

# Consolidated Financial Results

## First Two Quarters of the Fiscal Year ending March 2011

(April 1, 2010 to September 30, 2010)

November 5, 2010

### Listed Company Name: Rinnai Corporation

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

Website: <http://www.rinnai.co.jp>

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Anticipated date for releasing quarterly securities report: November 12, 2010

Anticipated date to begin distributing dividends: December 8, 2010

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: Yes (for analyst and institutional investors)

### 1. Performance for the six months ended September 30, 2010

(April 1, 2010 – September 30, 2010; 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 2010	¥ 111,359 (+9.1)	¥ 11,109 (+65.8)	¥11,806 (+68.4)	¥7,015 (+73.5)
Two-quarter total at September 2009	102,030 (-10.9)	6,701 (+5.9)	7,009 (+14.2)	4,043 (+22.8)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2010	¥139.16	—
Two-quarter total at September 2009	74.89	—

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 2010	¥208,690	¥133,087	62.0	¥2,638.04
Full-year at March 2010	222,324	142,502	62.5	2,684.46

(Reference) Equity capital : Six months ended September 30, 2010; ¥129,427 million

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

## 2. Dividends

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

## 3. Forecast for the Fiscal Year Ending March 31, 2011

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

(¥ millions)

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

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

Note: Changes on the forecast at the second quarter: None

#### 4. Other

For more information, please refer to “2. Other” information on page 7 of this report.

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

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

Note: This refers to changes in scope of specified subsidiaries during the period.

(2) Simplified accounting method adopted: Yes

Note: This refers to application of simplified accounting method or special accounting method for quarterly consolidated financial reporting.

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

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

(b) Other changes than (a): None

Note: This refers to changes in accounting principles, procedures, or presentation, described in “Changes in Significant Accounting Policies of Consolidated Financial Statements.”

(3) Number of outstanding shares (common stock)

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

September 30, 2010: 54,216,463 shares	March 31, 2010: 54,216,463 shares
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(b) Number of treasury stock shares at term-end

September 30, 2010: 5,154,510 shares	March 31, 2010: 2,453,860 shares
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(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2011: 50,412,241 shares
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First two quarters of the fiscal year ended March 2010: 53,993,082 shares
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#### \* Implementation status of quarterly review process

This report is not 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 not 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 6 of this report.

## 1. Consolidated Performance

### (1) Operating Results

In the first two quarters under review (six months ended September 30, 2010), the Japanese economy remained in a state of uncertainty, due mainly to growing concern about slowdown stemming from the yen's sharp and continuous appreciation and other factors. This was despite signs of a turnaround owing to improved corporate earnings driven by exports on the back of recovery in the U.S. economy and growth in the economies of newly emerging nations.

In the domestic housing appliance industry, there were signs of a turnaround in starts of owner-occupier dwellings and subdivision housing projects 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 period under review, we pursued reforms in order to reinforce our corporate foundation. Amid growing interest in environmental protection and energy-saving, we also targeted major global advances as a comprehensive manufacturer of heating appliances. To this end, we worked to deliver next-generation products aimed at creating new markets, with the goal of contributing to improved lifestyles of people in various regions.

With respect to revenue, we reported healthy growth in domestic sales amid intensified price competition. This was due to solid replacement demand for tabletop stoves that are easier to clean than before, as well as for our Eco Jozu line of hot-water units, now lighter than ever. We also enjoyed healthy sales of new high-end built-in stoves, featuring upgraded functions over previous models. Overseas, sales of mainstay products in various regions were generally firm. Highlights included ongoing solid sales of hot-water units in North America, as well as sales growth on the back of higher demand for tabletop stoves and water heaters in Asian nations. Favorable foreign exchange rates in Australia and South Korea also contributed to increased revenue.

On the earnings side, we enjoyed the benefits of higher overseas sales and an extensive effort to cut fixed costs in Japan. Moreover, our projected increases in raw materials prices had only a limited impact in the second quarter, which provided a boost for profits.

