

<div>FINANCIAL HIGHLIGHTS</div> <div>MANAGEMENT PERSPECTIVE</div> <div>TOPICS</div> <div>REVIEW OF OPERATIONS</div> <div>FINANCIAL SECTION</div> <div>CORPORATE DATA</div>	<div> <div>Daikin's Basic Management Policy</div> <p>In fiscal 1996, Daikin enacted its Fusion 21 strategic management plan. In mid-2000, we updated the plan and renamed it Fusion 21 D in response to drastic changes in the operating environment. We accelerated our efforts and engaged ourselves in the fulfillment of our objectives.</p> <p>Specifically, we implemented strategies aimed at the following objectives:</p> <ol style="list-style-type: none"> <li>1) Creation of a lean and fortified profit structure</li> <li>2) Reform of the financial framework</li> <li>3) Radical strengthening of each business division</li> <li>4) Creation of new business segments and the development of highly unique products</li> <li>5) Development of a fast and flat management structure</li> <li>6) Attainment of a high level of trust from society</li> </ol> <p>As a result, over the past few years—despite severe economic conditions—the Company succeeded in improving its performance. It accelerated the expansion of its global operations and improved its financial standing. We have succeeded in achieving our goal of Fusion 21, which was “to lay the foundation for becoming a global and truly first-rate company at the start of the 21st century.”</p> <p>In April 2001, Daikin commenced its new strategic management plan—Fusion 05—for achieving a global and truly first-rate status by fiscal 2006. Building upon the foundation laid through Fusion 21, Fusion 05 seeks to convert the deteriorating business environment into an opportunity to pull further ahead of our competitors. To do this, we will unleash the power of the momentum we have generated thus far</p> </div>	<div> <p>and fuse together our thorough aggregate market value focused approach with our own world-class brand of flat and fast management. We will then implement a range of initiatives based on this fusion to ensure our survival in the ages to come.</p> <p>In particular, the enhancement of aggregate market value will give us an added edge in stock swap based M&amp;A as well as tie-ups and alliances in which we will play the leading role. It will also enable us to utilize more diversified fund-raising methods, thus broadening our managerial options for future growth and enabling the flexible implementation of various initiatives. From these perspectives, the enhancement of aggregate market value has become an important slogan for managerial objectives.</p> <p>Also under Fusion 05, Daikin has established clearly distinct three-year and five-year goals for becoming an appealing company that pulls together human resources, capital, and information. Looking to fiscal 2004, we will work to maximize corporate value through cash flow focused management and conduct “statistics management” that fastidiously emphasizes numerical targets. Objectives for fiscal 2006 will focus on structural reform and managerial innovation. Our ultimate goals are to establish a solid revenue and financial framework by fiscal 2004 and, through M&amp;A and other large-scale investments, join the ranks of the global and truly first-rate companies by fiscal 2006.</p> <p>To achieve these objectives, we will:</p> <ol style="list-style-type: none"> <li>1) Achieve the world's number one and number two ranks, respectively, for our core air conditioning and fluorochemicals businesses through tie-ups and alliances</li> </ol> </div>	<div> <ol style="list-style-type: none"> <li>2) Aim to raise our R&amp;I rating to AA or higher through cash flow focused management and achieve an interest-bearing debt ratio of 20% or less</li> <li>3) Raise the overseas business ratio to 50%</li> <li>4) Increase the weight of innovative businesses, which seek to convert the overall Group business structure, and strive for a ratio to net sales of 40%</li> <li>5) Pursue advancements in technology, which is a crucial part of our role as a manufacturer</li> <li>6) Hone our own brand of fast and flat management and elevate it into a corporate climate and culture worthy of worldwide admiration</li> </ol> <p>An overview of this plan is included in the Topics section of this report for the reader's reference.</p> <div> <div>To Our Shareholders</div> <p>This concludes my discussion of Daikin's managerial policies and business results for fiscal 2001. It is my intention to steadily fulfill all of our managerial tasks and achieve further dramatic growth in the 21st century.</p> <p>In closing, I wish to thank our shareholders for their backing during fiscal 2001. We look forward to their continued support in the current fiscal year.</p> <p>June 28, 2001</p> <div>  <div> Noriyuki Inoue, President </div> </div> </div> </div>	
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