

# Consolidated Financial Results for Fiscal 2011

(April 1, 2010 - March 31, 2011)

May 11, 2011

## Listed Company Name: Rinnai Corporation

Listings: First sections of the Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)

Website: <http://www.rinnai.co.jp>

Representative: Hiroyasu Naito, President

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Date of the General Meeting of Shareholders: June 29, 2011

Anticipated date to begin distributing dividends: June 30, 2011

Anticipated date for releasing annual securities report: June 29, 2011

Supplemental information sheets of quarterly results: Yes

Information meeting of financial results: Yes (for analysts and institutional investors)

## 1. Performance for the Year Ended March 31, 2011

(April 1, 2010 to March 31, 2011; Amounts less than one million yen are omitted)

### (1) Consolidated Operating Results (Years ended March 31)

(Percentage figures in columns indicate increase or decrease from the previous term.)

(¥ millions /%)

|             | Net Sales<br>(% change) | Operating Income<br>(% change) | Ordinary Income<br>(% change) | Net Income<br>(% change) |
|-------------|-------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>2011</b> | <b>239,436 (+5.9)</b>   | <b>25,238 (+23.8)</b>          | <b>26,824 (+24.9)</b>         | <b>15,510 (+33.2)</b>    |
| 2010        | 226,117 (-4.5)          | 20,392 (+35.3)                 | 21,481 (+65.8)                | 11,642 (+202.6)          |

Note: Comprehensive income:

Year ended March 31, 2011: ¥14,216 million (-13.7%)

Year ended March 31, 2010: ¥16,478 million (—%)

|             | Net Income<br>per Share<br>(¥) | Fully Diluted<br>Net Income per<br>Share<br>(¥) | Ratio of<br>Net Income<br>to Equity Capital<br>(%) | Ratio of<br>Ordinary Income<br>to Total Assets<br>(%) | Ratio of<br>Operating Income<br>to Net Sales<br>(%) |
|-------------|--------------------------------|---|--|---|---|
| <b>2011</b> | <b>311.52</b>                  | —   | <b>11.2</b>  | <b>12.1</b>   | <b>10.5</b>   |
| 2010        | 219.83                         | —   | 8.5  | 9.9   | 9.0   |

References: Equity in earnings of companies accounted for using the equity method:

Year ended March 31, 2011: ¥811 million

Year ended March 31, 2010: ¥522 million

### (2) Consolidated Financial Position (at March 31)

(¥ millions)

|             | Total Assets   | Net Assets     | Equity Ratio (%) | Net Assets per Share (¥) |
|-------------|----------------|----------------|------------------|--------------------------|
| <b>2011</b> | <b>221,495</b> | <b>141,110</b> | <b>62.0</b>      | <b>2,798.07</b>          |
| 2010        | 222,324        | 142,502        | 62.5             | 2,684.46                 |

(Reference) Equity capital : Year ended March 31, 2011; ¥137,274 million

Year ended March 31, 2010; ¥138,954 million

### (3) Consolidated Cash Flows (Years ended March 31)

(¥ millions)

|             | Cash Flows from<br>Operating<br>Activities | Cash Flows from<br>Investing<br>Activities | Cash Flows from<br>Financing<br>Activities | Cash and Cash<br>Equivalents at<br>End of Year |
|-------------|--|--|--|--|
| <b>2011</b> | <b>27,536</b>                              | <b>(10,634)</b>                            | <b>(16,958)</b>                            | <b>46,145</b>                                  |
| 2010        | 29,687                                     | (15,865)                                   | (12,203)                                   | 46,570   |

## 2. Dividends

|                       | Dividend per Share |                |                    |                        |                  |
|-----------------------|--------------------|----------------|--------------------|------------------------|------------------|
|                       | 1st Quarter<br>(¥) | Interim<br>(¥) | 3rd Quarter<br>(¥) | Fiscal Year-End<br>(¥) | Full Year<br>(¥) |
| 2010                  | —                  | 20.00          | —                  | 22.00                  | 42.00            |
| <b>2011</b>           | —                  | <b>24.00</b>   | —                  | <b>24.00</b>           | <b>48.00</b>     |
| 2012<br>(anticipated) | —                  | 28.00          | —                  | 28.00                  | 56.00            |

|                       | Total Dividends<br>(Full Year)<br>(¥ millions) | Consolidated Payout Ratio<br>(%) | Consolidated Ratio of<br>Dividends to<br>Net Assets (%) |
|-----------------------|--|----------------------------------|---|
| 2010                  | 2,174  | 19.1                             | 1.6   |
| <b>2011</b>           | <b>2,354</b>                                   | <b>15.4</b>                      | <b>1.8</b>  |
| 2012<br>(anticipated) |  | —                                |   |

## 3. Forecast for the Fiscal Year Ending March 31, 2012

(April 1, 2011, to March 31, 2012)

(¥ millions)

|                   | Net Sales<br>(% change) | Operating<br>Income<br>(% change) | Ordinary<br>Income<br>(% change) | Net Income<br>(% change) | Net Income<br>per Share<br>(¥) |
|-------------------|-------------------------|-----------------------------------|----------------------------------|--------------------------|--------------------------------|
| Two-quarter total | 115,000 (+3.3)          | 12,000 (+8.0)                     | 12,500 (+5.9)                    | 8,000 (+14.0)            | 163.06                         |
| Full year         | 248,000 (+3.6)          | 27,000 (+7.0)                     | 28,000 (+4.4)                    | 17,500 (+12.8)           | 356.70                         |

(Percentage figures in columns indicate increase or decrease from the previous term.)

## 4. Other

(1) Changes in scope of consolidation of major subsidiaries during period: None

Newly included — (Company name —) : Excluded — (Company name —)

(2) Major changes in the rules for the preparation of consolidated financial statements

(a) Changes due to the revision of accounting standard: Yes

(b) Other changes than (a): None

Note: Please refer to “Significant Accounting Policies of Consolidated Financial Statements”  
on page 20 for more details.

(3) Number of Outstanding Shares (Common Stock)

(a) Number of outstanding shares at fiscal year-end (including treasury stock)

Year ended March 31, 2011: 54,216,463 shares

Year ended March 31, 2010: 54,216,463 shares

(b) Number of treasury stock at fiscal year-end

Year ended March 31, 2011: 5,156,123 shares

Year ended March 31, 2010: 2,453,860 shares

(c) Average number of shares during the term

Year ended March 31, 2011: 49,788,551 shares

Year ended March 31, 2010: 52,963,922 shares

## References: Summary of Nonconsolidated Results

### 1. Nonconsolidated Performance for the Year Ended March 31, 2011

(April 1, 2010 to March 31, 2011; Amounts less than one million yen are omitted)

#### (1) Nonconsolidated Operating Results (Years ended March 31) (¥ millions)

|             | Net Sales<br>(% change) | Operating Income<br>(% change) | Ordinary Income<br>(% change) | Net Income<br>(% change) |
|-------------|-------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>2011</b> | <b>175,045 (+3.4)</b>   | <b>16,131 (+19.9)</b>          | <b>17,647 (+13.7)</b>         | <b>10,467 (+20.9)</b>    |
| 2010        | 169,277 (-1.2)          | 13,455 (+23.6)                 | 15,515 (+21.6)                | 8,654 (+18.7)            |

(Percentage figures in columns indicate increase or decrease from the previous term.)

|             | Net Income<br>per Share<br>(¥) | Fully Diluted<br>Net Income per<br>Share (¥) |
|-------------|--------------------------------|--|
| <b>2011</b> | <b>210.23</b>                  | —  |
| 2010        | 163.41                         | —  |

#### (2) Nonconsolidated Financial Position (at March 31) (¥ millions)

|             | Total Assets   | Net Assets     | Equity Ratio (%) | Net Assets per Share (¥) |
|-------------|----------------|----------------|------------------|--------------------------|
| <b>2011</b> | <b>154,228</b> | <b>105,261</b> | <b>68.3</b>      | <b>2,145.56</b>          |
| 2010        | 158,363        | 110,747        | 69.9             | 2,139.53                 |

(Reference) Equity capital : Year ended March 31, 2011; ¥105,261 million

Year ended March 31, 2010; ¥110,747 million

#### (3) Forecast for the Fiscal Year Ending March 31, 2012

(April 1, 2011, to March 31, 2012) (¥ millions)

|                   | Net Sales<br>(% change) | Operating<br>Income<br>(% change) | Ordinary<br>Income<br>(% change) | Net Income<br>(% change) | Net Income<br>per Share<br>(¥) |
|-------------------|-------------------------|-----------------------------------|----------------------------------|--------------------------|--------------------------------|
| Two-quarter total | 82,000 (+3.9)           | 6,900 (+6.4)                      | 7,800 (+8.1)                     | 4,800 (+10.2)            | 97.84                          |
| Full year         | 179,000 (+2.3)          | 16,800 (+4.1)                     | 18,300 (+3.7)                    | 11,500 (+9.9)            | 234.41                         |

(Percentage figures in columns indicate increase or decrease from the previous corresponding term.)

#### \* Implementation status of auditing review process

This report is exempt from a quarterly review process under the Financial Instruments and Exchange Act (FIEA). At the time of this report's release, the review process of the Corporation's consolidated financial statements under the FIEA was not completed.

#### \* Note on appropriate use of performance forecasts

Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Corporation to be reasonable. Actual results may differ significantly from such forecasts due to various factors. For more information, please refer to "1. Fiscal Year in Review" on page 4 of this report.

# **I. Performance and Financial Position**

## **1. Fiscal Year in Review**

### **(1) Performance**

In the fiscal year ended March 31, 2011, the Japanese economy continued facing difficult conditions, underscored by peak prices of crude oil and other raw materials and the limiting effect of the strong yen on corporate earnings. This was despite moderate recovery in the U.S. economy and the buoying effects of high economic growth rates among emerging nations. The Great East Japan Earthquake, which occurred on March 11, 2011, prompted a mood of restraint and a consequent slump in personal consumption, while the resulting electric power shortages had a constraining impact on people's lives. Accordingly, there are many reasons for uncertainty about the future economic direction.

In the domestic housing appliance industry, there were indications of a turnaround in starts of owner-occupier dwellings thanks to the government's eco-point system for housing and stimulus measures, including reduced taxes on home loans. Overall conditions failed to improve, however, in the absence of full-scale recovery, especially in the Tokyo Metropolitan Area.

Facing these challenges, the Rinnai Group entered the second year of its medium-term business plan, entitled "Reform and Breakthrough." During the period under review, we targeted major global advances as a comprehensive manufacturer of heating appliances. Specifically, we reinforced our product lineup—with a focus on the environment and energy-saving, as well as safety and peace of mind—and delivered a broad range of heating products optimized to suit living environments in various world nations. At the same time, we pursued Group-wide reforms and reinforced our corporate foundation.

With respect to revenue, in Japan we reported healthy sales underpinned by solid replacement demand for tabletop and built-in stoves. Our Eco Jozu series of bathwater heaters, lighter and more compact than ever before, also benefited from the trend toward protecting the environment and saving energy.

