

# Consolidated Financial Results

## First Three Quarters of the Fiscal Year Ending March 2010

(April 1–December 31, 2009)

February 8, 2010

### Listed Company Name: Rinnai Corporation

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

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Scheduled date for release of quarterly securities report: February 12, 2010

Anticipated date to begin distributing dividends: —

## 1. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2010

(April 1–December 31, 2009; 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. 2009	¥168,187 [-8.9%]	¥14,657 [+21.4%]	¥15,226 [+45.4%]	¥8,947 [+84.5%]
Three Quarters to Dec. 2008	184,695 [ — ]	12,075 [ — ]	10,474 [ — ]	4,849 [ — ]

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. 2009	¥167.79	—
Three Quarters to Dec. 2008	89.52	—

### (2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
December 31, 2009	¥217,931	¥138,495	62.1%	¥2,613.90
March 31, 2009	210,825	138,794	64.5	2,510.60

(Reference) Equity capital: Three quarters of the year ending March 31, 2010; ¥135,304 million

Year ended March 31, 2009; ¥135,987 million

## 2. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2009	—	¥20.00	—	¥20.00	¥40.00
March 2010	—	20.00	—		
March 2010 (anticipated)				20.00	40.00

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

### 3. Forecast for the Fiscal Year Ending March 31, 2010 (Consolidated)

(April 1, 2009, to March 31, 2010)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
Full year	¥224,000 [-5.4%]	¥19,700 [+30.7%]	¥20,600 [+59.0%]	¥11,400 [+196.3%]	¥215.24

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

(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: None

(b) Other changes than (a): None

(4) Number of Outstanding Shares (Common Stock)

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

December 31, 2009: 54,216,463 shares

March 31, 2009: 54,216,463 shares

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

December 31, 2009: 2,453,169 shares

March 31, 2009: 51,119 shares

(c) Average number of shares during the term

Three quarters ended December 31, 2009: 53,324,271 shares

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

#### *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 “3. Information on Performance Forecasts” on page 5 of this report.

### (For references)

### Forecast for the Fiscal Year Ending March 31, 2010 (Nonconsolidated)

(April 1, 2009, to March 31, 2010)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
Full year	¥168,000 [-2.0%]	¥13,200 [+21.3%]	¥15,100 [+18.4%]	¥8,500 [+16.6%]	¥160.49

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

# Performance Summary and Financial Statements

## 1. Consolidated Business Results

In the three-quarter period under review (nine months ended December 31, 2009), the world economy showed some signs of recovery owing to economic stimulus measures implemented by various overseas nations. Conditions in Japan remained difficult, however, as worsening employment conditions and weak personal consumption inhibited a turnaround in corporate earnings.

In the domestic housing appliance industry, conditions remained severe. An unclear outlook for worker incomes dampened consumer sentiment with respect to home purchases. This led to weakening demand for new housing and home renovations.

In response, the Rinnai Group sought to address the difficult business environment by reinforcing core technologies and solidifying its Groupwide operational foundation. These strategies reflected the Group's medium-term business plan, entitled "Reform and Breakthrough," which was launched in the current fiscal year.

On the revenue side, our performance in Japan benefited from solid replacement demand for our products, which are regarded as necessary items that support people's lives. We also strove to increase the high-value-added component of our products to address social needs with respect to the environment, energy-saving, safety, and peace of mind. This was despite weakness in new housing demand. Overseas, meanwhile, local demand was generally healthy thanks to the spread of high-efficiency products in industrialized nations amid the trend toward protecting the environment and saving energy. In emerging countries, moreover, growing populations led to market expansion, while home-use heat-related products proliferated amid rising living standards. However, the appreciation of the yen led to a decline in overseas sales in yen terms.

On the earnings side, in Japan we strove to control costs of mainstay products through rigorous cost-reduction efforts. We also introduced new products that contributed to earnings. These included hot-water units boasting lighter weight, as well as built-in stoves aimed at mainstream users. Overseas, our subsidiary in South Korea took urgent management reform measures, which helped improve its financial condition. Efforts to cut fixed costs by overseas sales subsidiaries also underpinned Groupwide earnings.

