

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2014

(April 1–December 31, 2013)

February 7, 2014

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: February 12, 2014

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: None

Information meeting of quarterly results: None

I. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2014

(April 1–December 31, 2013; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
Three Quarters to Dec. 2013	¥208,991 [+11.3%]	¥24,406 [+20.2%]	¥26,807 [+20.8%]	¥16,995 [+11.8%]
Three Quarters to Dec. 2012	187,739 [+1.6%]	20,307 [−1.9%]	22,186 [−0.5%]	15,206 [+24.6%]

(Reference)

Comprehensive Income: First three quarters of the year ending March 31, 2014; ¥21,632 million (+ 33.2%)

First three quarters of the year ended March 31, 2013; ¥16,246 million (+ 63.5%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2013	¥334.03	—
Three Quarters to Dec. 2012	309.97	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
December 31, 2013	¥303,920	¥214,159	68.2%
March 31, 2013	262,590	178,007	65.7

(Reference) Equity capital: Three quarters of the year ending March 31, 2014; ¥207,397 million

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

II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	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: Revision of dividend forecast in period under review: None

III. Forecast for the Fiscal Year Ending March 31, 2014 (Consolidated)

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

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	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 5 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)

December 31, 2013: 54,216,463 shares

March 31, 2013: 54,216,463 shares

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

December 31, 2013: 210,014 shares

March 31, 2013: 5,158,638 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2014: 50,878,823 shares

First three quarters of the fiscal year ending March 2013: 49,058,980 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 three-quarter period under review (April 1–December 31, 2013), the world economy was characterized by a moderate recovery trend, driven mainly by firm housing sales and personal consumption in the United States and a halt to economic recession in Europe. The Chinese economy, meanwhile, benefited from healthy internal demand for durable goods and strong exports, despite a slowdown in the economic growth rate. In Japan, signs of economic growth gathered momentum in the wake of rising share prices. However, full-scale economic recovery failed to materialize, due mainly to an expanding trade deficit stemming from the weak yen and increasing imports of resources.

The domestic housing appliance industry benefited from a year-on-year jump in housing starts owing to a rush in demand ahead of the upcoming hike in consumption tax. 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 the Group enjoyed healthy sales of high-priced items thanks to an increase in purchases of housing appliances designed to ensure comfortable living. This reflected an ongoing shift in the market towards system-based kitchens and heating systems that use hot water. We also enjoyed revenue growth overseas thanks to higher sales of hot-water units in the United States, China, and elsewhere, as well as favorable foreign exchange factors stemming from the weak yen. 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 higher sales in North America and China, as well as cost reductions stemming from efforts to cut basic costs.

As a result, consolidated net sales for the period amounted to ¥208,991 million, up 11.3% from the previous corresponding period. Operating income rose 20.2%, to ¥24,406 million, and ordinary income climbed 20.8%, to ¥26,807 million. Net income rose 11.8%, to ¥16,995 million.

Our results by geographical segment were as follows:

Japan

In kitchen appliances, domestic sales of built-in stoves increased owing to the growing popularity of system-based kitchens. Regarding hot-water units, there has been a progressive shift from single-function appliances to high-end models, such as hot-water/heating systems and bath-filling systems. We also enjoyed steady sales of floor heaters, bathroom heater/dryers, and other hot-water-based terminals, which contributed to higher domestic sales in this segment. Meanwhile, we reported a healthy increase in sales of our *ECO ONE* hybrid hot-water/heating systems, which received the Minister of Economy, Trade and Industry Award, the top prize in the fiscal 2013 Energy Conservation Awards. As a result, sales in Japan amounted to ¥142,733 million, up 4.5% from the previous corresponding period, and operating income climbed 22.2%, to ¥19,331 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 favorable foreign exchange factors, however, sales in yen terms jumped 23.9%, to ¥18,541 million. Due to an increase in selling, general, and administrative expenses, by contrast, operating income fell 93.9%, to ¥36 million.

North America

Against a background of economic recovery, U.S. housing-related markets gained momentum. This added further impetus to the enduring trend away from tank-based hot-water units toward highly convenient tankless systems. Accordingly, sales of the Group's gas instant-heating hot-water units were healthy. Total sales in North America jumped 35.1%, to ¥11,038 million, and operating income surged 204.8%, to ¥563 million.

Australia

In Australia, sales of mainstay gas instant-heating hot-water units were weak amid deteriorating local economic conditions. By contrast we enjoyed increased sales of products unrelated to our core businesses, such as commercial-use systems and fireplaces. Thanks also to favorable foreign exchange factors, sales in Australia rose 12.1%, to ¥12,229 million, and operating income increased 3.9%, to ¥2,076 million.

China

Despite a slowdown in economic growth in China, the economy of the Shanghai district headed towards gradual recovery. With improving living standards and an expanding gas infrastructure, moreover, sales of gas appliances were healthy. As a result, sales in China jumped 61.1%, to ¥13,174 million, and operating income surged 101.7%, to ¥1,101 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2012		Three Quarters to Dec. 31, 2013		Change		Year to March 31, 2013	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Hot-water units	¥ 90,445	48.2%	¥ 103,673	49.6%	¥13,228	14.6%	¥127,125	50.5%
Kitchen appliances	60,600	32.3	64,379	30.8	3,778	6.2	78,782	31.3
Air-conditioning and heating units	14,010	7.5	14,708	7.0	697	5.0	15,666	6.2
Commercial-use equipment	5,221	2.8	5,597	2.7	376	7.2	6,912	2.7
Others	17,460	9.3	20,631	9.9	3,170	18.2	23,346	9.3
Total	¥187,739	100.0%	¥208,991	100.0%	¥21,251	11.3%	¥251,832	100.0%

(For references 2)**Overseas Sales**

(¥ millions; %)

	Three Quarters to Dec. 31, 2012			Three Quarters to Dec. 31, 2013		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥32,379	¥24,661	¥57,040	¥42,678	¥30,205	¥72,884
II. Consolidated net sales	—	—	187,739	—	—	208,991
III. Composition ratio of overseas sales to consolidated net sales	17.2%	13.1%	30.4%	20.4%	14.5%	34.9%

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

(2) Financial Position

As of December 31, 2013, the Rinnai Group had total assets of ¥303,920 million, up ¥41,330 million from March 31, 2013. Total liabilities increased ¥5,178 million, to ¥89,760 million. After also accounting for retirement of treasury stock, net assets rose ¥36,152 million, to ¥214,159 million. The equity ratio at the end of the period was 68.2%.

