

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2014

(April 1–June 30, 2013)

August 5, 2013

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

Contact: Masao Kosugi, Director and Managing Executive Officer, General Manager of Administration Headquarters

TEL: +81 (52) 361-8211

Scheduled date for release of quarterly securities report: August 8, 2013

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, 2014

(April 1– June 30, 2013; 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 2013	¥57,880 [+9.1%]	¥4,455 [+3.7%]	¥5,224 [+9.6%]	¥3,218 [+0.7%]
First Quarter to June 2012	53,031 [−2.1%]	4,298 [−13.5%]	4,766 [−15.6%]	3,196 [+36.0%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2014; ¥7,073 million [+28.6%]

First quarter of the year ended March 31, 2013; ¥5,498 million [+36.4%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2013	¥65.40	—
First Quarter to June 2012	65.15	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2013	¥279,960	¥199,273	69.0%
March 31, 2013	262,590	178,007	65.7

(Reference) Equity capital: First quarter of the year ending March 31, 2014; ¥193,168 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
June 2013	—				
March 2014 (anticipated)		32.00	—	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 (¥)
First half	¥124,000 [+8.6%]	¥12,000 [+13.2%]	¥13,000 [+12.9%]	¥8,000 [+7.0%]	¥158.74
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: —)

(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)

June 30, 2013: 54,216,463 shares

March 31, 2013: 54,216,463 shares

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

June 30, 2013: 2,558,963 shares

March 31, 2013: 5,158,638 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2014: 49,209,347 shares

First quarter of the fiscal year ended March 2013: 49,059,211 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, 2013), the world economy maintained a recovery tone, driven by improvements in the housing market and the employment environment in the United States. This was despite prolonged economic slowdown in Europe stemming from shrinking finances and worsening employment conditions. In China, housing sales increased but overall economic growth tended to slow. In Japan, there was growing expectations of economic recovery, bolstered by depreciation of the yen and rising shares prices following the launch of the current government administration. Nevertheless, this was not reflected in the real economy as signs of strength in capital expenditures and personal consumption failed to appear.

The domestic housing appliance industry benefited from a healthy new housing starts owing to a rush in demand ahead of an expected increase in the consumption tax rate. Other healthy signs included solid sales of pre-owned residences and brisk replacement demand in the home renovation market.

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 Kitchen Appliances and Hot-Water Units segments both enjoyed increased year-on-year sales, due to an ongoing shift in demand toward high-end products. We also posted sales growth overseas thanks to higher sales of mainstay gas hot-water units, reflecting healthy housing market conditions in the United States and elsewhere, as well as foreign exchange factors. We also reported increased earnings amid a progressive shift toward high-value-added products in Japan.

As a result, consolidated net sales for the period amounted to ¥57,880 million, up 9.1% from the previous corresponding period. Operating income rose 3.7%, to ¥4,455 million, and ordinary income climbed 9.6%, to ¥5,224 million. Net income edged up 0.7%, to ¥3,218 million.

Our results by geographical segment were as follows:

Japan

In Japan, the market for tabletop stoves continued to shrink, but sales of built-in stoves increased owing to the growing popularity of system-based kitchens. In hot-water units, there has been an ongoing trend away from single-function units towards multi-functional systems that use hot water in multiple ways. 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. We also enjoyed solid sales of products relatively new to the Rinnai Group, including *ECO ONE* hybrid hot-water/heating systems and range hoods. As a result, sales in Japan amounted to ¥38,661 million, up 2.9% from the previous corresponding period, and operating income climbed 13.2%, to ¥3,982 million.

South Korea

In South Korea, the market for boilers has been declining as the economy continued to

languish from the previous fiscal year. Accordingly, sales of Rinnai's mainstay boilers declined, leading to a year-on-year overall sales decrease in local-currency terms. Owing foreign exchange factors, however, sales in yen terms jumped 18.7%, to ¥6,418 million. Due to an increase in selling, general, and administrative expenses, however, we reported an operating loss of ¥258 million, compared with operating income of ¥279 million in the previous corresponding period.

North America

With the local U.S. economy headed for moderate recovery, housing sales in that nation were healthy, leading to a year-on-year increase in sales of tankless hot-water units. Total sales in North America jumped 31.5%, to ¥3,361 million, and operating income was ¥133 million, up from ¥0.3 million in the previous corresponding period.

Australia

Amid deteriorating economic conditions, new housing starts and sales of housing appliances have been weak, which had an impact on gas instant-heating hot-water units. Thanks to foreign exchange factors, however, sales in Australia rose 6.1%, to ¥2,808 million. By contrast, the ratio of low-priced products has been increasing due to economic stagnation. Accordingly, operating income declined 43.6%, to ¥191 million.