Overseas, sales were generally firm. Highlights included increased sales of hot-water units in the United States and Australia and higher sales of gas appliances accompanying economic growth in emerging nations, such as China and Brazil.

On the earnings side, we sought to manufacture core kitchen appliances and hot-water units in-house and embarked on a rigorous Group-wide effort to cut fixed costs. These actions contributed to our bottom line. Earnings were also bolstered by higher revenue stemming from healthy overseas sales.

As a result, consolidated net sales for the period amounted to ¥239,436 million, up 5.9% from the previous year. Operating income increased 23.8%, to ¥25,238 million, and ordinary

income rose 24.9%, to ¥26,824 million. Despite incurring inspection costs and providing for a reserve for the free replacement of parts in rice cookers and hot-water/heating systems, net income jumped 33.2%, to ¥15,510 million.

Our results by geographical segment were as follows:

### ***Japan***

In hot-water units, we reported healthy sales of the RUF-E series, launched in February 2010, which contributed to increased sales. In kitchen appliances, we reported steady sales, with the addition of new items to the premium-grade Delicia series of built-in stoves, featuring enhancements with respect to ease of cleaning and elimination of smoke and odors. We also benefited from steady replacement demand for the Mytone lineup of stoves, which incorporate the high performance of top-end models into medium-grade and general-market offerings. In addition, we enjoyed increased sales of the Flat & Clean series of tabletop models, featuring exceptional ease of cleaning. As a result, sales in Japan totaled ¥165,976 million, up 2.7% from the previous year. Operating income rose 14.9%, to ¥18,187 million.

### ***South Korea***

A record-breaking cold snap at the beginning of the year helped boost sales of gas boilers. Steam ovens and other commercial-use equipment also performed well. Accordingly, sales in South Korea increased 5.3%, to ¥22,088 million, and operating income declined 16.9%, to ¥713 million.

### ***North America***

Amid moderate recovery of the local economy, there was a turnaround in demand for housing appliances. Also, sales of instant-heating (tankless) hot-water units were firm, with only limited impact from the termination of reduced housing tax rates. Sales in North America, increased 1.8%, to ¥13,000 million. Thanks to cuts in sales promotion and other operating expenses, operation income jumped 43.8%, to ¥796 million.

### ***Australia***

As part of its environmental protection measures, the Australian government has enforced a termination of sales of electric storage-type (tank-based) hot-water units. Against this background, replacement of old units with energy-efficient ones has progressed smoothly, leading to firm sales of our hot-water units. We reported increased sales of fan-forced heaters thanks to government subsidies aimed at stimulating replacement demand for open-type heaters. Sales in Australia rose 21.9%, to ¥15,364 million, and operating income surged 70.5%, ¥2,720 million.

## China

In addition to the Shanghai area, where sales have grown steadily, we enjoyed increased sales of gas appliances in interior regions of China. Due to heightened prices of raw materials and falling unit prices stemming from the increased share of sales in regional areas, however, earnings in China declined. Sales in China rose 7.5%, to ¥11,863 million, and operating income decreased 20.0%, to ¥1,201 million.

### References 1: Net sales by product

(¥ millions)

|                                    | Year ended<br>March 31, 2010<br>(April 1, 2009,<br>to March 31, 2010) |            | Year ended<br>March 31, 2011<br>(April 1, 2010,<br>to March 31, 2011) |            | Change |      |
|------------------------------------|---|------------|---|------------|--------|------|
|                                    | Amount  | % of total | Amount  | % of total | Amount | (%)  |
| Kitchen appliances                 | 78,669  | 34.8       | 79,600  | 33.2       | 930    | 1.2  |
| Hot-water units                    | 105,906   | 46.8       | 114,534   | 47.8       | 8,628  | 8.1  |
| Air-conditioning and heating units | 14,635  | 6.5        | 15,754  | 6.6        | 1,119  | 7.6  |
| Commercial-use equipment           | 6,268   | 2.8        | 6,739   | 2.8        | 471    | 7.5  |
| Others                             | 20,636  | 9.1        | 22,806  | 9.5        | 2,170  | 10.5 |
| Total                              | 226,117   | 100.0      | 239,436   | 100.0      | 13,318 | 5.9  |

### References 2: Overseas sales

(¥ millions)

|  | Year ended March 31, 2010<br>(April 1, 2009,<br>to March 31, 2010) |                  |         | Year ended March 31, 2011<br>(April 1, 2010,<br>to March 31, 2011) |                  |         |
|--|--|------------------|---------|--|------------------|---------|
|  | Asia   | Other<br>regions | Total   | Asia   | Other<br>regions | Total   |
| I. Overseas sales  | 42,373   | 29,110           | 71,483  | 45,322   | 34,657           | 79,980  |
| II. Consolidated net sales   | —  | —                | 226,117 | —  | —                | 239,436 |
| III. Composition ratio of overseas sales to consolidated net sales | 18.7%  | 12.9%            | 31.6%   | 18.9%  | 14.5%            | 33.4%   |

Note: Net sales of the above indicate sales of the Corporations in overseas countries or regions.

## (2) Outlook for Year Ending March 31, 2012

Going forward, we expect business conditions to remain difficult due to peak prices of raw materials and the risk of unpredictable changes in foreign exchange rates. This is despite economic buoyancy among industrialized overseas countries and anticipation of economic recovery stemming from growing demand in emerging nations. In addition, the Great East Japan Earthquake of March 11 had a huge impact on the Japanese economy, further reinforcing uncertainty about the economic path ahead.

The aforementioned earthquake did not cause direct injury to Rinnai Group personnel or incur major damage to the Group's buildings. The Group will make a swift disclosure in the event that something occurs that has an impact on its business results.

Under these conditions, the Rinnai Group will strive to provide customers with comfortable lifestyles and living environments by leveraging its ability to make appealing products based on the themes of the environment, energy-saving, safety, and peace of mind. At the same time, we will roll out products and services that deliver even greater energy savings, in our quest to support stable energy supplies—a pressing issue in today’s energy sector. In addition to pursuing efficiency of unit energy, centering on gas as we have in the past, we will target well-balanced usage of a combination of energy sources while considering lifestyles, cultures, and climate conditions of each region. To this end, we will promote further proliferation of our hybrid hot-water unit, launched in April 2010, that combines gas and electricity. This hybrid unit symbolizes our commitment to becoming a comprehensive manufacturer of heating appliances that pursues the best balance of energy while taking the living environments of various world nations into account.

For the year ending March 2012, we forecast consolidated net sales of ¥248.0 billion (up 3.6% year-on-year), operating income of ¥27.0 billion (up 7.0%), ordinary income of ¥28.0 billion (up 4.4%), and net income of ¥17.5 billion (up 12.8%).

## **2. Financial Position**

### **(1) Balance Sheets**

As of March 31, 2011, the Rinnai Group had total assets of ¥221,495 million, down ¥829 million from a year earlier. This decline stemmed mainly from decreases in inventories and investment securities.

Total liabilities rose ¥562 million, to ¥80,384 million, due largely to an increase in notes and accounts payable.

Net assets declined ¥1,391 million, to ¥141,110 million, due to purchases of treasury stock and a decrease in foreign exchange translation adjustment. This was despite an increase in retained earnings, boosted by net income.

As a result, the equity ratio at fiscal year-end was 62.0%.

### **(2) Cash Flows**

Cash and cash equivalents at March 31, 2011, stood at ¥46,145 million, down ¥424 million, or 0.9%, from a year earlier.

Net cash provided by operating activities amounted to ¥27,536 million, down 7.2% from the previous year. Factors boosting cash flows included the secured operating income, while factors holding down cash flows included an increase in income tax paid.

Net cash used in investing activities totaled ¥10,634 million, down 33.0% from the previous year. Main factors were transfers to and withdrawals from time deposits, purchases of fixed assets, and purchases and sales of investments in securities.

Net cash used in financing activities was ¥16,958 million, up 39.0% from the previous year. This was due mainly to purchases of treasury stock.

**References: Cash Flow Indicators**

| (Years ended March 31)                     | 2007 | 2008 | 2009 | 2010  | 2011  |
|--|------|------|------|-------|-------|
| Equity ratio (%)                           | 59.9 | 61.4 | 64.5 | 62.5  | 62.0  |
| Equity ratio based on market price (%)     | 75.1 | 76.5 | 88.1 | 114.3 | 122.3 |
| Interest-bearing debt to cash flows (year) | 1.31 | 0.55 | 0.65 | 0.37  | 0.33  |
| Interest coverage ratio (times)            | 12.8 | 21.6 | 19.5 | 57.2  | 84.4  |

Notes: Equity ratio: Equity capital/Total assets

Equity ratio based on market price: Total stock value based on market price/Total assets

Interest-bearing debt to cash flows: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest paid

1. Each index is calculated based on consolidated financial figures.
2. Market value of total stock is calculated based on the number of shares outstanding at the end of the year after deducting treasury stock.
3. Operating cash flow is calculated using net cash provided by operating activities.

**(3) Basic Profit Appropriation Policy; Cash Dividends**

The Corporation regards stable return of profits to shareholders as an important management policy. Based on this policy, we intend to meet shareholders' expectations based on extensive consideration of various factors, including consolidated business performance and payout ratio.

At the same time, we will effectively utilize retained earnings to support various initiatives aimed at raising corporate value over the long term. These include research and development, capital investments, and strategic business investments in Japan and overseas.

