

# Consolidated Financial Results

## First Two Quarters of the Fiscal Year ending March 2014

(April 1, 2013 to September 30, 2013)

November 5, 2013

### 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, 2013

Anticipated date to begin distributing dividends: December 6, 2013

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, 2013

(April 1, 2013 – September 30, 2013; 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 2013	¥127,322 (+11.5)	¥12,406 (+17.0)	¥13,797 (+19.8)	¥8,639 (+15.6)
Two-quarter total at September 2012	114,216 ( -0.1)	10,602 ( -7.9)	11,514 ( -7.0)	7,473 (+13.7)

Note: Comprehensive Income: Six months ended September 30, 2013; ¥12,961 million (+53.2%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2013	¥171.44	—
Two-quarter total at September 2012	152.34	—

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 2013	¥289,337	¥207,599	69.4
Full-year at March 2013	262,590	178,007	65.7

(Reference) Equity capital: Six months ended September 30, 2013; ¥200,666 million

Year ended March 31, 2013; ¥172,492 million

## 2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2013	—	¥30.00	—	¥30.00	¥60.00
March 2014	—	32.00	—	—	—
March 2014 (anticipated)	—	—	—	32.00	64.00

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

## 3. Forecast for the Fiscal Year Ending March 31, 2014

(April 1, 2013, to March 31, 2014)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥268,000 (+6.4)	¥30,000 (+13.8)	¥32,000 (+10.1)	¥20,000 (+3.2)	¥391.09

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

Consolidated net income per share is calculated by considering the retirement of treasury stocks in June and July 2013.

**\* Notes**

- (1) Changes in scope of consolidation of major subsidiaries during the period: Yes  
Newly included 1 (Company name: Shanghai Rinnai Thermo Energy Engineering Co., Ltd.):  
Excluded — (Company name: —)

Note: For more information, please refer to “2. Summary (Other) Information, (1) Changes in Major Subsidiaries during Period” on page 6 of this report.

- (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, 2013: 52,216,463 shares

March 31, 2013: 54,216,463 shares

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

September 30, 2013: 209,490 shares

March 31, 2013: 5,158,638 shares

- (c) Average number of shares during the term

First two quarters of the fiscal year ending March 2014: 50,395,463 shares

First two quarters of the fiscal year ended March 2013: 49,059,085 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 “1. Consolidated Performance, (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, 2013), the world economy was characterized by a moderate recovery trend, driven mainly by increases in personal consumption and capital expenditures in the United States, as well as a turnaround in Europe, where concerns about economic recession due to shrinking finances were replaced by an improvement trend. In China, meanwhile, the economic growth rate began slowing, resulting in modest expansion. In Japan, expectations of economic recovery, stemming from growth strategies pursued by the government, led to depreciation of the yen and rising shares prices. However, the real economy failed to achieve full-fledged recovery, making the outlook going forward unclear.

The domestic housing industry benefited from healthy new housing starts owing to a rush in demand ahead of an expected hike in the consumption tax rate, as well as activity ahead of a projected increase in housing loan interest rates and the impact of home reconstruction in disaster-affected regions. The home renovation market also performed well, buoyed by healthy replacement demand for housing appliances.

Under these conditions, the Rinnai Group entered the second year of its medium-term business plan, entitled Jump Up 2014, covering the three-year period from April 2012 to March 2015. Under the plan, we upgraded our product lineup and advanced global business initiatives as a comprehensive manufacturer of heating appliances that contributes to people's lives and the global environment.

With respect to revenue, in Japan there was an ongoing shift towards high-end products for such items as built-in stoves and hot-water/heating systems. We also enjoyed revenue growth overseas thanks to higher sales of gas appliances in the United States, China, and elsewhere, as well as foreign exchange factors. In addition, we reported higher earnings owing to an increase in the share of high-value-added products in our lineup, coupled with the benefits of cost reductions stemming from efforts to cut basic costs.

As a result, consolidated net sales for the period amounted to ¥127,322 million, up 11.5% from the previous corresponding period. Operating income rose 17.0%, to ¥12,406 million, and ordinary income climbed 19.8%, to ¥13,797 million. Net income rose 15.6%, to ¥8,639 million.

