

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2013

(April 1–June 30, 2012)

August 3, 2012

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 9, 2012

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, 2013

(April 1– June 30, 2012; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

Percentage figures in parentheses indicate increase or decrease from the previous term.

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
First Quarter to June 2012	¥53,031 [-2.1%]	¥4,298 [-13.5%]	¥4,766 [-15.6%]	¥3,196 [+36.0%]
First Quarter to June 2011	54,172 [+3.7]	4,969 [+ 9.8]	5,648 [+14.2]	2,350 [-16.5]

Notes: Comprehensive income: First quarter of the year ending March 31, 2013; ¥5,498 million [+36.4%]

First quarter of the year ended March 31, 2012; ¥4,030 million [+30.1%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2012	¥65.15	—
First Quarter to June 2011	47.91	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2012	¥238,486	¥158,851	64.7%
March 31, 2012	238,853	154,737	63.1

(Reference) Equity capital: First quarter of the year ending March 31, 2013; ¥154,408 million

Year ended March 31, 2012; ¥150,618 million

II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2012	—	¥28.00	—	¥28.00	¥56.00
June 2012	—				
March 2013 (anticipated)		30.00	—	30.00	60.00

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

III. Forecast for the Fiscal Year Ending March 31, 2013 (Consolidated)

(April 1, 2012, to March 31, 2013)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥118,000 [+3.3%]	¥12,000 [+4.2%]	¥12,500 [+1.0%]	¥8,000 [+21.7%]	¥163.07
Full year	257,000 [+4.2]	28,000 [+5.1]	29,000 [+0.3]	19,000 [+13.0]	387.29

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

* Notes

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

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

(2) Application of special accounting method for quarterly consolidated financial reporting:

None

(3) Changes in accounting policies; changes in accounting estimates; retrospective restatement

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

(b) Other changes than (a): None

(c) Changes in the rules for the accounting estimates: Yes

(d) Retrospective restatement: None

Note: It is in accordance with Article 10, the fifth item of “Policies of Terms, Forms and Preparation Methods of Quarterly Consolidated Financial Statements.” For more information, please refer to “2. Summary (Other) Information, (3) Changes in Accounting Policies; Changes in Accounting Estimates; Retrospective Restatements” on page 6 of this report.

(4) Number of Outstanding Shares (Common Stock)

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

June 30, 2012: 54,216,463 shares

March 31, 2012: 54,216,463 shares

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

June 30, 2012: 5,157,289 shares

March 31, 2012: 5,157,204 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2013: 49,059,211 shares

First quarter of the fiscal year ended March 2012: 49,060,283 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 Corporation’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 quarter under review (April 1–June 30, 2012), the world economy, despite signs of a moderate economic recovery trend in the United States, remained in a state of uncertainty about the future direction. This was due to several factors, including the ongoing debt crisis in Europe and indications of economic growth stagnation and slowdown in China. Although sections of the Japanese economy were underpinned by restoration-related demand following the Great East Japan Earthquake, economic conditions were difficult overall amid declining international competitiveness caused by the prolonged appreciation of the yen, as well as weak earnings performances among corporations.

The domestic housing appliance industry benefited from generally sound conditions in housing-related markets, characterized by the buoying effect on new housing starts of the residential “eco-points” system and full-scale restoration-related demand following the earthquake.

Under these conditions, the Rinnai Group embarked on its new medium-term business plan, entitled Jump Up 2014, covering the three-year period from April 2012 to March 2015. Under the plan, we will target further groundbreaking progress as a comprehensive manufacturer of heating appliances that contributes to society.

With respect to revenue, the period under review saw a year-on-year decline in overseas sales, impacted a recoil in demand in Australia—where government subsidies for fan-forced heaters in schools led to a spike in demand in the previous fiscal year—as well as foreign exchange factors. Domestic sales were also down as demand fell slightly below that of the previous corresponding period, which saw growth in restoration demand related to the earthquake. This was despite healthy replacement demand for gas appliances and a favorable shift in demand towards gas appliances in the wake of electricity reduction sentiment.

On the earnings side, our performance benefited from a progressive trend towards high-value-added products, reflected in the increasing sales ratio of *Eco Jozu* products, as well as growth in sales of high-end built-in stoves. Overall income declined year-on-year, however, due to lower sales volumes for tabletop stoves in Japan and fan-forced heaters in Australia.

As a result, consolidated net sales for the period amounted to ¥53,031 million, down 2.1% from the previous corresponding period. Operating income declined 13.5%, to ¥4,298 million, and ordinary income decreased 15.6%, to ¥4,766 million. Net income increased 36.0%, to ¥3,196 million. This was because the Company booked a loss on valuation of investment securities in the previous corresponding period.