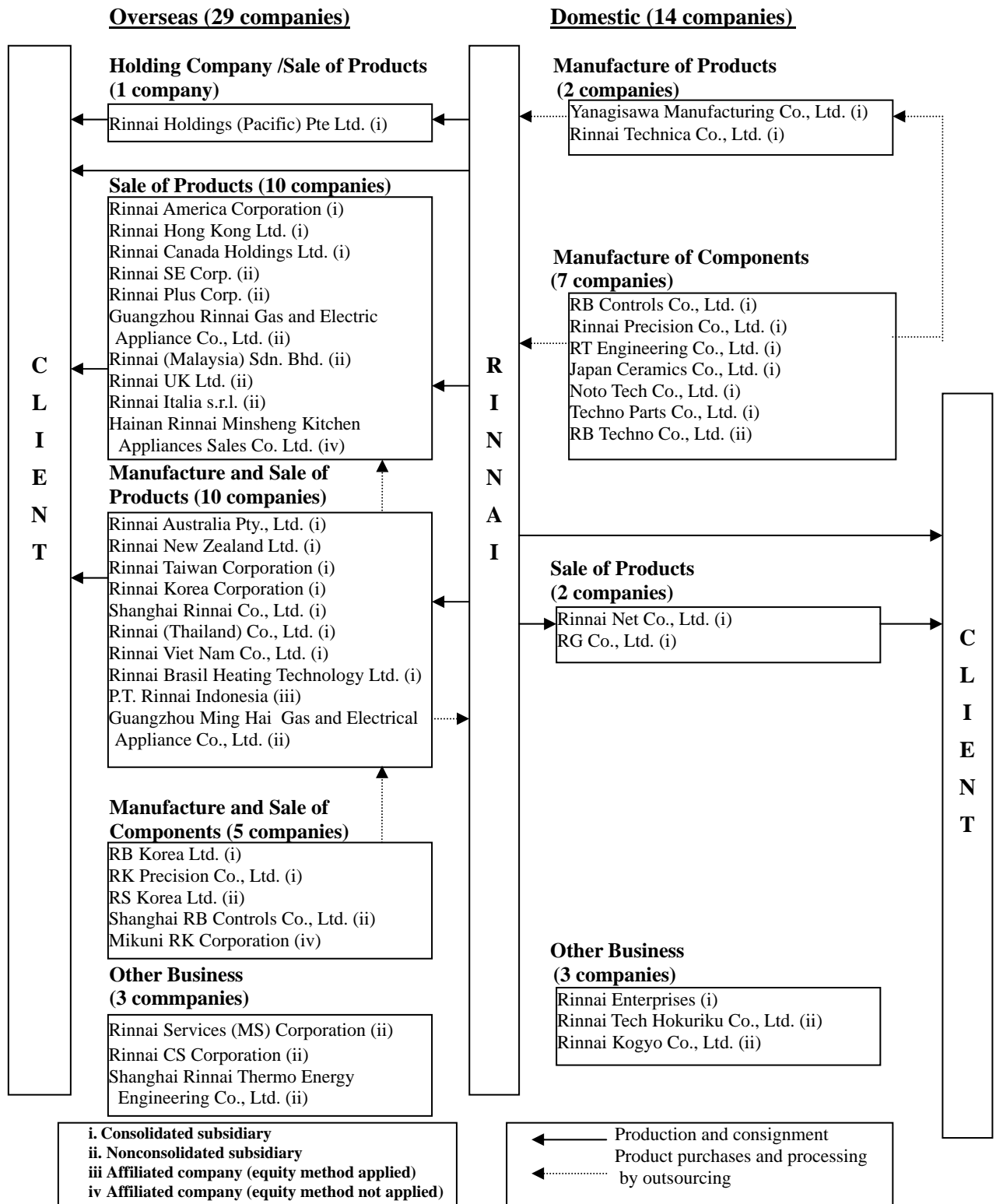
For the fiscal year ended March 31, 2011, we plan to raise the year-end dividend by ¥2.00, to ¥24.00 per share. Earlier in the year, we paid an interim dividend of ¥24.00. This will bring total annual dividends to ¥48.00 per share.

For the year ending March 2012, we plan to pay annual dividends of ¥56.00 per share (¥28.00 interim dividend and ¥28.00 year-end dividend), in the interests of maintaining a balance between stable, consistent shareholder returns and the necessity of retaining ample earnings.



## II. Outline of Rinnai Group Companies

The Rinnai Group consists of the parent company, 40 subsidiaries, and three affiliated companies, for a total of 44 companies. These include 25 consolidated subsidiaries and one company to which the equity method is applied. The Group is primarily engaged in the manufacture and sale of gas appliances and related businesses. The Group's structure and business flow are shown below.



### **III. Management Policies**

#### **1. Basic Management Policy**

The Rinnai Group's corporate mission is to "use heat to provide society with comfortable lifestyles." With "safety" and the "environment" as our keywords, we are advancing our corporate activities as a comprehensive heat-energy appliance manufacturer, dedicated to reinforcing our core foundation in Japan while targeting global growth.

#### **2. Performance Targets**

By raising Group-wide competitiveness and boosting profitability and capital efficiency in its core businesses, the Rinnai Group is targeting a consolidated operating margin of 10% and consolidated return on equity (ROE) of 8% or higher.

#### **3. Medium- and Long-Term Business Strategies**

With continued absence of positive signs on the world economic horizon, recent instability in crude oil and raw materials prices and sharp exchange rate fluctuations are causing an increase in the risks facing corporations. At the same time, various nations are actively expediting environmental protection measures amid growing worldwide concern about the environment. In this context, companies are expected to innovate their environmental technologies.

Facing these challenges, the Rinnai Group, seeking to address growing business risks and achieve medium- and long-term growth, formulated its medium-term business plan, entitled "Reform and Breakthrough." Covering the three-year period from April 2009 to March 2012, the plan is designed to help the Group realize qualitative breakthroughs over the three-year period. By implementing qualitative reforms to our business foundation, we aim to become a comprehensive heat energy equipment manufacturer that delivers optimal heat-related equipment to countries around the world from an environmental perspective. At the same time, we will maintain our focus on our heating appliance business, which supports the lives of many people. Under the plan, we are implementing three core policies.

#### ***Three core policies***

- (1) Relentlessly promote waste-elimination activities
- (2) Reinforce Group operations
- (3) Solidify our position as a comprehensive heating appliance manufacturer

### ***Consolidated performance targets for year ending March 2012***

Net sales: ¥248.0 billion

Operating income: ¥27.0 billion

Operating margin: 10.9%

#### **4. Issues to Address**

The Group's corporate philosophy states that "Quality is Our Destiny (our livelihood depends on the quality of our products)." Guided by this philosophy, we place top priority on product safety above anything else in our product manufacturing activities.

Tackling environmental issues has become a major objective shared by nations worldwide. Water and room heating accounts for more than half of energy consumption in general households, although the ratio varies according to nation and region. In this context, the Rinnai Group recognizes that it plays an extremely important role in saving energy and reducing carbon dioxide emissions. As a comprehensive manufacturer of heat and energy appliances, we will embrace the challenge of innovating our environmental technologies and our product manufacturing methods, in order to offer environmentally friendly products optimized according to the needs of various nations and regions around the world. In Japan, we will expand sales of hybrid hot-water systems that deliver top world-class environmental performances, in our quest to cut emissions of greenhouse gases. We will also target further proliferation of our "Eco Jozu" series of condensing hot-water units, which have realized a heat efficiency rating of 95%. The Rinnai Group places strong emphasis on these products and is engaged in a campaign to make "Eco Jozu" the de facto industry standard for gas hot-water units.

## IV. Consolidated Financial Statements

### 1. Consolidated Balance Sheets

(¥ millions)

|  | At March 31, 2010<br>(Year ended<br>March 31, 2010) | At March 31, 2011<br>(Year ended<br>March 31, 2011) |
|--|---|---|
|  | Amount  | Amount  |
| <b>ASSETS</b>                              |   |   |
| <b>Current assets</b>                      |   |   |
| Cash and deposits                          | *2 25,248   | *2 28,338   |
| Notes and accounts receivable              | 53,133  | 53,155  |
| Marketable securities                      | 29,242  | 28,663  |
| Products                                   | 13,336  | 11,545  |
| Raw materials and stores                   | 9,381   | 9,478   |
| Deferred tax assets                        | 2,541   | 3,566   |
| Other                                      | 1,364   | 1,847   |
| Less allowance for doubtful<br>accounts    | (725)   | (449)   |
| <b>Total current assets</b>                | <b>133,522</b>                                      | <b>136,145</b>                                      |
| <b>Fixed assets</b>                        |   |   |
| Property, plant and equipment              |   |   |
| Buildings and structures                   | *2 37,682   | *2 37,779   |
| Accumulated depreciation                   | (21,371)  | (22,221)  |
| Buildings and structures (net)             | 16,310  | 15,558  |
| Machinery and vehicles                     | 39,057  | 39,529  |
| Accumulated depreciation                   | (30,338)  | (30,800)  |
| Machinery and vehicles (net)               | 8,718   | 8,728   |
| Tools and fixtures                         | 27,611  | 24,895  |
| Accumulated depreciation                   | (23,567)  | (21,565)  |
| Tools and fixtures (net)                   | 4,043   | 3,330   |
| Land                                       | *2 13,507   | *2 13,300   |
| Lease assets                               | 174   | 303   |
| Accumulated depreciation                   | (40)  | (100)   |
| Lease assets (net)                         | 134   | 203   |
| Construction in progress                   | 701   | 875   |
| <b>Total property, plant and equipment</b> | <b>43,416</b>                                       | <b>41,997</b>                                       |
| Intangible fixed assets                    | 1,490   | 1,581   |
| Investments and advances                   |   |   |
| Investments in securities                  | *1 31,888   | *1 29,604   |
| Deferred income taxes                      | 1,445   | 1,173   |
| Other                                      | *1 11,383   | *1 11,430   |
| Less allowance for doubtful accounts       | (821)   | (437)   |
| <b>Total investments and advances</b>      | <b>43,895</b>                                       | <b>41,771</b>                                       |
| <b>Total fixed assets</b>                  | <b>88,802</b>                                       | <b>85,350</b>                                       |
| <b>Total assets</b>                        | <b>222,324</b>                                      | <b>221,495</b>                                      |

(¥ millions)

|  | At March 31, 2010<br>(Year ended<br>March 31, 2010) | At March 31, 2011<br>(Year ended<br>March 31, 2011) |
|--|---|---|
|  | Amount  | Amount  |
| <b>LIABILITIES</b>                             |   |   |
| <b>Current liabilities</b>                     |   |   |
| Notes and accounts payable                     | *2 39,092   | *2 40,781   |
| Short-term debt                                | *2 8,123  | *2 6,277  |
| Other payables                                 | 8,759   | 9,283   |
| Accrued consumption taxes                      | 1,009   | 798   |
| Accrued income taxes                           | 5,344   | 5,034   |
| Accrued employee's bonuses                     | 2,706   | 2,765   |
| Allowance for product guarantee                | 1,347   | 1,770   |
| Allowance for inspection cost                  | 233   | 1,155   |
| Other  | 3,235   | 2,434   |
| Total current liabilities                      | 69,851  | 70,301  |
| <b>Long-term liabilities</b>                   |   |   |
| Long-term debt                                 | *2 2,859  | *2 2,763  |
| Accrued employees' retirement benefits         | 4,553   | 4,547   |
| Accrued officers' retirement benefits          | 45  | 53  |
| Other  | 2,513   | 2,718   |
| Total long-term liabilities                    | 9,971   | 10,083  |
| Total liabilities                              | 79,822  | 80,384  |
| <b>NET ASSETS:</b>                             |   |   |
| <b>Shareholders' equity:</b>                   |   |   |
| Common stock                                   | 6,459   | 6,459   |
| Capital surplus                                | 8,719   | 8,719   |
| Earned surplus                                 | 134,563   | 147,757   |
| Treasury stock                                 | (10,386)  | (23,465)  |
| Total shareholders' equity                     | 139,356   | 139,471   |
| <b>Other accumulated comprehensive income:</b> |   |   |
| Unrealized gain on marketable securities       | 176   | (394)   |
| Foreign exchange translation adjustment        | (578)   | (1,803)   |
| Total other accumulated comprehensive income   | (402)   | (2,197)   |
| <b>Minority interests</b>                      | 3,547   | 3,836   |
| <b>Total net assets</b>                        | 142,502   | 141,110   |
| <b>Total liabilities and net assets</b>        | 222,324   | 221,495   |

