

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2012

(April 1, 2011 to September 30, 2011)

November 4, 2011

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

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Anticipated date for releasing quarterly securities report: November 11, 2011

Anticipated date to begin distributing dividends: December 8, 2011

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, 2011

(April 1, 2011 – September 30, 2011; 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 2011	¥ 114,274 (+2.6)	¥ 11,516 (+3.7)	¥12,377 (+4.8)	¥6,575 (-6.3)
Two-quarter total at September 2010	111,359 (+9.1)	11,109 (+65.8)	11,806 (+68.4)	7,015 (+73.5)

Note: Comprehensive Income: Six months ended September 30, 2011; ¥8,127 million (+68.2%)

Six months ended September 30, 2010; ¥4,830 million (-%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2011	¥134.03	—
Two-quarter total at September 2010	139.16	—

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 (%)
Two-quarter total at September 2011	¥228,006	¥148,018	¥63.2
Full-year at March 2011	221,495	141,110	62.0

(Reference) Equity capital : Six months ended September 30, 2011; ¥144,013 million

Year ended March 31, 2011; ¥137,274 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2011	—	¥24.00	—	¥24.00	¥48.00
March 2012	—	28.00	—	—	—
March 2012 (anticipated)	—	—	—	28.00	56.00

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

3. Forecast for the Fiscal Year Ending March 31, 2012

(April 1, 2011, to March 31, 2012)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥248,000 (+3.6)	¥27,000 (+7.0)	¥28,000 (+4.4)	¥17,500 (+12.8)	¥356.71

(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 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: None
 - (b) Other changes than (a): None
 - (c) Changes in the rules for the accounting estimates: None
 - (d) Retrospective restatement: None
- (4) Number of Outstanding Shares (Common Stock)
- (a) Number of outstanding shares at term-end (including treasury stock)
 - September 30, 2011: 54,216,463 shares
 - March 31, 2011: 54,216,463 shares
 - (b) Number of treasury stock shares at term-end
 - September 30, 2011: 5,156,633 shares
 - March 31, 2011: 5,156,123 shares
 - (c) Average number of shares during the term
 - First two quarters of the fiscal year ending March 2012: 49,060,137 shares
 - First two quarters of the fiscal year ended March 2011: 50,412,241 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 6 of this report.

1. Consolidated Performance

(1) Operating Results

In the two-quarter period under review (April 1–September 30, 2011), the world economy remained in a state of persistent apprehension that a slowdown may occur due to instability in European financial markets, as well as failure of the U.S. economic recovery to progress as expected. In Japan, meanwhile, there were concerns that the deepening problem of inadequate power supply, stemming from the Fukushima Nuclear Power Plant accident, may lead to economic retreat. Nevertheless, some positive signs began to appear, including turnarounds in personal consumption and corporate capital investments.

In the domestic housing appliance industry, the market has been rising gradually owing to several factors. These included commencement of full-scale restoration demand associated with the Great East Japan Earthquake, as well as a moderate recovery in new housing starts amid healthy sales of condominiums in the Tokyo Metropolitan Area and elsewhere.

Under these conditions, the Rinnai Group entered the final 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 amid the trend toward protecting the environment and saving energy. Specifically, we delivered heating products optimized to suit living cultures, climate, and energy conditions in various world nations and regions.

With respect to revenue, in overseas markets we remained on a long-term growth trajectory, owing to expansion of infrastructural projects in emerging nations, as well as healthy replacement demand in industrialized nations. However, overseas sales declined year-on-year due to the yen’s ongoing appreciation. In Japan, meanwhile, demand for kitchen appliances shifted toward low-priced products due to a mood of restraint in the aftermath of the Great East Japan Earthquake. However, sales of hot-water units increased year-on-year, thanks to higher sales of our Eco Jozu series of gas hot-water units, which feature exceptional environmental performance. Moreover, sales of air-conditioning and heating units also increased owing to a major rise in demand as people sought to reduce power consumption and save energy amid electricity shortages.

On the income side, we reported a year-on-year increase in earnings for several reasons. In addition to the buoying effect of higher domestic sales, these included solid replacement demand for the Eco Jozu series of gas hot-water units, which incorporate high added value, as well as a reduction in cost of sales as the Company took steps to emphasize in-house manufacturing of core products.

As a result, consolidated net sales for the period amounted to ¥114,274 million, up 2.6% from the previous corresponding period. Operating income rose 3.7%, to ¥11,516 million, and ordinary income grew 4.8%, to ¥12,377 million. During the period, the Company booked a loss on valuation of investment securities. Accordingly, net income for the period declined 6.3%, to ¥6,575 million.

Our results by geographical segment were as follows:

Japan

In kitchen appliances, sales were affected by a mood of restraint among consumers following the earthquake, which caused an increase in demand for low-priced products. In hot-water units, our Eco Jozu series, featuring high efficiency, performed well thanks to an industry-wide campaign promoting product replacement. In air-conditioning and heating units, there was an increase in demand for gas stoves and fan heaters, which benefited from the mood of consumer restraint. As a result, sales in Japan totaled ¥77,832 million, up 5.1% from the previous corresponding period. Operating income in Japan rose 8.6%, to ¥7,822 million.

