

# Consolidated Financial Results

## First Quarter of the Fiscal Year Ending March 31, 2009

(April 1 – June 30, 2008)

August 8, 2008

### Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

Contact: Masao Kosugi, Director and Executive Officer, General Manager of Administration Division

TEL:+81 (52) 361-8211

## 1. Performance in the First Quarter of the Fiscal Year Ending March 31, 2009

(April 1 – June 30, 2008; amounts less than one million yen are omitted)

### (1) Consolidated Operating Results

(¥ millions/%)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
June 2008 Quarter	¥ 52,073 (—)	¥2,333 (—)	¥2,066 (—)	¥1,112 (—)
June 2007 Quarter	49,840 (+3.7)	957 (+131.9)	1,214 (+22.6)	47(-92.3)

Note: Percentage figures in net sales, operating income, ordinary income, and net income columns indicate increase or decrease from the previous term.

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
June 2008 Quarter	¥20.53	—
June 2007 Quarter	0.88	—

### (2) Consolidated Financial Position

(¥ millions)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
June 2008 Quarter	¥223,690	¥140,986	61.8%	¥2,550.68
March 2008	230,923	145,995	61.4	2,615.71

(Reference) Equity capital : First quarter of the year ending March 31, 2009; ¥138,171 million  
Year ended March 31, 2008; ¥141,695 million

## 2. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2008	—	¥18.00	—	¥18.00	¥36.00
March 2009	—	—	—	—	—
March 2009 (anticipated)	—	20.00	—	20.00	40.00

Note: Changes on the forecast at the first quarter: None

### 3. Forecast for the Fiscal Year Ending March 31, 2009

(April 1, 2008, to March 31, 2009)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Interim	¥ 113,000 (+1.9)	¥ 5,300 (+5.2)	¥ 5,600 (+2.8)	¥ 3,500 (+10.2)	¥ 64.61
Full year	257,000 (+3.3)	18,000 (+19.0)	18,300 (+18.8)	9,400 (+13.7)	173.53

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

Note: Changes on the forecast at the first quarter: None

### 4. Other

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

Newly consolidation: — Excluded from consolidation: —

(2) Simplified accounting method adopted: Yes

(3) Major changes in the rules for the preparation of consolidated financial statements  
(Changes in Significant Accounting Policies of Consolidated Financial Statements)

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

(b) Other changes than (a): None

Note: For more information, please refer to “4. Other” in the “Performance Summary and Financial Statements” section in the following pages.

(4) Number of Outstanding Shares (Common Stock)

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

First quarter of the fiscal year ending March 31, 2009: 54,216,463 shares

Year ended March 31, 2008: 54,216,463 shares

(b) Number of treasury stock at term-end

First quarter of the fiscal year ending March 31, 2009: 46,006 shares

Year ended March 31, 2008: 45,381 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 31, 2009: 54,170,817 shares

First quarter of the fiscal year ended March 31, 2008: 54,176,132 shares

### *Notes on appropriate use of performance forecasts*

1. Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Company to be reasonable. Actual results may differ significantly from such forecasts due to various factors. For more information, please refer to “3. Information on Performance Forecasts” on page 4 of this report.
2. Effective the fiscal year ending March 31, 2009, the Company has applied “Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan Statement No. 12) and “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14). Also, quarterly financial statements have been prepared in accordance with “Rules on Quarterly Consolidated Financial Statements.”

## Performance Summary and Financial Statements

### 1. Consolidated Business Results

In the first quarter, ended June 30, 2008, the Japanese economy was characterized by a growing downside risk due to declining corporate earnings and increasingly weak consumer sentiment, against the backdrop of soaring prices of crude oil and raw materials.

While the impact of the amended Building Standards Law is approaching its peak, the housing appliance industry continued facing difficulties as new housing starts remained below the levels of the previous year.

Under these conditions, the Rinnai Group entered the third and final year of V-Shift Plan, its medium-term business plan. In the quarter under review, we stepped up efforts to implement core medium-term strategies, with a focus on safety, comfort, and the environment. At the same time, we sought to develop and sell products that meet legislation aimed at raising safety and that reflect industry policies.

On the sales side, the Group posted a decline in units sold due to languishing domestic demand for new housing construction and suppressed purchases by consumers. Nevertheless, we achieved a solid result owing to increased market prices reflecting higher product safety standards, as well as our introduction of high-value-added products. Despite the negative effect of the yen's appreciation, overseas sales grew steadily, especially in key strategic regions, such as the United States, Australia, and China.

