

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2011

(April 1–June 30, 2010)

August 5, 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: August 6, 2010

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: None

Information meeting of quarterly results: None

I. Performance in the First Quarter of the Fiscal Year Ending March 31, 2011

(April 1– June 30, 2010; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
First Quarter to June 2010	¥52,217 [+13.6%]	¥4,526 [+88.3%]	¥4,944 [+85.3%]	¥2,815 [+77.5%]
First Quarter to June 2009	45,970 [-11.7]	2,403 [+ 3.0]	2,668 [+29.1]	1,586 [+42.6]

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
First Quarter to June 2010	¥54.75	—
First Quarter to June 2009	29.29	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
June 30, 2010	¥209,512	¥131,386	60.9%	¥2,602.14
March 31, 2010	222,324	142,502	62.5	2,684.46

(Reference) Equity capital: First quarter of the year ending March 31, 2011; ¥127,666 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
June 2010	—				
March 2011 (anticipated)		22.00	—	22.00	44.00

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 (¥)
First half	¥111,000 [+8.8%]	¥ 8,000 [+19.4%]	¥ 8,500 [+21.3%]	¥4,900 [+21.2%]	¥ 94.66
Full year	241,000 [+6.6%]	22,000 [+7.9]	23,000 [+7.1]	13,000 [+11.7]	251.15

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

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 first 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)

June 30, 2010: 54,216,463 shares

March 31, 2010: 54,216,463 shares

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

June 30, 2010: →5,154,215 shares

March 31, 2010: 2,453,860 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2011: 51,424,873 shares

First quarter of the fiscal year ended March 2010: 54,164,813 shares

* Implementation status of quarterly review process

This report is subject to 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 had been 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 quarter under review (three months ended June 30, 2010), the world economy remained in a state of overall uncertainty due to fluctuating financial markets, especially in Europe, as well as concerns that a credit squeeze may spark a double-dip recession. This was despite a recovery in the U.S. economy and growing demand in newly emerging nations, which bolstered exports from Japan, as well as signs of a turnaround in corporate earnings.

In the domestic housing appliance industry, new housing starts began to show signs of bottoming and firming up, thanks to the government's eco-point system for housing and stimulus measures, including reduced taxes on home loans. The overall market remained weak, however, in the absence of full-scale recovery in demand for condominiums.

Facing these conditions, the Rinnai Group entered the second year of its medium-term business plan, entitled "Reform and Breakthrough." During the first quarter under review, we targeted major global advances as a comprehensive manufacturer of heating appliances by supplying optimal heat energy equipment matched to the conditions of various regions. We also stepped up efforts to expand revenue by entering new markets.

With respect to revenue, we reported healthy growth in domestic sales, reflecting the successful launch of new products in our mainstay lines. These included tabletop stoves that are easier to clean than previous models, as well as built-in stoves featuring improved ease of operation and lower prices. Also popular was our Eco Jozu line, which now includes bath-water heating models. Launched in the previous fiscal year, these products incorporate weight-reduction technologies used in our hot-water/heating systems. Overseas, sales of hot-water units in North America recovered amid economic buoyancy in that region, while sales of energy-saving products increased in Australia, reflecting growing environmental awareness. Increased revenue stemming from demand growth in various Asian nations also made a significant contribution. Accordingly, we reported a steady overall rise in overseas sales.

On the earnings side, we enjoyed the benefits of higher revenue and company-wide cost improvement efforts. Due to higher-than-expected prices of raw materials, however, the increase in earnings in the period under review was limited.

As a result, consolidated net sales for the period amounted to ¥52,217 million, up 13.6% from the previous corresponding period. Operating income jumped 88.3%, to ¥4,526 million, and ordinary income surged 85.3%, to ¥4,944 million. During the period, the Company established a reserve for inspection expenses associated with free-of-charge exchange of gas rice cooker components. Nevertheless, we posted a 77.5% increase in net income, to ¥2,815 million.

Our results by geographical segment were as follows:

Japan

In hot-water units, the Eco Jozu RUF-E series of bath-water heaters, launched in February 2010, proved popular due to their reduced weight, thus contributing to domestic sales. In kitchen appliances, we enjoyed healthy demand for the My Tone series of built-in stoves offering ease of cooking and operation and attractive design. The Flat & Clean line of tabletop stoves, easier to clean than before, also benefited from steady replacement demand. As a result, sales in Japan totaled ¥35,065 million, and

operating income was ¥3,070 million.

South Korea

In hot-water units, a cold snap at the beginning of the year helped boost sales of boilers. In kitchen appliances, sales benefited from increased demand for glass-top stoves that have attractive designs and are easy to clean. Accordingly, sales in South Korea amounted to ¥5,884 million. During the period, we posted a substantial improvement in earnings, reflecting the success of business reforms. Operating income in South Korea totaled ¥215 million.