South Korea

In South Korea, our business in hot-water units performed well, benefiting from healthy demand for boilers thanks to a cold snap at the beginning of the year, as well as an increase in replacement demand. In kitchen appliances, however, sales of stoves were slightly down year-on-year, due to intense market competition. As a result, sales in South Korea declined 4.7%, to ¥10,513 million, and operating income fell 13.2%, to ¥438 million.

North America

In hot-water units, we enjoyed an increase in sales of condensing units, which offer excellent energy-saving advantages. In air-conditioning and heating units, we reported healthy sales of fan-forced heaters amid ongoing implementation of energy-saving measures in various states. However, sales of instant-heating (tankless) hot-water units declined because these items are priced higher than traditional storage-type (tank-based) units and thus are more easily impacted by economic slowdown. Accordingly, sales in North America declined 16.3%, to ¥5,801 million, and operating income dropped 62.1%, to ¥233 million.

Australia

Due to environmental protection measures by the Australian government, there has been a progressive shift toward tankless hot-water units and away from electric storage-type units, sales of which will be prohibited by 2012. The government also continued its system for subsidizing purchases of fan-forced heaters as a measure aimed at stimulating replacement demand for open-type heaters. Overall sales of mainstay products increased as a result. Consequently, sales in Australia climbed 11.6%, to ¥9,163 million, and operating income jumped 45.9%, to ¥2,354 million.

China

Sales of water heaters struggled amid a slowdown in demand for housing appliances, due to restrictions on real estate investments in urban areas. Nevertheless, sales of stoves and boilers continued showing solid growth in local currency terms, buoyed by expansion of gas infrastructure in regional areas. Due to foreign exchange factors, however, sales in China slipped 4.8%, to ¥5,330 million. Operating income fell 50.8%, to ¥166 million, resulting mainly from soaring costs of raw materials and inflation.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2011 (April 1, 2010, to Sept. 30, 2010)		First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)		Change		Year ended March 31, 2011 (April 1, 2010, to March 31, 2011)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Kitchen appliances	37,832	34.0	36,258	31.7	(1,574)	-4.2	79,600	33.2
Hot-water units	51,844	46.6	54,721	47.9	2,877	5.5	114,534	47.8
Air-conditioning and heating units	7,297	6.6	8,486	7.4	1,188	16.3	15,754	6.6
Commercial-use equipment	3,274	2.9	3,444	3.0	169	5.2	6,739	2.8
Others	11,109	10.0	11,364	9.9	254	2.3	22,806	9.5
Total	111,359	100.0	114,274	100.0	2,915	2.6	239,436	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ending March 31, 2011 (April 1, 2010, to Sept. 30, 2010)			First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	21,931	18,493	40,425	21,442	18,250	39,693
II. Consolidated net sales	—	—	111,359	—	—	114,274
III. Composition ratio of overseas sales to consolidated net sales	19.7%	16.6%	36.3%	18.8%	16.0%	34.7%

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

(2) Financial Position

As of September 30, 2011, Rinnai had total assets of ¥228,006 million, up ¥6,511 million from March 31, 2011. Total liabilities declined ¥396 million, to ¥79,988 million. Net assets rose ¥6,907 million, to ¥148,018 million. The equity ratio at the end of the period was 63.2%.

Cash Flows

Cash and cash equivalents at September 30, 2011, stood at ¥39,579 million, down ¥6,565 million from March 31, 2011.

Net cash provided by operating activities amounted to ¥5,219 million, down 28.1% 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 ¥10,763 million, up 161.6% from the previous corresponding period. Main factors included transfers to time deposits and purchases of tangible fixed assets.

Net cash used in financing activities was ¥1,283 million, down 90.6% from the previous corresponding period. This was due mainly to dividends paid.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the full-year period ending March 31, 2012. (Those forecasts were detailed in “Consolidated Financial Results for Fiscal 2011,” released on May 11, 2011.)

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 restatement

Not applicable.

3 Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March, 2011 (Year ended March 31, 2011)	At Sept. 30, 2011 (First two quarters for the year ending March 31, 2012)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	28,338	30,599
Notes and accounts receivable	53,155	52,136
Marketable securities	28,663	25,455
Products	11,545	17,009
Raw materials and stores	9,478	9,955
Other	5,413	5,896
Less allowance for doubtful accounts	(449)	(583)
Total current assets	136,145	140,469
Fixed assets		
Property, plant and equipment	41,997	42,780
Intangible fixed assets	1,581	1,548
Investments and advances		
Investments in securities	29,604	31,129
Other	12,603	12,514
Less allowance for doubtful accounts	(437)	(435)
Total investments and advances	41,771	43,208
Total fixed assets	85,350	87,537
Total assets	221,495	228,006

(¥ millions)

