥155.1 billion (up 75.0% year on year). Net income increased to ¥91.9 billion (up 110.8% year on year) as losses on valuation of investment securities were far less than those booked in the previous period. Sales and all profit levels were at record highs.

Q2 Three years have passed since the start of the FUSION 15 strategic management plan, and fiscal 2014 marked the middle year. Please discuss the results of those three years and progress on FUSION 15.

Togawa: Fiscal 2012, the first year of the FUSION 15 plan, started right after the March 2011 earthquake in Japan, and, as such, the business outlook was very unclear. Recovery in the global economy also slowed. However, to overcome this period of paradigm shift and further become a "Truly Global and Excellent Company," the Group steadily implemented the core strategies of FUSION 15 of a "new growth strategy," "reorganizing the management structure," and "strengthening human resources." Based on this, in the first three years of FUSION 15, we expanded our business solidly.

For example, in fiscal 2014, air-conditioner system business sales in emerging markets reached ¥155.0 billion, about three times the fiscal 2011 level. Also in Japan, we have raised business results in the energy efficiency solutions business and introduced a series of high environmental-performance air conditioners. Our strategy in the North American air-conditioner market via the Goodman Group acquisition has been another example of our successes.

■ Quantitative Targets for FY2016

■ Group-wide Sales and Profit Targets

(¥ billion)

	FY2011 actual results	FY2014 initial plan	FY2014 actual results	FY2016 goals
Net sales	¥1,160.3	¥1,600.0	¥1,783.1	**¥2,050.0**
Operating income (Operating income margin)	75.5 (6.5%)	130.0 (8.1%)	155.1 (8.7%)	**190.0** (9.3%)

■ Financial Targets

	FY2011 actual results	FY2014 initial plan	FY2014 actual results	FY2016 goals
ROA	1.7%	5.0%	4.9%	**6.0%**
ROE	4.0%	11.0%	12.9%	**13.0%**

■ Investment Plan

(¥ billion)

	FY2014–2016
3-year cumulative	**¥250.0**

Note: Assumed exchange rates in FY2016: $1=¥95, €1=¥125

Fiscal 2014 marked four straight years of increasing sales and profits, and we managed to surpass by a large margin the targets for fiscal 2014 laid out in the FUSION 15 plan (consolidated sales of ¥1,600 billion and consolidated operating income of ¥130 billion). In this period of unprecedented speed of change, we have made a running start toward our quantitative targets for the final year of FUSION 15: consolidated sales of ¥2,050 billion and consolidated operating income of ¥190 billion.

Q3 Please tell us what Daikin built in these three years.

Togawa: In these three years, the Daikin Group implemented policies toward further building a profitable business structure. First, we strived to increase the added value of our products. For example, in the Japanese air-conditioner market, continuing on from our room-type air-conditioner products, we launched the first commercial air conditioners to use the new R32 refrigerant. We have continued to introduce highly differentiated products into the market.

Second, we worked to improve profitability by reinforcing cost-competitiveness. Through building local production and sales systems in markets globally, we are able to respond flexibly to changes in demand and minimize foreign exchange fluctuation risks. Also, by adopting the Goodman Group's procurement practices globally, we lowered procurement costs via a global centralized system. In our Suzhou plant in China, in addition to economies of scale in room-type air-conditioner production, we bolstered cost-competitiveness by greatly increasing local materials procurement and making components in-house.

Third, Daikin continued to build a strong sales network in each region that is unaffected by the external market environment. For instance, in China, we expanded the sales network for air conditioners in interior regions. Through this, we strengthened retail sales by being even closer to the customer. We managed to increase the number of Daikin outlets to about 14,000 in fiscal 2014, from about 6,000 in fiscal 2010. In North America, using the Goodman Group's sales network of over 900 locations with about 60,000 dealers, we are working for a large-scale sales increase. In India, we segmented the diverse needs of customers, and continued to develop optimal sales outlets in each region.

Fourth, Daikin focused on further strengthening its business foundation to further speed up the global development of its business. Through alliances, cooperative agreements, and M&A, Daikin has put in place a network to increase business in the North American market via synergies gained from the Goodman Group, and to increase business in Turkey and Central Asia via the acquisition of Airfel. In production, we have expanded at a high pitch, particularly in emerging markets, such as Turkey, Brazil, and Mexico. Furthermore, to bolster R&D in air conditioners, with Japan as the mother R&D center, we have established a network of seven R&D centers (Japan, the United States, China, Belgium, Thailand, India, and Australia), where centers conduct development locally. At the centers in China and Belgium, we greatly increased the number of development engineers. Also, looking toward the next 10 years, to raise productivity in product R&D, speed up processes, and create innovative new products and business lines by melding technologies from other fields, in autumn 2015, Daikin will open the Technology Innovation Center.

In addition to strengthening our foundations for business expansion, to build an even stronger management foundation, we are working to minimize fixed costs across the Group as a percentage of net sales, and aim to lower the fixed cost ratio to 26% by fiscal 2016.

In the final three years of FUSION 15, I want to further quicken growth and enter the stage where we reap the fruits of our efforts. Through the speedy rollout of our core strategy, we will further build a strong corporate foundation and raise profitability.

Q4 A core strategy of FUSION 15 is four new growth themes. First, please explain what measures Daikin will take in the final three years of FUSION 15 in the themes “Fully enter emerging and high-volume markets” and “Develop solutions business that meets customer needs.”

Togawa: For the “Fully enter emerging and high-volume markets” theme, Daikin will introduce air-conditioner products that rival makers cannot match, and further expand sales. In residential air conditioners, we will develop and launch differentiated products speedily, such as inverter air conditioners, which specialize in cooling functions, and high-volume-price-range multi-type air conditioners. In commercial air conditioners, we will reinforce our product lineup of high-value-added VRV products (multi-type air conditioners for buildings), improve cost-competitiveness, develop

■ FUSION 15: Approaches to Latter-Half 3-Year Plan

While generating further results and implementing plans striving to achieve targets, looking ahead to the next development direction, the latter-half plan incorporates themes designed to yield results after 2015. Reinforcement of profitability and framework will be continuously undertaken to establish a robust corporate framework.

1) Accelerate core strategies leveraging environmental changes	• Launch products for emerging and high-volume markets in advanced countries and regions (Japan, China, Europe, etc.) • Establish distribution networks in regions where air-conditioning demand is growing (Russia, Middle East, Latin America, etc.) • Accelerate sales expansion of commercial-use air-conditioning equipment (VRV, Applied products) in Asia • Expand revenue in cyclical business (from installation to controls, service, and maintenance), including in Daikin’s core equipment strengths • Pursue energy-saving performance that leads the industry, better air quality environments (purification, humidification/dehumidification, ventilation), expand the number of products compatible with energy diversification, etc.
2) Reform corporate framework to reinforce profitability	• Improve earnings capacity and maximize FCF through Group-wide variable- and fixed-cost reductions • Streamline entire SCM process by learning from Goodman, etc. (inventory turnover: -9 days)
3) Further expand existing businesses and current regions of business	• Europe: Expand sales outpacing economic recovery in key countries (France, Italy, etc.) and expand business in neighboring emerging countries • Revive Chemicals business to a highly profitable framework through sales expansion incorporating growing markets such as the automobile industry, development of new products, including hybrid materials, expansion of high-value-added products, etc.

service engineers and other staff, and enter new markets in Asia and elsewhere. Furthermore, in the Middle East, Asia, Oceania, Central and South America, and other regions, Daikin will take advantage of higher infrastructure spending and corporate investment, and take measures to expand applied solutions business sales. The Group plans to expand air-conditioner sales in emerging markets to ¥300 billion by fiscal 2016, roughly twice the fiscal 2014 level.

Moreover, Daikin will bring to the high-volume segment of developed markets the cost-competitive products developed to meet the diverse needs and win over fierce competition in emerging markets. We will work to quickly bring this reverse innovation to reality, and be the first in the air-conditioning industry to do so.

For the "Develop solutions business that meets customer needs" theme, we have a big aim to move away from a "hard" or physical products-focused business model in the air-conditioning business. Combining needs in different countries, regions, and applications, Daikin will offer energy control solutions, including service, installation, and equipment control. Through this, we will build a self-sustaining business model where we capture replacement demand for equipment. In the final three years of FUSION 15, Daikin will polish its strengths in both the "hard" (energy-efficient equipment) and "soft" (air-conditioner-related services) businesses. Via this, we will bring the solutions business, which offers energy efficiency and comfort that cannot be achieved with equipment alone, primarily to developed markets in short order. Moreover, particularly in the commercial air-conditioner systems markets, we will focus on high-margin service and parts businesses, and bring business expansion and higher profitability to reality. By fiscal 2016, we target solutions business sales of over ¥300 billion.

Q5 Next, please explain what measures Daikin will take in the themes "Expand environment-related innovation business" and "Develop synergies and expand business through the Goodman Group acquisition."

Togawa: For the "Expand environment-related innovation business" theme, it is critical that Daikin can respond to global market changes flexibly. Energy sources are becoming more diverse, and energy efficiency and air quality are increasing in consciousness among the world's population. Countries across the globe are strengthening environmental regulations. In step with this, growth opportunities in such new businesses as refrigerant gasses, heat pumps, fire heaters, air purifiers, and filters will appear, and we will bolster efforts toward this growth using the full power of the Daikin Group. Specifically, as Daikin is the only corporate group in the world with both air-conditioning and refrigerant gas technologies, we will lead the way and expand our lineup of products adopting the new refrigerant R32 and launch R32 products in more markets and regions. We will also roll out the air-ventilation business, which handles issues including PM2.5, or particulate matter of 2.5 micrometers or less, globally. By fiscal 2016, we will target environment-related innovation business sales of over ¥300 billion.

Finally, in the "Develop synergies and expand business through the Goodman Group acquisition" theme, primarily by combining procurement and administrative functions, improving logistics, and other rationalization efforts, we were able to realize ¥3 billion in synergy effects, much larger than the ¥1.5 billion targeted for fiscal 2014. In the final three years of FUSION 15, in procurement alone, Daikin plans for synergy savings of ¥15 billion–¥20 billion cumulatively.

Strengthening the North American business in earnest also continues apace. In sales, we worked to further increase market share of unitary ducted air conditioners, which are the Goodman Group's main products, and launched new premium air conditioners that feature energy-efficient inverter technology. Furthermore, taking advantage of Goodman's sales network, we introduced Daikin's ductless air conditioners that feature superior energy efficiency.

In production, local VRV unit production started in North America on schedule in February 2014.

To strengthen the business foundation toward taking the No. 1 market position in the North American air-conditioner market in short order, in fiscal 2015, Daikin will make investments needed for a large increase in sales.

Q6 Please explain your outlook for fiscal 2015 earnings for the Daikin Group.

Togawa: In fiscal 2015, we expect the global air-conditioner market to continue to grow, but the impact from the consumption tax rise in Japan and macroeconomic trends in China and other emerging markets are causes of concern. Global competition will certainly continue to grow fiercer, and, to overcome the competition and continue the momentum Daikin has in earnings growth, sales and marketing capabilities must be strengthened. First, Daikin will set independent sales strategies per region. In product strategy, we are working to develop and introduce unique and appealing products both speedily and timely. Moreover, by working to preserve and increase sales prices, and increase market share, Daikin will expand sales and income.

On the other hand, periods with robust earnings are a great chance to improve our profitability structure. Daikin will fully explore ways to cut fixed costs and reduce variable costs as much as possible via global centralized procurement and other measures. These efforts will raise the reinforcement of our business foundations into a higher gear, and will be linked to higher growth.

In fiscal 2015, the Daikin Group targets consolidated net sales of ¥1,980.0 billion (up 11.0% year on year), consolidated operating income of ¥170.0 billion (up 9.6% year on year), consolidated ordinary income of ¥166.0 billion (up 7.7% year on year), and consolidated net income of ¥98.0 billion (up 6.7% year on year). With these targets, we will progress strongly toward FUSION 15's final year targets.

Q7 Please describe your policies and structures toward becoming a "Truly Global and Excellent Company," and please explain your philosophy on returns to shareholders.

Togawa: Going forward, Daikin will continue to reform its management foundation and strengthen its financial base, making strategic investments in its core air-conditioning and fluorochemistry segments and expanding business, and reducing total costs. Aiming for sustainable growth, the Daikin Group will actively contribute to solving global warming, improve the soundness and transparency of management, speed up decision making, and strengthen governance. Through these measures, we will maximize corporate value and bring our goal of being a "Truly Global and Excellent Company" to reality.

Fiscal 2015 marks the 90th anniversary of Daikin. In this milestone year, to progress to a new stage of growth and development, we strengthened our corporate governance system.

The Daikin Group's business areas and overall scale continue to grow rapidly globally. The Group does business in 145 countries, with overseas sales making up over 70% of total net sales, and non-Japanese accounting for 80% of staff. In line with this quickening pace of global expansion, we must build a governance system that makes even more-sophisticated Group management possible. As part of this, we created the Chief Global Group Officer position. Via this new position, Daikin aims to build an organization management and governance system as a truly multinational company.

Also, we increased the number of non-Japanese on the Board of Directors to two people, up from one, to reinforce our governance system to meet our globalization needs.

For shareholder returns, going forward as a fundamental policy, Daikin will provide stable and continuing dividends, and we are raising our target for the dividends on equity (DOE) ratio to 2.5%, from the previous 2.0% target. Together with this, keeping our consolidated dividend payout ratio well in mind, we will work to further increase dividends.

In fiscal 2014, Daikin paid ¥50 per share, an increase of ¥14 over the previous year. In fiscal 2015, we plan to offer ¥60 per share, an increase of ¥10 year on year, and also pay a commemorative ¥10 per share to mark our 90th anniversary, bringing the total to ¥70 per share.

Fiscal 2014 was the fourth consecutive year of increasing sales and profits. We also reached record highs for sales and all profit levels and welcomed our 90th anniversary year. We ask for the continued support and understanding of our shareholders.

Air Conditioning—the Japanese Market

Expand sales of high-value-added products with superior energy efficiency and environmental performance

Current

Solidly Raised Profitability

In fiscal 2014, industrial demand was robust in Japan's commercial air-conditioning equipment market owing to strong demand ahead of Japan's consumption tax rise, recovery in capital expenditure, and higher construction starts. In November 2013, Daikin launched FIVE STAR ZEAS, an air-conditioning system for stores and offices that is the first commercial air conditioner to use the new refrigerant HFC32 (R32). This product was awarded the Director General Prize of the Agency of Natural Resources and Energy for excellent energy conservation equipment in the fiscal year ended March 2013. Centered on this product, Daikin worked to expand sales of high-value-added products that feature superior energy efficiency and environmental friendliness, which drove commercial air-conditioning equipment sales higher over the previous fiscal year.

In Japan's residential air-conditioning market, unit shipments were at record high levels thanks to strong demand ahead of the consumption tax rise, growth in new housing starts, hot weather, and replacement demand for energy-efficient products due to energy saving increasing in consciousness. Centered on the Urusara 7 room air conditioner, Daikin increased unit sales, particularly of energy-efficient products. This caused an overall increase in residential air-conditioning business sales over the previous year.