**2. Consolidated Statements of Income and  
Consolidated Statements of Comprehensive Income**  
*Consolidated Statements of Income*

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| <b>Net sales</b>  | 226,117                                       | 239,436                                       |
| <b>Cost of Sales</b>                                      | *1 158,748                                    | *1 165,867                                    |
| <b>Gross Profit</b>                                       | 67,368  | 73,569  |
| <b>Selling, general and administrative expenses</b>       |   |   |
| Transportation and packing                                | 5,901   | 6,204   |
| Advertising   | 1,968   | 2,393   |
| Sales promotion   | 3,493   | 3,771   |
| After-sales service                                       | 4,035   | 2,353   |
| Transfer to allowance for product guarantee               | 126   | 1,770   |
| Transfer to allowance for doubtful accounts               | 678   | 241   |
| Salary and bonuses  | 14,666  | 15,293  |
| Transfer to allowance for employee's bonuses              | 1,103   | 1,161   |
| Retirement benefit expenses                               | 1,193   | 1,154   |
| Transfer to accrued officers' retirement benefits         | 3   | 6   |
| Depreciation  | 1,092   | 1,039   |
| Other   | *2 12,712                                     | *2 12,940                                     |
| <b>Total selling, general and administrative expenses</b> | 46,976  | 48,330  |
| <b>Operating income</b>                                   | 20,392  | 25,238  |
| <b>Other income:</b>                                      |   |   |
| Interest income   | 562   | 799   |
| Dividends received  | 262   | 227   |
| Equity in earnings of affiliates                          | 522   | 811   |
| Other   | 579   | 639   |
| <b>Total other income</b>                                 | 1,926   | 2,477   |
| <b>Other expenses:</b>                                    |   |   |
| Interest expenses   | 513   | 327   |
| Foreign exchange loss                                     | 261   | 510   |
| Other   | 62  | 55  |
| <b>Total other expenses</b>                               | 837   | 892   |
| <b>Ordinary income</b>                                    | 21,481  | 26,824  |
| <b>Extraordinary income:</b>                              |   |   |
| Gain on sales of fixed assets                             | *3 114  | *3 14   |
| Gain on sales of investment securities                    | —   | 177   |
| Reversal from allowance for doubtful accounts             | 79  | 17  |
| <b>Total extraordinary income</b>                         | 193   | 209   |

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) |        | 2011<br>(April 1, 2010,<br>to March 31, 2011) |        |
|---|---|--------|---|--------|
|   | Amount  |        | Amount  |        |
| <b>Extraordinary losses:</b>                |   |        |   |        |
| Loss on sales of fixed assets               | *4  | 33     | *4  | 33     |
| Loss on retirement of fixed assets          | *5  | 382    | *5  | 383    |
| Loss on devaluation of affiliate's stock    |   | 38     |   | —      |
| Transfer to allowance for product guarantee |   | 870    |   | —      |
| Inspection cost                             |   | —      |   | 1,035  |
| Transfer to allowance for inspection cost   |   | —      |   | 935    |
| Other                                       |   | 11     |   | 340    |
| <b>Total extraordinary losses</b>           |   | 1,337  |   | 2,728  |
| <b>Income before income taxes</b>           |   | 20,337 |   | 24,306 |
| <b>Income taxes:</b>                        |   |        |   |        |
| <b>Current</b>                              |   | 7,892  |   | 8,381  |
| <b>Deferred</b>                             |   | (10)   |   | (369)  |
| <b>Total income taxes</b>                   |   | 7,881  |   | 8,012  |
| <b>Income before minority interest</b>      |   | —      |   | 16,293 |
| <b>Minority interests</b>                   |   | 812    |   | 783    |
| <b>Net income</b>                           |   | 11,642 |   | 15,510 |

**Consolidated Statements of Comprehensive Income**

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| Income before minority interest                                   | —   | 16,293  |
| Other comprehensive income  |   |   |
| Unrealized gain on marketable securities                          | —   | (570)   |
| Foreign exchange translation adjustment                           | —   | (1,381)                                       |
| Equity equivalents in equity method affiliates                    | —   | (125)   |
| Total other comprehensive income                                  | —   | *2 (2,076)                                    |
| Comprehensive income  | —   | *1 14,216                                     |
| (Composition)   |   |   |
| Comprehensive income related to shareholders<br>of parent company | —   | 13,714  |
| Comprehensive income related to minority<br>shareholders          | —   | 501   |



### 3. Consolidated Statements of Shareholders' Equity

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| Shareholders' equity:                     |   |   |
| Common stock                              |   |   |
| Balance at the end of previous term       | 6,459   | 6,459   |
| Net changes during the current term       |   |   |
| Total net changes during the current term | —   | —   |
| Balance at the end of current term        | 6,459   | 6,459   |
| Capital surplus                           |   |   |
| Balance at the end of previous term       | 8,719   | 8,719   |
| Net changes during the current term       |   |   |
| Disposition of treasury stock             | 0   | 0   |
| Total net changes during the current term | 0   | 0   |
| Balance at the end of current term        | 8,719   | 8,719   |
| Earned surplus                            |   |   |
| Balance at the end of previous term       | 125,336                                       | 134,563                                       |
| Net changes during the current term       |   |   |
| Dividends paid                            | (2,118)                                       | (2,316)                                       |
| Net income                                | 11,642  | 15,510  |
| Changes in scope of consolidation         | (296)   | —   |
| Total net changes during the current term | 9,227   | 13,193  |
| Balance at the end of current term        | 134,563                                       | 147,757                                       |
| Treasury stock                            |   |   |
| Balance at the end of previous term       | (151)   | (10,386)                                      |
| Net changes during the current term       |   |   |
| Acquisition of treasury stock             | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock             | 0   | 0   |
| Total net changes during the current term | (10,235)                                      | (13,079)                                      |
| Balance at the end of current term        | (10,386)                                      | (23,465)                                      |
| Total shareholders' equity                |   |   |
| Balance at the end of previous term       | 140,364                                       | 139,356                                       |
| Net changes during the current term       |   |   |
| Dividends paid                            | (2,118)                                       | (2,316)                                       |
| Net income                                | 11,642  | 15,510  |
| Acquisition of treasury stock             | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock             | 0   | 0   |
| Changes in scope of consolidation         | (296)   | —   |
| Total net changes during the current term | (1,007)                                       | 114   |
| Balance at the end of current term        | 139,356                                       | 139,471                                       |

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| Other accumulated comprehensive income:                             |   |   |
| Unrealized gain on marketable securities                            |   |   |
| Balance at the end of previous term                                 | (1,471)                                       | 176   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 1,648   | (570)   |
| Total net changes during the current term                           | 1,648   | (570)   |
| Balance at the end of current term                                  | 176   | (394)   |
| Foreign exchange translation adjustment                             |   |   |
| Balance at the end of previous term                                 | (2,905)                                       | (578)   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 2,326   | (1,224)                                       |
| Total net changes during the current term                           | 2,326   | (1,224)                                       |
| Balance at the end of current term                                  | (578)   | (1,803)                                       |
| Total other accumulated comprehensive income                        |   |   |
| Balance at the end of previous term                                 | (4,377)                                       | (402)   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 3,975   | (1,795)                                       |
| Total net changes during the current term                           | 3,975   | (1,795)                                       |
| Balance at the end of current term                                  | (402)   | (2,197)                                       |
| Minority interests:   |   |   |
| Unrealized gain on marketable securities                            |   |   |
| Balance at the end of previous term                                 | 2,806   | 3,547   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 740   | 288   |
| Total net changes during the current term                           | 740   | 288   |
| Balance at the end of current term                                  | 3,547   | 3,836   |
| Total net assets:   |   |   |
| Balance at the end of previous term                                 | 138,794                                       | 142,502                                       |
| Net changes during the current term                                 |   |   |
| Dividends paid  | (2,118)                                       | (2,316)                                       |
| Net income  | 11,642  | 15,510  |
| Acquisition of treasury stock                                       | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock                                       | 0   | 0   |
| Changes in scope of consolidation                                   | (296)   | —   |
| Net other changes than shareholders' equity during the current term | 4,715   | (1,506)                                       |
| Total net changes during the current term                           | 3,707   | (1,391)                                       |
| Balance at the end of current term                                  | 142,502                                       | 141,110                                       |

#### 4. Consolidated Statements of Cash Flows

(¥ millions)

|  | 2010                                  | 2011                                  |
|--|---------------------------------------|---------------------------------------|
|  | (April 1, 2009,<br>to March 31, 2010) | (April 1, 2010,<br>to March 31, 2011) |
|  | Amount                                | Amount                                |
| <b>Cash flows from operating activities</b>                                |                                       |                                       |
| Income before income taxes   | 20,337                                | 24,306                                |
| Depreciation and amortization  | 8,605                                 | 8,045                                 |
| Loss on retirement of fixed assets   | 382                                   | 383                                   |
| Increase (decrease) in accrued employees' bonuses                          | 255                                   | 64                                    |
| Increase (decrease) in accrued employees' retirement benefits              | 57                                    | 167                                   |
| (Increase) decrease in prepaid pension costs                               | (285)                                 | (442)                                 |
| Increase (decrease) in allowance for doubtful accounts                     | (1,519)                               | (567)                                 |
| Increase (decrease) in allowance for inspection cost                       | (37)                                  | 922                                   |
| Increase (decrease) in allowance for product guarantee                     | 1,347                                 | 459                                   |
| Interest and dividends income  | (824)                                 | (1,026)                               |
| Interest expenses  | 513                                   | 327                                   |
| Foreign exchange loss (gain)   | (65)                                  | 15                                    |
| Equity in losses (earnings) of affiliates                                  | (522)                                 | (811)                                 |
| Decrease (increase) in trade receivables                                   | 2,252                                 | (895)                                 |
| Decrease (increase) in inventories   | 4,321                                 | 1,039                                 |
| Increase (decrease) in trade payables                                      | (679)                                 | 2,285                                 |
| Increase (decrease) in accrued consumption taxes                           | 287                                   | (192)                                 |
| Other  | 772                                   | 1,324                                 |
| Subtotal   | 35,197                                | 35,401                                |
| Interest and dividends received  | 914                                   | 1,061                                 |
| Interest paid  | (519)                                 | (326)                                 |
| Income taxes paid  | (5,905)                               | (8,600)                               |
| Net cash provided by operating activities                                  | 29,687                                | 27,536                                |
| <b>Cash flows from investing activities</b>                                |                                       |                                       |
| Transfers to time deposits   | (10,594)                              | (8,053)                               |
| Withdrawals from time deposits   | 10,932                                | 6,734                                 |
| Purchases of tangible fixed assets   | (9,034)                               | (8,349)                               |
| Proceeds from sales of tangible fixed assets                               | 372                                   | 118                                   |
| Purchases of intangible fixed assets                                       | (511)                                 | (538)                                 |
| Purchases of investments in securities                                     | (12,453)                              | (6,406)                               |
| Proceeds from sales of investments in securities                           | 6,311                                 | 6,304                                 |
| Acquisition of stock of subsidiary due to change of scope of consolidation | (1,002)                               | —                                     |
| Other  | 114                                   | (443)                                 |
| Net cash used in investing activities                                      | (15,865)                              | (10,634)                              |
| <b>Cash flows from financing activities</b>                                |                                       |                                       |
| Net increase (decrease) in short-term debt                                 | 573                                   | (1,182)                               |
| Proceeds from long-term debt   | 3,000                                 | —                                     |
| Repayment of long-term debt  | (3,092)                               | (115)                                 |
| Proceeds from sales of treasury stock                                      | 0                                     | —                                     |
| Purchases of treasury stock  | (10,236)                              | (13,080)                              |
| Dividends paid   | (2,118)                               | (2,315)                               |
| Dividends paid to minority shareholders                                    | (303)                                 | (204)                                 |
| Other  | (26)                                  | (60)                                  |
| Net cash used in financing activities                                      | (12,203)                              | (16,958)                              |
| Effect of exchange rate fluctuations on cash and cash equivalents          | 1,638                                 | (368)                                 |
| Net increase (decrease) in cash and cash equivalents                       | 3,257                                 | (424)                                 |
| Cash and cash equivalents at beginning of year                             | 42,943                                | 46,570                                |
| Increase in cash and cash equivalents due to newly consolidation           | 368                                   | —                                     |
| Cash and cash equivalents at end of year                                   | 46,570                                | 46,145                                |

## Notes regarding the assumption of a going concern

There are no relevant items.

