

# Consolidated Financial Results for Fiscal 2015

(April 1, 2014 - March 31, 2015)

May 8, 2015

## Listed Company Name: Rinnai Corporation

Listings: First sections of the 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,  
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Date of the General Meeting of Shareholders: June 26, 2015

Anticipated date to begin distributing dividends: June 29, 2015

Anticipated date for releasing annual securities report: June 26, 2015

Supplemental information sheets of financial results: Yes

Information meeting of financial results: Yes (for analysts and institutional investors)

## 1. Performance for the Year Ended March 31, 2015

(April 1, 2014 to March 31, 2015; Amounts less than one million yen are omitted)

### (1) Consolidated Operating Results (Years ended March 31)

(Percentage figures in columns indicate increase or decrease from the previous term.)

(¥ millions /%)

|                    | Net Sales<br>(% change) | Operating Income<br>(% change) | Ordinary Income<br>(% change) | Net Income<br>(% change) |
|--------------------|-------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>Fiscal 2015</b> | <b>295,022 (+2.8)</b>   | <b>30,787 (-9.5)</b>           | <b>32,938 (-10.8)</b>         | <b>20,647 (-11.2)</b>    |
| Fiscal 2014        | 286,981 (+14.0)         | 34,018 (+29.1)                 | 36,910 (+27.0)                | 23,254 (+20.0)           |

Note: Comprehensive income:

Year ended March 31, 2015: ¥35,236 million (+10.4%)

Year ended March 31, 2014: ¥31,921 million (+21.8%)

|                    | Net Income<br>per Share<br>(¥) | Fully Diluted<br>Net Income per<br>Share<br>(¥) | Ratio of<br>Net Income<br>to Equity Capital<br>(%) | Ratio of<br>Ordinary Income<br>to Total Assets<br>(%) | Ratio of<br>Operating Income<br>to Net Sales<br>(%) |
|--------------------|--------------------------------|---|--|---|---|
| <b>Fiscal 2015</b> | <b>397.03</b>                  | —   | <b>8.8</b>   | <b>9.5</b>  | <b>10.4</b>   |
| Fiscal 2014        | 454.74                         | —   | 11.8   | 12.4  | 11.9  |

References: Equity in earnings of companies accounted for using the equity method:

Year ended March 31, 2015: ¥- million

Year ended March 31, 2014: ¥776 million

### (2) Consolidated Financial Position (at March 31)

(¥ millions)

|                    | Total Assets   | Net Assets     | Equity Ratio (%) | Net Assets per Share (¥) |
|--------------------|----------------|----------------|------------------|--------------------------|
| <b>Fiscal 2015</b> | <b>357,506</b> | <b>261,414</b> | <b>69.0</b>      | <b>4,742.42</b>          |
| Fiscal 2014        | 334,382        | 232,635        | 66.0             | 4,245.48                 |

(Reference) Equity capital: Year ended March 31, 2015; ¥246,624 million

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

### (3) Consolidated Cash Flows (Years ended March 31)

(¥ millions)

|                    | Cash Flows from<br>Operating<br>Activities | Cash Flows from<br>Investing<br>Activities | Cash Flows from<br>Financing<br>Activities | Cash and Cash<br>Equivalents at<br>End of Year |
|--------------------|--|--|--|--|
| <b>Fiscal 2015</b> | <b>25,671</b>                              | <b>(23,649)</b>                            | <b>(8,659)</b>                             | <b>69,340</b>                                  |
| Fiscal 2014        | 36,453                                     | (32,908)                                   | 13,183                                     | 74,279   |

## 2. Dividends

|                              | Dividend per Share |                |                    |                        |                  |
|------------------------------|--------------------|----------------|--------------------|------------------------|------------------|
|                              | 1st Quarter<br>(¥) | Interim<br>(¥) | 3rd Quarter<br>(¥) | Fiscal Year-End<br>(¥) | Full Year<br>(¥) |
| Fiscal 2014                  | —                  | 32.00          | —                  | 36.00                  | 68.00            |
| <b>Fiscal 2015</b>           | —                  | <b>38.00</b>   | —                  | <b>38.00</b>           | <b>76.00</b>     |
| Fiscal 2016<br>(anticipated) | —                  | 40.00          | —                  | 42.00                  | 82.00            |

|                              | Total Dividends<br>(Full Year)<br>(¥ millions) | Consolidated Payout Ratio<br>(%) | Consolidated Ratio of<br>Dividends to<br>Net Assets (%) |
|------------------------------|--|----------------------------------|---|
| Fiscal 2014                  | 3,536  | 15.0                             | 1.8   |
| <b>Fiscal 2015</b>           | <b>3,952</b>                                   | <b>19.1</b>                      | <b>1.7</b>  |
| Fiscal 2016<br>(anticipated) |  | 19.0                             |   |

## 3. Forecast for the Fiscal Year Ending March 31, 2016

(April 1, 2015, to March 31, 2016)

(¥ millions)

|                   | Net Sales<br>(% change) | Operating<br>Income<br>(% change) | Ordinary<br>Income<br>(% change) | Net Income<br>(% change) | Net Income<br>per Share<br>(¥) |
|-------------------|-------------------------|-----------------------------------|----------------------------------|--------------------------|--------------------------------|
| Two-quarter total | 144,000 (+5.3)          | 14,000 (+6.3)                     | 15,000 (+5.2)                    | 9,000 (+3.4)             | 173.06                         |
| Full year         | 318,000 (+7.8)          | 34,000 (+10.4)                    | 36,000 (+9.3)                    | 22,500 (+9.0)            | 432.66                         |

(Percentage figures in columns indicate increase or decrease from the previous term.)

### \* Notes

(1) Changes in scope of consolidation of major subsidiaries during the period: No

Newly included — (Company name: —)

Excluded — (Company name: —)

(2) 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 “V. Consolidated Financial Statements, 5. Notes to Consolidated Financial Statements (Change in accounting policy)” on page 19 of this report.

(3) Number of Outstanding Shares (Common Stock)

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

Year ended March 31, 2015: 52,216,463 shares

Year ended March 31, 2014: 52,216,463 shares

(b) Number of treasury stock at fiscal year-end

Year ended March 31, 2015: 212,472 shares

Year ended March 31, 2014: 210,931 shares

(c) Average number of shares during the term

Year ended March 31, 2015: 52,004,721 shares

Year ended March 31, 2014: 51,138,913 shares

## References: Summary of Nonconsolidated Results

### 1. Nonconsolidated Performance for the Year Ended March 31, 2015

(April 1, 2014 to March 31, 2015; Amounts less than one million yen are omitted)

#### (1) Nonconsolidated Operating Results (Years ended March 31) (¥ millions)

|                    | Net Sales<br>(% change) | Operating Income<br>(% change) | Ordinary Income<br>(% change) | Net Income<br>(% change) |
|--------------------|-------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>Fiscal 2015</b> | <b>190,475 (-7.4)</b>   | <b>18,675 (-23.1)</b>          | <b>22,073 (-18.7)</b>         | <b>15,339 (-15.6)</b>    |
| Fiscal 2014        | 205,598 (+9.0)          | 24,278 (+34.4)                 | 27,138 (+36.3)                | 18,176 (+41.9)           |

(Percentage figures in columns indicate increase or decrease from the previous term.)

|                    | Net Income<br>per Share<br>(¥) | Fully Diluted<br>Net Income per<br>Share (¥) |
|--------------------|--------------------------------|--|
| <b>Fiscal 2015</b> | <b>294.96</b>                  | —  |
| Fiscal 2014        | 355.43                         | —  |

#### (2) Nonconsolidated Financial Position (at March 31) (¥ millions)

|                    | Total Assets   | Net Assets     | Equity Ratio (%) | Net Assets per Share (¥) |
|--------------------|----------------|----------------|------------------|--------------------------|
| <b>Fiscal 2015</b> | <b>225,787</b> | <b>175,140</b> | <b>77.6</b>      | <b>3,367.83</b>          |
| Fiscal 2014        | 221,313        | 162,598        | 73.5             | 3,126.56                 |

(Reference) Equity capital: Year ended March 31, 2015; ¥175,140 million

Year ended March 31, 2014; ¥162,598 million

#### \* Implementation status of auditing review process

This report is exempt from a 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 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. Fiscal Year in Review, (1) Performance" on page 4 of this report.

\* Supplemental information sheets of financial results are posted on the Corporation's website on Friday, May 8, 2015.