With respect to earnings, we achieved a recovery in profits thanks to a number of factors. In addition to the benefits of new products launched domestically and overseas, these included comprehensive reforms of employee awareness and structural reforms set out in the medium-term plan. Such reforms began producing notable results in the form of improvements in the income structure of the Group's overall manufacturing and sales operations.

As a result, consolidated net sales in the quarter amounted to ¥52,073 million, up 4.5% from the previous corresponding period. Operating income surged 143.8%, to ¥2,333 million, and ordinary income jumped 70.2%, to ¥2,066 million. Net income for the quarter totaled ¥1,112 million.

Our results by business segment were as follows:

#### ***Kitchen Appliances***

In Japan, we reported an increase in sales of built-in gas stoves. Particularly popular among these was the *Delicia* series, featuring improved cooking performance, operability, and visual appeal. Overseas, our tabletop stoves and range hoods again performed well in China.

#### ***Hot-Water Units***

In the United States, sales of our instant-heating hot-water units increased steadily thanks to growing awareness of the features of these products, which are friendly to the environment, energy-efficient, and offer the convenience of delivering endless hot water. Sales of hot-water units were also strong in China and Australia. In Japan, sales of our highly efficient "Eco-Jozu" series of hot-water/heating systems and bath-water heaters, which are highly efficient and friendly to the environment, remained firm.

#### ***Sales Composition***

(¥ millions/%)

	June 30, 2007 Quarter		June 30, 2008 Quarter		Change		Year Ended March 2008 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥ 16,400	32.9	¥ 18,145	34.8	¥ 1,745	10.6	¥ 78,573	31.6
Hot-water units	22,812	45.8	23,988	46.1	1,175	5.2	111,625	44.9
Air-conditioning and heating units	2,059	4.1	1,752	3.4	(306)	(14.9)	21,689	8.7
Commercial-use equipment	1,815	3.6	1,753	3.4	(61)	(3.4)	7,729	3.1
Others	6,752	13.5	6,433	12.4	(319)	(4.7)	29,144	11.7
Total	¥ 49,840	100.0	¥ 52,073	100.0	¥ 2,233	4.5	¥ 248,761	100.0

## 2. Consolidated Financial Position

At June 30, 2008, Rinnai had total assets of ¥223,690 million, down ¥7,232 million from March 31, 2008. For the quarter, total liabilities declined ¥2,223 million, to ¥82,704 million, and net assets decreased ¥5,009 million, to ¥140,986 million. The equity ratio at the end of the quarter was 61.8%.

Cash and cash equivalents at June 30, 2008, stood at ¥38,047 million.

Net cash provided by operating activities amounted to ¥153 million. Factors boosting cash flows included ¥2,043 million in income before income taxes, ¥1,869 million in depreciation, and a ¥3,390 million decrease in accounts receivable. These contrasted with a ¥3,520 million increase in inventories and ¥4,138 million in income taxes paid.

Net cash used in investing activities totaled ¥3,197 million. Main factors were ¥2,420 million in purchases of fixed assets and ¥1,106 million in purchases of investment securities.

Net cash provided by financial activities was ¥2,672 million. Major factors included a ¥3,868 million net increase in short- and long-term borrowings by overseas subsidiaries, as well as ¥974 million in cash dividends paid.

## 3. Information on Performance Forecasts

Rinnai has not changed its initial performance forecasts for the fiscal year ending March 2009. (Those forecasts were announced on May 13, 2008.)

## 4. Other

(1) Changes to major subsidiaries during the period (changes to specific subsidiaries pursuant to changes in scope of consolidation) : None

(2) Application of simplified accounting method or special accounting method for quarterly consolidated financial reporting

### (a) Inventory valuation method

Certain inventories at the end of the quarter are calculated using a rational method based on the value of inventories at the end of the previous fiscal year.

**(b) Calculation of income taxes**

Calculation of the amount of income taxes paid is limited to major items, such as those that increase or decrease the amount, or tax credit items.

In judging the recoverability of deferred tax assets, the Company employs a method using future performance forecasts and tax planning, having confirmed that no significant changes in the operating environment or temporary differences have occurred since the end of the previous fiscal year.