Our results by geographical segment were as follows:

#### *Japan*

In the domestic hot-water unit market, there has been growing use of diverse heating appliances that use hot water. Accordingly, we reported increased sales of hot-water/heating systems and bathroom heating/drying systems, as well as floor heaters and other hot-water-based terminals. In kitchen appliances, sales of built-in stoves increased owing to the growing popularity of system-based kitchens. In air-conditioning and heating units, we received high acclaim for *Speedy Kanta-kun*, a new item in our gas clothes-dryer lineup with modernized designs. Meanwhile, our *ECO ONE* hybrid hot-water/heating systems, featuring exceptional environmental performance through a combination of gas and electricity, steadily earned name recognition in the market. As a result, sales in Japan amounted to ¥83,196 million, up 4.0% from the previous corresponding period, and operating income climbed 24.0%, to ¥9,084 million.

#### *South Korea*

In South Korea, a law mandating the attachment of devices to prevent stoves from overheating has taken effect in order to improve safety, and the resulting increase in average unit prices helped bolster sales of stoves. Due to economic recession, however, sales of boilers declined amid ongoing market contraction, leading to a year-on-year overall sales decrease in local-currency terms. Owing

to foreign exchange factors, however, sales in yen terms jumped 21.1%, to ¥12,242 million. Due to an increase in selling, general, and administrative expenses, by contrast, we reported an operating loss of ¥115 million, compared with operating income of ¥485 million in the previous corresponding period.

### **North America**

Against a background of economic recovery, U.S. housing-related markets gained momentum, and gas instant-heating hot-water units were healthy. Total sales in North America jumped 33.7%, to ¥7,111 million, and operating income surged 832.2%, to ¥285 million.

### **Australia**

Amid depressed local economic conditions, sales of gas instant-heating hot-water units were weak. By promoting diversification, however, we broadened the scope of our business, and also benefited from foreign exchange factors. As a result, sales in Australia rose 14.5%, to ¥8,744 million, and operating income increased 4.7%, to ¥1,698 million.

### **China**

With improving living standards and an expanding gas infrastructure, sales in China were healthy, centering on gas instant-heating hot-water units. As a result, sales in China jumped 58.9%, to ¥8,692 million, and operating income surged 96.2%, to ¥827 million.

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

(¥ millions; %)

	First two quarters for the year ended March 31, 2013 (April 1, 2012, to Sept. 30, 2012)		First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)		Change		Year ended March 31, 2013 (April 1, 2012, to March 31, 2013)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Hot-water units	56,298	49.3	64,748	50.9	8,450	15.0	127,125	50.5
Kitchen appliances	35,822	31.4	37,636	29.6	1,813	5.1	78,782	31.3
Air-conditioning and heating units	7,415	6.5	8,186	6.4	771	10.4	15,666	6.2
Commercial-use equipment	3,494	3.1	3,667	2.9	173	5.0	6,912	2.7
Others	11,185	9.8	13,082	10.3	1,897	17.0	23,346	9.3
Total	114,216	100.0	127,322	100.0	13,105	11.5	251,832	100.0

## References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2013 (April 1, 2012, to Sept. 30, 2012)			First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	21,659	16,492	38,151	27,861	20,265	48,127
II. Consolidated net sales	—	—	114,216	—	—	127,322
III. Composition ratio of overseas sales to consolidated net sales	19.0%	14.4%	33.4%	21.9%	15.9%	37.8%

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

### (2) Financial Position

As of September 30, 2013, Rinnai had total assets of ¥289,337 million, up ¥26,747 million from March 31, 2013. Total liabilities declined ¥2,845 million, to ¥81,737 million. After also accounting for retirement of treasury stock, net assets rose ¥29,592 million, to ¥207,599 million. The equity ratio at the end of the period was 69.4%.

### Cash Flows

Cash and cash equivalents at September 30, 2013, stood at ¥58,778 million, up ¥3,747 million from March 31, 2013.