## **I. Performance and Financial Position**

### **1. Fiscal Year in Review**

#### **(1) Performance**

In the fiscal year ended March 31, 2015, the world economy showed an improvement trend, backed by steady economic recovery in the United States and a moderate turnaround in Europe. However, there were signs of a slowdown in economic growth in China and various other Asian nations. The Japanese economy was weak in first half of the year due to a recoil in demand following a rush ahead of the consumption tax hike. In the second half, however, the economy showed moderate recovery owing to various government stimulus measures and improving corporate earnings.

In the domestic housing appliance industry, conditions remained challenging due to the prolonged trend of new housing starts falling below previous-year levels. This was despite firming demand for home renovation and housing appliances.

The period under review was the final year of the Rinnai Group's medium-term business plan, entitled Jump Up 2014. 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 caused the housing appliance industry to remain depressed. Overseas, however, we posted an overall increase in sales, owing mainly to healthy sales of water heaters in China and South Korea, as well as the inclusion of P.T. Rinnai Indonesia in the scope of consolidation. However, lower demand in Japan led to a decline in earnings. This was despite favorable foreign exchange factors and the effects of higher sales overseas.

As a result, consolidated net sales for the year amounted to ¥295,022 million, up 2.8% from the previous year. Operating income declined 9.5%, to ¥30,787 million, and ordinary income decreased 10.8%, to ¥32,938 million. Net income for the period was down 11.2%, to ¥20,647 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, we reported a year-on-year increase in sales of products with strong Rinnai-based appeal—namely our ECO ONE hybrid water heater with heating system, as well as our clothes dryers. However, sales of kitchen appliances were weak due to the aforementioned recoil in demand related to the consumption tax hike. As a result, sales in Japan amounted to ¥176,087 million, down 9.5% year on year. Operating income declined 23.1%, to ¥21,006 million.

### ***South Korea***

In South Korea, we enjoyed healthy sales of high-efficiency models among our boilers, a mainstay product category. As for kitchen appliances, we benefited from an increase in unit prices of stoves thanks to enactment of a law mandating attachment of devices to prevent overheating and thus improve safety. Accordingly, sales in South Korea rose 19.1%, to ¥31,928 million, and operating income jumped 152.5%, to ¥1,457 million.

### ***United States***

In the United States, the market for housing appliances expanded in the wake of economic recovery. During the period, we enjoyed an increase in demand for our tankless water heaters, which boast exceptional environmental performance and never run out of hot water. Consequently, sales in the United States rose 14.6%, to ¥17,754 million, and operating income increased 20.7%, to ¥1,020 million.

### ***Australia***

In Australia, where the economy is turning around, unit sales of water heaters showed a recovery trend. However, local sales declined year on year due to an increase in the ratio of low-priced units sold, as well as a major decrease in unit sales of fan-forced space heaters amid a record-breaking warm winter. After accounting for foreign exchange and other factors, overall sales in Australia edged up 0.5%, to ¥15,310 million, and operating income fell 42.4%, to ¥1,345 million.

### ***China***

In China, we enjoyed an increase in sales, especially of water heaters. This was thanks to improving living standards and expanding gas infrastructure in regional Chinese cities, as well as a broadening network of stores nationwide handling our products. As a result, sales in China climbed 32.8%, to ¥25,353 million, and operating income rose 32.7%, to ¥2,108 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 tabletop stoves has been growing in Indonesia, reflecting government measures aimed at proliferation of LP gas usage. In the period under review, sales in Indonesia totaled ¥11,165 million, and operating income was ¥1,300 million.

### References 1: Net sales by product

(¥ millions)

|                                    | Year ended<br>March 31, 2014<br>(April 1, 2013,<br>to March 31, 2014) |            | Year ended<br>March 31, 2015<br>(April 1, 2014,<br>to March 31, 2015) |            | Change  |        |
|------------------------------------|---|------------|---|------------|---------|--------|
|                                    | Amount  | % of total | Amount  | % of total | Amount  | (%)    |
| Hot-water units                    | 146,883   | 51.2       | 153,697   | 52.1       | 6,813   | 4.6    |
| Kitchen appliances                 | 88,031  | 30.7       | 90,838  | 30.8       | 2,806   | 3.2    |
| Air-conditioning and heating units | 16,716  | 5.8        | 14,972  | 5.1        | (1,744) | (10.4) |
| Commercial-use equipment           | 7,552   | 2.6        | 9,227   | 3.1        | 1,675   | 22.2   |
| Others                             | 27,797  | 9.7        | 26,287  | 8.9        | (1,510) | (5.4)  |
| Total                              | 286,981   | 100.0      | 295,022   | 100.0      | 8,040   | 2.8    |

### References 2: Overseas sales

(¥ millions)

|   | Year ended March 31, 2014<br>(April 1, 2013,<br>to March 31, 2014) |                  |         | Year ended March 31, 2015<br>(April 1, 2014,<br>to March 31, 2015) |                  |         |
|---|--|------------------|---------|--|------------------|---------|
|   | Asia   | Other<br>regions | Total   | Asia   | Other<br>regions | Total   |
| I. Overseas sales   | 61,220   | 39,689           | 100,910 | 84,440   | 42,768           | 127,209 |
| II. Consolidated net sales  | —  | —                | 286,981 | —  | —                | 295,022 |
| III. Composition ratio of overseas sales<br>to consolidated net sales | 21.3%  | 13.8%            | 35.2%   | 28.6%  | 14.5%            | 43.1%   |

Note: Overseas sales of the above indicate sales of the Corporations in overseas countries or regions.

## (2) Outlook for the Year Ending March 2016

In the year ahead, we expect the U.S. economy to continue recovering and the European economy to maintain a turnaround trend. However, the pace of economic growth in China and other Asian nations is expected to slow. By contrast, we look forward to economic improvement in Japan as the negative effects of the aforementioned recoil in demand subside.

Under these circumstances, the Rinnai Group formulated a new medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015.

Under the plan, we will ensure the “succession” of the “Rinnai Spirit,” attained through our history, to continue stable business operations, while emphasizing “evolution” so we can respond to changes anticipated in the new era. By innovating our business model while preempting various changes in the business environment, we aim to create new products and services and thus firmly establish Rinnai as a comprehensive manufacturer of heat and energy appliances.

In Japan, we will strengthen sales of products with exceptional environmental performances and energy efficiency. These include our *ECO ONE* hybrid water heater with heating system that uses electricity and gas separately with high efficiency, and our *Eco Jozu* series of highly efficient water heaters. We will also improve our planning and

consulting capabilities with respect to water heaters with heating systems (and their peripherals) that use hot water for multiple purposes, as well as system-based offerings, such as stoves and range hoods for system kitchens. Overseas, we will bolster sales to match rising demand for heat-related products. These include gas water heaters in China and the United States and kitchen appliances in Asia.

For the year ending March 2016, we forecast consolidated net sales of ¥318.0 billion (up 7.8% year-on-year), operating income of ¥34.0 billion (up 10.4%), ordinary income of ¥36.0 billion (up 9.3%), and net income of ¥22.5 billion (up 9.0%).

## **2. Financial Position**

### **(1) Balance Sheets**

As of March 31, 2015, the Rinnai Group had total assets of ¥357,506 million, up ¥23,123 million from a year earlier. This rise stemmed mainly from an increase in investments in securities.

Total liabilities declined ¥5,655 million, to ¥96,091 million, due largely to a decrease in notes and accounts payable and repayment of debt.

Net assets were up ¥28,779 million, to ¥261,414 million, boosted by net income.

As a result, the equity ratio at fiscal year-end was 69.0%.

### **(2) Cash Flows**

Cash and cash equivalents at March 31, 2015, stood at ¥69,340 million, down ¥4,939 million, or 6.6%, from a year earlier.

Net cash provided by operating activities amounted to ¥25,671 million, down 29.6% from the previous year. Main factors included the secured operating income and a cash decrease due to income taxes paid.

Net cash used in investing activities totaled ¥23,649 million, down 28.1% from the previous year. Main factors were transfers to and withdrawals from time deposits and purchases of investments in securities.

Net cash used in financing activities was ¥8,659 million, compared with ¥13,183 million in net cash provided by financing activities in the previous fiscal year. This was due mainly to dividends paid and repayment of long-term debt.

