

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2009

(April 1, 2008 to September 30, 2008)

November 10, 2008

Listed Company Name: Rinnai Corporation

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

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

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Anticipated date for releasing quarterly securities report: November 13, 2008

Anticipated date to begin distributing dividends: November 10, 2008

1. Performance for the six months ended September 30, 2008

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

(1) Consolidated Operating Results

(Millions of yen/%)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
Two-quarter total at September 2008	¥ 114,479 (—)	¥ 6,329 (—)	¥6,138 (—)	¥3,292 (—)
Two-quarter total at September 2007	110,929 (+4.5)	5,036 (+49.8)	5,447 (+39.1)	3,176 (+29.9)

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
Two-quarter total at September 2008	¥60.77	—
Two-quarter total at September 2007	58.63	—

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
Two-quarter total at September 2008	¥230,867	¥145,098	¥61.5	¥2,622.18
Two-quarter total at September 2007	230,923	145,995	61.4	2,615.71

(Reference) Equity capital : Six months ended September 30, 2008; ¥142,038 million

Year ended March 31, 2008; ¥141,695 million

2. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2008	—	¥18.00	—	¥18.00	¥36.00
March 2009	—	20.00	—	—	—
March 2009 (anticipated)	—	—	—	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 (¥)
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 term: 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

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

(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)

Six months ended September 30, 2008: 54,216,463 shares

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

(b) Number of treasury stock at term-end

Six months ended September 30, 2008: 48,183 shares

Year ended March 31, 2008: 45,381 shares

(c) Average number of shares during the term

Six months ended September 30, 2008: 54,170,017 shares

Six months ended September 30, 2007: 54,174,951 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” in the following pages.

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 two quarters—the six months ended September 30, 2008—the world economy was characterized by global financial instability, sparked by events in the United States and Europe, which caused major volatility in share markets and foreign exchange markets. The Japanese economy was plagued by instability in the export industry, declining corporate earnings, and weakening consumer sentiment, underscoring a growing sense of slowdown.

While the impact of the amended Building Standards Law is approaching its peak, the housing appliance industry is yet to achieve recovery amid worsening real estate conditions and falling purchasing sentiment among consumers.

Under these conditions, the Rinnai Group entered the third and final year of V-Shift Plan, its medium-term business plan. In the period under review, we stepped up efforts to implement core medium-term strategies, with a focus on safety, comfort, and the environment. In the environmental field, which is attracting growing interest worldwide, our instant-heating gas hot-water units (known as tankless water heaters), which are sold in the United States, have received warm acclaim as environmentally friendly products. In the period under review, Rinnai received the 2008 Super Nova Star Award for innovation in energy efficiency from the Alliance to Save Energy (ASE), a U.S. nonprofit organization established in 1977 to promote energy efficiency worldwide. In Japan, in addition to expanding our range of environmentally friendly products, we took active steps to enhance product safety, including by fitting safety sensors to all burners in our gas stoves.

On the sales side, the Group posted a decline in units sold due to languishing sales of new houses and cooling purchasing sentiment among consumers. Nevertheless, we achieved a solid result owing to increased market prices reflecting higher product functionality and safety levels, underpinned by firm replacement demand. Despite the negative effect of the yen's appreciation, overseas sales grew steadily thanks to solid demand in North America, Asia, and Oceania.

With respect to earnings, we achieved an increase in profit thanks to a number of factors. In addition to actively launching new products, 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 period amounted to ¥114,479 million, up 3.2% from the previous corresponding period. Operating income rose 25.7%, to ¥6,329 million, and ordinary income climbed 12.7%, to ¥6,138 million. Net income for the period increased 3.7%, to ¥3,292 million.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, we innovated our lineup of gas stoves by fitting temperature sensors to all burners as a safety improvement initiative. The *Delicia* series of high-end built-in gas stoves, launched in the previous fiscal year, performed solidly. Overseas, we reported higher sales of tabletop stoves and ovens in South Korea and geographical proliferation of our tabletop stoves in China, which outweighed the effects of foreign exchange factors. Overall sales in this segment totaled ¥38,781 million, up 10.4% from the previous corresponding period.

