

# Consolidated Financial Results

## First Quarter of the Fiscal Year Ending March 2015

(April 1–June 30, 2014)

August 4, 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: August 7, 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 Quarter of the Fiscal Year Ending March 31, 2015

(April 1– June 30, 2014; 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 2014	¥65,212 [+12.7%]	¥6,701 [+50.4%]	¥7,321 [+40.1%]	¥4,539 [+41.1%]
First Quarter to June 2013	57,880 [+9.1%]	4,455 [+3.7%]	5,224 [+9.6%]	3,218 [+0.7%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2015; ¥5,926 million [−16.2%]

First quarter of the year ended March 31, 2014; ¥7,073 million [+28.6%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2014	¥87.29	—
First Quarter to June 2013	65.40	—

### (2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2014	¥325,907	¥234,710	68.2%
March 31, 2014	334,382	232,635	66.0

(Reference) Equity capital: First quarter of the year ending March 31, 2015; ¥222,351 million

Year ended March 31, 2014; ¥220,788 million

## II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2014	—	¥32.00	—	¥36.00	¥68.00
June 2014	—				
March 2015 (anticipated)		38.00	—	38.00	76.00

Note: Revision of dividend forecast in period under review: None

### III. Forecast for the Fiscal Year Ending March 31, 2015 (Consolidated)

(April 1, 2014, to March 31, 2015)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥142,000 [+11.5%]	¥14,500 [+16.9%]	¥15,000 [+8.7%]	¥9,500 [+10.0%]	¥182.67
Full year	313,000 [+9.1]	36,500 [+7.3]	37,800 [+2.4]	23,800 [+2.3]	457.64

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

#### \* 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: None

(d) Retrospective restatement: None

Note: For more information, please refer to “2. Summary (Other) Information, (3) Changes in Accounting Policies; Changes in Accounting Estimates” on page 5 of this report.

(4) Number of Outstanding Shares (Common Stock)

(a) Number of outstanding shares at term-end (including treasury stock)

June 30, 2014: 54,216,463 shares

March 31, 2014: 54,216,463 shares

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

June 30, 2014: 211,066 shares

March 31, 2014: 210,931 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2015: 52,005,453 shares

First quarter of the fiscal year ended March 2014: 49,209,347 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, 2014), the world economy remained in a state of uncertainty. Although the economies of Europe and North America showed moderate recovery, overall growth slowed in Asia, especially in China. In Japan, the economy maintained a gradual recovery tone, but showed signs of weakness due to a recoil in demand after a surge in personal consumption ahead of the consumption tax hike.

The domestic housing appliance industry benefited from a continued increase in replacement demand, including for renovations aimed at helping the environment and saving energy. Due to the consumption tax hike, however, new housing starts remained on a downtrend.

Under these conditions, the Rinnai Group entered the final 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, sales in Japan were weak due to the recoil in demand, especially for kitchen appliances, following the consumption tax hike. Overseas, however, we reported an overall increase in sales, owing mainly to healthy sales of water heaters in China and North America, as well as the inclusion of P.T. Rinnai Indonesia in the scope of consolidation. We also reported a rise in earnings thanks to improved profit margins in Japan stemming from increased sales of high-value-added products, as well as the effects of higher sales overseas.

As a result, consolidated net sales for the period amounted to ¥65,212 million, up 12.7% from the previous corresponding period. Operating income jumped 50.4%, to ¥6,701 million, and ordinary income grew 40.1%, to ¥7,321 million. Net income for the period rose 41.1%, to ¥4,539 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, we continued enjoying favorable sales of our *ECO ONE* hybrid water heater with heating system that delivers excellent environmental and energy-saving performance levels. We also reported healthy sales of high-value-added water heaters with heating systems that use hot water for multiple purposes. However, sales of kitchen appliances were weak, due to the aforementioned recoil in demand following the consumption tax hike, which particularly affected sales of tabletop cookers at retail chainstores. As a result, sales in Japan amounted to ¥38,109 million, down 1.4% from the previous corresponding period. Thanks to our emphasis on high-value-added products and increased exports, however, operating income increased 14.2%, to ¥4,546 million.

#### ***South Korea***

In South Korea, we enjoyed healthy sales of boilers, which were weak in the previous year. As for kitchen appliances, we benefited from an increase in unit prices of cookers in thanks to enactment of a law mandating attachment of devices to prevent cookers from overheating and thus improve safety levels. Accordingly, sales in South Korea rose

18.3%, to ¥7,595 million, and operating income was ¥442 million, compared with an operating loss of ¥258 million in the previous corresponding period.