### References: Cash Flow Indicators

| (Years ended March 31)                        | Fiscal<br>2011 | Fiscal<br>2012 | Fiscal<br>2013 | Fiscal<br>2014 | Fiscal<br>2015 |
|---|----------------|----------------|----------------|----------------|----------------|
| Equity ratio (%)                              | 62.0           | 63.1           | 65.7           | 66.0           | 69.0           |
| Equity ratio based on market price (%)        | 122.3          | 122.4          | 126.5          | 141.1          | 129.6          |
| Interest-bearing debt to cash flows<br>(year) | 0.33           | 0.33           | 0.28           | 0.16           | 0.08           |
| Interest coverage ratio (times)               | 84.4           | 74.4           | 95.5           | 160.8          | 204.2          |

Notes: Equity ratio: Equity capital/Total assets

Equity ratio based on market price: Total stock value based on market price/Total assets

Interest-bearing debt to cash flows: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest paid

1. Each index is calculated based on consolidated financial figures.

2. Market value of total stock is calculated based on the number of shares outstanding at the end of the year after deducting treasury stock.

3. Operating cash flow is calculated using net cash provided by operating activities.

### (3) Basic Profit Appropriation Policy; Cash Dividends

The Corporation regards stable return of profits to shareholders as an important management policy. Based on this policy, we intend to meet shareholders' expectations based on extensive consideration of various factors, including consolidated business performance and payout ratio.

At the same time, we will effectively utilize retained earnings to support various initiatives aimed at raising corporate value over the long term. These include research and development, capital investments, and strategic business investments in Japan and overseas.

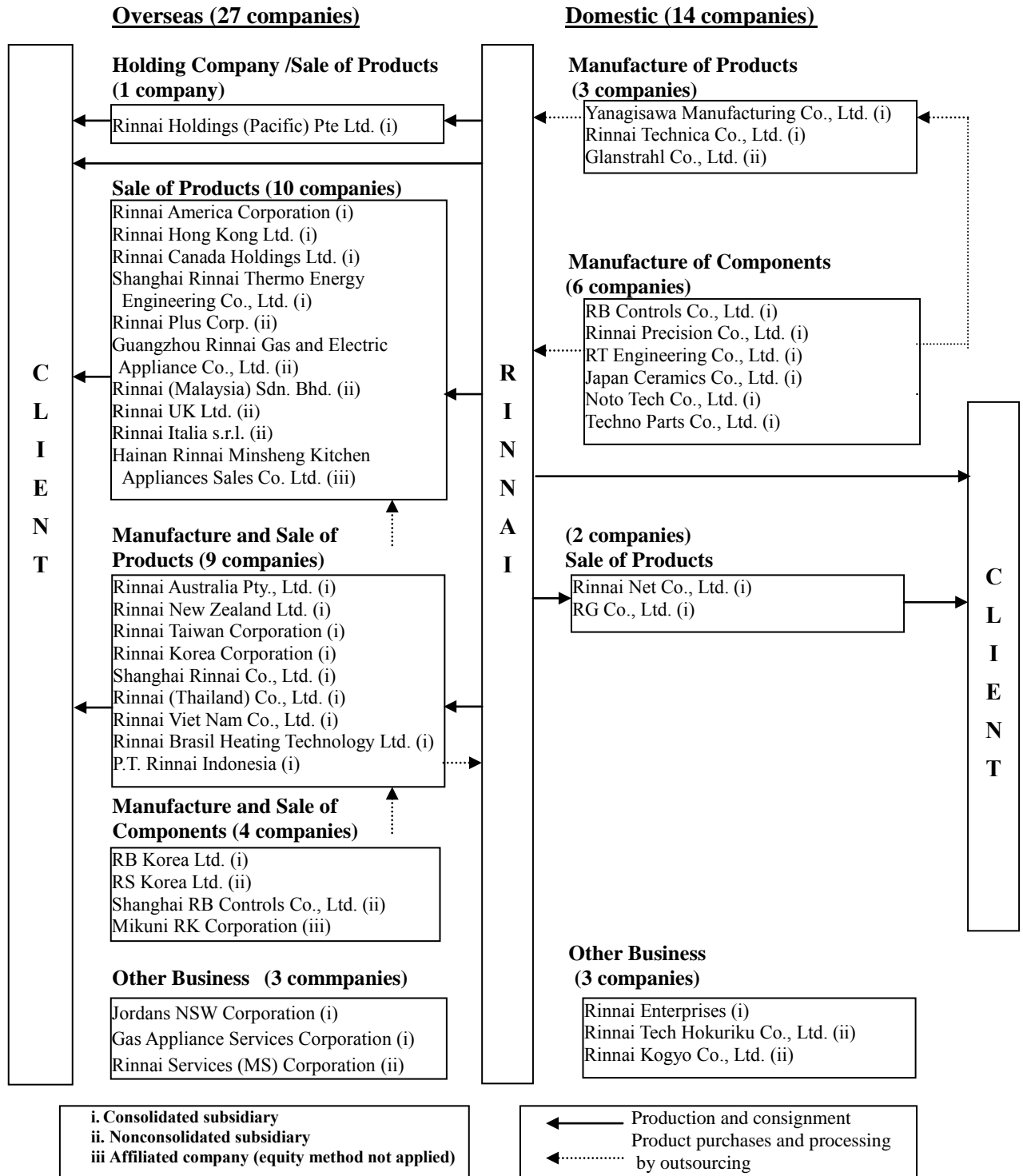
For the fiscal year ended March 31, 2015, we plan to raise the year-end dividend by ¥2.00, to ¥38.00 per share. Earlier in the year, we paid an interim dividend of ¥38.00. This will bring total annual dividends to ¥76.00 per share.

For the year ending March 2016, we plan to pay annual dividends of ¥82.00 per share (¥40.00 interim dividend and ¥42.00 year-end dividend), in the interests of maintaining a balance between stable, consistent shareholder returns and the necessity of retaining ample earnings.



## II. Outline of Rinnai Group Companies

The Rinnai Group consists of the parent company, 39 subsidiaries, and two affiliated companies, for a total of 42 companies. These include 28 consolidated subsidiaries. The Group is primarily engaged in the manufacture and sale of gas appliances and related businesses. The Group's structure and business flow are shown below.



## **III Management Policies**

### **1. Basic Management Policy**

Guided by its basic philosophy, “Quality is our destiny,” the Rinnai Group pursues its corporate activities as a comprehensive manufacturer of heat and energy appliances, committed to reinforcing its core domestic business foundation and achieving global growth.

### **2. Performance Targets**

By promoting interaction throughout the Group, we will seek to raise the profitability and capital efficiency of our core businesses. Specifically, we are targeting a consolidated operating margin of 10% and consolidated return on equity (ROE) of 10% or higher.

### **3. Medium- and Long-Term Business Strategies**

Looking ahead, we do not envisage robust economic growth in the world economy in the near term, due to slowing pace of economic expansion in China, where growth has been significant, and in Southeast Asia. As for the Japanese economy, we cannot be overly optimistic about personal consumption in light of the falling population and aging economy. However, we expect that living conditions will continue improving.

The Rinnai Group has formulated a new medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015. Under the plan, we will ensure a “succession” of our basic philosophy, “Quality is our destiny,” as well as the “Rinnai Spirit,” attained through our history, while emphasizing “evolution” towards a new era. In Japan, we will pursue various measures to address deregulation of the electricity and gas sectors and promote environmental protection and energy savings. Overseas, we will address various changes in business conditions, such as rising living standards in emerging nations and the growing need for eco-friendly, energy-efficient products in advanced nations, to create a new business model. By emphasizing core priorities to foster “evolution” as stated in our new medium-term business plan, we will establish Rinnai’s reputation as a comprehensive heat and energy appliance manufacturer and put the Group on a sustained growth trajectory.

#### ***Consolidated Performance Targets for Year Ending March 2016***

Net sales: ¥350.0 billion

Operating income: ¥39.0 billion

Operating income to net sales ratio: 11.1%

#### **4. Issues to Address**

##### ***Environment***

Kitchen appliances, water heaters, and air-conditioning systems account for around 60–70% of household energy consumption in industrialized nations. In this context, the Rinnai Group recognizes the important role it has to play with respect to the environment (reducing emissions of carbon dioxide and nitrogen oxide) and saving energy. By rigorously pursuing energy-saving technologies and providing products closely linked to people’s lives, the Group will strive to benefit the environment.

##### ***Product Quality***

In the pursuit of business initiatives under our corporate philosophy, “Quality is our destiny,” we will target operational enhancement activities on a global level emphasizing essential safety and zero defects, so that customers can use our products with peace of mind.