Hot-Water Units

In Japan, Rinnai posted increased sales of its “Eco-Jozu” series of hot-water/heating systems and bath-water heaters, which are highly efficient and friendly to the environment. These products

achieved steady proliferation amid growing environmental awareness in the market. In the United States, sales of our tankless hot-water systems increased firmly thanks to growing awareness of the features of these products amid by a shift in market demand from tank-based systems to energy-saving tankless units. We also reported higher sales of hot-water units in China and Australia, underscoring a generally solid result for overseas sales. Total segment sales grew 2.7%, to ¥50,414 million.

Air-Conditioning and Heating Units

The term under review was the peak demand period for space heaters in Oceania. Despite firm demand for gas fan heaters and stoves in Australia, however, sales of fan-forced heaters in New Zealand were weak. Consequently, total sales in this segment declined 11.7%, to ¥8,496 million.

Net sales by business segment

(¥ millions)

	Previous term (April 1, 2007, to Sept. 30, 2007)		First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)		Change		Year ended March 31, 2008 (April 1, 2007, to March 31, 2008)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Kitchen appliances	35,122	31.7	38,781	33.9	3,569	10.4	78,573	31.6
Hot-water units	49,081	44.2	50,414	44.0	1,332	2.7	111,625	44.9
Air-conditioning and heating units	9,622	8.7	8,496	7.4	(1,125)	(11.7)	21,689	8.7
Commercial-use equipment	3,975	3.6	3,434	3.0	(540)	(13.6)	7,729	3.1
Others	13,128	11.8	13,351	11.7	223	1.7	29,144	11.7
Total	110,929	100.0	114,479	100.0	3,549	3.2	248,761	100.0

Note: In the above Consolidated Business Results, the Company indicates figures comparing to the previous corresponding period for references.

2. Financial Position

At September 30, 2008, Rinnai had total assets of ¥230,867 million, down ¥56 million from March 31, 2008. Over the period, total liabilities increased ¥840 million, to ¥85,768 million, and net assets decreased ¥896 million, to ¥145,098 million. The equity ratio at the end of the period was 61.5%.

Cash and cash equivalents at September 30, 2008, stood at ¥35,770 million.

Net cash used in operating activities amounted to ¥2,045 million. Main components of cash flows included ¥6,097 million in income before income taxes, ¥4,070 million in depreciation, a ¥4,416 million decrease in accounts receivable, a ¥5,575 million increase in inventories, and ¥4,479 million in income taxes paid.

Net cash used in investing activities totaled ¥5,505 million. Main factors were ¥4,833 million in purchases of fixed assets and ¥3,639 million in purchases of investment securities.

Net cash provided by financial activities was ¥3,509 million. Major factors included a ¥4,846 million net increase in short-term borrowings by overseas subsidiaries, as well as ¥974 million in cash dividends paid.

3. Information on Performance Forecasts

With respect to the full-year outlook, we believe that future trends will remain unpredictable as worldwide financial instability causes sharp fluctuations in foreign exchange markets and the prices of crude oil and raw materials. These risk factors could have a dramatic impact on the Rinnai Group's financial performance. Therefore, our most important priority is to calmly monitor and address future trends and improve our financial soundness so that we can withstand unforeseeable events. At this stage, therefore, as we approach our peak demand season in the third quarter, we have decided to defer any revisions to our full-year forecasts for fiscal year ending March 2009.

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

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 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

1. 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."
2. 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.
3. 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.
4. 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. This change had no effect on the Company’s statements of income.

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

(¥ millions)

	Sept. 30, 2008 (First two quarters for the year ending March 31, 2009)	March, 2008 (Year ended March 31, 2008)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	22,686	24,217
Notes and accounts receivable	58,792	65,811
Marketable securities	23,468	28,144
Products	20,277	15,621
Raw materials and stores	10,886	10,766
Other	10,731	5,813
Less allowance for doubtful accounts	(2,224)	(3,299)
Total current assets	144,617	147,077
Fixed assets		
Property, plant and equipment	44,233	45,224
Intangible fixed assets	1,419	1,447
Investments and advances		
Investments in securities	26,611	25,319
Other	16,075	12,589
Less allowance for doubtful accounts	(2,091)	(733)
Total investments and advances	40,596	37,174
Total fixed assets	86,249	83,846
Total assets	230,867	230,923

