

# Consolidated Financial Results

## First Three Quarters of the Fiscal Year Ending March 2011

(April 1–December 31, 2010)

February 8, 2011

### 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 10, 2011

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: None

Information meeting of quarterly results: None

## I. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2011

(April 1–December 31, 2010; 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. 2010	¥178,453 [+6.1%]	¥19,548 [+33.4%]	¥20,600 [+35.3%]	¥12,617 [+41.0%]
Three Quarters to Dec. 2009	168,187 [-8.9%]	14,657 [+21.4%]	15,226 [+45.4%]	8,947 [+84.5%]

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. 2010	¥252.32	—
Three Quarters to Dec. 2009	167.79	—

### (2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
December 31, 2010	¥216,276	¥137,992	62.1%	¥2,737.74
March 31, 2010	222,324	142,502	62.5	2,684.46

(Reference) Equity capital: Three quarters of the year ending March 31, 2011; ¥134,315 million

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

## II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2010	—	¥20.00	—	¥22.00	¥42.00
March 2011	—	24.00	—		
March 2011 (anticipated)				24.00	48.00

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

### III. Forecast for the Fiscal Year Ending March 31, 2011 (Consolidated)

(April 1, 2010, to March 31, 2011)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
Full year	¥240,000 [+6.1%]	¥24,500 [+20.1%]	¥25,000 [+16.4%]	¥15,000 [+28.8%]	¥301.27

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

Note: Revision of fiscal year forecast in period under review: None

### IV. Other

For more information, please refer to “2. Other” information on page 6 of this report.

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

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

Note: It is changes in scope of specified subsidiaries during the three quarter period

(2) Simplified accounting method adopted: Yes

Note: It is application of simplified accounting method or special accounting method for quarterly consolidated financial reporting.

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

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

(b) Other changes than (a): None

Note: It is changes in accounting principles, procedures, or presentation, described in “Changes in Significant Accounting Policies of Consolidated Financial Statements”

(4) Number of Outstanding Shares (Common Stock)

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

December 31, 2010: 54,216,463 shares

March 31, 2010: 54,216,463 shares

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

December 31, 2010: 5,155,710 shares

March 31, 2010: 2,453,860 shares

(c) Average number of shares during the term

Three quarters ended December 31, 2010: 50,006,994 shares

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

#### \* Implementation status of quarterly 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 Company’s consolidated quarterly 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 “(3) Consolidated Performance Forecasts” on page 5 of this report.

## 1. Consolidated Performance

### (1) Operating Results

In the first three quarters under review (April 1–December 31, 2010), the Japanese economy remained in a state of flux, due mainly to a credit squeeze in financial markets, centering on Europe, as well as a severe employment situation in Japan and the impact of the yen's appreciation on corporate performances. This was despite moderate turnaround in the U.S. economy and signs of recovery buoyed by robust economic growth among newly emerging nations.

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 marketing conditions remained difficult, however, in the absence of full-scale recovery.

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 and delivered heating products optimized to suit various world nations, with the aim of advancing our operations on a global scale.

With respect to revenue, in Japan we reported healthy sales of built-in stoves, which are easier to clean and feature upgraded functions over previous models. We also posted higher sales of our Eco Jozu line of bathwater heaters. Launched in the previous fiscal year, these models are lighter and more compact than ever before.

Overseas, sales were generally firm. Highlights included increased sales of instant-heating (tankless) hot-water units in North America in the wake of economic recovery, as well as sales growth for energy-saving products in Australia thanks to rising environmental awareness. Other factors included higher sales of gas-related equipment in newly emerging nations, buoyed by economic growth and expansion of infrastructure.

On the earnings side, despite the impact of soaring raw materials prices, we reduced costs by manufacturing core products in-house and embarked on a Group-wide effort to lower operating expenses. These actions contributed to our bottom line. Earnings were also bolstered by higher revenue stemming from healthy overseas sales. As a result, we achieved a year-on-year increase in profits.

As a result, consolidated net sales for the period amounted to ¥178,453 million, up 6.1% from the previous corresponding period. Operating income increased 33.4%, to ¥19,548 million, and ordinary income rose 35.3%, to ¥20,600 million. Net income jumped 41.0%, to ¥12,617 million.