As a result, consolidated net sales for the period amounted to ¥111,359 million, up 9.1% from the previous corresponding period. Operating income jumped 65.8%, to ¥11,109 million, and ordinary income surged 68.4%, to ¥11,806 million. During the period, the Company reported inspection expenses associated with free-of-charge exchange of gas rice cooker components. Nevertheless, we posted a 73.5% increase in net income, to ¥7,015 million.

Our results by geographical segment were as follows:

#### ***Japan***

In hot-water units, we reported healthy sales growth for the RUF-E series. These are mainstay products in our high-efficiency Eco Jozu range, which we are promoting as the de facto standard. In kitchen appliances, we enjoyed healthy demand for new offerings in the Delicia series that are easier to clean than before and feature improved smoke and odor elimination capabilities. Our solid performance was also sustained by firm replacement demand for My Tone, a broad lineup of stoves ranging from mid-level to high-end models. As a result, sales in Japan totaled ¥74,067 million, and operating income was ¥7,205 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 subsidy measures. Accordingly, sales in South Korea amounted to ¥11,033 million. During the period, we posted improved earnings, reflecting the success of steady business reforms. Operating income in South Korea totaled ¥505 million.

### **North America**

In North America, where the market is mostly occupied by storage-type (tank-based) hot-water units, we enjoyed healthy sales of our tankless models, which feature superlative environmental and energy-saving performance and eliminate the worry of hot water running out. This was due to growing environmental awareness in the market and proliferation of the Rinnai brand. Sales in North America totaled ¥6,934 million, and operating income was ¥615 million.

### **Australia**

In Australia, the adoption of progressive environmental measures has led to solid sales of gas and solar hot-water units featuring exceptional environmental and energy-saving performance. In air-conditioning and heating units, we enjoyed steady sales of the Fan-forced heaters thanks to government measures to stimulate replacement demand for open-type heaters. Sales in Australia amounted to ¥8,209 million, and operating income totaled ¥1,613 million.

### **China**

Amid continuous growth in the Chinese economy, demand for household appliances increased thanks to improved living standards and an expanding housing market. Accordingly, we reported higher sales of mainstay gas water heaters, stoves, and range hoods. Accordingly, sales in China totaled ¥5,597 million, and operating income was ¥338 million.

### **References 1: Net sales by product**

(¥ millions)

	Previous term (April 1, 2009, to Sept. 30, 2009)		First two quarters for the year ending March 31, 2011 (April 1, 2010, to Sept. 30, 2010)		Change		Year ended March 31, 2010 (April 1, 2009, to March 31, 2009)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Kitchen appliances	36,337	35.6	37,832	34.0	1,495	4.1	78,669	34.8
Hot-water units	45,874	45.0	51,844	46.6	5,970	13.0	105,906	46.8
Air-conditioning and heating units	6,531	6.4	7,297	6.6	765	11.7	14,635	6.5
Commercial-use equipment	2,974	2.9	3,274	2.9	300	10.1	6,268	2.8
Others	10,311	10.1	11,109	10.0	798	7.7	20,636	9.1
Total	102,030	100.0	111,359	100.0	9,329	9.1	226,117	100.0

## References 2: Overseas sales

	Previous term (April 1, 2009, to Sept. 30, 2009)			First two quarters for the year ending March 31, 2011 (April 1, 2010, to Sept. 30, 2010)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	18,379	14,335	32,714	21,931	18,493	40,425
II. Consolidated net sales	—	—	102,030	—	—	111,359
III. Composition ratio of overseas sales to consolidated net sales	18.0%	14.1%	32.1%	19.7%	16.6%	36.3%

Note: Net sales of the above indicate sales of the Corporations in overseas countries or regions.

## (2) Financial Position

As of September 30, 2010, Rinnai had total assets of ¥208,690 million, down ¥13,634 million from March 31, 2010. Total liabilities declined ¥4,220 million, to ¥75,602 million. Net assets fell ¥9,414 million, to ¥133,087 million. The equity ratio at the end of the period was 62.0%.

## Cash Flows

Cash and cash equivalents at September 30, 2010, stood at ¥35,163 million, down ¥11,407 million from March 31, 2010.

Net cash provided by operating activities amounted to ¥7,256 million, down 11.4% from the previous corresponding period. Factors included the secured operating income, which contrasted with the negative effects of increases in inventories and income taxes paid.