In fiscal 2014, the rapid depreciation of the yen led to large increases in procurement costs. However, high-value-added products with superior energy-efficiency features performed strongly. Also, Daikin thoroughly enforced pricing policies, worked against weakening demand, lowered design costs, and promoted total cost reductions via global procurement. Combined, Daikin was able to raise profitability.

Develop solutions business that goes beyond device sales

Future Expand Business of Daikin's Unique Solutions

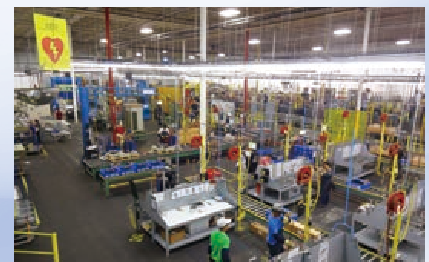
The domestic air-conditioner market is maturing, and Daikin is working to fundamentally strengthen sales capabilities. Measures will include expanding the sales network via developing new sales outlets, end-user marketing, and efforts to have Daikin products specified in to new construction. Daikin will also continue to enforce pricing policies, and work to increase sales and profits.

For residential air conditioners, Daikin aims to increase its market share by expanding sales of high-value-added products with the flagship Urusara 7 model at the core. For commercial air conditioners, Daikin will develop new sales locations and expand sales of products with superior energy efficiency, centered on the FIVE STAR ZEAS and Eco-ZEAS80 models. Also, Daikin will work to further build its business base in business lines related to air conditioners, and expand solutions in installation, instrumentation and control, and service.

In the final three years of the FUSION 15 strategic management plan, Daikin is targeting sales of one million units for the VRV multi-split type air conditioner for buildings, which is spreading throughout Japan. Also, Daikin will expand business in maintenance and other solutions for energy efficiency and comfortable spaces that cannot be achieved with air-conditioner units alone. Furthermore, through close-relationship sales efforts with clients, Daikin will aim to capture replacement demand and expand revenues.

Air Conditioning—the Global Market

Developed room-type air conditioner for European market with high design features that meets local needs



Goodman's Houston plant launched local production of VRV units.

Current

Expanded Business Steadily in All Countries and Regions

Profitability expanded steadily in all global air-conditioner markets in fiscal 2014, growing markedly over the previous fiscal year.

In Europe, demand remains weak in the main EU country markets, but Daikin worked to reorganize its sales network and improve product competitiveness, and strengthened sales in new volume zones. In central Europe, Turkey, and other emerging markets, Daikin strengthened its sales network for room-type and VRV (multi-split type units for buildings) air conditioners.

In China, due to tightened monetary policy, market conditions remained severe. However, by strengthening retail sales, which are relatively resistant to macroeconomic conditions, conducting full model changes for all models, and cost reductions, Daikin improved profitability. In the applied solutions business (large-scale air conditioners) as well, business grew and sales increased strongly.

In Asia and Oceania, macroeconomic conditions weakened due to political instability and slower growth. However, Daikin made steady progress in expanding its sales network and expanded sales firmly in the overall region. In Australia and Singapore, key markets for Daikin, sales capabilities were further strengthened. In India, Malaysia, Vietnam, and Indonesia, bolstering the sales network yielded a large sales increase in room-type and commercial air conditioners.

In North America, using the strong sales network of the Goodman Group, purchased in fiscal 2013, sales in residential and commercial air conditioners grew. In applied solutions as well, expanding the service business raised profitability. Sales for the region overall expanded strongly, due in part to the Goodman Group moving into consolidation and the cultivation of synergies between Goodman and Daikin.

Continue developing retail sales outlets in all regions in China

Further expand commercial air-conditioner business in Indonesia, where the market is growing rapidly

Future

Grow Globally and Strengthen Business Base

In the final three years of the FUSION 15 strategic management plan, Daikin will move fully into the high volume zone in emerging markets, develop the solutions business, and expand the environmental innovations business. As the Group puts these new growth strategies into place, Daikin will also work to reinforce sales capabilities in each country and region.

In Europe, market conditions are expected to remain harsh. Through developing more sales outlets and strengthening sales based on offering solutions packages that include services, however, Daikin will work to reach the No.1 market position and reorganize its sales network so that it can react quickly when the market recovers. The Group will bring total costs down by restructuring its fixed costs and strengthen its business base.

In China, Daikin will continue to build its own retail sales network, focusing on developing outlets across the country, including suburbs of large cities, the interior regions as well as the central western region. The Group will also quicken local R&D for new products. Through this, Daikin will work for stable growth.

In Asia and Oceania, the Group will accelerate business expansion by developing new sales outlets, launching new products that meet the diverse needs in each country, and cultivating demand for high-value-added products, such as VRV. Also, along with carefully selecting and executing the needed investment for business growth, Daikin will work to lower total cost and strengthen profitability.

In North America, aiming for a large sales increase in the United States, where the economy is recovering, Daikin will bolster sales of residential unitary air conditioners and expand the solutions business in the applied solutions business line. The Group will also enter the premium segment of the residential unitary air-conditioner market as a new business line, and fully enter the mid-size building market, for which VRV products are the focus. Through these efforts, Daikin will work to attain the No.1 market position in short order.

Chemicals

Water and oil repellent agents for clothing applications

Current

Increased Sales in the United States, China, and Other Asian Markets

In fiscal 2014, chemicals business sales in Japan did not perform well; however, sales expanded in the United States, China, and other Asian markets. Combined with tailwind effects from the weakened yen, overall segment sales grew over the previous fiscal year. Operating income decreased, however, as the supply-demand balance worsened due to supply increases, causing price drops that had a large adverse effect on Daikin.

In fluorochemical resins, demand in China related to railway and telecommunications infrastructure investments recovered, and demand in the United States for auto and aerospace applications was strong. In fluoroelastomers as well, demand was robust in the auto sector in China and other overseas markets. Overall sales in this business line grew year on year.

In the chemical products business, sales of OPTOOL, an anti-smudge surface coating agent for touch screens, failed to grow, but water and oil repellent agents for clothing applications in China and other Asian markets performed well. Overall, business line sales increased over the previous year.

In fluorocarbon gas, competition grew fiercer in China, but sales grew in other Asian markets. Business line sales were maintained from levels of the previous year.

Speed up application development in leading-edge fields

Fluoropaint “Zeffle” with high weather resistance properties for painting ferry decks

Future

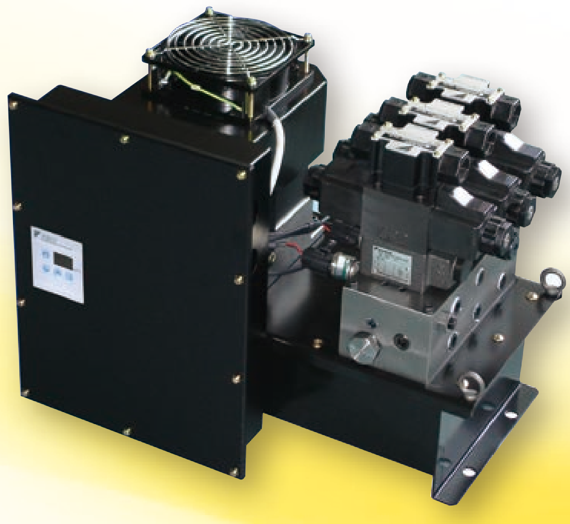
Cultivate New Demand Centered on New Application Development

In the final three years of the FUSION 15 strategic management plan, Daikin will quicken development of new applications in the global growth fields of the auto and information device sectors. The Group will also speed up R&D of new energy field applications, such as new refrigerants, Li-ion battery applications, and paint for wind turbines. With these measures, Daikin will work to expand demand for its products. Furthermore, the Group will cultivate the environmental products market, using composite technologies to combine fluorochemistry products with other materials, by applying, coating, or mixing. Daikin will also use surface materials, including fluoropaints and fluororesin films in these environmental product development efforts. Combined, Daikin will work to increase competitiveness by localizing raw materials development and procurement and by producing locally as well in markets across the globe. Doing so, Daikin will further establish a high-profitability business structure.

In fiscal 2015, taking advantage of the recovery trend in demand, the Group will work to expand sales in auto, semiconductor, and infrastructure field applications. Daikin will also make efforts to improve competitiveness in its solutions business, working closely with customers, with an aim to strengthen overall sales capabilities.

As sales prices continue to fall, Daikin will focus efforts on securing profitability. In addition to cost reductions, in high-value-added products, the Group will introduce features not found in competing products, such as ease of processing. In volume-zone products, the Group will launch low-cost, differentiated products that meet customers’ functional needs.

Oil Hydraulics



Energy-efficient oil hydraulic drive unit "EcoRich"

Oil hydraulics provide drive power to construction equipment and vehicles.

Current: Grew Business in the United States and China

In the oil hydraulics business, Daikin offers equipment to convert small power into larger power, and control strength, speed, and direction smoothly in a variety of machinery and vehicles.

Sales in this business segment increased in fiscal 2014 over the previous year. Oil hydraulics equipment for industrial machinery performed strongly in Japan, and also in the United States as Daikin expanded its U.S. sales network. In construction equipment and vehicles, sales and production have been combined in a single unit globally, raising sales in Japan, the United States, and China.

Future: Continue to Develop Global Markets

Aiming for growth globally, in China, the Group will reinforce sales capabilities, cost-competitiveness, and its product lineup, mainly in molding- and general-industrial machinery applications. In the United States, Daikin will expand business, focusing on maintenance, repair, and operations ("MRO") solutions, with the recovery in the U.S. manufacturing sector as a tailwind. In Europe, Central and South America, and other Asian markets, Daikin will enter new markets and work to improve profitability via developing the MRO solutions business.

In Japan, Daikin will take measures to increase market share and profitability not only via unit sales, but also the solutions business. Due to recovery in capital expenditure at factories and increasing energy-saving needs due to power production issues, the Group will offer high-value-added services in technology consulting for customers, after-sales services, unit design, and other areas in the solutions business.

Defense

Expand sales of home-use oxygen therapy equipment in Japan and China

Current

Continued Shift to Civil Sector

In fiscal 2014, Japan's Ministry of Defense continued to cut its budget, and orders for guided missile components and artillery shells in the defense business decreased. Sales, thus, fell over the previous fiscal year.

Daikin continued its steady shift to civil-sector products and in the home-use oxygen therapy equipment business. Daikin's five-liter unit features the same small size and light weight as a three-liter unit, and, thus, is highly praised. Sales of this unit are robust.

Future

Expand Home-Use Oxygen Therapy Equipment in China

Going forward, Daikin expects Japan's defense budget to continue to be under pressure. As such, the Group is working to restructure its business and improve efficiency and profitability. Also, based on the Japanese government's National Defense Program Guidelines, announced in December 2013, Daikin will work to capture new demand from the Ministry of Defense in line with changing needs.

In civil-sector products, the Group will strengthen its product lineup by improving energy efficiency, ease of maintenance, and other product features in the oxygen therapy equipment business. Doing so, Daikin will make efforts to further expand sales of these products. Also, the Group will roll out these products, which will be launched in China in fiscal 2015, in other global markets.

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

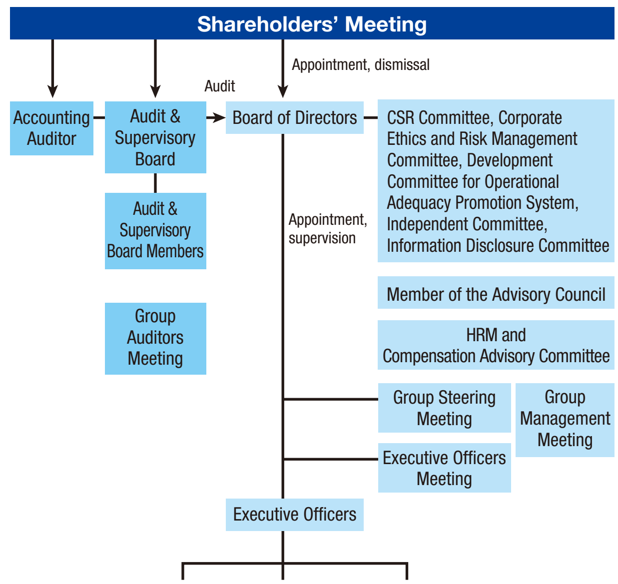
Rather than adopt a U.S.-style "committees system" that completely separates decision making from operational execution, the Group has adopted an "integrated management" system that calls for directors to bear responsibility for management responsibilities as well as for operational execution responsibilities. 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.

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 2014, the Board of Directors included 12 members, including one female and two non-Japanese directors. The Board of Directors is making speedy strategic decisions and performing sound supervision for the entire Group.

Daikin's Board of Directors included two external directors as of June 2014. Daikin seeks to recruit external 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 external director recruitment.

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

To further raise corporate governance and Group management as a multinational company, Daikin has put a Chief Global Group Officer position in place. Under this position, the Group strives to further improve cohesiveness across global operations.



(The rest is abbreviated)

Activities by External Directors

Name	Principal Activities
Chiyono Terada	Attended 15 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 14 out of 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 an Audit and Supervisory Board and seeks to nominate two or more outside members to its Audit and Supervisory Board. The principal nomination criteria for external Audit and Supervisory Board members are the same as those for external directors and include independence from the Company in terms of not having a relationship of interest with the Company. As of June 2014, Daikin's four Audit and Supervisory Board members included two external Audit and Supervisory Board members. The external Audit and Supervisory Board members 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 Audit and Supervisory Board 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 Audit and Supervisory Board members and Group auditors regularly hold Group Auditors' meetings and otherwise work to increase the smoothness of information flows.

Activities by External Audit and Supervisory Board Members

Name	Principal Activities
Yoshiyuki Kaneda	Attending all 16 meetings of the Board of Directors and all 15 meetings for the Audit and Supervisory Board this fiscal year. From his broad and advanced perspective, Yoshiyuki Kaneda offered timely proposals as needed, especially in technology development, based on his abundant experience and deep insight as a corporate manager.
Ryu Yano	Appointed on June 27, 2013, Ryu Yano attended 12 of the 13 meetings of the Board of Directors held since his appointment and all 10 meetings for the Audit and Supervisory Board. From his broad and advanced perspective, he offered timely proposals as needed, particularly with respect to overseas business, based on his abundant experience overseas and deep insight as a corporate manager.

Corporate Officer Remuneration, Etc.

To ensure the transparent management of its corporate officer personnel and remuneration processes, Daikin has established the Compensation Advisory Committee. This committee engages in discussions and deliberations regarding issues including corporate officer nomination criteria, corporate officer candidates, and remuneration. The Committee consists of four members, including two external directors and two in-house directors, with the committee chair being chosen from the external directors. The remuneration of directors and corporate auditors is determined so as to fall within the aggregate remuneration ceiling for directors and corporate auditors as set by a resolution at 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 Audit and Supervisory Board.