North America

During the period, we reaped the benefits of upgrades to our product lineup, which contributed significantly to revenue. These included an increase in sales of tankless hot-water units on the back of economic recovery and environmental measures. We also launched high-efficiency condensing-type hot-water units and boilers. Sales in North America totaled ¥3,144 million, and operating income was ¥261 million.

Australia

In Australia, the adoption of progressive environmental measures has led to heightened environmental awareness among consumers. Such measures include prohibition of electric storage-type hot-water systems for new buildings by the end of 2010. These factors underscored healthy sales of gas and solar hot-water units in the period under review. Sales in Australia amounted to ¥3,186 million, and operating income totaled ¥572 million.

China

In China, economic growth together with expanded gas infrastructure helped boost demand in interior regions as well as coastal areas. During the period, sales of water heaters and stoves contributed significantly to revenue. An increase in new housing starts also bolstered sales of range hoods. Accordingly, sales in China totaled ¥2,402 million, and operating income was ¥124 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2009		First Quarter to June 30, 2010		Change		Year to March 31, 2010	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥16,967	36.9%	¥18,124	34.7%	¥1,157	6.8%	¥ 78,669	34.8%
Hot-water units	21,412	46.6	25,163	48.2	3,751	17.5	105,906	46.8
Air-conditioning and heating units	1,420	3.1	1,693	3.2	272	19.2	14,635	6.5
Commercial-use equipment	1,289	2.8	1,673	3.2	384	29.8	6,268	2.8
Others	4,880	10.6	5,561	10.7	680	13.9	20,636	9.1
Total	¥45,970	100.0%	¥52,217	100.0%	¥6,246	13.6%	¥226,117	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2009			First Quarter to June 30, 2010		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥8,694	¥5,131	¥13,826	¥11,039	¥7,725	¥18,765
II. Consolidated net sales	—	—	45,970	—	—	52,217
III. Composition ratio of overseas sales to consolidated net sales	18.9%	11.2%	30.1%	21.1%	14.8%	35.9%

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

(2) Financial Position

As of June 30, 2010, Rinnai had total assets of ¥209,512 million, down ¥12,812 million from March 31, 2010. The decline stemmed largely from a decrease in marketable securities as the Company used capital to purchase treasury stock.

Total liabilities declined ¥1,696 million, to ¥78,125 million. Net assets fell ¥11,115 million, to ¥131,386 million, due mainly to the Company's active purchases of treasury stock. The equity ratio at the end of the period was 60.9%.

Cash Flows

Cash and cash equivalents at June 30, 2010, stood at ¥34,504 million, down ¥12,065 million from March 31, 2010.

Net cash provided by operating activities amounted to ¥3,392 million, down 5.6% from the previous corresponding period. Factors included the secured operating income and a decrease in notes and accounts receivable, which contrasted with the negative effects of an increase in inventories and income taxes paid.

Net cash used in investing activities totaled ¥2,314 million, down 9.9% from the previous corresponding period. Main factors included purchases of fixed assets.

Net cash used in financing activities was ¥13,407 million, compared with ¥24 million in the previous corresponding period. This was due mainly to purchases of treasury stock and dividends paid.

(3) Consolidated Performance Forecasts

Rinnai has not changed its initial forecasts for the full-year period ending March 31, 2011. (Those forecasts were announced on May 11, 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 June 30, 2010 (First Quarter of Fiscal 2011)	At March 31, 2010 (Fiscal 2010)
ASSETS:		
Current assets		
Cash and deposits	¥ 23,884	¥ 25,248
Notes and accounts receivable	48,609	53,133
Marketable securities	19,438	29,242
Products	15,883	13,336
Raw materials and stores	10,141	9,381
Other	5,715	3,906
Less allowance for doubtful accounts	(1,066)	(725)
Total current assets	122,606	133,522
Fixed assets		
Property, plant and equipment	43,770	43,416
Intangible fixed assets	1,585	1,490
Investments and advances		
Investments in securities	29,275	31,888
Other	13,089	12,828
Less allowance for doubtful accounts	(816)	(821)
Total investments and advances	41,549	43,895
Total fixed assets	86,905	88,802
Total assets	¥209,512	¥222,324

(¥ millions)

	At June 30, 2010 (First Quarter of Fiscal 2011)	At March 31, 2010 (Fiscal 2010)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 37,441	¥39,092
Short-term debt	9,322	8,123
Accrued income taxes	2,313	5,344
Accrued employee's bonuses	1,021	2,706
Other allowances	2,234	1,580
Other	15,510	13,003
Total current liabilities	67,842	69,851
Long-term liabilities		
Long-term debt	2,856	2,859
Accrued employees' retirement benefits	4,745	4,553
Other allowances	47	45
Other	2,634	2,513
Total long-term liabilities	10,283	9,971
Total liabilities	78,125	79,822
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	136,240	134,563
Treasury stock	(23,456)	(10,386)
Total shareholders' equity	127,964	139,356
Other adjustments:		
Unrealized gain on marketable securities	(295)	176
Foreign exchange translation adjustment	(2)	(578)
Total other adjustments	(297)	(402)
Minority interests	3,719	3,547
Total net assets	131,386	142,502
Total liabilities and net assets	¥209,512	¥222,324