China

In China, housing sales have been increasing, not only in Shanghai and other coastal areas but also in interior regions. With expanding gas infrastructure and improving living standards, meanwhile, sales of gas appliances have been healthy. As a result, sales in China surged 54.3%, to ¥3,357 million, and operating income was ¥144 million, from an operating loss of ¥5 million in the previous corresponding period.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2012		First Quarter to June 30, 2013		Change		Year to March 31, 2013	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Hot-water units	¥27,406	51.7%	¥30,393	52.5%	¥2,986	10.9%	¥127,125	50.5%
Kitchen appliances	17,231	32.5	17,805	30.8	574	3.3	78,782	31.3
Air-conditioning and heating units	1,260	2.4	1,516	2.6	255	20.3	15,666	6.2
Commercial-use equipment	1,697	3.2	1,755	3.0	58	3.4	6,912	2.7
Others	5,435	10.2	6,409	11.1	974	17.9	23,346	9.3
Total	¥53,031	100.0%	¥57,880	100.0%	¥4,849	9.1%	¥251,832	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2012			First Quarter to June 30, 2013		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥10,637	¥6,876	¥17,514	¥13,018	¥7,959	¥20,977
II. Consolidated net sales	—	—	53,031	—	—	57,880
III. Composition ratio of overseas sales to consolidated net sales	20.1%	13.0%	33.0%	22.5%	13.8%	36.2%

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

(2) Financial Position

As of June 30, 2013, Rinnai had total assets of ¥279,960 million, up ¥17,370 million from March 31, 2013. Total liabilities declined ¥3,894 million, to ¥80,687 million. After also accounting for retirement of treasury stock, net assets rose ¥21,265 million, to ¥199,273 million. The equity ratio at the end of the period was 69.0%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2013, or 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 under review, 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 June 30, 2013 (First Quarter of Fiscal 2014)
ASSETS:		
Current assets		
Cash and deposits	¥ 47,691	¥ 61,417
Notes and accounts receivable	59,699	53,541
Marketable securities	39,479	36,285
Products	16,467	20,066
Raw materials and stores	9,855	10,538
Other	5,059	5,844
Less allowance for doubtful accounts	(487)	(547)
Total current assets	177,766	187,146
Fixed assets		
Tangible fixed assets	41,121	42,571
Intangible fixed assets	1,526	2,637
Investments and advances		
Investments in securities	30,665	35,578
Other	11,980	12,512
Less allowance for doubtful accounts	(470)	(485)
Total investments and advances	42,176	47,606
Total fixed assets	84,823	92,814
Total assets	¥262,590	¥279,960

(¥ millions)

	At March 31, 2013 (Fiscal 2013)	At June 30, 2013 (First Quarter of Fiscal 2014)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 44,446	¥ 41,774
Short-term debt	3,748	3,831
Accrued income taxes	5,931	2,417
Accrued employee's bonuses	3,153	1,127
Other allowances	1,895	1,962
Other	13,897	16,758
Total current liabilities	73,073	67,871
Long-term liabilities		
Long-term debt	2,550	2,550
Accrued employees' retirement benefits	4,625	5,187
Other allowances	39	41
Other	4,293	5,037
Total long-term liabilities	11,508	12,816
Total liabilities	84,582	80,687
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,720	12,432
Earned surplus	178,540	180,416
Treasury stock	(23,480)	(11,648)
Total shareholders' equity	170,240	187,660
Other comprehensive income:		
Unrealized gain on marketable securities	1,919	2,104
Foreign exchange translation adjustment	332	3,403
Total of other comprehensive income	2,252	5,507
Minority interests	5,515	6,104
Total net assets	178,007	199,273
Total liabilities and net assets	¥262,590	¥279,960

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

Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2013 (From April 1 to June 30, 2012)	First Quarter of Fiscal 2014 (From April 1 to June 30, 2013)
Net sales	¥53,031	¥57,880
Cost of sales	37,218	40,443
Gross profit	15,812	17,437
Selling, general and administrative expenses	11,514	12,981
Operating income	4,298	4,455
Other income:		
Interest income	223	216
Dividends received	141	159
Equity in earnings of affiliates	240	111
Foreign exchange income	-	236
Other	126	126
Total other income	732	850
Other expenses:		
Interest expenses	65	49
Foreign exchange loss	179	-
Loss on retirement of fixed assets	11	20
Other	7	12
Total other expenses	264	81
Ordinary income	4,766	5,224
Income before income taxes	4,766	5,224
Income taxes (current)	1,914	2,174
Income taxes (deferred)	(424)	(312)
Total income taxes	1,490	1,861
Income before minority interest	3,275	3,362
Minority interests	79	144
Net income	¥ 3,196	¥ 3,218

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2013 (From April 1 to June 30, 2012)	First Quarter of Fiscal 2014 (From April 1 to June 30, 2013)
Income before minority interest	¥3,275	¥3,362
Other comprehensive income		
Unrealized gain on marketable securities	(78)	184
Foreign exchange translation adjustment	2,174	3,200
Equity portion of affiliated companies accounted for under the equity method	126	326
Total of other comprehensive income	2,222	3,710
Comprehensive income	5,498	7,073
Total comprehensive income attributable to:		
Shareholders of Rinnai Corporation	5,163	6,473
Minority interests	335	600

(3) Noted to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Major Changes in Shareholders' Equity

Pursuant to a resolution of the Board of Directors on June 5, 2013, the Company disposed of treasury stock on June 24, 2013 in a public offering. This resulted in a ¥3,712 million increase in capital surplus and an ¥11,834 million decrease in treasury stock in the first quarter under review. At the end of the quarter, capital surplus totaled ¥12,432 million and treasury stock stood at ¥11,648 million.

Segment Information

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

	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.

First Quarter of the Fiscal Year Ending March 31, 2014 (From April 1 to June 30, 2013)

	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	¥38,661	¥6,418	¥3,361	¥2,808	¥3,357	¥54,607	¥3,273	¥ -	¥57,880
Intersegment	5,107	102	-	0	346	5,558	740	(6,299)	-
Total	43,769	6,520	3,361	2,808	3,704	60,165	4,014	(6,299)	57,880
Income (loss)	3,982	(258)	133	191	144	4,193	381	(120)	4,455

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.