	At March, 2011 (Year ended March 31, 2011)	At Sept. 30, 2011 (First two quarters for the year ending March 31, 2012)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	40,781	41,818
Short-term debt	6,277	6,635
Accrued corporate taxes	5,034	3,659
Accrued employee's bonuses	2,765	2,883
Other allowances	2,926	1,906
Other	12,515	12,222
Total current liabilities	70,301	69,125
Long-term liabilities		
Long-term debt	2,763	2,729
Accrued employees' retirement benefits	4,547	4,928
Other allowances	53	57
Other	2,718	3,147
Total long-term liabilities	10,083	10,862
Total liabilities	80,384	79,988
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,720
Earned surplus	147,757	153,155
Treasury stock	(23,465)	(23,468)
Total shareholders' equity	139,471	144,866
Other comprehensive income:		
Unrealized gain on marketable securities	(394)	72
Foreign exchange translation adjustment	(1,803)	(925)
Total other adjustments	(2,197)	(853)
Minority interests	3,836	4,004
Total net assets	141,110	148,018
Total liabilities and net assets	221,495	228,006

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2011 (April 1, 2010, to Sept. 30, 2010)	First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)
	Amount	Amount
Net sales	111,359	114,274
Cost of Sales	76,213	79,042
Gross Profit	35,145	35,232
Selling, general and administrative expenses	24,036	23,716
Operating income	11,109	11,516
Other income:		
Interest income	335	466
Equity in earnings of affiliates	416	454
Other	458	443
Total other income	1,209	1,365
Other expenses:		
Interest expenses	170	141
Foreign exchange loss	297	299
Other	45	62
Total other expenses	513	504
Ordinary income	11,806	12,377
Extraordinary income:		
Gain on sales of investment securities	46	—
Total extraordinary income	46	—
Extraordinary losses:		
Loss on devaluation of investments in securities	66	1,212
Inspection cost	475	—
Transfer to allowance for inspection cost	134	—
Other	190	—
Total extraordinary losses	867	1,212
Income before income taxes	10,984	11,165
Income taxes:		
Current	3,398	3,880
Deferred	283	517
Total income taxes	3,682	4,397
Income before minority interests	7,302	6,767
Minority interests	287	192
Net income	7,015	6,575

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2011 (April 1, 2010, to Sept. 30, 2010)	First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)
	Amount	Amount
Income before minority interest	7,302	6,767
Other comprehensive income		
Unrealized gain on marketable securities	(617)	466
Foreign exchange translation adjustment	(1,851)	831
Equity equivalents in equity method affiliates	(2)	62
Total other comprehensive income	(2,471)	1,360
Comprehensive income	4,830	8,127
(Composition)		
Comprehensive income related to shareholders of parent company	4,682	7,919
Comprehensive income related to minority shareholders	148	208

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2011 (April 1, 2010, to Sept. 30, 2010)	First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)
Cash flows from operating activities		
Income before income taxes	10,984	11,165
Depreciation and amortization	3,608	3,466
Decrease(increase) in loss on devaluation of investments in securities	66	1,212
Decrease(increase) in trade receivables	1,748	1,360
Decrease (increase) in inventories	(3,664)	(5,745)
Increase (decrease) in trade payables	(914)	866
Other	736	(2,302)
Subtotal	12,565	10,023
Interest and dividends received	591	610
Interest paid	(180)	(149)
Income taxes paid	(5,719)	(5,265)
Net cash provided by operating activities	7,256	5,219
Cash flows from investing activities		
Transfers to time deposits	(3,373)	(11,731)
Withdrawals from time deposits	3,496	4,014
Purchases of tangible fixed assets	(4,745)	(3,671)
Purchases of investments in securities	(640)	(4,021)
Sale and redemption of investments in securities	1,846	5,401
Other	(697)	(754)
Net cash used in investing activities	(4,113)	(10,763)
Cash flows from financing activities		
Purchase of treasury stock	(13,072)	(3)
Dividends paid	(1,138)	(1,176)
Other	566	(103)
Net cash used in financing activities	(13,644)	(1,283)
Effect of exchange rate fluctuations on cash and cash equivalents	(905)	262
Net (decrease) increase in cash and cash equivalents	(11,407)	(6,565)
Cash and cash equivalents at beginning of term	46,570	46,145
Cash and cash equivalents at end of term	35,163	39,579

(4) Notes regarding the assumption of a going concern

There are no relevant items.

(5) Segment Information

Reportable Segments

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

(¥ millions)

	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.

First two quarters for the year ending March 31, 2012 (April 1, 2011, to Sept. 30, 2011)

(¥ millions)

	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	77,832	10,513	5,801	9,163	5,330	5,633	—	114,274
(2) Intersegment sales	9,052	191	—	0	652	1,016	(10,913)	—
Total	86,885	10,704	5,801	9,163	5,983	6,650	(10,913)	114,274
Segment income	7,822	438	233	2,354	166	683	(182)	11,516

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.

(6) Major Changes in Shareholders' Equity

Not applicable.