(2) Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2010 (From April 1 to June 30, 2009)	First Quarter of Fiscal 2011 (From April 1 to June 30, 2010)
Net sales	¥45,970	¥52,217
Cost of sales	32,484	35,810
Gross profit	13,485	16,407
Selling, general and administrative expenses	11,082	11,880
Operating income	2,403	4,526
Other income:		
Interest income	144	190
Dividends received	123	147
Equity in earnings of affiliates	66	221
Other	184	156
Total other income	518	716
Other expenses:		
Interest expenses	112	80
Foreign exchange loss	125	171
Other	16	46
Total other expenses	253	297
Ordinary income	2,668	4,944
Extraordinary income:		
Gain on sales of fixed assets	74	—
Gain on sales of investment securities	—	46
Reversal from allowance for doubtful accounts	13	—
Total extraordinary income	88	46
Extraordinary losses:		
Loss on disposal of fixed assets	14	—
Loss on retirement of fixed assets	23	19
Transfer to allowance for inspection cost	—	610
Other	3	87
Total extraordinary expenses	41	717
Income before income taxes	2,715	4,273
Income taxes (current)	1,734	2,071
Income taxes (deferred)	(655)	(751)
Total income taxes	1,079	1,319
Income before minority interest	—	2,954
Minority interests	49	138
Net income	¥ 1,586	¥ 2,815

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First Quarter of Fiscal 2010 (From April 1 to June 30, 2009)	First Quarter of Fiscal 2011 (From April 1 to June 30, 2010)
Cash flows from operating activities		
Income before income taxes	¥ 2,715	¥ 4,273
Depreciation and amortization	1,769	1,685
Increase (decrease) in accrued employees' bonuses	(1,520)	(1,686)
(Increase) decrease in trade receivables	7,757	4,921
(Increase) decrease in inventories	(1,770)	(3,035)
Increase (decrease) in trade payables	(4,222)	(1,853)
Other	1,629	3,873
Subtotal	6,357	8,177
Interest and dividends received	276	345
Interest paid	(131)	(88)
Income taxes paid	(2,910)	(5,041)
Net cash provided by operating activities	3,592	3,392
Cash flows from investing activities		
Transfers to time deposits	(1,661)	(1,417)
Withdrawals from time deposits	2,223	1,715
Purchases of tangible fixed assets	(2,871)	(2,415)
Purchases of investments in securities	(762)	(330)
Other	503	133
Net cash used in investing activities	(2,568)	(2,314)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	1,087	823
Purchase of treasury stock	—	(13,069)
Dividends paid	(1,083)	(1,138)
Other	(28)	(22)
Net cash used in financing activities	(24)	(13,407)
Effect of exchange rate fluctuations on cash and cash equivalents	493	263
Net increase (decrease) in cash and cash equivalents	1,493	(12,065)
Cash and cash equivalents at beginning of term	42,943	46,570
Net increase in cash and cash equivalents due to the newly consolidation	368	—
Cash and cash equivalents at end of term	¥ 44,805	¥ 34,504

(4) Assumptions for Going Concern

Not applicable.

(5) Segment Information

(a) Business segment information

First Quarter of the Fiscal Year Ended March 31, 2010 (From April 1 to June 30, 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

First Quarter of the Fiscal Year Ended March 31, 2010 (From April 1 to June 30, 2009)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
Net sales						
(1) Sales to outside customers	¥33,773	¥7,523	¥4,673	¥45,970	—	¥45,970
(2) Intersegment sales	3,338	649	47	4,035	(4,035)	—
Total	37,112	8,172	4,720	50,006	(4,035)	45,970
Operating income (loss)	2,207	190	214	2,612	(208)	2,403

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

First Quarter of the Fiscal Year Ended March 31, 2010 (From April 1 to June 30, 2009)

	Asia	Others	Total
I. Overseas sales	¥8,694	¥5,131	¥13,826
II. Consolidated net sales	—	—	45,970
III. Composition ratio of overseas sales to consolidated net sales	18.9%	11.2%	30.1%

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, 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

First Quarter of the Fiscal Year Ending March 31, 2011 (From April 1 to June 30, 2010)

(¥ millions)								
	Reportable Segments					Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	South Korea	United States	Australia	China			
Sales								
Outside clients	¥35,065	¥5,884	¥3,144	¥3,186	¥2,402	¥2,534	¥ -	¥52,217
Intersegment	4,284	36	-	0	292	431	(5,045)	-
Total	39,350	5,920	3,144	3,186	2,695	2,965	(5,045)	52,217
Income (loss)	3,070	215	261	572	124	359	(77)	4,526

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 5,154 thousand shares, and total acquired value amounted ¥23,456 million, at the end of the first quarter of the year ending March 31, 2011.