

# Consolidated Financial Results

## First Two Quarters of the Fiscal Year ending March 2015

(April 1, 2014 to September 30, 2014)

November 5, 2014

### Listed Company Name: Rinnai Corporation

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

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Representative: Hiroyasu Naito, President

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Anticipated date for releasing quarterly securities report: November 12, 2014

Anticipated date to begin distributing dividends: December 5, 2014

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, 2014

(April 1, 2014 – September 30, 2014; 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 2014	¥136,768 (+7.4)	¥13,166 (+6.1)	¥14,256 (+3.3)	¥8,707 (+0.8)
Two-quarter total at September 2013	127,322 (+11.5)	12,406 (+17.0)	13,797 (+19.8)	8,639 (+15.6)

Note: Comprehensive Income: Six months ended September 30, 2014; ¥10,140 million (-21.8%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2014	¥167.44	—
Two-quarter total at September 2013	171.44	—

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 2014	¥328,185	¥238,311	69.0
Full-year at March 2014	334,382	232,635	66.0

(Reference) Equity capital : Six months ended September 30, 2014; ¥226,396 million

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

## 2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2014	—	¥32.00	—	¥36.00	¥68.00
March 2015	—	38.00	—	—	—
March 2015 (anticipated)	—	—	—	38.00	76.00

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

## 3. Forecast for the Fiscal Year Ending March 31, 2015

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥313,000 (+9.1)	¥36,500 (+7.3)	¥37,800 (+2.4)	¥23,800 (+2.3)	¥457.65

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: Yes  
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 7 of this report.

(4) Number of Outstanding Shares (Common Stock)

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

September 30, 2014: 52,216,463 shares

March 31, 2014: 52,216,463 shares

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

September 30, 2014: 211,945 shares

March 31, 2014: 210,931 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2015: 52,005,145 shares

First two quarters of the fiscal year ended March 2014: 50,395,463 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, 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 economic recovery showed signs of weakness due to a prolonged recoil in demand after a surge ahead of the consumption tax hike.

Conditions in the domestic housing appliance industry became increasingly difficult. Although there was a moderate increase in replacement demand, including for renovations aimed at helping the environment and saving energy, the consumption tax hike caused new housing starts to decline.

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 declined year on year as the recoil in demand following the consumption tax hike had a longer-than-expected impact. Overseas, however, we posted 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 a switchover to high-value-added products in Japan, as well as favorable foreign exchange factors and the effects of higher sales overseas.

As a result, consolidated net sales for the period amounted to ¥136,768 million, up 7.4% from the previous corresponding period. Operating income rose 6.1%, to ¥13,166 million, and ordinary income grew 3.3%, to ¥14,256 million. Net income for the period edged up 0.8%, to ¥8,707 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, we enjoyed healthy sales of high-end products, such as water heaters that use hot water to heat rooms, and of our *ECO ONE* hybrid water heater with heating system that delivers excellent environmental and energy-saving performance levels.

However, our kitchen appliances were affected by a decline in sales of tabletop cookers, which were heavily impacted by the aforementioned recoil in demand following the consumption tax hike. As a result, sales in Japan amounted to ¥80,192 million, down 3.6% from the previous corresponding period. Operating income declined 2.8%, to ¥8,825 million.

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

In South Korea, we enjoyed healthy sales of high-efficiency boilers. We also benefited from an increase in sales of cookers thanks to enactment of a law mandating attachment of devices to prevent overheating. Accordingly, sales in South Korea rose 18.4%, to ¥14,492 million, and operating income was ¥461 million, compared with an operating loss of ¥115 million in the previous corresponding period.

#### ***United States***

In the United States, the market for housing appliances was steady in the wake of economic recovery. During the period, we reported healthy sales of tankless water heaters, which are highly convenient.

Consequently, sales in the United States rose 13.0%, to ¥8,033 million. Operating income grew 25.0%, to ¥357 million.

### **Australia**

In Australia, we reported a decrease in sales of tankless water heaters, as the market was weakened by local economic deterioration. Although we compensated for this by expanding our business scope, a record-breaking warm winter caused sales of space heaters to decline. Overall sales in Australia were down 11.0%, to ¥7,782 million, and operating income fell 43.4%, to ¥961 million.

### **China**

Thanks to improving living standards and expanding gas infrastructure in regional Chinese cities, we reported a steady increase in sales, especially of water heaters. We also noticed signed of a gradual turnaround in Shanghai, where market conditions for housing appliances had been weak. As a result, sales in China climbed 42.0%, to ¥12,342 million, and operating income jumped 60.0%, to ¥1,324 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 ¥5,616 million, and operating income was ¥602 million.