Accordingly, consolidated net sales in the three-quarter period amounted to ¥168,187 million, down 8.9% from the previous corresponding period. Operating income rose 21.4%, to ¥14,657 million, and ordinary income increased 45.4%, to ¥15,226 million. Net income for the period jumped 84.5%, to ¥8,947 million.

Our results by business segment are summarized below.

### ***Kitchen Appliances***

In Japan, we added new built-in stoves to the *Mytone* series, upgrading our lineup of offerings from mid-level to mainstream items. These helped boost segment revenue. Overseas, we reported healthy sales at the local level, especially in South Korea. Due to the strong impact of the yen's appreciation, however, sales in this segment amounted to ¥60,513 million, down 5.7% from the previous corresponding period.

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

In Japan, sales of the *RVD-E* series of hot-water/heating systems remained generally

healthy, thanks to advances over previous models in terms of being compact, lightweight, and easy to use. However, overseas sales were affected by delayed economic recovery in North America and Australia, as well as foreign exchange factors. As a result, total segment sales declined 7.3%, to ¥73,613 billion.

### ***Air-Conditioning and Heating Units***

Although the third quarter was the high-demand season for this segment in Japan, domestic sales of mainstay fan heaters were weak. Overseas sales, meanwhile, were affected by foreign exchange factors. Total sales in this segment fell 21.5%, to ¥12,592 million.

### ***Sales Composition***

(¥ millions; %)

	Three Quarters to Dec. 31, 2008		Three Quarters to Dec. 31, 2009		Change		Year to March 31, 2009	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥ 64,168	34.7%	¥ 60,513	36.0%	¥(3,655)	-5.7%	¥ 81,166	34.3%
Hot-water units	79,444	43.0	73,613	43.8	(5,831)	-7.3	106,567	45.0
Air-conditioning and heating units	16,044	8.7	12,592	7.5	(3,451)	-21.5	17,309	7.3
Commercial-use equipment	5,054	2.7	4,705	2.8	(349)	-6.9	6,226	2.6
Others	19,981	10.8	16,762	10.0	(3,219)	-16.1	25,470	10.8
Total	¥ 184,695	100.0%	¥168,187	100.0%	¥ (16,507)	-8.9%	¥236,741	100.0%

## **2. Consolidated Financial Position**

At December 31, 2009, Rinnai had total assets of ¥217,931 million, up ¥7,105 million from March 31, 2009. During the period under review, total liabilities increased ¥7,404 million, to ¥79,436 million, and net assets declined ¥298 million, to ¥138,495 million. The equity ratio at the end of the period was 62.1%.

Cash and cash equivalents at December 31, 2009, stood at ¥40,243 million, down ¥2,700 million from March 31, 2009 (but up 24.8% from December 31, 2008).

Net cash provided by operating activities amounted to ¥12,569 million, up 184.6% from the previous corresponding period. Contributing to cash flows were a solid operating income figure and a decrease in inventories, which contrasted with an increase in notes and accounts receivable.

Net cash used in investing activities totaled ¥7,194 million, down 38.0% from the previous corresponding period. Main factors included transfers to and withdrawals from time deposits, as well as purchases of fixed assets.

Net cash used in financing activities was ¥9,720 million, compared with ¥1,413 million in net cash provided by such activities in the previous corresponding period. Main factors included a net increase in short-term debt and inflows from long-term debt. However, these were offset by repayment of long-term debt, cash dividends paid, and purchases of treasury stock.

### 3. Consolidated Performance Forecasts

In light of business conditions and its performance in the three-quarter period under review, Rinnai has revised its consolidated performance forecast (previous forecast announced November 5, 2009) and nonconsolidated performance forecast (previous forecast announced May 11, 2009) for the fiscal year ending March 31, 2010.

The revised forecasts and comparisons with previous forecasts are shown below.