Daikin's corporate officer remuneration system is designed to accord with the Group's management policy and responds 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 external 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 Audit and Supervisory Board Members

Position	Number of Individuals	Total Compensation (Millions of yen)
Directors	12	979
Audit and Supervisory Board Members	6	89
Total	18	1,069

Total Compensation for External Directors and External Corporate Auditors

Position	Number of Individuals	Total Compensation (Millions of yen)
Total Compensation for External Directors and External Audit and Supervisory Board Members	5	59

Directors, Audit and Supervisory Board Members, and Executive Officers (As of June 27, 2014)

Position(s)	Name	Responsibilities & Principal Jobs
Chairman of the Board and Chief Global Group Officer	**Noriyuki Inoue**	
President and CEO, 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	**Guntaro 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	**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
Member of the Board and Senior Executive Officer	**Takashi Matsuzaki**	Responsible for Air-Conditioning Research and Development (including Applied Solution Business and Refrigeration Business) and Global Procurement, General Manager of Shiga Plant, and Member of Technology and Innovation Center Preparation Office
Member of the Board and Senior Executive Officer	**Koichi Takahashi**	Responsible for Accounting, Finance, Budget Operations and IT Development, General Manager of the Finance and Accounting Division, Chairman of Information Disclosure Committee, Chairman of Development Committee for Operational Adequacy Promotion System
Member of the Board (non-resident)	**Frans Hoorelbeke**	Chairman of Daikin Europe N.V.
Member of the Board (non-resident)	**David Swift**	
Audit and Supervisory Board Member (external)	**Yoshiyuki Kaneda**	Former Officer of Sony Corporation
Audit and Supervisory Board Member (external)	**Ryu Yano**	Chairman of the Board of Sumitomo Forestry Co., Ltd.
Audit and Supervisory Board Member	**Shigeru Murakami**	
Audit and Supervisory Board Member	**Kenji Fukunaga**	
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 Systems Business and General Manager of Tokyo Office
Senior Executive Officer	**Kosei Uematsu**	Responsible for Global Air-Conditioning Business (excluding Japan) and Refrigeration Business 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, Department Manager of Corporate Communication Department and Department Manager of Corporate IR Group, and Chairman of CSR Committee, Chairman of Corporate Ethics and Risk Management Committee
Senior Executive Officer	**Shinya Okada**	Responsible for Global Environment Affairs
Senior Executive Officer	**Yoshikazu Tayama**	General Manager of Budget and Administration Group, Finance and Accounting Division
Senior Executive Officer	**Yoshiyuki Uemura**	Director of Goodman Global Group, Inc., EVP for Cooperation and Strengthening Technological Capabilities, and President of Daikin Holdings (Houston), Inc.
Senior Executive Officer	**Masayuki Moriyama**	Responsible for Applied Solutions Business in China, ASEAN and Oceania Regions, Director and Vice President of Daikin (China) Investment Co., Ltd., COO of McQuay China, Chairman (non-resident) of Daikin Refrigeration (Suzhou) Co., Ltd.
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	**Hiroo Sakai**	Responsible for Chemicals Research/Technology Product Commercialization Promotion/Environment/Safety and General Manager of Chemicals Division
Executive Officer	**Yoshihiro Mineno**	General Manager of Global Operations Division, Director (non-resident) of Goodman Global Group, Inc., Director of Daikin Holdings (Houston), Inc.
Executive Officer	**Hitoshi Jinno**	Responsible for PL/Quality, Air-Conditioning/Refrigeration/Applied, Manufacturing Excellence in the Emerging Countries, and Deputy General Manager of Air-Conditioning Manufacturing Division
Executive Officer	**Kota Miyazumi**	Responsible for Corporate Planning, General Manager of Marketing Research Division, Director of Planning Group in Marketing Research Division
Executive Officer	**Tsutomu Morimoto**	Responsible for Executive Secretarial Department, Goodman Group Business
Executive Officer	**Yuji Yoneda**	Deputy General Manager of Air-Conditioning Manufacturing Division (Responsible for R&D), Executive Leader of R&D Quality in Air-Conditioning Manufacturing Division
Executive Officer	**Masaki Saji**	General Manager of Human Resources Division

The Daikin Group considers CSR to be fully living up to its Group Philosophy,*[1] and works to do so each and every day. Also, the Group considers corporate ethics and legal compliance to be fundamental to CSR, and has put in place a global system to this end. Specific programs are enacted based on the ISO26000 international standard for CSR. This section of the Annual Report 2014 highlights the Group's efforts in the seven pillars of ISO26000 (corporate governance,*[2] compliance, human rights, labor practices, environment, quality and customer satisfaction, and contribution to society).

*1 Please see page 1.
*2 Please see page 20.

Compliance and Risk Management

■ Compliance

Daikin has established the Corporate Ethics and Risk Management Committee, with the senior executive in charge of compliance and corporate ethics as chair, as an organ for promoting corporate ethics throughout the Group. 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 product liability, product quality, safety, manufacturing, marketing, and disasters) 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.

Strengthening Overseas Operations: In step with rapid overseas expansion, the Daikin Group places great emphasis on compliance and risk management overseas. In accordance with conditions in each region and at each Group company, Daikin establishes compliance committees, drafts and distributes corporate ethics handbooks, conducts risk assessments, and supports employees in self-assessments. Also, risk management staff from headquarters regularly visit overseas Group companies to confirm progress of efforts in each region and share information. Daikin also works to incorporate best practices from overseas Group companies to the parent company to raise sophistication across the Group.

Reorganizing Earthquake Risk Measures: Daikin has set earthquake risk measures as themes of the utmost importance, and has established teams to implement policy for each issue to tackle. Based on disaster damage scenarios (extremely strong earthquakes, extremely high tsunamis, etc.) from Japan's Central Disaster Prevention Council, Daikin has reinforced production facilities for earthquake resistance, implemented tsunami plans for chemicals facilities, and formulated and held evacuation drills at locations susceptible to tsunamis. Daikin is also further building its business continuity planning (BCP) system, assessing many risks, and formulating and enacting action policies in this process. Group companies are also taking similar measures regarding natural disaster risks.

Strengthening Policies on Client Entertainment and Gift Giving: The Daikin Group has set a compliance policy regarding client entertainment and gift giving of "Client entertainment and gift giving in moderation and according to social norms, following all national and regional regulations." The Group has also set policies on "Maintaining fair and transparent relationships with government officials," "Complying with the Political Funds Control Act and Public Offices Election Act," and "Entertainment and gift giving in moderation to business partners." The Group implements in-house training to ensure thorough compliance with these rules. In fiscal 2015, the Group plans to draft behavioral guidelines for entertainment and gift giving for public officials both domestically and overseas, and circulate these guidelines across the Group globally.

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 2.5% 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 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.

Human Rights

In October 2008, the Daikin Group joined the UN's Global Compact, which is a strategic policy initiative representing universal principles on human rights, treatment of labor, and environmental protection. Through this, the Group works to educate staff on and promote human rights, and strives to build an organization rich in diversity, creativity, and respect for all people. To bring these ideals into being, Daikin conducts human rights training for different employee ranks, centered on senior executives. Daikin also supports employees in self-assessments on whether they have violated human rights, and conducts human rights seminars at Daikin divisions as needed.

Respect for Human Rights: The Daikin Group Compliance Guidelines call for "Respecting human rights and diversity in the workplace and complying with all labor regulations." Under a Respect for Human Rights policy, via which the Group strives for a fair, cheerful, and lively workplace, the Group prohibits child labor and forced labor.

• Group Compliance Guidelines (formulated 2008)
http://www.daikin.com/csr/company/idea.html

Human Rights Education: As part of efforts to promote human rights understanding, the Daikin Group conducts human rights education for different levels of staff, including senior executives, newly appointed managers, and newcomers to the Group. Also, Daikin's employee newsletter contains articles on human rights, and production facilities have held human rights catchphrase contests. Through this, Daikin is working to improve human rights consciousness amongst employees.

Labor Practices

The Daikin Group considers people to be the source of competitive strength. The Group works toward an organization that accepts, respects, and seeks harmony from all members regardless of sex, nationality, or ethnicity, and brings out each person's abilities to the maximum.

Evaluation and Working Conditions: Daikin seeks to build a workplace with equality of opportunity and fairness of outcome where people with the desire to grow are rewarded for taking opportunities and producing results.

Promoting Diversity: Daikin is an organization that employs diverse people who respect different value systems regardless of age, gender, nationality, race, temporary or permanent employment status, and traditional or mid-career joining status. Daikin employees use this diversity and improve organization strength, and endeavor toward large goals. Daikin believes that this kind of organization serves as a primary source of the Group's dynamic strength. In accordance with this concept, the Group Compliance Guidelines state "We shall respect the diversity in values and approach to work of all employees, accept differences, seek harmony, and gather strengths so that each and every employee can pursue his or her dreams boldly with passion and tenacity."

The Daikin Group also actively employs people with disabilities. In Japan, Daikin has established Daikin Sunrise Setsu, Inc., and as of the end of March 2014, people with disabilities account for 2.07% of domestic employees, which is above the legal requirement. In China, Daikin Air-conditioning (Shanghai) Co., Ltd. also actively employs people with disabilities; currently, 66 such persons are at the company. In fiscal 2014, Daikin invited family members of employees with disabilities to factory tours and social events, and made a sign-language brochure to facilitate communication between disabled persons and those without disabilities. Also, Daikin Industries (Thailand) Ltd. employs 23 people with disabilities, and Daikin Compressor Industries, Ltd. employs such 25 persons.

Work-Life Balance: Daikin emphasizes measures for optimal work-life balances for employees. Daikin has introduced diverse work policies that offer flexible work modes and time schedules suitable for diverse employees. Also, as a company that has signed on to the Act on Advancement of Measures to Support Raising Next-Generation Children, Daikin has set action plans to build a workplace where employees with children can concurrently handle work and child-raising tasks with confidence and peace of mind. In particular, Daikin has strengthened its childcare leave and childcare support system, and encourages male employees to use these systems as well.

In fiscal 2014, to support a smooth transition back to the workplace after childcare leave, Daikin established the "*Hokatsu*[*1] Concierge." From April 2014, the fourth action plan under the Act on Advancement of Measures to Support Raising Next-Generation Children is in execution. The Group is working to expand childcare support by introducing even more flexible work systems for early returners from childcare leave. Daikin is also expanding support by further bolstering the childcare support cafeteria plan system,[*2] increasing the menu choices in this plan and increasing subsidies for early returners.

*1 *Hokatsu*: "finding a daycare"

*2 Childcare support cafeteria plan system: subsidy system for childcare services used when employees with children work overtime, go on business trips, or when the children are sick

Labor Relations: The Daikin Group believes good labor relations to be fundamental in management. As such, the Group considers the management-labor partnership and management-labor mutual trust to be highly important. At Daikin, all employees except for manager-class and contract employees are union members. Daikin and the union hold dynamic discussions, and when business plans are formulated, Daikin holds meetings to explain the new plans to the union. In fiscal 2014, such meetings were held 20 times.

Occupational Safety and Health: In accordance with the Group Compliance Guidelines, which state "We shall take all possible precautions for safe operations so that we all can work in safety," Daikin endeavors to ensure all employees and employees of subcontractors have 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" workplace at each of its facilities. Daikin also focuses on raising awareness of workplace safety via training involving simulated dangers associated with accidents. Daikin has built devices and systems where participants can see, touch, and feel what it is like to be caught in machines in which accidents are prevalent in machine manufacturing. Participants can also experience how scary heat and pressure resulting from chemical reactions is in chemicals manufacturing. Combined with principles-based knowledge education, Daikin holds effective training programs. Overseas as well, Daikin aims for zero work accidents through safety training and safety patrols. Daikin Industries Czech Republic s.r.o. holds the Green Cross Competition to compete for zero workplace injuries, and Daikin Compressor Industries, Ltd. in Thailand has constructed a training center inside the factory for safety training.

Human Resource Development: Daikin considers enacting its management philosophy of "The pride and enthusiasm of each employee is the driving force of our Group," and people-centered management to be essential for the Group to grow. The Group's corporate philosophy states that "The combined growth of all Group employees, regardless of nationality or specific Group unit they are with, is the basis for the Group's advancement." Based on the concept that "people grow by means of work experience," Daikin believes that on-the-job training (OJT)[*1] is fundamental in human resource development to discovering the characteristics of each employee and assigning jobs that will bring motivation. To supplement the OJT, Daikin is bolstering various off-the-job-training (Off-JT)[*2] programs, including the Daikin Managers' School for developing managers for the front lines of the Group's global business. Overseas office training for younger employees is another example. From fiscal 2014, to improve management capabilities of manager-class employees, Daikin launched the Management Dojo (for 450 people over two years). Training at this Dojo in fiscal 2014 focused on department general managers.

*1 OJT: at-the-workplace learning of skills, knowledge, technologies, and attitudes needed for the job

*2 Off-JT: off-site learning of skills, knowledge, technologies, and attitudes needed for the job

Environmental Protection

The largest societal problem that Daikin must contribute to solving is climate change resulting from greenhouse gas emission. Daikin will use its strength in technology to contribute to this solution.

Providing Energy-Saving Products: Through its products, Daikin is working to reduce CO_2 emissions via 1) promoting the widespread use of energy-saving inverter products, 2) promoting the widespread use of heat pump solutions, which emit less CO_2 than previous combustion-type heating devices, 3) growing its energy-saving solutions business, and 4) developing next-generation refrigerants. For inverters, Daikin's factory in Suzhou, China launched production in April 2012 with annual capacity of 1.5 million units, and is manufacturing inverter air conditioners which are sold globally. In the Chinese market, residential-use inverter air conditioners have increased from 7% of the market in 2009 to about 60% (Daikin's estimate). Via increased use of inverter products, Daikin is aiming to reduce its emerging countries' annual CO_2 emissions by 30 million tons by fiscal 2016. As of fiscal 2014, the Group estimates that emissions have been reduced by 23 million tons. Going forward, Daikin will promote inverter products in North America along with new emerging markets.

For heat pump heating solutions, Daikin is undertaking a large-scale verification project for effectiveness in energy saving for heating and water heating in the U.K. This project, taken at the behest of the New Energy and Industrial Technology Development Organization, is scheduled for completion in March 2017. Using this project, Daikin is working with national and local governments, and energy providers, to promote heat pump product usage. Daikin is also working with governments and industry participants across the globe in promoting the next-generation refrigerant R32, which greatly contributes to ozone layer protection and preventing global warming.

Developing and Marketing Low Global-Warming Factor Refrigerant: Freon, which traditionally has been the refrigerant in air conditioners, has a greenhouse effect of several hundred times to 2,000 times the effect of CO_2. As an air-conditioner manufacturer, the Daikin Group considers working toward developing and commercializing low global-warming factor refrigerants to be its duty. Daikin determined the next-generation refrigerant R32 to be optimal, and launched the refrigerant first in Japan in fiscal 2013. R32 features a global-warming factor of about one-third of the traditional refrigerant. R32 also has superior energy efficiency, with less refrigerant needed per air-conditioner unit, and is easily recyclable and reusable. In November 2013, Daikin Europe N.V. launched sales of residential-use air conditioners that use R32. Sales in Australia were launched in January 2014, and, going forward, Daikin will launch in more markets to further expand market presence.