### ***United States***

In the United States, demand for housing appliances was steady in the wake of moderate economic recovery. During the period, we reported healthy sales of tankless water heaters that excel in terms of convenience and economy. Consequently, sales in the United States rose 17.9%, to ¥3,965 million. Despite an increase in sales promotion expenses, we benefited from favorable foreign exchange rates. Operating income grew 8.1%, to ¥144 million.

### ***Australia***

Amid continued weakness in the local economy, we reported a decline in sales of mainstay tankless water heaters. However, expansion of our business scope led to increased sales of other products. Overall sales in Australia edged up 1.1%, to ¥2,839 million. Due mainly to increased expenses associated with business diversification and infrastructural reinforcement, however, operating income was down 6.6%, to ¥178 million.

### ***China***

In China, there was a slowdown in economic growth in the major urban areas, largely due to a depressed real estate market in the Shanghai district. Thanks to improving living standards and expanding gas infrastructure in areas outside Shanghai, however, we reported a steady increase in sales, especially of water heaters. As a result, sales in China jumped 79.3%, to ¥6,019 million, and operating income surged 313.1%, to ¥598 million.

### ***Indonesia***

At the end of the previous fiscal year, P.T. Rinnai Indonesia became a consolidated subsidiary. Therefore, “Indonesia” has been added as a geographical segment for consolidated reporting purposes.

The popularity of gas appliances has been growing in Indonesia, reflecting government measures aimed at proliferation of LP gas usage, and sales of tabletop cookers have been steady as a result. In the period under review, sales in Indonesia totaled ¥2,855 million, and operating income was ¥311 million.

(For references 1)

### ***Sales Composition by Business Segment***

(¥ millions; %)

	First Quarter to June 30, 2013		First Quarter to June 30, 2014		Change		Year to March 31, 2014	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥30,393	52.5%	¥34,536	53.0%	¥4,143	13.6%	¥146,883	51.2%
Kitchen appliances	17,805	30.8	20,656	31.7	2,850	16.0	88,031	30.7
Home heaters	1,516	2.6	1,740	2.7	223	14.8	16,716	5.8
Commercial-use equipment	1,755	3.0	2,094	3.2	339	19.3	7,552	2.6
Others	6,409	11.1	6,183	9.5	(225)	(3.5)	27,797	9.7
Total	¥57,880	100.0%	¥65,212	100.0%	¥7,332	12.7%	¥286,981	100.0%

(For references 2)

### **Overseas Sales**

(¥ millions; %)

	First Quarter to June 30, 2013			First Quarter to June 30, 2014		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥13,018	¥7,959	¥20,977	¥20,076	¥8,853	¥28,929
II. Consolidated net sales	—	—	57,880	—	—	65,212
III. Composition ratio of overseas sales to consolidated net sales	22.5%	13.8%	36.2%	30.8%	13.6%	44.4%

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

### **(2) Financial Position**

As of June 30, 2014, Rinnai had total assets of ¥325,907 million, down ¥8,474 million from March 31, 2014. Total liabilities declined ¥10,549 million, to ¥91,197 million. Net assets rose ¥2,075 million, to ¥234,710 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 first two-quarter period ending September 30, 2014, or the full-year period ending March 31, 2015. (Those forecasts were released on May 9, 2014.)

## **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 Restatements**

(Changes in Accounting Policies)

#### ***Application of Accounting Standard for Retirement Benefits***

With respect to “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), the Company has applied provisions stated in Clause 35 of the Retirement Benefits Accounting Standard and Clause 67 of the Guidance on Retirement Benefits, effective the first quarter under review. Accordingly, the Company has reassessed the method for calculating retirement benefit obligations and current service costs, and changed the period reversion method for retirement benefit estimates from a straight-line basis to a benefit calculation basis. The method of determining the discount rate has also been changed, from a rate based on remaining average service period to a single weighted average discount rate.

The Accounting Standard for Retirement Benefits is being applied transitionally as determined in its Clause 37. At beginning of the first quarter under review, the effect of the change in accounting standard has been reflected as an increase or decrease in earned surplus.

This change caused the liability related to retirement benefits (Net defined benefit liabilities) to increase by ¥704 million, assets related to retirement benefits (Net defined benefit assets) to decrease by ¥2,341 million, and earned surplus to decrease by ¥1,969 million. The effect of the change on income/losses for the period was minimal.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2014 (Fiscal 2014)	At June 30, 2014 (First Quarter of Fiscal 2015)
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥ 57,540	¥ 52,257
Notes and accounts receivable	68,102	57,232
Marketable securities	53,491	45,869
Products	17,397	22,180
Raw materials and stores	11,696	12,074
Other	6,016	6,461
Less allowance for doubtful accounts	(725)	(649)
Total current assets	213,520	195,427
Fixed assets		
Tangible fixed assets	51,186	52,788
Intangible fixed assets	4,312	4,255
Investments and advances		
Investments in securities	44,554	54,844
Other	21,424	19,187
Less allowance for doubtful accounts	(616)	(595)
Total investments and advances	65,362	73,436
Total fixed assets	120,861	130,479
<b>Total assets</b>	<b>¥334,382</b>	<b>¥325,907</b>