Our results by geographical segment were as follows:

#### *Japan*

In hot-water units, we reported healthy sales of the RUF-E series, offering improvements in compactness and weight reduction, which contributed to expansion and proliferation of high-efficiency units. In kitchen appliances, we enjoyed solid demand for the premium-grade Delicia series, featuring enhancements in design and ease of cooking and cleaning. We also benefited from steady replacement demand for the Mytone lineup of stoves ranging from mid-level to high-end models. As a result,

sales in Japan totaled ¥123,897 million, and operating income was ¥14,426 million.

### **South Korea**

In hot-water units, growth in replacement demand and a cold snap at the beginning of the year helped boost sales of gas boilers. In commercial-use equipment, sales of steam ovens increased on the back of government subsidies for schools. Accordingly, sales in South Korea amounted to ¥16,134 million, and operating income totaled ¥579 million.

### **North America**

In North America, the introduction by government of cuts in residential taxes had only a limited impact on the market for tankless hot-water units. Nevertheless, we reported solid sales thanks to growing local awareness of the Rinnai brand and environmental protections measures. Sales in North America totaled ¥9,885 million, and operating income was ¥717 million.

### **Australia**

In Australia, we enjoyed healthy sales of hot-water units thanks to the adoption of progressive environmental measures. These include termination of sales of electric storage-type (tank-based) hot-water units, as well as provision of subsidies for the purchase of gas and solar hot-water units featuring exceptional energy-saving performance. In air-conditioning and heating units, we reported steady sales of fan-forced heaters thanks to government subsidies to public schools, which stimulated replacement demand for open-type heaters. Sales in Australia amounted to ¥12,104 million, and operating income totaled ¥2,181 million.

### **China**

Demand for household appliances in China increased thanks growing internal demand and the proliferation of natural gas usage. In addition to the Shanghai area, we enjoyed firm sales of gas appliances in interior regions of that nation. Accordingly, sales in China totaled ¥8,311 million, and operating income was ¥468 million.

(For references 1)

### **Sales Composition by Business Segment**

(¥ millions; %)

	Three Quarters to Dec. 31, 2009		Three Quarters to Dec. 31, 2010		Change		Year to March 31, 2010	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥ 60,513	36.0%	¥ 62,003	34.7%	¥ 1,490	2.5%	¥ 78,669	34.8%
Hot-water units	73,613	43.8	81,200	45.5	7,586	10.3	105,906	46.8
Air-conditioning and heating units	12,592	7.5	13,345	7.5	752	6.0	14,635	6.5
Commercial-use equipment	4,705	2.8	5,074	2.8	369	7.9	6,268	2.8
Others	16,762	10.0	16,828	9.4	66	0.4	20,636	9.1
Total	¥168,187	100.0%	¥178,453	100.0%	¥10,265	6.1%	¥226,117	100.0%

(For references 2)

### **Overseas Sales**

(¥ millions; %)

	Three Quarters to Dec. 31, 2009			Three Quarters to Dec. 31, 2010		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥29,134	¥21,791	¥50,926	¥32,421	¥27,067	¥59,489
II. Consolidated net sales	—	—	168,187	—	—	178,453
III. Composition ratio of overseas sales to consolidated net sales	17.3%	13.0%	30.3%	18.2%	15.2%	33.3%

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

### **(2) Financial Position**

As of December 31, 2010, Rinnai had total assets of ¥216,276 million, down ¥6,048 million from March 31, 2010. Total liabilities declined ¥1,538 million, to ¥78,283 million. Net assets fell ¥4,509 million, to ¥137,992 million. The equity ratio at the end of the period was 62.1%.

### **Cash Flows**

Cash and cash equivalents at December 31, 2010, stood at ¥34,801 million, down ¥11,769 million from March 31, 2010.

Net cash provided by operating activities amounted to ¥10,917 million, down 13.1% from the previous corresponding period. Factors included the secured operating income, which contrasted with the negative effect of an increase in income taxes paid.

Net cash used in investing activities totaled ¥6,647 million, down 7.6% from the previous corresponding period. Main factors included purchases of fixed assets.