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

(¥ millions; %)

	First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)		First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)		Change		Year ended March 31, 2014 (April 1, 2013, to March 31, 2014)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Hot-water units	¥ 64,748	50.9	¥ 69,756	51.0	¥5,007	7.7	¥146,883	51.2
Kitchen appliances	37,636	29.6	42,627	31.2	4,990	13.3	88,031	30.7
Air-conditioning and heating units	8,186	6.4	7,445	5.4	(741)	(9.1)	16,716	5.8
Commercial-use equipment	3,667	2.9	4,323	3.2	655	17.9	7,552	2.6
Others	13,082	10.3	12,615	9.2	(467)	(3.6)	27,797	9.7
Total	¥127,322	100.0	¥136,768	100.0	¥9,445	7.4	¥286,981	100.0

## References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ending March 31, 2014 (April 1, 2013, to Sept. 30, 2013)			First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥27,861	¥20,265	¥ 48,127	¥39,805	¥20,790	¥ 60,596
II. Consolidated net sales	—	—	127,322	—	—	136,768
III. Composition ratio of overseas sales to consolidated net sales	21.9%	15.9%	37.8%	29.1%	15.2%	44.3%

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

### (2) Financial Position

As of September 30, 2014, Rinnai had total assets of ¥328,185 million, down ¥6,196 million from March 31, 2014. Total liabilities declined ¥11,872 million, to ¥89,874 million. Net assets rose ¥5,676 million, to ¥238,311 million. The equity ratio at the end of the period was 69.0%.

### Cash Flows

Cash and cash equivalents at September 30, 2014, stood at ¥60,219 million, down ¥14,060 million from March 31, 2014.

Net cash provided by operating activities amounted to ¥3,429 million, down 47.0% from the previous corresponding period. The major inflow was the secured operating income, and main outflows included income taxes paid.

Net cash used in investing activities totaled ¥14,050 million, down 29.1% from the previous corresponding period. The major inflows were transfers to and withdrawals from time deposits and main outflows included purchases of investment securities.

Net cash used in financing activities was ¥2,996 million, compared with net cash provided by financing activities of ¥15,876 million in 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, 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 two-quarter period 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 two-quarter period 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 Quarterly Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At March, 2014 (Year ended March 31, 2014)	At Sept. 30, 2014 (First two quarters for the year ending March 31, 2015)
	Amount	Amount
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	¥ 57,540	¥ 51,283
Notes and accounts receivable	68,102	60,397
Marketable securities	53,491	40,647
Products	17,397	23,015
Raw materials and stores	11,696	12,347
Other	6,016	5,537
Less allowance for doubtful accounts	(725)	(642)
Total current assets	213,520	192,587
<b>Fixed assets</b>		
Property, plant and equipment	51,186	53,488
Intangible fixed assets	4,312	4,042
Investments and advances		
Investments in securities	44,554	58,488
Other	21,424	20,191
Less allowance for doubtful accounts	(616)	(611)
Total investments and advances	65,362	78,067
Total fixed assets	120,861	135,598
<b>Total assets</b>	<b>¥334,382</b>	<b>¥328,185</b>

(¥ millions)

	At March, 2014 (Year ended March 31, 2014)	At Sept. 30, 2014 (First two quarters for the year ending March 31, 2015)
	Amount	Amount
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes and accounts payable	¥ 52,142	¥ 45,077
Short-term debt	5,950	4,904
Accrued corporate taxes	7,701	3,050
Accrued employee's bonuses	3,127	3,614
Other allowances	2,831	2,780
Other	16,742	16,654
Total current liabilities	88,495	76,082
<b>Long-term liabilities</b>		
Reserves	41	44
Net defined benefit liabilities	5,067	5,680
Other	8,142	8,066
Total long-term liabilities	13,251	13,792
Total liabilities	101,747	89,874
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	194,036	198,902
Treasury stock	(965)	(975)
Total shareholders' equity	208,249	213,106
<b>Other comprehensive income:</b>		
Unrealized gain on marketable securities	3,048	4,157
Foreign exchange translation adjustment	5,561	5,468
Remeasurements of defined benefit plans	3,929	3,664
Total other comprehensive income	12,538	13,290
<b>Minority interests</b>	11,846	11,914
<b>Total net assets</b>	232,635	238,311
<b>Total liabilities and net assets</b>	¥334,382	¥328,185