#### **VI Basic Policy on Selection of Accounting Standard**

To facilitate comparison of historical and groupwide corporate data, the Corporation has prepared its consolidated financial statements based on “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (excluding Chapter VII and Chapter VIII)” (Ministry of Finance Ordinance No. 28, 1976). Note that the Corporation will respond appropriately to the application of International Accounting Standards after considering the situation at home and overseas.

## IV. Consolidated Financial Statements

### 1. Consolidated Balance Sheets

(¥ millions)

|  | At March 31, 2014<br>(Year ended<br>March 31, 2014) | At March 31, 2015<br>(Year ended<br>March 31, 2015) |
|--|---|---|
|  | Amount  | Amount  |
| <b>ASSETS</b>                              |   |   |
| <b>Current assets</b>                      |   |   |
| Cash and deposits                          | 57,540  | 60,730  |
| Notes and accounts receivable              | 68,102  | 63,889  |
| Marketable securities                      | 53,491  | 41,112  |
| Products                                   | 17,397  | 21,670  |
| Raw materials and stores                   | 11,696  | 12,812  |
| Deferred tax assets                        | 3,875   | 4,022   |
| Other                                      | 2,140   | 2,518   |
| Less allowance for doubtful accounts       | (725)   | (644)   |
| <b>Total current assets</b>                | <b>213,520</b>                                      | <b>206,111</b>                                      |
| <b>Fixed assets</b>                        |   |   |
| Property, plant and equipment              |   |   |
| Buildings and structures                   | 41,210  | 44,855  |
| Accumulated depreciation                   | (24,931)  | (25,975)  |
| Buildings and structures (net)             | 16,278  | 18,880  |
| Machinery and vehicles                     | 47,029  | 50,162  |
| Accumulated depreciation                   | (35,172)  | (36,956)  |
| Machinery and vehicles (net)               | 11,857  | 13,205  |
| Tools and fixtures                         | 29,292  | 33,314  |
| Accumulated depreciation                   | (25,310)  | (28,114)  |
| Tools and fixtures (net)                   | 3,981   | 5,200   |
| Land                                       | 15,140  | 16,481  |
| Lease assets                               | 477   | 433   |
| Accumulated depreciation                   | (268)   | (228)   |
| Lease assets (net)                         | 208   | 204   |
| Construction in progress                   | 3,720   | 2,869   |
| <b>Total property, plant and equipment</b> | <b>51,186</b>                                       | <b>56,841</b>                                       |
| Intangible fixed assets                    | 4,312   | 4,365   |
| Investments and advances                   |   |   |
| Investments in securities                  | 44,554  | 64,163  |
| Net defined benefit assets                 | 14,804  | 20,068  |
| Deferred income taxes                      | 1,140   | 819   |
| Other                                      | 5,479   | 6,058   |
| Less allowance for doubtful accounts       | (616)   | (922)   |
| <b>Total investments and advances</b>      | <b>65,362</b>                                       | <b>90,187</b>                                       |
| <b>Total fixed assets</b>                  | <b>120,861</b>                                      | <b>151,395</b>                                      |
| <b>Total assets</b>                        | <b>334,382</b>                                      | <b>357,506</b>                                      |

(¥ millions)

|  | At March 31, 2014<br>(Year ended<br>March 31, 2014) | At March 31, 2015<br>(Year ended<br>March 31, 2015) |
|--|---|---|
|  | Amount  | Amount  |
| <b>LIABILITIES</b>                             |   |   |
| <b>Current liabilities</b>                     |   |   |
| Notes and accounts payable                     | 52,142  | 47,870  |
| Short-term debt                                | 5,950   | 1,976   |
| Other payables                                 | 11,591  | 11,031  |
| Accrued consumption taxes                      | 1,330   | 1,671   |
| Accrued income taxes                           | 7,701   | 4,719   |
| Accrued employee's bonuses                     | 3,127   | 3,377   |
| Allowance for product guarantee                | 2,387   | 2,608   |
| Other  | 4,265   | 6,550   |
| Total current liabilities                      | 88,495  | 79,805  |
| <b>Long-term liabilities</b>                   |   |   |
| Deferred tax liabilities                       | 5,474   | 8,007   |
| Net defined benefit liabilities                | 5,067   | 5,291   |
| Other  | 2,709   | 2,986   |
| Total long-term liabilities                    | 13,251  | 16,286  |
| Total liabilities                              | 101,747   | 96,091  |
| <b>NET ASSETS:</b>                             |   |   |
| <b>Shareholders' equity:</b>                   |   |   |
| Common stock                                   | 6,459   | 6,459   |
| Capital surplus                                | 8,719   | 8,719   |
| Earned surplus                                 | 194,036   | 208,866   |
| Treasury stock                                 | (965)   | (979)   |
| Total shareholders' equity                     | 208,249   | 223,065   |
| <b>Other accumulated comprehensive income:</b> |   |   |
| Unrealized gain on marketable securities       | 3,048   | 5,921   |
| Foreign exchange translation adjustment        | 5,561   | 10,046  |
| Remeasurements of defined benefit plans        | 3,929   | 7,591   |
| Total other accumulated comprehensive income   | 12,538  | 23,559  |
| <b>Minority interests</b>                      | 11,846  | 14,789  |
| <b>Total net assets</b>                        | 232,635   | 261,414   |
| <b>Total liabilities and net assets</b>        | 334,382   | 357,506   |

**2. Consolidated Statements of Income and  
Consolidated Statements of Comprehensive Income**  
*Consolidated Statements of Income*

(¥ millions)

|   | Fiscal 2014<br>(April 1, 2013,<br>to March 31, 2014) | Fiscal 2015<br>(April 1, 2014,<br>to March 31, 2015) |
|---|--|--|
|   | Amount   | Amount   |
| <b>Net sales</b>  | 286,981  | 295,022  |
| <b>Cost of Sales</b>                                      | 196,858  | 203,836  |
| <b>Gross Profit</b>                                       | 90,123   | 91,186   |
| <b>Selling, general and administrative expenses</b>       |  |  |
| Transportation and packing                                | 6,887  | 7,099  |
| Advertising   | 2,952  | 3,425  |
| Sales promotion   | 4,904  | 6,463  |
| After-sales service                                       | 1,755  | 1,135  |
| Transfer to allowance for product guarantee               | 2,326  | 2,497  |
| Salary and bonuses  | 18,148   | 19,957   |
| Transfer to allowance for employee's bonuses              | 1,175  | 1,354  |
| Retirement benefit expenses                               | 755  | 509  |
| Depreciation  | 1,053  | 1,123  |
| Other   | 16,144   | 16,833   |
| <b>Total selling, general and administrative expenses</b> | 56,104   | 60,399   |
| <b>Operating income</b>                                   | 34,018   | 30,787   |
| <b>Other income:</b>                                      |  |  |
| Interest income   | 969  | 1,306  |
| Dividends received  | 251  | 287  |
| Equity in earnings of affiliates                          | 776  | —  |
| Foreign exchange income                                   | 581  | 626  |
| Other   | 834  | 692  |
| <b>Total other income</b>                                 | 3,413  | 2,912  |
| <b>Other expenses:</b>                                    |  |  |
| Interest expenses   | 188  | 125  |
| Loss on retirement of fixed assets                        | 223  | 281  |
| Transfer to allowance for doubtful accounts               | —  | 236  |
| Other   | 109  | 118  |
| <b>Total other expenses</b>                               | 521  | 762  |
| <b>Ordinary income</b>                                    | 36,910   | 32,938   |
| <b>Extraordinary income:</b>                              |  |  |
| Gain on step acquisitions                                 | 124  | —  |
| <b>Total extraordinary income</b>                         | 124  | —  |
| <b>Income before income taxes</b>                         | 37,034   | 32,938   |
| <b>Income taxes:</b>                                      |  |  |
| <b>Current</b>  | 11,919   | 8,904  |
| <b>Deferred</b>   | 790  | 1,302  |
| <b>Total income taxes</b>                                 | 12,709   | 10,207   |
| <b>Income before minority interest</b>                    | 24,325   | 22,730   |
| <b>Minority interests</b>                                 | 1,070  | 2,083  |
| <b>Net income</b>   | 23,254   | 20,647   |