Net cash used in financing activities was ¥15,628 million, up 60.8% from the previous corresponding period. This was due mainly to purchases of treasury stock and cash dividends paid.

### **(3) Consolidated Performance Forecasts**

Rinnai has not changed its latest forecasts for the full-year period ending March 31, 2011. (Those forecasts were detailed in “Announcement of Revised Performance Forecasts,” released on October 29, 2010.)

## **2. Other**

### **(1) Changes to major subsidiaries during the period**

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**

#### **(i) Application of accounting method for asset retirement obligations**

From the first quarter of the year ending 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).

Effect of the change to operating income, ordinary income and income before income taxes is negligible.

#### **(ii) Application of equity accounting method, and practical solution on unification of accounting policies applied to affiliated companies under equity method**

From the first quarter of the year ending 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).

Effect of the change to ordinary income and income before income taxes is negligible.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At December 31, 2010 (Three Quarters of Fiscal 2011)	At March 31, 2010 (Fiscal 2010)
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥ 26,474	¥ 25,248
Notes and accounts receivable	59,634	53,133
Marketable securities	18,624	29,242
Products	14,547	13,336
Raw materials and stores	9,469	9,381
Other	4,358	3,906
Less allowance for doubtful accounts	(1,003)	(725)
Total current assets	132,105	133,522
Fixed assets		
Property, plant and equipment	42,506	43,416
Intangible fixed assets	1,598	1,490
Investments and advances		
Investments in securities	28,087	31,888
Other	12,732	12,828
Less allowance for doubtful accounts	(754)	(821)
Total investments and advances	40,064	43,895
Total fixed assets	84,170	88,802
<b>Total assets</b>	<b>¥216,276</b>	<b>¥222,324</b>

(¥ millions)

	<b>At December 31, 2010 (Three Quarters of Fiscal 2011)</b>	<b>At March 31, 2010 (Fiscal 2010)</b>
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 41,627	¥39,092
Short-term debt	7,505	8,123
Accrued income taxes	2,904	5,344
Accrued employee's bonuses	1,018	2,706
Other allowances	1,646	1,580
Other	13,418	13,003
Total current liabilities	68,120	69,851
Long-term liabilities		
Long-term debt	2,810	2,859
Accrued employees' retirement benefits	4,616	4,553
Other allowances	51	45
Other	2,685	2,513
Total long-term liabilities	10,163	9,971
<b>Total liabilities</b>	<b>78,283</b>	<b>79,822</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	144,865	134,563
Treasury stock	(23,463)	(10,386)
Total shareholders' equity	136,581	139,356
Other adjustments:		
Unrealized gain on marketable securities	(514)	176
Foreign exchange translation adjustment	(1,751)	(578)
Total other adjustments	(2,266)	(402)
Minority interests	3,677	3,547
<b>Total net assets</b>	<b>137,992</b>	<b>142,502</b>
<b>Total liabilities and net assets</b>	<b>¥216,276</b>	<b>¥222,324</b>



**(2) Consolidated Statements of Income**

(¥ millions)

	<b>Three Quarters of Fiscal 2010 (From April 1 to December 31, 2009)</b>	<b>Three Quarters of Fiscal 2011 (From April 1 to December 31, 2010)</b>
Net sales	¥168,187	¥178,453
Cost of sales	117,639	122,637
Gross profit	50,547	55,815
Selling, general and administrative expenses	35,890	36,267
Operating income	14,657	19,548
Other income:		
Interest income	420	584
Equity in earnings of affiliates	356	593
Other	631	641
Total other income	1,408	1,818
Other expenses:		
Interest expenses	378	244
Foreign exchange loss	425	474
Other	36	47
Total other expenses	839	766
Ordinary income	15,226	20,600
Extraordinary income:		
Gain on sales of fixed assets	93	—
Gain on sales of investment securities	—	183
Reversal from allowance for doubtful accounts	62	—
Other	—	10
Total extraordinary income	155	193
Extraordinary losses:		
Loss on retirement of fixed assets	164	163
Inspection cost	—	526
Transfer to allowance for inspection cost	—	83
Other	61	122
Total extraordinary expenses	225	895
Income before income taxes	15,156	19,898
Income taxes (current)	5,466	5,931
Income taxes (deferred)	401	952
Total income taxes	5,867	6,883
Income before minority interest	—	13,015
Minority interests	341	397
Net income	¥ 8,947	¥ 12,617