### Significant Accounting Policies of Consolidated Financial Statements

|                                 | <b>Previous Fiscal Year<br/>(April 1, 2009 - March 31, 2010)</b>  | <b>Current Fiscal Year<br/>(April 1, 2010- March 31, 2011)</b>   |
|---------------------------------|---|--|
| 1. Scope of Consolidation       | <p>(1)Number of consolidated subsidiaries:<br/>26 Companies</p> <p>From the fiscal year under review, RB Korea Ltd., RCE Korea Corporation (Previous, Fine S.T.Well Co.) and RK Precision Co., Ltd. (Previous, Raneek Precision Co., Ltd.) are included under the scope of consolidation, because their activities are deemed material.</p> <p>Rinnai Brazil Heating Technology Ltd. (Previous, Equipamentos NGK-Rinnai Ltda.) and Rinnai Canada Holdings Ltd. are included under the scope of consolidation, because of additional acquisition of stock and the review of administration system in North America, respectively.</p> <p>(2) Major unconsolidated subsidiary:<br/>Rinnai (Malaysia) Sdn. Bhd.</p> <p>Reason of exclusion:<br/>The above unconsolidated subsidiaries are excluded from the scope of consolidation, because its activities have not been deemed material, and assets, net sales, net income, and retained earnings of the unconsolidated company are not significant compared to the consolidated amounts.</p> | <p>(1)Number of consolidated subsidiaries:<br/>25 Companies</p> <p>RCE Korea Corporation merged with Rinnai Korea Corporation effective on November 27, 2010.</p> <p>(2) Major unconsolidated subsidiary:<br/>Rinnai (Malaysia) Sdn. Bhd.</p> <p>Reason of exclusion:<br/>Same as on the left</p>  |
| 2. Application of Equity Method | <p>(1) Number of affiliated companies for which the equity method is applied:<br/>One Company;<br/>P.T. Rinnai Indonesia<br/>Rinnai Brazil Heating Technology Ltd. (Previous, Equipamentos NGK-Rinnai Ltda.), an affiliate for which the equity method was applied at the previous fiscal year, is excluded from scope of equity method, because the Corporation acquired additional stock of the company, and made the company a consolidated subsidiary.</p> <p>(2) Major unconsolidated subsidiary or affiliate for which the equity method was not applied:<br/>Rinnai (Malaysia) Sdn. Bhd.</p> <p>Reason of exclusion:<br/>The above companies are excluded from application under the equity method because their net income and retained earnings are not significant compared with the consolidated amounts and its activities are not deemed material.</p> <p>(3) Because the fiscal year-end date of the companies for which the equity method is applied differs from the parent company, the</p>                                | <p>(1) Number of affiliated companies for which the equity method is applied:<br/>One Company;<br/>P.T. Rinnai Indonesia</p> <p>(2) Major unconsolidated subsidiary or affiliate for which the equity method was not applied:<br/>Rinnai (Malaysia) Sdn. Bhd.</p> <p>Reason of exclusion:<br/>Same as on the left</p> <p>(3) Same as on the left</p> |

|  |  |  |
|--|--|--|
|  | financial statements pertaining to the business year of that company are used in the preparation of these financial statements.  |  |
| 3. Fiscal Year-End of Consolidated Subsidiaries                                      | <p>Subsidiaries for which the closing date of the fiscal year differs from the date of the consolidated term:<br/>(annual closing date: December 31)</p> <p>The following 16 companies;<br/>Rinnai Enterprises<br/>Rinnai Australia Pty., Ltd.<br/>Rinnai America Corporation<br/>Rinnai New Zealand Ltd.<br/>Rinnai Holdings (Pacific) Pte Ltd.<br/>Rinnai Hong Kong Ltd.<br/>Rinnai Taiwan Corporation<br/>Rinnai Korea Corporation<br/>Shanghai Rinnai Co., Ltd.<br/>Rinnai (Thailand) Co., Ltd.<br/>Rinnai Viet Nam Co., Ltd.<br/>RB Korea Ltd.<br/>RCE Korea Corporation<br/>RK Precision Co., Ltd.<br/>Rinnai Brazil Heating Technology Ltd.<br/>Rinnai Canada Holdings Ltd.</p> <p>In preparing its consolidated financial statements, the Corporation has used data as of December 31. Major translations that occurred during the period to the consolidated fiscal year-end have been reconciled appropriately in the consolidated accounts.</p>   | <p>Subsidiaries for which the closing date of the fiscal year differs from the date of the consolidated term:<br/>(annual closing date: December 31)</p> <p>The following 15 companies;<br/>Rinnai Enterprises<br/>Rinnai Australia Pty., Ltd.<br/>Rinnai America Corporation<br/>Rinnai New Zealand Ltd.<br/>Rinnai Holdings (Pacific) Pte Ltd.<br/>Rinnai Hong Kong Ltd.<br/>Rinnai Taiwan Corporation<br/>Rinnai Korea Corporation<br/>Shanghai Rinnai Co., Ltd.<br/>Rinnai (Thailand) Co., Ltd.<br/>Rinnai Viet Nam Co., Ltd.<br/>RB Korea Ltd.<br/>RK Precision Co., Ltd.<br/>Rinnai Brazil Heating Technology Ltd.<br/>Rinnai Canada Holdings Ltd.</p> <p>In preparing its consolidated financial statements, the Corporation has used data as of December 31. Major translations that occurred during the period to the consolidated fiscal year-end have been reconciled appropriately in the consolidated accounts.</p> |
| 4. Significant Accounting Policies<br><br>(1) Reporting standards for major accruals | <p>(a) Allowance for product guarantee<br/>The Corporation and some of its consolidated subsidiaries, as contingency against outlays of free-of-charge repair costs for their products, have estimated a product guarantee expense amount based on past performance.</p> <p>(Supplementary information)<br/>Previously, the Corporation treated free-of-charge repair costs as expenses at the time of incurrence. However, market demand for quality is rising, together with the importance of product guarantee costs, and the Corporation has established a system permitting rational estimation of future free-of-charge repair costs. Effective the year under review, therefore, the Corporation has set aside a product guarantee reserve amounting to the estimated future product guarantee expenses. In the fiscal year under review, the estimated product guarantee expense, totaling ¥70 million, was included in selling, general, and administrative expenses, and prior-year estimated product guarantee expenses, totaling ¥870 million, were treated as an extraordinary loss.<br/>Compared with the previous method, this change led to a ¥70 million decline in operating income and ordinary income and a ¥940 million decline in income before income taxes.</p> | <p>(a) Allowance for product guarantee<br/>Same as on the left</p>   |

|                                    |   |  |
|------------------------------------|---|--|
|                                    | <p>The product guarantee reserves of overseas consolidated subsidiaries totaled ¥407 million in the year under review (¥302 million in the previous fiscal year). Previously included in “Other” under “Current liabilities,” such reserves are included in “Allowance for product guarantee” from the year under review.</p> <p>In the fourth quarter of the year under review, the Corporation established a system for rationally estimating future repair costs. Because the aforementioned change occurred in the fourth quarter, cumulative estimated future repair costs for the preceding three quarters are stated using the previous method. Compared with the revised method, income before income taxes for the preceding three quarters would have increased by ¥870 million.</p> <p>Effect by this change on the segment information is minimal.</p> <p>(b)</p> <hr/> <p>(c) Accrued employees’ retirement benefits<br/>Pension costs for employees are accrued based on the projected benefit obligations and pension assets at the term-end.</p> <p>The unrealized past employment obligation is expensed as incurred using the straight-line method, over a specified period (5 years) within the average remaining employee work period. Actuarial losses are deferred and amortized, using the straight-line method, over a specified period (10 years) within the average remaining years of service for employees subsequent to the year of occurrence.</p> <p>(Change of accounting policy)<br/>Effective the fiscal year in review, the Corporation applies “Partial Amendments to Accounting Standard for Retirement Benefits, Part 3” (ASBJ Statement No.19, July 31, 2008). The change does not have any effect on ordinary income, and income before income taxes.</p> | <p>(b) Allowance for inspection cost<br/>To prepare for costs incurred in inspections of specified products, the Corporation has provided for an allowance in the amount deemed necessary by the Corporation at fiscal year-end based on its rational estimate.</p> <p>(c) Accrued employees’ retirement benefits<br/>Same as on the left</p> <hr/> <p>(a) Hedge-accounting method<br/>Same as on the left</p> |
| (2) Major hedge-accounting methods | <p>(a) Hedge-accounting method<br/>The Corporation applies deferred hedge accounting. In addition, receivables and payables in foreign currencies are valued at historical rates when they are properly hedged under the hedge accounting rules. Interest rate swaps are valued using a special method when swap contracts meet specific criteria.</p> <p>Exchange contracts on transactions undertaken among consolidated companies are accounted for at fair value and gains or losses are recognized as incurred. There were no applicable items at the end of the current fiscal year.</p>  |  |

|   |   |   |
|---|---|---|
| <p>(3)<br/>Amortization of goodwill and negative goodwill</p> | <p>(b) Hedging method and hedging objective<br/>Hedging methods and hedging targets for which hedge accounting was applied in the year under review are as summarized below.<br/>(i) Hedging method: Foreign exchange contracts<br/>Hedging targets: Foreign currency-denominated borrowings, foreign currency-denominated receivables on products exported, etc.<br/>(ii) Hedging method: Interest rate swaps<br/>Hedging targets: Interest on foreign currency-denominated borrowings, etc.<br/>(c) Hedging policy<br/>The purpose is to avert risk prompted by fluctuating exchange rates and no speculative trading is conducted.<br/>(d) Method for effectively assessing hedge transactions<br/>The Corporations utilize exchange rate contract transactions that ensure effective hedging.<br/>(e) Other<br/>The Corporations execute derivative transactions within limits determined by their corporate rules.</p> | <p>(b) Hedging method and hedging objective<br/>Same as on the left<br/><br/>(c) Hedging policy<br/>Same as on the left<br/><br/>(d) Method for effectively assessing hedge transactions<br/>Same as on the left<br/><br/>(e) Other<br/>Same as on the left<br/><br/>Goodwill is equally amortized over five years. Goodwill, which is not deemed material, is amortized at once in the incurred fiscal year.</p> |
|---|---|---|

