

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2010

(April 1, 2009 to September 30, 2009)

November 5, 2009

Listed Company Name: Rinnai Corporation

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

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Anticipated date for releasing quarterly securities report: November 12, 2009

Anticipated date to begin distributing dividends: December 8, 2009

1. Performance for the six months ended September 30, 2009

(April 1, 2009 – September 30, 2009; 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 2009	¥ 102,030 (-10.9)	¥ 6,701 (+5.9)	¥7,009 (+14.2)	¥4,043 (+22.8)
Two-quarter total at September 2008	114,479 (—)	6,329 (—)	6,138 (—)	3,292 (—)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2009	¥74.89	—
Two-quarter total at September 2008	60.77	—

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

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
Two-quarter total at September 2009	¥206,609	¥134,710	¥63.6	¥2,540.22
Full-year at March 2009	210,825	138,794	64.5	2,510.60

(Reference) Equity capital : Six months ended September 30, 2009; ¥131,491 million

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

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	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: Changes on the forecast at the second quarter: None

3. Forecast for the Fiscal Year Ending March 31, 2010

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥228,000 (-3.7)	¥17,000(+12.8)	¥18,000 (+38.9)	¥10,000(+159.9)	¥188.81

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

Note: Changes on the forecast at the second 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

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: 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)

Six months ended September 30, 2009: 54,216,463 shares

Year ended March 31, 2009: 54,216,463 shares

(b) Number of treasury stock at term-end

Six months ended September 30, 2009: 2,452,424 shares

Year ended March 31, 2009: 51,119 shares

(c) Average number of shares during the term

Six months ended September 30, 2009: 53,993,082 shares

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

Notes 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” in the following pages.

Performance Summary and Financial Statements

1. Consolidated Business Results

In the two-quarter period under review (six months ended September 30, 2009), the Japanese economy showed some signs of a turnaround owing to government measures aimed at stimulating personal consumption, as well as the completion of inventory adjustments in the corporate sector. Due to worsening employment conditions and concerns about a global economic downturn, however, the severity of the economic situation cannot be discounted.

In the domestic housing appliance industry, new housing starts remained significantly below previous-year levels amid deteriorating employment and worker income conditions. Moreover, positive signs in the home renovation market are yet to appear.

Facing these challenges, the Rinnai Group pursued management strategies focusing on the “Reform” aspect of its medium-term business plan, entitled “Reform and Breakthrough,” which was launched in the current fiscal year. Despite the impact of falling domestic housing starts, we reported healthy sales of new built-in stoves in the Kitchen Appliances segment, thanks to solid replacement demand. Sales of table-top stoves also grew steadily. In the Hot-Water Units segment, domestic sales remained mostly unchanged from the previous corresponding period thanks to healthy orders for new hot-water/heating systems that are significantly lighter than previous models. Despite the strong impact of economic recession in South Korea and North America, the active implementation of environmental measures, prompted by growing worldwide environmental awareness, helped boost sales of the Group’s environment-related products. Thanks also to the synergistic benefits of rising brand recognition in major nations, we reported generally healthy results. However, the yen’s ongoing appreciation caused overseas sales to decline considerably.

On the earnings side, we rigorously eliminated duplication and waste and otherwise promoted measures aimed at strengthening our Group-wide earnings base. Specific actions included controlling the quality and costs of core products and reducing manufacturing-related fixed costs. We also aggressively enhanced the operations of our South Korean subsidiary and cut advertising and sales promotional costs at our sales subsidiaries.

Accordingly, consolidated net sales in the two-quarter period amounted to ¥102,030 million, down 10.9% from the previous corresponding period. Operating income rose 5.9%, to ¥6,701 million, and ordinary income climbed 14.2%, to ¥7,009 million. Net income for the period grew 22.8%, to ¥4,043 million.

Our results by business segment are summarized below.

Kitchen Appliances

Despite the negative impact of languishing housing starts on our system kitchen stoves for new residential units, domestic sales in this segment benefited from solid demand for the *Mytone* series of gas stoves, which offer superior cooking performance, ease of operation, and attractive designs. Overseas, sales of ovens were affected by unstable housing demand in South Korea. Accordingly, sales in this segment amounted to ¥36,337 million, down 6.3% from the previous corresponding period.