**Consolidated Statements of Comprehensive Income**

(¥ millions)

|   | Fiscal 2014<br>(April 1, 2013,<br>to March 31, 2014) | Fiscal 2015<br>(April 1, 2014,<br>to March 31, 2015) |
|---|--|--|
|   | Amount   | Amount   |
| Income before minority interest                                   | 24,325   | 22,730   |
| Other comprehensive income  |  |  |
| Unrealized gain on marketable securities                          | 1,128  | 2,872  |
| Foreign exchange translation adjustment                           | 6,039  | 5,997  |
| Remeasurements of defined benefit plans                           | —  | 3,635  |
| Equity equivalents in equity method affiliates                    | 428  | —  |
| Total other comprehensive income                                  | 7,596  | 12,505   |
| Comprehensive income  | 31,921   | 35,236   |
| (Composition)   |  |  |
| Comprehensive income related to shareholders<br>of parent company | 29,612   | 31,668   |
| Comprehensive income related to minority<br>shareholders          | 2,309  | 3,568  |

### 3. Consolidated Statements of Shareholders' Equity

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

(¥ millions)

|  | Shareholders' equity |                 |                |                |                            |
|--|----------------------|-----------------|----------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Earned surplus | Treasury stock | Total shareholders' equity |
| <b>Balance at the beginning of current term</b>                                    | 6,459                | 8,720           | 178,540        | (23,480)       | 170,240                    |
| Effect of change of accounting policy  |                      |                 |                |                |                            |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | 6,459                | 8,720           | 178,540        | (23,480)       | 170,240                    |
| <b>Net changes during the current term</b>   |                      |                 |                |                |                            |
| Dividends paid   |                      |                 | (3,135)        |                | (3,135)                    |
| Net income   |                      |                 | 23,254         |                | 23,254                     |
| Acquisition of treasury stock  |                      |                 |                | (17)           | (17)                       |
| Disposition of treasury stock  |                      | 4,212           |                | 13,428         | 17,640                     |
| Retirement of treasury stock   |                      | (4,213)         | (4,890)        | 9,103          | —                          |
| Change of scope of consolidation   |                      |                 | 267            |                | 267                        |
| Net other changes than shareholders' equity during the current term                |                      |                 |                |                |                            |
| <b>Total net changes during the current term</b>                                   | —                    | (0)             | 15,495         | 22,514         | 38,009                     |
| <b>Balance at the end of current term</b>  | 6,459                | 8,719           | 194,036        | (965)          | 208,249                    |

|  | Other accumulated comprehensive income   |   |   |  | Minority interests | Total net assets |
|--|--|---|---|--|--------------------|------------------|
|  | Unrealized gain on marketable securities | Foreign exchange translation adjustment | Remeasurements of defined benefit plans | Total other accumulated comprehensive income |                    |                  |
| <b>Balance at the beginning of current term</b>                                    | 1,919                                    | 332                                     | —                                       | 2,252  | 5,515              | 178,007          |
| Effect of change of accounting policy  |  |   |   |  |                    |                  |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | 1,919                                    | 332                                     | —                                       | 2,252  | 5,515              | 178,007          |
| <b>Net changes during the current term</b>   |  |   |   |  |                    |                  |
| Dividends paid   |  |   |   |  |                    | (3,135)          |
| Net income   |  |   |   |  |                    | 23,254           |
| Acquisition of treasury stock  |  |   |   |  |                    | (17)             |
| Disposition of treasury stock  |  |   |   |  |                    | 17,640           |
| Retirement of treasury stock   |  |   |   |  |                    | —                |
| Change of scope of consolidation   |  |   |   |  |                    | 267              |
| Net other changes than shareholders' equity during the current term                | 1,128                                    | 5,228                                   | 3,929                                   | 10,286                                       | 6,331              | 16,617           |
| <b>Total net changes during the current term</b>                                   | 1,128                                    | 5,228                                   | 3,929                                   | 10,286                                       | 6,331              | 54,627           |
| <b>Balance at the end of current term</b>  | 3,048                                    | 5,561                                   | 3,929                                   | 12,538                                       | 11,846             | 232,635          |



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

(¥ millions)

|  | Shareholders' equity |                 |                |                |                            |
|--|----------------------|-----------------|----------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Earned surplus | Treasury stock | Total shareholders' equity |
| <b>Balance at the beginning of current term</b>                                    | 6,459                | 8,719           | 194,036        | (965)          | 208,249                    |
| Effect of change of accounting policy  |                      |                 | (1,969)        |                | (1,969)                    |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | 6,459                | 8,719           | 192,066        | (965)          | 206,279                    |
| <b>Net changes during the current term</b>   |                      |                 |                |                |                            |
| Dividends paid   |                      |                 | (3,848)        |                | (3,848)                    |
| Net income   |                      |                 | 20,647         |                | 20,647                     |
| Acquisition of treasury stock  |                      |                 |                | (13)           | (13)                       |
| Disposition of treasury stock  |                      |                 |                |                | —                          |
| Retirement of treasury stock   |                      |                 |                |                | —                          |
| Change of scope of consolidation   |                      |                 |                |                | —                          |
| Net other changes than shareholders' equity during the current term                |                      |                 |                |                | —                          |
| <b>Total net changes during the current term</b>                                   | —                    | —               | 16,799         | (13)           | 16,785                     |
| <b>Balance at the end of current term</b>  | 6,459                | 8,719           | 208,866        | (979)          | 223,065                    |

|  | Other accumulated comprehensive income   |   |   |  | Minority interests | Total net assets |
|--|--|---|---|--|--------------------|------------------|
|  | Unrealized gain on marketable securities | Foreign exchange translation adjustment | Remeasurements of defined benefit plans | Total other accumulated comprehensive income |                    |                  |
| <b>Balance at the beginning of current term</b>                                    | 3,048                                    | 5,561                                   | 3,929                                   | 12,538                                       | 11,846             | 232,635          |
| Effect of change of accounting policy  |  |   |   |  | (2)                | (1,972)          |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | 3,048                                    | 5,561                                   | 3,929                                   | 12,538                                       | 11,844             | 230,662          |
| <b>Net changes during the current term</b>   |  |   |   |  |                    |                  |
| Dividends paid   |  |   |   |  |                    | (3,848)          |
| Net income   |  |   |   |  |                    | 20,647           |
| Acquisition of treasury stock  |  |   |   |  |                    | (13)             |
| Disposition of treasury stock  |  |   |   |  |                    | —                |
| Retirement of treasury stock   |  |   |   |  |                    | —                |
| Change of scope of consolidation   |  |   |   |  |                    | —                |
| Net other changes than shareholders' equity during the current term                | 2,872                                    | 4,484                                   | 3,662                                   | 11,020                                       | 2,945              | 13,966           |
| <b>Total net changes during the current term</b>                                   | 2,872                                    | 4,484                                   | 3,662                                   | 11,020                                       | 2,945              | 30,751           |
| <b>Balance at the end of current term</b>  | 5,921                                    | 10,046                                  | 7,591                                   | 23,559                                       | 14,789             | 261,414          |

#### 4. Consolidated Statements of Cash Flows

(¥ millions)