To promote adoption of R32 in emerging markets, where air-conditioner demand is growing strongly, Daikin is providing the basic patents needed to manufacture and sell air conditioners that use R32 free of charge to emerging countries. Daikin also participates in support programs for emerging markets run by Japan's Ministry of Economy, Trade, and Industry and the Japan International Cooperation Agency. Furthermore, the Group receives research groups from emerging countries and offers technology support for local manufacturers and dealers.

Minimizing Environmental Impact of Production: With a view to reducing greenhouse gas emissions from production to one-fourth the fiscal 2006 level by 2020, in the FUSION 15 strategic management plan, Daikin aims to reduce emissions to one-third (67% below) of the fiscal 2006 level by fiscal 2016. As of fiscal 2014, a 69% reduction has been achieved.

Daikin is also making efforts to reduce water usage. In fiscal 2014, water (unit basis) usage at domestic Group companies was 5% lower than fiscal 2011 levels and 9% lower at overseas Group companies. For reducing chemical compounds, in fiscal 2014, emissions of chemicals subject to PRTR regulations were 19% lower than fiscal 2011 levels.

In fiscal 2006, Daikin established the "Super Green Heart Factory" in-house standards to certify factories with advanced environmental friendliness. As of fiscal 2014, 18 Daikin plants in Japan, China, Thailand, the United States, and other countries have been certified as Super Green Heart Factories.

Quality and Customer Satisfaction

The Daikin Group seeks customer satisfaction by offering high-quality products anticipating society's needs in each region.

Ensuring Product Quality and Safety: As a manufacturer, Daikin considers its social mission to be providing products and services that not only satisfy customers, but that are safe, high quality, and friendly to the environment. Daikin has obtained ISO 9001 certification of its quality management systems in both its air-conditioning and chemicals businesses and is sustaining efforts at the R&D and manufacturing stages to further elevate product quality levels. Daikin discloses information with the goal of ensuring the safety of customers when they use Daikin products. In addition, Daikin collects information on products after sales and seeks to employ this information for further product quality improvements. In fiscal 2014, Daikin set thoroughly ensuring product quality as an issue of top importance and is making great efforts in policies for speeding up corrections to quality problems, reducing quality risks, and preventing problems from recurring.

Pursuing Customer Satisfaction: To further raise customer satisfaction levels, it is critical to quickly and accurately grasp needs in each market overseas, and incorporate this into product R&D. In this, Daikin is moving from a unipolar R&D system in Japan to one where regional offices also conduct R&D themselves according to local strengths. Marketing research functions globally are also being strengthened. Furthermore, Daikin continuously runs customer satisfaction surveys domestically and abroad at all Group companies, and the results of these surveys are highly useful in further raising product and service quality.

Customer Support: In Japan, for the air-conditioning business, the Daikin Contact Center accepts inquiries from all customers, 24 hours a day, 365 days a year. In fiscal 2014, to prevent customers getting different responses to questions or service requests from different Contact Center staff, Daikin systematized the practical know-how and rules of thumb of Contact Center staff, and made this system browseable by all staff. Overseas as well, Daikin has put a strong after-sales service system in place, and under a policy of "fast, accurate, and kind," meets customers' diverse requests according to conditions in each country and region. Daikin has Contact centers in major countries, and via this support system strives to increase customer satisfaction.

Social Contributions

Aiming to be a company with deep roots in the many communities throughout the world where it does business, Daikin organizes numerous kinds of activities that enable employees to lead the way in contributing to local societies. These activities center on the themes of "environmental protection," "art and culture," "promoting sports," and "support for education."

Environmental Protection: Daikin promotes reforestation programs throughout the world to contribute to protecting biodiversity and reducing atmospheric CO_2 levels. The Group undertakes a variety of efforts to restore the natural environment to vitality and maintain balance in the ecosystem, partnering with governments, local communities, and NGOs. Examples include a reforestation program in Indonesia and environmental protection and renovation programs on Japan's Shiretoko Peninsula.

In Indonesia, in partnership with international NGO Conservation International, Daikin launched the Reforestation Project in June 2008 in Gunung Gede Pangrango National Park to restore deforested areas and help the ecosystem recover. From fiscal 2015, Daikin will expand these efforts to Brazil, Cambodia, India, China, and Liberia, and contribute globally to sustainable reforestation and community development.

In Japan, since July 2011, Daikin has worked with the Shiretoko Nature Foundation, Shari Town, and Shiretoko Rausu-Town in supporting efforts in preserving and restoring the natural environment of the Shiretoko Peninsula, a UNESCO World Heritage Site. For the five years until March 2016, via financial support and employees volunteering, Daikin is working to restore the forests and waterways of Shiretoko, and supporting programs for people and bears to coexist. In May and September of fiscal 2014, 25 people volunteered in maintaining and expanding barriers to protect saplings from deer and cutting underbrush to help saplings grow.

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 April 2013, the foundation became a public interest incorporated foundation, and is actively pursuing its areas of activity. Through this, Daikin aims to further invigorate the arts and culture in Osaka, Daikin's birthplace. Daikin also supports the Kansai Philharmonic Orchestra, which is based in Osaka. From 2004, Daikin's Chairman has served as Chairman of the Orchestra. Overseas also, Daikin sponsors music events and other events and is fostering local culture.

Promoting Sports: Daikin sponsors the Daikin Orchid Ladies Golf Tournament, an LPGA of Japan Tour event held in Okinawa each spring. Daikin's aim is for the event to be a bridge between Okinawa and mainland Japan through golf.

Support for Education: Daikin provides support for the education of young people in each region where it has a facility. In fiscal 2014, Daikin signed on to the "Program to Raise Creative Children that Like Science" run by Sakai City's Board of Education. Daikin employees served as teachers in science experiment classes for about 990 students at 11 elementary schools.

R&D and Intellectual Property

Respect for Intellectual Property Rights: Daikin considers intellectual property (IP) to be a critical corporate asset, and striving to protect it and use it effectively is made clear in Daikin's Group Compliance Guidelines. The guidelines also make clear that other firms' IP is to be respected and not infringed upon. With this in mind, Daikin has incorporated specific compliance points in its Compliance Policies. The policies call for R&D managers to realize that they are responsible for patents, and for R&D staff to realize that "IP activities are the essence of R&D efforts," and proactively obtain patents, use them, and prevent infringement.

Daikin has a patent and compliance review system in place as part of the design review process for new product and technology development. Also, when cooperating with other companies in R&D, Daikin works to separate technologies and know-how into those that must be kept secret and those that need not be. Those determined to be secret are shown in black-box form.

To actively support R&D staff, IP efforts at Daikin are undertaken mainly by the legal and compliance teams, and the IP Center. IP officers are also placed in R&D teams in all business lines. These IP managers work together to handle day-to-day IP work (including patent applications, application follow-ups, analyzing infringement risk of other companies' patents, and dealing with infringements on Daikin patents). The officers also hold IP training for Daikin employees in different functions and at different seniority levels, promote new inventions, and promote strategic use of IP. To this end, together with R&D staff, the IP officers are strengthening functions to build an effective patent network as well as functions in Daikin's global patent research.

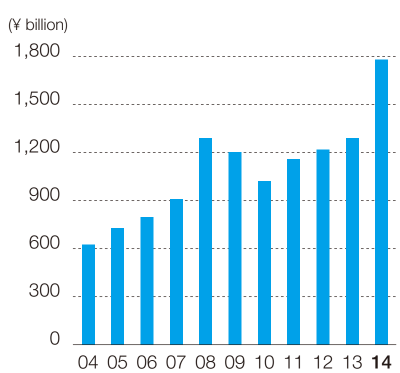
Eleven-Year Financial Highlights

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

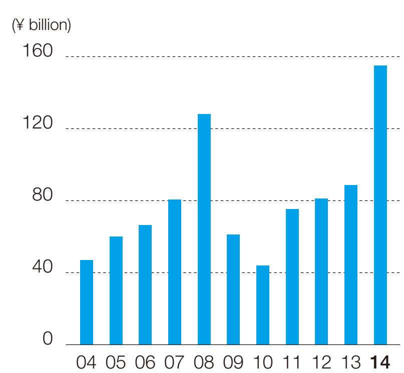
	2004	2005	2006	2007
Operating Results (for the year):				
Net sales	¥625,080	¥729,414	¥792,837	¥911,749
Gross profit	212,402	256,289	269,906	312,688
Selling, general and administrative expenses	165,482	196,083	203,359	231,934
Research and development expenses (Note 1)	23,817	24,583	26,648	27,204
Operating income	46,920	60,206	66,547	80,754
EBITDA (Note 2)	68,835	83,630	95,816	115,315
Net income	26,869	38,083	40,146	45,420
Cash Flows (for the year):				
Net cash provided by operating activities	¥40,306	¥ 43,970	¥ 63,511	¥ 83,725
Net cash used in investing activities	(31,594)	(42,091)	(63,420)	(305,251)
Free cash flow (Note 3)	8,711	1,879	91	(221,526)
Net cash provided by (used in) financing activities	2,182	3,534	(4,284)	245,975
Financial Position (at year-end):				
Total assets	¥534,726	¥615,596	¥716,440	¥1,161,364
Total interest-bearing liabilities	148,949	166,442	172,995	456,074
Total shareholders' equity	234,029	271,716	340,523	397,542
Per Share Data (yen):				
Net income (basic)	¥101.57	¥ 144.24	¥ 152.11	¥ 172.66
Shareholders' equity	888.29	1,031.73	1,293.41	1,511.47
Cash dividends	14.00	18.00	22.00	28.00
Ratios (%):				
Gross profit margin	33.98%	35.14%	34.04%	34.30%
Operating income margin	7.51	8.25	8.39	8.86
EBITDA margin	11.01	11.47	12.09	12.65
Return on shareholders' equity (ROE)	12.24	15.06	13.11	12.31
Shareholders' equity ratio	43.77	44.14	47.53	34.23

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.

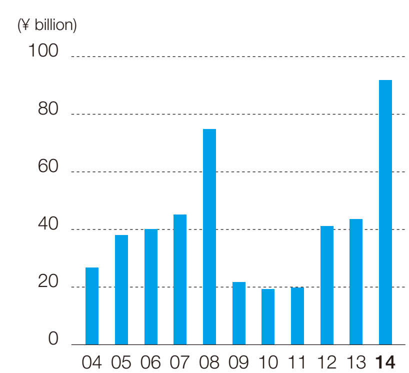
Net Sales



Operating Income



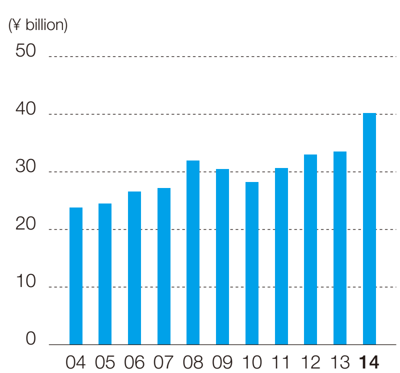
Net Income



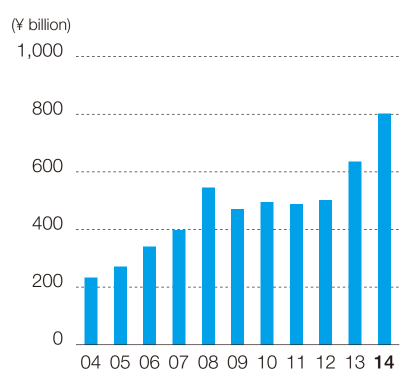
Millions of yen

2008	2009	2010	2011	2012	2013	2014
¥1,291,081	¥1,202,420	¥1,023,964	¥1,160,331	¥1,218,701	¥1,290,903	**¥1,783,077**
441,549	363,660	319,301	361,665	371,902	388,046	**566,861**
313,451	302,266	275,263	286,210	290,709	299,419	**411,786**
32,075	30,535	28,220	30,771	32,987	33,569	**40,177**
128,098	61,394	44,038	75,455	81,193	88,627	**155,075**
179,469	118,325	96,462	127,168	131,719	140,151	**233,976**
74,822	21,755	19,391	19,873	41,172	43,585	**91,880**
¥103,329	¥ 62,238	¥129,227	¥78,411	¥44,967	¥103,161	**¥179,713**
(76,428)	(99,302)	(39,848)	(23,306)	(62,955)	(218,386)	**(80,835)**
26,902	(37,065)	89,379	55,105	(17,988)	(115,225)	**98,878**
3,367	48,382	(34,942)	(37,623)	(1,113)	143,520	**(38,249)**
¥1,210,094	¥1,117,418	¥1,139,656	¥1,132,507	¥1,160,564	¥1,735,836	**¥2,012,531**
356,928	417,919	399,313	372,481	389,891	705,871	**693,943**
545,641	471,686	496,179	487,876	502,309	618,118	**802,344**
¥ 262.24	¥ 74.51	¥ 66.44	¥ 68.14	¥ 141.37	¥ 149.73	**¥ 315.21**
1,867.79	1,615.98	1,701.29	1,672.74	1,725.64	2,123.10	**2,749.76**
38.00	38.00	32.00	36.00	36.00	36.00	**50.00**
34.20%	30.24%	31.19%	31.17%	30.52%	30.06%	**31.79%**
9.92	5.11	4.30	6.50	6.66	6.87	**8.70**
13.90	9.84	9.42	10.96	10.81	10.86	**13.12**
15.87	4.28	4.01	4.04	8.30	7.78	**12.94**
45.09	42.21	43.54	43.08	43.28	35.61	**39.87**

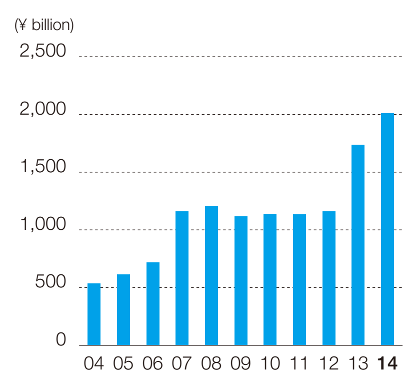
Research and Development Expenses



Shareholders' Equity



Total Assets



Overview of Net Sales

Looking at economic conditions throughout the world during fiscal 2014, the U.S. economy recovered steadily supported by strong consumer spending and a recovering housing market. The European economy remained weak due to fiscal austerity measures, high unemployment, and weak economies in southern Europe. Growth in emerging economies slowed down steadily.

In Japan, due to effects from the government and Bank of Japan policies, corporate profits and capital expenditures are recovering, and the economy is improving steadily. Consumer spending, in particular, was strong on the back of high demand before the consumption tax rise.