Hot-Water Units

In Japan, we reported an increase in sales of the *RVD-E* series of hot-water/heating systems, featuring major advances over previous models in terms of being lightweight and easy to use. These products are part of our highly efficient *Eco-Jozu* series of hot-water/heating systems, which are very friendly to the environment. However, overall overseas sales were affected by foreign exchange

factors and market stagnation stemming from prolonged economic recession in the United States. As a result, total segment sales declined 9.0%, to ¥45,874 billion.

Air-Conditioning and Heating Units

This segment benefited from generally firm demand in Oceania, where demand for heating units was in high season. Due to the negative impact of foreign exchange factors, however, total sales in this segment fell 23.1%, to ¥6,531 million.

Net sales by business segment

(¥ millions)

	Previous term (April 1, 2008, to Sept. 30, 2008)		First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2010)		Change		Year ended March 31, 2009 (April 1, 2008, to March 31, 2009)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Kitchen appliances	38,781	33.9	36,337	35.6	(2,444)	-6.3	81,166	34.3
Hot-water units	50,414	44.0	45,874	45.0	(4,539)	-9.0	106,567	45.0
Air-conditioning and heating units	8,496	7.4	6,531	6.4	(1,964)	-23.1	17,309	7.3
Commercial-use equipment	3,434	3.0	2,974	2.9	(459)	-13.4	6,226	2.6
Others	13,351	11.7	10,311	10.1	(3,039)	-22.8	25,470	10.8
Total	114,479	100.0	102,030	100.0	(12,448)	-10.9	236,741	100.0

2. Consolidated Financial Position

At September 30, 2009, Rinnai had total assets of ¥206,609 million, down ¥4,216 million from March 31, 2009. During the period under review, total liabilities declined ¥132 million, to ¥71,898 million, and net assets fell ¥4,083 million, to ¥134,710 million. The equity ratio at the end of the period was 63.6%.

Cash and cash equivalents at September 30, 2009, stood at ¥36,773 million, down ¥6,169 million from March 31, 2009.

Net cash provided by operating activities amounted to ¥8,190 million, compared with ¥2,045 million in net cash used in such activities in the previous corresponding period. Contributing to cash flows was a solid operating income figure and a decrease in notes and accounts receivable, with a decrease in trade payable.

Net cash used in investing activities totaled ¥5,060 million, down 8.1% from the previous corresponding period. Main factors included purchases of fixed assets and purchases of investment securities.

Net cash used in financing activities was ¥10,919 million, compared with ¥3,509 million in net cash provided by such activities in the previous corresponding period. Main factors included purchases of treasury stock and cash dividends paid.

3. Consolidated Performance Forecasts

Rinnai has not changed its initial performance forecasts for the fiscal year ending March 31, 2010. (Those forecasts were announced on May 11, 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

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 Quarterly Financial Statements
(1) Consolidated Balance Sheets

(¥ millions)

	At Sept. 30, 2009 (First two quarters for the year ending March 31, 2009)	At March, 2009 (Year ended March 31, 2009)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	21,951	21,728
Notes and accounts receivable	52,537	51,972
Marketable securities	22,000	30,633
Products	16,032	16,213
Raw materials and stores	9,611	9,224
Other	4,017	3,619
Less allowance for doubtful accounts	(2,264)	(1,875)
Total current assets	123,886	131,517
Fixed assets		
Property, plant and equipment	43,472	41,332
Intangible fixed assets	1,491	1,409
Investments and advances		
Investments in securities	26,108	25,376
Other	12,750	12,239
Less allowance for doubtful accounts	(1,099)	(1,048)
Total investments and advances	37,759	36,567
Total fixed assets	82,723	79,308
Total assets	206,609	210,825

(¥ millions)

	At Sept. 30, 2009 (First two quarters for the year ending March 31, 2009)	At March, 2009 (Year ended March 31, 2009)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	35,852	37,696
Short-term debt	10,670	6,807
Accrued consumption taxes	3,027	3,240
Accrued employee's bonuses	2,791	2,448
Other allowances	255	271
Other	12,477	11,992
Total current liabilities	65,074	62,456
Long-term liabilities		
Long-term debt	2	3,000
Accrued employees' retirement benefits	4,513	4,242
Other allowances	43	62
Other	2,264	2,270
Total long-term liabilities	6,823	9,575
Total liabilities	71,898	72,031
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	127,999	125,336
Treasury stock	(10,380)	(151)
Total shareholders' equity	132,798	140,364
Other adjustments:		
Unrealized gain on marketable securities	(189)	(1,471)
Foreign exchange translation adjustment	(1,117)	(2,905)
Total other adjustments	(1,306)	(4,377)
Minority interests	3,218	2,806
Total net assets	134,710	138,794
Total liabilities and net assets	206,609	210,825