(¥ millions)

	Sept. 30, 2008 (First two quarters for the year ending March 31, 2009)	March, 2008 (Year ended March 31, 2008)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	43,308	44,873
Short-term debt	11,051	7,574
Accrued consumption taxes	3,109	4,340
Accrued employee's bonuses	2,681	2,263
Other allowances	346	585
Other	13,745	14,336
Total current liabilities	74,243	73,973
Long-term liabilities		
Long-term debt	4,205	5,360
Accrued employees' retirement benefits	4,827	3,016
Other allowances	59	1,485
Other	2,432	1,091
Total long-term liabilities	11,524	10,954
Total liabilities	85,798	84,927
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	125,863	124,609
Treasury stock	(141)	(129)
Total shareholders' equity	140,902	139,659
Other adjustments:		
Unrealized gain on marketable securities	(980)	(466)
Foreign exchange translation adjustment	2,117	2,502
Total other adjustments	1,136	2,036
Minority interests	3,059	4,299
Total net assets	145,098	145,995
Total liabilities and net assets	230,867	230,923

(2) Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)
	Amount
Net sales	114,479
Cost of Sales	81,741
Gross Profit	32,737
Selling, general and administrative expenses	26,407
Operating income	6,329
Other income:	
Interest income	474
Equity in earnings of affiliates	340
Other	403
Total other income	1,219
Other expenses:	
Interest expenses	428
Foreign exchange loss	938
Other	44
Total other expenses	1,411
Ordinary income	6,138
Extraordinary income:	
Gain on sales of fixed assets	37
Reversal from allowance for doubtful accounts	11
Gain on liquidation of affiliates	13
Total extraordinary income	62
Extraordinary losses:	
Loss on disposal of fixed assets	53
Loss on devaluation of investments in securities	39
Other	10
Total extraordinary losses	103
Income before income taxes	6,097
Income taxes:	
Current	3,391
Deferred	(332)
Total income taxes	3,059
Minority interests (deduction)	(253)
Net income	3,292

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)
Cash flows from operating activities	
Income before income taxes	6,097
Depreciation and amortization	4,070
Increase (decrease) in accrued employees' bonuses	420
Decrease(increase) in trade receivables	4,416
Decrease (increase) in inventories	(5,575)
Increase (decrease) in trade payables	(409)
Other	(6,868)
Subtotal	2,151
Interest and dividends received	706
Interest paid	(422)
Income taxes paid	(4,479)
Net cash used in operating activities	(2,045)
Cash flows from investing activities	
Transfers to time deposits	(6,336)
Withdrawals from time deposits	6,393
Purchases of tangible fixed assets	(4,833)
Purchases of investments in securities	(3,639)
Other	2,910
Net cash used in investing activities	(5,505)
Cash flows from financing activities	
Net increase (decrease) in short-term debt	4,846
Dividends paid	(974)
Other	(362)
Net cash provided by financing activities	3,509
Effect of exchange rate fluctuations on cash and cash equivalents	632
Net (decrease) increase in cash and cash equivalents	(3,408)
Cash and cash equivalents at beginning of term	39,178
Cash and cash equivalents at end of term	35,770

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.”

(4) Notes regarding the assumption of a going concern

There are no relevant items.

(5) Segment Information

Business segment information

First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)

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

Geographic segment information

First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales and operating results						
(1) Sales for clients	74,798	22,682	16,997	114,479	—	114,479
(2) Intersegment sales	9,582	1,376	320	11,280	(11,280)	—
Total	84,381	24,059	17,318	125,759	(11,280)	114,479
Operating income (loss)	5,096	(983)	2,285	6,398	(68)	6,329

(¥ millions)

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.

Overseas sales

First two quarters for the year ending March 31, 2009 (April 1, 2008, to Sept. 30, 2008)

	Asia	Other regions	Total
I. Overseas sales	25,154	18,512	43,666
II. Consolidated net sales	—	—	114,479
III. Composition ratio of overseas sales to consolidated net sales	22.0%	16.2%	38.1%

(¥ millions)

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

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

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

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

(6) Notes to Significant Changes on Shareholders' Equity

There are no relevant items.