#### (1) Consolidated Forecast (Full-Year)

(¥ millions)

	Net Sales	Operating Income	Ordinary Income	Net Income
Previous Forecast (A)	¥228,000	¥ 17,000	¥ 18,000	¥ 10,000
Revised Forecast (B)	224,000	19,700	20,600	11,400
Difference (B – A)	(4,000)	2,700	2,600	1,400
Change (%)	-1.8%	+15.9%	+14.4%	+14.0%

#### (2) Nonconsolidated Forecast (Full-Year)

(¥ millions)

	Net Sales	Operating Income	Ordinary Income	Net Income
Previous Forecast (A)	¥173,000	¥ 11,000	¥ 13,000	¥ 7,600
Revised Forecast (B)	168,000	13,200	15,100	8,500
Difference (B – A)	(5,000)	2,200	2,100	900
Change (%)	-2.9%	+20.0%	+16.2%	+11.8%

### 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

##### **Simplified accounting method**

##### 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

None

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

(¥ millions)

	At December 31, 2009 (Three Quarters of Fiscal 2010)	At March 31, 2009 (Fiscal 2009)
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥ 24,528	¥ 21,728
Notes and accounts receivable	61,354	51,972
Marketable securities	24,315	30,633
Products	14,267	16,213
Raw materials and stores	9,320	9,224
Other	5,436	3,619
Less allowance for doubtful accounts	(2,630)	(1,875)
Total current assets	136,592	131,517
Fixed assets		
Property, plant and equipment	43,327	41,332
Intangible fixed assets	1,470	1,409
Investments and advances		
Investments in securities	24,986	25,376
Other	12,664	12,239
Less allowance for doubtful accounts	(1,110)	(1,048)
Total investments and advances	36,541	36,567
Total fixed assets	81,339	79,308
<b>Total assets</b>	<b>¥217,931</b>	<b>¥210,825</b>

(¥ millions)

	At December 31, 2009 (Three Quarters of Fiscal 2010)	At March 31, 2009 (Fiscal 2009)
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 40,809	¥37,696
Short-term debt	10,182	6,807
Accrued income taxes	3,209	3,240
Accrued employee's bonuses	907	2,448
Other allowances	240	271
Other	14,241	11,992
Total current liabilities	69,590	62,456
Long-term liabilities		
Long-term debt	2,902	3,000
Accrued employees' retirement benefits	4,600	4,242
Other allowances	46	62
Other	2,296	2,270
Total long-term liabilities	9,845	9,575
<b>Total liabilities</b>	<b>79,436</b>	<b>72,031</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	131,868	125,336
Treasury stock	(10,383)	(151)
Total shareholders' equity	136,664	140,364
Other adjustments:		
Unrealized gain on marketable securities	(69)	(1,471)
Foreign exchange translation adjustment	(1,290)	(2,905)
Total other adjustments	(1,360)	(4,377)
Minority interests	3,191	2,806
<b>Total net assets</b>	<b>138,495</b>	<b>138,794</b>
<b>Total liabilities and net assets</b>	<b>¥217,931</b>	<b>¥210,825</b>

**(2) Consolidated Statements of Income**

(¥ millions)

	<b>Three Quarters of Fiscal 2009 (From April 1 to December 31, 2008)</b>	<b>Three Quarters of Fiscal 2010 (From April 1 to December 31, 2009)</b>
Net sales	¥184,695	¥168,187
Cost of sales	130,849	117,639
Gross profit	53,846	50,547
Selling, general and administrative expenses	41,770	35,890
Operating income	12,075	14,657
Other income:		
Interest income	705	420
Equity in earnings of affiliates	466	356
Other	575	631
Total other income	1,746	1,408
Other expenses:		
Interest expenses	659	378
Foreign exchange loss	2,611	425
Other	77	36
Total other expenses	3,348	839
Ordinary income	10,474	15,226
Extraordinary income:		
Gain on sales of fixed assets	44	93
Reversal from allowance for doubtful accounts	11	62
Gain on liquidation of affiliates	13	—
Total extraordinary income	69	155
Extraordinary losses:		
Loss on disposal of fixed assets	90	164
Loss on evaluation of investments in securities	45	—
Other	17	61
Total extraordinary expenses	154	225
Income before income taxes	10,388	15,156
Income taxes (current)	5,471	5,466
Income taxes (deferred)	663	401
Total income taxes	6,135	5,867
Minority interests (deduction)	(595)	341
Net income	¥ 4,849	¥ 8,947