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

### Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2014 (April 1, 2013, to Sept. 30, 2013)	First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)
	Amount	Amount
<b>Net sales</b>	¥127,322	¥136,768
<b>Cost of Sales</b>	88,310	94,528
<b>Gross Profit</b>	39,011	42,240
<b>Selling, general and administrative expenses</b>	26,605	29,073
<b>Operating income</b>	12,406	13,166
<b>Other income:</b>		
Interest income	452	585
Equity in earnings of affiliates	349	—
Foreign exchange income	287	43
Other	498	669
Total other income	1,587	1,298
<b>Other expenses:</b>		
Interest expenses	95	77
Loss on retirement of fixed assets	74	81
Other	26	49
Total other expenses	196	208
<b>Ordinary income</b>	13,797	14,256
<b>Income before income taxes</b>	13,797	14,256
<b>Income taxes:</b>		
Current	4,172	3,723
Deferred	465	714
Total income taxes	4,637	4,437
Income before minority interests	9,159	9,818
<b>Minority interests</b>	519	1,110
<b>Net income</b>	¥ 8,639	¥ 8,707

*Consolidated Statements of Comprehensive Income*

(¥ millions)

	First two quarters for the year ended March 31, 2014 (April 1, 2013, to Sept. 30, 2013)	First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)
	Amount	Amount
Income before minority interest	¥ 9,159	¥ 9,818
Other comprehensive income		
Unrealized gain on marketable securities	468	1,110
Foreign exchange translation adjustment	2,922	(525)
Remeasurements of defined benefit plans	—	(263)
Equity equivalents in equity method affiliates	411	—
Total other comprehensive income	3,802	321
Comprehensive income	12,961	10,140
(Composition)		
Comprehensive income related to shareholders of parent company	11,689	9,459
Comprehensive income related to minority shareholders	¥ 1,272	¥ 680

### (3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2014 (April 1, 2013, to Sept. 30, 2013)	First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)
<b>Cash flows from operating activities</b>		
Income before income taxes	¥ 13,797	¥ 14,256
Depreciation and amortization	3,723	4,094
Decrease(increase) in trade receivables	3,514	7,446
Decrease (increase) in inventories	(1,749)	(6,478)
Increase (decrease) in trade payables	(4,913)	(6,801)
Other	(1,992)	(1,498)
Subtotal	12,379	11,018
Interest and dividends received	674	801
Interest paid	(130)	(77)
Income taxes paid	(6,456)	(8,313)
Net cash provided by operating activities	6,467	3,429
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(21,757)	(17,657)
Withdrawals from time deposits	24,908	21,641
Purchases of tangible fixed assets	(5,247)	(6,493)
Purchases of investments in securities	(19,459)	(15,243)
Sale and redemption of investments in securities	1,655	5,543
Other	90	(1,840)
Net cash used in investing activities	(19,809)	(14,050)
<b>Cash flows from financing activities</b>		
Retirement of treasury stock	17,632	—
Dividends paid	(1,470)	(1,871)
Other	(285)	(1,124)
Net cash used in financing activities	15,876	(2,996)
Effect of exchange rate fluctuations on cash and cash equivalents	934	(443)
Net increase (decrease) in cash and cash equivalents	3,468	(14,060)
Cash and cash equivalents at beginning of term	55,030	74,279
Net increase (decrease) in cash and cash equivalents due to change of consolidation	278	—
Cash and cash equivalents at end of term	¥ 58,778	¥ 60,219

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

##### Assumptions for Going Concern

Not applicable.

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

Not applicable.

#### Segment Information

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

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	South Korea	United States	Australia	China	Indonesia	Total			
Sales										
Outside clients	¥83,196	¥12,242	¥7,111	¥8,744	¥8,692	¥ —	¥119,986	¥7,335	¥ —	¥127,322
Intersegment	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
Income (loss)	9,084	(115)	285	1,698	827	—	11,780	824	(199)	12,406

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.

##### II. First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 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	¥80,192	¥14,492	¥8,033	¥7,782	¥12,342	¥5,616	¥128,460	¥8,307	¥ —	¥136,768
Intersegment	11,811	323	—	21	941	257	13,355	1,351	(14,706)	—
Total	92,004	14,815	8,033	7,804	13,283	5,873	141,815	9,659	(14,706)	136,768
Income (loss)	8,825	461	357	961	1,324	602	12,532	1,185	(551)	13,166

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.

##### II-2. Change in Reportable 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 of the year ending March 31, 2015, therefore, "Indonesia" has been added as a geographical segment for consolidated reporting purposes.