Overall in fiscal 2014, the Group was able to boost its consolidated net sales and profits thanks to the growth of air-conditioner refrigeration equipment business sales in Japan, China, elsewhere in Asia, and other regions. The weakened yen also was a positive factor. Furthermore, the Goodman Group of the United States, acquired in November 2012, was brought into consolidation from the first quarter of the year, which brought Goodman's sales and profits into accretion. Overall, consolidated net sales set a new record at ¥1,783.1 billion, up 38.1% from the level in the previous fiscal year. Cost of goods sold as a percentage of net sales improved 1.7 percentage points, to 68.2%. Gross profit amounted to ¥566.9 billion, up ¥178.8 billion, and the gross margin for the fiscal year was 31.8%. Consolidated operating income increased 75.0% year on year, to ¥155.1 billion.

Currency Exchange Rates

The yen depreciated substantially against the U.S. dollar and euro compared to the previous year's levels, and the average currency exchange rate during the fiscal year was ¥100 to one U.S. dollar and ¥134 to one euro. As a result of these movements in foreign currency exchange rates, Daikin consolidated net sales were estimated to be ¥161.0 billion higher and operating income ¥16.0 billion higher than they would have been without movements in exchange rates.

	Fiscal 2013	**Fiscal 2014**
Yen-U.S. dollar rate	¥ 83	**¥100**
Yen-euro rate	¥107	**¥134**

SG&A Expenses and Operating Income

As a result of a rise in personnel expenses and product warranty allowances associated with business expansion in the air-conditioner refrigeration equipment business, SG&A expenses increased to ¥411.8 billion (37.5% higher year on year). The ratio of SG&A expenses to net sales was 23.1%, almost the same level as in the previous fiscal year.

Operating income grew 75.0%, to ¥155.1 billion, and the operating income margin rose 1.8 percentage points, to 8.7%.

R&D Expenses

R&D expenses included in cost of goods sold and SG&A expenses amounted to ¥40.2 billion and corresponded to 2.3% of net sales.

• Air-Conditioning and Refrigeration Equipment

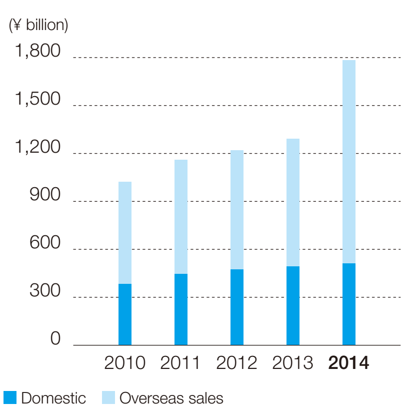
R&D expenses for air-conditioning and refrigeration equipment operations totaled ¥35.0 billion.

Daikin launched the Urusara 7 residential-use air conditioner in November 2012. This product received the Prime Minister's Award in the Fifth Japan Craftsmanship Awards held by the Ministry of Economy, Trade and Industry, the first home appliance product to win this award.

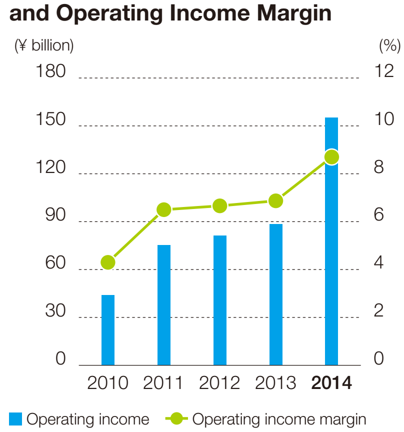
In industrial heating and cooling systems, Daikin launched FIVE STAR ZEAS, an air-conditioning system for stores and offices that is the first commercial air conditioner to use the new refrigerant HFC32 (R32).

In residential-use air purifiers, Daikin launched Clear Force Z, a premium air purifier capable of controlling room humidity and purifying the air in a single unit.

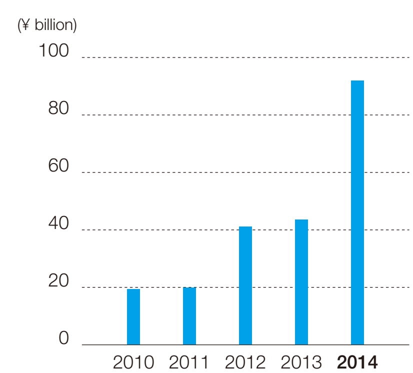
Domestic and Overseas Sales



Operating Income and Operating Income Margin



Net Income



In North America, Daikin launched sales of a high-efficiency compact air-cooled scroll chiller (30-70 ton) in November 2013.

In China, the Group introduced a DC brushless inverter fan coil unit capable of cutting energy use by 30%-60% over standard fan coil units sold by Daikin.

In Europe, Daikin developed an ultra-large 3,000-ton turbo cooling system that features a two-stage compressor and that can cool large spaces in the Middle East and other areas. To answer calls for greater environmental friendliness in products, the Group also introduced an air-cooled DC inverter multi-scroll chiller that can greatly reduce part load power usage.

• Chemicals

R&D expenses for Chemicals operations totaled ¥4.3 billion.

Daikin's chemicals business conducts R&D for new products and new applications based on rich experience in fluorine products and fluorochemical technology. In fluoropolymer resins and fluororubbers, using fluorochemicals' good properties in heat resistance, low drug reactivity, and dielectric properties, Daikin is developing new differentiated products for automotive, semiconductor, and wire and cable (IT field) applications. Also, in recent years, demand for the fluorocoating OPTOOL for preventing fingerprint contamination for touch screens on IT devices has grown strongly. Sales, R&D, and production divisions are working closely to develop and manufacture products ideal for the market in a speedy manner and actively meet this great change in demand.

• Other operations

R&D expenses for oil hydraulics, defense systems, and other operations totaled ¥913 million.

In oil hydraulics, Daikin is commercializing a large-capacity series of products and developing new applications. The Group is doing so using its high energy-efficiency and high-functionality hybrid oil hydraulic system technology that combines oil hydraulic technology and inverter technology. In defense systems, Daikin conducts R&D for components for guided missiles and artillery shells for Japan's Ministry of Defense.

Other Income (Expenses) and Net Income

Reflecting record-high sales and operating income, and a much smaller write-down of investment securities than what was recorded in the previous year, net income amounted to ¥91.9 billion, 110.8% higher than in the previous fiscal year.

Dividend Policy and Dividends Applicable to the Fiscal Year

Daikin strives to continue to make strategic investments and expand its business, and improve operations, including reducing overall costs and strengthening its financial position. Through these efforts, Daikin seeks to be a truly global excellent company, raise corporate value, and improve shareholder returns.

The Group seeks to provide a stable and continuous return to shareholders. Previously, Daikin set a policy of maintaining at least a 2.0% consolidated ratio of dividends on equity (DOE). Going forward, the Group will raise this target to 2.5% in a stepwise fashion. Always keeping dividend payouts in mind, the Group will work to further strengthen shareholder returns.

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.

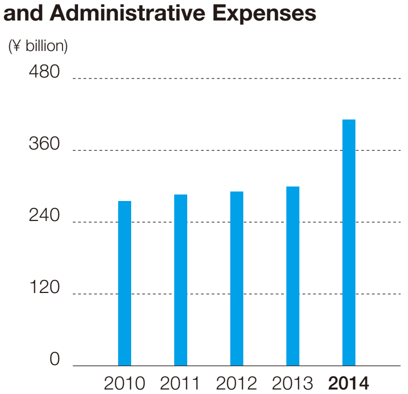
For the year ended March 31, 2014, Daikin distributed a total annual cash dividend of ¥50 per share (interim dividend of ¥23 per share and a year-end dividend of ¥27 per share), a ¥14 increase from the previous fiscal year. The DOE ratio was 2.1%.

Performance by Business Segment

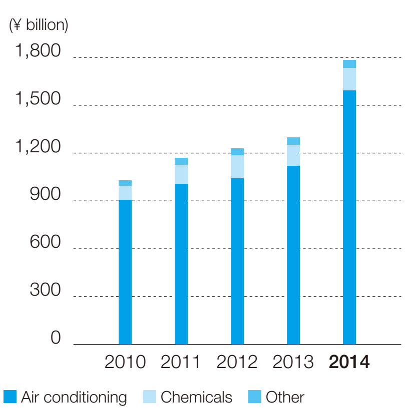
• Air-Conditioning

Total sales of the air-conditioning and refrigeration equipment segment increased to ¥1,592.9 billion, up 42.2% from the previous fiscal year. Operating income increased 95.3%, to ¥138.5 billion.

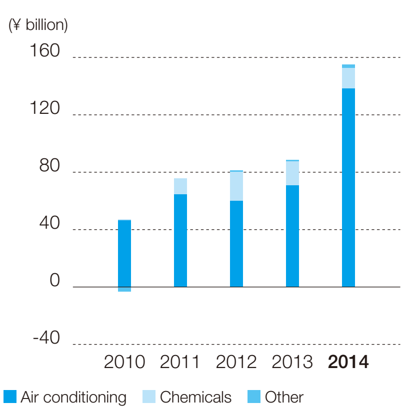
Selling, General and Administrative Expenses



Revenues by Segment



Segment Profit (Loss)



Unit Sales of Air-Conditioning Systems in the Japanese Air-Conditioning Industry (Fiscal 2014)

(1,000 units)

	First half	Year on year	Second half	Year on year	Full year	Year on year
Residential use	5,788	104%	3,634	124%	9,422	111%
Commercial use	438	100%	397	116%	835	107%

Japan

Industry demand was robust in Japan's commercial air-conditioning equipment market, owing to strong demand ahead of the consumption tax rise and higher construction starts. In November 2013, Daikin launched FIVE STAR ZEAS, an air-conditioning system for stores and offices that is the first commercial air conditioner to use the new refrigerant HFC32 (R32). This product was awarded the Director General Prize of the Agency of Natural Resources and Energy for excellent energy conservation equipment in the fiscal year ended March 2013. Centered on this product, Daikin worked to expand sales of high-value-added products that feature superior energy efficiency and environmental friendliness, which drove commercial air-conditioning equipment sales higher over the previous fiscal year.

In Japan's residential air-conditioning market, industry demand was at record high levels thanks to favorable weather, strong demand ahead of the consumption tax rise, and growth in new housing starts. Centered on the Urusara 7 room air conditioner, Daikin increased unit sales, particularly of energy-efficient products. This caused an overall increase in residential air-conditioning business sales.

Overseas

• *Europe Region*

In Europe, the EU area economy showed signs of recovery, and demand was relatively strong in emerging markets. Overall sales in the region grew over the previous year. Sales of residential air-conditioning systems grew year on year, thanks to strengthened marketing of low-cost room air conditioners and increased sales in Turkey.

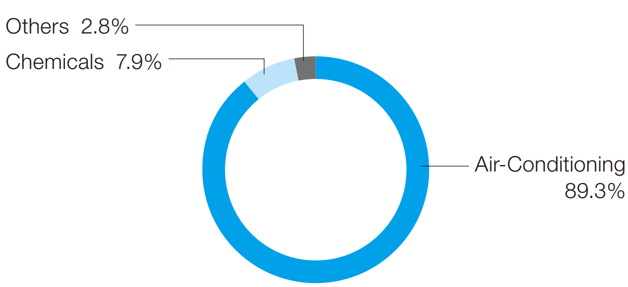
In commercial air-conditioning systems, Daikin's sales expanded over the previous year, due to construction demand bottoming in EU countries, the launch of highly cost-competitive air conditioners for stores in emerging markets, and increased sales of multi-unit air conditioners for buildings in Turkey. The residential heat pump water and room heating system business expanded year on year. Demand fell in the major market of France, but store development in central Europe, Italy, and Spain drove overall results higher.

• *China*

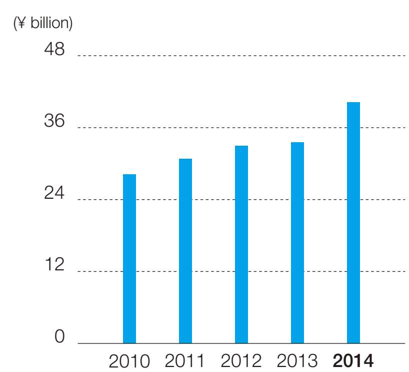
In China, due to tightened monetary policy, new large-scale real estate and building projects decreased, although consumer demand remained robust. Daikin has long focused on retail sales in China, and thus effects of macro-economic conditions are lessened. Therefore, the Group was able to achieve year-on-year growth in sales of both residential and commercial air-conditioning systems. In 2013, full model changes were undertaken for all products to quicken product differentiation, particularly in the commercial air-conditioning systems market. Also, the product lineup aimed at regional cities was strengthened, and the sales network was expanded across the country. Within this, via the rollout of the Group's PROSHOP network of exclusive retail sales outlets, Daikin is promoting sales tailored to local needs and winning new customers. Together with a product strategy that added multi-type air conditioners to room units, market share in the residential air-conditioning market expanded.

Sales of air purifiers also grew as that market continues to expand on the back of increased consciousness of environmental and air quality. In large-scale (applied) air-conditioning systems, growth in new construction and government projects slowed, but sales of chillers and air-handling units to private-sector customers increased. Maintenance and service business sales in these systems also increased, driving sales higher in this business line.

Composition of Sales



Research and Development Expenses



• Asia/Oceania Region

The residential housing market in Thailand was weak due to slowing growth and instability in the government; thus, sales were flat year on year. However, results in Australia, Malaysia, and Singapore were robust. Moreover, in India, Vietnam, Indonesia, and other emerging markets, thanks to expansion of the sales network, sales of residential and commercial air-conditioning systems both experienced double-digit growth. Thus, overall, sales in this region grew markedly over the previous year.

• Americas Region

Non-residential building starts are on a recovery trend in North America, but competition remains fierce in large-scale (applied) air-conditioning systems. However, sales increased year on year in the region stemming from expanded unit volume thanks to a strengthened store network, expanded after-sales service business, and strong exports to Central and South America.

In the residential air-conditioning systems market, shipments were strong in step with the recovery in residential housing starts. In the commercial air-conditioning systems market, sales grew year on year, thanks to recovery in the construction sector. Orders were particularly strong for school and other government-related projects. Overall, regional sales were up strongly over the previous year due to such factors as Goodman becoming a consolidated subsidiary.

• Chemicals

In the chemicals segment, despite positive effects from a weaker yen, the supply-demand balance worsened due to increased supply, which pushed prices down. The Daikin Group's total sales in the segment increased 12.7% from the previous year, to ¥140.2 billion, but operating income fell to ¥14.2 billion, down 14.0% from the previous year.

Sales of fluoropolymer resins grew year on year, thanks to recovery in infrastructure spending in China, centered on railways and telecommunications, and also thanks to strong demand from the auto sector. In the U.S. market, sales for LAN cable applications were stagnant, but demand from the auto and aerospace sectors was relatively robust. Thus, revenues increased over the previous year. Demand in Japan from the semiconductor and auto sectors started to recover; however, sales slipped year on year. Sales of fluororubber products were up year on year, owing to strong demand mainly from the auto sector in China and other overseas markets. As a result, total sales of fluoropolymers were above the level of the previous year.

In the chemical products sector, demand for water and oil repellents fell in Japan, but demand from apparel applications in China recovered. Thus, sales in this business line expanded over the previous year. R&D work for new applications in anti-smudge surface coating agents for touch screens progressed, but existing demand dropped. Therefore, sales in this business declined year on year. In other chemical products, demand for etching solutions for semiconductors did not improve; thus, sales were flat year on year. Driven by overseas sales of water and oil repellents, overall chemical products sales increased year on year.

