

Notes to Consolidated Financial Statements

Daikin Industries, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2001 and 2000

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Daikin Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, and its consolidated foreign subsidiaries in conformity with those of the respective countries of their domicile. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

Certain reclassifications have been made for the presentation for the year ended March 31, 2000 to conform to the presentation for the year ended March 31, 2001.

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 (together, the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, those companies over whose operations 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 associated companies except for certain insignificant associated companies. Investments in such insignificant associated companies are stated at cost except that appropriate write-downs are recorded for investments for which the value has been permanently impaired.

For the year ended March 31, 2001, certain associated companies, previously accounted for by the cost method, were newly included in the consolidated financial statements due to the Company's additional investments in their common stock.

For the year ended March 31, 2000, certain subsidiaries, previously accounted for by the cost method, were newly included in the consolidated financial statements due to their growing significance. The net effect on the beginning of year balances of consolidating these subsidiaries has been reflected in the statements of shareholders' equity and cash flows for the year ended March 31, 2000.

For the year ended March 31, 2000, a certain associated company, previously accounted for by the cost method, was newly accounted for by the equity method due to its growing significance. The effect on the beginning of year retained earnings of the initial application of the equity method has been reflected in the statement of shareholders' equity for the year ended March 31, 2000.

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

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 and marketable debt securities issued by the Japanese Government and private companies, all of which mature or become due within three months of the date of acquisition.

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