### (3) Consolidated Statements of Cash Flows

(¥ millions)

	<b>Three Quarters of Fiscal 2010 (From April 1 to December 31, 2009)</b>	<b>Three Quarters of Fiscal 2011 (From April 1 to December 31, 2010)</b>
<b>Cash flows from operating activities</b>		
Income before income taxes	¥ 15,156	¥ 19,898
Depreciation and amortization	6,112	5,740
Increase (decrease) in accrued employees' bonuses	(1,541)	(1,680)
(Increase) decrease in trade receivables	(6,627)	(7,276)
(Increase) decrease in inventories	2,589	(1,943)
Increase (decrease) in trade payables	1,197	3,034
Other	859	852
Subtotal	17,745	18,625
Interest and dividends received	685	795
Interest paid	(395)	(250)
Income taxes paid	(5,465)	(8,252)
<b>Net cash provided by operating activities</b>	<b>12,569</b>	<b>10,917</b>
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(7,979)	(5,268)
Withdrawals from time deposits	8,916	4,968
Purchases of tangible fixed assets	(7,357)	(6,404)
Purchases of investments in securities	(1,803)	(4,239)
Proceeds from sale of investments in securities	1,212	5,110
Other	(182)	(813)
<b>Net cash used in investing activities</b>	<b>(7,194)</b>	<b>(6,647)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	2,766	(89)
Proceeds from long-term debt	3,000	—
Repayment of long-term debt	(3,000)	—
Purchase of treasury stock	(10,232)	(13,078)
Dividends paid	(2,119)	(2,316)
Other	(134)	(144)
<b>Net cash used in financing activities</b>	<b>(9,720)</b>	<b>(15,628)</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>1,276</b>	<b>(410)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,069)</b>	<b>(11,769)</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>42,943</b>	<b>46,570</b>
<b>Net increase in cash and cash equivalents due to the newly consolidation</b>	<b>368</b>	<b>—</b>
<b>Cash and cash equivalents at end of term</b>	<b>¥ 40,243</b>	<b>¥ 34,801</b>

#### (4) Assumptions for Going Concern

Not applicable.

#### (5) Segment Information

##### (a) Business segment information

###### Three Quarters of the Fiscal Year Ended March 31, 2010 (From April 1 to December 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

###### Three Quarters of the Fiscal Year Ended March 31, 2010 (From April 1 to 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 of the Fiscal Year Ended March 31, 2010 (From April 1 to 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.

##### (d) Reportable Segments

###### Summary of Reportable Segments

The Corporations consists of the following major geographic group, and the separated financial data by the respective region is available. Based on the geographic segment, managements of the Corporations review and evaluate its performance regularly to decide distribution of its management resources.

The Corporations are engaged in the manufacturing and marketing of gas appliances. Basically, the Corporation and its domestic subsidiaries are in charge of business activities in Japan, and its overseas subsidiaries in South Korea, United States and other regions, are in charge of business activities in the respective regions. Management of each local subsidiary is independent, and they execute their operations based on their own comprehensive strategy such as product line in the region.

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

***Sales and Income by New Regional Segment*****Three Quarters of the Fiscal Year Ending March 31, 2011 (From April 1 to December 31, 2010)**

	Reportable Segments					Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	South Korea	United States	Australia	China			
Net sales								
(1) Sales to outside customers	¥123,897	¥16,134	¥9,885	¥12,104	¥8,311	¥8,119	—	¥178,453
(2) Intersegment sales	13,049	197	41	2	943	1,180	(15,414)	—
Total	136,946	16,331	9,927	12,107	9,254	9,299	(15,414)	178,453
Income (loss)	14,426	579	717	2,181	468	1,073	100	19,548

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 first quarter of the year ending 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).

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

The Corporation acquired its treasury stock of ¥13,068 million, in accordance with the resolution of directors' meeting held on June 14, 2010. At the result, number of treasury stock was 5,155 thousand shares, and balances on book value basis amounted ¥23,463 million, at the end of the first three quarters of the year ending March 31, 2011.