### Change in Significant Accounting Policies of Consolidated Financial Statements

| <p>Previous Fiscal Year<br/>(April 1, 2009 - March 31, 2010)</p> | <p>Current Fiscal Year<br/>(April 1, 2010- March 31, 2011)</p>  |
|--|---|
| <p>_____</p>   | <p><b>(1) Application of accounting method for asset retirement obligations</b><br/>From the year ended March 31, 2011, the Corporation applies “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21, March 31, 2008).<br/>The effect of the change to operating income, ordinary income and income before income taxes was negligible.</p> <p><b>(2) Application of equity accounting method, and practical solution on unification of accounting policies applied to affiliated companies under equity method</b><br/>From the year ended March 31, 2011, the Corporation applies “Accounting Standard for Equity Method of Accounting for Investment” (ASBJ Statement No.16, March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No.24, March 10, 2008).<br/>This change had no effect on ordinary income and income before income taxes.</p> |

## Change in Presentation Method

| Previous Fiscal Year<br>(April 1, 2009 - March 31, 2010)   | Current Fiscal Year<br>(April 1, 2010- March 31, 2011)  |
|--|---|
| <p><b>(Balance Sheets)</b></p> <p>1. “Investments,” stated separately through the previous fiscal year, is now included in “Other” under “Investments and other assets” because the total amount is deemed to have low significance. (The amount for the year under review is ¥527 million.)</p> <p>2. “Long-term loans,” stated separately through the previous fiscal year, is now included in “Other” under “Investments and other assets” because the total amount is deemed to have low significance. (The amount for the year under review is ¥2 million.)</p> <p>3. “Deferred tax liabilities,” stated separately under “Long-term liabilities” through the previous fiscal year, is now included in “Other” under “Long-term liabilities” because the total amount is deemed to have low significance. (The amount for the year under review is ¥12 million.)</p> <p><b>(Consolidated Statements of Income)</b></p> <p>“Loss on sale of notes receivable,” stated separately through the previous fiscal year, is now included in “Other” under “Other income” because the total amount is deemed to have low significance. (The amount for the year under review is ¥0 million.)</p> <hr style="width: 20%; margin-left: auto; margin-right: auto;"/> | <p style="text-align: center;">—————</p> <p><b>(Consolidated Statements of Income)</b></p> <p>1. From the year ended March 31, 2011, the Corporation applies “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009), which is based on “Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, December 26, 2008). Accordingly, “Income before minority interests” is now included as a specific item in the financial statements.</p> <p>2. “Loss on valuation of stock of affiliates (¥15 million in the year under review),” stated separately in the previous fiscal year, is included within “Other” under “Extraordinary losses” in the year under review because the amount is deemed to have low significance.</p> <p><b>(Consolidated Statements of Cash Flows)</b></p> <p>Two items among “Cash flows from financing activities”—“Proceeds from long-term debt” and “Proceeds from sales of treasury stock”—are included within “Other” because their amounts are deemed to have low significance.</p> <p>In the year under review, “Proceeds from long-term debt” and “Proceeds from sales of treasury stock” (both included within “Other”) amounted to ¥17 million and ¥0 million, respectively.</p> |

## Additional Information

| Previous Fiscal Year<br>(April 1, 2009 - March 31, 2010) | Current Fiscal Year<br>(April 1, 2010- March 31, 2011)   |
|--|--|
| —————  | <p>From the year ended March 31, 2011, the Corporation applies “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009), which is based on “Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010). However, “Other accumulated comprehensive income” and “Total other accumulated comprehensive income” for the year ended March 31, 2010, indicate amounts of “other adjustments” and “Total other adjustments”, respectively.</p> |



## Notes to Financial Statements

### Notes to Consolidated Balance Sheets

| Previous Fiscal Year<br>(April 1, 2009 - March 31, 2010)   | Current Fiscal Year<br>(April 1, 2010 - March 31, 2011)  |
|--|--|
| *1. Items related to unconsolidated subsidiaries and affiliates  | *1. Items related to unconsolidated subsidiaries and affiliates  |
| (¥ millions)   | (¥ millions)   |
| Investments in securities (stocks)   | Investments in securities (stocks)   |
| 2,316  | 3,131  |
| Investments  | Investments  |
| 484  | 243  |
| *2. Assets pledged as collateral   | *2. Assets pledged as collateral   |
| (¥ millions)   | (¥ millions)   |
| Pledged assets:  | Pledged assets:  |
| Time deposits  | Time deposits  |
| 205  | 177  |
| Buildings and structures   | Buildings and structures   |
| 2,797  | 2,144  |
| <u>Land</u>  | <u>Land</u>  |
| <u>3,034</u>   | <u>1,800</u>   |
| Total  | Total  |
| 6,038  | 4,122  |
| Liabilities related to pledged assets:   | Liabilities related to pledged assets:   |
| Accounts payable   | Accounts payable   |
| 79   | 86   |
| Short-term debt  | Short-term debt  |
| 0  | 0  |
| Long-term debt   | Long-term debt   |
| 1  | 0  |
| 3. Contingent liability for guarantee  | 3. Contingent liability for guarantee  |
| The Corporation guarantees the following borrowing money from other financial institutions than consolidated subsidiaries. | The Corporation guarantees the following borrowing money from other financial institutions than consolidated subsidiaries. |
| (¥ millions)   | (¥ millions)   |
| Rinnai (Malaysia) Sdn. Bhd.  | Rinnai (Malaysia) Sdn. Bhd.  |
| 60   | 55   |
| Rinnai UK Ltd.   | Rinnai UK Ltd.   |
| 65   | 41   |
| Tokai Denshi Kogyo Kojo Danchi   | Tokai Denshi Kogyo Kojo Danchi   |
| <u>Cooperative Association (Note)</u>  | <u>Cooperative Association (Note)</u>  |
| <u>330</u>   | <u>322</u>   |
| Total  | Total  |
| 456  | 419  |
| Note: Joint guarantee by 23 associate companies.   | Note: Joint guarantee by 22 associate companies.   |
| 4. Trade notes receivable discounted: ¥26 million  | 4. Trade notes receivable discounted: ¥36 million  |

## Notes to Consolidated Statements of Income

| Previous Fiscal Year<br>(April 1, 2009 - March 31, 2010)   | Current Fiscal Year<br>(April 1, 2010 - March 31, 2011)  |
|--|--|
| *1. Expenses for research and development included in general and administrative expenses and production costs in the current term: ¥6,764 million | *1. Expenses for research and development included in general and administrative expenses and production costs in the current term: ¥6,934 million |
| *2. Gain on sales of fixed assets are summarized as follows:   | *2. Gain on sales of fixed assets are summarized as follows:   |
| (¥ millions)   | (¥ millions)   |
| Machinery and vehicles   | Machinery and vehicles   |
| 16   | 13   |
| Tools and fixtures   | Tools and fixtures   |
| 1  | 1  |
| <u>Land</u>  | <u>Intangible fixed assets</u>   |
| 96   | 0  |
| <u>Total</u>   | <u>Total</u>   |
| 114  | 14   |
| *3. Loss on sales of fixed assets are summarized as follows:   | *3. Loss on sales of fixed assets are summarized as follows:   |
| (¥ millions)   | (¥ millions)   |
| Buildings and structures   | Machinery and vehicles   |
| 9  | 2  |
| Machinery and vehicles   | Tools and fixtures   |
| 14   | 11   |
| <u>Tools and fixtures</u>  | <u>Land</u>  |
| 10   | 19   |
| <u>Total</u>   | <u>Total</u>   |
| 33   | 33   |
| *4. Loss on retirements of fixed assets are summarized as follows:   | *4. Loss on retirements of fixed assets are summarized as follows:   |
| (¥ millions)   | (¥ millions)   |
| Buildings and structures   | Buildings and structures   |
| 62   | 85   |
| Machinery and vehicles   | Machinery and vehicles   |
| 154  | 94   |
| Tools and fixtures   | Tools and fixtures   |
| 143  | 150  |

### Consolidated Comprehensive Income

#### Year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

\*1. Comprehensive income in the latest fiscal year before the current fiscal year:

(¥ millions)

|  |        |
|--|--------|
| Comprehensive income related to shareholders of parent company | 15,617 |
| <u>Comprehensive income related to minority shareholders</u>   | 860    |
| Total  | 16,478 |

\*2. Other comprehensive income in the latest fiscal year before the current fiscal year:

(¥ millions)

|   |       |
|---|-------|
| Unrealized gain on marketable securities              | 1,653 |
| Foreign exchange translation adjustment               | 2,305 |
| <u>Equity equivalents in equity method affiliates</u> | 64    |
| Total   | 4,023 |

## **Segment Information**

### **a. Business segment information**

#### **Year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)**

The Corporations are engaged in the manufacturing and marketing of gas appliances. In consideration of similarity in product type, characteristics, production method and sales market, the business segment information was omitted.

### **b. Geographic segment information**

#### **Year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)**

|                                       | Japan   | Asia   | Others | Total   | Inter-regional<br>or corporate | (¥ millions)<br>Consolidated<br>total |
|---------------------------------------|---------|--------|--------|---------|--------------------------------|---------------------------------------|
| I. Net sales and<br>operating results |         |        |        |         |                                |                                       |
| (1) Sales for clients                 | 161,546 | 37,723 | 26,847 | 226,117 | —                              | 226,117                               |
| (2) Intersegment sales                | 16,599  | 2,553  | 192    | 19,345  | (19,345)                       | —                                     |
| Total                                 | 178,145 | 40,277 | 27,040 | 245,463 | (19,345)                       | 226,117                               |
| Operating expenses                    | 162,310 | 37,431 | 24,856 | 224,598 | (18,873)                       | 205,724                               |
| Operating income                      | 15,835  | 2,845  | 2,184  | 20,865  | (472)                          | 20,392                                |
| II. Assets                            | 189,406 | 27,057 | 21,046 | 237,510 | (15,186)                       | 222,324                               |

Notes: 1. Classification of the above regions is based on geographical proximity.

2. Composition of Asia, excluding Japan: South Korea, China, Taiwan, Thailand, Singapore, and Vietnam

Composition of Others: United States, Australia, and New Zealand.

