

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2013

(April 1, 2012 to September 30, 2012)

November 5, 2012

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, 2012

Anticipated date to begin distributing dividends: December 7, 2012

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, 2012

(April 1, 2012 – September 30, 2012; 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 2012	¥ 114,216 (-0.1)	¥ 10,602 (-7.9)	¥11,514 (-7.0)	¥7,473 (+13.7)
Two-quarter total at September 2011	114,274 (+2.6)	11,516 (+3.7)	12,377 (+4.8)	6,575 (-6.3)

Note: Comprehensive Income: Six months ended September 30, 2012; ¥8,461 million (+4.1%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2012	¥152.34	—
Two-quarter total at September 2011	134.03	—

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 2012	¥239,140	¥161,789	65.8
Full-year at March 2012	238,853	154,737	63.1

(Reference) Equity capital : Six months ended September 30, 2012; ¥157,259 million

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

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2012	—	¥28.00	—	¥28.00	¥56.00
March 2013	—	30.00	—	—	—
March 2013 (anticipated)	—	—	—	30.00	60.00

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

3. Forecast for the Fiscal Year Ending March 31, 2013

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥257,000 (+4.2)	¥28,000 (+5.1)	¥29,000 (+0.3)	¥19,000 (+13.0)	¥387.29

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

Note: Changes on the forecast at the second quarter: 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)
 - September 30, 2012: 54,216,463 shares
 - March 31, 2012: 54,216,463 shares
 - (b) Number of treasury stock shares at term-end
 - September 30, 2012: 5,157,661 shares
 - March 31, 2012: 5,157,204 shares
 - (c) Average number of shares during the term
 - First two quarters of the fiscal year ending March 2013: 49,059,085 shares
 - First two quarters of the fiscal year ended March 2012: 49,060,137 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, 2012), the outlook for the world economy remained unclear due to several factors. These included economic stagnation in Europe stemming from the debt crisis there, as well as a slowing rate of growth in Asian nations, particularly China. Despite signs of a moderate turnaround from economic recession, conditions in the domestic economy remained challenging in the absence of improvement trends in corporate earnings, due to such factors as a slowdown in export industries caused the prolonged strength of the yen.

The domestic housing industry generally moved sideways amid lack of growth in sales of condominiums in the Tokyo Metropolitan Area. This was despite a certain level of strength in demand related to disaster restoration in the new housing market. By contrast, the home renovation market was firm thanks to growing concern among consumers about the environment and energy conservation, as well as a rising need for improved peace of mind in the face of natural disasters.

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 advanced our businesses related to heat and lifestyles. Here, we served as a comprehensive manufacturer of heating appliances that cares about the environment and energy conservation, with the aims of building a foundation for ongoing progress and creating new levels of social value.

With respect to revenue, domestic demand for gas appliances has been rising amid shrinking sales of electricity-powered products, resulting in solid sales of hot-water/heating systems, built-in stoves, and other items. Overseas, however, overall sales remained mostly unchanged. This was due to a recoil in sales in Australia of heaters for schools, which benefited from special demand in the previous fiscal year. Another factor was a decline in sales of hot-water units in North America due to delayed economic recovery there.

On the earnings side, in Japan there has been a strong shift in sales from low-priced products to high-end offerings, which has benefited high-value-added items, such as hot-water/heating systems and built-in stoves. Overall earnings declined, however, due to lower income overseas, as well as expenses incurred from inspecting and repairing faulty dishwasher/dryers in Japan.

As a result, consolidated net sales for the period amounted to ¥114,216 million, down 0.1% from the previous corresponding period. Operating income declined 7.9%, to ¥10,602 million, and ordinary income decreased 7.0%, to ¥11,514 million. During the period, the Company booked a loss on valuation of investment securities. Net income increased 13.7%, to ¥7,473 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, where concern about saving electricity continues, we benefited from proliferation and expansion of our *Eco Jozu* series of high-efficiency hot-water units. We also enjoyed solid overall sales of gas appliances, especially built-in stoves and hot-water/heating systems. Product lines that are new to the Group also posted healthy growth. These included high-heat-efficiency hybrid hot-water units combining electricity and gas, as well as range hoods linked to built-in stoves. Accordingly, sales in Japan rose 2.7%, to ¥79,963 million. However, operating income declined 6.4%, to ¥7,324 million. This was due to expenses incurred from inspecting and repairing faulty dishwasher/dryers.

South Korea

Sales of mainstay boilers in South Korea remained healthy owing to solid replacement demand. Due to foreign exchange factors, however, sales in South Korea declined 3.8%, to ¥10,113 million. Operating income increased 10.7%, to ¥485 million, due mainly to increased sales of high-value-

added boilers.

