

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2009

(April 1–December 31, 2008)

February 10, 2009

Listed Company Name: Rinnai Corporation

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

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1. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2009

(April 1–December 31, 2008; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
Three Quarters to Dec. 2008	¥ 184,695 (—)	¥12,075 (—)	¥10,474 (—)	¥4,849 (—)
Three Quarters to Dec. 2007	184,554 (+ 5.0)	12,311 (+25.0)	12,497 (+18.0)	7,173(+15.6)

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
Three Quarters to Dec. 2008	¥ 89.52	—
Three Quarters to Dec. 2007	132.42	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
Dec. 31, 2008	¥227,382	¥143,563	61.8%	¥2,594.46
Mar. 31, 2008	230,923	145,995	61.4	2,615.71

(Reference) Equity capital: December 31, 2008: ¥140,533 million

March 31, 2008: ¥141,695 million

2. Dividends

(¥)

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Full Year
Year to Mar. 2008	—	¥18.00	—	¥18.00	¥36.00
Year to Mar. 2009	—	20.00	—	—	—
Year to Mar. 2009 (estimate)	—	—	—	20.00	40.00

Note: Revision of dividend forecast in period under review: None

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

(April 1, 2008–March 31, 2009)

(¥ millions)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
Full year	¥240,000 (-3.5%)	¥13,900 (-8.1%)	¥10,900 (-29.2%)	¥ 3,000 (-63.7%)	¥55.38

Note: Percentage figures in parentheses indicate increase or decrease from the previous fiscal year.

Note: Revision of fiscal year forecast in period under review: Yes

4. Other

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

Newly consolidated: — 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” on page 5 of this report.

(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 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” on page 5 of this report.

(4) Number of Outstanding Shares (Common Stock)

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

December 31, 2008: 54,216,463 shares

March 31, 2008: 54,216,463 shares

(b) Number of treasury stock shares at term-end

December 31, 2008: 49,668 shares

March 31, 2008: 45,381 shares

(c) Average number of shares during the term

Three quarters ended December 31, 2008: 54,169,250 shares

Three quarters ended December 31, 2007: 54,174,159 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 Corporation 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 5 of this report.
2. Effective the fiscal year ending March 31, 2009, the Corporation 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 three quarters—the nine months ended December 31, 2008—financial instability, sparked by the subprime loan crisis in the United States, spread simultaneously throughout the world economy. In Japan, meanwhile, the yen's ongoing appreciation caused corporate earnings to deteriorate sharply, leading to economic retreat and a severe overall situation. The domestic housing appliance industry remained weak, plagued by depressed personal consumption and falling housing investment amid declines in financial asset values.

In this environment, the Rinnai Group reaped the benefits of structural reforms under V-Shift Plan, its medium-term business plan, and strove to improve earnings both in Japan and overseas.

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, as well as solid domestic demand underpinned by firm replacement demand. Overseas, demand for instant-heating (tankless) hot-water units expanded in North America, Oceania, and China amid growing awareness of environmental issues. Accordingly, sales at local levels remained firm. Due to global economic stagnation, however, revenue was affected by several factors, particularly the sudden deterioration of the South Korean economy and the negative impact of the yen's sharp appreciation on our various overseas operations. Consequently, consolidated net sales remained mostly unchanged.

With respect to earnings, on the domestic front we enjoyed some benefits from new product launches and improvements to our income structure. In South Korea, however, we took measures to bolster the financial strength of our local subsidiary, which is falling behind in its effort to enhance profitability. Specifically, we increased the allowance for doubtful accounts in preparation for further worsening of the South Korean economy. In addition, we reported a substantial foreign exchange loss in that nation, treated as a non-operating expense (in "Other expenses" section).