(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 Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2013 (Fiscal 2013)	At December 31, 2013 (Three Quarters of Fiscal 2014)
ASSETS:		
Current assets		
Cash and deposits	¥ 47,691	¥ 51,009
Notes and accounts receivable	59,699	69,393
Marketable securities	39,479	43,656
Products	16,467	18,107
Raw materials and stores	9,855	10,411
Other	5,059	4,579
Less allowance for doubtful accounts	(487)	(569)
Total current assets	177,766	196,589
Fixed assets		
Property, plant and equipment	41,121	44,094
Intangible fixed assets	1,526	2,689
Investments and advances		
Investments in securities	30,665	46,084
Other	11,980	14,957
Less allowance for doubtful accounts	(470)	(494)
Total investments and advances	42,176	60,547
Total fixed assets	84,823	107,331
Total assets	¥262,590	¥303,920

(¥ millions)

	At March 31, 2013 (Fiscal 2013)	At December 31, 2013 (Three Quarters of Fiscal 2014)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥44,446	¥ 48,962
Short-term debt	3,748	6,599
Accrued income taxes	5,931	3,992
Accrued employee's bonuses	3,153	1,513
Other allowances	1,895	1,970
Other	13,897	15,735
Total current liabilities	73,073	78,774
Long-term liabilities		
Long-term debt	2,550	—
Accrued employees' retirement benefits	4,625	5,515
Other allowances	39	39
Other	4,293	5,430
Total long-term liabilities	11,508	10,986
Total liabilities	84,582	89,760
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,720	8,719
Earned surplus	178,540	187,776
Treasury stock	(23,480)	(958)
Total shareholders' equity	170,240	201,997
Other comprehensive income:		
Unrealized gain on marketable securities	1,919	2,736
Foreign exchange translation adjustment	332	2,663
Total other comprehensive income	2,252	5,400
Minority interests	5,515	6,762
Total net assets	178,007	214,159
Total liabilities and net assets	¥262,590	¥303,920

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2013 (From April 1 to December 31, 2012)	Three Quarters of Fiscal 2014 (From April 1 to December 31, 2013)
Net sales	¥187,739	¥208,991
Cost of sales	130,414	143,681
Gross profit	57,325	65,309
Selling, general and administrative expenses	37,017	40,903
Operating income	20,307	24,406
Other income:		
Interest income	636	705
Equity in earnings of affiliates	645	553
Foreign exchange income	204	634
Other	696	863
Total other income	2,183	2,757
Other expenses:		
Interest expenses	191	141
Loss on retirement of fixed assets	92	151
Other	20	62
Total other expenses	304	356
Ordinary income	22,186	26,807
Extraordinary income:		
Gain on sales of investment securities	938	—
Total extraordinary income	938	—
Extraordinary losses:		
Loss on devaluation of investments in securities	158	—
Total extraordinary expenses	158	—
Income before income taxes	22,967	26,807
Income taxes (current)	6,076	7,589
Income taxes (deferred)	1,154	1,474
Total income taxes	7,231	9,063
Income before minority interest	15,735	17,743
Minority interests	529	748
Net income	¥ 15,206	¥ 16,995

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2013 (From April 1 to December 31, 2012)	Three Quarters of Fiscal 2014 (From April 1 to December 31, 2013)
Income before minority interest	¥15,735	¥17,743
Other comprehensive income		
Unrealized gain on marketable securities	246	817
Foreign exchange translation adjustment	445	3,334
Equity portion of affiliated companies accounted for under the equity method	(180)	(262)
Total other comprehensive income	511	3,889
Comprehensive income	16,246	21,632
(Composition)		
Comprehensive income related to shareholders of parent company	15,683	20,142
Comprehensive income related to minority shareholders	562	1,490

(3) 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 three-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 three-quarter period under review.

At the end of the period, capital surplus totaled ¥8,719 million, earned surplus stood at ¥187,776 million, and treasury stock amounted to ¥958 million.

Segment Information

First Three Quarters of the Fiscal Year Ending March 31, 2013

(From April 1 to December 31, 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	¥136,599	¥14,970	¥8,169	¥10,906	¥8,176	¥178,822	¥8,916	¥ —	¥187,739
Intersegment	12,041	341	—	16	1,108	13,507	1,710	(15,217)	—
Total	148,640	15,311	8,169	10,922	9,285	192,329	10,627	(15,217)	187,739
Income (loss)	15,815	596	184	1,998	546	19,142	1,137	28	20,307

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 Three Quarters of the Fiscal Year Ending March 31, 2014

(From April 1 to December 31, 2013)

(¥ 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	¥142,733	¥18,541	¥11,038	¥12,229	¥13,174	¥197,718	¥11,273	¥ —	¥208,991
Intersegment	14,927	366	—	29	1,273	16,597	2,010	(18,607)	—
Total	157,661	18,908	11,038	12,259	14,448	214,315	13,283	(18,607)	208,991
Income (loss)	19,331	36	563	2,076	1,101	23,109	1,323	(27)	24,406

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.