|  | Fiscal 2014<br>(April 1, 2013,<br>to March 31, 2014) | Fiscal 2015<br>(April 1, 2014,<br>to March 31, 2015) |
|--|--|--|
|  | Amount   | Amount   |
| <b>Cash flows from operating activities</b>  |  |  |
| Income before income taxes   | 37,034   | 32,938   |
| Depreciation and amortization  | 8,415  | 9,477  |
| (Increase) decrease in net defined benefit assets  | (1,094)  | (7,606)  |
| Increase (decrease) in net defined benefit liabilities   | (779)  | 4,557  |
| Interest and dividends income  | (1,221)  | (1,594)  |
| Equity in losses (earnings) of affiliates  | (776)  | —  |
| Decrease (increase) in trade receivables   | (3,577)  | 6,025  |
| Decrease (increase) in inventories   | 1,349  | (3,382)  |
| Increase (decrease) in trade payables  | 3,027  | (5,481)  |
| Increase (decrease) in other liability   | 2,360  | (149)  |
| Other  | 936  | 1,277  |
| Subtotal   | 45,676   | 36,061   |
| Interest and dividends received  | 1,266  | 1,680  |
| Interest paid  | (226)  | (125)  |
| Income taxes paid  | (10,263)   | (11,945)   |
| Net cash provided by operating activities  | 36,453   | 25,671   |
| <b>Cash flows from investing activities</b>  |  |  |
| Transfers to time deposits   | (44,176)   | (35,159)   |
| Withdrawals from time deposits   | 43,205   | 37,549   |
| Purchases of securities  | (1,000)  | (2,887)  |
| Proceeds from redemption of securities   | 270  | 2,314  |
| Purchases of tangible fixed assets   | (12,477)   | (12,519)   |
| Proceeds from sales of tangible fixed assets   | 189  | 701  |
| Purchases of intangible fixed assets   | (402)  | (370)  |
| Purchases of investments in securities   | (23,982)   | (20,770)   |
| Proceeds from sales/and redemption of investments in securities                                  | 3,900  | 8,097  |
| Acquisition of subsidiary shares due to the change of scope of consolidation                     | 1,085  | —  |
| Other  | 478  | (604)  |
| Net cash used in investing activities  | (32,908)   | (23,649)   |
| <b>Cash flows from financing activities</b>  |  |  |
| Net increase (decrease) in short-term debt   | (94)   | (1,619)  |
| Proceeds from long-term debt   | (991)  | (2,550)  |
| Disposition of treasury stock  | 17,632   | —  |
| Dividends paid   | (3,134)  | (3,847)  |
| Other  | (229)  | (642)  |
| Net cash used in financing activities  | 13,183   | (8,659)  |
| Effect of exchange rate fluctuations on cash and cash equivalents                                | 2,124  | 1,698  |
| Net increase (decrease) in cash and cash equivalents   | 18,852   | (4,939)  |
| Cash and cash equivalents at beginning of year   | 55,030   | 74,279   |
| Net increase (decrease) in cash and cash equivalents due to the change of scope of consolidation | 395  | —  |
| Cash and cash equivalents at end of year   | 74,279   | 69,340   |

## 5. Notes to Consolidated Financial Statements

### Notes regarding the assumption of a going concern

There are no relevant items.

### Change in Significant Basis of Consolidated Financial Statements

#### ***Change in Accounting Policies: Accounting Standard for Retirement Benefits***

From the fiscal year under review, the Corporation has applied provisions stated in Clause 35 of “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and provisions stated in Clause 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015). Under the new policy, the Corporation reviewed the calculation method of retirement benefit obligation and service cost, and changed the attribution method for projected retirement benefits from the service period basis to the projected benefit method, and changed the discount rate from average remaining service period basis to the weighted average basis.

The Accounting Standard for Retirement Benefits is being applied transitionally as determined in its Clause 37. At the beginning of the fiscal year under review, the effect of the change in the calculation method of retirement benefit obligation and service cost is stated as an earned surplus increase or decrease.

As a result of this change, at the beginning of the fiscal year under review, “net defined benefit liabilities” increased ¥704 million and “net defined benefit assets” decreased ¥2,341 million, and earned surplus declined ¥1,969 million. This change in accounting policies had little impact on the consolidated business results for the year under review.

The change also caused net assets per share to decrease by ¥37.93.

### Segment Information

#### ***(1) Summary of Reportable Segments***

With respect to its business segments, Rinnai is able to obtain delineated financial data from among its structural units. Accordingly, its segments are subject to regular examination in order to assist decision-making on allocation of managerial resources and evaluation of business performance.

The Rinnai Group is engaged mainly in the production and sales of heat appliances. The Corporation (parent company) and domestic subsidiaries are in charge of business activities in Japan, while overseas subsidiaries in South Korea, United States, and elsewhere are in charge of business activities in the respective regions. Local subsidiaries operate as independently managed units. With respect to products handled, they advance their operations based on their comprehensive strategies for their specific regions.

Accordingly, the reportable segments of the Corporation, which are geographic segments based on its production and sales system.

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 fiscal year under review, therefore, “Indonesia” has been added as a geographical segment for consolidated reporting purposes, in addition to the five regions: Japan, South Korea, United States, Australia, and China. The segment information for the previous fiscal year, indicates revised figures based on the current six region.

#### ***(2) Calculation Methods of Sales, Income (Loss), Assets, Liabilities and Other Items by Reportable Segment***

Accounting treatments of the reportable segments of the Corporation are much the same in Significant Basis of Consolidated Financial Statements.

Income of the reportable segment indicates figures based on operating income.

**(3) Sales and Income by Reportable Segment**

**Year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)**

(¥ millions)

|   | Reportable Segments |                |                  |           |        |           |         | Others<br>(Note 1) | Adjustments<br>(Note 2) | Amounts in<br>Consolidated<br>Statements<br>of Income<br>(Note 3) |
|---|---------------------|----------------|------------------|-----------|--------|-----------|---------|--------------------|-------------------------|---|
|   | Japan               | South<br>Korea | United<br>States | Australia | China  | Indonesia | Total   |                    |                         |   |
| Net sales   |                     |                |                  |           |        |           |         |                    |                         |   |
| (1) Sales to outside customers  | 194,574             | 26,799         | 15,487           | 15,233    | 19,088 | —         | 271,183 | 15,797             | —                       | 286,981   |
| (2) Intersegment sales  | 21,370              | 493            | —                | 38        | 1,776  | —         | 23,679  | 2,685              | (26,365)                | —   |
| Total   | 215,945             | 27,293         | 15,487           | 15,272    | 20,865 | —         | 294,863 | 18,483             | (26,365)                | 286,981   |
| Income (loss)   | 27,328              | 577            | 845              | 2,336     | 1,589  | —         | 32,677  | 1,864              | (523)                   | 34,018  |
| Assets  | 267,839             | 18,829         | 8,251            | 16,376    | 15,109 | 10,563    | 336,971 | 17,138             | (19,726)                | 334,382   |
| Others  |                     |                |                  |           |        |           |         |                    |                         |   |
| Depreciation  | 6,618               | 973            | 28               | 81        | 329    | —         | 8,030   | 385                | —                       | 8,415   |
| Amortization of goodwill  | —                   | 35             | —                | —         | —      | —         | 35      | —                  | —                       | 35  |
| Increase in property, plant and equipment and intangible fixed assets | 9,099               | 1,300          | 4                | 1,496     | 437    | —         | 12,339  | 502                | —                       | 12,842  |

- Notes: 1. “Others” include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.  
2. “Adjustments” of income (loss) refers to intersegment transactions to eliminate.  
3. “Adjustments” of assets refers to intersegment transactions to eliminate.  
4. “Income (loss)” is adjusted from operating income in Consolidated Statements of Income.  
5. “Increase in property, plant and equipment and intangible fixed assets” does not include increase due to new consolidations.

**Year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)**

(¥ millions)

|   | Reportable Segments |                |                  |           |        |           |         | Others<br>(Note 1) | Adjustments<br>(Note 2) | Amounts in<br>Consolidated<br>Statements<br>of Income<br>(Note 3) |
|---|---------------------|----------------|------------------|-----------|--------|-----------|---------|--------------------|-------------------------|---|
|   | Japan               | South<br>Korea | United<br>States | Australia | China  | Indonesia | Total   |                    |                         |   |
| Net sales   |                     |                |                  |           |        |           |         |                    |                         |   |
| (1) Sales to outside customers  | 176,087             | 31,928         | 17,754           | 15,310    | 25,353 | 11,165    | 277,601 | 17,421             | —                       | 295,022   |
| (2) Intersegment sales  | 24,033              | 647            | —                | 50        | 2,079  | 567       | 27,377  | 2,753              | (30,131)                | —   |
| Total   | 200,120             | 32,575         | 17,754           | 15,360    | 27,433 | 11,733    | 304,978 | 20,174             | (30,131)                | 295,022   |
| Income (loss)   | 21,006              | 1,457          | 1,020            | 1,345     | 2,108  | 1,300     | 28,239  | 2,455              | 92                      | 30,787  |
| Assets  | 277,684             | 18,806         | 10,145           | 18,095    | 20,598 | 12,339    | 357,669 | 21,014             | (21,177)                | 357,506   |
| Others  |                     |                |                  |           |        |           |         |                    |                         |   |
| Depreciation  | 6,727               | 1,218          | 27               | 152       | 383    | 546       | 9,055   | 421                | —                       | 9,477   |
| Amortization of goodwill  | —                   | —              | —                | 113       | —      | 385       | 498     | —                  | —                       | 498   |
| Increase in property, plant and equipment and intangible fixed assets | 10,162              | 1,195          | 86               | 759       | 1,497  | 129       | 13,830  | 314                | —                       | 14,144  |

- Notes: 1. “Others” include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.  
2. “Adjustments” of income (loss) refers to intersegment transactions to eliminate.  
3. “Adjustments” of assets refers to intersegment transactions to eliminate.  
4. “Income (loss)” is adjusted from operating income in Consolidated Statements of Income.  
5. “Increase in property, plant and equipment and intangible fixed assets” does not include increase due to new consolidations.