Net cash provided by operating activities amounted to ¥6,467 million, up 103.8% from the previous corresponding period. Major outflows included income taxes paid.

Net cash used in investing activities totaled ¥19,809 million, up 609.5% from the previous corresponding period. Main outflows included purchases of investments in securities.

Net cash provided by financing activities was ¥15,876 million, compared with net cash used in financing activities of ¥1,652 million in the previous corresponding period. This was due mainly to proceeds from retirement of treasury stock.

### (3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the full-year period ending March 31, 2014. (Those forecasts were released on May 10, 2013.)

## 2. Summary (Other) Information

### (1) Changes in Major Subsidiaries during Period

Effective the first quarter of the current fiscal year, Shanghai Rinnai Thermo Energy Engineering Co., Ltd. has been included in the scope of consolidation due to that company's increased importance.

### (2) Application of Specific Accounting Treatment

Not applicable.

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

Not applicable.

### 3 Consolidated Quarterly Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At March, 2013 (Year ended March 31, 2013)	At Sept. 30, 2013 (First two quarters for the year ending March 31, 2014)
	Amount	Amount
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	47,691	49,345
Notes and accounts receivable	59,699	58,540
Marketable securities	39,479	41,784
Products	16,467	18,686
Raw materials and stores	9,855	10,839
Other	5,059	5,266
Less allowance for doubtful accounts	(487)	(543)
Total current assets	177,766	183,919
<b>Fixed assets</b>		
Property, plant and equipment	41,121	43,344
Intangible fixed assets	1,526	2,659
Investments and advances		
Investments in securities	30,665	45,024
Other	11,980	14,862
Less allowance for doubtful accounts	(470)	(473)
Total investments and advances	42,176	59,413
Total fixed assets	84,823	105,417
<b>Total assets</b>	<b>262,590</b>	<b>289,337</b>

(¥ millions)

	At March, 2013 (Year ended March 31, 2013)	At Sept. 30, 2013 (First two quarters for the year ending March 31, 2014)
	Amount	Amount
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes and accounts payable	44,446	42,385
Short-term debt	3,748	3,892
Accrued corporate taxes	5,931	3,674
Accrued employee's bonuses	3,153	3,236
Other allowances	1,895	1,998
Other	13,897	13,666
Total current liabilities	73,073	68,854
<b>Long-term liabilities</b>		
Long-term debt	2,550	2,500
Accrued employees' retirement benefits	4,625	5,275
Other allowances	39	38
Other	4,293	5,069
Total long-term liabilities	11,508	12,882
Total liabilities	84,582	81,737
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Common stock	6,459	6,459
Capital surplus	8,720	8,719
Earned surplus	178,540	181,139
Treasury stock	(23,480)	(954)
Total shareholders' equity	170,240	195,363
<b>Other comprehensive income:</b>		
Unrealized gain on marketable securities	1,919	2,388
Foreign exchange translation adjustment	332	2,914
Total other adjustments	2,252	5,302
<b>Minority interests</b>	5,515	6,933
<b>Total net assets</b>	178,007	207,599
<b>Total liabilities and net assets</b>	262,590	289,337



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

### Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2013 (April 1, 2012, to Sept. 30, 2012)	First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)
	Amount	Amount
<b>Net sales</b>	114,216	127,322
<b>Cost of Sales</b>	79,709	88,310
<b>Gross Profit</b>	34,507	39,011
<b>Selling, general and administrative expenses</b>	23,904	26,605
<b>Operating income</b>	10,602	12,406
<b>Other income:</b>		
Interest income	430	452
Equity in earnings of affiliates	455	349
Foreign exchange income	—	287
Other	419	498
Total other income	1,305	1,587
<b>Other expenses:</b>		
Interest expenses	133	95
Foreign exchange loss	205	—
Loss on retirement of fixed assets	41	74
Other	14	26
Total other expenses	393	196
<b>Ordinary income</b>	11,514	13,797
<b>Extraordinary losses:</b>		
Loss on devaluation of investments in securities	157	—
Total extraordinary losses	157	—
<b>Income before income taxes</b>	11,357	13,797
<b>Income taxes:</b>		
Current	3,230	4,172
Deferred	282	465
Total income taxes	3,513	4,637
Income before minority interests	7,843	9,159
<b>Minority interests</b>	369	519
<b>Net income</b>	7,473	8,639