North America

Overall demand for hot-water units in North America stagnated, due to weak sales of houses and home appliances stemming from delayed recovery of the local economy. This led to a decline in sales of tankless hot-water units. As a result, sales in North America slipped 8.3%, to ¥5,319 million. Operating income fell 86.9%, to ¥30 million, impacted by the sales decrease. This was despite the launch of new, lower-cost products and an improvement trend in earnings.

Australia

Sales of gas hot-water units in Australia remained firm due to the progressive termination of sales of electric storage-type systems. However, sales in Australia declined 16.7%, to ¥7,633 million, due to a recoil in sales of heaters for schools, which enjoyed special demand in the previous fiscal year. Operating income fell 31.1%, to ¥1,623 million.

China

Despite challenges for sales in Shanghai and other major cities, the uptrend in demand for gas hot-water units in China remained strong amid expansion of gas infrastructure in interior regional cities. Consequently, sales in China grew 2.7%, to ¥5,471 million. However, we made good progress in reducing costs thanks to declines in unit prices of raw materials, which previously had soared. As a result, operating income jumped 153.2%, to ¥421 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2012 (April 1, 2011, to Sept. 30, 2011)		First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)		Change		Year ended March 31, 2012 (April 1, 2011, to March 31, 2012)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Hot-water units	54,721	47.9	56,298	49.3	1,576	2.9	121,028	49.1
Kitchen appliances	36,258	31.7	35,822	31.4	(435)	-1.2	78,792	31.9
Air-conditioning and heating units	8,486	7.4	7,415	6.5	(1,070)	-12.6	16,681	6.8
Commercial-use equipment	3,444	3.0	3,494	3.1	50	1.5	6,846	2.8
Others	11,364	9.9	11,185	9.8	(179)	-1.6	23,286	9.4
Total	114,274	100.0	114,216	100.0	(58)	-0.1	246,636	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2012 (April 1, 2011, to Sept. 30, 2011)			First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	21,442	18,250	39,693	21,659	16,492	38,151
II. Consolidated net sales	—	—	114,274	—	—	114,216
III. Composition ratio of overseas sales to consolidated net sales	18.8%	16.0%	34.7%	19.0%	14.4%	33.4%

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

(2) Financial Position

As of September 30, 2012, the Rinnai Group had total assets of ¥239,140 million, up ¥286 million from March 31, 2012. Total liabilities declined ¥6,764 million, to ¥77,351 million. Net assets rose ¥7,051 million, to ¥161,789 million. The equity ratio at the end of the period was 65.8%.

Cash Flows

Cash and cash equivalents at September 30, 2012, stood at ¥47,468 million, down ¥1,149 million from March 31, 2012.

Net cash provided by operating activities amounted to ¥3,173 million, down 39.2% 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 ¥2,792 million, down 74.1% from the previous corresponding period. Main outflows included purchases of property, plant and equipment.

Net cash used in financing activities was ¥1,652 million, up 28.7% 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, 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 restatement

(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 two-quarter period under review.

3 Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March, 2012 (Year ended March 31, 2012)	At Sept. 30, 2012 (First two quarters for the year ending March 31, 2013)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	34,596	31,113
Notes and accounts receivable	56,776	53,933
Marketable securities	35,651	36,769
Products	14,530	18,066
Raw materials and stores	9,402	9,647
Other	5,803	4,930
Less allowance for doubtful accounts	(461)	(452)
Total current assets	156,300	154,007
Fixed assets		
Property, plant and equipment	43,040	43,397
Intangible fixed assets	1,489	1,492
Investments and advances		
Investments in securities	26,966	28,682
Other	11,476	11,983
Less allowance for doubtful accounts	(419)	(423)
Total investments and advances	38,023	40,242
Total fixed assets	82,553	85,132
Total assets	238,853	239,140

(¥ millions)

	At March, 2012 (Year ended March 31, 2012)	At Sept. 30, 2012 (First two quarters for the year ending March 31, 2013)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	43,895	40,785
Short-term debt	4,254	4,209
Accrued corporate taxes	6,064	3,096
Accrued employee's bonuses	3,131	3,084
Other allowances	1,857	2,126
Other	13,554	12,268
Total current liabilities	72,757	65,571
Long-term liabilities		
Long-term debt	3,325	3,288
Accrued employees' retirement benefits	4,554	4,688
Other allowances	61	36
Other	3,417	3,767
Total long-term liabilities	11,358	11,780
Total liabilities	84,116	77,351
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,720	8,720
Earned surplus	162,014	168,114
Treasury stock	(23,471)	(23,474)
Total shareholders' equity	153,722	159,820
Other comprehensive income:		
Unrealized gain on marketable securities	518	911
Foreign exchange translation adjustment	(3,622)	(3,472)
Total other adjustments	(3,103)	(2,560)
Minority interests	4,119	4,529
Total net assets	154,737	161,789
Total liabilities and net assets	238,853	239,140