## **Per Share Data**

|                         | March 31, 2014 | March 31, 2015 |
|-------------------------|----------------|----------------|
| 1. Net assets per share | ¥4,245.48      | ¥4,742.42      |
| 2. Net income per share | ¥454.74        | ¥397.03        |

Notes:

1. Fully diluted net income per share is not indicated because there is no residual equity.

2. Net assets per share are calculated based on the following amounts.

|  | March 31, 2014    | March 31, 2015    |
|--|-------------------|-------------------|
| Net assets   | ¥232,635 million  | ¥261,414 million  |
| Deduction from net assets                                | ¥11,846 million   | ¥14,789 million   |
| [Minority interests]                                     | [¥11,846 million] | [¥14,789 million] |
| Net assets at year-end related to common shares          | ¥220,788 million  | ¥246,624 million  |
| Number of common shares at year-end used in calculations | 52,005,532 shares | 52,003,991 shares |

2. Net income per share is calculated based on the following amounts.

|  | March 31, 2014    | March 31, 2015    |
|--|-------------------|-------------------|
| Net income                               | ¥23,254 million   | ¥20,647 million   |
| Amount not attribute to common shares    | — million         | — million         |
| Net income related to common shares      | ¥23,254 million   | ¥20,647 million   |
| Average number of shares during the term | 51,138,913 shares | 52,004,721 shares |

## **Subsequent Events**

### **Business Combination**

The Board of Directors of Rinnai Corporation resolved at its meeting on December 11, 2014, that Rinnai Australia Pty., Ltd. (hereafter, “Rinnai Australia”), the consolidated subsidiary of the Corporation, would purchase shares in Bravis Climate Systems Pty Ltd. (hereafter, “Bravis”), and that by the acquisition of shares the company would become a subsidiary. With signing of share transfer agreement on December 15, 2014, Rinnai Australia acquired shares of Bravis on February 2, 2015.

#### 1. Summary of Business Combination

##### (1) Acquired company name and business

Acquired company: Bravis Climate Systems Pty Ltd.

Business: Manufacturing and sales of air conditioners

##### (2) Reason of business combination

In Australia, Rinnai Australia Pty., Ltd. is one of the leading company, which focused on heaters in 1970's and tankless water heaters from 1990's. Through the acquisition of Bravis which has strengths in the air-conditioning and heating units, Rinnai Australia aims to expand its business in Oceania market, one of the strategic market of Rinnai Group.

##### (3) Date of business combination: February 2, 2015

- (4) Classification of business combination: acquisition of shares
- (5) Company name after business combination: Brivis Climate Systems Pty Ltd.
- (6) Acquired ratio of voting rights: 100%
- (7) Main source of acquisition: share acquisition by cash

2. Acquisition cost: 49,352 Australian dollars

3. Amount of goodwill, reason of goodwill, and method/period of amortization:  
Currently under review.

Note: Fiscal year-end of Rinnai Australia is December 31.

## V. Nonconsolidated Financial Statements

### 1. Balance Sheets

(¥ millions)

|  | At March, 2014<br>(Year ended<br>March 31, 2014) | At March, 2015<br>(Year ended<br>March 31, 2015) |
|--|--|--|
|  | Amount   | Amount   |
| <b>ASSETS</b>                              |  |  |
| <b>Current assets</b>                      |  |  |
| Cash and deposits                          | 15,044   | 15,024   |
| Notes receivable, trade                    | 9,804  | 9,511  |
| Accounts receivable, trade                 | 39,637   | 33,921   |
| Marketable securities                      | 48,848   | 35,742   |
| Products                                   | 6,309  | 8,012  |
| Raw materials and stores                   | 3,428  | 3,320  |
| Deferred tax assets                        | 2,011  | 1,688  |
| Other                                      | 378  | 528  |
| Less allowance for doubtful accounts       | (46)   | (10)   |
| <b>Total current assets</b>                | <b>125,417</b>                                   | <b>107,740</b>                                   |
| <b>Fixed assets</b>                        |  |  |
| Property, plant and equipment              |  |  |
| Buildings                                  | 8,432  | 8,888  |
| Structures                                 | 232  | 282  |
| Machinery, equipment                       | 3,189  | 3,786  |
| Vehicles and delivery equipment            | 7  | 23   |
| Tools, furniture and fixture               | 1,788  | 2,533  |
| Land                                       | 9,047  | 9,715  |
| Lease assets                               | 178  | 184  |
| Construction in progress                   | 1,508  | 874  |
| <b>Total property, plant and equipment</b> | <b>24,384</b>                                    | <b>26,289</b>                                    |
| <b>Intangible fixed assets</b>             |  |  |
| Software                                   | 883  | 842  |
| Leaseholds                                 | 47   | 34   |
| Other                                      | 180  | 143  |
| <b>Total intangible fixed assets</b>       | <b>1,111</b>                                     | <b>1,020</b>                                     |
| <b>Investments and advances</b>            |  |  |
| Investments in securities                  | 41,802   | 61,627   |
| Stocks of affiliated companies             | 15,163   | 15,508   |
| Investments in affiliated companies        | 1,870  | 1,870  |
| Prepaid pension expenses                   | 8,383  | 8,574  |
| Other                                      | 3,240  | 3,217  |
| Less allowance for doubtful accounts       | (61)   | (61)   |
| <b>Total investments and advances</b>      | <b>70,400</b>                                    | <b>90,736</b>                                    |
| <b>Total fixed assets</b>                  | <b>95,896</b>                                    | <b>118,046</b>                                   |
| <b>Total assets</b>                        | <b>221,313</b>                                   | <b>225,787</b>                                   |

(¥ millions)

|  | At March, 2014<br>(Year ended<br>March 31, 2014) | At March, 2015<br>(Year ended<br>March 31, 2015) |
|--|--|--|
|  | Amount   | Amount   |
| <b>LIABILITIES</b>   |  |  |
| <b>Current liabilities</b>   |  |  |
| Accrued payable, trade   | 33,172   | 29,066   |
| Short-term debt  | 2,550  | —  |
| Lease obligation   | 96   | 96   |
| Other payables   | 5,620  | 5,056  |
| Accrued expenses   | 619  | 627  |
| Accrued income taxes   | 6,140  | 3,515  |
| Deposits payable   | 134  | 140  |
| Accrued employees' bonus   | 2,230  | 2,340  |
| Allowance for product guarantee                                    | 1,100  | 920  |
| Other  | 1,158  | 1,682  |
| Total current liabilities  | 52,822   | 43,444   |
| <b>Long-term liabilities</b>                                       |  |  |
| Lease obligation   | 140  | 135  |
| Accrued employees' retirement benefits                             | 2,079  | 2,411  |
| Other  | 3,673  | 4,655  |
| Total long-term liabilities  | 5,892  | 7,202  |
| Total liabilities  | 58,714   | 50,646   |
| <b>NET ASSETS:</b>   |  |  |
| <b>Shareholders' equity:</b>                                       |  |  |
| Common stock   | 6,459  | 6,459  |
| Capital surplus  |  |  |
| Capital reserve  | 8,719  | 8,719  |
| Total capital surplus  | 8,719  | 8,719  |
| Earned surplus   |  |  |
| Legal reserve  | 1,614  | 1,614  |
| Voluntary reserve  | 143,811  | 153,521  |
| Other  | 120,000  | 120,000  |
| Unappropriated retained earnings<br>at the end of the current term | 23,811   | 33,521   |
| Total earned surplus   | 145,425  | 155,136  |
| Treasury stock   | (965)  | (979)  |
| Total shareholders' equity   | 159,638  | 169,335  |
| <b>Other adjustments:</b>  |  |  |
| Unrealized gain on marketable securities                           | 2,959  | 5,804  |
| Total other adjustments  | 2,959  | 5,804  |
| <b>Total net assets</b>  | 162,598  | 175,140  |
| <b>Total liabilities and net assets</b>                            | 221,313  | 225,787  |