Net cash used in investing activities totaled ¥4,113 million, down 18.7% from the previous corresponding period. Main factors included transfers to time deposits and purchases of fixed assets.

Net cash used in financing activities was ¥13,644 million, up 25.0% from the previous corresponding period. This was due mainly to purchases of treasury stock.

## (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

None

### (2) Application of simplified accounting method or special accounting method

#### *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, procedures, or disclosure methods

#### (i) Application of “Accounting Standard 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).

The effect of this change to operating income, ordinary income, and income before income taxes is negligible.

#### (ii) Application of “Accounting Standard for Equity Method of Accounting for Investment” and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the 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).

The effect of this change to ordinary income and income before income taxes is negligible.

### 3 Consolidated Quarterly Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At Sept. 30, 2010 (First two quarters for the year ending March 31, 2011)	At March, 2010 (Year ended March 31, 2010)
	Amount	Amount
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	24,132	25,248
Notes and accounts receivable	50,317	53,133
Marketable securities	20,657	29,242
Products	16,020	13,336
Raw materials and stores	9,648	9,381
Other	4,396	3,906
Less allowance for doubtful accounts	(993)	(725)
Total current assets	124,179	133,522
<b>Fixed assets</b>		
Property, plant and equipment	42,668	43,416
Intangible fixed assets	1,600	1,490
Investments and advances		
Investments in securities	27,913	31,888
Other	13,066	12,828
Less allowance for doubtful accounts	(737)	(821)
Total investments and advances	40,241	43,895
Total fixed assets	84,510	88,802
<b>Total assets</b>	<b>208,690</b>	<b>222,324</b>

(¥ millions)

	At Sept. 30, 2010 (First two quarters for the year ending March 31, 2011)	At March, 2010 (Year ended March 31, 2010)
	Amount	Amount
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes and accounts payable	37,624	39,092
Short-term debt	8,017	8,123
Accrued consumption taxes	2,940	5,344
Accrued employee's bonuses	3,014	2,706
Other allowances	1,519	1,580
Other	12,434	13,003
Total current liabilities	65,550	69,851
<b>Long-term liabilities</b>		
Long-term debt	2,809	2,859
Accrued employees' retirement benefits	4,577	4,553
Other allowances	49	45
Other	2,616	2,513
Total long-term liabilities	10,051	9,971
Total liabilities	75,602	79,822
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	140,440	134,563
Treasury stock	(23,457)	(10,386)
Total shareholders' equity	132,162	139,356
<b>Other adjustments:</b>		
Unrealized gain on marketable securities	(441)	176
Foreign exchange translation adjustment	(2,293)	(578)
Total other adjustments	(2,734)	(402)
<b>Minority interests</b>	3,660	3,547
<b>Total net assets</b>	133,087	142,502
<b>Total liabilities and net assets</b>	208,690	222,324

## (2) Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2010 (April 1, 2009, to Sept. 30, 2009)	First two quarters for the year ending March 31, 2011 (April 1, 2010, to Sept. 30, 2010)
	Amount	Amount
<b>Net sales</b>	102,030	111,359
<b>Cost of Sales</b>	71,847	76,213
<b>Gross Profit</b>	30,182	35,145
<b>Selling, general and administrative expenses</b>	23,481	24,036
<b>Operating income</b>	6,701	11,109
<b>Other income:</b>		
Interest income	268	335
Equity in earnings of affiliates	190	416
Other	548	458
Total other income	1,008	1,209
<b>Other expenses:</b>		
Interest expenses	250	170
Foreign exchange loss	424	297
Other	25	45
Total other expenses	700	513
<b>Ordinary income</b>	7,009	11,806
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	76	—
Gain on sales of investment securities	—	46
Reversal from allowance for doubtful accounts	65	—
Total extraordinary income	141	46
<b>Extraordinary losses:</b>		
Loss on retirement of fixed assets	77	135
Loss on devaluation of investments in securities	56	—
Inspection cost	—	475
Transfer to allowance for inspection cost	—	134
Other	30	122
Total extraordinary losses	164	867
<b>Income before income taxes</b>	6,985	10,984
<b>Income taxes:</b>		
<b>Current</b>	3,075	3,398
<b>Deferred</b>	(336)	283
Total income taxes	2,739	3,682
Income before minority interests	—	7,302
<b>Minority interests (deduction)</b>	203	287
<b>Net income</b>	4,043	7,015