(¥ millions)

	At March 31, 2014 (Fiscal 2014)	At June 30, 2014 (First Quarter of Fiscal 2015)
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 52,142	¥ 47,400
Short-term debt	5,950	5,837
Accrued income taxes	7,701	2,394
Accrued employee's bonuses	3,127	1,298
Other allowances	2,831	2,680
Other	16,742	18,271
Total current liabilities	88,495	77,882
Long-term liabilities		
Reserves	41	42
Net defined benefit liabilities	5,067	5,488
Other	8,142	7,783
Total long-term liabilities	13,251	13,314
<b>Total liabilities</b>	<b>101,747</b>	<b>91,197</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	194,036	194,733
Treasury stock	(965)	(967)
Total shareholders' equity	208,249	208,945
Other comprehensive income:		
Unrealized gain on marketable securities	3,048	3,965
Foreign exchange translation adjustment	5,561	5,641
Remeasurements of defined benefit plans	3,929	3,798
Total of other comprehensive income	12,538	13,405
Minority interests	11,846	12,359
<b>Total net assets</b>	<b>232,635</b>	<b>234,710</b>
<b>Total liabilities and net assets</b>	<b>¥334,382</b>	<b>¥325,907</b>



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

### Consolidated Statements of Income

(¥ millions)

	<b>First Quarter of Fiscal 2014 (From April 1 to June 30, 2013)</b>	<b>First Quarter of Fiscal 2015 (From April 1 to June 30, 2014)</b>
Net sales	¥57,880	¥65,212
Cost of sales	40,443	44,526
Gross profit	17,437	20,686
Selling, general and administrative expenses	12,981	13,985
Operating income	4,455	6,701
Other income:		
Interest income	216	285
Dividends received	159	176
Equity in earnings of affiliates	111	—
Foreign exchange income	236	—
Other	126	264
Total other income	850	726
Other expenses:		
Interest expenses	49	41
Foreign exchange loss	—	33
Loss on retirement of fixed assets	20	17
Other	12	14
Total other expenses	81	106
Ordinary income	5,224	7,321
Income before income taxes	5,224	7,321
Income taxes (current)	2,174	2,380
Income taxes (deferred)	(312)	(144)
Total income taxes	1,861	2,235
Income before minority interest	3,362	5,085
Minority interests	144	546
Net income	¥ 3,218	¥ 4,539

## Consolidated Statements of Comprehensive Income

(¥ millions)

	<b>First Quarter of Fiscal 2014 (From April 1 to June 30, 2013)</b>	<b>First Quarter of Fiscal 2015 (From April 1 to June 30, 2014)</b>
Income before minority interest	¥3,362	¥5,085
Other comprehensive income		
Unrealized gain on marketable securities	184	917
Foreign exchange translation adjustment	3,200	52
Remeasurements of defined benefit plans	—	(129)
Equity portion of affiliated companies accounted for under the equity method	326	—
Total of other comprehensive income	3,710	840
Comprehensive income	7,073	5,926
Total comprehensive income attributable to:		
Shareholders of Rinnai Corporation	6,473	5,405
Minority interests	600	520

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

#### Assumptions for Going Concern

Not applicable.

#### Major Changes in Shareholders' Equity

Not applicable.

#### Segment Information

##### 1. First Quarter of the Fiscal Year Ended March 31, 2014 (From April 1 to June 30, 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	Indonesia	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.

##### 2-1. First Quarter of the Fiscal Year Ending March 31, 2015

(From April 1 to June 30, 2014)

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	South Korea	United States	Australia	China	Indonesia	Total			
Sales										
Outside clients	¥38,109	¥7,595	¥3,965	¥2,839	¥6,019	¥2,855	¥61,383	¥3,828	¥ —	¥65,212
Intersegment	6,098	123	—	4	455	113	6,794	766	(7,561)	—
Total	44,207	7,719	3,965	2,843	6,474	2,968	68,178	4,595	(7,561)	65,212
Income (loss)	4,546	442	144	178	598	311	6,222	580	(102)	6,701

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.

##### 2-2. Change in Reporting Segments

At the end of the previous fiscal year, Rinnai Corporation purchased additional shares in P.T. Rinnai Indonesia, which consequently became included in consolidation. From the first quarter under review, therefore, "Indonesia" has been added as a geographical segment for consolidated reporting purposes.