**For references: Consolidated Balance Sheets which is the Corresponding Previous Term
(Six months ended September 30, 2007)**

(1) Consolidated Statements of Income

(¥ millions)

	Six months ended Sept. 30, 2007 (April 1, 2008, to Sept. 30, 2008)	
	Amount	% of total
Net sales	¥110,929	100.0
Cost of sales	81,389	73.4
Gross profit	29,540	26.6
Selling, general and administrative expenses	24,504	22.1
Operating income	5,036	4.5
Other income:	1,110	1.0
Interest income	430	
Dividends received	133	
Equity in earnings of affiliate	182	
Foreign exchange gain	17	
Other	345	
Other expenses:	698	0.6
Interest expenses	595	
Loss on sale of notes receivable	97	
Other	5	
Ordinary income	5,447	4.9
Extraordinary income:	390	0.4
Gain on sales of fixed assets	285	
Reversal from allowance for doubtful accounts	88	
Other	16	
Extraordinary losses:	1,012	0.9
Loss on disposal of fixed assets	111	
Impairment losses	6	
Loss on devaluation of investments in securities	199	
Retirement benefit cost	604	
Other	91	
Income before income taxes	4,825	4.3
Income taxes	1,790	1.6
current	2,514	
deferred	(724)	
Minority interests (deduction)	(141)	(0.1)
Net income	¥3,176	2.9

(2) Consolidated Statements of Cash Flows

(¥ millions)

	Six months ended Sept. 30, 2007 (April 1, 2008, to Sept. 30, 2008)
Cash flows from operating activities	
Income before income taxes	¥4,825
Depreciation and amortization	3,764
(Decrease) in allowance for doubtful accounts	(16)
Increase in accrued employees' bonuses	170
Increase in accrued employees' retirement benefits	262
(Increase) in prepaid pension costs	(266)
Interest and dividends income	(563)
Interest expenses	595
Equity in earnings of affiliates	(182)
Loss on disposal of fixed assets	111
(Increase) in trade receivables	(2,380)
(Increase) in inventories	(2,657)
(Decrease) in trade payables	(2,442)
(Decrease) in accrued consumption taxes	(193)
Other	(1,205)
Subtotal	(179)
Interest and dividends received	609
Interest paid	(557)
Income taxes paid	(3,656)
Net cash used in operating activities	(3,785)
Cash flows from investing activities	
Transfers to time deposits	(5,258)
Withdrawals from time deposits	6,118
Proceeds from sales of securities	93
Purchases of tangible fixed assets	(4,037)
Proceeds from sales of tangible fixed assets	620
Purchases of intangible fixed assets	(339)
Purchases of investments in securities	(2,492)
Proceeds from sales of investments in securities	4,059
Other	(282)
Net cash used in operating activities	(1,516)
Cash flows from financing activities	
Net increase in short-term debt	3,310
Proceeds from long-term debt	5,319
Repayment of long-term debt	(5,352)
Dividends paid	(866)
Dividends paid to minority shareholders	(4)
Other	(13)
Net cash provided by financing activities	2,393
Effect of exchange rate fluctuations on cash and cash equivalents	674
Net decrease in cash and cash equivalents	(2,233)
Cash and cash equivalents at beginning of term	30,034
Cash and cash equivalents at end of term	27,800

(3) Segment Information

Business segment information

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

Geographic segment information

Six months ended September 30, 2007 (April 1, 2007, to Sept. 30, 2007)

	(¥ millions)					
	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales and operating results						
(1) Sales for clients	70,402	24,784	15,742	110,929	—	110,929
(2) Intersegment sales	8,748	1,199	178	10,126	(10,126)	—
Total	79,150	25,984	15,921	121,056	(10,126)	110,929
Operating expenses	76,023	25,926	14,189	116,139	(10,245)	105,893
Operating income	3,126	58	1,732	4,917	118	5,036

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.

Overseas sales

Six months ended September 30, 2007 (April 1, 2007, to Sept. 30, 2007)

	(¥ millions)		
	Asia	Other regions	Total
I. Overseas sales	26,798	17,062	43,860
II. Consolidated net sales	—	—	110,929
III. Composition ratio of overseas sales to consolidated net sales	24.2%	15.4%	39.5%

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

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

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

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