### (3) Consolidated Statements of Cash Flows

(¥ millions)

	<b>Three Quarters of Fiscal 2009 (From April 1 to December 31, 2008)</b>	<b>Three Quarters of Fiscal 2010 (From April 1 to December 31, 2009)</b>
<b>Cash flows from operating activities</b>		
Income before income taxes	¥ 10,388	¥ 15,156
Depreciation and amortization	6,594	6,112
Increase (decrease) in accrued employees' bonuses	(1,383)	(1,541)
(Increase) decrease in trade receivables	(6,636)	(6,627)
(Increase) decrease in inventories	(4,606)	2,589
Increase (decrease) in trade payables	3,890	1,197
Other	2,777	859
Subtotal	11,024	17,745
Interest and dividends received	987	685
Interest paid	(629)	(395)
Income taxes paid	(6,964)	(5,465)
<b>Net cash provided by operating activities</b>	4,417	12,569
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(8,546)	(7,979)
Withdrawals from time deposits	9,621	8,916
Purchases of tangible fixed assets	(8,676)	(7,357)
Purchases of investments in securities	(7,954)	(1,803)
Proceeds from sale of investments in securities	4,000	1,212
Purchase of stock of subsidiaries	(1,035)	—
Other	984	(182)
<b>Net cash used in investing activities</b>	(11,607)	(7,194)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	3,852	2,766
Proceeds from long-term debt	—	3,000
Repayment of long-term debt	—	(3,000)
Purchase of treasury stock	—	(10,232)
Dividends paid	(2,058)	(2,119)
Other	(380)	(134)
<b>Net cash (used in) provided by financing activities</b>	1,413	(9,720)
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	(1,143)	1,276
<b>Net increase (decrease) in cash and cash equivalents</b>	(6,920)	(3,069)
<b>Cash and cash equivalents at beginning of term</b>	39,178	42,943
<b>Net increase in cash and cash equivalents due to the newly consolidation</b>	—	368
<b>Cash and cash equivalents at end of term</b>	¥ 32,258	¥ 40,243

#### (4) Assumptions for Going Concern

Not applicable.

#### (5) Segment Information

##### (a) Business segment information

Three Quarters Ended December 31, 2008 and 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

Three Quarters Ended December 31, 2008

	Japan	Asia	Others	Total	Inter-regional or corporate	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

Three Quarters Ended December 31, 2009

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales						
(1) Sales to outside customers	¥122,437	¥25,648	¥20,101	¥168,187	—	¥168,187
(2) Intersegment sales	11,724	1,952	108	13,786	(13,786)	—
Total	134,162	27,600	20,210	181,973	(13,786)	168,187
Operating income (loss)	12,526	1,019	1,430	14,976	(319)	14,657

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

##### (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	—	—	184,695
III. Composition ratio of overseas sales to consolidated net sales	20.5%	15.2%	35.7%

Three Quarters Ended December 31, 2009

	Asia	Others	Total
I. Overseas sales	¥29,134	¥21,791	¥50,926
II. Consolidated net sales	—	—	168,187
III. Composition ratio of overseas sales to consolidated net sales	17.3%	13.0%	30.3%

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

2. Asia: South Korea, China, Taiwan, Thailand, Singapore, Vietnam, Indonesia, Malaysia, etc.

Others: United States, Australia, New Zealand, Brazil, etc.

3. Above indicates sales of the Corporation and consolidated subsidiaries in overseas countries or regions.

### **(6) Major Changes in Shareholders' Equity**

The Corporation acquired its treasury stock of ¥10,224 million, in accordance with the resolution of directors' meeting held on September 14, 2009. At the result, number of treasury stock was 2,453 thousand shares, and total acquired value amounted ¥10,383 million, at the end of the first three quarters of the year ending March 31, 2010.