Our results by geographical segment were as follows:

Japan

In Japan, our *Eco Jozu* series of high-efficiency hot-water units made good progress toward becoming the de facto industry standard. Our built-in stoves, hot-water/heating systems, and bath hot-water/heating systems also performed well, owing to a shift in demand from electric to gas units. Due to a year-on-year decline in restoration demand related to the earthquake, however, sales in Japan edged down 0.1%, to ¥37,575 million. Reflecting a decline in demand for tabletop stoves, especially in the mass merchandiser channel, operating income in Japan declined 4.7%, to ¥3,517 million.

South Korea

Sales of mainstay boilers in South Korea were solid owing to a cold snap at the beginning of the year and ongoing demand to replace aging equipment. Due to foreign exchange factors, however, sales in South Korea declined 4.2%, ¥5,405 million, and operating income fell 11.6%, to ¥279 million.

North America

Housing starts in North America followed a recovery trends to a certain extent. Due to the depressed local economy, however, the market for hot-water units contracted and volume sales of tankless units declined. As a result, sales in North America were down 11.5%, to ¥2,555 million, and operating income dropped 99.8%, to ¥0.3 million.

Australia

Sales of gas hot-water units in Australia were buoyed by prohibition of sales of electric storage-type systems. In the previous fiscal year, however, the government stopped subsidizing the purchase of fan-forced heaters for schools, causing overall revenue to decline. Consequently, sales in Australia decreased 19.5%, to ¥2,646 million, and operating income fell 56.2%, to ¥339 million.

China

During the period, sales of gas appliances in China faced downward pressure due to economic weakness stemming from sluggish personal consumption in urban areas and a slowdown in investments in fixed assets. However, gas appliances continued to steadily penetrate the market, assisted by expansion of gas infrastructure in interior regional cities. As a result, sales in China edged up 0.2%, to ¥2,176 million. However, soaring prices of raw materials pushed up manufacturing costs, leading to an operating loss in China of ¥5 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2011		First Quarter to June 30, 2012		Change		Year to March 31, 2012	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥27,359	50.5%	¥27,406	51.7%	¥ 47	0.2%	¥121,028	49.1%
Hot-water units	17,353	32.0	17,231	32.5	-121	-0.7	78,792	31.9
Air-conditioning and heating units	1,993	3.7	1,260	2.4	-732	-36.7	16,681	6.8
Commercial-use equipment	1,756	3.2	1,697	3.2	-59	-3.4	6,846	2.8
Others	5,709	10.5	5,435	10.2	-274	-4.8	23,286	9.4
Total	¥54,172	100.0%	¥53,031	100.0%	¥-1,140	-2.1%	¥246,636	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2011			First Quarter to June 30, 2012		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥10,594	¥7,556	¥18,151	¥10,637	¥6,876	¥17,514
II. Consolidated net sales	—	—	54,172	—	—	53,031
III. Composition ratio of overseas sales to consolidated net sales	19.6%	13.9%	33.5%	20.1%	13.0%	33.0%

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

(2) Financial Position

As of June 30, 2012, Rinnai had total assets of ¥238,486 million, down ¥367 million from March 31, 2012. Total liabilities declined ¥4,481 million, to ¥79,634 million. Net assets rose ¥4,113 million, to ¥158,851 million. The equity ratio at the end of the period was 64.7%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the two-quarter (cumulative) period ending September 30, 2012 or the full-year period ending March 31, 2013. (Those forecasts were detailed in “Consolidated Financial Results for Fiscal 2012,” released on May 11, 2012.)

2. Summary (Other) Information

(1) Changes in Major Subsidiaries during Period

Not applicable.

(2) Application of Specific Accounting Treatment

Not applicable.

(3) Changes in Accounting Policies; Changes in Accounting Estimates; Retrospective Restatements

(Change in accounting policy for situations when a change in accounting estimate is difficult to distinguish)

Pursuant to an amendment to the Corporation Tax Act, the Company and its domestic consolidated subsidiaries, effective the first quarter of the fiscal year ending March 31, 2013, have changed the depreciation method for property, plant and equipment purchased on/after April 1, 2012. That method now conforms to the amended Act.