Sales of fluorocarbon gas products were flat compared to the level in the previous fiscal year as demand did not significantly change globally.

• Others

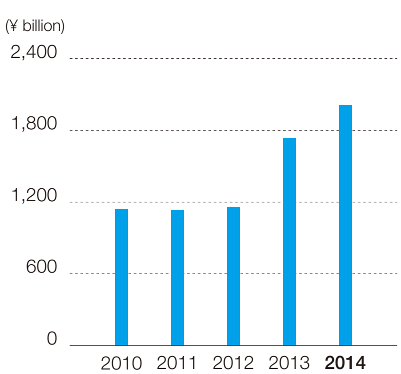
Total sales in the others segment amounted to ¥50.0 billion, up 7.6% from the previous fiscal year. The segment's operating income increased 96.4%, to ¥2.4 billion.

Daikin's oil hydraulic equipment business for industrial machinery maintained robust sales in Japan and the United States; thus, sales in this business line grew year on year. Sales of oil hydraulic equipment used in construction machinery and motor vehicles were also strong, reflecting healthy demand from key customers in Japan and also from overseas.

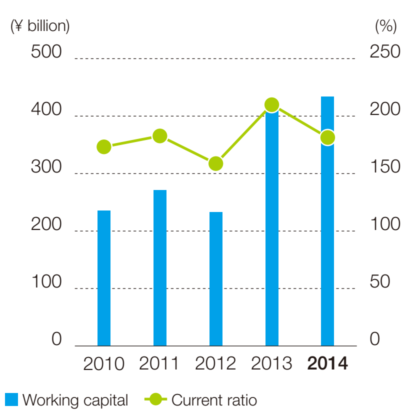
Sales in the defense business sector declined over the previous year, owing to a fall in orders from Japan's Ministry of Defense for artillery shells and guided missile components. Sales of home-use oxygen therapy equipment were strong.

Electronic systems business sales exceeded the level in the previous year on sales growth in database systems for design and development applications, together with moderate recovery in IT investments.

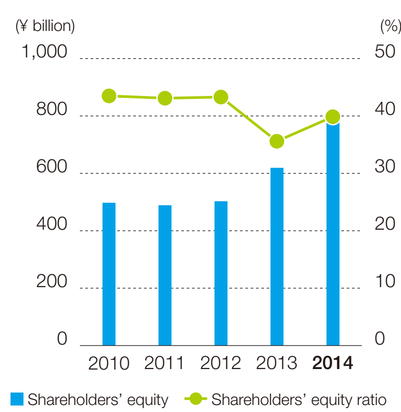
Total Assets



Working Capital and Current Ratio



Total Shareholders' Equity and Shareholders' Equity Ratio



Outlook for Fiscal 2015

In the global macroeconomy, it appears that the pace of recovery in the United States is quickening centered on private demand, and European economies appear to have bottomed out. Growth in emerging markets, China and India in particular, is expected to continue slowing.

In Japan, the economy is expected to temporarily slow down in reaction to the high demand immediately before the consumption tax rise in April 2014. However, supported by government economic policy and recovery in exports, the economy is expected to continue expanding, albeit at a slower pace. Using the plan formulated last year for the final three years of the FUSION 15 strategic management plan as a pillar, for fiscal 2015, ending March 31, 2015, Daikin has instituted the Group policy “Combine the Group’s strengths and follow through.” 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 by fundamentally strengthening sales capabilities by developing new markets and expanding its sales network in China and other regions. The Group will also work to build a solutions business by strengthening service and maintenance offerings. Daikin, furthermore, will make efforts to grow its environmental innovations business, including developing next-generation refrigerants and building a heating equipment business. With these measures, Daikin will vigorously push forward its growth strategy. At the same time, the Group will carefully select investments and strive to increase efficiency in administrative departments to fundamentally lower fixed costs. Through this, Daikin will make initiatives to further build a profitable business structure and aim to increase sales and profits.

Daikin’s performance outlook on a consolidated basis for fiscal 2015 is for an 11.0% increase in net sales, to ¥1,980.0 billion, a 9.6% increase in operating income, to ¥170.0 billion, and a 6.7% increase in net income, to ¥98.0 billion. Foreign currency exchange rates assumed for fiscal 2015 are ¥132/euro and ¥98/U.S. dollar.

Assets, Liabilities, and Total Equity

• Assets

At the end of fiscal 2014, current assets amounted to ¥967.9 billion, up ¥164.5 billion from the end of the previous fiscal year, owing to factors including an increase in cash and cash equivalents and trade receivables. Noncurrent assets were ¥112.2 billion higher than at the end of the previous fiscal year, at ¥1,044.7 billion, due to purchases and valuation changes of investment securities as well as other factors. Total assets amounted to ¥2,012.5 billion, up ¥276.7 billion from the end of the previous fiscal year.

• Liabilities and Total Equity

Total liabilities rose to ¥1,188.2 billion, up ¥88.3 billion from the end of the previous fiscal year, partially owing to an increase in trade payables. The interest-bearing debt to total assets ratio improved to 34.5%, from 40.7% at the end of the previous fiscal year.

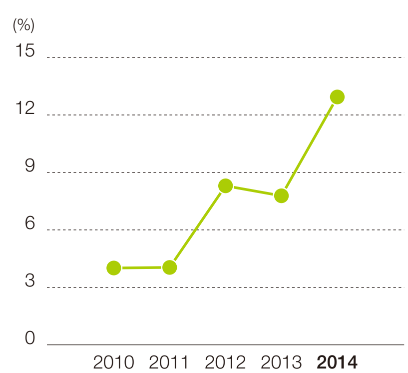
Despite a decrease due to cash dividend payments, net assets increased ¥188.4 billion, to ¥824.3 billion, due to factors including net income for the year and foreign currency translation adjustments booked in equity.

Capital Investment and Depreciation

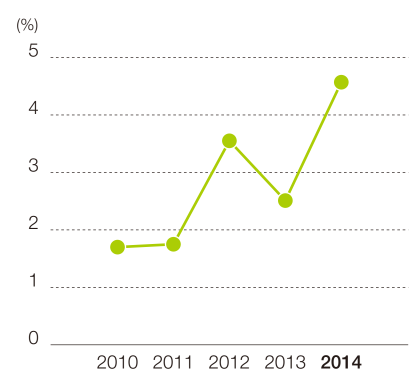
In accordance with the Daikin Group’s fundamental strategy of concentrating management assets in business fields that offer high profitability, the Group made total capital investments of ¥59.4 billion in fiscal 2014, largely in the air-conditioning and chemicals business fields. In the air-conditioning field, Daikin invested ¥10.3 billion, mainly for R&D related to room air conditioners and package air conditioners and for rationalization objectives. At Goodman Global Group, Inc., investments of ¥4.8 billion were made primarily to increase capacity. In the chemicals field, the Group invested ¥7.7 billion, mainly for increasing production capacity and for rationalization objectives, and Daikin Fluorochemicals (China) Co., Ltd., implemented ¥6.6 billion in capital investments, mainly for increasing its production capabilities. The main sources of funds for these investments were bank borrowings and retained earnings.

The depreciation expense amounted to ¥55.1 billion, up ¥15.7 billion from the previous fiscal year.

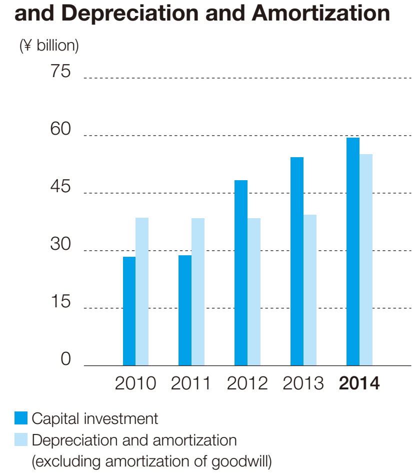
ROE



ROA



Capital Investments and Depreciation and Amortization



Cash Flows

Net cash provided by operating activities amounted to ¥179.7 billion, up ¥76.6 billion compared with the previous fiscal year, due to factors including the increase in income before income taxes and minority interests. Net cash used in investing activities amounted to ¥80.8 billion, ¥137.6 billion less than that used in the previous fiscal year. In fiscal 2013, Daikin acquired Goodman, which accounted for the cash outlay in that year. Net cash used in financing activities amounted to ¥38.2 billion. Cash flow in this category fell ¥181.8 billion from the cash provided in the previous year, as funds were borrowed and bonds issued to finance the Goodman acquisition. As a result of these changes, cash and cash equivalents as of March 31, 2014 amounted to ¥257.3 billion, up ¥71.7 billion from the previous fiscal year-end.

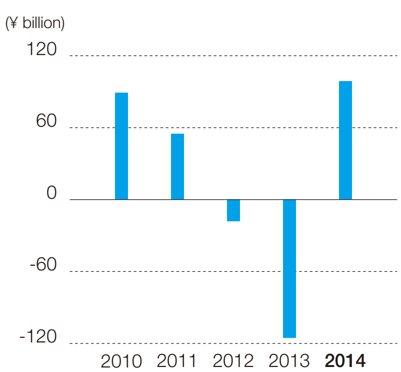
Principal Risks Associated with the Daikin Group's Operations

• *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 if politico-economic changes occur in such markets as Japan, Europe, North America, China, and other countries in the Asian region.

In particular, the Group is proactively developing business operations outside Japan through measures including constructing new air-conditioning equipment manufacturing facilities and acquiring air-conditioning equipment dealers in Europe as well as establishing manufacturing and marketing companies in China. There is, thus, a possibility that the Group's performance could be impacted by business environment changes in one or more global regions. These changes could include the deterioration of economic conditions, raw material price surges, and/or the intensification of competition with other companies. In the United States, on November 1, 2012, Daikin completed all procedures for the acquisition of Goodman Global Group, Inc. (Head Office: Houston, Texas—hereinafter, "Goodman") for a purchase price of US$3.7 billion (including the refinancing of Goodman's existing debt).

Free Cash Flow



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. Doing this, Daikin aims to bring about new trends in the U.S. air-conditioner market that will enable the Group to realize business expansion and contribute to environmental protection. 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. Daikin also hopes to use this know-how to reform the Group's earnings structure, including at operations in advanced economies. There is a possibility that the degree of progress toward realizing those objectives could impact the Daikin Group's performance.

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

Air-conditioning and refrigeration operations accounted for 89.3% of the Daikin Group's consolidated net sales in fiscal 2014. Therefore, the Group strives to accurately monitor weather information and weather-related demand trends in the world's principal markets. It also employs flexible manufacturing methods and marketing policies designed to minimize the impact of those demand trends on its performance. However, depending on the magnitude of demand changes resulting from cold summer weather or other unusual weather patterns, there is a possibility that the Group's performance could be impacted.

• *Large fluctuations in currency exchange rates*

Overseas sales accounted for 71.2% of the Daikin Group's consolidated net sales in fiscal 2014. The acceleration of global business development going forward is expected to further elevate this overseas sales ratio. Consolidated financial statements are prepared by translating local currency-denominated items for Group operations in each global region, including sales, expenses, 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 in raw materials and component procurement and in the sale of goods and services, there is a possibility that changes in currency exchange rates could impact manufacturing costs and sales performance. To avoid such currency exchange rate-related risks, the Group undertakes short-term risk hedging via forward exchange contracts and similar instruments. Daikin also undertakes medium- to long-term measures to continuously adjust procurement and manufacturing operations and optimize them for changing currency exchange-rate trends, and to balance imports and exports in each currency. Through this, the Group works to realize a business structure that is not greatly impacted by changes in currency exchange rates. However, currency exchange rate-related risks cannot be completely avoided.

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

- Major product quality claims
- Major problems in manufacturing
- Major changes in the market prices of securities and other assets
- Impairment of long-lived assets
- Natural disasters

Consolidated Balance Sheet

Daikin Industries, Ltd. and Consolidated Subsidiaries
March 31, 2014

	Millions of yen	
ASSETS	**2014**	2013
Current assets:		
Cash and cash equivalents (Notes 7 and 15)	**¥ 257,295**	¥ 185,571
Trade receivables (Notes 6, 7 and 15):		
Notes	**59,984**	43,464
Accounts	**259,465**	219,859
Allowance for doubtful receivables	**(6,598)**	(6,227)
Inventories (Notes 3 and 7)	**316,656**	285,169
Deferred tax assets (Note 11)	**29,598**	21,782
Prepaid expenses and other current assets	**51,471**	53,708
Total current assets	**967,871**	803,326
Property, plant and equipment (Note 7):		
Land	**33,624**	33,121
Buildings and structures	**235,076**	216,148
Machinery and equipment	**450,213**	414,716
Furniture and fixtures	**148,450**	131,921
Lease assets (Note 14)	**6,139**	6,279
Construction in progress	**21,899**	18,111
Total	**895,401**	820,296
Accumulated depreciation	**(595,684)**	(546,095)
Net property, plant and equipment	**299,717**	274,201
Investments and other assets:		
Investment securities (Notes 4 and 15)	**154,360**	102,588
Investments in and advances to unconsolidated subsidiaries and associated companies	**17,175**	14,831
Goodwill (Note 5)	**361,667**	348,411
Customer relationships	**123,700**	109,723
Other intangible assets	**60,389**	52,754
Deferred tax assets (Note 11)	**6,236**	3,570
Assets for retirement benefits (Note 8)	**10,070**	10,569
Other assets	**11,346**	15,863
Total investments and other assets	**744,943**	658,309
Total	**¥2,012,531**	¥1,735,836

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2014	2013
Current liabilities:		
Short-term borrowings (Notes 7 and 15)	¥ 43,325	¥ 65,335
Current portion of long-term debt (Notes 7 and 15)	95,886	4,126
Current portion of long-term lease obligations (Note 14)	1,731	1,464
Trade payables (Note 15):		
Notes	9,380	7,377
Accounts	152,704	119,987
Income taxes payable (Note 15)	17,429	14,694
Deferred tax liabilities (Note 11)	13,356	5,518
Provision for product warranties	46,113	40,235
Accrued expenses	84,618	67,089
Other current liabilities (Note 6)	69,095	56,802
Total current liabilities	533,637	382,627
Long-term liabilities:		
Long-term debt (Notes 7 and 15)	550,475	633,033
Long-term lease obligations (Note 14)	2,526	1,912
Liabilities for retirement benefits (Note 8)	9,975	3,960
Deferred tax liabilities (Note 11)	73,300	54,362
Other long-term liabilities	18,269	23,945
Total long-term liabilities	654,545	717,212
Commitments and contingent liabilities (Notes 14 and 16)		
Equity (Notes 9, 10 and 20):		
Common stock—authorized, 500,000,000 shares; issued 293,113,973 shares in 2014 and 2013	85,032	85,032
Capital surplus	83,550	83,017
Stock acquisition rights	842	1,335
Retained earnings	514,584	438,671
Treasury stock, at cost: 1,326,704 shares in 2014 and 1,974,043 shares in 2013	(4,549)	(6,772)
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	40,066	18,431
Deferred gain (loss) on derivatives under hedge accounting	606	(146)
Foreign currency translation adjustments	87,938	(115)
Remeasurements of defined benefit plans	(4,883)	
Subtotal	803,186	619,453
Minority interests	21,163	16,544
Total equity	824,349	635,997
Total	¥2,012,531	¥1,735,836