### **c. Overseas sales**

#### **Year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)**

|   | Asia   | Other regions | (¥ millions)<br>Total |
|---|--------|---------------|-----------------------|
| I. Overseas sales   | 42,373 | 29,110        | 71,483                |
| II. Consolidated net sales  | —      | —             | 226,117               |
| III. Composition ratio of overseas sales to consolidated<br>net sales | 18.7%  | 12.9%         | 31.6%                 |

Notes: 1. Classification of the above regions is based on geographical proximity.

2. Composition of Asia: South Korea, China, Taiwan, Thailand, Singapore, Vietnam, Indonesia, and Malaysia.  
Composition of Others: United States, Australia, New Zealand, and Brazil.

3. Net sales of the above indicate sales of the Corporations in overseas countries or regions.

## d. Reportable Segments

### Year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

#### *1. Summary of Reportable Segments*

With respect to its business segments, Rinnai is able to obtain delineated financial data from among its structural units. Accordingly, its segments are subject to regular examination in order to assist decision-making on allocation of managerial resources and evaluation of business performance.

The Rinnai Group is engaged mainly in the production and sales of heat appliances. The Corporation (parent company) and domestic subsidiaries are in charge of business activities in Japan, while overseas subsidiaries in South Korea, United States, and elsewhere are in charge of business activities in the respective regions. Local subsidiaries operate as independently managed units. With respect to products handled, they advance their operations based on their comprehensive strategies for their specific regions.

Accordingly, the reportable segments of the Corporation, which are geographic segments based on its production and sales system, consist of five regions: Japan, South Korea, United States, Australia, and China.

#### *Sales and Income by New Regional Segment*

### Year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

(¥ millions)

|                                   | Reportable Segments |                |                  |           |        | Others<br>(Note 1) | Adjustments<br>(Note 2) | Amounts on<br>consolidate<br>statements of<br>income<br>(Note 3) |
|-----------------------------------|---------------------|----------------|------------------|-----------|--------|--------------------|-------------------------|--|
|                                   | Japan               | South<br>Korea | United<br>States | Australia | China  |                    |                         |  |
| Net sales                         |                     |                |                  |           |        |                    |                         |  |
| (1) Sales to outside<br>customers | 165,976             | 22,088         | 13,000           | 15,364    | 11,863 | 11,142             | —                       | 239,436  |
| (2) Intersegment<br>sales         | 17,813              | 271            | 41               | 2         | 1,234  | 1,616              | (20,978)                | —  |
| Total                             | 183,789             | 22,359         | 13,041           | 15,367    | 13,098 | 12,759             | (20,978)                | 239,436  |
| Income (loss)                     | 18,187              | 713            | 796              | 2,720     | 1,201  | 1,335              | 284                     | 25,238   |
| Assets                            | 186,636             | 14,807         | 5,134            | 13,534    | 6,700  | 11,607             | (16,926)                | 221,495  |

Notes: 1. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

2. "Adjustments" is the intersegment transactions to eliminate.

3. "Income (loss)" is adjusted from operating income on Consolidated Statement of Income.

#### **(Additional information)**

From the year ended March 31, 2011, the Corporation applies the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008).

### **Per Share Data**

|                         | March 31, 2010 | March 31, 2011 |
|-------------------------|----------------|----------------|
| 1. Net assets per share | ¥2,684.46      | ¥2,798.07      |
| 2. Net income per share | ¥219.83        | ¥311.52        |

Fully diluted net income per share is not indicated because there is no residual equity.

Notes:

1. Net assets per share are calculated based on the following amounts.

|  | March 31, 2010    | March 31, 2011    |
|--|-------------------|-------------------|
| Net assets   | ¥142,502 million  | ¥141,110 million  |
| Deduction from net assets  | ¥3,547 million    | ¥3,836 million    |
| [Minority interests]   | [¥3,547 million]  | [¥3,836 million]  |
| Net assets at the year-end related to common shares                | ¥138,954 million  | ¥137,274 million  |
| Number of common shares at the year-end which used in calculations | 51,762,603 shares | 49,060,340 shares |

2. Net income per share is calculated based on the following amounts.

|  | March 31, 2010    | March 31, 2011    |
|--|-------------------|-------------------|
| Net income                               | ¥11,642 million   | ¥15,510 million   |
| Amounts not attribute to common shares   | — million         | — million         |
| Net income related to common shares      | ¥11,642 million   | ¥15,510 million   |
| Average number of shares during the term | 52,963,922 shares | 49,788,551 shares |

### **Subsequent Events**

There is no relevant information.

### **Omitted Information**

Notes regarding Consolidated Statements of Shareholders' Equity, Consolidated Statements of Cash Flows, lease transaction, financial products, securities, derivatives, retirement benefits, tax-effect accounting, asset retirement obligations, and information about related parties, are omitted because they are not deemed material in this summary financial report.

## V. Nonconsolidated Financial Statements

### (1) Balance Sheets

(¥ millions)

|  | At March, 2010<br>(Year ended<br>March 31, 2010) | At March, 2011<br>(Year ended<br>March 31, 2011) |
|--|--|--|
|  | Amount   | Amount   |
| <b>ASSETS</b>                              |  |  |
| <b>Current assets</b>                      |  |  |
| Cash and deposits                          | 837  | 828  |
| Notes receivable, trade                    | 10,779   | 9,577  |
| Accounts receivable, trade                 | 29,335   | 31,903   |
| Marketable securities                      | 27,838   | 26,201   |
| Products                                   | 6,841  | 5,636  |
| Raw materials and stores                   | 3,580  | 3,356  |
| Prepaid expenses                           | 5  | 4  |
| Deferred tax assets                        | 1,594  | 2,305  |
| Other                                      | 607  | 452  |
| Less allowance for doubtful<br>accounts    | (4)  | (10)   |
| <b>Total current assets</b>                | <b>81,413</b>                                    | <b>80,256</b>                                    |
| <b>Fixed assets</b>                        |  |  |
| Property, plant and equipment              |  |  |
| Buildings                                  | 21,972   | 22,393   |
| Accumulated depreciation                   | (13,140)   | (13,737)   |
| Buildings (net)                            | 8,832  | 8,656  |
| Structures                                 | 1,411  | 1,380  |
| Accumulated depreciation                   | (1,093)  | (1,098)  |
| Structures (net)                           | 317  | 281  |
| Machinery, equipment                       | 17,878   | 18,488   |
| Accumulated depreciation                   | (14,022)   | (14,423)   |
| Machinery, equipment (net)                 | 3,855  | 4,064  |
| Vehicles and delivery equipment            | 213  | 224  |
| Accumulated depreciation                   | (186)  | (201)  |
| Vehicles and delivery equipment (net)      | 27   | 22   |
| Tools, furniture and fixture               | 15,681   | 15,081   |
| Accumulated depreciation                   | (13,432)   | (13,259)   |
| Tools, furniture and fixture (net)         | 2,248  | 1,821  |
| Land                                       | 7,038  | 6,989  |
| Lease assets                               | 146  | 257  |
| Accumulated depreciation                   | (34)   | (86)   |
| Lease assets (net)                         | 112  | 170  |
| Construction in progress                   | 348  | 261  |
| <b>Total property, plant and equipment</b> | <b>22,780</b>                                    | <b>22,269</b>                                    |

(¥ millions)

|   | At March, 2010<br>(Year ended<br>March 31, 2010) | At March, 2011<br>(Year ended<br>March 31, 2011) |
|---|--|--|
|   | Amount   | Amount   |
| <b>Intangible fixed assets</b>          |  |  |
| Leaseholds                              | 10   | 10   |
| Software                                | 982  | 994  |
| Other                                   | 267  | 358  |
| <b>Total intangible fixed assets</b>    | <b>1,260</b>                                     | <b>1,363</b>                                     |
| <b>Investments and advances</b>         |  |  |
| Investments in securities               | 25,615   | 23,194   |
| Stocks of affiliated companies          | 14,818   | 14,818   |
| Investments                             | 14   | 14   |
| Investments in affiliated companies     | 2,136  | 1,870  |
| Long-term loans to affiliated companies | 20   | 30   |
| Reorganization credit                   | 87   | 61   |
| Long-term prepaid expense               | 1,255  | 976  |
| Deferred income taxes                   | 644  | 607  |
| Guaranty money deposited                | 3,000  | 3,000  |
| Long-term deposits                      | 4,916  | 5,359  |
| Prepaid pension expenses                | 497  | 512  |
| Other                                   | (99)   | (108)  |
| Less allowance for doubtful accounts    |  |  |
| <b>Total investments and advances</b>   | <b>52,908</b>                                    | <b>50,339</b>                                    |
| <b>Total fixed assets</b>               | <b>76,949</b>                                    | <b>73,972</b>                                    |
| <b>Total assets</b>                     | <b>158,363</b>                                   | <b>154,228</b>                                   |
| <b>LIABILITIES</b>                      |  |  |
| <b>Current liabilities</b>              |  |  |
| Accrued payable, trade                  | 26,686   | 28,242   |
| Short-term debt                         | 100  | 100  |
| Lease obligation                        | 36   | 86   |
| Other payables                          | 4,731  | 4,914  |
| Accrued expenses                        | 551  | 560  |
| Accrued consumption taxes               | 751  | 493  |
| Accrued income taxes                    | 4,108  | 3,924  |
| Deposits payable                        | 106  | 110  |
| Accrued employees' bonus                | 1,957  | 1,970  |
| Allowance for product guarantee         | 940  | 1,120  |
| Allowance for inspection cost           | 233  | 492  |
| Accrued equipment costs payable         | 1,059  | 394  |
| Other                                   | 10   | 3  |
| <b>Total current liabilities</b>        | <b>41,272</b>                                    | <b>42,412</b>                                    |
| <b>Long-term liabilities</b>            |  |  |
| Long-term debt                          | 2,850  | 2,750  |
| Lease obligation                        | 80   | 155  |
| Accrued employees' retirement benefits  | 1,724  | 1,849  |
| Other                                   | 1,688  | 1,799  |
| <b>Total long-term liabilities</b>      | <b>6,343</b>                                     | <b>6,554</b>                                     |
| <b>Total liabilities</b>                | <b>47,615</b>                                    | <b>48,967</b>                                    |

(¥ millions)

|  | At March, 2010<br>(Year ended<br>March 31, 2010) | At March, 2011<br>(Year ended<br>March 31, 2011) |
|--|--|--|
|  | Amount   | Amount   |
| <b>NET ASSETS:</b>   |  |  |
| <b>Shareholders' equity:</b>                                       |  |  |
| Common stock   | 6,459  | 6,459  |
| Capital surplus  |  |  |
| Capital reserve  | 8,719  | 8,719  |
| Other  | 0  | 0  |
| Total capital surplus  | 8,719  | 8,719  |
| Earned surplus   |  |  |
| Legal reserve  | 1,614  | 1,614  |
| Voluntary reserve  |  |  |
| Other  | 94,900   | 101,900  |
| Unappropriated retained earnings<br>at the end of the current term | 9,332  | 10,483   |
| Total earned surplus   | 105,847  | 113,998  |
| Treasury stock   | (10,386)   | (23,465)   |
| Total shareholders' equity   | 110,640  | 105,712  |
| <b>Other adjustments:</b>  |  |  |
| Unrealized gain on marketable securities                           | 106  | (450)  |
| Total other adjustments  | 106  | (450)  |
| <b>Total net assets</b>  | <b>110,747</b>                                   | <b>105,261</b>                                   |
| <b>Total liabilities and net assets</b>                            | <b>158,363</b>                                   | <b>154,228</b>                                   |