(2) Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2009 (April 1, 2008, to Sept. 30, 2008)	First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2009)
	Amount	Amount
Net sales	114,479	102,030
Cost of Sales	81,741	71,847
Gross Profit	32,737	30,182
Selling, general and administrative expenses	26,407	23,481
Operating income	6,329	6,701
Other income:		
Interest income	474	268
Equity in earnings of affiliates	340	190
Other	403	548
Total other income	1,219	1,008
Other expenses:		
Interest expenses	428	250
Foreign exchange loss	938	424
Other	44	25
Total other expenses	1,411	700
Ordinary income	6,138	7,009
Extraordinary income:		
Gain on sales of fixed assets	37	76
Reversal from allowance for doubtful accounts	11	65
Gain on liquidation of affiliates	13	-
Total extraordinary income	62	141
Extraordinary losses:		
Loss on disposal of fixed assets	53	77
Loss on devaluation of investments in securities	39	56
Other	10	30
Total extraordinary losses	103	164
Income before income taxes	6,097	6,985
Income taxes:		
Current	3,391	3,075
Deferred	(332)	(336)
Total income taxes	3,059	2,739
Minority interests (deduction)	(253)	203
Net income	3,292	4,043

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2009 (April 1, 2008, to Sept. 30, 2008)	First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2009)
Cash flows from operating activities		
Income before income taxes	6,097	6,985
Depreciation and amortization	4,070	3,815
Increase (decrease) in accrued employees' bonuses	420	339
Decrease(increase) in trade receivables	4,416	2,438
Decrease (increase) in inventories	(5,575)	717
Increase (decrease) in trade payables	(409)	(3,835)
Other	(6,868)	732
Subtotal	2,151	11,194
Interest and dividends received	706	569
Interest paid	(422)	(270)
Income taxes paid	(4,479)	(3,303)
Net cash provided by (used in) operating activities	(2,045)	8,190
Cash flows from investing activities		
Transfers to time deposits	(6,336)	(4,897)
Withdrawals from time deposits	6,393	6,505
Purchases of tangible fixed assets	(4,833)	(5,367)
Purchases of investments in securities	(3,639)	(1,768)
Other	2,910	466
Net cash used in investing activities	(5,505)	(5,060)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	4,846	425
Purchase of treasury stock	-	(10,229)
Dividends paid	(974)	(1,083)
Other	(362)	(32)
Net cash (used in) provided by financing activities	3,509	(10,919)
Effect of exchange rate fluctuations on cash and cash equivalents	632	1,251
Net (decrease) increase in cash and cash equivalents	(3,408)	(6,538)
Cash and cash equivalents at beginning of term	39,178	42,943
Increase of cash and cash equivalents due to the newly consolidation	-	368
Cash and cash equivalents at end of term	35,770	36,773

(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 ended March 31, 2009 (April 1, 2008, to Sept. 30, 2008)

First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2009)

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 ended March 31, 2009 (April 1, 2008, to Sept. 30, 2008)

(¥ millions)

	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

First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2009)

(¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales and operating results						
(1) Sales for clients	72,810	16,086	13,133	102,030	—	102,030
(2) Intersegment sales	7,676	1,376	95	9,147	(9,147)	—
Total	80,486	17,463	13,228	111,177	(9,147)	102,030
Operating income (loss)	5,453	554	1,023	7,031	(329)	6,701

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 ended 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%

First two quarters for the year ending March 31, 2010 (April 1, 2009, to Sept. 30, 2009)

	Asia	Other regions	Total
I. Overseas sales	18,379	14,335	32,714
II. Consolidated net sales	—	—	102,030
III. Composition ratio of overseas sales to consolidated net sales	18.0%	14.1%	32.1%

- Notes: 1. Classification of the above regions is based on geographical proximity.
2. Composition of Asia: South Korea, China, Taiwan, Thailand, Singapore, Vietnam, Indonesia, and Malaysia
Composition of Others: United States, Australia, New Zealand and Brazil.
3. The above net sales indicate sales of the Corporations in overseas countries or regions.

(6) Notes to Significant Changes on Shareholders' Equity

The Corporation acquired its treasury stock of ¥10,224 million, in accordance with the resolution by directors' meeting on September 14, 2009. At the result, the number of treasury stock and total acquisition cost are 1,452 thousand shares and ¥10,380 million, respectively, at the end of the two-quarter period under review.