Consolidated Statement of Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of yen	
	2014	2013
Net sales (Note 6)	**¥1,783,077**	¥1,290,903
Cost of sales (Note 13)	**1,216,216**	902,857
Gross profit	**566,861**	388,046
Selling, general and administrative expenses (Notes 5, 6 and 13)	**411,786**	299,419
Operating income	**155,075**	88,627
Other income (expenses):		
Interest and dividend income	**6,478**	4,690
Interest expense	**(9,454)**	(7,081)
Exchange gains	**483**	6,849
Gain on sales of land	**159**	38
Loss on disposals of property, plant and equipment and other intangible assets	**(335)**	(497)
Gain on sales of investment securities (Note 4)	**54**	117
Impairment losses on investment securities (Notes 4 and 15)	**(1,531)**	(12,651)
Equity in earnings of unconsolidated subsidiaries and associated companies	**1,652**	1,063
Gain on reversal of stock acquisition rights	**209**	310
Gain on insurance adjustment		166
Gain on sales of shares of an associated company		986
Loss on restructuring of a subsidiary		(783)
Other—net (Note 8)	**(137)**	(357)
Other expenses—net	**(2,422)**	(7,150)
Income before income taxes and minority interests	**152,653**	81,477
Income taxes (Note 11):		
Current	**50,390**	32,677
Prior years		(1,841)
Deferred	**5,014**	3,500
Total income taxes	**55,404**	34,336
Net income before minority interests	**97,249**	47,141
Minority interests in net income	**(5,369)**	(3,556)
Net income	**¥ 91,880**	¥ 43,585

	Yen	
Amounts per common share (Note 18):		
Basic net income	**¥315.21**	¥149.73
Diluted net income	**314.83**	149.71
Cash dividends applicable to the year	**50.00**	36.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of yen	
	2014	2013
Net income before minority interests	¥ 97,249	¥ 47,141
Other comprehensive income (Note 17):		
Unrealized gains on available-for-sale securities	21,632	18,434
Deferred gains (losses) on derivatives under hedge accounting	1,218	(72)
Foreign currency translation adjustments	59,499	64,782
Share of other comprehensive income in affiliates accounted for using the equity method	2,823	1,483
Total other comprehensive income	85,172	84,627
Comprehensive income	¥182,421	¥131,768
Total comprehensive income attributable to:		
The Company's shareholders	¥175,572	¥126,233
Minority interests	6,849	5,535

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2014

		Millions of yen											
							Accumulated Other Comprehensive Income (Loss)						
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acqui-sition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasure-ment of Defined Benefit Plans	Total	Minority Interests	Total Equity
Balance, April 1, 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					(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
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2)					(4,021)						(4,021)		(4,021)
Net income					91,880						91,880		91,880
Cash dividends, ¥50 per share					(11,946)						(11,946)		(11,946)
Repurchase of treasury stock	(663)					(4)					(4)		(4)
Disposal of treasury stock	648,002		533			2,227					2,760		2,760
Net change in the year				(493)			21,635	752	88,053	¥(4,883)	105,064	4,619	109,683
Balance, March 31, 2014	291,787,269	¥85,032	¥83,550	¥ 842	¥514,584	¥(4,549)	¥40,066	¥606	¥(87,938)	¥(4,883)	¥803,186	¥21,163	¥824,349

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of yen	
	2014	2013
Operating activities:		
Income before income taxes and minority interests	**¥152,653**	¥ 81,477
Adjustments for:		
Income taxes—paid	**(45,874)**	(29,688)
Depreciation and amortization	**78,901**	51,524
Gain on sales of investment securities	**(54)**	(117)
Impairment losses on investment securities	**1,531**	12,651
Loss on disposals of property, plant and equipment and other intangible assets	**335**	497
Equity in earnings of unconsolidated subsidiaries and associated companies	**(1,652)**	(1,063)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade notes and accounts receivable	**(31,510)**	(22,587)
Inventories	**(8,228)**	10,299
Other current assets	**(1,315)**	(3,924)
Assets for retirement benefits	**499**	(306)
Trade notes and accounts payable	**19,140**	343
Accrued expenses	**12,846**	1,801
Other current liabilities	**9,238**	1,672
Liabilities for retirement benefits	**5,512**	(204)
Other—net	**(12,309)**	786
Total adjustments	**27,060**	21,684
Net cash provided by operating activities	**179,713**	103,161
Investing activities:		
Payments for purchases of property, plant and equipment	**(53,647)**	(53,046)
Proceeds from sales of property, plant and equipment	**1,738**	1,146
Payments for acquisition of shares of newly consolidated subsidiaries, net of cash and cash equivalents acquired (Note 12)	**(857)**	(163,652)
Payments for acquisition of investment securities	**(26,742)**	(4,877)
Proceeds from sales of investment securities (Note 4)	**84**	518
Proceeds from sales of shares of an associated company		1,883
Payment for transfer of business	**(410)**	
Other—net	**(1,001)**	(358)
Net cash used in investing activities	**(80,835)**	(218,386)
Financing activities:		
Net decrease in short-term borrowings	**(19,180)**	(42,868)
Increase in long-term debt	**15**	383,246
Repayments of long-term debt	**(5,024)**	(183,354)
Cash dividends paid to the Company's shareholders	**(11,946)**	(10,479)
Cash dividends paid to minority interests	**(2,604)**	(1,232)
Proceeds from issuance of shares to minority interests	**297**	674
Other—net	**193**	(2,467)
Net cash (used in) provided by financing activities	**(38,249)**	143,520
Effect of exchange rate changes on cash and cash equivalents	**10,896**	19,740
Net increase in cash and cash equivalents	**71,525**	48,035
Effect of change of the fiscal year-end of consolidated subsidiaries	**199**	2,109
Cash and cash equivalents, beginning of year	**185,571**	135,427
Cash and cash equivalents, end of year	**¥257,295**	¥185,571

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2014

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 ("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 2013 consolidated financial statements to conform to the classification used in 2014.

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, 2014, Goodman Global Group, Inc. and 21 other companies changed their fiscal year-end from December 31 to March 31.

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 by directly charging to retained earnings as an effect of the 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 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 of accounting for property, plant and equipment and investment properties and incorporation of the cost model of 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 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 of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

Business Combinations

The Group acquired Goodman Global Group, Inc. and its subsidiaries on November 1, 2012. The Group accounted for business combinations 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. The Group had no short-term investments at March 31, 2014 and 2013.

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 receivables outstanding.

Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at the lower of cost, principally determined by the average method, or net selling value. Inventories of consolidated foreign subsidiaries are stated at the lower of cost, principally 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 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 9 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 method of attributing expected benefit to the current period in calculation of projected benefit obligation is based on straight-line attribution. Actuarial gains and losses are amortized by the straight-line method over certain periods (mainly 10 years), which is within the average remaining service period of employees at the time of recognition. Past service costs are amortized by the straight-line method over certain periods (mainly 10 years), which is within the average remaining service period of employees at the time of recognition.

In May 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 related practical guidance, and were followed by partial amendments from time to time through 2009. The Group applied these accounting standard and guidance from the end of the annual period beginning on April 1, 2013 (except for the regulations stipulated under Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of Guidance on Accounting Standard for Retirement Benefits).

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liabilities for retirement benefits) or asset (assets for retirement benefits).

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are 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 are 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 (see Note New Accounting Pronouncements).

In accordance with the transitional measure stipulated under Article No. 37 of the standard, the amount of financial impact caused by this change in accounting policy is added to or subtracted from remeasurements of the defined benefit plan under accumulated other comprehensive income.

As a result, net defined benefit assets of ¥10,070 million and net defined benefit liability of ¥9,975 million were recorded as of March 31, 2014, and accumulated other comprehensive income and minority interest for the year ended March 31, 2014 decreased by ¥4,883 million and ¥14 million, respectively.

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 recognizes 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 rate. 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.

Bonuses to Directors and Audit & Supervisory Board Members

Bonuses to directors and auditors & supervisory board members are accrued at the year-end to which such bonuses are attributable. Accrued bonuses are included in accrued expenses.

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 manage 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 manage the risk of fluctuation of commodity prices 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 previous requirements, actuarial gains and losses and past service costs that were yet to be recognized in profit or loss were 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, was 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 (liabilities for retirement benefits) or asset (assets 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 Group adopted the revised accounting standard for (a) and (b) above effective April 1, 2013, and expects to adopt (c) above from April 1, 2014.

The adoption of (c) above will cause increases of the beginning balance of net defined benefit assets and retained earnings in the consolidated balance sheet by ¥3,064 million and ¥4,788 million, respectively, at April 1, 2014. The effect of this adoption will not have a material impact on the Group's consolidated financial statement for the year ending March 31, 2015.

3. Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen	
	2014	2013
Finished products and merchandise	**¥217,186**	¥191,195
Semifinished products and work in process	**41,557**	41,381
Raw materials and supplies	**57,913**	52,593
Total	**¥316,656**	¥285,169

4. Marketable and Investment Securities

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥91,916**	**¥54,030**	**¥(432)**	**¥145,514**
Debt securities	**100**	**2**		**102**
Total	**¥92,016**	**¥54,032**	**¥(432)**	**¥145,616**

	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

The information of available-for-sale securities which were sold during the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	**¥84**	**¥55**	**(1)**

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

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2014 and 2013 were ¥1,529 million and ¥12,651 million, respectively.

5. Goodwill

Amortization expenses for goodwill were ¥23,784 million and ¥12,077 million for the years ended March 31, 2014 and 2013, respectively, which were included in selling, general and administrative expenses.

6. Related Party Transactions

Material transactions and balances with related parties for the years ended March 31, 2014 and 2013 were as follows:

(1) 2014

(a) The Company

Name	Description of Post	Ownership of the Company (%)	Transactions: Description of Transaction	2014 (Millions of yen)	Resulting Account Balances: Account	2014 (Millions of yen)
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥435	Other current liabilities	¥39

(b) The Company's consolidated subsidiaries

Name	Description of Post	Ownership of the Company (%)	Transactions: Description of Transaction	2014 (Millions of yen)	Resulting Account Balances: Account	2014 (Millions of yen)
Chiyono Terada	Outside Director/CEO and President of Art Corporation	0.00	Commission for moving business and delivery business	¥64	Other current liabilities	¥ 4
			Sales of products and other	88	Accounts receivable	24

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

(2) 2013

(a) The Company

Name	Description of Post	Ownership of the Company (%)	Transactions: Description of Transaction	2013 (Millions of yen)	Resulting Account Balances: Account	2013 (Millions of yen)
Chiyono Terada	Outside Director/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

Name	Description of Post	Ownership of the Company (%)	Transactions: Description of Transaction	2013 (Millions of yen)	Resulting Account Balances: Account	2013 (Millions of yen)
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 an arm's length basis and by reference to the normal market price.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of the Group at March 31, 2014 and 2013 consisted of the following:

	Millions of yen	
	2014	2013
Bank overdrafts and notes to banks	**¥43,325**	¥63,408
Commercial paper		1,927
Total	**¥43,325**	¥65,335

Unused short-term bank credit lines were ¥150,000 million at March 31, 2014. Weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2014 and 2013 were 1.67% and 1.37%, respectively.

The weighted-average interest rate of commercial paper at March 31, 2013 was 0.25%.

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen	
	2014	2013
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**	10,000
1.86% unsecured bonds, due 2019	**40,000**	40,000
0.72% unsecured bonds, due 2019	**10,000**	10,000
1.20% unsecured bonds, due 2022	**30,000**	30,000
Unsecured loans from government-sponsored banks, with interest of 1.75%, due through 2019	**20,000**	20,000
Collateralized loans from banks and others, payable in foreign currencies, with interest of 4.75% (2013), due through 2013		28
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.59% to 5.90% (2014) and from 0.71% to 5.90% (2013), due through 2022	**161,334**	152,088
Unsecured loans from banks and others with interest ranging from 0.26% to 3.59% (2014) and from 0.30% to 3.59% (2013), due through 2023	**315,027**	315,043
Total	**646,361**	637,159
Less current portion	**(95,886)**	(4,126)
Long-term debt, less current portion	**¥550,475**	¥633,033

Annual maturities of long-term debt outstanding at March 31, 2014, were as follows:

Year Ending March 31	Millions of yen
2015	¥ 95,886
2016	36,338
2017	71,895
2018	66,436
2019	72,235
2020 and thereafter	303,571
Total	¥646,361

At March 31, 2014, property, plant and equipment; time deposits; trade accounts receivables; inventories; and others with book values of ¥2,663 million, ¥107 million, ¥11,755 million ¥8,127 million and ¥5,711 million, respectively, were pledged as collateral for short-term borrowings.

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. Certain 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.

8. 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.

The Group accounts for part of the defined benefit obligation and benefit costs for retirement lump-sum payment using the simplified method.

Year ended March 31, 2014

1. Defined benefit plans

(1) The changes in defined benefit obligation for the year ended March 31, 2014 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of yen
	2014
Balance at beginning of year	¥83,770
Service cost	4,098
Interest cost	1,919
Net actuarial gains	(993)
Past service cost	8
Benefits paid	(4,065)
Effect of changes in the scope of consolidation	72
Effect of change of the fiscal year-end	(121)
Foreign currency translation adjustments	5,079
Others	(134)
Balance at end of year	¥89,633

(2) The changes in plan assets for the year ended March 31, 2014 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of yen
	2014
Balance at beginning of year	¥80,088
Expected return on plan assets	3,057
Net actuarial gains	3,908
Contributions from the employer	4,839
Benefits paid	(3,733)
Effect of changes in accounting period	168
Foreign currency translation adjustments	3,845
Others	57
Balance at end of year	¥92,229

(3) The changes in defined benefit obligation for the year ended March 31, 2014 using the simplified method were as follows:

	Millions of yen
	2014
Balance at beginning of year	¥ 301
Periodic benefit cost	2,963
Benefits paid	(763)
Balance at end of year	¥2,501

(4) Reconciliation between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2014 was as follows (including the benefit plan for which the simplified method was applied):

	Millions of yen
	2014
Funded defined benefit obligation	¥(88,051)
Plan assets	92,229
	4,178
Unfunded defined benefit obligation	(4,083)
Net amount of liabilities and assets recorded in consolidated balance sheet	¥ 95
Liabilities for retirement benefits	¥ (9,975)
Assets for retirement benefits	10,070
Net amount of liabilities and assets recorded in consolidated balance sheet	¥ 95

(5) The components of net periodic benefit costs for the year ended March 31, 2014 were as follows:

	Millions of yen
	2014
Service cost	¥4,098
Interest cost	1,919
Expected return on plan assets	(3,057)
Recognized net actuarial gains	(113)
Amortization of past service cost	(42)
Periodic benefit cost calculated by the simplified method	2,963
Others	70
Total	¥5,838

(6) The components of accumulated other comprehensive income (amount before income tax effect) for the year ended March 31, 2014 were as follows:

	Millions of yen
	2014
Unrecognized past service cost	¥ (18)
Unrecognized net actuarial losses	6,801
Total	¥6,783

(7) Plan assets

(a) Components of plan assets

Plan assets consisted of the following:

	%
	2014
Domestic debt securities	6%
Domestic equity securities	8
Foreign debt securities	24
Foreign equity securities	18
Insurance assets (general account)	17
Cash and cash equivalents	2
Real estate	2
Others	23
Total	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended March 31, 2014 were set forth as follows:

	2014
Discount rate	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%

2. Defined contribution plan

The amount of contribution required to defined contribution plan paid by the Company and its subsidiaries was ¥4,181 million for the year ended March 31, 2014.