**(3) Consolidated Statements of Cash Flows**

(¥ millions)

	First two quarters for the year ended March 31, 2010 (April 1, 2009, to Sept. 30, 2009)	First two quarters for the year ending March 31, 2011 (April 1, 2010, to Sept. 30, 2010)
<b>Cash flows from operating activities</b>		
Income before income taxes	6,985	10,984
Depreciation and amortization	3,815	3,608
Increase (decrease) in accrued employees' bonuses	339	314
Decrease(increase) in trade receivables	2,438	1,748
Decrease (increase) in inventories	717	(3,664)
Increase (decrease) in trade payables	(3,835)	(914)
Other	732	488
Subtotal	11,194	12,565
Interest and dividends received	569	591
Interest paid	(270)	(180)
Income taxes paid	(3,303)	(5,719)
Net cash provided by operating activities	8,190	7,256
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(4,897)	(3,373)
Withdrawals from time deposits	6,505	3,496
Purchases of tangible fixed assets	(5,367)	(4,745)
Purchases of investments in securities	(1,768)	(640)
Sale of investments in securities	—	1,846
Other	466	(697)
Net cash used in investing activities	(5,060)	(4,113)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	425	692
Purchase of treasury stock	(10,229)	(13,072)
Dividends paid	(1,083)	(1,138)
Other	(32)	(126)
Net cash used in financing activities	(10,919)	(13,644)
Effect of exchange rate fluctuations on cash and cash equivalents	1,251	(905)
Net (decrease) increase in cash and cash equivalents	(6,538)	(11,407)
Cash and cash equivalents at beginning of term	42,943	46,570
Increase of cash and cash equivalents due to the newly consolidation	368	—
Cash and cash equivalents at end of term	36,773	35,163

#### (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, 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, 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, 2010** (April 1, 2009, to Sept. 30, 2009)

(¥ millions)

	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.

## **Reportable Segments**

### ***1. Summary of Reportable Segments***

The Rinnai Group's reportable segment classification is subject to regular review in order to permit managers to determine allocation of business resources and allow proper performance evaluation. This process is facilitated by the availability of financial data separated by business region.

The Rinnai Group is engaged mainly in the manufacture and sales of heat-related appliances. Rinnai Corporation and its domestic subsidiaries handle business activities in Japan, and the Corporation's overseas subsidiaries in South Korea, the United States, and other nations are in charge of business activities in those respective regions. Management of each local subsidiary is independent, and local managers formulate their own comprehensive strategies for the products they handle and develop their business accordingly.

The reportable segments of the Rinnai Group, which are geographic segments based on its production and sales system, consist of five regions: Japan, South Korea, United States, Australia, and China.

### ***2. Sales and Operating Income by Reportable Segment***

**First two quarters for the year ending March 31, 2011** (April 1, 2010, to Sept. 30, 2010)

	Reporting Segment					Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	Korea	United States	Australia	China			
Net sales and operating results								
(1) Sales for clients	74,067	11,033	6,934	8,209	5,597	5,517	—	111,359
(2) Intersegment sales	8,828	107	43	2	614	745	(10,342)	—
Total	82,895	11,141	6,978	8,211	6,211	6,263	(10,342)	111,359
Segment income	7,205	505	615	1,613	338	763	67	11,109

Notes: 1. Others include amounts from business activities of local companies in Taiwan, Thailand, Vietnam, New Zealand, and Brazil.

2. Adjustments indicate eliminated amounts by inter-segment transactions.

3. Segment income is in line with operating income on consolidated statements 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) Notes to Significant Changes on Shareholders' Equity**

The Corporation acquired its treasury stock of ¥13,068 million, in accordance with the resolution by directors' meeting on June 14, 2010. At the result, the number of treasury stock and book balance are 5,154 thousand shares and ¥23,457 million, respectively, at the end of the two-quarter period under review.