As a result, consolidated net sales in the period amounted to ¥184,695 million, up 0.1% from the previous corresponding period. Operating income edged down 1.9%, to ¥12,075 million, and ordinary income declined 16.2%, to ¥10,474 million. Net income for the period fell 32.4%, to ¥4,849 million.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, we reported increased sales of the *Delicia* series of high-end built-in gas stoves, featuring improved cooking performance, ease of operation, and design. Meanwhile, firm sales of table-top stoves in China contributed to overall overseas sales. Total sales in this segment reached ¥64,168 million, up 7.8% from the previous corresponding period.

Hot-Water Units

In Japan, our “Eco-Jozu” series of hot-water/heating systems and bath-water heaters, which are highly efficient and friendly to the environment, performed well thanks to steady market proliferation. Overseas sales were depressed by contraction of the boiler market in South Korea and the yen’s appreciation. In North America, however, sales of our tankless hot-water systems were strong, driven by high market praise for their environmental performance, energy efficiency, and the convenience of an uninterrupted supply of hot water. Total segment sales edged up 0.5%, to ¥79,444 million.

Air-Conditioning and Heating Units

In addition to weak demand in Oceania in the first two quarters, domestic demand in the third quarter—the peak season for room heaters—languished due to a warm winter. Consequently, total sales in this segment declined 15.1%, to ¥16,044 million.

Sales Composition

(¥ millions; %)

	Three Quarters to Dec. 31, 2007		Three Quarters to Dec. 31, 2008		Change		Year to March 31, 2008	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥59,507	32.2	¥ 64,168	34.7	¥ 4,661	7.8	¥ 78,573	31.6
Hot-water units	79,034	42.8	79,444	43.0	410	0.5	111,625	44.9
Air-conditioning and heating units	18,899	10.2	16,044	8.7	(2,854)	(15.1)	21,689	8.7
Commercial-use equipment	5,822	3.2	5,054	2.7	(768)	(13.2)	7,729	3.1
Others	21,290	11.5	19,981	10.8	(1,308)	(6.1)	29,144	11.7
Total	¥ 184,554	100.0	¥ 184,695	100.0	¥ 141	0.1	¥ 248,761	100.0

Note: In the above “Consolidated Business Results” section, figures for the previous corresponding period and year-on-year percentage change figures are provided for reference purposes.

2. Financial Position

At December 31, 2008, Rinnai had total assets of ¥227,382 million, down ¥3,540 million from March 31, 2008. Over the period, total liabilities decreased ¥1,108 million, to ¥83,819 million, and net assets declined ¥2,432 million, to ¥143,563 million. The equity ratio at the end of the period was 61.8%.

Cash and cash equivalents at December 31, 2008, stood at ¥32,258 million, down ¥6,920 million from March 31, 2008.

Net cash provided by operating activities amounted to ¥4,417 million. Main factors included a solid operating income figure and an increase in trade payables, which contrasted with increases in trade receivables and inventories.

Net cash used in investing activities totaled ¥1,167 million. Main factors were purchases of fixed assets and purchases of investment securities.

Net cash provided by financial activities was ¥1,413 million. Major factors included a net increase in short-term borrowings by overseas subsidiaries.

3. Information on Performance Forecasts

In light of its business performance in the period under review and recent economic conditions, the Rinnai Group has revised its consolidated results forecast for the fiscal year ending March 31, 2009, previously announced on November 10, 2008.

For more information, please refer to “Announcement of Revised Performance Forecasts,” released on February 10, 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 Corporation 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 Corporation 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 Corporation 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 Corporation’s statements of income and segment information was minimal.

3. Effective the first quarter of the year ending March 31, 2009, the Corporation 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 Corporation’s statements of income and segment information was minimal.