The aforementioned change had a minimal effect on operating income, ordinary income, and income before income taxes in the first quarter under review.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2012 (Fiscal 2012)	At June 30, 2012 (First Quarter of Fiscal 2013)
ASSETS:		
Current assets		
Cash and deposits	¥ 34,596	¥ 33,619
Notes and accounts receivable	56,776	49,901
Marketable securities	35,651	37,240
Products	14,530	18,416
Raw materials and stores	9,402	9,729
Other	5,803	5,576
Less allowance for doubtful accounts	(461)	(485)
Total current assets	156,300	153,997
Fixed assets		
Property, plant and equipment	43,040	44,485
Intangible fixed assets	1,489	1,502
Investments and advances		
Investments in securities	26,966	27,179
Other	11,476	11,763
Less allowance for doubtful accounts	(419)	(441)
Total investments and advances	38,023	38,501
Total fixed assets	82,553	84,489
Total assets	¥238,853	¥238,486

(¥ millions)

	At March 31, 2012 (Fiscal 2012)	At June 30, 2012 (First Quarter of Fiscal 2013)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 43,895	¥ 41,620
Short-term debt	4,254	5,082
Accrued income taxes	6,064	2,204
Accrued employee's bonuses	3,131	1,163
Other allowances	1,857	1,917
Other	13,554	15,869
Total current liabilities	72,757	67,858
Long-term liabilities		
Long-term debt	3,325	3,375
Accrued employees' retirement benefits	4,554	4,702
Other allowances	61	46
Other	3,417	3,652
Total long-term liabilities	11,358	11,776
Total liabilities	84,116	79,634
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,720	8,720
Earned surplus	162,014	163,837
Treasury stock	(23,471)	(23,472)
Total shareholders' equity	153,722	155,544
Other comprehensive income:		
Unrealized gain on marketable securities	518	440
Foreign exchange translation adjustment	(3,622)	(1,576)
Total of other comprehensive income	(3,103)	(1,136)
Minority interests	4,119	4,443
Total net assets	154,737	158,851
Total liabilities and net assets	¥238,853	¥238,486

(2) Consolidated Statements of Income, and Statements of Comprehensive Income

Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2012 (From April 1 to June 30, 2011)	First Quarter of Fiscal 2013 (From April 1 to June 30, 2012)
Net sales	¥54,172	¥53,031
Cost of sales	37,504	37,218
Gross profit	16,667	15,812
Selling, general and administrative expenses	11,698	11,514
Operating income	4,969	4,298
Other income:		
Interest income	223	223
Dividends received	147	141
Equity in earnings of affiliates	207	240
Other	195	126
Total other income	773	732
Other expenses:		
Interest expenses	61	65
Foreign exchange loss	24	179
Other	7	18
Total other expenses	93	264
Ordinary income	5,648	4,766
Extraordinary losses:		
Loss on evaluation of investment securities	1,201	—
Other	24	—
Total extraordinary expenses	1,225	—
Income before income taxes	4,422	4,766
Income taxes (current)	2,259	1,914
Income taxes (deferred)	(254)	(424)
Total income taxes	2,005	1,490
Income before minority interest	2,417	3,275
Minority interests	66	79
Net income	¥ 2,350	¥ 3,196

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2012 (From April 1 to June 30, 2011)	First Quarter of Fiscal 2013 (From April 1 to June 30, 2012)
Income before minority interest	¥2,417	¥3,275
Other comprehensive income		
Unrealized gain on marketable securities	602	(78)
Foreign exchange translation adjustment	925	2,174
Equity portion of affiliated companies accounted for under the equity method	84	126
Total of other comprehensive income	1,613	2,222
Comprehensive income	4,030	5,498
Total comprehensive income attributable to:		
Shareholders of Rinnai Corporation	3,882	5,163
Minority interests	148	335

(3) Assumptions for Going Concern

Not applicable.

(4) Major Changes in Shareholders' Equity

Not applicable.

(5) Segment Information

First Quarter of the Fiscal Year Ended March 31, 2012 (From April 1 to June 30, 2011)

(¥ millions)

	Reportable Segments						Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	South Korea	United States	Australia	China	Total			
Sales									
Outside clients	¥37,613	¥5,641	¥2,887	¥3,288	¥2,171	¥51,602	¥2,569	¥ —	¥54,172
Intersegment	4,591	98	—	0	383	5,074	545	(5,619)	—
Total	42,205	5,740	2,887	3,288	2,555	56,677	3,114	(5,619)	54,172
Income (loss)	3,691	316	144	774	24	¥ 4,951	305	(287)	4,969

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.

First Quarter of the Fiscal Year Ending March 31, 2013 (From April 1 to June 30, 2012)

(¥ millions)

	Reportable Segments						Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	South Korea	United States	Australia	China	Total			
Sales									
Outside clients	¥37,575	¥5,405	¥2,555	¥2,646	¥2,176	¥50,359	¥2,671	¥ —	¥53,031
Intersegment	4,225	152	—	3	363	4,744	661	(5,406)	—
Total	41,801	5,557	2,555	2,650	2,540	55,104	3,332	(5,406)	53,031
Income (loss)	3,517	279	0	339	(5)	4,131	350	(183)	4,298

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.