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2012 (April 1, 2011, to Sept. 30, 2011)	First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)
	Amount	Amount
Net sales	114,274	114,216
Cost of Sales	79,042	79,709
Gross Profit	35,232	34,507
Selling, general and administrative expenses	23,716	23,904
Operating income	11,516	10,602
Other income:		
Interest income	466	430
Equity in earnings of affiliates	454	455
Other	443	419
Total other income	1,365	1,305
Other expenses:		
Interest expenses	141	133
Foreign exchange loss	299	205
Other	62	55
Total other expenses	504	393
Ordinary income	12,377	11,514
Extraordinary losses:		
Loss on devaluation of investments in securities	1,212	157
Total extraordinary losses	1,212	157
Income before income taxes	11,165	11,357
Income taxes:		
Current	3,880	3,230
Deferred	517	282
Total income taxes	4,397	3,513
Income before minority interests	6,767	7,843
Minority interests	192	369
Net income	6,575	7,473

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2012 (April 1, 2011, to Sept. 30, 2011)	First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)
	Amount	Amount
Income before minority interest	6,767	7,843
Other comprehensive income		
Unrealized gain on marketable securities	466	393
Foreign exchange translation adjustment	831	298
Equity equivalents in equity method affiliates	62	(73)
Total other comprehensive income	1,360	618
Comprehensive income	8,127	8,461
(Composition)		
Comprehensive income related to shareholders of parent company	7,919	8,016
Comprehensive income related to minority shareholders	208	444

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2012 (April 1, 2011, to Sept. 30, 2011)	First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)
Cash flows from operating activities		
Income before income taxes	11,165	11,357
Depreciation and amortization	3,466	3,862
Decrease(increase) in loss on devaluation of investments in securities	1,212	157
Decrease(increase) in trade receivables	1,360	2,905
Decrease (increase) in inventories	(5,745)	(3,675)
Increase (decrease) in trade payables	866	(3,224)
Other	(2,302)	(2,333)
Subtotal	10,023	9,049
Interest and dividends received	610	428
Interest paid	(149)	(133)
Income taxes paid	(5,265)	(6,171)
Net cash provided by operating activities	5,219	3,173
Cash flows from investing activities		
Transfers to time deposits	(11,731)	(5,989)
Withdrawals from time deposits	4,014	7,283
Purchases of tangible fixed assets	(3,671)	(4,472)
Purchases of investments in securities	(4,021)	(1,713)
Sale and redemption of investments in securities	5,401	804
Other	(754)	1,295
Net cash used in investing activities	(10,763)	(2,792)
Cash flows from financing activities		
Dividends paid	(1,176)	(1,373)
Other	(107)	(279)
Net cash used in financing activities	(1,283)	(1,652)
Effect of exchange rate fluctuations on cash and cash equivalents	262	121
Net (decrease) increase in cash and cash equivalents	(6,565)	(1,149)
Cash and cash equivalents at beginning of term	46,145	48,618
Cash and cash equivalents at end of term	39,579	47,468

(4) Notes regarding the assumption of a going concern

Not applicable.

(4) Major Changes in Shareholders' Equity

Not applicable.

(5) Segment Information

I. First two quarters for the year ended 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	Total			
Net sales									
(1) Sales for clients	77,832	10,513	5,801	9,163	5,330	108,641	5,633	—	114,274
(2) Intersegment sales	9,052	191	—	0	652	9,896	1,016	(10,913)	—
Total	86,885	10,704	5,801	9,163	5,983	118,538	6,650	(10,913)	114,274
Segment income	7,822	438	233	2,354	166	11,015	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.

II. First two quarters for the year ending March 31, 2013 (April 1, 2012, to Sept. 30, 2012)

(¥ millions)

	Reporting Segment						Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	Korea	United States	Australia	China	Total			
Net sales									
(1) Sales for clients	79,963	10,113	5,319	7,633	5,471	108,502	5,714	—	114,216
(2) Intersegment sales	8,322	242	—	8	716	9,290	1,175	(10,465)	—
Total	88,286	10,356	5,319	7,642	6,187	117,792	6,889	(10,465)	114,216
Segment income	7,324	485	30	1,623	421	9,886	758	(41)	10,602

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.