## 2. Nonconsolidated Statements of Income

(¥ millions)

|  | Fiscal 2014<br>(April 1, 2013,<br>to March 31, 2014) | Fiscal 2015<br>(April 1, 2014,<br>to March 31, 2015) |
|--|--|--|
|  | Amount   | Amount   |
| Net sales                                    | 205,598  | 190,475  |
| Cost of Sales                                | 152,304  | 143,364  |
| Gross Profit                                 | 53,294   | 47,110   |
| Selling, general and administrative expenses | 29,016   | 28,435   |
| Operating income                             | 24,278   | 18,675   |
| Other income:                                |  |  |
| Interest income and dividends received       | 1,873  | 2,163  |
| Other  | 1,258  | 1,528  |
| Total other income                           | 3,132  | 3,692  |
| Other expenses:                              |  |  |
| Interest expenses                            | 34   | 19   |
| Other  | 236  | 273  |
| Total other expenses                         | 271  | 293  |
| Ordinary income                              | 27,138   | 22,073   |
| Extraordinary income:                        |  |  |
| Gain on sales of stock of affiliates         | 364  | —  |
| Total extraordinary income                   | 364  | —  |
| Income before income taxes                   | 27,503   | 22,073   |
| Income taxes:                                |  |  |
| Current                                      | 8,690  | 5,662  |
| Deferred                                     | 637  | 1,072  |
| Total income taxes                           | 9,327  | 6,734  |
| Net income                                   | 18,176   | 15,339   |

## Nonconsolidated Statement of Shareholders' Equity

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

(¥ millions)

|  | Shareholders' equity |                 |         |                       |               |                   |                                  |                      |
|--|----------------------|-----------------|---------|-----------------------|---------------|-------------------|----------------------------------|----------------------|
|  | Common stock         | Capital surplus |         |                       | Legal reserve | Earned surplus    |                                  | Total earned surplus |
|  |                      | Capital reserve | Other   | Total capital surplus |               | Voluntary reserve | Unappropriated retained earnings |                      |
|  |                      |                 |         |                       | Other reserve |                   |                                  |                      |
| <b>Balance at the beginning of current term</b><br>Effect of change of accounting policy | 6,459                | 8,719           | 0       | 8,720                 | 1,614         | 115,000           | 18,661                           | 135,276              |
| <b>Balance at the beginning of current term, after change of accounting policy</b>       |                      |                 |         |                       |               |                   |                                  |                      |
| <b>Net changes during the current term</b>   |                      |                 |         |                       |               |                   |                                  |                      |
| Dividends paid   |                      |                 |         |                       |               |                   | (3,135)                          | (3,135)              |
| Net income   |                      |                 |         |                       |               |                   | 18,176                           | 18,176               |
| Transfer to other reserve  |                      |                 |         |                       |               | 5,000             | (5,000)                          | —                    |
| Acquisition of treasury stock  |                      |                 |         |                       |               |                   |                                  |                      |
| Disposition of treasury stock  |                      |                 | 4,212   | 4,212                 |               |                   |                                  |                      |
| Retirement of treasury stock   |                      |                 | (4,213) | (4,213)               |               |                   | (4,890)                          | (4,890)              |
| Net other changes than shareholders' equity during the current term                      |                      |                 |         |                       |               |                   |                                  |                      |
| <b>Total net changes during the current term</b>   | —                    | —               | (0)     | (0)                   | —             | 5,000             | 5,149                            | 10,149               |
| <b>Balance at the end of current term</b>  | 6,459                | 8,719           | —       | 8,719                 | 1,614         | 120,000           | 23,811                           | 145,425              |

|  | Shareholders' equity |                            | Other adjustments                        |                         | Total net assets |
|--|----------------------|----------------------------|--|-------------------------|------------------|
|  | Treasury stock       | Total shareholders' equity | Unrealized gain on marketable securities | Total other adjustments |                  |
| <b>Balance at the beginning of current term</b><br>Effect of change of accounting policy | (23,480)             | 126,975                    | 1,858                                    | 1,858                   | 128,834          |
| <b>Balance at the beginning of current term, after change of accounting policy</b>       |                      |                            |  |                         |                  |
| <b>Net changes during the current term</b>   |                      |                            |  |                         |                  |
| Dividends paid   |                      | (3,135)                    |  |                         | (3,135)          |
| Net income   |                      | 18,176                     |  |                         | 18,176           |
| Transfer to other reserve  |                      | —                          |  |                         | —                |
| Acquisition of treasury stock  | (17)                 | (17)                       |  |                         | (17)             |
| Disposition of treasury stock  | 13,428               | 17,640                     |  |                         | 17,640           |
| Retirement of treasury stock   | 9,103                | —                          |  |                         | —                |
| Net other changes than shareholders' equity during the current term                      |                      |                            | 1,100                                    | 1,100                   | 1,100            |
| <b>Total net changes during the current term</b>   | 22,514               | 32,663                     | 1,100                                    | 1,100                   | 33,763           |
| <b>Balance at the end of current term</b>  | (965)                | 159,638                    | 2,959                                    | 2,959                   | 162,598          |

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

(¥ millions)

|  | Shareholders' equity |                 |       |                       |               |                |                                  |                      |
|--|----------------------|-----------------|-------|-----------------------|---------------|----------------|----------------------------------|----------------------|
|  | Common stock         | Capital surplus |       |                       | Legal reserve | Earned surplus |                                  | Total earned surplus |
|  |                      | Capital reserve | Other | Total capital surplus |               | Other reserve  | Unappropriated retained earnings |                      |
| <b>Balance at the beginning of current term</b>                                    | 6,459                | 8,719           | —     | 8,719                 | 1,614         | 120,000        | 23,811                           | 145,425              |
| Effect of change of accounting policy  |                      |                 |       |                       |               |                | (1,780)                          | (1,780)              |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | 6,459                | 8,719           | —     | 8,719                 | 1,614         | 120,000        | 22,030                           | 143,645              |
| <b>Net changes during the current term</b>   |                      |                 |       |                       |               |                |                                  |                      |
| Dividends paid   |                      |                 |       |                       |               |                | (3,848)                          | (3,848)              |
| Net income   |                      |                 |       |                       |               |                | 15,339                           | 15,339               |
| Transfer to other reserve  |                      |                 |       |                       |               |                |                                  | —                    |
| Acquisition of treasury stock  |                      |                 |       |                       |               |                |                                  |                      |
| Disposition of treasury stock  |                      |                 |       |                       |               |                |                                  |                      |
| Retirement of treasury stock   |                      |                 |       |                       |               |                |                                  |                      |
| Net other changes than shareholders' equity during the current term                |                      |                 |       |                       |               |                |                                  |                      |
| <b>Total net changes during the current term</b>                                   | —                    | —               | —     | —                     | —             | —              | 11,490                           | 11,490               |
| <b>Balance at the end of current term</b>  | 6,459                | 8,719           | —     | 8,719                 | 1,614         | 120,000        | 33,521                           | 155,136              |

|  | Shareholders' equity |                            | Other adjustments                        |                         | Total net assets |
|--|----------------------|----------------------------|--|-------------------------|------------------|
|  | Treasury stock       | Total shareholders' equity | Unrealized gain on marketable securities | Total other adjustments |                  |
| <b>Balance at the beginning of current term</b>                                    | (965)                | 159,638                    | 2,959                                    | 2,959                   | 162,598          |
| Effect of change of accounting policy  |                      | (1,780)                    |  |                         | (1,780)          |
| <b>Balance at the beginning of current term, after change of accounting policy</b> | (965)                | 157,858                    | 2,959                                    | 2,959                   | 160,818          |
| <b>Net changes during the current term</b>   |                      |                            |  |                         |                  |
| Dividends paid   |                      | (3,848)                    |  |                         | (3,848)          |
| Net income   |                      | 15,339                     |  |                         | 15,339           |
| Transfer to other reserve  |                      | —                          |  |                         | —                |
| Acquisition of treasury stock  | (13)                 | (13)                       |  |                         | (13)             |
| Disposition of treasury stock  |                      | —                          |  |                         | —                |
| Retirement of treasury stock   |                      | —                          |  |                         | —                |
| Net other changes than shareholders' equity during the current term                |                      |                            | 2,844                                    | 2,844                   | 2,844            |
| <b>Total net changes during the current term</b>                                   | (13)                 | 11,477                     | 2,844                                    | 2,844                   | 14,321           |
| <b>Balance at the end of current term</b>  | (979)                | 169,335                    | 5,804                                    | 5,804                   | 175,140          |