## (2) Nonconsolidated Statements of Income

(¥ millions)

|   | 2010                                  | 2011                                  |
|---|---------------------------------------|---------------------------------------|
|   | (April 1, 2009,<br>to March 31, 2010) | (April 1, 2010,<br>to March 31, 2011) |
|   | Amount                                | Amount                                |
| <b>Net sales</b>  | 169,277                               | 175,045                               |
| <b>Cost of Sales</b>                                      |                                       |                                       |
| Inventory at the beginning of the term                    | 10,478                                | 6,841                                 |
| Manufacturing cost during the term                        | 124,416                               | 130,131                               |
| Total   | 134,894                               | 136,972                               |
| Other account transfer                                    | 217                                   | 253                                   |
| Inventory at the term-end                                 | 6,841                                 | 5,636                                 |
| Total cost of sales                                       | 127,835                               | 131,082                               |
| <b>Gross Profit</b>                                       | 41,442                                | 43,962                                |
| <b>Selling, general and administrative expenses</b>       |                                       |                                       |
| Transportation and packing                                | 4,730                                 | 4,868                                 |
| Warehousing   | 1,042                                 | 962                                   |
| Advertising   | 714                                   | 730                                   |
| Sales promotion   | 1,889                                 | 1,645                                 |
| After-sales service                                       | 3,224                                 | 1,909                                 |
| Transfer to allowance for product guarantee               | 70                                    | 1,120                                 |
| Salary and bonuses  | 8,329                                 | 8,553                                 |
| Welfare cost  | 1,187                                 | 1,287                                 |
| Transfer to accrued employees' bonus                      | 814                                   | 819                                   |
| Retirement benefit expenses                               | 900                                   | 769                                   |
| Depreciation  | 601                                   | 611                                   |
| Research and development expenses                         | 652                                   | 505                                   |
| Rental fee  | 1,319                                 | 1,303                                 |
| Other   | 2,510                                 | 2,743                                 |
| <b>Total selling, general and administrative expenses</b> | 27,987                                | 27,831                                |
| <b>Operating income</b>                                   | 13,455                                | 16,131                                |
| <b>Other income:</b>                                      |                                       |                                       |
| Interest income   | 54                                    | 31                                    |
| Interest on securities                                    | 201                                   | 186                                   |
| Dividends received  | 1,211                                 | 945                                   |
| Royalty fees  | 244                                   | 212                                   |
| Miscellaneous   | 701                                   | 673                                   |
| <b>Total other income</b>                                 | 2,413                                 | 2,050                                 |
| <b>Other expenses:</b>                                    |                                       |                                       |
| Interest expenses   | 17                                    | 39                                    |
| Foreign exchange loss                                     | 208                                   | 382                                   |
| Depreciation  | 122                                   | 108                                   |
| Other   | 5                                     | 5                                     |
| <b>Total other expenses</b>                               | 353                                   | 535                                   |
| <b>Ordinary income</b>                                    | 15,515                                | 17,647                                |

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| <b>Extraordinary income:</b>                  |   |   |
| Gain on sales of fixed assets                 | 79  | 4   |
| Gain on sales of investment securities        | —   | 177   |
| Reversal from allowance for doubtful accounts | 61  | —   |
| <b>Total extraordinary income</b>             | 140   | 182   |
| <b>Extraordinary losses:</b>                  |   |   |
| Loss on retirements of fixed assets           | 314   | 244   |
| Loss on valuation of stock of affiliates      | 23  | —   |
| Transfer to allowance for product guarantee   | 870   | —   |
| Inspection cost                               | —   | 974   |
| Transfer to allowance for inspection cost     | —   | 259   |
| Other   | 2   | 90  |
| <b>Total extraordinary losses</b>             | 1,211   | 1,569   |
| <b>Income before income taxes</b>             | 14,444  | 16,260  |
| <b>Income taxes:</b>                          |   |   |
| <b>Current</b>                                | 5,825   | 5,849   |
| <b>Deferred</b>                               | (35)  | (56)  |
| <b>Total income taxes</b>                     | 5,789   | 5,793   |
| <b>Net income</b>                             | 8,654   | 10,467  |

### (3) Nonconsolidated Statement of Shareholders' Equity

(¥ millions)

|   | 2010                                  | 2011                                  |
|---|---------------------------------------|---------------------------------------|
|   | (April 1, 2009,<br>to March 31, 2010) | (April 1, 2010,<br>to March 31, 2011) |
|   | Amount                                | Amount                                |
| Shareholders' equity:                     |                                       |                                       |
| Common stock                              |                                       |                                       |
| Balance at the end of the previous term   | 6,459                                 | 6,459                                 |
| Net changes during the current term       |                                       |                                       |
| Total net changes during the current term | —                                     | —                                     |
| Balance at the end of the current term    | 6,459                                 | 6,459                                 |
| Capital surplus                           |                                       |                                       |
| Capital reserve                           |                                       |                                       |
| Balance at the end of the previous term   | 8,719                                 | 8,719                                 |
| Net changes during the current term       |                                       |                                       |
| Total net changes during the current term | —                                     | —                                     |
| Balance at the end of the current term    | 8,719                                 | 8,719                                 |
| Other                                     |                                       |                                       |
| Balance at the end of the previous term   | 0                                     | 0                                     |
| Net changes during the current term       |                                       |                                       |
| Disposition of treasury stock             | 0                                     | 0                                     |
| Total net changes during the current term | 0                                     | 0                                     |
| Balance at the end of the current term    | 0                                     | 0                                     |
| Total capital surplus                     |                                       |                                       |
| Balance at the end of the previous term   | 8,719                                 | 8,719                                 |
| Net changes during the current term       |                                       |                                       |
| Disposition of treasury stock             | 0                                     | 0                                     |
| Total net changes during the current term | 0                                     | 0                                     |
| Balance at the end of the current term    | 8,719                                 | 8,719                                 |
| Earned surplus                            |                                       |                                       |
| Legal reserve                             |                                       |                                       |
| Balance at the end of the previous term   | 1,614                                 | 1,614                                 |
| Net changes during the current term       |                                       |                                       |
| Total net changes during the current term | —                                     | —                                     |
| Balance at the end of the current term    | 1,614                                 | 1,614                                 |
| Voluntary reserve                         |                                       |                                       |
| Other reserve                             |                                       |                                       |
| Balance at the end of the previous term   | 88,900                                | 94,900                                |
| Net changes during the current term       |                                       |                                       |
| Transfer to other reserve                 | 6,000                                 | 7,000                                 |
| Total net changes during the current term | 6,000                                 | 7,000                                 |
| Balance at the end of the current term    | 94,900                                | 101,900                               |
| Unappropriated retained earnings          |                                       |                                       |
| Balance at the end of the previous term   | 8,796                                 | 9,332                                 |
| Net changes during the current term       |                                       |                                       |
| Dividends paid                            | (2,118)                               | (2,316)                               |
| Transfer to other reserve                 | (6,000)                               | (7,000)                               |
| Net income                                | 8,654                                 | 10,467                                |
| Total net changes during the current term | 536                                   | 1,150                                 |
| Balance at the end of the current term    | 9,332                                 | 10,483                                |

(¥ millions)

|   | 2010<br>(April 1, 2009,<br>to March 31, 2010) | 2011<br>(April 1, 2010,<br>to March 31, 2011) |
|---|---|---|
|   | Amount  | Amount  |
| Total earned surplus  |   |   |
| Balance at the end of the previous term                             | 99,311  | 105,847                                       |
| Net changes during the current term                                 |   |   |
| Dividends paid  | (2,118)                                       | (2,316)                                       |
| Transfer to other reserve   | —   | —   |
| Net income  | 8,654   | 10,467  |
| Total net changes during the current term                           | 6,536   | 8,150   |
| Balance at the end of the current term                              | 105,847                                       | 113,998                                       |
| Treasury stock  |   |   |
| Balance at the end of the previous term                             | (151)   | (10,386)                                      |
| Net changes during the current term                                 |   |   |
| Acquisition of treasury stock                                       | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock                                       | 0   | 0   |
| Total net changes during the current term                           | (10,235)                                      | (13,079)                                      |
| Balance at the end of the current term                              | (10,386)                                      | (23,465)                                      |
| Total shareholders' equity  |   |   |
| Balance at the end of the previous term                             | 114,340                                       | 110,640                                       |
| Net changes during the current term                                 |   |   |
| Dividends paid  | (2,118)                                       | (2,316)                                       |
| Net income  | 8,654   | 10,467  |
| Acquisition of treasury stock                                       | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock                                       | 0   | 0   |
| Total net changes during the current term                           | (3,699)                                       | (4,928)                                       |
| Balance at the end of the current term                              | 110,640                                       | 105,712                                       |
| Other adjustments:  |   |   |
| Unrealized gain on marketable securities                            |   |   |
| Balance at the end of the previous term                             | (1,138)                                       | 106   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 1,245   | (557)   |
| Total net changes during the current term                           | 1,245   | (557)   |
| Balance at the end of the current term                              | 106   | (450)   |
| Total other adjustments   |   |   |
| Balance at the end of the previous term                             | (1,138)                                       | 106   |
| Net changes during the current term                                 |   |   |
| Net other changes than shareholders' equity during the current term | 1,245   | (557)   |
| Total net changes during the current term                           | 1,245   | (557)   |
| Balance at the end of the current term                              | 106   | (450)   |
| Total net assets:   |   |   |
| Balance at the end of the previous term                             | 113,201                                       | 110,747                                       |
| Net changes during the current term                                 |   |   |
| Dividends paid  | (2,118)                                       | (2,316)                                       |
| Net income  | 8,654   | 10,467  |
| Acquisition of treasury stock                                       | (10,236)                                      | (13,079)                                      |
| Disposition of treasury stock                                       | 0   | 0   |
| Net other changes than shareholders' equity during the current term | 1,245   | (557)   |
| Total net changes during the current term                           | (2,453)                                       | (5,485)                                       |
| Balance at the end of the current term                              | 110,747                                       | 105,261                                       |

**(4) Notes regarding the assumption of a going concern**

There are no relevant items.

**VI. Other**

**Changes of Directors**

**(1) Change in Representative Director**

Not applicable.

**(2) Change in other directors**

- Director scheduled to retire

Kozo Masuoka, Director (scheduled for appointment as advisor)

**(3) Schedule date of retirement**

At close of Ordinary General Meeting of Shareholders on June 29, 2011.