4. In the first quarter of the year ending March 31, 2009, the Corporation 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 Corporation’s statements of income.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	Three Quarters of Fiscal 2009 (Dec. 31, 2008)	Fiscal 2008 (March 31, 2008) (Summary)
ASSETS:		
Current assets		
Cash and deposits	¥ 23,515	¥ 24,217
Notes and accounts receivable	67,052	65,811
Marketable securities	18,422	28,144
Products	19,224	15,621
Raw materials and stores	9,751	10,766
Other	4,567	5,813
Less allowance for doubtful accounts	(3,016)	(3,299)
Total current assets	139,518	147,077
Fixed assets		
Property, plant and equipment	43,323	45,224
Intangible fixed assets		
Goodwill	1,035	—
Other	1,433	1,447
Total Intangible fixed assets	2,468	1,447
Investments and advances		
Investments in securities	29,011	25,319
Other	14,854	12,589
Less allowance for doubtful accounts	(1,793)	(733)
Total investments and advances	42,072	37,174
Total fixed assets	87,864	83,846
Total assets	¥227,382	¥230,923

(¥ millions)

	Three Quarters of Fiscal 2009 (Dec. 31, 2008)	Fiscal 2008 (March 31, 2008) (Summary)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 46,449	¥ 44,873
Short-term debt	8,602	7,574
Accrued income taxes	2,547	4,340
Accrued employee's bonuses	871	2,263
Other allowances	316	585
Other	14,734	14,336
Total current liabilities	73,522	73,973
Long-term liabilities		
Long-term debt	3,512	5,360
Accrued employees' retirement benefits	4,389	3,016
Other allowances	60	1,485
Other	2,334	1,091
Total long-term liabilities	10,297	10,954
Total liabilities	83,819	84,927
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	126,337	124,609
Treasury stock	(146)	(129)
Total shareholders' equity	141,371	139,659
Other adjustments:		
Unrealized gain on marketable securities	(723)	(466)
Foreign exchange translation adjustment	(113)	2,502
Total other adjustments	(837)	2,036
Minority interests	3,029	4,299
Total net assets	143,563	145,995
Total liabilities and net assets	¥227,382	¥230,923

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2009 (From April 1 to December 31, 2008)
Net sales	¥184,695
Cost of sales	130,849
Gross profit	53,846
Selling, general and administrative expenses	41,770
Operating income	12,075
Other income:	
Interest income	705
Equity in earnings of affiliates	466
Other	575
Total other income	1,746
Other expenses:	
Interest expenses	659
Foreign exchange loss	2,611
Other	77
Total other expenses	3,348
Ordinary income	10,474
Extraordinary income:	
Gain on sales of fixed assets	44
Reversal from allowance for doubtful accounts	11
Gain on liquidation of affiliates	13
Total extraordinary income	69
Extraordinary losses:	
Loss on disposal of fixed assets	90
Loss on evaluation of investments in securities	45
Other	17
Total extraordinary expenses	154
Income before income taxes	10,388
Income taxes (current)	5,471
Income taxes (deferred)	663
Total income taxes	6,135
Minority interests (deduction)	(595)
Net income	¥ 4,849

(3) Consolidated Statements of Cash Flows

(¥ millions)

	Three Quarters of Fiscal 2009 (From April 1 to December 31, 2008)
Cash flows from operating activities	
Income before income taxes	¥ 10,388
Depreciation and amortization	6,594
Increase (decrease) in accrued employees' bonuses	(1,383)
(Increase) decrease in trade receivables	(6,636)
(Increase) decrease in inventories	(4,606)
Increase (decrease) in trade payables	3,890
Other	2,777
Subtotal	11,024
Interest and dividends received	987
Interest paid	(629)
Income taxes paid	(6,964)
Net cash provided by operating activities	4,417
Cash flows from investing activities	
Transfers to time deposits	(8,546)
Withdrawals from time deposits	9,621
Purchases of tangible fixed assets	(8,676)
Purchases of investments in securities	(7,954)
Proceeds from sale of investments in securities	4,000
Purchase of stock of subsidiaries	(1,035)
Other	984
Net cash used in investing activities	(11,607)
Cash flows from financing activities	
Net increase (decrease) in short-term debt	3,852
Dividends paid	(2,058)
Other	(380)
Net cash provided by financing activities	1,413
Effect of exchange rate fluctuations on cash and cash equivalents	(1,143)
Net increase (decrease) in cash and cash equivalents	(6,920)
Cash and cash equivalents at beginning of term	39,178
Cash and cash equivalents at end of term	¥ 32,258

Effective the fiscal year ending March 31, 2009, the Corporation 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) Assumptions for Going Concern

Not applicable.