Year ended March 31, 2013

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, consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥84,070
Fair value of plan assets	(80,088)
Unrecognized past service cost	225
Unrecognized actuarial gains	(10,816)
Net assets	(6,609)
Assets for retirement benefits	(10,569)
Liabilities for retirement benefits	¥3,960

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

	Millions of yen
	2013
Service cost	¥4,015
Interest cost	1,856
Expected return on plan assets	(2,210)
Amortization of past service cost	(46)
Recognized actuarial losses	557
Net periodic benefit costs	4,172
Contribution to defined contribution pension plan and other	2,922
Total	¥7,094

Assumptions used for the years ended March 31, 2013, were set forth as follows:

	2013
Discount rate	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%
Amortization period of past service cost	Mainly 10 years
Recognition period of actuarial gains/losses	Mainly 10 years

9. 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 including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, 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.

10. Stock Options

The stock options outstanding for the year ended March 31, 2014, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2013 Stock Option	10 directors 38 employees	286,000 shares	2013.7.12	¥4,500	From July 13, 2015 to July 12, 2019

The stock option activity was as follows:

	Shares							
	2006 Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option
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	
Year Ended March 31, 2014								
Vested								
April 1, 2013—Outstanding		202,000	220,000	212,000	251,000	296,000	300,000	
Granted								286,000
Exercised		(8,000)	(40,000)	(186,000)	(219,000)	(195,000)		
Canceled		(194,000)	(10,000)					
March 31, 2014—Outstanding			170,000	26,000	32,000	101,000	300,000	286,000
Exercise price	¥3,790	¥4,640	¥5,924	¥3,250	¥3,050	¥2,970	¥2,186	¥4,500
Average stock price at exercise		¥4,397	¥6,246	¥4,924	¥5,036	¥5,350		
Fair value price at grant date	¥ 736	¥1,035	¥ 803	¥ 899	¥1,113	¥ 935	¥ 676	¥1,220

The assumptions used to measure fair value of 2013 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	34.6%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥36 per share
Risk-free interest rate:	0.2%

11. 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, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities, at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Deferred tax assets:		
Provision for product warranties	**¥ 13,857**	¥ 11,583
Inventories	**13,798**	9,474
Investment securities	**8,105**	7,434
Tax loss carryforwards	**7,169**	15,325
Software and other intangible assets	**4,083**	3,243
Accrued bonus	**4,012**	3,430
Liabilities for retirement benefits	**2,439**	878
Foreign income tax credit	**1,736**	1,436
Allowance for doubtful receivables	**1,160**	1,352
Other	**20,284**	17,112
Less valuation allowance	**(20,056)**	(21,927)
Total deferred tax assets	**¥ 56,587**	¥ 49,340
Deferred tax liabilities:		
Intangible assets	**¥ 58,123**	¥ 47,895
Undistributed earnings of consolidated subsidiaries	**21,084**	14,197
Unrealized gain on available-for-sale securities	**13,561**	8,346
Assets for retirement benefits	**3,586**	3,697
Deferred gains on sales of property	**1,906**	1,961
Other	**9,149**	7,772
Total deferred tax liabilities	**¥107,409**	¥ 83,868
Net deferred tax liabilities	**¥ (50,822)**	¥(34,528)

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 year ended March 31, 2013 was as follows:

	2013
Normal effective statutory income tax rate	37.9%
Difference in foreign subsidiaries' tax rates	(13.5)
Taxes and tax effects on dividends from foreign subsidiaries	7.0
Amortization of goodwill	5.2
Consolidation adjustment for gain on sales of shares of a subsidiary	5.0
Valuation allowance	3.2
Income taxes—prior years	(2.1)
Unrecognized tax effect on unrealized profit	(1.8)
Unrecognized tax effect on foreign income tax credit	1.3
Other—net	(0.1)
Actual effective income tax rate	42.1%

A reconciliation of difference between the normal effective statutory tax rates and the actual effective tax rates is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2014.

On March 31, 2014, new tax reform laws were enacted in Japan, which changed the effective statutory tax rate from approximately 37.9% to 35.6% effective for the fiscal year beginning on or after April 1, 2014. The effect of this change on the consolidated financial statements is not material.

During the previous 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 amounted to ¥1,841 million and was presented as income taxes-prior years in the consolidated statement of income for the year ended March 31, 2013.

At March 31, 2014, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥16,665 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
2015	¥ 334
2016	1,104
2017	700
2018	2,328
2019	980
2020 and thereafter	11,219
Total	¥16,665

12. 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

13. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥40,177 million and ¥33,569 million for the years ended March 31, 2014 and 2013, respectively.

14. 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, 2014, were as follows:

	Millions of yen	
	Finance Leases	Operating Leases
Due within one year	**¥1,731**	**¥13,669**
Due after one year	**2,526**	**20,746**
Total	**¥4,257**	**¥34,415**

Pro Forma Information for the Years ended March 31, 2014 and 2013

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, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	**¥98**	**¥95**	**¥193**	¥147	¥111	¥258
Accumulated depreciation	**87**	**81**	**168**	120	86	206
Net leased property	**¥11**	**¥14**	**¥ 25**	¥ 27	¥ 25	¥ 52

Obligations under finance leases:

	Millions of yen	
	2014	2013
Due within one year	**¥17**	¥27
Due after one year	**8**	25
Total	**¥25**	¥52

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

Lease payments and depreciation expense under finance leases:

	Millions of yen	
	2014	2013
Lease payments	**¥25**	¥87
Depreciation expense	**25**	87

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

15. 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 the liquidity risk along with adequate financial planning by the corporate finance department. In addition, the Group 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 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, 2014		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥257,295**	**¥257,295**	
Trade notes and accounts receivable	**319,449**	**319,449**	
Investment securities	**145,616**	**145,616**	
Total	**¥722,360**	**¥722,360**	
Trade notes and accounts payable	**¥162,084**	**¥162,084**	
Short-term borrowings	**43,325**	**43,325**	
Income taxes payable	**17,429**	**17,429**	
Long-term debt	**646,361**	**654,516**	**¥8,155**
Total	**¥869,199**	**¥877,354**	**¥8,155**
Derivatives	**¥ 751**	**¥ 751**	

	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	

Assets

Cash and cash equivalents

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

Trade notes and accounts receivable

The carrying values of trade notes and accounts receivable approximate fair values 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. Fair value information of the investment securities by classification is included in Note 4.

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 values 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 rates, 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 values of derivatives are measured at the quoted price obtained from the financial institution.

The contracts or notional amounts of derivatives that are shown in the table below 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, 2014			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:				
Selling: GBP	¥ 3,108		¥ (21)	¥ (21)
EUR	43,964		(126)	(126)
USD	18,473		147	147
AUD	4,879		(82)	(82)
NZD	321		42	42
ZAR	1,893		(15)	(15)
CZK	4,957		29	29
NOK	26			
HKD	1,279		1	1
SGD	2,495		(9)	(9)
MYR	1,447		(10)	(10)
TRY	8,288		(310)	(310)
BRL	231		(3)	(3)
INR	1,337		(29)	(29)
Buying: CNY	1,580		2	2
Commodity future contracts:				
Buying: Metal	¥ 628		¥ (70)	¥ (70)

	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:				
Buying: Metal	¥ 1,278		¥ (47)	¥ (47)

Derivative transactions to which hedge accounting is applied

		Millions of yen		
		March 31, 2014		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:				
Selling: GBP	Receivables	**¥ 7,465**		**¥ (70)**
EUR	Receivables	**32,906**		**(311)**
USD	Receivables	**545**		**3**
ZAR	Receivables	**1,025**		**3**
CZK	Receivables	**8,110**		**17**
PLN	Receivables	**1,051**		**(8)**
TRY	Receivables	**3,580**		**15**
Buying: CNY	Payables	**7,864**		**(161)**
Commodity future contracts:				
Buying: Metal	Raw materials	**¥ 1,310**		**¥ 27**
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term debt	**¥188,024**	**¥177,222**	**¥1,690**
Fixed rate payment, floating rate receipt*	Long-term debt	**215,000**	**165,000**	

		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	

*The above interest rate swaps that qualify for hedge accounting and meet specific matching criterion 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 values of such interest rate swaps are included in long-term debt.

Financial instruments whose fair value cannot be reliably determined

	Millions of yen	
	Carrying Amount	
	2014	2013
Nonlisted equity securities	**¥8,178**	¥8,180
Investments in limited partnerships and other investments	**566**	668
Total	**¥8,744**	¥8,848

The impairment losses on nonlisted equity securities for the year ended March 31, 2014 were ¥2 million.

Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen			
	March 31, 2014			
	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	**¥257,295**			
Trade notes and accounts receivable	**319,131**	**¥318**		
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)	**25**	**75**		
Total	**¥576,451**	**¥393**		

	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 bonds)	25	100		
Total	¥448,886	¥133		

Please see Note 7 for annual maturities of long-term debt.

16. Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2014 totaled approximately ¥41,794 million.

At March 31, 2014, contingent liabilities for trade notes endorsed and repurchase obligation for liquidation of notes receivables totaled ¥4,452 million and ¥1,237 million, respectively.

17. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Unrealized gains on available-for-sale securities:		
Gains arising during the year	**¥25,373**	¥14,173
Reclassification adjustments to profit or loss	**1,474**	12,534
Amount before income tax effect	**26,847**	26,707
Income tax effect	**(5,215)**	(8,273)
Total	**¥21,632**	¥18,434
Deferred gains (losses) on derivatives under hedge accounting:		
Gains (losses) arising during the year	**¥ 4,152**	¥ (191)
Reclassification adjustments to profit or loss	**(2,366)**	90
Amount before income tax effect	**1,786**	(101)
Income tax effect	**(568)**	29
Total	**¥ 1,218**	¥ (72)
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥59,500**	¥64,782
Reclassification adjustments to profit or loss	**(1)**	
Amount before income tax effect	**59,499**	64,782
Income tax effect		
Total	**¥59,499**	¥64,782
Share of other comprehensive income in affiliates accounted for using the equity method:		
Adjustments arising during the year	**¥ 2,823**	¥ 1,483
Total other comprehensive income	**¥85,172**	¥84,627

18. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013, was as follows:

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2014	Net Income	Weighted Average Shares	EPS
Basic EPS:			
Net income available to common shareholders	**¥91,800**	**291,485**	**¥351.21**
Effect of dilutive securities			
Stock options		**353**	
Diluted EPS:			
Net income for computation	**¥91,800**	**291,838**	**¥314.83**

	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

19. 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 regularly evaluated by the Company's Board of Directors 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, 2014						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	**¥1,592,885**	**¥140,178**	**¥1,733,063**	**¥50,014**	**¥1,783,077**		**¥1,783,077**
Intersegment sales	**842**	**7,453**	**8,295**	**407**	**8,702**	**¥ (8,702)**	
Total	**1,593,727**	**147,631**	**1,741,358**	**50,421**	**1,791,779**	**(8,702)**	**1,783,077**
Segment profit	**138,478**	**14,189**	**152,667**	**2,414**	**155,081**	**(6)**	**155,075**
Segment assets	**1,618,355**	**176,020**	**1,794,375**	**30,840**	**1,825,215**	**187,316**	**2,012,531**
Other:							
Depreciation	**¥ 41,304**	**¥ 12,111**	**¥ 53,415**	**¥ 1,671**	**¥ 55,086**		**¥ 55,086**
Amortization of goodwill	**23,767**	**17**	**23,784**		**23,784**		**23,784**
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	**10,880**	**5,605**	**16,485**		**16,485**		**16,485**
Investment in property, plant and equipment and intangible assets	**37,113**	**20,359**	**57,472**	**1,878**	**59,350**		**59,350**

	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

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" amounted to ¥196,125 million and ¥118,702 million at March 31, 2014 and 2013, respectively, which consisted mainly of the Company's cash, time deposits and investment securities.
3. The aggregated amount of segment profit equals operating income in the consolidated statement 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, 2014						
	Japan	USA	China	Europe	Asia and Oceania	Other	Consolidated
	¥512,754	**¥359,122**	**¥322,884**	**¥247,059**	**¥239,633**	**¥101,625**	**¥1,783,077**

	Millions of yen						
	March 31, 2013						
	Japan	USA	China	Europe	Asia and Oceania	Other	Consolidated
	¥494,284	¥113,253	¥234,774	¥195,053	¥186,219	¥67,320	¥1,290,903

Note: Sales are classified by country or region based on location of customers.

(b) Property, Plant and Equipment

	Millions of yen						
	March 31, 2014						
	Japan	China	USA	Europe	Asia and Oceania	Other	Consolidated
	¥95,318	**¥80,119**	**¥52,375**	**¥34,485**	**¥31,595**	**¥5,825**	**¥299,717**

	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

(2) Information about Goodwill

(a) Balance of Goodwill by Reportable Segment

Goodwill for each reportable segment at March 31, 2014 and 2013 was as follows:

	Millions of yen				
	2014				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	**¥361,667**				**¥361,667**

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

20. Subsequent Events

Resolutions approved by the Company's Board of Directors at the meeting held on May 8, 2014, are subject to approval at the general shareholders' meeting planned to be held on June 27, 2014.

Appropriations of Retained Earnings

Payment of a year-end cash dividend of ¥27 per share to shareholders at March 31, 2014, totaling ¥7,878 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, 2014, 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, 2014, 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, 2014

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

(As of March 31, 2014)

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	34,798
Major Shareholders	• The Master Trust Bank of Japan, Ltd. (Trust account) • Japan Trustee Services Bank, Ltd. (Trust account) • Sumitomo Mitsui Banking Corporation • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for Nippon Steel & Sumitomo Metal Industries, Ltd. • Japan Trustee Services Bank, Ltd. Retirement Benefit Trust Account for The Norinchukin Bank • The Bank of Tokyo-Mitsubishi UFJ, Ltd. • State Street Bank and Trust Company 505225 • Japan Trustee Services Bank, Ltd. (Trust account 4) • Sumitomo Life Insurance Company • BNP Paribas Securities (Japan) Limited
Number of Subsidiaries and Affiliated Companies	Subsidiaries: 209 Affiliates: 9
Number of Employees	56,240 (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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