**(3) Changes in accounting principles or procedures related to consolidated quarterly financial reporting**

- (a) Effective the fiscal year ending March 31, 2009, the Company has applied “Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan Statement No. 12, March 14, 2007) and “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14, March 14, 2007). Also, quarterly financial statements have been prepared in accordance with “Rules on Quarterly Consolidated Financial Statements.”
- (b) Effective the first quarter of the year ending March 31, 2009, the Company has applied “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006). Accordingly, such inventories in principle are valued at cost, based on the cost method (value shown on the balance sheets is a devaluation of the book value based on decreased profitability). The effect of this change on the Company’s statements of income and segment information was minimal.
- (c) Effective the first quarter of the year ending March 31, 2009, the Company has applied “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, May 17, 2006), and made the necessary revisions to its consolidated financial statements. The effect of this change on the Company’s statements of income and segment information was minimal.
- (d) In the first quarter of the year ending March 31, 2009, the Company undertook early application of “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, (Business Accounting Council Committee No.1, June 17, 1993), revised March 30, 2007), and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16 (Japanese Institute of Certified Public Accountants, Accounting System Committee, January 18, 1994, revised March 30, 2007). Accordingly, financial lease transactions other than ownership transfers, previously accounted for according to normal methods for lease transactions, are now accounted for according to normal methods for trading transactions. Depreciation for financial lease transactions other than ownership transfers is calculated by the straight-line method, with the lease period equivalent to the serviceable life of the asset, with no residual value. The effect of this change on the Company’s statements of income was minimal.

**5. Consolidated Financial Statements**  
**(1) Consolidated Balance Sheets**

(¥ millions)

	<b>First Quarter of Fiscal 2009 At June 30, 2008</b>	<b>Fiscal 2008 At March 31, 2008 (Summary)</b>
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥ 23,758	¥ 24,217
Notes and accounts receivable	58,753	65,811
Marketable securities	27,309	28,144
Products	18,311	15,621
Raw materials and stores	10,292	10,766
Other	6,062	5,813
Less allowance for doubtful accounts	(3,279)	(3,299)
<b>Total current assets</b>	<b>141,208</b>	<b>147,077</b>
Fixed assets		
Property, plant and equipment	43,447	45,224
Intangible fixed assets	1,393	1,447
Investments and advances		
Investments in securities	25,275	25,319
Other	13,101	12,589
Less allowance for doubtful accounts	(735)	(733)
<b>Total investments and advances</b>	<b>37,641</b>	<b>37,174</b>
<b>Total fixed assets</b>	<b>82,482</b>	<b>83,846</b>
<b>Total assets</b>	<b>¥223,690</b>	<b>¥230,923</b>

(¥ millions)

	<b>First Quarter of Fiscal 2009 At June 30, 2008</b>	<b>Fiscal 2008 At March 31, 2008 (Summary)</b>
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 41,178	¥ 44,873
Short-term debt	10,006	7,574
Accrued income taxes	2,156	4,340
Accrued employee's bonuses	870	2,263
Other allowances	405	585
Other	16,681	14,336
Total current liabilities	71,299	73,973
Long-term liabilities		
Long-term debt	4,172	5,360
Accrued employees' retirement benefits	4,747	3,016
Other allowances	58	1,485
Other	2,427	1,091
Total Long-term liabilities	11,405	10,954
<b>Total liabilities</b>	<b>82,704</b>	<b>84,927</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	123,684	124,609
Treasury stock	(132)	(129)
Total shareholders' equity	138,731	139,659
Other adjustments:		
Unrealized gain on marketable securities	(788)	(466)
Foreign exchange translation adjustment	229	2,502
Total other adjustments	(559)	2,036
Minority interests	2,814	4,299
<b>Total net assets</b>	<b>140,986</b>	<b>145,995</b>
<b>Total liabilities and net assets</b>	<b>¥223,690</b>	<b>¥230,923</b>

**(2) Consolidated Statements of Income**

(¥ millions)

	<b>First Quarter of Fiscal 2009 (From April 1 to June 30, 2008)</b>
Net sales	¥52,073
Cost of sales	37,379
Gross profit	14,694
Selling, general and administrative expenses	12,360
Operating income	2,333
Other income:	
Interest income	256
Equity in earnings of affiliates	146
Other	216
Total other income	619
Other expenses:	
Interest expenses	199
Foreign exchange loss	660
Other	26
Total other expenses	886
Ordinary income	2,066
Extraordinary income:	
Gain on sales of fixed assets	2
Reversal from allowance for doubtful accounts	12
Total extraordinary income	14
Extraordinary losses:	
Loss on disposal of fixed assets	7
Loss on devaluation of investments in securities	28
Total extraordinary expenses	36
Income before income taxes	2,043
Income taxes (current)	1,926
Income taxes (deferred)	(799)
Total income taxes	1,127
Minority interests (deduction)	(195)
Net income	¥ 1,112



### (3) Consolidated Statements of Cash Flows

(¥ millions)