**Consolidated Statements of Comprehensive Income**

(¥ millions)

	First two quarters for the year ended March 31, 2013 (April 1, 2012, to Sept. 30, 2012)	First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)
	Amount	Amount
Income before minority interest	7,843	9,159
Other comprehensive income		
Unrealized gain on marketable securities	393	468
Foreign exchange translation adjustment	298	2,922
Equity equivalents in equity method affiliates	(73)	411
Total other comprehensive income	618	3,802
Comprehensive income	8,461	12,961
(Composition)		
Comprehensive income related to shareholders of parent company	8,016	11,689
Comprehensive income related to minority shareholders	444	1,272

### (3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2013 (April 1, 2012, to Sept. 30, 2012)	First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)
<b>Cash flows from operating activities</b>		
Income before income taxes	11,357	13,797
Depreciation and amortization	3,862	3,723
Decrease(increase) in trade receivables	2,905	3,514
Decrease (increase) in inventories	(3,675)	(1,749)
Increase (decrease) in trade payables	(3,224)	(4,913)
Other	(2,175)	(1,992)
Subtotal	9,049	12,379
Interest and dividends received	428	674
Interest paid	(133)	(130)
Income taxes paid	(6,171)	(6,456)
Net cash provided by operating activities	3,173	6,467
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(5,989)	(21,757)
Withdrawals from time deposits	7,283	24,908
Purchases of tangible fixed assets	(4,472)	(5,247)
Purchases of investments in securities	(1,713)	(19,459)
Sale and redemption of investments in securities	804	1,655
Other	1,295	90
Net cash used in investing activities	(2,792)	(19,809)
<b>Cash flows from financing activities</b>		
Retirement of treasury stock	—	17,632
Dividends paid	(1,373)	(1,470)
Other	(279)	(285)
Net cash used in financing activities	(1,652)	15,876
Effect of exchange rate fluctuations on cash and cash equivalents	121	934
Net increase (decrease) in cash and cash equivalents	(1,149)	3,468
Cash and cash equivalents at beginning of term	48,618	55,030
Net increase (decrease) in cash and cash equivalents due to change of consolidation	—	278
Cash and cash equivalents at end of term	47,468	58,778

#### (4) Noted to Quarterly Consolidated Financial Statements

##### Assumptions for Going Concern

Not applicable.

##### Note on Major Changes in Shareholders' Equity

Pursuant to a resolution of the Board of Directors on June 5, 2013, the Company disposed of 2,600,000 shares of treasury stock on June 24, 2013 in a public offering, and 350,000 shares of treasury stock on July 9, 2013 in a private placement. These resulted in a ¥4,212 million increase in capital surplus and a ¥13,428 million decrease in treasury stock in the two-quarter period under review.

Pursuant to same resolution of the Board of Directors, the Company cancelled 2,000,000 shares of treasury stock on July 12, 2013. This resulted in a ¥4,213 million decrease in capital surplus, a ¥4,890 million decrease in earned surplus, and a ¥9,130 million decrease in treasury stock in the two-quarter period under review.

At the end of the period, capital surplus totaled ¥8,719 million, earned surplus stood at ¥181,139 million, and treasury stock amounted to ¥954 million.

#### Segment Information

##### I. First two quarters for the year ended 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 (loss)	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 (loss) is in line with operating income on consolidated statements of income.

##### II. First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)

(¥ 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	83,196	12,242	7,111	8,744	8,692	119,986	7,335	—	127,322
(2) Intersegment sales	10,223	232	—	13	789	11,259	1,394	(12,653)	—
Total	93,419	12,475	7,111	8,757	9,481	131,246	8,729	(12,653)	127,322
Segment income (loss)	9,084	(115)	285	1,698	827	11,780	824	(199)	12,406

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 (loss) is in line with operating income on consolidated statements of income.