(5) Segment Information

(a) Business segment information

Three Quarters Ended December 31, 2008

The Rinnai Group is engaged in the manufacture and sale of gas appliances. In consideration of similarity in product type, characteristics, production method, and sales market, business segment information has been omitted.

(b) Geographic segment information

Three Quarters Ended December 31, 2008

	Japan	Asia	Others	Total	Inter-regional or corporate	(¥ millions) Consolidated total
Net sales						
(1) Sales to outside customers	¥124,317	¥34,286	¥26,091	¥184,695	—	¥184,695
(2) Intersegment sales	14,524	2,021	405	16,951	(16,951)	—
Total	138,841	36,307	26,497	201,646	(16,951)	184,695
Operating income (loss)	11,303	(2,640)	3,384	12,047	28	12,075

- Notes: 1. Classification of the above regions is based on geographical proximity.
 2. Asia, excluding Japan: South Korea, China, Taiwan, Thailand, Singapore, Vietnam
 Others: United States, Australia, New Zealand, etc.

(c) Overseas sales

Three Quarters Ended December 31, 2008

	Asia	Others	Total
I. Overseas sales	¥37,807	¥28,165	¥65,973
II. Consolidated net sales	—	—	52,073
III. Composition ratio of overseas sales to consolidated net sales	20.5%	15.2%	35.7%

- Notes: 1. Classification of the above regions is based on geographical proximity.
 2. Asia: South Korea, China, Taiwan, Thailand, Singapore, Indonesia, Malaysia, Vietnam, etc.
 Others: United States, Australia, New Zealand, etc.
 3. Above indicates sales of the Corporation and consolidated subsidiaries in overseas countries or regions.

(6) Major Changes in Shareholders' Equity

Not applicable.

Reference: Financial Statements for Previous Corresponding Period

1. Consolidated Statements of Income (Summary)

(¥ millions)

	Three Quarters of Fiscal 2008 (From April 1 to December 31, 2007)
Net sales	¥184,554
Cost of sales	134,431
Gross profit	50,122
Selling, general and administrative expenses	37,811
Operating income	12,311
Other income	1,569
Other expenses	1,383
Ordinary income	12,497
Extraordinary income	374
Extraordinary losses	1,512
Income before income taxes	11,359
Income taxes	4,226
Minority interests (deduction)	(40)
Net income	¥7,173

2. Consolidated Statements of Cash Flows

(¥ millions)

	Three Quarters of Fiscal 2008 (From April 1 to December 31, 2007)
Cash flows from operating activities	
Income before income taxes	¥ 11,359
Depreciation and amortization	6,078
(Decrease) in accrued employees' bonuses	(1,494)
(Increase) in trade receivables	(10,237)
Decrease in inventories	582
Increase in trade payables	2,531
Income taxes paid	(5,599)
Other	293
Net provided by operating activities	3,513
Cash flows from investing activities	
Proceeds from sales of investment securities	99
Purchases of tangible fixed assets	(6,297)
Purchases of investments in securities	(2,602)
Proceeds from sales of investments in securities	5,475
Other	450
Net cash used in investing activities	(2,874)
Cash flows from financing activities	
Net increase in short-term debt	3,448
Dividends paid	(1,842)
Other	(1,089)
Net cash provided by financing activities	516
Effect of exchange rate fluctuations on cash and cash equivalents	367
Net increase in cash and cash equivalents	1,523
Cash and cash equivalents at beginning of term	30,034
Cash and cash equivalents at end of term	¥31,557