	<b>First Quarter of Fiscal 2009 (From April 1 to June 30, 2008)</b>
<b>Cash flows from operating activities</b>	
Income before income taxes	¥ 2,043
Depreciation and amortization	1,869
Increase (decrease) in accrued employees' bonuses	(1,389)
(Increase) decrease in trade receivables	3,390
(Increase) decrease in inventories	(3,520)
Increase (decrease) in trade payables	(2,192)
Other	3,925
Subtotal	4,127
Interest and dividends received	356
Interest paid	(191)
Income taxes paid	(4,138)
<b>Net cash provided by operating activities</b>	<b>153</b>
<b>Cash flows from investing activities</b>	
Transfers to time deposits	(3,468)
Withdrawals from time deposits	3,275
Purchases of tangible fixed assets	(2,420)
Purchases of investments in securities	(1,106)
Other	521
<b>Net cash used in investing activities</b>	<b>(3,197)</b>
<b>Cash flows from financing activities</b>	
Net increase (decrease) in short-term debt	3,668
Dividends paid	(974)
Other	(21)
<b>Net cash provided by financing activities</b>	<b>2,672</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>(758)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,130)</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>39,178</b>
<b>Cash and cash equivalents at end of term</b>	<b>¥ 38,047</b>

Effective the fiscal year ending March 31, 2009, the Company has applied “Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan Statement No. 12) and “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14). Also, quarterly financial statements have been prepared in accordance with “Rules on Quarterly Consolidated Financial Statements.”

#### (4) Conditions of the Company

There is no significant information.

#### (5) Segment Information

##### (a) Business segment information

First Quarter of the Fiscal Year ending March 31, 2009

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

First Quarter of the Fiscal Year ending March 31, 2009

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales						
(1) Sales for clients	¥34,596	¥11,269	¥6,207	¥52,073	—	¥52,073
(2) Intersegment sales	4,563	680	197	5,441	(5,441)	—
Total	39,160	11,949	6,405	57,515	(5,441)	52,073
Operating income	1,745	150	417	2,312	20	2,333

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: Australia, New Zealand, and United States.

##### (c) Overseas sales

First Quarter of the Fiscal Year ending March 31, 2009

	Asia	Other regions	Total
I. Overseas sales	¥12,530	¥6,851	¥19,382
II. Consolidated net sales	—	—	52,073
III. Composition ratio of overseas sales to consolidated net sales	24.1%	13.2%	37.2%

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

2. Composition of Asia: South Korea, China, Taiwan, Thailand, Singapore, Indonesia, Malaysia, Vietnam, and others.

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

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

#### (6) Major Changes on Shareholders' Equity

There is no significant information.

***For References: Financial Statements Related to Previous First Quarter***

**1. Consolidated Statements of Income (Summary)**

(¥ millions)

	<b>First Quarter of Fiscal 2008 (From April 1 to June 30, 2007)</b>
Net sales	¥49,840
Cost of sales	37,108
Gross profit	12,732
Selling, general and administrative expenses	11,775
Operating income	957
Other income	587
Other expenses	330
Ordinary income	1,214
Extraordinary income	83
Extraordinary losses	657
Income before income taxes	639
Income taxes	790
Minority interests (deduction)	(198)
Net income	¥ 47

## 2. Consolidated Statements of Cash Flows

(¥ millions)

	<b>First Quarter of Fiscal 2008 (From April 1 to June 30, 2007)</b>
<b>Cash flows from operating activities</b>	
Income before income taxes	¥ 639
Depreciation and amortization	1,779
Increase in accrued employees' bonuses	1,531
Decrease in trade receivables	4,237
(Increase) in inventories	(4,116)
(Decrease) in trade payables	(3,011)
Income taxes paid	(3,075)
Other	(2,309)
<b>Net cash used in operating activities</b>	<b>(4,323)</b>
<b>Cash flows from investing activities</b>	
Proceeds from sales of investment securities	0
Purchases of tangible fixed assets	(1,676)
Purchases of investments in securities	(90)
Proceeds from sales of investments in securities	2,960
Other	217
<b>Net cash provided by investing activities</b>	<b>1,410</b>
<b>Cash flows from financing activities</b>	
Net increase in short-term debt	3,990
Dividends paid	(866)
Other	(23)
<b>Net cash provided by financing activities</b>	<b>3,099</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>99</b>
<b>Net increase in cash and cash equivalents</b>	<b>285</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>30,034</b>
<b>Cash and cash equivalents at end of term</b>	<b>¥30,319</b>